



Annual Financial Report

2014



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Editor: Connie Christianson

Cover Photo: People relax and study on Bascom Hill at the University of Wisconsin–Madison on a spring day. In the background is Bascom Hall with iconic “W” crest banners hanging from the building’s columns.

Bascom Hall is one of the oldest and most famous buildings on campus. It is located at 500 Lincoln Drive, on top of Bascom Hill. It was originally built in 1857, with numerous additions and subtractions to follow. Bascom Hall houses many administrative offices including, among others, the Office of the Chancellor, Vice Chancellors, Provost, Dean of Students, Graduate School, Academic Services, and Public Affairs.

A public, land-grant institution, UW-Madison offers a complete spectrum of liberal arts studies, professional programs, and student activities, with a full-time enrollment of more than 42,800. UW-Madison has a tradition of excellence. National rankings reflect both the quality of education and its affordability. The 2014 U.S. News & World Report Best Colleges edition ranked UW-Madison eleventh, and Kiplinger’s Personal Finance magazine named it eighth among the best values in public universities and colleges. The campus spans 936 acres along the southern shore of Lake Mendota in the city of Madison.

Photo: Jeff Miller, University Communications, UW-Madison

**University of Wisconsin System
2014 Annual Financial Report**

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UNIVERSITY OF WISCONSIN SYSTEM

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Introduction from the President
and
Senior Vice President's Report



INTRODUCTION FROM THE PRESIDENT FINANCIAL REPORT 2014

The University of Wisconsin System is one of the most efficient, accountable, and productive systems of higher education in the nation. Clearly communicating and explaining the university's financial situation has been my top priority in my first year as president of the UW System.

In the 2013-14 academic year, we again enrolled a near-record high of almost 180,000 students and conferred a near-record high number of degrees—36,000 degrees at all levels, including associate through doctorate. We also successfully launched the new UW Flexible Option in January 2014, enabling more working adults to return to college to complete their degrees, leveraging knowledge and skills they have acquired throughout their lives from a variety of sources. In September 2014, UW Colleges became the first institution in the country approved by the U.S. Department of Education to award federal financial aid on the basis of non-term direct

assessment for one of its Flex Option programs. UW institutions are applying for this same ability on behalf of other Flex Option programs.

The UW is responding to changing circumstances by employing continuous improvement practices, carefully evaluating its business practices, and conducting a thorough review of its academic and non-academic programming. One area that needed a new approach involved year-end program revenue balances—the appropriate ratio of balances to ongoing operating costs, how those balances are used, and how they are explained. Perhaps the most noteworthy reform we have made within the financial management systems is the disaggregation of our finances. Going forward, the university's fund balances will now be broken down by institution according to the classifications identified by the Legislative Audit Bureau. In this report's introduction by Senior Vice President for Administration and Fiscal Affairs David Miller, you will find more detail about changes we have made, 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 overall financial picture.

In addition, the Board of Regents has worked with state legislators to clarify a new policy that sets thresholds for reporting program revenue balances. This new policy, which took effect for Fiscal Year 2014, is 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. We are pleased 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 program revenue balances are comparable to those of other higher-education institutions, the increase in 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. The next biennial budget is likely to continue the tuition freeze for another two years, which means all UW institutions must work hard to find additional cost savings, with the bottom line of providing a quality educational experience at

an affordable cost to students and taxpayers. 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.

As the state's largest developer of human potential, the UW System is in a unique position to help grow a stronger Wisconsin economy. In the months to come, we look forward to partnering with the Governor, state officials, and the private sector to fully implement the Talent Development Initiative, a vision for how the UW System can align its resources in three critical areas – the talent path, the talent infrastructure, and the talent-based economy – to better meet the most pressing needs of the state and its employers. This alignment, or “collective impact,” is key to the future of our state, which faces a flattening working-age population at the same time more jobs will require four-year degrees or higher, according to a report issued by the Wisconsin Department of Workforce Development.

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 \$960 below the average among public universities, ranking Wisconsin 32nd among the 50 states. Comparing state support for higher education to personal income, Wisconsin ranks 36th in the nation in funding per \$1,000 in personal income. And relative to our total state population, Wisconsin ranks 37th among the 50 states in per capita spending on higher education. We are proud of such indicators of cost efficiency. As we ask the state to increase its investment in the UW System, we must also continue our commitment to finding efficiencies and cost savings where possible.

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 all our 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. In all that we do, the University *of* Wisconsin must always be the University *for* Wisconsin.

Ray Cross
President



SENIOR VICE PRESIDENT'S REPORT FINANCIAL REPORT 2014

The financial statements and notes within this annual report demonstrate that the University of Wisconsin (UW) System as a whole remained financially sound in fiscal year (FY) 2013-14. The degree of financial health varies by UW institution, depending on their mission, student demographics, enrollment levels, enrollment sensitivity to outside factors, and other program initiatives.

Revenue diversification is essential to maintaining financially strong institutions capable of sustainable success. Over the past several years, University-generated program revenue has accounted for over 80 percent of total funding for the UW System. As the need for and use of program revenue has grown, the oversight of these balances must grow as well.

During the past year, the UW System has made great strides in ensuring an unprecedented level of transparency with these balances. Two new major reports have been developed and presented to the Board of Regents and other UW System stakeholders as evidence of that commitment.

First, in April 2014, the UW System presented a first-ever budget-to-actual report to the Board of Regents' Business and Finance Committee. This report provides a comparison of actual revenues and expenses to the budget for all UW fund categories: tuition, fees, GPR and other revenues; auxiliary operations; gifts, grants, and contracts; and general operations. This will be a quarterly report going forward.

Second, on June 6, 2014, the UW System Board of Regents approved Regent Policy Document 21-6, *Program Revenue Calculation Methodology and Fund Balances Policy*. This policy balances prudent fiscal management with the need for adequate levels of resources to carry out the universities' missions, goals, and objectives in an effective and efficient manner. The policy was developed in consultation with leadership from UW System institutions, members of the Legislature and its service agencies, and outside consultants.

Regent Policy Document 21-6 establishes annual reporting thresholds for certain unrestricted funds. It requires UW institutions to justify and obtain Board approval when significant program revenue balances are being accumulated, and establish improvement plans when balances are demonstrated to be too low. The first report under this policy was presented to the Board at its October 2014 meeting. That report included aggregated information on each UW institution's unrestricted program revenue balance, by fund type and by level of commitment, as defined by the Legislative Audit Bureau. The report also included detailed spending plans for institutions with balances exceeding 12 percent of expenditures in tuition, auxiliary operations, general operations, or other unrestricted program revenue funds. Institutions with a negative balance in tuition or auxiliary funds provided plans detailing how they would improve the financial health of those funds.

In accordance with the approved methodology for calculating these balances, the new program revenue reports are based on a budgetary fund balance basis of accounting, or the accumulated difference between revenue and expenses at the end of the fiscal year. This differs from full accrual accounting, which is the basis of accounting used for this Annual Financial Report. Both methodologies serve valuable management purposes, allow UW leadership and Regents to focus on different aspects of financial health, and promote good stewardship of the UW System's resources.

The financial information included within the 2014 Annual Financial Report provides additional information by presenting all assets, liabilities, revenues earned and expenses incurred, whether the cash has exchanged hands or not.

In reviewing the FY 2014 financial statements, our Net Position increased by \$23.3 million, or 0.4 percent, between FY 2012-13 and FY 2013-14. That increase is largely due to an increase in capital assets. Current assets, which are typically used to meet UW operating expenses, declined by \$259.8 million, or 12.3%, from FY 2012-13 to FY 2013-14. In addition, operating revenues declined by \$131.0 million, or 3.7 percent over that same time period.

By using both the program revenue reporting and the annual financial reports, the UW institutions and UW System Administration will continue to monitor financial health and stability, looking for trends and potential areas of concern. We also continue to critically review both reports 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.

David Miller
*Senior Vice President for Administration &
Fiscal Affairs*

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UNIVERSITY OF WISCONSIN SYSTEM
Management's Discussion and Analysis
Years Ended June 30, 2014 and 2013

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, 2014 and 2013, with comparative information for the year ending June 30, 2012. 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 2013-2014, the University of Wisconsin System enrolled 179,828 students, employed approximately 32,000 faculty and staff, and granted 34,079 bachelor's, master's, and other advanced degrees. The University of Wisconsin System institutions were awarded over \$911.3 million in federal grants and contracts in 2013-2014 and an additional \$526.3 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>10,222</i>
<i>UW-Milwaukee</i>	<i>5,415</i>
<i>UW-Eau Claire</i>	<i>2,257</i>
<i>UW-Green Bay</i>	<i>1,226</i>
<i>UW-La Crosse</i>	<i>2,109</i>
<i>UW-Oshkosh</i>	<i>2,286</i>
<i>UW-Parkside</i>	<i>659</i>
<i>UW-Platteville</i>	<i>1,543</i>
<i>UW-River Falls</i>	<i>1,345</i>
<i>UW-Stevens Point</i>	<i>2,047</i>
<i>UW-Stout</i>	<i>1,898</i>
<i>UW-Superior</i>	<i>500</i>
<i>UW-Whitewater</i>	<i>2,572</i>
<i>Total</i>	<i>34,079</i>

Financial Highlights

The University of Wisconsin System's financial standing remained strong at the conclusion of fiscal year 2014. As of June 30, 2014, the University of Wisconsin System had total assets of nearly \$8.5 billion and total liabilities of \$2.1 billion. Of the \$6.3 billion in net position, \$4.4 billion is net investment in capital assets.

The change in net position for fiscal years 2014, 2013, and 2012 is summarized as follows (in millions):

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Total Revenues Before			
Net Investment Income	\$4,793.7	\$ 5,033.6	\$ 4,890.3
Total Expenses	<u>4,833.4</u>	<u>4,604.7</u>	<u>4,482.9</u>
Increase (Decrease) in Net Position Before			
Net Investment Income	(39.7)	428.9	407.4
Net Investment Income	<u>63.0</u>	<u>41.6</u>	<u>0.6</u>
Increase in Net Position	<u>\$ 23.3</u>	<u>\$ 470.5</u>	<u>\$ 408.0</u>

One of the University of Wisconsin System's greatest strengths has been its ability to supplement student tuition and fee revenue with support from other sources, including individuals, foundations, investment income, government-sponsored programs, and state appropriations (see Charts 1 and 2 in the Supplemental Information of this report). In fiscal year 2014, total revenues decreased \$218.5 million. Total state revenues, which include state and capital appropriations, decreased in fiscal year 2014 from \$1,093.7 million to \$1,013.2 million. This represents 20.9% of the University of Wisconsin System's total revenue in fiscal year 2014, compared to 21.6% in fiscal year 2013. Fiscal year 2014 tuition and fee revenue decreased 3.1% from fiscal year 2013, and extramural support (grants and contracts) decreased 9.4% in fiscal year 2014 after increasing 2.1% in fiscal year 2013. These decreases resulted in net position before net investment income being negative for the first time in at least twelve years. Net investment income and sales and services revenues for educational activities and auxiliary services all increased in fiscal year 2014 to generate an increase in net position for the year.

Fiscal year 2014 total expenses increased \$228.6 million (5.0%) compared to an increase of \$121.8 million (2.7%) for fiscal year 2013. The fiscal year 2014 increase primarily resulted from a 3.5% increase in salaries and fringe benefits and a 6.7% increase in supplies and services.

UNIVERSITY OF WISCONSIN SYSTEM
Management's Discussion and Analysis
Years Ended June 30, 2014 and 2013

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 top priorities.

Operating revenues decreased by \$131.0 million during fiscal year 2014 and \$153.1 million during fiscal year 2013. The 3.7% decrease in fiscal year 2014 resulted primarily from a \$120.2 million (9.4%) decrease in extramural grants and contracts.

2013-14 Headcount Enrollments	
<i>UW-Madison</i>	<i>42,903</i>
<i>UW-Milwaukee</i>	<i>27,784</i>
<i>UW-Eau Claire</i>	<i>10,907</i>
<i>UW-Green Bay</i>	<i>6,667</i>
<i>UW-La Crosse</i>	<i>10,502</i>
<i>UW-Oshkosh</i>	<i>13,902</i>
<i>UW-Parkside</i>	<i>4,617</i>
<i>UW-Platteville</i>	<i>8,717</i>
<i>UW-River Falls</i>	<i>6,171</i>
<i>UW-Stevens Point</i>	<i>9,643</i>
<i>UW-Stout</i>	<i>9,286</i>
<i>UW-Superior</i>	<i>2,656</i>
<i>UW-Whitewater</i>	<i>12,015</i>
<i>UW Colleges</i>	<i>14,058</i>
<i>Total</i>	<i><u>179,828</u></i>

Operating expenses increased by \$185.9 million during fiscal year 2014 compared to an increase in fiscal year 2013 of \$139.5 million. The fiscal year 2014 increase is primarily due to increases in salaries and fringes of \$99.1 million and supplies and services of \$77.3 million.

The University of Wisconsin System reported \$63.0 million in net investment income in fiscal year 2014, which is up from the \$41.6 million net investment income reported in fiscal year 2013. 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 2013 to fiscal year 2014 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, 2014 and 2013, and includes all assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference between the two reported as net position. 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. 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; and Unrestricted. 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 either of those definitions.

The Statement of Revenues, Expenses, and Changes in Net Position presents 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 the increase or decrease in total net position.

UNIVERSITY OF WISCONSIN SYSTEM
Management's Discussion and Analysis
Years Ended June 30, 2014 and 2013

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 and its 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 flows from capital activities include receipts from capital grants, donor receipts specifying use for capital assets, and activity related to debt issued for the explicit purpose of acquisition, construction, or improvement of capital assets. Cash flows from investing activities are a result of the purchase or sale of investments, withdrawals from the long-term investment pool, and collecting interest and dividends earned.

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, capital assets, notes and bonds payable, relationships with affiliated organizations, and classification of net position.

Statement of Net Position

The following provides a summarized comparison of the University of Wisconsin System's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position at June 30, 2014, 2013, and 2012 (in millions):

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Current Assets	\$1,846.8	\$2,106.7	\$1,747.4
Capital Assets, net	5,991.3	5,834.9	5,582.7
Other Noncurrent Assets	<u>628.9</u>	<u>581.4</u>	<u>554.0</u>
Total Assets	8,467.0	8,523.0	7,884.1
Deferred Outflows of Resources	19.1	13.9	-
Current Liabilities	536.6	569.4	565.8
Noncurrent Liabilities	<u>1,609.9</u>	<u>1,651.5</u>	<u>1,473.0</u>
Total Liabilities	2,146.5	2,220.9	2,038.8
Deferred Inflows of Resources	0.5	-	-
Total Net Position	<u>\$6,339.1</u>	<u>\$6,315.8</u>	<u>\$5,845.3</u>

Current Assets: Current assets, which consist primarily of operating cash and cash equivalents and various accounts receivable, decreased by \$259.9 million during fiscal year 2014 and increased by \$359.3 million during fiscal year 2013. The fiscal year 2014 decrease primarily relates to a \$286.6 million decrease in cash and cash equivalents. The largest change in fiscal year 2013 current assets related to an increase in cash and cash equivalents.

The University of Wisconsin System held cash and cash equivalents of \$1,398.7 million at June 30, 2014, 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 \$194.4 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 \$28.8 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, unearned revenue, and other liabilities due in one year or less. Current liabilities decreased by \$32.8 million during fiscal year 2014 and increased by \$3.6 million during fiscal year 2013. The fiscal year 2014 decrease primarily relates to a \$38.2 million decrease in accounts payable and accrued liabilities. The fiscal year 2013 current liabilities increase was primarily attributable to an increase in notes and bonds payable of \$11.2 million and a decrease in compensated absences of \$7.3 million.

UNIVERSITY OF WISCONSIN SYSTEM
Management's Discussion and Analysis
Years Ended June 30, 2014 and 2013

Current assets minus current liabilities represents the net working capital of the University of Wisconsin System. Net working capital decreased 14.8% from \$1,537.3 million at June 30, 2013 to \$1,310.2 million at June 30, 2014. The net working capital at year end represented approximately 103 days of 2014 operating expenses. This indicates that the University of Wisconsin System could support normal operations for 103 days without additional revenues or liquidating noncurrent assets. The current ratio, which is current assets divided by current liabilities, was 3.4 to 1 at June 30, 2014, compared to 3.7 to 1 at June 30, 2013. A current ratio greater than 1 to 1 indicates strong short-term financial flexibility.

Noncurrent Assets: Noncurrent assets consist mainly of endowment investments, capital assets (net of accumulated depreciation), and student loans receivable. Endowment investments, valued at \$457.5 million at June 30, 2014, increased by \$44.3 million during fiscal year 2014. The increase was driven by market-based improvements in investment performance. The increases in capital assets (net) of \$156.4 million in fiscal year 2014 and \$252.2 million in fiscal year 2013 were primarily due to new building construction and renovations. Student loans receivable increased by \$4.3 million during fiscal year 2014 and increased \$4.8 million during fiscal year 2013.

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, replacement and renovation of academic and research facilities, as well as significant investment in technology and equipment. Capital assets are recorded 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 the University of Wisconsin System's capitalization and depreciation policies, and includes summarized changes in the book value of these assets from July 1, 2013 to June 30, 2014 and July 1, 2012 to June 30, 2013.

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, including target investment allocations. Benefiting UW entities receive quarterly distributions from the Long Term Fund, principally endowed assets, based on an annual spending rate applied to a twelve-quarter moving average market value of the Fund. Distributions from the Intermediate Term Fund, principally quasi-endowments and unspent income distributions, consist of interest earnings distributed monthly. 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. In the fiscal years ended June 30, 2014, 2013, and 2012, the University of Wisconsin System collected \$32.6 million, \$28.4 million, and \$26.7 million, respectively, in outstanding student loans and granted \$39.2 million, \$35.0 million, and \$28.3 million, respectively, in new loans.

Noncurrent Liabilities: Noncurrent liabilities decreased by \$41.6 million in fiscal year 2014 and increased \$178.5 million during fiscal year 2013. The decrease primarily resulted from a decrease in new bonds issued to construct or acquire facilities and other capital assets. At June 30, 2014 and 2013, the long-term bonds and notes payable totaled \$1,504.3 million and \$1,568.8 million, respectively, representing a decrease of \$64.5 million.

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

UNIVERSITY OF WISCONSIN SYSTEM
Management's Discussion and Analysis
Years Ended June 30, 2014 and 2013

Net Position: Net position represents the residual interest in assets and deferred outflows of resources net of liabilities and deferred inflows of resources. The University of Wisconsin System's net position at June 30, 2014, 2013, and 2012 is summarized below (in millions):

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Net Investment in Capital Assets	\$4,366.0	\$4,170.9	\$4,101.6
Restricted:			
Nonexpendable – Endowment Principal	187.8	166.6	155.0
Expendable – Quasi-Endowment	233.0	207.7	198.7
Expendable – Auxiliary Operations-Segregated Fees	89.0	76.2	75.5
Student Loans	231.9	229.4	227.5
Other	284.0	385.3	226.8
Unrestricted	<u>947.4</u>	<u>1,079.7</u>	<u>860.2</u>
Total Net Position	<u>\$6,339.1</u>	<u>\$6,315.8</u>	<u>\$5,845.3</u>

Most of the unrestricted funds have been identified for purposes to fulfill the University of Wisconsin System's fiduciary responsibilities, including academic and research programs and capital projects. Additional information related to net position can be found in Note 13 to the Financial Statements.

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 \$10.0 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.

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 Board of Regent approval and funding for facility needs. 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. 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. The plan is submitted to the Wisconsin State Building Commission, which then makes recommendations to the Legislature regarding the overall state building program. The building program is included in the capital budget as part of the state's biennial budget.

Major Construction Projects

During fiscal year 2014, several major construction projects were completed. Projects with \$50.0 million or more in actual expenditures are listed below:

UW Institution	Project	Primary Purpose	Actual Expenditures (in millions)	Primary Funding Sources
Madison	Wisconsin Institute for Medical Research	Academic	\$307.0	GFSB/Gifts
Madison	Charter Street Heating Plant Replacement	Utilities	184.7	PRSB
Madison	Badger Performance Center	Athletics	86.4	PRSB/Gifts
Madison	School of Nursing	Academic	50.6	GFSB/Gifts

UNIVERSITY OF WISCONSIN SYSTEM
Management's Discussion and Analysis
Years Ended June 30, 2014 and 2013

Several construction projects were in progress during fiscal year 2014. Projects with a budget of \$50.0 million or more are listed below:

UW Institution	Project	Primary Purpose	Approx Budget (in millions)	Primary Funding Sources
Madison	Memorial Union Renovations	Student Life	\$116.5	PRSB/Gifts
Milwaukee	Kenwood Interdisciplinary Research Complex	Academic	80.0	GFSB/Gifts
Stevens Point	Chemistry-Biology Building	Academic	75.0	GFSB
Milwaukee	Freshwater Science Institute Research Building and Neeskay Research Vessel Replacement	Academic	70.0	GFSB/Gifts
Madison	Utilities (WCCF Chillers)	Utilities	67.5	GFSB/PRSB
River Falls	Health and Human Performance/Recreation Building (Falcon Center)	Academic & Athletics	63.5	GFSB/PRSB/Gifts
La Crosse	Student Union	Student Life	53.0	PRSB

Additional information on capital assets and related debt can be found in Notes 9 and 10 to the Financial Statements.

Statement of Revenues, Expenses, and Changes in Net Position

Total revenues for fiscal years 2014, 2013, and 2012 are summarized as follows (in millions):

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating Revenues:			
Student Tuition and Fees, Net	\$1,138.3	\$1,174.7	\$1,105.1
Sales and Services of Educational Activities	312.0	294.0	335.8
Sales and Services of Auxiliaries, Net	405.7	389.0	362.8
Federal Grants and Contracts	804.2	871.8	859.3
State, Local, and Private Grants and Contracts	358.3	410.9	397.0
Sales and Services to UW Hospital Authority	65.2	66.8	59.7
Other	<u>323.9</u>	<u>331.4</u>	<u>265.8</u>
Total Operating Revenues	3,407.6	3,538.6	3,385.5
Non-operating Revenues:			
State Appropriations	918.7	893.6	855.1
Gifts – Noncapital	292.3	295.8	248.1
Net Investment Income	63.0	41.6	0.6
Other Non-operating Revenues	30.8	37.3	59.7
Capital Appropriations	94.5	200.1	251.7
Capital Contributions	46.5	65.1	88.6
Additions to Permanent Endowments	<u>3.1</u>	<u>3.0</u>	<u>1.5</u>
Total Non-operating Revenues	1,448.9	1,536.5	1,505.3
Total Revenues	<u>\$4,856.5</u>	<u>\$5,075.1</u>	<u>\$4,890.8</u>

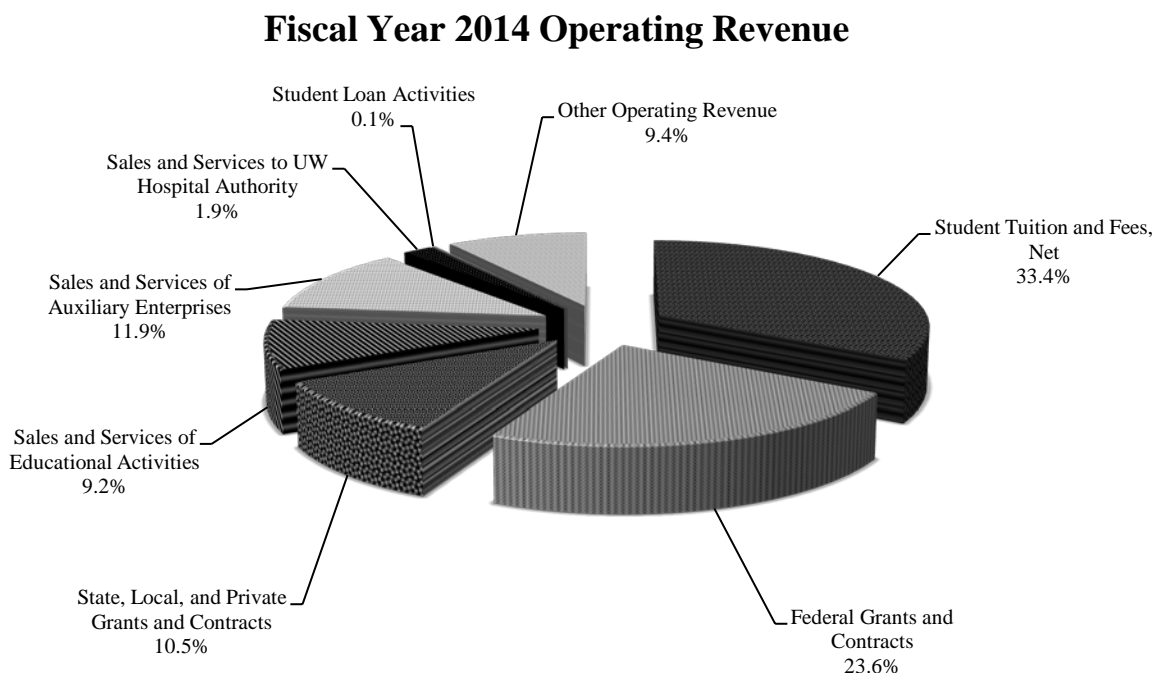
Operating revenues: Student tuition and fees, net of scholarship allowances, decreased by \$36.4 million in fiscal year 2014 and increased \$69.6 million in fiscal year 2013. The fiscal year 2014 decrease resulted primarily from overall enrollment declines. The total headcount enrollment for the entire University of Wisconsin System decreased 1,141 students to 179,828 from 180,969 in 2013, and total full-time equivalent enrollment was 153,252, down from 154,844 in 2013.

During fiscal year 2014, federal grants and contracts decreased by \$67.6 million compared to a \$12.5 million increase during fiscal year 2013. State, local, and private grants and contracts decreased by \$52.6 million during fiscal year 2014 compared to an increase of \$13.9 million during fiscal year 2013.

UNIVERSITY OF WISCONSIN SYSTEM
Management's Discussion and Analysis
Years Ended June 30, 2014 and 2013

Operating revenues from all other sources increased \$25.6 million during fiscal year 2014 compared to a \$57.0 million increase during fiscal year 2013. Total operating revenues from other sources of \$1,106.8 million for fiscal year 2014 include \$405.7 million (36.7%) of revenues from units such as intercollegiate athletics, stadium, arena, student health services, car fleet, stores operations, child care services, copy centers, and student service programs such as placement, orientation, intramurals, and counseling centers. Fiscal year 2013 total operating revenues from other sources of \$1,081.2 million include \$389.0 million (36.0%) from these same revenue producing units.

The following is a graphic representation of operating revenue by source for the fiscal year ended June 30, 2014:

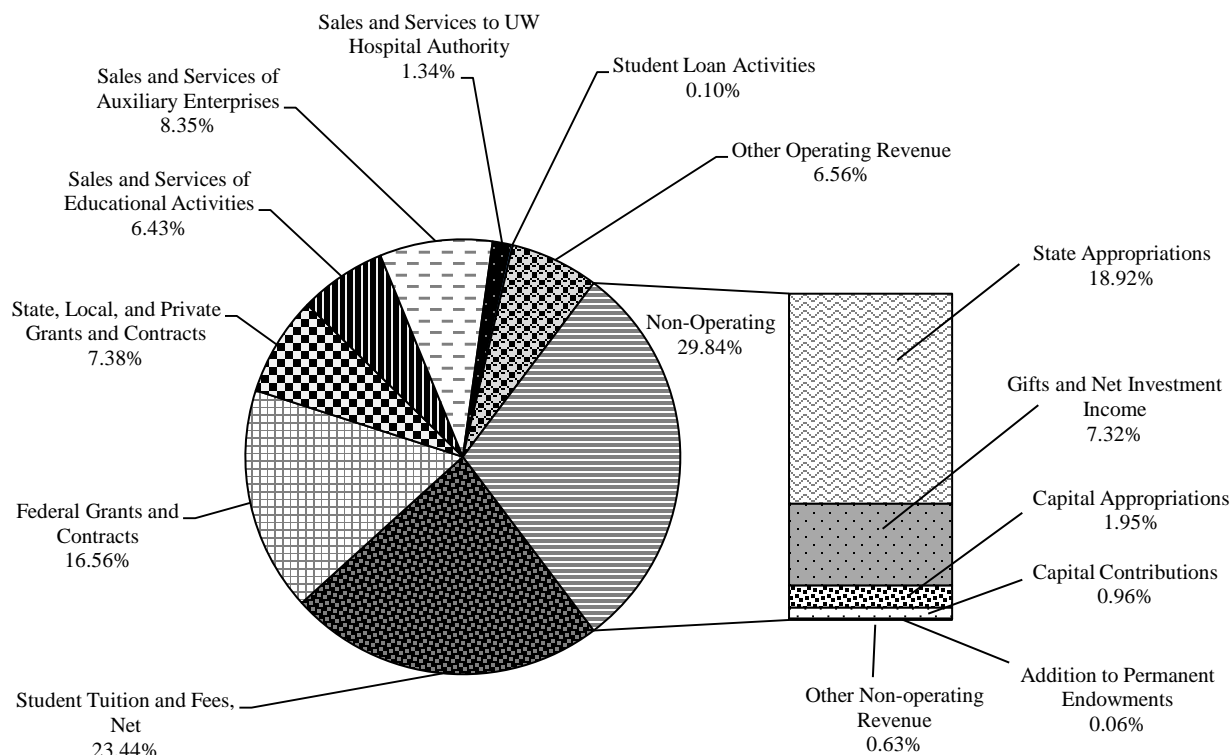


Non-operating revenues: State appropriations increased 2.8% to a total of \$918.7 million for fiscal year 2014, compared to a 4.5% increase in fiscal year 2013. State appropriations as a percentage of net non-operating revenues were 72.6%, 64.0%, and 63.5% for fiscal years 2014, 2013, and 2012, respectively. As a percentage of total revenues, state appropriations were 18.9%, 17.7%, and 17.5% during the same time periods, respectively. Combined gifts and investment income comprised \$355.3 million, or 28.1%, of net non-operating revenue for fiscal year 2014 and \$337.4 million, or 24.2%, of net non-operating revenue for the prior fiscal year.

UNIVERSITY OF WISCONSIN SYSTEM
Management's Discussion and Analysis
Years Ended June 30, 2014 and 2013

The following is a graphic representation of total revenue by source for the fiscal year ended June 30, 2014:

Fiscal Year 2014 Total Revenue



Operating expenses: The University of Wisconsin System invests the majority of its operating funds in people as depicted in the graphic on page 17 entitled “Fiscal Year 2014 Operating Expenses by Natural Classification.” Salaries and fringe benefits account for 63.9% of total operating expenses. Scholarship and fellowship payments make up 3.2%, and supplies, services, and other account for 27.0%. 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 2014 totaled \$273.5 million or 5.9% of total operating expenses.

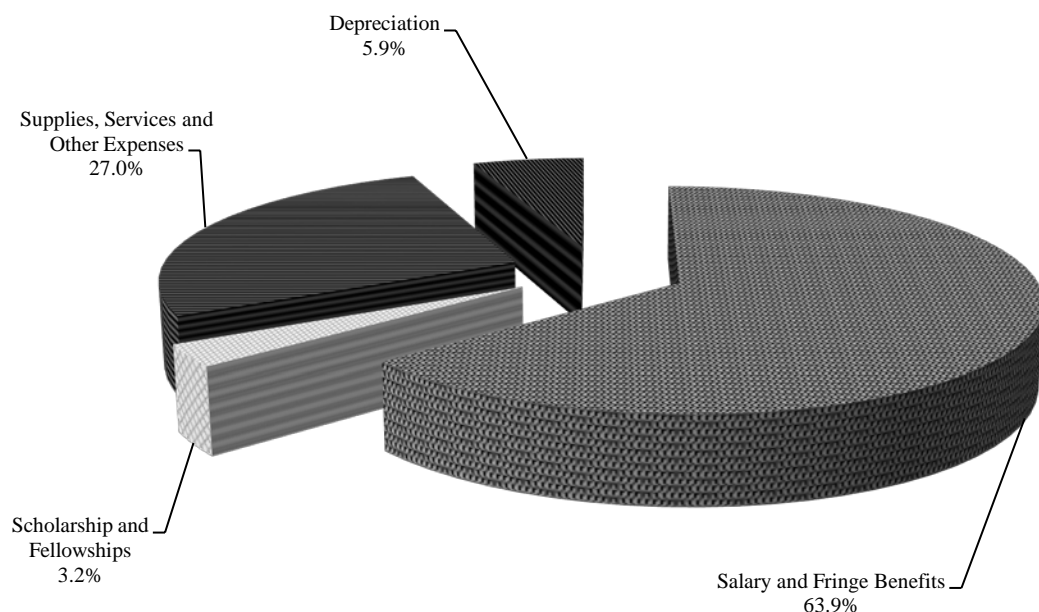
Expenses are summarized by natural classification for the fiscal years ended June 30, 2014, 2013, and 2012 as follows (in millions):

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating Expenses:			
Salary and Fringe Benefits	\$2,969.4	\$2,870.4	\$2,804.3
Scholarships and Fellowships	149.6	132.2	130.9
Supplies, Services, and Other	1,257.8	1,171.3	1,151.3
Depreciation	<u>273.5</u>	<u>290.5</u>	<u>238.4</u>
Total Operating Expenses	4,650.3	4,464.4	4,324.9
Non-operating Expenses:			
Loss on Disposal	25.6	17.9	33.4
Interest	62.6	56.6	50.4
Transfer to State Agencies	<u>94.9</u>	<u>65.9</u>	<u>74.2</u>
Total Non-operating Expenses	<u>183.1</u>	<u>140.4</u>	<u>158.0</u>
Total Expenses	<u><u>\$4,833.4</u></u>	<u><u>\$4,604.8</u></u>	<u><u>\$4,482.9</u></u>

UNIVERSITY OF WISCONSIN SYSTEM
Management's Discussion and Analysis
Years Ended June 30, 2014 and 2013

The following illustration graphically presents operating expenses by natural classification for the fiscal year ended June 30, 2014:

Fiscal Year 2014 Operating Expenses by Natural Classification



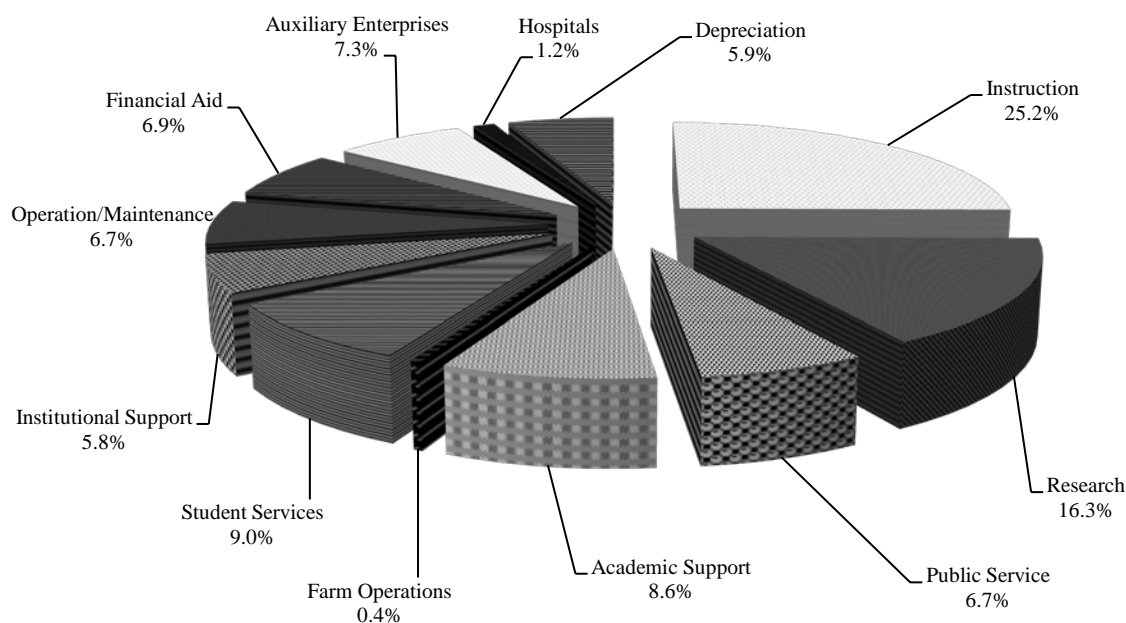
Operating expenses classified by function for the fiscal years 2014, 2013, and 2012 are as follows (in millions):

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Instruction	\$1,171.8	\$1,150.5	\$1,114.3
Research	759.4	877.7	864.4
Public Service	307.3	316.9	314.6
Academic Support	398.7	355.5	354.2
Farm Operations	18.3	17.3	15.9
Student Services	420.7	404.5	390.4
Institutional Support	266.7	219.8	210.2
Operation/Maintenance	312.1	304.7	315.7
Financial Aid	323.1	138.9	137.1
Auxiliary Enterprises	340.6	329.5	318.1
Hospitals	58.1	58.6	51.6
Depreciation	<u>273.5</u>	<u>290.5</u>	<u>238.4</u>
Total Operating Expenses	<u>\$4,650.3</u>	<u>\$4,464.4</u>	<u>\$4,324.9</u>

UNIVERSITY OF WISCONSIN SYSTEM
Management's Discussion and Analysis
Years Ended June 30, 2014 and 2013

The following is a graphic representation showing operating expenses by functional classification for the fiscal year ended June 30, 2014:

Fiscal Year 2014 Expenses by Functional Classification



Instruction increased 1.9% while research decreased 13.5%. Student services increased by \$16.2 million or 4.0%. Institutional support increased by \$46.9 million or 21.3% to \$266.7 million in fiscal year 2014.

Changes in net position are discussed earlier in this Management's Discussion and Analysis under the ***Financial Highlights*** section.

Factors Affecting Future Periods

The UW System's Flexible Option is currently enrolling students in five programs with an additional three programs in development that will be available to students in Fall 2015. The Flexible Option will enable motivated students to complete degrees much quicker and at a lower cost than traditional programs.

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. The 2013-15 biennial budget required a freeze of resident undergraduate tuition at the 2012-13 levels, including differential tuition. In July 2014, the University of Wisconsin System Board of Regents unanimously voted to freeze resident undergraduate tuition for the 2014-15 academic year, in accordance with the biennial budget. The Board of Regents also voted to freeze tuition for all graduate students and non-resident undergraduates. The tuition freeze leaves an estimated \$8.6 million in unfunded pay plan and fringe costs in fiscal year 2015.

UNIVERSITY OF WISCONSIN SYSTEM
Management's Discussion and Analysis
Years Ended June 30, 2014 and 2013

The biennial budget requires the University of Wisconsin System to fund the following initiatives:

Incentive Grants: required to allocate \$11,250,000 in fiscal year 2015 to award grants to UW institutions 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 fiscal year 2015 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 \$1,300,000 in the fiscal year 2015 to fund the University of Wisconsin Flexible Option Initiative.

These one-time mandates have been 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 2013 Wisconsin Act 20, Section 9148(5e). On October 29, 2013, the Joint Committee on Finance also approved the University's plan.



STATE OF WISCONSIN

Legislative Audit Bureau

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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 University of Wisconsin System Board of Regents, and
Dr. Raymond Cross, 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, 2014, and June 30, 2013, 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, 2014, and June 30, 2013, 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 above 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, 2014, and June 30, 2013, the changes in its financial position, or where applicable, its cash flows for the years 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 65, *Items Previously Reported as Assets and Liabilities*, which reclassifies certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources. Our opinion is not modified with respect to this matter.

Other Matter

The supplementary information included as Management's Discussion and Analysis on pages 9 through 19 is presented for purposes of additional analysis and is not a required part of the financial statements. We have applied certain limited procedures to the information 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 4 through 7 and on pages 54 and 55 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 12, 2014, on our consideration of UW System's internal control over financial reporting; our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements; and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be used when considering UW System's internal control over financial reporting and compliance.

LEGISLATIVE AUDIT BUREAU

A handwritten signature in black ink, appearing to read "Joe Chrisman". The signature is fluid and cursive, with a long horizontal stroke at the end.

Joe Chrisman
State Auditor

December 12, 2014

Audited Financial Statements

Statement of Net Position

University of Wisconsin System

June 30, 2014

June 30, 2013

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 1,398,745,004	\$ 1,685,327,416
Accounts Receivable, Net	298,727,468	284,663,692
Student Loans Receivable, Net	30,604,221	30,930,826
Capital Lease Receivable from UW Hospital	829,685	1,134,100
Inventories	42,595,089	41,109,337
Prepaid Expenses	75,329,275	63,485,300
Total Current Assets	1,846,830,742	2,106,650,671

Noncurrent Assets

Endowment Investments	457,517,111	413,250,288
Student Loans Receivable, Net	168,490,674	164,158,972
Capital Lease Receivable from UW Hospital	2,880,436	3,947,897
Land	155,754,862	153,167,817
Improvements Other Than Buildings, Net	197,165,829	177,237,425
Construction in Progress	329,025,710	650,602,836
Buildings, Net	3,852,525,581	3,410,447,721
Equipment, Net	317,657,573	319,865,064
Library Holdings	1,139,186,343	1,123,627,429
Total Noncurrent Assets	6,620,204,119	6,416,305,449

TOTAL ASSETS

\$ 8,467,034,861	\$ 8,522,956,120
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DEFERRED OUTFLOWS OF RESOURCES

Unamortized Loss on Refunding Debt	\$ 19,144,676	\$ 13,867,469
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LIABILITIES

Current Liabilities

Accounts Payable and Accrued Liabilities	\$ 223,805,533	\$ 262,054,620
Notes and Bonds Payable	78,661,795	76,015,877
Capital Lease Obligations	6,425,495	6,650,020
Unearned Revenue	164,461,002	157,109,122
Compensated Absences	61,531,909	65,813,198
Deposits of Student Organizations	1,727,867	1,799,513
Total Current Liabilities	536,613,601	569,442,350

Noncurrent Liabilities

Notes and Bonds Payable	1,504,324,135	1,568,815,362
Capital Lease Obligations	35,935,451	12,548,739
Compensated Absences	69,653,075	70,173,361
Total Noncurrent Liabilities	1,609,912,661	1,651,537,462

TOTAL LIABILITIES

\$ 2,146,526,262	\$ 2,220,979,812
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DEFERRED INFLOWS OF RESOURCES

Unamortized Gain on Refunding Debt	\$ 550,781	\$ -
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NET POSITION

Net Investment in Capital Assets	\$ 4,365,969,021	\$ 4,170,918,293
Restricted for		
Nonexpendable	187,767,529	166,599,785
Expendable	321,956,571	283,858,048
Student Loans	231,902,848	229,426,360
Other	283,960,044	385,305,908
Unrestricted	947,546,479	1,079,735,381
TOTAL NET POSITION	\$ 6,339,102,492	\$ 6,315,843,775

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, 2014

Year Ended June 30, 2013

OPERATING REVENUES

Student Tuition and Fees (net of Scholarship Allowances of \$204,522,151 and \$203,226,603, respectively)	\$ 1,138,306,317	\$ 1,174,699,352
Federal Grants and Contracts	804,152,200	871,750,765
State, Local, and Private Grants and Contracts	358,282,829	410,866,922
Sales and Services of Educational Activities	312,039,818	293,973,382
Sales and Services of Auxiliary Enterprises (net of Scholarship Allowances of \$35,297,417 and \$34,572,845, respectively)	405,683,546	389,014,476
Sales and Services to UW Hospital Authority	65,236,117	66,825,389
Student Loan Interest Income and Fees	5,095,033	4,515,236
Other Operating Revenue	318,761,856	326,949,191
Total Operating Revenues	3,407,557,716	3,538,594,713

OPERATING EXPENSES

Salary and Fringe Benefits	2,969,431,519	2,870,367,327
Scholarship and Fellowships	149,646,842	132,197,858
Supplies and Services	1,227,504,543	1,150,197,950
Other Operating Expenses	30,193,993	21,102,542
Depreciation	273,473,935	290,524,559
Total Operating Expenses	4,650,250,832	4,464,390,236

OPERATING LOSS

(1,242,693,116) (925,795,523)

NON-OPERATING REVENUES AND EXPENSES

State Appropriations	918,679,701	893,584,673
Gifts	292,335,469	295,831,689
Investment Income (net of Investment Expense of \$1,281,511 and \$1,247,937, respectively)	63,038,297	41,604,065
Loss on Disposal of Capital Assets	(25,555,046)	(17,870,216)
Interest on Indebtedness	(62,591,133)	(56,582,455)
Transfer to State Agencies	(94,912,421)	(65,863,566)
Other Non-Operating Revenues	30,820,996	37,290,643
Income Before Capital and Endowment Additions/Deductions	(120,877,253)	202,199,310
Capital Appropriations	94,545,947	200,145,882
Capital Contributions	46,528,549	65,099,435
Additions to Permanent Endowment	3,061,474	3,045,955
INCREASE IN NET POSITION	23,258,717	470,490,582

NET POSITION

Net Position - Beginning of Period	6,315,843,775	5,845,353,193
NET POSITION - End of Period	\$ 6,339,102,492	\$ 6,315,843,775

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

Statements of Cash Flows

University of Wisconsin System

Year Ended June 30, 2014

Year Ended June 30, 2013

Cash Flows from Operating Activities

Student Tuition and Fees	\$ 1,130,910,256	\$ 1,174,221,930
Federal, State, Local, and Private Grants and Contracts	1,194,424,320	1,254,228,235
Sales and Services of Educational Activities	322,060,336	301,748,224
Sales and Services of Auxiliary Enterprises	406,761,098	378,844,256
Sales and Services to UW Hospital Authority	64,398,365	64,698,168
Payments for Salaries and Fringe Benefits	(2,979,636,208)	(2,919,655,286)
Payments to Vendors and Suppliers	(1,242,817,006)	(1,100,424,533)
Payments for Scholarships and Fellowships	(149,646,842)	(132,197,858)
Student Loans Collected	32,562,502	28,442,747
Student Loan Interest and Fees Collected	5,095,033	4,515,236
Student Loans Issued	(39,191,250)	(34,977,721)
Other Revenues	249,892,790	318,027,050
Net Cash Used in Operating Activities	(1,005,186,606)	(662,529,552)

Cash Flows from Investing Activities

Interest and Dividends on Investments, Net	7,669,067	9,834,882
Proceeds from Sales and Maturities of Investments	100,796,192	93,218,902
Purchase of Investments	(89,474,496)	(84,007,441)
Net Cash Provided by Investing Activities	18,990,763	19,046,343

Cash Flows from Capital and Related Financing Activities

Proceeds from Issuance of Capital Debt	24,283,239	240,787,231
Payments for Debt Issuance Costs	-	(5,402,646)
Capital Appropriations	94,545,947	200,145,882
Gifts and Other Receipts	37,806,812	71,372,639
Purchase of Capital Assets	(435,738,674)	(561,192,671)
Principal Payments on Capital Debt and Leases	(252,654,411)	(200,178,319)
Interest Payments on Capital Debt and Leases	(141,474,841)	(127,459,810)
Net Cash Used in Capital and Related Financing Activities	(673,231,928)	(381,927,694)

Cash Flows from Noncapital Financing Activities

State Appropriations	1,150,921,552	1,094,818,877
Gifts and Other Receipts	316,230,220	331,091,691
Transfer to State Agencies	(94,912,421)	(65,863,566)
Additions to Permanent Endowments	3,061,474	3,045,955
Student Direct Lending Receipts	750,292,991	777,196,647
Student Direct Lending Disbursements	(752,748,457)	(777,054,579)
Net Cash Provided by Noncapital Financing Activities	1,372,845,359	1,363,235,025

Net Increase (Decrease) in Cash and Cash Equivalents

Cash and Cash Equivalents - Beginning of Year	1,685,327,416	1,347,503,294
Cash and Cash Equivalents - End of Year	\$ 1,398,745,004	\$ 1,685,327,416

Statements of Cash Flows (Continued)

University of Wisconsin System

Year Ended June 30, 2014

Year Ended June 30, 2013

Reconciliation of Operating Loss to Net Cash Used in Operating Activities

Operating Loss	\$	(1,242,693,116)	\$	(925,795,523)
<i>Adjustments to Reconcile Operating Loss to</i>				
<i>Net Cash Used in Operating Activities:</i>				
Depreciation Expense		273,473,935		290,524,559
Changes in Assets and Liabilities:				
Receivables, Net		(20,173,992)		(17,942,636)
Inventories		(1,485,752)		818,277
Prepaid Expense		(11,551,568)		(12,434,825)
Accounts Payable and Accrued Liabilities		(5,222,790)		12,400,560
Unearned Revenue		7,268,253		(9,659,343)
Compensated Absences		(4,801,576)		(440,621)
Net Cash Used in Operating Activities	\$	(1,005,186,606)	\$	(662,529,552)

Noncash Investing, Capital and Financing Activities

Capital Leases (Initial Year):				
Fair Market Value	\$	30,265,108	\$	937,702
Current Year Cash Payments		-		(5,579)
Gifts-In-Kind		16,190,709		2,698,756
Net Change in Unrealized Gains and Losses		38,123,189		21,882,888

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, 2014 and 2013

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 to 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).

The University of Wisconsin System implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* in fiscal year 2013. 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 years 2013 and 2014, the University of Wisconsin System did not have any deferred outflows of resources or deferred inflows of resources as discussed in 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 beginning in fiscal year 2013.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2014 and 2013

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

In fiscal year 2014, the University of Wisconsin System implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which reclassifies items previously classified as other noncurrent assets and amortized as a component of interest expense, as deferred inflows and deferred outflows of resources. These changes were retroactively applied to the University of Wisconsin System's financial statements for the year ended June 30, 2013 and are summarized as follows:

	<u>Change</u>
<u>Statement of Net Position</u>	
Prepaid Expenses	\$ 20,304,399
Deferred Charges	(25,124,396)
Deferred Outflows-Unamortized Loss on Refunding Debt	13,867,469
Notes and Bonds Payable-Current	1,686,930
Notes and Bonds Payable-Noncurrent	12,180,539
<u>Statement of Revenues, Expenses and Changes in Net Position</u>	
Investment Income	\$ (128,333)
Interest on Indebtedness	(710,980)
Other Non-Operating Expenses	(5,402,644)

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 – and Management's Discussion and Analysis – for Public Colleges and Universities*. Business Type Activities are those that are financed in whole or in part by fees charged to external parties for goods or services.

The 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.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2014 and 2013

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

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

Restricted funds received as gifts, 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 also 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, and 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 2014 summer session are reportable within the fiscal year beginning July 1, 2013 and ending June 30, 2014, based on the prorated portion of the number of summer session days that occurred in fiscal year 2014. 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.

Accrual of interest on bonds payable, vendor payments not made as of June 30th, and salaries and fringe benefits paid after the close of the fiscal year, for hours worked by the University of Wisconsin System employees prior to June 30th, account for the major portion of accounts payable and accrued liabilities.

Inventories consist of consumable supplies used in operations or items held for resale. Fuels are reported at market value, while other inventories held by individual institutional cost centers are valued using a variety of cost flow assumptions that, for each type of inventory, are consistently applied from year to year. In 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 computer 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.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2014 and 2013

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 \$1,398.7 million and \$1,685.3 million in cash and cash equivalents as of June 30, 2014 and 2013, respectively, \$1,175.5 million and \$1,497.1 million, respectively, represents an amount held within the SIF; \$194.4 million and \$163.2 million, respectively, was maintained by individual University of Wisconsin System institutions in local bank accounts to meet operating needs; and \$28.8 million and \$25.0 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 No. 40, *Deposit and Investment Risk Disclosures*.

For the remaining deposits, the University of Wisconsin System had balances in excess of Federal Deposit Insurance Corporation limits in the amount of \$187.2 million and \$158.8 million at June 30, 2014 and 2013, 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, 2014 and 2013 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 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 2013.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2014 and 2013

NOTE 2 – Cash and Investments (continued)

The Long Term Fund consisted of the following investment categories on June 30, 2014 and 2013:

Investment Category	<u>2014</u>	<u>2013</u>
Common Stock and Convertible Securities	39.7%	39.3%
Bonds and Preferred Stock	10.9%	11.8%
Alternative Assets	20.3%	21.2%
Tactical Allocation Strategies	20.9%	19.6%
Real Assets	1.7%	1.7%
Custodial Pooled Cash and Cash Equivalents	<u>6.5%</u>	<u>6.4%</u>
Total	<u>100.0%</u>	<u>100.0%</u>

The Intermediate Term Fund consisted of the following investment categories on June 30, 2014 and 2013:

Investment Category	<u>2014</u>	<u>2013</u>
Common Stock and Convertible Securities	21.9%	21.1%
Bonds and Preferred Stock	74.9%	76.2%
Custodial Pooled Cash and Cash Equivalents	<u>3.2%</u>	<u>2.7%</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, 2014, the amount of net appreciation available to spend from the Long Term Fund was \$15,491,258, relative to \$14,226,097 available during the fiscal year ending June 30, 2013.

At June 30, 2014 and 2013, the University of Wisconsin System's investments are as follows:

Investments:	<u>2014</u>	<u>2013</u>
U.S. Government Securities	\$ 27,469,847	\$ 22,899,129
U.S. Agency Securities	13,120,143	13,338,000
Bonds and Preferred Stock	24,594,615	29,214,107
Common Stock and Convertible Securities	57,002,261	45,604,379
Pooled Equity Funds	120,116,140	111,057,467
Pooled Allocation Fund	83,025,380	68,957,553
Pooled Fixed Income Fund	43,378,785	41,841,305
Custodial Pooled Cash and Cash Equivalents	28,787,079	24,965,289
Limited Partnerships	<u>87,559,940</u>	<u>80,338,348</u>
Total Investments	<u>\$ 485,054,190</u>	<u>\$ 438,215,577</u>

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2014 and 2013

NOTE 2 – Cash and Investments (continued)

The total return on the Long Term Fund, including capital appreciation, was 16.7% compared to 10.9% in fiscal year 2013. The total return on the Intermediate Fund, including capital appreciation, was 7.8% compared to 5.4% in fiscal year 2013. External investment counsel was utilized for funds representing 91.1% of the market value of the Long Term and Intermediate Term Funds, compared to 90.3% in fiscal year 2013. In addition to the limited partnerships market value listed above, the University of Wisconsin System had \$31.5 million in unfunded limited partnership commitments for the fiscal year ending June 30, 2014, relative to \$19.9 million for the fiscal year ending June 30, 2013.

Credit Risk: Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. For the Long Term Fund, fund-level asset allocation constraints limit exposure to below investment grade debt securities to no more than 20%; for the Intermediate Term Fund, exposure is limited to 15%. The University of Wisconsin System currently holds below investment grade securities within commingled vehicles representing 6.7% of total assets of the Long Term Fund and 6.5% of total assets of the Intermediate Term Fund. In addition, actively-managed, investment grade fixed income separate accounts must maintain an average portfolio quality of AA by Standard & Poor's and/or Aa by Moody's, and hold only securities rated BBB- 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, 2014 and 2013. 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>2014</u>	<u>2013</u>
Aaa	\$ 55,362,225	\$ 49,052,863
Aa1	-	-
Aa2	813,889	455,941
Aa3	1,023,098	481,186
A1	1,692,567	3,337,868
A2	3,833,813	4,200,677
A3	1,905,086	3,779,952
Baa1	3,524,455	5,479,313
Baa2	3,441,930	4,575,658
Baa3	3,067,242	3,124,617
Ba2	9,947,516	11,678,637
B1	395,569	-
B2	17,405,734	15,739,429
B3	207,826	-
Caa2	789,997	457,380
No Rating	5,152,441	4,929,020
Unrated Pooled Cash	28,787,079	24,965,289
Totals	<u>\$ 137,350,467</u>	<u>\$ 132,257,830</u>

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

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2014 and 2013

NOTE 2 – Cash and Investments (continued)

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of an organization's investment in a single issuer. Actively-managed, fixed income separate accounts are limited to holding no more than 7.0% in any one issuer (U.S. Government/Agencies are exempted). During fiscal year 2014, the largest concentration in a non-U.S. Government/Agency was Apple, Inc., which represented 0.5% of total Trust Funds assets, compared to a 0.7% exposure to Morgan Stanley in fiscal year 2013.

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:

Fixed Income Sector:

	2014		2013	
	<u>Market Value</u>	<u>Modified Duration</u>	<u>Market Value</u>	<u>Modified Duration</u>
Treasury Inflation Protected Securities	\$ 16,729,283	7.25	\$ 16,255,847	8.55
Government	9,349,692	4.21	5,461,776	6.58
U.S. Government Mortgages	1,390,871	6.14	1,181,506	6.16
Corporates and Other Credit	16,486,424	3.41	20,455,161	3.29
Collateralized Mortgage Obligations:	12,709,075	2.02	11,454,195	2.60
U.S. Agencies				
Collateralized Mortgage Obligations:	24,414	0.06	917,938	2.26
Corporate				
Commercial Mortgage Backed Securities	3,078,440	7.22	3,067,448	9.02
U.S. Private Placements	4,472,427	2.69	4,653,442	2.14
U.S. Agencies	411,068	0.56	428,826	1.51
Asset Backed Securities	457,940	0.22	120,003	0.08
Totals	<u>\$ 65,109,634</u>		<u>\$ 63,996,142</u>	

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

Fixed Income Commingled Fund:

	2014		2013	
	<u>Market Value</u>	<u>Modified Duration</u>	<u>Market Value</u>	<u>Modified Duration</u>
Seix Advisors High Yield Fund	\$ 32,244,784	4.20	\$ 30,904,042	4.83

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, 2014, the Long Term and Intermediate Term Funds held equity securities denominated in foreign currencies within pooled investment vehicles only, with market values totaling \$130,981,498 and \$9,362,451, respectively, compared to prior fiscal year amounts of \$108,818,298 and \$8,368,184, 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.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2014 and 2013

NOTE 2 – Cash and Investments (continued)

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 \$152.4 million and \$127.8 million at June 30, 2014 and June 30, 2013, respectively, is available to meet spending rate distributions and is recorded in restricted net assets.

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, 2014 and 2013, are summarized as follows:

	<u>2014</u>	<u>2013</u>
Receivables (Net):		
Student Academic Fees	\$ 33,361,445	\$ 25,329,515
Grants and Contracts	46,336,094	73,073,340
Educational Activities and Other	83,518,791	33,939,589
Auxiliary Enterprises	15,172,323	13,752,414
UW Hospital Authority and La Crosse Medical Health Science Consortium, Inc.	9,437,780	9,971,904
Investment	823,312	2,648,324
Student Loans Receivable	199,094,895	195,089,798
State Agencies	30,469,441	32,337,700
Other Governments	<u>83,318,403</u>	<u>98,692,903</u>
Total Receivables (Net)	<u><u>\$ 501,532,484</u></u>	<u><u>\$ 484,835,487</u></u>

Student loans receivable at June 30, 2014 included allowances for uncollectible loans of \$9.3 million relative to \$9.3 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 \$752.7 million in student loans through the United States Department of Education federal direct lending program during fiscal year 2014 and \$777.1 million in fiscal year 2013. 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.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2014 and 2013

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, 2014 and 2013, are summarized as follows:

Fiscal Year 2014	Salary and Fringe Benefits	Due to State Agencies and Other Governments	Vendors	Total Payables
UW System Activities:				
Operating	\$20,216,708	\$54,956,671	\$ 35,669,862	\$110,843,241
Gifts, Grants, and Contracts	2,939,374	6,256,902	35,359,849	44,556,125
Capital Projects	-	1,147,172	47,833,853	48,981,025
Auxiliary Enterprises	3,502,529	934,553	8,275,300	12,712,382
Investment and Other	<u>27,157</u>	<u>383,167</u>	<u>6,302,436</u>	<u>6,712,760</u>
Total Activities	<u>\$26,685,768</u>	<u>\$63,678,465</u>	<u>\$133,441,300</u>	<u>\$223,805,533</u>

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>

As of June 30, 2014, current liabilities totaled \$536.6 million inclusive of \$1.7 million in deposits of student organizations, \$223.8 million of accounts payable and accrued liabilities, \$164.5 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 \$1,610.0 million at June 30, 2014, relative to a total of \$1,651.5 million at June 30, 2013. Total noncurrent liabilities decreased by \$41.6 million relative to fiscal year 2013.

Long-term liability activity for the fiscal years ended June 30, 2014 and 2013 is as follows:

Long-term Liabilities 2014	Balance July 1, 2013	Increases (Decreases)	Balance June 30, 2014	Current Portion
Bonds Payable	\$ 1,519,796,628	\$ (33,990,033)	\$ 1,485,806,595	\$ 62,930,942
Notes Payable	125,034,611	(27,855,276)	97,179,335	15,730,853
Capital Lease Obligations	19,198,759	23,162,187	42,360,946	6,425,495
Compensated Absences	<u>135,986,560</u>	<u>(4,801,576)</u>	<u>131,184,984</u>	<u>61,531,909</u>
Total	<u>\$ 1,800,016,558</u>	<u>\$ (43,484,698)</u>	<u>\$ 1,756,531,860</u>	<u>\$146,619,199</u>

Long-term Liabilities 2013	Balance July 1, 2012	Increases (Decreases)	Balance June 30, 2013	Current Portion
Bonds Payable	\$ 1,376,349,521	\$ 143,447,107	\$ 1,519,796,628	\$ 58,882,444
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	<u>136,427,181</u>	<u>(440,621)</u>	<u>135,986,560</u>	<u>65,813,198</u>
Total	<u>\$ 1,617,550,141</u>	<u>\$ 182,466,417</u>	<u>\$ 1,800,016,558</u>	<u>\$148,479,095</u>

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2014 and 2013

NOTE 5 – Lease Commitments and Installment Purchases

The University of Wisconsin System had capital lease obligations with a net present value of \$42,360,946 as of June 30, 2014 compared to \$19,198,759 at June 30, 2013. The payment schedule for capital lease obligations is as follows:

2015	\$ 9,151,424
2016	6,766,278
2017	5,222,913
2018	2,958,188
2019	2,517,795
2020-2024	12,415,946
2025-2029	12,363,920
2030-2034	12,363,920
2035-2039	12,363,920
2040-2044	<u>9,885,296</u>
Total Scheduled Lease Payments	86,009,600
Amount Representing Interest	<u>(43,648,654)</u>
Net Present Value	<u>\$42,360,946</u>

Assets Held Under Capital Lease:

2014	Original Cost June 30, 2014	Accumulated Depreciation	Book Value June 30, 2014
Buildings and Improvements	\$ 98,199,857	\$ 39,663,622	\$ 58,536,235
Equipment	<u>12,414,095</u>	<u>8,233,928</u>	<u>4,180,167</u>
Total Assets	<u>\$ 110,613,952</u>	<u>\$ 47,897,550</u>	<u>\$ 62,716,402</u>
2013	Original Cost June 30, 2013	Accumulated Depreciation	Book Value June 30, 2013
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>

Facilities and equipment rented through operating leases are not recorded as assets on the balance sheet. Operating lease expenditures amounted to \$31,323,881 for the fiscal year ended June 30, 2014. Minimum commitments for future operating lease payments are as follows:

2015	\$ 21,519,536
2016	16,228,623
2017	14,923,941
2018	13,899,247
2019	12,678,645
2020-2024	54,374,307
2025-2029	42,461,520
2030-2034	28,138,917
2035-2039	<u>305,468</u>
Total	<u>\$204,530,204</u>

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2014 and 2013

NOTE 5 – Lease Commitments and Installment Purchases (continued)

The University of Wisconsin System has entered into installment purchase agreements during fiscal year 2014. 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, 2014 for installment purchases:

2015	\$11,780
2016	12,841
2017	12,841
2018	<u>7,861</u>
Total minimum future payments	45,323
Less: interest	<u>(2,650)</u>
Present value of net minimum payments	<u>\$42,673</u>

NOTE 6 – Compensated Absences

The compensated absences liability at June 30, 2014 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, 2014 totaled \$131,184,984 compared with \$135,986,560 at June 30, 2013. The compensated absences balance consists of a \$61,531,909 current liability and \$69,653,075 noncurrent liability compared to a \$65,813,198 current liability and \$70,173,362 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 \$281,954,569 for fiscal year 2014, compared to \$251,758,071 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 contributions to fund the bond payments. Bond payments totaling \$78,958,464 during fiscal year 2014, compared to bond payments totaling \$58,532,156 during fiscal year 2013, 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 \$108,177 during the current year, compared with \$140,618 for the previous year.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2014 and 2013

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 2014 and 2013, 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 2013 actuarial valuation, the State's annual required contributions were \$84.5 million and \$91.6 million for fiscal years ended June 30, 2014 and June 30, 2013, respectively. The State's annual OPEB costs were \$69.7 million and \$78.2 million for fiscal years ended June 30, 2014 and June 30, 2013, respectively, and the State's actual contributions were \$41.6 million in 2014 and \$38.9 million in 2013, which results in a net OPEB obligation for the State of \$473.9 million as of June 30, 2014, and \$445.8 million as of June 30, 2013, respectively. The portion of this obligation allocated to the University of Wisconsin System increased from \$217.4 million in fiscal year 2013 to \$233.0 million in fiscal year 2014. 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 \$62,779 to this program during fiscal year 2014 compared to \$620,353 during fiscal year 2013.

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.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2014 and 2013

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 \$1,738.4 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. No individual asset met these criteria in fiscal year 2014 or 2013. Insurance recoveries received in fiscal year 2014 include \$1.2 million for water damage at the University of Wisconsin-Stout and \$1.4 million for flood damage at the University of Wisconsin-Oshkosh. Insurance recoveries received in fiscal year 2013 include \$0.6 million for University of Wisconsin-La Crosse Drake Hall fire damage; \$6.5 million for various buildings and infrastructure at the University of Wisconsin-Superior; and \$4.6 million for University of Wisconsin-Superior library holdings damaged in the flood. Insurance recoveries are reported as other non-operating revenues in the financial statements.

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, 2014, the equipment balance includes \$48.5 million for intangible assets net of depreciation, compared to \$50.4 million at June 30, 2013.

Depreciation expense for the fiscal years ended June 30, 2014 and 2013 was \$273.5 million and \$290.5 million, respectively.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2014 and 2013

NOTE 9 – Capital Assets (continued)

The change in book value from July 1, 2013 to June 30, 2014 is summarized as follows:

	<u>Book Value July 1, 2013</u>	<u>Additions</u>	<u>Transfers</u>	<u>Deductions</u>	<u>Book Value June 30, 2014</u>
Buildings	\$5,634,388,246	\$186,651,808	\$431,986,127	\$ (2,380,979)	\$6,250,645,202
Improvements	403,986,207	14,597,659	20,547,996	(2,133)	439,129,729
Land	153,167,817	2,587,045	-	-	155,754,862
Construction in Progress	650,602,836	134,956,430	(456,533,556)	-	329,025,710
Equipment	1,205,094,773	95,327,899	4,085,169	(252,929,045)	1,051,578,796
Library Holdings	<u>1,123,627,429</u>	<u>25,381,642</u>	<u>-</u>	<u>(9,822,728)</u>	<u>1,139,186,343</u>
Subtotal	9,170,867,308	459,502,483	85,736	(265,134,885)	9,365,320,642

Less Accumulated Depreciation:

Buildings	2,223,940,525	174,594,373	(757)	(414,519)	2,398,119,622
Improvements	226,748,782	15,217,201	-	(2,083)	241,963,900
Equipment	<u>885,229,709</u>	<u>83,662,361</u>	<u>4,192,389</u>	<u>(239,163,236)</u>	<u>733,921,223</u>
Total Accumulated Depreciation	3,335,919,016	273,473,935	4,191,632	(239,579,838)	3,374,004,745
Capital Assets, Net	<u>\$5,834,948,292</u>	<u>\$186,028,548</u>	<u>\$ (4,105,896)</u>	<u>\$(25,555,047)</u>	<u>\$5,991,315,897</u>

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

	<u>Book Value July 1, 2012</u>	<u>Additions</u>	<u>Transfers</u>	<u>Deductions</u>	<u>Book Value 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	338,023,167	(315,690,098)	-	650,602,836
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	557,234,340	2,108,526	(47,144,411)	9,170,867,308

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>118,638,451</u>	<u>(1,243,252)</u>	<u>(27,197,052)</u>	<u>885,229,709</u>
Total Accumulated Depreciation	3,075,911,906	290,524,558	(1,243,252)	(29,274,196)	3,335,919,016
Capital Assets, Net	<u>\$5,582,756,947</u>	<u>\$266,709,782</u>	<u>\$ 3,351,778</u>	<u>\$(17,870,215)</u>	<u>\$5,834,948,292</u>

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2014 and 2013

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, 2014:

	<u>Maturity Dates</u>	<u>Balance July 1, 2013</u>	<u>New Debt/ Accretion</u>	<u>Principal Paid/ Adjustments</u>	<u>Balance June 30, 2014</u>
Bonds (Gross)	2015-2042	\$1,457,612,612	\$197,707,544	\$(242,832,997)	\$1,412,487,159
Notes	2015-2022	<u>125,034,612</u>	<u>6,548,157</u>	<u>(34,403,434)</u>	<u>97,179,335</u>
		<u>\$1,582,647,224</u>	<u>\$204,255,701</u>	<u>\$(277,236,431)</u>	<u>\$1,509,666,494</u>

The bonds have maturity dates ranging from November 1, 2014 to May 1, 2042. The notes have maturity dates ranging from May 1, 2015 to May 1, 2022.

As of June 30, 2014, the current and noncurrent bonds payable net of discounts and premiums totaled \$62.9 million and \$1,422.9 million, respectively.

	<u>Balance June 30, 2014</u>	<u>Current</u>	<u>Noncurrent</u>
Bonds (Gross)	\$1,412,487,159	\$49,896,538	\$1,362,590,621
Discount	(260,159)	(26,141)	(234,018)
Premium	<u>73,579,595</u>	<u>13,060,545</u>	<u>60,519,050</u>
Bonds (Net)	1,485,806,595	62,930,942	1,422,875,653
Notes	<u>97,179,335</u>	<u>15,730,853</u>	<u>81,448,482</u>
	<u>\$1,582,985,930</u>	<u>\$78,661,795</u>	<u>\$1,504,324,135</u>

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.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2014 and 2013

NOTE 10 – Long Term Debt (continued)

As of June 30, 2013, the current and noncurrent bonds payable net of discounts and premiums totaled \$58.9 million and \$1,460.9 million, respectively.

	Balance June 30, 2013	Current	Noncurrent
Bonds (Gross)	\$1,457,612,611	\$49,302,926	\$1,408,309,685
Discount	(288,594)	(28,435)	(260,159)
Premium	<u>62,472,611</u>	<u>9,607,953</u>	<u>52,864,658</u>
Bonds (Net)	1,519,796,628	58,882,444	1,460,914,184
Notes	<u>125,034,611</u>	<u>17,133,433</u>	<u>107,901,178</u>
	<u>\$1,644,831,239</u>	<u>\$76,015,877</u>	<u>\$1,568,815,362</u>

Future debt service requirements for bonds and notes outstanding at June 30, 2014 are as follows:

Future Repayment Schedule

Fiscal Year	Bonds		Notes	
	Principal	Interest	Principal	Interest
2015	\$ 49,896,538	\$ 66,515,615	\$ 15,730,853	\$ 4,858,967
2016	54,074,435	63,827,676	13,720,451	4,072,424
2017	54,030,352	61,137,154	14,408,474	3,386,401
2018	59,123,004	58,600,349	10,034,718	2,665,978
2019	64,151,780	55,711,897	10,536,002	2,164,242
2020-2024	348,269,552	231,426,351	32,748,837	3,056,760
2025-2029	381,898,105	142,099,167	-	-
2030-2034	307,648,393	58,863,068	-	-
2035-2039	63,545,000	16,912,218	-	-
2040-2042	<u>29,850,000</u>	<u>2,262,275</u>	-	-
Total	<u>\$1,412,487,159</u>	<u>\$757,355,770</u>	<u>\$ 97,179,335</u>	<u>\$20,204,772</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, 2014, the principal balance of such bonds and notes was \$1,484.5 million and \$172.5 million, respectively. As of June 30, 2013, the principal balance of such bonds and notes was \$1,560.1 million and \$200.1 million, respectively.

Debt service payments made by the State of Wisconsin for the years ended June 30, 2014 and 2013 were allocated as follows:

2014	Bonds	Notes
Principal	\$117,997,911	\$44,076,387
Interest	<u>69,302,524</u>	<u>865,028</u>
Total Paid	<u>\$187,300,435</u>	<u>\$44,941,415</u>
2013	Bonds	Notes
Principal	\$103,474,100	\$31,881,608
Interest	<u>65,272,088</u>	<u>606,407</u>
Total Paid	<u>\$168,746,188</u>	<u>\$32,488,015</u>

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2014 and 2013

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, 2013 and 2012 are presented below (in thousands):

	<u>2013</u>	<u>2012</u>
Condensed Statement of Net Position		
Assets:		
Cash, Investments and Other Assets	\$ 3,088,780	\$2,744,301
Capital Assets, Net	<u>12,643</u>	<u>9,801</u>
Total Assets	<u><u>3,101,423</u></u>	<u><u>2,754,102</u></u>
Liabilities:		
Accounts Payable and Other Current Liabilities	66,780	62,453
Amounts Held for Other Component Units	276,700	260,231
Long-term Liabilities (Current and Noncurrent Portions)	<u>45,383</u>	<u>42,454</u>
Total Liabilities	<u><u>388,863</u></u>	<u><u>365,138</u></u>
Net Position:		
Net Investment in Capital Assets	12,643	9,801
Restricted	2,521,286	2,232,308
Unrestricted	<u>178,630</u>	<u>146,854</u>
Total Net Position	<u><u>2,712,559</u></u>	<u><u>2,388,963</u></u>
Total Liabilities and Net Position	<u><u>\$ 3,101,423</u></u>	<u><u>\$ 2,754,102</u></u>
Condensed Statement of Activities		
Program Expenses:		
Depreciation	\$ 573	\$ 461
Payments to Primary Government	236,943	214,000
Other	<u>34,459</u>	<u>36,102</u>
Total Program Expenses	<u><u>271,975</u></u>	<u><u>250,563</u></u>
Program Revenues:		
Investment and Interest Income	328,078	222,273
Operating Grants and Contributions	266,855	211,289
Other	<u>638</u>	<u>648</u>
Total Program Revenues	<u><u>595,571</u></u>	<u><u>434,210</u></u>
Net Program Revenues	323,596	183,647
Change in Net Position	323,596	183,647
Net Position, Beginning of Year	<u>2,388,963</u>	<u>2,205,316</u>
Net Position, End of Year	<u><u>\$ 2,712,559</u></u>	<u><u>\$ 2,388,963</u></u>

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2014 and 2013

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 \$189,902,702 at June 30, 2014, compared with \$174,265,346 at June 30, 2013.

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, 2014, the present value of these future lease payments totaled \$0.5 million, compared to \$1.2 million at June 30, 2013, 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 \$1,412.5 million and \$1,457.6 million at June 30, 2014 and June 30, 2013, 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, 2014, the University of Wisconsin System received services from UWHCA totaling \$4.8 million and provided services to UWHCA totaling \$65.2 million, compared to amounts for fiscal year ended June 30, 2013 of \$4.8 million and \$66.8 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, 2014, the present value of these future lease payments totaled \$3.2 million, compared to \$3.9 million at June 30, 2013, 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 \$1,412.5 million and \$1,457.6 million at June 30, 2014 and June 30, 2013, 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, 2014 and 2013

NOTE 11 – Other Organizations
C – Lease Agreements (continued)

During the fiscal year ended June 30, 2014, 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 \$11.9 million to DHS during fiscal year 2014 and \$5.4 million in fiscal year 2013, representing the state's share of this difference. DHS then claimed the federal share of the difference from the federal government and subsequently provided \$27.9 million during fiscal year 2014 and \$12.7 million during fiscal year 2013, representing both the state and federal share of the difference, to the UW Medical Foundation. In addition, transfers by UW-Madison to the MA Trust Fund of \$16.0 million during fiscal year 2014 and \$7.3 million in fiscal year 2013 were also made under this program and are reported as a transfer to state agencies on the financial statements.

During fiscal year 2014, the UW Medical Foundation remitted \$12.7 million to UW-Madison as reimbursement for payments to DHS during fiscal year 2013. The \$12.7 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, 2014 and 2013

NOTE 11 – Other Organizations
D – Other Agreements (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.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2014 and 2013

NOTE 12 – Operating Expenses by Functional Classification

Operating expenses by functional classification for the fiscal year ended June 30, 2014:

	Salary and Fringe Benefits	Scholarships and Fellowships	Supplies and Services	Other	Depreciation	Total
Instruction	\$ 1,032,612,613	\$ 1,842,023	\$ 127,367,797	\$ 9,972,300	-	\$ 1,171,794,733
Research	656,021,131	2,272,221	262,065,991	(161,005,051)	-	759,354,292
Public Service	191,258,039	503,681	101,647,185	13,881,076	-	307,289,981
Academic Support	293,017,296	14,957	104,668,646	1,018,661	-	398,719,560
Farm Operations	11,038,664	-	7,174,516	37,224	-	18,250,404
Student Services	276,736,241	906,872	144,457,133	(1,385,146)	-	420,715,100
Institutional Support	229,982,247	26,259	36,419,356	301,513	-	266,729,375
Operation/Maintenance	152,346,486	-	159,677,176	105,827	-	312,129,489
Financial Aid	5,921,146	144,068,297	5,277,097	167,857,215	-	323,123,755
Auxiliary Enterprises	120,497,656	12,532	220,696,200	(589,626)	-	340,616,762
Hospital	-	-	58,053,446	-	-	58,053,446
Depreciation	-	-	-	-	273,473,935	273,473,935
Total Operating Expenses	<u>\$ 2,969,431,519</u>	<u>\$ 149,646,842</u>	<u>\$ 1,227,504,543</u>	<u>\$ 30,193,993</u>	<u>\$ 273,473,935</u>	<u>\$ 4,650,250,832</u>

Operating expenses totaled \$4.7 billion. Salary and fringe benefits, scholarships and fellowships, and supplies and services and other expenses constituted 63.9%, 3.2%, and 26.4% of total operating expenses, respectively. Depreciation comprised \$273.5 million or 5.9% of total operating expenses.

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	208,926,531	497,211	9,597,489	752,178	-	219,773,409
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	-	-	-	-	290,524,559	290,524,559
Total Operating Expenses	<u>\$ 2,870,367,327</u>	<u>\$ 132,197,858</u>	<u>\$ 1,150,197,950</u>	<u>\$ 21,102,542</u>	<u>\$ 290,524,559</u>	<u>\$ 4,464,390,236</u>

Operating expenses totaled \$4.5 billion. Salary and fringe benefits, scholarships and fellowships, and supplies and services and other expenses constituted 64.3%, 3.0%, and 25.8% of total operating expenses, respectively. Depreciation comprised \$290.5 million or 6.5% 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. However, most of the unrestricted funds have been identified for academic and research programs and initiatives, and capital programs.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2014 and 2013

NOTE 13 – Classification of Net Position (continued)

The amounts within each category at June 30, 2014 and June 30, 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Net Investment in Capital Assets	\$4,365,969,021	\$4,170,918,293
Restricted - Nonexpendable		
➤ Permanent Endowment	187,767,529	166,599,785
Restricted - Expendable		
➤ Quasi-Endowment	232,985,246	207,644,830
➤ Auxiliary Operations – Segregated Fees	<u>88,971,325</u>	<u>76,213,218</u>
Subtotal	321,956,571	283,858,048
Restricted - Student Loans		
➤ Federal Aid – Student Loans	189,823,688	188,458,970
➤ Gifts – Student Loans	28,284,898	28,405,152
➤ Endowment Funds	<u>13,794,262</u>	<u>12,562,238</u>
Subtotal	231,902,848	229,426,360
Restricted - Other		
➤ Federal Aid	19,751,499	24,824,124
➤ Gifts and Nonfederal Grants & Contracts	191,978,442	164,112,798
➤ Endowment Funds	13,262,596	14,354,938
➤ Construction Fund	57,440,254	180,494,186
➤ Segregated Revenue	353,743	342,169
➤ All Other Restricted Program Revenue	<u>1,173,510</u>	<u>1,177,693</u>
Subtotal	283,960,044	385,305,908
Unrestricted		
➤ Tuition (Academic & Extension Student Fees)	438,985,737	594,512,258
➤ General Operations	140,087,754	196,635,314
➤ Auxiliary Operations (Non-Segregated Fee)	199,500,495	159,543,336
➤ Indirect Cost Reimbursement	171,390,344	147,175,236
➤ Endowment Funds	88,266,059	83,125,318
➤ All Other Unrestricted Program Revenue	35,424,621	23,442,399
➤ Gifts and Nonfederal Grants & Contracts (Note 1)	(28,417,398)	(27,575,450)
➤ Federal Aid (Note 1)	(5,041,852)	(10,538,814)
➤ All Other Non-Program Revenue (Note 2)	<u>(92,649,281)</u>	<u>(86,584,216)</u>
Subtotal	947,546,479	1,079,735,381
Total Net Position	<u>\$6,339,102,492</u>	<u>\$6,315,843,775</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.

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.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2014 and 2013

NOTE 13 – Classification of Net Position (continued)

CAFR reclassifications as of June 30, 2014 (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	\$4,366.0	\$ -	\$ -	\$ -	\$ -	\$4,366.0
Restricted for						
Nonexpendable	187.8	-	-	-	-	187.8
Expendable	321.9	(89.0)	79.2	-	-	312.1
Student Loans	231.9	-	-	(10.2)	(0.1)	221.6
Other	284.0	-	-	10.2	(45.4)	248.8
Unrestricted	<u>947.5</u>	<u>89.0</u>	<u>(79.2)</u>	<u>-</u>	<u>(187.5)</u>	<u>769.8</u>
Total Net Position	\$6,339.1	\$ 0.0	\$ 0.0	\$ 0.0	\$(233.0)	\$6,106.1

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	\$4,170.9	\$ -	\$ -	\$ -	\$ -	\$4,170.9
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	385.3	-	-	9.4	(42.0)	352.7
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	\$6,315.8	\$ 0.0	\$ 0.0	\$ 0.0	\$(217.4)	\$6,098.4

NOTE 14 – Prior Period Adjustments and Other Restatements

Neither the June 30, 2014 Statement of Net Position nor the June 30, 2013 Statement of Net Position includes a prior period adjustment.

In addition to the amounts restated for fiscal year 2013 as a result of GASB Statement No. 65 as described in Note 1, other amounts have been restated in fiscal year 2013 to better reflect activity of that period:

<u>Account Affected</u>	<u>Amount</u>	<u>Explanation</u>
Depreciation Expense	\$ 32,040,417	Additional depreciation for fiscal year
Equipment, Net	(32,040,417)	2013 and prior periods; error in calculation
Salary & Fringe Benefits Expense	(1,299,804)	Internally-generated software project in-
Supplies & Services Expense	(2,699,629)	progress at June 30, 2013; was expensed
Construction in Progress	3,999,433	in fiscal year 2013 rather than capitalized
Sales & Services of Educational Activities	(49,865,002)	Reclassification of revenue
Other Operating Revenue	49,865,002	

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2014 and 2013

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.

NOTE 16 – Subsequent Events

Long-Term Debt

In July 2014, the State of Wisconsin issued long-term debt in the form of general obligation bonds that were partially 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 rate for the bonds was 5.00% payable semiannually, beginning May 1, 2015. The bonds mature May 1 of the years 2016 through 2031.

In August 2014, 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 November 1, 2014. The refunding bonds mature November 1 of the years 2020 through 2029.

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Supplemental Information

CHART 1
TEN-YEAR COMPARISON OF CURRENT FUNDS REVENUES
2004-2014

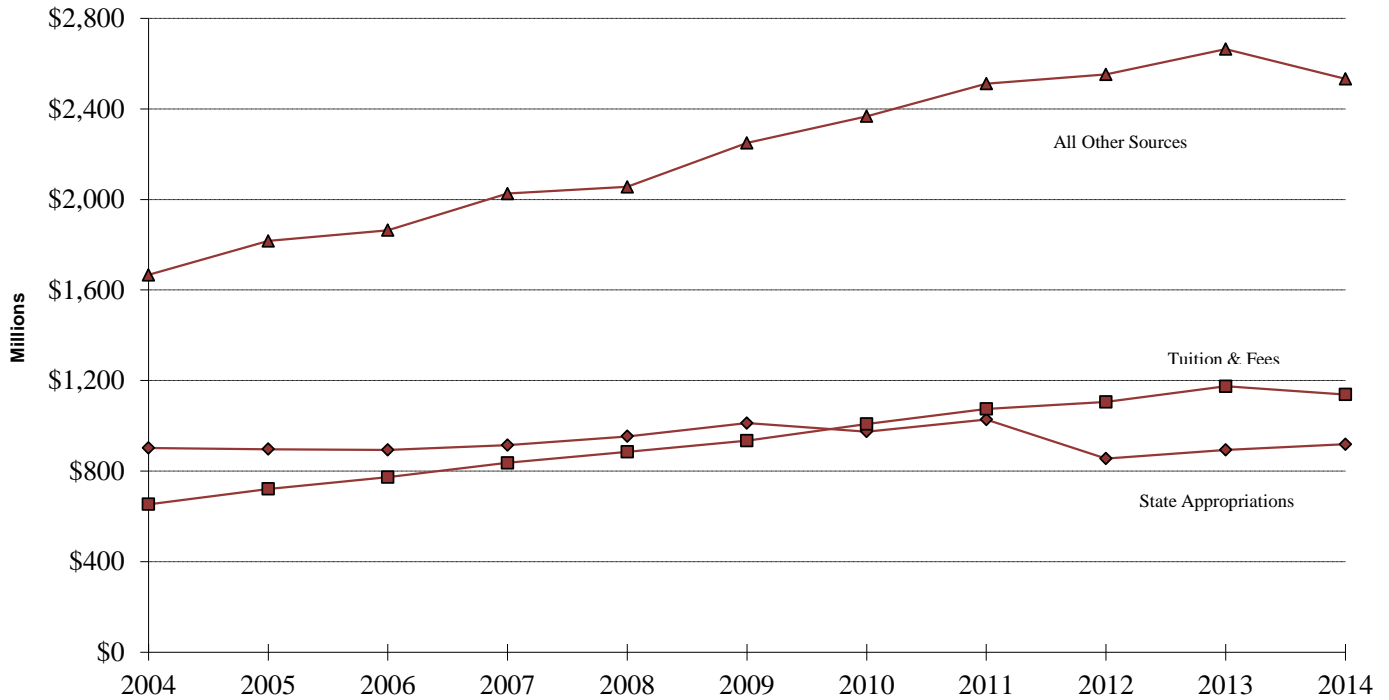


CHART 2
TEN-YEAR COMPARISON OF CURRENT FUNDS REVENUES
ADJUSTED FOR INFLATION
2004- 2014

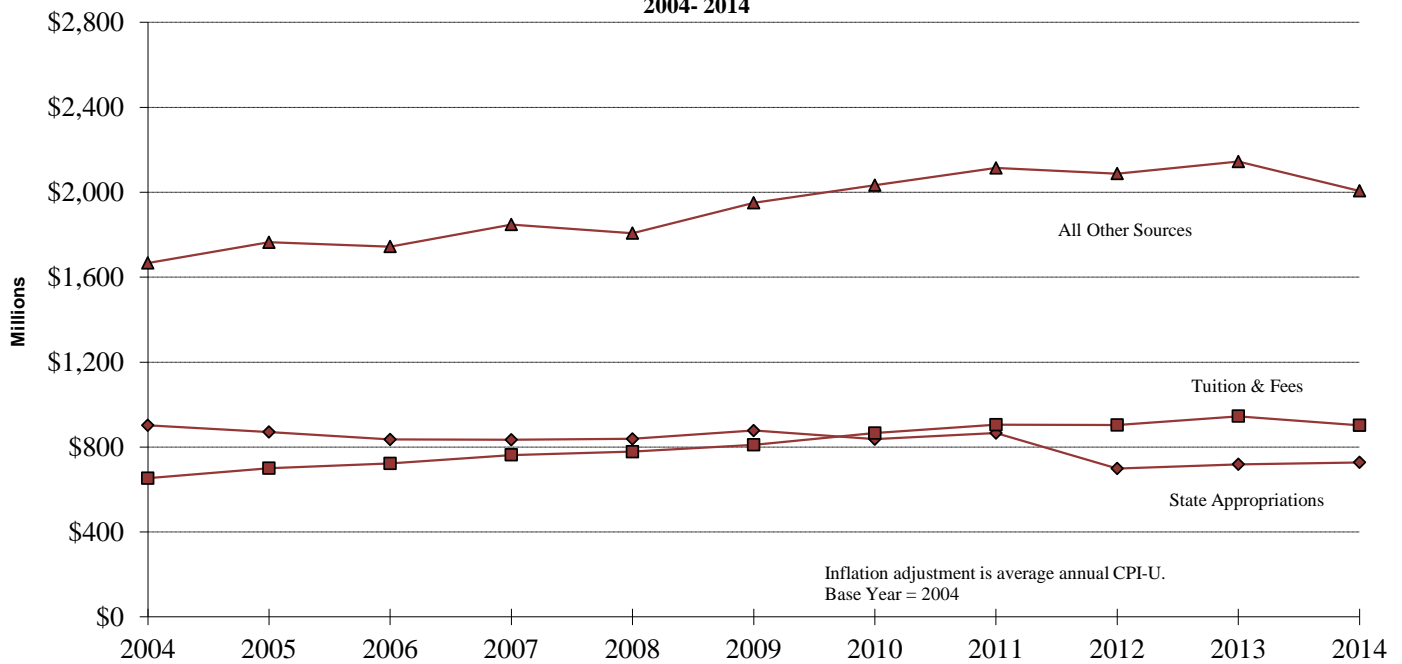
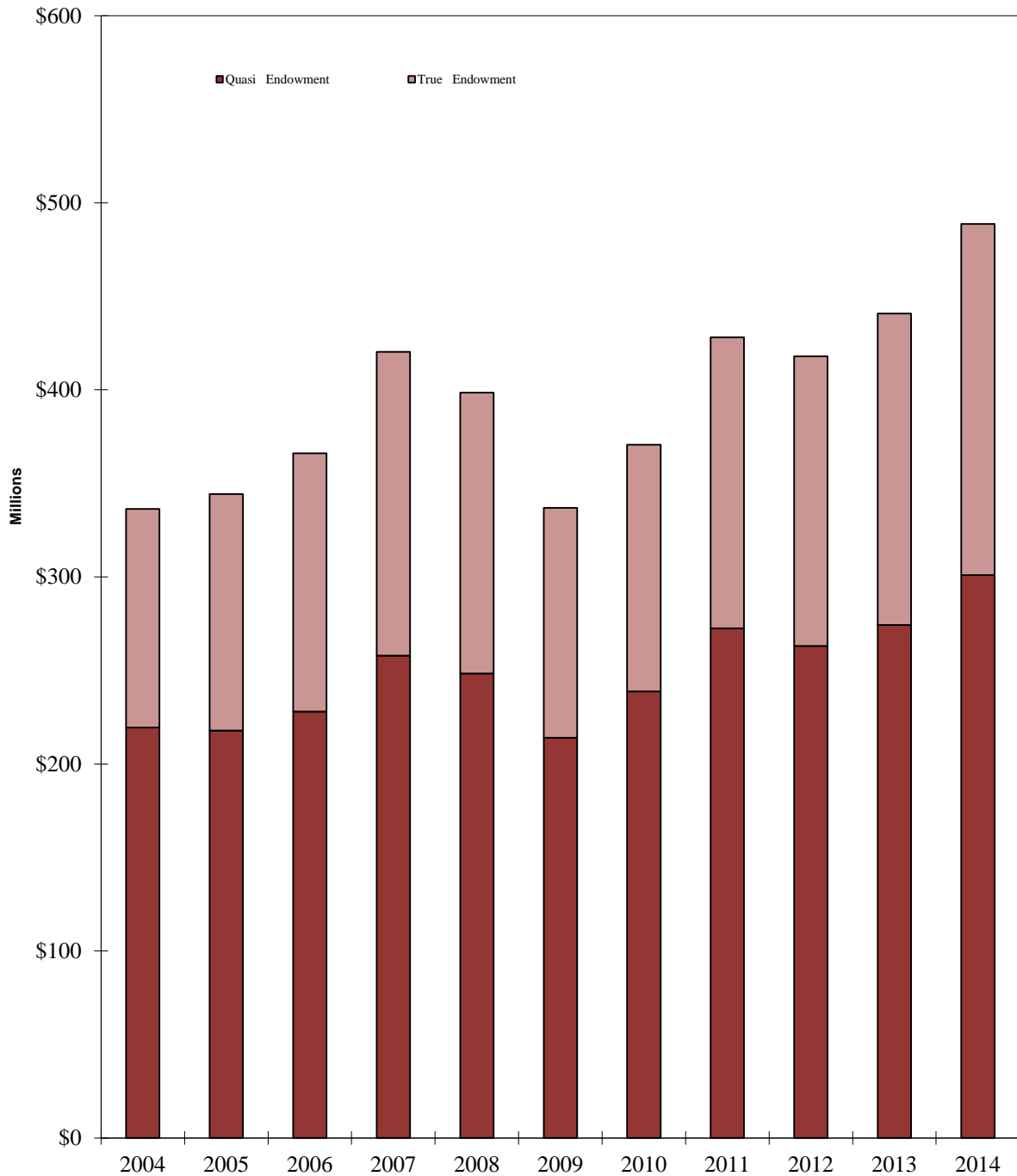


CHART 3
TEN-YEAR COMPARISON OF UNIVERSITY-CONTROLLED ENDOWMENTS
2004-2014



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

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