



Annual Financial Report 2011



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Cover Photo: Enjoying a clear September morning, students stroll to and from class on the pedestrian mall in front of UW-Parkside's Student Center. The welcoming new front entrance was added with an addition/remodel project that opened in [January 2009](#). The project increased the size of the center, adding a Student Involvement Center, a Center for Student Leadership and Cultural Development, a new Den, updated dining facilities, and expanded meeting rooms and programming spaces, including a new ballroom. In 2011, students celebrated the "Year of the Arts" in style, with the fall opening of the UW-Parkside Regional Center for Arts and Humanities.

Founded in 1968, UW-Parkside is the second smallest campus community in the system with the second largest campus. Located near Kenosha, between Milwaukee and Chicago, UW-Parkside is one of two universities in the UW System not named for the city in which it is located, the other being UW-Stout. With an enrollment of about 5,300 students and a low student/faculty ratio of 19:1, UW-Parkside's small, diverse campus community benefits students, providing manageable learning environments and great opportunities.

Photo provided by UW-Parkside (Photographer: Don Lintner)

**University of Wisconsin System
2011 Annual Financial Report**

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**UNIVERSITY
OF WISCONSIN
SYSTEM**

UNIVERSITY OF WISCONSIN SYSTEM
Years Ended June 30, 2011 and 2010

Introduction from the President
and
Vice President's Report



INTRODUCTION FROM THE PRESIDENT FINANCIAL REPORT 2011

The University of Wisconsin System continues to be one of the most efficient, accountable, and productive systems of higher education in the nation.

State leaders and other stakeholders recognize our public university as a critical driver of economic development. Together, we are engaged in important discussions on how best to boost educational attainment and economic development in Wisconsin, aligning state policies with our mutual goals. We remain committed to the *Growth Agenda for Wisconsin*, our long-range plan – formed with broad, bi-partisan support – to produce more highly qualified college graduates, increase per capita income, create well-paying jobs, and contribute to a higher quality of life for all state residents.

UW institutions contribute in many ways to vibrant Wisconsin communities where citizens and businesses alike can prosper. In the 2010-11 academic year, we enrolled a record high of more than 182,000 students. In addition, more than one million residents participate each year in university programs through statewide extension networks. Through our recently

launched eCampus portal, more working adults are able to return to college and access a growing array of online degree programs, without ever entering a classroom.

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. We emerged from the last biennial budget knowing there will be continued stress as the national and state economies strive to recover from the global recession. New flexibilities from the state will help, enabling our campus leaders to use scarce resources where they are needed most to support student learning, research, and community outreach. Yet, sizeable midyear budget lapses, on top of reduced state support, will pose significant challenges for our UW institutions.

Maintaining broad access to a high-quality college education and achieving the *Growth Agenda* goals – priorities we know the state shares – will require state reinvestment and additional flexibility to employ more efficient business practices. Policymakers and citizens must be assured that their investments in the UW are providing positive returns to Wisconsin. In fact, recent data show that 81% of students who start out as Wisconsin residents stay in the state – indicating we hang on to an impressively high percentage of “our best and brightest.”

Despite the prolonged resource challenges, the UW System has efficiently managed increased educational demands, while maintaining our international reputation for academic quality. We consistently spend a significantly smaller share of our educational and general expenses on administration compared to peer university systems, saving Wisconsin taxpayers millions of dollars each year. Funding per student on administration is now just half the national average.

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 2011

As we review the activities during the second year of the 2009-11 biennium, we are reminded of the fiscal challenges facing the University of Wisconsin System. Our dedicated faculty and staff are to be commended. Mandatory furloughs equating to a 3% salary reduction continued in 2010-11. Despite the conclusions of the Competitive University Workforce Committee documenting the significant gap in our university salaries as compared to peer institutions, salary increases were nowhere in sight. In addition, proposed changes to the share of health care and retirement benefits paid by state employees equated to additional salary reductions. However, record enrollments continued. After a gain of 3,000 students in the Fall of 2009, the UW System enjoyed a record enrollment of 182,000 students in the Fall of 2010. The commitment to the *Growth Agenda for Wisconsin* is readily apparent. In order to keep tuition affordable, the Board of Regents once again contained the overall tuition increase at 5.5%. In order to preserve a low cost access point to a UW education, the Board also held tuition flat at the two-year Colleges for the fourth year in a row.

State appropriations no longer represent the largest singular share of total revenue. Although state support fell by \$37.7 million in fiscal year 2010, it did grow by \$53.9 million in 2011. State appropriations now represent 21.1% of the University's total revenue, 10.0% less than fiscal year 2001-02. For the second year in a row, the largest share of total revenue is generated from net student tuition and fees, representing 22.1% of total revenue. Net tuition revenue grew by \$67 million in 2011 to \$1.07 billion. Grants and contracts from the federal government accounted for 17.9% of total revenues while grants and contracts from the state, local, and private providers were an additional 8.2%. If combined, total grants and contracts would become the largest share of total revenue (26.1%). Total revenues from grants and contracts grew to \$1.27 billion in fiscal year 2011, an increase of \$91 million over the prior year. This was driven by a combination of successful competition for American Recovery and Reinvestment (ARRA) grant funding and increases in private funding. Sales and services of varying types amounted to 14.5% of total revenue, with auxiliary enterprises responsible for 7.2%, educational activities 6.2%, and hospital authority the remaining 1.1%. While gifts and investment income accounted for 5.8%, they only grew modestly to \$280.4 million. 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 5.7%. The UW System has continued to grow and diversify its revenue sources to preserve its core mission of teaching, research, and service during these challenging fiscal times.

During 2010-11, the UW System advocated strongly for new operating flexibilities to provide our colleges, universities, and extension with the tools to manage their respective institutions. The 2011-13 biennial budget brought flexibilities in multiple areas, predominantly in the areas of budgeting and financial management, procurement, personnel, travel, and construction. Some of the flexibilities are effective immediately while others cannot be implemented until July 1, 2013. In addition, new accountability indicators have been identified. While the original proposal to separate UW-Madison from the UW System was deleted, a Special Task Force on UW Restructuring and Operational Flexibilities was established. The Task Force has begun its deliberations on six targeted areas in the Fall of 2011.

The UW System is a people business as demonstrated by the fact that two-thirds of overall operating

expenses are devoted to salaries and benefits. Out of \$4.3 billion in fiscal year 2011 operating expenses, \$2.9 billion were personnel related costs. Supplies and services totaled \$1.1 billion, or 24.8% of the total. University provided scholarships and fellowships represented 3.6% of the total expenses. While total operating expenses grew by \$172.7 million over the prior year, salaries and benefits grew by \$103.5 million. Supplies and services accounted for only \$30.3 million of the growth.

When looking at the functional breakdown of the UW System's operating expenses, instruction is our highest priority, representing the largest expenditure category at \$1.1 billion in fiscal year 2011. Student-related expenditures including instruction, student services, academic support, financial aid, and auxiliary operations totaled \$2.3 billion, accounting for 54.2% of total operating expenditures. Continuing the increase in grants and contract revenues, expenditures for research increased 3.9% to \$858.5 million from \$826.2 million, or \$32.3 million. Keeping our emphasis on maintaining low administrative costs, expenditures for institutional support held steady at a modest 4.8% of our operating expenses.

I invite you to review the 2011 financial statements along with Management's Discussion and Analysis and send your comments to me at ddurcan@uwsa.edu.

Deborah A. Durcan
Vice President for Finance

UNIVERSITY OF WISCONSIN SYSTEM
Years Ended June 30, 2011 and 2010

Supplemental Information

CHART 1
TEN-YEAR COMPARISON OF CURRENT FUNDS REVENUES
2001-2011

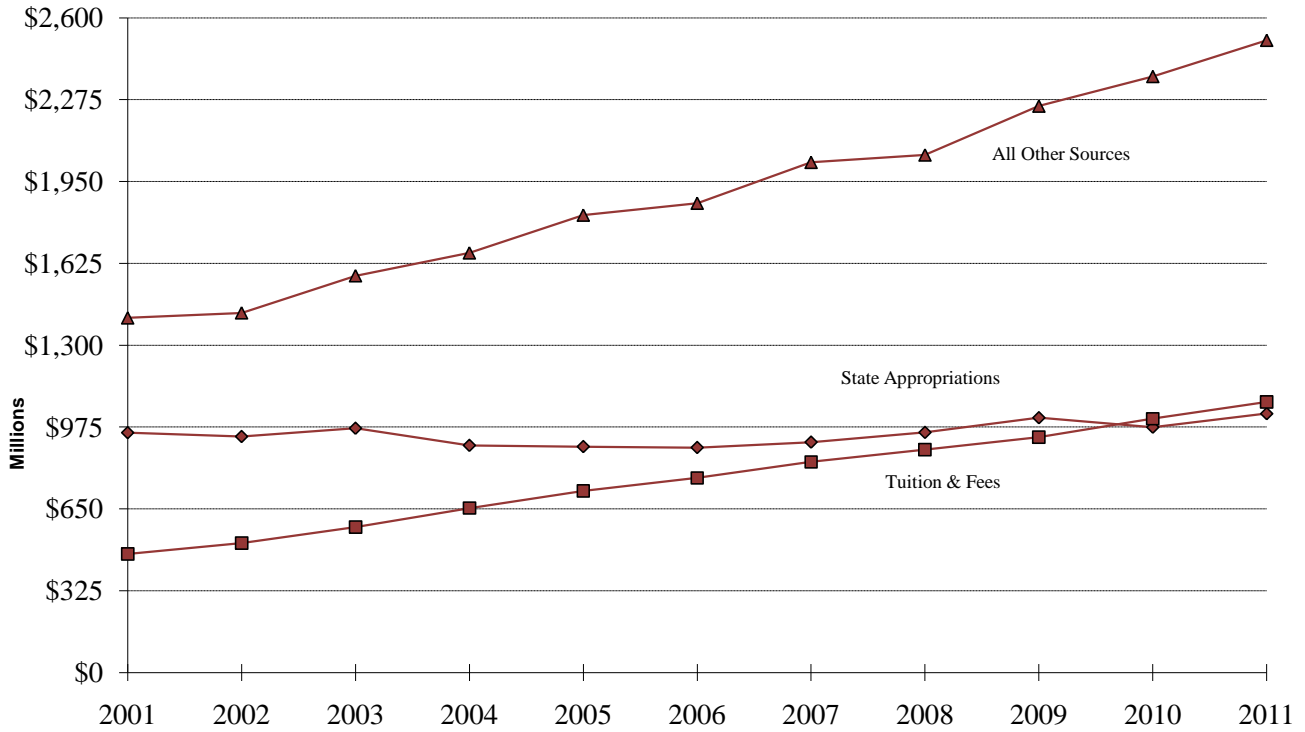


CHART 2
TEN-YEAR COMPARISON OF CURRENT FUNDS REVENUES
ADJUSTED FOR INFLATION
2001 - 2011

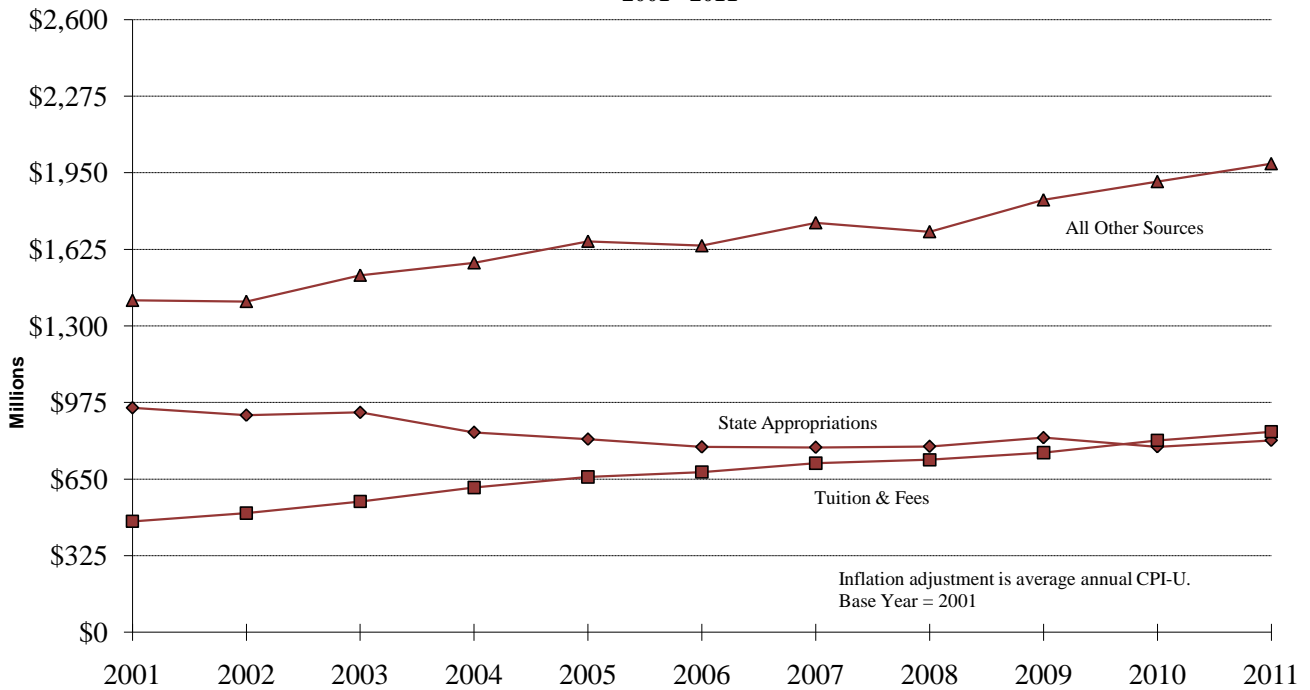
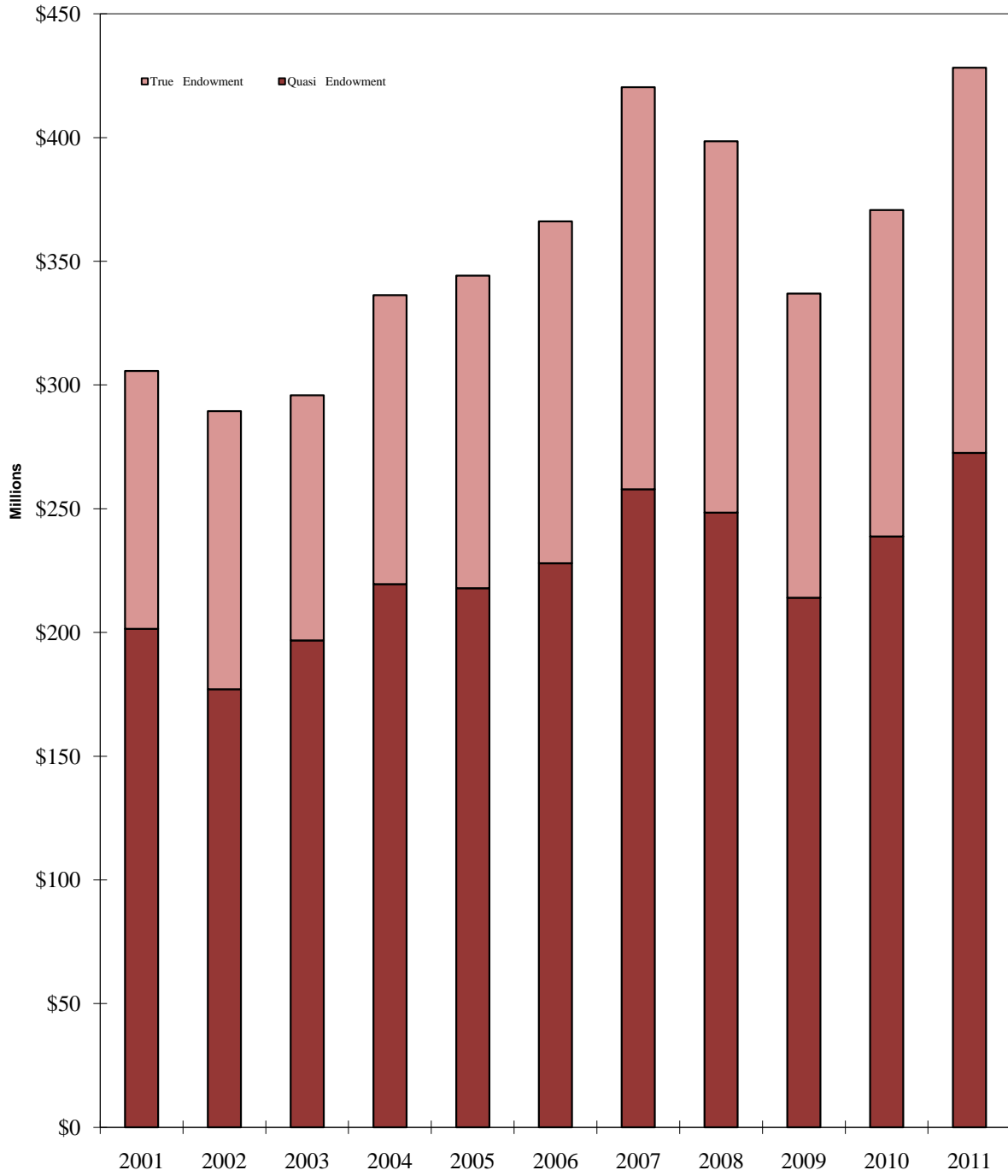


CHART 3
TEN-YEAR COMPARISON OF UNIVERSITY-CONTROLLED ENDOWMENTS
2001-2011



UNIVERSITY OF WISCONSIN SYSTEM
Management's Discussion and Analysis
Years Ended June 30, 2011 and 2010

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, 2011 and 2010, with comparative information for the year ending June 30, 2009. 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 2010-2011, the University of Wisconsin System enrolled 182,090 students, employed approximately 31,000 faculty and staff, and granted 32,921 bachelor's, master's, and other advanced degrees. The University of Wisconsin System institutions were awarded over \$980.5 million in federal grants and contracts in 2010-2011 and an additional \$504.1 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.

Degrees Granted	
<i>UW-Madison</i>	<i>10,223</i>
<i>UW-Milwaukee</i>	<i>5,268</i>
<i>UW-Eau Claire</i>	<i>2,192</i>
<i>UW-Green Bay</i>	<i>1,204</i>
<i>UW-La Crosse</i>	<i>2,127</i>
<i>UW-Oshkosh</i>	<i>2,158</i>
<i>UW-Parkside</i>	<i>740</i>
<i>UW-Platteville</i>	<i>1,347</i>
<i>UW-River Falls</i>	<i>1,327</i>
<i>UW-Stevens Point</i>	<i>1,749</i>
<i>UW-Stout</i>	<i>1,841</i>
<i>UW-Superior</i>	<i>463</i>
<i>UW-Whitewater</i>	<i>2,282</i>
Total	<u>32,921</u>

Financial Highlights

The University of Wisconsin System's financial standing remained strong at the conclusion of the fiscal year ended June 30, 2011. After decreasing \$37.7 million last year, state support increased \$53.9 million this year (up 5.5% from 2010) and continues to be supplemented by higher tuition and fees (up 6.6% from 2010). Extramural support (grants and contracts) has increased over the last two years (up 14.2% in 2010 and 7.7% in 2011). State appropriations represent 21.1% of the University of Wisconsin System's total revenue in 2010-11, compared to 31.1% in 2001-02. The 2010-11 state funding, including debt service, is \$175.0 million below the 2000-01 level in constant dollar terms and is \$34.6 million lower in absolute dollar terms than 2008-09.

As of June 30, 2011, the University of Wisconsin System had total assets of \$7.2 billion and total liabilities of \$1.8 billion for a net asset total of \$5.4 billion, of which \$4.0 billion is invested in capital, net of related debt. Revenues continued strong in 2011, including student tuition and fees, net revenue, and grants and contracts revenue. State appropriations increased 5.5%, compared to a 3.7% decrease during fiscal year 2010. 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). For the second year in a row, state appropriations were less than tuition and fees, making revenue diversification even more essential.

The change in net assets is summarized for the fiscal years ended June 30, 2011, 2010, and 2009 as follows:

<i>(In Millions)</i>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Total Revenues Before			
Net Investment Income (Loss)	\$4,801.5	\$4,613.9	\$4,581.4
Total Expenses	<u>4,457.0</u>	<u>4,325.6</u>	<u>4,208.3</u>
Increase in Net Assets Before			
Net Investment Income (Loss)	344.5	288.3	373.1
Net Investment Income (Loss)	<u>67.5</u>	<u>40.7</u>	<u>(44.0)</u>
Increase in Net Assets	<u>\$ 412.0</u>	<u>\$ 329.0</u>	<u>\$ 329.1</u>

UNIVERSITY OF WISCONSIN SYSTEM
Management's Discussion and Analysis
Years Ended June 30, 2011 and 2010

Fiscal year 2011 total revenues before net investment income (loss) increased \$187.6 million (4.1%) compared to \$32.5 million (0.7%) increase for fiscal year 2010. The fiscal year 2011 increase primarily resulted from a 6.9% increase in operating revenues. Fiscal year 2011 total expenses increased \$131.4 million (3.0%) compared to an increase of \$117.3 million (2.8%) for fiscal year 2010. The fiscal year 2011 increase primarily resulted from a 3.8% increase in salary and fringe benefits, an 8.8% increase in scholarship and fellowships, a 3.2% increase in supplies, services and other, and an 11.9% increase in depreciation.

Operating revenues increased by \$215.3 million during fiscal year 2011 and \$237.6 million during 2010. The fiscal year 2011 6.9% increase resulted primarily from increases in student tuition and fees (6.6%) and grants and contracts (7.7%). The net increase in student tuition is primarily due to a 5.5% (5.5% in 2010) increase in tuition rates approved by the Board of Regents. The total headcount enrollment for the entire University of Wisconsin System increased 3,181 students to 182,090 from 178,909 in 2010, and total full-time equivalent enrollment is 156,039, up from 153,193 in 2010. The increase in grants and contracts was driven by increased American Recovery and Reinvestment Act funding and Pell grants.

Headcount Enrollments	
<i>UW-Madison</i>	<i>42,180</i>
<i>UW-Milwaukee</i>	<i>30,470</i>
<i>UW-Eau Claire</i>	<i>11,413</i>
<i>UW-Green Bay</i>	<i>6,636</i>
<i>UW-La Crosse</i>	<i>10,135</i>
<i>UW-Oshkosh</i>	<i>13,629</i>
<i>UW-Parkside</i>	<i>5,160</i>
<i>UW-Platteville</i>	<i>7,928</i>
<i>UW-River Falls</i>	<i>6,902</i>
<i>UW-Stevens Point</i>	<i>9,500</i>
<i>UW-Stout</i>	<i>9,339</i>
<i>UW-Superior</i>	<i>2,856</i>
<i>UW-Whitewater</i>	<i>11,557</i>
<i>UW Colleges</i>	<i>14,385</i>
Total	<u>182,090</u>

Operating expenses increased by \$172.7 million during fiscal year 2011, almost double the 2010 increase of \$92.5 million. The larger increase is primarily due to salaries and fringes increasing \$103.5 million; scholarship and fellowships increasing \$12.3 million; supplies, services, and other increasing \$33.0 million; and depreciation increasing \$23.9 million.

The University of Wisconsin System reported \$67.5 million net investment income in fiscal year 2011, which is up from the \$40.7 million net investment income reported in fiscal year 2010. An increase in the fair value of the trust fund portfolio was consistent with the general fluctuations experienced in the financial markets contributing to the investment income. 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 2010 to fiscal year 2011 is included in the reported investment income.

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, 2011 and 2010, 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, 2011 and 2010

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, 2011 and 2010 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., the University of Wisconsin Foundation, the University of Wisconsin Medical Foundation, and the Wisconsin Alumni Research Foundation (WARF), 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, 2011, 2010, and 2009:

(In Millions)

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Current Assets	\$ 1,466.3	\$ 1,417.7	\$ 1,282.2
Noncurrent Assets:			
Endowment Investments	396.0	339.1	308.7
Student Loans Receivable – Net	160.0	162.0	165.5
Capital Lease Receivable	6.8	8.9	11.0
Capital Assets – Net	<u>5,198.7</u>	<u>4,782.7</u>	<u>4,452.9</u>
Total Assets	<u>7,227.8</u>	<u>6,710.4</u>	<u>6,220.3</u>
Current Liabilities	541.4	649.6	570.7
Noncurrent Liabilities	<u>1,249.1</u>	<u>1,035.5</u>	<u>953.3</u>
Total Liabilities	<u>1,790.5</u>	<u>1,685.1</u>	<u>1,524.0</u>
Total Net Assets	<u>\$ 5,437.3</u>	<u>\$ 5,025.3</u>	<u>\$ 4,696.3</u>

UNIVERSITY OF WISCONSIN SYSTEM
Management's Discussion and Analysis
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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 \$48.6 million during fiscal year 2011 and increased by \$135.5 million during fiscal year 2010. The fiscal year 2011 increase primarily relates to a \$72.2 million increase in cash and cash equivalents that includes a combination of more cash received from noncapital financing activities, like state appropriations, gifts and other receipts, and more cash received from investing activities. The largest change within fiscal 2010 current assets relates to changes in cash and cash equivalents.

The University of Wisconsin System held cash and cash equivalents of \$1,077.3 million at June 30, 2011, 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 \$141.3 million in balances maintained by individual University of Wisconsin System institutions in local bank accounts that are used to meet operating needs or deposits that have yet to be transferred to the State Investment Fund, and \$30.1 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 decreased by \$108.2 million during 2011 and increased by \$78.9 million during 2010. The fiscal year 2011 decrease primarily relates to a \$104.5 million decrease in accounts payable and accrued liabilities and an \$18.5 million decrease in unearned revenue. The largest changes within fiscal year 2010 current liabilities primarily relate to a \$50.6 million increase in accounts payable and accrued liabilities and a \$15.8 million increase 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 20.4% from \$768.1 million at June 30, 2010 to \$924.9 million at June 30, 2011. The net working capital at year end represented approximately 78 days of 2011 operating expenses. This indicates that the University of Wisconsin System could support normal operations for 78 days without additional revenues or liquidating noncurrent assets. The current ratio, which is current assets divided by current liabilities, was 2.7 to 1 at June 30, 2011, compared to 2.2 to 1 at June 30, 2010. 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 \$396.0 million at June 30, 2011, increased by \$56.9 million during fiscal year 2011. The increase was driven by market based improvements in investment performance. The increases in capital assets (net) of \$416.0 million in fiscal year 2011 and \$329.8 million in fiscal year 2010 were primarily due to new building construction, renovations, and capitalization of a new human resource and payroll system. Student loans receivable decreased by \$2.0 million during fiscal year 2011 and decreased \$3.5 million during fiscal year 2010, 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.), 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, 2010 to June 30, 2011 and July 1, 2009 to June 30, 2010.

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 87.9% of market-value principal. On June 30, 2011, the portfolio

UNIVERSITY OF WISCONSIN SYSTEM
Management's Discussion and Analysis
Years Ended June 30, 2011 and 2010

at market contained 41.4% in stocks, 12.3% in fixed income obligations, 19.0% in alternative assets, 19.0% in tactical allocation strategies, 0.6% in real assets, and 7.7% in short-term investments. The total return on the principal long-term portfolio, including capital appreciation, was 21.2%. The total return on the principal intermediate-term portfolio, including capital appreciation, was 8.3%. 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. The annual spending rate is 4.0%. Distributions from the Intermediate Term Fund, principally quasi-endowments and unspent income distributions, consist of interest earnings distributed monthly. 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, 2011, 2010, and 2009, the University of Wisconsin System collected \$26.0, \$22.5, and \$21.3 million, respectively, in outstanding student loans and granted \$25.8, \$21.1, and \$22.9 million, respectively, in new loans.

Noncurrent Liabilities: Noncurrent liabilities increased by \$213.6 and \$82.2 million during fiscal year 2011 and 2010, respectively, to a total of \$1,249.1 million as of June 30, 2011. 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. At June 30, 2011 and 2010, the long-term bonds and notes payable totaled \$1,162.7 and \$943.7 million, respectively, an increase of \$219.0 million. Offsetting this increase was a \$3.9 million decrease of capital lease obligations and a \$1.6 million decrease in compensated absences.

The remainder of the noncurrent liabilities consists of capital financing leases of \$23.7 and \$27.6 million, respectively, and the accumulated leave balances earned by University of Wisconsin System staff of \$62.6 and \$64.2 million, respectively.

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.

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, 2011, 2010, and 2009 are summarized below:

(In Millions)

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Invested in Capital, Net of Related Debt	\$ 3,951.3	\$ 3,764.1	\$ 3,515.7
Restricted:			
Nonexpendable – Endowment Principal	155.6	133.7	122.9
Expendable – Restricted Gifts and Grants	233.3	180.2	165.3
Expendable – Auxiliary Operations	105.0	83.8	139.4
Student Loans	224.9	221.0	220.6
Other	159.8	139.8	149.9
Unrestricted	<u>607.4</u>	<u>502.7</u>	<u>382.5</u>
Total Net Assets	<u>\$ 5,437.3</u>	<u>\$ 5,025.3</u>	<u>\$ 4,696.3</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

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capital 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.

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 Purpose Revenue (GPR); Program Revenue Supported Borrowing (PRSB) 20- or 30-year state-issued bonds repaid with the University of Wisconsin System program revenue; and cash from 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

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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.

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 2011

UW Institution	Project	Primary Purpose	Approx Budget (in millions of \$)	Primary Funding Sources
La Crosse	2007-09 Academic Building	Academic	38.4	GFSB/PRSB/Gifts
Madison	2005-07 Sterling Hall Renovation	Academic	18.8	GFSB/Gifts
Madison	2005-07 WI Institutes for Discovery	Academic	50.3	GFSB/PRSB/Gifts
Madison	2005-07 Educ Bldg Restor, Renewal, & Addn	Academic	33.3	Gifts
Madison	2007-09 Chadbourne & Barnard Res Hall Renov	Housing	13.7	PRSB
Madison	2007-09 Union South Replacement	Student Life	94.8	PRSB/Gifts
Madison	2001-03 University Ridge Golf Course	Athletics	4.9	PRSB/Gifts
Oshkosh	2007-09 Elmwood Center Remodel & Addn	Student Services	8.8	GFSB
Platteville	2007-09 Williams Field House Addn & Remodel	Athletics	5.4	PRSB
Whitewater	2007-09 Residence Hall	Housing	36.8	PRSB

Partial List of Major Construction Projects in Progress during Fiscal Year 2011

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
Green Bay	2007-09 Rose & Wood Halls Remodeling	Academic	6.7	GFSB
La Crosse	2009-11 New Residence Hall	Housing	49.5	PRSB
Madison	2001-03 Biochemistry - Phase II	Academic	117.0	Gifts/GFSB
Madison	2005-07 Chazen Museum Addition	Academic	47.1	Gifts
Madison	2007-09 Human Ecology Addition	Academic	53.0	GFSB/Gifts/PRSB
Madison	2007-09 Music Performance Building	Academic	43.9	Gifts
Madison	2007-09 Parking Ramps 36 and 46 Expansion	Parking	7.1	PRSB
Madison	2009-11 Ag Res Station Facilities Improv - Ph I	Academic	5.8	Gifts
Madison	2009-11 Charter Street Heating Plant Replace	Utilities	250.6	PRSB
Madison	2009-11 Gordon Commons Expan/Renov	Housing	41.3	PRSB/Gifts
Madison	2009-11 La Bahn Hockey/Swim Facility	Athletics	34.1	Gifts
Madison	2009-11 Lakeshore Res Hall/Food Serv Dev	Housing	65.8	PRSB
Madison	2009-11 Suomi Space Sci/Engineering Museum	Academic	5.0	Gifts

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Partial List of Major Construction Projects in Progress during Fiscal Year 2011 (continued)

UW Institution	Project	Primary Purpose	Approx Budget (in millions of \$)	Primary Funding Sources
Madison	2009-11 West Campus Athletic Fac Improv	Athletics	7.9	PRSB/Gifts
Madison	2009-11 Utilities (WCCF Chillers)	Utilities	67.5	GFSB/PRSB
Madison	2009-11 Wisconsin Energy Institute	Academic	100.0	GFSB/PRSB
Madison	2009-11 Wisconsin Institute for Medical Research	Academic	67.4	GFSB
Milwaukee	2009-11 Columbia St Mary's Hosp Pur & Redev	Academic/Mixed	31.0	GFSB/PRSB
Milwaukee	2009-11 Freshwater Sci Init Research Building - Phase I and Neeskay Research Vessel Replacement	Academic	70.0	GFSB/Gifts
Milwaukee	2009-11 Kenwood Integ Res Complex - Phase I	Academic	75.0	GFSB/Gifts
Milwaukee	2009-11 Utility Improvements	Utilities	6.4	GFSB/PRSB
Parkside	2007-09 Communication Arts Center	Academic	34.1	GFSB/Gifts
Platteville	2009-11 Locker Room Expansion	Athletics	1.0	PRSB
Platteville	2009-11 Res Hall Renovations (Porter Hall)	Housing	10.0	PRSB
Platteville	2009-11 Storage Facility	Facility Support	1.7	PR-Cash
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 Maintenance Building Remodel & Addn and Military Science Bldg Relocation	Facility/Academic	5.3	GFSB
Stevens Pt.	2007-09 Residence Hall	Housing	36.2	PRSB
Stout	2007-09 Harvey Hall Theater Renovation	Academic	5.6	GFSB
Stout	2009-11 Memorial Student Center Renovation	Student Life	19.0	PRSB
Superior	2007-09 Academic Building	Academic	27.6	GFSB/Gifts
Whitewater	2007-09 Multisport Facility – Phase III	Athletics	3.5	Gifts
Whitewater	2009-11 Fischer Hall & Wellers Hall Renovation	Housing	10.5	PRSB
UW System	2009-11 Classroom Renovation/IT Improv	Academic	5.0	GFSB
UW System	Systemwide Facilities Renewal	Academic	50.0	GFSB

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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, 2011, 2010, and 2009 are summarized as follows:

(In Millions)

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating Revenues:			
Student Tuition and Fees, Net	\$ 1,074.9	\$ 1,007.9	\$ 934.8
Sales and Services of Educational Activities	300.0	285.2	279.5
Sales and Services of Auxiliaries, Net	350.3	350.7	340.3
Federal Grants and Contracts	871.3	813.3	733.4
State, Local, and Private Grants and Contracts	397.7	364.6	297.8
Sales and Services to UW Hospital Authority	53.7	55.5	47.5
Other	<u>283.8</u>	<u>239.2</u>	<u>245.5</u>
Total Operating Revenues	3,331.7	3,116.4	2,878.8
Operating Expenses	<u>4,309.5</u>	<u>4,136.8</u>	<u>4,044.3</u>
Operating Loss	(977.8)	(1,020.4)	(1,165.5)
Nonoperating Revenues (Expenses):			
State Appropriations	1,028.3	974.4	1,012.1
Gifts – Noncapital	212.9	233.7	251.5
Net Investment Income (Loss)	67.5	40.7	(44.0)
Capital Appropriations	126.1	157.5	202.4
Capital Contributions	99.8	112.6	124.5
Additions to Permanent Endowments	2.7	1.2	0.7
Transfer to State Agencies	(80.1)	(135.8)	(110.6)
Other	<u>(67.4)</u>	<u>(34.9)</u>	<u>58.0</u>
Net Nonoperating Revenues (Expenses)	<u>1,389.8</u>	<u>1,349.4</u>	<u>1,494.6</u>
Increase in Net Assets	412.0	329.0	329.1
Net Assets Beginning of Year	<u>5,025.3</u>	<u>4,696.3</u>	<u>4,367.2</u>
Net Assets End of Year	<u>\$ 5,437.3</u>	<u>\$ 5,025.3</u>	<u>\$ 4,696.3</u>

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Operating revenues: Student tuition and fees, net of scholarship allowances, increased by \$67.0 and \$73.1 million during fiscal year 2011 and 2010, respectively, to a total of \$1,074.9 million for the fiscal year ending June 30, 2011. The increases resulted primarily from increases in tuition rates. The annual undergraduate tuition for State residents increased \$637 and \$379 to \$7,933 and \$7,269 for UW-Madison and UW-Milwaukee, respectively, and increased \$295 to \$5,659 for Comprehensive campuses, beginning in the fall of 2010. The annual undergraduate tuition for State residents for UW Colleges has remained constant at \$4,268 since the beginning of fall of 2006.

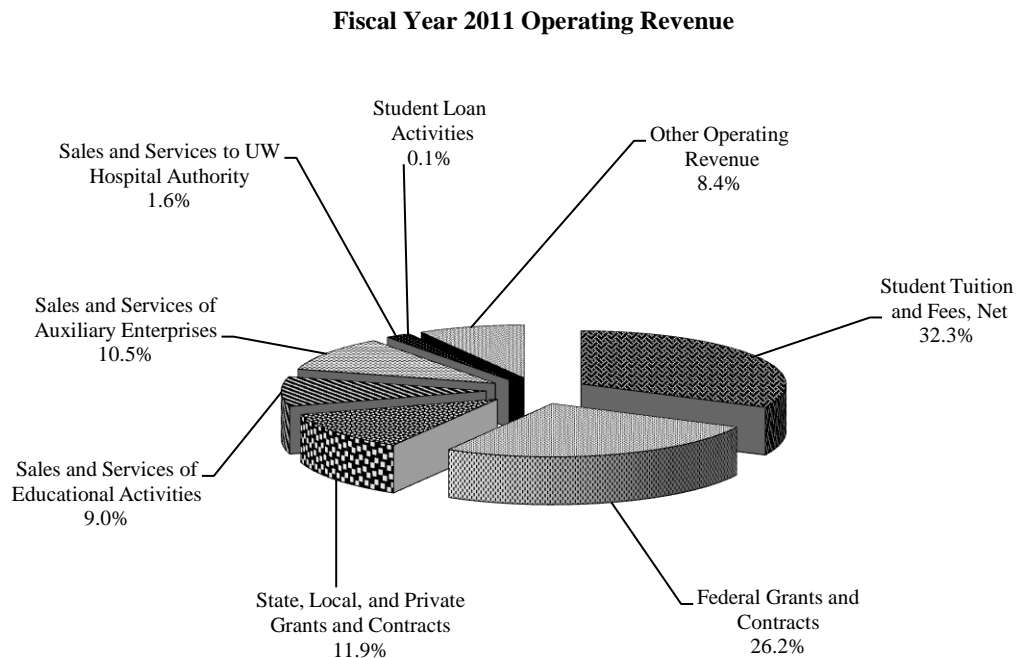
During fiscal year 2011, federal grants and contracts increased by \$58.0 million compared to a \$79.9 million increase during fiscal year 2010. State, local, and private grants and contracts increased by \$33.1 million during fiscal year 2011 compared to the increase of \$66.8 million during fiscal year 2010.

Other operating revenues increased \$44.6 million during fiscal year 2011 compared to a \$6.3 million decrease during fiscal year 2010. Total other operating revenues of \$283.8 million for fiscal year 2011 includes \$255.8 million (90.1%) 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 2010 total other operating revenues of \$239.2 million includes \$227.1 million (94.9%) from these same revenue producing units.

Grants and Contracts Awarded		
	<i>Federal</i>	<i>Nonfederal</i>
<i>UW-Madison</i>	\$661.6	\$436.8
<i>UW-Milwaukee</i>	85.3	15.0
<i>UW-Eau Claire</i>	17.9	3.3
<i>UW-Green Bay</i>	12.6	2.1
<i>UW-La Crosse</i>	12.9	1.8
<i>UW-Oshkosh</i>	23.5	2.2
<i>UW-Parkside</i>	1.0	1.3
<i>UW-Platteville</i>	12.5	0.7
<i>UW-River Falls</i>	11.0	1.1
<i>UW-Stevens Point</i>	17.4	4.4
<i>UW-Stout</i>	17.9	2.5
<i>UW-Superior</i>	7.3	0.5
<i>UW-Whitewater</i>	18.8	2.8
<i>UW Colleges</i>	25.4	1.7
<i>UW-Extension</i>	53.5	27.0
<i>UW Systemwide</i>	<u>1.9</u>	<u>0.9</u>
<i>Total</i>	<u>\$980.5</u>	<u>\$504.1</u>

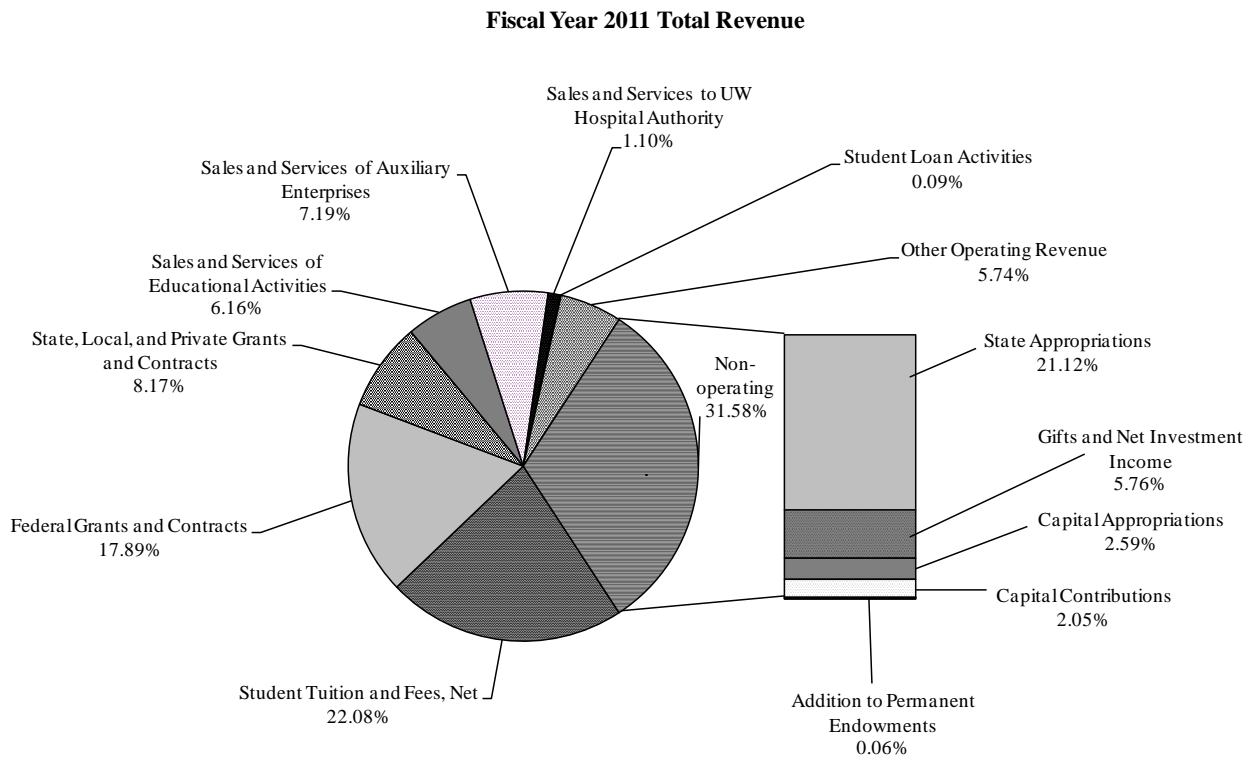
The following is a graphic representation of operating revenue by source for the fiscal year ended June 30, 2011:



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Nonoperating revenues: State appropriations increased by \$53.9 million to a total of \$1,028.3 million for the fiscal year ending June 30, 2011, which is an increase of 5.5%, compared to a 3.7% decrease in fiscal year 2010. Fluctuations in state appropriations as a percentage of net nonoperating revenues (expenses) of 74.0%, 72.2%, and 67.7% for fiscal years 2011, 2010, and 2009, respectively, and of total revenues of 21.1%, 21.0%, and 22.3% during the same time periods, respectively, indicate a variable fiscal environment. Combined gifts and investment (loss) income comprised \$280.4 million, or 20.2%, of net nonoperating revenue (expenses) for fiscal year 2011 and \$274.4 million, or 20.3%, of net nonoperating revenue (expenses) for the prior fiscal year.

The following is a graphic representation of total revenue by source for the fiscal year ended June 30, 2011:



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Operating expenses: The University of Wisconsin System invests the majority of its operating funds in people as depicted in the graphic entitled "Fiscal Year 2011 Operating Expenses by Natural Classification." Salaries and fringe benefits account for 66.4% of total operating expenses. Scholarship and fellowship payments make up 3.6%, and supplies, services, and other account for 24.8%. 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 2011 totaled \$224.1 million or 5.2% of total operating expenses.

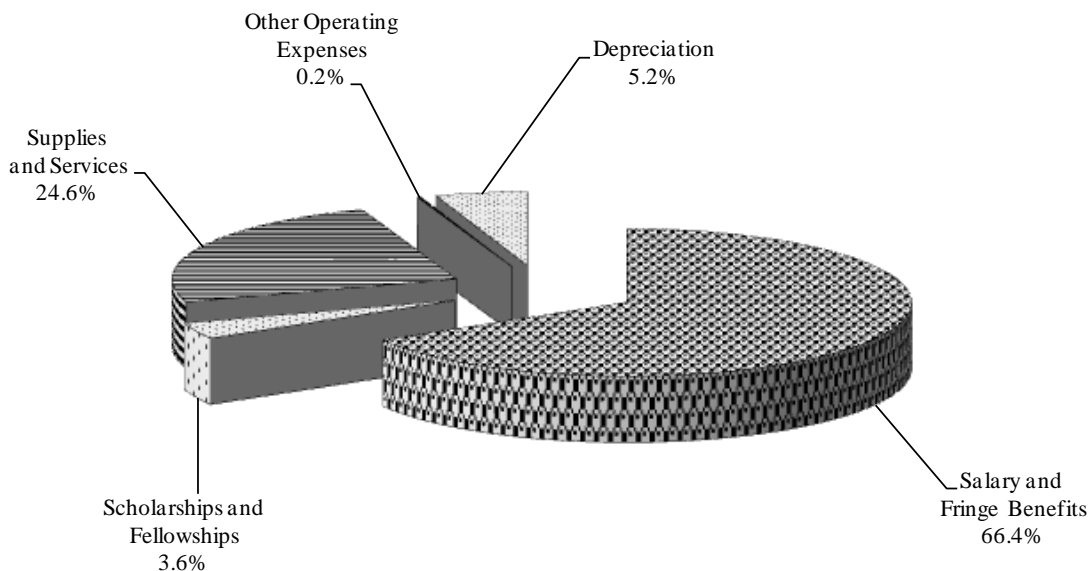
Expenses are summarized by natural classification for the fiscal years ended June 30, 2011, 2010, and 2009 as follows:

(In Millions)

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating Expenses:			
Salary and Fringe Benefits	\$ 2,862.3	\$ 2,758.8	\$ 2,691.4
Scholarships and Fellowships	152.8	140.5	99.1
Supplies, Services, and Other	1,070.3	1,037.3	1,064.5
Depreciation	<u>224.1</u>	<u>200.2</u>	<u>189.3</u>
	4,309.5	4,136.8	4,044.3
Nonoperating Expenses:			
Loss on Disposal	10.8	13.2	16.4
Interest	47.1	39.8	37.0
Transfer to State Agencies	80.1	135.8	110.6
Other	<u>9.5</u>	<u>-</u>	<u>-</u>
Total Expenses	<u>\$ 4,457.0</u>	<u>\$ 4,325.6</u>	<u>\$ 4,208.3</u>

The following illustration graphically presents operating expenses by natural classification for the fiscal year ended June 30, 2011:

Fiscal Year 2011 Operating Expenses by Natural Classification



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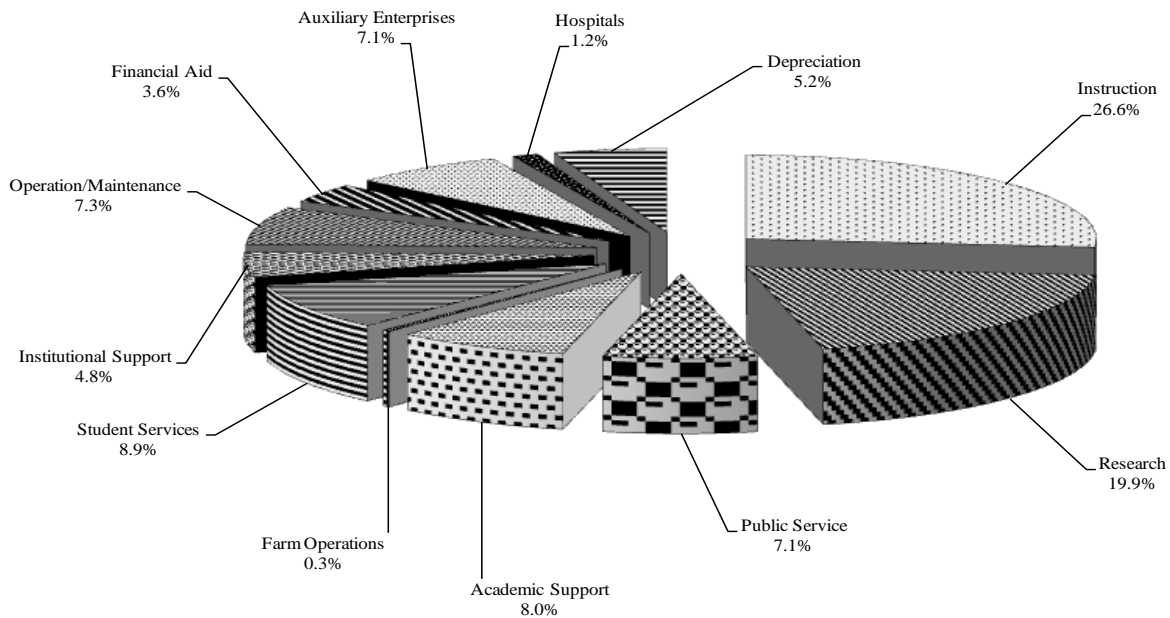
Operating expenses are classified by function for the fiscal years ended June 30, 2011, 2010, and 2009 as follows:

(In Millions)

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Instruction	\$ 1,145.3	\$ 1,109.8	\$ 1,097.4
Research	858.5	826.2	799.1
Public Service	304.2	309.0	300.3
Academic Support	344.4	330.0	334.1
Farm Operations	14.9	14.7	14.7
Student Services	384.3	372.9	366.0
Institutional Support	206.8	198.7	197.7
Operation/Maintenance	313.2	284.6	295.8
Financial Aid	156.1	143.3	106.1
Auxiliary Enterprises	306.5	295.2	295.3
Hospitals	51.2	52.2	48.5
Depreciation	<u>224.1</u>	<u>200.2</u>	<u>189.3</u>
Total Operating Expenses	<u>\$ 4,309.5</u>	<u>\$ 4,136.8</u>	<u>\$ 4,044.3</u>

The following is a graphic representation showing operating expenses by functional classification for the fiscal year ended June 30, 2011:

Fiscal Year 2011 Expenses by Functional Classification



Instruction increased 3.2% while research increased 3.9%. Student services increased by \$11.4 million or 3.1%. Institutional support increased by \$8.1 million or 4.1% to \$206.8 million in fiscal year 2011.

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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 2011.

Cash flows for the years ending June 30, 2011, 2010, and 2009 are summarized as follows:

<i>(In Millions)</i>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Cash Flows:			
Cash Received from Operations	\$ 3,377.4	\$ 3,140.0	\$ 2,932.6
Cash Expended for Operations	<u>(4,235.6)</u>	<u>(3,915.8)</u>	<u>(3,874.9)</u>
Net Cash Used in Operating Activities	(858.2)	(775.8)	(942.3)
Net Cash Provided by (Used in)			
Investing Activities	12.9	8.6	(3.9)
Net Cash Used in Capital and Related			
Financing Activities	(301.5)	(256.1)	(249.4)
Net Cash Provided by Noncapital			
Financing Activities	<u>1,219.0</u>	<u>1,136.8</u>	<u>1,387.9</u>
Net Increase in Cash and Cash Equivalents	72.2	113.5	192.3
Cash and Cash Equivalents, Beginning	<u>1,005.1</u>	<u>891.6</u>	<u>699.3</u>
Cash and Cash Equivalents, Ending	<u>\$ 1,077.3</u>	<u>\$ 1,005.1</u>	<u>\$ 891.6</u>

The University of Wisconsin System's cash and cash equivalents increased by \$72.2 million due to an \$82.4 million increase of net cash expended in operating activities, a \$4.3 million increase of cash generated from investing activities, a \$45.4 million increase of net cash expended for capital and related financing activities, and an \$82.2 million increase of cash provided by noncapital financing activities. 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 gifts and other receipts utilized to fund operating activities. Fiscal year 2011 state appropriations and gifts and other receipts received totaled \$1,101.4 and \$198.3 million, respectively, compared to \$1,027.1 and \$246.1 million, respectively, for fiscal year 2010.

Factors Affecting Future Periods

The 2011-13 biennial budget for the University of Wisconsin System calls for a continuation of significant state mandated cuts. The 2011-13 biennial budget removes \$250 million in General Purpose Revenue (GPR) funds from the base budget. Tuition increases, which are capped at 5.5% annually during the biennium, will only partially offset this reduction in state support by \$75.0 million. Differential tuition plans approved prior to June 1, 2011 are exempt from this cap, but no new differential tuitions may be added during the 2011-13 biennium. In addition, the University of Wisconsin System may be required to absorb additional, sizable lapses in the event that state revenues are not as strong as originally assumed in the budget. The question remains as to how the University of Wisconsin System institutions can continue to preserve access and quality during periods of declining state support.

The 2011-13 biennium poses significant challenges since the declining state support is coupled with stagnant or declining funding for federal and state financial aid programs. Federal and state funding for need-based and other financial aid programs will, at best, remain at 2010-11 levels, creating additional challenges for students with financial need. For example, the maximum federal Pell Grant will remain at \$5,550 for 2011-12, and there will be no increase during this biennium in the state's primary need-based Wisconsin Higher Education Grant (WHEG) program.

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However, University of Wisconsin System institutions continue to raise funds from private sources that can be dedicated to financial aid. Funding for institutional grants has increased from \$35.2 million in 2003-04 to \$74.4 million in 2010-11, representing a 111.4% increase. In addition, another source of private, need-based financial aid, the Fund for Wisconsin Scholars (FFWS), provided \$4.9 million in grants and stipends to over 1,300 UW students in 2010-11. The FFWS will continue to be a critical source of need-based financial aid for UW students during the 2011-13 biennium. In addition, financial aid programs that are part of the University of Wisconsin System's budget, such as the Lawton Minority Undergraduate Retention Grant Program and Advanced Opportunity Program, will now be funded as part of the general GPR block grant. Though the biennial budget maintained these programs at 2010-11 levels, University of Wisconsin institutions will have flexibility within these programs to target aid in ways that most effectively encourage recruitment and retention of eligible students.

The 2011-13 biennial budget has begun to redefine the relationship between the University of Wisconsin System and the state. The state delegated management flexibilities to the University of Wisconsin System, which will be extended to the University of Wisconsin System institutions as well, and may assist in managing some budget cuts. The administrative flexibilities provided for in the 2011-13 biennial budget include:

- **Budgeting and Financial Management:** As alluded to above, while GPR appropriations for UW System Administration, debt service, State Laboratory of Hygiene, and Veterinary Diagnostic Laboratory appropriations are retained, most remaining GPR appropriations are consolidated into one appropriation. The University of Wisconsin System is required to administer proportional shares of GPR funding to University of Wisconsin System institutions in the form of block grants. In addition, most of the existing appropriations for program revenues received by the University of Wisconsin System were consolidated into six appropriations. Appropriations to record program revenues received by the State Laboratory of Hygiene and the Veterinary Diagnostic Laboratory were also retained. Interest earnings will be provided to University of Wisconsin System institutions based on the program revenues generated and deposited into these appropriations. Institutions will continue to be required to use segregated student fees for the purpose for which they were generated.
- **Personnel System and Supplemental Pay Plans:** The Chancellor of University of Wisconsin-Madison is authorized to develop a new personnel system for employees of the University of Wisconsin-Madison, while the Board of Regents is authorized to establish a new, separate personnel system for employees of all other University of Wisconsin System institutions. Both of these systems must be approved by the Joint Committee on Employment Relations (JCOER). All University of Wisconsin System employees will be transferred from the state personnel system to the new personnel systems at University of Wisconsin System or University of Wisconsin-Madison beginning July 1, 2013. During the 2011-13 biennium, the Board of Regents is permitted to provide supplemental pay plans for classified and unclassified staff, subject to approval by JCOER. University of Wisconsin-Madison is also provided this same option. These supplemental pay plans are in addition to any pay plans approved by JCOER and must be self-funded.
- **Construction and Gifts of Real Property:** University of Wisconsin projects that cost less than \$500,000 and are entirely funded with gifts and grants will no longer require approval by the State Building Commission. The Board of Regents is required to establish policies for competitive bidding, which must be approved by the State Building Commission and the Joint Committee on Finance. The threshold for approval by the State Building Commission of gifts of real property to the Board of Regents increased from \$30,000 to \$150,000. In addition, the Board of Regents is authorized to accept gifts of vehicles.
- **Purchasing and Procurement:** Effective July 1, 2013, the Department of Administration (DOA) is required to delegate to the Board of Regents and to University of Wisconsin-Madison the authority to enter into contracts for materials, supplies, equipment, or services that relate to higher education and which state agencies other than the University of Wisconsin System do not commonly purchase. Upon finalizing a procurement delegation agreement, the threshold that requires official sealed bids is increased from \$25,000 to \$50,000. The University of Wisconsin System and University of Wisconsin-Madison are also exempted from

UNIVERSITY OF WISCONSIN SYSTEM
Management's Discussion and Analysis
Years Ended June 30, 2011 and 2010

several other purchasing requirements. Most reporting requirements on contractual services, as well as a new requirement that all expenditures exceeding \$100 be posted on a state-maintained web site, are retained.

- **Travel:** Beginning on July 1, 2013, the Board of Regents is permitted to establish travel policies and reimbursement schedules for University of Wisconsin System employees.

As flexibilities are granted, the University of Wisconsin System recognizes it must be accountable to various stakeholders. Under the 2011-13 biennial budget, the University of Wisconsin System and University of Wisconsin-Madison are also required to submit annual accountability reports to the Governor and the Legislature. These reports will include the following measures: performance, financial, access and affordability, undergraduate education, graduate and professional education, faculty, economic development, and collaboration.

In addition to granting flexibilities, the 2011-13 budget established a Special Task Force on UW Restructuring and Operational Flexibilities. The 17-member task force includes six appointees each from the Speaker and the Majority Leader, one from the minority leader of each house, two from the governor, and one jointly chosen by the co-chairs of the Joint Finance Committee to serve as the chairperson. This task force will address whether there is a need to restructure the University of Wisconsin System; how employees will be transitioned from the state personnel system to the new personnel systems, as well as how pay plans should be determined in the future; whether tuition flexibility can be extended to the University of Wisconsin System while ensuring access and affordability; how articulation and the transfer of credits between University of Wisconsin System institutions can be improved; and whether there are any additional flexibilities that could be provided to the University of Wisconsin System institutions.

The University of Wisconsin System is committed to meeting the financial challenges it faces by continuing to foster strong partnerships with state and community leaders and exploring additional flexibilities where appropriate. 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

Toll-free hotline: 1-877-FRAUD-17

Joe Chrisman
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 (UW) System as of and for the years ended June 30, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of UW 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 UW Foundation, which are presented in a condensed format in Note 11A. These financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the UW Foundation amounts included in Note 11A, is based on the reports of the other auditors.

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 UW 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 and the report of other auditors provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements referred to in the first paragraph present only UW 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.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of UW System as of June 30, 2011 and 2010, 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.

As discussed in Note 1, beginning in fiscal year 2009-10, UW System implemented Governmental Accounting Standards Board Statement Number 51, *Accounting and Financial Reporting for Intangible Assets*.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 21, 2011, on our consideration of UW 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements of UW System as referred to in the first paragraph. The supplementary information included as Management's Discussion and Analysis on pages 10 through 25 is presented for purposes of additional analysis and is not a required part of the financial statements. 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.

LEGISLATIVE AUDIT BUREAU

December 21, 2011

by



Joe Chrisman
State Auditor

UNIVERSITY OF WISCONSIN SYSTEM
Years Ended June 30, 2011 and 2010

Audited Financial Statements

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

	June 30, 2011	June 30, 2010
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 1,077,329,742	\$ 1,005,071,368
Accounts Receivable, Net	243,792,180	283,008,884
Student Loans Receivable, Net	31,492,975	32,066,509
Capital Lease Receivable	2,046,552	2,113,775
Inventories	42,460,241	40,932,452
Prepaid Expenses	56,703,892	47,143,016
Deferred Charges	12,480,565	7,415,235
Total Current Assets	<u>1,466,306,147</u>	<u>1,417,751,239</u>
Noncurrent Assets:		
Endowment Investments	396,030,011	339,083,798
Student Loans Receivable, Net	159,995,290	162,003,125
Capital Lease Receivable	6,822,949	8,868,167
Land	146,661,290	130,933,496
Improvements Other Than Buildings, Net	162,906,852	145,950,655
Construction In Progress	472,054,609	481,502,873
Buildings, Net	2,939,943,940	2,652,361,248
Equipment, Net	352,846,024	265,373,657
Library Holdings	1,124,236,511	1,106,538,962
Total Noncurrent Assets	<u>5,761,497,476</u>	<u>5,292,615,981</u>
TOTAL ASSETS	<u>\$ 7,227,803,623</u>	<u>\$ 6,710,367,220</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	\$ 241,927,707	\$ 346,421,417
Notes and Bonds Payable	54,725,233	41,335,242
Capital Lease Obligations	6,195,666	5,888,447
Unearned Revenues	167,077,712	185,565,579
Compensated Absences	69,316,765	68,515,777
Deposits of Student Organizations	2,205,195	1,823,917
Total Current Liabilities	<u>541,448,278</u>	<u>649,550,379</u>
Noncurrent Liabilities:		
Notes and Bonds Payable	1,162,706,993	943,690,942
Capital Lease Obligations	23,712,627	27,616,153
Compensated Absences	62,629,523	64,191,953
Total Noncurrent Liabilities	<u>1,249,049,143</u>	<u>1,035,499,048</u>
TOTAL LIABILITIES	<u>\$ 1,790,497,421</u>	<u>\$ 1,685,049,427</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	\$ 3,951,308,708	\$ 3,764,130,108
Restricted for:		
Nonexpendable	155,641,629	133,671,335
Expendable	338,257,038	264,006,563
Student Loans	224,919,387	220,954,540
Other	159,745,430	139,830,938
Unrestricted	607,434,010	502,724,309
TOTAL NET ASSETS	<u>\$ 5,437,306,202</u>	<u>\$ 5,025,317,793</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, 2011

Year Ended June 30, 2010

OPERATING REVENUES

Student Tuition and Fees (Net of Scholarship Allowances of \$162,817,989 and \$126,534,787, respectively)	\$ 1,074,876,407	\$ 1,007,911,828
Federal Grants and Contracts	871,302,422	813,326,792
State, Local, and Private Grants and Contracts	397,676,757	364,580,293
Sales and Services of Educational Activities	299,961,678	285,242,520
Sales and Services of Auxiliary Enterprises (Net of Scholarship Allowances of \$27,626,072 and \$22,795,679, respectively)	350,338,225	350,677,033
Sales and Services to UW Hospital Authority	53,681,165	55,469,234
Student Loan Interest Income and Fees	4,561,532	3,763,782
Other Operating Revenue	279,279,733	235,485,221
Total Operating Revenues	3,331,677,919	3,116,456,703

OPERATING EXPENSES

Salary and Fringe Benefits	2,862,301,357	2,758,834,333
Scholarships and Fellowships	152,779,044	140,529,001
Supplies and Services	1,062,507,316	1,032,198,262
Other Operating Expenses	7,805,292	5,045,871
Depreciation	224,072,691	200,220,211
Total Operating Expenses	4,309,465,700	4,136,827,678

OPERATING LOSS

(977,787,781) (1,020,370,975)

NON-OPERATING REVENUES AND EXPENSES

State Appropriations	1,028,296,995	974,366,561
Gifts	212,887,930	233,698,095
Investment Income (Net of Investment Expense of \$1,166,958 and \$1,162,240, respectively)	67,513,688	40,672,510
Loss on Disposal of Capital Assets	(10,765,168)	(13,159,736)
Interest on Indebtedness	(47,057,001)	(39,795,126)
Transfer to State Agencies	(80,141,571)	(135,817,917)
Other (Expenses) Revenues, Net	(9,530,832)	18,028,112
Income Before Capital and Endowment Additions/Deductions	183,416,260	57,621,524
Capital Appropriations	126,092,461	157,553,241
Capital Contributions	99,781,249	112,634,971
Additions to Permanent Endowment	2,698,439	1,231,872

INCREASE IN NET ASSETS

411,988,409 329,041,608

NET ASSETS

Net Assets - Beginning of Period	5,025,317,793	4,696,276,185
NET ASSETS - End of Period	\$ 5,437,306,202	\$ 5,025,317,793

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, 2011

Year ended June 30, 2010

Cash Flows from Operating Activities

Student Tuition and Fees	\$ 1,072,373,614	\$ 1,016,564,834
Federal, State, Local, and Private Grants and Contracts	1,276,707,702	1,183,099,684
Sales and Services of Educational Activities	304,162,968	284,192,219
Sales and Services of Auxiliary Enterprises	348,830,394	342,722,408
Sales and Services to UW Hospital Authority	56,574,938	52,970,456
Payments for Salaries and Fringe Benefits	(2,973,734,050)	(2,735,053,953)
Payments to Vendors and Suppliers	(1,083,245,312)	(1,019,070,275)
Payments for Scholarships and Fellowships	(152,779,045)	(140,529,001)
Student Loans Collected	25,952,258	22,470,207
Student Loan Interest and Fees Collected	4,561,532	3,763,782
Student Loans Issued	(25,787,268)	(21,145,224)
Other Revenue, Net	288,215,864	234,243,774
Net Cash Used in Operating Activities	(858,166,405)	(775,771,089)

Cash Flows from Investing Activities

Interest and Dividends on Investments, Net	8,069,472	8,911,231
Proceeds from Sales and Maturities of Investments	114,610,774	123,386,275
Purchase of Investments	(109,740,918)	(123,747,597)
Net Cash Provided by Investing Activities	12,939,328	8,549,909

Cash Flows from Capital and Related Financing Activities

Proceeds from Issuance of Capital Debt	273,299,281	196,347,827
Capital Appropriations	126,092,460	157,553,241
Gifts and Other Receipts	97,813,704	79,021,804
Purchase of Capital Assets	(631,392,537)	(547,733,315)
Principal Payments on Capital Debt and Leases	(57,306,260)	(44,537,310)
Interest Payments on Capital Debt and Leases	(109,985,862)	(96,715,241)
Net Cash Used in Capital and Related Financing Activities	(301,479,214)	(256,062,994)

Cash Flows from Noncapital Financing Activities

State Appropriations	1,101,374,904	1,027,077,630
Gifts and Other Receipts	198,340,756	246,129,863
Transfer to State Agencies	(80,141,571)	(135,817,917)
Additions to Permanent Endowments	2,698,438	1,231,871
Student Direct Lending Receipts	796,692,453	117,343,937
Student Direct Lending Disbursements	(800,000,315)	(119,172,268)
Net Cash Provided by Noncapital Financing Activities	1,218,964,665	1,136,793,116
Net Increase in Cash and Cash Equivalents	72,258,374	113,508,942

Cash and Cash Equivalents - Beginning of Year

1,005,071,368

891,562,426

Cash and Cash Equivalents - End of Year

\$ 1,077,329,742

\$ 1,005,071,368

Statements of Cash Flows (Continued)

University of Wisconsin System

Year ended June 30, 2011

Year ended June 30, 2010

Reconciliation of Operating Loss to Net Cash Used in Operating Activities

Operating Loss	\$	(977,787,781)	\$	(1,020,370,975)
<i>Adjustments to Reconcile Operating Loss to</i>				
<i>Net Cash Used in Operating Activities:</i>				
Depreciation Expense		224,072,691		200,220,211
<i>Changes in Assets and Liabilities:</i>				
Receivables, Net		42,917,995		(10,109,653)
Inventories		(1,527,789)		(824,052)
Prepaid Expenses		(9,493,321)		(7,923,240)
Deferred Charges		(4,234,164)		315,443
Accounts Payable and Accrued Liabilities		(112,846,113)		33,580,051
Unearned Revenue		(18,506,482)		15,752,632
Compensated Absences		(761,441)		13,588,494
Net Cash Used in Operating Activities	\$	(858,166,405)	\$	(775,771,089)

Noncash Investing, Capital and Financing Activities

<i>Capital Leases (Initial Year):</i>				
Fair Market Value	\$	2,475,488	\$	2,718,717
Current Year Cash Payments		(55,498)		(351,776)
Gifts-In-Kind		9,863,032		41,586,522
Net Change in Unrealized Gains and Losses		50,261,461		38,397,148

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, 2011 and 2010

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, La Crosse Medical Health Science Consortium, Inc., University of Wisconsin Medical Foundation, and Wisconsin Alumni Research Foundation (WARF), relating to the Wisconsin Institutes for Discovery. 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 and adjustments 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.

Starting in fiscal year 2010, intangible assets are recorded as prescribed in GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. Impacts related to expenditures for internally developed software that fall under this new guidance are included in Note 9.

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 No. 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

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2011 and 2010

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

GASB Statement No. 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.

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 30th, 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 expenses represent payments made prior to June 30th 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 30th, primarily summer session costs incurred prior to the close of the fiscal year. The revenues and expenses of the 2011 summer session are reportable within the fiscal year beginning July 1, 2010 and ending June 30, 2011, based on the prorated portion of the number of summer session days that occurred in fiscal year 2011. The revenues and expenses of the 2010 summer session are reportable within the fiscal year beginning July 1, 2009 and ending June 30, 2010, based on the prorated portion of the number of summer session days that occurred in fiscal year 2010.

Accrual of interest on bonds payable, vendor payments not made as of June 30th, 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 30th, 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.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2011 and 2010

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

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 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.

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 \$1,077.3 and \$1,005.1 million in cash and cash equivalents as of June 30, 2011 and 2010, respectively, \$905.9 and \$894.4 million, respectively, represents an amount held within the SIF; \$141.3 and \$84.0 million, respectively, was maintained by individual University of Wisconsin System institutions in local bank accounts to meet operating needs; and \$30.1 and \$26.7 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, tuition, 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 for deposits is the risk that, in the event of the failure of a depository financial institution, the Fund will not be able to recover deposits that are in possession of an outside party. The University of Wisconsin System does not have a deposit policy specifically for custodial risk. Shares in the State Investment Fund are not required to be categorized under GASB Statement No. 40, *Deposit and Investment Risk Disclosures*.

For the remaining deposits, the University of Wisconsin System had balances in excess of Federal Deposit Insurance Corporation limits in the amount of \$12.8 and \$80.1 million at June 30, 2011 and 2010, 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, 2011 and 2010 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, 2011 and 2010

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 37.5% marketable equities, 25.0% fixed income, and 37.5% alternatives. 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 2010.

The Long Term Fund consisted of the following investment categories on June 30, 2011 and 2010:

Investment Category	<u>2011</u>	<u>2010</u>
Common Stock and Convertible Securities	41.4%	38.4%
Bonds and Preferred Stock	12.3%	14.7%
Alternative Assets	19.0%	19.4%
Tactical Allocation Strategies	19.0%	19.4%
Real Assets	0.6%	0.0%
Custodial Pooled Cash and Cash Equivalents	<u>7.7%</u>	<u>8.1%</u>
Total	<u>100.0%</u>	<u>100.0%</u>

The Intermediate Term Fund consisted of the following investment categories on June 30, 2011 and 2010:

Investment Category	<u>2011</u>	<u>2010</u>
Common Stock and Convertible Securities	16.2%	12.6%
Bonds and Preferred Stock	79.4%	83.0%
Custodial Pooled Cash and Cash Equivalents	<u>4.4%</u>	<u>4.4%</u>
Total	<u>100.0%</u>	<u>100.0%</u>

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, 2011, the amount of net appreciation available to spend from the Long Term Fund was \$13,425,039, relative to \$13,745,123 available during the fiscal year ending June 30, 2010.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2011 and 2010

NOTE 2 – Cash and Investments (continued)

At June 30, 2011 and 2010, the University of Wisconsin System’s investments are as follows:

	<u>2011</u>	<u>2010</u>
Investments:		
U.S. Government Securities	\$ 26,481,832	\$ 39,696,414
U.S Agency Securities	16,216,893	11,262,457
Bonds and Preferred Stock	28,427,403	23,191,932
Common Stock and Convertible Securities	44,568,243	34,725,255
Pooled Equity Funds	110,495,714	85,696,105
Pooled Allocation Fund	64,711,016	55,982,123
Pooled Fixed Income Fund	37,954,453	32,779,844
Custodial Pooled Cash and Cash Equivalents	30,145,129	26,714,684
Limited Partnerships	<u>67,174,457</u>	<u>55,749,668</u>
Total Investments	<u>\$ 426,175,140</u>	<u>\$ 365,798,482</u>

The total return on the Long Term Fund, including capital appreciation, was 21.2% compared to 12.0% in fiscal year 2010. The total return on the Intermediate Fund, including capital appreciation, was 8.3% compared to 12.0% in fiscal year 2010. External investment counsel was utilized for funds representing 87.9% of the market value of the Long Term and Intermediate Term Funds, compared to 84.7% in fiscal year 2010. In addition to the limited partnerships market value listed above, the University of Wisconsin System had unfunded limited partnership commitments of \$26.0 million for the fiscal year ending June 30, 2011, relative to \$30.9 million for the fiscal year ending June 30, 2010.

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 6.0%. The University of Wisconsin System currently holds below investment grade securities within commingled vehicles representing 6.0% of total assets of the Long Term Fund and 5.5% of total assets of the Intermediate Term Fund. 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. As of June 30, 2011, the actively-managed, investment grade fixed income separate accounts held a Keystone Owner Trust security in the amount of \$4,081 rated Caa1 by Moody’s and unrated by Standard & Poor’s.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2011 and 2010

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, 2011 and 2010. Obligations of the United States and obligations explicitly guaranteed by the U.S. government have been included in the Aaa rating below.

<u>Ratings</u>	<u>2011</u>	<u>2010</u>
Aaa	\$ 58,251,859	\$ 69,014,073
Aa1	599,511	177,549
Aa2	2,518,614	1,613,454
Aa3	3,446,216	1,834,351
A1	1,139,535	2,048,385
A2	3,743,109	1,250,548
A3	3,394,755	3,498,757
Baa1	2,843,723	1,600,311
Baa2	4,249,302	4,018,393
Baa3	855,105	635,251
Ba2	8,814,789	6,544,055
Ba3	-	84,719
B2	13,998,485	10,514,090
Caa1	4,081	10,348
Caa2	325,546	881,592
No Rating	4,895,951	3,204,771
Unrated Pooled Cash	<u>30,145,129</u>	<u>26,714,684</u>
Totals	<u>\$ 139,225,710</u>	<u>\$ 133,645,331</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. The University of Wisconsin System does not have a formal policy for custodial credit risk.

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 7.0% in any one issuer (U.S. Government/Agencies are exempted). During fiscal year 2011, the largest concentration in a non-U.S. Government/Agency was JP Morgan Chase, which represented 0.4% of total Trust Funds assets, compared to a 0.5% exposure to New Valley Generation in fiscal year 2010.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2011 and 2010

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. 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>Fixed Income Sector:</u>	<u>2011</u>		<u>2010</u>	
	<u>Market Value</u>	<u>Modified Duration</u>	<u>Market Value</u>	<u>Modified Duration</u>
Treasury Inflation Protected Securities	\$ 21,793,778	4.81	\$ 26,927,884	5.16
Government	4,450,157	6.34	9,241,345	5.02
U.S. Government Mortgages	7,376	3.08	7,593	1.85
Corporates and Other Credit	16,900,219	4.65	11,779,255	4.56
Collateralized Mortgage Obligations:	14,220,507	2.22	11,304,669	1.91
U.S. Agencies				
Collateralized Mortgage Obligations:	1,038,985	3.91	3,143,759	2.24
Corporate				
Commercial Mortgage Backed Securities	3,696,571	0.94	920,303	1.18
U.S. Private Placements	4,809,654	3.36	4,470,729	3.38
U.S. Agencies	459,255	3.18	3,837,479	2.65
Asset Backed Securities	<u>2,281,072</u>	0.24	<u>3,078,266</u>	0.40
Totals	<u>\$ 69,657,574</u>		<u>\$ 74,711,282</u>	

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

<u>Fixed Income Commingled Fund:</u>	<u>2011</u>		<u>2010</u>	
	<u>Market Value</u>	<u>Modified Duration</u>	<u>Market Value</u>	<u>Modified Duration</u>
Seix Advisors High Yield Fund	\$ 25,042,014	4.76	\$ 19,123,481	4.74

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, 2011, the Long Term and Intermediate Term Funds held equity securities denominated in foreign currencies within pooled investment vehicles only, with market values totaling \$108,933,843 and \$6,714,631, respectively, compared to prior fiscal year amounts of \$87,320,601 and \$4,590,165, 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.

Donor-restricted endowment: For University-controlled, donor-restricted endowments, the Uniform Prudent Management of Institutional Funds Act as adopted in Wisconsin, permits the Board of Regents of the University of Wisconsin System to appropriate for current spending, an amount of realized and unrealized endowment appreciation as they determine to be prudent. Realized and unrealized appreciation in excess of that amount appropriated for current spending is retained by the endowments. Net appreciation since the inception of the endowment accounts of \$207.6 million and \$166.7 million at June 30, 2011 and June 30, 2010, respectively, is available to meet spending rate distributions and is recorded in restricted net assets.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2011 and 2010

NOTE 3 – Receivables

Accounts receivable, consisting of amounts due from state agencies and other governments, amounts due from capital lease receivables, and student loans receivable as of June 30, 2011 and 2010, are summarized as follows:

	<u>2011</u>	<u>2010</u>
Receivables (Net):		
Student Academic Fees	\$ 23,675,580	\$ 21,637,483
Grants and Contracts	54,778,958	72,289,600
Educational Activities and Other	45,093,500	37,131,233
Auxiliary Enterprises	1,768,549	1,684,137
UW Hospital Authority and La Crosse Medical Health Science Consortium, Inc.	9,993,517	14,999,730
Investment	940,117	788,207
Student Loans Receivable	191,488,265	194,069,634
State Agencies	26,276,374	54,039,804
Other Governments	<u>90,135,086</u>	<u>91,420,632</u>
Total Receivables (Net)	<u>\$ 444,149,946</u>	<u>\$ 488,060,460</u>

Student loans receivable at June 30, 2011 included allowances for uncollectible loans of \$9.7 million relative to \$10.1 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 \$800.0 million in student loans through the United States Department of Education federal direct lending program during fiscal year 2011 and \$119.2 million in 2010. 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, 2011 and 2010, are summarized as follows:

Fiscal Year 2011	Salary and Fringe Benefits	Due to State Agencies and Other Governments	Vendors	Total Payables
UW System Activities:				
Operating	\$ 18,939,429	\$ 50,712,475	\$ 58,632,397	\$ 128,284,301
Gifts, Grants, and Contracts	3,122,793	3,191,381	23,535,682	29,849,856
Capital Projects	-	800,761	77,353,903	78,154,664
Auxiliary Enterprises	462,617	293,413	1,160,457	1,916,487
Investment and Other	<u>20,411</u>	<u>427,543</u>	<u>3,274,445</u>	<u>3,722,399</u>
Total Activities	<u>\$ 22,545,250</u>	<u>\$ 55,425,573</u>	<u>\$ 163,956,884</u>	<u>\$ 241,927,707</u>

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2011 and 2010

NOTE 4 – Liabilities (continued)

Fiscal Year 2010	Salary and Fringe Benefits	Due to State Agencies and Other Governments	Vendors	Total Payables
UW System Activities:				
Operating	\$ 76,226,589	\$ 56,091,164	\$ 56,511,407	\$ 188,829,160
Gifts, Grants, and Contracts	47,165,444	2,744,021	30,739,761	80,649,226
Capital Projects	-	889,611	72,080,443	72,970,054
Auxiliary Enterprises	1,121,703	293,286	1,300,702	2,715,691
Investment and Other	<u>422,980</u>	<u>410,807</u>	<u>423,499</u>	<u>1,257,286</u>
Total Activities	<u>\$124,936,716</u>	<u>\$ 60,428,889</u>	<u>\$ 161,055,812</u>	<u>\$ 346,421,417</u>

As of June 30, 2011, current liabilities totaled \$541.4 million inclusive of \$2.2 million in deposits of student organizations, \$241.9 million of accounts payable and accrued liabilities, \$167.1 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 \$1,249.0 million at June 30, 2011, relative to a total of \$1,035.5 million at June 30, 2010. Total noncurrent liabilities increased by \$213.5 million relative to fiscal year 2010.

A summarization of noncurrent liability activity for the fiscal year ended June 30, 2011 and 2010 follows:

2011 Noncurrent Liabilities	Balance July 1, 2010	Increases/ Decreases	Balance June 30, 2011	Current Portion
Bonds Payable	\$ 936,147,464	\$ 222,091,626	\$ 1,158,239,090	\$ 46,666,857
Notes Payable	48,878,720	10,314,416	59,193,136	8,058,376
Capital Lease Obligations	33,504,600	(3,596,307)	29,908,293	6,195,666
Compensated Absences	<u>132,707,730</u>	<u>(761,442)</u>	<u>131,946,288</u>	<u>69,316,765</u>
Total	<u>\$ 1,151,238,514</u>	<u>\$ 228,048,293</u>	<u>\$ 1,379,286,807</u>	<u>\$ 130,237,664</u>

2010 Noncurrent Liabilities	Balance July 1, 2009	Increases/ Decreases	Balance June 30, 2010	Current Portion
Bonds Payable	\$ 771,172,352	\$ 164,975,112	\$ 936,147,464	\$ 32,389,038
Notes Payable	57,402,902	(8,524,182)	48,878,720	8,946,204
Capital Lease Obligations	108,647,133	(75,142,533)	33,504,600	5,888,447
Compensated Absences	<u>119,119,233</u>	<u>13,588,497</u>	<u>132,707,730</u>	<u>68,515,777</u>
Total	<u>\$ 1,056,341,620</u>	<u>\$ 94,896,894</u>	<u>\$ 1,151,238,514</u>	<u>\$ 115,739,466</u>

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2011 and 2010

NOTE 5 – Lease Commitments

The University of Wisconsin System had capital lease obligations with a net present value of \$29,908,293 as of June 30, 2011 compared to \$33,504,600 at June 30, 2010. The payment schedule for capital lease obligations is as follows:

2012	\$ 7,537,257
2013	7,119,945
2014	6,805,525
2015	5,884,448
2016	3,709,144
2017-2021	<u>2,733,969</u>
Total Scheduled Lease Payments	33,790,288
Amount Representing Interest	<u>(3,881,995)</u>
Net Present Value	<u>\$ 29,908,293</u>

Assets Held Under Capital Lease:

2011	Original Cost June 30, 2011	Accumulated Depreciation	Book Value June 30, 2011
Buildings and Improvements	\$ 68,913,357	\$ 29,404,121	\$ 39,509,236
Equipment	<u>8,083,231</u>	<u>3,025,196</u>	<u>5,058,035</u>
Total Assets	<u>\$ 76,996,588</u>	<u>\$ 32,429,317</u>	<u>\$ 44,567,271</u>
2010	Original Cost June 30, 2010	Accumulated Depreciation	Book Value June 30, 2010
Buildings and Improvements	\$ 68,913,357	\$ 26,045,507	\$ 42,867,850
Equipment	<u>8,684,134</u>	<u>5,318,562</u>	<u>3,365,572</u>
Total Assets	<u>\$ 77,597,491</u>	<u>\$ 31,364,069</u>	<u>\$ 46,233,422</u>

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2011 and 2010

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 \$26,078,427 for the fiscal year ended June 30, 2011. Minimum commitments for future operating lease payments are as follows:

2012	\$ 24,591,488
2013	16,156,874
2014	14,897,137
2015	12,854,746
2016	11,105,793
2017-2021	52,748,212
2022-2026	39,149,809
2027-2031	36,056,535
2032-2036	<u>6,850,591</u>
Total	<u>\$ 214,411,185</u>

NOTE 6 – Compensated Absences

The compensated absences liability at June 30, 2011 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, 2011 totaled \$131,946,288 compared with \$132,707,730 at June 30, 2010. The compensated absences balance consists of a \$69,316,765 current liability and \$62,629,523 noncurrent liability compared to a \$68,515,777 current liability and \$64,191,953 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 \$244,780,310 for fiscal year 2011, compared to \$198,347,796 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, 2011 and 2010

NOTE 7 – Retirement Benefits (continued)

January 2003. State agencies are required to make future contributions to fund the bond payments. Bond payments totaling \$54,729,159 during fiscal year 2011, compared to bond payments totaling \$49,752,728 during fiscal year 2010, 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 \$180,531 during the current year, compared with \$249,158 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 2011 and 2010, 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, 2009 actuarial valuation, the State's annual OPEB costs were \$128.4 million and \$124.3 million and the State's annual required contributions were \$136.9 million and \$130.5 million for fiscal years ended June 30, 2011 and June 30, 2010, respectively. The State's actual contributions were \$52.8 million in 2011 and \$46.5 million in 2010, which results in a net OPEB obligation for the State of \$367.5 million as of June 30, 2011, and \$291.9 million as of June 30, 2010, respectively. The portion of this obligation allocated to the University of Wisconsin System increased from \$131.3 million in fiscal year 2010 to \$167.4 million in fiscal year 2011. 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 or may be obtained by writing to: The Department of Administration, 101 East Wilson Street, Madison, Wisconsin 53703.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2011 and 2010

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 \$785,584 to this program during fiscal year 2011 compared to \$736,382 during fiscal year 2010.

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 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. The buildings and land related to the 13 two-year colleges is not owned by the UW System and thus is not reported in these financial statements. 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 \$299.6 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. One asset met the temporarily impaired definition of this standard for fiscal year 2011. University of Wisconsin-Eau Claire's Campus School, net book value of \$439,289, was idle as of June 30, 2011 and will be demolished in the spring of 2012. No asset met the temporarily impaired definition of this standard for fiscal year 2010.

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, establishes accounting and financial reporting standards for an intangible asset that lacks physical substance, is nonfinancial in

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2011 and 2010

NOTE 9 – Capital Assets (continued)

nature, has a useful life extending beyond one year, and is not acquired or created primarily for the purpose of directly obtaining income or profit. Intangible assets are capitalized with a minimum value of \$1.0 million and are included in the equipment balance. Depreciation for intangible assets is calculated on a straight-line basis over ten years. At June 30, 2011, the equipment balance includes \$57.7 million for intangible assets net of depreciation.

Depreciation expense for the fiscal years ended June 30, 2011 and 2010 was \$224.1 and \$200.2 million, respectively.

The change in book value from July 1, 2010 to June 30, 2011 is summarized as follows:

	<u>Book Value</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Transfers</u>	<u>Deductions</u>	<u>Book Value</u> <u>June 30, 2011</u>
Buildings	\$4,457,095,384	\$ 162,239,284	\$ 259,545,166	\$ (7,741,466)	\$4,871,138,368
Improvements	333,063,592	9,270,309	20,195,819	-	362,529,720
Land	130,933,496	15,823,294	-	(95,500)	146,661,290
Construction in Progress	481,502,873	270,292,721	(279,740,985)	-	472,054,609
Equipment	970,667,026	166,934,074	-	(29,498,613)	1,108,102,487
Library Holdings	<u>1,106,538,962</u>	<u>23,460,521</u>	<u>-</u>	<u>(5,762,972)</u>	<u>1,124,236,511</u>
Subtotal	7,479,801,333	648,020,203	-	(43,098,551)	8,084,722,985

Less Accumulated Depreciation:

Buildings	1,804,734,136	130,966,230	-	(4,505,938)	1,931,194,428
Improvements	187,112,937	12,509,931	-	-	199,622,868
Equipment	<u>705,293,369</u>	<u>80,596,530</u>	<u>-</u>	<u>(30,633,436)</u>	<u>755,256,463</u>
Total Accumulated Depreciation	2,697,140,442	224,072,691	-	(35,139,374)	2,886,073,759
Capital Assets, Net	<u>\$4,782,660,891</u>	<u>\$ 423,947,512</u>	<u>\$ -</u>	<u>\$ (7,959,177)</u>	<u>\$5,198,649,226</u>

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2011 and 2010

NOTE 9 – Capital Assets (continued)

The change in book value from July 1, 2009 to June 30, 2010 is summarized as follows:

	<u>Book Value</u> <u>July 1, 2009</u>	<u>Additions</u>	<u>Transfers</u>	<u>Deductions</u>	<u>Book Value</u> <u>June 30, 2010</u>
Buildings	\$4,335,681,285	\$ 150,528,683	\$ 56,735,655	\$ (85,850,239)	\$4,457,095,384
Improvements	285,616,520	8,418,495	39,060,805	(32,228)	333,063,592
Land	130,112,829	835,667	-	(15,000)	130,933,496
Construction in Progress	227,772,184	349,527,149	(95,796,460)	-	481,502,873
Equipment	914,731,641	80,311,616	-	(24,376,231)	970,667,026
Library Holdings	<u>1,088,150,074</u>	<u>23,420,155</u>	-	<u>(5,031,267)</u>	<u>1,106,538,962</u>
Subtotal	6,982,064,533	613,041,765	-	(115,304,965)	7,479,801,333

Less Accumulated Depreciation:

Buildings	1,694,478,476	122,188,608	-	(11,932,948)	1,804,734,136
Improvements	176,144,900	10,976,899	-	(8,862)	187,112,937
Equipment	<u>658,518,766</u>	<u>67,054,704</u>	-	<u>(20,280,101)</u>	<u>705,293,369</u>
Total Accumulated Depreciation	2,529,142,142	200,220,211	-	(32,221,911)	2,697,140,442
Capital Assets, Net	<u>\$4,452,922,391</u>	<u>\$ 412,821,554</u>	<u>\$ -</u>	<u>\$ (83,083,054)</u>	<u>\$4,782,660,891</u>

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, 2011:

	<u>Maturity</u> <u>Dates</u>	<u>Balance</u> <u>July 1, 2010</u>	<u>New Debt/</u> <u>Accretion</u>	<u>Principal Paid/</u> <u>Adjustments</u>	<u>Balance</u> <u>June 30, 2011</u>
Bonds (Gross)	2012-2041	\$ 915,510,389	\$ 252,551,421	\$ (36,929,259)	\$ 1,131,132,551
Notes	2012-2030	<u>48,878,720</u>	<u>19,260,000</u>	<u>(8,945,584)</u>	<u>59,193,136</u>
		<u>\$ 964,389,109</u>	<u>\$ 271,811,421</u>	<u>\$ (45,874,843)</u>	<u>\$ 1,190,325,687</u>

The bonds have maturity dates ranging from November 1, 2011 to May 1, 2041. The notes have maturity dates ranging from May 1, 2012 to May 1, 2030.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2011 and 2010

NOTE 10 – Long Term Debt (continued)

As of June 30, 2011, the current and noncurrent bonds payable net of discounts, premiums, and deferred refunding totaled \$46,666,857 and \$1,111,572,233, respectively.

	Balance June 30, 2011	Current	Noncurrent
Bonds (Gross)	\$ 1,131,132,551	\$ 41,680,111	\$ 1,089,452,440
Discount	(345,632)	(28,548)	(317,084)
Premium	33,220,559	5,946,348	27,274,211
Deferred Refunding	<u>(5,768,388)</u>	<u>(931,054)</u>	<u>(4,837,334)</u>
Bonds (Net)	1,158,239,090	46,666,857	1,111,572,233
Notes	<u>59,193,136</u>	<u>8,058,376</u>	<u>51,134,760</u>
	<u>\$ 1,217,432,226</u>	<u>\$ 54,725,233</u>	<u>\$ 1,162,706,993</u>

The following information relates to the status of bonds and notes payable outstanding at June 30, 2010:

	Maturity Dates	Balance July 1, 2009	New Debt/ Accretion	Principal Paid/ Adjustments	Balance June 30, 2010
Bonds (Gross)	2011-2040	\$ 751,159,653	\$ 193,095,977	\$ (28,745,241)	\$ 915,510,389
Notes	2011-2017	<u>57,402,902</u>	-	<u>(8,524,182)</u>	<u>48,878,720</u>
		<u>\$ 808,562,555</u>	<u>\$ 193,095,977</u>	<u>\$ (37,269,423)</u>	<u>\$ 964,389,109</u>

The bonds have maturity dates ranging from October 15, 2010 to April 15, 2040. The notes have maturity dates ranging from May 1, 2011 to May 1, 2017.

As of June 30, 2010, the current and noncurrent bonds payable net of discounts, premiums, and deferred refunding totaled \$32,389,038 and \$903,758,426, respectively.

	Balance June 30, 2010	Current	Noncurrent
Bonds (Gross)	\$ 915,510,389	\$ 29,318,809	\$ 886,191,580
Discount	(306,886)	(24,531)	(282,355)
Premium	27,684,370	4,067,781	23,616,589
Deferred Refunding	<u>(6,740,409)</u>	<u>(973,021)</u>	<u>(5,767,388)</u>
Bonds (Net)	936,147,464	32,389,038	903,758,426
Notes	<u>48,878,720</u>	<u>8,946,204</u>	<u>39,932,516</u>
	<u>\$ 985,026,184</u>	<u>\$ 41,335,242</u>	<u>\$ 943,690,942</u>

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2011 and 2010

NOTE 10 – Long Term Debt (continued)

Future debt service requirements for bonds and notes outstanding at June 30, 2011 are as follows:

Future Repayment Schedule

Fiscal Year	<u>Bonds</u>		<u>Notes</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 41,680,111	\$ 57,017,207	\$ 8,058,376	\$ 2,959,626
2013	45,252,725	53,502,495	8,454,463	2,556,738
2014	45,110,562	51,358,442	8,876,874	2,134,015
2015	47,063,399	49,156,027	7,792,340	1,690,171
2016	50,920,200	46,841,322	5,384,224	1,300,554
2017-2021	285,758,880	195,436,446	9,296,859	3,763,593
2022-2026	285,486,628	125,526,091	5,680,000	2,292,500
2027-2031	239,380,046	57,724,812	5,650,000	723,750
2032-2036	48,125,000	19,047,235	-	-
2037-2041	<u>42,355,000</u>	<u>6,572,795</u>	-	-
Total	<u>\$ 1,131,132,551</u>	<u>\$ 662,182,872</u>	<u>\$ 59,193,136</u>	<u>\$ 17,420,947</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, 2011, the principal balance of such bonds and notes was \$1,395,390,939 and \$137,648,908, respectively. As of June 30, 2010, the principal balance of such bonds and notes was \$1,282,123,190 and \$137,649,536, respectively.

Debt service payments made by the State of Wisconsin for the years ended June 30, 2011 and 2010 were allocated as follows:

	<u>Bonds</u>	<u>Notes</u>
2011		
Principal	\$ 13,021,011	\$ -
Interest	<u>59,750,548</u>	<u>306,350</u>
Total Paid	<u>\$ 72,771,559</u>	<u>\$ 306,350</u>
2010		
Principal	\$ -	\$ -
Interest	<u>52,497,663</u>	<u>213,405</u>
Total Paid	<u>\$ 52,497,663</u>	<u>\$ 213,405</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 organizations are not included in the financial statements; however, the following financial information is provided.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2011 and 2010

NOTE 11 – Other Organizations (continued)

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.

Significant financial data for the UW Foundation for the years ending December 31, 2010 and 2009 are presented below (in thousands):

Condensed Balance Sheet	<u>2010</u>	<u>2009</u>
Assets:		
Cash, Investments and Other Assets	\$ 2,635,576	\$ 2,410,222
Capital Assets, Net	<u>7,054</u>	<u>7,251</u>
Total Assets	<u>\$ 2,642,630</u>	<u>\$ 2,417,473</u>
Liabilities:		
Accounts Payable and Other Current Liabilities	\$ 30,575	\$ 48,848
Amounts Held for Other Component Units	251,702	215,773
Long-term Liabilities (Current and Noncurrent Portions)	<u>40,941</u>	<u>40,264</u>
Total Liabilities	<u>323,218</u>	<u>304,885</u>
Fund Equity:		
Invested in Capital Assets, Net of Related Debt	7,054	7,251
Restricted	2,137,485	1,927,074
Unrestricted	<u>174,873</u>	<u>178,263</u>
Total Fund Equity	<u>2,319,412</u>	<u>2,112,588</u>
Total Liabilities and Fund Equity	<u>\$ 2,642,630</u>	<u>\$ 2,417,473</u>
Condensed Statement of Revenues, Expenses, and Changes in Fund Equity		
Program Expenses:		
Depreciation	\$ 489	\$ 467
Payments to Primary Government	206,224	250,985
Other	<u>30,558</u>	<u>29,017</u>
Total Program Expenses	<u>237,271</u>	<u>280,469</u>
Program Revenues:		
Investment and Interest Income	278,377	267,057
Operating Grants and Contributions	165,668	156,119
Other	<u>50</u>	<u>406</u>
Total Program Revenues	<u>444,095</u>	<u>423,582</u>
Net Program Revenues	206,824	143,113
Change in Fund Equity	206,824	143,113
Fund Equity, Beginning of Year	<u>2,112,588</u>	<u>1,969,475</u>
Fund Equity, End of Year	<u>\$ 2,319,412</u>	<u>\$ 2,112,588</u>

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2011 and 2010

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 \$164,682,389 at June 30, 2011, compared with \$140,997,476 at June 30, 2010.

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, 2011, the present value of these future lease payments totaled \$4.2 million, compared to \$5.9 million at June 30, 2010, 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 \$1,131.1 million and \$915.5 million at June 30, 2011 and June 30, 2010, respectively. 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, 2011, the University of Wisconsin System received services from UWHCA totaling \$4.6 million and provided services to UWHCA totaling \$53.7 million, compared to amounts for fiscal year ended June 30, 2010 of \$4.6 million and \$55.5 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, 2011, the present value of these future lease payments totaled \$4.7 million, compared to \$5.1 million at June 30, 2010, 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 \$1,131.1 million and \$915.5 million at June 30, 2011 and June 30, 2010, respectively. 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, 2011 and 2010

NOTE 11 – Other Organizations (continued)

C – Lease Agreements (continued)

During the fiscal year ended June 30, 2011, the University of Wisconsin System provided services and rent to The Consortium totaling \$0.6 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 \$8.2 million to DHS during fiscal year 2011 and \$15.6 million in fiscal year 2010, representing the state's share of this difference. DHS then claimed the federal share of the difference from the federal government and subsequently provided \$23.3 million during fiscal year 2011 and \$45.5 million during 2010, representing both the state and federal share of the difference, to the UW Medical Foundation. In addition, transfers by UW-Madison to the MA Trust Fund of \$25.0 million during fiscal year 2011 and \$23.8 million in fiscal year 2010 were also made under this program and are reported as a transfer to state agencies on the financial statements.

The Wisconsin Institutes for Discovery

The Wisconsin Institutes for Discovery, which opened in December 2010, is a visionary public-private facility that has taken shape as an innovative building housing two world-class biomedical research institutes and a public space known as the Town Center for campus and community members to gather and collaborate. The public institute, the Wisconsin Institutes for Discovery, is part of the University of Wisconsin-Madison organized under its Graduate School. The private portion of the facility is owned by the Wisconsin Alumni Research Foundation (WARF), which is an independent, nonprofit foundation chartered to support research at the University of Wisconsin-Madison and the designated technology transfer organization for the university. The facility was originally undertaken with \$50 million in State of Wisconsin and University funding, \$110 million contributed by WARF and a \$50 million donation from a private donor. The Morgridge Institute for Research, an independent 501(c)(3) medical research organization, occupies the majority of the WARF-owned portion of the building.

The Wisconsin Institutes for Discovery facility is a 300,000 square foot building located at 330 North Orchard Street in Madison, Wisconsin. Since the University of Wisconsin System initially owned all of this land, the University of Wisconsin System and WARF became parties to a Real Property Exchange

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2011 and 2010

NOTE 11 – Other Organizations (continued)

D – Other Agreements (continued)

Agreement dated January 19, 2007. Under the terms of the Exchange Agreement, the University of Wisconsin System agreed to convey to WARF a portion of this land and WARF agreed to convey to the University of Wisconsin System properties of equal value as defined in the agreement. In fiscal years 2008-09 and 2010-11, the University of Wisconsin System recorded \$4.3 million and \$7.7 million, respectively, as Land and Capital Contributions for the fair market value of the properties WARF has conveyed to the University of Wisconsin System under this agreement.

The Wisconsin Institutes for Discovery is operated as a condominium. University of Wisconsin System and WARF are the members of The Wisconsin Institutes for Discovery Condominium Association, Inc. (the “Association”), as set forth in the Condominium Declaration dated September 25, 2009. Ownership of the facility has been determined to be 30% University of Wisconsin System and 70% WARF. Of the total capitalized cost, the University of Wisconsin System capitalized \$51.9 million in fiscal year 2010-11 as Buildings and the remaining amount was capitalized by WARF. Under the terms of the Condominium Declaration, the Association contracts with WARF for purposes of the management and operation of the property. The parties also entered into an Operating and Services Agreement that sets forth the mutually agreed upon specifics of such management and operation.

NOTE 12 – Operating Expenses by Functional Classification

Operating expenses by functional classification for the fiscal year ended June 30, 2011:

	Salary and Fringe Benefits	Scholarships and Fellowships	Supplies and Services	Other	Depreciation	Total
Instruction	\$ 1,021,670,351	\$ 1,816,852	\$ 120,577,782	\$ 1,301,473	\$ -	\$ 1,145,366,458
Research	630,219,715	2,706,531	222,762,431	2,816,719	-	858,505,396
Public Service	195,155,264	1,345,549	105,954,144	1,725,789	-	304,180,746
Academic Support	277,104,634	57,325	67,145,274	55,457	-	344,362,690
Farm Operations	10,301,818	-	4,565,968	231	-	14,868,017
Student Services	252,036,554	723,594	131,508,427	36,518	-	384,305,093
Institutional Support	206,797,930	9,711	(57,452)	58,628	-	206,808,817
Operation/Maintenance	153,447,238	-	159,711,445	8,226	-	313,166,909
Financial Aid	6,916,011	146,049,551	1,273,572	1,836,970	-	156,076,104
Auxiliary Enterprises	108,651,842	69,931	197,830,389	(34,719)	-	306,517,443
Hospital	-	-	51,235,336	-	-	51,235,336
Depreciation	-	-	-	-	224,072,691	224,072,691
Total Operating Expenses	<u>\$ 2,862,301,357</u>	<u>\$152,779,044</u>	<u>\$ 1,062,507,316</u>	<u>\$ 7,805,292</u>	<u>\$ 224,072,691</u>	<u>\$ 4,309,465,700</u>

Operating expenses totaled \$4.3 billion. Salary and fringe benefits, scholarships and fellowships, and supplies and services and other expenses constituted 66.4%, 3.6%, and 24.8% of total operating expenses, respectively. Depreciation comprised \$224.1 million or 5.2% of total operating expenses.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2011 and 2010

NOTE 12 – Operating Expenses by Functional Classification (continued)

Operating expenses by functional classification for the fiscal year ended June 30, 2010:

	Salary and Fringe Benefits	Scholarships and Fellowships	Supplies and Services	Other	Depreciation	Total
Instruction	\$ 986,657,625	\$ 1,687,856	\$ 121,547,951	\$ (72,730)	\$ -	\$ 1,109,820,702
Research	604,496,589	2,970,035	218,449,140	283,808	-	826,199,572
Public Service	190,341,943	729,664	117,402,595	480,105	-	308,954,307
Academic Support	265,277,606	44,851	64,680,701	16,056	-	330,019,214
Farm Operations	10,024,663	-	4,724,987	(1,667)	-	14,747,983
Student Services	246,570,102	1,028,481	125,045,133	235,155	-	372,878,871
Institutional Support	194,870,874	651,868	3,191,525	(4,041)	-	198,710,226
Operation/Maintenance	149,014,420	-	135,553,865	(5,957)	-	284,562,328
Financial Aid	6,063,898	133,394,527	(12,160)	3,830,257	-	143,276,522
Auxiliary Enterprises	105,516,613	21,719	189,423,837	284,885	-	295,247,054
Hospital	-	-	52,190,688	-	-	52,190,688
Depreciation	-	-	-	-	200,220,211	200,220,211
Total Operating Expenses	<u>\$ 2,758,834,333</u>	<u>\$140,529,001</u>	<u>\$ 1,032,198,262</u>	<u>\$ 5,045,871</u>	<u>\$ 200,220,211</u>	<u>\$ 4,136,827,678</u>

Operating expenses totaled \$4.1 billion. Salary and fringe benefits, scholarships and fellowships, and supplies and services and other expenses constituted 66.7%, 3.4%, and 25.1% of total operating expenses, respectively. Depreciation comprised \$200.2 million or 4.8% of total operating expenses.

NOTE 13 – Classification of Net Assets

Net assets are reported in the following six categories:

	2011	2010
• Invested in capital assets, net of related debt	\$3,951,308,708	\$ 3,764,130,108
• 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	155,641,629	133,671,335
• 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	233,294,014	180,178,716
➤ Auxiliary operations as established by state statute	104,963,024	83,827,847
• Restricted - Student Loans	224,919,387	220,954,540

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2011 and 2010

NOTE 13 – Classification of Net Assets (continued)

	<u>2011</u>	<u>2010</u>
• Restricted - Other		
Net assets of other legally separate appropriations	159,745,430	139,830,938
• 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.	607,434,010	502,724,309

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.

CAFR reclassifications as of June 30, 2011:

(In Millions)

	<u>University of Wisconsin System</u>	<u>Auxiliary Operations</u>	<u>Quasi- Endowments</u>	<u>Student Loans</u>	<u>Other Postemployment Benefits (Note 8)</u>	<u>State of Wisconsin CAFR</u>
Invested in Capital Assets, Net of Related Debt	\$ 3,951.3	\$ -	\$ -	\$ -	\$ -	\$ 3,951.3
Restricted for						
Nonexpendable	155.6	-	-	-	-	155.6
Expendable	338.3	(105.0)	69.5	-	-	302.8
Student Loans	224.9	-	-	(10.2)	(0.1)	214.6
Other	159.8	-	-	10.2	(30.6)	139.4
Unrestricted	<u>607.4</u>	<u>105.0</u>	<u>(69.5)</u>	<u>-</u>	<u>(136.7)</u>	<u>506.2</u>
Total Net Assets	<u>\$ 5,437.3</u>	<u>\$ 0.0</u>	<u>\$ 0.0</u>	<u>\$ 0.0</u>	<u>\$ (167.4)</u>	<u>\$ 5,269.9</u>

CAFR reclassifications as of June 30, 2010:

(In Millions)

	<u>University of Wisconsin System</u>	<u>Auxiliary Operations</u>	<u>Quasi- Endowments</u>	<u>Student Loans</u>	<u>Other Postemployment Benefits (Note 8)</u>	<u>State of Wisconsin CAFR</u>
Invested in Capital Assets, Net of Related Debt	\$ 3,764.1	\$ -	\$ -	\$ -	\$ -	\$ 3,764.1
Restricted for						
Nonexpendable	133.7	-	-	-	-	133.7
Expendable	264.0	(83.8)	59.8	-	-	240.0
Student Loans	221.0	-	-	(8.6)	(0.1)	212.3
Other	139.8	-	-	8.6	(23.9)	124.5
Unrestricted	<u>502.7</u>	<u>83.8</u>	<u>(59.8)</u>	<u>-</u>	<u>(107.3)</u>	<u>419.4</u>
Total Net Assets	<u>\$ 5,025.3</u>	<u>\$ 0.0</u>	<u>\$ 0.0</u>	<u>\$ 0.0</u>	<u>\$ (131.3)</u>	<u>\$ 4,894.0</u>

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2011 and 2010

NOTE 14 – Prior Period Adjustments

Neither the June 30, 2011 nor the June 30, 2010 Statement of Net Assets includes a prior period adjustment.

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

Long-Term Debt

In August 2011, the State of Wisconsin issued long-term debt in the aggregate amount of \$95,920,000 of 2011 Series B 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 for public purposes. The interest rates ranged from 4.00% to 5.00% payable semiannually, beginning May 1, 2012. The bonds mature May 1 of the years 2013 through 2032.