

# ANNUAL FINANCIAL REPORT 2017



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**Editor: Lana Becker**

**Cover Photo:** University of Wisconsin–Stevens Point students gather near the new, state-of-the-art Chemistry Biology Building set to open in fall 2018. Designed as a “science-on-display” facility, it will house the entire Department of Chemistry, and the molecular biology, human biology and botany sections of the Department of Biology. The building will allow visitors to view hands-on interactive displays for exploration of the sciences. The campus has some of the highest enrollment science programs in the UW System, including more than 2,500 students majoring or minoring in biology and natural resources disciplines.

Established in 1894 as a teacher’s college, UW-Stevens Point enrolls about 8,600 students. The campus has more than 400 faculty and teaching academic staff, and the highest percentage (75%) of undergraduate courses taught by regular faculty in the UW System. UW-Stevens Point classrooms offer a low student-to-faculty ratio and professors who inspire and challenge, at an affordable price. With more than 200 student organizations, Pointers athletics, a popular intermural program, and a 280-acre nature preserve right on campus, students have many choices for recreation, as well as opportunities for service learning, research, sustainable living, internships, and study abroad. Expanding programs in technology, health care, natural resources, and the arts prepare students as tomorrow’s global professionals.

**Photo:** UW-Stevens Point

# University of Wisconsin System 2017 Annual Financial Report

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# 2017 Annual Financial Report

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Margaret Farrow, Pewaukee

Michael Grebe, Waukesha

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Mike Jones, Milwaukee

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Regina Millner, Madison

Janice Mueller, Madison

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Gerald Whitburn, Wausau



*Years Ended June 30, 2017 and 2016*

## INTRODUCTION FROM THE PRESIDENT





## INTRODUCTION FROM THE PRESIDENT

### FINANCIAL REPORT 2017

In fiscal year 2016-17, the University of Wisconsin (UW) System remained a vibrant institution and continued to recognize its ever-growing role in the State of Wisconsin and its economy. The UW System had a strong year in delivering a quality, accessible and affordable education for our students.

In FY 2016-17:

- More than 36,600 associate, bachelor's, master's and other advanced degrees were awarded across all UW campuses – with nearly 25% of those degrees in STEM and health-related fields; and
  - UW institutions reported expenditures of over \$1.0 billion in 2016-17 towards research that helps our state and nation.
- We must remain diligent going forward to sustain these qualities and achievements for future generations. The financial report shows that, with strong faculty, staff, and administrators, we continue to be good stewards of our resources. Furthermore, the report received an unmodified (clean) audit opinion from the Legislative Audit Bureau, indicating no issues were found with the report.

### FY 2016-2017 Annual Financial Report Highlights

- The UW System's equity (called Total Net Position) decreased by \$20.4 million, or 0.3%, for the fiscal year ending June 30, 2017.
- The Unrestricted Net Position (which describes resources not restricted by the federal government, donors, building projects, etc.) declined \$63.4 million, or nearly 6.5%. This decline in unrestricted resources is primarily attributed to three factors:
  1. Accrual adjustments for Wisconsin Retirement System (WRS) activity negatively impacted the UW System's Unrestricted Net Position by \$114.0 million. These adjustments primarily related to changes in actuarial assumptions that people have a longer life expectancy and differences between projected and actual earnings on

pension plan investments. The WRS is the ninth (9<sup>th</sup>) largest public pension fund in the United States, and is managed by Employee Trust Funds and the State of Wisconsin Investment Board. This fund has a significant impact on the UW System when we must accrue our portion of WRS activity.

2. The unrestricted revenues and expenses incurred by the UW System resulted in a net loss of approximately \$31.0 million (this excludes restricted financial activity, such as gifts).
  3. After further analysis of endowment and grant activity, the UW System reclassified \$74.5 million in restricted funds to unrestricted based upon donor and grant intent. However, this shift does not create additional equity in total, but rather increases the Unrestricted Net Position.
- To manage a changing fiscal environment, the UW System continues to rely heavily on outside revenue. In an increasingly competitive market for grants and contracts, the UW System has been able to keep its revenue from these sources stable over the past fiscal year. In addition, the UW System experienced an increase of \$75.0 million (or nearly 25%) in gifts, along with an increase of \$59.6 million in investment income in FY 2016-17. While appreciated and needed, increases in gift and investment revenue are likely not sustainable long-term due to fluctuations in giving and the potentially volatile nature of the financial market. In addition, gift funds are often restricted for specific purposes according to the donor's intent.
  - An increase of \$23.5 million in the UW System's cash balance is due to the increase in gift revenue as described above.

- UW resident undergraduate tuition was frozen for the fourth consecutive year in 2016-17. An increase of \$26.5 million in tuition and fee revenue is attributable to increases in nonresident and graduate enrollments and tuition rates.

In summer 2016, the UW System Board of Regents adopted *2020FWD*, a comprehensive strategic framework that reflects the needs and expectations of our students, citizens, communities and businesses. *2020FWD* clearly reflects the opportunity that UW campuses represent for Wisconsin in ensuring access to a quality education, as well as serving as a catalyst in supporting the economic vitality, health and well-being of all residents.

The UW System's financial base must be strong enough to secure a brighter future for all of Wisconsin and support the initiatives laid out in *2020FWD*.

Ray Cross  
President



# STATE OF WISCONSIN | Legislative Audit Bureau

22 East Mifflin St., Suite 500 ■ Madison, WI 53703 ■ (608) 266-2818 ■ Hotline: 1-877-FRAUD-17 ■ [www.legis.wisconsin.gov/lab](http://www.legis.wisconsin.gov/lab)

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 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, 2017, and June 30, 2016, as listed in the table of contents. These financial statements include UW System's discretely presented component unit, UW Foundation, and its Consolidated Statements of Financial Position as of June 30, 2017 and 2016, and its related Consolidated Statements of Activities and Consolidated Statements of Cash Flows for the year ended June 30, 2017.

#### **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 opinions on these financial statements based on our audits. We did not audit the financial statements of the UW Foundation. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the UW Foundation, is based solely on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, 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. The financial statements of the UW Foundation were audited in accordance with auditing standards generally accepted in the United States of America, but not in accordance with *Government Auditing Standards*.



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 opinions on these financial statements.

### **Opinions**

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of UW System and the discretely presented component unit as of June 30, 2017, and June 30, 2016, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphases of Matter**

As discussed in Note 1 to the financial statements, the financial statements referred to in the first paragraph present only UW System's financial statements and the discretely presented component unit, and do not purport to, and do not, present fairly the financial position of the State of Wisconsin as of June 30, 2017, and June 30, 2016, the changes in financial position, or where applicable, cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, in fiscal year 2015-16, UW System implemented the Governmental Accounting Standards Board (GASB) Statement Number 72, *Fair Value Measurement and Application*. This statement revises the accounting and financial reporting related to fair value measurements.

As discussed in Note 1 to the financial statements, in 2016, the date of the financial year end for the UW Foundation was changed from December 31 to June 30. Accordingly, the current Consolidated Statements of Activities and Consolidated Statements of Cash Flows do not show comparative figures for the year ended June 30, 2016.

Our opinions are not modified with respect to these matters.

### **Other Matters**

*Required Supplementary Information*—Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the schedule of UW System's Proportionate Share of the Net Pension Liability (Asset), the schedule of UW System's Pension Contributions, and the related notes, as listed in the table of contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is

required by GASB, which considers it to be essential for placing the financial statements in an appropriate operational, economic, or historical context. In accordance with auditing standards generally accepted in the United States of America, we have applied certain limited procedures to the required supplementary 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 audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to do so.

*Accompanying Information*—Our audits were conducted for the purpose of forming an opinion on the financial statements of UW Systems. The supplementary information on pages 4 and 5 and on pages 66 and 67 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 have also issued a report dated January 31, 2018, on our consideration of the 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 solely 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 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 the UW System's internal control over financial reporting and compliance.

LEGISLATIVE AUDIT BUREAU

A handwritten signature in black ink, appearing to read "Joe Chrisman", written in a cursive style.

Joe Chrisman  
State Auditor

January 31, 2018



*Years Ended June 30, 2017 and 2016*

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Management's Discussion and Analysis**  
**Years Ended June 30, 2017 and 2016**

**Management's Discussion and Analysis**

The following discussion and analysis provides an overview of the financial position and activities of the University of Wisconsin System (University) for the years ended June 30, 2017 and 2016, with comparative information for the year ended June 30, 2015, where appropriate. This discussion has been prepared by management and should be read in conjunction with the financial statements and footnotes.

The University consists of 13 universities, 13 two-year colleges, University of Wisconsin (UW)-Extension, and System Administration. In academic year 2016-2017, the University enrolled 175,825 students, employed approximately 31,800 faculty and staff, and granted 36,622 associate, bachelor's, master's, and other advanced degrees. University institutions were awarded over \$863.9 million in federal grants and contracts in fiscal year 2017 and an additional \$575.1 million from non-federal sponsors. The University has a long tradition of public service, embodied by an ongoing commitment to the Wisconsin Idea, that the boundaries of the University are the boundaries of the State.

<b>Degrees Granted</b>		<b>2016-17 Headcount Enrollments</b>	
<i>UW-Madison</i>	<i>10,581</i>	<i>UW-Madison</i>	<i>42,994</i>
<i>UW-Milwaukee</i>	<i>5,415</i>	<i>UW-Milwaukee</i>	<i>26,011</i>
<i>UW-Eau Claire</i>	<i>2,149</i>	<i>UW-Eau Claire</i>	<i>10,705</i>
<i>UW-Green Bay</i>	<i>1,374</i>	<i>UW-Green Bay</i>	<i>7,030</i>
<i>UW-La Crosse</i>	<i>2,311</i>	<i>UW-La Crosse</i>	<i>10,624</i>
<i>UW-Oshkosh</i>	<i>2,384</i>	<i>UW-Oshkosh</i>	<i>13,955</i>
<i>UW-Parkside</i>	<i>801</i>	<i>UW-Parkside</i>	<i>4,399</i>
<i>UW-Platteville</i>	<i>1,606</i>	<i>UW-Platteville</i>	<i>8,782</i>
<i>UW-River Falls</i>	<i>1,398</i>	<i>UW-River Falls</i>	<i>5,931</i>
<i>UW-Stevens Point</i>	<i>1,905</i>	<i>UW-Stevens Point</i>	<i>8,627</i>
<i>UW-Stout</i>	<i>1,905</i>	<i>UW-Stout</i>	<i>9,619</i>
<i>UW-Superior</i>	<i>556</i>	<i>UW-Superior</i>	<i>2,487</i>
<i>UW-Whitewater</i>	<i>2,733</i>	<i>UW-Whitewater</i>	<i>12,628</i>
<i>UW Colleges</i>	<i><u>1,504</u></i>	<i>UW Colleges</i>	<i><u>12,033</u></i>
<i>Total</i>	<i><u>36,622</u></i>	<i>Total</i>	<i><u>175,825</u></i>

**Using the Financial Statements**

The University's annual financial report includes the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; the Statement of Cash Flows; and the Notes to the Financial Statements. These items are prepared in accordance with standards established by the Governmental Accounting Standards Board (GASB).

The Statement of Net Position is a financial condition snapshot as of June 30, 2017 and 2016, 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's financial health when considered in conjunction with non-financial information, such as conditions of facilities and enrollment levels. Net

**UNIVERSITY OF WISCONSIN SYSTEM**  
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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'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, 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 are a significant component in determining the increase or decrease in total net position.

The Statement of Cash Flows summarizes cash inflows and outflows by category as relating to operating, capital, financing, or investing activities. Cash flow information can be used to evaluate the financial viability of the University 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 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. 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 noncapital financing activities include state appropriations and private gifts restricted for noncapital purposes.

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.

In addition to this Management's Discussion and Analysis, which is required supplementary information, the basic financial statements are followed by required supplementary information regarding the University's pension obligations.

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**Management's Discussion and Analysis**  
**Years Ended June 30, 2017 and 2016**

**Analysis of Financial Position and Results of Operations**

The University's total net position remained relatively stable after fiscal year 2017. As of June 30, 2017, the University had total assets of \$8.6 billion and total liabilities of \$2.5 billion.

<b><u>Statement of Net Position (in millions)</u></b>	<b><u>2017</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>
Current Assets	\$ 2,009.0	\$ 1,988.3	\$ 1,905.0
Capital Assets, Net	6,021.0	5,998.2	6,006.0
Other Noncurrent Assets	<u>619.1</u>	<u>583.5</u>	<u>941.0</u>
Total Assets	8,649.1	8,570.0	8,852.0
Deferred Outflow of Resources	815.1	1,181.5	284.4
Current Liabilities	540.9	623.8	590.0
Noncurrent Liabilities	<u>2,004.9</u>	<u>2,076.2</u>	<u>1,848.2</u>
Total Liabilities	2,545.8	2,700.0	2,438.2
Deferred Inflows of Resources	359.9	472.6	9.1
Net Investment in Capital Assets	4,392.6	4,383.3	4,386.4
Restricted Net Position	1,245.2	1,211.5	1,468.9
Unrestricted Net Position	<u>920.7</u>	<u>984.1</u>	<u>833.8</u>
Total Net Position	<u>\$ 6,558.5</u>	<u>\$ 6,578.9</u>	<u>\$ 6,689.1</u>

Current assets minus current liabilities represents the net working capital of the University. Net working capital increased from \$1,364.5 million at June 30, 2016 to \$1,468.2 million at June 30, 2017. The net working capital at year end represented approximately 107 days of 2017 operating expenses. This indicates that the University could support normal operations for 107 days without additional revenues or liquidating noncurrent assets.

As shown in the following table, the change in Current Assets, which consists primarily of operating cash and cash equivalents, accounts receivable, student loans receivable, supply inventories, and prepaid expenses, increased by \$20.7 million during fiscal year 2017. The largest change within the fiscal year relates to a \$23.5 million increase in cash and cash equivalents that is the result of increased gifts and grants.

<b><u>Current Assets (in millions)</u></b>	<b><u>2017</u></b>	<b><u>2016</u></b>	<b><u>Change</u></b>
Cash & Cash Equivalents	\$ 1,666.1	\$ 1,642.6	\$ 23.5
Accounts Receivable, Net	241.6	244.0	(2.4)
Other Current Assets	<u>101.3</u>	<u>101.7</u>	<u>(0.4)</u>
Total Current Assets	<u>\$ 2,009.0</u>	<u>\$ 1,988.3</u>	<u>\$ 20.7</u>

The Board of Regents has authority to invest gifts and bequests received by the University. 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 12-quarter



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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 quarterly. A comparison of university-controlled endowments over the past several years can be found in Chart 3 on page 67 of this report. Additional information on cash and investments is provided in Note 2 to the Financial Statements.

Non-current assets are comprised mainly of endowment investments, capital assets (net of accumulated depreciation), and student loans receivable. Endowment investments, valued at \$452.2 million at June 30, 2017, increased by \$36.7 million during fiscal year 2017. The increase was driven by market-based improvements in investment performance.

Non-current liabilities decreased by \$71.3 million in fiscal year 2017. The most significant reason for this is the adjustment to the net pension liability. The total pension liability is based on a roll-forward of the December 31, 2015 valuation liabilities to December 31, 2016. In 2015, the Wisconsin Retirement System completed an experience study from 2012-2014, which resulted in a change in the mortality assumptions used when calculating the actuarial valuation required by Governmental Accounting Standards Board Statement (GASB) No. 68. This change reduced plan net position and that resulted in recording a \$220.5 million net pension liability at June 30, 2016. In 2017, the plan fiduciary net position increased, which was driven by the increase in investment income. This increase in fiduciary net position reduced the net pension liability to \$112.7 million.

Further, these reporting changes resulted in \$158.8 million of additional pension expense being included on the Statement of Revenues, Expenses, and Changes in Net Position. These changes are more fully described in Notes 1 and 8 to the Financial Statements.

Most of the unrestricted net position has been identified for purposes to fulfill the University's fiduciary responsibilities, including academic and research programs and capital projects. Additional information related to net position can be found in Note 12 to the Financial Statements.

**Capital and Debt Activities**

Of the \$6.6 billion in net position, \$4.4 billion is net investment in capital assets. In an effort to maintain quality in the University's academic and research programs and residence halls, the University has implemented a long-range plan to fund new construction and modernize existing facilities. Capital additions consist of new construction, replacement and renovation of academic and research facilities, as well as significant investment in technology and equipment. Note 4 to the Financial Statements describes the University's capitalization and depreciation policies, and includes summarized changes in the book value of these assets. Note 6 to the Financial Statements describes the University's long term debt and includes summarized information on those balances, as well as future debt service requirements.

There are three primary sources of funding for University 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 program revenue; and cash from gift and grant funds.

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**Years Ended June 30, 2017 and 2016**

**Major Construction Projects**

During fiscal year 2017, several major construction projects were in progress including these projects with a budget of \$50.0 million or more:

<u>UW Institution</u>	<u>Project</u>	<u>Primary Purpose</u>	<u>Approx. Budget (in millions)</u>	<u>Primary Funding Sources</u>
La Crosse	Science Lab Building	Academic	\$ 82.0	GFSB
Madison	Music Performance Building	Academic	55.8	Gifts
Madison	Witte Residence Hall Renovation	Student Life	52.8	PRSB/Cash
Madison	New South East Recreational Facility (SERF)	Student Life	96.5	PRSB/Gifts
Madison	Chemistry Building	Academic	93.8	GFSB/Gifts/Cash
Stevens Point	Chemistry-Biology Building	Academic	75.1	GFSB/Cash

Several construction projects were completed in FY 2017 including these projects with \$50.0 million or more in actual expenditures:

<u>UW Institution</u>	<u>Project</u>	<u>Primary Purpose</u>	<u>Approx. Budget (in millions)</u>	<u>Primary Funding Sources</u>
La Crosse	Student Union Center	Student Life	\$53.3	PRSB/Cash
River Falls	Health and Human Performance/ Recreation Building (Falcon Center)	Academics & Athletics	\$65.2	GFSB/PRSB/Gifts

**Statement of Revenues, Expenses, and Changes in Net Position**

The Statement of Revenue, Expenses, and Changes in Net Position present the University's operating results as well as non-operating revenues and expenses. A summary of the Statement of Revenues, Expenses, and Changes in Net Position is as follows (in millions):

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total Revenues	\$ 4,956.5	\$ 4,746.7	\$ 4,688.8
Total Expenses	<u>5,102.9</u>	<u>5,034.9</u>	<u>4,816.6</u>
Loss Before Capital and Endowment Additions	(146.4)	(288.2)	(127.8)
Capital Appropriations, Contributions & Endowment Additions	<u>126.0</u>	<u>137.4</u>	<u>192.5</u>
Increase (Decrease) in Net Position	<u>\$ (20.4)</u>	<u>\$ (150.8)</u>	<u>\$ 64.7</u>

The University's operating and non-operating revenues are provided in the table below. Operating revenues increased \$258.5 million since fiscal year 2015, primarily due to an increase in non-resident tuition and state, local, & private grants and contracts. Non-operating revenues increased \$9.2 million between fiscal year 2015 and fiscal year 2017 primarily due to changes in state appropriations, gifts, and investment income (loss).

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Management's Discussion and Analysis**  
**Years Ended June 30, 2017 and 2016**

Operating Revenues (in millions):	<b><u>2017</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>
Student Tuition and Fees, Net	\$ 1,258.2	\$ 1,231.8	\$ 1,169.2
Federal Grants and Contracts	761.3	779.9	759.2
State, Local, & Private Grants and Contracts	439.8	414.6	389.5
Sales and Services of Educational Activities	335.6	317.1	327.8
Sales and Services of Auxiliaries, Net	429.5	418.1	401.8
All Other Operating Revenues	<u>478.3</u>	<u>467.7</u>	<u>396.7</u>
Total Operating Revenues	3,702.7	3,629.2	3,444.2
Non-Operating Revenues:			
State Appropriations	808.2	802.7	896.6
Gifts	378.1	303.1	304.9
Net Investment Income (Loss)	56.2	(3.4)	4.7
Other Non-Operating Revenues	<u>11.3</u>	<u>15.1</u>	<u>38.4</u>
Total Non-Operating Revenues	<u>1,253.8</u>	<u>1,117.5</u>	<u>1,244.6</u>
Total Revenues	<u>\$ 4,956.5</u>	<u>\$ 4,746.7</u>	<u>\$ 4,688.8</u>

One of the University's strengths has been its ability to supplement student tuition and fee revenue and state appropriations with support from other sources, including individuals, foundations, investment income, and government-sponsored programs (see Charts 1 and 2 in the Supplemental Information on page 66 of this report). The University continues to aggressively seek funding sources consistent with its mission to meet operating activities in a financially prudent manner. In addition, the University will continue to make cost containment and revenue diversification a priority.

Operating expenses, classified by function, and non-operating expenses, are as follows (in millions):

Operating Expenses:	<b><u>2017</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>
Instruction	\$1,369.5	\$ 1,321.4	\$ 1,199.1
Research	960.5	932.4	729.0
Public Service	306.2	309.2	302.3
Academic Support	395.4	393.1	403.2
Student Services	440.2	449.1	442.1
Institutional Support	298.5	278.8	282.8
Operation/Maintenance	295.9	293.8	308.3
Financial Aid	144.6	153.7	298.2
Auxiliary Enterprises	363.3	335.9	337.8
Other Functions	81.3	77.4	76.7
Depreciation	<u>292.5</u>	<u>303.9</u>	<u>290.4</u>
Total Operating Expenses	4,947.9	4,848.7	4,669.9
Non-Operating Expenses	<u>155.0</u>	<u>186.2</u>	<u>146.7</u>
Total Expenses	<u>\$ 5,102.9</u>	<u>\$ 5,034.9</u>	<u>\$ 4,816.6</u>

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Management's Discussion and Analysis**  
**Years Ended June 30, 2017 and 2016**

Salary and fringe benefits expenses adjusted for GASB Statement No. 68 are as follows (in millions):

	2017	2016	2015
Prior to GASB 68 Adjustment			
Salaries	\$2,323.3	\$2,297.4	\$2,311.8
Fringe Benefits	<u>774.7</u>	<u>774.1</u>	<u>779.3</u>
Subtotal	3,098.0	3,071.5	3,091.1
GASB 68 Adjustment			
Salaries	-	-	-
Fringe Benefits	<u>158.8</u>	<u>122.6</u>	<u>(56.8)</u>
Subtotal	158.8	122.6	(56.8)
After GASB 68 Adjustment			
Salaries	2,323.3	2,297.4	2,311.8
Fringe Benefits	<u>933.5</u>	<u>896.7</u>	<u>722.5</u>
Total	<u>\$3,256.8</u>	<u>\$3,194.1</u>	<u>\$3,034.3</u>

**Factors Affecting Future Periods**

In Fall 2017, the UW System Board of Regents approved the proposed restructure on UW Colleges and UW-Extension campuses to improve student access and success, increase efficiencies, and better align with Wisconsin's future workforce needs. The current 13 two-year UW Colleges campuses located statewide will integrate into UW four-year institutions, effective July 1, 2018.

The 2017-19 State budget requires continuing the freeze of resident undergraduate tuition at fiscal year 2012-13 levels for the upcoming 2017-18 fiscal year, as well as for the 2018-19 fiscal year equating to a 6-year tuition freeze.

The 2017-19 budget reflects an increase of 3.7 percent in state support, including the return of \$25.0 million in GPR funding that was lapsed back in 2016-17, nearly \$7.7 million in additional funding to support new initiatives, and \$5.2 million in debt service.



*Years Ended June 30, 2017 and 2016*

## FINANCIAL STATEMENTS OF THE UNIVERSITY OF WISCONSIN SYSTEM

# University of Wisconsin System

## Statement of Net Position

	June 30, 2017	June 30, 2016
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 1,666,087,168	\$ 1,642,563,338
Accounts Receivable, Net	241,562,798	243,985,000
Student Loans Receivable, Net	28,618,075	29,478,288
Capital Lease Receivable	806,186	598,576
Inventories	42,581,433	41,880,370
Prepaid Expenses	29,382,705	29,789,708
Total Current Assets	<u>2,009,038,365</u>	<u>1,988,295,280</u>
Noncurrent Assets		
Endowment Investments	452,170,586	415,469,781
Student Loans Receivable, Net	166,584,383	166,958,146
Capital Lease Receivable	288,493	1,094,679
Land	156,977,401	156,327,199
Improvements Other Than Buildings, Net	204,138,269	193,700,015
Construction in Progress	231,043,044	221,893,302
Buildings, Net	4,014,585,443	4,006,069,175
Equipment, Net	294,075,459	296,071,798
Library Holdings	1,120,151,973	1,124,133,587
Total Noncurrent Assets	<u>6,640,015,051</u>	<u>6,581,717,682</u>
<b>TOTAL ASSETS</b>	<u>\$ 8,649,053,416</u>	<u>\$ 8,570,012,962</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<u>\$ 815,034,378</u>	<u>\$ 1,181,485,510</u>
<b>LIABILITIES</b>		
Current Liabilities		
Accounts Payable and Accrued Liabilities	\$ 204,283,467	\$ 284,771,463
Notes and Bonds Payable	94,191,384	89,332,234
Capital Lease Obligations	2,030,473	4,029,556
Unearned Revenue	170,602,882	178,391,222
Compensated Absences	67,651,794	65,213,517
Deposits of Student Organizations	2,112,060	2,100,749
Total Current Liabilities	<u>540,872,060</u>	<u>623,838,741</u>
Noncurrent Liabilities		
Notes and Bonds Payable	1,503,216,934	1,491,476,355
Capital Lease Obligations	28,928,030	30,109,183
Compensated Absences	70,394,687	66,307,440
Other Post-Employment Benefits	289,642,369	267,866,527
Net Pension Liability	112,698,659	220,459,696
Total Noncurrent Liabilities	<u>2,004,880,679</u>	<u>2,076,219,201</u>
<b>TOTAL LIABILITIES</b>	<u>\$ 2,545,752,739</u>	<u>\$ 2,700,057,942</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>\$ 359,879,237</u>	<u>\$ 472,581,880</u>
<b>NET POSITION</b>		
Net Investment in Capital Assets	\$ 4,392,604,768	\$ 4,383,247,748
Restricted for		
Nonexpendable	198,295,429	181,685,224
Expendable	323,389,032	340,691,976
Student Loans	235,251,787	235,752,483
Other	488,211,701	453,399,934
Unrestricted	920,703,101	984,081,285
<b>TOTAL NET POSITION</b>	<u>\$ 6,558,455,818</u>	<u>\$ 6,578,858,650</u>

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



## University of Wisconsin System

### Statement of Revenues, Expenses, and Changes in Net Position

Year ended June 30, 2017

Year ended June 30, 2016

#### OPERATING REVENUES

Student Tuition and Fees (net of Scholarship Allowances of \$220,565,252 and \$209,182,883, respectively)	\$ 1,258,247,921	\$ 1,231,769,606
Federal Grants and Contracts	761,298,596	779,878,762
State, Local, and Private Grants and Contracts	439,810,579	414,611,523
Sales and Services of Educational Activities	335,614,882	317,062,423
Sales and Services of Auxiliary Enterprises (net of Scholarship Allowances of \$39,021,034 and \$36,664,303, respectively)	429,498,449	418,106,282
Sales and Services to UW Hospital Authority	69,204,214	66,904,179
Student Loan Interest Income and Fees	4,219,759	6,117,607
Other Operating Revenue	404,883,372	394,715,321
<b>Total Operating Revenues</b>	<b>3,702,777,772</b>	<b>3,629,165,703</b>

#### OPERATING EXPENSES

Salary and Fringe Benefits	3,256,804,423	3,194,138,043
Scholarship and Fellowships	145,168,431	149,708,841
Supplies and Services	1,228,565,407	1,194,940,208
Other Operating Expenses	24,897,718	5,980,105
Depreciation	292,441,734	303,909,224
<b>Total Operating Expenses</b>	<b>4,947,877,713</b>	<b>4,848,676,421</b>

#### OPERATING LOSS

(1,245,099,941)	(1,219,510,718)
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#### NON-OPERATING REVENUES AND EXPENSES

State Appropriations	808,158,994	802,720,319
Gifts	378,123,774	303,128,514
Investment Income (net of Investment Expense of \$1,925,346 and \$1,855,890, respectively)	56,204,617	(3,379,926)
Loss on Disposal of Capital Assets	(24,841,424)	(46,667,732)
Interest on Indebtedness	(53,396,335)	(60,945,948)
Transfer to State Agencies	(76,859,460)	(78,616,495)
Other	11,276,915	15,070,271

Loss Before Capital and Endowment Additions	(146,432,860)	(288,201,715)
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Capital Appropriations	103,318,235	89,089,071
Capital Contributions	20,756,875	43,888,230
Additions to Permanent Endowment	1,954,918	4,437,142

<b>INCREASE (DECREASE) IN NET POSITION</b>	<b>(20,402,832)</b>	<b>(150,787,272)</b>
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#### NET POSITION

Net Position - beginning of period	6,578,858,650	6,689,065,260
Prior Period Adjustment	-	40,580,662
<b>NET POSITION - end of period</b>	<b>\$ 6,558,455,818</b>	<b>\$ 6,578,858,650</b>

# University of Wisconsin System

## Statement of Cash Flows

Year ended June 30, 2017

Year ended June 30, 2016

### Cash Flows from Operating Activities

Student Tuition and Fees	\$ 1,263,103,745	\$ 1,212,440,434
Federal, State, Local, and Private Grants & Contracts	1,198,022,800	1,199,638,158
Sales and Services of Educational Activities	325,953,004	312,457,963
Sales and Services of Auxiliary Enterprises	427,465,110	421,219,101
Sales and Services to UW Hospital Authority	67,799,320	67,166,806
Payments for Salaries and Fringe Benefits	(3,091,078,622)	(3,007,519,376)
Payments to Vendors and Suppliers	(1,279,149,826)	(1,158,497,227)
Payments for Scholarships and Fellowships	(145,168,431)	(149,708,841)
Student Loans Collected	35,958,740	35,662,700
Student Loan Interest and Fees Collected	4,219,758	6,117,605
Student Loans Issued	(36,039,084)	(37,187,680)
Other Revenue	393,152,186	383,601,599
<b>Net Cash Used in Operating Activities</b>	<b>(835,761,300)</b>	<b>(714,608,758)</b>

### Cash Flows from Investing Activities

Interest and Dividends on Investments, Net	14,640,000	13,611,081
Proceeds from Sales and Maturities of Investments	90,983,630	90,863,273
Purchase of Investments	(86,812,606)	(82,336,993)
<b>Net Cash Provided by Investing Activities</b>	<b>18,811,024</b>	<b>22,137,361</b>

### Cash Flows from Capital and Related Financing Activities

Proceeds from Issuance of Capital Debt	211,454,882	140,868,892
Payments for Debt Retirements (Refundings)	(121,337,989)	(67,869,138)
Capital Appropriations	103,318,235	89,053,439
Gifts and Other Receipts	34,249,805	43,521,287
Purchase of Capital Assets	(338,020,308)	(350,079,759)
Principal Payments on Capital Debt and Leases	(229,213,907)	(194,752,243)
Interest Payments on Capital Debt and Leases	(137,807,978)	(144,387,371)
<b>Net Cash Used in Capital and Related Financing Activities</b>	<b>(477,357,260)</b>	<b>(483,644,893)</b>

### Cash Flows from Noncapital Financing Activities

State Appropriations	1,030,490,983	993,552,714
Gifts and Other Receipts	368,001,225	316,512,455
Transfer to State Agencies	(76,859,460)	(78,616,495)
Additions to Permanent Endowments	1,954,918	4,437,142
Student Direct Lending Receipts	678,992,387	711,023,609
Student Direct Lending Disbursements	(684,748,687)	(705,594,072)
<b>Net Cash Provided by Noncapital Financing Activities</b>	<b>1,317,831,366</b>	<b>1,241,315,353</b>

### Net Increase (Decrease) in Cash and Cash Equivalents

Cash and Cash Equivalents - beginning of year	1,642,563,338	1,536,783,613
Prior Period Adjustment	-	40,580,662
<b>Cash and Cash Equivalents - end of year</b>	<b>\$ 1,666,087,168</b>	<b>\$ 1,642,563,338</b>

# University of Wisconsin System

## Statement of Cash Flows (continued)

Year ended June 30, 2017

Year ended June 30, 2016

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

Operating Loss	\$ (1,245,099,941)	\$ (1,219,510,718)
<i>Adjustments to Reconcile Operating Loss to</i>		
<i>Net Cash Used in Operating Activities:</i>		
Depreciation Expense	292,441,734	303,909,224
Changes in Assets and Liabilities and Deferreds:		
Receivables, net	3,818,201	(23,421,445)
Inventories	(701,063)	(777,094)
Prepaid Expense (including Deferred Charges)	305,344	45,089,241
Accounts Payable and Accrued Liabilities	(65,839,310)	29,473,341
Unearned Revenue	(7,800,174)	6,785,234
Compensated Absences	6,525,525	1,793,544
Net Pension Deferred Outflows	379,089,051	(891,715,209)
Net Pension Liability & Related Deferred Inflows	(220,276,509)	1,014,341,720
Other Post-Employment Benefits	21,775,842	19,423,402
<b>Net Cash Used in Operating Activities</b>	<b>\$ (835,761,300)</b>	<b>\$ (714,608,758)</b>

### Noncash Investing, Capital and Financing Activities

Capital Leases (Initial Year):		
Fair Market Value	\$ 1,871,975	\$ 1,742,499
Current Year Cash Payments	39,496	19,694
Gifts-In-Kind	3,181,697	3,437,933
Net Change in Unrealized Gains (Losses)	30,438,389	(27,057,955)

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*Years Ended June 30, 2017 and 2016*

## FINANCIAL STATEMENTS OF THE UNIVERSITY OF WISCONSIN FOUNDATION

*The University of Wisconsin Foundation is a private, independent not-for-profit organization formed to generate private support for the University of Wisconsin-Madison.*

# University of Wisconsin Foundation (UW-Madison)

## Consolidated Statements of Financial Position

June 30, 2017

June 30, 2016

### ASSETS

Cash and Cash Equivalents	\$ 105,043,144	\$ 112,953,979
Income and Redemption Receivable	15,304,453	20,860,964
Prepaid Expenses	2,209,309	1,522,672
Pledges Receivable, Net	131,720,292	179,734,301
Investments	3,653,235,317	3,177,038,023
Property and Equipment, Net	20,201,517	21,076,955
Real Estate	2,889,362	2,606,109
Notes Receivable	1,026,113	1,289,038
Other Assets	3,707,056	3,945,717
<b>TOTAL ASSETS</b>	<b>\$ 3,935,336,563</b>	<b>\$ 3,521,027,758</b>

### LIABILITIES and NET ASSETS

#### LIABILITIES

Accounts Payable	2,918,308	4,098,923
Pending Investment Purchases Payable	55,001,392	27,506,426
Accrued Expenses and Other Payables	6,952,922	5,872,504
Deferred Revenue	1,609,194	380,938
Deferred Compensation	2,475,638	2,280,625
Note Payable	-	2,742,708
Liability under Split-Interest Agreements	45,048,021	43,700,837
Funds Due to Other Organizations	293,701,763	237,259,071
<b>Total Liabilities</b>	<b>407,707,238</b>	<b>323,842,032</b>

#### NET ASSETS

Unrestricted	122,490,421	85,081,476
Temporarily Restricted	1,745,855,111	1,524,329,521
Permanently Restricted	1,659,283,793	1,587,774,729
<b>Total Net Assets</b>	<b>3,527,629,325</b>	<b>3,197,185,726</b>

<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 3,935,336,563</b>	<b>\$ 3,521,027,758</b>
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## University of Wisconsin Foundation (UW-Madison)

### Consolidated Statements of Activities

Year ended June 30, 2017

#### REVENUES, GAINS AND OTHER SUPPORT

Contributions	\$	338,449,963
Interest and Dividend Income		33,582,155
Net Investment Gains (Losses)		290,973,860
Other Income		7,129,328
<b>Total Revenues, Gains and Other Support</b>	\$	<b>670,135,306</b>

#### EXPENSES

Payments to or for University of Wisconsin		253,168,819
Management and General Expenses		25,279,558
Fundraising Expenses		61,243,330
<b>Total Expenses</b>		<b>339,691,707</b>

#### INCREASE IN NET ASSETS

		330,443,599
Net assets - beginning of year		3,197,185,726
<b>Net assets - end of year</b>	\$	<b>3,527,629,325</b>

# University of Wisconsin Foundation (UW-Madison)

## Consolidated Statements of Cash Flows

Year ended June 30, 2017

### Cash Flows from Operating Activities

Increase in net assets	\$ 330,443,599
Adjustments to Reconcile Increase in Net Assets to Net Cash used in operating activities	
Depreciation of property and equipment	2,080,659
Net investment gains	(291,015,718)
Realized losses on sales of real estate	51,099
Realized losses on sales of property and equipment	10,020
Contributions to endowment funds	(50,206,470)
Contributions of real estate	(947,278)
Changes in operating assets and liabilities:	
Income and redemption receivables	3,349,298
Prepaid expenses	(686,637)
Pledges receivable	39,385,430
Other assets	238,661
Accounts payable	(1,180,615)
Accrued expenses and other payables	1,080,418
Deferred revenue	1,228,256
Deferred compensation	195,013
Liability under split-interest agreements	1,347,184
Funds due to other organizations	22,275,052
<b>Net Cash Provided by Operating Activities</b>	<b>57,647,971</b>

### Cash Flows from Investing Activities

Proceeds from sales and maturities of investments	2,317,401,256
Purchases of investments	(2,438,713,013)
Proceeds from sales of real estate	620,926
Payments received on notes receivable	262,925
Purchases of property and equipment	(1,223,241)
<b>Net Cash Used in Investing Activities</b>	<b>(121,651,147)</b>

### Cash flows from Financing Activities

Payments on notes payable	(2,742,708)
Proceeds from contributions to endowment funds	58,835,049
<b>Net Cash Provided by Financing Activities</b>	<b>56,092,341</b>

**Net Decrease in Cash and Cash Equivalents** (7,910,835)

Cash and Cash Equivalents - beginning of year 112,953,979

**Cash and Cash Equivalents - end of year** \$ 105,043,144

### Non-cash Operating and Investing Activities

Gifts of investments \$ 77,476,459



*Years Ended June 30, 2017 and 2016*

## NOTES TO THE FINANCIAL STATEMENTS OF THE UNIVERSITY OF WISCONSIN SYSTEM

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2017 and 2016**

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

***Basis of Accounting and Financial Statement Presentation***

The University of Wisconsin System (University) 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'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 accompanying financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB). In fiscal year 2016, the University implemented GASB Statement No. 72, *Fair Value Measurement and Application*. This Statement was issued to address accounting and financial reporting issues related to fair value measurements. The effect of this change is detailed in Note 2.

The University'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'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'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.

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2017 and 2016**

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

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 90 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, these reports are audited by independent auditors.

***Financial Reporting Entity***

The University consists of 13 universities, 13 two-year colleges, University of Wisconsin-Extension, and System Administration. The University has also considered all potential component units for which it is financially accountable and other affiliated organizations where the nature and significance of their relationships, including their ongoing financial support, with the University are such that exclusion would cause the University's financial statements to be misleading or incomplete.

The decision to include a potential component unit in the University's reporting entity is based on the criteria set forth in 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. Based upon the application of these criteria, the University of Wisconsin Foundation (Foundation) is presented as a discrete component unit.

The Foundation is a private, independent tax-exempt organization that is a component unit of the University. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University of Wisconsin-Madison (UW-Madison) in support of its various scientific, literary, athletic and educational program purposes. While the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests, is restricted by donors to specified activities of UW-Madison. A majority of foundation funds are also endowed such that funding may be limited to a modest annual spendable allocation, per Foundation policy. A modest number of accounts are held and managed on behalf of donors to other University institutions. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, University institutions, the Foundation is considered a component unit of the University. In 2016, the financial year end of the Foundation was changed from December 31 to June 30. Accordingly, the current Statements of Activities and Cash Flows do not show comparative figures for the year ended June 30, 2016. The financial statements are prepared using accounting standards promulgated by the Financial Accounting Standards Board as they apply to not-for-profit corporations. Complete financial statements for the Foundation can be obtained from their administrative office: University of Wisconsin Foundation, 1848 University Avenue, Madison, Wisconsin 53726-4090.

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2017 and 2016**

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

**Other Organizations**

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 University of Wisconsin Medical Foundation (UWMF), which is a blended component unit of UWHCA as of June 25, 2015, or 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). 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 by these organizations are reported at the time they are received. Note 11 describes the effect affiliation and operating agreements with the UWMF; UWHCA; Wisconsin Alumni Research Foundation (WARF), relating to the Wisconsin Institutes for Discovery; La Crosse Medical Health Science Consortium, Inc.; and University of Wisconsin-Platteville Real Estate Foundation had on the University's financial statements.

***Summary of Significant Accounting Policies***

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.

The University 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.

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.

Prepaid expenses represent payments made prior to June 30<sup>th</sup> for goods and services received after the close of the fiscal year, primarily health and life insurance coverage, and costs associated with revenues that have not yet been earned as of June 30<sup>th</sup>, primarily summer session costs incurred prior to the close of the fiscal year. The revenues and expenses of the 2017 summer session are reportable within the fiscal year beginning July 1, 2016 and ending June 30, 2017, based on the prorated portion of the number of summer session days that occurred in fiscal year 2017. The revenues and expenses of the 2016 summer session are reportable within the fiscal year beginning July 1, 2015 and ending June 30, 2016, based on the prorated portion of the number of summer session days that occurred in fiscal year 2016.



**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2017 and 2016**

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

Accounting policies related to capital assets are described in Note 4.

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Wisconsin Retirement System (WRS) and additions to/deductions from the WRS' fiduciary net position have been determined on the same basis as they are reported by the WRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

The compensated absences liability consists of accumulated unpaid annual leave, compensatory time, personal holiday hours, and Saturday/legal holiday hours earned and vested. The University leave policies restrict the accumulation of unused vacation and thus limit the actual payments made to employees upon termination or retirement.

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'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.

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.

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2017 and 2016**

**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 Wisconsin Statutes Sections 25.17(3)(b), (ba), (bd), and (dg). SWIB is not registered with the SEC as an investment company. The fair value of the investment in the SIF is based on net asset value (NAV) per share (or its equivalent) as of June 30, 2017. This is a comingled fund with the investment objective of safety of principal and liquidity while earning a competitive money market rate of return. The valuation of the underlying investments of the SIF depends on asset class and maturity date. Repurchase agreements and non-negotiable certificates of deposit are valued at cost. All other short-term debt investments with remaining maturities of up to ninety days are valued at fair value. Finally, all other short-term investments with remaining maturities of over ninety days are valued at fair value by third-party pricing services using a matrix-pricing technique. There are no unfunded commitments relating to the SIF, and shares of the SIF can be fully redeemed at any time with no notice or other restrictions. Investments consist primarily of obligations of the U.S. Government and its agencies and high quality commercial bank and corporate debt obligations.

Of the \$1,666.1 million and \$1,642.6 million in cash and cash equivalents as of June 30, 2017 and 2016, respectively, \$1,437.8 million and \$1,468.7 million, respectively, represent amounts held within the SIF; \$192.3 million and \$145.0 million, respectively, was maintained by individual University institutions in local bank accounts to meet operating needs; and \$36.0 million and \$28.9 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. The cash held at BNY Mellon is also categorized as investments, in accordance with governmental accounting standards. Interest distributions are received monthly for balances associated with trust funds, federal 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.

*Custodial Credit Risk:* Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the University will not be able to recover deposits that are in possession of an outside party. The University does not have a deposit policy specifically for custodial risk. Shares in the SIF are not required to be categorized under GASB Statement No. 40, *Deposit and Investment Risk Disclosures*.

For the remaining deposits, the University had balances in excess of Federal Deposit Insurance Corporation limits totaling \$185.2 million and \$137.5 million at June 30, 2017 and 2016, respectively. These amounts, deposited in approved financial institutions, are uninsured and uncollateralized. A state appropriation for losses on public deposits (Wisconsin Statutes Section 34.08) insures up to \$400,000 over the amount of federal insurance.

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2017 and 2016**

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

*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, 2017 and 2016 are immaterial. The University does not have a formal policy for foreign currency risk.

***Investments***

The University invests its Trust Funds, primarily 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 2015.

The Long Term Fund consisted of the following investment categories on June 30, 2017 and 2016:

<b>Investment Category</b>	<b><u>2017</u></b>	<b><u>2016</u></b>
Common Stock and Convertible Securities	37.3%	35.5%
Bonds and Preferred Stock	12.1%	12.1%
Alternative Assets	21.1%	22.4%
Tactical Allocation Strategies	20.3%	21.8%
Real Assets	1.6%	1.8%
Custodial Pooled Cash and Cash Equivalents	<u>7.6%</u>	<u>6.4%</u>
<b>Total</b>	<b><u>100.0%</u></b>	<b><u>100.0%</u></b>

The Intermediate Term Fund consisted of the following investment categories on June 30, 2017 and 2016:

<b>Investment Category</b>	<b><u>2017</u></b>	<b><u>2016</u></b>
Common Stock and Convertible Securities	14.0%	14.1%
Bonds and Preferred Stock	79.8%	79.2%
Custodial Pooled Cash and Cash Equivalents	<u>6.2%</u>	<u>6.7%</u>
<b>Total</b>	<b><u>100.0%</u></b>	<b><u>100.0%</u></b>

Benefiting University entities receive quarterly distributions from the Long Term Fund, which is primarily comprised of 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, which is primarily comprised of expendable gifts, consist of quarterly interest earnings distributions. Spending rate and interest distributions from both of these Funds are transferred to the SIF, pending near-term expenditures. During the fiscal year ended June 30, 2017, the amount made available to spend from the Long Term Fund was \$16.4 million, relative to \$16.5 million available during the fiscal year ended June 30, 2016.

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2017 and 2016**

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

At June 30, 2017 and 2016, the University's investments were as follows:

<b>Investments:</b>	<b><u>2017</u></b>	<b><u>2016</u></b>
U.S. Government Securities	\$ 32,354,823	\$ 33,279,438
U.S Agency Securities	13,735,429	15,826,848
Bonds and Preferred Stock	26,832,773	22,209,877
Common Stock and Convertible Securities	57,029,057	47,524,597
Pooled Equity Funds	104,789,375	92,825,134
Pooled Allocation Fund	81,515,914	78,965,111
Pooled Fixed Income Fund	44,561,219	37,750,769
Custodial Pooled Cash and Cash Equivalents	35,992,987	28,887,081
Limited Partnerships	<u>91,351,997</u>	<u>87,568,699</u>
<b>Total Investments</b>	<b><u>\$ 488,163,574</u></b>	<b><u>\$ 444,837,554</u></b>

The total return on the Long Term Fund, including capital appreciation, was 14.4% compared to -2.6% in fiscal year 2016. The total return on the Intermediate Fund, including capital appreciation, was 3.4% compared to 2.7% in fiscal year 2016. External investment counsel was utilized for funds representing 89.8% of the market value of the Funds, compared to 89.6% in fiscal year 2016. In addition to the limited partnerships market value listed above, the University had \$24.4 million in unfunded limited partnership commitments for the fiscal year ended June 30, 2017, compared to \$24.3 million for the fiscal year ended June 30, 2016.

*Credit Risk:* Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit ratings issued by the major rating agencies are one indication of the perceived credit quality of the issuer. For the Intermediate Term Fund, the Reams actively, and separately managed, high quality fixed income account must maintain an average portfolio quality of A1 or higher, and a minimum of 85% investment grade (Baa or higher), and the Applied Security account must maintain an average portfolio quality of Aa2, and hold only securities rated Baa3 or higher. For both the Long and Intermediate Term Funds, positions in the Seix High Yield mutual fund are governed by any investment restrictions, including credit quality, provided in the fund prospectus and other related documents.

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2017 and 2016**

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

The following schedule displays the credit ratings as provided by Moody's Investor Service for debt securities held as of June 30, 2017 and 2016. Obligations of the United States and obligations explicitly guaranteed by the U.S. government are included in the Aaa rating below.

<b><u>Ratings</u></b>	<b><u>2017</u></b>	<b><u>2016</u></b>
Aaa	\$ 57,880,582	\$ 61,182,230
Aa1	656,223	-
Aa2	1,327,674	1,841,117
Aa3	1,432,982	834,258
A1	3,457,407	1,980,324
A2	3,731,260	2,343,265
A3	2,213,940	1,893,742
Baa1	6,233,197	4,370,290
Baa2	4,290,309	4,030,109
Baa3	1,728,246	836,398
Ba1	-	606,396
Ba2	12,603,486	11,033,419
Ba3	-	370,475
B1	-	280,906
B2	18,976,035	13,210,156
B3	-	109,631
Caa2	1,589,597	2,230,656
Caa3	-	76,919
No Rating	495,808	395,315
Unrated Pooled Cash	<u>36,860,485</u>	<u>30,328,407</u>
Totals	<u>\$ 153,477,231</u>	<u>\$ 137,954,013</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 will not be able to recover the value of investment or collateral securities that are in possession of an outside party. The University's separately-held investment securities are registered in the name of the University, and the University does not participate in any securities lending programs through its custodial bank. Investment securities underlying the University's investment in shares of external investment pools or funds are in custody at those entities. The shares owned in these external investment pools are registered in the name of the University. The University does not have a formal policy for custodial credit risk.

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

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2017 and 2016**

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

*Interest Rate Risk:* Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Separate actively-managed, fixed income accounts are expected to maintain their overall duration to plus or minus two years versus the benchmark's duration (the Reams account) or to within plus or minus one year of the established benchmark's duration (the Applied Security account). The University uses the option adjusted modified duration method to analyze interest rate risk. The University had interest rate risk statistics for separate fixed income accounts as detailed below:

**Fixed Income Sector:**

	<b>2017</b>		<b>2016</b>	
	<u>Market Value</u>	<u>Effective Duration</u>	<u>Market Value</u>	<u>Effective Duration</u>
Treasury Inflation Protected Securities	\$16,832,412	5.38	\$ 18,589,117	5.09
U.S. Government	19,982,444	5.34	18,346,600	4.11
U.S. Government Mortgages	4,667,512	4.92	6,309,840	4.35
Corporates and Other Credit	17,486,302	2.95	15,713,538	2.97
Collateralized Mortgage Obligations:				
U.S. Agencies	2,537,106	1.67	4,213,815	1.00
Corporate	165	0.00	7,514	0.42
Commercial Mortgage Backed Securities	3,127,148	4.39	3,282,340	0.92
U.S. Private Placements	8,289,936	2.89	4,695,541	2.67
U.S. Agencies	-	0.00	-	0.00
Asset Backed Securities	-	0.00	157,858	0.03
Totals	<u>\$ 72,923,025</u>		<u>\$ 71,316,163</u>	

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

**Fixed Income Commingled Fund:**

	<b>2017</b>		<b>2016</b>	
	<u>Market Value</u>	<u>Modified Duration</u>	<u>Market Value</u>	<u>Modified Duration</u>
Seix Advisors High Yield Fund	\$35,403,050	3.42	\$ 28,488,582	3.23
Intermediate Term Fund Multi Asset	<u>9,158,169</u>	2.62	<u>9,262,186</u>	2.51
Totals	<u>\$ 44,561,219</u>		<u>\$ 37,750,768</u>	

*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, 2017, the Long Term and Intermediate Term Funds held equity securities denominated in foreign currencies within pooled investment vehicles only, with market values totaling \$115.6 million and \$6.3 million, respectively, compared to prior fiscal year amounts of \$98.0 million and \$5.4 million, respectively. Some of the trades for such foreign positions will not settle in foreign currencies until after the fiscal year end. For the 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, 2017 and 2016**

**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 to appropriate, for current spending, an amount of realized and unrealized endowment appreciation as it determines 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 \$126.0 million and \$106.2 million at June 30, 2017 and June 30, 2016, respectively, is available to meet spending rate distributions and is recorded as restricted net assets.

*Fair Value Measurements:* The University categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The three levels of the fair value hierarchy are described as follows:

- Level 1 - Quoted market prices in active markets for identical assets or liabilities
- Level 2 - Inputs other than quoted market prices included that are observable for the asset or liability. Matrix pricing, which is a mathematical technique used principally to value debt securities, is consistent with the market approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.
- Level 3 - Unobservable inputs for the asset and liability used to measure fair value that rely on the reporting entity's own assumptions.

The hierarchy is based on the valuation inputs used to measure the fair value of the asset and gives the highest priority to level 1 measurements and the lowest priority to level 3 measurements. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy.

The following table sets forth by level, within the fair value hierarchy, the University's investments at fair value as of June 30, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total June 30, 2017</u>
<b>Investments:</b>				
U.S. Government Securities	\$31,154,065	\$1,200,758	-	\$32,354,823
U.S. Agency Securities	-	13,735,429	-	13,735,429
Bonds and Preferred Stock	-	26,832,773	-	26,832,773
Pooled Fixed Income Fund	44,561,219	-	-	44,561,219
Common Stock and Convertible Securities	57,029,057	-	-	57,029,057
Pooled Equity Funds	53,401,109	51,388,266	-	104,789,375
Pooled Allocation Fund	81,515,914	-	-	81,515,914
Custodial Pooled Cash and Cash Equivalents	N/A	N/A	N/A	35,992,987
Limited Partnerships (measured at net asset value)	N/A	N/A	N/A	91,351,997
<b>Total investments at fair value</b>	<u>\$ 267,661,364</u>	<u>\$ 93,157,226</u>	<u>\$ -</u>	<u>\$ 488,163,574</u>

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2017 and 2016**

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

The following table sets forth by level, within the fair value hierarchy, the University's investments at fair value as of June 30, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total June 30, 2016</u>
<b>Investments:</b>				
U.S. Government Securities	\$31,851,446	\$1,427,992	-	\$33,279,438
U.S. Agency Securities	-	15,826,848	-	15,826,848
Bonds and Preferred Stock	-	22,209,877	-	22,209,877
Pooled Fixed Income Fund	37,750,769	-	-	37,750,769
Common Stock and Convertible Securities	47,524,597	-	-	47,524,597
Pooled Equity Funds	50,745,922	42,079,212	-	92,825,134
Pooled Allocation Fund	78,965,111	-	-	78,965,111
Custodial Pooled Cash and Cash Equivalents*	N/A	N/A	N/A	28,887,081
Limited Partnerships *	N/A	N/A	N/A	87,568,699
<b>Total investments at fair value</b>	<u>\$ 246,837,845</u>	<u>\$ 81,543,929</u>	<u>\$ -</u>	<u>\$ 444,837,554</u>

\*Measured at net asset value

The University measures the fair value of investments in certain entities that do not have a quoted market price at the calculated net asset value (NAV) per share or its equivalent. As these investments are not readily marketable the estimated value is subject to uncertainty, and therefore, may differ from the value that would have been used had a ready market for the investments existed.

The following table presents the fair value of the University's investments that were determined based on the NAV as of June 30:

	<u>2017</u>		<u>2016</u>	
<b>Investment Type</b>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>
Limited partnership funds	\$ 91,351,997	\$ 24,354,984	\$ 87,568,699	\$ 24,349,875
Custodial Pooled Cash and Cash Equivalents	\$ 35,992,987	-	\$ 28,887,081	-

The University's investments in private equity and real asset Limited Partnership Funds cannot be redeemed. The investment strategies are expected to focus globally on corporate finance, venture capital, and forestry/agricultural investments. None of these limited partnership funds are expected to be sold and would require prior written consent of the Fund. The University's investments in a hedge fund-of-funds Limited Partnership are redeemable monthly, with some limitations. The investment strategy is expected to focus on market-neutral strategies, including long and short positions on various marketable securities.



**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2017 and 2016**

**NOTE 3 – Receivables**

Accounts receivable and student loans receivable as of June 30, 2017 and June 30, 2016, are summarized as follows:

<b>Receivables (Net):</b>	<b><u>2017</u></b>	<b><u>2016</u></b>
Student Academic Fees	\$ 27,073,948	\$ 30,560,332
Grants and Contracts	47,083,535	43,647,286
Educational Activities and Other	51,321,923	40,075,308
Auxiliary Enterprises	13,504,929	11,993,875
UW Hospital Authority and La Crosse Medical Health Science Consortium Inc.	1,094,679	6,432,130
Investment	1,637,397	481,759
Student Loans Receivable	195,202,458	196,436,434
State Agencies	29,640,084	36,280,762
Other Governments	<u>71,300,982</u>	<u>76,206,803</u>
<b>Total Receivables (Net)</b>	<b><u>\$ 437,859,935</u></b>	<b><u>\$ 442,114,689</u></b>

Student loans receivable at June 30, 2017 included allowances for uncollectible loans of \$9.0 million relative to \$9.2 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 under the Perkins loan program and a variety of health professions loan programs.

The University distributed student loans through the United States Department of Education federal direct lending program totaling \$684.7 million during fiscal year 2017 and \$705.6 million in fiscal year 2016. 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, 2017 and 2016**

**NOTE 4 – 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 40 years, improvements over 20 years, and capital equipment over periods ranging from 3 to 15 years for specified asset classes. The componentized methodology of depreciation is used for major research facilities generally using estimated useful lives ranging from 10 to 50 years. The buildings and land related to the 13 two-year colleges are not owned by the University 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 does not capitalize 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 2017 or 2016. Insurance recoveries received in fiscal year 2017 include \$2.2 million for a building fire at the University of Wisconsin-Milwaukee. Insurance recoveries received in fiscal year 2016 include \$2.4 million for storm damage at the University of Wisconsin-Platteville. 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, 2017, the equipment balance includes \$35.5 million for intangible assets net of depreciation, compared to \$37.5 million at June 30, 2016.

Depreciation expense for fiscal years ended June 30, 2017 and 2016 was \$292.4 million and \$303.9 million, respectively.

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2017 and 2016**

**NOTE 4 – Capital Assets (continued)**

The change in book value from July 1, 2016 to June 30, 2017 is summarized as follows:

	<b>Book Value July 1, 2016</b>	<b>Additions</b>	<b>Transfers</b>	<b>Deductions</b>	<b>Book Value June 30, 2017</b>
Buildings	\$ 6,790,499,423	\$ 88,657,765	\$ 125,777,862	\$ (-)	\$ 7,004,935,050
Improvements	467,817,500	16,566,037	10,091,520	(-)	494,475,057
Land	156,327,199	650,202			156,977,401
Construction in Progress	221,893,302	147,347,776	(138,198,034)	(-)	231,043,044
Equipment	1,152,205,260	74,593,952		(53,717,621)	1,173,081,591
Library Holdings	<u>1,124,133,587</u>	<u>20,056,319</u>	<u>-</u>	<u>(24,037,933)</u>	<u>1,120,151,973</u>
Subtotal	\$ 9,912,876,271	\$ 347,872,051	\$ (2,328,652)	\$ (77,755,554)	\$ 10,180,664,116

Less Accumulated Depreciation:

	<b>Book Value July 1, 2016</b>	<b>Additions</b>	<b>Transfers</b>	<b>Deductions</b>	<b>Book Value June 30, 2017</b>
Buildings	\$ 2,784,430,248	\$ 206,241,119	\$ (321,760)	\$ (-)	\$ 2,990,349,607
Improvements	274,117,485	16,219,303	-	(-)	290,336,788
Equipment	<u>856,133,462</u>	<u>69,981,312</u>	<u>-</u>	<u>(47,108,642)</u>	<u>879,006,132</u>
Total Accumulated Depreciation	3,914,681,195	292,441,734	(321,760)	(47,108,642)	4,159,692,527
Capital Assets, Net	<u>\$ 5,998,195,076</u>	<u>\$ 55,430,317</u>	<u>\$ (2,006,892)</u>	<u>\$ (30,646,912)</u>	<u>\$ 6,020,971,589</u>

The change in book value from July 1, 2015 to June 30, 2016 is summarized as follows:

	<b>Book Value July 1, 2015</b>	<b>Additions</b>	<b>Transfers</b>	<b>Deductions</b>	<b>Book Value June 30, 2016</b>
Buildings	\$ 6,478,612,937	\$ 122,153,480	\$ 196,361,120	\$ (6,628,114)	\$ 6,790,499,423
Improvements	459,106,188	5,864,421	2,938,082	(91,191)	467,817,500
Land	156,065,166	262,033	-	-	156,327,199
Construction in Progress	295,693,992	125,015,958	(198,816,648)	-	221,893,302
Equipment	1,117,418,253	74,984,049	(78,609)	(40,118,433)	1,152,205,260
Library Holdings	<u>1,145,325,745</u>	<u>20,431,864</u>	<u>-</u>	<u>(41,624,022)</u>	<u>1,124,133,587</u>
Subtotal	\$ 9,652,222,281	\$ 348,711,805	\$ 403,945	\$ (88,461,760)	\$ 9,912,876,271

Less Accumulated Depreciation:

	<b>Book Value July 1, 2015</b>	<b>Additions</b>	<b>Transfers</b>	<b>Deductions</b>	<b>Book Value June 30, 2016</b>
Buildings	\$ 2,584,851,968	\$ 201,270,269	\$ -	\$ (1,691,989)	\$ 2,784,430,248
Improvements	257,857,352	16,351,324	-	(91,191)	274,117,485
Equipment	<u>803,528,361</u>	<u>86,287,631</u>	<u>1,018,576</u>	<u>(34,701,106)</u>	<u>856,133,462</u>
Total Accumulated Depreciation	3,646,237,681	303,909,224	1,018,576	(36,484,286)	3,914,681,195
Capital Assets, Net	<u>\$ 6,005,984,600</u>	<u>\$ 44,802,581</u>	<u>\$ (614,631)</u>	<u>\$ (51,977,474)</u>	<u>\$ 5,998,195,076</u>

**UNIVERSITY OF WISCONSIN SYSTEM**  
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**Years Ended June 30, 2017 and 2016**

**NOTE 5 – 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's activities as of June 30, 2017 and 2016, are summarized as follows:

<b>Fiscal Year 2017</b>		<b>Due to State Agencies and Other Governments</b>		<b>Total</b>
<b>UW System Activities:</b>	<b>Salary and Fringe Benefits</b>	<b>Other Governments</b>	<b>Vendors</b>	<b>Payables</b>
Operating	\$ 10,078,846	\$ 71,490,247	\$ 46,234,561	\$ 127,803,654
Gifts, Grants, and Contracts	1,474,605	19,777,197	10,210,238	31,462,040
Capital Projects	-	510,926	37,169,660	37,680,586
Auxiliary Enterprises	1,590,732	710,280	3,586,177	5,887,189
Investment and Other	17,880	352,364	1,079,754	1,449,998
Total Activities	<u>\$ 13,162,063</u>	<u>\$ 92,841,014</u>	<u>\$ 98,280,390</u>	<u>\$ 204,283,467</u>

<b>Fiscal Year 2016</b>		<b>Due to State Agencies and Other Governments</b>		<b>Total</b>
<b>UW System Activities:</b>	<b>Salary and Fringe Benefits</b>	<b>Other Governments</b>	<b>Vendors</b>	<b>Payables</b>
Operating	\$ 26,751,611	\$ 73,433,069	\$ 77,024,564	\$ 177,209,244
Gifts, Grants, and Contracts	4,133,363	11,566,092	8,638,104	24,337,559
Capital Projects	-	28,480	60,650,119	60,678,599
Auxiliary Enterprises	4,588,671	1,049,358	7,265,899	12,903,928
Investment and Other	82,380	339,527	9,220,226	9,642,133
Total Activities	<u>\$ 35,556,025</u>	<u>\$ 86,416,526</u>	<u>\$ 162,798,912</u>	<u>\$ 284,771,463</u>

Long-term liability activity for the fiscal years ended June 30, 2017 and 2016 is as follows:

<b>Long-term Liabilities 2017</b>	<b>Balance July 1, 2016</b>	<b>Increases (Decreases)</b>	<b>Balance June 30, 2017</b>	<b>Current Portion</b>
Bonds Payable	\$ 1,483,207,141	\$ 36,852,265	\$ 1,520,059,406	\$ 74,777,773
Notes Payable	97,601,448	(20,252,536)	77,348,912	19,413,611
Capital Lease Obligations	34,138,739	(3,180,236)	30,958,503	2,030,473
Compensated Absences	131,520,957	6,525,524	138,046,481	67,651,794
Net Pension Liability	220,459,696	(107,761,037)	112,698,659	-
Other Post-Employment Benefits	<u>267,866,527</u>	<u>21,775,842</u>	<u>289,642,369</u>	-
Total	<u>\$ 2,234,794,508</u>	<u>\$ (66,040,178)</u>	<u>\$ 2,168,754,330</u>	<u>\$ 163,873,651</u>

<b>Long-term Liabilities 2016</b>	<b>Balance July 1, 2015</b>	<b>Increases (Decreases)</b>	<b>Balance June 30, 2016</b>	<b>Current Portion</b>
Bonds Payable	\$ 1,463,239,403	\$ 19,967,738	\$ 1,483,207,141	\$ 69,080,059
Notes Payable	119,557,432	(21,955,984)	97,601,448	20,252,175
Capital Lease Obligations	36,766,803	(2,628,064)	34,138,739	4,029,556
Compensated Absences	129,727,413	1,793,544	131,520,957	65,213,517
Net Pension Liability	-	220,459,696	220,459,696	-
Other Post-Employment Benefits	<u>248,443,125</u>	<u>19,423,402</u>	<u>267,866,527</u>	-
Total	<u>\$ 1,997,734,176</u>	<u>\$ 237,060,332</u>	<u>\$ 2,234,794,508</u>	<u>\$ 158,575,307</u>

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2017 and 2016**

**NOTE 6 – Long Term Debt**

The State of Wisconsin issues general obligation bonds and notes on behalf of its constituent agencies, including the University, the proceeds of which are used to construct or acquire facilities and other capital assets. The University holds title to the assets thus acquired. As an enterprise fund of the State of Wisconsin, the University reports on its Statement of Net Position the portion of the debt that will be repaid with program revenues generated by the University's self-supporting operations. Debt on academic facilities that is repaid by an appropriation from the State of Wisconsin to the University for that purpose is reported by the State of Wisconsin and not as an obligation of the University. 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, 2017:

	<b>Balance July 1, 2016</b>	<b>New Debt/ Accretion</b>	<b>Principal Paid/ Adjustments</b>	<b>Balance June 30, 2017</b>
Bonds (Gross)	\$ 1,384,088,358	\$ 193,416,024	\$ (173,071,231)	\$ 1,404,433,151
Notes	<u>97,601,448</u>	<u>16,097,612</u>	<u>(36,350,148)</u>	<u>77,348,912</u>
Total	<u>\$ 1,481,689,806</u>	<u>\$ 209,513,636</u>	<u>\$ (209,421,379)</u>	<u>\$ 1,481,782,063</u>

The bonds have maturity dates ranging from November 1, 2017 to May 1, 2042. The notes have maturity dates ranging from August 1, 2017 to May 1, 2022.

As of June 30, 2017, the current and noncurrent bonds and notes payable net of discounts and premiums totaled \$94.2 million and \$1,503.2 million, respectively.

	<b>Balance June 30, 2017</b>	<b>Current</b>	<b>Noncurrent</b>
Bonds (Gross)	\$ 1,404,433,151	\$ 54,999,805	\$ 1,349,433,346
Discount	(202,399)	(15,809)	(186,590)
Premium	<u>115,828,654</u>	<u>19,793,777</u>	<u>96,034,877</u>
Bonds (Net)	1,520,059,406	74,777,773	1,445,281,633
Notes	<u>77,348,912</u>	<u>19,413,611</u>	<u>57,935,301</u>
Total	<u>\$ 1,597,408,318</u>	<u>\$ 94,191,384</u>	<u>\$ 1,503,216,934</u>

The following information relates to the status of bonds and notes payable outstanding at June 30, 2016:

	<b>Balance July 1, 2015</b>	<b>New Debt/ Accretion</b>	<b>Principal Paid/ Adjustments</b>	<b>Balance June 30, 2016</b>
Bonds (Gross)	\$ 1,371,455,390	\$ 135,397,612	\$ (122,764,644)	\$ 1,384,088,358
Notes	<u>119,557,432</u>	<u>344,263</u>	<u>(22,300,247)</u>	<u>97,601,448</u>
Total	<u>\$ 1,491,012,822</u>	<u>\$ 135,741,875</u>	<u>\$ (145,064,891)</u>	<u>\$ 1,481,689,806</u>

The bonds have maturity dates ranging from November 1, 2016 to May 1, 2042. The notes have maturity dates ranging from May 1, 2017 to May 1, 2035.

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2017 and 2016**

**NOTE 6 – Long Term Debt (continued)**

As of June 30, 2016, the current and noncurrent bonds and notes payable net of discounts and premiums totaled \$89.3 million and \$1,491.5 million, respectively.

	<b>Balance</b>		
	<b><u>June 30, 2016</u></b>	<b><u>Current</u></b>	<b><u>Noncurrent</u></b>
Bonds (Gross)	\$ 1,384,088,358	\$ 51,733,242	\$ 1,332,355,116
Discount	(218,209)	(15,809)	(202,400)
Premium	<u>99,336,992</u>	<u>17,362,626</u>	<u>81,974,366</u>
Bonds (Net)	1,483,207,141	69,080,059	1,414,127,082
Notes	<u>97,601,448</u>	<u>20,252,175</u>	<u>77,349,273</u>
Total	<u>\$ 1,580,808,589</u>	<u>\$ 89,332,234</u>	<u>\$ 1,491,476,355</u>

Future debt service requirements for bonds and notes outstanding at June 30, 2017 are as follows:

<b>Fiscal Year(s)</b>	<b>Bonds</b>		<b>Notes</b>	
	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>
2018	\$ 54,999,805	\$ 66,207,984	\$ 19,413,611	\$ 3,358,388
2019	62,819,862	63,304,966	14,977,934	2,631,528
2020	64,751,697	60,280,586	16,666,685	1,980,650
2021	62,737,695	56,572,182	19,300,848	1,244,347
2022	71,750,385	53,306,773	6,989,834	349,491
2023-2027	442,076,186	211,302,285	-	-
2028-2032	393,957,796	112,521,297	-	-
2033-2037	194,004,725	34,764,430	-	-
2038-2042	<u>57,335,000</u>	<u>7,170,730</u>	-	-
Total	<u>\$ 1,404,433,151</u>	<u>\$ 665,431,233</u>	<u>\$ 77,348,912</u>	<u>\$ 9,564,404</u>

As noted above, debt on academic facilities that is repaid by an appropriation from the State of Wisconsin to the University for that purpose is reported by the State of Wisconsin and not as an obligation of the University. As of June 30, 2017, the principal balances of such bonds and notes were \$1,449.5 million and \$144.2 million, respectively. As of June 30, 2016, the principal balances of such bonds and notes were \$1,475.4 million and \$177.6 million, respectively. Debt service payments made by the State of Wisconsin for the years ended June 30, 2017 and 2016 were allocated as follows:

<b>2017</b>	<b><u>Bonds</u></b>	<b><u>Notes</u></b>
Principal	\$ 118,310,777	\$ 35,112,946
Interest	<u>67,506,174</u>	<u>1,402,092</u>
Total Paid	<u>\$ 185,816,951</u>	<u>\$ 36,515,038</u>
<b>2016</b>	<b><u>Bonds</u></b>	<b><u>Notes</u></b>
Principal	\$ 122,176,211	\$ -
Interest	<u>68,148,936</u>	<u>507,248</u>
Total Paid	<u>\$ 190,325,147</u>	<u>\$ 507,248</u>

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2017 and 2016**

**NOTE 7 – Lease Commitments and Installment Purchases**

The University had capital lease obligations with a net present value of \$31.0 million as of June 30, 2017 compared to \$34.1 million at June 30, 2016. The payment schedule for capital lease obligations is as follows:

2018	\$ 4,219,275
2019	3,163,455
2020	2,953,970
2021	2,683,795
2022	2,489,736
2023-2027	12,363,920
2028-2032	12,363,920
2033-2037	12,363,920
2038-2042	12,363,920
2043-2047	<u>2,472,784</u>
Total Scheduled Lease Payments	67,438,695
Amount Representing Interest	<u>(36,480,192)</u>
Net Present Value	<u>\$ 30,958,503</u>

Assets Held Under Capital Lease:

<b>June 30, 2017</b>		<b>Accumulated</b>	
	<b><u>Original Cost</u></b>	<b><u>Depreciation</u></b>	<b><u>Book Value</u></b>
Buildings and Improvements	\$ 98,199,857	\$ 51,044,929	\$ 47,154,928
Equipment	<u>2,680,831</u>	<u>1,927,909</u>	<u>752,922</u>
Total Assets	<u>\$ 100,880,688</u>	<u>\$ 52,972,838</u>	<u>\$ 47,907,850</u>
<b>June 30, 2016</b>		<b>Accumulated</b>	
	<b><u>Original Cost</u></b>	<b><u>Depreciation</u></b>	<b><u>Book Value</u></b>
Buildings and Improvements	\$ 98,199,857	\$ 47,279,973	\$ 50,919,884
Equipment	<u>13,428,899</u>	<u>9,322,669</u>	<u>4,106,230</u>
Total Assets	<u>\$ 111,628,756</u>	<u>\$ 56,602,642</u>	<u>\$ 55,026,114</u>

Facilities and equipment rented through operating leases are not recorded as assets on the balance sheet. Operating lease expenditures, which also represent the minimum rental payments, amounted to \$37.9 million for the fiscal year ended June 30, 2017.

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2017 and 2016**

**NOTE 7 – Lease Commitments and Installment Purchases (continued)**

Minimum commitments for future operating lease payments are as follows:

2018	\$ 24,042,672
2019	22,343,438
2020	20,568,675
2021	19,672,877
2022	16,698,348
2023-2027	76,688,902
2028-2032	67,382,689
2033-2037	28,644,809
2038-2042	24,738,000
2043-2047	<u>19,760,000</u>
Total	<u>\$ 320,540,410</u>

The University entered into installment purchase agreements during fiscal year 2017. Gross minimum future installment payments, along with the present value of the minimum installment payments, as of June 30, 2017 for installment purchases are as follows:

2018	\$ 413,634
2019	405,773
2020	405,773
2021	<u>401,047</u>
Total Minimum Future Payments	1,626,227
Amount Representing Interest	<u>(23,578)</u>
Present Value of Net Minimum Payments	<u>\$ 1,602,649</u>

**NOTE 8 – Retirement Benefits**

**Wisconsin Retirement System**

**Plan Description.** The Wisconsin Retirement System (WRS) is a cost-sharing multiple-employer defined benefit public employee retirement system established by the State of Wisconsin to provide pension benefits for state and local government employees. The WRS is administered by the Wisconsin Department of Employee Trust Funds (ETF) in accordance with Chapter 40 of the Wisconsin Statutes. Benefit terms may only be modified by the Legislature. All employees initially employed by a participating WRS employer on or after July 1, 2011, expected to work at least 1,200 hours a year (880 hours for teachers and school district educational support employees) and to be employed for at least one year from employee's date of hire are eligible to participate in the WRS.



**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2017 and 2016**

**NOTE 8 – Retirement Benefits (continued)**

All assets of the WRS are invested by the State of Wisconsin Investment Board. The retirement fund assets consist of shares in the Variable Retirement Investment Trust and the Core Retirement Investment Trust. The Variable Retirement Investment Trust consists primarily of equity securities. The Core Retirement Investment Trust is a balanced investment fund made up of fixed income securities and equity securities. Shares in the Core and Variable Retirement Investment Trust are purchased as funds are made available from retirement contributions and investment income, and sold when funds for benefit payments and other expenses are needed.

**Vesting.** For employees that began participation on or after January 1, 1990 and were no longer actively employed on or after April 24, 1998, creditable service in each of five years is required for eligibility for a retirement annuity. Participants employed prior to 1990 and on or after April 24, 1998, and prior to July 1, 2011, are immediately vested. Participants who initially became WRS eligible on or after July 1, 2011 must have five years of creditable service to be vested.

**Benefits provided.** Employees who retire at or after age 65 (54 for protective occupation employees, 62 for elected officials and State executive participants) are entitled to receive an unreduced retirement benefit. The factors influencing the benefit are: (1) final average earnings, (2) years of creditable service, and (3) 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.

Employees may retire at age 55 (50 for protective occupation employees) and receive reduced benefits. Employees terminating covered employment before becoming eligible for a retirement benefit may withdraw their contributions, plus interest, and forfeit all rights to any subsequent benefits.

The WRS also provides death and disability benefits for employees.

**Post-Retirement Adjustments.** The Employee Trust Funds Board may periodically adjust annuity payments from the retirement system based on annual investment performance in accordance with Wisconsin Statutes Section 40.27. An increase (or decrease) in annuity payments may result when investment gains (losses), together with other actuarial experience factors, create a surplus (shortfall) in the reserves, as determined by the system's consulting actuary. Annuity increases are not based on cost of living or other similar factors. For Core annuities, decreases may be applied only to previously granted increases. By law, Core annuities cannot be reduced to an amount below the original, guaranteed amount (the "floor") set at retirement.

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2017 and 2016**

**NOTE 8 – Retirement Benefits (continued)**

The Core and Variable annuity adjustments granted during recent years are as follows:

<u>Year</u>	<u>Core Fund Adjustment</u>	<u>Variable Fund Adjustment</u>
2007	3.0%	10.0%
2008	6.6%	0.0%
2009	(2.1)%	(42.0)%
2010	(1.3)%	22.0%
2011	(1.2)%	11.0%
2012	(7.0)%	(7.0)%
2013	(9.6)%	9.0%
2014	4.7%	25.0%
2015	2.9%	2.0%
2016	0.5%	(5.0)%

**Contributions.** Required contributions are determined by an annual actuarial valuation in accordance with Chapter 40 of the Wisconsin Statutes. The employee required contribution is one-half of the actuarially determined contribution rate for general category employees, including teachers, and Executives and Elected Officials. Starting on January 1, 2016, the Executives and Elected Officials category was merged into the General Employee Category. Required contributions for protective employees are the same rate as general employees. Employers are required to contribute the remainder of the actuarially determined contribution rate. The employer may not pay the employee required contribution unless provided for by an existing collective bargaining agreement.

During the reporting period, the University's contributions recognized by the WRS amounted to \$127.8 million and \$131.5 million, respectively. Contribution rates as of June 30, 2017 and 2016 were:

<u>Employee Category</u>	<u>June 30, 2017</u>		<u>June 30, 2016</u>	
	<u>Employee</u>	<u>Employer</u>	<u>Employee</u>	<u>Employer</u>
General (including teachers)	6.8%	6.8%	6.6%	6.6%
Executives & Elected Officials	6.8%	6.8%	6.6%	6.6%
Protective with Social Security	6.8%	10.6%	6.6%	9.4%
Protective without Social Security	6.8%	14.9%	6.6%	13.2%

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2017 and 2016**

**NOTE 8 – Retirement Benefits (continued)**

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.*** At June 30, 2017, the University reported a net pension liability of \$112.7 million for its proportionate share of the net pension liability, compared to \$220.5 million at June 30, 2016. The net pension liability was based on an actuarial valuation performed as of December 31, 2015, with roll forward to December 31, 2016, and a measurement date of December 31, 2016. The University's proportion of the total net pension liability was determined based on the average of the University's contributions to the WRS over the three most recent calendar years relative to the average contributions of all participating employers for the same period. At December 31, 2016, the University's proportion was 13.54%, which was a decrease of 0.06% from its proportion measured as of December 31, 2015.

For the fiscal year ended June 30, 2017 and June 30, 2016, the University recognized pension expense of \$284.3 million and \$264.2 million, respectively.

The amount reported as pension-related deferred outflows resulting from the University's contributions subsequent to the measurement date is recognized as part of the net pension liability calculation in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension benefits will be recognized in pension expense as follows:

<b>Fiscal Year ended June 30:</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
2018	\$ 287,648,132	\$ 142,545,034
2019	287,648,132	142,545,034
2020	240,605,170	141,454,463
2021	8,960,318	42,518,540
2022	194,030	1,604

Additional information related to deferred outflows of resources and deferred inflows of resources is presented in Note 10.

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2017 and 2016**

**NOTE 8 – Retirement Benefits (continued)**

**Actuarial assumptions.** The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Valuation Date:	December 31, 2015
Measurement Date of Net Pension Liability	December 31, 2016
Actuarial Cost Method:	Entry Age
Asset Valuation Method:	Fair Value
Long-Term Expected Rate of Return:	7.2%
Discount Rate:	7.2%
Salary Increases:	
Inflation	3.2%
Seniority/Merit	0.2% - 5.6%
Mortality:	Wisconsin 2012 Mortality Table
Post-Retirement Adjustments*	2.1%

*\* No post-retirement adjustment is guaranteed. Actual adjustments are based on recognized investment return, actuarial experience and other factors. 2.1% is the assumed annual adjustment based on the investment return assumption and the post-retirement discount rate.*

Actuarial assumptions are based upon an experience study conducted in 2015 using experience from 2012-2014. The total pension liability for December 31, 2016 is based upon a roll-forward of the liability calculated from the December 31, 2015 actuarial valuation.

**Long-term Expected Real Rate of Return.** The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<b>Core Fund</b>		<b>Variable Fund</b>	
	<b>Long-Term Real Rate of Return</b>	<b>Target Allocation</b>	<b>Long-Term Real Rate of Return</b>	<b>Target Allocation</b>
US Equities	0.0%	0%	4.7%	70%
Global Equities	5.4%	45%	n/a	--
International Equities	0.0%	0%	5.6%	30%
Fixed Income	1.4%	37%	n/a	--
Inflation Sensitive Assets	1.5%	20%	n/a	--
Real Estate	3.6%	7%	n/a	--
Private Equity/Debt	6.5%	7%	n/a	--
Multi-Asset	3.7%	4%	n/a	--
Cash	n/a	--	n/a	--

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2017 and 2016**

**NOTE 8 – Retirement Benefits (continued)**

**Single Discount Rate.** A single discount rate of 7.2% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.2% and a long term bond rate of 3.78%. Because of the unique structure of the WRS, the 7.2% expected rate of return implies that a dividend of approximately 2.1% will always be paid. For purposes of the single discount rate, it was assumed that the dividend would always be paid. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments (including expected dividends) of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Sensitivity of the University's proportionate share of the net pension liability to changes in the discount rate.** The following presents the University's proportionate share of the net pension liability calculated using the discount rate of 7.2 percent, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.2%) or 1-percentage-point higher (8.2%) than the current rate for fiscal years ended June 30, 2017 and 2016:

	<b><u>2017</u></b>	<b><u>2016</u></b>
1% Decrease to Discount Rate	\$ 1,468,661,552	\$ 1,548,658,807
Current Discount Rate	\$ 112,698,659	\$ 220,459,696
1% Increase to Discount Rate	\$ (933,332,672)	\$ (816,290,702)

**Pension plan fiduciary net position.** Detailed information about the pension plan's fiduciary net position is available in separately issued financial statements available at <http://www.etf.wi.gov/publications/cafr.htm>.

**Other Retirement Benefits**

In addition to the WRS, certain employees associated with federally funded activities are partially covered by the Federal Retirement Program. The University's contributions to this program totaled \$74,331 during fiscal year 2017, compared with \$81,056 during fiscal year 2016.

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2017 and 2016**

**NOTE 9 – 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. University employees are employees of the State.

**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. ETF 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 another postemployment benefit (OPEB).

As of the January 2015 actuarial valuation, the State's annual required contributions were \$98.4 million and \$94.5 million for fiscal years ended June 30, 2017 and June 30, 2016, respectively. The State's annual OPEB costs were \$79.4 million and \$76.8 million for fiscal years ended June 30, 2017 and June 30, 2016, respectively, and the State's actual contributions were \$38.4 million in fiscal year 2017 and \$36.7 million in fiscal year 2016, which results in a net OPEB obligation for the State of \$583.7 million as of June 30, 2017, and \$542.7 million as of June 30, 2016. The portion of this obligation allocated to the University increased from \$267.9 million in fiscal year 2016 to \$289.6 million in fiscal year 2017.

The State of Wisconsin Comprehensive Annual Financial Report includes financial statements, additional note disclosures, and required supplementary information for this plan. That report is publicly available at [www.doa.state.wi.us](http://www.doa.state.wi.us) or may be obtained by writing to: 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.

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2017 and 2016**

**NOTE 9 – Postemployment Benefits Other Than Pensions (continued)**

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 contributed \$38,882 to this program during fiscal year 2017 compared to \$37,127 during fiscal year 2016.

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

**NOTE 10 – Deferred Outflows and Deferred Inflows of Resources**

At June 30, 2017 and June 30, 2016, the University reported deferred outflows of resources and deferred inflows of resources from the following sources:

**Deferred Outflows (Inflows) of Resources related to Pensions**

<b><u>Fiscal Year 2017</u></b>	<b><u>Deferred Outflows of Resources</u></b>	<b><u>Deferred Inflows of Resources</u></b>
Differences between expected and actual experience	\$ 42,567,356	\$ (351,089,965)
Net differences between projected and actual earnings on pension plan investments	556,377,930	-
Employer contributions subsequent to the measurement date	49,593,620	-
Changes in Actuarial Assumptions	116,721,223	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	(7,903,108)
<b>Total</b>	<b><u>\$ 765,260,129</u></b>	<b><u>\$ (358,993,073)</u></b>
 <b><u>Fiscal Year 2016</u></b>	 <b><u>Deferred Outflows of Resources</u></b>	 <b><u>Deferred Inflows of Resources</u></b>
Differences between expected and actual experience	\$ 36,951,510	\$ (464,658,848)
Net differences between projected and actual earnings on pension plan investments	902,669,272	-
Employer contributions subsequent to the measurement date	50,250,757	-
Changes in Actuarial Assumptions	154,477,640	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	(6,849,697)
<b>Total</b>	<b><u>\$ 1,144,349,180</u></b>	<b><u>\$ (471,508,545)</u></b>

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2017 and 2016**

**NOTE 10 – Deferred Outflows and Deferred Inflows of Resources (continued)**

**Deferred Outflows (Inflows) of Resources related to Debt Refundings**

	<u>2017</u>	<u>2016</u>
Unamortized Losses	\$ 49,774,249	\$ 37,136,330
Unamortized Gains	<u>(824,641)</u>	<u>(1,073,335)</u>
<b>Total</b>	<u>\$ 48,949,608</u>	<u>\$ 36,062,995</u>

**Deferred Outflows (Inflows) of Resources related to Gifts**

	<u>2017</u>	<u>2016</u>
	<u>\$(61,523)</u>	<u>\$ -</u>

**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 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 Medical Foundation**

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



**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2017 and 2016**

**NOTE 11 – Other Organizations**

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

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-Madison faculty physicians group and the actual cost of providing those services. To enable the draw of these federal funds by DHS, UW-Madison remitted a total of \$8.5 million to DHS during fiscal year 2017 and \$9.7 million in fiscal year 2016, representing the state's share of this difference. DHS then claimed the federal share of the difference from the federal government and subsequently provided \$26.1 million during fiscal year 2017 and \$22.7 million during fiscal year 2016, representing both the state and federal share of the difference, to the UWMF. In addition, transfers by UW-Madison to the MA Trust Fund of \$11.5 million during fiscal year 2017 and \$13.0 million in fiscal year 2016 were also made under this program and are reported as a transfer to state agencies on the financial statements.

In addition, UW-Madison incurred expenditures for which reimbursement was received from the UWMF. Of the \$103.7 million expended in fiscal year 2017, \$91.9 million was for salaries and fringe benefits of staff in the UW-Madison School of Medicine.

**B – 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 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, 2017, the present value of these future lease payments totaled \$0.18 million, compared to \$0.2 million at June 30, 2016, 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 University bonds outstanding of \$1,404.4 million and \$1,384.1 million at June 30, 2017 and June 30, 2016, respectively. The leased facilities are not included as part of the University'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, 2017, the University received services from UWHCA totaling \$4.9 million and provided services to UWHCA totaling \$69.2 million, compared to amounts for fiscal year ended June 30, 2016 of \$4.8 million and \$66.9 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.

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2017 and 2016**

**NOTE 11 – Other Organizations (continued)**  
**C – 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 organized under the UW-Madison 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 UW-Madison and the designated technology transfer organization for the university. The facility was originally undertaken with \$50.0 million in State of Wisconsin and University funding, \$110.0 million contributed by WARF, and a \$50.0 million donation from a private donor. The Morgridge Institute for Research, an independent IRC 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 initially owned all of this land, the University and WARF became parties to a Real Property Exchange Agreement dated January 19, 2007. Under the terms of the Exchange Agreement, the University agreed to convey to WARF a portion of this land, and WARF agreed to convey to the University properties of equal value as defined in the agreement. In fiscal years 2008-09 and 2010-11, the University 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 remainder of the property was transferred to the Board of Regents of the University in November 2016.

The Wisconsin Institutes for Discovery is operated as a condominium. University and WARF are the members of The Wisconsin Institutes for Discovery Condominium Association, Inc. (Association), as set forth in the Condominium Declaration dated September 25, 2009. Ownership of the facility has been determined to be 30% University and 70% WARF. Of the total capitalized cost, the University 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, 2017 and 2016**

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

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

On June 6, 1997, the Board of Regents entered into a Use Agreement with The La Crosse Medical Health Science Consortium, Inc. (The Consortium), a Wisconsin non-stock corporation tax exempt under IRC 501(c)(3) with offices at 1725 State Street, La Crosse, Wisconsin. 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 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, 2017, the present value of these future lease payments totaled \$0.99 million, compared to \$1.5 million at June 30, 2016, 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 University bonds outstanding of \$1,404.4 million and \$1,384.1 million at June 30, 2017 and June 30, 2016, respectively. The leased facilities are not included as part of the University's investment in buildings since they have been reported by The Consortium in their audited financial statements in accordance with the generally accepted accounting principles that pertain to the reporting of leased assets.

During the fiscal year ended June 30, 2017, the University provided services and rent to The Consortium totaling \$0.71 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 revenue from state appropriations.

**E – University of Wisconsin-Platteville Real Estate Foundation**

In July 2012, the Board of Regents of the University 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 lease commenced August 1, 2013 and includes annual rental payments of \$2.5 million to The Foundation for 30 years. The lease also includes an option to purchase the facility.

In November 2013, The Foundation assigned the lease agreement to REF Bridgeway Commons, LLC (REF).

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2017 and 2016**

**NOTE 11 – Other Organizations (continued)**  
**F – Funds Held In Trust by Others**

Funds held in trust by others are endowment funds held by trustees outside of the University Trust Funds for the benefit of the University. The market value of these funds amounted to \$187.5 million at June 30, 2017, compared with \$177.2 million at June 30, 2016. During fiscal year 2017, \$1.4 million of these funds was made available by the trustees for spending.

**NOTE 12 – Classification of Net Position**

Net Position is reported in the following 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 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, 2017 and 2016**

**NOTE 12 – Classification of Net Position (continued)**

The amounts within each category at June 30, 2017 and June 30, 2016 are as follows:

	<b><u>2017</u></b>	<b><u>2016</u></b>
Net Investment in Capital Assets	\$ 4,392,604,768	\$ 4,383,247,748
Restricted – Nonexpendable		
Permanent Endowment	198,295,429	181,685,224
Restricted – Expendable		
Quasi-Endowment	248,966,488	247,116,988
Auxiliary Operations – Segregated Fees	<u>74,422,544</u>	<u>93,574,988</u>
Subtotal	323,389,032	340,691,976
Restricted – Student Loans		
Federal Aid – Student Loans	190,268,566	191,342,336
Gifts – Student Loans	31,618,941	31,045,867
Endowment Funds	<u>13,364,280</u>	<u>13,364,280</u>
Subtotal	235,251,787	235,752,483
Restricted – Other		
Federal Aid	42,289,201	34,321,130
Gifts and Nonfederal Grants & Contracts	262,361,431	279,704,890
Endowment Funds	11,183,544	11,183,544
Construction Fund	168,658,548	124,826,819
Segregated Revenue	476,830	537,231
All Other Restricted Program Revenue	<u>3,242,147</u>	<u>2,826,320</u>
Subtotal	488,211,701	453,399,934
Unrestricted		
Tuition (Academic & Extension Student Fees)	290,915,885	376,901,931
General Operations	153,061,091	156,194,334
Auxiliary Operations (Non-Segregated Fee)	287,213,712	271,955,630
Indirect Cost Reimbursement	148,983,490	159,901,195
Endowment Funds	78,158,492	51,704,640
All Other Unrestricted Program Revenue	26,944,529	31,356,062
Gifts and Nonfederal Grants & Contracts <sup>^</sup>	34,609,487	(30,992,666)
Federal Aid <sup>^</sup>	(17,064,460)	(4,142,058)
All Other Non-Program Revenue <sup>*</sup>	<u>(82,119,125)</u>	<u>(28,797,783)</u>
Subtotal	920,703,101	984,081,285
Total Net Position	<b><u>\$ 6,558,455,818</u></b>	<b><u>\$ 6,578,858,650</u></b>

<sup>^</sup> Funds are typically collected on a reimbursement basis resulting in a negative balance at year end.

<sup>\*</sup> The negative balance results primarily from an accumulating effect of accrual entries on General Purpose Revenue and Segregated Revenue funds.

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2017 and 2016**

**NOTE 12 – Classification of Net Position (continued)**

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

CAFR reclassifications as of June 30, 2017 (in millions):

	<b>University of Wisconsin System</b>	<b>Auxiliary Operations</b>	<b>Quasi- Endowments</b>	<b>Student Loans</b>	<b>State of Wisconsin CAFR</b>
Net Investment in Capital Assets	\$ 4,392.6	\$ -	\$ -	\$ -	\$ 4,392.6
Restricted for					
Nonexpendable	198.3	-	-	-	198.3
Expendable	323.4	(74.4)	59.9	-	308.9
Student Loans	235.3	-	-	(9.8)	225.5
Other	488.2	-	-	9.8	498.0
Unrestricted	<u>920.7</u>	<u>74.4</u>	<u>(59.9)</u>	<u>-</u>	<u>935.2</u>
Total Net Position	<u>\$ 6,558.5</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,558.5</u>

CAFR reclassifications as of June 30, 2016 (in millions):

	<b>University of Wisconsin System</b>	<b>Auxiliary Operations</b>	<b>Quasi- Endowments</b>	<b>Student Loans</b>	<b>State of Wisconsin CAFR</b>
Net Investment in Capital Assets	\$ 4,383.2	\$ -	\$ -	\$ -	\$ 4,383.2
Restricted for					
Nonexpendable	181.7	-	-	-	181.7
Expendable	340.7	(93.6)	36.5	-	283.6
Student Loans	235.8	-	-	(9.8)	226.0
Other	453.4	-	-	9.8	463.2
Unrestricted	<u>984.1</u>	<u>93.6</u>	<u>(36.5)</u>	<u>-</u>	<u>1,041.2</u>
Total Net Position	<u>\$ 6,578.9</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,578.9</u>

**NOTE 13 – Prior Period Adjustments and Other Restatements**

The June 30, 2017 Statement of Net Position does not include a prior period adjustment or any other restatements.

The June 30, 2016 Statement of Revenues, Expenses, and Changes in Net Position includes the following prior period adjustment:

<b>Account Affected</b>	<b>Amount</b>	<b>Explanation</b>
Other Operating Revenue	\$40,580,662	Correction of an error in 2015.
Unrestricted Net Position	(40,580,662)	

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2017 and 2016**

**NOTE 14 – 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 15 – Subsequent Events**

In July 2017, the State issued \$345.3 million of 2017 Series 1 general obligation refunding bonds to be used for advance refunding of certain principal of previously issued general obligation bonds. The interest rates associated with these bonds were set at 2.0 to 5.0 percent payable semiannually beginning November 1, 2017. The bonds mature annually beginning November 1, 2021 through November 1, 2023 and November 1, 2026 through November 1, 2031.

In November 2017, the State issued \$382.7 million of 2017 Series 2 general obligation refunding bonds to be used for advance refunding (including a crossover refunding) of certain principal of previously issued general obligation bonds. The interest rates associated with these bonds were set at 5.0 percent payable semiannually beginning May 1, 2018. The bonds mature annually beginning November 1, 2020 through November 1, 2028.

In November 2017, the State issued \$272.7 million of 2017 Series B general obligation bonds to be used for the acquisition, construction, development, extension, enlargement or improvement of land, water, property, highways, buildings, equipment or facilities for public purposes. The interest rates associated with these bonds were set at 4.0 to 5.0 percent payable semiannually beginning May 1, 2018. The bonds mature annually beginning May 1, 2019 through May 1, 2021 and May 1, 2027 through May 1, 2038. The total par amount of these bonds issued for University of Wisconsin purposes is \$64.8 million; additional purchase premium proceeds from this issue were also applied for UW purposes.

In December 2017, the State issued \$347.0 million of 2017 Series 3 general obligation refunding bonds to be used for advance refunding of certain previously issued general obligation bonds. The interest rates associated with these bonds were set at 4.0 to 5.0 percent payable semiannually beginning May 1, 2018. The bonds mature annually beginning November 1, 2026 through November 1, 2034.

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**UNIVERSITY OF WISCONSIN SYSTEM**  
**Required Supplementary Information**  
**and Notes to Required Supplementary**  
**Information**  
**Years Ended June 30, 2017 and 2016**

**Required Supplementary Information**

**University of Wisconsin System's Proportionate Share of the Net Pension Liability (Asset)**  
Wisconsin Retirement System

The University's proportionate share of the net pension liability (NPL) or net pension (asset) (NPA) of the Wisconsin Retirement System is provided below:

<b>Fiscal Year*</b>	<b>Proportion of the NPL (NPA)</b>	<b>Proportionate Share of the NPL (NPA)</b>	<b>Covered Payroll</b>	<b>Proportionate Share as a Percentage of Covered Payroll</b>	<b>WRS' Net Position as a Percentage of the Total Pension Liability</b>
2017	13.54%	\$ 112,698,659	\$ 1,929,105,545	5.79%	99.1%
2016	13.59%	\$ 220,459,696	\$ 1,924,520,818	11.47%	98.2%
2015	13.44%	\$ (330,166,674)	\$ 1,896,092,723	17.41%	102.74%

\*The amounts presented for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year

GASB standards require the presentation of 10 years of information. Because fiscal year 2015 was the first year for reporting this information, a full 10-year schedule will not be available until fiscal year 2024.

**University of Wisconsin System's Pension Contributions**  
Wisconsin Retirement System

The University's pension contributions to the Wisconsin Retirement System are provided below:

<b>Fiscal Year</b>	<b>Contractually Required Contributions</b>	<b>Contributions Made</b>	<b>Contribution Deficiency (Excess)</b>	<b>Covered Payroll</b>	<b>Contributions Made as a Percentage of Covered Payroll</b>
2017	\$ 127,760,738	\$ 127,760,738	\$ -	\$ 1,929,105,545	6.62%
2016	\$ 131,542,672	\$ 131,542,672	\$ -	\$ 1,924,520,818	6.84%
2015	\$ 133,468,069	\$ 133,468,069	\$ -	\$ 1,896,092,723	7.04%

\*The amounts presented for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year

GASB standards require the presentation of 10 years of information. Because fiscal year 2015 was the first year for reporting this information, a full 10-year schedule will not be available until fiscal year 2024.

**Notes to Required Supplementary Information**  
**for the Year Ended June 30, 2017**

*Changes of benefit terms.* There were no changes of benefit terms for any participating employer in WRS.

*Changes in assumptions.* There were no changes in the assumptions.

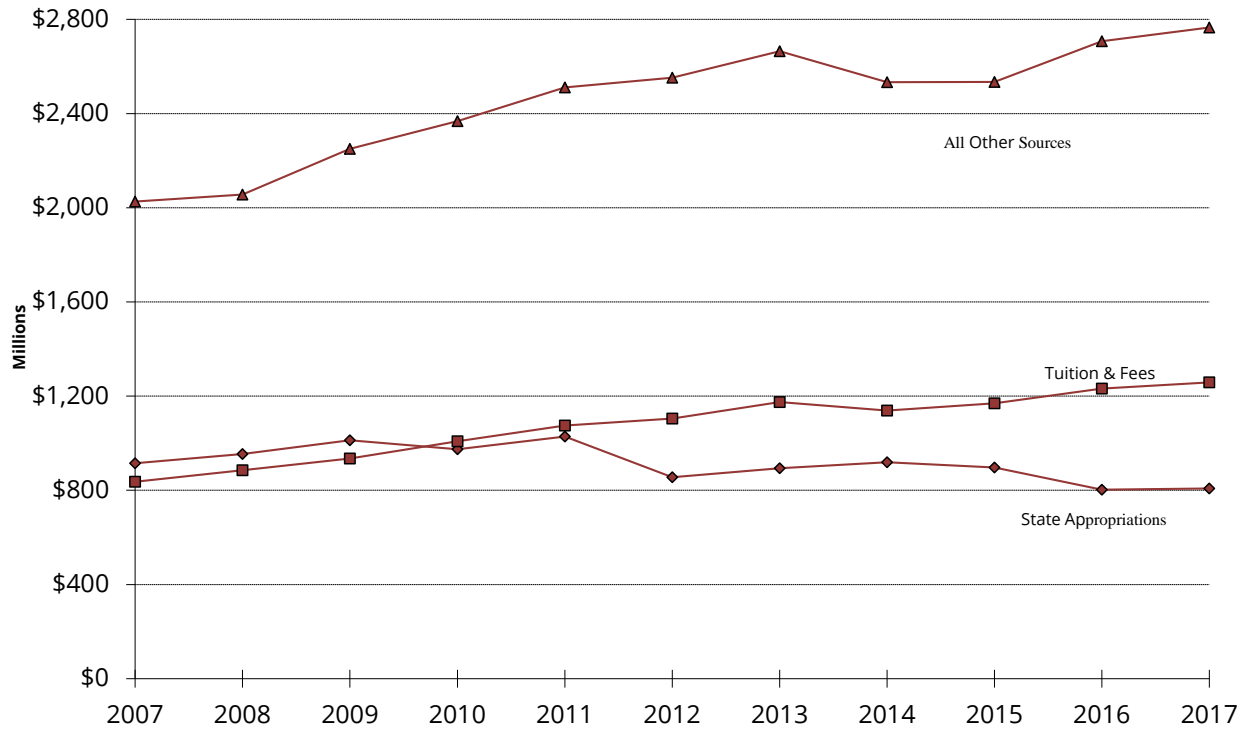
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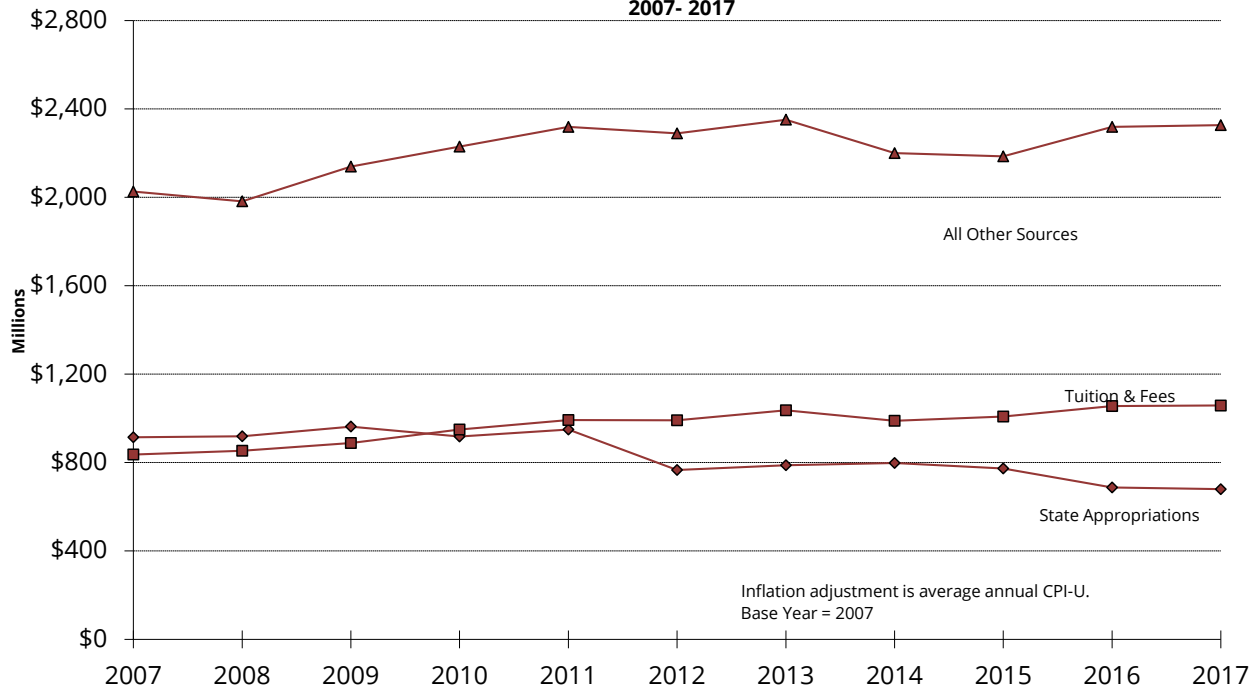
*Years Ended June 30, 2017 and 2016*

## SUPPLEMENTAL INFORMATION

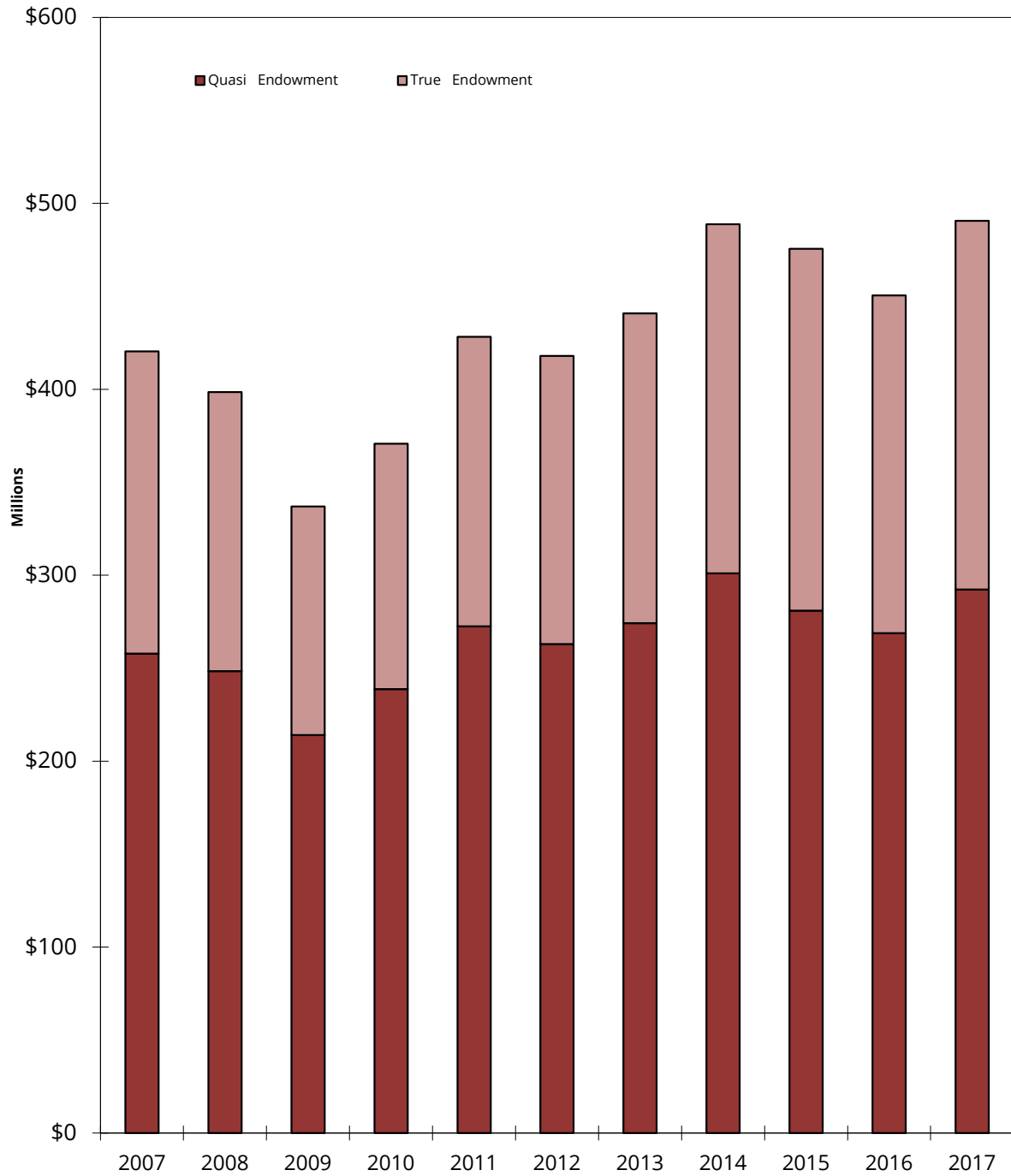
**CHART 1**  
**COMPARISON OF CURRENT FUNDS REVENUES**  
**2007-2017**



**CHART 2**  
**COMPARISON OF CURRENT FUNDS REVENUES**  
**ADJUSTED FOR INFLATION**  
**2007- 2017**



**CHART 3**  
**UNIVERSITY-CONTROLLED ENDOWMENTS**  
**2007-2017**



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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