



# Annual Financial Report 2009



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**Cover Photo: Students at UW-Oshkosh stroll out of the iconic, ivy-clad Dempsey Hall, the oldest building on campus. The photo's greenery is emblematic of UW-Oshkosh's commitment to green practices. The campus is the nation's first Fair Trade University and has been recognized for its role in embracing sustainable practices, such as building "green," examining its carbon footprints, and promoting social justice. An integrated Campus Sustainability Plan, established in 2006, guides the university's effort to be a leader in responsible environmental stewardship, education, outreach, and research.**

**With a full-time enrollment of more than 12,700 students, UW-Oshkosh is the third largest university in the UW System -- as well as the state of Wisconsin -- and provides a welcoming, academically rigorous environment where all students can succeed.**

**Photo provided by UW-Oshkosh**

**University of Wisconsin System  
2009 Annual Financial Report**

**TABLE OF CONTENTS**

Regents, Chancellors, and Officers of the UW System .....	2
Introduction from the President .....	4
Vice President’s Report .....	5
Supplemental Information .....	7
Charts 1 and 2 - Ten-Year Comparison of Current Funds Revenues .....	8
Chart 3 - Ten-Year Comparison of University-Controlled Endowments .....	9
Management’s Discussion and Analysis .....	10
Independent Auditor’s Report .....	25
Audited Financial Statements .....	27
Statements of Net Assets .....	28
Statements of Revenues, Expenses and Changes in Net Assets .....	29
Statements of Cash Flows .....	30
Notes to the Financial Statements .....	32

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# UNIVERSITY OF WISCONSIN SYSTEM

UNIVERSITY OF WISCONSIN SYSTEM  
Years Ended June 30, 2009 and 2008

Introduction from the President  
and  
Vice President's Report



## **INTRODUCTION FROM THE PRESIDENT FINANCIAL REPORT 2009**

I am pleased to report that the University of Wisconsin System, one of the nation's most efficient and productive systems of higher education, has completed another financially sound year.

State leaders and others recognize that our public university is a critical catalyst for economic development. The *Growth Agenda for Wisconsin*, our plan to produce more college graduates, increase per capita income, create new jobs, and contribute to a higher quality of life for all state residents, has received broad, bipartisan support, and we pledge to continue the momentum behind that plan. In the current challenging fiscal environment, it is more important than ever that investment continues in our citizens and our state's future.

Wisconsin citizens and business leaders often tell me how significant the contributions of UW System faculty, staff, and students are to their communities. We currently serve a new all-time high of more than 178,000 students enrolled at UW campuses – 3,000 more than the period covered by this report – and more than one million residents who access university programs through statewide extension programs. Having a sound financial framework has enhanced our ability to serve these students.

The UW System continues to administer its resources wisely and increase the value we provide to our private and public funders. We consistently spend a significantly smaller share of our educational and general expenses on administration as compared to our peer university systems, saving Wisconsin taxpayers millions of dollars each year.

We are creating more opportunities for residents to earn a four-year degree, even as we continue to operate with fewer tax-supported faculty and staff positions than we had in 1990. In the context of these and other resource challenges, the continued enrollment gains demonstrate how the UW System has efficiently managed increased educational demands, while maintaining our international reputation for academic quality.

The UW System is committed to quality, performance, accountability, and transparency in our financial affairs. As we rely more on gifts, grants, and other non-state dollars, we must continue to demonstrate how these resources are fueling the world-class work of our faculty and staff, and delivering a solid return on investment to every taxpayer, donor, student, and parent.

This financial report shows the UW System to be a strong and vital part of Wisconsin's economic future.

**Kevin P. Reilly**  
*President*



## **VICE PRESIDENT'S REPORT FINANCIAL REPORT 2009**

Fiscal year 2009 was the second year of the 2007-09 biennium, and we enjoyed an investment in the University of Wisconsin System's *Growth Agenda for Wisconsin*. New funding in the amount of \$10 million was provided to the University of Wisconsin-Milwaukee in support of its research mission and goal to enhance Milwaukee as the economic engine of the State. Funding was also provided for the specific growth agendas of the institutions enabling increased enrollment, improved retention, and increased graduation of students. The Governor and Legislature recognized the importance of the University's faculty and helped address challenges in recruitment and retention by providing increased funding for this purpose, in addition to a phased 3% pay plan increase with 1% effective July 1, 2008 and the remaining 2% effective June 1, 2009. University facilities were also a high priority with significant projects

underway at virtually every institution within the UW System. These projects are not only critical to the educational experience of our students, but they serve to create multiple jobs in the communities in which our institutions are located. However, the 2008-09 fiscal year also included a \$25 million give-back to the state. The net increase in state support helped to moderate tuition increases, and we were able to hold to our goal of moderate and predictable tuition increases. Tuition increases were again held to 5.5% in fiscal year 2009 at the doctoral and comprehensive institutions. In addition, tuition was frozen for the third year in a row at our two-year Colleges, providing affordable tuition options to the citizens of Wisconsin. Enrollments continued to grow to a new record of more than 175,000 students, up 1,700 from the prior year and 5,400 over two years ago. These enrollments confirm our institutions' commitment to the *Growth Agenda for Wisconsin*.

As the fiscal year got underway, the financial picture began to significantly change. The market drops in the Fall of 2008 left several endowment accounts underwater. The Board of Regents took action to suspend distributions on those accounts, in some cases adversely affecting the high priority expenditure of financial aid. As state fiscal estimates worsened, the previous commitment to a 2% salary increase in June 2009 was undone, and eight unpaid furlough days, equating to an additional 3% salary decrease, was put into action for the 2009-11 biennium. It was readily apparent that the investment in the *Growth Agenda* was going to be short-lived, and the Board of Regents would be unable to make progress on its goal of improving faculty salaries to remain competitive on a national basis.

Amongst all the fiscal uncertainty, state support still made up the largest individual share of University total revenues at 22.3%, falling from 23.5% of the total last year. Tuition as a percent of the total also declined from 21.8% last year to 20.6% this year. Revenues from the state increased by \$58.5 million, or 6.1% over the previous fiscal year, while total tuition revenues increased by 5.6%, or \$49.8 million over the same period. Grants and contracts from the federal government increased by \$102.5 million,

growing from 15.6% of total revenues to 16.2%, while grants and contracts from the state, local, and private providers also increased from 6.2% to 6.6% of total revenues. In sum, at 23.0%, grants and contracts provided a greater share of total revenues than either state support or tuition, signifying their growing importance in the funding structure of the UW System. Sales and services of varying types amount to 14.8% of total revenue, with auxiliary enterprises responsible for 7.5%, educational activities 6.2%, and hospital authority the remaining 1.1%. Gifts and investment income accounted for 4.6%, and other operating revenue (activities such as student health services, intercollegiate athletics, stadium, arena, car fleet, child care, copy centers, and other student-related activities) accounted for 5.3%. The UW System continues to recognize the need to diversify our revenue sources to meet the fiscal challenges before us.

The UW System is a labor-intensive industry as shown by the large share of our expenditures devoted to salaries and benefits. Of total operating expenditures in fiscal year 2009 of \$4.04 billion, 66.5%, or \$2.69 billion, were personnel related costs. Supplies and services totaled \$1.06 billion, or 26.2% of the total. While University-provided scholarships and fellowships are increasing, they still only account for 2.5% of total expenditures at \$99.1 million. This was a growth of \$10.2 million, or 11.5% over the prior year. In addition, for the 2008-09 academic year, more than 2,000 UW students received \$3.4 million in new need-based financial aid from the Fund for Wisconsin Scholars program established through a gift from UW-Madison alumni John and Tashia Morgridge.

Out of total operating expenses of \$4.04 billion in 2008-09, expenditures for instruction continue to be the largest share at 27.1%, or \$1.1 billion. Student-related expenditures including instruction, student services, academic support, financial aid, and auxiliary operations, accounted for 54.4% of total operating expenditures, approximately the same proportion as in the prior year. In dollar terms, when compared to the prior year, these categories showed significant growth: instruction (\$46.1 million), student services (\$27.9 million), academic support (\$10.4

million), financial aid (\$7.0 million), and auxiliary operations (\$12.2 million). Expenditures for the other primary missions of research and public service accounted for 18.5% and 7.4% of the total, respectively. Expenditures for research and public service declined from the prior year by \$5.2 million and \$12.3 million, respectively. Expenditures for institutional support as a proportion of the total dropped slightly from 5% of our operating expenses to 4.9%, reflecting our commitment to keeping our administrative costs as low as possible while directing our resources to our primary missions.

Despite the fiscal challenges ahead, the UW System is committed to the *Growth Agenda for Wisconsin* through growing people, growing jobs, and growing communities. We will continue to grow our enrollments to increase the number of Wisconsin residents with a bachelor's degree, continue to provide increased opportunities through more institutional financial aid and moderate and predictable tuition increases, and continue our commitment to operational excellence and efficiency, directing the greatest amount of our resources possible towards our primary missions of instruction, research, and public service. We will be challenged to maintain the quality of the education we provide unless we can continue to recruit and retain our talented and dedicated faculty.

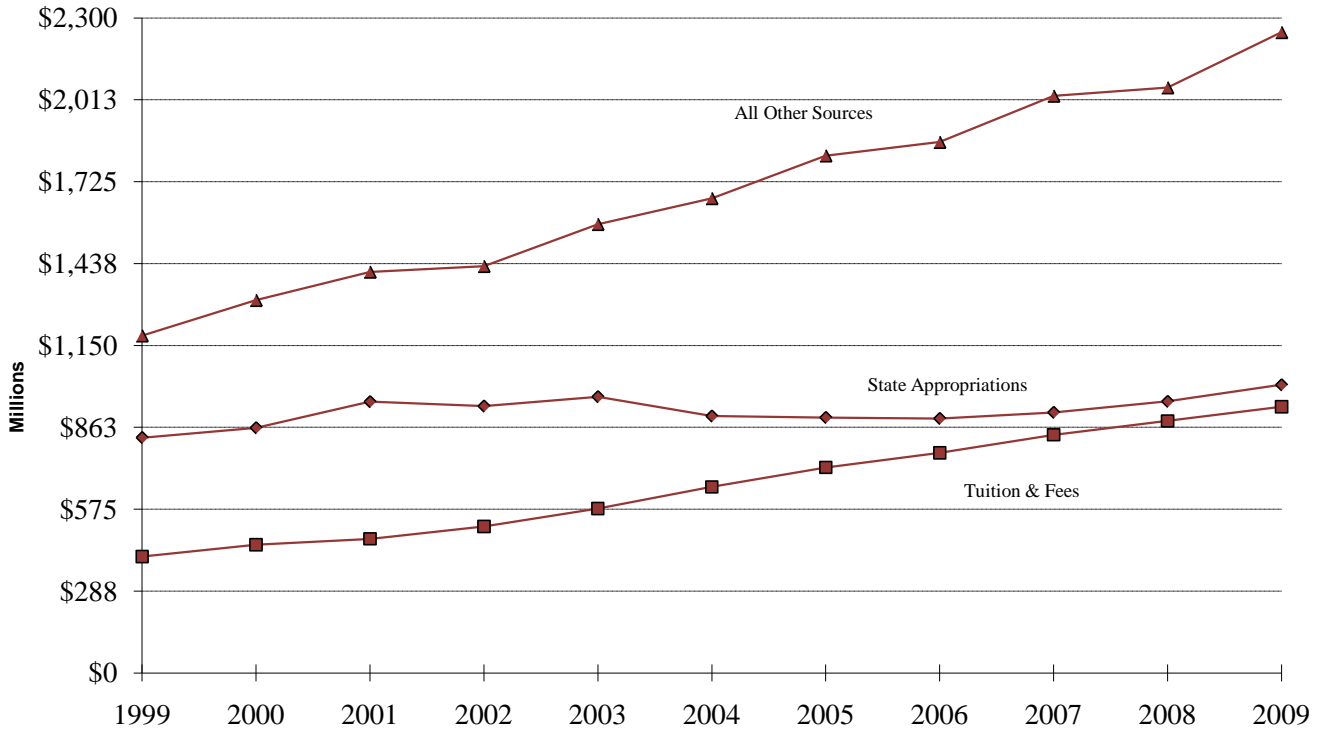
I invite you to review the 2009 financial statements, along with Management's Discussion and Analysis, and send your comments to me at [ddurcan@uwsa.edu](mailto:ddurcan@uwsa.edu).

**Deborah A. Durcan**  
*Vice President for Finance*

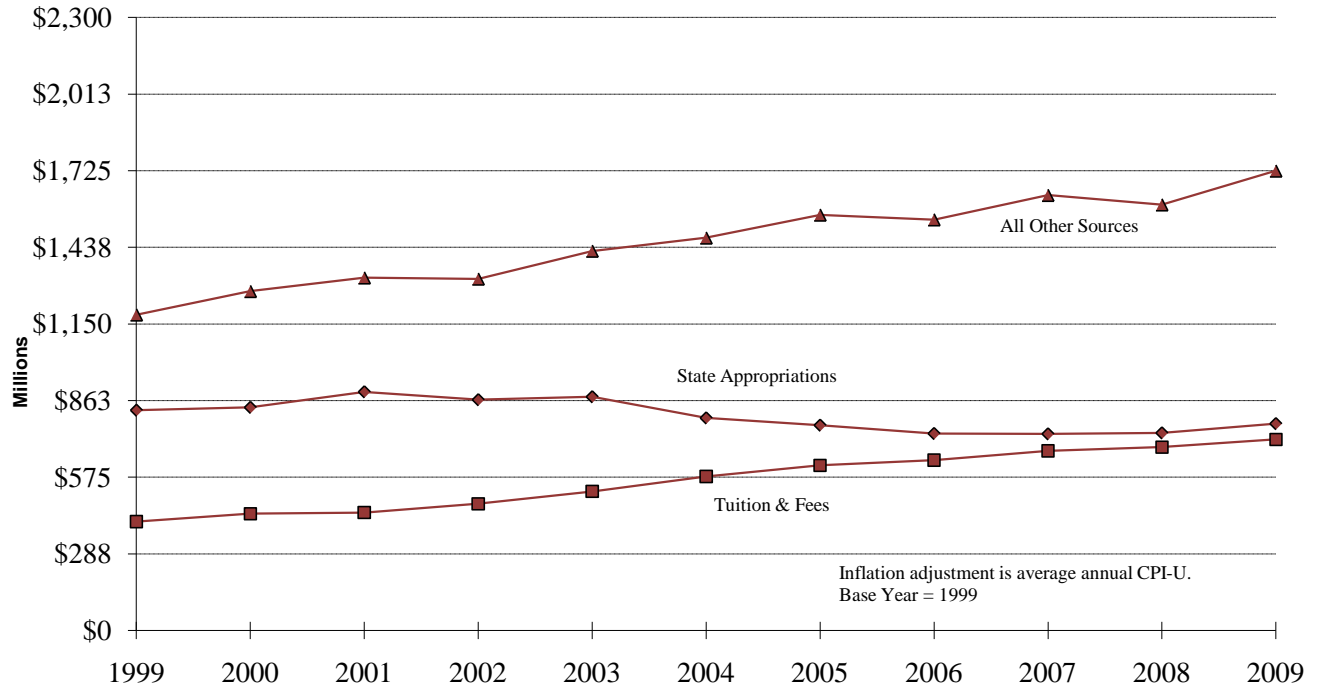
UNIVERSITY OF WISCONSIN SYSTEM  
Years Ended June 30, 2009 and 2008

## Supplemental Information

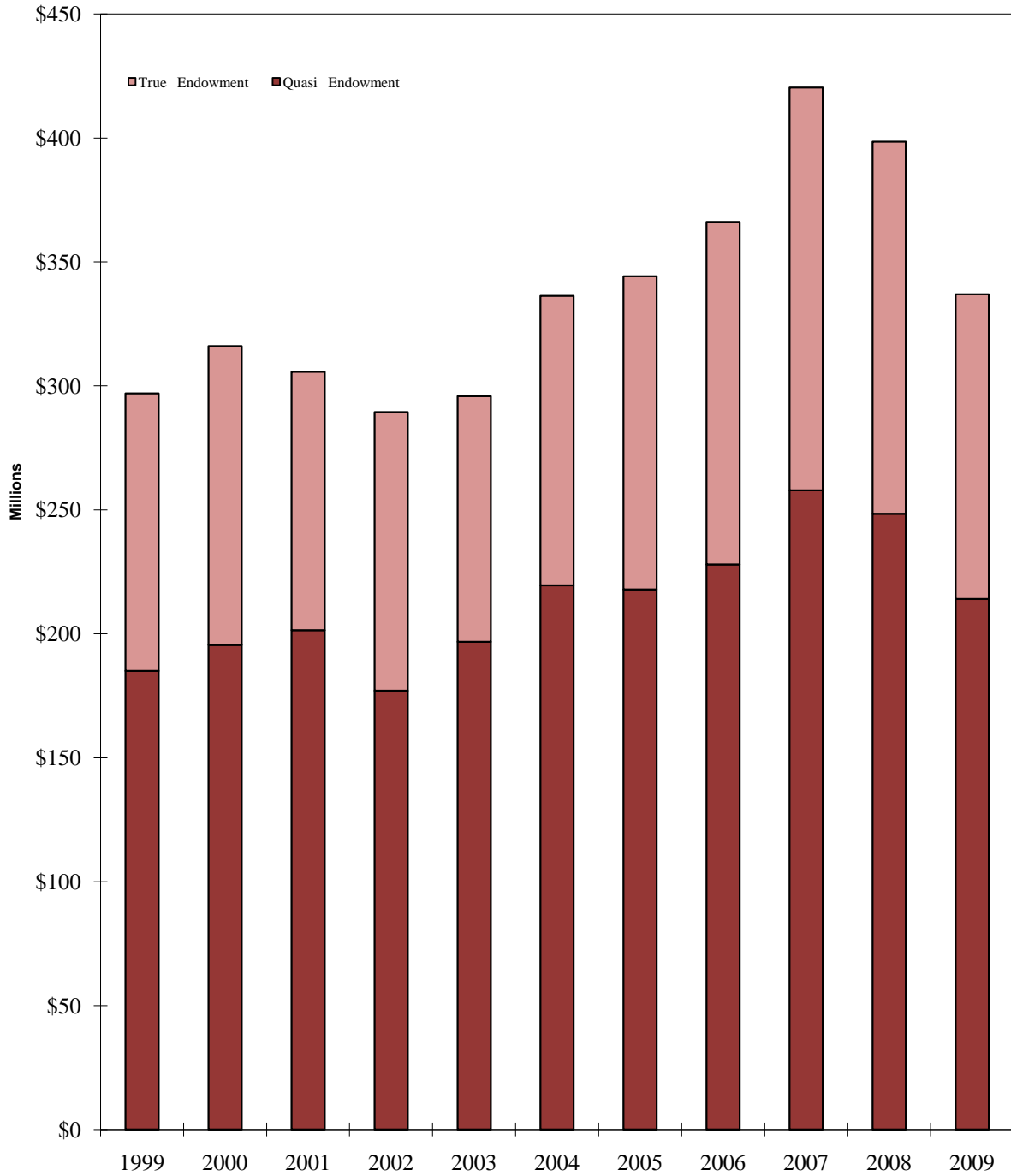
**CHART 1**  
**TEN-YEAR COMPARISON OF CURRENT FUNDS REVENUES**  
**1999-2009**



**CHART 2**  
**TEN-YEAR COMPARISON OF CURRENT FUNDS REVENUES**  
**ADJUSTED FOR INFLATION**  
**1999 - 2009**



**CHART 3**  
**TEN-YEAR COMPARISON OF UNIVERSITY-CONTROLLED ENDOWMENTS**  
**1999-2009**



Charts have been prepared based on generally accepted accounting principles in effect prior to the adoption of GASB Statement 35.

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Management's Discussion and Analysis**  
**Years Ended June 30, 2009 and 2008**

**Management's Discussion and Analysis**

**Introduction**

The following discussion and analysis provides an overview of the financial position and activities of the University of Wisconsin System for the years ended June 30, 2009 and 2008, with comparative information for the year ending June 30, 2007. This discussion has been prepared by management and should be read in conjunction with the financial statements and footnotes.

The University of Wisconsin System consists of 13 universities, including two doctoral institutions, 13 two-year colleges, UW-Extension, and System Administration. In academic year 2008-2009, the University of Wisconsin System enrolled 175,056 students, employed 29,335 faculty and staff, and granted 31,567 bachelor's, master's, and other advanced degrees. The University of Wisconsin System institutions were awarded over \$792.8 million in federal grants and contracts in 2008-2009 and an additional \$616.8 million from non-federal sponsors. The University of Wisconsin System has a long tradition of public service, embodied by an ongoing commitment to the Wisconsin Idea, that the boundaries of the University are the boundaries of the State.

<b>Degrees Granted</b>	
<i>UW-Madison</i>	<i>9,878</i>
<i>UW-Milwaukee</i>	<i>5,104</i>
<i>UW-Eau Claire</i>	<i>2,020</i>
<i>UW-Green Bay</i>	<i>1,020</i>
<i>UW-La Crosse</i>	<i>2,124</i>
<i>UW-Oshkosh</i>	<i>2,132</i>
<i>UW-Parkside</i>	<i>670</i>
<i>UW-Platteville</i>	<i>1,197</i>
<i>UW-River Falls</i>	<i>1,253</i>
<i>UW-Stevens Point</i>	<i>1,743</i>
<i>UW-Stout</i>	<i>1,747</i>
<i>UW-Superior</i>	<i>507</i>
<i>UW-Whitewater</i>	<i>2,172</i>
<b>Total</b>	<b><u>31,567</u></b>

**Financial Highlights**

The University of Wisconsin System's financial standing remained strong at the conclusion of the fiscal year ended June 30, 2009. State support increased for a third year in a row (up on average 4.4% from 2006 to 2009) but continued to be supplemented by higher tuition and fees (up on average 7.0% from 2006 to 2009). After decreasing two years in a row, extramural support (grants and contracts) increased 16.9%. During the 2007-09 biennium, the University of Wisconsin System absorbed \$50 million in lapses, \$25 million each from the biennial budget and budget repair bill. This is in addition to the 2005-2007 biennial budget that provided for reductions in state funding of the University of Wisconsin System of \$55.5 million in 2005-06 and \$35.5 million in 2006-07. State funding represents 25.3% of the University of Wisconsin System's total operating budget in 2008-09, compared to 33.7% in 1998-99. The 2008-09 state funding is \$33.4 million below the 1998-99 level in constant dollar terms and is \$61.4 million higher in absolute dollar terms than 2007-08. When increases to debt service and utilities are factored out, the University of Wisconsin System has been doing more with less programmatic state funding.

As of June 30, 2009, the University of Wisconsin System had total assets of \$6.2 billion and total liabilities of \$1.5 billion for a net asset total of \$4.7 billion, of which \$3.5 billion is invested in capital, net of related debt. Revenues continued strong in 2009, including student tuition and fees, net revenue (up 5.6% from 2008), and sales and services of auxiliaries activities revenue (up 8.3% from 2008). State appropriations increased 6.1%, compared to a 4.2% increase during fiscal year 2008. Revenue diversification is essential to maintaining a financially strong institution capable of sustainable success. Over the past several years, the University of Wisconsin System has successfully diversified its revenue streams to supplement tuition and fees and state appropriations (see Charts 1 and 2 on page 8).

The change in net assets is summarized for the fiscal years ended June 30, 2009, 2008 and 2007 as follows:

*(In Millions)*

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Total Revenues Before			
Net Investment (Loss) Income	\$4,581.4	\$4,044.3	\$4,017.2
Total Expenses	<u>4,208.3</u>	<u>3,962.4</u>	<u>3,708.1</u>
Increase in Net Assets Before			
Net Investment (Loss) Income	373.1	81.9	309.1
Net Investment (Loss) Income	<u>(44.0)</u>	<u>10.8</u>	<u>73.5</u>
Increase in Net Assets	<u>\$ 329.1</u>	<u>\$ 92.7</u>	<u>\$ 382.6</u>

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Management's Discussion and Analysis**  
**Years Ended June 30, 2009 and 2008**

Fiscal year 2009 total revenues before net investment (loss) income increased \$537.1 million (13.3%) compared to \$27.1 million (0.7%) for fiscal year 2008. The fiscal year 2009 increase primarily resulted from a 9.3% increase in operating revenues; a 6.1% increase in state appropriations; and a 76.2% increase in capital appropriations/contributions. Fiscal year 2009 total expenses increased \$245.9 million (6.2%) compared to an increase of \$254.3 million (6.9%) for fiscal year 2008. The fiscal year 2009 increase primarily resulted from a 4.4% increase in salary and fringe benefits and a 4.5% increase in supplies, services, and other expenses.

Operating revenues increased by \$245.1 million during fiscal year 2009 and \$92.3 million during 2008. The fiscal year 2009 9.3% increase resulted primarily from increases in net student tuition and fees revenue (5.6%) and federal grants and contracts (16.2%). The net increase in student tuition and fees is primarily due to a 5.5% (5.5% in 2008) increase in tuition rates approved by the Board of Regents. The total headcount enrollment for the entire University of Wisconsin System increased 1,663 students to 175,056 from 173,393 in 2008, and total full-time equivalent enrollment is 149,493, up from 147,956 in 2008.

<b>Headcount Enrollments</b>	
<i>UW-Madison</i>	<i>41,620</i>
<i>UW-Milwaukee</i>	<i>29,215</i>
<i>UW-Eau Claire</i>	<i>11,140</i>
<i>UW-Green Bay</i>	<i>6,286</i>
<i>UW-La Crosse</i>	<i>9,880</i>
<i>UW-Oshkosh</i>	<i>12,753</i>
<i>UW-Parkside</i>	<i>5,167</i>
<i>UW-Platteville</i>	<i>7,512</i>
<i>UW-River Falls</i>	<i>6,555</i>
<i>UW-Stevens Point</i>	<i>9,163</i>
<i>UW-Stout</i>	<i>8,839</i>
<i>UW-Superior</i>	<i>2,689</i>
<i>UW-Whitewater</i>	<i>10,962</i>
<i>UW Colleges</i>	<i>13,275</i>
<b>Total</b>	<b><u>175,056</u></b>

Operating expenses increased by \$184.3 million during fiscal year 2009 and \$226.3 million during 2008. Scholarships and fellowships increased by 11.5% and supplies, services, and "other" increased by 4.5%. The fiscal year 2009 increase in salary and fringe benefits of 4.4% includes health insurance increases of approximately 5.74% (5.84% in fiscal 2008) and pay plan increases of approximately 1.0% (2.0% in fiscal 2008). Salary and fringe benefits, the largest component of operating expenses, increased from \$2.5 and \$2.6 billion in fiscal years 2007 and 2008, respectively, to \$2.7 billion in fiscal year 2009.

The University of Wisconsin System reported \$44.0 million net investment loss in fiscal year 2009, which is down from the \$10.8 million income reported in fiscal year 2008. A decline in the fair value of the trust fund portfolio was consistent with the general fluctuations experienced in the financial markets contributing to the investment losses. The investment return is comprised of dividend and interest income, as well as realized and unrealized gains and losses. Investments are reported at fair market value as of June 30 of each fiscal year. The change in market value that occurred from fiscal year 2008 to fiscal year 2009 is included in the reported losses.

**Using the Financial Statements**

The University of Wisconsin System's annual financial report includes the Statements of Net Assets; the Statements of Revenues, Expenses and Changes in Net Assets; and the Statements of Cash Flows. These financial statements, prepared in accordance with standards established by the Governmental Accounting Standards Board (GASB), emphasize reporting on a consolidated basis rather than segregating operations by individual fund groups.

The Statements of Net Assets are financial condition snapshots as of June 30, 2009 and 2008, and include all assets and liabilities, both current and noncurrent. Current assets are those that are available to satisfy current liabilities inclusive of assets that will be converted to cash within one year. Current liabilities are those that will be paid within one year. The Statements of Net Assets are prepared under the accrual basis of accounting which requires revenue and asset recognition when the service is provided, and expense and liability recognition when goods or services are received despite when cash is actually exchanged. The difference between assets and liabilities (net assets) is one indicator of the University of Wisconsin System's financial health. Increases or decreases in net assets provide an indicator of the improvement or erosion of the University of Wisconsin System's financial health when considered in conjunction with non-financial information, such as conditions of facilities and enrollment levels. Net Assets are divided into three major categories: Invested in Capital Assets, Net of Related Debt; Restricted Net Assets; and Unrestricted Net Assets. Invested in Capital Assets, Net of Related Debt, consist of capital assets reduced by the outstanding balances of borrowings for the construction, acquisition, or improvement of those assets. Restricted Net Assets have constraints put on by external parties, such as sponsors for research and donors or by State Statute as in the case of Auxiliaries. Unrestricted Net Assets are net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Management's Discussion and Analysis**  
**Years Ended June 30, 2009 and 2008**

The Statements of Revenues, Expenses and Changes in Net Assets are operating statements that present the revenues earned and expenses incurred during the fiscal year ended June 30, 2009 and 2008 on a full accrual basis. Revenue and expense activities are reported as either operating or nonoperating. Operating revenue includes tuition, grants and contracts, and sales and services of various self-supporting operations. Although the University of Wisconsin System is dependent upon state appropriations and gifts to fund educational and general operations, under GASB rules these funding sources are reported as nonoperating revenues, as is investment income.

The Statements of Cash Flows summarize cash inflows and outflows by category as either relating to operating, capital, financing, or investing activities. Cash flow information can be used to evaluate the financial viability of the University of Wisconsin System's ability to meet financial obligations as they mature. Cash flows from operating activities result from exchange transactions in which one party gives another something in return. Cash flows from noncapital financing activities include state appropriations and private gifts restricted for noncapital purposes. Cash inflows from capital activities include receipts from capital grants, donor receipts specifying use for capital assets, and/or proceeds from issuing debt for the explicit purpose of acquisition, construction, or improvement of capital assets. Cash outflows for capital activities include acquisition, construction, or improvement of capital assets inclusive of interest. Cash inflows from investing activities are a result of the sale of investments, withdrawals from the long-term investment pool, and collecting interest and dividends earned. Cash outflows from investing activities generally result from the purchase of investments.

The Notes to the Financial Statements are an integral part of the basic financial statements and communicate information essential for fair presentation. For example, the notes convey information concerning significant accounting policies used to prepare the financial statements, detailed information on cash and investments, receivables, lease commitments, compensated absences, retirement and other postemployment benefits, capital assets, notes and bonds payable, the relationships with the University of Wisconsin Hospital and Clinics Authority, the La Crosse Medical Health Science Consortium, Inc., and the University of Wisconsin Foundation, and a report of operating expenses by function since operating expenses by natural classification are reported in the Statements of Revenues, Expenses and Changes in Net Assets.

**Statements of Net Assets**

The Statements of Net Assets present the assets and liabilities and resultant financial position of the University of Wisconsin System under the accrual basis of accounting. Net Assets, the difference between total assets and total liabilities, is one indicator of the financial condition of the University of Wisconsin System. Improvement or deterioration in the University of Wisconsin System's financial position is reflected by changes in the net asset balance over time.

The following provides a summarized comparison of the University of Wisconsin System's assets, liabilities, and net assets at June 30, 2009, 2008 and 2007:

<i>(In Millions)</i>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Current Assets	\$ 1,282.2	\$ 1,076.8	\$ 1,101.5
Noncurrent Assets:			
Endowment Investments	308.7	348.5	371.7
Student Loans Receivable – Net	165.5	165.8	158.5
Capital Lease Receivable	11.0	13.2	15.6
Capital Assets – Net	<u>4,452.9</u>	<u>4,224.6</u>	<u>3,994.7</u>
Total Assets	<u>6,220.3</u>	<u>5,828.9</u>	<u>5,642.0</u>
Current Liabilities	570.7	528.7	451.2
Noncurrent Liabilities	<u>953.3</u>	<u>933.0</u>	<u>916.5</u>
Total Liabilities	<u>1,524.0</u>	<u>1,461.7</u>	<u>1,367.7</u>
Total Net Assets	<u>\$ 4,696.3</u>	<u>\$ 4,367.2</u>	<u>\$ 4,274.3</u>

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Management's Discussion and Analysis**  
**Years Ended June 30, 2009 and 2008**

*Current Assets:* Current assets, which consist primarily of operating cash and cash equivalents, accounts receivable, student loans receivable, supply inventories, and prepaid expenses, increased by \$205.4 million during fiscal year 2009 and decreased by \$24.7 million during fiscal year 2008. The fiscal year 2009 increase primarily relates to a \$192.3 million increase in cash and cash equivalents that includes a combination of less cash used in capital and related financing activities, like bonding and construction project expenditures, and additional cash provided by noncapital financing activities, like gifts and other receipts. The largest change within fiscal 2008 current assets relates to changes in cash and cash equivalents.

The University of Wisconsin System held cash and cash equivalents of \$891.6 million at June 30, 2009, consisting primarily of shares in the State Investment Fund, a short-term pool of state and local funds managed by the State of Wisconsin Investment Board (SWIB). Also included in cash and cash equivalents is \$235.2 million in balances maintained by individual University of Wisconsin System institutions in local bank accounts that are used to meet operating needs and \$27.4 million held by the Mellon Bank of Boston to meet cash needs associated with investing activities. Additional information on cash and investments is provided in Note 2 to the Financial Statements.

*Current Liabilities:* Current liabilities consist of accounts payable, accrued personnel costs and compensation, unearned revenue, and other liabilities due in one year or less. Current liabilities increased by \$42.0 million during 2009 and \$77.5 million during 2008. The fiscal year 2009 increase primarily relates to a \$48.1 million increase in unearned revenue and a \$11.5 million decrease in accounts payable and accrued liabilities. The largest changes within fiscal year 2008 current liabilities primarily relate to a \$99.4 million increase in accounts payable and accrued liabilities and a \$25.6 million decrease in unearned revenue. Timing differences in year-end pay cycles contribute to these fluctuations.

Current assets minus current liabilities represent the net working capital of the University of Wisconsin System. Net working capital increased 29.8% from \$548.1 at June 30, 2008 to \$711.5 million at June 30, 2009. The net working capital at year end represented approximately 64 days of 2009 operating expenses. This indicates that the University of Wisconsin System could support normal operations for 64 days without additional revenues or liquidating noncurrent assets. The current ratio, which is current assets divided by current liabilities, increased from 2.0 to 1 at June 30, 2008 to 2.2 to 1 at June 30, 2009. A current ratio greater than 1 to 1 indicates strong short-term financial flexibility.

*Noncurrent Assets:* Noncurrent assets are comprised mainly of endowment investments, capital assets (net of accumulated depreciation), and student loans receivable. Endowment investments, valued at \$308.7 million at June 30, 2009, decreased by \$39.8 million during fiscal year 2009 and decreased by \$23.2 million during fiscal year 2008. The increases in capital assets (net) of \$228.3 million in fiscal year 2009 and \$229.9 million in fiscal year 2008 were primarily due to new building construction and renovations. Student loans receivable decreased by \$0.3 million during fiscal year 2009 and increased \$7.3 million during fiscal year 2008, indicating loans were granted at a slower pace than loans being collected.

In an effort to maintain quality in the University of Wisconsin System's academic and research programs, and residence halls, the University of Wisconsin System is implementing its long-range plan to fund new construction as well as modernize existing facilities, as described below under *Capital and Debt Activities*. Capital additions consist of new construction of academic and research facilities, replacement and renovation, as well as a significant investment in technology and equipment. Capital assets, including land, buildings, "improvements" (e.g., parking lots, fences, street lighting, etc.), and equipment and library holdings, are stated at cost at date of acquisition or fair market value at date of donation in the case of gifts-in-kind. Note 9 to the Financial Statements further describes capitalization and depreciation policies, and includes summarized changes in the book value of these assets from July 1, 2008 to June 30, 2009 and July 1, 2007 to June 30, 2008.

The Board of Regents has authority to invest gifts and bequests received by the University of Wisconsin System. Investments are valued at market and held primarily in two investment pools: the Long Term Fund and the Intermediate Term Fund. The Board of Regents establishes investment policies and guidelines and has retained external investment counsel for funds representing 84.6% of market-value principal. On June 30, 2009, the portfolio at market contained 36.7% in stocks, 14.4% in fixed income obligations, 18.5% in alternative assets, 21.6% in tactical

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Management's Discussion and Analysis**  
**Years Ended June 30, 2009 and 2008**

allocation strategies, and 8.8% in short-term investments. The total return on the principal long-term portfolio, including capital appreciation, was (14.7)%. The total return on the principal intermediate-term portfolio, including capital appreciation, was 2.2%. Benefiting UW entities receive quarterly distributions from the Long Term Fund, principally endowed assets, based on an annual spending rate applied to a twelve-quarter moving average market value of the Fund. Distributions from the Intermediate Term Fund, principally quasi-endowments and unspent income distributions, consist of interest earnings distributed monthly. The annual spending rate is 4.0%. A comparison of university-controlled endowments over the past several years can be found in Chart 3 on page 9 of this report. Additional information on cash and investments is provided in Note 2 to the Financial Statements.

The majority of student loans receivable is for federal Perkins loans and nursing loans. In the fiscal years ended June 30, 2009, 2008, and 2007, the University of Wisconsin System collected \$21.3, \$24.4, and \$36.5 million, respectively, in outstanding student loans and granted \$22.9, \$34.5, and \$41.6 million, respectively, in new loans.

*Noncurrent Liabilities:* Noncurrent liabilities increased by \$20.3 and \$16.5 million during fiscal year 2009 and 2008, respectively, to a total of \$953.3 million as of June 30, 2009. The increases resulted primarily from changes in bonds and notes issued by the State of Wisconsin, the proceeds of which were spent by various University of Wisconsin System self-supporting operations to construct or acquire facilities and other capital assets. The Board of Regents of the University of Wisconsin System holds title to the assets acquired.

As an enterprise fund of the State of Wisconsin, the University of Wisconsin System reports on its Statements of Net Assets that portion of the debt that will be repaid with program revenues generated by the University of Wisconsin System's self-supporting operations. Debt on academic facilities that is repaid by an appropriation from the State of Wisconsin to the University of Wisconsin System for that purpose is reported by the State of Wisconsin and not as an obligation of the University of Wisconsin System. However, cash inflows and outflows are shown in the Statements of Cash Flows.

At June 30, 2009 and 2008, the long-term bonds and notes payable totaled \$788.7 and \$766.7 million, respectively, an increase of \$22.0 million. The remainder of the noncurrent liabilities consists of capital financing leases of \$103.0 and \$109.3 million, respectively, and the accumulated leave balances earned by University of Wisconsin System staff of \$61.5 and \$57.0 million, respectively.

*Net Assets:* Net assets represent the University of Wisconsin System's residual interest in assets net of liabilities. The University of Wisconsin System's net assets at June 30, 2009, 2008 and 2007 are summarized below:

(In Millions)

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Invested in Capital, Net of Related Debt	\$ 3,515.7	\$ 3,306.1	\$ 3,092.9
Restricted:			
Nonexpendable – Endowment Principal	122.9	150.1	162.5
Expendable – Restricted Gifts and Grants	165.3	176.2	172.2
Expendable – Auxiliary Operations	139.4	141.1	163.7
Student Loans	220.6	219.1	216.8
Other	216.4	157.0	230.9
Unrestricted	<u>316.0</u>	<u>217.6</u>	<u>235.3</u>
Total Net Assets	<u>\$ 4,696.3</u>	<u>\$ 4,367.2</u>	<u>\$ 4,274.3</u>

*Invested in capital assets, net of related debt*, represents the University of Wisconsin System's investment in capital assets net of accumulated depreciation and outstanding debt. *Restricted* net assets are those net assets in which the use is constrained by parties external to the University, primarily resource providers, such as through gift restrictions, grant/contractual obligations, or by provisions in the Wisconsin statutes that limit the use of certain funds to particular specified purposes. *Unrestricted* net assets are those that do not meet the definition of "restricted" or "invested in net assets, net of related debt." Substantially all of the unrestricted net assets have been designated by the Board of Regents for purposes to fulfill the University of Wisconsin System's fiduciary responsibilities, including academic and research programs and capital projects.

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Management's Discussion and Analysis**  
**Years Ended June 30, 2009 and 2008**

**Capital and Debt Activities**

The University of Wisconsin System has approximately 1,800 buildings totaling 60 million gross square feet of space with replacement costs of nearly \$7.9 billion. This accounts for 63.0% of the total state-owned facilities in Wisconsin. The Board of Regents holds title to approximately 18,000 acres of land throughout Wisconsin, the majority of which has been donated to the University and is deed restricted for research and nature preserves. About 4,600 acres comprise the main campuses of the 13 universities.

**Capital Budget**

The quality of education depends on careful integration of curriculum, faculty, and facilities. Long-range physical planning for campuses of the University of Wisconsin System is an ongoing process designed to provide appropriate facilities in response to the dynamics of higher education. Each university has a Campus Development Plan that defines overall land use patterns, identifies potential construction needs, and serves as an illustration to ensure cohesive, aesthetic development compatible with the community and environment.

The Capital Budget is generally the mechanism for universities to receive funding for facilities needs. Those needs, defined within the parameters of the Campus Development Plan, are more specifically stated in a Six-Year Facilities Plan that aids the universities by identifying long-term program directions and describing their effect on the institution's facilities needs. The Six-Year Plan is required for each university by Sections 16.84(6) and 13.48(6) of the Wisconsin Statutes.

The Campus Development Plan and Six-Year Facilities Plan are developed to reflect the needs of students, faculty and staff, and the local communities. Each university has established a Campus Planning Committee that involves the various affected entities within the institution. Additionally, separate committees are established for individual major projects. Those committees include representatives of the user groups of the proposed facility.

The University of Wisconsin System Office of Capital Planning and Budget is responsible for formulating a systemwide six-year plan and a biennial capital budget request for consideration by the Board of Regents. Once approved by the Board of Regents, the budget request is submitted to the Department of Administration's Division of State Facilities (DSF). The division prepares a capital budget request for all state agencies. There are three primary sources of funding for capital projects: General Fund Supported Borrowing (GFSB) 20-year state-issued bonds repaid with General Program Revenue (GPR); Program Revenue Supported Borrowing (PRSB) 20- or 30-year state-issued bonds repaid with the University of Wisconsin System program revenue; and gift and grant funds.

**Wisconsin State Building Commission**

The Wisconsin State Building Commission is an eight-member body consisting of the Governor, three senators and three representatives, and one citizen member who is appointed by the Governor. The commission is subdivided into two subcommittees: a Higher Education Subcommittee and an Administrative Affairs Subcommittee. The Higher Education Subcommittee is responsible for reviewing building program requests of the University of Wisconsin System. The Administrative Affairs Subcommittee is responsible for reviewing building program requests of all other state agencies.

Every two years, as part of the biennial budget process, the commission recommends to the Legislature a state building program, which includes a list of projects and funding sources to meet the state's capital improvement and maintenance needs over the following two-year budget cycle.

As required under Wisconsin Statutes Section 13.48(7), the commission's capital budget recommendations are forwarded to the Legislature's Joint Committee on Finance by the first Tuesday of April. The committee reviews the recommendations and may modify them before incorporating the capital budget into the biennial operating budget. Both houses of the legislature take up the capital budget as part of their deliberations on the biennial budget.

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Management's Discussion and Analysis**  
**Years Ended June 30, 2009 and 2008**

**Implementation of the Building Program**

After projects are approved in the capital budget, the commission must again review and approve each project. Upon recommendation of the universities and University of Wisconsin System Administration, the DSF advertises for, hires, and contracts with an Architectural or Engineering firm (A/E) to prepare preliminary designs. When the preliminary design work reaches 35% completion, a design report is prepared that describes the proposed design, budget, and schedule. Before construction can proceed, the commission must approve the design report. If it is approved, the A/E firm completes final construction documents, and DSF solicits construction bids. State statutes require that contracts be awarded to the lowest qualified responsible bidder, unless the commission has approved an alternative method.

**Major Construction Projects**

Partial List of Major Construction Projects Completed in Fiscal Year 2009

UW Institution	Project	Primary Purpose	Approx Budget (in millions of \$)	Primary Funding Sources
La Crosse	2007-09 Stadium and Fields	Athletics	14.6	PRSB/Gifts
Madison	Interdisciplinary Research Complex - Phase I	Academic	134.0	Gifts/GFSB
Madison	University Square Development	Student Services	56.0	GFSB/PRSB
Parkside	Student Union Addition & Remodeling	Student Life	25.2	PRSB/GFSB
Platteville	Tri-State Init - New Engineering Bldg	Admin/Academic	27.9	PRSB/GFSB/Gifts
Superior	Jim Dan Hill Library Renovation	Academic	7.6	GFSB/Gifts
Whitewater	College of Business and Economics Bldg	Academic	41.0	GFSB/Gifts
Whitewater	Moraine Hall Remodeling	Bookstore	2.4	PRSB
UW System	Utilities Improvements - Three Campuses	Utilities	28.6	GFSB/PRSB

Partial List of Major Construction Projects in Progress during Fiscal Year 2009

UW Institution	Project	Primary Purpose	Approx Budget (in millions of \$)	Primary Funding Sources
Eau Claire	2007-09 Davies Center Addition & Remodeling	Student Life	48.8	PRSB
Extension	2007-09 Lowell Hall Guest Room Remodeling	Housing	3.6	PRSB
Green Bay	2007-09 Rose & Wood Halls Remodeling	Academic	6.7	GFSB
La Crosse	2007-09 Academic Building	Academic	44.0	GFSB/Gifts/PRSB
La Crosse	New Residence Hall	Housing	49.5	PRSB
Madison	Biochemistry Phase II	Academic	89.0	Gifts/GFSB
Madison	Integrated Dairy Phase II (Marshfield)	Academic	8.3	GFSB/Gifts
Madison	University Ridge Golf Course	Athletics	4.9	PRSB
Madison	Sterling Hall Renovation	Academic	39.5	GFSB/Gifts
Madison	WI Institute for Discovery	Academic	150.0	GFSB/PRSB/Gifts
Madison	Education Bldg Restoration, Renewal, & Addn.	Academic	31.0	Gifts
Madison	Chazen Museum Addition	Academic	31.5	Gifts
Madison	2007-09 Human Ecology Addition	Academic	48.0	GFSB/Gifts/PRSB
Madison	2007-09 Parking Ramps 36 and 46 Expansion	Parking	7.1	PRSB
Madison	2007-09 Chadbourne & Barnard Res Hall Renov	Housing	14.6	PRSB
Madison	2007-09 Union South Replacement	Student Life	87.7	PRSB/Gifts
Madison	2007-09 Music Performance Building	Academic	43.9	Gifts
Madison	2009-11 Charter Street Heating Plant Replace	Utilities	250.6	PRSB
Madison	Wisconsin Energy Institute	Academic	100.0	GFSB/PRSB

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Management's Discussion and Analysis**  
**Years Ended June 30, 2009 and 2008**

Partial List of Major Construction Projects in Progress during Fiscal Year 2009 (continued)

UW Institution	Project	Primary Purpose	Approx Budget (in millions of \$)	Primary Funding Sources
Madison	2009-11 Ag Res Station Facilities Improv - Ph I	Academic	5.8	Gifts
Madison	2001-11 Gordon Commons Expan/Renov	Housing	41.3	PRSB/Gifts
Madison	2009-11 Kohl Center Hockey Practice Facility	Athletics	27.8	Gifts
Madison	2009-11 Lakeshore Res Hall / Food Serv Dev	Housing	57.8	PRSB
Madison	2009-11 Suomi Space Sci / Engineering Museum	Academic	5.0	Gifts
Madison	2009-11 Tandem Press Relocation - Arts Lofts	Academic	4.6	Gifts
Madison	2009-11 West Campus Athletic Fac Improv	Athletics	7.9	PRSB/Gifts
Madison	2009-11 School of Human Ecology	Academic	53.0	GFSB/Gifts/PRSB
Milwaukee	2009-11 Utility Improvements	Utilities	6.4	GFSB/PRSB
Milwaukee	2009-11 Master Plan Initiative – Phase I	Planning	81.7	GFSB/PRSB/Gifts
Oshkosh	2007-09 Academic Building	Academic	54.3	GFSB/Gifts/PRSB
Oshkosh	2007-09 Elmwood Center Remodel & Addn	Student Services	8.5	GFSB
Oshkosh	2007-09 Residence Hall	Housing	34.0	PRSB
Parkside	2007-09 Communication Arts Center	Academic	34.1	GFSB/Gifts
Parkside	2007-09 Residence Hall	Housing	17.7	PRSB
Platteville	2007-09 Williams Field House Addn & Remodel	Athletics	3.7	PRSB
Platteville	2009-11 Locker Room Expansion	Athletics	1.0	PRSB
Platteville	2009-11 Res Hall Plumbing/Elect Infra Renov	Utilities	10.0	PRSB
Platteville	2009-11 Storage Facility	Facility Support	1.7	PRSB
Platteville	2009-11 Williams Fieldhouse – Phase II	Athletics	11.7	PRSB/Gifts
River Falls	2007-09 George Field South Fork Res. Hall Addn	Housing	18.9	PRSB
River Falls	2009-11 Hagestad Hall Renovation	Student Services	4.0	PRSB/Gifts
River Falls	2009-11 Ramer Field Renovation	Athletics	4.0	Gifts
Stevens Pt	2007-09 Residence Halls Renovation	Housing	20.0	PRSB
Stevens Pt	2007-09 Residence Hall	Housing	36.2	PRSB
Stevens Pt	2007-09 Maintenance Building Remodel. & Addn	Facility Support	2.1	GFSB
Stevens Pt	2007-09 Military Science Building Relocation	Academic	1.6	GFSB
Stevens Pt	2009-11 Waste Management Laboratory	Academic	4.6	GFSB
Stevens Pt	2009-11 Utility Improvements	Utilities	7.7	PRSB/GFSB
Stout	Hovlid Hall Remodel & Addition	Housing	8.6	PRSB
Stout	Jarvis Science Wing Renovation & Addition	Academic	35.1	GFSB
Stout	2007-09 Harvey Hall Theater Renovation	Academic	5.1	GFSB
Stout	2007-09 Price Commons Second Floor Renov	Student Services	3.0	PRSB
Stout	2009-11 Memorial Student Center Renovation	Student Life	18.0	PRSB
Superior	Rothwell Student Center - Phase I and II	Student Life	20.8	PRSB/Gifts
Superior	2007-09 Academic Building	Academic	32.3	GFSB/Gifts
Whitewater	2007-09 Residence Hall	Housing	35.7	PRSB
Whitewater	2007-09 Multisport Facility- Phase III	Athletics	3.5	Gifts
Whitewater	2007-09 Drumlin Dining Hall Renovation	Student Life	1.3	PRSB
Whitewater	2009-11 Fischer Hall & Wellers Hall Renovation	Housing	8.6	PRSB
UW System	2007-09 Classroom Renovation/IT Improv	Academic	3.5	GFSB
UW System	2009-11 Classroom Renovation/IT Improv	Academic	5.0	GFSB
UW System	2007-09 Utility Improvements - Madison	Utilities	24.7	GFSB/PR

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Management's Discussion and Analysis**  
**Years Ended June 30, 2009 and 2008**

**Statements of Revenues, Expenses and Changes in Net Assets**

The Statements of Revenues, Expenses and Changes in Net Assets present the University of Wisconsin System's operating results as well as nonoperating revenues and expenses. Operating revenues are comprised primarily of student tuition and fees, grants and contracts, and auxiliary service activities. GASB 35 requires that state appropriations, gifts, and investments be reported as nonoperating revenue. Public universities, including the University of Wisconsin System, are typically reliant on these revenue sources to fulfill their missions and, therefore, report operating expenses in excess of operating revenues. As a result, nonoperating revenues and expenses are significant components in determining an increase or decrease to total net assets.

One of the University of Wisconsin System's greatest strengths has been its ability to supplement student tuition and fee revenue with support from individuals, foundations, investment income, and government sponsored programs and appropriations. The University of Wisconsin System will continue to aggressively seek funding sources consistent with its mission to meet operating activities in a financially prudent manner. In addition, the University of Wisconsin System will continue to make cost containment and revenue diversification a top priority.

Revenues, expenses, and changes in net assets for the fiscal years ended June 30, 2009, 2008 and 2007 are summarized as follows:

<i>(In Millions)</i>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Operating Revenues:			
Student Tuition and Fees, Net	\$ 934.8	\$ 885.0	\$ 836.3
Sales and Services of Educational Activities	279.5	277.0	253.6
Sales and Services of Auxiliaries, Net	340.3	314.1	286.0
Federal Grants and Contracts	733.4	630.9	657.3
State, Local, and Private Grants and Contracts	297.8	251.5	235.6
Sales and Services to UW Hospital Authority	47.5	45.8	45.9
Other	<u>245.5</u>	<u>229.4</u>	<u>226.7</u>
Total Operating Revenues	2,878.8	2,633.7	2,541.4
Operating Expenses	<u>4,044.3</u>	<u>3,860.0</u>	<u>3,633.7</u>
Operating Loss	(1,165.5)	(1,226.3)	(1,092.3)
Nonoperating Revenues (Expenses):			
State Appropriations	1,012.1	953.6	914.9
Gifts – Noncapital	251.5	269.6	244.9
Net Investment (Loss) Income	(44.0)	10.8	73.5
Capital Appropriations	202.4	114.5	189.8
Capital Contributions	124.5	71.0	117.2
Additions to Permanent Endowments	0.7	1.3	3.1
Transfer to State Agencies	(110.6)	(57.1)	(36.0)
Other	<u>58.0</u>	<u>(44.7)</u>	<u>(32.5)</u>
Net Nonoperating Revenues (Expenses)	<u>1,494.6</u>	<u>1,319.0</u>	<u>1,474.9</u>
Increase in Net Assets	329.1	92.7	382.6
Net Assets Beginning of Year*	<u>4,367.2</u>	<u>4,274.5</u>	<u>3,891.7</u>
Net Assets End of Year	<u>\$ 4,696.3</u>	<u>\$ 4,367.2</u>	<u>\$ 4,274.3</u>

\* Net Assets Beginning of Year include prior period adjustments of \$0, \$212,877 (Note 14) and \$(42,386), respectively.

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Management's Discussion and Analysis**  
**Years Ended June 30, 2009 and 2008**

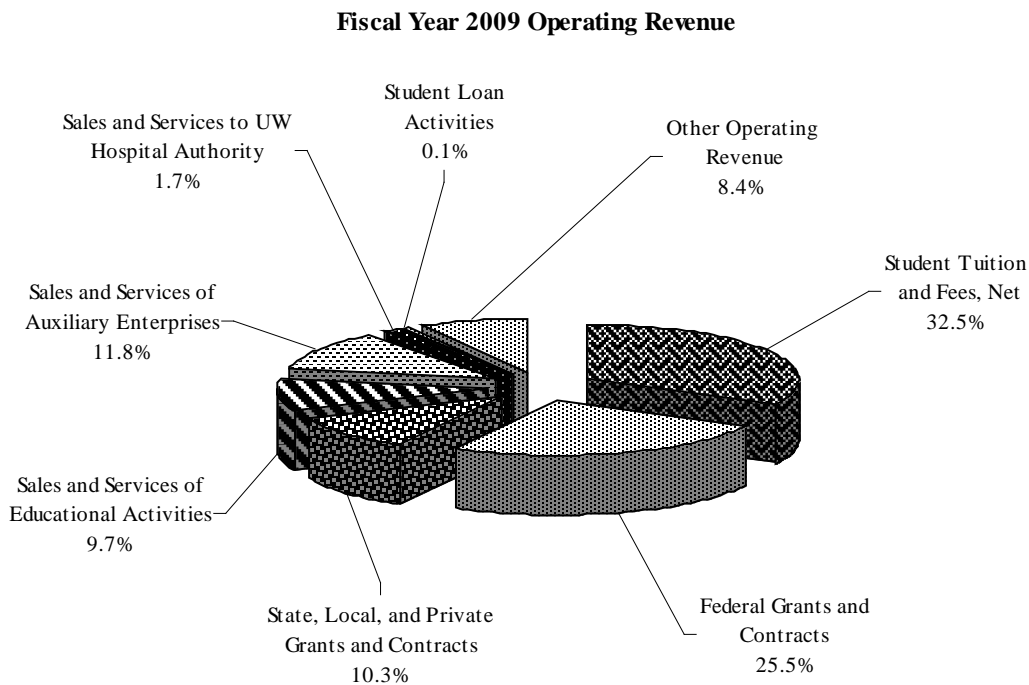
*Operating revenues:* Student tuition and fees, net of scholarship allowances, increased by \$49.8 and \$48.7 million during fiscal year 2009 and 2008, respectively, to a total of \$934.8 million for the fiscal year ending June 30, 2009. The increases resulted primarily from increases in tuition rates. The annual undergraduate tuition for State residents increased \$348 and \$340 to \$6,678 and \$6,531 for UW-Madison and UW-Milwaukee, respectively, and increased \$265 to \$5,084 for Comprehensive campuses, beginning in the fall of 2008. The annual undergraduate tuition for State residents for UW Colleges has remained constant at \$4,268 since the beginning of fall of 2006.

During fiscal year 2009, federal grants and contracts increased by \$102.5 million compared to a \$26.4 million decrease during fiscal year 2008. State, local and private grants and contracts increased by \$46.3 million during fiscal year 2009 compared to the increase of \$15.9 million during fiscal year 2008.

Other operating revenues, including student loan interest income and fees, increased \$16.1 and \$2.7 million during fiscal year 2009 and 2008, respectively. Total other operating revenues of \$245.5 million for fiscal year 2009 includes \$225.7 million (91.9%) of revenues from units such as intercollegiate athletics, stadium, arena, student health services, car fleet, stores operations, child care services, copy centers, and student service programs such as placement, orientation, intramurals, and counseling centers. Fiscal year 2008 total other operating revenues of \$229.4 million included \$212.9 million (92.8%) from these same revenue producing units.

<b>Grants and Contracts Awarded</b>		
	<i>Federal</i>	<i>Nonfederal</i>
<i>UW-Madison</i>	\$587.1	\$548.6
<i>UW-Milwaukee</i>	56.0	13.9
<i>UW-Eau Claire</i>	11.7	2.7
<i>UW-Green Bay</i>	8.8	1.5
<i>UW-La Crosse</i>	8.6	2.3
<i>UW-Oshkosh</i>	17.7	2.6
<i>UW-Parkside</i>	8.0	1.3
<i>UW-Platteville</i>	7.3	0.8
<i>UW-River Falls</i>	7.1	1.3
<i>UW-Stevens Point</i>	17.7	5.1
<i>UW-Stout</i>	12.6	2.4
<i>UW-Superior</i>	7.5	0.3
<i>UW-Whitewater</i>	9.3	5.5
<i>UW Colleges</i>	11.6	1.9
<i>UW-Extension</i>	20.1	26.5
<i>UW Systemwide</i>	<u>1.7</u>	<u>0.1</u>
<b>Total</b>	<b><u>\$792.8</u></b>	<b><u>\$616.8</u></b>

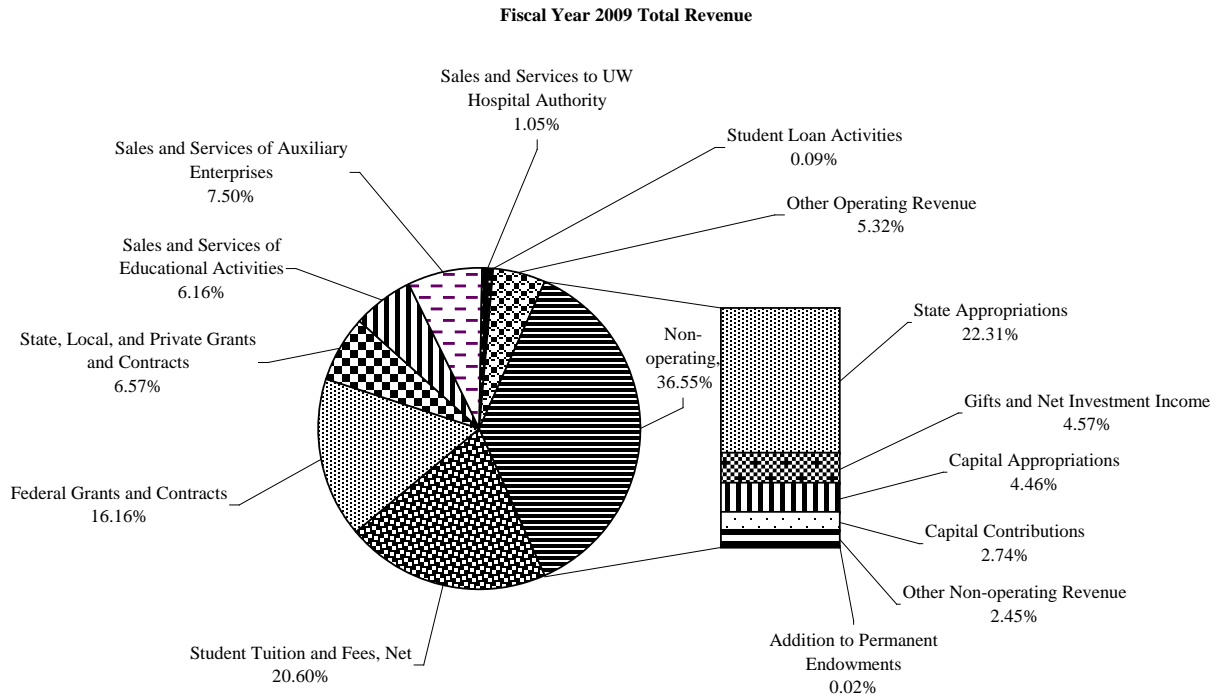
The following is a graphic representation of operating revenue by source for the fiscal year ended June 30, 2009:



**UNIVERSITY OF WISCONSIN SYSTEM**  
**Management's Discussion and Analysis**  
**Years Ended June 30, 2009 and 2008**

*Nonoperating revenues:* State appropriations increased by \$58.5 million to a total of \$1,012.1 million for the fiscal year ending June 30, 2009. The 6.1%, 4.2%, and 2.4% increases for fiscal years 2009, 2008, and 2007, respectively, reverse the declining trend from the prior three years; however, fluctuations in state appropriations as a percentage of net nonoperating revenues of 67.7%, 72.3%, and 62.0% for fiscal years 2009, 2008, and 2007, respectively, and of total revenues of 22.3%, 23.5%, and 22.4% during the same time periods, respectively, indicated a variable fiscal environment. Combined gifts and investment (loss) income comprised \$207.5 million, or 13.9%, of net nonoperating revenue for fiscal year 2009 and \$280.4 million, or 21.3%, of net nonoperating revenue for the prior fiscal year.

The following is a graphic representation of total revenue by source for the fiscal year ended June 30, 2009:



**UNIVERSITY OF WISCONSIN SYSTEM**  
**Management's Discussion and Analysis**  
**Years Ended June 30, 2009 and 2008**

*Operating expenses:* The University of Wisconsin System invests the majority of its operating funds in people as depicted in the graphic entitled "Fiscal Year 2009 Operating Expenses by Natural Classification." Salaries and fringe benefits account for 66.5% of total operating expenses. Scholarship and fellowship payments make up 2.5%, and supplies and services account for 26.2%. The utilization of capital assets, which is reflected as depreciation, amortizes the cost of the capital assets over their useful lives. Depreciation expense in fiscal year 2009 totaled \$189.3 million or 4.7% of total operating expenses.

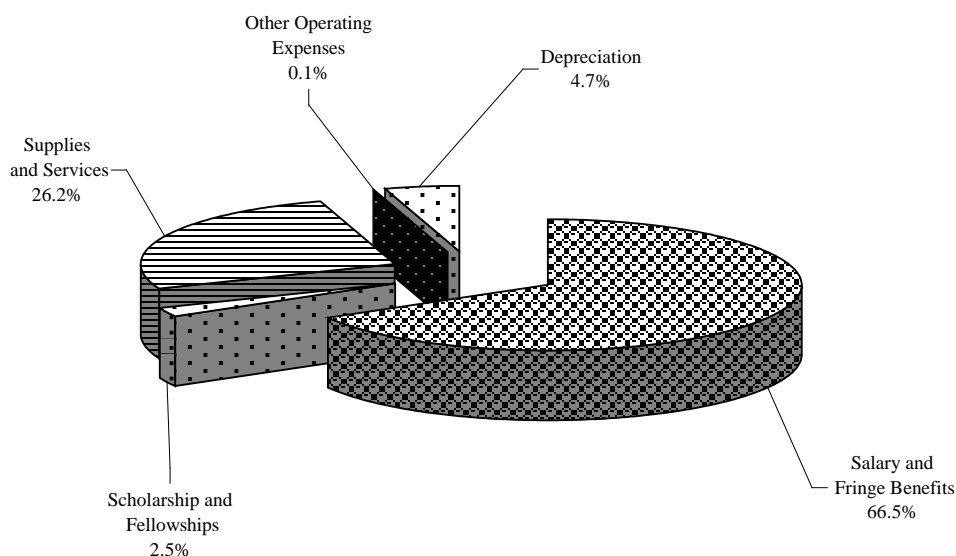
Expenses are summarized by natural classification for the fiscal years ended June 30, 2009, 2008 and 2007 as follows:

(In Millions)

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Operating Expenses:			
Salary and Fringe Benefits	\$ 2,691.4	\$ 2,577.6	\$ 2,460.4
Scholarships and Fellowships	99.1	88.9	82.5
Supplies, Services, and Other	1,064.5	1,018.8	927.1
Depreciation	<u>189.3</u>	<u>174.7</u>	<u>163.7</u>
	4,044.3	3,860.0	3,633.7
Nonoperating Expenses:			
Loss on Disposal	16.4	9.6	8.1
Interest	37.0	35.7	30.3
Transfer to State Agencies	<u>110.6</u>	<u>57.1</u>	<u>36.0</u>
Total Expenses	<u>\$ 4,208.3</u>	<u>\$ 3,962.4</u>	<u>\$ 3,708.1</u>

The following illustration graphically presents operating expenses by natural classification for the fiscal year ended June 30, 2009:

**Fiscal Year 2009 Operating Expenses by Natural Classification**



**UNIVERSITY OF WISCONSIN SYSTEM**  
**Management's Discussion and Analysis**  
**Years Ended June 30, 2009 and 2008**

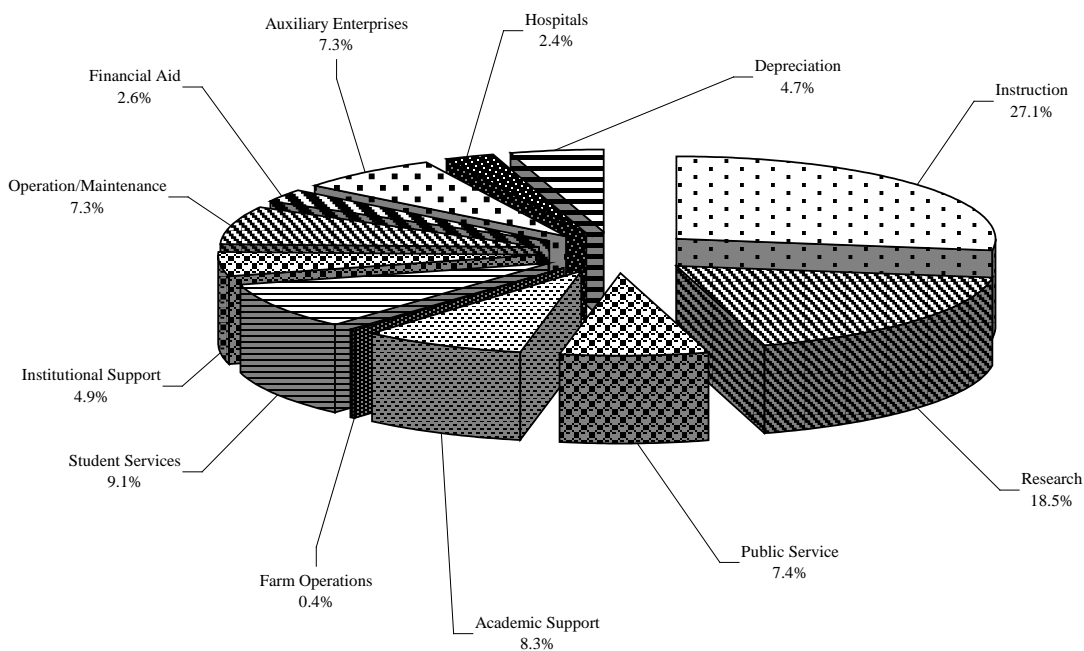
Operating expenses are classified by function for the fiscal years ended June 30, 2009, 2008 and 2007 as follows:

(In Millions)

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Instruction	\$ 1,097.4	\$ 1,051.3	\$ 999.0
Research	750.1	755.3	718.8
Public Service	300.3	312.6	272.9
Academic Support	334.1	323.7	307.6
Farm Operations	14.7	14.9	13.0
Student Services	366.0	338.1	322.8
Institutional Support	197.7	192.4	183.1
Operation/Maintenance	295.8	267.9	254.0
Financial Aid	106.1	99.1	86.0
Auxiliary Enterprises	295.3	283.1	268.3
Hospitals	97.5	46.9	44.5
Depreciation	<u>189.3</u>	<u>174.7</u>	<u>163.7</u>
Total Operating Expenses	<u>\$ 4,044.3</u>	<u>\$ 3,860.0</u>	<u>\$ 3,633.7</u>

The following is a graphic representation showing operating expenses by functional classification for the fiscal year ended June 30, 2009:

**Fiscal Year 2009 Expenses by Functional Classification**



Instruction increased 4.4% while research decreased 0.7%. Student services increased by \$27.9 million or 8.3%. Institutional support increased by \$5.3 million, or 2.8% to \$197.7 million in fiscal year 2009.

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Management's Discussion and Analysis**  
**Years Ended June 30, 2009 and 2008**

**Statements of Cash Flows**

The Statements of Cash Flows impart additional information about University of Wisconsin System's financial results by providing relevant information about the cash receipts and cash payments during fiscal year 2009.

Cash flows for the years ending June 30, 2009, 2008 and 2007 are summarized as follows:

*(In Millions)*

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Cash Flows:			
Cash Received from Operations	\$ 2,932.6	\$ 2,617.9	\$ 2,583.4
Cash Expended for Operations	<u>(3,874.9)</u>	<u>(3,605.5)</u>	<u>(3,551.8)</u>
Net Cash Used in Operating Activities	(942.3)	(987.6)	(968.4)
Net Cash (Used in) Provided by			
Investing Activities	(3.9)	34.0	8.8
Net Cash Used in Capital and Related			
Financing Activities	(249.4)	(380.0)	(83.7)
Net Cash Provided by Noncapital			
Financing Activities	<u>1,387.9</u>	<u>1,287.7</u>	<u>1,257.2</u>
Net Increase (Decrease) in Cash and Cash			
Equivalents	192.3	(45.9)	213.9
Cash and Cash Equivalents, Beginning	699.3	745.1	531.2
Prior Period Adjustments	<u>0.0</u>	<u>0.1</u>	<u>0.0</u>
Cash and Cash Equivalents, Ending	<u>\$ 891.6</u>	<u>\$ 699.3</u>	<u>\$ 745.1</u>

The University of Wisconsin System's cash and cash equivalents increased by \$192.3 million primarily due to a \$45.3 million decrease of net funds expended in operating activities, a \$37.9 million decrease of funds generated from investing activities, and a \$130.6 million decrease of net funds expended for capital and related financing activities, including timing differences in bonding and construction project expenditures. As defined by GASB 35, the University of Wisconsin System's significant sources of cash provided by noncapital financing activities include state appropriations and private gift receipts utilized to fund operating activities. Fiscal year 2009 state appropriations and gifts received totaled \$1,136.0 and \$251.5 million, respectively, compared to \$1,074.6 and \$269.6 million, respectively, for fiscal year 2008.

**Factors Affecting Future Periods**

During the 2007-09 biennium, the University of Wisconsin System absorbed \$50 million in lapses -- \$25 million each from the biennial budget bill and the budget repair bill. The 2007-09 budget also called for another \$25 million in lapses in 2009-11, for a total of \$75 million over two biennia.

The 2009-11 Biennial Budget request for the University of Wisconsin System represented a continuation of the Growth Agenda for Wisconsin and continues to receive broad public and bi-partisan legislative support because initiatives were developed locally, with personal involvement of business leaders, regional economic development entities, students, community leaders, local elected officials, and others.

The Growth Agenda for 2009-11 included three strategic goals, reflecting broad consensus: Growing People, Growing Jobs, and Growing Communities. Under this framework:

- The UW System will seek to produce more baccalaureate degree holders, create more seats in classrooms, enroll more working adults, help prepare more young people for college, expand transfer opportunities, and keep college affordable for Wisconsin citizens.

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Management's Discussion and Analysis**  
**Years Ended June 30, 2009 and 2008**

- The UW System will help to create more well-paying jobs by addressing business needs, developing online accelerated and collaborative programs to meet regional objectives, and transforming research into leading-edge, knowledge-based jobs.
- The UW System will grow communities by engaging with them to connect university learning and resources directly to their priorities and by increasing access to education for all Wisconsin citizens.

The Governor considered the Growth Agenda a core concept in the development of the 2009-11 budget that focuses resources on improving Wisconsin's educational system and builds on the educational initiatives approved in the 2007-09 biennium.

However, the economic downturn will have a major impact on the University of Wisconsin System and its 175,000 students. Budget cuts, employee furloughs, and canceled pay plans will contribute at least \$211 million, or 9.2%, of taxpayer support (GPR) to help close the State's budget gap. Revenues amounting to \$34.6 million from other sources will be used to address the growing State funding shortfall. In addition, funding for the Growth Agenda Initiatives that would have provided targeted new investments to stimulate economic development through higher college enrollments and expanded scientific research were removed as part the budget balancing actions.

Gifts, grants, and contracts continue to be important supplements to state support and student tuition and are significant factors in the University of Wisconsin System's growth. Economic pressures affecting donors can affect the future level of support the University of Wisconsin System receives from its donor base.

The recent events relating to fluctuating conditions in credit markets and Federal interventions have generally affected financial markets and their participants, including the University of Wisconsin System's trust fund portfolio. The fluctuation in the trust fund portfolio is mitigated by the diversified asset allocation and investment strategies that are long-term in perspective while utilizing a spending rate policy to insulate operations from market volatility. Nonetheless, future investment returns on the University of Wisconsin System's trust fund portfolio could continue to be adversely impacted in certain asset classes with a prolonged fluctuation in the world's financial markets. The University of Wisconsin System's board and management continue to monitor the portfolio and take action as deemed appropriate.

The University of Wisconsin System is committed to meeting the financial challenges it faces by creating stronger partnerships with the Governor and Legislature as well as community leaders across the state. In addition, there is an ongoing effort in the continuation of implementing best business practices to ensure maximum operating efficiency in order to continue to provide quality of education while remaining affordable.



**STATE OF WISCONSIN**  
**Legislative Audit Bureau**

22 East Mifflin Street, Suite 500  
Madison, Wisconsin 53703  
(608) 266-2818  
Fax (608) 267-0410  
[www.legis.wisconsin.gov/lab](http://www.legis.wisconsin.gov/lab)

Janice Mueller  
State Auditor

**INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS  
OF THE UNIVERSITY OF WISCONSIN SYSTEM**

University of Wisconsin System Board of Regents:

We have audited the accompanying financial statements of the University of Wisconsin System as of and for the years ended June 30, 2009 and 2008, as listed in the table of contents. These financial statements are the responsibility of the University of Wisconsin System management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the University of Wisconsin Foundation, which are presented in a condensed format in Note 11. The calendar year 2008 condensed financial statements and the calendar year 2007 Condensed Balance Sheet of the University of Wisconsin Foundation were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the University of Wisconsin Foundation amounts included in Note 11, is based upon their reports.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the University of Wisconsin Foundation were audited by other auditors in accordance with auditing standards generally accepted in the United States of America but not in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements referred to in the first paragraph present only the University of Wisconsin System and do not purport to, and do not, present fairly the financial position of the State of Wisconsin and the changes in its financial position and its cash flows, where applicable, in conformity with accounting principles generally accepted in the United States of America.

The University of Wisconsin System has included in Note 11 condensed financial statements of the University of Wisconsin Foundation, a related organization. The condensed calendar year 2007 Statement of Revenues, Expenses, and Changes in Fund Equity of the University of Wisconsin Foundation, as included in Note 11, has not been audited, and we were not engaged to

audit the University of Wisconsin Foundation's statement as part of our audit of the University of Wisconsin System's financial statements. The effects of any adjustments that might have been determined necessary had the University of Wisconsin Foundation's condensed Statement of Revenues, Expenses, and Changes in Fund Equity for calendar year 2007 been audited cannot be quantified.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the University of Wisconsin System as of June 30, 2009 and 2008, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

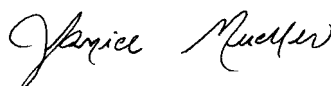
Our audit was conducted for the purpose of forming an opinion on the financial statements of the University of Wisconsin System. The supplementary information included as Management's Discussion and Analysis on pages 10 through 24 is presented for purposes of additional analysis and is not a required part of the financial statements referred to in the first paragraph. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it. The supplementary information on pages 3 through 9 has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 11, 2009, on our consideration of the University of Wisconsin System's internal control over financial reporting; our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements; and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

LEGISLATIVE AUDIT BUREAU

December 11, 2009

by



Janice Mueller  
State Auditor

UNIVERSITY OF WISCONSIN SYSTEM  
Years Ended June 30, 2009 and 2008

## Audited Financial Statements

**Statements of Net Assets****University of Wisconsin System**

	June 30, 2009	June 30, 2008
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 891,562,426	\$ 699,341,403
Accounts Receivable, Net	268,048,374	264,094,425
Student Loans Receivable, Net	33,867,372	34,011,950
Capital Lease Receivable	2,178,644	2,396,678
Inventories	40,108,400	37,455,028
Prepaid Expenses	39,257,446	33,823,220
Deferred Charges	7,204,596	5,655,363
Total Current Assets	<u>1,282,227,258</u>	<u>1,076,778,067</u>
Noncurrent Assets:		
Endowment Investments	308,666,630	348,552,351
Student Loans Receivable, Net	165,447,552	165,787,014
Capital Lease Receivable	10,981,941	13,160,585
Land	130,112,829	121,585,235
Improvements Other Than Buildings, Net	109,471,620	97,423,488
Construction In Progress	227,772,184	358,378,124
Buildings, Net	2,641,202,809	2,324,596,066
Equipment, Net	256,212,875	251,322,813
Library Holdings	1,088,150,074	1,071,268,699
Total Noncurrent Assets	<u>4,938,018,514</u>	<u>4,752,074,375</u>
<b>TOTAL ASSETS</b>	<u>\$ 6,220,245,772</u>	<u>\$ 5,828,852,442</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	\$ 295,806,773	\$ 307,269,364
Notes and Bonds Payable	39,836,128	37,075,829
Capital Lease Obligations	5,651,473	5,473,980
Unearned Revenue	169,768,276	121,687,048
Compensated Absences	57,595,924	55,356,706
Deposits of Student Organizations	2,052,918	1,822,818
Total Current Liabilities	<u>570,711,492</u>	<u>528,685,745</u>
Noncurrent Liabilities:		
Notes and Bonds Payable	788,739,126	766,657,457
Capital Lease Obligations	102,995,660	109,288,790
Compensated Absences	61,523,309	57,009,879
Total Noncurrent Liabilities	<u>953,258,095</u>	<u>932,956,126</u>
<b>TOTAL LIABILITIES</b>	<u>\$ 1,523,969,587</u>	<u>\$ 1,461,641,871</u>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	\$ 3,515,700,004	\$ 3,306,078,369
Restricted for:		
Nonexpendable	122,923,573	150,149,852
Expendable	304,714,582	317,262,199
Student Loans	220,588,341	219,140,599
Other	216,370,915	156,969,265
Unrestricted	315,978,770	217,610,287
<b>TOTAL NET ASSETS</b>	<u>\$ 4,696,276,185</u>	<u>\$ 4,367,210,571</u>

The accompanying notes to the financial statements are an integral part of these statements.

## Statements of Revenues, Expenses and Changes in Net Assets

University of Wisconsin System

Year Ended June 30, 2009

Year Ended June 30, 2008

### OPERATING REVENUES

Student Tuition and Fees (Net of Scholarship Allowances of \$99,704,584 and \$90,874,751, respectively)	\$ 934,842,549	\$ 884,962,338
Federal Grants and Contracts	733,360,241	630,867,030
State, Local and Private Grants and Contracts	297,809,784	251,493,658
Sales and Services of Educational Activities	279,487,165	276,972,399
Sales and Services of Auxiliary Enterprises (Net of Scholarship Allowances of \$17,582,206 and \$15,935,669, respectively)	340,323,929	314,147,533
Sales and Services to UW Hospital Authority	47,491,416	45,864,626
Student Loan Interest Income and Fees	4,071,170	3,732,080
Other Operating Revenue	241,380,107	225,703,354
<b>Total Operating Revenues</b>	<b>2,878,766,361</b>	<b>2,633,743,018</b>

### OPERATING EXPENSES

Salary and Fringe Benefits	2,691,383,369	2,577,615,559
Scholarships and Fellowships	99,128,864	88,914,660
Supplies and Services	1,059,484,634	1,014,294,964
Other Operating Expenses	4,961,328	4,544,811
Depreciation	189,334,626	174,719,876
<b>Total Operating Expenses</b>	<b>4,044,292,821</b>	<b>3,860,089,870</b>

### OPERATING LOSS

(1,165,526,460) (1,226,346,852)

### NON-OPERATING REVENUES AND EXPENSES

State Appropriations	1,012,123,927	953,640,764
Gifts	251,516,230	269,646,231
Investment (Loss) Income (Net of Investment Expense of \$1,137,219 and \$1,531,057, respectively)	(43,959,796)	10,777,248
Loss on Disposal of Capital Assets	(16,395,013)	(9,578,046)
Interest on Indebtedness	(36,971,878)	(35,701,859)
Transfer to State Agencies	(110,631,225)	(57,068,796)
Other Revenues (Expenses), Net	111,354,214	584,017
Income (Loss) Before Capital and Endowment Additions/Deductions	1,509,999	(94,047,293)
Capital Appropriations	202,350,119	114,539,164
Capital Contributions	124,463,862	70,961,590
Additions to Permanent Endowment	741,634	1,280,187

### INCREASE IN NET ASSETS

329,065,614 92,733,648

### NET ASSETS

Net Assets - Beginning of Period	4,367,210,571	4,274,264,046
Prior Period Adjustments	-	212,877
<b>NET ASSETS - End of Period</b>	<b>\$ 4,696,276,185</b>	<b>\$ 4,367,210,571</b>

The accompanying notes to the financial statements are an integral part of these statements.

## Statements of Cash Flows

University of Wisconsin System

Year ended June 30, 2009

Year ended June 30, 2008

### Cash Flows from Operating Activities

Student Tuition and Fees	\$ 933,075,358	\$ 892,100,577
Federal, State, Local and Private Grants and Contracts	1,065,700,183	852,135,795
Sales and Services of Educational Activities	277,881,720	280,316,855
Sales and Services of Auxiliary Enterprises	338,402,376	319,539,894
Sales and Services to UW Hospital Authority	47,207,140	47,601,848
Payments for Salaries and Fringe Benefits	(2,698,899,261)	(2,469,304,096)
Payments to Vendors and Suppliers	(1,053,971,398)	(1,012,774,231)
Payments for Scholarships and Fellowships	(99,128,864)	(88,914,660)
Student Loans Collected	21,296,464	24,418,865
Student Loan Interest and Fees Collected	4,071,170	3,732,079
Student Loans Issued	(22,931,523)	(34,502,100)
Other Revenue, Net	244,963,594	198,062,982
<b>Net Cash Used in Operating Activities</b>	<b>(942,333,041)</b>	<b>(987,586,192)</b>

### Cash Flows from Investing Activities

Interest and Dividends on Investments, Net	15,407,870	25,527,688
Proceeds from Sales and Maturities of Investments	122,791,151	192,286,496
Purchase of Investments	(142,110,540)	(183,788,082)
<b>Net Cash (Used In) Provided by Investing Activities</b>	<b>(3,911,519)</b>	<b>34,026,102</b>

### Cash Flows from Capital and Related Financing Activities

Proceeds from Issuance of Capital Debt	61,906,160	54,753,733
Capital Appropriations	202,350,119	114,539,164
Gifts and Other Receipts	100,862,102	70,159,170
Purchase of Capital Assets	(407,500,086)	(419,628,481)
Principal Payments on Capital Debt and Leases	(118,876,754)	(109,565,465)
Interest Payments on Capital Debt and Leases	(88,189,194)	(90,240,184)
<b>Net Cash Used in Capital and Related Financing Activities</b>	<b>(249,447,653)</b>	<b>(379,982,063)</b>

### Cash Flows from Noncapital Financing Activities

State Appropriations	1,136,024,054	1,074,599,979
Gifts and Other Receipts	361,780,502	269,025,117
Transfer to State Agencies	(110,631,225)	(57,068,796)
Additions to Permanent Endowments	741,635	1,280,187
Student Direct Lending Receipts	94,318,579	72,866,661
Student Direct Lending Disbursements	(94,320,309)	(72,961,847)
<b>Net Cash Provided by Noncapital Financing Activities</b>	<b>1,387,913,236</b>	<b>1,287,741,301</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>192,221,023</b>	<b>(45,800,852)</b>

Cash and Cash Equivalents - Beginning of Year

699,341,403

745,084,198

Prior Period Adjustments

-

58,057

**Cash and Cash Equivalents - End of Year**

**\$ 891,562,426**

**\$ 699,341,403**

**Statements of Cash Flows (Continued)**

University of Wisconsin System

Year ended June 30, 2009

Year ended June 30, 2008

**Reconciliation of Operating Loss to Net Cash Used in Operating Activities**

Operating Loss	\$	(1,165,526,460)	\$	(1,226,346,852)
<i>Adjustments to Reconcile Operating Loss to</i>				
<i>Net Cash Used in Operating Activities:</i>				
Depreciation Expense		189,334,626		174,719,876
Changes in Assets and Liabilities:				
Receivables, Net		(12,219,849)		(20,648,428)
Inventories		(2,653,371)		(617,678)
Prepaid Expenses		(3,029,314)		(2,374,176)
Deferred Charges		(1,608,053)		1,255,466
Accounts Payable and Accrued Liabilities		(1,462,836)		108,019,854
Unearned Revenue		48,079,567		(25,238,169)
Compensated Absences		6,752,649		3,643,915
<b>Net Cash Used in Operating Activities</b>	<b>\$</b>	<b>(942,333,041)</b>	<b>\$</b>	<b>(987,586,192)</b>

**Noncash Investing, Capital and Financing Activities**

Capital Leases (Initial Year):				
Fair Market Value	\$	1,408,032	\$	2,558,442
Current Year Cash Payments		(30,656)		(37,568)
Gifts-In-Kind		27,742,629		5,235,563
Net Change in Unrealized Gains and Losses		(58,584,030)		(38,711,046)

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*The accompanying notes to the financial statements are an integral part of these statements.*

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2009 and 2008**

**NOTE 1 – Organization and Summary of Significant Accounting Policies**

*Organization and Basis of Presentation:* The University of Wisconsin System consists of 13 universities, 13 two-year colleges, University of Wisconsin-Extension, and System Administration. The financial statements do not include the accounts of the University of Wisconsin Hospital and Clinics Authority (UWHCA), which became a legally separate public authority on June 29, 1996; the La Crosse Medical Health Science Consortium, Inc., which is a Wisconsin non-stock corporation tax exempt under Internal Revenue Code (IRC) 501(c)(3); or the University of Wisconsin Foundation. In addition, the financial statements do not include the accounts of various legally independent and fully self-governing support organizations, such as booster clubs and alumni groups; funds contributed to the University of Wisconsin System by these organizations are reported at the time they are received. Note 11 describes the effect on the financial statements of other organizations, including the various affiliation and operating agreements with the UWHCA and La Crosse Medical Health Science Consortium, Inc. Post-retirement benefit plans for the University of Wisconsin System employees are administered by the State of Wisconsin's Department of Employee Trust Funds. The assets and liabilities of these programs are reported by the State of Wisconsin and not by the University of Wisconsin System.

The University of Wisconsin System is a major enterprise fund of the State of Wisconsin. The financial statements are discretely presented in the proprietary fund financial statements of the State of Wisconsin's Comprehensive Annual Financial Report (CAFR). The University of Wisconsin System's financial information presented in the CAFR has been adjusted to reflect reclassifications which are done to conform with reporting requirements related to the CAFR.

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). In addition, the University of Wisconsin System applies all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The University of Wisconsin System has elected not to apply FASB pronouncements issued after November 30, 1989.

The University of Wisconsin System's annual report consists of three basic financial statements prepared in accordance with GASB principles: the Statements of Net Assets; the Statements of Revenues, Expenses and Changes in Net Assets; and the Statements of Cash Flows.

The Statements of Net Assets; the Statements of Revenues, Expenses and Changes in Net Assets; and the Statements of Cash Flows have been prepared using the economic resources measurement focus and the accrual basis of accounting. The University of Wisconsin System reports as a Business Type Activity, as defined by GASB Statement 35, *Basic Financial Statements – Management Discussion and Analysis – for Public Colleges and Universities*. Business Type Activities are those that are financed in whole or in part by fees charged to external parties for goods or services.

The Statements of Revenues, Expenses, and Changes in Net Assets classify the University of Wisconsin System's fiscal year activity as operating and nonoperating. Operating revenue results from exchange transactions, such as payment received for providing goods and services, including tuition and fees, certain grants and contracts, sales and services of educational activities, and auxiliary enterprise revenue. Certain significant revenue streams relied upon for operations are reported as nonoperating revenues, as defined by GASB Statement 35, including state appropriations, gifts, and investment income. The majority of the University of Wisconsin System's expenses are exchange transactions which GASB defines as operating expenses for financial statement presentation. Nonoperating expenses include capital financing costs and costs related to investment activity.

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2009 and 2008**

**NOTE 1 – Organization and Summary of Significant Accounting Policies (continued)**

*Summary of Significant Accounting Policies:* Student tuition and fees are presented net of scholarships and fellowships applied to student accounts. Stipends and other payments made directly to students are presented as scholarship and fellowship expenses.

Restricted funds received as gifts and grants and contracts are used according to donor restrictions or the specific purpose of the grantor. In addition, restrictions are statutorily established that limit the use of certain resources for specific purposes. These restrictions apply not only to state support but to many of the University of Wisconsin System's program revenue sources, including auxiliary operations. The net assets reported as restricted will be used in accordance with the purposes for which they are restricted and are the first resources used for these purposes. Unrestricted net assets would be used only secondarily to support these restricted purposes.

The University of Wisconsin System eliminates intra-fund assets and liabilities to prevent double counting in the Statements of Net Assets. Likewise, revenues and expenses relative to internal service activities are also eliminated in the Statements of Revenues, Expenses and Changes in Net Assets.

Unearned revenues consist of payments received but not yet earned as of June 30<sup>th</sup>, primarily summer session tuition payments, tuition and room deposits for the next fall term, advance ticket sales for athletic events, and amounts received from grant and contract sponsors which have not yet been earned under the terms of the agreement.

Prepaid items represent payments made prior to June 30<sup>th</sup> for goods and services received after the close of the fiscal year, primarily health and life insurance coverage.

Deferred charges represent costs associated with revenues that have not yet been earned as of June 30<sup>th</sup>, primarily summer session costs incurred prior to the close of the fiscal year. The revenues and expenses of the 2009 summer session are reportable within the fiscal year beginning July 1, 2008 and ending June 30, 2009, based on the prorated portion of the number of summer session days that occurred in fiscal year 2009. The revenues and expenses of the 2008 summer session are reportable within the fiscal year beginning July 1, 2007 and ending June 30, 2008, based on the prorated portion of the number of summer session days that occurred in fiscal year 2008.

Accrual of interest on bonds payable and salaries and fringe benefits paid after the close of the fiscal year, for hours worked by the University of Wisconsin System employees prior to June 30<sup>th</sup>, account for the major portion of accounts payable and accrued liabilities.

Inventories consist of consumable supplies used in operations or items held for resale. Supplies held by central stores are valued at average cost, fuels are reported at market value, and other inventories held by individual institutional cost centers are valued using a variety of cost flow assumptions that, for each type of inventory, are consistently applied from year to year. In addition to central stores and fuels, the major types of inventories include laboratory supplies, physical plant supplies, food service and student housing supplies, and items held for resale by campus microcomputer outlets. Accounting policies related to capital assets are described in Note 9.

The Statements of Cash Flows present the change in the cash and cash equivalents balance for the fiscal year. Cash and cash equivalents include bank accounts and investments with original maturity dates of ninety days or less at the time of purchase. These investments consist primarily of commercial paper, money market funds, and U.S. Treasury bills. Investments in marketable securities are carried at fair value as established by the major securities markets. Investments in limited partnerships are carried at fair value

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2009 and 2008**

**NOTE 1 – Organization and Summary of Significant Accounting Policies (continued)**

based on quarterly reports from the limited partnerships' management. Annually, the reports are audited by independent auditors.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Certain items in the June 30, 2008 financial statements have been reclassified or restated to correspond to the June 30, 2009 presentation. For example, Student Direct Lending Receipts and Disbursements as presented in the year ended June 30, 2008 Statement of Cash Flows were reduced by \$112,684,674 as a result of reclassifying the amounts to reflect Federal Family Education Loans rather than Direct Loans.

**NOTE 2 – Cash and Investments**

***Cash and Cash Equivalents***

Cash and cash equivalents consist primarily of shares in the State Investment Fund (SIF), a short term pool of state and local funds managed by the State of Wisconsin Investment Board (SWIB) with oversight by a Board of Trustees as authorized in s. 25.14 and 25.17, Wisconsin Statutes. SWIB is not registered with the SEC as an investment company. The objectives of this fund are to provide liquidity, safety of principal, and a reasonable rate of return. Investments consist primarily of obligations of the U.S. Government and its agencies and high quality commercial bank and corporate debt obligations.

Of the \$891.6 and \$699.3 million in cash and cash equivalents as of June 30, 2009 and 2008, respectively, \$629.0 and \$512.3 million, respectively, represents an amount held within the SIF; \$235.2 and \$141.8 million, respectively, was maintained by individual University of Wisconsin System institutions in local bank accounts to meet operating needs; and \$27.4 million and \$45.2 million, respectively, was held at Mellon Bank of Boston to meet the cash needs associated with the investing activities of the Long Term and Intermediate Term Funds, which is also categorized as investments in accordance with governmental standards. Except for balances associated with trust funds, auxiliary operations, and federally funded financial aid programs which receive interest distributions on a monthly basis, no investment earnings from these assets accrue to the University of Wisconsin System.

*Custodial Credit Risk:* Custodial credit risk related to deposits is the risk that, in the event of a failure of a depository financial institution, the University of Wisconsin System will not be able to recover deposits that are in possession of an outside party. The University of Wisconsin System does not have a formal deposit policy for custodial credit risk.

The University of Wisconsin System had balances in excess of Federal Deposit Insurance Corporation limits in the amount of \$231.4 and \$139.9 million at June 30, 2009 and 2008, respectively. These amounts, deposited in approved financial institutions, are uninsured and uncollateralized. A state appropriation for losses on public deposits (s. 34.08, Wisconsin Statutes) insures up to \$400,000 over the amount of federal insurance.

*Foreign Currency Risk:* Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of a deposit. Deposits in foreign currency at June 30, 2009 and 2008 are immaterial. The University of Wisconsin System does not have a formal deposit policy for foreign currency risk.

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2009 and 2008**

**NOTE 2 – Cash and Investments (continued)**

***Investments***

The University of Wisconsin System invests its Trust Funds, principally gifts and bequests, in two of its own investment pools: the Long Term and the Intermediate Term Funds. Investment policies and guidelines for these funds are governed and authorized by the Board of Regents. The current approved asset allocation policy for the Long Term Fund sets a general target of 24.5% marketable equities, 16.5% fixed income, 34% alternatives, and 25% tactical strategies. The approved asset allocation for the Intermediate Term Fund is 15% marketable equities, 65% fixed income, 10% alternatives, and 10% cash. These target allocations were last affirmed/approved in December 2008.

Benefiting University of Wisconsin System entities receive quarterly distributions from the Long Term Fund, principally endowed assets, based on an annual spending rate applied to a twelve-quarter moving average market value of the Fund. The annual spending rate is currently 4.0%. Distributions from the Intermediate Term Fund, principally quasi-endowments and unspent income distributions, consist of interest earnings distributed quarterly. Spending rate and interest distributions from both of these Funds are transferred to the SIF, pending near-term expenditures. During the fiscal year ending on June 30, 2009, the amount available to spend from the Long Term Fund was \$12,276,180, relative to \$11,756,158 available during the fiscal year ending June 30, 2008.

At June 30, 2009 and 2008, the University of Wisconsin System’s investments include credit risk Category 1 investments as defined by GASB (investments that are insured or registered and held by the University of Wisconsin System or its agents in the name of the University of Wisconsin System) and other investments not categorized by risk category as follows:

	<u>2009</u>	<u>2008</u>
<b>Category 1:</b>		
U.S. Government Securities	\$ 26,189,790	\$ 35,310,280
U.S Agency Securities	12,475,867	13,303,707
Bonds and Preferred Stock	27,067,615	29,093,063
Common Stock and Convertible Securities	<u>33,931,083</u>	<u>46,198,532</u>
	<u>99,664,355</u>	<u>123,905,582</u>
<b>Not Categorized:</b>		
Pooled Equity Funds	73,013,822	88,909,167
Pooled Allocation Fund	58,155,616	57,456,075
Pooled Fixed Income Fund	28,088,917	19,934,461
Custodial Pooled Cash and Cash		
Equivalents	27,393,912	45,153,083
Limited Partnerships	<u>49,743,920</u>	<u>58,347,066</u>
	<u>236,396,187</u>	<u>269,799,852</u>
<b>Total Investments</b>	<u>\$ 336,060,542</u>	<u>\$ 393,705,434</u>

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2009 and 2008**

**NOTE 2 – Cash and Investments (continued)**

The Long Term Fund consisted of the following investment categories on June 30, 2009 and 2008:

<b>Investment Category</b>	<b><u>2009</u></b>	<b><u>2008</u></b>
Common Stock and Convertible Securities	36.7%	38.5%
Bonds and Preferred Stock	14.4%	13.9%
Alternative Assets	18.5%	19.3%
Tactical Allocation Strategies	21.6%	17.4%
Custodial Pooled Cash and Cash Equivalents	<u>8.8%</u>	<u>10.9%</u>
<b>Total</b>	<b><u>100.0%</u></b>	<b><u>100.0%</u></b>

The Intermediate Term Fund consisted of the following investment categories on June 30, 2009 and 2008:

<b>Investment Category</b>	<b><u>2009</u></b>	<b><u>2008</u></b>
Common Stock and Convertible Securities	12.7%	3.7%
Bonds and Preferred Stock	81.9%	81.9%
Custodial Pooled Cash and Cash Equivalents	<u>5.4%</u>	<u>14.4%</u>
<b>Total</b>	<b><u>100.0%</u></b>	<b><u>100.0%</u></b>

The total return on the Long Term Fund, including capital appreciation, was (14.7)% compared to (2.7)% in fiscal year 2008. The total return on the Intermediate Fund, including capital appreciation, was 2.2% compared to 7.6% in fiscal year 2008. External investment counsel was utilized for funds representing 84.6%, compared to 83.8% in fiscal year 2008, of the market value of the Long Term and Intermediate Term Funds. In addition to the limited partnerships market value listed above, the University of Wisconsin System had unfunded limited partnership commitments of \$30.6 million for the fiscal year ending June 30, 2009, relative to \$20.6 million for the fiscal year ending June 30, 2008.

*Credit Risk:* Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. For the Long Term Fund, fund-level asset allocation constraints limit exposure to below investment grade debt securities to no more than 10%; for the Intermediate Term Fund, exposure is limited to 6%. In addition, actively-managed, investment grade fixed income separate accounts must maintain an average portfolio quality of AA by Standard & Poor's and/or Aa by Moody's, and hold only securities rated BBB- by Standard & Poor's and/or Baa3 by Moody's or higher. Credit risk guidelines for all mutual or commingled funds used are carefully reviewed and monitored. As of June 30, 2009, the actively-managed, investment grade fixed income separate accounts held a CIT Group Inc. security in the amount of \$114,862 rated Ba2 by Moody's and BB- by Standard & Poor's and a Windsor Financing, LLC security in the amount of \$89,765 rated Ba3 by Moody's and BB by Standard & Poor's. The CIT Group Inc. security was disposed of on August 3, 2009 and the Windsor Financing, LLC security was disposed of on July 16, 2009.

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2009 and 2008**

**NOTE 2 – Cash and Investments (continued)**

The following schedule displays the credit ratings as provided by Moody’s Investor Service for debt securities held as of June 30, 2009 and 2008. Obligations of the United States and obligations explicitly guaranteed by the U.S. government have been included in the Aaa rating below, although they are considered to be without credit risk.

<u>Ratings</u>	<u>2009</u>	<u>2008</u>
Aaa	\$ 52,620,304	\$ 61,873,806
Aa1	-	1,181,754
Aa2	1,591,081	1,171,886
Aa3	1,134,921	2,989,847
A1	1,523,942	1,694,912
A2	5,150,987	1,663,987
A3	4,794,441	3,182,833
Baa1	860,018	1,724,573
Baa2	3,665,300	1,599,247
Baa3	1,253,211	1,742,248
Ba1	2,468,963	1,154,508
Ba2	2,518,060	1,755,612
Ba3	4,361,573	2,440,603
B1	3,350,655	3,064,299
B2	2,561,262	2,875,127
B3	2,327,121	3,964,843
Caa1	987,440	589,679
Caa2	56,671	-
Caa3	8,133	-
No Rating	2,588,105	2,971,747
Unrated Pooled Cash	<u>27,393,912</u>	<u>45,153,083</u>
Totals	<u>\$ 121,216,100</u>	<u>\$ 142,794,594</u>

*Custodial Credit Risk:* Custodial credit risk related to investments is the risk that, in the event of a failure of a counterparty to a transaction, the University of Wisconsin System will not be able to recover the value of investment or collateral securities that are in possession of an outside party. The University of Wisconsin System’s investments are registered in the name of the University of Wisconsin System and the University of Wisconsin System does not participate in any securities lending programs through its custodian bank. Investment securities underlying the University of Wisconsin System’s investment in shares of external investment pools or funds are in custody at those funds. The shares owned in these external investment pools are registered in the name of the University of Wisconsin System.

*Concentration of Credit Risk:* Concentration of credit risk is the risk of loss attributed to the magnitude of an organization’s investment in a single issuer. Actively-managed, fixed income separate accounts are limited to holding no more than 7% in any one issuer (U.S. Government/Agencies are exempted). Credit concentration guidelines for all mutual or commingled funds used are carefully reviewed and monitored. During fiscal year 2009 and 2008, the largest concentration by a non-U.S. Government/Agency was Wachovia Bank with 0.6% and 0.9%, respectively, of total Trust Funds assets.

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2009 and 2008**

**NOTE 2 – Cash and Investments (continued)**

*Interest Rate Risk:* Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Actively-managed, fixed income separate accounts are expected to maintain their overall duration to within plus or minus one year of the established benchmark's duration. Duration-related guidelines for mutual or commingled funds used are carefully reviewed and monitored. The University of Wisconsin System uses the option adjusted modified duration method to analyze interest rate risk. The University of Wisconsin System had interest rate risk statistics for fixed income separate accounts as detailed below:

	<u>2009</u>		<u>2008</u>	
<b><u>Fixed Income Sector:</u></b>	<b><u>Market Value</u></b>	<b><u>Modified Duration</u></b>	<b><u>Market Value</u></b>	<b><u>Modified Duration</u></b>
Treasury Inflation Protected Securities	\$ 23,916,020	3.61	\$ 30,444,649	7.37
Government	2,488,731	7.42	968,791	1.29
U.S. Government Mortgages	7,797	2.80	4,170,685	5.49
Corporates and Other Credit	16,918,966	4.11	14,581,521	3.28
Collateralized Mortgage Obligations:	8,326,606	2.92	10,080,400	3.70
U.S. Agencies				
Collateralized Mortgage Obligations:	4,353,435	1.91	11,145,632	2.90
Corporate				
Commercial Mortgage Backed Securities	2,150,651	3.33	-	N/A
U.S. Private Placements	3,151,710	3.28	2,425,644	3.09
U.S. Agencies	4,242,963	4.91	3,308,069	4.28
Asset Backed Securities	<u>793,912</u>	3.70	<u>1,276,448</u>	3.04
Totals	<u>\$ 66,350,791</u>		<u>\$ 78,401,839</u>	

In addition, the University of Wisconsin System had interest rate risk statistics for actively-managed commingled accounts as detailed below:

	<u>2009</u>		<u>2008</u>	
<b><u>Fixed Income Commingled Fund:</u></b>	<b><u>Market Value</u></b>	<b><u>Modified Duration</u></b>	<b><u>Market Value</u></b>	<b><u>Modified Duration</u></b>
Seix Advisors High Yield Fund	\$ 18,387,582	4.10	\$ 16,796,566	4.18

*Foreign Currency Risk:* Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. As of June 30, 2009, the Long Term and Intermediate Term Funds held equity securities denominated in foreign currencies within pooled investment vehicles only, with market values totaling \$75,967,071 and \$4,203,800, respectively, compared to prior fiscal year amounts of \$94,307,013 and \$1,153,656, respectively. Some of the trades for such foreign positions will not settle in foreign currencies until after the fiscal year end. For the Long Term and Intermediate Term Funds, it is generally expected and desired that foreign currency exposure is not hedged, as this enhances the diversification benefits from non-U.S. investments. Foreign currency management practices and policies for mutual or commingled funds used are carefully reviewed and monitored.

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2009 and 2008**

**NOTE 3 – Receivables**

Accounts receivable, amounts due from state agencies and other governments, amounts due from capital lease receivables, and student loans receivable as of June 30, 2009 and 2008, are summarized as follows:

	<u>2009</u>	<u>2008</u>
<b>Receivables (Net):</b>		
Student Academic Fees	\$ 22,745,420	\$ 19,966,011
Grants and Contracts	61,321,890	45,676,609
Educational Activities and Other	11,920,913	15,607,511
Auxiliary Enterprises	5,663,497	2,252,614
UW Hospital Authority and La Crosse Medical Health Science Consortium, Inc.	14,679,596	16,791,998
Investment	1,150,638	9,930,666
Student Loans Receivable	199,314,924	199,798,964
State Agencies	57,843,933	62,753,863
Other Governments	<u>105,883,072</u>	<u>106,672,416</u>
Total Receivables (Net)	<u>\$ 480,523,883</u>	<u>\$ 479,450,652</u>

Student loans receivable at June 30, 2009 included allowances for uncollectible loans of \$10.5 million relative to \$10.8 million in the prior year. Principal repayment and interest rates of university and federal loans vary. Federal loan programs are funded primarily with federal contributions to the University of Wisconsin System under the Perkins loan program and a variety of health professions loan programs.

The University of Wisconsin System distributed \$94.3 million in student loans through the United States Department of Education federal direct lending program during fiscal year 2009 and \$73.0 million in 2008. These distributions and the related funding sources are not reflected as expenses and revenues in the financial statements. However, cash inflows and outflows are shown in the Statements of Cash Flows.

**NOTE 4 – Liabilities**

Accounts payable and accrued liabilities, consisting of salary and fringe benefits, due to state agencies and other governments, and vendor payables, resulting from University of Wisconsin System activities as of June 30, 2009 and 2008, are summarized as follows:

<b>Fiscal Year 2009</b>	<b>Salary and Fringe Benefits</b>	<b>Due to State Agencies and Other Governments</b>	<b>Vendors</b>	<b>Total Payables</b>
<b>UW System Activities:</b>				
Operating	\$ 71,063,732	\$ 46,531,418	\$ 37,971,607	\$ 155,566,757
Gifts, Grants and Contracts	46,471,234	2,937,216	22,783,863	72,192,313
Capital Projects	-	868,617	49,917,876	50,786,493
Auxiliary Enterprises	5,453,301	1,170,077	5,914,800	12,538,178
Investment and Other	<u>477,769</u>	<u>430,953</u>	<u>3,814,310</u>	<u>4,723,032</u>
Total Activities	<u>\$ 123,466,036</u>	<u>\$ 51,938,281</u>	<u>\$ 120,402,456</u>	<u>\$ 295,806,773</u>

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2009 and 2008**

**NOTE 4 – Liabilities (continued)**

<b>Fiscal Year 2008</b>	<b>Salary and Fringe Benefits</b>	<b>Due to State Agencies and Other Governments</b>	<b>Vendors</b>	<b>Total Payables</b>
<b>UW System Activities:</b>				
Operating	\$ 74,180,592	\$ 59,179,334	\$ 32,024,076	\$ 165,384,002
Gifts, Grants and Contracts	41,405,170	3,038,729	28,125,054	72,568,953
Capital Projects	-	1,178,132	42,967,342	44,145,474
Auxiliary Enterprises	5,540,810	2,590,452	4,120,404	12,251,666
Investment and Other	<u>442,350</u>	<u>1,205,080</u>	<u>11,271,839</u>	<u>12,919,269</u>
Total Activities	<u>\$121,568,922</u>	<u>\$ 67,191,727</u>	<u>\$ 118,508,715</u>	<u>\$ 307,269,364</u>

As of June 30, 2009, current liabilities totaled \$570.7 million inclusive of \$2.1 million in deposits of student organizations, \$295.8 million of accounts payable and accrued liabilities, \$169.8 million of unearned revenue, and the current portion of notes and bonds payable, capital lease obligations, and compensated absences. Noncurrent liabilities consisted of notes and bonds payable, capital lease obligations, and compensated absences that totaled \$953.3 million at June 30, 2009, relative to a total of \$933.0 million at June 30, 2008. Total noncurrent liabilities increased by \$20.3 million relative to fiscal year 2008.

A summarization of noncurrent liability activity for the fiscal year ended June 30, 2009 and 2008 follows:

<b>2009 Noncurrent Liabilities</b>	<b>Balance July 1, 2008</b>	<b>Increases/ Decreases</b>	<b>Balance June 30, 2009</b>	<b>Current Portion</b>
Bonds Payable	\$ 738,608,942	\$ 32,563,410	\$ 771,172,352	\$ 31,312,313
Notes Payable	65,124,344	(7,721,442)	57,402,902	8,523,815
Capital Lease Obligations	114,762,770	(6,115,637)	108,647,133	5,651,473
Compensated Absences	<u>112,366,585</u>	<u>6,752,648</u>	<u>119,119,233</u>	<u>57,595,924</u>
Total	<u>\$ 1,030,862,641</u>	<u>\$ 25,478,979</u>	<u>\$ 1,056,341,620</u>	<u>\$ 103,083,525</u>

<b>2008 Noncurrent Liabilities</b>	<b>Balance July 1, 2007</b>	<b>Increases/ Decreases</b>	<b>Balance June 30, 2008</b>	<b>Current Portion</b>
Bonds Payable	\$ 709,742,012	\$ 28,866,930	\$ 738,608,942	\$ 29,354,807
Notes Payable	72,807,570	(7,683,226)	65,124,344	7,721,022
Capital Lease Obligations	119,234,560	(4,471,790)	114,762,770	5,473,980
Compensated Absences	<u>108,722,670</u>	<u>3,643,915</u>	<u>112,366,585</u>	<u>55,356,706</u>
Total	<u>\$ 1,010,506,812</u>	<u>\$ 20,355,829</u>	<u>\$ 1,030,862,641</u>	<u>\$ 97,906,515</u>

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2009 and 2008**

**NOTE 5 – Lease Commitments**

The University of Wisconsin System had capital lease obligations with a net present value of \$108,647,133 as of June 30, 2009 compared to \$114,762,770 at June 30, 2008. The payment schedule for capital lease obligations is as follows:

2010	\$ 10,511,221
2011	10,212,972
2012	9,990,172
2013	9,795,283
2014	9,773,518
2015-2019	31,579,099
2020-2024	25,308,377
2025-2029	30,791,510
2030-2034	37,462,580
2035-2039	<u>17,166,827</u>
Total Scheduled Lease Payments	192,591,559
Amount Representing Interest	<u>(83,944,426)</u>
Net Present Value	<u>\$ 108,647,133</u>

Assets Held Under Capital Lease:

<b>2009</b>	<b>Original Cost June 30, 2009</b>	<b>Accumulated Depreciation</b>	<b>Book Value June 30, 2009</b>
Buildings and Improvements	\$ 145,780,535	\$ 27,452,092	\$ 118,328,443
Equipment	<u>6,904,759</u>	<u>5,012,510</u>	<u>1,892,249</u>
Total Assets	<u>\$ 152,685,294</u>	<u>\$ 32,464,602</u>	<u>\$ 120,220,692</u>
<b>2008</b>	<b>Original Cost June 30, 2008</b>	<b>Accumulated Depreciation</b>	<b>Book Value June 30, 2008</b>
Buildings and Improvements	\$ 144,907,037	\$ 22,193,636	\$ 122,713,401
Equipment	<u>6,961,965</u>	<u>5,222,473</u>	<u>1,739,492</u>
Total Assets	<u>\$ 151,869,002</u>	<u>\$ 27,416,109</u>	<u>\$ 124,452,893</u>

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2009 and 2008**

**NOTE 5 – Lease Commitments (continued)**

Facilities and equipment rented through operating leases are not recorded as assets on the balance sheet. Operating lease expenditures amounted to \$24,971,724 for the fiscal year ended June 30, 2009. Minimum commitments for future operating lease payments are as follows:

2010	\$ 22,036,251
2011	10,859,042
2012	7,448,927
2013	5,431,201
2014	4,915,157
2015-2019	24,169,742
2020-2024	24,957,212
2025-2029	24,332,838
2030-2034	<u>17,819,725</u>
Total	<u>\$ 141,970,095</u>

**NOTE 6 – Compensated Absences**

The compensated absences liability at June 30, 2009 consists of accumulated unpaid annual leave, compensatory time, personal holiday hours, and Saturday/legal holiday hours earned and vested. Compensated absences for the University of Wisconsin System employees at June 30, 2009 totaled \$119,119,233 compared with \$112,366,585 for the previous year. The compensated absences balance consists of a \$57,595,924 current liability and \$61,523,309 noncurrent liability compared to a \$55,356,706 current liability and \$57,009,879 noncurrent liability for the previous year. The University of Wisconsin System leave policies restrict the accumulation of unused vacation and thus limit the actual payments made to employees upon termination or retirement.

**NOTE 7 – Retirement Benefits**

Retirement benefits are provided for substantially all employees through the Wisconsin Retirement System (WRS), a cost-sharing, multiple-employer, defined benefit plan governed by Chapter 40 of the Wisconsin Statutes. State and local government public employees are entitled to an annual formula retirement benefit based on the employee's final average earnings, years of creditable service, and a formula factor. Final average earnings is the average of the participant's three highest years' earnings. Creditable service is the creditable current and prior service expressed in years or decimal equivalents of partial years for which a participant receives earnings and makes contributions as required. The formula factor is a standard percentage based on employment category. If an employee's contributions, matching employer's contributions, and interest credited to the employee's account exceed the value of the formula benefit, the retirement benefit may instead be calculated as a money purchase benefit. WRS is part of the State of Wisconsin's financial reporting entity. Copies of the separately issued financial report that includes financial statements and required supplementary information may be obtained by writing to: Department of Employee Trust Funds, P.O. Box 7931, Madison, WI 53707-7931.

Generally, the State's policy is to fund retirement contributions on a level-percentage-of-payroll basis to meet normal costs of the retirement system. The retirement plan requires employee contributions equal to specified percentages of qualified earnings based on the employee's classification, as well as employer contributions at a rate determined annually. The University of Wisconsin System made contributions of \$192,305,871 for fiscal year 2009, compared to \$182,100,932 for the previous fiscal year. In December 2003, the State issued bonds and subsequently fully liquidated its prior service liability balance as of

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2009 and 2008**

**NOTE 7 – Retirement Benefits (continued)**

January 2003. State agencies are required to make future contributions to fund the bond payments. Bond payments totaling \$45,426,987 during fiscal year 2009, compared to bond payments totaling \$42,068,796 during fiscal year 2008, are included in transfer to state agencies on the financial statements.

In addition to the Wisconsin Retirement System, certain employees associated with federally funded activities are partially covered by the Federal Retirement Program. The University of Wisconsin System's contributions to this program amounted to \$276,461 during the current year, compared with \$361,304 for the previous year.

**NOTE 8 – Postemployment Benefits Other Than Pensions**

In accordance with the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, state and local governmental employers are required to display in financial reports other postemployment benefit expense/expenditures and related liabilities (assets), note disclosures, and if applicable, required supplementary information. The employees of the University of Wisconsin System are employees of the State. The financial statements of the University of Wisconsin System do not include other postemployment benefit expense/expenditures or the related liabilities (assets) other than those actually paid during fiscal year 2009, which are included in salary and fringe benefits on the financial statements.

**Health Insurance**

The State's Health Insurance Program, a cost-sharing multiple-employer defined benefit plan not held in trust, is an employer-sponsored program offering group medical coverage to eligible employees and retirees of the State. The State Department of Employee Trust Funds and the Group Insurance Board have program administration and oversight responsibilities under Wisconsin Statutes Sections 15.165(2) and 40.03(6).

Under this plan, retired employees of the State contribute the same healthcare premium as active employees, creating an implicit rate subsidy for retirees. This implicit rate subsidy, which is calculated to cover pre-age 65 retirees (since at age 65 retirees are required to enroll in Medicare when eligible), is treated as an other postemployment benefit (OPEB).

As of the January 1, 2007 actuarial valuation, the State's annual required contributions were \$158.7 million for 2008 and \$148.5 million for 2007. The State's actual contributions were \$48.8 million in 2008 and \$44.3 million in 2007, which results in a net OPEB obligation for the State of \$214.1 million as of December 31, 2008, and \$104.2 million as of December 31, 2007. The portion of this obligation allocated to the University of Wisconsin System increased from \$47.1 million in fiscal year 2008 to \$96.6 million in fiscal year 2009. This obligation is included in the CAFR, but is not included in the University of Wisconsin System's financial statements due to differences in reporting requirements.

The CAFR includes financial statements, additional note disclosures, and required supplementary information for this plan. That report is publicly available at [www.doa.state.wi.us](http://www.doa.state.wi.us) or may be obtained by writing to: The Department of Administration, 101 East Wilson Street, Madison, Wisconsin 53702.

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2009 and 2008**

**NOTE 8 – Postemployment Benefits Other Than Pensions (continued)**

**Life Insurance and Duty Disability**

The Life Insurance program, a cost-sharing multiple-employer defined benefit plan held in trust, provides post-employment coverage to all eligible employees. The plan is administered under Wisconsin Statutes Section 40.70. Beginning at age 65, retirees and terminating members continue to receive basic coverage for life at the level of insurance in force before retirement. Retirees and terminating members under age 65 must continue to pay the employee premium to maintain coverage. The amount contributed by the University of Wisconsin System to this plan could not be determined.

The Duty Disability program, a cost-sharing multiple-employer defined benefit plan held in trust, offers special disability insurance for employees in protective occupations. This plan is administered under Wisconsin Statutes Section 40.65. Qualified employees receive benefits under this program approximating 80% of salary, less certain offsets, based upon the type and level of disability suffered and the implications of the disability on their ability to work. There are no employee contributions associated with this plan. The University of Wisconsin System contributed \$728,727 to this program during fiscal year 2009 compared to \$660,330 during fiscal year 2008.

The Department of Employee Trust Funds issues publicly available financial reports that include financial statements, additional note disclosures, and required supplementary information for these plans. The reports are available at [www.etf.wi.gov](http://www.etf.wi.gov) or may be obtained upon request from: The Department of Employee Trust Funds, 801 West Badger Road, P.O. Box 7931, Madison, Wisconsin 53707-7931.

**NOTE 9 – Capital Assets**

Land, buildings, improvements (e.g., parking lots, fences, street lighting, etc.), equipment, and library holdings are capitalized at cost at date of acquisition or fair market value at date of donation in the case of gifts-in-kind. Generally, capital equipment is defined as any single asset with a minimum value of \$5,000 and having a useful life of more than one year. Depreciation is calculated on a straight-line basis over the estimated useful lives of the respective assets: buildings over forty years, improvements over twenty years, and capital equipment over periods ranging from three to fifteen years for specified asset classes. The componentized methodology of depreciation is used for major research facilities generally using estimated useful lives ranging from ten to fifty years. Library holdings are not depreciated because these resources are viewed as inexhaustible assets. Disposals of library holdings are removed at either a historically calculated average cost or at an amount that approximates original cost as nearly as is practical to determine. The University of Wisconsin System does not capitalize the \$245.3 million in works of art or historical treasures that are held for exhibition, education, research, and public service. These collections are neither disposed of for financial gain nor encumbered in any way. Proceeds from the sale, exchange, or other disposal of any item belonging to a collection of works of art or historical treasures must be applied to the acquisition of additional items for the same collection.

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, establishes accounting and financial reporting standards for a capital asset that has experienced a significant, unexpected decline in its service utility. Two assets met the temporarily impaired definition of this standard. The University of Wisconsin - Whitewater's Central Heating Plant, net book value of \$5.3 million was idle as of June 30, 2008; however it was fully functional in Fall, 2008. The University of Wisconsin - Oshkosh's River Commons, net book value of \$.5 million, was idle as of June 30, 2008 and 2009. A decision was made on October 7, 2009 that the building will be replaced with expected insurance proceeds of \$3.1 million within the next two years. Insurance recoveries for the two buildings amounting to \$1.2 and \$1.0 million, respectively, are included in the other non-operating revenues (expenses), net, account on the financial statements.

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2009 and 2008**

**NOTE 9 – Capital Assets (continued)**

Depreciation expense for the fiscal years ended June 30, 2009 and 2008 was \$189.3 and \$174.7 million, respectively.

The change in book value from July 1, 2008 to June 30, 2009 is summarized as follows:

	<u>Book Value</u> <u>July 1, 2008</u>	<u>Additions</u>	<u>Transfers</u>	<u>Deductions</u>	<u>Book Value</u> <u>June 30, 2009</u>
Buildings	\$3,911,206,476	\$ 168,418,495	\$ 265,406,745	\$ (9,350,431)	\$4,335,681,285
Improvements	264,077,200	10,667,059	10,872,261	-	285,616,520
Land	121,585,235	8,527,594	-	-	130,112,829
Construction in Progress	358,378,124	145,673,066	(276,279,006)	-	227,772,184
Equipment	877,539,803	80,263,212	-	(43,071,374)	914,731,641
Library Holdings	<u>1,071,268,699</u>	<u>23,482,507</u>	-	<u>(6,601,132)</u>	<u>1,088,150,074</u>
Subtotal	6,604,055,537	437,031,933	-	(59,022,937)	6,982,064,533
Less Accumulated Depreciation:					
Buildings	1,586,610,410	114,424,933	-	(6,556,867)	1,694,478,476
Improvements	166,653,712	9,491,188	-	-	176,144,900
Equipment	<u>626,216,990</u>	<u>65,418,505</u>	-	<u>(33,116,729)</u>	<u>658,518,766</u>
Total Accumulated Depreciation	2,379,481,112	189,334,626	-	(39,673,596)	2,529,142,142
Capital Assets, Net	<u>\$4,224,574,425</u>	<u>\$ 247,697,307</u>	<u>\$ -</u>	<u>\$ (19,349,341)</u>	<u>\$4,452,922,391</u>

The change in book value from July 1, 2007 to June 30, 2008 is summarized as follows:

	<u>Book Value</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Transfers</u>	<u>Deductions</u>	<u>Book Value</u> <u>June 30, 2008</u>
Buildings	\$3,641,003,285	\$ 92,009,915	\$ 182,784,383	\$ (4,591,107)	\$3,911,206,476
Improvements	252,892,496	7,442,996	4,116,808	(375,100)	264,077,200
Land	118,360,744	3,231,813	-	(7,322)	121,585,235
Construction in Progress	314,073,031	231,206,284	(186,901,191)	-	358,378,124
Equipment	839,552,980	65,474,237	-	(27,487,414)	877,539,803
Library Holdings	<u>1,052,657,879</u>	<u>22,589,901</u>	-	<u>(3,979,081)</u>	<u>1,071,268,699</u>
Subtotal	6,218,540,415	421,955,146	-	(36,440,024)	6,604,055,537
Less Accumulated Depreciation:					
Buildings	1,486,385,416	103,128,136	-	(2,903,142)	1,586,610,410
Improvements	158,160,759	8,857,235	-	(364,282)	166,653,712
Equipment	<u>579,275,024</u>	<u>62,734,505</u>	-	<u>(15,792,539)</u>	<u>626,216,990</u>
Total Accumulated Depreciation	2,223,821,199	174,719,876	-	(19,059,963)	2,379,481,112
Capital Assets, Net	<u>\$3,994,719,216</u>	<u>\$ 247,235,270</u>	<u>\$ -</u>	<u>\$ (17,380,061)</u>	<u>\$4,224,574,425</u>

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2009 and 2008**

**NOTE 10 – Long Term Debt**

The State of Wisconsin issues general obligation bonds and notes on behalf of its constituent agencies, including the University of Wisconsin System, the proceeds of which are used to construct or acquire facilities and other capital assets. The University of Wisconsin System holds title to the assets thus acquired. As an enterprise fund of the State of Wisconsin, the University of Wisconsin System reports on its Statements of Net Assets that portion of the debt that will be repaid with program revenues generated by the University of Wisconsin System's self-supporting operations. Debt on academic facilities that is repaid by an appropriation from the State of Wisconsin to the University of Wisconsin System for that purpose is reported by the State of Wisconsin and not as an obligation of the University of Wisconsin System. However, cash inflows and outflows are shown in the Statements of Cash Flows.

The following information relates to the status of bonds and notes payable outstanding at June 30, 2009:

	<b>Maturity Dates</b>	<b>Balance July 1, 2008</b>	<b>New Debt/ Accretion</b>	<b>Principal Paid/ Adjustments</b>	<b>Balance June 30, 2009</b>
Bonds (Gross)	2010-2034	\$ 718,765,149	\$ 59,476,278	\$ (27,081,774)	\$ 751,159,653
Notes	2010-2017	<u>65,124,344</u>	<u>-</u>	<u>(7,721,442)</u>	<u>57,402,902</u>
		<u>\$ 783,889,493</u>	<u>\$ 59,476,278</u>	<u>\$ (34,803,216)</u>	<u>\$ 808,562,555</u>

The bonds have maturity dates ranging from October 15, 2009 to April 15, 2034. The notes have maturity dates ranging from May 1, 2010 to May 1, 2017.

As of June 30, 2009, the current and noncurrent bonds payable net of discounts, premiums, and deferred refunding totaled \$31,312,313 and \$739,860,039, respectively.

	<b>Balance June 30, 2009</b>	<b>Current</b>	<b>Noncurrent</b>
Bonds (Gross)	\$ 751,159,653	\$ 28,729,490	\$ 722,430,163
Discount	(74,086)	(12,854)	(61,232)
Premium	27,821,503	3,589,986	24,231,517
Deferred Refunding	<u>(7,734,718)</u>	<u>(994,309)</u>	<u>(6,740,409)</u>
Bonds (Net)	771,172,352	31,312,313	739,860,039
Notes	<u>57,402,902</u>	<u>8,523,815</u>	<u>48,879,087</u>
	<u>\$ 828,575,254</u>	<u>\$ 39,836,128</u>	<u>\$ 788,739,126</u>

The following information relates to the status of bonds and notes payable outstanding at June 30, 2008:

	<b>Maturity Dates</b>	<b>Balance July 1, 2007</b>	<b>New Debt/ Accretion</b>	<b>Principal Paid/ Adjustments</b>	<b>Balance June 30, 2008</b>
Bonds (Gross)	2009-2034	\$ 690,647,324	\$ 51,945,502	\$ (23,827,677)	\$ 718,765,149
Notes	2009-2017	<u>72,807,570</u>	<u>-</u>	<u>(7,683,226)</u>	<u>65,124,344</u>
		<u>\$ 763,454,894</u>	<u>\$ 51,945,502</u>	<u>\$ (31,510,903)</u>	<u>\$ 783,889,493</u>

The bonds have maturity dates ranging from October 15, 2008 to April 15, 2034. The notes have maturity dates ranging from May 1, 2009 to May 1, 2017.

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2009 and 2008**

**NOTE 10 – Long Term Debt (continued)**

As of June 30, 2008, the current and noncurrent bonds payable net of discounts, premiums, and deferred refunding totaled \$29,354,807 and \$709,254,135, respectively.

	<b>Balance June 30, 2008</b>	<b>Current</b>	<b>Noncurrent</b>
Bonds (Gross)	\$ 718,765,149	\$ 27,052,706	\$ 691,712,443
Discount	(86,940)	(12,854)	(74,086)
Premium	28,815,008	3,470,957	25,344,051
Deferred Refunding	<u>(8,884,275)</u>	<u>(1,156,002)</u>	<u>(7,728,273)</u>
Bonds (Net)	738,608,942	29,354,807	709,254,135
Notes	<u>65,124,344</u>	<u>7,721,022</u>	<u>57,403,322</u>
	<u>\$ 803,733,286</u>	<u>\$ 37,075,829</u>	<u>\$ 766,657,457</u>

Future debt service requirements for bonds and notes outstanding at June 30, 2009 are as follows:

Future Repayment Schedule

Fiscal Year	<b>Bonds</b>		<b>Notes</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2010	\$ 28,729,489	\$ 36,857,661	\$ 8,523,815	\$ 2,871,078
2011	29,318,799	35,405,172	8,946,571	2,444,421
2012	32,624,403	33,879,799	7,427,756	1,996,626
2013	34,516,556	32,267,915	7,789,463	1,625,238
2014	33,867,960	30,540,214	8,181,874	1,235,765
2015-2019	200,123,773	125,479,205	16,533,423	1,542,818
2020-2024	213,316,919	73,811,844	-	-
2025-2029	159,205,520	24,404,662	-	-
2030-2034	<u>19,456,234</u>	<u>2,937,574</u>	-	-
Total	<u>\$ 751,159,653</u>	<u>\$ 395,584,046</u>	<u>\$ 57,402,902</u>	<u>\$ 11,715,946</u>

As noted above, debt on academic facilities that is repaid by an appropriation from the State of Wisconsin to the University of Wisconsin System for that purpose is reported by the State of Wisconsin and not as an obligation of the University of Wisconsin System. As of June 30, 2009, the principal balance of such bonds and notes was \$1,065,111,382 and \$137,649,536, respectively. As of June 30, 2008, the principal balance of such bonds and notes was \$997,418,270 and \$137,649,536, respectively.

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2009 and 2008**

**NOTE 10 – Long Term Debt (continued)**

Debt service payments made by the State of Wisconsin for the years ended June 30, 2009 and 2008 were allocated as follows:

<b>2009</b>	<b><u>Bonds</u></b>	<b><u>Notes</u></b>
Principal	\$ 76,117,449	\$ -
Interest	<u>45,781,343</u>	<u>2,001,335</u>
Total Paid	<u>\$ 121,898,792</u>	<u>\$ 2,001,335</u>
<b>2008</b>	<b><u>Bonds</u></b>	<b><u>Notes</u></b>
Principal	\$ 70,359,938	\$ -
Interest	<u>45,374,533</u>	<u>5,224,744</u>
Total Paid	<u>\$ 115,734,471</u>	<u>\$ 5,224,744</u>

**NOTE 11 – Other Organizations**

The Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, an amendment of GASB Statement No. 14, provide guidance in determining whether organizations are to be included as part of a reporting entity. The University of Wisconsin System has determined that, in accordance with the provisions of GASB Statement No. 14 and 39, the accounts of the following three groups of organizations are not included in the financial statements; however, the following financial information is provided.

**A – University of Wisconsin Foundation**

The University of Wisconsin (UW) Foundation is the official not-for-profit fund raising corporation for the University of Wisconsin-Madison and several other units of the University of Wisconsin System. It receives gifts and bequests, administers and invests securities and property, and disburses payments to and on behalf of the University of Wisconsin for advancement of scientific, literary, athletic, and educational purposes. The UW Foundation reports on a fiscal year ended December 31. Copies of the separately issued financial statements may be obtained by writing to: University of Wisconsin Foundation, Attn: Finance, P.O. Box 8860, Madison, WI 53708-8860.

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2009 and 2008**

**NOTE 11 – Other Organizations (continued)**

**A – University of Wisconsin Foundation (continued)**

Significant financial data for the UW Foundation for the years ending December 31, 2008 and 2007 are presented below (in thousands):

<b>Condensed Balance Sheet</b>	<b><u>2008</u></b>	<b><u>2007*</u></b>
Assets:		
Cash, Investments and Other Assets	\$ 2,266,575	\$ 2,876,047
Capital Assets, Net	<u>7,523</u>	<u>7,788</u>
Total Assets	<u>\$ 2,274,098</u>	<u>\$ 2,883,835</u>
Liabilities:		
Accounts Payable and Other Current Liabilities	\$ 47,640	\$ 24,116
Amounts Held for Other Component Units	213,384	260,026
Long-term Liabilities (Current and Noncurrent Portions)	<u>43,599</u>	<u>54,457</u>
Total Liabilities	<u>304,623</u>	<u>338,599</u>
Fund Equity:		
Invested in Capital Assets, Net of Related Debt	7,523	7,788
Restricted	1,841,876	1,844,345
Unrestricted	<u>120,076</u>	<u>693,103</u>
Total Fund Equity	<u>1,969,475</u>	<u>2,545,236</u>
Total Liabilities and Fund Equity	<u>\$ 2,274,098</u>	<u>\$ 2,883,835</u>
<b>Condensed Statement of Revenues, Expenses and Changes in Fund Equity</b>		
Program Expenses:		
Depreciation	\$ 427	\$ 358
Payments to Primary Government	203,345	228,686
Other	<u>40,451</u>	<u>57,391</u>
Total Program Expenses	<u>244,223</u>	<u>286,435</u>
Program Revenues:		
Investment and Interest Income	(493,024)	183,334
Operating Grants and Contributions	160,980	269,929
Other	<u>506</u>	<u>91</u>
Total Program Revenues	<u>(331,538)</u>	<u>453,354</u>
Net Program (Expenses) Revenues	(575,761)	166,919
Change in Fund Equity	(575,761)	166,919
Fund Equity, Beginning of Year	<u>2,545,236</u>	<u>2,378,317</u>
Fund Equity, End of Year	<u>\$ 1,969,475</u>	<u>\$ 2,545,236</u>

\*The Balance Sheet was audited but the Statement of Revenues, Expenses and Changes in Fund Equity was not.

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2009 and 2008**

**NOTE 11 – Other Organizations (continued)**

**B – Funds Held In Trust by Others**

Funds held in trust by others are endowment funds held by trustees outside of the University of Wisconsin System Trust Funds for the benefit of the University of Wisconsin System. The market value of these funds amounted to \$138,413,060 at June 30, 2009, compared with \$190,553,080 at June 30, 2008.

**C – Lease Agreements**

**University of Wisconsin Hospital and Clinics Authority**

The University of Wisconsin Hospital and Clinics Authority (UWHCA), pursuant to an act of the Wisconsin State Legislature, began operating on June 29, 1996 as a separate public authority. As required by this legislation, the University of Wisconsin System has entered into various affiliation and operating agreements with UWHCA, including a lease agreement. Under the terms of the lease, UWHCA makes payments equal to the debt service on all outstanding bonds issued by the State of Wisconsin to acquire, construct, or improve the leased facilities. At June 30, 2009, the present value of these future lease payments totaled \$7.7 million, an amount equal to the principal on the related bonds outstanding; the asset is included on the balance sheet as part of the capital lease receivable, and the related debt is included as part of the total UW System bonds outstanding of \$751.2 million. The leased facilities are not included as part of the University of Wisconsin System's investment in buildings since they have been reported by UWHCA in their audited financial statements in accordance with the generally accepted accounting principles that pertain to the reporting of leased assets.

During the fiscal year ended June 30, 2009, the University of Wisconsin System received services from UWHCA totaling \$4.7 million and provided services to UWHCA totaling \$47.5 million. The cost of the services provided and the associated revenue are separately identified in the Statements of Revenues, Expenses and Changes in Net Assets. The amounts spent for services received are included as salaries and fringe benefits and supplies and services expenses on this statement. The services received were funded by an equivalent amount of state appropriations revenue.

**La Crosse Medical Health Science Education Research Center**

On June 6, 1997, the Board of Regents of the University of Wisconsin System entered into a Use Agreement with The La Crosse Medical Health Science Consortium, Inc. (The Consortium), a Wisconsin non-stock corporation tax exempt under Internal Revenue Code (IRC) 501(c)(3) with offices at 1725 State Street, La Crosse, Wisconsin 54601. The Use Agreement makes available the exclusive use of the La Crosse Medical Health Science Education Research Center to The Consortium. As required by this Use Agreement, the University of Wisconsin System has entered into various operating agreements with The Consortium, including a lease agreement. Under the terms of the lease, The Consortium makes payments equal to the debt service on all outstanding bonds issued by the State of Wisconsin to acquire, construct, or improve the leased facilities. At June 30, 2009, the present value of these future lease payments totaled \$5.5 million, an amount equal to the principal on the related bonds outstanding; the asset is included on the balance sheet as part of the capital lease receivable, and the related debt is included as part of the total UW System bonds outstanding of \$751.2 million. The leased facilities are not included as part of the University of Wisconsin System's investment in buildings since they have been reported by The Consortium in their audited financial statements in accordance with the generally accepted accounting principles that pertain to the reporting of leased assets.

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2009 and 2008**

**NOTE 11 – Other Organizations (continued)**

**C – Lease Agreements (continued)**

During the fiscal year ended June 30, 2009, the University of Wisconsin System provided services and rent to The Consortium totaling \$.7 million. The cost of the services provided and the associated revenue are included in the Statements of Revenues, Expenses and Changes in Net Assets. The amounts spent for services received are included as salaries and fringe benefits and supplies and services expenses on this statement. The services received were funded by an equivalent amount of state appropriations revenue.

**D – Other Agreements**

**University of Wisconsin Medical Foundation**

The University of Wisconsin (UW) Medical Foundation is the not-for-profit clinical practice organization for the faculty physicians of the UW School of Medicine and Public Health within UW-Madison. The UW Medical Foundation provides clinical sites, technical and professional staff and administrative services for the UW faculty physicians group.

During fiscal year 2007-08, the Wisconsin Department of Health Services (DHS) implemented a Certified Public Expenditure (CPE) program for the services the UW faculty physicians group provides to Medical Assistance (MA) recipients. Because the UW faculty physicians group qualifies as a public provider, it is eligible to receive cost-based reimbursement under federal MA rules.

Under the CPE program, DHS is able to claim additional federal MA funds based upon the difference between the established MA reimbursement rate for the services provided by the UW faculty physicians group and the actual cost of providing those services. To enable the draw of these federal funds by DHS, UW-Madison remitted a total of \$35.9 million to DHS during fiscal years 2009 and 2008, representing the state's share of this difference. DHS then claimed the federal share of the difference from the federal government and subsequently provided \$79.6 million, representing both the state and federal share of the difference, to the UW Medical Foundation. During fiscal year 2009, the UW Medical Foundation remitted \$65.9 million to UW-Madison as reimbursement for the \$35.9 million that UW-Madison remitted to DHS as well as reimbursement for annual \$15 million transfers made by UW-Madison to the State's MA Trust Fund during fiscal years 2009 and 2008. The \$65.9 million that UW-Madison received from the UW Medical Foundation is included in the other non-operating revenues (expenses), net, account on the financial statements. The \$15 million transfers to the MA Trust Fund are reported as a transfer to state agencies on the financial statements.

**University of Wisconsin Hospital and Clinics Authority**

The University of Wisconsin Hospital and Clinics Authority (UWHCA) provides inpatient and outpatient hospital services to Medical Assistance (MA) recipients. Under federal MA rules, services provided by UWHCA are eligible for supplemental payments for the difference between the established MA reimbursement rate for the services provided and the actual cost of providing those services. Supplemental payments of \$49 million were paid to UWHCA by the Wisconsin Department of Health Services during the fiscal year ended June 30, 2009 for services provided during 1990 through 2006. UWHCA provided the funds to UW-Madison, which reported the \$49 million in the other non-operating revenues (expenses) account, net, on the financial statements.

Pursuant to 2009 Act 28, UW-Madison transferred \$49 million to the State's General Fund. This transfer is reported as a transfer to state agencies on the financial statements.

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2009 and 2008**

**NOTE 12 – Operating Expenses by Functional Classification**

Operating expenses by functional classification for the fiscal year ended June 30, 2009:

	<b>Salary and Fringe Benefits</b>	<b>Scholarships and Fellowships</b>	<b>Supplies and Services</b>	<b>Other</b>	<b>Depreciation</b>	<b>Total</b>
Instruction	\$ 973,669,916	\$ 1,136,826	\$ 122,049,930	\$ 559,731	\$ -	\$ 1,097,416,403
Research	571,014,985	2,666,305	175,829,683	623,707	-	750,134,680
Public Service	189,516,419	199,588	109,146,413	1,424,550	-	300,286,970
Academic Support	266,033,887	62,839	68,062,634	(13,574)	-	334,145,786
Farm Operations	9,633,504	-	5,039,588	(1,192)	-	14,671,900
Student Services	237,387,994	(2,548,474)	131,033,769	87,176	-	365,960,465
Institutional Support	190,071,913	32,525	7,522,028	21,053	-	197,647,519
Operation/Maintenance	146,235,386	214	149,509,122	5,602	-	295,750,324
Financial Aid	5,798,883	97,562,080	275,615	2,488,899	-	106,125,477
Auxiliary Enterprises	102,020,482	16,961	193,525,615	(234,624)	-	295,328,434
Hospital	-	-	97,490,237	-	-	97,490,237
Depreciation	-	-	-	-	189,334,626	189,334,626
Total Operating Expenses	<u>\$ 2,691,383,369</u>	<u>\$ 99,128,864</u>	<u>\$ 1,059,484,634</u>	<u>\$ 4,961,328</u>	<u>\$ 189,334,626</u>	<u>\$ 4,044,292,821</u>

Operating expenses totaled \$4.0 billion. Salary and fringe benefits, scholarships and fellowships, and supplies and services and other expenses constituted 66.5%, 2.5%, and 26.3% of total operating expenses, respectively. Depreciation comprised \$189.3 million or 4.7% of total operating expenses.

Operating expenses by functional classification for the fiscal year ended June 30, 2008:

	<b>Salary and Fringe Benefits</b>	<b>Scholarships and Fellowships</b>	<b>Supplies and Services</b>	<b>Other</b>	<b>Depreciation</b>	<b>Total</b>
Instruction	\$ 932,078,774	\$ 987,188	\$ 117,982,906	\$ 225,984	\$ -	\$ 1,051,274,852
Research	548,444,232	2,502,810	203,559,504	834,705	-	755,341,251
Public Service	186,454,866	242,083	125,041,155	814,432	-	312,552,536
Academic Support	256,170,823	64,119	67,539,601	(81,215)	-	323,693,328
Farm Operations	9,236,410	-	5,711,328	(11,584)	-	14,936,154
Student Services	226,241,604	(5,650,279)	117,656,728	(112,555)	-	338,135,498
Institutional Support	177,467,122	29,693	15,153,724	(250,691)	-	192,399,848
Operation/Maintenance	138,534,114	-	129,411,602	(19,663)	-	267,926,053
Financial Aid	5,475,134	90,725,492	4,360	2,876,652	-	99,081,638
Auxiliary Enterprises	97,512,480	13,554	185,333,309	268,746	-	283,128,089
Hospital	-	-	46,900,747	-	-	46,900,747
Depreciation	-	-	-	-	174,719,876	174,719,876
Total Operating Expenses	<u>\$ 2,577,615,559</u>	<u>\$ 88,914,660</u>	<u>\$ 1,014,294,964</u>	<u>\$ 4,544,811</u>	<u>\$ 174,719,876</u>	<u>\$ 3,860,089,870</u>

Operating expenses totaled \$3.9 billion. Salary and fringe benefits, scholarships and fellowships, and supplies and services and other expenses constituted 66.8%, 2.3%, and 26.4% of total operating expenses, respectively. Depreciation comprised \$174.7 million or 4.5% of total operating expenses.

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2009 and 2008**

**NOTE 13 – Classification of Net Assets**

Net assets are reported in the following six categories:	<u>2009</u>	<u>2008</u>
• Invested in capital assets, net of related debt	\$ 3,515,700,004	\$ 3,306,078,369
• Restricted - Nonexpendable Net assets subject to externally-imposed stipulations that they be maintained permanently by the University of Wisconsin System including:		
➤ Gifts provided in trust as permanent endowment	122,923,573	150,149,852
• Restricted - Expendable Net assets whose use by the University of Wisconsin System is subject to externally-imposed stipulations that can be fulfilled by actions of the University of Wisconsin System pursuant to those stipulations or that expire by the passage of time including:		
➤ Funds managed by the University of Wisconsin System in trust as quasi-endowment	165,295,490	176,179,645
➤ Auxiliary operations as established by state statute	139,419,092	141,082,554
• Restricted - Student Loans	220,588,341	219,140,599
• Restricted - Other Net assets of other legally separate appropriations	216,370,915	156,969,265
• Unrestricted Net assets that are not subject to externally-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Regents or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net assets are designated for academic and research programs and initiatives, and capital programs.	315,978,770	217,610,287

The following table shows reclassifications which are done to conform to reporting requirements related to the State of Wisconsin's CAFR. As a reporting entity, the Board of Regents of the University of Wisconsin System cannot exercise total discretion over the use of net assets of auxiliary operations because of statutory mandates; however, they do have discretion in the use of the net assets of quasi-endowments reported as unrestricted.

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2009 and 2008**

**NOTE 13 – Classification of Net Assets (continued)**

CAFR reclassifications as of June 30, 2009:

(In Millions)

	<b>University of Wisconsin System</b>	<b>Auxiliary Operations</b>	<b>Quasi- Endowments</b>	<b>Student Loans</b>	<b>Other Postemployment Benefits (Note 8)</b>	<b>State of Wisconsin CAFR</b>
Invested in Capital Assets, Net of Related Debt	\$ 3,515.7	\$ -	\$ -	\$ -	\$ -	\$ 3,515.7
Restricted for						
Nonexpendable	122.9	-	-	-	-	122.9
Expendable	304.7	(139.4)	54.7	-	-	220.0
Student Loans	220.6	-	-	(7.7)	-	212.9
Other	216.4	-	-	7.7	(17.6)	206.5
Unrestricted	<u>316.0</u>	<u>139.4</u>	<u>(54.7)</u>	<u>-</u>	<u>(79.0)</u>	<u>321.7</u>
<b>TOTAL NET ASSETS</b>	<b><u>\$ 4,696.3</u></b>	<b><u>\$ 0.0</u></b>	<b><u>\$ 0.0</u></b>	<b><u>\$ 0.0</u></b>	<b><u>\$ (96.6)</u></b>	<b><u>\$ 4,599.7</u></b>

CAFR reclassifications as of June 30, 2008:

(In Millions)

	<b>University of Wisconsin System</b>	<b>Auxiliary Operations</b>	<b>Quasi- Endowments</b>	<b>Student Loans</b>	<b>Other Postemployment Benefits (Note 8)</b>	<b>State of Wisconsin CAFR</b>
Invested in Capital Assets, Net of Related Debt	\$ 3,306.1	\$ -	\$ -	\$ -	\$ -	\$ 3,306.1
Restricted for						
Nonexpendable	150.1	-	-	-	-	150.1
Expendable	317.3	(141.1)	69.4	-	-	245.6
Student Loans	219.1	-	-	(8.9)	-	210.2
Other	157.0	-	-	8.9	(8.6)	157.3
Unrestricted	<u>217.6</u>	<u>141.1</u>	<u>(69.4)</u>	<u>-</u>	<u>(38.5)</u>	<u>250.8</u>
<b>TOTAL NET ASSETS</b>	<b><u>\$ 4,367.2</u></b>	<b><u>\$ 0.0</u></b>	<b><u>\$ 0.0</u></b>	<b><u>\$ 0.0</u></b>	<b><u>\$ (47.1)</u></b>	<b><u>\$ 4,320.1</u></b>

**NOTE 14 – Prior Period Adjustments**

The June 30, 2009 Statement of Net Assets does not include a prior period adjustment.

The June 30, 2008 Statement of Net Assets include prior period adjustments showing an increase of \$212,877. These adjustments are summarized as follows:

<b><u>Adjustment</u></b>	<b><u>Amount</u></b>
Cash	\$ 58,057
Buildings, Net of Accumulated Depreciation	<u>154,820</u>
Total	<b><u>\$ 212,877</u></b>

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2009 and 2008**

**NOTE 15 – Contingent Liabilities**

The University of Wisconsin System is covered by the State of Wisconsin's self-insurance program with settlements or judgments paid from the State Risk Management Fund. Loss experience is rated back to the individual University of Wisconsin institutions in subsequent years with a maximum payment of \$100,000 per incident.

The University of Wisconsin System is party in a number of legal actions. While final resolutions have not yet been determined, management is of the opinion that any liabilities resulting from these actions will not have a material adverse effect on the University of Wisconsin System's financial position.

**NOTE 16 – Subsequent Events**

In September 2009, the State of Wisconsin issued long-term debt of \$138.4 million of 2009 Series C and D general obligation bonds on behalf of the University of Wisconsin System to be used for the acquisition, construction, development, extension, enlargement, or improvement of land, property, buildings, equipment, or facilities. A 3% through 5.9% interest rate is payable semiannually on May 1 and November 1, beginning May 1, 2010 for the 2009C series and 2009D series respectively. The bonds mature May 1 of the years 2012 through 2030, 2034, and 2040.

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