



Annual Financial Report

2013



**Published by the Office of Finance
University of Wisconsin System
1220 Linden Drive
Madison, WI 53706**

Editor: Laurie Grams

Cover Photo: With a backdrop of blue skies and greenery, students at UW-La Crosse walk and bicycle past the iconic Hoeschler Tower, named after Janet Hoeschler, class of '40, who donated funds for the tower to be built at the center of campus near Cowley Hall of Science (located just behind the tower on the right).

Hoeschler Tower includes a clock and lantern, symbolizing the campus's "Hanging of the Lantern" tradition that dates back to the 1930s. Today, this campus centerpiece is not only the focal point for Welcome Week's two most popular traditions — "Hanging of the Lantern" and "Lighting of the 'L'" — but also a popular gathering area for concerts, rallies, and more.

With a full-time enrollment of more than 10,420 students, UW-La Crosse is consistently ranked a top-rated regional public university in *U.S. News & World Report*, known for both its scholarship and academic rigor.

In addition, UW-L is one of only two public colleges in Wisconsin to make *Kiplinger's Personal Finance* magazine's list of top 100 best values in public colleges for 2014. UW-L has received "best value" recognition from the leading financial magazine for more than a decade.

Photo: Sue (Sullivan) Lee, University Communications, UW-La Crosse

**University of Wisconsin System
2013 Annual Financial Report**

TABLE OF CONTENTS

Regents, Chancellors, and Officers of the UW System	2
Introduction from the President	4
Vice President's Report	6
Supplemental Information	8
Charts 1 and 2 - Ten-Year Comparison of Current Funds Revenues	9
Chart 3 - Ten-Year Comparison of University-Controlled Endowments.....	10
Management's Discussion and Analysis.....	11
Independent Auditor's Report.....	26
Audited Financial Statements	29
Statement of Net Position.....	30
Statement of Revenues, Expenses, and Changes in Net Position.....	31
Statement of Cash Flows	32
Notes to the Financial Statements	34

Officers

Kevin P. Reilly,
President

David L. Miller,
*Senior Vice President for Administration
and Fiscal Affairs*

Mark A. Nook,
*Senior Vice President for Academic and
Student Affairs*

Steven C. Wildeck,
*Interim Vice President for Finance/
Trust Officer*

Tomas L. Stafford,
General Counsel/Assistant Trust Officer

Freda J. Harris,
*Associate Vice President for Budget and
Planning*

Finance Staff

Julie K. Gordon,
*Associate Vice President for Financial
Administration*

Ruth M. Anderson,
*Associate Vice President for
Administrative Services*

Alexandria Roe,
*Associate Vice President for
Capital Planning and Budget*

Douglas J. Hoerr,
*Director for Trust Funds/Assistant Trust
Officer*

Larry W. Henderson,
Director for UW Service Center

Michael M. Kraus,
Special Assistant

Chancellors

Ray Cross, *UW Colleges and UW-Extension*

James Schmidt, *UW-Eau Claire*

Thomas Harden, *UW-Green Bay*

Joe Gow, *UW-La Crosse*

Rebecca Blank, *UW-Madison*

Mike Lovell, *UW-Milwaukee*

Richard H. Wells, *UW-Oshkosh*

Deborah Ford, *UW-Parkside*

Dennis Shields, *UW-Platteville*

Dean Van Galen, *UW-River Falls*

Bernie Patterson, *UW-Stevens Point*

Charles W. Sorensen, *UW-Stout*

Renée Wachter, *UW-Superior*

Richard J. Telfer, *UW-Whitewater*

UNIVERSITY OF WISCONSIN SYSTEM

Regents

John R. Behling, *Eau Claire*

Mark J. Bradley, *Wausau*

John R. Drew, *Milwaukee*

Tony Evers, *Madison*

Michael J. Falbo, *Hartland (Regent President)*

Margaret Farrow, *Pewaukee*

Tim Higgins, *Appleton*

Tracy Hribar, *Franksville*

Chad Landes, *Dane*

Edmund Manydeeds, *Eau Claire*

Regina Millner, *Madison (Regent Vice President)*

Janice Mueller, *Madison*

Drew Petersen, *Madison*

Charles Pruitt, *Milwaukee*

Gary Roberts, *Onalaska*

José F. Vázquez, *Wauwatosa*

David G. Walsh, *Madison*

Gerald Whitburn, *Wausau*

Introduction from the President
and
Vice President's Report



INTRODUCTION FROM THE PRESIDENT FINANCIAL REPORT 2013

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

In the 2012-13 academic year, we again enrolled a near-record high of almost 181,000 students and conferred the most degrees ever—more than 36,300 degrees at all levels, including associate through doctorate. We also launched the new UW Flexible Option, which will allow more working adults to return to college to complete their degrees, leveraging knowledge and skills they have acquired from a variety of sources. The UW Flex Option recently opened admissions for its first cohort of programs, beginning in January 2014.

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 on the national level, the effects of sequestration are putting in jeopardy critical funding for research and other important areas. 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, including finding ways to competitively compensate the UW's hard-working, and widely sought-after, faculty and staff who are critical to maintaining the quality of a UW education.

The UW must also respond to changing circumstances and employ continuous improvement practices. This year, one area needing a new approach involves year-end program revenue balances—the appropriate ratio of balances to ongoing operating costs, how those balances are used, and how they are explained. In this report's introduction by Interim Vice President for Finance Steve Wildeck, you will find more detail about changes we are making, both to this report and more broadly, to enhance clarity about how program revenue balances are calculated, as well as how they figure into the UW System's budget setting and overall financial picture. In addition, the Board of Regents is working with state legislators to clarify a new policy that sets new thresholds for reporting program revenue balances. This new policy, which should be in effect for Fiscal Year 2014, will be the first such policy for the UW System, and it may very well be the first of its kind for any public higher education system in the country, so we are at the forefront in this area. We are pleased that these changes will bring even greater transparency to our financial operations, arrived at with collaboration and mutual agreement between ourselves, the legislature, and other stakeholders.

While our 2013 program revenue balances are comparable to those of other higher-education institutions, the increase from previous years invited concern and scrutiny. As a result, the 2013-15 state budget, known as Act 20, sought to reduce the balances by freezing undergraduate resident tuition for two years while also cutting state funding for the UW System's operating budget, only a portion of which can be offset by one-time cash balances. All told, the reductions and reallocations will create an ongoing structural shortfall of \$62 million in the UW System's annual operating budgets beginning in fiscal year 2015-16. We welcome the opportunity to have an in-depth discussion about the appropriate level of program revenue balances, keeping in mind the broader context of maintaining the UW System's position as one of the leading public university systems in the world.

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 15-fold return on the state's investment. Plus, 81% of students who start out as Wisconsin residents stay in the state after graduation – indicating we hang on to an

impressively high percentage of “our best and brightest.” The UW System consistently spends 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 \$1,400 below the average among public universities, ranking Wisconsin 37th among the 50 states. Comparing state support for higher education to personal income, Wisconsin ranks 31st in the nation in funding per \$1,000 in personal income. And relative to our total state population, Wisconsin ranks 33rd 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 2013

As shown in our fiscal year 2013 financial statements and notes, the financial health of the University of Wisconsin System as a whole is relatively strong. The degree to which individual UW institutions are financially healthy varies depending on their missions, student demographics, enrollment levels, and other program initiatives.

During the past year, the UW System has received several inquiries surrounding its financial health—specifically the size of its program revenue balances, how those balances have grown, and the planned uses for those funds. Those inquiries came about after publication of the UW System's 2012 Annual Financial Report and a Legislative Fiscal Bureau report.

In response to these inquiries, 2013 Wisconsin Act 20, the 2013-15 biennial budget bill, required that the UW System Board of Regents develop a formal methodology for calculating program revenue balances and reserves. The bill also required that the Board of Regents establish limits on program revenue balances. The UW System has been working to comply with these and other statutory requirements.

Our work has included consultation with leadership from UW System institutions, the Legislative Fiscal Bureau, individual legislators, and outside consultants.

The UW System policy on program revenue balances and reserves, though not yet final, will help us communicate uniformly about our finances. The policy will need to ensure UW institutions have the resources and flexibilities to carry out their missions in an effective and efficient manner, have incentives to invest in academic programs and facilities, and discourage wasteful year-end spending. Therefore, we anticipate establishing annual reporting thresholds for certain unrestricted funds, requiring UW institutions to justify and obtain Board of Regents' approval when significant balances are being accumulated, and establishing improvement plans when balances are demonstrated to be too low.

In addition to this new annual reporting, the Annual Financial Report has always provided financial information on the UW System in a manner that is consistent with other state agencies and consistent with the rules promulgated by the Governmental Accounting Standards Board. Our 2013 Annual Financial Report indicates that the overall financial health of the UW System has improved over the past year. Specifically, cash and cash equivalents increased \$337.8 million, from nearly \$1.4 billion in fiscal year 2012 to \$1.7 billion in fiscal year 2013. With additional increases in our long-term assets, such as buildings and construction in progress, the UW System's overall net position increased 8.6%, or \$503.4 million between fiscal year 2012 and fiscal year 2013.

This increase in net position is due, in part, to increased revenues, including those from tuition and fees, auxiliary operations, and investment income. Tuition and fees increased \$69.6 million, to nearly \$1.2 billion in fiscal year 2013. Revenue from auxiliary operations increased \$26.2 million, while investment income increased from nearly \$0.6 million in fiscal year 2012 to \$41.7 million in fiscal year 2013. Consistent with global financial markets, the returns on trust funds' equity investments in particular rebounded strongly in fiscal year 2013 when compared to the prior year.

In addition, the UW System's net position increased because expenditures did not increase to the level anticipated. As noted in the Legislative Audit Bureau's report dated November 2013 (report 13-17), 4th quarter expenditures from certain program

revenue appropriations in fiscal year 2013 were \$49.0 million less than the same quarter in fiscal year 2012.

Providing clear, transparent and understandable financial information is a challenging task. Accrual-based financial reports that both live up to accounting standards and accurately portray the university's complex financial structure are not always quickly understood. It is our continuing goal to provide the most clear and transparent financial information possible. The UW System has taken a step to improve the readability of this information by revising the financial statements' notes. I highlight for you Note 13, which now provides more detailed information and helps clarify the source of our program revenue balances. The prior year Note 13 provided the overall net position categories, such as unrestricted and restricted, but did not indicate the exact funding source, such as tuition, gifts, and federal aid. In future years, we will continue to critically review the Annual Financial Report and identify where additional details or clarifications can be provided.

I invite you to review the UW System's financial statements, notes, and Management's Discussion and Analysis. Your comments, questions, and suggestions are always welcome.

Steven Wildeck
Interim Vice President for Finance

Supplemental Information

CHART 1
TEN-YEAR COMPARISON OF CURRENT FUNDS REVENUES
2003-2013

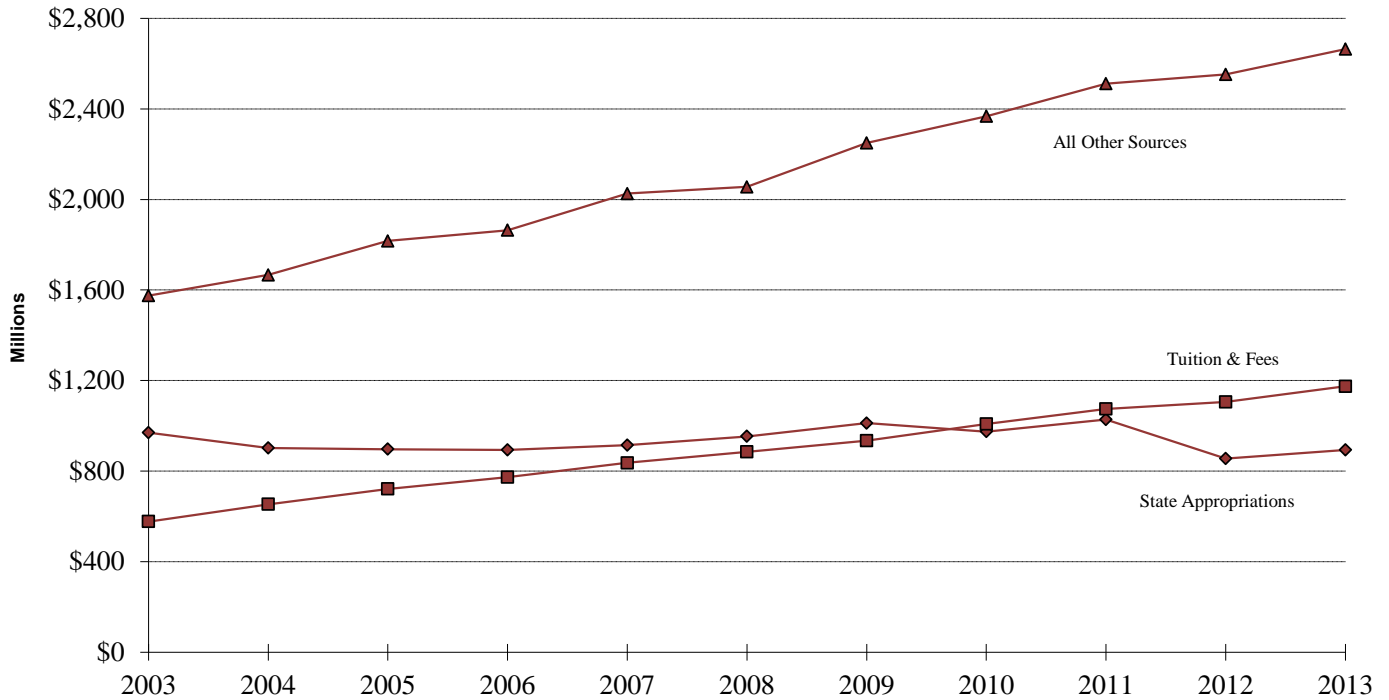


CHART 2
TEN-YEAR COMPARISON OF CURRENT FUNDS REVENUES
ADJUSTED FOR INFLATION
2003- 2013

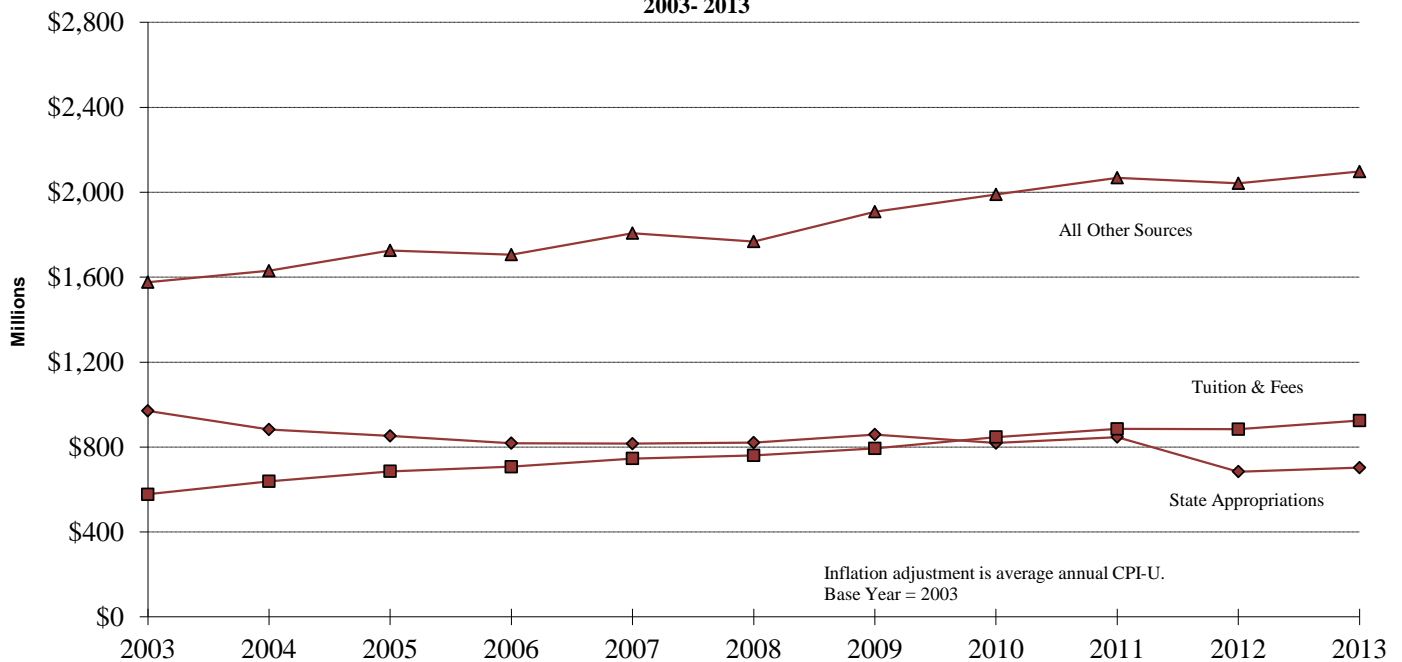
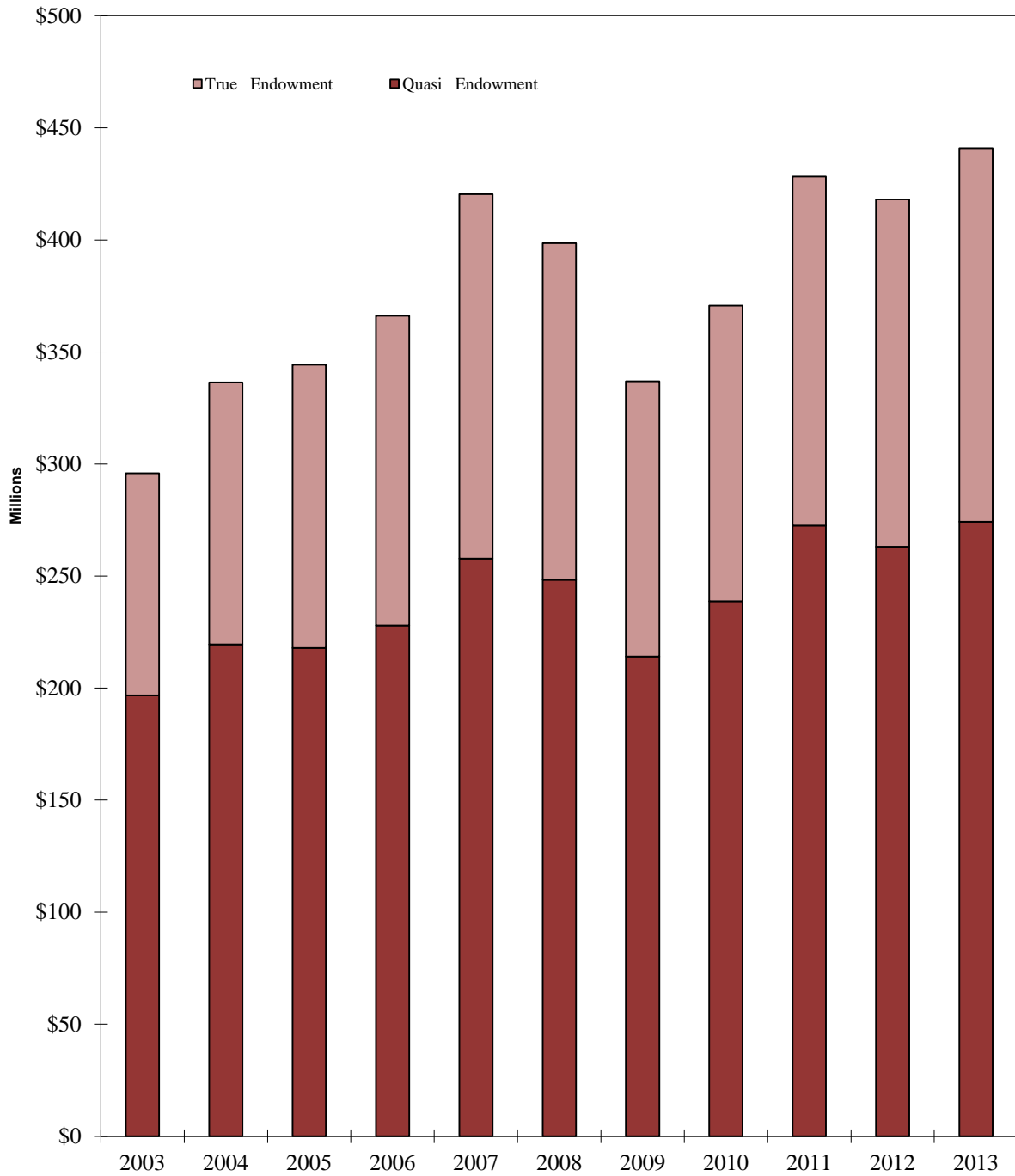


CHART 3
TEN-YEAR COMPARISON OF UNIVERSITY-CONTROLLED ENDOWMENTS
2003-2013



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

Management's Discussion and Analysis

UNIVERSITY OF WISCONSIN SYSTEM
Management's Discussion and Analysis
Years Ended June 30, 2013 and 2012

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, 2013 and 2012, with comparative information for the year ending June 30, 2011. 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, 13 two-year colleges, UW-Extension, and System Administration. In academic year 2012-2013, the University of Wisconsin System enrolled 180,969 students, employed approximately 31,000 faculty and staff, and granted 34,473 bachelor's, master's, and other advanced degrees. The University of Wisconsin System institutions were awarded over \$872.5 million in federal grants and contracts in 2012-2013 and an additional \$583.8 million from non-federal sponsors. The University of Wisconsin System has a long tradition of public service, embodied by an ongoing commitment to the Wisconsin Idea, that the boundaries of the University are the boundaries of the State.

Degrees Granted	
<i>UW-Madison</i>	<i>10,257</i>
<i>UW-Milwaukee</i>	<i>5,633</i>
<i>UW-Eau Claire</i>	<i>2,293</i>
<i>UW-Green Bay</i>	<i>1,391</i>
<i>UW-La Crosse</i>	<i>2,166</i>
<i>UW-Oshkosh</i>	<i>2,280</i>
<i>UW-Parkside</i>	<i>723</i>
<i>UW-Platteville</i>	<i>1,486</i>
<i>UW-River Falls</i>	<i>1,455</i>
<i>UW-Stevens Point</i>	<i>1,813</i>
<i>UW-Stout</i>	<i>1,970</i>
<i>UW-Superior</i>	<i>538</i>
<i>UW-Whitewater</i>	<i>2,468</i>
<i>Total</i>	<i><u>34,473</u></i>

Financial Highlights

The University of Wisconsin System's financial standing remained strong at the conclusion of fiscal year 2013. As of June 30, 2013, the University of Wisconsin System had total assets of \$8.5 billion and total liabilities of \$2.2 billion. Of the \$6.3 billion in net position, \$4.2 billion is net investment in capital assets.

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). In fiscal year 2013, total revenues continued to be strong and increased \$189.8 million. After decreasing \$173.2 million last year, state appropriations increased \$38.5 million in fiscal year 2013 (up 4.5% from 2012). State appropriations represent 17.6% of the University of Wisconsin System's total revenue in 2012-13, compared to 29.6% in 2002-03. Tuition and fees increased 6.3% from 2012, and extramural support (grants and contracts) increased 2.1% in 2013 after decreasing 1.0% in 2012.

The change in net position is summarized for the fiscal years ended June 30, 2013, 2012, and 2011 as follows:

(In Millions)

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Total Revenues Before			
Net Investment Income (Loss)	\$ 5,039.1	\$ 4,890.3	\$ 4,801.5
Total Expenses	<u>4,577.4</u>	<u>4,482.9</u>	<u>4,457.0</u>
Increase in Net Position Before			
Net Investment Income (Loss)	461.7	407.4	344.5
Net Investment Income (Loss)	<u>41.7</u>	<u>0.6</u>	<u>67.5</u>
Increase in Net Position	<u>\$ 503.4</u>	<u>\$ 408.0</u>	<u>\$ 412.0</u>

Fiscal year 2013 total revenues before net investment income or loss increased \$148.8 million (3.1%) compared to \$88.8 million (1.8%) increase for fiscal year 2012. The fiscal year 2013 increase primarily resulted from a 4.5% increase in operating revenues. Fiscal year 2013 total expenses increased \$94.5 million (2.1%) compared to an increase of \$25.9 million (0.6%) for fiscal year 2012. The fiscal year 2013 increase primarily resulted from a 2.4% increase in salaries and fringe benefits, 2.0% increase in supplies, services and other, an 8.4% increase in depreciation, and a 13.7% increase in interest on indebtedness.

UNIVERSITY OF WISCONSIN SYSTEM
Management's Discussion and Analysis
Years Ended June 30, 2013 and 2012

Operating revenues increased by \$153.1 million during fiscal year 2013 and \$53.8 million during 2012. The 4.5% increase in fiscal year 2013 resulted primarily from increases in student tuition and fees (6.3%), sales and services of auxiliary enterprises (7.2%), state, local, and private grants and contracts (3.5%), and federal grants and contracts (1.5%). The net increase in student tuition is primarily due to a 5.5% (5.5% in 2012) increase in tuition rates approved by the Board of Regents. The total headcount enrollment for the entire University of Wisconsin System decreased 300 students to 180,969 from 181,269 in 2012, and total full-time equivalent enrollment was 154,844, down from 155,162 in 2012.

Headcount Enrollments	
<i>UW-Madison</i>	<i>42,463</i>
<i>UW-Milwaukee</i>	<i>29,114</i>
<i>UW-Eau Claire</i>	<i>11,047</i>
<i>UW-Green Bay</i>	<i>6,790</i>
<i>UW-La Crosse</i>	<i>10,380</i>
<i>UW-Oshkosh</i>	<i>13,519</i>
<i>UW-Parkside</i>	<i>4,769</i>
<i>UW-Platteville</i>	<i>8,678</i>
<i>UW-River Falls</i>	<i>6,447</i>
<i>UW-Stevens Point</i>	<i>9,677</i>
<i>UW-Stout</i>	<i>9,247</i>
<i>UW-Superior</i>	<i>2,700</i>
<i>UW-Whitewater</i>	<i>12,031</i>
<i>UW Colleges</i>	<i>14,107</i>
Total	<u>180,969</u>

Operating expenses increased by \$111.4 million during fiscal year 2013 compared to the 2012 increase of \$15.4 million. The larger increase is primarily due to salaries and fringes increasing \$67.3 million and depreciation increasing \$20.1 million.

The University of Wisconsin System reported \$41.7 million net investment income in fiscal year 2013, which is up from the \$0.6 million net investment income reported in fiscal year 2012. An increase in the fair value of the trust fund portfolio was consistent with the general fluctuations experienced in the financial markets contributing to the investment income. The investment return is comprised of dividend and interest income, as well as realized and unrealized gains and losses. Investments are reported at fair market value as of June 30 of each fiscal year. The change in market value that occurred from fiscal year 2012 to fiscal year 2013 is included in the reported investment income.

Using the Financial Statements

The University of Wisconsin System's annual financial report includes the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement 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 Statement of Net Position is a financial condition snapshot as of June 30, 2013 and 2012, and includes 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 Statement of Net Position is 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 position) is one indicator of the University of Wisconsin System's financial health. Increases or decreases in net position 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 Position is divided into three major categories: Net Investment in Capital Assets; Restricted Net Position; and Unrestricted Net Position. Net Investment in Capital Assets consists of capital assets reduced by the outstanding balances of borrowings for the construction, acquisition, or improvement of those assets. Restricted Net Position has 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 Position consists of funds that do not meet the definition of "restricted" or "net investment in capital assets."

The Statement of Revenues, Expenses, and Changes in Net Position are operating statements that present the revenues earned and expenses incurred during the fiscal years ended June 30, 2013 and 2012 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.

UNIVERSITY OF WISCONSIN SYSTEM
Management's Discussion and Analysis
Years Ended June 30, 2013 and 2012

The Statement of Cash Flows summarizes 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-Platteville Real Estate Foundation, 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 Statement of Revenues, Expenses, and Changes in Net Position.

Statement of Net Position

The Statement of Net Position presents the assets and liabilities and resultant financial position of the University of Wisconsin System under the accrual basis of accounting. Net Position, 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 position balance over time.

The following provides a summarized comparison of the University of Wisconsin System's assets, liabilities, and net position at June 30, 2013, 2012, and 2011:

<i>(In Millions)</i>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Current Assets	\$ 2,111.5	\$ 1,747.4	\$ 1,466.3
Noncurrent Assets:			
Endowment Investments	413.2	389.5	396.0
Student Loans Receivable – Net	164.2	159.4	160.0
Capital Lease Receivable	3.9	5.1	6.8
Capital Assets – Net	<u>5,863.0</u>	<u>5,582.7</u>	<u>5,198.7</u>
Total Assets	<u>8,555.8</u>	<u>7,884.1</u>	<u>7,227.8</u>
Current Liabilities	567.7	565.8	541.4
Noncurrent Liabilities	<u>1,639.4</u>	<u>1,473.0</u>	<u>1,249.1</u>
Total Liabilities	<u>2,207.1</u>	<u>2,038.8</u>	<u>1,790.5</u>
Total Net Position	<u>\$ 6,348.7</u>	<u>\$ 5,845.3</u>	<u>\$ 5,437.3</u>

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 \$364.1 million during fiscal year 2013 and increased by \$281.1 million during fiscal year 2012. The fiscal year 2013 increase primarily relates to a \$337.8 million increase in cash and cash equivalents that is the result of the total revenue increasing more than the increase in total expenses. The largest change within fiscal year 2012 current assets relates to an increase in cash and cash equivalents.

UNIVERSITY OF WISCONSIN SYSTEM
Management's Discussion and Analysis
Years Ended June 30, 2013 and 2012

The University of Wisconsin System held cash and cash equivalents of \$1,685.3 million at June 30, 2013, 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 \$163.2 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 \$25.0 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 \$1.9 million during 2013 and increased by \$24.4 million during 2012. The fiscal year 2013 increase primarily relates to a \$9.5 million increase in accounts payable and accrued liabilities, \$9.5 million increase in notes and bonds payable, a \$9.7 million decrease in unearned revenues, and a \$7.3 million decrease in compensated absences. The largest changes within fiscal year 2012 current liabilities primarily relate to a \$10.6 million increase in accounts payable and accrued liabilities and a \$10.1 million increase in notes and bonds payable.

Current assets minus current liabilities represent the net working capital of the University of Wisconsin System. Net working capital increased 30.7% from \$1,181.6 million at June 30, 2012 to \$1,543.8 million at June 30, 2013. The net working capital at year end represented approximately 127 days of 2013 operating expenses. This indicates that the University of Wisconsin System could support normal operations for 127 days without additional revenues or liquidating noncurrent assets. The current ratio, which is current assets divided by current liabilities, was 3.7 to 1 at June 30, 2013, compared to 3.1 to 1 at June 30, 2012. 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 \$413.3 million at June 30, 2013, increased by \$23.8 million during fiscal year 2013. The increase was driven by market based improvements in investment performance. The increases in capital assets (net) of \$280.2 million in fiscal year 2013 and \$384.0 million in fiscal year 2012 were primarily due to new building construction and renovations. Student loans receivable increased by \$4.8 million during fiscal year 2013 and decreased \$0.6 million during fiscal year 2012.

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 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, 2012 to June 30, 2013 and July 1, 2011 to June 30, 2012.

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 90.3% of market-value principal. On June 30, 2013, the Long Term Fund portfolio at market contained 39.3% in stocks, 11.8% in fixed income obligations, 21.2% in alternative assets, 19.6% in tactical allocation strategies, 1.7% in real assets, and 6.4% in short-term investments, and the Intermediate Term Fund portfolio had 21.1% in stocks, 76.2% in fixed income obligations, and 2.7% in short-term investments. The total return on the principal long-term portfolio, including capital appreciation, was 10.9%. The total return on the principal intermediate-term portfolio, including capital appreciation, was 5.4%. 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,

UNIVERSITY OF WISCONSIN SYSTEM
Management's Discussion and Analysis
Years Ended June 30, 2013 and 2012

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 10 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, 2013, 2012, and 2011, the University of Wisconsin System collected \$28.4, \$26.7, and \$26.0 million, respectively, in outstanding student loans and granted \$35.0, \$28.3, and \$25.8 million, respectively, in new loans.

Noncurrent Liabilities: Noncurrent liabilities increased by \$166.4 and \$223.9 million during fiscal year 2013 and 2012, respectively, to a total of \$1,639.4 million as of June 30, 2013. 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, 2013 and 2012, the long-term bonds and notes payable totaled \$1,556.6 and \$1,391.3 million, respectively, representing an increase of \$165.3 million. Offsetting this increase was a \$5.9 million decrease of capital lease obligations.

The remainder of the noncurrent liabilities consists of capital financing leases of \$12.5 and \$18.5 million, respectively, and the accumulated leave balances earned by University of Wisconsin System staff of \$70.2 and \$63.3 million, respectively.

As an enterprise fund of the State of Wisconsin, the University of Wisconsin System reports on its Statement of Net Position 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 Statement of Cash Flows.

Net Position: Net position represents the University of Wisconsin System's residual interest in assets net of liabilities. The University of Wisconsin System's net position at June 30, 2013, 2012, and 2011 is summarized below:

(In Millions)

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Net Investment in Capital Assets	\$ 4,212.8	\$ 4,101.6	\$ 3,951.3
Restricted:			
Nonexpendable – Endowment Principal	166.6	155.0	155.6
Expendable – Quasi-Endowment	207.7	198.7	233.3
Expendable – Auxiliary Operations-Segregated Fees	76.2	75.5	105.0
Student Loans	229.4	227.5	224.9
Other	376.3	226.8	159.8
Unrestricted	<u>1,079.7</u>	<u>860.2</u>	<u>607.4</u>
Total Net Position	<u>\$ 6,348.7</u>	<u>\$ 5,845.3</u>	<u>\$ 5,437.3</u>

Net Investment in Capital Assets, represents the University of Wisconsin System's investment in capital assets net of accumulated depreciation and outstanding debt. *Restricted* funds are those 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* funds are those that do not meet the definition of "restricted" or "net investment in capital assets." Most of the unrestricted funds have been designated for purposes to fulfill the University of Wisconsin System's fiduciary responsibilities, including academic and research programs and capital projects.

UNIVERSITY OF WISCONSIN SYSTEM
Management's Discussion and Analysis
Years Ended June 30, 2013 and 2012

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 a majority of the total state-owned facilities in Wisconsin. The Board of Regents holds title to approximately 18,000 acres of land throughout Wisconsin, most of which was donated to the University of Wisconsin System 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 capital 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 approval and 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 direction and describing their effect on the institution's facilities needs. A 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 or project.

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.

UNIVERSITY OF WISCONSIN SYSTEM
Management's Discussion and Analysis
Years Ended June 30, 2013 and 2012

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 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

During fiscal year 2013, several major construction projects were placed in service. The largest projects with \$50.0 million or more in actual expenditures are listed below:

UW Institution	Project	Primary Purpose	Actual Expenditures (in millions of \$)	Primary Funding Sources
Madison	2007-09 Human Ecology	Academic	50.8	GFSB/Gifts/PRSB
Madison	2009-11 Wisconsin Energy Institute	Academic	56.6	GFSB/Gifts

Several construction projects were planned or in progress during fiscal year 2013. The largest projects with a \$50.0 million or more budget are listed below:

UW Institution	Project	Primary Purpose	Approximate Budget (in millions of \$)	Primary Funding Sources
Madison	2007-09 Memorial Union Theater Wing Renovation - Phase I	Student Life	62.0	PRSB/Gifts
Madison	2009-11 Charter Street Heating Plant Replacement	Utilities	250.6	PRSB
Madison	2009-11 Utilities (WCCF Chillers)	Utilities	67.5	GFSB/PRSB
Madison	2009-11 Wisconsin Institute for Medical Research	Academic	134.8	GFSB/Gifts
Madison	2011-13 Badger Performance Center	Athletics	86.2	PRSB/Gifts
Madison	2011-13 School of Nursing	Academic	52.2	GFSB/Gifts
Milwaukee	2009-11 Freshwater Sciences Research Building – Phase I and Neeskay Research Vessel Replacement	Academic	70.0	GFSB/Gifts
Milwaukee	2009-11 Kenwood Interdisciplinary Research Complex - Phase I	Academic	80.0	GFSB/Gifts
River Falls	2011-13 Health & Human Performance/Recreation Building (Falcon Center) (funding 2013-15)	Academic/Athletics	63.5	GFSB/PRSB/Gifts

UNIVERSITY OF WISCONSIN SYSTEM
Management's Discussion and Analysis
Years Ended June 30, 2013 and 2012

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position 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 position.

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 position for the fiscal years ended June 30, 2013, 2012, and 2011 are summarized as follows:

(In Millions)

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Operating Revenues:			
Student Tuition and Fees, Net	\$ 1,174.7	\$ 1,105.1	\$ 1,074.9
Sales and Services of Educational Activities	343.8	335.8	300.0
Sales and Services of Auxiliaries, Net	389.0	362.8	350.3
Federal Grants and Contracts	871.8	859.3	871.3
State, Local, and Private Grants and Contracts	410.9	397.0	397.7
Sales and Services to UW Hospital Authority	66.8	59.7	53.7
Other	<u>281.6</u>	<u>265.8</u>	<u>283.8</u>
Total Operating Revenues	3,538.6	3,385.5	3,331.7
Operating Expenses	<u>4,436.3</u>	<u>4,324.9</u>	<u>4,309.5</u>
Operating Loss	(897.7)	(939.4)	(977.8)
Non-operating Revenues (Expenses):			
State Appropriations	893.6	855.1	1,028.3
Gifts – Noncapital	295.8	248.1	212.9
Net Investment Income (Loss)	41.7	0.6	67.5
Capital Appropriations	200.1	251.7	126.1
Capital Contributions	65.1	88.6	99.8
Additions to Permanent Endowments	3.0	1.5	2.7
Transfer to State Agencies	(65.8)	(74.2)	(80.1)
Other	<u>(32.4)</u>	<u>(24.0)</u>	<u>(67.4)</u>
Net Non-operating Revenues (Expenses)	<u>1,401.1</u>	<u>1,347.4</u>	<u>1,389.3</u>
Increase in Net Position	503.4	408.0	412.0
Net Position Beginning of Year	<u>5,845.3</u>	<u>5,437.3</u>	<u>5,025.3</u>
Net Position End of Year	<u>\$ 6,348.7</u>	<u>\$ 5,845.3</u>	<u>\$ 5,437.3</u>

UNIVERSITY OF WISCONSIN SYSTEM
Management's Discussion and Analysis
Years Ended June 30, 2013 and 2012

Operating revenues: Student tuition and fees, net of scholarship allowances, increased by \$69.6 and \$30.2 million during fiscal year 2013 and 2012, respectively, to a total of \$1,174.7 million for the fiscal year ending June 30, 2013. The increases resulted primarily from increases in tuition rates. The annual undergraduate tuition for State residents increased \$681 and \$422 to \$9,273 and \$8,091 for UW-Madison and UW-Milwaukee, respectively. UW-Eau Claire increased \$628 to \$7,361 while the remaining Comprehensive institutions' increase ranged between \$328 and \$396 to \$6,298 and \$7,585 beginning in the fall of 2012. The annual undergraduate tuition for State residents for UW Colleges increased to \$4,750.

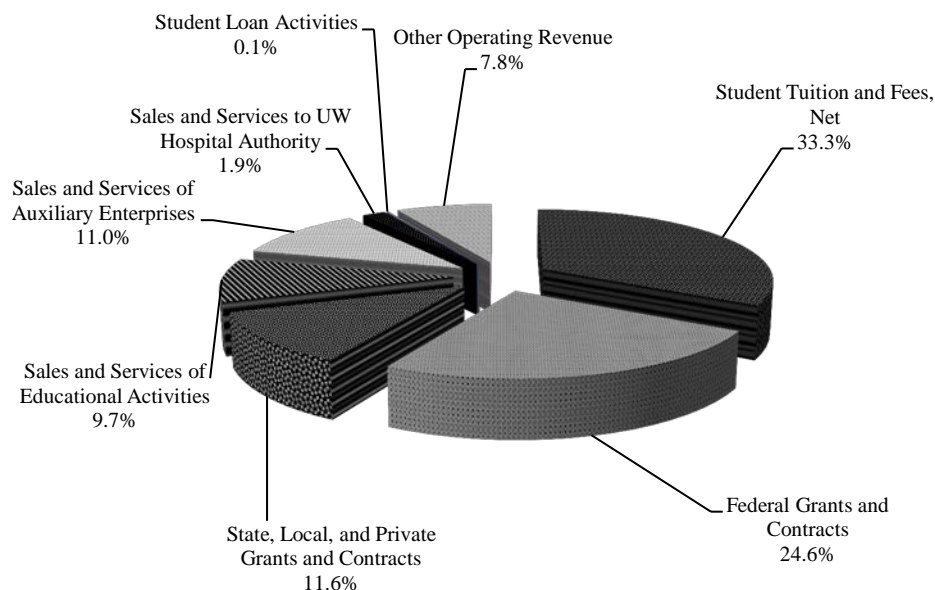
During fiscal year 2013, federal grants and contracts increased by \$12.5 million compared to a \$12.0 million decrease during fiscal year 2012. State, local, and private grants and contracts increased by \$13.9 million during fiscal year 2013 compared to a decrease of \$0.7 million during fiscal year 2012.

Other operating revenues increased \$15.8 million during fiscal year 2013 compared to a \$18.0 million decrease during fiscal year 2012. Total other operating revenues of \$281.6 million for fiscal year 2013 includes \$278.3 million (98.8%) 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 2012 total other operating revenues of \$265.8 million includes \$246.5 million (92.7%) from these same revenue producing units.

Grants and Contracts Awarded		
	<i>Federal</i>	<i>Nonfederal</i>
<i>UW-Madison</i>	\$620.3	\$518.9
<i>UW-Milwaukee</i>	76.4	15.5
<i>UW-Eau Claire</i>	15.1	3.8
<i>UW-Green Bay</i>	12.3	1.9
<i>UW-La Crosse</i>	11.6	2.8
<i>UW-Oshkosh</i>	23.2	1.4
<i>UW-Parkside</i>	10.3	0.6
<i>UW-Platteville</i>	11.4	0.6
<i>UW-River Falls</i>	5.8	0.9
<i>UW-Stevens Point</i>	16.2	5.6
<i>UW-Stout</i>	14.5	2.7
<i>UW-Superior</i>	3.9	0.6
<i>UW-Whitewater</i>	16.4	2.3
<i>UW Colleges</i>	21.3	1.4
<i>UW-Extension</i>	11.9	24.8
<i>UW Systemwide</i>	<u>1.9</u>	<u>0.0</u>
<i>Total</i>	<u>\$872.5</u>	<u>\$583.8</u>

The following is a graphic representation of operating revenue by source for the fiscal year ended June 30, 2013:

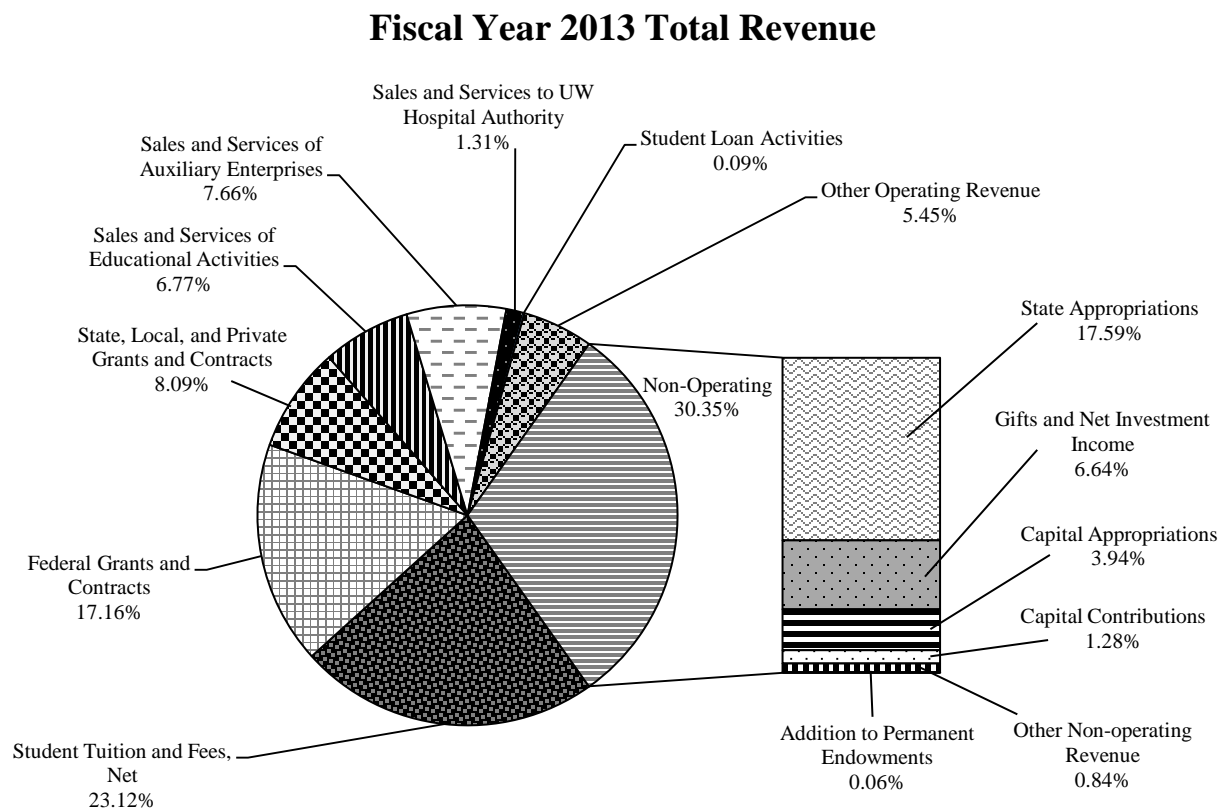
Fiscal Year 2013 Operating Revenue



UNIVERSITY OF WISCONSIN SYSTEM
Management's Discussion and Analysis
Years Ended June 30, 2013 and 2012

Non-operating revenues: State appropriations increased by \$38.5 million to a total of \$893.6 million for the fiscal year ending June 30, 2013, which is an increase of 4.5%, compared to a 16.8% decrease in fiscal year 2012. Fluctuations in state appropriations as a percentage of net non-operating revenues (expenses) of 63.8%, 63.5%, and 74.0% for fiscal years 2013, 2012, and 2011, respectively, and of total revenues of 17.6%, 17.5%, and 21.1% during the same time periods, respectively, indicate a variable fiscal environment. Combined gifts and investment (loss) income comprised \$337.5 million, or 24.1%, of net non-operating revenue (expenses) for fiscal year 2013 and \$248.7 million, or 18.5%, 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, 2013:



UNIVERSITY OF WISCONSIN SYSTEM
Management's Discussion and Analysis
Years Ended June 30, 2013 and 2012

Operating expenses: The University of Wisconsin System invests the majority of its operating funds in people as depicted in the graphic entitled "Fiscal Year 2013 Operating Expenses by Natural Classification." Salaries and fringe benefits account for 64.7% of total operating expenses. Scholarship and fellowship payments make up 3.0%, and supplies, services, and other account for 26.5%. 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 2013 totaled \$258.5 million or 5.8% of total operating expenses.

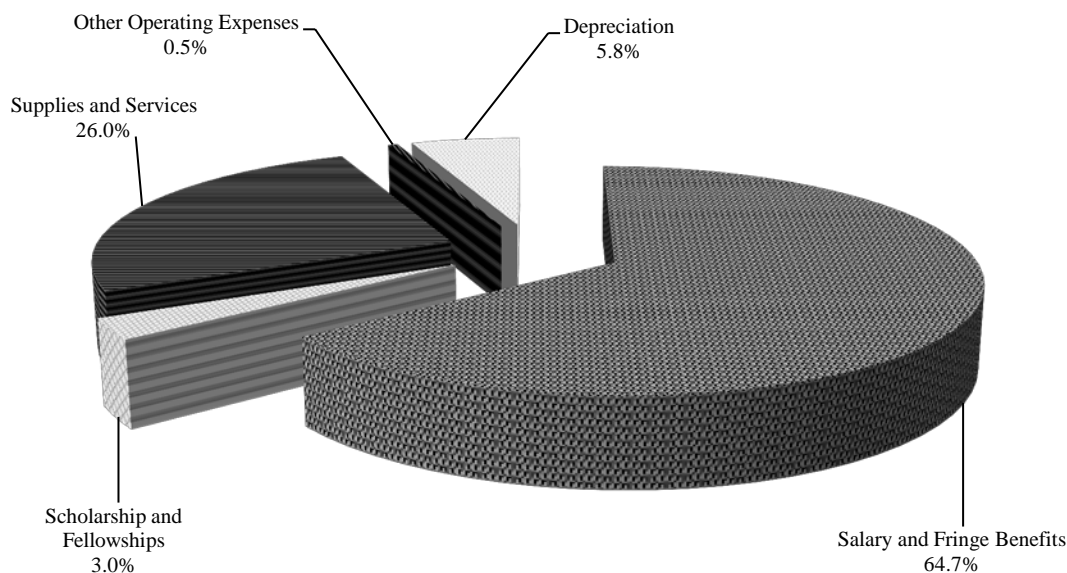
Expenses are summarized by natural classification for the fiscal years ended June 30, 2013, 2012, and 2011 as follows:

(In Millions)

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Operating Expenses:			
Salary and Fringe Benefits	\$ 2,871.6	\$ 2,804.3	\$ 2,862.3
Scholarships and Fellowships	132.2	130.9	152.8
Supplies, Services, and Other	1,174.0	1,151.3	1,070.3
Depreciation	<u>258.5</u>	<u>238.4</u>	<u>224.1</u>
	4,436.3	4,324.9	4,309.5
Non-operating Expenses:			
Loss on Disposal	17.9	33.4	10.8
Interest	57.3	50.4	47.1
Transfer to State Agencies	65.9	74.2	80.1
Other	<u>-</u>	<u>-</u>	<u>9.5</u>
Total Expenses	<u>\$ 4,577.4</u>	<u>\$ 4,482.9</u>	<u>\$ 4,457.0</u>

The following illustration graphically presents operating expenses by natural classification for the fiscal year ended June 30, 2013:

Fiscal Year 2013 Operating Expenses by Natural Classification



UNIVERSITY OF WISCONSIN SYSTEM
Management's Discussion and Analysis
Years Ended June 30, 2013 and 2012

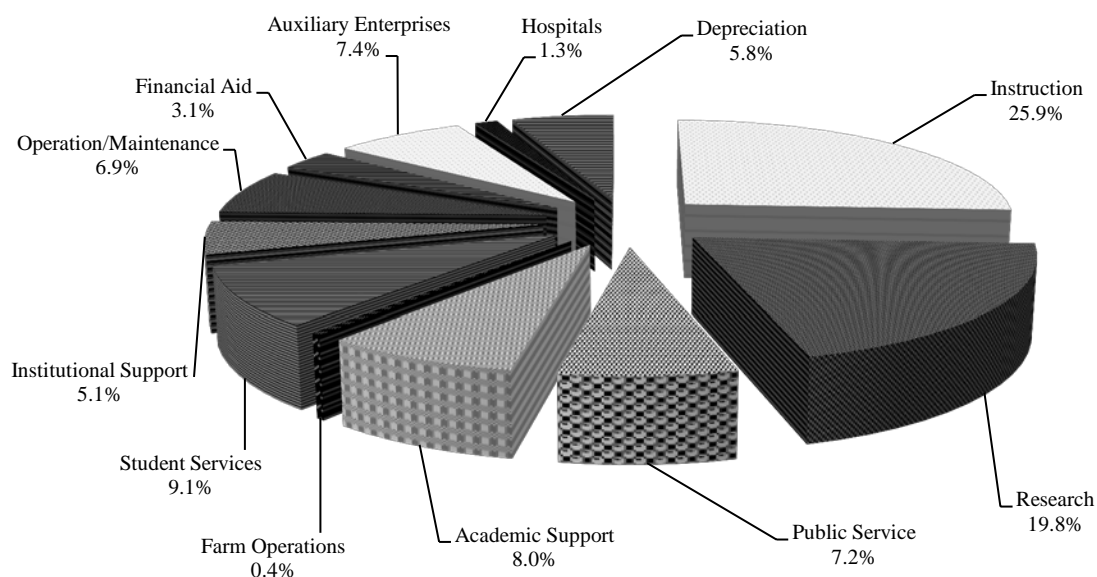
Operating expenses are classified by function for the fiscal years ended June 30, 2013, 2012, and 2011 as follows:

(In Millions)

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Instruction	\$ 1,150.5	\$ 1,114.3	\$ 1,145.3
Research	877.7	864.4	858.5
Public Service	316.9	314.6	304.2
Academic Support	355.4	354.2	344.4
Farm Operations	17.3	15.9	14.9
Student Services	404.5	390.4	384.3
Institutional Support	223.8	210.2	206.8
Operation/Maintenance	304.7	315.7	313.2
Financial Aid	138.9	137.1	156.1
Auxiliary Enterprises	329.5	318.1	306.5
Hospitals	58.6	51.6	51.2
Depreciation	<u>258.5</u>	<u>238.4</u>	<u>224.1</u>
Total Operating Expenses	<u>\$ 4,436.3</u>	<u>\$ 4,324.9</u>	<u>\$ 4,309.5</u>

The following is a graphic representation showing operating expenses by functional classification for the fiscal year ended June 30, 2013:

Fiscal Year 2013 Expenses by Functional Classification



Instruction increased 3.3% while research increased 1.5%. Student services increased by \$14.1 million or 3.6%. Institutional support increased by \$13.6 million or 6.5% to \$223.8 million in fiscal year 2013.

UNIVERSITY OF WISCONSIN SYSTEM
Management's Discussion and Analysis
Years Ended June 30, 2013 and 2012

Statement of Cash Flows

The Statement of Cash Flows imparts additional information about University of Wisconsin System's financial results by providing relevant information about the cash receipts and cash payments during fiscal year 2013.

Cash flows for the years ending June 30, 2013, 2012, and 2011 are summarized as follows:

<i>(In Millions)</i>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Cash Flows:			
Cash Received from Operations	\$ 3,524.7	\$ 3,381.3	\$ 3,377.4
Cash Expended for Operations	<u>(4,191.2)</u>	<u>(4,071.5)</u>	<u>(4,235.6)</u>
Net Cash Used in Operating Activities	(666.5)	(690.2)	(858.2)
Net Cash Provided by (Used in)			
Investing Activities	19.1	4.0	12.9
Net Cash Used in Capital and Related			
Financing Activities	(382.0)	(180.3)	(301.5)
Net Cash Provided by Noncapital			
Financing Activities	<u>1,367.2</u>	<u>1,136.7</u>	<u>1,219.0</u>
Net Increase in Cash and Cash Equivalents	337.8	270.2	72.2
Cash and Cash Equivalents, Beginning	<u>1,347.5</u>	<u>1,077.3</u>	<u>1,005.1</u>
Cash and Cash Equivalents, Ending	<u>\$ 1,685.3</u>	<u>\$ 1,347.5</u>	<u>\$ 1,077.3</u>

The University of Wisconsin System's cash and cash equivalents increased by \$337.8 million due to a \$23.7 million decrease of net cash used in operating activities, a \$15.1 million increase of cash provided from investing activities, a \$201.7 million increase of net cash used for capital and related financing activities, and a \$230.5 million increase 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 2013 state appropriations and gifts and other receipts received totaled \$1,094.8 and \$335.1 million, respectively, compared to \$912.6 and \$297.9 million, respectively, for fiscal year 2012.

Factors Affecting Future Periods

To continue providing high-quality, accessible educational opportunities during a time of scarce resources, the University of Wisconsin System is moving forward with UW Flexible Option degrees. Four UW Flexible Option programs will be available for students to begin academic work starting in January 2014, and an additional program will go live in March 2014.

2013 Wisconsin Act 20, the 2013-15 biennial budget, mandated a number of items that impact the University of Wisconsin System's funding including a tuition freeze in both years of the biennium and a GPR budget reduction. Additionally, the University of Wisconsin System is required to transfer funding, utilizing existing cash balances, to the Higher Educational Aids Board (HEAB) and to support a number of new initiatives and programs.

The 2013-15 biennial budget required a freeze of resident undergraduate tuition at the 2012-13 levels, including differential tuition. In July 2013, the University of Wisconsin System Board of Regents unanimously voted to freeze resident undergraduate tuition, in accordance with the biennial budget. The Board of Regents also voted to freeze tuition for all graduate students and non-resident undergraduates.

UNIVERSITY OF WISCONSIN SYSTEM
Management's Discussion and Analysis
Years Ended June 30, 2013 and 2012

The 2013-15 biennial budget includes a reduction in base funding of \$32,844,300 in fiscal year 2014 (\$65.7 million over the biennium). During fiscal year 2014, the University of Wisconsin System is expected to reallocate resources to fund the share of compensation costs and cost to continue that would have been paid through tuition increases. The tuition freeze will not allow the University of Wisconsin System to generate those dollars, and the unfunded amounts will result in a base budget reduction reallocation for UW institutions.

The biennial budget requires the University of Wisconsin System to transfer approximately \$58.3 million from its program revenue balances to HEAB in fiscal year 2013-14 in order to replace GPR resources that typically fund Wisconsin Higher Education Grants for University of Wisconsin System students. In fiscal year 2014-15, the GPR funding will be restored to the HEAB budget.

In addition to the Wisconsin Higher Education Grants, the biennial budget requires the University of Wisconsin System to fund the following initiatives:

Incentive Grants: required to allocate \$11,250,000 in each fiscal year of the biennium to award grants to institutions and Extension to fund economic development programs, programs for the development of an educated and skilled workforce, and programs to improve affordability of post-secondary education for resident undergraduates.

Funding for Medical School Programs: required to allocate \$1,500,000 in each year of the biennium for the Wisconsin Academy for Rural Medicine and Training in Urban Medicine and Public Health (WARM/Triumph).

Translational Imaging Research: required to allocate \$3,750,000 in the fiscal biennium for costs incurred by the University of Wisconsin Carbone Cancer Center that relate to translational imaging research, research imaging and scanning, research imaging equipment, and the Wisconsin Oncology Network.

Flexible Option Initiative: required to allocate \$650,000 in the first fiscal year and \$1,300,000 in the second fiscal year of the biennium to fund the University of Wisconsin Flexible Option Initiative.

These one-time mandates will be funded from UW Systemwide balances. The Systemwide accounts hold funds that will be transferred to, or expended for the benefit of, the universities, colleges, and Extension that make up the University of Wisconsin System. On September 6, 2013, the Board of Regents approved the University of Wisconsin System's Funding Plan that identified the sources of funds for these programs as was required by Section 9148(5e) of 2013 Wisconsin Act 20. On October 29, 2013, the Joint Committee on Finance approved the University's plan as well.



STATE OF WISCONSIN

Legislative Audit Bureau

22 East Mifflin Street, Suite 500
Madison, Wisconsin 53703
(608) 266-2818
Fax (608) 267-0410

www.legis.wisconsin.gov/lab

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

Joe Chrisman
State Auditor

Independent Auditor's Report on the Financial Statements and Other Reporting Required by *Government Auditing Standards*

Senator Robert Cowles and
Representative Samantha Kerkman, Co-chairpersons
Joint Legislative Audit Committee

Members of the Board of Regents, and
Mr. Kevin Reilly, President
University of Wisconsin System

Report on the Financial Statements

We have audited the accompanying financial statements and the related notes of the University of Wisconsin (UW) System as of and for the years ended June 30, 2013, and June 30, 2012, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, which is 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the

financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, 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, 2013, and June 30, 2012, and the respective changes in its financial position and its cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphases of Matter

As discussed in Note 1 to the financial statements, 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, 2013, and June 30, 2012, and the changes in its financial position and, where applicable, its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 1 to the financial statements, UW System implemented Governmental Accounting Standards Board Statement Number 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which made presentation changes to the financial statements. Our opinion is not modified with respect to this matter.

Other Matter

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 applied certain limited procedures to the information that included inquiries of management about the methods of preparing the information. We further compared 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. However, 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 10 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we will also issue a report dated December 11, 2013, 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* in considering UW System's internal control over financial reporting and compliance.

LEGISLATIVE AUDIT BUREAU

A handwritten signature in cursive script, appearing to read "Joe Chrisman".

Joe Chrisman
State Auditor

December 11, 2013

UNIVERSITY OF WISCONSIN SYSTEM
Years Ended June 30, 2013 and 2012

Audited Financial Statements

Statement of Net Position**University of Wisconsin System**

	June 30, 2013	June 30, 2012
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 1,685,327,416	\$ 1,347,503,294
Accounts Receivable, Net	284,663,692	270,037,088
Student Loans Receivable, Net	30,930,826	31,331,994
Capital Lease Receivable	1,134,100	1,734,458
Inventories	41,109,337	41,927,614
Prepaid Expenses	43,180,901	41,916,962
Deferred Charges	25,124,396	13,025,534
Total Current Assets	2,111,470,668	1,747,476,944
Noncurrent Assets:		
Endowment Investments	413,250,288	389,490,528
Student Loans Receivable, Net	164,158,972	159,402,200
Capital Lease Receivable	3,947,897	5,081,997
Land	153,167,817	153,136,989
Improvements Other Than Buildings, Net	177,237,425	160,985,009
Construction In Progress	646,603,403	628,269,767
Buildings, Net	3,410,447,721	3,178,609,464
Equipment, Net	351,905,481	348,342,634
Library Holdings	1,123,627,429	1,113,413,084
Total Noncurrent Assets	6,444,346,433	6,136,731,672
TOTAL ASSETS	\$ 8,555,817,101	\$ 7,884,208,616
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	\$ 262,054,620	\$ 252,509,947
Notes and Bonds Payable	74,328,947	64,788,053
Capital Lease Obligations	6,650,020	6,600,565
Unearned Revenues	157,109,122	166,834,790
Compensated Absences	65,813,198	73,134,934
Deposits of Student Organizations	1,799,514	1,960,545
Total Current Liabilities	567,755,421	565,828,834
Noncurrent Liabilities:		
Notes and Bonds Payable	1,556,634,823	1,391,254,634
Capital Lease Obligations	12,548,739	18,479,708
Compensated Absences	70,173,362	63,292,247
Total Noncurrent Liabilities	1,639,356,924	1,473,026,589
TOTAL LIABILITIES	\$ 2,207,112,345	\$ 2,038,855,423
NET POSITION		
Net Investment in Capital Assets	\$ 4,212,826,746	\$ 4,101,633,987
Restricted for:		
Nonexpendable	166,599,785	154,999,375
Expendable	283,858,048	274,236,248
Student Loans	229,426,359	227,507,281
Other	376,266,501	226,823,333
Unrestricted	1,079,727,317	860,152,969
TOTAL NET POSITION	\$ 6,348,704,756	\$ 5,845,353,193

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

Statement of Revenues, Expenses, and Changes in Net Position**University of Wisconsin System**

Year Ended June 30, 2013

Year Ended June 30, 2012

OPERATING REVENUES

Student Tuition and Fees (Net of Scholarship Allowances of \$203,226,603 and \$186,676,865, respectively)	\$ 1,174,699,352	\$ 1,105,143,581
Federal Grants and Contracts	871,750,765	859,279,520
State, Local, and Private Grants and Contracts	410,866,921	396,923,791
Sales and Services of Educational Activities	343,838,384	335,815,339
Sales and Services of Auxiliary Enterprises (Net of Scholarship Allowances of \$34,572,845 and \$30,742,674, respectively)	389,014,476	362,782,671
Sales and Services to UW Hospital Authority	66,825,389	59,672,426
Student Loan Interest Income and Fees	4,515,236	4,746,504
Other Operating Revenue	277,084,188	261,103,685
Total Operating Revenues	3,538,594,711	3,385,467,517

OPERATING EXPENSES

Salary and Fringe Benefits	2,871,667,131	2,804,323,748
Scholarships and Fellowships	132,197,858	130,928,773
Supplies and Services	1,152,897,579	1,143,422,215
Other Operating Expenses	21,102,542	7,826,717
Depreciation	258,484,142	238,412,424
Total Operating Expenses	4,436,349,252	4,324,913,877

OPERATING LOSS

(897,754,541) (939,446,360)

NON-OPERATING REVENUES AND EXPENSES

State Appropriations	893,584,673	855,104,606
Gifts	295,831,689	248,183,604
Investment Income (Net of Investment Expense of \$1,247,937 and \$1,190,609, respectively)	41,732,398	588,545
Loss on Disposal of Capital Assets	(17,870,215)	(33,406,748)
Interest on Indebtedness	(57,293,435)	(50,395,650)
Transfer to State Agencies	(65,863,566)	(74,193,503)
Other Revenues (Expenses), Net	42,693,288	59,748,040
Income Before Capital and Endowment Additions/Deductions	235,060,291	66,182,534
Capital Appropriations	200,145,882	251,740,327
Capital Contributions	65,099,435	88,600,049
Additions to Permanent Endowment	3,045,955	1,524,081

INCREASE IN NET POSITION

503,351,563 408,046,991

NET POSITION

Net Position - Beginning of Period	5,845,353,193	5,437,306,202
NET POSITION - End of Period	\$ 6,348,704,756	\$ 5,845,353,193

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

Statement of Cash Flows

University of Wisconsin System

Year Ended June 30, 2013

Year Ended June 30, 2012

Cash Flows from Operating Activities

Student Tuition and Fees	\$ 1,174,221,930	\$ 1,102,826,449
Federal, State, Local, and Private Grants and Contracts	1,254,228,235	1,248,349,460
Sales and Services of Educational Activities	351,613,226	317,064,546
Sales and Services of Auxiliary Enterprises	378,844,256	387,073,324
Sales and Services to UW Hospital Authority	64,698,168	58,033,756
Payments for Salaries and Fringe Benefits	(2,920,955,090)	(2,781,407,744)
Payments to Vendors and Suppliers	(1,103,124,162)	(1,130,884,240)
Payments for Scholarships and Fellowships	(132,197,858)	(130,928,773)
Student Loans Collected	28,442,747	26,726,219
Student Loan Interest and Fees Collected	4,515,236	4,746,505
Student Loans Issued	(34,977,721)	(28,299,255)
Other Revenue, Net	268,162,047	236,486,766
Net Cash Used in Operating Activities	(666,528,986)	(690,212,987)

Cash Flows from Investing Activities

Interest and Dividends on Investments, Net	9,917,979	8,796,446
Proceeds from Sales and Maturities of Investments	93,218,902	100,253,391
Purchase of Investments	(84,007,441)	(105,076,166)
Net Cash Provided by Investing Activities	19,129,440	3,973,671

Cash Flows from Capital and Related Financing Activities

Proceeds from Issuance of Capital Debt	240,787,231	398,981,968
Capital Appropriations	200,145,882	251,740,327
Gifts and Other Receipts	67,373,206	86,146,758
Purchase of Capital Assets	(557,193,238)	(636,843,605)
Principal Payments on Capital Debt and Leases	(200,178,319)	(167,406,001)
Interest Payments on Capital Debt and Leases	(132,945,551)	(112,955,122)
Net Cash Used in Capital and Related Financing Activities	(382,010,789)	(180,335,675)

Cash Flows from Noncapital Financing Activities

State Appropriations	1,094,818,877	912,626,812
Gifts and Other Receipts	335,091,123	297,889,667
Transfer to State Agencies	(65,863,566)	(74,193,503)
Additions to Permanent Endowments	3,045,955	1,524,081
Student Direct Lending Receipts	777,196,647	814,836,885
Student Direct Lending Disbursements	(777,054,579)	(815,935,399)
Net Cash Provided by Noncapital Financing Activities	1,367,234,457	1,136,748,543
Net Increase in Cash and Cash Equivalents	337,824,122	270,173,552

Cash and Cash Equivalents - Beginning of Year

1,347,503,294

1,077,329,742

Cash and Cash Equivalents - End of Year

\$ 1,685,327,416

\$ 1,347,503,294

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

Year Ended June 30, 2013

Year Ended June 30, 2012

Reconciliation of Operating Loss to Net Cash Used in Operating Activities

Operating Loss	\$	(897,754,541)	\$	(939,446,360)
<i>Adjustments to Reconcile Operating Loss to</i>				
<i>Net Cash Used in Operating Activities:</i>				
Depreciation Expense		258,484,142		238,412,424
Changes in Assets and Liabilities:				
Receivables, Net		(17,942,635)		(25,450,622)
Inventories		818,277		532,627
Prepaid Expenses		(719,895)		14,519,853
Deferred Charges		(11,714,930)		1,325,420
Accounts Payable and Accrued Liabilities		12,400,560		15,693,701
Unearned Revenues		(9,659,343)		(280,923)
Compensated Absences		(440,621)		4,480,893
Net Cash Used in Operating Activities	\$	(666,528,986)	\$	(690,212,987)

Noncash Investing, Capital and Financing Activities

Capital Leases (Initial Year):				
Fair Market Value	\$	937,702	\$	2,269,550
Current Year Cash Payments		(5,579)		(270,571)
Gifts-In-Kind		2,698,756		14,482,889
Net Change in Unrealized Gains and Losses		21,882,888		(14,910,911)

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, 2013 and 2012

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-Platteville Real Estate Foundation, 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).

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.

Starting in fiscal year 2013, the University of Wisconsin System implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The objective of this statement is to address presentation issues associated with the new financial position elements created in Concepts Statement No. 4, *Elements of Financial Statements* which introduced and defined deferred outflows of resources, deferred inflows of resources, and net position. In fiscal year 2013, the University of Wisconsin System did not have any deferred outflows of resources or deferred inflows of resources as required by GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* and GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position. GASB Statement No. 63 amends the net asset reporting requirements in GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments* and requires renaming net assets as net position in the financial statement presentation for fiscal year 2013.

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

The Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement 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.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2013 and 2012

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

The Statement of Revenues, Expenses, and Changes in Net Position classifies 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 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 Statement of Cash Flows presents 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, 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 funds 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 funds 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 Statement of Net Position. Likewise, revenues and expenses related to internal service activities are also eliminated in the Statement of Revenues, Expenses, and Changes in Net Position.

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 2013 summer session are reportable within the fiscal year beginning July 1, 2012 and ending June 30, 2013, based on the prorated portion of the number of summer session days that occurred in fiscal year 2013. 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.

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.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2013 and 2012

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

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 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 \$1,685.3 million and \$1,347.5 million in cash and cash equivalents as of June 30, 2013 and 2012, respectively, \$1,497.1 million and \$1,194.4 million, respectively, represents an amount held within the SIF; \$163.2 million and \$129.7 million, respectively, was maintained by individual University of Wisconsin System institutions in local bank accounts to meet operating needs; and \$25.0 million and \$23.4 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 \$158.8 million and \$5.4 million at June 30, 2013 and 2012, 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, 2013 and 2012 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, 2013 and 2012

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 by the Board of Regents in December 2012.

The Long Term Fund consisted of the following investment categories on June 30, 2013 and 2012:

Investment Category	<u>2013</u>	<u>2012</u>
Common Stock and Convertible Securities	39.3%	39.0%
Bonds and Preferred Stock	11.8%	12.3%
Alternative Assets	21.2%	21.3%
Tactical Allocation Strategies	19.6%	19.7%
Real Assets	1.7%	1.2%
Custodial Pooled Cash and Cash		
Equivalents	<u>6.4%</u>	<u>6.5%</u>
Total	<u>100.0%</u>	<u>100.0%</u>

The Intermediate Term Fund consisted of the following investment categories on June 30, 2013 and 2012:

Investment Category	<u>2013</u>	<u>2012</u>
Common Stock and Convertible Securities	21.1%	18.2%
Bonds and Preferred Stock	76.2%	79.2%
Custodial Pooled Cash and Cash		
Equivalents	<u>2.7%</u>	<u>2.6%</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, 2013, the amount of net appreciation available to spend from the Long Term Fund was \$14,226,097, relative to \$13,826,815 available during the fiscal year ending June 30, 2012.

At June 30, 2013 and 2012, the University of Wisconsin System's investments are as follows:

Investments:	<u>2013</u>	<u>2012</u>
U.S. Government Securities	\$ 22,899,129	\$ 26,284,872
U.S. Agency Securities	13,338,000	12,295,072
Bonds and Preferred Stock	29,214,107	31,613,019
Common Stock and Convertible Securities	45,604,379	40,623,830
Pooled Equity Funds	111,057,467	102,343,201
Pooled Allocation Fund	68,957,553	64,530,347
Pooled Fixed Income Fund	41,841,305	38,029,923
Custodial Pooled Cash and Cash		
Equivalents	24,965,289	23,411,190
Limited Partnerships	<u>80,338,348</u>	<u>73,770,264</u>
Total Investments	<u>\$ 438,215,577</u>	<u>\$ 412,901,718</u>

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2013 and 2012

NOTE 2 – Cash and Investments (continued)

The total return on the Long Term Fund, including capital appreciation, was 10.9% compared to -0.8% in fiscal year 2012. The total return on the Intermediate Fund, including capital appreciation, was 5.4% compared to 3.0% in fiscal year 2012. External investment counsel was utilized for funds representing 90.3% of the market value of the Long Term and Intermediate Term Funds, compared to 88.5% in fiscal year 2012. In addition to the limited partnerships market value listed above, the University of Wisconsin System had unfunded limited partnership commitments of \$19.9 million for the fiscal year ending June 30, 2013, relative to \$24.4 million for the fiscal year ending June 30, 2012.

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 7.2% of total assets of the Long Term Fund and 6.4% 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- or higher by Standard & Poor's and/or Baa3 or higher by Moody's.

The following schedule displays the credit ratings as provided by Moody's Investor Service for debt securities held as of June 30, 2013 and 2012. 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>2013</u>	<u>2012</u>
Aaa	\$ 49,052,863	\$ 52,698,423
Aa1	-	382,405
Aa2	455,941	846,078
Aa3	481,186	522,576
A1	3,337,868	3,174,977
A2	4,200,677	4,721,538
A3	3,779,952	4,654,997
Baa1	5,479,313	4,971,485
Baa2	4,575,658	6,255,446
Baa3	3,124,617	2,720,995
Ba2	11,678,637	9,046,138
B2	15,739,429	11,924,111
Caa2	457,380	645,973
No Rating	4,929,020	5,657,745
Unrated Pooled Cash	24,965,289	23,411,190
Totals	<u>\$ 132,257,830</u>	<u>\$ 131,634,077</u>

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

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of an organization's investment in a single issuer. Actively-managed, fixed income separate accounts are limited to holding no more than 7.0% in any one issuer (U.S. Government/Agencies are exempted). During

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2013 and 2012

NOTE 2 – Cash and Investments (continued)

fiscal year 2013, the largest concentration in a non-U.S. Government/Agency was Morgan Stanley, which represented 0.7% of total Trust Funds assets, compared to a 0.5% exposure to Citigroup in fiscal year 2012.

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>2013</u>		<u>2012</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	\$ 16,255,847	8.55	\$ 20,677,428	5.94
Government	5,461,776	6.58	5,762,099	5.26
U.S. Government Mortgages	1,181,506	6.16	6,929	3.12
Corporates and Other Credit	20,455,161	3.29	22,221,755	4.17
Collateralized Mortgage Obligations:	11,454,195	2.60	11,340,386	1.84
U.S. Agencies				
Collateralized Mortgage Obligations:	917,938	2.26	1,006,800	3.39
Corporate				
Commercial Mortgage Backed Securities	3,067,448	9.02	2,777,774	1.22
U.S. Private Placements	4,653,442	2.14	5,205,285	2.57
U.S. Agencies	428,826	1.51	454,260	2.36
Asset Backed Securities	120,003	0.08	761,178	0.12
Totals	<u>\$ 63,996,142</u>		<u>\$ 70,213,894</u>	

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

	<u>2013</u>		<u>2012</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	\$ 30,904,042	4.83	\$ 25,135,142	4.18

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. As of June 30, 2013, the Long Term and Intermediate Term Funds held equity securities denominated in foreign currencies within pooled investment vehicles only, with market values totaling \$108,818,298 and \$8,368,184, respectively, compared to prior fiscal year amounts of \$100,499,297 and \$7,286,066, 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 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 \$127.8 million and \$122.8 million at June 30, 2013 and June 30, 2012, respectively, is available to meet spending rate distributions and is recorded in restricted net position.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2013 and 2012

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, 2013 and 2012, are summarized as follows:

	<u>2013</u>	<u>2012</u>
Receivables (Net):		
Student Academic Fees	\$ 25,329,515	\$ 25,827,419
Grants and Contracts	73,073,340	43,919,784
Educational Activities and Other	33,939,589	40,593,853
Auxiliary Enterprises	13,752,414	2,230,526
UW Hospital Authority and La Crosse Medical Health Science Consortium, Inc.	9,971,904	9,579,141
Investment	2,648,324	1,948,345
Student Loans Receivable	195,089,798	190,734,194
State Agencies	32,337,700	48,030,862
Other Governments	<u>98,692,903</u>	<u>104,723,613</u>
Total Receivables (Net)	<u>\$ 484,835,487</u>	<u>\$ 467,587,737</u>

Student loans receivable at June 30, 2013 included allowances for uncollectible loans of \$9.3 million relative to \$9.4 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 \$777.1 million in student loans through the United States Department of Education federal direct lending program during fiscal year 2013 and \$815.9 million in fiscal year 2012. 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 Statement of Cash Flows.

NOTE 4 – Liabilities

Accounts payable and accrued liabilities, consisting of salary and fringe benefits, due to state agencies and other governments, and vendor payables, resulting from University of Wisconsin System activities as of June 30, 2013 and 2012, are summarized as follows:

Fiscal Year 2013	Salary and Fringe Benefits	Due to State Agencies and Other Governments	Vendors	Total Payables
UW System Activities:				
Operating	\$18,358,505	\$57,233,445	\$ 43,785,008	\$119,376,958
Gifts, Grants, and Contracts	3,130,771	6,223,886	28,918,773	38,273,430
Capital Projects	-	3,963,855	82,823,085	86,786,940
Auxiliary Enterprises	3,180,317	1,304,895	9,825,861	14,311,073
Investment and Other	<u>34,559</u>	<u>448,187</u>	<u>2,823,473</u>	<u>3,306,219</u>
Total Activities	<u>\$24,704,152</u>	<u>\$69,174,268</u>	<u>\$168,176,200</u>	<u>\$262,054,620</u>

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2013 and 2012

NOTE 4 – Liabilities (continued)

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>

As of June 30, 2013, current liabilities totaled \$567.8 million inclusive of \$1.8 million in deposits of student organizations, \$262.1 million of accounts payable and accrued liabilities, \$157.1 million of unearned revenue, and the current portion of notes and bonds payable, capital lease obligations, and compensated absences. Noncurrent liabilities consisted of notes and bonds payable, capital lease obligations, and compensated absences that totaled \$1,639.4 million at June 30, 2013, relative to a total of \$1,473.0 million at June 30, 2012. Total noncurrent liabilities increased by \$166.4 million relative to fiscal year 2012.

Long-term liability activity for the fiscal years ended June 30, 2013 and 2012 is as follows:

2013 Long-term Liabilities	Balance July 1, 2012	Increases/ Decreases	Balance June 30, 2013	Current Portion
Bonds Payable	\$ 1,376,349,521	\$ 129,579,638	\$ 1,505,929,159	\$ 57,195,514
Notes Payable	79,693,167	45,341,444	125,034,611	17,133,433
Capital Lease Obligations	25,080,272	(5,881,513)	19,198,759	6,650,020
Compensated Absences	136,427,181	(440,621)	135,986,560	65,813,198
Total	<u>\$ 1,617,550,141</u>	<u>\$ 168,598,948</u>	<u>\$ 1,786,149,089</u>	<u>\$ 146,792,165</u>

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, 2013 and 2012

NOTE 5 – Lease Commitments and Installment Purchases

The University of Wisconsin System had capital lease obligations with a net present value of \$19,198,759 as of June 30, 2013 compared to \$25,080,272 at June 30, 2012. The payment schedule for capital lease obligations is as follows:

2014	\$ 7,405,056
2015	6,442,306
2016	4,020,272
2017	2,509,233
2018	334,078
2019-2023	<u>19,908</u>
Total Scheduled Lease Payments	20,730,853
Amount Representing Interest	<u>(1,532,094)</u>
Net Present Value	<u>\$19,198,759</u>

Assets Held Under Capital Lease:

2013	<u>Original Cost</u> <u>June 30, 2013</u>	<u>Accumulated</u> <u>Depreciation</u>	<u>Book Value</u> <u>June 30, 2013</u>
Buildings and Improvements	\$ 68,913,357	\$ 36,121,349	\$ 32,792,008
Equipment	<u>6,473,812</u>	<u>2,772,478</u>	<u>3,701,334</u>
Total Assets	<u>\$ 75,387,169</u>	<u>\$ 38,893,827</u>	<u>\$ 36,493,342</u>

2012	<u>Original Cost</u> <u>June 30, 2012</u>	<u>Accumulated</u> <u>Depreciation</u>	<u>Book Value</u> <u>June 30, 2012</u>
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>

Facilities and equipment rented through operating leases are not recorded as assets on the balance sheet. Operating lease expenditures amounted to \$30,396,171 for the fiscal year ended June 30, 2013. Minimum commitments for future operating lease payments are as follows:

2014	\$ 21,172,694
2015	17,373,150
2016	13,148,653
2017	12,355,660
2018	11,296,557
2019-2023	50,630,007
2024-2028	36,785,909
2029-2033	27,672,645
2034-2038	1,863,862
2039-2043	<u>42,000</u>
Total	<u>\$192,341,137</u>

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2013 and 2012

NOTE 5 – Lease Commitments and Installment Purchases (continued)

The University of Wisconsin System has entered into installment purchase agreements during fiscal year 2013. 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, 2013 for installment purchases:

2014	7,838
2015	9,961
2016	9,961
2017	9,961
Total minimum future payments	\$37,721
Less: interest	1,951
Present value of net minimum payments	<u>\$35,770</u>

NOTE 6 – Compensated Absences

The compensated absences liability at June 30, 2013 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, 2013 totaled \$135,986,560 compared with \$136,427,181 at June 30, 2012. The compensated absences balance consists of a \$65,813,198 current liability and \$70,173,362 noncurrent liability compared to a \$73,134,934 current liability and \$63,292,247 noncurrent liability for the previous year. The University of Wisconsin System leave policies restrict the accumulation of unused vacation and thus limit the actual payments made to employees upon termination or retirement.

NOTE 7 – Retirement Benefits

Retirement benefits are provided for substantially all employees through the Wisconsin Retirement System (WRS), a cost-sharing, multiple-employer, defined benefit plan governed by Chapter 40 of the Wisconsin Statutes. State and local government public employees are entitled to an annual formula retirement benefit based on the employee's final average earnings, years of creditable service, and a formula factor. Final average earnings is the average of the participant's three highest years' earnings. Creditable service is the creditable current and prior service expressed in years or decimal equivalents of partial years for which a participant receives earnings and makes contributions as required. The formula factor is a standard percentage based on employment category. If an employee's contributions, matching employer's contributions, and interest credited to the employee's account exceed the value of the formula benefit, the retirement benefit may instead be calculated as a money purchase benefit. WRS is part of the State of Wisconsin's financial reporting entity. Copies of the separately issued financial report that includes financial statements and required supplementary information may be obtained by writing to: Department of Employee Trust Funds, 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 \$251,758,071 for fiscal year 2013, compared to \$228,659,074 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 \$58,532,156 during fiscal year 2013, compared to bond payments totaling \$57,373,604 during fiscal year 2012, 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 \$140,618 during the current year, compared with \$174,369 for the previous year.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2013 and 2012

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 2013 and 2012, 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 required contributions were \$91.6 million and \$89.6 million for fiscal years ended June 30, 2013 and June 30, 2012, respectively. The State's annual OPEB costs were \$78.2 million and \$77.4 million for fiscal years ended June 30, 2013 and June 30, 2012, respectively, and the State's actual contributions were \$38.9 million in 2013 and \$38.4 million in 2012, which results in a net OPEB obligation for the State of \$445.8 million as of June 30, 2013, and \$406.5 million as of June 30, 2012, respectively. The portion of this obligation allocated to the University of Wisconsin System increased from \$197.8 million in fiscal year 2012 to \$217.4 million in fiscal year 2013. This obligation is included in the CAFR, but is not included in the University of Wisconsin System's financial statements due to differences in reporting requirements.

The CAFR includes financial statements, additional note disclosures, and required supplementary information for this plan. That report is publicly available at www.doa.state.wi.us or may be obtained by writing to: The Department of Administration, 101 East Wilson Street, Madison, Wisconsin 53703.

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 \$620,353 to this program during fiscal year 2013 compared to \$329,499 during fiscal year 2012.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2013 and 2012

NOTE 8 – Postemployment Benefits Other Than Pensions (continued)

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 \$321.4 million in works of art or historical treasures that are held for exhibition, education, research, and public service. These collections are neither disposed of for financial gain nor encumbered in any way. Proceeds from the sale, exchange, or other disposal of any item belonging to a collection of works of art or historical treasures must be applied to the acquisition of additional items for the same collection.

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, establishes accounting and financial reporting standards for a capital asset that has experienced a significant, unexpected decline in its service utility. One asset met the temporarily impaired definition of this standard for fiscal year 2013. The steam lines at the University of Wisconsin-Superior were damaged by the flooding in June 2012. They were taken out of service in Spring 2013 for repairs and were back in service in October 2013. Several capital assets met the temporarily impaired definition of this standard for fiscal year 2012. Drake Hall at the University of Wisconsin-La Crosse and 14 buildings and infrastructure at the University of Wisconsin-Superior were impaired at June 30, 2012 but were operational for the Fall 2012 semester. In fiscal year 2012, library holdings losses estimated at \$17.2 million were sustained due to the flooding at the University of Wisconsin-Superior. Insurance recoveries of \$0.6 million and \$1.9 million were received in fiscal year 2013 and fiscal year 2012, respectively, for Drake Hall. Insurance recoveries of \$6.5 million was received in fiscal year 2013 for the various buildings and infrastructure at the University of Wisconsin-Superior, and \$4.6 million was received in fiscal year 2013 as partial recovery on the library holdings.

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, 2013, the equipment balance includes \$50.4 million for intangible assets net of depreciation, compared to \$57.5 million at June 30, 2012.

Depreciation expense for the fiscal years ended June 30, 2013 and 2012 was \$258.5 million and \$238.4 million, respectively.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2013 and 2012

NOTE 9 – Capital Assets (continued)

The change in book value from July 1, 2012 to June 30, 2013 is summarized as follows:

	<u>Book Value</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Transfers</u>	<u>Deductions</u>	<u>Book Value</u> <u>June 30, 2013</u>
Buildings	\$5,246,696,630	\$ 92,537,355	\$ 297,716,711	\$ (2,562,450)	\$5,634,388,246
Improvements	373,778,187	12,299,535	17,973,387	(64,902)	403,986,207
Land	153,136,989	30,828	-	-	153,167,817
Construction in Progress	628,269,767	334,023,734	(315,690,098)	-	646,603,403
Equipment	1,143,374,196	88,415,223	2,108,526	(28,803,172)	1,205,094,773
Library Holdings	<u>1,113,413,084</u>	<u>25,928,232</u>	<u>-</u>	<u>(15,713,887)</u>	<u>1,123,627,429</u>
Subtotal	8,658,668,853	553,234,907	2,108,526	(47,144,411)	9,166,867,875

Less Accumulated Depreciation:

Buildings	2,068,087,166	157,918,194	-	(2,064,835)	2,223,940,525
Improvements	212,793,178	13,967,913	-	(12,309)	226,748,782
Equipment	<u>795,031,562</u>	<u>86,598,034</u>	<u>(1,243,252)</u>	<u>(27,197,052)</u>	<u>853,189,292</u>
Total Accumulated Depreciation	3,075,911,906	258,484,141	(1,243,252)	(29,274,196)	3,303,878,599
Capital Assets, Net	<u>\$5,582,756,947</u>	<u>\$ 294,750,766</u>	<u>\$ 3,351,778</u>	<u>\$(17,870,215)</u>	<u>\$5,862,989,276</u>

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

	<u>Book Value</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Transfers</u>	<u>Deductions</u>	<u>Book Value</u> <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, 2013 and 2012

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 Statement of Net Position 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 Statement of Cash Flows.

The following information relates to the status of bonds and notes payable outstanding at June 30, 2013:

	<u>Maturity Dates</u>	<u>Balance July 1, 2012</u>	<u>New Debt/ Accretion</u>	<u>Principal Paid/ Adjustments</u>	<u>Balance June 30, 2013</u>
Bonds (Gross)	2014-2042	\$1,330,961,767	\$173,952,532	\$ (47,301,687)	\$1,457,612,612
Notes	2014-2030	<u>79,693,167</u>	<u>56,068,296</u>	<u>(10,726,851)</u>	<u>125,034,612</u>
		<u>\$1,410,654,934</u>	<u>\$230,020,828</u>	<u>\$ (58,028,538)</u>	<u>\$1,582,647,224</u>

The bonds have maturity dates ranging from November 1, 2013 to May 1, 2042. The notes have maturity dates ranging from May 1, 2014 to May 1, 2030.

As of June 30, 2013, the current and noncurrent bonds payable net of discounts, premiums, and deferred refunding totaled \$74.3 million and \$1,556.6 million, respectively.

	<u>Balance June 30, 2013</u>	<u>Current</u>	<u>Noncurrent</u>
Bonds (Gross)	\$ 1,457,612,611	\$ 49,302,926	\$ 1,408,309,685
Discount	(288,594)	(28,435)	(260,159)
Premium	62,472,611	9,607,953	52,864,658
Deferred Refunding	<u>(13,867,469)</u>	<u>(1,686,930)</u>	<u>(12,180,539)</u>
Bonds (Net)	1,505,929,159	57,195,514	1,448,733,645
Notes	<u>125,034,611</u>	<u>17,133,433</u>	<u>107,901,178</u>
	<u>\$ 1,630,963,770</u>	<u>\$ 74,328,947</u>	<u>\$ 1,556,634,823</u>

The following information relates to the status of bonds and notes payable outstanding at June 30, 2012:

	<u>Maturity Dates</u>	<u>Balance July 1, 2011</u>	<u>New Debt/ Accretion</u>	<u>Principal Paid/ Adjustments</u>	<u>Balance June 30, 2012</u>
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, 2012 to May 1, 2042. The notes have maturity dates ranging from May 1, 2013 to May 1, 2031.

As of June 30, 2012, the current and noncurrent bonds payable net of discounts, premiums, and deferred refunding totaled \$54.1 million and \$1,322.3 million, respectively.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2013 and 2012

NOTE 10 – Long Term Debt (continued)

	Balance June 30, 2012	Current	Noncurrent
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>

Future debt service requirements for bonds and notes outstanding at June 30, 2013 are as follows:

Future Repayment Schedule

Fiscal Year	Bonds		Notes	
	Principal	Interest	Principal	Interest
2014	\$ 49,302,926	\$ 68,213,354	\$ 17,133,433	\$ 6,251,730
2015	51,695,005	65,936,959	16,460,853	5,395,059
2016	55,712,325	63,374,217	14,485,451	4,572,016
2017	56,678,636	60,583,308	15,213,474	3,847,744
2018	60,184,919	57,934,944	10,879,718	3,087,070
2019-2023	327,882,385	244,146,395	41,636,682	7,153,418
2024-2028	395,582,007	158,546,352	6,260,000	1,710,250
2029-2033	352,299,407	73,925,370	2,965,000	224,250
2034-2038	64,310,000	20,089,268	-	-
2039-2043	<u>43,965,000</u>	<u>4,379,225</u>	<u>-</u>	<u>-</u>
Total	<u>\$1,457,612,610</u>	<u>\$817,129,392</u>	<u>\$125,034,611</u>	<u>\$32,241,537</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, 2013, the principal balance of such bonds and notes was \$1,560.1 million and \$200.1 million, respectively. As of June 30, 2012, the principal balance of such bonds and notes was \$1,563.9 million \$157.0 million, respectively.

Debt service payments made by the State of Wisconsin for the years ended June 30, 2013 and 2012 were allocated as follows:

2013	Bonds	Notes
Principal	\$ 103,474,100	\$ 31,881,608
Interest	65,272,088	606,407
Total Paid	<u>\$ 168,746,188</u>	<u>\$ 32,488,015</u>
2012	Bonds	Notes
Principal	\$ -	\$ -
Interest	57,366,662	155,544
Total Paid	<u>\$ 57,366,662</u>	<u>\$ 155,444</u>

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2013 and 2012

NOTE 11 – Other Organizations

GASB Statement No. 14, *The Financial Reporting Entity*, GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, an amendment of GASB Statement No. 14, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, an amendment of GASB Statements No. 14 and No. 34, 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 Statements No. 14, 39, and 61, 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 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, 2012 and 2011 are presented below (in thousands):

Condensed Statement of Net Position	<u>2012</u>	<u>2011</u>
Assets:		
Cash, Investments and Other Assets	\$ 2,744,301	\$ 2,526,064
Capital Assets, Net	<u>9,801</u>	<u>6,844</u>
Total Assets	<u>2,754,102</u>	<u>2,532,908</u>
Liabilities:		
Accounts Payable and Other Current Liabilities	62,453	34,234
Amounts Held for Other Component Units	260,231	251,335
Long-term Liabilities (Current and Noncurrent Portions)	<u>42,454</u>	<u>42,023</u>
Total Liabilities	<u>365,138</u>	<u>327,592</u>
Net Position:		
Invested in Capital Assets, Net of Related Debt	9,801	6,844
Restricted	2,232,308	2,046,529
Unrestricted	<u>146,854</u>	<u>151,943</u>
Total Net Position	<u>2,388,963</u>	<u>2,205,316</u>
Total Liabilities and Net Position	<u>\$ 2,754,102</u>	<u>\$ 2,532,908</u>
Condensed Statement of Activities		
Program Expenses:		
Depreciation	\$ 461	\$ 615
Payments to Primary Government	214,000	211,663
Other	<u>36,102</u>	<u>33,238</u>
Total Program Expenses	<u>250,563</u>	<u>245,516</u>
Program Revenues:		
Investment and Interest Income	222,273	(66,473)
Operating Grants and Contributions	211,289	197,542
Other	<u>648</u>	<u>351</u>
Total Program Revenues	<u>434,210</u>	<u>131,420</u>
Net Program Revenues	183,647	(114,096)
Change in Net Position	183,647	(114,096)
Net Position, Beginning of Year	<u>2,205,316</u>	<u>2,319,412</u>
Net Position, End of Year	<u>\$ 2,388,963</u>	<u>\$ 2,205,316</u>

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2013 and 2012

NOTE 11 – Other Organizations (continued)

B – Funds Held In Trust by Others

Funds held in trust by others are endowment funds held by trustees outside of the University of Wisconsin System Trust Funds for the benefit of the University of Wisconsin System. The market value of these funds amounted to \$174,265,346 at June 30, 2013, compared with \$159,098,147 at June 30, 2012.

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, 2013, the present value of these future lease payments totaled \$1.2 million, compared to \$2.5 million at June 30, 2012, 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 \$1,457.6 million and \$1,331.0 million at June 30, 2013 and June 30, 2012, 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, 2013, the University of Wisconsin System received services from UWHCA totaling \$4.8 million and provided services to UWHCA totaling \$66.8 million, compared to amounts for fiscal year ended June 30, 2012 of \$4.5 million and \$59.7 million. The cost of the services provided and the associated revenue are separately identified in the Statement of Revenues, Expenses, and Changes in Net Position. 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, 2013, the present value of these future lease payments totaled \$3.9 million, compared to \$4.3 million at June 30, 2012, 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 \$1,457.6 million and \$1,331.0 million at June 30, 2013 and June 30, 2012, respectively. The leased facilities are not included as part of the University of Wisconsin System's investment in buildings since they have been reported by The Consortium in their audited financial statements in accordance with the generally accepted accounting principles that pertain to the reporting of leased assets.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2013 and 2012

NOTE 11 – Other Organizations (continued)

During the fiscal year ended June 30, 2013, the University of Wisconsin System provided services and rent to The Consortium totaling \$0.8 million. The cost of the services provided and the associated revenue are included in the Statement of Revenues, Expenses, and Changes in Net Position. 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-Platteville Real Estate Foundation - Bridgeway Commons

In July 2012, the Board of Regents of the University of Wisconsin System entered into a Lease Agreement with the University of Wisconsin-Platteville Real Estate Foundation, Inc. (The Foundation), a Wisconsin non-profit corporation. The Lease Agreement made available to The Foundation a land parcel owned by the University of Wisconsin System for purposes of constructing a residence hall and dining premises.

The Wisconsin Department of Administration and The Foundation entered into a lease agreement in June 2013 for use of the residence hall and dining premises by the University of Wisconsin-Platteville. The Certificate of Occupancy was issued on July 15, 2013, and the Certificate of Substantial Completion was issued on July 30, 2013. The lease commenced August 1, 2013 and includes annual rental payments of \$2.5 million to The Foundation for thirty years. The lease also includes an option to purchase the facility.

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 \$5.4 million to DHS during fiscal year 2013 and \$11.9 million in fiscal year 2012, representing the state's share of this difference. DHS then claimed the federal share of the difference from the federal government and subsequently provided \$12.7 million during fiscal year 2013 and \$28.7 million during fiscal year 2012, 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 \$7.3 million during fiscal year 2013 and \$16.8 million in fiscal year 2012 were also made under this program and are reported as a transfer to state agencies on the financial statements.

During fiscal year 2013, the UW Medical Foundation remitted \$28.7 million to UW-Madison as reimbursement for payments to DHS during fiscal years 2012. The \$28.7 million that UW-Madison received from the UW Medical Foundation is included in the other non-operating revenues account on the financial statements.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2013 and 2012

NOTE 11 – Other Organizations (continued)

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.

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, 2013:

	Salary and Fringe Benefits	Scholarships and Fellowships	Supplies and Services	Other	Depreciation	Total
Instruction	\$1,029,704,337	\$ 1,619,529	\$ 118,229,531	\$ 951,982	\$ -	\$1,150,505,379
Research	637,054,117	2,468,909	231,469,470	6,715,596	-	877,708,092
Public Service	187,124,418	584,440	121,572,498	7,591,945	-	316,873,301
Academic Support	273,549,905	35,605	80,974,016	925,365	-	355,484,891
Farm Operations	9,986,533	-	7,332,556	2,961	-	17,322,050
Student Services	256,778,953	1,606,005	151,089,659	(5,002,022)	-	404,472,595
Institutional Support	210,226,335	497,211	12,297,118	752,178	-	223,772,842
Operation/Maintenance	146,306,761	-	158,495,355	(132,706)	-	304,669,410
Financial Aid	5,598,947	125,357,173	(1,064,280)	9,013,184	-	138,905,024
Auxiliary Enterprises	115,336,825	28,986	213,866,736	284,071	-	329,516,618
Hospital	-	-	58,634,920	(12)	-	58,634,908
Depreciation	-	-	-	-	258,484,142	258,484,142
Total Operating Expenses	<u>\$2,871,667,131</u>	<u>\$132,197,858</u>	<u>\$1,152,897,579</u>	<u>\$21,102,542</u>	<u>\$258,484,142</u>	<u>\$4,436,349,252</u>

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2013 and 2012

NOTE 12 – Operating Expenses by Functional Classification (continued)

Operating expenses totaled \$4.4 billion. Salary and fringe benefits, scholarships and fellowships, and supplies and services and other expenses constituted 64.7%, 3.0%, and 26.0% of total operating expenses, respectively. Depreciation comprised \$258.5 million or 5.8% of total operating expenses.

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.

NOTE 13 – Classification of Net Position

Net Position is reported in the following six categories: Net Investment in Capital Assets, Restricted - Nonexpendable, Restricted - Expendable, Restricted – Student Loans, Restricted - Other, and Unrestricted.

Net Investment in Capital Assets includes assets, such as buildings, construction in progress, and equipment, that are reported net of related debt. Restricted funds are those that have externally-imposed stipulations. Restricted - Nonexpendable funds are those that must be permanently maintained, such as permanent endowments. The remaining three restricted categories include balances such as those for quasi-endowments, segregated fees, student loans, federal aid and gifts, grants and contracts. These funds are expendable subject to actions of the University of Wisconsin System that are pursuant to stipulations or may become expendable by the passage of time. Unrestricted funds are those that are not subject to external stipulations. Most of the unrestricted funds are designated for academic and research programs and initiatives, and capital programs.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2013 and 2012

NOTE 13 – Classification of Net Position (continued)

The amounts within each category at June 30, 2013 and June 30, 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Net Investment in Capital Assets	\$4,212,826,746	\$4,101,633,987
Restricted - Nonexpendable		
➤ Permanent Endowment	166,599,785	154,999,375
Restricted - Expendable		
➤ Quasi-Endowment	207,644,830	198,694,026
➤ Auxiliary Operations – Segregated Fees	<u>76,213,218</u>	<u>75,542,222</u>
Subtotal	283,858,048	274,236,248
Restricted - Student Loans		
➤ Federal Aid – Student Loans	188,458,970	188,413,252
➤ Gifts – Student Loans	28,405,152	26,587,479
➤ Endowment Funds	<u>12,562,237</u>	<u>12,506,550</u>
Subtotal	229,426,359	227,507,281
Restricted - Other		
➤ Federal Aid	24,824,125	19,103,404
➤ Gifts and Nonfederal Grants & Contracts	164,112,799	91,738,309
➤ Endowment Funds	14,354,938	15,504,972
➤ Construction Fund	171,454,778	98,454,704
➤ Segregated Revenue	342,169	334,449
➤ All Other Restricted Program Revenue	<u>1,177,692</u>	<u>1,687,495</u>
Subtotal	376,266,501	226,823,333
Unrestricted		
➤ Tuition (Academic & Extension Student Fees)	594,512,258	499,093,266
➤ General Operations	196,635,314	166,733,749
➤ Auxiliary Operations (Non-Segregated Fee)	159,543,336	137,595,195
➤ Indirect Cost Reimbursement	147,175,236	145,534,973
➤ Endowment Funds	83,125,319	74,594,529
➤ All Other Unrestricted Program Revenue	23,442,399	24,821,293
➤ Gifts and Nonfederal Grants & Contracts	Note 1 (27,575,450)	(31,245,248)
➤ Federal Aid	Note 1 (10,538,814)	(47,076,207)
➤ All Other Non-Program Revenue	Note 2 <u>(86,592,281)</u>	<u>(109,898,581)</u>
Subtotal	1,079,727,317	860,152,970
Total Net Position	<u>\$6,348,704,756</u>	<u>\$5,845,353,193</u>

Note 1: Funds are typically collected on a reimbursement basis resulting in a negative balance at year end.

Note 2: The negative balance results primarily from an accumulating effect of accrual entries on General Purpose Revenue and Segregated Revenue funds.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2013 and 2012

NOTE 13 – Classification of Net Position (continued)

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

CAFR reclassifications as of June 30, 2013:

(In Millions)

	University of Wisconsin System	Auxiliary Operations	Quasi- Endowments	Student Loans	Other Postemployment Benefits (Note 8)	State of Wisconsin CAFR
Net Investment in Capital Assets	\$4,212.8	\$ -	\$ -	\$ -	\$ -	\$4,212.8
Restricted for						
Nonexpendable	166.6	-	-	-	-	166.6
Expendable	283.9	(76.2)	72.0	-	-	279.7
Student Loans	229.4	-	-	(9.4)	(0.1)	219.9
Other	376.3	-	-	9.4	(42.0)	343.7
Unrestricted	<u>1,079.7</u>	<u>76.2</u>	<u>(72.0)</u>	<u>-</u>	<u>(175.3)</u>	<u>908.6</u>
Total Net Position	\$6,348.7	\$ 0.0	\$ 0.0	\$ 0.0	\$(217.4)	\$6,131.3

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
Net Investment in Capital Assets	\$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 Position	\$5,845.3	\$ 0.0	\$ 0.0	\$ 0.0	\$(197.8)	\$5,647.5

NOTE 14 – Prior Period Adjustments

Neither the June 30, 2013 nor the June 30, 2012 Statement of Net Position include a prior period adjustment.

NOTE 15 – Contingent Liabilities

The University of Wisconsin System is covered by the State of Wisconsin's self-funded program with settlements or judgments paid from the State Risk Management Fund. Loss experience is charged back to the individual University of Wisconsin institutions in subsequent years based on exposure and experience with caps in place for large losses.

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.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2013 and 2012

NOTE 16 – Subsequent Events

Long-Term Debt

In November 2013, the State of Wisconsin issued long-term debt in the form of refunding general obligation bonds that refunded, in part, certain general obligation bonds previously issued on behalf of the University of Wisconsin System for the acquisition, construction, development, extension, enlargement, or improvement of land, property, buildings, equipment, or facilities for public purposes. The interest rates ranged from 2.00% to 5.00% payable semiannually, beginning May 1, 2014. The refunding bonds mature May 1 of the years 2016 through 2027 and 2030 through 2033.

In October 2013, the State of Wisconsin entered into a forward delivery bond purchase agreement for general obligation refunding bonds. Subject to the terms of that contract, the State of Wisconsin expects to issue in February 2014 long-term debt in the form of refunding general obligations bonds that will refund, in part, certain general obligation bonds previously issued on behalf of the University of Wisconsin System for the acquisition, construction, development, extension, enlargement, or improvement of land, property, buildings, equipment, or facilities for public purposes. When issued, the interest rates are expected to be 5.00% payable semiannually, beginning May 1, 2014 and the refunding bonds will mature May 1, 2015 through 2020.