Wisconsin Alumni Research Foundation and Affiliate

Consolidated Financial Report
June 30, 2020

Contents

RSM

Independent Auditor's Report

RSM US LLP

To the Board of Trustees
Wisconsin Alumni Research Foundation

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of Wisconsin Alumni Research Foundation and Affiliate (the Organization), which comprise the consolidated statements of financial position as of June 30, 2020 and 2019, the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, financial statements).

Management's Responsibility 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; this includes 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.

Auditor's Responsibility
Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Wisconsin Alumni Research Foundation and Affiliate as of June 30, 2020 and 2019, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter
Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for purposes of additional analysis rather than to present the financial position and results of operations of the individual companies and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

RSM US LLP

Madison, Wisconsin
September 28, 2020

Wisconsin Alumni Research Foundation and Affiliate

Consolidated Statements of Financial Position
June 30, 2020 and 2019
(Amounts in Thousands)

		2020		2019
Assets				
Cash and cash equivalents	**$**	**5,494**	$	4,906
Receivables		**621**		699
Contract assets		**2,600**		3,200
Due from broker		**9,600**		122,087
Investments		**2,998,331**		2,746,354
Investments in start-up companies		**25,583**		21,232
Property and equipment, net		**125,190**		130,693
Other assets		**932**		756
Total assets	**$**	**3,168,351**	$	3,029,927
Liabilities and Net Assets				
Liabilities:				
Accounts payable and accrued expenses	**$**	**13,945**	$	11,485
Litigation outcome payable		**31,617**		31,617
Derivative contract liabilities		**-**		2,405
Due to broker		**67,623**		23,899
Royalties payable to inventors		**4,639**		4,670
Payable to the University of Wisconsin		**230,344**		222,081
Payable to Morgridge Institute for Research, Inc. and Morgridge Institute Foundation, Inc.		**350,850**		347,899
Deferred revenue		**28**		28
Pension liability		**28,594**		16,857
Bonds payable, including unamortized discount/premium and bond issue costs		**223,563**		132,740
Total liabilities		**951,203**		793,681
Commitments and contingencies				
Net assets:				
Without donor restrictions:				
Undesignated		**2,154,773**		2,173,505
Board designated		**11,158**		11,330
Total without donor restrictions		**2,165,931**		2,184,835
With donor restrictions		**51,217**		51,411
Net assets		**2,217,148**		2,236,246
Total liabilities and net assets	**$**	**3,168,351**	$	3,029,927

See notes to consolidated financial statements.

Wisconsin Alumni Research Foundation and Affiliate

Consolidated Statements of Activities
Years Ended June 30, 2020 and 2019
(Amounts in Thousands)

		2020		2019
Revenues				
Royalty income	**$**	**12,560**	$	14,180
Other income		**4,835**		5,361
Net assets released from restriction		**1,999**		2,773
Total revenues		**19,394**		22,314
Expenses				
Patent and licensing		**13,636**		12,637
Venture office		**1,658**		801
Legal		**1,886**		4,034
Administrative expenses		**24,241**		19,872
Operating expenses of affiliate		**4,997**		5,353
Grants to the University of Wisconsin		**83,768**		74,064
Grants to Morgridge Institute for Research, Inc.		**11,800**		11,900
Total expenses		**141,986**		128,661
Operating loss before investment income (expense) and other non-operating items		**(122,592)**		(106,347)
Investment income (expense):				
Interest and dividends		**24,028**		14,196
Investment manager fees		**(3,725)**		(7,309)
Investment expenses		**(2,332)**		(3,504)
Gain on derivatives held as investments		**29,709**		114,235
Net unrealized (loss) gain on investments		**(70,681)**		143,565
Net realized gain (loss) on investments		**123,775**		(118,999)
Total investment income		**100,774**		142,184
Other non-operating items:				
Gain on forward Treasury lock		**7,321**		-
Gain on defeasance of bonds		**4,450**		-
Litigation outcome (Note 15)		**-**		(31,617)
Defined benefit pension plans:				
Interest cost		**(1,549)**		1,420
Expected return on plan assets		**2,180**		(1,825)
Amortization of cumulative loss		**(957)**		344
Total other non-operating items		**11,445**		(31,678)
Change in net assets without donor restrictions before other adjustments	**$**	**(10,373)**	$	4,159

(Continued)

Wisconsin Alumni Research Foundation and Affiliate

Consolidated Statements of Activities (Continued)
Years Ended June 30, 2020 and 2019
(Amounts in Thousands)

	2020	2019
Net assets without donor restrictions:		
Change in net assets without donor restrictions before other adjustments	**$ (10,373)**	$ 4,159
Pension-related changes other than net periodic pension cost	**(8,531)**	(8,182)
Change in net assets without donor restrictions	**(18,904)**	(4,023)
Net assets with donor restrictions:		
Change in fair value of donor restricted funds	**1,749**	3,202
Contributions	**56**	1,684
Net assets released from restriction	**(1,999)**	(2,773)
Change in net assets with donor restrictions	**(194)**	2,113
Change in net assets	**(19,098)**	(1,910)
Net assets, beginning, as previously reported	**2,236,246**	2,234,156
Cumulative-effect adjustment from adoption of ASC 606	**-**	4,000
Net assets, beginning, as adjusted	**2,236,246**	2,238,156
Net assets, ending	**$ 2,217,148**	$ 2,236,246

See notes to consolidated financial statements.

Wisconsin Alumni Research Foundation and Affiliate

Consolidated Statements of Cash Flows
Years Ended June 30, 2020 and 2019
(Amounts in Thousands)

	2020	2019
Cash flows from operating activities:		
Change in net assets	**$ (19,098)**	$ (1,910)
Adjustments to reconcile change in net assets		
to net cash used in operating activities:		
Gain on derivatives held as investments	**(29,709)**	(114,235)
Net unrealized loss (gain) on investments	**68,932**	(146,767)
Net realized (gain) loss on investments	**(123,775)**	118,999
Depreciation	**5,887**	6,037
Amortization of bond discount/premium and bond issuance costs		
included in interest expense	**(190)**	(388)
Gain on defeasance of bonds	**(4,450)**	-
Gain on sale of property and equipment	**(33)**	-
Changes in assets and liabilities:		
Receivables	**78**	(270)
Contract assets	**600**	800
Other assets	**(176)**	(133)
Accounts payable and accrued expenses	**2,460**	(1,574)
Litigation outcome payable	**-**	31,617
Royalties payable to inventors	**(31)**	(489)
Payable to the University of Wisconsin	**15,839**	1,897
Payable to Morgridge Institute for Research, Inc. and		
Morgridge Institute Foundation, Inc.	**3,384**	5,362
Pension liability	**11,737**	6,981
Net cash used in operating activities	**(68,545)**	(94,073)
Cash flows from investing activities:		
Net (purchase) proceeds from sale of investments and derivative contract liabilities	**(174,181)**	120,307
Net change in payable to the University of Wisconsin related to investments	**(7,576)**	3,856
Net change in payable to Morgridge Institute for Research, Inc. and		
Morgridge Institute Foundation, Inc. related to investments	**(433)**	8,876
Due to/from broker	**156,211**	(34,036)
Proceeds from sale of equipment and assets held for sale	**45**	-
Acquisition of property and equipment	**(396)**	(66)
Net cash (used in) provided by investing activities	**(26,330)**	98,937
Cash flows from financing activities:		
Principal payments on bonds payable	**(128,085)**	(3,535)
Proceeds from issuance of bonds	**223,977**	-
Payments for debt issue costs	**(429)**	-
Net cash provided by (used in) financing activities	**95,463**	(3,535)
Net increase in cash and cash equivalents	**588**	1,329
Cash and cash equivalents, beginning	**4,906**	3,577
Cash and cash equivalents, ending	**$ 5,494**	$ 4,906
Supplemental disclosures of cash flow information:		
Cash payments for interest	**$ 7,156**	$ 6,269

See notes to consolidated financial statements.

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

Nature of activities: The Wisconsin Alumni Research Foundation (Foundation) is organized and operated as a supporting organization for the benefit of the University of Wisconsin (UW) and Morgridge Institute for Research, Inc. (Morgridge) and exclusively for charitable, scientific, and educational purposes, including promoting, encouraging, and aiding scientific investigation and research, assisting in developing and patenting inventions and processes, and administering gifts, grants, bequests. Significant transactions and balances between the Foundation and the UW include grants paid and payable and departmental royalty funds. The Foundation is also affiliated with WiCell Research Institute, Inc. (WiCell) through significant control and economic interest.

The primary purpose of WiCell is to carry on scientific research and investigation into the culturing, development and differentiation of human and animal embryonic stem cells and to distribute cells and license technology to other qualified research organizations to promote additional scientific research in this area. WiCell will distribute human and animal embryonic stem cells and license the related technology only to qualified research organizations which commit to carry on such research in an ethical manner.

Principles of consolidation: The consolidated financial statements include the accounts of the Foundation and its affiliate noted above (collectively referred to as the Organization). All significant intercompany accounts and transactions have been eliminated in the consolidation.

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

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

The pension plan contributions and the actuarial present value of accumulated plan benefits are prepared based on certain assumptions pertaining to interest rates, inflation rates, and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimation and assumption process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the consolidated financial statements. The fair value of the plan assets is subject to the market volatility of the underlying investments.

The consolidated statements of financial position include investments carried at $1,368,032 representing 62% of net assets as of June 30, 2020 and $1,816,433 representing 81% of net assets as of June 30, 2019, whose fair values have been estimated by management in the absence of readily ascertainable market values. Because of the inherent uncertainty of valuation, those estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material.

Cash and cash equivalents: Cash and cash equivalents include cash, overnight investments, U.S. treasury bills and short-term investments in interest-bearing demand deposits with banks and cash managers with maturities of three months or less. The Organization, at times, has on deposit in financial institutions cash balances and money markets in excess of the Federal Deposit Insurance Corporation limit. The Organization does not believe it is exposed to any significant credit risk on cash and cash equivalents.

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

Receivables: Receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received.

Receivables are considered past due if any portion of the receivable balance is outstanding for more than 90 days. Interest is not charged on past due receivables. At June 30, 2020 and 2019, the Organization considered all receivables to be fully collectible.

Investments: Investments are stated at fair value.

Investment income or loss (including gains and losses on investments and derivatives, interest and dividends) is included in the consolidated statements of activities as increases or decreases in net assets without restriction unless the income or loss is restricted by donor or law.

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 statements of financial position. Management considers all highly liquid investments purchased with a maturity of three months or less, including money market funds, to be cash equivalents.

The Organization utilizes various investment managers to manage the assets within established parameters. The assets of the managed accounts, which include cash equivalents, common stocks and fixed income securities, are, to the extent possible, held in custody by the Northern Trust Company (Northern). Forward foreign currency exchange contracts and total return swaps are executed with specific counterparties and exchange traded futures transactions are executed through four separate futures commission merchants.

Investments in start-up companies: The Organization invests in start-up companies that do not have readily determinable fair value. The Organization has elected to account for these investments at cost, with adjustments for impairment and observable price changes for identical or similar investments. Adjustments for impairment or observable price changes are included in net realized gains on investments in the consolidated statements of activities. During the years ended June 30, 2020 and 2019, there were no impairments recorded with no other observable price changes.

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 Organization 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 with 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. Depreciation is provided on the straight-line method over the estimated useful lives of the respective assets.

(Amounts in Thousands)

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

Impairment of long-lived assets: The Organization reviews its property and equipment when events and circumstances indicate that the assets might be impaired by comparing the carrying value of the assets with the undiscounted anticipated future cash flows of the related asset before interest charges. If the sum of the projected undiscounted cash flows (excluding interest charges) of an asset group is less than its carrying value and the fair value of an asset group is also less than its carrying value, the assets will be written down by the amount by which the carrying value of the asset group exceeded its fair value.

Bond issuance costs, discounts and premiums: Costs associated with the issuance of bonds, discounts, and premiums are being amortized using the effective interest method over the term of the related debt. Such amounts are presented as a part of the related bond debt in the consolidated statements of financial position.

Basis of presentation: The Organization 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 Organization and are not subject to donor-imposed stipulations.

At June 30, 2020 and 2019, the Organization had net assets without restriction, which were designated by the board of the Foundation to be used for the following purposes:

	2020	2019
Research and development	$ 10,799	$ 10,927
Deferred compensation funds	359	403
	$ 11,158	$ 11,330

These amounts can be utilized by the Organization for other purposes upon approval by the board of the Foundation.

Net assets with donor restrictions are those resources whose use by the Organization has been limited by donors for a specific purpose and either expires by the passage of time or by actions of the Organization. The Organization's net assets with donor restrictions are as follows:

	2020	2019
Purpose restrictions:		
Departments within UW	$ 51,217	$ 51,411

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

Royalty income: The Organization negotiates license agreements with interested parties for specific inventions. Royalty arrangements are finalized at that time. Licensing agreements are generally in effect through the life of the related patent, which is twenty years or a term requested by the licensee. At June 30, 2020, the Organization maintained 628 active license agreements, of which ten of those agreements generate approximately 83% of the total royalties recognized by the Organization. On average, there are approximately 13 years remaining on those ten agreements at June 30, 2020.

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

The amount of revenue recognized upon satisfaction of a performance obligation is the transaction price allocated to it using the following steps: 1) identify the contract, 2) identify the performance obligations, 3) determine the transaction price, 4) allocate the transaction price to the performance obligations in the contract, and 5) recognize revenue as or when the Organization satisfies the performance obligations.

License fees, which are included in royalty income, are generally recognized when, or as, the performance obligation is satisfied, which is when control of the intellectual property (IP) is transferred to the licensee. Total license fees recognized during the years ended June 30, 2020 and 2019 were $2,544 and $920, respectively.

Sales and usage-based royalties on licenses of IP are recognized over time when the later of the following events occurs: (1) the subsequent sales or usage occurs or (2) the performance obligation to which some or all of the sales-based or usage-based royalty has been allocated has been satisfied (or partially satisfied). The amount of royalty income earned can vary significantly from year to year depending on the individually negotiated license agreements and the activities of the individual licensees. The gross royalties collected by the Organization is reduced by inventors' share of royalties where the Organization serves as an agent to inventors of IP. Total inventors' share of royalties that were reduced from the gross royalties collected were $5,559 and $4,563 during the years ended June 30, 2020 and 2019, respectively. Total royalties recognized during the years ended June 30, 2020 and 2019 was $10,016 and $13,260, respectively.

Contract assets represent the Organization's conditional right to consideration for royalty and licensing revenues where its performance has been completed, or partially completed, but have not been billed. For the years ended June 30, 2020 and 2019, the Organization estimated that there was approximately $2,600 and $3,200, respectively, of uncollected royalties. In addition, the Organization evaluates contract assets for impairment annually. Management has determined that no impairment of contract assets existed in 2020 or 2019.

Contributions: All contributions are considered available for unrestricted use unless specifically restricted by the donor. Contributions without donor restriction are reported as other income on the consolidated statements of activities. 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. 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 consolidated statements of activities as assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as contributions without donor restrictions in the accompanying consolidated financial statements.

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, consulting fees, communications/marketing, travel, business meetings, professional dues and various overhead costs including office supplies, office space, subscriptions and software, all of which are allocated based on type of services provided within each department and the employee's job description or primary function.

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

Grants to University of Wisconsin and Morgridge Institute for Research, Inc.: Grants are recorded as payable in the year the grant is awarded. Grants which indicate the payment will be made over an extended number of years, if any, are recorded at their net present value. All grants are expected to be paid within a year at June 30, 2020 and 2019.

Income taxes: The Foundation and WiCell have been granted an exemption from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Under this exemption, income tax is paid only on unrelated business income. The organizations are also exempt from Wisconsin income and real estate taxes.

The Organization 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 consolidated financial statements. Under this guidance, the Organization 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 Organization and various positions related to the potential sources of unrelated business taxable income (UBIT). Any tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Organization files Forms 990 in the U.S. federal jurisdiction and the state of Wisconsin.

Recently adopted accounting standard: In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 clarifies and improves current guidance about whether a transfer of assets, or the reduction, settlement, or cancellation of liabilities, is a contribution or exchange transaction. It provides criteria for determining whether the resource provider is receiving commensurate value in return for the resources transferred which, depending on the outcome, determines whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction. During the year ended June 30, 2019, the Organization adopted the provisions of ASU 2018-08 for transactions in which the Organization is a resource recipient. For transactions where the Organization is a resource provider, the new standard was adopted for the Organization's June 30, 2020 consolidated financial statements. The impact of the adoption on the consolidated financial statements was not material.

Pending accounting standards: In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU and its subsequently issued amendments supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statements of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. A modified retrospective transition approach is required. An entity may adopt the guidance either (1) retrospectively to each prior reporting period presented in the financial statements with a cumulative-effect adjustment recognized at the beginning of the earliest comparative period presented or (2) retrospectively at the beginning of the period of adoption through a cumulative-effect adjustment. ASU 2020-05 deferred the effective date of adoption to the Organization's year ending June 30, 2021, with early adoption permitted. The Organization is currently evaluating the impact of the pending adoption of the new standard on the consolidated financial statements.

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

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, which modifies the disclosure requirements for fair value measurements by removing, modifying, or adding certain disclosures. ASU 2018-13 is effective for the Organization's fiscal year ending June 30, 2021. An entity is permitted to early adopt any removed or modified disclosures and delay adoption of the additional disclosures until their effective date. The Organization is currently evaluating the impact of this new standard on its consolidated financial statements. The adoption of ASU 2018-13 is not expected to have a material impact on the consolidated financial statements.

In August 2018, the FASB issued ASU 2018-14, *Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans*, which modifies the disclosure requirements for defined benefit pension plans and other post-retirement plans. The amendments in ASU 2018-14 are effective for the Organization for fiscal years ending on June 30, 2021, with early adoption permitted. The Organization is currently evaluating the impact of this new standard on its consolidated financial statements.

In January 2020, the FASB issued ASU 2020-01, *Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815)—Clarifying the Interactions between Topic 321, Topic 323, and Topic 815*, which, among other things, clarifies that a company should consider observable transactions that require a company to either apply or discontinue the equity method of accounting under Topic 323, *Investments—Equity Method and Joint Ventures*, for the purposes of applying the measurement alternative in accordance with Topic 321 immediately before applying or upon discontinuing the equity method. The new ASU clarifies that, when determining the accounting for certain forward contracts and purchased options a company should not consider, whether upon settlement or exercise, if the underlying securities would be accounted for under the equity method or fair value option. ASU 2020-01 is effective for the Organization's fiscal year ending June 30, 2022, with early adoption permitted.

Subsequent events: Management of the Organization has evaluated subsequent events through September 28, 2020, which is the date the consolidated financial statements were issued for possible measurement and/or disclosure effects on the consolidated financial statements.

As of July 1, 2020, the bylaws of WiCell were amended at which time the Foundation no longer retained significant control and economic interest over WiCell. As a result, WiCell was deconsolidated from the Foundation as of the date of the bylaws change. As of June 30, 2020, WiCell's total assets were $2,604 and net assets totaled $1,600.

Note 2. Investments and Fair Value of Financial Instruments

The Organization 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 Organization 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:

Note 2. Investments and Fair Value of Financial Instruments (Continued)

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.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Organization's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment. For the fiscal years ended June 30, 2020 and 2019, the application of valuation techniques applied to similar assets and liabilities has been consistent.

The Organization assesses the levels of the investments at each measurement date, and the transfers between levels are recognized at the measurement date in accordance with the Organization's accounting policy regarding the recognition of transfers between levels of the fair value hierarchy. For the fiscal years ended June 30, 2020 and 2019, there were no such transfers.

As a practical expedient the Organization uses the reported net asset value (NAV) of the investments in other investment funds to determine fair value. Investments in other investment funds (investment companies, real estate funds and private equity funds) are valued at fair value based on the applicable percentage ownership of the investment funds' net assets as determined by the Organization. In determining fair value, the Organization utilizes valuations of the underlying investment funds. The underlying investment funds value securities and other financial instruments substantially on the fair value basis of accounting. These investments are not included in the three levels of the fair value hierarchy but are included in the tables on the following page for reconciliation purposes.

The inputs used in estimating the value of warrants include the original transaction price, recent transactions in the same or similar instruments, completed or pending third-party transactions in the underlying investments, subsequent rounds of financing, recapitalizations and other transactions across the capital structure. In addition, other various factors including specific developments are taken into consideration.

Investments in securities traded on national securities exchanges including preferred stocks, common stocks, and U.S. Treasuries, are stated at the last reported sales price on the day of valuation; other securities traded in the over-the-counter market and listed securities for which no sale was reported on that date are stated at the last quoted bid price, except for short positions, for which the last quoted ask price is used. Other securities for which quotations are not readily available are valued at fair value as determined by the investment manager. The ability of issuers of debt securities to meet their obligations may be affected by economic and political developments in a specific country or region. Fixed income securities are valued based upon mid-market quotations obtained from pricing services.

(Amounts in Thousands)

Note 2. Investments and Fair Value of Financial Instruments (Continued)

In the normal course of business, the Organization enters into derivative contracts (derivatives) for trading purposes. Derivatives include exchange-traded futures and total return swaps. Exchange-traded derivatives are standard contracts traded on a regulated exchange. Total return swaps are private contracts negotiated with counterparties.

Exchange-traded derivatives are valued at their current market price on a mark-to-market basis, and unrealized gains and losses on positions prior to the settlement date are recorded. Total return swaps are appraised at fair value as determined by the Organization at contractual terms based upon the fair value of the underlying securities and accrued interest.

The Organization may enter into forward foreign currency exchange contracts to obtain exposures to various financial markets and to hedge against foreign currency exchange rate risks on its non-U.S. dollar denominated investment securities. When entering into a forward currency contract, the Organization agrees to receive or deliver a fixed quantity of foreign currency for an agreed-upon price on an agreed future date. These contracts are valued daily, and the Organization’s net equity therein, representing unrealized gain or loss on the contracts as measured by the difference between the forward foreign exchange rates at the dates of entry into the contracts and the forward rates at the reporting date, is included in the consolidated statements of financial position. Realized and unrealized gains and losses are included in the consolidated statements of activities. These instruments involve market risk and credit risk in excess of the amount recognized in the consolidated statements of financial position. Risks arise from the possible inability of counterparties to meet the terms of their contracts and from movement in currency and securities values and interest rates.

The following table presents the Organization’s fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2020:

	Total	Level 1	Level 2	Level 3
Investments:				
Cash equivalents	$ 689,068	$ 689,068	$ -	$ -
Preferred stocks	380	380	-	-
Common stocks:				
U.S. domestic small-cap value	209,754	209,754	-	-
U.S. Treasury notes	703,727	-	703,727	-
Unrealized gain (loss) on derivative contracts, net:				
Futures	4,438	4,438	-	-
Total return swaps	20,143	-	20,143	-
Subtotal	1,627,510	$ 903,640	$ 723,870	$ -
Investments in funds measured at NAV:				
Investment companies	786,355			
Private equity funds	381,504			
Real estate funds	200,173			
	2,995,542			
Accrued interest and dividends	2,789			
Total investments	$ 2,998,331			

(Amounts in Thousands)

Note 2. Investments and Fair Value of Financial Instruments (Continued)

The following table presents the Organization's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2019:

	Total	Level 1	Level 2	Level 3
Investments:				
Cash equivalents	$ 833,299	$ 833,299	$ -	$ -
Preferred stocks	380	380	-	-
Common stocks:				
U.S. domestic small-cap value	64	64	-	-
U.S. Treasury notes	74,850	-	74,850	-
Unrealized gain (loss) on derivative contracts, net:				
Futures	6,102	6,102	-	-
Total return swaps	12,070	-	12,070	-
Subtotal	926,765	$ 839,845	$ 86,920	$ -
Investments in funds measured at NAV:				
Investment companies	1,284,330			
Private equity funds	366,865			
Real estate funds	165,238			
	2,743,198			
Accrued interest and dividends	3,156			
Total investments	$ 2,746,354			
Derivative contract liabilities:				
Unrealized gain (loss) on derivative contracts, net:				
Total return swaps	$ (2,405)	$ -	$ (2,405)	$ -
	$ (2,405)	$ -	$ (2,405)	$ -

The following table summarizes the Organization's investments in private equity funds by strategy, which are valued using the practical expedient, as of June 30:

Investment Strategy	2020	2019	Unfunded Commitment as of June 30, 2020
International [(a)]	$ 13,581	$ 21,126	$ 2,304
Healthcare [(b)]	87,789	47,058	59,881
Venture capital [(c)]	232,766	179,402	88,122
Financial services [(d)]	21,102	27,535	3,439
Other [(e)]	26,266	91,744	18,681
	$ 381,504	$ 366,865	$ 172,427

Note 2. Investments and Fair Value of Financial Instruments (Continued)

(a) The strategy focuses on investment in direct or indirect securities of private companies doing business primarily in overseas with emphasis on growing markets in the expansion stage capital transactions and buyouts.

(b) The strategy focuses on investment in private healthcare companies with an investment model based on a unique and impactful approach to capital efficiency that leverages shared resources and non-dilutive capital.

(c) The strategy focuses on venture capital investments in private companies with an objective to provide investors with attractive returns.

(d) The strategy focuses on providing capital to, and invest in, depositories and other financial service companies.

(e) The strategy focuses on generating significant returns for investment partners, principally through long-term capital appreciation, by making privately negotiated investments in various industries.

The unfunded commitment above represents the Organization’s outstanding obligation at June 30, 2018 regarding making additional investments in the above underlying funds.

The private equity funds listed above have fixed termination dates and the Organization may not redeem prior to those dates. The term for these investments is within a 12-year range.

The unfunded commitment above represents the Organization's outstanding obligation at June 30, 2020 regarding making additional investments in the above underlying funds. At June 30, 2020 and 2019, the Organization had a contractual obligation to invest approximately $172,427 and $149,768, respectively in private equity funds. This obligation is contingent on the private equity funds’ issuance of future capital calls.

The private equity funds listed above have fixed termination dates and the Organization may not redeem prior to those dates. The term for these investments is within a 12-year range. The sponsor of the respective investment companies may, at its sole discretion, suspend investor redemption rights, which might affect the Organization’s ability to redeem its investment. As of June 30, 2020 and 2019, there were no suspensions of investor redemption rights.

The real estate funds, which are also valued using the practical expedient, have redemptions permitted quarterly with 15 day redemption notice period.

(Amounts in Thousands)

Note 2. Investments and Fair Value of Financial Instruments (Continued)

The following table summarizes the Organization's investments in investment companies by strategy, which are valued using the practical expedient, as of June 30, 2020:

Investment Strategy	Fair Value	Redemptions Permitted	Redemption Notice Period In Days
Global Macro	$ 53,574	Monthly	5
Fundamental Equity Market Neutral	73,056	Monthly	30
Low-net/market Neutral Credit Trading	106,821	Quarterly	90
Global Macro - Emerging Markets	95,476	Monthly	90
Long/short Energy Equities Market Neutral	96,021	Quarterly	60
Multi-Strategy	141,624	Quarterly	65
Fundamental Equity Market Neutral	49,152	Monthly	30
Long Only Frontier Markets Equity	41,090	Monthly	30
Equity Arbitrage and Relative Value	75,590	Monthly	30
Woodline Offshore	53,951	Quarterly	60
	$ 786,355		

The following table summarizes the Organization's investments in investment companies by strategy, which are valued using the practical expedient, as of June 30, 2019:

Investment Strategy	Fair Value	Redemptions Permitted	Redemption Notice Period In Days
Global Macro	$ 149,945	Monthly	5
Risk Premia	106,535	Semi-Monthly	30
Market Neutral Credit - Capital Structure Arbitrage	7,086	Quarterly	90
Fundamental Long/Short Chinese Equity	92,484	Monthly	30
Fundamental Equity Market Neutral	194,879	Monthly	30
Discretionary Global Macro	11,399	Daily	5
Low-net/market Neutral Credit Trading	94,058	Quarterly	90
Global Macro - Emerging Markets	137,474	Monthly	90
Long/short Energy Equities Market Neutral	126,329	Quarterly	60
Multi-Strategy	122,185	Quarterly	65
Fundamental Equity Market Neutral	80,774	Monthly	30
Long Only Frontier Markets Equity	59,305	Monthly	30
Equity Arbitrage and Relative Value	101,877	Monthly	30
	$ 1,284,330		

(Amounts in Thousands)

Note 3. Derivative Instruments

Typically, derivative contracts serve as components of the Organization's investment strategy and are used primarily to structure and hedge investments to enhance performance and reduce risk of the Organization. The Organization's derivative positions are comprised of exchange-traded futures contracts, over-the-counter total return and interest rate swaps and foreign currency forward contracts. The Organization actively utilizes derivatives to hedge currency exposures and to re-allocate portfolio risk exposures on a daily basis. The Organization utilizes swap contracts to provide exposure to inflation-linked bonds and emerging market securities. These derivative contracts are recorded in the consolidated statements of financial position as assets and liabilities measured at fair value and the related net change in fair value associated with these derivatives is recorded in the consolidated statements of activities. The Organization has considered the counterparty credit risk related to all of its futures contracts, over-the-counter swaps and foreign currency forward contracts, and does not deem any counterparty credit risk material at this time.

Derivative contracts impacting the consolidated statements of financial position as of June 30, 2020 and 2019 are as follows:

	2020		
Consolidated Statement of Financial Position Location	Asset Derivatives	Liability Derivatives	Number of Positions
Investments	$ 7,082	$ (2,644)	4.428
Investments	20,143	-	
	20,143	-	(a)
Total asset and liability derivatives	$ 27,225	$ (2,644)	

	2019		
Consolidated Statement of Financial Position Location	Asset Derivatives	Liability Derivatives	Number of Positions
Investments	$ 6,280	$ (178)	3.084
Investments	13,338	(1,268)	
Derivative contract liabilities	-	(2,405)	
	13,338	(3,673)	(a)
Total asset and liability derivatives	$ 19,618	$ (3,851)	

(a) At June 30, 2020 and 2019, the Organization had interest rate swap contracts with notional amounts of approximately $273 and $1,888, respectively.

(Amounts in Thousands)

Note 3. Derivative Instruments (Continued)

For the years ended June 30, 2020 and 2019, the Organization's derivative activities had the following impact on the consolidated statements of activities as follows:

	2020	2019
	Gain (Loss) on Derivatives Held as Investments	
Futures contracts:		
Foreign exchange	$ 1,186	$ 2,468
Commodity	(18,406)	703
Index	(12,255)	5,674
Interest rate	37,163	25,841
	7,688	34,686
Swaps:		
Index	22,021	79,549
	22,021	79,549
Total realized and unrealized gains, net	$ 29,709	$ 114,235

Additionally, in connection with the bond issuance as discussed in Note 9, the Organization entered into and exited a forward treasury lock agreement which yielded a gain of $7,321 for the period ending June 30, 2020.

Note 4. Offsetting

The following tables provide disclosure regarding the potential effect of offsetting for recognized assets and liabilities presented in the consolidated statements of financial position as of June 30, 2020:

	Gross Amounts of Recognized Assets and Liabilities	Gross Amounts Offset in the Statements of Financial Position	Net Amounts of Recognized Assets/Liabilities Presented in the Statements of Financial Position	Gross Amounts Not Offset in the Statements of Financial Position		Net Amount
				Financial Instruments	Cash Collateral Received	
Assets						
Future contracts	$ 7,082	$ (2,644)	$ 4,438	$ -	$ -	$ 4,438
Swaps	20,143	-	20,143	-	-	20,143

(Amounts in Thousands)

Note 4. Offsetting (Continued)

The following tables provide disclosure regarding the potential effect of offsetting for recognized assets and liabilities presented in the consolidated statements of financial position as of June 30, 2019:

	Gross Amounts of Recognized Assets and Liabilities	Gross Amounts Offset in the Statements of Financial Position	Net Amounts of Recognized Assets/Liabilities Presented in the Statements of Financial Position	Gross Amounts Not Offset in the Statements of Financial Position: Financial Instruments	Gross Amounts Not Offset in the Statements of Financial Position: Cash Collateral Received	Net Amount
Assets						
Future contracts	$ 6,280	$ (178)	6,102	-	-	6,102
Swaps	12,070	-	12,070	-	(3,990)	8,080
Liabilities						
Swaps	(2,405)	-	(2,405)	-	-	(2,405)

Note 5. Trading Activities and Related Risks

The Organization engages in the trading of, among other things, U.S. and foreign futures contracts and forward contracts (collectively, derivatives). These derivatives include both financial and nonfinancial contracts held as part of a diversified trading strategy. The Organization is exposed to both market risk, the risk arising from changes in the market value of the contracts, and credit risk, the risk of failure by another party to perform according to the terms of a contract.

The purchase and sale of futures requires margin deposits with the broker, which is a registered futures commission merchant (FCM). Additional deposits may be necessary for any loss. The Commodity Exchange Act requires an FCM to segregate all customer transactions and assets from the FCM's proprietary activities. A customer's cash and other property (for example, U.S. Treasury bills) deposited with an FCM are considered commingled with all other customer funds subject to the FCM's segregation requirements. In the event of an FCM's insolvency, recovery may be limited to a pro rata share of segregated funds available. It is possible that the recovered amount could be less than the total of cash and other property deposited.

For derivatives, risks arise from changes in the market value of the contracts. Theoretically, the Organization is exposed to a market risk equal to the value of futures and forward contracts purchased and an unlimited liability on such contracts sold short.

In addition to market risk, in entering into commodity interest contracts there is a credit risk that a counterparty will not be able to meet its obligations to the Organization. The counterparty for futures and options on futures contracts traded in the United States and on most non-U.S. futures exchanges is the clearinghouse associated with such exchange. In general, clearinghouses are backed by the corporate members of the clearinghouse who are required to share any financial burden resulting from the nonperformance by one of their members and, as such, should significantly reduce this credit risk. In cases where the clearinghouse is not backed by the clearing members, like some non-U.S. exchanges, it is normally backed by a consortium of banks or other financial institutions.

In the total return swap transactions, the underlying components are comprised of United States and foreign government obligations, equity indices and foreign currency indices. Under the total return swap transactions, the counterparty pays the Organization the cash flows that result from the basket component plus any capital appreciation related to that specific instrument. The Organization pays the counterparty a payment based on an index plus a specific spread plus any capital depreciation related to that specific instrument. These swap agreements settle monthly.

(Amounts in Thousands)

Note 5. Trading Activities and Related Risks (Continued)

In the case of forward contracts which are traded on the interbank or other institutional market rather than on exchanges, the counterparty is generally a single bank or other financial institution rather than a clearinghouse backed by a group of financial institutions; thus, there likely will be greater counterparty credit risk. The Organization trades only with those counterparties that it believes to be creditworthy. All positions of the Organization are valued each day on a mark-to-market basis. There can be no assurance that any clearing member, clearinghouse or other counterparty will be able to meet its obligations to the Organization.

Note 6. Liquidity and Availability

The Organization 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 Organization has various sources of liquidity at its disposal, including cash and cash equivalents, marketable debt and equity securities, and two lines of credit.

The Organization’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 margin requirements, grant obligations, redemption requests, and the funding of operations. The Organization 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 Organization 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.

As of June 30, 2020 and 2019, the following financial assets are available to meet general expenditures within one year:

	2020	2019
Financial assets at year end:		
Cash and cash equivalents	$ 5,494	$ 4,906
Receivables	621	699
Contract assets	2,600	3,200
Due from broker	9,600	122,087
Investments	2,998,331	2,746,354
Other assets	932	756
Total financial assets	3,017,578	2,878,002
Less amounts not available to be used within one year:		
Investments in non-liquid securities	(381,504)	(366,865)
Investments held in custodial accounts for others	(331,449)	(331,882)
Assets with donor and board restrictions	(62,375)	(62,741)
Financial assets not available to be used within one year	(775,328)	(761,488)
Financial assets available to meet general expenditures within one year	$ 2,242,250	$ 2,116,514

(Amounts in Thousands)

Note 7. Lines of Credit

The Organization has two unsecured lines of credit: $32,950 committed and another $125,000 uncommitted, each with a bank. The Organization has the option of drawing on the credit agreements at any one time for temporary short-term liquidity purposes. The agreements expire on June 22, 2021.

The outstanding principal amounts bear interest at a prime-based rate designated by the bank or a London Inter-Bank Offered Rate (LIBOR) rate plus 0.75% and a 0.10% unused fee that is adjusted at the discretion of the bank for applicable reserve requirements. The applicable LIBOR rate used is dependent on the maturity period and ranges from overnight to six months. The Organization elects which interest rate option and, if applicable, the LIBOR interest period at the time funds are drawn. As of June 30, 2020 and 2019, there was no outstanding balance under the agreements.

Note 8. Letter of Credit

The Organization has entered into a $32,950 letter of credit with a bank in connection with an event described in Note 15. The Organization is obligated to repay all drawings with respect to the letter of credit issued pursuant to the Agreement. This letter of credit expires February 20, 2021. As of June 30, 2020, there were no amounts drawn on the letter of credit.

Note 9. Bonds Payable

In December 2009, the Organization issued $150,000 of tax-exempt revenue bonds to fund the cost of constructing and equipping a building which is used in part by its affiliate, Morgridge. The Community Development Authority of the City of Madison, Series 2009 Tax Exempt Revenue Bonds (tax exempt bonds) have varying interest rates between 2.50% and 5.00%. The bonds mature through October 2039. The bonds are secured by the Organization’s Direct Note Obligation, Series 2009, with the Community Development Authority of the City of Madison.

On January 16, 2020, the Organization paid in full on the tax exempt bonds, using proceeds acquired from the issuance of 30-year, $225,000 Series 2019 Taxable Bonds (taxable bonds). The taxable bonds were issued on December 17, 2019, of which $124,375 was used to refinance the tax exempt bonds and the remainder of the proceeds to be used for the Organization’s charitable purposes, including, but not limited to, supporting building and grant making. Interest on the taxable bonds will be payable on April 1 and October 1 of each year, commencing April 1, 2020 at an annual interest rate of 3.564%. The taxable bonds mature on October 1, 2049, with the entire principal balance due on this date and has a 10-year par call option on October 1, 2029.

At June 30, 2020 and 2019, bonds payable consisted of the following:

	2020	2019
Series 2009 Tax Exempt Revenue Bonds	$ -	$ 128,085
Series 2019 Taxable Bonds	225,000	-
Plus: Unamortized premium	-	5,977
Less: Unamortized discount	(1,016)	-
Less: Unamortized bond issuance costs	(421)	(1,322)
	$ 223,563	$ 132,740

(Amounts in Thousands)

Note 9. Bonds Payable (Continued)

Total interest cost incurred during the years ended June 30, 2020 and 2019 was $7,437 and $5,838, respectively, which has been included in administrative expenses on the consolidated statements of activities.

The bond indenture does not contain any financial covenants limiting the ability of the Organization to incur indebtedness, encumber or dispose of its property or merge with any other entity, or any other similar covenants.

Note 10. Property and Equipment

A summary of property and equipment at June 30, 2020 and 2019 follows:

	2020	2019
Land	$ 15,341	$ 15,341
Building and improvements	143,108	143,108
Furniture and equipment	27,003	26,990
Accumulated depreciation	(60,262)	(54,746)
	$ 125,190	$ 130,693

Note 11. Payable to the University of Wisconsin

Amounts payable to the UW at June 30, 2020 and 2019 consisted of the following:

	2020	2019
Current and prior year grants	$ 79,741	$ 64,128
Departmental royalty funds	141,229	148,805
Undistributed current year income on:		
Departmental royalty funds	6,965	6,745
Donor directed funds	2,409	2,403
	$ 230,344	$ 222,081

The amounts due UW related to departmental royalty funds are adjusted annually to reflect the change in the fair value of the Organization’s investment portfolio. The allocation of earnings to these items is based upon the average return on investments of the Organization as a whole. For the purpose of this allocation, investment return includes interest, dividends, and appreciation. UW may request to withdraw all or a portion of their respective balances as of the end of any quarter. In addition, the Organization has an outstanding commitment to provide up to $5,000 to UW in support of their construction of a building, which is currently in process and is expected to be completed in 2021.

Note 12. Related Parties and Rent Income

In connection with an investment management agreement executed on January 1, 2018 between the Foundation and Morgridge, the Foundation has agreed to hold certain Morgridge funds within the pooled Foundation investment portfolio. The Foundation has agreed to provide investment management services to Morgridge in exchange for a management fee equal to 0.35% per quarter of the Morgridge accounts' pro rata portion of the NAV of the total Foundation investments. Earnings are also allocated on a pro rata basis based on changes in the fair value of the underlying investments of the portfolio as a whole. Morgridge may, upon 90 days prior written notice to the Foundation, request to withdraw all or a portion of their respective balances as of the end of any quarter.

The Organization periodically makes operating grants to Morgridge to provide funding for research related expenses. The Organization also makes distributions from funds held and invested by the Organization on behalf of Morgridge.

The Organization leases a building and related improvements to Morgridge. The initial term of the lease is 15 years, with annual rent to be paid at a base rate of $2,250 per year with two percent per year incremental increases in lease payments after July 1, 2023 including renewal periods. At the end of the original lease term, Morgridge has the right to extend the term for three periods of 60 months each.

Note 13. Retirement Plans

The Foundation has a noncontributory defined benefit pension plan which covers all employees. Benefits under this plan are based primarily on years of service and employee remuneration. Contributions to the plan are actuarially determined and are funded through a group annuity contract.

The Organization also has a postretirement benefit plan where the Foundation will provide health and dental insurance for retired employees that have not reached Medicare eligibility. After reaching Medicare age, the Foundation provides partial reimbursement of Medicare supplemental insurance for retired employees and their spouses. Medical supplemental insurance reimbursement will be equal to 25% of the published premium for a standard Medicare supplemental insurance plan. In order to qualify for the health and dental insurance continuation plan, the employee must retire, must receive pension plan benefits, must be at least 50 years of age and must have ten years of vested pension service.

The expected long-term rate of return on assets in the pension plan is based on the expected return for a portfolio mix of 40% fixed income and 60% equity securities while also considering historical rate of returns.

(Amounts in Thousands)

Note 13. Retirement Plans (Continued)

Information relative to the Organization's pension plan and post-retirement benefit plan are presented below:

	Pension Benefits		Post-Retirement Benefit	
	2020	2019	2020	2019
Change in benefit obligation				
Projected benefit obligation, beginning of year	$ 47,341	$ 35,766	$ 2,200	$ 1,900
Interest cost	1,549	1,419	-	-
Service cost	2,880	2,025	346	431
Actuarial losses	8,674	8,811	-	-
Benefits paid	(3,711)	(680)	(146)	(131)
Projected benefit obligation, end of year	56,733	47,341	2,400	2,200
Change in plan assets				
Fair value of plan assets, beginning of year	30,484	25,890	-	-
Contributions from employer	-	3,165	146	131
Actual return on plan assets	1,366	2,109	-	-
Benefits paid	(3,711)	(680)	(146)	(131)
Fair value of plan assets, end of year	28,139	30,484	-	-
Funded status of the Plans	$ (28,594)	$ (16,857)	$ (2,400)	$ (2,200)
Accumulated benefit obligation	$ 45,955	$ 39,121		
Amounts recognized on the consolidated statements of financial position:				
Pension liability	$ (28,594)	$ (16,857)	$ -	$ -
Accounts payable and accrued expenses	$ -	$ -	$ (2,400)	$ (2,200)
Amounts not yet recognized on the consolidated statements of activities as a change in net assets without donor restriction:				
Net actuarial loss	$ 25,067	$ 16,536	$ -	$ -

Net periodic benefit cost and other amounts recognized in the changes in net assets without restriction were as follows for the years ended June 30, 2020 and 2019:

	Pension Benefits		Post-Retirement Benefit	
	2020	2019	2020	2019
Components of net periodic benefit cost:				
Service cost	$ 2,880	$ 2,025	$ 346	$ 431
Interest cost	1,549	1,420	-	-
Expected return on plan assets	(2,180)	(1,825)	-	-
Amortization of:				
Net loss	957	344	-	-
Net periodic benefit cost	3,206	1,964	346	431
Other changes in plan assets and benefit obligations recognized in changes in net assets without donor restriction:				
Net actuarial loss arising during the period	9,488	11,691	-	-
Contributions from employer	-	(3,165)	-	-
Amortization of net loss	(957)	(344)	-	-
Total recognized in changes in net assets without donor restriction	8,531	8,182	-	-
Total recognized in net periodic benefit cost and changes in net assets	$ 11,737	$ 10,146	$ 346	$ 431

Estimated net actuarial loss that will be amortized into periodic benefit cost in the next fiscal year is $1,503.

(Amounts in Thousands)

Note 13. Retirement Plans (Continued)

The following is cash flow information and assumptions used for the plans during the years ended June 30, 2020 and 2019:

	Pension Benefits		Post-Retirement Benefit	
	2020	2019	2020	2019
Amounts recognized for the years:				
Benefits paid	$ 3,711	$ 2,295	$ 146	$ 131
Employer contributions	-	-	-	-
Participant contributions	-	-	-	-
Weighted average assumptions used to determine the benefit obligations at the end of the year were as follows:				
Discount rate	2.45%	3.30%	2.45%	3.30%
Rate of compensation increase	3.00%	3.00%	0.00%	0.00%
Weighted average assumptions used to determine the net periodic pension cost for the years:				
Discount rate	3.30%	4.05%	3.30%	4.05%
Rate of compensation increase	3.00%	3.00%	0.00%	0.00%
Expected long-term return on plan assets	7.25%	7.25%	0.00%	0.00%

For measurement purposes, at June 30, 2020 and 2019, a 7% (health) and 3% (dental) annual rate of increase in the cost of health care benefits was assumed relative to the post-retirement benefit plan. Assumed health care trend rates may have a significant effect on the amounts reported for the post-retirement benefit plan. A one percent point change in the rates of healthcare and dental costs, however, would have an insignificant impact on the post-retirement benefit liability at June 30, 2020.

Plan Assets

The policy of the Foundation for the long-term target mix of the investment portfolio is 60% of plan assets in equity funds and 40% of plan assets in fixed income funds. The acceptable ranges for the long-term allocation of funds among assets classes within the portfolio are as follows:

	Range
Equities	50-70%
Fixed income	30-50%
Cash reserves	0-15%

Allocations outside those parameters are generally due either to timing of investment purchases and sales or in anticipation of future distributions.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2020 and 2019.

Pooled equity funds: Pooled equity funds are valued at quoted market prices which represent the net asset value of shares held by the plan at year end.

Certificates of deposit: Investments are valued at fair value based on a quoted price in a secondary market.

(Amounts in Thousands)

Note 13. Retirement Plans (Continued)

The fair values of the Foundation's pension plan assets at June 30, 2020 and 2019, by asset category, are as follows:

	Fair Value Measurements At June 30, 2020			Fair Value Measurements At June 30, 2019		
Asset Category	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)
Certificates of deposit	$ -	$ -	$ -	$ 249	$ -	$ 249
Pooled equity funds						
Small Cap Equity	1,498	1,498	-	1,789	1,789	-
Mid Cap Equity	2,450	2,450	-	2,749	2,749	-
Large Cap Equity	9,254	9,254	-	8,914	8,914	-
International Equity	3,029	3,029	-	4,437	4,437	-
Exchange Traded Funds	10,773	10,773	-	11,778	11,778	-
	27,004	$ 27,004	$ -	29,916	$ 29,667	$ 249
Money market funds	1,135			568		
	$ 28,139			$ 30,484		

There were no Level 3 assets as of June 30, 2020 or 2019.

The Organization expects to make no contributions to the pension plan in 2021.

The following benefit payments, which reflect future service as appropriate, are expected to be paid:

Years ending June 30,	Pension Benefits	Post-Retirement Benefits
2021	$ 920	$ 138
2022	2,203	133
2023	762	132
2024	1,710	124
2025	3,019	131
2026-2030	17,931	1,141

WiCell has a non-contributory defined contribution retirement plan in which their full-time employees working over 1,000 hours in a plan year are eligible to participate regardless of age or term of employment. WiCell provides a match equal to 3% of each participant compensation. WiCell also may make additional discretionary contributions to the Plan. During the years ended June 30, 2020 and 2019, total employer contributions to the plan were $223 and $203, respectively.

(Amounts in Thousands)

Note 14. Functional Expenses

Expenses related to the Organization's operations for the years ended June 30, 2020 and 2019 is summarized as follows:

	2020			
	Program Services	Management and General Expenses	Fundraising	Total
Grants and other assistance	$ 92,075	$ -	$ -	$ 92,075
Management compensation	2,597	5,187	-	7,784
Other salaries and wages	5,618	3,932	-	9,550
Employee benefits	1,006	719	-	1,725
Payroll taxes	-	184	-	184
Management fees	-	7	-	7
Legal services	938	17	-	955
Accounting services	-	176	-	176
Lobbying fees	-	72	-	72
Investment management fees	-	418	-	418
Other fees	781	192	-	973
Advertising and promotion	42	40	-	82
Office expenses	220	130	-	350
Information technology	53	356	-	409
Royalties	145	-	-	145
Occupancy	1,859	849	-	2,708
Travel	87	60	-	147
Conferences, conventions, and meetings	101	152	-	253
Interest	3,116	4,321	-	7,437
Depreciation and amortization	5,777	110	-	5,887
Insurance	186	299	-	485
Domestic legal/patents	4,705	-	-	4,705
Foreign legal/patents	2,023	-	-	2,023
Foreign patent maintenance fees	1,069	-	-	1,069
US patent maintenance fees	818	-	-	818
Other expenses	1,109	440	-	1,549
	$ 124,325	$ 17,661	$ -	$ 141,986

(Amounts in Thousands)

Note 14. Functional Expenses (Continued)

	2019			
	Program Services	Management and General Expenses	Fundraising	Total
Grants and other assistance	$ 82,203	$ -	$ -	$ 82,203
Management compensation	2,394	5,451	-	7,845
Other salaries and wages	6,164	-	-	6,164
Employee benefits	1,081	353	-	1,434
Payroll taxes	310	157	-	467
Management fees	-	67	-	67
Legal services	2,534	27	-	2,561
Accounting services	-	179	-	179
Lobbying fees	-	73	-	73
Investment management fees	-	406	-	406
Other fees	908	244	-	1,152
Advertising and promotion	37	58	-	95
Office expenses	291	136	-	427
Information technology	3	466	-	469
Royalties	149	1	-	150
Occupancy	2,119	760	-	2,879
Travel	111	72	-	183
Conferences, conventions, and meetings	138	180	-	318
Interest	5,838	-	-	5,838
Depreciation and amortization	5,733	304	-	6,037
Insurance	188	288	-	476
Domestic legal/patents	3,536	-	-	3,536
Foreign legal/patents	1,978	-	-	1,978
Foreign patent maintenance fees	1,318	-	-	1,318
US patent maintenance fees	829	-	-	829
Other expenses	1,066	511	-	1,577
	$ 118,928	$ 9,733	$ -	$ 128,661

Note 15. Estimate Relating to Litigation

The Foundation is involved in litigation relating to shared revenue pursuant to an inter-institutional agreement associated with a joint invention. In November 2018, the clerk of court ordered judgement against the Foundation. While the Foundation believes it has meritorious defenses against the suit and has appealed the judgement, damages amounting to $31,617 have been assessed and accrued for the fiscal year ended June 30, 2019. As of the year ended June 30, 2020 the accrual remains and no amounts have been paid in connection with this matter.

Note 16. Risks and Uncertainties

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a “Public Health Emergency of International Concern” and on March 11, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate the spread of it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Organization operates. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted to amongst other provisions, provide emergency assistance for individuals, families and businesses affected by the coronavirus pandemic.

Note 16. Risks and Uncertainties (Continued)

It is unknown how long the adverse conditions associated with the coronavirus will last and what the complete financial effect will be to the Organization. During the fiscal year ending June 30, 2020, the Organization turned to a remote working environment as a result of the state and local social distancing guidelines and experienced volatility with respect to its investment portfolio. It is unknown how long the Organization will continue to be impacted by this pandemic.

Wisconsin Alumni Research Foundation and Affiliate

Consolidating Statement of Financial Position
June 30, 2020
(Amounts in Thousands)

	Wisconsin Alumni Research Foundation	WiCell Research Institute, Inc.	Eliminations	Consolidated
Assets				
Cash and cash equivalents	$ 4,933	$ 561	$ -	$ 5,494
Receivables	255	609	243	621
Contract asset	2,600	-	-	2,600
Due from broker	9,600	-	-	9,600
Investments	2,997,426	905	-	2,998,331
Investments in start-up companies	25,583	-	-	25,583
Due from WiCell Research Institute, Inc.	22	-	22	-
Property and equipment, net	124,958	232	-	125,190
Other assets	635	297	-	932
Investment in affiliate	1,600	-	1,600	-
Total assets	$ 3,167,612	$ 2,604	$ 1,865	$ 3,168,351
Liabilities and Net Assets				
Liabilities:				
Accounts payable and accrued expenses	$ 12,963	$ 982	$ -	$ 13,945
Litigation outcome payable	31,617	-	-	31,617
Derivative contract liabilities	-	-	-	-
Due to broker	67,623	-	-	67,623
Royalties payable to inventors	4,639	-	-	4,639
Payable to the University of Wisconsin	230,344	-	-	230,344
Payable to Morgridge Institute for Research, Inc. and Morgridge Institute Foundation, Inc.	350,850	-	-	350,850
Due to WARF	-	22	22	-
Due to WiCell Research Institute, Inc.	243	-	243	-
Deferred revenue	28	-	-	28
Pension liability	28,594	-	-	28,594
Bonds payable, including unamortized discount and bond issue costs	223,563	-	-	223,563
Total liabilities	950,464	1,004	265	951,203
Net assets:				
Without donor restrictions:				
Undesignated	2,154,773	1,600	1,600	2,154,773
Board designated	11,158	-	-	11,158
With donor restrictions	51,217	-	-	51,217
Net assets	2,217,148	1,600	1,600	2,217,148
Total liabilities and net assets	$ 3,167,612	$ 2,604	$ 1,865	$ 3,168,351

Wisconsin Alumni Research Foundation and Affiliate

Consolidating Statement of Financial Position
June 30, 2019
(Amounts in Thousands)

	Wisconsin Alumni Research Foundation	WiCell Research Institute, Inc.	Eliminations	Consolidated
Assets				
Cash and cash equivalents	$ 4,712	$ 194	$ -	$ 4,906
Receivables	239	460	-	699
Contract asset	3,200	-	-	3,200
Due from broker	122,087	-	-	122,087
Investments	2,746,354	1,127	1,127	2,746,354
Investments in start-up companies	21,232	-	-	21,232
Due from WiCell Research Institute, Inc.	31	-	31	-
Property and equipment, net	130,405	288	-	130,693
Other assets	367	389	-	756
Investment in affiliate	2,043	-	2,043	-
Total assets	$ 3,030,670	$ 2,458	$ 3,201	$ 3,029,927
Liabilities and Net Assets				
Liabilities:				
Accounts payable and accrued expenses	$ 11,101	$ 384	$ -	$ 11,485
Litigation outcome payable	31,617	-	-	31,617
Derivative contract liabilities	2,405	-	-	2,405
Due to broker	23,899	-	-	23,899
Royalties payable to inventors	4,670	-	-	4,670
Payable to the University of Wisconsin	222,081	-	-	222,081
Payable to Morgridge Institute for Research, Inc. and Morgridge Institute Foundation, Inc.	347,899	-	-	347,899
Due to WARF	-	31	31	-
Due to WiCell Research Institute, Inc.	1,127	-	1,127	-
Deferred revenue	28	-	-	28
Pension liability	16,857	-	-	16,857
Bonds payable, including unamortized premium and bond issue costs	132,740	-	-	132,740
Total liabilities	794,424	415	1,158	793,681
Net assets:				
Without donor restrictions:				
Undesignated	2,173,505	2,043	2,043	2,173,505
Board designated	11,330	-	-	11,330
With donor restrictions	51,411	-	-	51,411
Net assets	2,236,246	2,043	2,043	2,236,246
Total liabilities and net assets	$ 3,030,670	$ 2,458	$ 3,201	$ 3,029,927

Wisconsin Alumni Research Foundation and Affiliate

Consolidating Statement of Activities
Year Ended June 30, 2020
(Amounts in Thousands)

	Wisconsin Alumni Research Foundation	WiCell Research Institute, Inc.	Eliminations	Consolidated
Revenues				
Royalty income	$ 9,730	$ 2,830	$ -	$ 12,560
Other income	3,141	1,694	-	4,835
Net assets released from restriction	1,999	-	-	1,999
Total revenues	14,870	4,524	-	19,394
Expenses				
Patent and licensing	13,636	-	-	13,636
Venture office	1,658	-	-	1,658
Legal	1,886	-	-	1,886
Administrative expenses	24,241	-	-	24,241
Operating expenses of affiliate	-	4,997	-	4,997
Grants to the University of Wisconsin	83,768	-	-	83,768
Grants to Morgridge Institute for Research, Inc.	11,800	-	-	11,800
Total expenses	136,989	4,997	-	141,986
Operating loss before investment income (expense) and other non-operating items	(122,119)	(473)	-	(122,592)
Investment income (expense):				
Interest and dividends	24,028	-	-	24,028
Investment manager fees	(3,725)	-	-	(3,725)
Investment expenses	(2,332)	-	-	(2,332)
Gain on derivatives held as investments	29,709	-	-	29,709
Net unrealized (loss) gain on investments	(70,711)	30	-	(70,681)
Net realized gain on investments	123,775	-	-	123,775
Total investment income (expense)	100,744	30	-	100,774
Other non-operating items:				
Gain on forward Treasury lock	7,321	-	-	7,321
Gain on defeasance of bonds	4,450	-	-	4,450
Defined benefit pension plans:				
Interest cost	(1,549)	-	-	(1,549)
Expected return on plan assets	2,180	-	-	2,180
Amortization of cumulative loss	(957)	-	-	(957)
Equity in net loss of affiliate	(443)	-	(443)	-
Total other non-operating items	11,002	-	(443)	11,445
Change in net assets without donor restrictions before other adjustments	$ (10,373)	$ (443)	$ (443)	$ (10,373)

(Continued)

Wisconsin Alumni Research Foundation and Affiliate

Consolidating Statement of Activities (Continued)
Year Ended June 30, 2020
(Amounts in Thousands)

	Wisconsin Alumni Research Foundation	WiCell Research Institute, Inc.	Eliminations	Consolidated
Net assets without donor restrictions:				
Change in net assets without donor restrictions before other adjustments	$ (10,373)	$ (443)	$ (443)	$ (10,373)
Pension-related changes other than net periodic pension cost	(8,531)	-	-	(8,531)
Change in net assets without donor restrictions	(18,904)	(443)	(443)	(18,904)
Net assets with donor restrictions:				
Change in fair value of donor restricted funds	1,749	-	-	1,749
Contributions	56	-	-	56
Net assets released from restriction	(1,999)	-	-	(1,999)
Change in net assets with donor restrictions	(194)	-	-	(194)
Change in net assets	(19,098)	(443)	(443)	(19,098)
Net assets, beginning	2,236,246	2,043	2,043	2,236,246
Net assets, ending	$ 2,217,148	$ 1,600	$ 1,600	$ 2,217,148

Wisconsin Alumni Research Foundation and Affiliate

Consolidating Statement of Activities
Year Ended June 30, 2019
(Amounts in Thousands)

	Wisconsin Alumni Research Foundation	WiCell Research Institute, Inc.	Eliminations	Consolidated
Revenues				
Royalty income	$ 11,789	$ 2,391	$ -	$ 14,180
Other income	3,240	2,121	-	5,361
Net assets released from restriction	2,773	-	-	2,773
Total revenues	17,802	4,512	-	22,314
Expenses				
Patent and licensing	12,637	-	-	12,637
Venture office	801	-	-	801
Legal	4,034	-	-	4,034
Administrative expenses	19,872	-	-	19,872
Operating expenses of affiliate	-	5,353	-	5,353
Grants to the University of Wisconsin	74,064	-	-	74,064
Grants to Morgridge Institute for Research, Inc.	11,900	-	-	11,900
Total expenses	123,308	5,353	-	128,661
Operating loss before investment income (expense) and other non-operating items	(105,506)	(841)	-	(106,347)
Investment income (expense):				
Interest and dividends	14,196	-	-	14,196
Investment manager fees	(7,309)	-	-	(7,309)
Investment expenses	(3,504)	-	-	(3,504)
Gain on derivatives held as derivatives	114,235	-	-	114,235
Net unrealized gain on investments	143,499	66	-	143,565
Net realized loss on investments	(118,999)	-	-	(118,999)
Total investment income (expense)	142,118	66	-	142,184
Other non-operating items:				
Litigation outcome	(31,617)	-	-	(31,617)
Defined benefit pension plans:				
Interest cost	1,420	-	-	1,420
Expected return on plan assets	(1,825)	-	-	(1,825)
Amortization of cumulative loss	344	-	-	344
Equity in net loss of affiliate	(775)	-	(775)	-
Total other non-operating items	(32,453)	-	(775)	(31,678)
Change in net assets without donor restrictions before other adjustments	$ 4,159	$ (775)	$ (775)	$ 4,159

(Continued)

Wisconsin Alumni Research Foundation and Affiliate

Consolidating Statement of Activities (Continued)
Year Ended June 30, 2019
(Amounts in Thousands)

	Wisconsin Alumni Research Foundation	WiCell Research Institute, Inc.	Eliminations	Consolidated
Net assets without donor restrictions:				
Change in net assets without donor restrictions before other adjustments	$ 4,159	$ (775)	$ (775)	$ 4,159
Pension-related changes other than net periodic pension cost	(8,182)	-	-	(8,182)
Change in net assets without donor restrictions	(4,023)	(775)	(775)	(4,023)
Net assets with donor restrictions:				
Change in fair value of donor restricted funds	3,202	-	-	3,202
Contributions	1,684	-	-	1,684
Net assets released from restriction	(2,773)	-	-	(2,773)
Change in net assets with donor restrictions	2,113	-	-	2,113
Change in net assets	(1,910)	(775)	(775)	(1,910)
Net assets, beginning, as previously reported	2,234,156	2,818	2,818	2,234,156
Cumulative-effect adjustment from adoption of ASC 606	4,000	-	-	4,000
Net assets, beginning, as adjusted	2,238,156	2,818	2,818	2,238,156
Net assets, ending	2,236,246	2,043	2,043	2,236,246