

Wisconsin Alumni Research Foundation and Affiliate

Consolidated Financial Report
June 30, 2021

Contents

Independent auditor's report	1-2
------------------------------	-----

Financial statements	
Consolidated statements of financial position	3
Consolidated statements of activities	4-5
Consolidated statements of cash flows	6
Notes to consolidated financial statements	7-32

Supplementary Information	
Consolidating statement of financial position - 2021	33
Consolidating statement of financial position - 2020	34
Consolidating statement of activities - 2021	35-36
Consolidating statement of activities - 2020	37-38



RSM US LLP

Independent Auditor's Report

To the Board of Trustees
Wisconsin Alumni Research Foundation

Report on the Consolidated 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, 2021 and 2020, 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, 2021 and 2020, 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 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 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 financial statements. The consolidating information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

RSM US LLP

Chicago, Illinois
October 4, 2021

Wisconsin Alumni Research Foundation and Affiliate

Consolidated Statements of Financial Position

June 30, 2021 and 2020

(Amounts in Thousands)

	2021	2020
Assets		
Cash and cash equivalents	\$ 5,922	\$ 5,494
Receivables	540	621
Contract assets	2,300	2,600
Due from broker	6,385	9,600
Investments	3,487,701	2,998,331
Investments in start-up companies	28,976	25,583
Due from WiCell Research Institute, Inc.	49	-
Property and equipment, net	120,495	125,190
Other assets	265	932
Total assets	\$ 3,652,633	\$ 3,168,351
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 13,731	\$ 13,945
Litigation outcome payable	-	31,617
Due to broker	374	67,623
Royalties payable to inventors	955	4,639
Payable to the University of Wisconsin	302,177	230,344
Payable to Morgridge Institute for Research, Inc. and Morgridge Institute Foundation, Inc.	428,096	350,850
Deferred revenue	28	28
Pension liability	24,885	28,594
Bonds payable, including unamortized discount and bond issue costs	223,612	223,563
Total liabilities	993,858	951,203
Commitments and contingencies		
Net assets:		
Without donor restrictions:		
Undesignated	2,583,627	2,154,773
Board designated	13,535	11,158
Total without donor restrictions	2,597,162	2,165,931
With donor restrictions	61,613	51,217
Net assets	2,658,775	2,217,148
Total liabilities and net assets	\$ 3,652,633	\$ 3,168,351

See notes to consolidated financial statements.

Wisconsin Alumni Research Foundation and Affiliate

**Consolidated Statements of Activities
Years Ended June 30, 2021 and 2020
(Amounts in Thousands)**

	2021	2020
Revenues:		
Royalty income	\$ 10,792	\$ 12,560
Contributions	5,313	-
Other income	10,352	4,835
Net assets released from restriction	3,350	1,999
Total revenues	<u>29,807</u>	<u>19,394</u>
Expenses:		
Patent and licensing	14,909	13,636
Venture office	1,959	1,658
Legal	1,165	1,886
Administrative expenses	23,319	24,241
Operating expenses of affiliate	-	4,997
Grants to the University of Wisconsin	165,893	83,768
Grants to Morgridge Institute for Research, Inc.	11,400	11,800
Total expenses	<u>218,645</u>	<u>141,986</u>
Operating loss before investment income (expense) and other non-operating items	<u>(188,838)</u>	<u>(122,592)</u>
Investment income (expense):		
Interest and dividends	21,963	24,028
Investment manager fees	(3,661)	(3,725)
Investment expenses	(1,238)	(2,332)
Gain on derivatives held as investments	38,477	29,709
Net gain on investments	576,081	53,094
Total investment income	<u>631,622</u>	<u>100,774</u>
Other non-operating items:		
Gain on forward Treasury lock	-	7,321
Gain on defeasance of bonds	-	4,450
Litigation outcome (Note 15)	(17,617)	-
Defined benefit pension plans:		
Interest cost	(1,363)	(1,549)
Expected return on plan assets	1,960	2,180
Amortization of cumulative loss	(1,503)	(957)
Net loss on deconsolidation	(1,600)	-
Total other non-operating items	<u>(20,123)</u>	<u>11,445</u>
Change in net assets without donor restrictions before other adjustments	<u>\$ 422,661</u>	<u>\$ (10,373)</u>

(Continued)

Wisconsin Alumni Research Foundation and Affiliate

Consolidated Statements of Activities (Continued)

Years Ended June 30, 2021 and 2020

(Amounts in Thousands)

	2021	2020
Net assets without donor restrictions:		
Change in net assets without donor restrictions before other adjustments	\$ 422,661	\$ (10,373)
Pension-related changes other than net periodic pension cost	8,570	(8,531)
Change in net assets without donor restrictions	431,231	(18,904)
Net assets with donor restrictions:		
Change in fair value of donor restricted funds	13,620	1,749
Contributions	126	56
Net assets released from restriction	(3,350)	(1,999)
Change in net assets with donor restrictions	10,396	(194)
Change in net assets	441,627	(19,098)
Net assets, beginning	2,217,148	2,236,246
Net assets, ending	\$ 2,658,775	\$ 2,217,148

See notes to consolidated financial statements.

Wisconsin Alumni Research Foundation and Affiliate

Consolidated Statements of Cash Flows
Years Ended June 30, 2021 and 2020
(Amounts in Thousands)

	2021	2020
Cash flows from operating activities:		
Change in net assets	\$ 441,627	\$ (19,098)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Gain on derivatives held as investments	(38,477)	(29,709)
Net gain on investments	(589,701)	(54,843)
Depreciation	4,683	5,887
Net loss on deconsolidation	1,600	-
Amortization of bond discount/premium and bond issuance costs included in interest expense	49	(190)
Gain on defeasance of bonds	-	(4,450)
Gain on sale of property and equipment	-	(33)
Changes in assets and liabilities:		
Receivables	(528)	78
Contract assets	300	600
Due from WiCell Research Institute, Inc.	(49)	-
Other assets	370	(176)
Accounts payable and accrued expenses	790	2,460
Litigation outcome payable	(31,617)	-
Royalties payable to inventors	(3,684)	(31)
Payable to the University of Wisconsin	42,075	15,839
Payable to Morgridge Institute for Research, Inc. and Morgridge Institute Foundation, Inc.	172	3,384
Pension liability	(3,709)	11,737
Net cash used in operating activities	(176,099)	(68,545)
Cash flows from investing activities:		
Net proceeds (purchase) from sale of investments and derivative contract liabilities	134,510	(174,181)
Net change in payable to the University of Wisconsin related to investments	29,758	(7,576)
Net change in payable to Morgridge Institute for Research, Inc. and Morgridge Institute Foundation, Inc. related to investments	77,074	(433)
Due (to) from broker	(64,034)	156,211
Proceeds from sale of equipment and assets held for sale	-	45
Acquisition of property and equipment	(220)	(396)
Net cash provided by (used in) investing activities	177,088	(26,330)
Cash flows from financing activities:		
Principal payments on bonds payable	-	(128,085)
Proceeds from issuance of bonds	-	223,977
Payments for debt issue costs	-	(429)
Net cash provided by financing activities	-	95,463
Cash held by WiCell Research Institute, Inc. upon deconsolidation	(561)	-
Net increase in cash and cash equivalents	428	588
Cash and cash equivalents, beginning	5,494	4,906
Cash and cash equivalents, ending	\$ 5,922	\$ 5,494
Supplemental disclosure of cash flow information:		
Cash payments for interest	\$ 8,019	\$ 7,156

See notes to consolidated financial statements.

Wisconsin Alumni Research Foundation and Affiliate

Notes to Consolidated Financial Statements (Amounts in Thousands)

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, and bequests. Significant transactions and balances between the Foundation and the UW include grants paid and payable and departmental royalty funds. The Foundation was also affiliated with WiCell Research Institute, Inc. (WiCell) through significant control and economic interest. 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.

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. As noted above, WiCell was deconsolidated as of July 1, 2020.

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 \$2,966,457 representing 81% of total assets as of June 30, 2021 and \$1,368,032 representing 43% of total assets as of June 30, 2020, 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.

Wisconsin Alumni Research Foundation and Affiliate

Notes to Consolidated Financial Statements (Amounts in Thousands)

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, 2021 and 2020, 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). Total return swaps are executed with specific counterparties and exchange traded futures transactions are executed through two 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 gain on investments in the consolidated statements of activities. During the years ended June 30, 2021 and 2020, there was \$3,391 and no impairment recorded, respectively, 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 gain 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.

Wisconsin Alumni Research Foundation and Affiliate

Notes to Consolidated Financial Statements (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, 2021 and 2020, the Organization had net assets without restriction, which were designated by the board of the Foundation to be used for the following purposes:

	2021	2020
Research and development	\$ 13,150	\$ 10,799
Deferred compensation funds	385	359
	<u>\$ 13,535</u>	<u>\$ 11,158</u>

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:

	2021	2020
Purpose restrictions:		
Departments within UW	\$ 61,613	\$ 51,217

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, 2021, the Organization maintained 645 active license agreements, of which ten agreements generate approximately 73% of the total royalties recognized by the Organization. On average, there are approximately 8 years remaining on those ten agreements at June 30, 2021.

Wisconsin Alumni Research Foundation and Affiliate

Notes to Consolidated Financial Statements (Amounts in Thousands)

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.

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 and other third parties associated with the IP. Total gross royalties and license fees recognized were \$17,383 and \$18,119 during the years ended June 30, 2021 and 2020, respectively. Total inventors' and other third parties' shares of royalties and license fees that were reduced from the gross royalties and license fees collected were \$6,591 and \$5,559 during the years ended June 30, 2021 and 2020, respectively. Total net royalties and license fees, presented as royalty income with the consolidated statement of activities, recognized during the years ended June 30, 2021 and 2020 were \$10,792 and \$12,560 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, 2021 and 2020, the Organization estimated that there was approximately \$2,300 and \$2,600, 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 2021 or 2020.

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.

Wisconsin Alumni Research Foundation and Affiliate

Notes to Consolidated Financial Statements (Amounts in Thousands)

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, 2021 and 2020.

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. 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 standards: In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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. The Organization adopted the standard for the year ending June 30, 2021. The adoption did not have a material effect on the consolidated financial statements.

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. 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 adopted the standard for the year ending June 30, 2021. The adoption did not have a material effect 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 Organization adopted the standard for the year ending June 30, 2021. The adoption did not have a material effect on the consolidated financial statements.

Wisconsin Alumni Research Foundation and Affiliate

Notes to Consolidated Financial Statements (Amounts in Thousands)

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

Pending accounting standards: 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.

Reclassifications: Certain items on the consolidated statements of activities and cash flows for the year ended June 30, 2020 have been reclassified to conform to the presentation for the year ended June 30, 2021, with no effect on the change in net assets.

Subsequent events: Management of the Organization has evaluated subsequent events through October 4, 2021, which is the date the consolidated financial statements were issued for possible measurement and/or disclosure effects on the consolidated financial statements.

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:

- 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.

Wisconsin Alumni Research Foundation and Affiliate

Notes to Consolidated Financial Statements (Amounts in Thousands)

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

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, 2021 and 2020, 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, 2021 and 2020, 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.

Wisconsin Alumni Research Foundation and Affiliate

Notes to Consolidated Financial Statements (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 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, 2021:

	Total	Level 1	Level 2	Level 3
Investments:				
Cash equivalents	\$ 177,948	\$ 177,948	\$ -	\$ -
Common stocks:				
U.S. domestic small-cap value	9,341	9,341	-	-
U.S. Treasury notes	331,306	-	331,306	-
Unrealized gain on derivative contracts, net:				
Futures	319	319	-	-
Subtotal	518,914	\$ 187,608	\$ 331,306	\$ -
Investments in funds measured at NAV:				
Investment companies	777,449			
Index funds	727,266			
Equity funds	497,034			
Fixed income funds	145,111			
Private equity funds	604,718			
Real estate funds	214,879			
	3,485,371			
Accrued interest and dividends	2,330			
Total investments	\$ 3,487,701			

Wisconsin Alumni Research Foundation and Affiliate

Notes to Consolidated Financial Statements (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, 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 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			

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	2021	2020	Unfunded Commitment as of June 30, 2021
International ^(a)	\$ 13,518	\$ 13,581	\$ 2,304
Healthcare ^(b)	134,559	87,789	50,786
Venture capital ^(c)	396,767	232,766	204,587
Financial services ^(d)	29,796	21,102	2,098
Other ^(e)	30,078	26,266	12,334
	\$ 604,718	\$ 381,504	\$ 272,109

Wisconsin Alumni Research Foundation and Affiliate

Notes to Consolidated Financial Statements (Amounts in Thousands)

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 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 investing 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, 2021 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, 2021 regarding making additional investments in the above underlying funds. At June 30, 2021 and 2020, the Organization had a contractual obligation to invest approximately \$272,109 and \$172,427, 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, 2021 and 2020, there were no suspensions of investor redemption rights.

Wisconsin Alumni Research Foundation and Affiliate

**Notes to Consolidated Financial Statements
(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, 2021:

Strategy	Value	Permitted	In Days
Global Macro	\$ 34,098	Monthly	5
Low-net/market Neutral Credit Trading	41,685	Quarterly	90
Global Macro - Emerging Markets	67,517	Monthly	90
Multi-Strategy	83,516	Quarterly	65
Equity Arbitrage and Relative Value	68,111	Monthly	30
Relative Value	31,097	Quarterly	60
Public Equity-Foreign Develop Markets	82,596	Monthly	30
Fixed Income-Structured Credit	59,338	Quarterly	60
Equity Long/Short	33,478	Quarterly	60
Global Equity	169,058	Weekly	3
Emerging Markets	106,955	Monthly	3
	<u>\$ 777,449</u>		

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-Healthcare	49,152	Monthly	30
Long Only Frontier Markets Equity	41,090	Monthly	30
Equity Arbitrage and Relative Value	75,590	Monthly	30
Relative Value	53,951	Quarterly	60
	<u>\$ 786,355</u>		

Wisconsin Alumni Research Foundation and Affiliate

Notes to Consolidated Financial Statements (Amounts in Thousands)

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

The following table summarizes the Organization's investments in other investments, which are valued using the practical expedient, as of June 30, 2021:

Investment type	2021 Fair Value	2020 Fair Value	Redemptions Permitted	Redemption Notice Period In Days
Index funds	\$ 727,266	\$ -	Daily	None
Equity funds	497,034	-	Daily-Monthly	0-14
Fixed income funds	145,111	-	Daily-Quarterly	0-75
Real estate funds	214,879	200,173	Not permitted	-

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. 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 and over-the-counter swaps, 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, 2021 and 2020 are as follows:

Consolidated Statement of Financial Position Location	2021		Number of Positions
	Asset Derivatives	Liability Derivatives	
<u>Futures contracts</u>			
Index Investments	\$ 1,183	\$ (864)	1,276
Total asset and liability derivatives	\$ 1,183	\$ (864)	

Wisconsin Alumni Research Foundation and Affiliate

**Notes to Consolidated Financial Statements
(Amounts in Thousands)**

Note 3. Derivative Instruments (Continued)

	Consolidated Statement of Financial Position Location	2020		Number of Positions
		Asset Derivatives	Liability Derivatives	
<u>Futures contracts</u>				
Foreign exchange	Investments	\$ 7,082	\$ (2,644)	4,428
<u>Total return swaps</u>				
Index	Investments	20,143	-	(a)
		20,143	-	
	Total asset and liability derivatives	\$ 27,225	\$ (2,644)	

(a) At June 30, 2021 and 2020, the Organization had interest rate swap contracts with notional amounts of approximately \$0 and \$273, respectively.

For the years ended June 30, 2021 and 2020, the Organization's derivative activities had the following impact on the consolidated statements of activities as follows:

	2021	2020
	Gain (Loss) on Derivatives Held as Investments	
Futures contracts:		
Foreign exchange	\$ -	\$ 1,186
Commodity	-	(18,406)
Index	14,997	(12,255)
Interest rate	-	37,163
	14,997	7,688
Swaps:		
Index	23,480	22,021
	23,480	22,021
Total realized and unrealized gains, net	\$ 38,477	\$ 29,709

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 year ending June 30, 2020.

Wisconsin Alumni Research Foundation and Affiliate

Notes to Consolidated Financial Statements (Amounts in Thousands)

Note 4. Offsetting

The following table provides disclosure regarding the potential effect of offsetting for recognized assets and liabilities presented in the consolidated statements of financial position as of June 30, 2021:

	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	\$ 1,183	\$ (864)	\$ 319	\$ -	\$ -	\$ 319

The following table provides 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

Note 5. Trading Activities and Related Risks

The Organization engages in the trading of, among other things, U.S. and foreign futures 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.

Wisconsin Alumni Research Foundation and Affiliate

Notes to Consolidated Financial Statements (Amounts in Thousands)

Note 5. Trading Activities and Related Risks (Continued)

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 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.

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 one line 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.

Wisconsin Alumni Research Foundation and Affiliate

Notes to Consolidated Financial Statements (Amounts in Thousands)

Note 6. Liquidity and Availability (Continued)

As of June 30, 2021 and 2020, the following financial assets are available to meet general expenditures within one year:

	2021	2020
Financial assets at year-end:		
Cash and cash equivalents	\$ 5,922	\$ 5,494
Receivables	540	621
Contract assets	2,300	2,600
Due from broker	6,385	9,600
Due from WiCell Research Institute, Inc.	49	-
Investments	3,487,701	2,998,331
Other assets	265	932
Total financial assets	<u>3,503,162</u>	<u>3,017,578</u>
Less amounts not available to be used within one year:		
Investments in non-liquid securities	(819,597)	(581,677)
Assets held in custodial accounts for others	(599,083)	(492,079)
Assets with donor and board restrictions	(75,148)	(62,375)
Financial assets not available to be used within one year	<u>(1,493,828)</u>	<u>(1,136,131)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 2,009,334</u>	<u>\$ 1,881,447</u>

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 agreement for the \$32,950 committed line of credit expired on February 28, 2021 and was not renewed. The agreement for the \$125,000 uncommitted line of credit expires on June 22, 2022.

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 0.15% 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 one week to three 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, 2021 and 2020, there was no outstanding balance under the agreements.

Note 8. Letter of Credit

The Organization had entered into a \$32,950 letter of credit with a bank in connection with an event described in Note 15. The Organization was obligated to repay all drawings with respect to the letter of credit issued pursuant to the Agreement. This letter of credit expired February 28, 2021 and was not renewed due to the facts described in Note 15.

Wisconsin Alumni Research Foundation and Affiliate

Notes to Consolidated Financial Statements (Amounts in Thousands)

Note 9. Bonds Payable

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 is 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, 2021 and 2020, bonds payable consisted of the following:

	2021	2020
Series 2019 Taxable Bonds	\$ 225,000	\$ 225,000
Less: Unamortized discount	(981)	(1,016)
Less: Unamortized bond issuance costs	(407)	(421)
	<u>\$ 223,612</u>	<u>\$ 223,563</u>

Total interest cost incurred during the years ended June 30, 2021 and 2020 was \$8,068 and \$7,437, 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, 2021 and 2020 follows:

	2021	2020
Land	\$ 15,341	\$ 15,341
Building and improvements	142,347	143,108
Furniture and equipment	25,223	27,003
Accumulated depreciation	(62,416)	(60,262)
	<u>\$ 120,495</u>	<u>\$ 125,190</u>

Wisconsin Alumni Research Foundation and Affiliate

Notes to Consolidated Financial Statements (Amounts in Thousands)

Note 11. Payable to the University of Wisconsin

Amounts payable to the UW at June 30, 2021 and 2020 consisted of the following:

	2021	2020
Current and prior year grants	\$ 122,020	\$ 79,741
Departmental royalty funds	170,987	141,229
Undistributed current year income on:		
Departmental royalty funds	6,683	6,965
Donor directed funds	2,487	2,409
	<u>\$ 302,177</u>	<u>\$ 230,344</u>

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.

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 2% 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.

Wisconsin Alumni Research Foundation and Affiliate

Notes to Consolidated Financial Statements (Amounts in Thousands)

Note 12. Related Parties and Rent Income (Continued)

Amounts payable to Morgridge consisted of the following at June 30:

	2021	2020
Grants	\$ 6,400	\$ 6,800
Investments held for Morgridge	408,523	331,449
Distribution payable	12,827	12,345
Other payables	346	256
	<u>\$ 428,096</u>	<u>\$ 350,850</u>

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, if hired prior to July 1, 2017. 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 and 62 years of age, if hired prior to July 1, 2017 and on or before that date, respectively, 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 30% fixed income and 70% equity securities while also considering historical rate of returns.

Wisconsin Alumni Research Foundation and Affiliate

Notes to Consolidated Financial Statements (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	
	2021	2020	2021	2020
Change in benefit obligation				
Projected benefit obligation, beginning of year	\$ 56,733	\$ 47,341	\$ 2,400	\$ 2,200
Interest cost	1,363	1,549	-	-
Service cost	3,955	2,880	376	346
Actuarial (gains) losses	(1,861)	8,674	-	-
Benefits paid	(2,059)	(3,711)	(176)	(146)
Projected benefit obligation, end of year	<u>58,131</u>	<u>56,733</u>	<u>2,600</u>	<u>2,400</u>
Change in plan assets				
Fair value of plan assets, beginning of year	28,139	30,484	-	-
Contributions from employer	-	-	176	146
Actual return on plan assets	7,166	1,366	-	-
Benefits paid	(2,059)	(3,711)	(176)	(146)
Fair value of plan assets, end of year	<u>33,246</u>	<u>28,139</u>	<u>-</u>	<u>-</u>
Funded status of the Plans	<u>\$ (24,885)</u>	<u>\$ (28,594)</u>	<u>\$ (2,600)</u>	<u>\$ (2,400)</u>
Accumulated benefit obligation	<u>\$ 46,778</u>	<u>\$ 45,955</u>		
Amounts recognized on the consolidated statements of financial position:				
Pension liability	<u>\$ (24,885)</u>	<u>\$ (28,594)</u>	<u>\$ -</u>	<u>\$ -</u>
Accounts payable and accrued expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,600)</u>	<u>\$ (2,400)</u>
Amounts not yet recognized on the consolidated statements of activities as a change in net assets without donor restriction:				
Net actuarial loss	<u>\$ 16,497</u>	<u>\$ 25,067</u>	<u>\$ -</u>	<u>\$ -</u>

Wisconsin Alumni Research Foundation and Affiliate

Notes to Consolidated Financial Statements (Amounts in Thousands)

Note 13. Retirement Plans (Continued)

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, 2021 and 2020:

	Pension Benefits		Post-Retirement Benefit	
	2021	2020	2021	2020
Components of net periodic benefit cost:				
Service cost	\$ 3,955	\$ 2,880	\$ 376	\$ 346
Interest cost	1,363	1,549	-	-
Expected return on plan assets	(1,960)	(2,180)	-	-
Amortization of:				
Net loss	1,503	957	-	-
Net periodic benefit cost	4,861	3,206	376	346
Other changes in plan assets and benefit obligations recognized in changes in net assets without donor restriction:				
Net actuarial (gain) loss arising during the period	(7,067)	9,488	-	-
Amortization of net loss	(1,503)	(957)	-	-
Total recognized in changes in net assets without donor restriction	(8,570)	8,531	-	-
Total recognized in net periodic benefit cost and changes in net assets	\$ (3,709)	\$ 11,737	\$ 376	\$ 346

The following is cash flow information and assumptions used for the plans during the years ended June 30, 2021 and 2020:

	Pension Benefits		Post-Retirement Benefit	
	2021	2020	2021	2020
Amounts recognized for the years:				
Benefits paid	\$ 2,059	\$ 3,711	\$ 176	\$ 146
Employer contributions	-	-	-	-
Participant contributions	-	-	-	-
Weighted average assumptions used to determine the benefit obligations at the end of the year were as follows:				
Discount rate	2.60%	2.45%	2.60%	2.45%
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	2.45%	3.30%	2.45%	3.30%
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, 2021 and 2020, 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.

Wisconsin Alumni Research Foundation and Affiliate

Notes to Consolidated Financial Statements (Amounts in Thousands)

Note 13. Retirement Plans (Continued)

Plan Assets

The policy of the Foundation for the long-term target mix of the investment portfolio is 70% of plan assets in equity funds and 30% 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:

	<u>Range</u>
Equities	60-80%
Fixed income	20-40%
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 methodology used for assets measured at fair value. There have been no changes in the methodology used at June 30, 2021 and 2020.

Pooled equity funds and fixed income: Pooled equity funds are valued at quoted market prices which represent the NAV of shares held by the plan at year-end.

The fair values of the Foundation's pension plan assets at June 30, 2021 and 2020, by asset category, are as follows:

Asset Category	Fair Value Measurements At June 30, 2021			Fair Value Measurements At June 30, 2020		
	Total	Quoted Prices in Active Markets for Identical Assets	Significant Observable Inputs	Total	Quoted Prices in Active Markets for Identical Assets	Significant Observable Inputs
		(Level 1)	(Level 2)		(Level 1)	(Level 2)
Pooled equity funds:						
Small Cap Equity	\$ 1,653	\$ 1,653	\$ -	\$ 1,498	\$ 1,498	\$ -
Mid Cap Equity	3,314	3,314	-	2,450	2,450	-
Large Cap Equity	14,965	14,965	-	9,254	9,254	-
International Equity	3,275	3,275	-	3,029	3,029	-
Fixed income:						
Corporate Bond	3,301	3,301	-	-	-	-
Intermediate Core Bond	6,573	6,573	-	10,773	10,773	-
	33,081	\$ 33,081	\$ -	27,004	\$ 27,004	\$ -
Money market funds	165			1,135		
	<u>\$ 33,246</u>			<u>\$ 28,139</u>		

There were no Level 3 assets as of June 30, 2021 or 2020.

The Organization expects to make no contributions to the pension plan in 2022.

Wisconsin Alumni Research Foundation and Affiliate

**Notes to Consolidated Financial Statements
(Amounts in Thousands)**

Note 13. Retirement Plans (Continued)

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

Years ending June 30,	Pension Benefits	Post-Retirement Benefits
2022	\$ 2,170	\$ 158
2023	731	153
2024	1,709	152
2025	2,968	125
2026	5,283	117
2027-2031	15,516	2,553

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 year ended June 30, 2020, total employer contributions to the plan were \$223.

Wisconsin Alumni Research Foundation and Affiliate

Notes to Consolidated Financial Statements (Amounts in Thousands)

Note 14. Functional Expenses

Expenses related to the Organization's operations for the years ended June 30, 2021 and 2020 is summarized as follows:

	2021			Total
	Program Services	Management and General Expenses	Fundraising	
Grants and other assistance	\$ 173,625	\$ -	\$ -	\$ 173,625
Salaries, wages and benefits	6,162	8,975	-	15,137
Management fees	-	59	-	59
Legal services	367	10	-	377
Accounting services	-	144	-	144
Lobbying fees	-	72	-	72
Investment management fees	-	1,460	-	1,460
Other fees	769	102	-	871
Advertising and promotion	35	47	-	82
Office expenses	73	59	-	132
Information technology	-	327	-	327
Occupancy	1,596	578	-	2,174
Travel	-	10	-	10
Conferences, conventions, and meetings	9	77	-	86
Interest	49	8,019	-	8,068
Depreciation and amortization	4,642	41	-	4,683
Insurance	220	200	-	420
Domestic legal/patents	6,040	-	-	6,040
Foreign legal/patents	1,806	-	-	1,806
Foreign patent maintenance fees	1,156	-	-	1,156
U.S. patent maintenance fees	1,065	-	-	1,065
Other expenses	592	259	-	851
	<u>\$ 198,206</u>	<u>\$ 20,439</u>	<u>\$ -</u>	<u>\$ 218,645</u>

Wisconsin Alumni Research Foundation and Affiliate

Notes to Consolidated Financial Statements (Amounts in Thousands)

Note 14. Functional Expenses (Continued)

	2020			
	Program Services	Management and General Expenses	Fundraising	Total
Grants and other assistance	\$ 92,075	\$ -	\$ -	\$ 92,075
Salaries, wages, and benefits	9,221	10,022	-	19,243
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
U.S. patent maintenance fees	818	-	-	818
Other expenses	1,109	440	-	1,549
	<u>\$ 124,325</u>	<u>\$ 17,661</u>	<u>\$ -</u>	<u>\$ 141,986</u>

Note 15. Litigation

The Foundation was 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. As of the year ended June 30, 2021, the matter was settled between the parties involved. At June 30, 2020, \$31,617 was accrued and included in litigation outcome payable within the consolidated statement of financial position.

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.

Wisconsin Alumni Research Foundation and Affiliate

**Notes to Consolidated Financial Statements
(Amounts in Thousands)**

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 years ending June 30, 2021 and 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, 2021

(Amounts in Thousands)

	Wisconsin Alumni Research Foundation	WiCell Research Institute, Inc.	Eliminations	Consolidated
Assets				
Cash and cash equivalents	\$ 5,922	\$ -	\$ -	\$ 5,922
Receivables	540	-	-	540
Contract asset	2,300	-	-	2,300
Due from broker	6,385	-	-	6,385
Investments	3,487,701	-	-	3,487,701
Investments in start-up companies	28,976	-	-	28,976
Due from WiCell Research Institute, Inc.	49	-	-	49
Property and equipment, net	120,495	-	-	120,495
Other assets	265	-	-	265
Total assets	\$ 3,652,633	\$ -	\$ -	\$ 3,652,633
Liabilities and Net Assets				
Liabilities:				
Accounts payable and accrued expenses	\$ 13,731			\$ 13,731
Due to broker	374	-	-	374
Royalties payable to inventors	955	-	-	955
Payable to the University of Wisconsin	302,177	-	-	302,177
Payable to Morgridge Institute for Research, Inc. and Morgridge Institute Foundation, Inc.	428,096	-	-	428,096
Deferred revenue	28	-	-	28
Pension liability	24,885	-	-	24,885
Bonds payable, including unamortized discount and bond issue costs	223,612	-	-	223,612
Total liabilities	993,858	-	-	993,858
Net assets:				
Without donor restrictions:				
Undesignated	2,583,627	-	-	2,583,627
Board designated	13,535	-	-	13,535
With donor restrictions	61,613	-	-	61,613
Net assets	2,658,775	-	-	2,658,775
Total liabilities and net assets	\$ 3,652,633	\$ -	\$ -	\$ 3,652,633

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
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 Activities

Year Ended June 30, 2021

(Amounts in Thousands)

	Wisconsin Alumni Research Foundation	WiCell Research Institute, Inc.	Eliminations	Consolidated
Revenues:				
Royalty income	\$ 10,792	\$ -	\$ -	\$ 10,792
Contributions	5,313	-	-	5,313
Other income	10,352	-	-	10,352
Net assets released from restriction	3,350	-	-	3,350
Total revenues	<u>29,807</u>	<u>-</u>	<u>-</u>	<u>29,807</u>
Expenses:				
Patent and licensing	14,909	-	-	14,909
Venture office	1,959	-	-	1,959
Legal	1,165	-	-	1,165
Administrative expenses	23,319	-	-	23,319
Grants to the University of Wisconsin	165,893	-	-	165,893
Grants to Morgridge Institute for Research, Inc.	11,400	-	-	11,400
Total expenses	<u>218,645</u>	<u>-</u>	<u>-</u>	<u>218,645</u>
Operating loss before investment income (expense) and other non-operating items	<u>(188,838)</u>	<u>-</u>	<u>-</u>	<u>(188,838)</u>
Investment income (expense):				
Interest and dividends	21,963	-	-	21,963
Investment manager fees	(3,661)	-	-	(3,661)
Investment expenses	(1,238)	-	-	(1,238)
Gain on derivatives held as investments	38,477	-	-	38,477
Net gain on investments	576,081	-	-	576,081
Total investment income	<u>631,622</u>	<u>-</u>	<u>-</u>	<u>631,622</u>
Other non-operating items:				
Litigation outcome	(17,617)	-	-	(17,617)
Defined benefit pension plans:				
Interest cost	(1,363)	-	-	(1,363)
Expected return on plan assets	1,960	-	-	1,960
Amortization of cumulative loss	(1,503)	-	-	(1,503)
Net loss on deconsolidation	(1,600)	-	-	(1,600)
Total other non-operating items	<u>(20,123)</u>	<u>-</u>	<u>-</u>	<u>(20,123)</u>
Change in net assets without donor restrictions before other adjustments	<u>\$ 422,661</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 422,661</u>

(Continued)

Wisconsin Alumni Research Foundation and Affiliate

Consolidating Statement of Activities (Continued)

Year Ended June 30, 2021

(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	\$ 422,661	\$ -	\$ -	\$ 422,661
Pension-related changes other than net periodic pension cost	8,570	-	-	8,570
Change in net assets without donor restrictions	431,231	-	-	431,231
Net assets with donor restrictions:				
Change in fair value of donor restricted funds	13,620	-	-	13,620
Contributions	126	-	-	126
Net assets released from restriction	(3,350)	-	-	(3,350)
Change in net assets with donor restriction	10,396	-	-	10,396
Change in net assets	441,627	-	-	441,627
Net assets, beginning	2,217,148	1,600	1,600	2,217,148
Removal of net assets upon deconsolidation	-	(1,600)	(1,600)	-
Net assets, ending	\$ 2,658,775	\$ -	\$ -	\$ 2,658,775

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	<u>14,870</u>	<u>4,524</u>	-	<u>19,394</u>
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	<u>136,989</u>	<u>4,997</u>	-	<u>141,986</u>
Operating loss before investment income (expense) and other non-operating items	<u>(122,119)</u>	<u>(473)</u>	-	<u>(122,592)</u>
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 derivatives	29,709	-	-	29,709
Net gain on investments	53,064	30	-	53,094
Total investment income	<u>100,744</u>	<u>30</u>	-	<u>100,774</u>
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	<u>11,002</u>	-	<u>(443)</u>	<u>11,445</u>
Change in net assets without donor restrictions before other adjustments	<u>\$ (10,373)</u>	<u>\$ (443)</u>	<u>\$ (443)</u>	<u>\$ (10,373)</u>

(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