



Annual Financial Report 2012



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Editor: Laurie Grams

Cover Photo: Shown in this autumn photo montage are UW-Green Bay students and several key campus buildings:

- David A. Cofrin Library (upper left), selected as the Wisconsin Library Association's Library of the Year in 2012;
- Weidner Center for the Performing Arts (upper right), a state-of-the-art performance venue accessible to both the university population and to the larger community; and
- Mary Ann Cofrin Hall (lower photo), an award-winning academic building creating an appealing academic "front door" to the campus with its environmental science, geographic, and social science exhibits.

Founded in 1965, UW-Green Bay is a regional comprehensive university with exceptional new facilities, a dynamic atmosphere, and a campuswide commitment to "360° of Learning." The UW-Green Bay academic plan promotes hands-on learning through internships, research, and team projects. It also demands that students have the ability to make connections – to examine issues from different perspectives, and to work effectively with those from other fields.

A small- to mid-sized institution, UW-Green Bay enrolls about 6,500 students. The setting includes wooded trails, a nine-hole golf course, and a million-dollar view of the bay.

Photographers: Eric Miller (upper photos) and Kimberly Vlies (lower photo)

**University of Wisconsin System
2012 Annual Financial Report**

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*Senior Vice President for Academic and
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UNIVERSITY OF WISCONSIN SYSTEM

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Edmund Manydeeds, *Eau Claire*
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Gerald Whitburn, *Wausau*

UNIVERSITY OF WISCONSIN SYSTEM
Years Ended June 30, 2012 and 2011

Introduction from the President
and
Vice President's Report



INTRODUCTION FROM THE PRESIDENT FINANCIAL REPORT 2012

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

In the 2011-12 academic year, we enrolled a near-record high of more than 181,000 students. Through our new UW Flexible Option and eCampus portal, more working adults can return to college and complete their degrees, using online and other delivery methods. In addition, more than one million residents participate each year in university programs through statewide extension networks. These are just a few of the ways UW institutions are creating more educational opportunities in cost-effective fashion.

We emerged from the last biennial budget with the national and state economies striving to recover from the global recession. The current forecast is promising, although the possibility of the “fiscal cliff” on the national level jeopardizes research funding and other important areas. Closer to home, new managerial flexibilities from the state will help, enabling our campus leaders to use scarce resources where they are

needed most to support learning, research, and community engagement. The UW System was spared midyear budget lapses in 2012, which was a positive note in an otherwise challenging budget cycle. We look forward to working with the Governor and state officials in developing the next biennial budget targeted at the state’s most pressing needs.

Policymakers and citizens must be assured that their investments in the UW are providing positive returns to Wisconsin. The UW has an estimated economic impact of at least \$15 billion in Wisconsin each year – a fifteen-fold return on the state’s investment. Plus, 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.” A recent survey shows that 73% of Wisconsin residents consider higher education important, and 80% say they feel proud of Wisconsin’s post-secondary institutions. Access and affordability were considered top priorities, with stimulating job growth and attracting new industries identified as top areas for improvement.

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 overhead compared to peer university systems, saving Wisconsin taxpayers millions of dollars each year. State funding per student in the UW System is now \$1,660 below the average among public universities, ranking Wisconsin 39th among the 50 states. Comparing state support for higher education to personal income, Wisconsin ranks 32nd in the nation in funding per \$1,000 in personal income. And relative to our total state population, Wisconsin ranks 34th among the 50 states in per capita spending on higher education. We are proud of such indicators of cost efficiency, and at the same time concerned that if the state continues to disinvest in the UW, quality will be compromised.

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 2012

Act 32, the State of Wisconsin 2011-13 biennial budget, provided both challenges and opportunities for the University of Wisconsin System. The financial challenges included another \$250 million reduction in state support (the first occurred in 2003-05) and an additional lapse of \$65.8 million over the biennium. In addition, the legislature capped tuition increases at 5.5% and froze the University's ability to implement any new differential tuition initiatives at our institutions. As a result, only a portion of the massive cuts were able to be offset. Enrollments were healthy across the UW System, totaling 181,269, slightly less than the all-time high in the preceding year. The UW System continued to graduate more students, granting 33,697 bachelor's, master's, and other advanced degrees in the 2011-2012 academic year, an increase of 776 over the 2010-2011 academic year. All the while, faculty and staff received no salary increases. In fact, increased employee contributions to health care and retirement equated to about an 8% salary reduction for the average employee. This is clearly reflected when you

look at the \$58.0 million (2%) overall reduction in the amount expended on salaries and fringe benefits from fiscal year 2011 to fiscal year 2012.

In addition to the overall reduction to the UW System's budget, a targeted 25% cut to the state appropriation supporting the System Administration was included in the legislation. This led to a serious review and evaluation of all functions performed in the central office in order to assess how to administer cuts of this magnitude. A refined sense of purpose resulted with the mnemonic "ITMAC," which reflects the UW System Administration's core roles of interpreting, training, monitoring, advocating, and consulting on behalf of our colleges, universities, and state-wide extension.

Act 32 did bring some exciting opportunities. As one of the most heavily regulated public institutions of higher education, additional flexibilities in the areas of human resources, travel, procurement, and block grant funding were most welcome. The UW System was given the authority, effective July 1, 2013, to establish its own personnel systems, one for UW-Madison and one for the balance of the UW System. Included in this authority is the ability to bring the approximately 12,000 current state civil service employees under the overall umbrella of the Board of Regents. Formerly under the same policies governing all state employees, the UW System has been given the authority to establish its own policies for university travel, also effective July 1, 2013. As the University represents about 80-85% of all state-wide travel expenditures, this was a flexibility we sought for quite some time. State-wide, additional flexibilities were granted in the area of procurement, increasing the simplified bidding threshold from \$25,000 to \$50,000. In addition, effective July 1, 2013, the UW will gain additional authority over purchases relating to higher education's unique needs. The biennial budget also brought the concept of "block grant budgeting" to the UW System. Many separate appropriations were collapsed for accounting and reporting purposes at the state level. Much work has gone into reaching agreement across the System as to the level of detail required for the future management of university resources. A special Legislative Task Force on UW Restructuring and Operational Flexibilities was established during 2011-12 and addressed six targeted areas, advocating for additional operating flexibilities for the University. We hope to see some of their recommendations reflected in the Governor's next biennial budget to be released in February, 2013.

Act 32 also included, for the first time, a defined set of performance indicators. While the UW System has long published an annual accountability report, the biennial budget included 38 specific measures upon which we will now be required to report. While several overlap with past accountability reports, many indicators are new and will take time to establish appropriate benchmarks and performance standards. We welcome this opportunity to increase our accountability and transparency to Wisconsin students, taxpayers, legislators, and the general public.

Due to the large reductions in state support, state appropriations continue to represent a smaller share of total revenue. Falling by \$173.2 million, or 16.8%, in fiscal year 2012, state funding now represents 17.5% of the University's total revenue. Net tuition and fees continue to represent the largest share of total revenue, representing 22.6%. Net tuition revenue grew by \$30.2 million, or 2.8%, in 2012 to \$1.1 billion. Grants and contracts from the federal government accounted for 17.6% of total revenues while grants and contracts from the state, local and private providers were an additional 8.1%. If combined, total grants and contracts would become the largest share of total revenue (25.7%). The UW System continues to be very successful in competing for grant funding and increasing private funding. Sales and services of educational activities and auxiliary enterprises each accounted for about \$350 million in revenues, making up a combined 14.3% of the total.

I invite you to review the 2012 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, 2012 and 2011

Supplemental Information

CHART 1
TEN-YEAR COMPARISON OF CURRENT FUNDS REVENUES
2002-2012

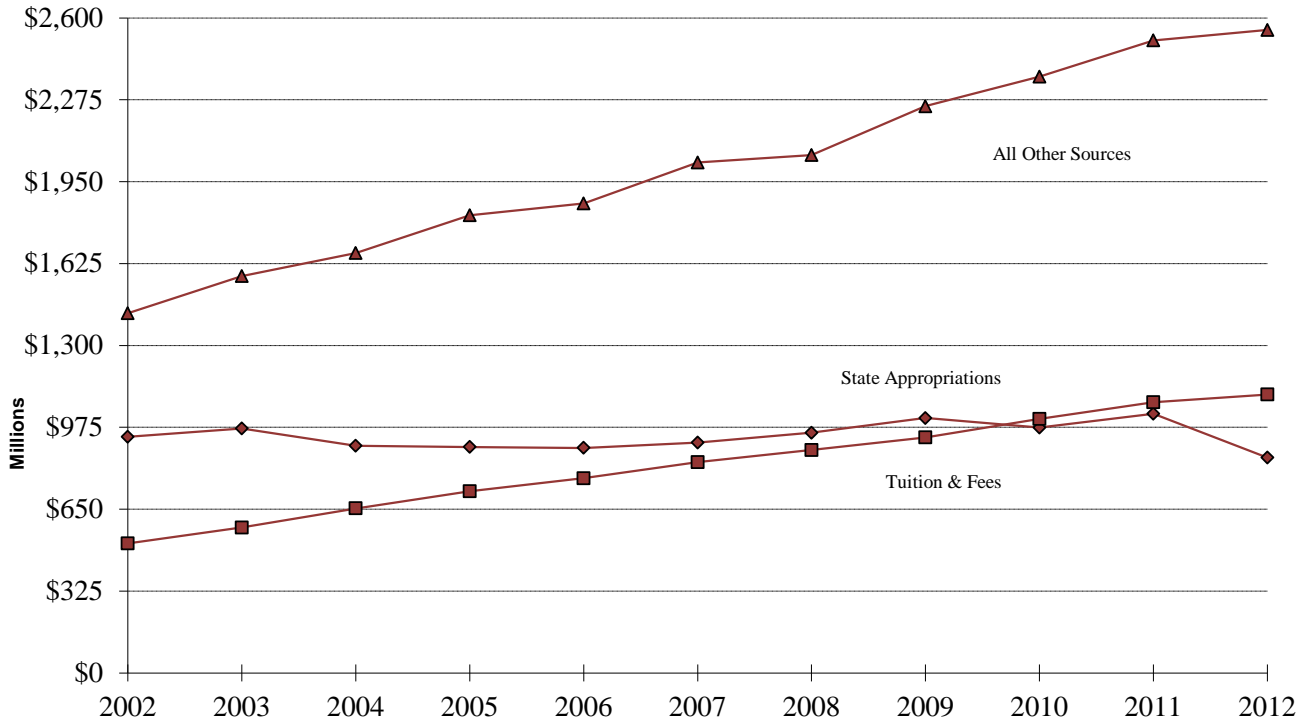


CHART 2
TEN-YEAR COMPARISON OF CURRENT FUNDS REVENUES
ADJUSTED FOR INFLATION
2002- 2012

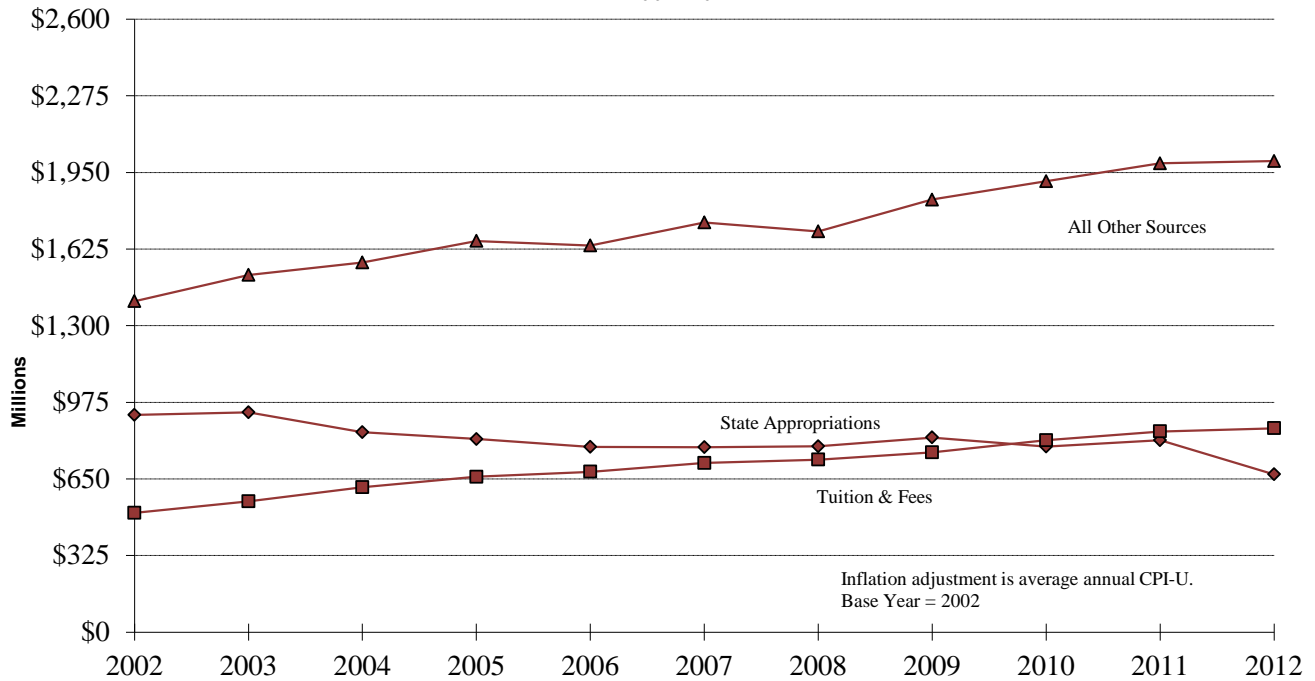
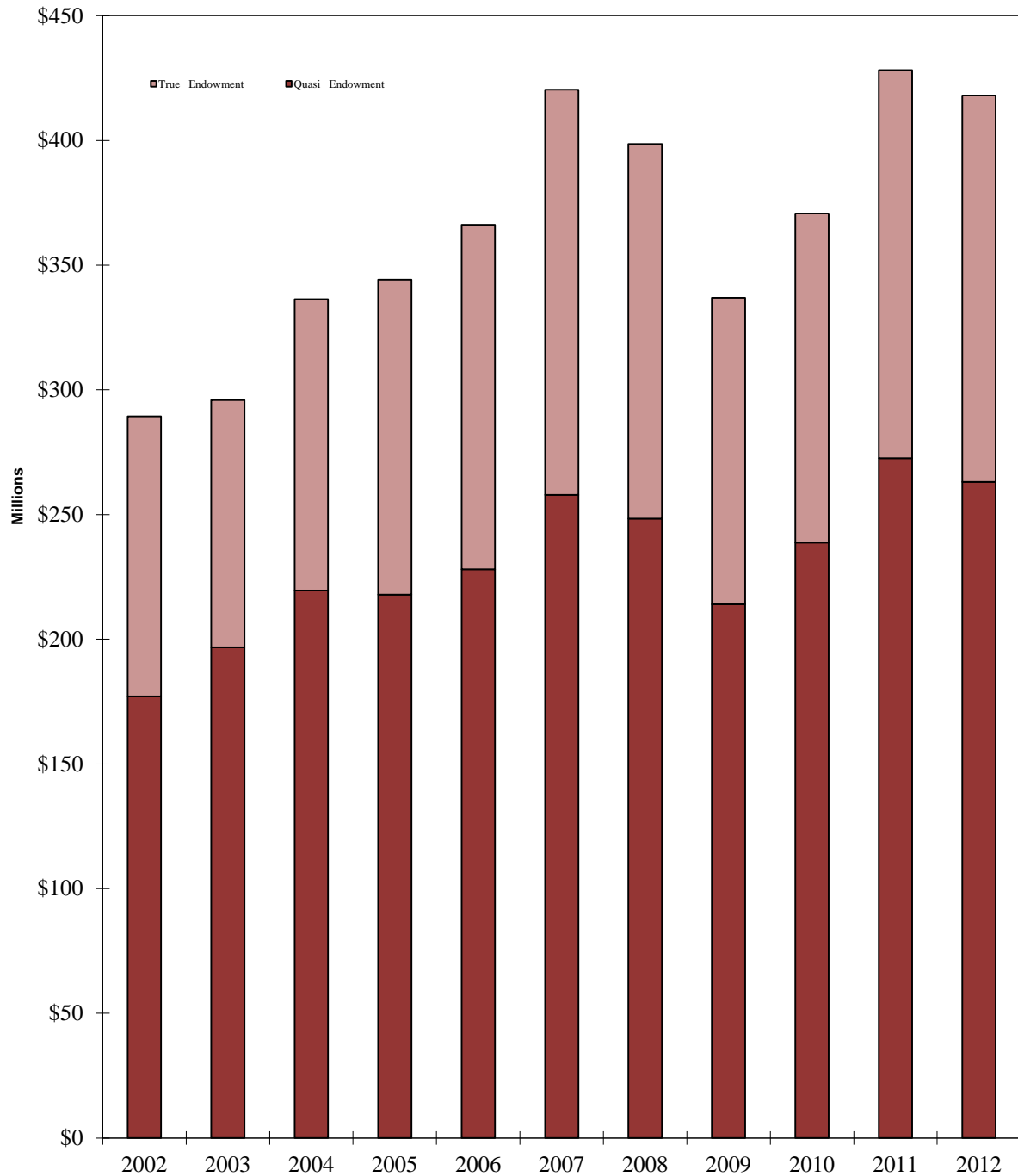


CHART 3
TEN-YEAR COMPARISON OF UNIVERSITY-CONTROLLED ENDOWMENTS
2002-2012



Charts have been prepared based on generally accepted accounting principles in effect prior to the adoption of GASB Statement No. 35.

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UNIVERSITY OF WISCONSIN SYSTEM
Management's Discussion and Analysis
Years Ended June 30, 2012 and 2011

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, 2012 and 2011, with comparative information for the year ending June 30, 2010. 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 2011-2012, the University of Wisconsin System enrolled 181,269 students, employed approximately 31,000 faculty and staff, and granted 33,697 bachelor's, master's, and other advanced degrees. The University of Wisconsin System institutions were awarded over \$956.3 million in federal grants and contracts in 2011-2012 and an additional \$551.9 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>10,005</i>
<i>UW-Milwaukee</i>	<i>5,799</i>
<i>UW-Eau Claire</i>	<i>2,279</i>
<i>UW-Green Bay</i>	<i>1,224</i>
<i>UW-La Crosse</i>	<i>1,980</i>
<i>UW-Oshkosh</i>	<i>2,187</i>
<i>UW-Parkside</i>	<i>728</i>
<i>UW-Platteville</i>	<i>1,395</i>
<i>UW-River Falls</i>	<i>1,443</i>
<i>UW-Stevens Point</i>	<i>1,841</i>
<i>UW-Stout</i>	<i>1,850</i>
<i>UW-Superior</i>	<i>557</i>
<i>UW-Whitewater</i>	<i>2,409</i>
<i>Total</i>	<i><u>33,697</u></i>

Financial Highlights

The University of Wisconsin System's financial standing remained strong at the conclusion of the fiscal year ended June 30, 2012. After increasing \$53.9 million last year, state support decreased \$173.2 million this year (down 16.8% from 2011) and continues to be supplemented by higher tuition and fees (up 2.8% from 2011). Extramural support (grants and contracts) decreased 1.0% in 2012 after increasing 7.7% in 2011. State appropriations represent 17.5% of the University of Wisconsin System's total revenue in 2011-12, compared to 29.6% in 2002-03. The 2011-12 state funding, including debt service, is \$250.3 million below the 2001-02 level in constant dollar terms and is \$223.4 million lower in absolute dollar terms than 2008-09.

As of June 30, 2012, the University of Wisconsin System had total assets of \$7.8 billion and total liabilities of \$2.0 billion for a net asset total of \$5.8 billion, of which \$4.1 billion is invested in capital, net of related debt. Revenues continued strong in 2012 with total revenues increasing \$22.0 million. State appropriations decreased 16.8%, compared to a 5.5% increase during fiscal year 2011. 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 third 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, 2012, 2011, and 2010 as follows:

(In Millions)

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Total Revenues Before			
Net Investment Income (Loss)	\$ 4,890.3	\$ 4,801.5	\$ 4,613.9
Total Expenses	<u>4,482.9</u>	<u>4,457.0</u>	<u>4,325.6</u>
Increase in Net Assets Before			
Net Investment Income (Loss)	407.4	344.5	288.3
Net Investment Income (Loss)	<u>.6</u>	<u>67.5</u>	<u>40.7</u>
Increase in Net Assets	<u>\$ 408.0</u>	<u>\$ 412.0</u>	<u>\$ 329.0</u>

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Fiscal year 2012 total revenues before net investment income or loss increased \$88.8 million (1.8%) compared to \$187.6 million (4.1%) increase for fiscal year 2011. The fiscal year 2012 increase primarily resulted from a 1.6% increase in operating revenues. Fiscal year 2012 total expenses increased \$25.9 million (0.6%) compared to an increase of \$131.4 million (3.0%) for fiscal year 2011. The fiscal year 2012 increase primarily resulted from a 7.6% increase in supplies, services and other, a 6.4% increase in depreciation, and a 210.3% increase in loss on disposal, partially offset by a 14.3% decrease in scholarship and fellowships. The increase in loss on disposal resulted from the University of Wisconsin-Superior experiencing a flood that destroyed an estimated \$17.2 million in library holdings.

Operating revenues increased by \$53.8 million during fiscal year 2012 and \$215.3 million during 2011. The 1.6% increase in fiscal year 2012 resulted primarily from increases in student tuition and fees (2.8%) and sales and services of educational activities (12.0%). The net increase in student tuition is primarily due to a 5.5% (5.5% in 2011) increase in tuition rates approved by the Board of Regents. The total headcount enrollment for the entire University of Wisconsin System decreased 821 students to 181,269 from 182,090 in 2011, and total full-time equivalent enrollment was 155,162, down from 156,039 in 2011.

Headcount Enrollments	
<i>UW-Madison</i>	<i>42,065</i>
<i>UW-Milwaukee</i>	<i>29,726</i>
<i>UW-Eau Claire</i>	<i>11,234</i>
<i>UW-Green Bay</i>	<i>6,665</i>
<i>UW-La Crosse</i>	<i>10,258</i>
<i>UW-Oshkosh</i>	<i>13,513</i>
<i>UW-Parkside</i>	<i>4,887</i>
<i>UW-Platteville</i>	<i>8,262</i>
<i>UW-River Falls</i>	<i>6,788</i>
<i>UW-Stevens Point</i>	<i>9,477</i>
<i>UW-Stout</i>	<i>9,356</i>
<i>UW-Superior</i>	<i>2,825</i>
<i>UW-Whitewater</i>	<i>11,643</i>
<i>UW Colleges</i>	<i>14,570</i>
Total	<u>181,269</u>

Operating expenses increased by \$15.4 million during fiscal year 2012 compared to the 2011 increase of \$172.7 million. The smaller increase is primarily due to salaries and fringes decreasing \$58.0 million and scholarship and fellowships decreasing \$21.9 million.

The University of Wisconsin System reported \$0.6 million net investment income in fiscal year 2012, which is down from the \$67.5 million net investment income reported in fiscal year 2011. A decrease 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 2011 to fiscal year 2012 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, 2012 and 2011, 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 and Board of Regent policy as in the case of student segregated fees. 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
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The Statements of Revenues, Expenses, and Changes in Net Assets are operating statements that present the revenues earned and expenses incurred during the fiscal years ended June 30, 2012 and 2011 on a full accrual basis. Revenue and expense activities are reported as either operating or non-operating. 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 non-operating 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) relating to the Wisconsin Institutes for Discovery, 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, 2012, 2011, and 2010:

(In Millions)

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Current Assets	\$ 1,747.4	\$ 1,466.3	\$ 1,417.7
Noncurrent Assets:			
Endowment Investments	389.5	396.0	339.1
Student Loans Receivable – Net	159.4	160.0	162.0
Capital Lease Receivable	5.1	6.8	8.9
Capital Assets – Net	<u>5,582.7</u>	<u>5,198.7</u>	<u>4,782.7</u>
Total Assets	<u>7,884.1</u>	<u>7,227.8</u>	<u>6,710.4</u>
Current Liabilities	565.8	541.4	649.6
Noncurrent Liabilities	<u>1,473.0</u>	<u>1,249.1</u>	<u>1,035.5</u>
Total Liabilities	<u>2,038.8</u>	<u>1,790.5</u>	<u>1,685.1</u>
Total Net Assets	<u>\$ 5,845.3</u>	<u>\$ 5,437.3</u>	<u>\$ 5,025.3</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 \$281.1 million during fiscal year 2012 and increased by \$48.6 million during fiscal year 2011. The fiscal year 2012 increase primarily relates to a \$270.2 million increase in cash and cash equivalents that is the result of less cash used in operating activities such as payments for salaries, fringe benefits, and scholarships and fellowships. The largest change within fiscal 2011 current assets relates to changes in cash and cash equivalents.

The University of Wisconsin System held cash and cash equivalents of \$1,347.5 million at June 30, 2012, 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 \$129.7 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 \$23.4 million held by BNY Mellon to meet cash needs associated with investing activities. Additional information on cash and investments is provided in Note 2 to the Financial Statements.

Current Liabilities: Current liabilities consist of accounts payable, accrued personnel costs and compensation, unearned revenue, and other liabilities due in one year or less. Current liabilities increased by \$24.4 million during 2012 and decreased by \$108.2 million during 2011. The fiscal year 2012 increase primarily relates to a \$10.6 million increase in accounts payable and accrued liabilities and a \$10.1 million increase in notes and bonds payable. The largest changes within fiscal year 2011 current liabilities primarily relate to a \$104.5 million decrease in accounts payable and accrued liabilities and an \$18.5 million decrease in unearned revenue. Timing differences in year-end pay cycles contribute to these fluctuations in accounts payable and accrued liabilities.

Current assets minus current liabilities represent the net working capital of the University of Wisconsin System. Net working capital increased 27.8% from \$924.9 million at June 30, 2011 to \$1,181.6 million at June 30, 2012. The net working capital at year end represented approximately 100 days of 2012 operating expenses. This indicates that the University of Wisconsin System could support normal operations for 100 days without additional revenues or liquidating noncurrent assets. The current ratio, which is current assets divided by current liabilities, was 3.1 to 1 at June 30, 2012, compared to 2.7 to 1 at June 30, 2011. 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 \$389.5 million at June 30, 2012, decreased by \$6.5 million during fiscal year 2012. The decrease was driven by market based decline in investment performance. The increases in capital assets (net) of \$384.0 million in fiscal year 2012 and \$416.0 million in fiscal year 2011 were primarily due to new building construction, renovations, and capitalization of a new human resource and payroll system. Student loans receivable decreased by \$0.6 million during fiscal year 2012 and decreased \$2.0 million during fiscal year 2011.

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, 2011 to June 30, 2012 and July 1, 2010 to June 30, 2011.

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 88.5% of market-value principal. On June 30, 2012, the Long Term Fund portfolio at market contained 39.0% in stocks, 12.3% in fixed income obligations, 21.3% in alternative assets, 19.7% in tactical allocation strategies, 1.2% in real assets, and 6.5% in short-term investments, and the

UNIVERSITY OF WISCONSIN SYSTEM
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Intermediate Term Fund portfolio had 18.2% in stocks, 79.2% in fixed income obligations, and 2.6% in short-term investments. The total return on the principal long-term portfolio, including capital appreciation, was -0.8%. The total return on the principal intermediate-term portfolio, including capital appreciation, was 3.0%. 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, 2012, 2011, and 2010, the University of Wisconsin System collected \$26.7, \$26.0, and \$22.5 million, respectively, in outstanding student loans and granted \$28.3, \$25.8, and \$21.1 million, respectively, in new loans.

Noncurrent Liabilities: Noncurrent liabilities increased by \$223.9 and \$213.6 million during fiscal year 2012 and 2011, respectively, to a total of \$1,473.0 million as of June 30, 2012. 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, 2012 and 2011, the long-term bonds and notes payable totaled \$1,391.3 and \$1,162.7 million, respectively, representing an increase of \$228.6 million. Offsetting this increase was a \$5.2 million decrease of capital lease obligations.

The remainder of the noncurrent liabilities consists of capital financing leases of \$18.5 and \$23.7 million, respectively, and the accumulated leave balances earned by University of Wisconsin System staff of \$63.3 and \$62.6 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, 2012, 2011, and 2010 are summarized below:

(In Millions)

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Invested in Capital, Net of Related Debt	\$ 4,101.6	\$ 3,951.3	\$ 3,764.1
Restricted:			
Nonexpendable – Endowment Principal	155.0	155.6	133.7
Expendable – Restricted Gifts and Grants	198.7	233.3	180.2
Expendable – Auxiliary Operations	75.5	105.0	83.8
Student Loans	227.5	224.9	221.0
Other	226.8	159.8	139.8
Unrestricted	<u>860.2</u>	<u>607.4</u>	<u>502.7</u>
Total Net Assets	<u>\$ 5,845.3</u>	<u>\$ 5,437.3</u>	<u>\$ 5,025.3</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 capital assets, net of related debt." Substantially all of the unrestricted net assets have been designated by the Board of

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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 \$10 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 Facilities Development (DFD). The division prepares a capital budget request for all state agencies. There are three primary sources of funding for capital projects: General Fund Supported Borrowing (GFSB) 20-year state-issued bonds repaid with General Program Revenue (GPR); Program Revenue Supported Borrowing (PRSB) 20- or 30-year state-issued bonds repaid with the University of Wisconsin System program revenue; and 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 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.

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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 DFD 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 the DFD 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 2012

UW Institution	Project	Primary Purpose	Approx Budget (in millions of \$)	Primary Funding Sources
La Crosse	2009-11 New Residence Hall	Housing	38.4	PRSB
Madison	2001-03 Biochemistry – Phase II	Academic	112.5	GFSB/Gifts
Madison	2005-07 Chazen Museum Addition	Academic	43.8	Gifts
Madison	2009-11 Gordon Commons Expan/Renovation	Housing	34.1	PRSB/Gifts
Milwaukee	2009-11 Columbia St. Mary's Hospital Purchase	Academic/Mixed	20.2	GFSB/PRSB
Milwaukee	2009-11 Utility Improvements	Utilities	6.4	GFSB/PRSB
Milwaukee	2011-13 School of Public Health Purchase	Academic	12.2	PRSB
Parkside	2007-09 Communication Arts Center	Academic	35.8	GFSB/Gifts
Stevens Pt.	2007-09 Maintenance and Military Science Bldg.	Facility/Academic	5.3	GFSB
Stevens Pt.	2007-09 Residence Hall	Housing	40.0	PRSB
Superior	2007-09 Academic Building	Academic	26.7	GFSB/Gifts

Partial List of Major Construction Projects Planned or In Progress in Fiscal Year 2012

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
Eau Claire	2011-13 Education Building	Academic	44.5	GFSB
Green Bay	2007-09 Rose & Wood Halls Remodeling	Academic	6.9	GFSB
La Crosse	2011-13 Parking Ramp and Police Building	Parking	13.8	PR-Cash
Madison	2007-09 Human Ecology Addition	Academic	53.0	GFSB/Gifts/PRSB
Madison	2007-09 Memorial Union Theater Wing Ren Ph I	Student Life	52.0	PRSB/Gifts
Madison	2007-09 Music Performance Building	Academic	43.9	Gifts
Madison	2009-11 Ag Res Station Facilities Improv-Ph I	Academic	5.8	Gifts
Madison	2009-11 Charter Street Heating Plant Replacement	Utilities	250.6	PRSB

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Partial List of Major Construction Projects Planned or In Progress in Fiscal Year 2012 (continued)

UW Institution	Project	Primary Purpose	Approx Budget (in millions of \$)	Primary Funding Sources
Madison	2009-11 La Bahn Hockey/Swim Facility	Athletics	37.0	PRSB/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
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	134.8	GFSB/Gifts
Madison	2011-13 Alumni Plaza	Exterior Dev.	8.0	Gifts
Madison	2011-13 Badger Performance Center	Athletics	86.2	PRSB/Gifts
Madison	2011-13 Carson Gulley Renovation	Student Life	10.0	PRSB
Madison	2011-13 Elizabeth Waters Hall Renovation	Housing	7.1	PRSB
Madison	2011-13 School of Nursing	Academic	52.2	GFSB/Gifts
Madison	2011-13 W. Campus/Hospital Parking/Ramp 75	Parking	26.3	PRSB
Milwaukee	NWQ Children's Center Relocation	Academic/Mixed	12.0	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
Oshkosh	2011-13 Lincoln School (Hall) Remodel	Academic	4.9	PRSB
Platteville	2009-11 Porter Hall Renovation	Housing	4.9	PRSB
Platteville	2011-13 Residence Hall Renovations – Phase I (Dobson & Melcher Res Halls)	Housing	12.2	PRSB
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
River Falls	2011-13 Health & Human Performance/Recreation Building (Falcon Center) (funding 2013-15)	Academic/Athletics	63.5	GFSB/PRSB/Gifts
Stevens Pt.	2011-13 N. Debot Res Hall Remodeling – Phase I	Housing	11.7	PRSB
Stout	2011-13 Fleming Hall Renovation	Housing	6.6	PRSB
Superior	2011-13 Ross & Hawkes Res Hall Upgrade	Housing	15.3	PRSB
Whitewater	2009-11 Fischer Hall & Wellers Hall Renovation	Housing	10.7	PRSB
Whitewater	2011-13 Bigelow and Benson Halls Renovation	Housing	12.2	PRSB
Whitewater	2011-13 Carlson Hall Renovation and Remodeling	Academic	17.0	GFSB
Whitewater	2011-13 Drumlin Dining Hall Remodeling	Student Life	5.3	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 non-operating revenues and expenses. Operating revenues are comprised primarily of student tuition and fees, grants and contracts, and auxiliary service activities. GASB Statement No. 35 requires that state appropriations, gifts, and investments be reported as non-operating 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, non-operating 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, 2012, 2011, and 2010 are summarized as follows:

(In Millions)

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating Revenues:			
Student Tuition and Fees, Net	\$ 1,105.1	\$ 1,074.9	\$ 1,007.9
Sales and Services of Educational Activities	335.8	300.0	285.2
Sales and Services of Auxiliaries, Net	362.8	350.3	350.7
Federal Grants and Contracts	859.3	871.3	813.3
State, Local, and Private Grants and Contracts	397.0	397.7	364.6
Sales and Services to UW Hospital Authority	59.7	53.7	55.5
Other	<u>265.8</u>	<u>283.8</u>	<u>239.2</u>
Total Operating Revenues	3,385.5	3,331.7	3,116.4
Operating Expenses	<u>4,324.9</u>	<u>4,309.5</u>	<u>4,136.8</u>
Operating Loss	(939.4)	(977.8)	(1,020.4)
Non-operating Revenues (Expenses):			
State Appropriations	855.1	1,028.3	974.4
Gifts – Noncapital	248.1	212.9	233.7
Net Investment Income (Loss)	0.6	67.5	40.7
Capital Appropriations	251.7	126.1	157.5
Capital Contributions	88.6	99.8	112.6
Additions to Permanent Endowments	1.5	2.7	1.2
Transfer to State Agencies	(74.2)	(80.1)	(135.8)
Other	<u>(24.0)</u>	<u>(67.4)</u>	<u>(34.9)</u>
Net Non-operating Revenues (Expenses)	<u>1,347.4</u>	<u>1,389.8</u>	<u>1,349.4</u>
Increase in Net Assets	408.0	412.0	329.0
Net Assets Beginning of Year	<u>5,437.3</u>	<u>5,025.3</u>	<u>4,696.3</u>
Net Assets End of Year	<u><u>\$ 5,845.3</u></u>	<u><u>\$ 5,437.3</u></u>	<u><u>\$ 5,025.3</u></u>

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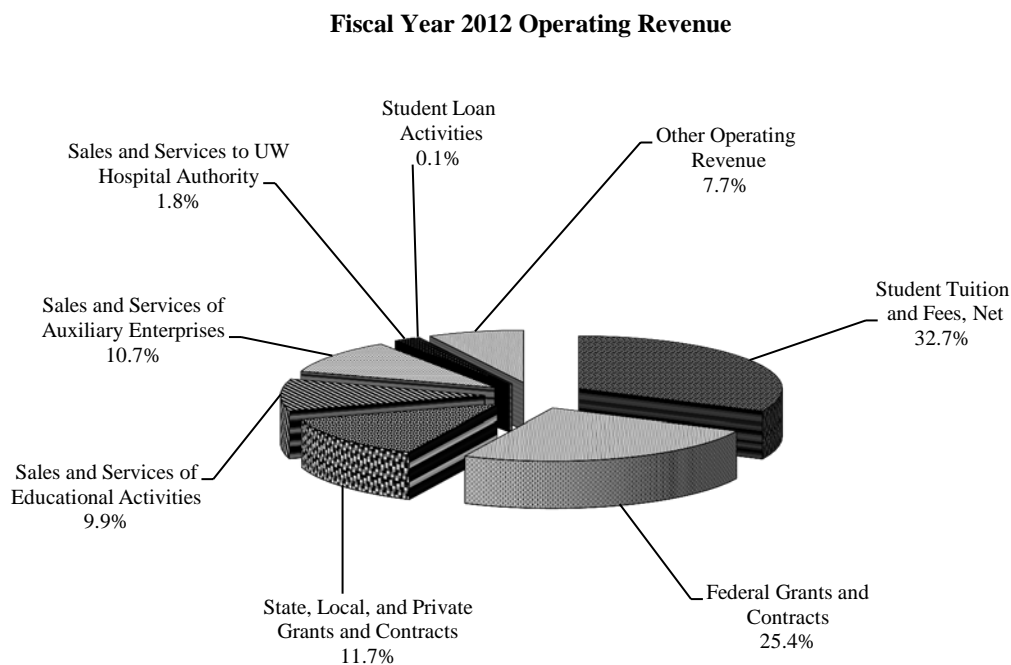
Operating revenues: Student tuition and fees, net of scholarship allowances, increased by \$30.2 and \$67.0 million during fiscal year 2012 and 2011, respectively, to a total of \$1,105.1 million for the fiscal year ending June 30, 2012. The increases resulted primarily from increases in tuition rates. The annual undergraduate tuition for State residents increased \$659 and \$400 to \$8,592 and \$7,669 for UW-Madison and UW-Milwaukee, respectively, and increased \$311 to \$5,970 for Comprehensive campuses, beginning in the fall of 2011. The annual undergraduate tuition for State residents for UW Colleges increased to \$4,502, after having remained constant at \$4,268 since the fall of 2006.

During fiscal year 2012, federal grants and contracts decreased by \$12.0 million compared to a \$58.0 million increase during fiscal year 2011. State, local, and private grants and contracts decreased by \$0.7 million during fiscal year 2012 compared to an increase of \$33.1 million during fiscal year 2011.

Other operating revenues decreased \$18.0 million during fiscal year 2012 compared to a \$44.6 million increase during fiscal year 2011. Total other operating revenues of \$265.8 million for fiscal year 2012 includes \$246.5 million (92.7%) 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 2011 total other operating revenues of \$283.8 million includes \$255.8 million (90.1%) from these same revenue producing units.

Grants and Contracts Awarded		
	<i>Federal</i>	<i>Nonfederal</i>
<i>UW-Madison</i>	\$693.2	\$480.7
<i>UW-Milwaukee</i>	80.5	13.7
<i>UW-Eau Claire</i>	15.6	3.5
<i>UW-Green Bay</i>	12.1	2.0
<i>UW-La Crosse</i>	11.2	6.0
<i>UW-Oshkosh</i>	25.0	1.3
<i>UW-Parkside</i>	0.4	1.3
<i>UW-Platteville</i>	10.7	0.4
<i>UW-River Falls</i>	5.4	1.2
<i>UW-Stevens Point</i>	16.0	5.1
<i>UW-Stout</i>	15.7	1.9
<i>UW-Superior</i>	4.3	0.9
<i>UW-Whitewater</i>	17.7	2.7
<i>UW Colleges</i>	21.9	1.6
<i>UW-Extension</i>	25.5	29.4
<i>UW Systemwide</i>	<u>1.1</u>	<u>0.2</u>
<i>Total</i>	<u>\$956.3</u>	<u>\$551.9</u>

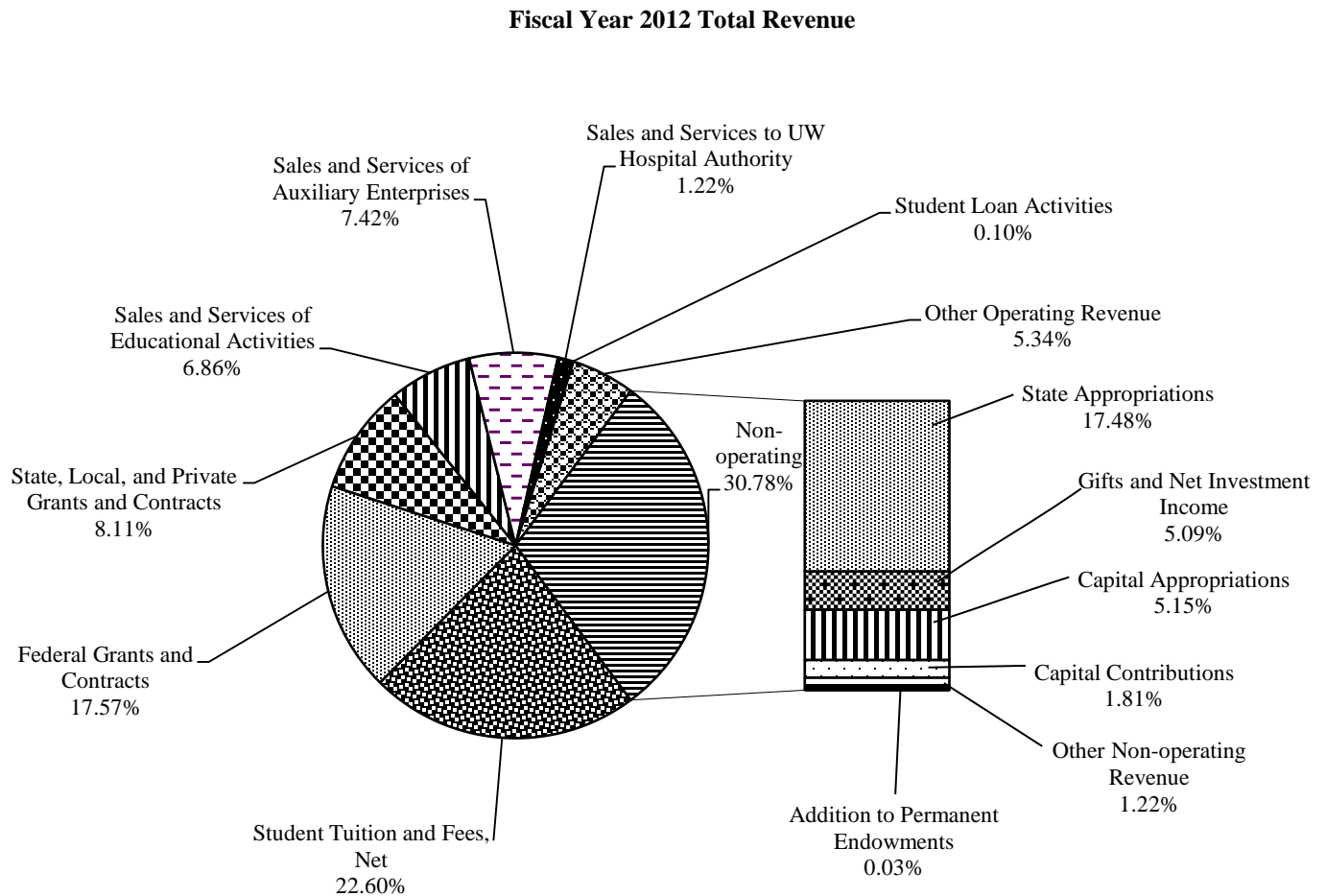
The following is a graphic representation of operating revenue by source for the fiscal year ended June 30, 2012:



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Non-operating revenues: State appropriations decreased by \$173.2 million to a total of \$855.1 million for the fiscal year ending June 30, 2012, which is a decrease of 16.8%, compared to a 5.5% increase in fiscal year 2011. Fluctuations in state appropriations as a percentage of net non-operating revenues (expenses) of 63.5%, 74.0%, and 72.2% for fiscal years 2012, 2011, and 2010, respectively, and of total revenues of 17.5%, 21.1%, and 21.0% during the same time periods, respectively, indicate a variable fiscal environment. Combined gifts and investment (loss) income comprised \$248.7 million, or 18.5%, of net non-operating revenue (expenses) for fiscal year 2012 and \$280.4 million, or 20.2%, of net non-operating 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, 2012:



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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 2012 Operating Expenses by Natural Classification." Salaries and fringe benefits account for 64.9% of total operating expenses. Scholarship and fellowship payments make up 3.0%, and supplies, services, and other account for 26.6%. 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 2012 totaled \$238.4 million or 5.5% of total operating expenses.

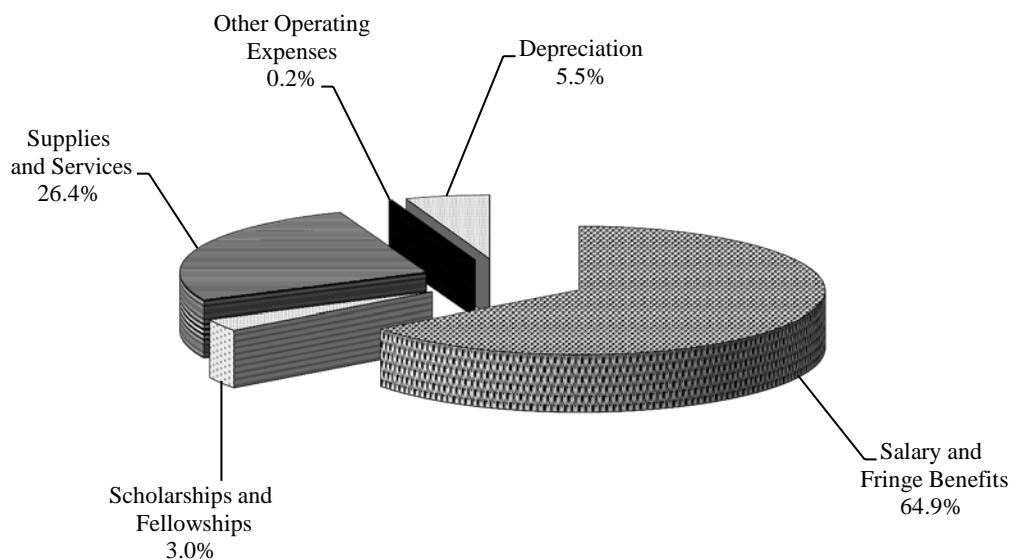
Expenses are summarized by natural classification for the fiscal years ended June 30, 2012, 2011, and 2010 as follows:

(In Millions)

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating Expenses:			
Salary and Fringe Benefits	\$ 2,804.3	\$ 2,862.3	\$ 2,758.8
Scholarships and Fellowships	130.9	152.8	140.5
Supplies, Services, and Other	1,151.3	1,070.3	1,037.3
Depreciation	<u>238.4</u>	<u>224.1</u>	<u>200.2</u>
	4,324.9	4,309.5	4,136.8
Non-operating Expenses:			
Loss on Disposal	33.4	10.8	13.2
Interest	50.4	47.1	39.8
Transfer to State Agencies	74.2	80.1	135.8
Other	<u>-</u>	<u>9.5</u>	<u>-</u>
Total Expenses	<u>\$ 4,482.9</u>	<u>\$ 4,457.0</u>	<u>\$ 4,325.6</u>

The following illustration graphically presents operating expenses by natural classification for the fiscal year ended June 30, 2012:

Fiscal Year 2012 Operating Expenses by Natural Classification



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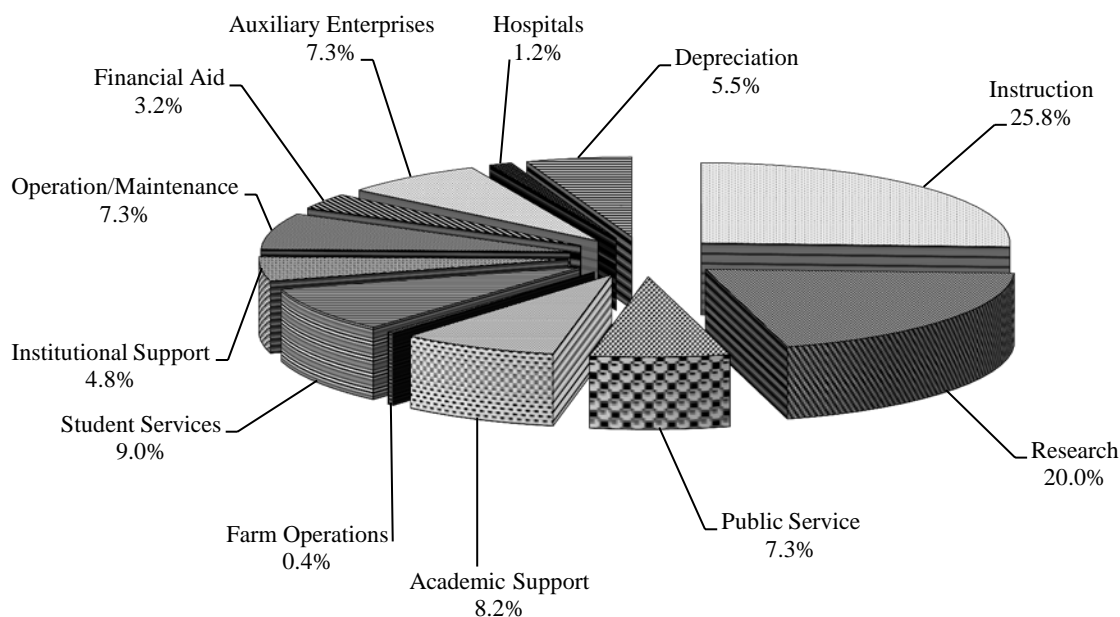
Operating expenses are classified by function for the fiscal years ended June 30, 2012, 2011, and 2010 as follows:

(In Millions)

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Instruction	\$ 1,114.3	\$ 1,145.3	\$ 1,109.8
Research	864.4	858.5	826.2
Public Service	314.6	304.2	309.0
Academic Support	354.2	344.4	330.0
Farm Operations	15.9	14.9	14.7
Student Services	390.4	384.3	372.9
Institutional Support	210.2	206.8	198.7
Operation/Maintenance	315.7	313.2	284.6
Financial Aid	137.1	156.1	143.3
Auxiliary Enterprises	318.1	306.5	295.2
Hospitals	51.6	51.2	52.2
Depreciation	238.4	224.1	200.2
Total Operating Expenses	<u>\$ 4,324.9</u>	<u>\$ 4,309.5</u>	<u>\$ 4,136.8</u>

The following is a graphic representation showing operating expenses by functional classification for the fiscal year ended June 30, 2012:

Fiscal Year 2012 Expenses by Functional Classification



Instruction decreased 2.7% while research increased 0.7%. Student services increased by \$6.1 million or 1.6%. Institutional support increased by \$3.4 million or 1.6% to \$210.2 million in fiscal year 2012.

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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 2012.

Cash flows for the years ending June 30, 2012, 2011, and 2010 are summarized as follows:

<i>(In Millions)</i>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Cash Flows:			
Cash Received from Operations	\$ 3,381.3	\$ 3,377.4	\$ 3,140.0
Cash Expended for Operations	<u>(4,071.5)</u>	<u>(4,235.6)</u>	<u>(3,915.8)</u>
Net Cash Used in Operating Activities	(690.2)	(858.2)	(775.8)
Net Cash Provided by (Used in)			
Investing Activities	4.0	12.9	8.6
Net Cash Used in Capital and Related			
Financing Activities	(180.3)	(301.5)	(256.1)
Net Cash Provided by Noncapital			
Financing Activities	<u>1,136.7</u>	<u>1,219.0</u>	<u>1,136.8</u>
Net Increase in Cash and Cash Equivalents	270.2	72.2	113.5
Cash and Cash Equivalents, Beginning	<u>1,077.3</u>	<u>1,005.1</u>	<u>891.6</u>
Cash and Cash Equivalents, Ending	<u>\$ 1,347.5</u>	<u>\$ 1,077.3</u>	<u>\$ 1,005.1</u>

The University of Wisconsin System's cash and cash equivalents increased by \$270.2 million due to an \$168.0 million decrease of net cash used in operating activities, a \$8.9 million decrease of cash provided from investing activities, a \$121.2 million decrease of net cash used for capital and related financing activities, and an \$82.3 million decrease of cash provided by noncapital financing activities. As defined by GASB Statement No. 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 2012 state appropriations and gifts and other receipts received totaled \$912.6 and \$297.9 million, respectively, compared to \$1,101.4 and \$198.3 million, respectively, for fiscal year 2011.

Factors Affecting Future Periods

The 2011-13 biennial budget for the University of Wisconsin System calls for a continuation of state mandated cuts. The 2011-13 biennial budget removes \$250 million in General Purpose Revenue (GPR) funds from the base budget. Tuition revenues, which are capped at 5.5% annually during the biennium, will only partially offset this reduction in state support. 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. The University of Wisconsin System will be required to absorb an additional lapse of nearly \$19.6 million in fiscal year 2012-13.

To continue providing high-quality, accessible educational opportunities during a time of scarce resources, the University of Wisconsin System has announced the first degree programs that will be offered under its UW Flexible Option starting in Fall 2013. The UW Flexible Option is designed for nontraditional adult students to earn college credit by demonstrating knowledge they have acquired through coursework, military training, on-the-job training, and other learning experiences. Students will make progress toward a degree by passing a series of assessments that demonstrate mastery of required knowledge and skills. The UW Flexible Option is one initiative in the 2013-15 biennial budget request that was forwarded to the Governor and state officials.

In addition, the University of Wisconsin System continues to work with various constituencies to implement the 2011-13 biennial budget provisions that redefine its relationship with the state. The state delegated management authorities

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Years Ended June 30, 2012 and 2011

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. Implementation continues for the following management authorities provided in the 2011-13 biennial budget:

- **Budgeting and Financial Management:** While GPR appropriations for UW System Administration, State Laboratory of Hygiene, and Veterinary Diagnostic Laboratory appropriations are retained, remaining GPR appropriations are consolidated into two appropriations. 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. A separate fund will be established that contains all program revenues received by the University of Wisconsin System. Interest earnings will be provided to University of Wisconsin System institutions based on the program revenues generated and deposited into this separate fund. Institutions will continue to be required to use segregated student fees for the purpose for which they were generated.
- **Tuition:** The previous statutory language limiting increases in resident undergraduate tuition was deleted, and the issue of future tuition-setting authority was reviewed by a Special Task Force on UW Restructuring and Operational Flexibilities. In its August 2012 report, the Task Force recommended that the Board of Regents submit a tuition plan to the Legislature for its consideration.
- **Personnel System and Supplemental Pay Plans:** The Chancellor of University of Wisconsin-Madison is authorized to develop a new personnel system for employees of UW-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 the University of Wisconsin System or University of Wisconsin-Madison beginning July 1, 2013.
- **Purchasing and Procurement:** Effective July 1, 2013, the Department of Administration (DOA) is required to delegate to the Board of Regents and to the 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.
- **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 new educational programs and authorities are implemented, the University of Wisconsin System recognizes it must be accountable to students, elected officials, and citizens of Wisconsin. Therefore, 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 authority where appropriate. In addition, there is a continuing effort to implement best business practices and ensure maximum operating efficiency, in order to continue to provide a quality education while remaining affordable.



STATE OF WISCONSIN

Legislative Audit Bureau

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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, 2012, and June 30, 2011, 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 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 reports of the 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 as of June 30, 2012, and June 30, 2011, the changes in its financial position, or where applicable, its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based on our audits and the reports of the 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, 2012, and June 30, 2011, 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.

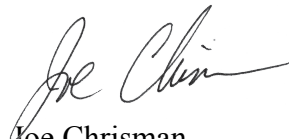
In accordance with *Government Auditing Standards*, we will also issue a report dated December 13, 2012, on our consideration of UW System's internal control over financial reporting; our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements; and other 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 audits.

Our audits were conducted for the purpose of forming an opinion on the financial statements of UW System. The supplementary information included as Management's Discussion and Analysis on pages 11 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 to the information. These procedures consisted of inquiries of management about the methods of preparing the information and comparisons of the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to do so. The supplementary information on pages 3 through 9 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

LEGISLATIVE AUDIT BUREAU

December 13, 2012

by



Joe Chrisman
State Auditor

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UNIVERSITY OF WISCONSIN SYSTEM
Years Ended June 30, 2012 and 2011

Audited Financial Statements

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

	June 30, 2012	June 30, 2011
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 1,347,503,294	\$ 1,077,329,742
Accounts Receivable, Net	270,037,088	243,792,180
Student Loans Receivable, Net	31,331,994	31,492,975
Capital Lease Receivable	1,734,458	2,046,552
Inventories	41,927,614	42,460,241
Prepaid Expenses	41,916,962	56,703,892
Deferred Charges	13,025,534	12,480,565
Total Current Assets	1,747,476,944	1,466,306,147
Noncurrent Assets:		
Endowment Investments	389,490,528	396,030,011
Student Loans Receivable, Net	159,402,200	159,995,290
Capital Lease Receivable	5,081,997	6,822,949
Land	153,136,989	146,661,290
Improvements Other Than Buildings, Net	160,985,009	162,906,852
Construction In Progress	628,269,767	472,054,609
Buildings, Net	3,178,609,464	2,939,943,940
Equipment, Net	348,342,634	352,846,024
Library Holdings	1,113,413,084	1,124,236,511
Total Noncurrent Assets	6,136,731,672	5,761,497,476
TOTAL ASSETS	\$ 7,884,208,616	\$ 7,227,803,623
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	\$ 252,509,947	\$ 241,927,707
Notes and Bonds Payable	64,788,053	54,725,233
Capital Lease Obligations	6,600,565	6,195,666
Unearned Revenues	166,834,790	167,077,712
Compensated Absences	73,134,934	69,316,765
Deposits of Student Organizations	1,960,545	2,205,195
Total Current Liabilities	565,828,834	541,448,278
Noncurrent Liabilities:		
Notes and Bonds Payable	1,391,254,634	1,162,706,993
Capital Lease Obligations	18,479,708	23,712,627
Compensated Absences	63,292,247	62,629,523
Total Noncurrent Liabilities	1,473,026,589	1,249,049,143
TOTAL LIABILITIES	\$ 2,038,855,423	\$ 1,790,497,421
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	\$ 4,101,633,987	\$ 3,951,308,708
Restricted for:		
Nonexpendable	154,999,375	155,641,629
Expendable	274,236,248	338,257,038
Student Loans	227,507,281	224,919,387
Other	226,823,333	159,745,430
Unrestricted	860,152,969	607,434,010
TOTAL NET ASSETS	\$ 5,845,353,193	\$ 5,437,306,202

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, 2012

Year Ended June 30, 2011

OPERATING REVENUES

Student Tuition and Fees (Net of Scholarship Allowances of \$186,676,865 and \$162,817,989, respectively)	\$ 1,105,143,581	\$ 1,074,876,407
Federal Grants and Contracts	859,279,520	871,302,422
State, Local, and Private Grants and Contracts	396,923,791	397,676,757
Sales and Services of Educational Activities	335,815,339	299,961,678
Sales and Services of Auxiliary Enterprises (Net of Scholarship Allowances of \$30,742,674 and \$27,626,072, respectively)	362,782,671	350,338,225
Sales and Services to UW Hospital Authority	59,672,426	53,681,165
Student Loan Interest Income and Fees	4,746,504	4,561,532
Other Operating Revenue	261,103,685	279,279,733
Total Operating Revenues	3,385,467,517	3,331,677,919

OPERATING EXPENSES

Salary and Fringe Benefits	2,804,323,748	2,862,301,357
Scholarships and Fellowships	130,928,773	152,779,044
Supplies and Services	1,143,422,215	1,062,507,316
Other Operating Expenses	7,826,717	7,805,292
Depreciation	238,412,424	224,072,691
Total Operating Expenses	4,324,913,877	4,309,465,700

OPERATING LOSS

(939,446,360) (977,787,781)

NON-OPERATING REVENUES AND EXPENSES

State Appropriations	855,104,606	1,028,296,995
Gifts	248,183,604	212,887,930
Investment Income (Net of Investment Expense of \$1,190,609 and \$1,166,958, respectively)	588,545	67,513,688
Loss on Disposal of Capital Assets	(33,406,748)	(10,765,168)
Interest on Indebtedness	(50,395,650)	(47,057,001)
Transfer to State Agencies	(74,193,503)	(80,141,571)
Other Revenues (Expenses), Net	59,748,040	(9,530,832)
Income Before Capital and Endowment Additions/Deductions	66,182,534	183,416,260
Capital Appropriations	251,740,327	126,092,461
Capital Contributions	88,600,049	99,781,249
Additions to Permanent Endowment	1,524,081	2,698,439

INCREASE IN NET ASSETS

408,046,991 411,988,409

NET ASSETS

Net Assets - Beginning of Period	5,437,306,202	5,025,317,793
NET ASSETS - End of Period	\$ 5,845,353,193	\$ 5,437,306,202

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, 2012

Year Ended June 30, 2011

Cash Flows from Operating Activities

Student Tuition and Fees	\$ 1,102,826,449	\$ 1,072,373,614
Federal, State, Local, and Private Grants and Contracts	1,248,349,460	1,276,707,702
Sales and Services of Educational Activities	317,064,546	304,162,968
Sales and Services of Auxiliary Enterprises	387,073,324	348,830,394
Sales and Services to UW Hospital Authority	58,033,756	56,574,938
Payments for Salaries and Fringe Benefits	(2,781,407,744)	(2,973,734,050)
Payments to Vendors and Suppliers	(1,130,884,240)	(1,083,245,312)
Payments for Scholarships and Fellowships	(130,928,773)	(152,779,045)
Student Loans Collected	26,726,219	25,952,258
Student Loan Interest and Fees Collected	4,746,505	4,561,532
Student Loans Issued	(28,299,255)	(25,787,268)
Other Revenue, Net	236,486,766	288,215,864
Net Cash Used in Operating Activities	(690,212,987)	(858,166,405)

Cash Flows from Investing Activities

Interest and Dividends on Investments, Net	8,796,446	8,069,472
Proceeds from Sales and Maturities of Investments	100,253,391	114,610,774
Purchase of Investments	(105,076,166)	(109,740,918)
Net Cash Provided by Investing Activities	3,973,671	12,939,328

Cash Flows from Capital and Related Financing Activities

Proceeds from Issuance of Capital Debt	398,981,968	273,299,281
Capital Appropriations	251,740,327	126,092,460
Gifts and Other Receipts	86,146,758	97,813,704
Purchase of Capital Assets	(636,843,605)	(631,392,537)
Principal Payments on Capital Debt and Leases	(167,406,001)	(57,306,260)
Interest Payments on Capital Debt and Leases	(112,955,122)	(109,985,862)
Net Cash Used in Capital and Related Financing Activities	(180,335,675)	(301,479,214)

Cash Flows from Noncapital Financing Activities

State Appropriations	912,626,812	1,101,374,904
Gifts and Other Receipts	297,889,667	198,340,756
Transfer to State Agencies	(74,193,503)	(80,141,571)
Additions to Permanent Endowments	1,524,081	2,698,438
Student Direct Lending Receipts	814,836,885	796,692,453
Student Direct Lending Disbursements	(815,935,399)	(800,000,315)
Net Cash Provided by Noncapital Financing Activities	1,136,748,543	1,218,964,665
Net Increase in Cash and Cash Equivalents	270,173,552	72,258,374

Cash and Cash Equivalents - Beginning of Year

1,077,329,742

1,005,071,368

Cash and Cash Equivalents - End of Year

\$ 1,347,503,294

\$ 1,077,329,742

Statements of Cash Flows (Continued)**University of Wisconsin System**

Year Ended June 30, 2012

Year Ended June 30, 2011

Reconciliation of Operating Loss to Net Cash Used in Operating Activities

Operating Loss	\$	(939,446,360)	\$	(977,787,781)
<i>Adjustments to Reconcile Operating Loss to</i>				
<i>Net Cash Used in Operating Activities:</i>				
Depreciation Expense		238,412,424		224,072,691
Changes in Assets and Liabilities:				
Receivables, Net		(25,450,622)		42,917,995
Inventories		532,627		(1,527,789)
Prepaid Expenses		14,519,853		(9,493,321)
Deferred Charges		1,325,420		(4,234,164)
Accounts Payable and Accrued Liabilities		15,693,701		(112,846,113)
Unearned Revenues		(280,923)		(18,506,482)
Compensated Absences		4,480,893		(761,441)
Net Cash Used in Operating Activities	\$	(690,212,987)	\$	(858,166,405)

Noncash Investing, Capital and Financing Activities

Capital Leases (Initial Year):				
Fair Market Value	\$	2,269,550	\$	2,475,488
Current Year Cash Payments		(270,571)		(55,498)
Gifts-In-Kind		14,482,889		9,863,032
Net Change in Unrealized Gains and Losses		(14,910,911)		50,261,461

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, 2012 and 2011

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 relative 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.

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 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 non-operating. 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 non-operating revenues, as defined by GASB Statement No. 35, including state appropriations, gifts, and investment income. The majority of

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2012 and 2011

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

the University of Wisconsin System's expenses are exchange transactions which GASB defines as operating expenses for financial statement presentation. Non-operating expenses include capital financing costs and costs related to investment activity.

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.

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 segregated fee 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 related 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 2012 summer session are reportable within the fiscal year beginning July 1, 2011 and ending June 30, 2012, based on the prorated portion of the number of summer session days that occurred in fiscal year 2012. 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.

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. Fuels are reported at market value, while 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

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2012 and 2011

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

addition to central stores and fuels, the major types of inventories include laboratory supplies, physical plant supplies, food service and student housing supplies, and items held for resale by campus microcomputer outlets. Accounting policies related to capital assets are described in Note 9.

The 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 \$1,347.5 million and \$1,077.3 million in cash and cash equivalents as of June 30, 2012 and 2011, respectively, \$1,194.4 million and \$905.9 million, respectively, represents an amount held within the SIF; \$129.7 million and \$141.3 million, respectively, was maintained by individual University of Wisconsin System institutions in local bank accounts to meet operating needs; and \$23.4 million and \$30.1 million, respectively, was held at BNY Mellon 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. Interest distributions are received on a monthly basis for balances associated with trust funds, federally-funded financial aid programs, and funds attributable to the appropriations listed in Wisconsin Statutes Section 20.285(1)(Li). Investment earnings for all other funds do not 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 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 \$5.4 million and \$12.8 million at June 30, 2012 and 2011, 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, 2012 and 2011 are immaterial. The University of Wisconsin System does not have a formal deposit policy for foreign currency risk.

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 35% marketable equities, 30% fixed

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2012 and 2011

NOTE 2 – Cash and Investments (continued)

income, and 35% alternatives. The approved asset allocation for the Intermediate Term Fund is 15% marketable equities, 70% fixed income, 10% alternatives, and 5% cash. These target allocations were last affirmed/approved in December 2011.

The Long Term Fund consisted of the following investment categories on June 30, 2012 and 2011:

Investment Category	<u>2012</u>	<u>2011</u>
Common Stock and Convertible Securities	39.0%	41.4%
Bonds and Preferred Stock	12.3%	12.3%
Alternative Assets	21.3%	19.0%
Tactical Allocation Strategies	19.7%	19.0%
Real Assets	1.2%	0.6%
Custodial Pooled Cash and Cash		
Equivalents	<u>6.5%</u>	<u>7.7%</u>
Total	<u>100.0%</u>	<u>100.0%</u>

The Intermediate Term Fund consisted of the following investment categories on June 30, 2012 and 2011:

Investment Category	<u>2012</u>	<u>2011</u>
Common Stock and Convertible Securities	18.2%	16.2%
Bonds and Preferred Stock	79.2%	79.4%
Custodial Pooled Cash and Cash		
Equivalents	<u>2.6%</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, 2012, the amount of net appreciation available to spend from the Long Term Fund was \$13,826,815, relative to \$13,425,039 available during the fiscal year ending June 30, 2011.

At June 30, 2012 and 2011, the University of Wisconsin System's investments are as follows:

Investments:	<u>2012</u>	<u>2011</u>
U.S. Government Securities	\$ 26,284,872	\$ 26,481,832
U.S. Agency Securities	12,295,072	16,216,893
Bonds and Preferred Stock	31,613,019	28,427,403
Common Stock and Convertible Securities	40,623,830	44,568,243
Pooled Equity Funds	102,343,201	110,495,714
Pooled Allocation Fund	64,530,347	64,711,016
Pooled Fixed Income Fund	38,029,923	37,954,453
Custodial Pooled Cash and Cash		
Equivalents	23,411,190	30,145,129
Limited Partnerships	<u>73,770,264</u>	<u>67,174,457</u>
Total Investments	<u>\$ 412,901,718</u>	<u>\$ 426,175,140</u>

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2012 and 2011

NOTE 2 – Cash and Investments (continued)

The total return on the Long Term Fund, including capital appreciation, was -0.8% compared to 21.2% in fiscal year 2011. The total return on the Intermediate Fund, including capital appreciation, was 3.0% compared to 8.3% in fiscal year 2011. External investment counsel was utilized for funds representing 88.5% of the market value of the Long Term and Intermediate Term Funds, compared to 87.9% in fiscal year 2011. In addition to the limited partnerships market value listed above, the University of Wisconsin System had unfunded limited partnership commitments of \$24.4 million for the fiscal year ending June 30, 2012, relative to \$26.0 million for the fiscal year ending June 30, 2011.

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 20%; for the Intermediate Term Fund, exposure is limited to 15%. 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 6.3% 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.

The following schedule displays the credit ratings as provided by Moody's Investor Service for debt securities held as of June 30, 2012 and 2011. 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>2012</u>	<u>2011</u>
Aaa	\$ 52,698,423	\$ 58,251,859
Aa1	382,405	599,511
Aa2	846,078	2,518,614
Aa3	522,576	3,446,216
A1	3,174,977	1,139,535
A2	4,721,538	3,743,109
A3	4,654,997	3,394,755
Baa1	4,971,485	2,843,723
Baa2	6,255,446	4,249,302
Baa3	2,720,995	855,105
Ba2	9,046,138	8,814,789
B2	11,924,111	13,998,485
Caa1	-	4,081
Caa2	645,973	325,546
No Rating	5,657,745	4,895,951
Unrated Pooled Cash	<u>23,411,190</u>	<u>30,145,129</u>
Totals	<u>\$ 131,634,077</u>	<u>\$ 139,225,710</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.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2012 and 2011

NOTE 2 – Cash and Investments (continued)

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 2012, the largest concentration in a non-U.S. Government/Agency was Citigroup, which represented 0.5% of total Trust Funds assets, compared to a 0.4% exposure to JP Morgan Chase in fiscal year 2011.

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>2012</u>		<u>2011</u>	
<u>Fixed Income Sector:</u>				
	<u>Market Value</u>	<u>Modified Duration</u>	<u>Market Value</u>	<u>Modified Duration</u>
Treasury Inflation Protected Securities	\$ 20,677,428	5.94	\$ 21,793,778	4.81
Government	5,762,099	5.26	4,450,157	6.34
U.S. Government Mortgages	6,929	3.12	7,376	3.08
Corporates and Other Credit	22,221,755	4.17	16,900,219	4.65
Collateralized Mortgage Obligations:	11,340,386	1.84	14,220,507	2.22
U.S. Agencies				
Collateralized Mortgage Obligations:	1,006,800	3.39	1,038,985	3.91
Corporate				
Commercial Mortgage Backed Securities	2,777,774	1.22	3,696,571	0.94
U.S. Private Placements	5,205,285	2.57	4,809,654	3.36
U.S. Agencies	454,260	2.36	459,255	3.18
Asset Backed Securities	761,178	0.12	2,281,072	0.24
Totals	<u>\$ 70,213,894</u>		<u>\$ 69,657,574</u>	

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

	<u>2012</u>		<u>2011</u>	
<u>Fixed Income Commingled Fund:</u>				
	<u>Market Value</u>	<u>Modified Duration</u>	<u>Market Value</u>	<u>Modified Duration</u>
Seix Advisors High Yield Fund	\$ 25,135,142	4.18	\$ 25,042,014	4.76

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, 2012, the Long Term and Intermediate Term Funds held equity securities denominated in foreign currencies within pooled investment vehicles only, with market values totaling \$100,499,297 and \$7,286,066, respectively, compared to prior fiscal year amounts of \$108,933,843 and \$6,714,631, 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 endowments: 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

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2012 and 2011

NOTE 2 – Cash and Investments (continued)

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 \$122.8 million and \$123.5 million at June 30, 2012 and June 30, 2011, respectively, is available to meet spending rate distributions and is recorded in restricted net assets. The net appreciation figure as of June 30, 2011 has been restated from that reported in the prior year's note (\$207.6 million). The figure reported in the prior year's note reflected net appreciation for all accounts restricted by donors as to the use of principal *or* purpose, and therefore included non-endowed accounts. The figures reported here appropriately reflect net appreciation for only true endowments, where the donors have restricted the use of principal.

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, 2012 and 2011, are summarized as follows:

	<u>2012</u>	<u>2011</u>
Receivables (Net):		
Student Academic Fees	\$ 25,827,419	\$ 23,675,580
Grants and Contracts	43,919,784	54,778,958
Educational Activities and Other	40,593,853	45,093,500
Auxiliary Enterprises	2,230,526	1,768,549
UW Hospital Authority and La Crosse Medical Health Science Consortium, Inc.	9,579,141	9,993,517
Investment	1,948,345	940,117
Student Loans Receivable	190,734,194	191,488,265
State Agencies	48,030,862	26,276,374
Other Governments	<u>104,723,613</u>	<u>90,135,086</u>
Total Receivables (Net)	<u>\$ 467,587,737</u>	<u>\$ 444,149,946</u>

Student loans receivable at June 30, 2012 included allowances for uncollectible loans of \$9.4 million relative to \$9.7 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 \$815.9 million in student loans through the United States Department of Education federal direct lending program during fiscal year 2012 and \$800.0 million in fiscal year 2011. 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.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2012 and 2011

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, 2012 and 2011, are summarized as follows:

Fiscal Year 2012	Salary and Fringe Benefits	Due to State Agencies and Other Governments	Vendors	Total Payables
UW System Activities:				
Operating	\$ 20,785,345	\$ 64,424,328	\$ 46,624,226	\$ 131,833,899
Gifts, Grants, and Contracts	3,585,897	4,506,591	14,199,338	22,291,826
Capital Projects	-	2,851,566	91,338,586	94,190,152
Auxiliary Enterprises	530,338	220,312	1,120,457	1,871,107
Investment and Other	37,738	380,786	1,904,439	2,322,963
Total Activities	<u>\$ 24,939,318</u>	<u>\$ 72,383,583</u>	<u>\$ 155,187,046</u>	<u>\$ 252,509,947</u>

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	20,411	427,543	3,274,445	3,722,399
Total Activities	<u>\$ 22,545,250</u>	<u>\$ 55,425,573</u>	<u>\$ 163,956,884</u>	<u>\$ 241,927,707</u>

As of June 30, 2012, current liabilities totaled \$565.8 million inclusive of \$2.0 million in deposits of student organizations, \$252.5 million of accounts payable and accrued liabilities, \$166.8 million of unearned revenue, and the current portion of notes and bonds payable, capital lease obligations, and compensated absences. Noncurrent liabilities consisted of notes and bonds payable, capital lease obligations, and compensated absences that totaled \$1,473.0 million at June 30, 2012, relative to a total of \$1,249.0 million at June 30, 2011. Total noncurrent liabilities increased by \$224.0 million relative to fiscal year 2011.

Long-term liability activity for the fiscal years ended June 30, 2012 and 2011 is as follows:

2012 Long-term Liabilities	Balance July 1, 2011	Increases/ Decreases	Balance June 30, 2012	Current Portion
Bonds Payable	\$ 1,158,239,090	\$ 218,110,431	\$ 1,376,349,521	\$ 54,062,404
Notes Payable	59,193,136	20,500,031	79,693,167	10,725,649
Capital Lease Obligations	29,908,293	(4,828,021)	25,080,272	6,600,565
Compensated Absences	131,946,288	4,480,893	136,427,181	73,134,934
Total	<u>\$ 1,379,286,807</u>	<u>\$ 238,263,334</u>	<u>\$ 1,617,550,141</u>	<u>\$ 144,523,552</u>

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2012 and 2011

NOTE 4 – Liabilities (continued)

2011 Long-term 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>

NOTE 5 – Lease Commitments and Installment Purchases

The University of Wisconsin System had capital lease obligations with a net present value of \$25,080,272 as of June 30, 2012 compared to \$29,908,293 at June 30, 2011. The payment schedule for capital lease obligations is as follows:

2013	\$ 7,634,579
2014	7,205,904
2015	6,225,773
2016	3,805,538
2017	2,347,523
2018-2022	<u>291,312</u>
Total Scheduled Lease Payments	27,510,629
Amount Representing Interest	<u>(2,430,357)</u>
Net Present Value	<u>\$ 25,080,272</u>

Assets Held Under Capital Lease:

2012	Original Cost June 30, 2012	Accumulated Depreciation	Book Value June 30, 2012
Buildings and Improvements	\$ 68,913,357	\$ 32,762,735	\$ 36,150,622
Equipment	<u>5,611,674</u>	<u>4,004,915</u>	<u>1,606,759</u>
Total Assets	<u>\$ 74,525,031</u>	<u>\$ 36,767,650</u>	<u>\$ 37,757,381</u>

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>

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2012 and 2011

NOTE 5 – Lease Commitments and Installment Purchases (continued)

Facilities and equipment rented through operating leases are not recorded as assets on the balance sheet. Operating lease expenditures amounted to \$28,189,502 for the fiscal year ended June 30, 2012. Minimum commitments for future operating lease payments are as follows:

2013	\$ 17,572,042
2014	15,288,247
2015	13,782,609
2016	12,248,149
2017	11,550,293
2018-2022	49,274,084
2023-2027	38,689,916
2028-2032	31,740,862
2033-2037	<u>1,618,549</u>
Total	<u>\$ 191,764,751</u>

The University of Wisconsin System has entered into installment purchase agreements during fiscal year 2012. The following is an analysis of the gross minimum installment payments, along with the present value of the minimum installment payments, as of June 30, 2012 for installment purchases:

2013	\$ 516,200
2014	516,200
2015	516,200
2016	516,200
2017	<u>516,200</u>
Total minimum future payments	\$ 2,581,000
Less: interest	<u>250,330</u>
Present value of net minimum payments	<u>\$ 2,330,670</u>

There were no installment purchase agreements in fiscal year 2011.

NOTE 6 – Compensated Absences

The compensated absences liability at June 30, 2012 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, 2012 totaled \$136,427,181 compared with \$131,946,288 at June 30, 2011. The compensated absences balance consists of a \$73,134,934 current liability and \$63,292,247 noncurrent liability compared to a \$69,316,765 current liability and \$62,629,523 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

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2012 and 2011

NOTE 7 – Retirement Benefits (continued)

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, 801 West Badger Road, 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's contributions including employer and employee shares were \$228,659,074 for fiscal year 2012, compared to \$227,273,627 for the previous fiscal year. In December 2003, the State issued bonds and subsequently fully liquidated its prior service liability balance as of January 2003. State agencies are required to make future contributions to fund the bond payments. Bond payments totaling \$57,373,604 during fiscal year 2012, compared to bond payments totaling \$54,729,159 during fiscal year 2011, 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 \$174,369 during the current year, compared with \$180,531 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 2012 and 2011, 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 2011 actuarial valuation, the State's annual OPEB costs were \$77.4 million and \$128.4 million and the State's annual required contributions were \$89.6 million and \$136.9 million for fiscal years ended June 30, 2012 and June 30, 2011, respectively. The State's actual contributions were \$38.4 million in 2012 and \$52.8 million in 2011, which results in a net OPEB obligation for the State of \$406.5 million as of June 30, 2012, and \$367.5 million as of June 30, 2011, respectively. The portion of this obligation allocated to the University of Wisconsin System increased from \$167.4 million in fiscal year 2011 to \$197.8 million in fiscal year 2012. 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.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2012 and 2011

NOTE 8 – Postemployment Benefits Other Than Pensions (continued)

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.

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 \$329,499 to this program during fiscal year 2012 compared to \$785,584 during fiscal year 2011.

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 are not owned by the UW System and thus are 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 \$317.0 million in works of art or historical treasures that are held for exhibition, education, research, and public service. These collections are neither disposed of for financial gain nor encumbered in any way. Proceeds from the sale, exchange, or other disposal of any item belonging to a collection of works of art or historical treasures must be applied to the acquisition of additional items for the same collection.

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, establishes accounting and financial reporting standards for a capital asset that has experienced a significant, unexpected decline in its service utility. Two events resulted in some capital assets meeting the temporarily impaired definition of this standard for fiscal year 2012. On January 29, 2012 Drake Hall, a residence hall at the University of Wisconsin-La Crosse, had a fire in its basement and damages totaled \$2.5 million. All residents were relocated for the remainder of the Spring 2012 semester, but the residence hall was operational for the Fall 2012 semester. Flooding in June 2012 at University of

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2012 and 2011

NOTE 9 – Capital Assets (continued)

Wisconsin-Superior caused an estimated \$6.6 million in damages to fourteen buildings and infrastructure. All buildings were operational for the Fall 2012 semester. In addition, library holdings losses estimated at \$17.2 million were sustained due to the flooding in the library. 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 was demolished in the spring of 2012.

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 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, 2012, the equipment balance includes \$57.5 million for intangible assets net of depreciation, compared to \$57.7 million at June 30, 2011.

Depreciation expense for the fiscal years ended June 30, 2012 and 2011 was \$238.4 million and \$224.1 million, respectively.

The change in book value from July 1, 2011 to June 30, 2012 is summarized as follows:

	Book Value <u>July 1, 2011</u>	<u>Additions</u>	<u>Transfers</u>	<u>Deductions</u>	Book Value <u>June 30, 2012</u>
Buildings	\$ 4,871,138,369	\$ 121,173,326	\$ 262,277,333	\$ (7,892,398)	\$ 5,246,696,630
Improvements	362,529,720	6,776,158	4,472,309	-	373,778,187
Land	146,661,290	6,475,699	-	-	153,136,989
Construction in Progress	472,054,609	422,964,800	(266,749,642)	-	628,269,767
Equipment	1,108,102,487	86,524,656	-	(51,252,947)	1,143,374,196
Library Holdings	<u>1,124,236,511</u>	<u>23,044,843</u>	<u>-</u>	<u>(33,868,270)</u>	<u>1,113,413,084</u>
Subtotal	8,084,722,986	666,959,482	-	(93,013,615)	8,658,668,853
Less Accumulated Depreciation:					
Buildings	1,931,194,428	143,546,800	-	(6,654,062)	2,068,087,166
Improvements	199,622,868	13,170,310	-	-	212,793,178
Equipment	<u>755,256,463</u>	<u>81,695,314</u>	<u>-</u>	<u>(41,920,215)</u>	<u>795,031,562</u>
Total Accumulated Depreciation	2,886,073,759	238,412,424	-	(48,574,277)	3,075,911,906
Capital Assets, Net	<u>\$ 5,198,649,227</u>	<u>\$ 428,547,058</u>	<u>\$ -</u>	<u>\$ (44,439,338)</u>	<u>\$ 5,582,756,947</u>

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2012 and 2011

NOTE 9 – Capital Assets (continued)

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

	Book Value July 1, 2010	Additions	Transfers	Deductions	Book Value June 30, 2011
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>

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, 2012:

	Maturity Dates	Balance July 1, 2011	New Debt/ Accretion	Principal Paid/ Adjustments	Balance June 30, 2012
Bonds (Gross)	2013-2042	\$ 1,131,132,551	\$ 352,702,500	\$ (152,873,284)	\$ 1,330,961,767
Notes	2013-2031	<u>59,193,136</u>	<u>28,558,203</u>	<u>(8,058,172)</u>	<u>79,693,167</u>
		<u>\$ 1,190,325,687</u>	<u>\$ 381,260,703</u>	<u>\$ (160,931,456)</u>	<u>\$ 1,410,654,934</u>

The bonds have maturity dates ranging from November 1, 2011 to May 1, 2042. The notes have maturity dates ranging from May 1, 2013 to May 1, 2031.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2012 and 2011

NOTE 10 – Long Term Debt (continued)

As of June 30, 2012, the current and noncurrent bonds payable net of discounts, premiums, and deferred refunding totaled \$54,062,403 and \$1,322,287,117, respectively.

	<u>Balance</u> <u>June 30, 2012</u>	<u>Current</u>	<u>Noncurrent</u>
Bonds (Gross)	\$ 1,330,961,767	\$ 47,301,687	\$ 1,283,660,080
Discount	(317,084)	(28,490)	(288,594)
Premium	61,308,289	9,945,596	51,362,693
Deferred Refunding	<u>(15,603,452)</u>	<u>(3,156,390)</u>	<u>(12,447,062)</u>
Bonds (Net)	1,376,349,520	54,062,403	1,322,287,117
Notes	<u>79,693,167</u>	<u>10,725,650</u>	<u>68,967,517</u>
	<u>\$ 1,456,042,687</u>	<u>\$ 64,788,053</u>	<u>\$ 1,391,254,634</u>

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.

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.

	<u>Balance</u> <u>June 30, 2011</u>	<u>Current</u>	<u>Noncurrent</u>
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>

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2012 and 2011

NOTE 10 – Long Term Debt (continued)

Future debt service requirements for bonds and notes outstanding at June 30, 2012 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>
2013	\$ 47,301,687	\$ 63,798,844	\$ 10,725,649	\$ 3,301,016
2014	47,260,554	61,939,594	11,262,168	3,449,072
2015	49,323,378	59,629,680	10,296,299	2,885,900
2016	53,308,770	57,185,520	8,012,293	2,371,019
2017	54,220,056	54,514,789	8,416,659	1,970,335
2018-2022	303,989,314	230,737,976	20,675,099	5,779,417
2023-2027	372,403,358	153,574,242	5,965,000	2,008,500
2028-2032	280,874,650	73,004,953	4,340,000	441,250
2033-2037	64,945,000	23,291,668	-	-
2038-2042	<u>57,335,000</u>	<u>7,170,730</u>	-	-
Total	<u>\$ 1,330,961,767</u>	<u>\$ 784,847,996</u>	<u>\$ 79,693,167</u>	<u>\$ 22,206,509</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, 2012, the principal balance of such bonds and notes was \$1,563,874,817 and \$157,004,086, respectively. As of June 30, 2011, the principal balance of such bonds and notes was \$1,395,390,939 and \$137,648,908, respectively.

Debt service payments made by the State of Wisconsin for the years ended June 30, 2012 and 2011 were allocated as follows:

	<u>Bonds</u>	<u>Notes</u>
2012		
Principal	\$ -	\$ -
Interest	<u>57,366,662</u>	<u>155,544</u>
Total Paid	<u>\$ 57,366,662</u>	<u>\$ 155,444</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>

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.

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

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2012 and 2011

NOTE 11 – Other Organizations (continued)

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, 2011 and 2010 are presented below (in thousands):

Condensed Balance Sheet	<u>2011</u>	<u>2010</u>
Assets:		
Cash, Investments and Other Assets	\$ 2,526,064	\$ 2,635,576
Capital Assets, Net	<u>6,844</u>	<u>7,054</u>
Total Assets	<u>2,532,908</u>	<u>2,642,630</u>
Liabilities:		
Accounts Payable and Other Current Liabilities	34,234	30,575
Amounts Held for Other Component Units	251,335	251,702
Long-term Liabilities (Current and Noncurrent Portions)	<u>42,023</u>	<u>40,941</u>
Total Liabilities	<u>327,592</u>	<u>323,218</u>
Fund Equity:		
Invested in Capital Assets, Net of Related Debt	6,844	7,054
Restricted	2,046,529	2,137,485
Unrestricted	<u>151,943</u>	<u>174,873</u>
Total Fund Equity	<u>2,205,316</u>	<u>2,319,412</u>
Total Liabilities and Fund Equity	<u>\$ 2,532,908</u>	<u>\$ 2,642,630</u>
Condensed Statement of Revenues, Expenses, and Changes in Fund Equity		
Program Expenses:		
Depreciation	\$ 615	\$ 489
Payments to Primary Government	211,663	206,224
Other	<u>33,238</u>	<u>30,558</u>
Total Program Expenses	<u>245,516</u>	<u>237,271</u>
Program Revenues:		
Investment and Interest Income	(66,473)	278,377
Operating Grants and Contributions	197,542	165,668
Other	<u>351</u>	<u>50</u>
Total Program Revenues	<u>131,420</u>	<u>444,095</u>
Net Program Revenues	(114,096)	206,824
Change in Fund Equity	(114,096)	206,824
Fund Equity, Beginning of Year	<u>2,319,412</u>	<u>2,112,588</u>
Fund Equity, End of Year	<u>\$ 2,205,316</u>	<u>\$ 2,319,412</u>

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 \$159,098,147 at June 30, 2012, compared with \$164,682,389 at June 30, 2011.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2012 and 2011

NOTE 11 – Other Organizations (continued)

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, 2012, the present value of these future lease payments totaled \$2.5 million, compared to \$4.2 million at June 30, 2011, 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 \$1,331.0 million and \$1,131.1 million at June 30, 2012 and June 30, 2011, 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, 2012, the University of Wisconsin System received services from UWHCA totaling \$4.5 million and provided services to UWHCA totaling \$59.7 million, compared to amounts for fiscal year ended June 30, 2011 of \$4.6 million and \$53.7 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, 2012, the present value of these future lease payments totaled \$4.3 million, compared to \$4.7 million at June 30, 2011, 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 \$1,331.0 million and \$1,131.1 million at June 30, 2012 and June 30, 2011, 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.

During the fiscal year ended June 30, 2012, the University of Wisconsin System provided services and rent to The Consortium totaling \$0.7 million. The cost of the services provided and the associated revenue are included in the Statements of Revenues, Expenses, and Changes in Net Assets. The amounts spent for services received are included as salaries and fringe benefits and supplies and services expenses on this statement. The services received were funded by an equivalent amount of state appropriations revenue.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2012 and 2011

NOTE 11 – Other Organizations (continued)

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 \$11.9 million to DHS during fiscal year 2012 and \$8.2 million in fiscal year 2011, representing the state's share of this difference. DHS then claimed the federal share of the difference from the federal government and subsequently provided \$28.7 million during fiscal year 2012 and \$23.3 million during fiscal year 2011, 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 \$16.8 million during fiscal year 2012 and \$25.0 million in fiscal year 2011 were also made under this program and are reported as a transfer to state agencies on the financial statements.

During fiscal year 2012, the UW Medical Foundation remitted \$59.7 million to UW-Madison as reimbursement for payments to DHS during fiscal years 2010 and 2011. The \$59.7 million that UW-Madison received from the UW Medical Foundation is included in the other non-operating revenues account 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 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.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2012 and 2011

NOTE 11 – Other Organizations (continued)

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 \$60.1 million 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, 2012:

	Salary and Fringe Benefits	Scholarships and Fellowships	Supplies and Services	Other	Depreciation	Total
Instruction	\$ 1,009,477,072	\$ 1,792,591	\$ 102,176,837	\$ 802,306	\$ -	\$ 1,114,248,806
Research	621,591,272	2,525,455	239,020,043	1,256,406	-	864,393,176
Public Service	185,347,569	692,387	125,785,564	2,770,918	-	314,596,438
Academic Support	266,306,136	36,717	87,446,507	365,031	-	354,154,391
Farm Operations	9,794,770	-	6,145,331	1,725	-	15,941,826
Student Services	254,078,819	604,912	135,429,799	274,707	-	390,388,237
Institutional Support	196,474,804	94,683	13,682,111	(14,176)	-	210,237,422
Operation/Maintenance	145,530,975	-	169,960,970	228,416	-	315,720,361
Financial Aid	5,812,975	125,028,598	4,461,919	1,817,011	-	137,120,503
Auxiliary Enterprises	109,909,356	153,430	207,735,380	324,326	-	318,122,492
Hospital	-	-	51,577,754	47	-	51,577,801
Depreciation	-	-	-	-	238,412,424	238,412,424
Total Operating Expenses	<u>\$ 2,804,323,748</u>	<u>\$ 130,928,773</u>	<u>\$ 1,143,422,215</u>	<u>\$ 7,826,717</u>	<u>\$ 238,412,424</u>	<u>\$ 4,324,913,877</u>

Operating expenses totaled \$4.3 billion. Salary and fringe benefits, scholarships and fellowships, and supplies and services and other expenses constituted 64.9%, 3.0%, and 26.6% of total operating expenses, respectively. Depreciation comprised \$238.4 million or 5.5% of total operating expenses.

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, 2012 and 2011

NOTE 13 – Classification of Net Assets

Net assets are reported in the following six categories:	<u>2012</u>	<u>2011</u>
• Invested in capital assets, net of related debt	\$ 4,101,633,987	\$ 3,951,308,708
• 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	154,999,375	155,641,629
• 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	198,694,026	233,294,014
➤ Segregated fee auxiliary operations and auxiliary operations as established by state statute, respectively	75,542,222	104,963,024
• Restricted - Student Loans	227,507,281	224,919,387
• Restricted - Other		
Net assets of other legally separate appropriations	226,823,333	159,745,430
• 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.	860,152,969	607,434,010

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 segregated fee auxiliary operations because of statutory mandates; however, they do have discretion in the use of the net assets of quasi-endowments reported as unrestricted.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2012 and 2011

NOTE 13 – Classification of Net Assets (continued)

CAFR reclassifications as of June 30, 2012:

(In Millions)

	University of Wisconsin System	Auxiliary Operations	Quasi- Endowments	Student Loans	Other Postemployment Benefits (Note 8)	State of Wisconsin CAFR
Invested in Capital Assets, Net of Related Debt	\$ 4,101.6	\$ -	\$ -	\$ -	\$ -	\$ 4,101.6
Restricted for						
Nonexpendable	155.0	-	-	-	-	155.0
Expendable	274.2	(75.5)	65.8	-	-	264.5
Student Loans	227.5	-	-	(9.8)	(0.1)	217.6
Other	226.8	-	-	9.8	(37.6)	199.0
Unrestricted	<u>860.2</u>	<u>75.5</u>	<u>(65.8)</u>	<u>-</u>	<u>(160.1)</u>	<u>709.8</u>
Total Net Assets	\$ 5,845.3	\$ 0.0	\$ 0.0	\$ 0.0	\$ (197.8)	\$ 5,647.5

CAFR reclassifications as of June 30, 2011:

(In Millions)

	University of Wisconsin System	Auxiliary Operations	Quasi- Endowments	Student Loans	Other Postemployment Benefits (Note 8)	State of Wisconsin CAFR
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	\$ 5,437.3	\$ 0.0	\$ 0.0	\$ 0.0	\$ (167.4)	\$ 5,269.9

NOTE 14 – Prior Period Adjustments

Neither the June 30, 2012 nor the June 30, 2011 Statements of Net Assets include 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 September 2012, the State of Wisconsin issued variable-rate obligations in the aggregate par amount of \$46,333,182 million of general obligation extendible municipal commercial paper notes 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.

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NOTE 16 – Subsequent Events (continued)

In November 2012, the State of Wisconsin issued long-term debt in the aggregate par amount of \$107,039,584 of 2012 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 2.55% to 5.00% payable semiannually, beginning May 1, 2013. The bonds mature May 1 of the years 2022 through 2033.