

The UWM Foundation, Inc. and Affiliates

Consolidated Financial Statements and Supplementary Information

Years Ended June 30, 2020 and 2019



WIPFLI

Independent Auditor's Report

Board of Directors
The UWM Foundation, Inc. and Affiliates
Milwaukee, Wisconsin

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of The UWM Foundation, Inc. (a nonprofit organization) and Affiliates, which comprise the consolidated statements of financial position as of June 30, 2020 and 2019, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The UWM Foundation, Inc. and Affiliates 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.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, The UWM Foundation, Inc. and Affiliates adopted Accounting Standards Update (ASU) No. 2018-08, Not-For-Profits Entities (Topic 958) - *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. Our Opinion is not modified with respect to this matter.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information appearing on pages 33 through 36 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.



Wipfli LLP
Milwaukee, Wisconsin

December 15, 2020

The UWM Foundation, Inc. and Affiliates

Consolidated Statements of Financial Position

June 30, 2020 and 2019

| Assets | 2020 | 2019 |
|--|-----------------------|-----------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 2,132,606 | \$ 3,301,784 |
| Accrued investment income | 374,768 | 448,327 |
| Accounts receivable - Net | 138,796 | 37,418 |
| Grant receivable | 600,000 | - |
| Promises to give, current portion - Net | 10,490,877 | 6,538,583 |
| Prepaid expenses and other | 163,428 | 86,109 |
| Total current assets | 13,900,475 | 10,412,221 |
| Investments | 177,015,249 | 166,812,031 |
| Property and equipment - Net | 68,894,253 | 71,584,049 |
| Other assets: | | |
| Restricted cash and cash equivalents | 3,685,475 | 3,564,010 |
| Cash surrender value of life insurance | 1,011,869 | 1,210,210 |
| Split interest contributions receivable from charitable remainder trusts | 41,098 | 27,568 |
| Promises to give, less current portion - Net | 9,878,839 | 8,480,950 |
| Total other assets | 14,617,281 | 13,282,738 |
| TOTAL ASSETS | \$ 274,427,258 | \$ 262,091,039 |

The UWM Foundation, Inc. and Affiliates

Consolidated Statements of Financial Position (Continued)

June 30, 2020 and 2019

| Liabilities and Net Assets | 2020 | 2019 |
|--|-----------------------|-----------------------|
| Current liabilities: | | |
| Current maturities of note payable | \$ 1,835,225 | \$ 1,766,038 |
| Due to the University of Wisconsin-Milwaukee | 4,234,223 | 2,666,271 |
| Amounts payable under fiscal agent responsibilities | 127,000 | 127,000 |
| Accounts payable | 53,136 | 122,804 |
| Accrued interest payable | 649,460 | 663,735 |
| Deferred revenue | 112,810 | 112,810 |
| Accrued liabilities | 506,134 | 422,614 |
| Total current liabilities | 7,517,988 | 5,881,272 |
| Long-term liabilities: | | |
| Note payable, less current maturities - Net | 77,733,529 | 79,534,557 |
| Refundable advance - SBA Paycheck Protection Program | 208,835 | - |
| Deferred revenue | 969,259 | 1,104,765 |
| Total long-term liabilities | 78,911,623 | 80,639,322 |
| Total liabilities | 86,429,611 | 86,520,594 |
| Net assets: | | |
| Without donor restrictions | 4,021,513 | 2,653,644 |
| With donor restrictions | 183,976,134 | 172,916,801 |
| Total net assets | 187,997,647 | 175,570,445 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 274,427,258 | \$ 262,091,039 |

See accompanying notes to consolidated financial statements.

The UWM Foundation, Inc. and Affiliates

Consolidated Statements of Activities

Year Ended June 30, 2020

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|-------------------------------|----------------------------|-----------------------|
| Support and revenue: | | | |
| Contributions | \$ 1,125,698 | \$ 27,244,364 | \$ 28,370,062 |
| Contributed goods and services | 3,154,278 | - | 3,154,278 |
| Rental income | 5,585,204 | - | 5,585,204 |
| Investment income | 2,539,285 | 4,125,264 | 6,664,549 |
| Net assets released from restrictions | 20,310,295 | (20,310,295) | - |
| Total support and revenue | 32,714,760 | 11,059,333 | 43,774,093 |
| Expenses: | | | |
| Program: | | | |
| Distributions to the University of Wisconsin-Milwaukee: | | | |
| Student financial aid | 4,255,884 | - | 4,255,884 |
| Teaching and departmental programs | 6,886,340 | - | 6,886,340 |
| Community service | 11,161 | - | 11,161 |
| Research | 754,143 | - | 754,143 |
| Special projects | 6,181,940 | - | 6,181,940 |
| Total distributions | 18,089,468 | - | 18,089,468 |
| Other program expenses | 8,126,911 | - | 8,126,911 |
| Total program expenses | 26,216,379 | - | 26,216,379 |
| Supporting services: | | | |
| General administration | 1,238,382 | - | 1,238,382 |
| Direct fundraising | 737,852 | - | 737,852 |
| Development services received from personnel of the University of Wisconsin-Milwaukee | 3,154,278 | - | 3,154,278 |
| Total expenses | 31,346,891 | - | 31,346,891 |
| Excess of support and revenue over distributions and expenses | 1,367,869 | 11,059,333 | 12,427,202 |
| Change in net assets | 1,367,869 | 11,059,333 | 12,427,202 |
| Net assets at beginning of year | 2,653,644 | 172,916,801 | 175,570,445 |
| Net assets at end of year | \$ 4,021,513 | \$ 183,976,134 | \$ 187,997,647 |

The UWM Foundation, Inc. and Affiliates

Consolidated Statements of Activities (Continued)

Year Ended June 30, 2019

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|-------------------------------|----------------------------|-----------------------|
| Support and revenue: | | | |
| Contributions | \$ 992,870 | \$ 20,906,128 | \$ 21,898,998 |
| Contributed goods and services | 3,233,664 | - | 3,233,664 |
| Rental income | 5,647,041 | - | 5,647,041 |
| Investment income | 2,741,991 | 6,998,125 | 9,740,116 |
| Gain on sale of property held for sale | 50,000 | - | 50,000 |
| Net assets released from restrictions | 21,266,432 | (21,266,432) | - |
| Total support and revenue | 33,931,998 | 6,637,821 | 40,569,819 |
| Expenses: | | | |
| Program: | | | |
| Distributions to the University of Wisconsin-Milwaukee: | | | |
| Student financial aid | 4,115,389 | - | 4,115,389 |
| Teaching and departmental programs | 6,169,343 | - | 6,169,343 |
| Community service | 25,952 | - | 25,952 |
| Research | 885,975 | - | 885,975 |
| Special projects | 7,815,104 | - | 7,815,104 |
| Total distributions | 19,011,763 | - | 19,011,763 |
| Other program expenses | 8,190,100 | - | 8,190,100 |
| Total program expenses | 27,201,863 | - | 27,201,863 |
| Supporting services: | | | |
| General administration | 1,201,155 | - | 1,201,155 |
| Direct fundraising | 449,828 | - | 449,828 |
| Development services received from personnel of the University of Wisconsin-Milwaukee | 3,233,664 | - | 3,233,664 |
| Total expenses | 32,086,510 | - | 32,086,510 |
| Excess of support and revenue over distributions and expenses | 1,845,488 | 6,637,821 | 8,483,309 |
| Change in net assets | 1,845,488 | 6,637,821 | 8,483,309 |
| Net assets at beginning of year | 808,156 | 166,278,980 | 167,087,136 |
| Net assets at end of year | \$ 2,653,644 | \$ 172,916,801 | \$ 175,570,445 |

See accompanying notes to consolidated financial statements.

The UWM Foundation, Inc. and Affiliates

Statements of Funtional Expenses

Year Ended June 30, 2020

| | Program | | | | Supporting Services | | | |
|--|--------------------------|--------------------------------------|-----------------------------------|----------------------|------------------------|--------------------|----------------------|----------------------|
| | The UWM Foundation, Inc. | The UWM Real Estate Foundation, Inc. | The UWM Research Foundation, Inc. | Total | General Administrative | Direct Fundraising | Development Services | Total |
| Grants/Assistance to organizations | \$ - | \$ - | \$ 174,131 | \$ 174,131 | \$ - | \$ - | \$ - | \$ 174,131 |
| Salaries and wages | 168,353 | 181,525 | 573,499 | 923,377 | 505,058 | 46,319 | 2,195,769 | 3,670,523 |
| Payroll taxes and fringe benefits | 112,840 | 72,610 | 144,495 | 329,945 | 359,059 | 3,543 | 861,246 | 1,553,793 |
| Distributions | 18,089,468 | - | - | 18,089,468 | - | - | - | 18,089,468 |
| Legal, accounting, and other professional fees | 38,046 | 13,355 | 84,315 | 135,716 | 70,261 | 90,633 | - | 296,610 |
| Advertising and promotion | - | - | 10,719 | 10,719 | - | 5,744 | - | 16,463 |
| Office expenses | 5,426 | 23,961 | 8,943 | 38,330 | 18,102 | 81,273 | 97,263 | 234,968 |
| Information technology | - | - | 28,981 | 28,981 | 5,791 | - | - | 34,772 |
| Occupancy | 33,123 | 433,488 | 14,920 | 481,531 | 100,586 | - | - | 582,117 |
| Travel | - | - | 3,326 | 3,326 | - | - | - | 3,326 |
| Conferences, conventions, meetings | 3,802 | 54 | 1,944 | 5,800 | 12,344 | 65,866 | - | 84,010 |
| Interest | - | 3,188,883 | - | 3,188,883 | - | - | - | 3,188,883 |
| Depreciation | 5,937 | 2,684,472 | 2,410 | 2,692,819 | 25,518 | - | - | 2,718,337 |
| Insurance | 4,539 | 13,412 | 12,284 | 30,235 | 13,616 | - | - | 43,851 |
| All other expense | - | 46,606 | 36,512 | 83,118 | 128,047 | 444,474 | - | 655,639 |
| Totals | \$ 18,461,534 | \$ 6,658,366 | \$ 1,096,479 | \$ 26,216,379 | \$ 1,238,382 | \$ 737,852 | \$ 3,154,278 | \$ 31,346,891 |

The UWM Foundation, Inc. and Affiliates

Statements of Funtional Expenses (Continued)

Year Ended June 30, 2019

| | Program | | | | Supporting Services | | | |
|--|--------------------------------|--|---|----------------------|---------------------------|-----------------------|-------------------------|----------------------|
| | The UWM Foundation, Inc. | The UWM Real Estate Foundation, Inc. | The UWM Research Foundation, Inc. | Total | General Administrative | Direct Fundraising | Development Services | Total |
| Grants/Assistance to organizations | \$ - | \$ - | \$ 110,444 | \$ 110,444 | \$ - | \$ - | \$ - | \$ 110,444 |
| Salaries and wages | 158,558 | 174,279 | 566,549 | 899,386 | 475,674 | 67,041 | 2,142,900 | 3,585,001 |
| Payroll taxes and fringe benefits | 96,606 | 79,571 | 134,848 | 311,025 | 314,469 | 5,012 | 857,160 | 1,487,666 |
| Distributions | 19,011,763 | - | - | 19,011,763 | - | - | - | 19,011,763 |
| Legal, accounting, and other professional fees | 6,616 | 24,056 | 142,730 | 173,402 | 80,361 | 113,941 | - | 367,704 |
| Advertising and promotion | - | - | 16,732 | 16,732 | - | - | - | 16,732 |
| Office expenses | 7,624 | 13,057 | 8,272 | 28,953 | 22,870 | 32,426 | 233,604 | 317,853 |
| Information technology | - | - | 30,625 | 30,625 | 20,281 | - | - | 50,906 |
| Occupancy | 36,859 | 473,568 | 11,480 | 521,907 | 110,578 | - | - | 632,485 |
| Travel | - | - | 4,390 | 4,390 | - | - | - | 4,390 |
| Conferences, conventions, meetings | 5,271 | - | 4,358 | 9,629 | 9,175 | 37,332 | - | 56,136 |
| Interest | - | 3,251,584 | - | 3,251,584 | - | - | - | 3,251,584 |
| Depreciation | 9,558 | 2,699,982 | 2,290 | 2,711,830 | 28,674 | - | - | 2,740,504 |
| Insurance | 5,662 | 13,424 | 1,074 | 20,160 | 16,985 | - | - | 37,145 |
| All other expense | - | 86,006 | 14,027 | 100,033 | 122,088 | 194,076 | - | 416,197 |
| Totals | \$ 19,338,517 | \$ 6,815,527 | \$ 1,047,819 | \$ 27,201,863 | \$ 1,201,155 | \$ 449,828 | \$ 3,233,664 | \$ 32,086,510 |

See accompanying notes to consolidated financial statements.

The UWM Foundation, Inc. and Affiliates

Consolidated Statements of Cashflows

Years Ended June 30, 2020 and 2019

| | 2020 | 2019 |
|--|--------------------|--------------------|
| Increase (decrease) in cash and cash equivalents and restricted cash and cash equivalents: | | |
| Cash flows from operating activities: | | |
| Change in net assets | \$ 12,427,202 | \$ 8,483,309 |
| Adjustment to reconcile change in net assets to net cash provided by operating activities: | | |
| Bad debt recoveries | (10,086) | (36,790) |
| Depreciation and amortization | 2,718,337 | 2,740,504 |
| Gain on sale of property held for sale | - | (50,000) |
| Net realized and unrealized gain on investments | (2,801,194) | (6,093,647) |
| Donation of investments received | (1,291,806) | (525,990) |
| Change in value of split interest agreement | (13,530) | 166 |
| Amortization of debt issuance costs | 34,197 | 29,780 |
| Contributions restricted for long-term investment | (616,760) | (114,853) |
| SBA PPP loan revenue recognized | (124,365) | - |
| Changes in operating assets and liabilities: | | |
| Accrued investment income | 73,559 | (57,403) |
| Accounts receivable | (91,292) | 73,803 |
| Grant receivable | (600,000) | - |
| Promises to give | (5,398,583) | 1,205,071 |
| Prepaid expenses and other | (77,319) | (39,610) |
| Due to/from the University of Wisconsin-Milwaukee | 1,567,952 | (225,050) |
| Deferred revenue | (135,506) | 229,547 |
| Accounts payable and accrued expenses | (423) | (225,050) |
| Net cash provided by operating activities | 5,660,383 | 5,393,787 |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (28,541) | (11,682) |
| Proceeds from sale of property held for sale | - | 230,611 |
| Decrease (increase) in cash surrender value of life insurance | 198,341 | (8,073) |
| Purchases of investments | (25,648,607) | (9,222,395) |
| Proceeds from sales of investments | 19,538,389 | 6,648,944 |
| Net cash used in investing activities | (5,940,418) | (2,362,595) |

The UWM Foundation, Inc. and Affiliates

Consolidated Statements of Cashflows (Continued)

Years Ended June 30, 2020 and 2019

| | 2020 | 2019 |
|---|---------------------|---------------------|
| Cash flows from financing activities: | | |
| Proceeds from contributions for endowment to be held in perpetuity | \$ 665,160 | \$ 94,853 |
| Proceeds from refundable advance - SBA Paycheck Protection Program - Net | 333,200 | - |
| Repayment on bonds and notes payable | (1,766,038) | (1,699,459) |
| Net cash used in financing activities | (767,678) | (1,604,606) |
| Net (decrease) increase in cash and cash equivalents and restricted cash and cash equivalents | (1,047,713) | 1,426,586 |
| Cash and cash equivalents and restricted cash and cash equivalents at beginning of year | 6,865,794 | 5,439,208 |
| Cash and cash equivalents and restricted cash and cash equivalents at end of year | \$ 5,818,081 | \$ 6,865,794 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the year for interest | \$ 3,169,546 | \$ 3,265,322 |
| Cash and cash equivalents | \$ 2,132,606 | \$ 3,301,784 |
| Restricted cash and cash equivalents | 3,685,475 | 3,564,010 |
| Total cash and cash equivalents and restricted cash and cash equivalents | \$ 5,818,081 | \$ 6,865,794 |

See accompanying notes to consolidated financial statements.

The UWM Foundation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies

Nature of Activities

The UWM Foundation, Inc. (the "UWM Foundation") is a nonstock, nonprofit organization incorporated under the laws of the State of Wisconsin to aid the University of Wisconsin-Milwaukee (the "University") by soliciting, for the benefit of the University, gifts of real property, personal property, or both, from individuals, associations, corporations or other entities and to hold, administer, use, or distribute the same in the advancement of the scientific, literary, and educational purposes of the University.

The UWM Real Estate Foundation, Inc. (the "Real Estate Foundation") is a nonstock, nonprofit organization incorporated under the laws of the State of Wisconsin whose sole member is the UWM Foundation. The Real Estate Foundation is operated, supervised, and controlled by the UWM Foundation to accept, acquire, lease, hold, develop, operate, manage, sell, transfer, and otherwise deal in real estate for use and enjoyment by, in furtherance of the purposes of, and for the exclusive benefit of, The UWM Foundation and the University.

The UWM Research Foundation, Inc. (the "Research Foundation") is a nonstock, nonprofit organization incorporated under the laws of the State of Wisconsin whose sole member is the UWM Foundation. The primary purpose of the Research Foundation is to support research and innovation at the University by providing funding for scholarships and grants and by engaging in corporate partnering activities.

UWM Innovation Park, LLC ("Innovation Park") is a for-profit limited liability company created under the laws of the State of Wisconsin whose sole member is the Real Estate Foundation. Innovation Park was formed to acquire, develop, and manage specific property in Milwaukee County. The accounts of Innovation Park have been consolidated into the accounts of the Real Estate Foundation. All intercompany accounts and transactions have been eliminated in the consolidation.

Cambridge Commons, LLC is a nonprofit limited liability company created under the laws of the State of Wisconsin whose sole member is the Real Estate Foundation. Cambridge Commons, LLC was formed to acquire, develop, and manage specific property in Milwaukee County. The accounts of Cambridge Commons, LLC have been consolidated into the accounts of the Real Estate Foundation. All intercompany accounts and transactions have been eliminated in the consolidation.

Innovation Campus Owners Association, Inc. is a for-profit C-Corporation incorporated under the laws of the State of Wisconsin to serve as an association of owners for UWM Innovation Campus, a development located in the City of Wauwatosa, Wisconsin. The Real Estate Foundation is the controlling member of Innovation Campus Owners Association, Inc. The accounts of Innovation Campus Owners Association, Inc. have been consolidated into the accounts of the Real Estate Foundation. All intercompany accounts and transactions have been eliminated in the consolidation.

Principles of Consolidation

The consolidated financial statements include the accounts of the UWM Foundation, the Real Estate Foundation, the Research Foundation, Innovation Park, Cambridge Commons, LLC, and Innovation Campus Owners Association, Inc. (collectively referred to as the "Foundation"). All intercompany accounts and transactions have been eliminated in the consolidation.

The UWM Foundation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Recently Adopted Accounting Policies

In June 2018, the FASB issued ASU 2018-08 *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (Topic 958). The amendments in this ASU assist in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) subject to Subtopic 985-605 or as exchange (reciprocal) transactions subject to Accounting Standards Codification 606 and (2) determining whether a contribution is conditional. The contribution guidance in Subtopic 958-605 requires an entity to determine whether a transaction is conditional, which affects the timing of the revenue recognized. The Foundation has applied the amendments in this ASU on a retrospective basis. There was no change on opening balances of net assets and no prior period results were restated.

In 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows - Restricted Cash* (Topic 230), which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The guidance in this ASU was adopted and applied on a retrospective basis by the Foundation for the year ended June 30, 2020. As a result of this ASU implementation, beginning cash, cash equivalents, and restricted cash as of July 1, 2018 on the statement of cash flows was increased by \$3,234,409. Restricted cash consists of funds set aside for certain construction projects and to pay off debt service of Real Estate Foundation.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP).

Classification of Net Assets

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

Net Assets Without Donor Restrictions - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated from net assets without donor restrictions, funds to be held for certain purposes.

Net Assets With Donor Restrictions - Net assets subject to donor or certain grantor imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other explicit donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor imposed restrictions are released when a restriction expires, that is when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

The UWM Foundation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Use of Estimates in Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the results of reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

Cash and Cash Equivalents

The Foundation considers all short-term investments purchased with an original maturity of three months or less to be cash or cash equivalents, excluding amounts whose use is restricted or held as short-term investments in the Foundation's investment portfolio.

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents consist of amounts held in separate accounts under the terms of the note agreement and were set aside to fund certain construction projects and to pay off debt service for the Real Estate Foundation. Amounts that are required for obligations classified as current liabilities are reported as current assets. The restricted cash and cash equivalents balance at June 30, 2020 and 2019 was \$3,685,475 and \$3,564,010, respectively.

Accounts Receivable

Accounts receivable are generally uncollateralized amounts due for dormitory room rentals to students. During the year ended June 30, 2020, payments on dormitory room rentals to students are collected by The University of Wisconsin-Milwaukee (the "University") and remitted to the Foundation. Payments of accounts receivable are allocated to the specific invoices identified on the student's remittance advice or, if unspecified, are applied to the earliest unpaid invoices. Management individually reviews all past due accounts receivable balances and estimates the portion, if any, of the balance that will not be collected. The carrying amount of accounts receivable is reduced by allowances that reflect management's estimate of uncollectible amounts. Those allowances were \$57,924 and \$68,010 as of June 30, 2020 and 2019, respectively.

Promises to Give

Promises to give are recorded as receivables in the year pledged. Promises to give whose eventual uses are restricted by donors are recorded as increases in net assets with donor restrictions. Promises to give without donor restrictions to be collected in future periods are also recorded as an increase to net assets with donor restrictions, and reclassified to net assets without donor restrictions when received. Management individually reviews all past due promises to give and estimates the portion, if any, of the balance that will not be collected. The carrying amount of the promises to give are reduced by allowances which reflect management's estimate of uncollectible amounts.

The UWM Foundation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Property and Equipment

Property and equipment are recorded at cost and capitalized. The cost of these items, are charged to expense as depreciation computed on the straight-line method over the estimated useful lives of the assets. Estimated useful lives range from 5 to 15 years for furniture and equipment and 10 to 40 years for buildings and improvements. The Foundation capitalizes interest during the construction period of major capital additions.

Property acquired with grant funds is owned by the Foundation while used in the programs for which it was purchased or in other future authorized programs. However, the funding source has a reversionary interest in assets purchased with grant funds. The disposition, as well as the ownership of any proceeds there from, is subject to funding source regulations.

Gifts of long-lived assets such as land, buildings, or equipment are reported as support without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Cash Surrender Value of Life Insurance

Life insurance policies for which the Foundation is the beneficiary are reported at the cash surrender value of the policy. Changes in the cash surrender value are reported as investment income (loss) under the support and revenue category in net assets with donor restrictions.

Split Interest Agreements with Donors

The Foundation's split interest agreements with donors consist of irrevocable charitable remainder trusts for which the Foundation is the remainder beneficiary. Contribution revenue and a related contribution receivable is recognized at the date the trusts are established at an amount equal to the present value of the Foundation's remainder interest in the trust. The contribution receivable is adjusted during the term of the trust for changes in the estimated future benefits, and such changes are included as donor restricted revenue and support, as applicable. The split interest agreements are discounted at a rate of 6%.

Investments

Investments are measured at fair value in the consolidated statements of financial position. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in without donor restricted revenue and support unless the income or loss is restricted by donor or law. Investment income is shown net of investment fees.

The Foundation's investments are held in bank-administered trust funds. Management has granted the investment managers discretionary authority over investment decisions based on the Foundation's investment policy.

The UWM Foundation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Allocation of Investment Income

Investments of the various funds are commingled for investment purposes and are available as needed to support the approved program expenditures of the respective fund categories. Investment income is allocated to certain restricted funds based on the adjusted balance determined on a market value basis of each component fund. Investment management and custody fees are charged against investment income allocated to net assets without donor restriction.

The Foundation allocated a spending rate of 4.00% for 2020 and 2019, respectively, to certain endowment funds based upon a three-year average investment balance determined on a fair value basis. An endowment fund is created when a donor requires that their gift be invested in perpetuity. The gift is held in net assets with donor restrictions. If the traditional yield (interest and dividends) is not adequate to support the spending rate, the balance is allocated from realized and unrealized gains on the investments and excess earnings from prior years. The spending rate is subject to investment performance and periodic review by the Foundation's board of directors.

Investment income, including realized and unrealized net gains and losses, on investments of endowment and similar funds are reported as one of the following:

- As increases in net assets with donor restrictions held in perpetuity if the terms of the gift or the Foundation's interpretation of relevant state law requires that they be added to the principal of a permanent endowment.
- As increases in net assets with donor restrictions subject to appropriation or spending policy.

Fair Value Measurements

The Foundation measures the fair value of its financial instruments using a three-tier hierarchy, which prioritizes the inputs used in estimating fair value. These tiers include Level 1, defined as observable inputs such as quoted market prices in active markets; Level 2, defined as inputs other than quoted market prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore, requiring an entity to develop its own assumptions. The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The UWM Foundation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Contributions

Contributions, including promises to give, are considered conditional or unconditional, depending on the nature and existence of any donor or grantor conditions. A contribution or promise to give contains a donor or grantor condition when both of the following are present:

- An explicit identifying of a barrier, that is more than trivial, that must be overcome before the revenue can be earned and recognized
- An implicit right of return of assets transferred or a right of release of a donor or grantor's obligation to transfer assets promised, if the condition is not met

Conditional contributions are recognized when the barrier(s) to entitlement are overcome. Unconditional contributions are recognized as revenue when received.

Unconditional contributions or conditional contributions in which the conditions have been substantially met or explicitly waived by the donor are recorded as support with or without donor restrictions, depending on the existence and nature of any donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized.

Gifts of long-lived assets such as land, buildings, or equipment are reported as support without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as support with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Donated services are recognized as contributions, at the donor's estimated fair value, if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Foundation.

The University employs certain personnel who are involved in development activities from which both the University and the Foundation benefit. The Foundation recognized \$3,154,278 and \$3,233,664 of development activities received from the University for the years ended June 30, 2020 and 2019, respectively, and has reported these donated goods and services as development services received from personnel of the University in the accompanying statements of activities.

The UWM Foundation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Amounts Payable Under Fiscal Agent Responsibilities

In 2008, the Board of Regents of the University of Wisconsin System (the "UW System"), on behalf of the University, accepted a restricted pledge from the Daniel M. Soref Charitable Trust of \$1,731,740 to establish the Daniel M. Soref Learning Commons. The UWM Foundation is serving as the receiving and disbursing fiscal agent for the UW System. Outstanding amounts due under this arrangement totaled \$120,034 at June 30, 2020 and 2019, respectively.

The Research Foundation is the fiscal agent for the Medical College of Wisconsin Healthier Wisconsin Partnership grant for the Institute for Urban Agriculture and Nutrition ("IUAN-HWPP"). The Research Foundation is the custodian of the funds and distributes these funds in accordance with the directions of IUAN-HWPP. Thus, The Research Foundation reports a liability for any undistributed funds for which it is the custodian. Outstanding amounts under this arrangement total \$2,200 at June 30, 2020 and 2019, respectively.

The Research Foundation is the fiscal agent for the Johnson Controls UWM Research Foundation Research Assistantship grant to a doctoral student attending the University. The Research Foundation is the custodian of the funds and distributes these funds in accordance with the directions of the University's College of Engineering and Applied Sciences. Thus, The Research Foundation reports a liability for any undistributed funds for which it is the custodian. Outstanding amounts under this arrangement total \$4,842 and \$4,842 at June 30, 2020 and 2019, respectively.

Administrative Fee

The Foundation assesses an administrative fee to certain funds, at a rate of 1.85% for 2020 and 1.85% for 2019, based on the fair value of the applicable fund. Such a fee is deducted from the individual restricted endowment fund earnings and is intended to provide for the Foundation's operating costs and for a portion of certain development and fundraising programs. The fee is included in net assets released from restrictions. The administrative fee is reviewed annually by the Foundation's board of directors.

Revenue Recognition

Revenues for rent, parking, and meals charged to students of the University and under research agreements with third parties are recognized in the period earned. The Real Estate Foundation has received rental payments in advance from the University which are recognized on the straight-line basis over the term of the lease. Funds received but not earned as of June 30, 2020 and 2019, totaling \$1,082,069 and \$1,217,575, respectively, have been classified as deferred revenue on the consolidated statements of financial position. Revenues will be recognized in future periods as it is earned.

The UWM Foundation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Tax Status

The UWM Foundation, the Research Foundation, and the Real Estate Foundation, are tax-exempt corporations as described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. They are also exempt from state income taxes on related income.

Innovation Park, LLC and Cambridge Commons, LLC, are limited liability companies and are classified as disregarded entities under the Code.

Innovation Campus Owners Association, Inc. is taxed as a C-Corporation for federal and state income tax purposes. Management does not believe that Innovation Campus Owners Association, Inc. has any significant uncertain tax positions or unrecognized tax benefits, accordingly, they recorded no assets or liabilities related to uncertain related to uncertain tax positions.

Subsequent Events

Subsequent events have been evaluated through December 15, 2020, which is the date the consolidated financial statements were available to be issued.

We have evaluated the potential impacts of COVID-19 on the financial statements as of June 30, 2020 and for the year then ended. As of the date of issuance of the financial statements, the Foundation's operations have not been significantly impacted. No impairments were recorded as of the balance sheet date as no triggering events or changes in circumstances had occurred as of year-end.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the consolidated statements of activities. The consolidated statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Costs have been charged directly to functions when appropriate. Cost related to employees working in multiple functional categories have been allocated based on estimated time and effort. Occupancy costs have been allocated based on square footage.

The UWM Foundation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Future Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This ASU, as amended, provides comprehensive guidance on the recognition of revenue from customers arising from the transfer of goods and services, guidance on accounting for certain contract costs, and new disclosures. The new standard supersedes current revenue recognition requirements in FASB Accounting Standards Codification (ASC) Topic 605, *Revenue Recognition*, and most industry-specific guidance. When adopted, the amendments in the ASU must be applied using one of two retrospective methods. ASU No. 2014-09 is effective for nonpublic entities for annual periods beginning after December 15, 2019. The Foundation is currently evaluating the impact of the provisions of ASC 606.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This ASU modifies lease accounting to increase transparency and comparability by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing information. The most significant change for lessees will be the recognition of both a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term for those leases classified as operating leases under current GAAP. Certain accounting policy elections are permitted for leases with terms of 12 months or less. FASB ASC Topic 842, *Leases*, supersedes current lease requirements in FASB ASC Topic 840, *Leases*. When adopted, the amendments in the ASU must be applied using a modified retrospective approach, with certain practical expedients available. The new standard is effective for nonpublic companies for annual periods beginning after December 15, 2021. The Foundation is currently evaluating the impact of the provisions of ASC 842.

In September 2020, the FASB issued ASU No. 2020-07 (*Topic 958*), *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The FASB ASU requires nonprofits to change their financial statement presentation and disclosure of contributed nonfinancial assets, or gifts-in-kind. The FASB issued the update in an effort to improve transparency in reporting nonprofit gifts-in-kind. The new standard is effective for nonpublic companies for annual periods beginning after June 15, 2021. The Foundation is currently evaluating the impact of the provisions of ASC 958.

The UWM Foundation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 2: Promises to Give

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discount on those amounts is computed using a rate based upon the average of the U.S. Treasury bond rate and the Foundation's borrowing rate. The discount rates used were 2% and 2.9% for the years ended June 30, 2020 and 2019, respectively.

The promises to give are expected to be collected according to the following schedule:

| <i>As of June 30,</i> | 2020 | 2019 |
|---|---------------------|---------------------|
| Less than one year | \$ 10,491,978 | \$ 6,538,583 |
| One to five years | 10,967,422 | 9,508,646 |
| Thereafter | 174,500 | 229,779 |
| Gross promises to give | 21,633,900 | 16,277,008 |
| Less: | | |
| Unamortized discount | 463,084 | 656,287 |
| Allowance for uncollectible amounts | 801,100 | 601,188 |
| Promises to give - Net | 20,369,716 | 15,019,533 |
| Less - Current portion - Net | 10,490,877 | 6,538,583 |
| Promises to give, less current portion - Net | \$ 9,878,839 | \$ 8,480,950 |

Of the promises to give balance, approximately 41% is due from three donors and 34% is due from two donors at June 30, 2020 and 2019, respectively.

Note 3: Investments

Investments consist of the following:

| <i>As of June 30,</i> | 2020 | | 2019 | |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| | Cost | Fair Value | Cost | Fair Value |
| Money market funds | \$ 3,148,090 | \$ 3,148,090 | \$ 2,021,749 | \$ 2,021,749 |
| U.S. government obligations | 19,160,484 | 19,160,484 | 23,691,127 | 23,691,127 |
| Non-U.S. government bonds and fixed income mutual funds | 31,386,477 | 35,944,746 | 30,652,029 | 32,387,416 |
| Asset- and mortgaged-backed securities | 24,575,729 | 24,575,729 | 17,076,829 | 17,076,829 |
| Equities and equity mutual funds | 66,039,214 | 94,186,200 | 62,605,762 | 91,634,910 |
| Total investments | \$ 144,309,994 | \$ 177,015,249 | \$ 136,047,496 | \$ 166,812,031 |

The UWM Foundation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 3: Investments (Continued)

Investment income was as follows:

| <i>Years Ended June 30,</i> | 2020 | 2019 |
|--|---------------------|---------------------|
| Interest and dividends | \$ 4,062,738 | \$ 3,837,720 |
| Net realized gains on investments | 704,155 | 1,421,627 |
| Net unrealized gains on investments | 2,097,039 | 4,672,020 |
| Investment trustee and management fees | (199,383) | (191,251) |
| Total investment income | \$ 6,664,549 | \$ 9,740,116 |

Investments, 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 investments, it is reasonably possible that changes in the values of certain investments will occur in the near term and that such changes could materially affect the amounts reported in the consolidated financial statements.

Note 4: Property and Equipment

Property and equipment consisted of the following:

| <i>As of June 30,</i> | 2020 | 2019 |
|--|----------------------|----------------------|
| Land and improvements | \$ 18,436,081 | \$ 18,436,081 |
| Buildings and improvements | 77,630,047 | 77,630,047 |
| Furniture and equipment | 4,776,462 | 4,747,921 |
| Total property and equipment | 100,842,590 | 100,814,049 |
| Less - Accumulated depreciation | (31,948,337) | (29,230,000) |
| Property and equipment - Net | \$ 68,894,253 | \$ 71,584,049 |

Included in furniture and equipment as of June 30, 2020 and 2019 is \$486,741, respectively, of capitalized artwork. The artwork does not meet the criteria for classification as a collection as it is not held for public exhibition, education, or research in furtherance of public service. The artwork is not depreciated; instead it is reviewed periodically for impairment, with the carrying value of the artwork adjusted for any impairment losses. There were no impairments recorded for the years ended June 30, 2020 and 2019.

The UWM Foundation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 5: Note Payable

The Foundation has the following note payable:

| <i>As of June 30,</i> | 2020 | 2019 |
|---|---------------|---------------|
| Promissory note to Wells Fargo Bank Northwest | \$ 80,345,508 | \$ 82,111,546 |
| Less: | | |
| Current portion | 1,835,225 | 1,766,038 |
| Unamortized debt issuance costs | 776,754 | 810,951 |
| Long-term portion | \$ 77,733,529 | \$ 79,534,557 |

The Real Estate Foundation has a promissory note with Wells Fargo Bank Northwest. The promissory note is payable in 60 semi-annual installments of \$2,467,500 which includes interest at 3.88% and matures April 18, 2046. The promissory note is secured by mortgages on properties, a security agreement, assignment of leases and rents from properties owned by Cambridge Commons, LLC, and a lien on debt service reserve funds. Under the terms of the security agreement, Cambridge Commons, LLC will lease two student dormitory facilities to the State of Wisconsin. Semi-annual rents of \$2,470,000 are due from the State of Wisconsin Department of Administration through June of 2046 and are to be used to meet the semi-annual principal and interest payment requirements of the promissory note.

Debt issuance costs related to the issuance of long-term debt are amortized using the straight-line method over the life of the related debt. Cost of debt issuance is \$898,110 with accumulated amortization of \$121,356 and \$87,159 as of June 30, 2020 and 2019, respectively.

Scheduled payments of principal on note payable at June 30, 2020, are as follows:

| <i>Years Ending June 30,</i> | |
|------------------------------|---------------|
| 2021 | \$ 1,835,225 |
| 2022 | 1,907,122 |
| 2023 | 1,981,836 |
| 2024 | 2,059,478 |
| 2025 | 2,140,160 |
| Thereafter | 70,421,687 |
| Total maturities | \$ 80,345,508 |

Interest expense including amortization of debt issuance costs for the years ending June 30, 2020 and 2019 was \$3,189,468 and \$3,251,584, respectively.

The UWM Foundation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 6: Refundable Advance - SBA Paycheck Protection Program

On April 17, 2020, the Foundation entered into a promissory note agreement with a local financial institution in the amount of \$333,200. The loan was issued pursuant to the Paycheck Protection Program (the "PPP") administered by the Small Business Administration (the "SBA"), and bears interest at 1.00% with monthly payments of interest only beginning November 17, 2020 and a final payment of all principal and accrued interest due April 17, 2022. All or a portion of the loan may be forgiven if the Foundation uses the proceeds of the loan for eligible payroll costs and other expenses in accordance with the PPP.

Management of the Foundation intends to utilize the loan proceeds for eligible costs in accordance with the PPP, and accordingly, has determined that substantially all of the loan will eventually be forgiven. Management has determined that the loan proceeds constitute a conditional contribution under ASU No. 2018-08 and incurring eligible expenses as the barrier to meet the conditions on the grant and recognize the revenue. Based on eligible expenses incurred as of year-end, management recognized \$124,365 as revenue for the year ended June 30, 2020. Accordingly, the Foundation has recorded a refundable advance as of June 30, 2020 for \$208,835, which represents the remaining balance of the refundable advance.

Note 7: Defined Contribution Retirement Plan

The Foundation has a defined contribution retirement plan covering all full-time and permanent part-time employees. The Foundation contributes an amount equal to a certain percentage of each employee's gross pay to the plan. The Foundation's contributions to the retirement plan totaled \$110,151 and \$101,485 for the years ended June 30, 2020 and 2019, respectively.

Note 8: Concentrations

The Foundation maintains depository relationships with area financial institutions that are Federal Deposit Insurance Corporation (FDIC) insured institutions. At times, deposits may exceed FDIC insurance limits. Management has not experienced any losses with these accounts and management believes the Foundation is not exposed to any significant risk on cash.

The UWM Foundation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 9: Net Assets With Donor Restrictions

Net assets with donor restrictions consisted of the following as of June 30,

| | 2020 | 2019 |
|--|-----------------------|-----------------------|
| Subject to expenditure for specific purpose, appropriation or spending policy: | | |
| Teaching and departmental programs | \$ 61,514,776 | \$ 54,870,028 |
| Research | 16,787,320 | 16,690,111 |
| Scholarship/fellowship | 43,789,976 | 42,900,833 |
| Community service | 721,798 | 900,730 |
| Special projects | 39,962,711 | 36,228,534 |
| Endowments: | | |
| Perpetual in nature subject to spending policy of appropriation: | | |
| Teaching and departmental programs | 8,546,537 | 8,518,670 |
| Research | 158,379 | 158,379 |
| Scholarship/fellowship | 10,970,292 | 11,143,721 |
| Community service | 113,449 | 100,149 |
| Special projects | 1,410,896 | 1,405,646 |
| Total net assets with donor restrictions | \$ 183,976,134 | \$ 172,916,801 |

Net assets released from donor restrictions were as follows as of June 30,

| | 2020 | 2019 |
|--|----------------------|----------------------|
| Teaching and departmental programs | \$ 6,886,340 | \$ 6,169,343 |
| Research | 932,857 | 988,799 |
| Scholarship/fellowship | 4,255,884 | 4,115,389 |
| Community service | 11,161 | 25,952 |
| Special projects | 6,194,835 | 8,047,110 |
| Foundation fees | 2,029,218 | 1,919,839 |
| Total net assets released from donor restrictions | \$ 20,310,295 | \$ 21,266,432 |

Net assets with donor restrictions to be held in endowments are comprised of the following:

| <i>As of June 30,</i> | 2020 | 2019 |
|--|----------------------|----------------------|
| Investments | \$ 28,294,569 | \$ 29,467,510 |
| Promises to give | 48,400 | - |
| Split interest agreements | 41,098 | 27,568 |
| Net assets with donor restrictions to be held in endowments | \$ 28,384,067 | \$ 29,495,078 |

The UWM Foundation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 10: Endowments

The Foundation's endowments consist of various funds established to benefit the Foundation for a variety of purposes. Donor-restricted net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as adopted by the Wisconsin state legislature, as requiring the Foundation to preserve the fair value of the donor's original gift, as of the date of the gift, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as net assets with donor restrictions (a) the original value of the donor's gifts to the permanent endowment, (b) the original value of a donor's subsequent gifts to the permanent restricted endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The donor restricted endowment fund is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (a) the duration and preservation of the various funds, (b) the purposes of the donor-restricted endowment funds, (c) general economic conditions, (d) the possible effect of inflation and deflation, (e) the expected total return from income and the appreciation of investments, (f) other resources of the Foundation, and (g) the Foundation's investment policies.

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment, while seeking to preserve the purchasing power of the endowment assets. Under the Foundation's investment policy, as approved by the Board of Directors, the endowment assets are invested in a manner to protect principal, grow the aggregate portfolio value in excess of the rate of inflation and achieve an effective annual rate of return that is equal to or greater than the designated benchmarks for the various types of investment vehicles, and to ensure that any risk assumed is commensurate with the given investment vehicle and the Foundation's objectives.

To achieve its investment goals, the Foundation targets an asset allocation that will achieve a balanced return of current income and long-term growth of principal while exercising risk control. The Foundation's asset allocations include a blend of equity and debt securities and cash equivalents.

Donor Restricted Endowments

The Foundation has received several gifts in which the donors have stipulated that the gift be invested and maintained permanently to generate annual income for fulfilling the Foundation's mission. The donor restricted endowment investments are maintained in bank-administered trust funds and the Foundation has granted the investment managers discretionary authority over investment decisions based on the Foundation's investment policy. For endowment funds with no spending instructions, the Foundation determines the income available for distribution using the total return method. Distributions are made annually, which are approximately 4.00% of the average market value of the related endowment investments over a three year period.

The UWM Foundation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 10: Endowments (Continued)

Flexible Endowments

The Foundation has received gifts in which the donors have stipulated that the gift be invested, however, the Foundation is permitted to spend the corpus of the gift. Investment earnings on the flexible endowments will be allocated directly to the corpus since the annual distributions, determined by the Board of Directors, will be distributed regardless of the amount of investment earnings. In effect this could reduce the corpus value below the original contribution, however, the expectation is that accumulated investment earnings in the long-term will exceed distributions so the original contribution would not be depleted.

Endowment net assets consisted of the following:

| <i>As of June 30, 2020</i> | Without Donor Restrictions | With Donor Restrictions | | | Total |
|----------------------------|----------------------------------|-------------------------|------------------------|---------------|----------------|
| | | Accumulated Earnings | Perpetual in Nature | Flexible | |
| Endowment funds | \$ - | \$ 7,184,514 | \$ 21,199,553 | \$ 78,804,395 | \$ 107,188,462 |

| <i>As of June 30, 2019</i> | Without Donor Restrictions | With Donor Restrictions | | | Total |
|----------------------------|----------------------------------|-------------------------|------------------------|---------------|----------------|
| | | Accumulated Earnings | Perpetual in Nature | Flexible | |
| Endowment funds | \$ - | \$ 8,168,513 | \$ 21,326,565 | \$ 75,393,425 | \$ 104,888,503 |

Changes in the endowment net assets were as follows:

| | Without Donor Restrictions | With Donor Restrictions | | | Total |
|--------------------------------|----------------------------------|-------------------------|------------------------|---------------|----------------|
| | | Accumulated Earnings | Perpetual in Nature | Flexible | |
| Endowments at July 1, 2018 | \$ - | \$ 8,084,848 | \$ 20,375,548 | \$ 69,082,336 | \$ 97,542,732 |
| Contributions | - | 87,784 | 1,002,254 | 4,945,165 | 6,035,203 |
| Interest and dividend income | - | 345,835 | - | 1,137,015 | 1,482,850 |
| Net appreciation | - | 589,835 | - | 1,939,224 | 2,529,059 |
| Changes in donor restrictions | - | (23,390) | (51,237) | 349,722 | 275,095 |
| Appropriation for expenditures | - | (916,399) | - | (2,060,037) | (2,976,436) |
| Endowments at June 30, 2019 | - | 8,168,513 | 21,326,565 | 75,393,425 | 104,888,503 |
| Contributions | - | 104,076 | 491,015 | 4,105,189 | 4,700,280 |
| Interest and dividend income | - | 64,333 | - | 539,493 | 603,826 |
| Net appreciation | - | 48,281 | - | 404,880 | 453,161 |
| Changes in donor restrictions | - | (68,435) | (618,027) | 930,252 | 243,790 |
| Appropriation for expenditures | - | (1,132,254) | - | (2,568,844) | (3,701,098) |
| Endowments at June 30, 2020 | \$ - | \$ 7,184,514 | \$ 21,199,553 | \$ 78,804,395 | \$ 107,188,462 |

The UWM Foundation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 11: Contingent Fee Arrangement

The Research Foundation and a law firm entered into an alternative fee arrangement. The Research Foundation will receive a 10% discount on legal services provided by the law firm. The law firm will receive a percentage of revenue derived from licensing and technology ventures started prior to January 1, 2015.

At June 30, 2020 and 2019, a liability for future payments was not recognized as payments to the law firm are contingent on receiving future cash flows from successful ventures.

Note 12: Fair Value Measurements

Following is a description of the valuation methodology used for each asset and liability measured at fair value on a recurring basis:

- Money market funds are measured using \$1 as the net asset value ("NAV")
- State, municipal, domestic and foreign bonds are valued using quotes from pricing vendors based on recent trading activity and other observable market data.
- Fixed income and equity mutual funds are valued at the daily closing price as reported by the fund. Mutual funds held are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily NAV and to transact at that price. The mutual funds held are deemed to be actively traded.
- Asset- and mortgage-backed securities and U.S. Treasury bonds and notes are valued using quotes from pricing vendor based on recent trading activity and other observable market data.
- Common and preferred stock and exchange traded funds are valued at the closing price reported on the active market on which the individual securities are traded.
- Limited partnership interests are valued based on estimates and valuations provided by investment managers, which use pricing models and other unobservable inputs to value the investments.
- Privately held stock is valued using a discounted cash flow method.
- Promises to give are valued at the present value of estimated future cash flows.
- Split interest agreements are valued based on the market value of the underlying assets, consisting mainly of equity securities and fixed income securities which are valued based on quoted market prices.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The UWM Foundation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 12: Fair Value Measurements (Continued)

Information regarding assets measured at fair value on a recurring basis is as follows:

| <i>As of June 30, 2020</i> | <u>Fair Value Measurements Using</u> | | | <u>Total Assets</u> |
|--|--------------------------------------|-------------------|----------------|-----------------------|
| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>at Fair Value</u> |
| Investments: | | | | |
| Money market funds | \$ - | \$ 3,148,090 | \$ - | \$ 3,148,090 |
| Fixed income mutual funds | | | | |
| Short-term bond funds | 47,114 | - | - | 47,114 |
| Intermediate-term bond funds | 7,333,857 | - | - | 7,333,857 |
| Fixed income securities | | | | |
| Asset- and mortgage-backed securities | - | 24,575,729 | - | 24,575,729 |
| U.S. Treasury bonds and notes | - | 19,160,484 | - | 19,160,484 |
| Domestic corporate bonds | - | 23,318,177 | - | 23,318,177 |
| Foreign bonds | - | 5,245,598 | - | 5,245,598 |
| Equity mutual funds: | | | | |
| Foreign large blend funds | 22,185,415 | - | - | 22,185,415 |
| Small-cap blend funds | 18,112,418 | - | - | 18,112,418 |
| Mid-cap blend funds | 18,192,069 | - | - | 18,192,069 |
| Large blend funds | 32,260,367 | - | - | 32,260,367 |
| Diversified emerging markets | 7,672 | - | - | 7,672 |
| Exchange-traded funds | 1,207,479 | - | - | 1,207,479 |
| Common and preferred stocks | 1,899,419 | - | - | 1,899,419 |
| Privately held stock | - | - | 97,049 | 97,049 |
| Limited partnership interests | - | - | 224,312 | 224,312 |
| Total investments | 101,245,810 | 75,448,078 | 321,361 | 177,015,249 |
| Promises to give | - | 20,369,716 | - | 20,369,716 |
| Split interest contributions receivable from charitable remainder trusts | - | - | 41,098 | 41,098 |
| Total assets at fair value | \$ 101,245,810 | \$ - | \$ - | \$ 197,426,063 |

The UWM Foundation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 12: Fair Value Measurements (Continued)

| <i>As of June 30, 2019</i> | Fair Value Measurements Using | | | Total Assets at Fair Value |
|---|-------------------------------|----------------------|-------------------|-------------------------------|
| | Level 1 | Level 2 | Level 3 | |
| Investments: | | | | |
| Money market funds | \$ - | \$ 2,021,749 | \$ - | \$ 2,021,749 |
| Fixed income mutual funds | | | | |
| Short-term bond funds | 48,934 | - | - | 48,934 |
| Inflation-protected bond funds | 6,490,216 | - | - | 6,490,216 |
| Fixed income securities | | | | |
| Asset- and mortgage-backed securities | - | 17,076,829 | - | 17,076,829 |
| U.S. Treasury bonds and notes | - | 23,691,127 | - | 23,691,127 |
| Domestic corporate bonds | - | 19,587,795 | - | 19,587,795 |
| Foreign bonds | - | 6,260,471 | - | 6,260,471 |
| Equity mutual funds: | | | | |
| Foreign large blend funds | 21,808,665 | - | - | 21,808,665 |
| Small-cap blend funds | 17,004,877 | - | - | 17,004,877 |
| Mid-cap blend funds | 17,943,653 | - | - | 17,943,653 |
| Large blend funds | 31,577,769 | - | - | 31,577,769 |
| Diversified emerging markets | 8,150 | - | - | 8,150 |
| Exchange-traded funds | 1,638,329 | - | - | 1,638,329 |
| Common and preferred stocks | 1,332,106 | - | - | 1,332,106 |
| Privately held stock | - | - | 97,049 | 97,049 |
| Limited partnership interests | - | - | 224,312 | 224,312 |
| Total investments | 97,852,699 | 68,637,971 | 321,361 | 166,812,031 |
| Promises to give | - | 15,019,533 | - | 15,019,533 |
| Split interest contributions receivable from charitable remainder trusts | - | - | 27,568 | 27,568 |
| Total assets at fair value | \$ 97,852,699 | \$ 83,657,504 | \$ 348,929 | \$ 181,859,132 |

The UWM Foundation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 12: Fair Value Measurements (Continued)

Changes in fair value of the Foundation's Level 3 assets are as follows:

| | Privately Held Stock | Limited Partnership Interests | Split interests |
|------------------------|-------------------------|-------------------------------------|-----------------|
| Balance, July 1, 2018 | \$ 97,049 | \$ 224,312 | \$ 27,734 |
| Unrealized loss | - | - | (166) |
| Balance, June 30, 2019 | 97,049 | 224,312 | 27,568 |
| Unrealized gain | - | - | 13,530 |
| Balance June 30, 2020 | \$ 97,049 | \$ 224,312 | \$ 41,098 |

Note 13: Related Parties

Program support from the Foundation to the University of \$18,089,468 and \$19,011,763 for the years ended June 30, 2020 and 2019, respectively, included \$8,075,328 and \$11,282,697, respectively, of restricted program support expenses incurred directly by the University and reimbursed by the Foundation based on the specified purpose of the related restricted funds. At June 30, 2020 and 2019, expenses incurred by the University which have not yet been reimbursed by the Foundation were \$4,234,223 and \$2,666,271, respectively. See also Note 1 Contributions for development activities received from the University.

The University rents property from the Real Estate Foundation under an operating lease. Monthly rents, including operating costs and other fees, range from \$35,279 and \$68,509 through March 2034, with an option to renew through March 2044. In November 2014, the University paid \$1,000,000 to the Real Estate Foundation in advance rent to cover build-out costs. The Real Estate Foundation is recognizing this advance rent on the straight-line basis over the term of the lease agreement. Deferred revenues under this lease total \$714,286 and \$766,234 at June 30, 2020 and 2019, respectively, and are included in deferred revenue in the accompanying consolidated statements of financial position.

Note 14: Leases

The Real Estate Foundation leases office space and buildings to not-for-profit companies under noncancelable operating leases. Monthly rents range from \$2,892 to \$49,212. Total rental income under these leases was \$536,156 and \$582,823 for the years ended June 30, 2020 and 2019, respectively.

The UWM Foundation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 14: Leases (Continued)

Future minimum rental revenues under noncancelable operating leases, including the lease agreement with the State of Wisconsin Department of Administration discussed in Note 5, are as follows:

| <i>Years Ending June 30,</i> | Cambridge and Riverview Residence Halls | Innovation Accelerator | Total |
|------------------------------|--|-----------------------------------|-----------------------|
| 2021 | \$ 4,940,000 | \$ 694,682 | \$ 5,634,682 |
| 2022 | 4,940,000 | 644,986 | 5,584,986 |
| 2023 | 4,940,000 | 661,267 | 5,601,267 |
| 2024 | 4,940,000 | 668,455 | 5,608,455 |
| 2025 | 4,940,000 | 489,431 | 5,429,431 |
| Thereafter | 103,740,000 | 6,520,156 | 110,260,156 |
| Totals | \$ 128,440,000 | \$ 9,678,977 | \$ 138,118,977 |

Note 15: Liquidity and Availability of Financial Resources

The following table reflects the Foundation's financial assets as of June 30, 2020, and 2019 reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of donor restrictions or internal board designations. The Foundation does not have a formal liquidity policy but strives to hold net liquid financial assets available to meet 90 days of general expenditures.

| <i>June 30,</i> | 2020 | 2019 |
|---|----------------------|----------------------|
| Cash and cash equivalents | \$ 2,132,606 | \$ 3,301,784 |
| Accrued investment income | 374,768 | 448,327 |
| Accounts and grant receivable - Net | 738,796 | 37,418 |
| Promises to give, current portion - Net | 10,490,877 | 6,538,583 |
| Investments | 177,015,249 | 166,812,031 |
| Assets convertible to cash within twelve months | 190,752,296 | 177,138,143 |
| Less: Net assets with donor restrictions excluding long term assets with donor restrictions | 174,069,092 | 164,408,283 |
| Total financial assets available for general expenditures | \$ 16,683,204 | \$ 12,729,860 |

Note 16: Reclassifications

Certain reclassifications were made to Note 9 and Note 10 for the 2019 information to conform to the 2020 presentation. These reclassifications did not affect the change in net assets for the year ended June 30, 2019.

Supplementary Information

The UWM Foundation, Inc. and Affiliates

Consolidating Statement of Financial Position

June 30, 2020

| Assets | The UWM Foundation, Inc. | The UWM Real Estate Foundation, Inc. | The UWM Research Foundation, Inc. | Eliminations | Total Consolidated |
|--|-----------------------------|--|---|------------------------|-----------------------|
| Current assets: | | | | | |
| Cash and cash equivalents | \$ 1,779,729 | \$ 239,715 | \$ 113,162 | \$ - | \$ 2,132,606 |
| Accrued investment income | 374,768 | - | - | - | 374,768 |
| Accounts receivable - Net | 8,365 | 130,431 | - | - | 138,796 |
| Grant receivable | 600,000 | - | - | - | 600,000 |
| Promises to give, current portion - Net | 10,330,323 | 11,575 | 148,979 | - | 10,490,877 |
| Prepaid expenses and other | 144,968 | 13,415 | 5,045 | - | 163,428 |
| Total current assets | 13,238,153 | 395,136 | 267,186 | - | 13,900,475 |
| Investments | 177,015,249 | - | - | - | 177,015,249 |
| Property and equipment - Net | 424,933 | 68,464,043 | 5,277 | - | 68,894,253 |
| Other assets: | | | | | |
| Interest in investments held by UWM Foundation | - | 10,552,634 | 3,699,312 | (14,251,946) | - |
| Restricted cash and cash equivalents | - | 3,685,475 | - | - | 3,685,475 |
| Cash surrender value of life insurance | 1,011,869 | - | - | - | 1,011,869 |
| Split interest contributions receivable from charitable remainder trusts | 41,098 | - | - | - | 41,098 |
| Promises to give, less current portion - Net | 9,878,839 | - | - | - | 9,878,839 |
| Due from affiliates | 3,137,165 | - | - | (3,137,165) | - |
| Note receivable | 6,000,000 | - | - | (6,000,000) | - |
| Total other assets | 20,068,971 | 14,238,109 | 3,699,312 | (23,389,111) | 14,617,281 |
| TOTAL ASSETS | \$ 210,747,306 | \$ 83,097,288 | \$ 3,971,775 | \$ (23,389,111) | \$ 274,427,258 |

The UWM Foundation, Inc. and Affiliates

Consolidating Statement of Financial Position (Continued)

June 30, 2020

| Liabilities and Net Assets (Deficit) | The UWM Foundation, Inc. | The UWM Real Estate Foundation, Inc. | The UWM Research Foundation, Inc. | Eliminations | Total Consolidated |
|---|-----------------------------|--|---|------------------------|-----------------------|
| Current liabilities: | | | | | |
| Current maturities of | | | | | |
| note payable | \$ - | \$ 1,835,225 | \$ - | \$ - | \$ 1,835,225 |
| Due to the University of | | | | | |
| Wisconsin-Milwaukee | 4,167,537 | - | 66,686 | - | 4,234,223 |
| Amounts payable under fiscal | | | | | |
| agent responsibilities | 120,034 | - | 6,966 | - | 127,000 |
| Accounts payable | 24,080 | 10,142 | 18,914 | - | 53,136 |
| Accrued interest payable | - | 649,460 | - | - | 649,460 |
| Deferred revenue | - | 112,810 | - | - | 112,810 |
| Accrued liabilities | 359,907 | 115,972 | 30,255 | - | 506,134 |
| Total current liabilities | 4,671,558 | 2,723,609 | 122,821 | - | 7,517,988 |
| Long-term liabilities: | | | | | |
| Due to affiliates | 14,251,946 | 897,949 | - | (15,149,895) | - |
| Accrued interest payable | - | 2,239,216 | - | (2,239,216) | - |
| Note payable, less | | | | | |
| current maturities - Net | - | 83,733,529 | - | (6,000,000) | 77,733,529 |
| Refundable advance - SBA | | | | | |
| Paycheck Protection Program | 208,835 | - | - | - | 208,835 |
| Deferred revenue | - | 969,259 | - | - | 969,259 |
| Total long-term liabilities | 14,460,781 | 87,839,953 | - | (23,389,111) | 78,911,623 |
| Total liabilities | 19,132,339 | 90,563,562 | 122,821 | (23,389,111) | 86,429,611 |
| Net assets (deficit): | | | | | |
| Without donor restrictions | 9,542,438 | (7,550,996) | 2,030,071 | - | 4,021,513 |
| With donor restrictions | 182,072,529 | 84,722 | 1,818,883 | - | 183,976,134 |
| Total net assets (deficit) | 191,614,967 | (7,466,274) | 3,848,954 | - | 187,997,647 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 210,747,306 | \$ 83,097,288 | \$ 3,971,775 | \$ (23,389,111) | \$ 274,427,258 |

See independent auditor's report.

The UWM Foundation, Inc. and Affiliates

Consolidating Statement of Activities

Year Ended June 30, 2020

| | The UWM Foundation, Inc. | The UWM Real Estate Foundation, Inc. | The UWM Research Foundation, Inc. | Eliminations | Total Consolidated |
|---|-----------------------------|--|---|------------------|-----------------------|
| Net assets (deficit) without donor restrictions: | | | | | |
| Support and revenue: | | | | | |
| Contributions | \$ 260,573 | \$ 107,264 | \$ 1,085,861 | \$ (328,000) | \$ 1,125,698 |
| Contributed goods and services | 3,154,278 | - | - | - | 3,154,278 |
| Rental income | 13,480 | 5,571,724 | - | - | 5,585,204 |
| Investment income - Net | 2,764,517 | 114,636 | 153,809 | (493,677) | 2,539,285 |
| Gain on sale of property held for sale | - | - | - | - | - |
| Net assets released from restrictions | 20,118,686 | 12,895 | 178,714 | - | 20,310,295 |
| Total support and revenue | 26,311,534 | 5,806,519 | 1,418,384 | (821,677) | 32,714,760 |
| Distributions to the University of Wisconsin-Milwaukee: | | | | | |
| Student financial aid | 4,255,884 | - | - | - | 4,255,884 |
| Teaching and departmental programs | 6,886,340 | - | - | - | 6,886,340 |
| Community service | 11,161 | - | - | - | 11,161 |
| Research | 754,143 | - | - | - | 754,143 |
| Special projects | 6,181,940 | - | - | - | 6,181,940 |
| Total distributions | 18,089,468 | - | - | - | 18,089,468 |
| Expenses: | | | | | |
| Program | 372,066 | 7,152,043 | 1,096,479 | (493,677) | 8,126,911 |
| General administration | 1,558,431 | (37,621) | 45,572 | (328,000) | 1,238,382 |
| Direct fundraising | 737,852 | - | - | - | 737,852 |
| Development services received from personnel of the University of Wisconsin-Milwaukee | 3,154,278 | - | - | - | 3,154,278 |
| Total expenses | 5,822,627 | 7,114,422 | 1,142,051 | (821,677) | 13,257,423 |
| Total distributions and expenses | 23,912,095 | 7,114,422 | 1,142,051 | (821,677) | 31,346,891 |
| Change in net assets without donor restrictions | | | | | |
| | 2,399,439 | (1,307,903) | 276,333 | - | 1,367,869 |
| Net assets (deficit) without donor restrictions at beginning of year | \$ 7,142,999 | \$ (6,243,093) | \$ 1,753,738 | \$ - | \$ 2,653,644 |
| Net assets (deficit) without donor restrictions at end of year | \$ 9,542,438 | \$ (7,550,996) | \$ 2,030,071 | \$ - | \$ 4,021,513 |

The UWM Foundation, Inc. and Affiliates

Consolidating Statement of Activities (Continued)

Year Ended June 30, 2020

| | The UWM Foundation, Inc. | The UWM Real Estate Foundation, Inc. | The UWM Research Foundation, Inc. | Eliminations | Total Consolidated |
|--|-----------------------------|--|---|--------------|-----------------------|
| Net assets with donor restrictions: | | | | | |
| Contributions | \$ 27,072,262 | \$ 28,571 | \$ 143,531 | \$ - | \$ 27,244,364 |
| Investment income | 4,118,047 | - | 7,217 | - | 4,125,264 |
| Net assets released from restrictions | (20,118,686) | (12,895) | (178,714) | - | (20,310,295) |
| Change in net assets with donor restrictions | 11,071,623 | 15,676 | (27,966) | - | 11,059,333 |
| Net assets with donor restrictions at beginning of year | \$ 171,000,906 | \$ 69,046 | \$ 1,846,849 | \$ - | \$ 172,916,801 |
| Net assets with donor restrictions at end of year | \$ 182,072,529 | \$ 84,722 | \$ 1,818,883 | \$ - | \$ 183,976,134 |

See independent auditor's report.