

ANNUAL FINANCIAL REPORT

2021



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University of Wisconsin System
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Editor: Rod Dole

Cover Photo: University of Wisconsin-River Falls students walk by the Falcon Center for Health, Education and Wellness, a comprehensive indoor and outdoor facility that supports the Health and Human Performance Department, Falcon Athletics, Campus Recreation, the community, and the university as a whole. Opened in 2017, the Falcon Center received the National Intramural and Recreational Sports Association's Outstanding Sports Facilities Award in 2019, given for "exemplifying the institution's commitment to providing the higher education experience desired and valued by students. The award honors facilities that demonstrate excellence in a number of critical areas including architectural design, functionality, and how well the facility meets its intended purpose."

Founded in 1874, the University of Wisconsin-River Falls is located in the beautiful St. Croix Valley, just 30 minutes from the vibrant Twin Cities. Students of UW-River Falls enjoy small class sizes and have abundant opportunities to conduct hands-on research and experience meaningful internships through the university's partnerships with leading businesses and non-profit organizations. With more than 70 areas of study in four distinct colleges, UW-River Falls is a leader in exemplary teaching, undergraduate research, and sustainability, and serves as an economic engine for Western Wisconsin.

UW-River Falls's mission is to help prepare students to be productive, creative, ethical, engaged citizens and leaders with an informed global perspective.

Photo Credit: UW-River Falls

University of Wisconsin System

2021 Annual Financial Report

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2021 Annual Financial Report

Regents, Chancellors, and Officers of the UW System

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Interim President

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Vice President for Finance

James Landon,
Vice President for Administration

Scott Neitzel,
Interim Vice President for University Relations

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Vice President for Academic and Student Affairs

Quinn Williams,
General Counsel

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Senior Associate Vice President for Finance

Ginger Hintz,
Assistant Vice President for Financial
Administration and Controller

Rod Dole,
Director of Financial Reporting

Renee Stephenson,
Assistant Vice President of Budget
Development and Planning

Charles Saunders,
Executive Director and Operations Manager
Office of Trust Funds

CHANCELLORS

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Michael Alexander, UW-Green Bay

Joe Gow, UW-La Crosse

Rebecca M. Blank, UW-Madison

Mark Mone, UW-Milwaukee

Andrew J. Leavitt, UW-Oshkosh

Deborah Ford, UW-Parkside

Dennis J. Shields, UW-Platteville

Maria Gallo, UW-River Falls

Thomas Gibson, UW-Stevens Point

Katherine P. Frank, UW-Stout

Renée Wachter, UW-Superior

James Henderson, UW-Whitewater, Interim

REGENTS

Robert Atwell, Sturgeon Bay

Scott Beightol, Wales

Amy Bogost, Madison

Héctor Colón, New Berlin

Michael Grebe, Mequon

Mike Jones, Milwaukee

Tracey Klein, Brookfield

Becky Levzow, Rio

Edmund Manydeeds III, Eau Claire (Regent
President)

John Miller, Fox Point

Andrew S. Petersen, Middleton

Cris Peterson, Grantsburg

Ashok Rai, Suamico

Corey Saffold, Fitchburg

Carolyn Stanford Taylor, Madison

Brianna Tucker, Stevens Point

Karen Walsh, Madison (Regent Vice President)

Kyle Weatherly, Milwaukee



Years Ended June 30, 2021 and 2020

INTRODUCTION FROM THE VICE PRESIDENT FOR FINANCE



INTRODUCTION FROM THE VICE PRESIDENT FOR FINANCE

FINANCIAL REPORT 2021

We are pleased to present the University of Wisconsin's 2021 Annual Financial Report, which includes accrual-based statements for fiscal years 2020-21 and 2019-20; the statements have received an unmodified (clean) audit opinion by the state's Legislative Audit Bureau. Fiscal year 2020-21 marks the 50th year of the UW System's existence, as it was created with the merger of two public university systems in 1971. For 50 years, the UW System has delivered on its three-pillar statutory mission of education, research and public service and has modeled the Wisconsin Idea, specifically "...to extend knowledge and its application beyond the boundaries of its campuses."

In this milestone year, the UW System is proud of its achievements in academic excellence, research and public service, while also continuing to face the global COVID-19 pandemic.

Some of the UW System's accomplishments in 2020-21 include:

- Enrolling nearly 164,800 students across our 13 four-year universities and 13 additional campuses, which are affiliated with seven of the four-year institutions;
- Awarding approximately 37,200 associate, bachelor's, master's and other advanced degrees, with 39% of those degrees in STEM and health-related fields;
- Increasing retention rates for new freshmen to nearly 83%;
- Limiting the average increase for the cost of attendance (tuition, room and board, segregated fees) to just 1% over the previous year;
- Signaling to UW students that resident tuition rates would not increase in the 2021-22 academic year, maintaining our tuition freeze at the 2012-13 levels for the 9th consecutive year; and
- Advancing groundbreaking research with related expenses of more than \$1.1 billion.

Annual Financial Report Highlights

Our 2021 Annual Financial Report demonstrates the UW System's continuing commitment to prudent financial stewardship. The UW System was compelled to make several difficult decisions as a result of COVID-19, all intended to safeguard the well-being of our students, faculty, staff and the citizens of Wisconsin, while working to secure the long-term financial health of our universities.

Some of the actions taken by UW leadership include implementing employee furloughs and other temporary workforce reductions, delaying faculty and staff recruitments, and

postponing capital projects and new initiatives. Other expense reductions and savings included limited travel, renegotiated service contracts, and fewer office supply purchases. As a result, the UW System's fiscal year 2020-21 operating expenses were down \$318.6 million, nearly 6.1 percent, from the prior year.

Federal COVID relief funding also helped us adjust to a pandemic world. In the first two rounds of funding from the Higher Education Emergency Relief Fund (HEERF) and similar programs, the UW System received \$325.7 million. These funds have been or will be used in accordance with grant requirements to offset expenses incurred to prevent, prepare for and respond to the pandemic, as well as mitigate a portion of the lost revenues directly attributed to COVID-19. Sales and Services of Auxiliary Enterprises and Educational Activities were impacted particularly hard, with 2020-21 revenues decreasing a total of \$188.5 million, or 27.2 percent, from the previous year.

Federal regulations require a significant portion of the HEERF allocations be put toward emergency student aid. More than 54,600 UW students received \$94.4 million as emergency student grants through fiscal year 2020-21. In late 2020-21, the UW System was allocated an additional \$274.1 million in the third round of HEERF funding (the American Recovery Plan). Of this amount, \$137.3 million will be used to offset institutions' COVID expenses and lost revenues and \$136.8 million will be put toward student aid in the coming year.

Other highlights within the UW System's 2021 Annual Financial Report include the following:

- The UW System's Cash and Cash Equivalents increased by \$270.3 million between fiscal years 2020-21 and 2019-20 due to the reduced operating expenses and additional federal revenue. This increase is also partially attributable to a State-mandated budget reduction ("lapse") of \$45.4 million that was rescinded in June 2021, approximately three weeks before the end of the fiscal year. Cash balances at the respective UW institutions increased by virtue of campus planning

efforts that had already factored in the loss of state revenue.

- Endowment Investments increased \$120.9 million between fiscal years, while Investment Income increased \$84.9 million. These increases are primarily due to the strong financial markets and investment returns on the UW System's Long-Term Fund, which were 27.4 percent in 2020-21, compared to 3.8 percent in 2019-20.
- The Wisconsin Retirement System, which is managed by the State of Wisconsin's Department of Employee Trust Funds (ETF), reported a significant increase in its Restricted Net Pension Asset, with the UW System's share of it being \$831.6 million, a 93.2 percent increase. ETF attributes this increase to investment returns being above their anticipated levels. The Other Post Employment Benefit (OPEB) programs, which are also administered by ETF, have varied financial positions. The UW System's share of the Supplemental Health Insurance Conversion Credit program is reported as an asset of \$124.5 million, while the Retiree Health and Retiree Life Insurance programs are at a liability of \$651.3 million. A summary of the UW System's net position without the impact of the pension and OPEB programs is included on page 19 of the 2021 Annual Financial Report.
- Tuition revenue stayed relatively consistent at \$1.4 billion for the UW System as a whole. However, enrollment and revenue increases at a handful of UW institutions offset reductions at others.
- State appropriations increased \$76.3 million over the prior fiscal year as a result of two factors. In fiscal year 2019-20, the UW System was required to lapse \$40.8 million of its General Purpose Revenue back to the State. In 2020-21, the UW System also received additional GPR for the state's two percent salary compensation increase ("pay plan") and new funding for the Dairy Innovation Hub for UW-Madison, UW-Platteville, and UW-River Falls.

As a result of these changes, the UW System's Net Position increased significantly, from nearly \$5.4 billion in 2019-20 to \$6.0 billion in 2020-21. This increase is largely attributable to our investment in capital assets and other restricted assets, such as the pension and OPEB assets and trust fund assets. The UW System's Unrestricted Net Position is reflected on the Statement of Net Position as a deficit balance of \$154.0 million. However, if the statement was adjusted to remove the impact of our restricted pension and OPEB assets, the Unrestricted Net Position would be \$1.1 billion, an increase of \$21.4 million.

Fiscal year 2020-21 has assuredly been unpredictable across the nation's higher education landscape, but it was a year in which the UW System met the challenges of the ever-evolving public health threat while maintaining prudent management to ensure the fiscal viability for the UW System's 13 universities. We are constantly reminded of the approximately 165,000 students and the citizens of Wisconsin, who are at the core of what we do every day in support of the UW System's mission. So as we celebrate our 50th anniversary, the UW System is well positioned financially to help the State of Wisconsin seek solutions for the emerging challenges of the next 50 years, with a renewed commitment to upholding the Wisconsin Idea for future generations.

Sean P. Nelson, Vice President for Finance



Years Ended June 30, 2021 and 2020

INDEPENDENT AUDITOR'S REPORT



STATE OF WISCONSIN

Legislative Audit Bureau

Joe Chrisman
State Auditor

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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
Mr. Tommy G. Thompson, Interim 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 and the aggregate discretely presented component units in the Related University Campus Foundations financial statements as of and for the years ended June 30, 2021, and June 30, 2020, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the UW Foundation, which represents 85.8 percent of the assets of the aggregate discretely presented component units. Those statements were audited by another auditor whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts for the aggregate discretely presented component units in the Related University Campus Foundations financial statements are based solely upon the audit reports of the other auditor.

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 another auditor, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of UW System and its aggregate discretely presented component units presented in the Related University Campus Foundations financial statements as of June 30, 2021, and June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the financial statements referred to in the first paragraph present only UW System and its aggregate discretely presented component units, and do not purport to, and do not, present fairly the financial position of the State of Wisconsin as of June 30, 2021, and June 30, 2020, the changes in its financial position, or where applicable, its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Our opinions are not modified with respect to this matter.

Other Matters

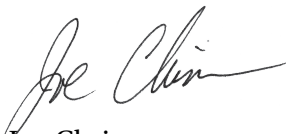
Required Supplementary Information—Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 12 through 19 and required supplementary information on pages 90 through 94, which includes the schedule of UW System's proportionate share of the net pension liability (asset) and the related notes; the schedule of UW System's pension contributions and the related notes; the schedules of UW System's proportionate share of the OPEB liability (asset) and the related notes; and the schedules of UW System's OPEB contributions and related notes, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, 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 express an opinion or provide any assurance.

Accompanying Information—Our audits were conducted for the purpose of forming opinions on UW System’s financial statements. The introduction on pages 4 through 6 and the supplementary information on pages 96 and 97 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit 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 December 20, 2021, and published in report 21-22, on our consideration of UW System’s internal control over financial reporting; our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements; and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of UW System’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be used when considering UW System’s internal control over financial reporting and compliance.

LEGISLATIVE AUDIT BUREAU

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

Joe Chrisman
State Auditor

December 20, 2021



Years Ended June 30, 2021 and 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

UNIVERSITY OF WISCONSIN SYSTEM
Management's Discussion and Analysis
Years Ended June 30, 2021 and 2020

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, 2021 and 2020, with comparative information for the year ended June 30, 2019, where appropriate. This discussion has been prepared by management, is unaudited, and should be read in conjunction with the financial statements and footnotes.

The University is made up of 13 four-year universities and 13 additional branch campuses affiliated with seven of the four-year institutions. In academic year 2020-2021, the University enrolled 164,766 students, employed approximately 32,284 faculty and staff, and granted 37,193 associate, bachelor's, master's, and other advanced degrees. University institutions were awarded over \$1,547.9 million in federal grants and contracts in fiscal year 2021 and an additional \$745.9 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.

| Degrees Granted | | Headcount Enrollments | |
|-------------------------|---------------|------------------------------|----------------|
| <i>UW-Madison</i> | <i>11,768</i> | <i>UW-Madison</i> | <i>45,483</i> |
| <i>UW-Milwaukee</i> | <i>5,539</i> | <i>UW-Milwaukee</i> | <i>24,722</i> |
| <i>UW-Eau Claire</i> | <i>2,391</i> | <i>UW-Eau Claire</i> | <i>11,015</i> |
| <i>UW-Green Bay</i> | <i>1,666</i> | <i>UW-Green Bay</i> | <i>8,969</i> |
| <i>UW-La Crosse</i> | <i>2,530</i> | <i>UW-La Crosse</i> | <i>10,543</i> |
| <i>UW-Oshkosh</i> | <i>2,382</i> | <i>UW-Oshkosh</i> | <i>15,317</i> |
| <i>UW-Parkside</i> | <i>817</i> | <i>UW-Parkside</i> | <i>4,465</i> |
| <i>UW-Platteville</i> | <i>1,763</i> | <i>UW-Platteville</i> | <i>7,550</i> |
| <i>UW-River Falls</i> | <i>1,415</i> | <i>UW-River Falls</i> | <i>5,862</i> |
| <i>UW-Stevens Point</i> | <i>1,808</i> | <i>UW-Stevens Point</i> | <i>8,316</i> |
| <i>UW-Stout</i> | <i>1,646</i> | <i>UW-Stout</i> | <i>7,970</i> |
| <i>UW-Superior</i> | <i>639</i> | <i>UW-Superior</i> | <i>2,559</i> |
| <i>UW-Whitewater</i> | <i>2,829</i> | <i>UW-Whitewater</i> | <i>11,995</i> |
| <i>Total</i> | <i>37,193</i> | <i>Total</i> | <i>164,766</i> |

UNIVERSITY OF WISCONSIN SYSTEM
Management's Discussion and Analysis
Years Ended June 30, 2021 and 2020

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, 2021 and 2020, 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 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 income/loss 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 and other postemployment benefits (OPEB) obligations.

UNIVERSITY OF WISCONSIN SYSTEM
Management's Discussion and Analysis
Years Ended June 30, 2021 and 2020

Analysis of Financial Position and Results of Operations

The University's total net position remained stable after fiscal year 2021. As of June 30, 2021, the University had total assets of \$9.8 billion and total liabilities of \$3.3 billion.

Statement of Net Position (in millions)

| | 2021 | 2020 | 2019 |
|----------------------------------|-------------|-------------|-------------|
| Current Assets | \$ 2,773.7 | \$ 2,432.5 | \$ 2,298.0 |
| Capital Assets, Net | 5,388.3 | 5,345.4 | 5,258.4 |
| Other Noncurrent Assets | 1,653.1 | 1,092.3 | 612.8 |
| Total Assets | 9,815.1 | 8,870.2 | 8,169.2 |
| Deferred Outflows of Resources | 1,556.2 | 1,183.4 | 1,340.4 |
| Current Liabilities | 789.6 | 702.4 | 658.6 |
| Noncurrent Liabilities | 2,489.0 | 2,429.0 | 2,654.7 |
| Total Liabilities | 3,278.6 | 3,131.4 | 3,313.3 |
| Deferred Inflows of Resources | 2,092.4 | 1,522.7 | 836.6 |
| Net Investment in Capital Assets | 3,669.7 | 3,574.4 | 3,614.4 |
| Restricted Net Position | 2,484.6 | 1,748.5 | 1,197.6 |
| Unrestricted Net Position | (154.0) | 76.6 | 547.7 |
| Total Net Position | \$ 6,000.3 | \$ 5,399.5 | \$ 5,359.7 |

Current assets minus current liabilities represents the net working capital of the University. Net working capital increased from \$1,730.1 million at June 30, 2020 to \$1,984.2 million at June 30, 2021.

The following table contains a summary of Current Assets which consists of operating cash and cash equivalents, securities lending collateral, accounts receivable, student loans receivable, supply inventories, and prepaid expenses. The largest change between 2021 and 2020 was in cash and cash equivalents, which increased by \$270.3 million due to reduction of operating expenses and receipt of federal COVID relief funds.

| Current Assets (in millions) | 2021 | 2020 | 2019 |
|-------------------------------------|-------------|-------------|-------------|
| Cash & Cash Equivalents | \$ 2,219.4 | \$ 1,949.1 | \$ 1,863.7 |
| Securities Lending Collateral | 148.0 | 109.4 | 109.3 |
| Accounts Receivable, Net | 316.2 | 285.8 | 249.0 |
| Other Current Assets | 90.1 | 88.2 | 76.0 |
| Total Current Assets | \$ 2,773.7 | \$ 2,432.5 | \$ 2,298.0 |

The Board of Regents has authority to invest gifts and bequests received by the University. Effective April 1, 2018 and as permitted through Section 36.11 (11m) of the Wisconsin statutes, the Board of Regents transferred its investment management responsibilities to the State of Wisconsin Investment Board (SWIB). The Board of Regents establishes investment policies and guidelines, including target investment allocations. Benefiting UW entities receive quarterly distributions from the Long Term Fund, principally endowed assets, based on an annual spending rate applied to a twelve-quarter moving average market value of the Fund. A comparison of university-controlled endowments over the past several years can be found in Chart 3 of the Supplemental Information

UNIVERSITY OF WISCONSIN SYSTEM
Management's Discussion and Analysis
Years Ended June 30, 2021 and 2020

section 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), student loans receivable and pension and OPEB assets. Notable changes between years include:

- Endowment investments, valued at \$591.3 million at June 30, 2021, increased by \$120.9 million during fiscal year 2021. The increase was driven by market-based fluctuations in investment performance.
- Investment earnings related to the pension plan fiduciary net position outpaced projected earnings in both 2021 and 2020, resulting in a non-current net pension asset of \$831.6 million and \$430.5 million, respectively.
- In 2020, the Department of Employee Trust Funds (ETF), which has program administration and oversight of postemployment benefits, determined that the Supplemental Health Insurance Conversion Credit (SHICC) program should be considered a defined benefit other postemployment benefit. As such, the University has recorded its proportionate share of the net OPEB non-current asset at June 30, 2021 and 2020 of \$124.5 million and \$67.9 million, respectively.

Deferred outflows increased by \$372.8 million in fiscal year 2021, due to adjustments related to pension and OPEB obligations.

Current liabilities increased by \$87.2 million in fiscal year 2021, driven by increases in securities lending collateral liabilities and current portion of employer deferred payroll tax liabilities.

Noncurrent liabilities increased by \$60.0 million in fiscal year 2021. The most significant reason for this is the adjustment to the pension plan fiduciary net position, as noted above.

Deferred inflows increased by \$569.7 million in fiscal year 2021, due to adjustments related to pension and OPEB obligations.

Further, these reporting changes resulted in \$223.1 million of pension expense credit 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 13 to the Financial Statements.

Capital and Debt Activities

Of the \$6.0 billion in net position, \$3.7 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, including major construction projects completed or in progress. 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 four 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

UNIVERSITY OF WISCONSIN SYSTEM
Management's Discussion and Analysis
Years Ended June 30, 2021 and 2020

Revenue Supported Borrowing (PRSB) 20- or 30-year state-issued bonds repaid with the University program revenue; Program Revenue Cash (Cash); and cash from gift and grant funds (Gifts). State general obligation bonds issued for the University's purpose are rated by Moody's and S&P Aa1 and AA, respectively.

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, 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):

| | 2021 | 2020 | 2019 |
|---|-----------------|----------------|------------------|
| Total Revenues | \$ 5,432.8 | \$ 5,229.8 | \$ 5,302.0 |
| Total Expenses | 5,089.5 | 5,398.9 | 5,486.1 |
| Income (Loss) Before Capital and Endowment Additions | 343.3 | (169.1) | (184.1) |
| Capital Appropriations, Contributions & Endowment Additions | 257.4 | 209.0 | 113.7 |
| Increase (Decrease) in Net Position | <u>\$ 600.7</u> | <u>\$ 39.9</u> | <u>\$ (70.4)</u> |

UNIVERSITY OF WISCONSIN SYSTEM
Management's Discussion and Analysis
Years Ended June 30, 2021 and 2020

The University's operating and non-operating revenues are provided in the table below. Operating revenues decreased \$257.0 million since fiscal year 2019 with the primary decreases in sales and services of auxiliaries and sales and services of educational activities. Non-operating revenues increased \$387.8 million between fiscal year 2019 and fiscal year 2021 primarily due to changes in state appropriations, gifts and coronavirus federal grants and aid funding. The University was awarded \$599.9 million in coronavirus federal grants and aid through 2020-21. In accordance with the federal award agreements, the University must meet certain eligibility requirements before recognizing the funding. The University recognized \$240.5 million as non-operating revenue in 2020-21 and \$72.3 million as non-operating revenue in 2019-20. The remaining amount will be recognized in 2021-22. These funds are restricted and must be used to address unforeseen financial needs created by the coronavirus public health emergency, such as personal protective equipment, emergency student grants, housing and dining refunds and technology to accommodate remote learning.

| Revenues (in millions): | 2021 | 2020 | 2019 |
|--|-------------------|-------------------|-------------------|
| Operating Revenues | | | |
| Student Tuition and Fees, Net | \$ 1,403.2 | \$ 1,407.9 | \$ 1,402.3 |
| Federal Grants and Contracts | 707.8 | 685.0 | 617.0 |
| State, Local, & Private Grants and Contracts | 438.0 | 421.2 | 447.5 |
| Sales and Services of Educational Activities | 241.1 | 338.6 | 371.8 |
| Sales and Services of Auxiliaries, Net | 263.3 | 354.3 | 433.6 |
| All Other Operating Revenues | 430.8 | 461.6 | 469.0 |
| Total Operating Revenues | 3,484.2 | 3,668.6 | 3,741.2 |
| Non-Operating Revenues | | | |
| State Appropriations | 961.6 | 885.3 | 883.6 |
| Gifts | 438.1 | 382.3 | 395.7 |
| Federal Pell Grants | 141.0 | 149.6 | 160.0 |
| Coronavirus Federal Grants and Aid | 240.5 | 72.3 | — |
| Net Investment Income | 129.0 | 44.0 | 86.4 |
| Other Non-Operating Revenues | 38.4 | 27.7 | 35.1 |
| Total Non-Operating Revenues | 1,948.6 | 1,561.2 | 1,560.8 |
| Total Revenues | <u>\$ 5,432.8</u> | <u>\$ 5,229.8</u> | <u>\$ 5,302.0</u> |

UNIVERSITY OF WISCONSIN SYSTEM
Management's Discussion and Analysis
Years Ended June 30, 2021 and 2020

Operating expenses, classified by function, and non-operating expenses, are as follows:

| Expenses (in millions): | 2021 | 2020 | 2019 |
|--------------------------|-------------------|-------------------|-------------------|
| Operating Expenses | | | |
| Instruction | \$ 1,016.8 | \$ 1,314.8 | \$ 1,452.9 |
| Research | 1,059.6 | 1,032.0 | 987.1 |
| Public Service | 347.6 | 348.7 | 364.8 |
| Academic Support | 413.0 | 442.2 | 428.7 |
| Student Services | 488.1 | 500.7 | 505.5 |
| Institutional Support | 327.3 | 338.7 | 309.1 |
| Operation/Maintenance | 319.6 | 312.8 | 298.9 |
| Financial Aid | 292.1 | 273.3 | 243.6 |
| Auxiliary Enterprises | 259.5 | 298.8 | 359.7 |
| Other Functions | 69.4 | 69.3 | 71.0 |
| Depreciation | 348.9 | 329.1 | 327.3 |
| Total Operating Expenses | 4,941.9 | 5,260.4 | 5,348.6 |
| Non-Operating Expenses | 147.7 | 138.5 | 137.5 |
| Total Expenses | <u>\$ 5,089.6</u> | <u>\$ 5,398.9</u> | <u>\$ 5,486.1</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 foundations, investment income, and government-sponsored programs (see Charts 1 and 2 in the Supplemental Information 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. The higher Instruction operating expenses in fiscal year 2019 and 2020 are attributed to the increase in pension plan expense reported within salary and fringe benefits expense in those years.

UNIVERSITY OF WISCONSIN SYSTEM
Management's Discussion and Analysis
Years Ended June 30, 2021 and 2020

Statement of Net Position adjusted for the pension and other postemployment benefit obligations as allocated to the UW System are as follows (in millions):

| | 2021 | Adjustment for Pension and OPEB | Adjusted 2021 | 2020 | Adjustment for Pension and OPEB | Adjusted 2020 |
|----------------------------------|-------------------|---------------------------------------|-------------------|-------------------|---------------------------------------|-------------------|
| Current Assets | \$ 2,773.7 | \$ — | \$ 2,773.7 | \$ 2,432.5 | \$ — | \$ 2,432.5 |
| Capital Assets, Net | 5,388.3 | — | 5,388.3 | 5,345.4 | — | 5,345.4 |
| Other Noncurrent Assets | 1,653.1 | 956.2 | 696.9 | 1,092.3 | 498.4 | 593.9 |
| Total Assets | 9,815.1 | 956.2 | 8,858.9 | 8,870.2 | 498.4 | 8,371.8 |
| Deferred Outflows of Resources | 1,556.2 | 1,508.7 | 47.5 | 1,183.4 | 1,129.9 | 53.5 |
| Current Liabilities | 789.6 | — | 789.6 | 702.4 | — | 702.4 |
| Noncurrent Liabilities | 2,489.0 | 651.3 | 1,837.7 | 2,429.0 | 590.3 | 1,838.7 |
| Total Liabilities | 3,278.6 | 651.3 | 2,627.3 | 3,131.4 | 590.3 | 2,541.1 |
| Deferred Inflows of Resources | 2,092.4 | 2,092.3 | 0.1 | 1,522.7 | 1,522.5 | 0.2 |
| Net Investment in Capital Assets | 3,669.7 | — | 3,669.7 | 3,574.4 | — | 3,574.4 |
| Restricted Net Position | 2,484.6 | 956.2 | 1,528.4 | 1,748.5 | 498.4 | 1,250.1 |
| Unrestricted Net Position | (154.0) | (1,234.9) | 1,080.9 | 76.6 | (982.9) | 1,059.5 |
| Total Net Position | <u>\$ 6,000.3</u> | <u>\$ (278.7)</u> | <u>\$ 6,279.0</u> | <u>\$ 5,399.5</u> | <u>\$ (484.5)</u> | <u>\$ 5,884.0</u> |

In fiscal year 2021, salary and fringe benefits expenses amounted to \$3,279.0 million, including an expense credit of \$205.7 million related to the pension and other postemployment benefit obligations. Compared to fiscal year 2020, salary and fringe benefits expenses amounted to \$3,544.7 million, including \$40.8 million related to the pension and other postemployment benefit obligations.

Factors Affecting Future Periods

2019 Wisconsin Act 9, the 2019-21 biennial budget, required continuing the freeze of UW resident undergraduate tuition at fiscal year 2012-13 levels for fiscal years 2019-20 and 2020-21, equating to an 8-year freeze. 2021 Wisconsin Act 58, the 2021-23 biennial budget, returns tuition-setting authority to the UW Board of Regents, which approved a resolution for no increase in UW resident undergraduate tuition in the upcoming 2021-22 academic year.

Act 58 also allocated an additional \$4.25 million to the UW System in fiscal year 2021-22 and \$4.0 million in fiscal year 2022-23. The UW System will receive \$2.5 million in both fiscal year 2021-22 and fiscal year 2022-23 in Freshwater Collaborative funding; \$1.0 million in both fiscal year 2021-22 and fiscal year 2022-23 in funding for UW-Extension Cooperative County Agriculture Agents; \$250,000 in fiscal year 2021-22 and \$500,000 in fiscal year 2022-23 in Foster Youth Program funding, and \$250,000 each in fiscal year 2021-22 for environmental studies at UW-Madison's Nelson Institute and for support of UW-Milwaukee's partnership with The Water Council. These funds were set aside in the Supplemental Fund and require approval from the Legislature's Joint Finance Committee to be released. On November 4, 2021, the UW Board of Regents approved a plan to distribute this funding, but legislative approval is pending.

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Years Ended June 30, 2021 and 2020

FINANCIAL STATEMENTS OF THE UNIVERSITY OF WISCONSIN SYSTEM

University of Wisconsin System

Statement of Net Position

| | June 30, 2021 | June 30, 2020 |
|---|-------------------------|-------------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and Cash Equivalents | \$ 2,219,371,735 | \$ 1,949,069,852 |
| Securities Lending Collateral | 147,978,347 | 109,363,177 |
| Accounts Receivable, Net | 316,188,658 | 285,794,126 |
| Student Loans Receivable, Net | 19,868,721 | 24,328,052 |
| Inventories | 30,825,315 | 28,900,410 |
| Prepaid Expenses & Other Current Assets | 39,487,020 | 35,071,860 |
| Total Current Assets | <u>2,773,719,796</u> | <u>2,432,527,477</u> |
| Noncurrent Assets | | |
| Endowment Investments | 591,337,801 | 470,422,459 |
| Student Loans Receivable, Net | 105,578,088 | 123,401,269 |
| Other Noncurrent Assets | 8,015 | 33,064 |
| Capital Assets, Net | 5,388,314,989 | 5,345,424,244 |
| Restricted Net Pension Asset | 831,629,182 | 430,532,171 |
| Restricted Other Post Employment Benefits Asset | 124,539,601 | 67,871,882 |
| Total Noncurrent Assets | <u>7,041,407,676</u> | <u>6,437,685,089</u> |
| TOTAL ASSETS | <u>\$ 9,815,127,472</u> | <u>\$ 8,870,212,566</u> |
| DEFERRED OUTFLOWS OF RESOURCES | <u>\$ 1,556,179,957</u> | <u>\$ 1,183,412,908</u> |
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts Payable and Accrued Liabilities | \$ 200,951,042 | \$ 218,750,028 |
| Securities Lending Collateral Liabilities | 147,978,347 | 109,363,177 |
| Notes and Bonds Payable | 112,802,825 | 114,447,772 |
| Capital Lease Obligations | 1,363,731 | 1,479,701 |
| Unearned Revenue | 167,511,738 | 163,246,203 |
| Compensated Absences | 105,286,926 | 89,467,356 |
| Deposits Held for Others | 5,933,849 | 5,627,942 |
| Other Current Liabilities | 47,740,576 | — |
| Total Current Liabilities | <u>789,569,034</u> | <u>702,382,179</u> |
| Noncurrent Liabilities | | |
| Notes and Bonds Payable | 1,577,169,777 | 1,577,873,144 |
| Capital Lease Obligations | 27,284,409 | 27,958,308 |
| Perkins Loan Program | 93,987,125 | 116,047,257 |
| Compensated Absences | 79,301,571 | 61,004,467 |
| Other Postemployment Benefits | 651,344,124 | 590,328,810 |
| Other Noncurrent Liabilities | 59,972,940 | 55,801,736 |
| Total Noncurrent Liabilities | <u>2,489,059,946</u> | <u>2,429,013,722</u> |
| TOTAL LIABILITIES | <u>\$ 3,278,628,980</u> | <u>\$ 3,131,395,901</u> |
| DEFERRED INFLOWS OF RESOURCES | <u>\$ 2,092,399,482</u> | <u>\$ 1,522,698,653</u> |

(continued)

University of Wisconsin System

Statement of Net Position (continued)

| | June 30, 2021 | June 30, 2020 |
|----------------------------------|-------------------------|-------------------------|
| NET POSITION | | |
| Net Investment in Capital Assets | \$ 3,669,694,247 | \$ 3,574,415,523 |
| Restricted for | | |
| Nonexpendable | 259,629,079 | 205,407,241 |
| Expendable | | |
| Pension | 831,629,182 | 430,532,171 |
| Other Post Employment Benefits | 124,539,601 | 67,871,882 |
| Gifts, Grants & Contracts | 393,633,723 | 295,052,487 |
| Donor Investments & Earnings | 352,140,381 | 290,451,073 |
| Construction Fund | 302,867,939 | 227,797,018 |
| Student Loans & Federal Aid | 108,342,905 | 132,401,173 |
| Other | 111,850,707 | 99,044,026 |
| Total Restricted-Expendable | 2,225,004,438 | 1,543,149,830 |
| Unrestricted | (154,048,797) | 76,558,326 |
| TOTAL NET POSITION | \$ 6,000,278,967 | \$ 5,399,530,920 |

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, 2021 | Year ended June 30, 2020 |
|--|-----------------------------|-----------------------------|
| OPERATING REVENUES | | |
| Student Tuition and Fees (net of Scholarship Allowances of \$328.9 million and \$319.9 million, respectively) | \$ 1,403,236,537 | \$ 1,407,920,106 |
| Federal Grants and Contracts | 707,821,453 | 684,983,369 |
| State, Local, and Private Grants and Contracts | 438,028,997 | 421,236,573 |
| Sales and Services of Educational Activities | 241,094,740 | 338,592,096 |
| Sales and Services of Auxiliary Enterprises (net of Scholarship Allowances of \$35.4 million and \$39.7 million, respectively) | 263,300,377 | 354,279,969 |
| Sales and Services to UW Hospital and Clinics Authority | 56,866,443 | 52,589,298 |
| Student Loan Interest Income and Fees | 4,033,301 | 4,703,805 |
| Other Operating Revenue | 369,783,342 | 404,297,914 |
| Total Operating Revenues | 3,484,165,190 | 3,668,603,130 |
| OPERATING EXPENSES | | |
| Salaries | 2,558,781,768 | 2,576,440,113 |
| Fringe Benefits | 925,968,876 | 927,431,044 |
| Fringe Benefits Related to Noncash Pension and OPEB | (205,708,929) | 40,829,658 |
| Total Salary and Fringe Benefits | 3,279,041,715 | 3,544,700,815 |
| Scholarship and Fellowships | 186,086,039 | 165,112,149 |
| Supplies and Services | 1,109,653,787 | 1,197,809,218 |
| Other Operating Expenses | 18,131,786 | 23,674,892 |
| Depreciation | 348,856,263 | 329,097,681 |
| Total Operating Expenses | 4,941,769,590 | 5,260,394,755 |
| OPERATING LOSS | (1,457,604,400) | (1,591,791,625) |
| NON-OPERATING REVENUES AND (EXPENSES) | | |
| State Appropriations | 961,630,593 | 885,317,047 |
| Gifts | 438,100,971 | 382,265,129 |
| Federal Pell Grants | 141,008,168 | 149,621,001 |
| Coronavirus Federal Grants and Aid | 240,534,993 | 72,288,995 |
| Investment Income (net of Investment Expense of \$0.8 million and \$0.8 million, respectively) | 128,956,471 | 44,034,776 |
| Loss on Disposal of Capital Assets | (774,881) | (856,139) |
| Interest Expense on Capital Asset-related Debt | (52,336,072) | (55,298,999) |
| Transfer to State Agencies | (94,579,431) | (82,385,214) |
| Other Non-Operating Revenues | 38,384,271 | 27,666,392 |
| Gain(Loss) Before Capital and Endowment Additions | 343,320,683 | (169,138,637) |
| Capital Appropriations | 188,585,261 | 192,188,041 |
| Capital Grants and Gifts | 57,380,596 | 15,466,530 |
| Additions to Permanent Endowment | 11,461,507 | 1,336,520 |
| INCREASE IN NET POSITION | 600,748,047 | 39,852,454 |
| NET POSITION | | |
| Net Position - beginning of period | 5,399,530,920 | 5,359,678,466 |
| NET POSITION - end of period | \$ 6,000,278,967 | \$ 5,399,530,920 |

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

University of Wisconsin System

Statement of Cash Flows

| | Year ended June 30, 2021 | Year ended June 30, 2020 |
|--|-----------------------------|-----------------------------|
| Cash Flows from Operating Activities | | |
| Student Tuition and Fees | \$ 1,392,928,013 | \$ 1,412,197,438 |
| Federal, State, Local, and Private Grants & Contracts | 1,114,360,275 | 1,102,999,532 |
| Sales and Services of Educational Activities | 237,989,094 | 337,886,956 |
| Sales and Services of Auxiliary Enterprises | 272,866,069 | 329,969,077 |
| Sales and Services to UW Hospital Authority | 61,012,693 | 49,137,766 |
| Payments for Salaries and Fringe Benefits | (3,370,128,574) | (3,421,978,740) |
| Payments to Vendors and Suppliers | (1,138,352,234) | (1,198,762,468) |
| Payments for Scholarships and Fellowships | (186,086,039) | (165,112,149) |
| Student Loans Collected | 29,658,917 | 31,292,095 |
| Student Loan Interest and Fees Collected | 4,033,301 | 4,703,805 |
| Student Loans Issued | (7,523,828) | (5,864,900) |
| Student Direct Lending Receipts | 557,204,512 | 604,491,279 |
| Student Direct Lending Disbursements | (553,035,181) | (608,435,198) |
| Other Revenue | 327,602,613 | 359,255,981 |
| Net Cash Used in Operating Activities | (1,257,470,369) | (1,168,219,526) |
| Cash Flows from Investing Activities | | |
| Interest and Dividends on Investments, Net | 1,857,303 | 28,237,780 |
| Proceeds from Sales and Maturities of Investments | 43,043,935 | 45,648,842 |
| Purchase of Investments | (37,921,830) | (32,428,764) |
| Net Cash Provided by Investing Activities | 6,979,408 | 41,457,858 |
| Cash Flows from Capital and Related Financing Activities | | |
| Proceeds from Issuance of Capital Debt | 360,067,691 | 414,013,271 |
| Payments for Debt Retirements (Refundings) | (264,062,867) | (240,879,757) |
| Capital Appropriations | 188,585,261 | 192,188,041 |
| Gifts and Other Receipts | 56,082,159 | 20,832,164 |
| Purchase of Capital Assets | (403,530,177) | (425,733,115) |
| Principal Payments on Capital Debt and Leases | (218,226,022) | (203,832,044) |
| Interest Payments on Capital Debt and Leases | (129,463,569) | (143,144,563) |
| Net Cash Used in Capital and Related Financing Activities | (410,547,524) | (386,556,003) |
| Cash Flows from Noncapital Financing Activities | | |
| State Appropriations | 1,162,116,271 | 1,075,666,507 |
| Gifts and Other Receipts | 465,812,835 | 401,679,691 |
| Federal Pell Grants | 141,008,168 | 149,621,001 |
| Coronavirus Federal Grants and Aid Receipts | 245,521,018 | 52,804,490 |
| Transfer to State Agencies | (94,579,431) | (82,385,214) |
| Additions to Permanent Endowments | 11,461,507 | 1,336,520 |
| Net Cash Provided by Noncapital Financing Activities | 1,931,340,368 | 1,598,722,995 |
| Net Increase in Cash and Cash Equivalents | 270,301,883 | 85,405,324 |
| Cash and Cash Equivalents - beginning of year | 1,949,069,852 | 1,863,664,528 |
| Cash and Cash Equivalents - end of year | \$ 2,219,371,735 | \$ 1,949,069,852 |

(continued)

University of Wisconsin System

Statement of Cash Flows (continued)

| | Year ended June 30, 2021 | Year ended June 30, 2020 |
|--|----------------------------------|----------------------------------|
| Reconciliation of Operating Loss to Net Cash Used in Operating Activities | | |
| Operating Loss | \$ (1,457,604,400) | \$ (1,591,791,625) |
| <i>Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities:</i> | | |
| Depreciation Expense | 348,856,263 | 329,097,681 |
| Changes in Assets, Liabilities and Deferred Outflows and Inflows of Resources: | | |
| Receivables, net | (12,118,353) | 3,512,423 |
| Inventories | (1,924,905) | (396,807) |
| Prepaid Expense (including Deferred Charges) | (4,208,506) | (15,456,793) |
| Accounts Payable and Accrued Liabilities | 54,830,170 | 51,862,243 |
| Perkins Loan Liability | (22,060,132) | (22,689,256) |
| Unearned Revenue | 4,213,208 | (13,086,573) |
| Compensated Absences | 34,116,674 | 6,297,488 |
| Other Noncurrent Liabilities | 4,138,541 | 43,602,035 |
| Deferred Outflows of Resources | (378,792,472) | 154,469,483 |
| Pension Liability (Asset) and Deferred Inflows of Resources | 168,735,948 | (218,402,128) |
| Other Postemployment Benefits | 4,347,595 | 104,762,303 |
| Net Cash Used in Operating Activities | <u><u>\$ (1,257,470,369)</u></u> | <u><u>\$ (1,168,219,526)</u></u> |
| Noncash Investing, Capital and Financing Activities | | |
| Capital Leases (Initial Year): | | |
| Fair Market Value | \$ 1,116,724 | \$ 985,324 |
| Current Year Cash Payments | 139,935 | 81,596 |
| Gifts-In-Kind | 2,439,043 | 2,099,184 |
| Net Change in Unrealized Gains | 112,730,945 | 10,210,092 |

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



Years Ended June 30, 2021 and 2020

FINANCIAL STATEMENTS OF RELATED UNIVERSITY CAMPUS FOUNDATIONS

All foundations reported are legally separate, tax-exempt, affiliated campus foundations formed to generate private support for the respective institutions.

University of Wisconsin System Campus Foundations

Consolidated Statements of Financial Position

| | June 30, 2021 | June 30, 2020 |
|---|-------------------------|-------------------------|
| ASSETS | | |
| Cash and Cash Equivalents | \$ 44,656,514 | \$ 81,380,668 |
| Income and Redemption Receivables | 290,098,626 | 81,495,842 |
| Pledges Receivable, Net | 179,542,558 | 148,581,465 |
| Prepaid Expenses and Other Assets | 28,130,796 | 26,480,767 |
| Investments | 5,918,234,511 | 4,729,911,637 |
| Property and Equipment, Net | 170,747,142 | 177,461,468 |
| Real Estate | 1,910,180 | 1,005,867 |
| TOTAL ASSETS | \$ 6,633,320,327 | \$ 5,246,317,714 |
| LIABILITIES AND NET ASSETS | | |
| LIABILITIES | | |
| Accounts Payable | \$ 9,636,081 | \$ 16,681,298 |
| Pending Investment Purchases Payable | 349,396,887 | 54,219,318 |
| Accrued Expenses and Other Liabilities | 46,130,549 | 26,376,416 |
| Note Payable | 153,006,533 | 159,645,592 |
| Liability Under Split-Interest Agreements | 47,785,879 | 42,379,075 |
| Funds Due to Other Organizations | 301,051,968 | 294,801,843 |
| Total Liabilities | 907,007,897 | 594,103,542 |
| NET ASSETS | | |
| Without Donor Restrictions | 205,623,105 | 212,694,952 |
| With Donor Restrictions | 5,520,689,325 | 4,439,519,220 |
| Total Net Assets | 5,726,312,430 | 4,652,214,172 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 6,633,320,327 | \$ 5,246,317,714 |

Consolidated Statements of Activities

| | Year ended June 30, 2021 | Year ended June 30, 2020 |
|--|-----------------------------|-----------------------------|
| REVENUES, GAINS AND OTHER SUPPORT | | |
| Contributions | \$ 446,482,622 | \$ 377,945,777 |
| Investment Return, Net of Fees | 1,038,927,158 | 90,904,721 |
| Rental Income | 12,904,471 | 7,367,081 |
| Other Income | 14,253,495 | 12,795,182 |
| Total Revenues, Gains and Other Support | 1,512,567,746 | 489,012,761 |
| EXPENSES | | |
| Program Expenses | 366,424,507 | 312,670,120 |
| Management and General Expenses | 38,656,520 | 21,398,939 |
| Fundraising Expenses | 33,388,461 | 39,974,523 |
| Total Expenses | 438,469,488 | 374,043,582 |
| OTHER CHANGES IN NET ASSETS | — | 29,560,650 |
| INCREASE IN NET ASSETS | 1,074,098,258 | 144,529,829 |
| Net Assets - Beginning of Year | 4,652,214,172 | 4,507,684,343 |
| Net Assets - End of Year | \$ 5,726,312,430 | \$ 4,652,214,172 |

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



Years Ended June 30, 2021 and 2020

NOTES TO THE FINANCIAL STATEMENTS OF THE UNIVERSITY OF WISCONSIN SYSTEM

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

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 presented in the proprietary fund financial statements of the State of Wisconsin's Annual Comprehensive Financial Report (ACFR). The University's financial information presented in the ACFR has been adjusted to reflect reclassifications and adjustments which are done to conform to reporting requirements relative to the ACFR.

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 2021, the University adopted GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* (GASB 89), GASB Statement No. 90, *Majority Equity Interests—An Amendment of GASB Statements No. 14 and No. 61* (GASB 90), GASB Statement No. 93, *Replacement of Interbank Offered Rates* (GASB 93) and GASB Statement No. 98, *The Annual Comprehensive Financial Report* (GASB 98). In fiscal year 2020, the University adopted GASB Statement No. 84, *Fiduciary Activities* (GASB 84).

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* (GASB 35). 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. Other operating revenues include resources generated from units such as intercollegiate athletics, stadium, arena, student health services, car fleet, stores operations, child care services, copy centers, and student service programs such as placement, orientation, intramurals, and counseling centers.

Other operating revenues are summarized as follows:

| | Year ended June 30, 2021 | Year ended June 30, 2020 |
|--------------------------------|-----------------------------|-----------------------------|
| Athletics | \$ 107,327,523 | \$ 143,314,937 |
| Student Health Services | 44,466,752 | 49,541,209 |
| Student Union/Student Center | 39,491,402 | 44,757,915 |
| All Other Areas | 178,497,665 | 166,683,853 |
| Total Other Operating Revenues | <u>\$ 369,783,342</u> | <u>\$ 404,297,914</u> |

Certain significant revenue streams relied upon for operations are reported as non-operating revenues, as defined by GASB 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, 2021 and 2020

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 is made up of 13 four-year universities and 13 additional branch campuses affiliated with seven of the four-year institutions. 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*; GASB Statement No. 61, *The Financial Reporting Entity; Omnibus, an amendment of GASB Statements No. 14 and No. 34*; GASB Statement No. 80, *Blending Requirements for Certain Component Units, an amendment of GASB Statement No. 14*; and GASB Statement No. 90, *Majority Equity Interests—An Amendment of GASB Statements No. 14 and No. 61*. Based upon the application of these criteria, 13 branch campus foundations are included in the financial statements as discretely presented component units because they operate entirely for the benefit of the University.

Other Organizations

The financial statements do not include the accounts of the University of Wisconsin Hospital and Clinics Authority (UWHCA), which is a separate legal organization reported as a discrete component unit within financial statements of the State of Wisconsin; the University of Wisconsin Medical Foundation (UWMF), which is a blended component unit of UWHCA; 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) not meeting the criteria of a component unit. 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 of affiliation and operating agreements with the UWMF; UWHCA; Wisconsin Alumni Research Foundation (WARF), relating to the Wisconsin Institutes for Discovery; and La Crosse Medical Health Science Consortium, Inc. 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.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

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

Inventories consist of consumable supplies used in operations or items held for resale. Fuels are reported at market value, while other inventories held by individual institutional cost centers are valued using a variety of cost flow assumptions that, for each type of inventory, are consistently applied from year to year. In addition to central stores and fuels, the major types of inventories include laboratory supplies, physical plant supplies, food service and student housing supplies, and items held for resale by campus computer outlets.

Prepaid expenses represent payments made prior to June 30th for goods and services received after the close of the fiscal year, primarily health and life insurance coverage, and costs associated with revenues that have not yet been earned as of June 30th, primarily summer session costs incurred prior to the close of the fiscal year. The revenues and expenses of the 2021 and 2020 summer sessions are reportable within the fiscal year beginning July 1 and ending June 30, based on the prorated portion of the number of summer session days that occurred in fiscal year 2021 and 2020, respectively.

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

For purposes of measuring the net pension asset or 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 using the economic resources measurement focus and the accrual basis of accounting. 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 30th, primarily summer session tuition payments, tuition and room deposits for the next fall term, advance ticket sales for athletic events, and amounts received from grant and contract sponsors which have not yet been earned under the terms of the agreement.

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.

Deferred outflows of resources, a separate financial statement element, represents a consumption of net position that applies to future periods and will be recognized as an outflow of resources (expense/expenditure) in those periods. The University's deferred outflows of resources are related to the net pension asset (liability), other postemployment benefits (OPEB) asset (liability), debt refunding and capital asset retirement obligation. Additional information related to pensions is available in Note 8, OPEBs is available in Note 9, and debt is available in Note 6. See Note 10 for more information regarding deferred outflows of resources.

Deferred inflows of resources, a separate financial statement element, represents an acquisition of net position that applies to future periods and will be recognized as an inflow of resources (decrease in expense/expenditure) in those periods. The University's deferred inflows of resources are related

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

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

to the net pension asset (liability), OPEB asset (liability), and debt refunding. Additional information related to pensions is available in Note 8, OPEBs is available in Note 9, and debt is available in Note 6. See Note 10 for more information regarding deferred inflows of resources.

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.

Coronavirus Federal Grants and Aid

The COVID global pandemic which was first identified in December 2019 has had a significant impact on the University's operations and financial results. The University was compelled to make several difficult decisions as a result of COVID-19, such as implementing employee furloughs, delaying employee recruitments, postponing new projects and initiatives and limiting travel. All these decisions, which resulted in reduced expenses, were intended to safeguard the well-being of our students, faculty, staff and the citizens of Wisconsin, while working to secure the long-term financial health of our universities.

Federal relief funding also helped offset the financial impact due to the pandemic. In accordance with each individual federal grant, these funds are restricted in use, and UW institutions were required to meet certain eligibility requirements before recognizing the funding as revenue, which included distributing certain portions to students as emergency financial aid. Amounts recognized in fiscal year 2021 and 2020 and reported as nonoperating revenues in the Statement of Revenues, Expenses and Changes in Net Position are summarized as follows:

| | Year ended June 30, 2021 | Year ended June 30, 2020 |
|---|-----------------------------|-----------------------------|
| Coronavirus Aid, Relief, and Economic Securities (CARES) Act: | | |
| Emergency Student Aid | \$ 7,160,619 | \$ 39,953,672 |
| Institutional Aid | 19,817,806 | 29,097,729 |
| Coronavirus Relief Funds | 48,043,384 | 3,237,594 |
| Coronavirus Response and Relief Supplemental Appropriations: | | |
| Emergency Student Aid | 46,582,308 | — |
| Institutional Aid | 117,907,085 | — |
| American Rescue Plan: | | |
| Emergency Student Aid | 688,831 | — |
| Institutional Aid | 334,960 | — |
| Total Coronavirus Federal Grants and Aid | <u>\$ 240,534,993</u> | <u>\$ 72,288,995</u> |

Newly Adopted Accounting Pronouncements

The University adopted GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* (GASB 89), effective for the fiscal year ended June 30, 2021. The GASB statement enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplify accounting for interest cost incurred before the end of a construction period. Paragraphs 5–22 of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, are superseded by this Statement. The adoption of this standard did not have a significant impact on the financial reporting for the fiscal year ended June 30, 2021.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

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

The University adopted GASB Statement No. 90, *Majority Equity Interests—An Amendment of GASB Statements No. 14 and No. 61* (GASB 90), effective for the fiscal year ended June 30, 2021. The GASB statement aims to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. The adoption of this standard did not have a significant impact on the financial reporting for the fiscal year ended June 30, 2021.

The University adopted GASB Statement No. 93, *Replacement of Interbank Offered Rates* (GASB 93), effective for the fiscal year ended June 30, 2021. The GASB statement amends and clarifies accounting guidance impacted by global reference rate reform and the related replacement of the London Interbank Offered Rate (LIBOR). The adoption of this standard did not have a significant impact on the financial reporting for the fiscal year ended June 30, 2021.

The University adopted GASB Statement No. 98, *The Annual Comprehensive Financial Report* (GASB 98), effective for the fiscal year ended June 30, 2021. The GASB statement addresses references in authoritative literature, replacing the term *comprehensive annual financial report* with *annual comprehensive financial report*. The adoption of this standard did not have a significant impact on the financial reporting for the fiscal year ended June 30, 2021.

New Accounting Pronouncements

GASB Statement No. 87, *Leases* (GASB 87), increases the usefulness of financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under the GASB statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The provisions of GASB 87 are effective for fiscal year 2022.

GASB Statement No. 91, *Conduit Debt Obligations* (GASB 91), provides a single method of reporting conduit debt obligations by issuers and aims to eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement clarifies the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The provisions of GASB 91 are effective for fiscal year 2023.

GASB Statement No. 94, *Public-Private and Public-Private Partnerships and Availability Payment Arrangements* (GASB 94), intends to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. The provisions of GASB 94 are effective for fiscal year 2023.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (GASB 96), provides guidance on the accounting and financial reporting for subscription-based information technology arrangements. The provisions of GASB 96 are effective for fiscal year 2023.

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans* (GASB 97), aims to (1) increase consistency and comparability related to the reporting of fiduciary component units in

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

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

circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The provisions of GASB 97 are effective for fiscal year 2022.

Management is in the process of evaluating whether these GASB statements will be applicable to the University and the impact these statements may have on the University's financial statements.

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, 2021. The SIF is a commingled 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. Repurchase Agreements and non-negotiable Certificates of Deposit are valued at cost. All remaining short-term debt investments (U.S. Government/Agency securities, Banker's Acceptances, Commercial Paper, and negotiable Certificates of Deposit) are carried at fair value. Because quoted market prices for SIF securities are often not available, at month end, BNY Mellon, as SWIB's custodial bank, compiles fair values from third party pricing services which use matrix pricing models to estimate a security's fair value. 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. Further information about the investments in the SIF can be obtained from the separately issued State Investment Fund Annual Financial Report for the Fiscal Year Ended June 30, 2021.

Of the \$2,219.4 million and \$1,949.1 million in cash and cash equivalents as of June 30, 2021 and 2020, respectively, \$1,988.7 million and \$1,725.0 million, respectively, represent amounts held within the SIF; \$230.7 million and \$224.1 million, respectively, was maintained by individual University institutions in local bank accounts to meet operating needs; and a small, residual amount was held at BNY Mellon to meet the cash needs of the investing activities of the Trust Fund. Interest distributions are received on a monthly basis 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 \$224.3 million and \$217.9 million at June 30, 2021 and 2020, respectively. These amounts, deposited in approved financial institutions, are uninsured and uncollateralized. A

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 2 – Cash and Investments (continued)

state appropriation for losses on public deposits (Wisconsin Statutes Section 34.08) insures up to \$400,000 over the amount of federal insurance.

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of a deposit. Deposits in foreign currency at June 30, 2021 and 2020 are insignificant. The University does not have a formal policy for foreign currency risk.

Investments

The University invests its Trust Funds, primarily gifts and bequests, in accordance with the investment policies and guidelines governed and authorized by the Board of Regents. The Board of Regents transferred its investment management responsibilities to the State of Wisconsin Investment Board (SWIB) as permitted through Section 36.11 (11m) of the Wisconsin statutes. The SWIB-managed Long Term Fund has a target asset allocation to public markets of the following: 57% public equities, 20% fixed income, and 23% inflation sensitive securities. SWIB achieves these allocations through the use of externally-managed index funds. In addition, this fund continues to have an allocation to private markets through a “legacy” portfolio that will self-liquidate over time as investments are sold and cash proceeds are received. The target allocations to public markets were last affirmed/approved by the Board of Regents in April 2018.

An internally managed investment fund was established for a limited and select number of participating Trust Funds accounts by the University Board of Regents to provide educational investment management opportunity for the UW-Madison School of Business's Applied Security Analysis Program. The “RegentFund” is an intermediate-term fixed income portfolio, governed by and subject to a University Board of Regents approved Memorandum of Understanding, which includes detailed investment guidelines.

The SWIB-managed Long Term Fund consisted of the following actual asset allocation by investment category on June 30, 2021 and 2020:

| <u>Investment Category</u> | <u>2021</u> | <u>2020</u> |
|---|--------------------|--------------------|
| Global Equities | 44.0 % | 42.7 % |
| Treasury Inflation Protection Securities (TIPS) | 15.2 % | 16.1 % |
| Investment Grade Government/Credit | 15.2 % | 16.3 % |
| Hedged Non-U.S. Equities (Developed Markets) | 4.9 % | 4.8 % |
| Real Estate Investment Trusts (REITs) | 2.8 % | 2.5 % |
| Emerging Markets Equities | 2.9 % | 2.7 % |
| Private Markets ¹ | 15.0 % | 14.9 % |
| Total | 100.0 % | 100.0 % |

¹ Private Markets is not included in the target allocation. The Private Markets category is comprised of private equity funds of J.P. Morgan, Adams Street Partners, and a TRG Forestry Fund.

The RegentFund consisted of the following actual asset allocation by investment category on June 30, 2021 and 2020:

| <u>Investment Category</u> | <u>2021</u> | <u>2020</u> |
|-----------------------------------|--------------------|--------------------|
| Fixed Income Securities | 95.4 % | 94.9 % |
| Short Term Investment Funds | 4.6 % | 5.1 % |
| Total | 100.0 % | 100.0 % |

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 2 – Cash and Investments (continued)

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 RegentFund, which is primarily comprised of expendable gifts, consisted of quarterly interest earnings distributions. Spending rate and interest distributions from both Funds are transferred to the SIF, pending near-term expenditures. During the fiscal year ended June 30, 2021, the amount made available to spend from these funds was \$18.7 million, relative to \$17.5 million available during the fiscal year ended June 30, 2020.

At June 30, 2021 and 2020, the University's investments were as follows:

| Investments | 2021 | 2020 |
|-------------------------------------|-----------------------|-----------------------|
| Equity Index Funds | \$ 301,487,892 | \$ 232,126,303 |
| Fixed Income Index Funds | 177,651,011 | 149,615,772 |
| Real Estate Index Fund | 16,085,125 | 11,339,872 |
| Fixed Income Securities | 7,562,817 | 7,366,994 |
| Short Term Investment Funds | 376,279 | 397,712 |
| Private Markets Limited Partnership | 88,174,677 | 69,575,806 |
| Total Investments | \$ 591,337,801 | \$ 470,422,459 |

The total return on the Long Term Fund, including capital appreciation, was 27.4% for fiscal year 2021 compared to 3.8% in fiscal year 2020. The total return on the RegentFund, including capital appreciation, was 3.1% for fiscal year 2021, compared to 6.8% for fiscal year 2020.

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. As of June 30, 2021, the University was exposed to credit risk directly through its singular separately-managed fixed income portfolio, the RegentFund, and indirectly through the ownership of shares of commingled or mutual funds.

The following schedule displays the credit ratings for debt securities owned as of June 30, 2021 and 2020. Obligations of the United States and obligations explicitly guaranteed by the U.S. government are included in the Aaa rating below.

| Ratings | 2021 | 2020 |
|-------------------------------|-----------------------|-----------------------|
| AAA/Aaa | \$ 1,432,139 | \$ 1,421,763 |
| AA/Aa | 140 | 143 |
| A | 835,549 | 2,015,134 |
| BBB/Baa | 3,740,826 | 3,300,739 |
| BB/Ba | 1,454,913 | 499,459 |
| B | 99,250 | 129,756 |
| Commingled Fixed Income Funds | 177,651,011 | 149,615,772 |
| Not Rated | 376,279 | 397,712 |
| Totals | \$ 185,590,107 | \$ 157,380,478 |

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. Investment

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 2 – Cash and Investments (continued)

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. Separately-managed debt/fixed income accounts that the University held as of June 30, 2021 and 2020 were limited to holding no more than 5.0% in any one issuer (U.S. Government/Agencies were exempted).

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University used the option adjusted modified duration method to analyze interest rate risk for separately-held securities. Fixed income securities held by the University as of June 30, 2021 was expected to be within a range of two years below to one year above the effective duration of the established benchmark's duration.

The following schedule displays the interest rate risk statistics for individually-held debt securities owned as of June 30, 2021 and 2020, grouped by sector.

| <u>Fixed Income Sector</u> | 2021 | | 2020 | |
|-----------------------------------|---------------------|-------------------------------|---------------------|-------------------------------|
| | Market Value | Effective Duration (In Years) | Market Value | Effective Duration (In Years) |
| Corporate Debt | \$ 6,130,677 | 4.79 | \$ 6,080,015 | 5.51 |
| Government Debt | 1,808,419 | 4.10 | 1,684,691 | 4.71 |
| Totals | <u>\$ 7,939,096</u> | | <u>\$ 7,764,706</u> | |

The following schedule displays the interest rate risk statistics for the commingled debt/fixed income funds held as of June 30, 2021 and 2020, as determined by the providers of the funds.

| <u>Fixed Income Commingled Fund</u> | 2021 | | 2020 | |
|---|----------------------|-------------------------------|----------------------|-------------------------------|
| | Market Value | Effective Duration (In Years) | Market Value | Effective Duration (In Years) |
| BlackRock U.S. TIPS Fund B | \$ 88,823,080 | 7.51 | \$ 74,378,042 | 7.68 |
| BlackRock Government/Credit Bond Index Fund B | 88,827,931 | 7.35 | 75,237,730 | 7.30 |
| Totals | <u>\$177,651,011</u> | | <u>\$149,615,772</u> | |

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Long Term Fund held positions only in passively-managed, indexed commingled funds which may invest in securities denominated in foreign currencies. However, the fund used for exposure to developed market equities generally seeks to hedge against the variations in returns deriving solely from the value of the foreign currencies in the fund relative to the U.S. dollar. The fund used for exposure to emerging market equities generally does not engage in similar foreign currency hedging efforts, due largely to the high cost and more limited efficacy of such hedging. Deposits in foreign currency for the RegentFund at June 30, 2021 are immaterial.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 2 – Cash and Investments (continued)

Securities Lending: The University has an agreement with BlackRock Institutional Trust Company, N.A., which acts as custodian for the University's Long Term Fund investments and authorizes the bank to lend securities held in the University's accounts to third parties. The bank must obtain collateral from the borrower, or acceptable securities. When the University's securities are delivered to a borrower as part of a securities lending arrangement, the borrower is required to place collateral with the lending agent equal to at least 102% of the loaned securities' fair value, including interest accrued, as of the delivery date. Both the collateral and the securities loaned are marked-to-market on a daily basis, with additional collateral obtained or refunded as necessary. In the event that the loaned securities are not returned by the borrower, the bank will, at its own expense, either replace the loaned securities or, if unable to purchase those securities on the open market, credit the University's accounts with cash equal to the fair value of the loaned securities.

The University receives 75 percent of the net revenue derived from all securities lending activities and the bank receives the remainder of the net revenue. Interest and dividend income reported as part of non-operating investment income in the Statement of Revenues, Expenses, and Changes in Net Position includes \$275,301 and \$415,789 earned by the University during the fiscal years ended June 30, 2021 and 2020, respectively, in conjunction with the securities lending program.

Although the University's securities lending activities are collateralized as described above, the securities lending program involves both market and credit risk. In this context, market risk refers to the possibility that the borrower of securities will be unable to collateralize the loan upon a sudden material change in the fair value of the loaned securities or the collateral, or that the bank's investment of collateral received from the borrowers of the University's securities may be subject to unfavorable market fluctuations. Credit risk refers to the possibility that counterparties involved in the securities lending program may fail to perform in accordance with the terms of their contracts.

At June 30, 2021 and 2020, the fair value of securities loaned was \$144.9 million and \$106.8 million, respectively, while the collateral held was \$148.0 million and \$109.4 million, respectively. Collateral received consisted of cash and non-cash collateral. The cash collateral was invested in a U.S. Dollar Cash Collateral Pool. There was non-cash collateral received of \$175,608 and \$327,516 as of June 30, 2021 and 2020, respectively. In accordance with accounting standards the value of the collateral held and a corresponding liability to return the collateral have been reported on the accompanying Statement of Net Position.

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 \$213.3 million and \$153.7 million at June 30, 2021 and June 30, 2020, respectively, is available to meet spending rate distributions and is recorded as restricted net position.

Fair Value Measurements: The University and the Foundations categorize their 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.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 2 – Cash and Investments (continued)

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 University and the Foundations measure 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.

As of June 30, 2021, the University's investments were measured at fair value within the fair value hierarchy established by generally accepted accounting principles, as well as by using the net asset value per share or its equivalent.

The following table presents these investments by investment category.

| Investments | Level 1 | Level 2 | Level 3 | Measured at NAV | Total June 30, 2021 |
|------------------------------------|---------------------|---------------------|----------------|------------------------|----------------------------|
| Equity Index Funds | \$ — | \$ — | \$ — | \$ 301,487,892 | \$ 301,487,892 |
| Fixed Income Index Funds | — | — | — | 177,651,011 | 177,651,011 |
| Real Estate Index Fund | — | — | — | 16,085,125 | 16,085,125 |
| Fixed Income Securities | 1,432,139 | 6,130,678 | — | — | 7,562,817 |
| Short Term Investment Funds | 301,253 | — | — | 75,026 | 376,279 |
| Private Equity Limited Partnership | — | — | — | 88,174,677 | 88,174,677 |
| Total Investments at Fair Value | <u>\$ 1,733,392</u> | <u>\$ 6,130,678</u> | <u>\$ —</u> | <u>\$ 583,473,731</u> | <u>\$ 591,337,801</u> |

The equity index funds include a global equity index fund (84%) with an investment strategy designed to track the return of equity securities traded both inside and outside of the United States. An additional 5% of this category includes an emerging markets index fund with an investment strategy designed to track the return of equity securities in emerging markets. The remaining 11% is included in an international currency hedged equity index fund with an investment strategy designed to track the return of the markets in certain countries for equity securities outside of the United States while mitigating exposure to fluctuations between the value of the currencies in the fund and the U.S. dollar. The international and emerging markets index funds have daily liquidity with 2 days' notice. The international hedged index fund has monthly liquidity with 2 days' notice.

The fixed income index funds category includes a corporate and government bond index fund (50%) with an investment strategy of approximating as closely as practicable the return of an industry standard US Government/Credit Bond Index. The remaining 50% includes a U.S. TIPS index fund with an investment strategy of closely approximating the return of all outstanding U.S. TIPS with a maturity of one year or greater. These fixed income index funds have daily liquidity with 2 days' notice.

The real estate index fund includes an investment strategy designed to track the return of publicly traded real estate equity securities. The real estate index fund has daily liquidity with 2 days' notice.

As of June 30, 2020, the University's investments were measured at fair value within the fair value hierarchy established by generally accepted accounting principles, as well as by using the net asset value per share or its equivalent.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 2 – Cash and Investments (continued)

The following table presents these investments by investment category.

| <u>Investments</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Measured at NAV</u> | <u>Total June 30, 2020</u> |
|------------------------------------|-----------------------|-----------------------|-----------------------|-------------------------------|-----------------------------------|
| Equity Index Funds | \$ — | \$ — | \$ — | \$ 232,126,303 | \$ 232,126,303 |
| Fixed Income Index Funds | — | — | — | 149,615,772 | 149,615,772 |
| Real Estate Index Fund | — | — | — | 11,339,872 | 11,339,872 |
| Fixed Income Securities | 1,286,979 | 6,080,015 | — | — | 7,366,994 |
| Short Term Investment Funds | 341,179 | — | — | 56,533 | 397,712 |
| Private Equity Limited Partnership | — | — | — | 69,575,806 | 69,575,806 |
| Total Investments at Fair Value | <u>\$ 1,628,158</u> | <u>\$ 6,080,015</u> | <u>\$ —</u> | <u>\$ 462,714,286</u> | <u>\$ 470,422,459</u> |

As part of the investment management transfer to SWIB, Terrace Investment Holdings SMF, LLC was created to centrally hold and manage the University's investments in private markets Limited Partnership Funds. This investment is illiquid and is generally not resold or redeemed. Distributions from the fund will be received over the life of the investment as the underlying investments are liquidated. The investment strategy of the limited partnership focuses globally on corporate finance, venture capital, and forestry/agricultural investments. The fund-of-funds limited partnership is estimated to have an average remaining life of approximately 4.3 years at June 30, 2021. The estimated remaining life of the underlying investments are between 0-8 years at June 30, 2021.

The following table presents the fair value and unfunded commitments of the University's investments in private markets Limited Partnerships Funds as of June 30:

| <u>Investment Type</u> | <u>2021</u> | | <u>2020</u> | |
|---|--------------------------|------------------------------------|--------------------------|------------------------------------|
| | <u>Fair Value</u> | <u>Unfunded Commitments</u> | <u>Fair Value</u> | <u>Unfunded Commitments</u> |
| Private Markets Limited Partnership Funds | \$ 88,174,677 | \$ 8,891,124 | \$ 69,575,806 | \$ 12,953,443 |

No further new commitments to these or other private markets funds are anticipated. The existing positions in the private markets Limited Partnership Funds will eventually self-liquidate, as underlying private investments are sold off and distributions are made to investors.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 2 – Cash and Investments (continued)

As of June 30, 2021, the Foundations' investments were measured at fair value within the fair value hierarchy established by generally accepted accounting principles, as well as by using the net asset value (NAV) per share or its equivalent. The following table presents these investments by investment category.

| Investments | Level 1 | Level 2 | Level 3 | Measured at NAV | Total June 30, 2021 |
|---|------------------------|------------------------|----------------------|------------------------|----------------------------|
| Certificates of Deposit | \$ — | \$ 100,000 | \$ — | \$ — | \$ 100,000 |
| Money Market Funds | 140,039,168 | 7,585,272 | — | — | 147,624,440 |
| Federal and State Government Securities | — | 479,902 | — | — | 479,902 |
| Equity Securities | 1,439,811,730 | 207,500 | 1,970,273 | — | 1,441,989,503 |
| Debt Securities | 97,649,978 | 972,762,060 | 11,117,038 | — | 1,081,529,076 |
| Bond Funds | 8,578,841 | 12,518,891 | — | 255,476,523 | 276,574,255 |
| Stock Funds | 84,059,198 | — | — | 888,639,491 | 972,698,689 |
| Exchange Traded Funds | 72,983,567 | — | — | — | 72,983,567 |
| Mutual Funds | 551,551,379 | — | 17,503,225 | — | 569,054,604 |
| Other | 97,770,721 | 10,958,766 | 848,644 | 163,038,332 | 272,616,463 |
| Subtotal | 2,492,444,582 | 1,004,612,391 | 31,439,180 | 1,307,154,346 | 4,835,650,499 |
| Alternate Investments | | | | | |
| Private Equity | — | — | 1,200,728 | 465,463,213 | 466,663,941 |
| Real Estate | — | — | 177,943 | 350,933,940 | 351,111,883 |
| Hedge Funds | — | — | — | 191,534,025 | 191,534,025 |
| Other | 1,685,250 | — | — | 71,588,913 | 73,274,163 |
| Total investments at fair value | <u>\$2,494,129,832</u> | <u>\$1,004,612,391</u> | <u>\$ 32,817,851</u> | <u>\$2,386,674,437</u> | <u>\$5,918,234,511</u> |

UNIVERSITY OF WISCONSIN SYSTEM

Notes to the Financial Statements

Years Ended June 30, 2021 and 2020

NOTE 2 – Cash and Investments (continued)

As of June 30, 2020, the Foundations' investments were measured at fair value within the fair value hierarchy established by generally accepted accounting principles, as well as by using the net asset value (NAV) per share or its equivalent. The following table presents these investments by investment category.

| Investments | Level 1 | Level 2 | Level 3 | Measured at NAV | Total June 30, 2020 |
|---|------------------------|-----------------------|----------------------|------------------------|----------------------------|
| Certificates of Deposit | \$ 702,639 | \$ 166,908 | \$ — | \$ — | \$ 869,547 |
| Money Market Funds | 112,434,754 | 9,774,758 | — | — | 122,209,512 |
| Federal and State Government Securities | — | 255,021 | — | — | 255,021 |
| Equity Securities | 834,269,021 | — | 3,009,343 | — | 837,278,364 |
| Debt Securities | 59,494,268 | 798,264,851 | 3,605,610 | — | 861,364,729 |
| Bond Funds | 22,769,532 | 7,638,352 | — | 283,768,338 | 314,176,222 |
| Stock Funds | 41,992,453 | — | 35,757,260 | 946,596,376 | 1,024,346,089 |
| Exchange Traded Funds | 103,384,568 | — | — | — | 103,384,568 |
| Mutual Funds | 457,009,750 | — | — | — | 457,009,750 |
| Other | 95,666,099 | 12,435,205 | 4,124,330 | 112,112,526 | 224,338,160 |
| Subtotal | 1,727,723,084 | 828,535,095 | 46,496,543 | 1,342,477,240 | 3,945,231,962 |
| Alternate Investments | | | | | |
| Private Equity | — | — | — | 342,941,177 | 342,941,177 |
| Real Estate | 160,882 | — | — | 244,833,049 | 244,993,931 |
| Hedge Funds | — | — | — | 132,475,310 | 132,475,310 |
| Other | 1,685,250 | — | — | 62,584,007 | 64,269,257 |
| Total investments at fair value | <u>\$1,729,569,216</u> | <u>\$ 828,535,095</u> | <u>\$ 46,496,543</u> | <u>\$2,125,310,783</u> | <u>\$4,729,911,637</u> |

NOTE 3 – Receivables

Accounts receivable and student loans receivable as of June 30, 2021 and June 30, 2020, are summarized as follows:

| Receivables (Net) | 2021 | 2020 |
|--|----------------------|----------------------|
| Student Academic Fees | \$ 26,484,464 | \$ 22,874,444 |
| Grants and Contracts | 51,234,854 | 78,867,957 |
| Educational Activities and Other | 28,329,271 | 47,569,034 |
| Auxiliary Enterprises | 9,801,762 | 9,372,707 |
| UW Hospital Authority and La Crosse Medical Health Science Consortium Inc. | 6,811,864 | 10,958,114 |
| Investment | 77,928 | 93,343 |
| Student Loans Receivable | 125,446,809 | 147,729,321 |
| State Agencies | 55,954,905 | 24,885,165 |
| Other Governments | 137,493,610 | 91,173,362 |
| Total Receivables (Net) | <u>\$441,635,467</u> | <u>\$433,523,447</u> |

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 3 – Receivables (continued)

Student loans receivable at June 30, 2021 included allowances for uncollectible loans of \$5.3 million relative to \$6.4 million in the prior year. Principal repayment and interest rates of University and federal loans vary. Federal loan programs are funded primarily with federal contributions to the University under the Perkins loan program and a variety of health professions loan programs.

Allowances for uncollectible on all non-student loan receivables totaled \$38.0 million and \$34.2 million at June 30, 2021 and 2020, respectively.

The University distributed student loans through the United States Department of Education federal direct lending program totaling \$553.0 million during fiscal year 2021 and \$608.4 million in fiscal year 2020. These distributions and the related funding sources are not reflected as expenses and revenues in the financial statements. However, related cash inflows and outflows are shown in the Statement of Cash Flows.

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 acquisition value at the 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, capital equipment over periods ranging from 3 to 15 years for specified asset classes, and library holdings over 15 years. 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 additional campuses are not owned by the University and thus are not reported in these financial statements. 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 2021 or 2020. Insurance recoveries received in fiscal year 2021 and 2020 included \$1.7 million and \$3.0 million, respectively, for building water damage at the University of Wisconsin-Madison. 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, 2021, the equipment balance includes \$29.5 million for intangible assets net of depreciation, compared to \$26.0 million at June 30, 2020.

Real property and equipment purchased or constructed under National Science Foundation (NSF) cooperative agreements issued to the University vests immediately with the federal government as Federally-owned property (FOP). Although the University is responsible for the control and maintenance of FOP under these awards, ownership does not transfer to the University and therefore is not recorded as an asset in the statement of net position. Total book value of FOP purchased or constructed under NSF cooperative agreements totaled \$1.2 million and \$1.3 million

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 4 - Capital Assets (continued)

as of June 30, 2021 and 2020, respectively. Work-in-Progress for the FOP under these awards totaled \$4.6 million and \$2.0 million as of June 30, 2021 and 2020, respectively.

Depreciation expense for fiscal years ended June 30, 2021 and 2020 was \$348.9 million and \$329.1 million, respectively.

During both fiscal year 2020 and 2021, several major construction projects were in progress including the following projects with a budget of \$50.0 million or more:

| UW Institution | Project | Primary Purpose | Approx. Budget (in millions) | Primary Funding Sources |
|----------------|---|-----------------|------------------------------|-------------------------|
| Madison | Camp Randall Stadium Renovation & Field House Repairs | Athletics | \$ 77.6 | PRSB/Cash/Gifts |
| Madison | Chemistry Building Addition & Renovation | Academic | 133.1 | GFSB/Cash/Gifts |
| Madison | Gymnasium/Natatorium Replacement | Student Life | 126.3 | PRSB/Gifts |
| Madison | Sellery Hall Addition & Renovation | Student Life | 78.8 | PRSB/Cash |
| Madison | Veterinary Medicine Addition & Renovation | Academic | 128.1 | GFSB/Gifts |
| Madison | Babcock Hall Dairy Plant & Center for Dairy Research Addition | Academic | 72.6 | GFSB/Cash/Gifts |
| Milwaukee | Chemistry Building STEM Program Renovation | Academic | 129.5 | GFSB |
| Milwaukee | Northwest Quadrant Renovation | Academic | 52.1 | GFSB/PRSB/Cash |
| Platteville | Sesquicentennial Hall | Academic | 55.2 | GFSB/PRSB |

During fiscal year 2021, one new major construction project was initiated and in progress including the following project with a budget of \$50.0 million or more:

| UW Institution | Project | Primary Purpose | Approx. Budget (in millions) | Primary Funding Sources |
|----------------|--------------------------------------|-----------------|------------------------------|-------------------------|
| Eau Claire | Science and Health Sciences Building | Academic | \$ 109.0 | GFSB/Cash/Gifts |

One construction project was completed during fiscal year 2021 with \$50.0 million or more in actual expenditures:

| UW Institution | Project | Primary Purpose | Approx. Budget (in millions) | Primary Funding Sources |
|----------------|--|-----------------|------------------------------|-------------------------|
| Madison | Meat Science and Muscle Biology Laboratory | Academic | \$ 57.1 | GFSB/Cash/Gifts |

Several construction projects were completed during fiscal year 2020, including the following projects with \$50.0 million or more in actual expenditures:

| UW Institution | Project | Primary Purpose | Approx. Budget (in millions) | Primary Funding Sources |
|----------------|---|-----------------|------------------------------|-------------------------|
| Madison | Music Performance Building | Academic | \$ 55.8 | Gifts |
| Madison | New South East Recreational Facility (SERF) | Student Life | 96.5 | PRSB/Gifts |
| Madison | Witte Residence Hall Renovation | Student Life | 52.8 | PRSB/Cash |

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 4 - Capital Assets (continued)

The change in book value from July 1, 2020 to June 30, 2021 is summarized as follows:

| | Book Value July 1, 2020 | Additions | Transfers | Deductions | Book Value June 30, 2021 |
|--------------------------|------------------------------------|-----------------------|------------------|------------------------|-------------------------------------|
| Buildings | \$ 7,478,607,013 | \$ 107,419,986 | \$ 488,269,079 | \$ (48,975,229) | \$ 8,025,320,849 |
| Improvements | 551,532,198 | 2,513,268 | 2,983,502 | (4,196,663) | 552,832,305 |
| Land | 160,337,973 | 2,304,936 | — | — | 162,642,909 |
| Construction in Progress | 671,464,753 | 230,049,400 | (497,837,259) | — | 403,676,894 |
| Equipment | 1,218,898,759 | 78,308,579 | 6,584,678 | (28,157,239) | 1,275,634,777 |
| Library Holdings | 1,128,051,806 | 21,552,982 | — | (11,560,528) | 1,138,044,260 |
| Subtotal | <u>\$11,208,892,502</u> | <u>\$ 442,149,151</u> | <u>\$ —</u> | <u>\$ (92,889,659)</u> | <u>\$11,558,151,994</u> |

Less Accumulated Depreciation:

| | Book Value July 1, 2020 | Additions | Transfers | Deductions | Book Value June 30, 2021 |
|--------------------------------|------------------------------------|----------------------|------------------|------------------------|-------------------------------------|
| Buildings | \$ 3,630,728,057 | \$ 233,832,525 | \$ — | \$ (5,290,803) | \$ 3,859,269,779 |
| Improvements | 340,990,162 | 18,286,931 | — | — | 359,277,093 |
| Equipment | 914,188,631 | 74,487,853 | — | (25,636,185) | 963,040,299 |
| Library Holdings | 977,561,408 | 22,248,954 | — | (11,560,528) | 988,249,834 |
| Total Accumulated Depreciation | <u>5,863,468,258</u> | <u>348,856,263</u> | <u>—</u> | <u>(42,487,516)</u> | <u>6,169,837,005</u> |
| Capital Assets, Net | <u>\$ 5,345,424,244</u> | <u>\$ 93,292,888</u> | <u>\$ —</u> | <u>\$ (50,402,143)</u> | <u>\$ 5,388,314,989</u> |

The change in book value from July 1, 2019 to June 30, 2020 is summarized as follows:

| | Book Value July 1, 2019 | Additions | Transfers | Deductions | Book Value June 30, 2020 |
|--------------------------|------------------------------------|-----------------------|------------------|------------------------|-------------------------------------|
| Buildings | \$ 7,141,200,802 | \$ 83,188,792 | \$ 254,734,484 | \$ (517,065) | \$ 7,478,607,013 |
| Improvements | 514,704,868 | 17,636,743 | 19,190,587 | — | 551,532,198 |
| Land | 158,212,091 | 2,125,882 | — | — | 160,337,973 |
| Construction in Progress | 734,392,706 | 210,997,118 | (273,925,071) | — | 671,464,753 |
| Equipment | 1,164,300,050 | 82,662,367 | — | (28,063,658) | 1,218,898,759 |
| Library Holdings | 1,127,069,796 | 20,365,890 | — | (19,383,880) | 1,128,051,806 |
| Subtotal | <u>\$10,839,880,313</u> | <u>\$ 416,976,792</u> | <u>\$ —</u> | <u>\$ (47,964,603)</u> | <u>\$11,208,892,502</u> |

Less Accumulated Depreciation:

| | Book Value July 1, 2019 | Additions | Transfers | Deductions | Book Value June 30, 2020 |
|--------------------------------|------------------------------------|----------------------|------------------|---------------------|-------------------------------------|
| Buildings | \$ 3,412,860,239 | \$ 218,255,732 | \$ — | \$ (387,914) | \$ 3,630,728,057 |
| Improvements | 323,499,032 | 17,491,130 | — | — | 340,990,162 |
| Equipment | 870,286,454 | 71,238,847 | — | (27,336,670) | 914,188,631 |
| Library Holdings | 974,833,314 | 22,111,972 | — | (19,383,878) | 977,561,408 |
| Total Accumulated Depreciation | <u>5,581,479,039</u> | <u>329,097,681</u> | <u>—</u> | <u>(47,108,462)</u> | <u>5,863,468,258</u> |
| Capital Assets, Net | <u>\$ 5,258,401,274</u> | <u>\$ 87,879,111</u> | <u>\$ —</u> | <u>\$ (856,141)</u> | <u>\$ 5,345,424,244</u> |

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

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, 2021 and 2020, are summarized as follows:

Fiscal Year 2021

| UW System Activities | Salary and Fringe Benefits | Due to State Agencies and Other Governments | Vendors | Total Payables |
|------------------------------|-----------------------------------|--|----------------------|-----------------------|
| Operating | \$ 21,474,815 | \$ 87,099,983 | \$ 24,431,329 | \$ 133,006,127 |
| Gifts, Grants, and Contracts | 3,105,404 | 4,462,127 | 17,380,283 | 24,947,814 |
| Capital Projects | — | 259,323 | 35,785,073 | 36,044,396 |
| Auxiliary Enterprises | 1,981,239 | 540,168 | 3,759,699 | 6,281,106 |
| Investment and Other | 41,440 | 338,496 | 291,663 | 671,599 |
| Total Activities | \$ 26,602,898 | \$ 92,700,097 | \$ 81,648,047 | \$ 200,951,042 |

Fiscal Year 2020

| UW System Activities | Salary and Fringe Benefits | Due to State Agencies and Other Governments | Vendors | Total Payables |
|------------------------------|-----------------------------------|--|----------------------|-----------------------|
| Operating | \$ 32,504,800 | \$ 88,961,274 | \$ 32,607,864 | \$ 154,073,938 |
| Gifts, Grants, and Contracts | 2,232,565 | 7,984,429 | 9,663,470 | 19,880,464 |
| Capital Projects | — | 553,899 | 37,881,964 | 38,435,863 |
| Auxiliary Enterprises | 1,147,730 | 2,176,904 | 2,195,241 | 5,519,875 |
| Investment and Other | 36,090 | 360,042 | 443,756 | 839,888 |
| Total Activities | \$ 35,921,185 | \$ 100,036,548 | \$ 82,792,295 | \$ 218,750,028 |

Long-term liability activity for the fiscal years ended June 30, 2021 and 2020 is as follows:

| Long-term Liabilities 2021 | Balance July 1, 2020 | Increases (Decreases) | Balance June 30, 2021 | Current Portion |
|--------------------------------------|-----------------------------|------------------------------|------------------------------|------------------------|
| Bonds Payable | \$ 1,628,928,196 | \$ 2,261,978 | \$ 1,631,190,174 | \$ 101,085,492 |
| Notes Payable | 63,392,720 | (4,610,292) | 58,782,428 | 11,717,333 |
| Capital Lease Obligations | 29,438,009 | (789,869) | 28,648,140 | 1,363,731 |
| Perkins Loan Program | 116,047,257 | (22,060,132) | 93,987,125 | — |
| Compensated Absences | 150,471,823 | 34,116,674 | 184,588,497 | 105,286,926 |
| Other Post-employment Health | 302,798,250 | (15,283,029) | 287,515,221 | — |
| Other Post-employment Life | 287,530,560 | 76,298,343 | 363,828,903 | — |
| Capital Asset Retirement Obligations | 12,199,702 | 32,662 | 12,232,364 | — |
| Employer Deferred Payroll Tax | 43,602,034 | 51,879,118 | 95,481,152 | 47,740,576 |
| Total | \$ 2,634,408,551 | \$ 121,845,453 | \$ 2,756,254,004 | \$ 267,194,058 |

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 5 - Liabilities (continued)

| Long-term Liabilities 2020 | Balance July 1, 2019 | Increases (Decreases) | Balance June 30, 2020 | Current Portion |
|---|---------------------------------|----------------------------------|----------------------------------|----------------------------|
| Bonds Payable | \$ 1,551,225,922 | \$ 77,702,274 | \$ 1,628,928,196 | \$ 95,146,925 |
| Notes Payable | 68,784,757 | (5,392,037) | 63,392,720 | 19,300,847 |
| Capital Lease Obligations | 29,366,564 | 71,445 | 29,438,009 | 1,479,701 |
| Perkins Loan Program | 138,736,513 | (22,689,256) | 116,047,257 | — |
| Compensated Absences | 144,174,336 | 6,297,487 | 150,471,823 | 89,467,356 |
| Net Pension Liability | 474,419,425 | (474,419,425) | — | — |
| Other Post-employment Health | 237,204,014 | 65,594,236 | 302,798,250 | — |
| Other Post-employment Life | 180,490,611 | 107,039,949 | 287,530,560 | — |
| Capital Asset Retirement Obligations | 12,009,060 | 190,642 | 12,199,702 | — |
| Employer Deferred Payroll Tax | — | 43,602,034 | 43,602,034 | — |
| Total | <u>\$ 2,836,411,202</u> | <u>\$ (202,002,651)</u> | <u>\$ 2,634,408,551</u> | <u>\$ 205,394,829</u> |

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.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 6 - Long Term Debt (continued)

The following information is the University's proportionate share of the new bonds issued by the State of Wisconsin during the fiscal years of 2021 and 2020:

| 2021 Series | Interest Rate | Maturity Fiscal Year | Initial Amount | Use |
|--------------------|----------------------|-----------------------------|-----------------------|----------------------|
| 2020-B | 4.00% - 5.00% | 2041 | \$ 28,916,282 | Capitalized Projects |
| 2020-3 | 0.39% - 2.49% | 2042 | 85,221,805 | Refunding |
| 2021-A | 4.00% - 5.00% | 2041 | 44,933,515 | Capitalized Projects |
| 2021-1 | 5.00% | 2031 | 30,334,704 | Refunding |
| 2021-2 | 5.00% | 2041 | 72,368,760 | Refunding |
| 2021-3 | 0.11% - 1.12% | 2028 | 59,014,685 | Refunding |
| | | | <u>\$ 320,789,751</u> | |
| 2020 Series | Interest Rate | Maturity Fiscal Year | Initial Amount | Use |
| 2019-A | 4.00% - 5.00% | 2040 | \$ 53,417,938 | Capitalized Projects |
| 2019-1 | 1.76% - 2.53% | 2033 | 135,618,616 | Refunding |
| 2019-B | 4.00% - 5.00% | 2040 | 45,928,049 | Capitalized Projects |
| 2020-1 | 4.00% - 5.00% | 2040 | 53,872,003 | Refunding |
| 2020-A | 4.00% - 5.00% | 2040 | 37,637,600 | Capitalized Projects |
| 2020-2 | 1.63% - 2.35% | 2031 | 51,720,380 | Refunding |
| | | | <u>\$ 378,194,586</u> | |

The following information relates to the status of bonds and notes payable outstanding at June 30, 2021:

| | Balance July 1, 2020 | New Debt/ Accretion | Principal Paid/ Adjustments | Balance June 30, 2021 |
|---------------|-----------------------------|----------------------------|------------------------------------|------------------------------|
| Bonds (Gross) | \$ 1,501,089,355 | \$ 320,789,751 | \$ (336,118,855) | \$ 1,485,760,251 |
| Notes | 63,392,720 | — | (4,610,292) | 58,782,428 |
| Total | <u>\$ 1,564,482,075</u> | <u>\$ 320,789,751</u> | <u>\$ (340,729,147)</u> | <u>\$ 1,544,542,679</u> |

The bonds have maturity dates ranging from May 1, 2022 to May 1, 2042. The notes have maturity dates ranging from May 1, 2026 to May 1, 2038. Interest rates range from 0.8% to 7.0%.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 6 - Long Term Debt (continued)

As of June 30, 2021, the current and noncurrent bonds and notes payable net of discounts and premiums totaled \$112.8 million and \$1,577.2 million, respectively.

| | Balance June 30, 2021 | Current | Noncurrent |
|---------------|----------------------------------|-----------------------|-------------------------|
| Bonds (Gross) | \$ 1,485,760,251 | \$ 74,552,225 | \$ 1,411,208,026 |
| Discount | (51,228) | 1,066 | (52,294) |
| Premium | 145,481,151 | 26,532,201 | 118,948,950 |
| Bonds (Net) | 1,631,190,174 | 101,085,492 | 1,530,104,682 |
| Notes | 58,782,428 | 11,717,333 | 47,065,095 |
| Total | <u>\$ 1,689,972,602</u> | <u>\$ 112,802,825</u> | <u>\$ 1,577,169,777</u> |

The following information relates to the status of bonds and notes payable outstanding at June 30, 2020:

| | Balance July 1, 2019 | New Debt/ Accretion | Principal Paid/ Adjustments | Balance June 30, 2020 |
|---------------|---------------------------------|--------------------------------|--|----------------------------------|
| Bonds (Gross) | \$ 1,435,252,753 | \$ 378,194,587 | \$ (312,357,985) | \$ 1,501,089,355 |
| Notes | 68,784,757 | — | (5,392,037) | 63,392,720 |
| Total | <u>\$ 1,504,037,510</u> | <u>\$ 378,194,587</u> | <u>\$ (317,750,022)</u> | <u>\$ 1,564,482,075</u> |

The bonds have maturity dates ranging from May 1, 2021 to May 1, 2042. The notes have maturity dates ranging from May 1, 2021 to May 1, 2038. Interest rates range from 0.8% to 7.0%.

As of June 30, 2020, the current and noncurrent bonds and notes payable net of discounts and premiums totaled \$114.4 million and \$1,577.9 million, respectively.

| | Balance June 30, 2020 | Current | Noncurrent |
|---------------|----------------------------------|-----------------------|-------------------------|
| Bonds (Gross) | \$ 1,501,089,355 | \$ 72,899,322 | \$ 1,428,190,033 |
| Discount | (83,883) | (10,434) | (73,449) |
| Premium | 127,922,724 | 22,258,037 | 105,664,687 |
| Bonds (Net) | 1,628,928,196 | 95,146,925 | 1,533,781,271 |
| Notes | 63,392,720 | 19,300,847 | 44,091,873 |
| Total | <u>\$ 1,692,320,916</u> | <u>\$ 114,447,772</u> | <u>\$ 1,577,873,144</u> |

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 6 - Long Term Debt (continued)

Future debt service requirements for bonds and notes outstanding at June 30, 2021 are as follows:

| Fiscal Year(s) | Bonds | | Notes | |
|---------------------------|-------------------------|-----------------------|----------------------|----------------------|
| | Principal | Interest | Principal | Interest |
| 2022 | \$ 74,552,225 | \$ 62,533,401 | \$ 11,717,333 | \$ 2,682,421 |
| 2023 | 81,218,299 | 58,163,563 | 4,963,907 | 2,096,554 |
| 2024 | 96,740,983 | 54,329,064 | 5,212,102 | 1,848,359 |
| 2025 | 112,705,692 | 50,489,637 | 5,472,707 | 1,587,754 |
| 2026 | 88,164,737 | 46,593,900 | 5,746,342 | 1,314,118 |
| 2027-2031 | 501,160,703 | 168,087,973 | — | 5,134,007 |
| 2032-2036 | 355,412,431 | 75,368,996 | — | 5,134,007 |
| 2037-2041 | 170,775,181 | 20,652,948 | 25,670,037 | 1,861,786 |
| 2042 | 5,030,000 | 124,996 | — | — |
| Total | <u>\$ 1,485,760,251</u> | <u>\$ 536,344,478</u> | <u>\$ 58,782,428</u> | <u>\$ 21,659,006</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, 2021, the principal balances of such bonds and notes were \$1,353.8 million and \$69.3 million, respectively. As of June 30, 2020, the principal balances of such bonds and notes were \$1,341.3 million and \$98.8 million, respectively. Debt service payments made by the State of Wisconsin for the years ended June 30, 2021 and 2020 were allocated as follows:

| 2021 | Bonds | Notes |
|-------------|-----------------------|----------------------|
| Principal | \$ 109,039,407 | \$ 31,322,043 |
| Interest | 60,124,227 | — |
| Total Paid | <u>\$ 169,163,634</u> | <u>\$ 31,322,043</u> |

| 2020 | Bonds | Notes |
|-------------|-----------------------|---------------------|
| Principal | \$ 117,550,323 | \$ 8,432,380 |
| Interest | 62,995,524 | 1,371,233 |
| Total Paid | <u>\$ 180,545,847</u> | <u>\$ 9,803,613</u> |

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 7 – Lease Commitments

The University had capital lease obligations with a net present value of \$28.6 million as of June 30, 2021 compared to \$29.4 million at June 30, 2020. The payment schedule for capital lease obligations as follows:

| Fiscal Year(s) | Obligations |
|--------------------------------|----------------------|
| 2022 | \$ 3,455,575 |
| 2023 | 3,231,993 |
| 2024 | 2,999,682 |
| 2025 | 2,751,891 |
| 2026 | 2,627,637 |
| 2027 - 2031 | 12,461,229 |
| 2032 - 2036 | 12,363,920 |
| 2037 - 2041 | 12,363,920 |
| 2042 - 2046 | 4,939,728 |
| Total Scheduled Lease Payments | 57,195,575 |
| Amount Representing Interest | (28,547,435) |
| Net Present Value | <u>\$ 28,648,140</u> |

Assets Held Under Capital Lease:

| June 30, 2021 | Original Cost | Accumulated Depreciation | Book Value |
|----------------------------|----------------------|---------------------------------|----------------------|
| Buildings and Improvements | \$ 29,286,500 | \$ 5,491,219 | \$ 23,795,281 |
| Equipment | 8,631,354 | 5,759,423 | 2,871,931 |
| Total Assets | <u>\$ 37,917,854</u> | <u>\$ 11,250,642</u> | <u>\$ 26,667,212</u> |

| June 30, 2020 | Original Cost | Accumulated Depreciation | Book Value |
|----------------------------|----------------------|---------------------------------|----------------------|
| Buildings and Improvements | \$ 29,286,500 | \$ 4,759,057 | \$ 24,527,443 |
| Equipment | 1,628,271 | 875,130 | 753,141 |
| Total Assets | <u>\$ 30,914,771</u> | <u>\$ 5,634,187</u> | <u>\$ 25,280,584</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 \$35.9 million for the fiscal year ended June 30, 2021.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 7 – Lease Commitments (continued)

Minimum commitments for future operating lease payments are as follows:

| <u>Fiscal Year(s)</u> | <u>Commitments</u> |
|-----------------------|-----------------------|
| 2022 | \$ 24,448,635 |
| 2023 | 23,046,837 |
| 2024 | 16,848,385 |
| 2025 | 15,823,628 |
| 2026 | 13,909,713 |
| 2027 - 2031 | 62,986,007 |
| 2032 - 2036 | 55,141,958 |
| 2037 - 2041 | 26,578,619 |
| 2042 - 2046 | 24,700,000 |
| 2047 - 2051 | 4,940,000 |
| Total | <u>\$ 268,423,782</u> |

NOTE 8 – Retirement Benefits

Plan Description. The Wisconsin Retirement System (WRS) is a cost-sharing multiple-employer defined benefit pension plan. WRS benefits and other plan provisions are established by Chapter 40 of the Wisconsin Statutes. Benefit terms may only be modified by the legislature. The retirement system is administered by the Wisconsin Department of Employee Trust Funds (ETF). The system provides coverage to all eligible State of Wisconsin, local government and other public employees. 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 expected to be employed for at least one year from employee's date of hire are eligible to participate in the WRS.

ETF issues a standalone Annual Comprehensive Financial Report (ACFR), which can be found at <https://etf.wi.gov/about-etf/reports-and-studies/financial-reports-and-statements>

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 beginning participation on or after January 1, 1990, and 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 occupations and 62 for elected officials and executive service retirement plan participants, if hired on or before December 31, 2016) are entitled to a retirement benefit based on a formula factor, their final average earnings, and creditable service.

UNIVERSITY OF WISCONSIN SYSTEM**Notes to the Financial Statements****Years Ended June 30, 2021 and 2020****NOTE 8 – Retirement Benefits (continued)**

Final average earnings is the average of the participant's three highest annual earnings periods. Creditable service includes current service and prior service for which a participant received earnings and made contributions as required. Creditable service also includes creditable military service. The retirement benefit will be calculated as a money purchase benefit based on the employee's contributions plus matching employer's contributions, with interest, if that benefit is higher than the formula benefit.

Vested participants may retire at or after age 55 (50 for protective occupations) and receive an actuarially-reduced benefit. Participants terminating covered employment prior to eligibility for an annuity may either receive employee-required contributions plus interest as a separation benefit or leave contributions on deposit and defer application until eligible to receive a retirement benefit.

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 s. 40.27, Wis. Stat. 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. The Core and Variable annuity adjustments granted during recent years are as follows:

| Year | Core Fund Adjustment | Variable Fund Adjustment |
|-------------|-----------------------------|---------------------------------|
| 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)% |
| 2017 | 2.0% | 4.0% |
| 2018 | 2.4% | 17.0% |
| 2019 | 0.0% | (10.0)% |
| 2020 | 1.7% | 21.0% |

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, 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.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 8 – Retirement Benefits (continued)

During the reporting period, the University's contributions recognized by the WRS amounted to \$149.2 million and \$140.9 million, respectively. Contribution rates as of June 30, 2021 and 2020 were:

| Employee Category | June 30, 2021 | | June 30, 2020 | |
|---|----------------------|-----------------|----------------------|-----------------|
| | Employee | Employer | Employee | Employer |
| General (including teachers, executives, and elected officials) | 6.75% | 6.75% | 6.75% | 6.75% |
| Protective with Social Security | 6.75% | 11.75% | 6.75% | 11.65% |
| Protective without Social Security | 6.75% | 16.35% | 6.75% | 16.25% |

Pension Assets, Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2021, the University reported a net pension asset of \$831.6 million for its proportionate share of the net pension asset, compared to the net pension asset of \$430.5 million at June 30, 2020. The net pension asset was measured as of December 31, 2020, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2019 rolled forward to December 31, 2020. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The University's proportion of the net pension asset was based on the University's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2020, the University's proportion was 13.3 percent, which was a decrease of 0.1 percent from its proportion measured as of December 31, 2019. At December 31, 2019, the University's proportion was 13.4 percent, which was an increase of 0.02 percent from its proportion measured as of December 31, 2018.

For the fiscal year ended June 30, 2021 and June 30, 2020, the University recognized pension expense of \$90.3 million and \$161.1 million, respectively.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 8 – Retirement Benefits (continued)

At June 30, 2021, the University reported deferred outflows and inflows of resources related to pensions from the following sources:

| | Fiscal Year ended June 30, 2021 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--|---|--|
| Difference Between Expected and Actual Experience | \$ 944,364,590 | \$ 1,203,622,767 | \$ (259,258,177) |
| Change in Proportion | 91,212 | 1,334,581 | (1,243,369) |
| Employer Contributions Subsequent to Measurement Date | 71,501,588 | 71,501,588 | — |
| Net Difference Between Projected and Actual Earnings | (1,561,316,010) | — | (1,561,316,010) |
| Assumption Changes | 18,862,976 | 18,862,976 | — |
| Total | <u>\$ (526,495,644)</u> | <u>\$ 1,295,321,912</u> | <u>\$ (1,821,817,556)</u> |

At June 30, 2020, the University reported deferred outflows and inflows of resources related to pensions from the following sources:

| | Fiscal Year ended June 30, 2020 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--|---|--|
| Difference Between Expected and Actual Experience | \$ 408,270,311 | \$ 817,248,486 | \$ (408,978,175) |
| Change in Proportion | 1,732,984 | 1,916,859 | (183,875) |
| Employer Contributions Subsequent to Measurement Date | 88,132,080 | 88,132,080 | — |
| Net Difference Between Projected and Actual Earnings | (880,160,820) | — | (880,160,820) |
| Assumption Changes | 33,549,892 | 33,549,892 | — |
| Total | <u>\$ (348,475,553)</u> | <u>\$ 940,847,317</u> | <u>\$ (1,289,322,870)</u> |

The amount reported as pension-related deferred outflows of resources 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, 2021. 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:

| Fiscal Year ended June 30 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--------------------------------------|---|--|
| 2022 | \$ 620,029,052 | \$ (773,560,956) |
| 2023 | 501,481,366 | (543,022,098) |
| 2024 | 134,982,229 | (417,948,578) |
| 2025 | (32,672,323) | (87,285,924) |
| Totals | <u>\$ 1,223,820,324</u> | <u>\$ (1,821,817,556)</u> |

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, 2021 and 2020

NOTE 8 – Retirement Benefits (continued)

Actuarial assumptions. The total pension liability in the December 31, 2019 and December 31, 2018 actuarial valuations were determined using the following fiscal year 2021 and 2020, respectively, actuarial assumptions, applied to all periods included in the measurement.

| | 2021 | 2020 |
|---|--------------------------------|--------------------------------|
| Actuarial Valuation Date: | December 31, 2019 | December 31, 2018 |
| Measurement Date of Net Pension Asset/Liability | December 31, 2020 | December 31, 2019 |
| Actuarial Cost Method: | Entry Age | Entry Age |
| Asset Valuation Method: | Fair Value | Fair Value |
| Long-Term Expected Rate of Return: | 7.0% | 7.0% |
| Discount Rate: | 7.0% | 7.0% |
| Salary Increases: | | |
| Inflation | 3.0% | 3.0% |
| Seniority/Merit | 0.1% - 5.6% | 0.1% - 5.6% |
| Mortality: | Wisconsin 2018 Mortality Table | Wisconsin 2018 Mortality Table |
| Post-Retirement Adjustments* | 1.9% | 1.9% |

** No post-retirement adjustment is guaranteed. Actual adjustments are based on recognized investment return, actuarial experience and other factors. 1.9% 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 2018 that covered a three-year period from January 1, 2015 to December 31, 2017. The total pension liability for December 31, 2020 is based upon a roll-forward of the liability calculated from the December 31, 2019 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 geometric real rates of return for each major asset class are summarized in the following table:

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 8 – Retirement Benefits (continued)

Asset Allocation Targets and Expected Returns

| Core Fund Asset Class | Fiscal Year Ended June 30, 2021 | | | Fiscal Year Ended June 30, 2020 | | |
|----------------------------------|--|--|---|--|--|---|
| | Asset Allocation % | Long-Term Expected Nominal Rate of Return % | Long-Term Expected Real Rate of Return % | Asset Allocation % | Long-Term Expected Nominal Rate of Return % | Long-Term Expected Real Rate of Return % |
| Global Equities | 51.0% | 7.2% | 4.7% | 49.0% | 8.0% | 5.1% |
| Fixed Income | 25.0% | 3.2% | 0.8% | 24.5% | 4.9% | 2.1% |
| Inflation Sensitive Assets | 16.0% | 2.0% | (0.4)% | 15.5% | 4.0% | 1.2% |
| Real Estate | 8.0% | 5.6% | 3.1% | 9.0% | 6.3% | 3.5% |
| Private Equity/Debt | 11.0% | 10.2% | 7.6% | 8.0% | 10.6% | 7.6% |
| Multi-Asset | 4.0% | 5.8% | 3.3% | 4.0% | 6.9% | 4.0% |
| Total Core Fund | 115.0% | 6.6% | 4.1% | 110.0% | 7.5% | 4.6% |
| Variable Fund Asset Class | | | | | | |
| U.S. Equities | 70.0% | 6.6% | 4.1% | 70.0% | 7.5% | 4.6% |
| International Equities | 30.0% | 7.4% | 4.9% | 30.0% | 8.2% | 5.3% |
| Total Variable Fund | 100.0% | 7.1% | 4.6% | 100.0% | 7.8% | 4.9% |

New England Pension Consultants Long Term US CPI (Inflation) Forecast: 2.40% (2020-21); 2.75% (2019-20)

Asset Allocations are managed within established ranges; target percentages may differ from actual monthly allocations

Single Discount Rate. A single discount rate of 7.00 percent was used to measure the total pension liability for the current and prior year. This single discount rate is based on the expected rate of return on pension plan investments of 7.00 percent and a municipal bond rate of 2.00 percent (Source: Fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-year Municipal GO AA Index" as of December 31, 2020. In describing this index, Fidelity notes that the Municipal Curves are constructed using option-adjusted analytics of a diverse population of over 10,000 tax-exempt securities.). Because of the unique structure of WRS, the 7.00 percent expected rate of return implies that a dividend of approximately 1.9 percent 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 municipal bond rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

UNIVERSITY OF WISCONSIN SYSTEM**Notes to the Financial Statements****Years Ended June 30, 2021 and 2020****NOTE 8 – Retirement Benefits (continued)**

Sensitivity of the University's proportionate share of the net pension (asset)/liability to changes in the discount rate. The following presents the University's proportionate share of the net pension (asset)/liability calculated using the discount rate of 7.00 percent, as well as what the University's proportionate share of the net pension asset would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00 percent) or 1-percentage-point higher (8.00 percent) than the current rate for fiscal years ended June 30, 2021 and 2020:

| | 1% Decrease in Discount Rate | Current Discount Rate | 1% Increase in Discount Rate |
|----------------------------------|---|----------------------------------|---|
| June 30, 2021 | | | |
| Discount Rate | 6.00 % | 7.00 % | 8.00 % |
| Net Pension Liability/(Asset) \$ | 791,595,725 | (831,629,182) | (2,023,875,769) |
| June 30, 2020 | | | |
| Discount Rate | 6.00 % | 7.00 % | 8.00 % |
| Net Pension Liability/(Asset) \$ | 1,108,697,272 | (430,532,171) | (1,581,283,190) |

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in separately issued financial statements available at <https://etf.wi.gov/about-etf/reports-and-studies/financial-reports-and-statements>

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 \$63,997 during fiscal year 2021, compared with \$55,672 during fiscal year 2020.

NOTE 9 – Postemployment Benefits Other Than Pensions

Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures in financial reports of state and local governmental employers. GASB statement 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, establishes reporting standards for other postemployment benefits included in the general purpose external financial reports of state and local governmental OPEB plans.

Under Chapter 40 of Wisconsin Statutes, the Department of Employee Trust Funds (ETF) and Group Insurance Board (GIB) have statutory authority for program administration and oversight of postemployment benefits. ETF administers postemployment benefit plans other than pension plans for the Retiree Life Insurance, Retiree Health Insurance, and Supplemental Health Insurance Conversion Credit plans (for retired state employees). University employees are employees of the State.

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 or may be obtained upon request from: Department of Employee Trust Funds, 4822 Madison Yards Way, Madison, Wisconsin 53705-9100.

The State of Wisconsin Annual Comprehensive Financial Report includes financial statements, additional note disclosures, and required supplementary information for this plan. That report is

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 9 – Postemployment Benefits Other Than Pensions (continued)

publicly available at www.doa.state.wi.us or may be obtained by writing to: Department of Administration, 101 East Wilson Street, Madison, Wisconsin 53703.

Basis of Accounting. The OPEB plans are reported in accordance with GASB standards and accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. The OPEB liability, deferred outflows of resources and deferred inflows of resources, OPEB expense, and fiduciary net position, if any, have been determined on the same basis. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments, if any, are reported at fair value.

Retiree Life Insurance Funds

The State Retiree Life Insurance Fund is considered a single-employer defined benefit OPEB plan. GASB standards classify the State Retiree Health Insurance program as a single-employer defined benefit OPEB plan with multiple participating employers, which includes the State, the University, and other component units of the State. The plan is administered through a trust.

The plans provide postemployment life insurance coverage to all eligible employees of participating employers. The plans are established by Wisconsin Statutes Chapter 40. ETF contracts with Securian Financial Group, Inc. (Securian) as a third party administrator for the Retiree Life Insurance plans. Benefit terms may be modified by the GIB, subject to state and federal legislative constraints.

Generally, members may enroll during a 30-day enrollment period after their date of hire. Members may also enroll after the initial 30-day enrollment period with evidence of insurability. Members under evidence of insurability enrollment must enroll in group life insurance coverage before age 55 to be eligible for Basic or Supplemental coverage.

Contributions. The GIB approves contribution rates annually, based on recommendations from the insurance carrier. Recommended rates are based on an annual valuation, taking into consideration an estimate of the present value of future benefits and the present value of future contributions. A portion of employer contributions made during a member's working lifetime funds a post-retirement benefit.

Employers are required to pay the following contributions based on employee contributions for active members to provide them with basic coverage after age 65. There are no employer contributions required for pre-65 annuitant coverage. If a member retires prior to age 65, they must continue paying the member premiums until age 65 in order to be eligible for the benefit after age 65. All contributions are actuarially determined. Contribution rates as of December 31, 2020 are:

| Coverage Type | Employer Contribution |
|------------------------------|------------------------------|
| 50% post-retirement coverage | 28% of employee contribution |

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 9 – Postemployment Benefits Other Than Pensions (continued)

Member contributions are based upon nine age bands through age 69 and an additional eight age bands for those age 70 and over. Participating members must pay monthly contribution rates per \$1,000 of coverage until the age of 65 (age 70 if active). Disabled members under age 70 receive a waiver-of-premium benefit. The member contribution rates in effect for the year ended December 31, 2020 are as listed below:

| <u>Attained Age</u> | <u>Basic</u> | <u>Supplemental</u> |
|---------------------|--------------|---------------------|
| Under 30 | \$0.0441 | \$0.0441 |
| 30-34 | 0.0441 | 0.0441 |
| 35-39 | 0.0441 | 0.0441 |
| 40-44 | 0.0662 | 0.0662 |
| 45-49 | 0.1103 | 0.1103 |
| 50-54 | 0.1764 | 0.1764 |
| 55-59 | 0.2426 | 0.2426 |
| 60-64 | 0.3308 | 0.3308 |
| 65-69 | 0.4300 | 0.4300 |

During the reporting period, the OPEB plan recognized \$644,090 in contributions from the University.

At retirement, the member must have active group life insurance coverage and satisfy one of the following:

- Wisconsin Retirement System (WRS) coverage prior to January 1, 1989, or
- At least one month of group life insurance coverage in each of five calendar years after 1989 and one of the following:
 - Eligible for an immediate WRS benefit,
 - At least 20 years from their WRS creditable service as of January 1, 1990, plus their years of group life insurance coverage after 1989, or
 - At least 20 years on the payroll of their last employer.

In addition, terminating members and retirees must continue to pay the employee premiums until age 65 (age 70 if active).

Benefits and Membership. After retirement, basic coverage is continued for life in amounts for the insurance in force before retirement:

| <u>Age</u> | <u>Coverage</u> |
|---------------|-----------------|
| Before age 65 | 100% |
| While age 65 | 75% |
| While age 66 | 50% |
| After age 66 | 50% |

After retirement, additional coverage may be continued until age 65 at 100 percent of the amount of the insurance in force before retirement at the employee's expense, and spouse and dependent coverage benefits is terminated.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB. The University reported a liability of \$363.8 million and \$287.5 million

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 9 – Postemployment Benefits Other Than Pensions (continued)

for its proportionate share of the net OPEB liability at June 30, 2021 and 2020, respectively. The June 30, 2021 and June 30, 2020 net liability was measured as of December 31, 2020, and 2019, respectively, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of January 1, 2020, and January 1, 2019, respectively, rolled forward to December 31, 2020 and December 31, 2019, respectively. Changes to the municipal bond rate were the primary cause of assumption changes between the January 1, 2020 actuarial valuation date and the December 31, 2020 measurement date. No other material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The University's proportion of the net OPEB liability was based on the University's share of contributions to the OPEB plan relative to the contributions of all participating employers. At December 31, 2020, the University's proportion was 42.0 percent, which was an decrease of 0.1 percent from its proportion of 42.1 percent measured as of December 31, 2019. At December 31, 2019, the University's proportion was 42.1 percent, which was an increase of 0.3 percent from its proportion of 41.8 percent measured as of December 31, 2018.

For the years ended June 30, 2021 and 2020, the University recognized OPEB expense of \$40.6 million and \$28.2 million, respectively.

At June 30, 2021, the University reported deferred outflows and inflows of resources related to OPEB from the following sources:

| | Fiscal Year ended June 30, 2021 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--|---|--|
| Difference Between Expected and Actual Experience | \$ (10,592,700) | \$ — | \$ (10,592,700) |
| Net Differences Between Projected and Actual Earnings on OPEB Plan Investments | 4,625,909 | 4,625,909 | — |
| Assumption Changes | 101,979,002 | 124,222,430 | (22,243,428) |
| Changes in Proportion | (1,677,698) | 1,920,321 | (3,598,019) |
| Total | <u>\$ 94,334,513</u> | <u>\$ 130,768,660</u> | <u>\$ (36,434,147)</u> |

At June 30, 2020, the University reported deferred outflows and inflows of resources related to OPEB from the following sources:

| | Fiscal Year ended June 30, 2020 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--|---|--|
| Difference Between Expected and Actual Experience | \$ (8,674,200) | \$ — | \$ (8,674,200) |
| Net Differences Between Projected and Actual Earnings on OPEB Plan Investments | 4,695,336 | 4,695,336 | — |
| Assumption Changes | 63,591,074 | 91,772,232 | (28,181,158) |
| Changes in Proportion | (1,638,350) | 2,378,722 | (4,017,072) |
| Total | <u>\$ 57,973,860</u> | <u>\$ 98,846,290</u> | <u>\$ (40,872,430)</u> |

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 9 – Postemployment Benefits Other Than Pensions (continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in future OPEB expense as follows:

| Fiscal Year ended June 30 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--------------------------------------|---|--|
| 2022 | \$ 27,772,799 | \$ (9,377,174) |
| 2023 | 27,275,724 | (9,377,174) |
| 2024 | 26,752,363 | (9,377,174) |
| 2025 | 23,297,903 | (6,702,352) |
| 2026 | 19,136,175 | (1,032,634) |
| Thereafter | 6,533,696 | (567,639) |
| Total | <u>\$ 130,768,660</u> | <u>\$ (36,434,147)</u> |

The total OPEB expense is determined as follows:

| | |
|--|----------------------|
| Net Proportionate Share of Plan OPEB Expense (Income) | \$ 41,223,385 |
| Net Amortization of Deferred Amounts from Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions | (641,604) |
| Total OPEB Expense | <u>\$ 40,581,781</u> |

Actuarial Assumptions. The total OPEB liability in the January 1, 2020 and January 1, 2019 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

| Actuarial Valuation Date | January 1, 2020 | January 1, 2019 |
|--|--------------------------------|--------------------------------|
| Measurement Date of Net OPEB Liability | December 31, 2020 | December 31, 2019 |
| Actuarial cost method | Entry age normal | Entry age normal |
| 20-year tax-exempt municipal bond yield | 2.12% | 2.74% |
| Long-term expected rate of return | 4.25% | 4.25% |
| Discount rate | 2.22% | 2.84% |
| Salary increases: Wage Inflation Seniority/merit | 3.00% 0.1% - 5.6% | 3.00% 0.1% - 5.6% |
| Mortality rates | Wisconsin 2018 Mortality Table | Wisconsin 2018 Mortality Table |

Actuarial assumptions are based upon an experience study conducted in 2018 that covered a three-year period from January 1, 2015 to December 31, 2017. The Total OPEB Liability for December 31, 2020 is based upon a roll-forward of the liability calculated from the January 1, 2020 actuarial valuation.

Long-Term Expected Return on Plan Assets. The long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. Investments for the OPEB plan are held with Securian, the insurance carrier.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 9 – Postemployment Benefits Other Than Pensions (continued)

Interest is calculated and credited to the OPEB plan based on the rate of return for a segment of the insurance carrier's general fund, specifically 10-year A- Bonds (as a proxy, and not tied to any specific investments). The overall aggregate interest rate is calculated using a tiered approach based on the year the funds were originally invested and the rate of return for that year. Investment interest is credited based on the aggregate rate of return and assets are not adjusted to fair market value. Furthermore, the insurance carrier guarantees the principal amounts of the reserves, including all interest previously credited thereto.

State OPEB Life Insurance
Asset Allocation Targets and Expected Returns

| Asset Class | Index | As of December 31, 2020 | | As of December 31, 2019 | |
|--------------------------------------|----------------------|----------------------------|--|----------------------------|--|
| | | Target Allocation | Long-Term Expected Geometric Real Rate of Return | Target Allocation | Long-Term Expected Geometric Real Rate of Return |
| U.S. Credit Bonds | Barclays Credit | 50% | 1.47% | 45% | 2.12% |
| U.S. Long Credit Bonds | Barclays Long Credit | — | — | 5% | 2.90% |
| U.S. Mortgages | Barclays MBS | 50% | 0.82% | 50% | 1.53% |
| Inflation | | — | 2.20% | — | 2.20% |
| Long-Term Expected Rate of Return | | | 4.25% | | 4.25% |

The long-term expected rate of return and expected inflation rate remained unchanged from the prior year at 4.25 percent and 2.20 percent, respectively. The long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation.

Single Discount Rate. A single discount rate of 2.22 percent was used to measure the total OPEB liability for the current year, as opposed to a discount rate of 2.84 percent for the prior year. The significant change in the discount rate was primarily caused by the decrease in the municipal bond rate from 2.74 percent as of December 31, 2019 to 2.12 percent as of December 31, 2020. The plan's fiduciary net position was projected to be insufficient to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total OPEB liability is equal to the single equivalent rate that results in the same actuarial present value as the long-term expected rate of return applied to benefit payments, to the extent that the plan's fiduciary net position is projected to be sufficient to make projected benefit payments, and the municipal bond rate, determined using the Bond Buyer General Obligation 20-Bond Municipal Bond Index, applied to benefit payment to the extent that the plan's fiduciary net position is projected to be insufficient. The plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through December 31, 2033.

The projection of cash flows used to determine the single discount rate assumed that employer contributions will be made according to the current employer contribution schedule and that contributions are made by plan members retiring prior to age 65. The current employer contribution schedule includes annual increases of 5 percent in each of the next nine years, as approved by the Group Insurance Board in August 2019.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 9 – Postemployment Benefits Other Than Pensions (continued)

Sensitivity of the University’s Proportionate Share of Net OPEB Liability to Changes in the Discount Rate. The following presents what the University’s proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or higher than the current discount rate:

| | 1% Decrease in Discount Rate | Current Discount Rate | 1% Increase in Discount Rate |
|----------------------|---|----------------------------------|---|
| June 30, 2021 | | | |
| Discount Rate | 1.22 % | 2.22 % | 3.22 % |
| OPEB Liability | \$ 480,543,103 | \$ 363,828,903 | \$ 274,480,771 |
| June 30, 2020 | | | |
| Discount Rate | 1.84 % | 2.84 % | 3.84 % |
| OPEB Liability | \$ 383,893,901 | \$ 287,530,560 | \$ 213,315,475 |

OPEB Plan Fiduciary Net Position. Detailed information about the OPEB plan’s fiduciary net position is available in separately issued financial statements available at <https://etf.wi.gov/about-etf/reports-and-studies/financial-reports-and-statements>.

Retiree Health Insurance Funds

The Retiree Health Insurance plans offer group health insurance to retired University employees. Retirees pay the full premium amount. The plans are not administered through a trust. The Retiree Health Insurance Funds contain certain non-OPEB components relating to post-Medicare pharmacy and health insurance benefits. ETF and the GIB have statutory authority for program administration and oversight under Wisconsin Statutes Chapters 15.165 (2) and 40.03 (6).

University employees participating in the State Health Insurance Plan are eligible to continue their health insurance coverage after leaving covered employment. Membership includes former university employees or their beneficiaries.

Employees may choose between self-insured health plans and alternate health plans with specific provider networks (i.e., HMOs). The HMOs follow GIB guidelines for eligibility and program requirements. All HMOs offer a prescribed benefit package called Uniform Benefits and participate in a yearly competitive premium rate bid process. The Standard Plan and State Maintenance Plan are self-insured by the GIB and administered by WPS Health Insurance. Self-insured coverage for health insurance was discontinued as of December 31, 2017. The Standard Plan is a preferred provider plan. The pharmacy benefit is self-insured by the GIB and administered by Navitus Health Solutions.

Effective January 1, 2012, prescription drug coverage for Medicare eligible retirees enrolled in the State group health insurance program is provided by a self-funded Medicare Part D Employer Group Waiver Plan (EGWP). A Medicare “Wrap” product is also included to provide full coverage to members, as required by uniform benefits, when they reach the Medicare coverage gap, also known as the “donut hole.”

Contributions. As of the January 2020 actuarial valuation, the State’s annual required contributions were \$88.5 million and \$88.9 million for fiscal years ended June 30, 2021 and June 30, 2020, respectively. The State’s annual OPEB costs were \$46.3 million and \$40.3 million for fiscal years ended June 30, 2021 and June 30, 2020, respectively, and the State’s actual contributions were \$56.8 million in fiscal year 2021 and \$40.9 million in fiscal year 2020, which results in a net OPEB obligation for the State of \$642.0 million as of June 30, 2021, and \$682.5 million as of June 30, 2020.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 9 – Postemployment Benefits Other Than Pensions (continued)

State Retiree Health Insurance OPEB. The State Retiree Health Insurance program provides postemployment health insurance coverage to all eligible retired employees of the University. The University does not directly pay any portion of the premium for participating retirees. However, because retirees pay the same premium rate set for active employees, an implicit rate subsidy exists for employers. This implicit rate subsidy is reported as an OPEB liability. At age 65, when eligible, retirees are required to enroll in Medicare.

Retiree Health Insurance Plan Description. GASB standards classify the State Retiree Health Insurance program as a single employer defined benefit OPEB plan with multiple participating employers. Medical, prescription drug and dental benefits are provided to eligible retirees.

Retirees pay the full premium until age 65 directly to the plan either through “out-of-pocket” or from unused accumulated sick leave conversion credits.

Contribution requirements are established and may be amended by the GIB. Premiums for non-Medicare retirees are based on an effective rate structure for the health care service provider selected. Monthly rates range from \$574 to \$1,541 for single coverage and \$1,402 to \$3,818 for family coverage.

Total Retiree Health OPEB Liability. The OPEB plan liability was measured as of June 30, 2020. It was determined by an actuarial valuation as of January 1, 2020. The University reported a liability of \$287.5 million and \$302.8 million for its proportionate share of the OPEB liability amounts as of a June 30, 2021 and June 30, 2020 reporting date, respectively. At June 30, 2021, the University's proportion was 44.8 percent which was 0.8 percent of an increase from its proportion of 44.0 percent measured as of June 30, 2019. At June 30, 2020, the University's proportion was 44.4 percent which was 0.4 percent of an increase from its proportion of 44.0 percent measured as of June 30, 2018.

The actuarial valuation was based on the plan of retiree benefits and was made for purposes of fulfilling GASB accounting standards which require recognition of the employer cost of postemployment benefits over an employee's career. The total cost of providing postemployment benefits is projected, considering relevant assumptions, then discounted to determine the total OPEB liability. The total OPEB liability was allocated to participating employers based on their proportionate share of health insurance premiums contributed for active employees.

Changes in the Total OPEB Liability. Changes to the University's proportionate share of the OPEB plan liability during the fiscal year include the following:

| | |
|--|-----------------------|
| OPEB Liability – June 30, 2020 | \$ 302,798,250 |
| Service Cost | 21,722,254 |
| Interest | 11,015,711 |
| Differences Between Expected and Actual Experience | (15,970,407) |
| Change of Assumptions | (6,613,896) |
| Benefit Payments | (25,436,691) |
| OPEB Liability – June 30, 2021 | <u>\$ 287,515,221</u> |

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 9 – Postemployment Benefits Other Than Pensions (continued)

The total OPEB liability in the January 1, 2019 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

| | |
|--|---|
| Actuarial Valuation Date | January 1, 2019 |
| Measurement Date of Total OPEB Liability | June 30, 2020 |
| Reporting Date | June 30, 2021 |
| Actuarial cost method | Entry age normal |
| Asset Valuation Method | N/A |
| Inflation | 3.00% |
| Salary increases | Separate merit and longevity increase rates by employer and service, plus 3.00% |
| Discount Rate | Discount rate was changed to 2.21% for the June 30, 2020 measurement from 3.50% for the June 30, 2019 measurement |
| Health care cost trend rates | |
| Medical | 4.00% for first year, 0.30% for the second year and then 5.25% grading down 0.25% per year to 4.50% |
| Prescription drug | 2.10% for first year, 5.90% for the second year and then 7.25% grading down 0.25% per year to 4.50% |
| Dental | 0.00% for first two years then 3.00% thereafter |
| Administrative costs | 7.30% for first year, 9.50% for the second year and then 3.00% thereafter |
| Mortality Rates | Wisconsin 2017 Mortality Table |
| Benefit Changes | None |
| Participation Rate | Active: 80% are assumed to elect coverage at retirement, 20% that defer are assumed to be covered over the next 8 years (2.5% per year), so 100% assumed to be covered after 8 years Deferred: 12.5% per year over 8 years |
| Assumed Claims | Per capita claims costs were based on premium equivalent rates for plan year 2019 and actuarial factors applied to weighted average premium rates to estimate costs |
| Termination Rates | Rates for General, University, Protective, Executive and Elected employees matched the 2015-2017 experience study for the pension valuation |
| Disability Rates | Rates for General, University, Protective, Executive and Elected employees matched the 2015-2017 experience study for the pension valuation |
| Normal Retirement Rates | Rates for General, University, Protective, Executive and Elected employees matched the 2015-2017 experience study for the pension valuation |
| Withdrawal Rate | Rates matched the 2015-2017 experience study for the pension valuation |
| Lapse Rate | 10% per year after the later of assumed commencement or the valuation date |
| Retiree Contribution Increase Rate | Retiree contributions are expected to increase with average benefit trend |
| Excise Tax | <i>Excise tax was repealed effective December 2019 and has been removed from the valuation</i> |
| Benefit End Date | Benefits end when participants turn 65 years old |

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 9 – Postemployment Benefits Other Than Pensions (continued)

Valuation assumption changes decreased the liability by \$6.6 million. This was a net result of a decrease in obligations due to updating the healthcare trend to reflect recent premium amounts and an increase due to lowering the discount rate. An actuarial experience gain decreased the liability by \$16.0 million. This was the net result of gains and losses due to removing the limit on spousal contributions and actual 2020 contributions and benefit payments that were different from expected.

Sensitivity of the University's Proportionate Share of Total OPEB Liability to Changes in the Discount Rate. The following presents what the University's liability would be if it were calculated using a discount rate that is 1-percentage-point lower or higher than the current discount rate:

| | 1% Decrease in Discount Rate | Current Discount Rate | 1% Increase in Discount Rate |
|----------------------|---|----------------------------------|---|
| June 30, 2021 | | | |
| Discount Rate | 1.21 % | 2.21 % | 3.21 % |
| OPEB Liability | \$ 306,726,801 | \$ 287,515,221 | \$ 269,068,492 |
| June 30, 2020 | | | |
| Discount Rate | 2.50 % | 3.50 % | 4.50 % |
| OPEB Liability | \$ 323,130,389 | \$ 302,798,250 | \$ 283,493,850 |

Sensitivity of the University's Proportionate Share of Total OPEB liability to Changes in the Healthcare Cost Trend Rates. The following presents what the University's liability would be if it were calculated using a healthcare trend rate that is 1-percentage-point lower or higher than the current healthcare trend rates. The various healthcare trend rates can be found in the actuarial assumptions section listed above.

| | 1% Decrease in Discount Rate | Current Discount Rate | 1% Increase in Discount Rate |
|----------------------|---|----------------------------------|---|
| June 30, 2021 | | | |
| OPEB Liability | \$ 251,723,488 | \$ 287,515,221 | \$ 330,438,378 |
| June 30, 2020 | | | |
| OPEB Liability | \$ 270,569,852 | \$ 302,798,250 | \$ 340,992,830 |

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB. The total deferred outflows and inflows of resources are amortized over the average active participants service life of 10 years. For the years ended June 30, 2021 and 2020, the University recognized OPEB expense amounting to \$19.5 million and \$17.8 million, respectively.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 9 – Postemployment Benefits Other Than Pensions (continued)

Total deferred outflows and inflows of resources to be recognized in the current OPEB expense for the fiscal year ended June 30, 2021 and 2020 are as follows:

| | Fiscal Year ended June 30, 2021 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--|---|--|
| Difference Between Expected and Actual Experience | \$ 981,758 | \$ 2,969,668 | \$ (1,987,910) |
| Assumption Changes | (14,240,837) | 2,550,269 | (16,791,106) |
| Total | <u>\$ (13,259,079)</u> | <u>\$ 5,519,937</u> | <u>\$ (18,779,016)</u> |

| | Fiscal Year ended June 30, 2020 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--|---|--|
| Difference Between Expected and Actual Experience | \$ 2,528,426 | \$ 2,695,443 | \$ (167,017) |
| Assumption Changes | (12,245,854) | 2,314,774 | (14,560,628) |
| Total | <u>\$ (9,717,428)</u> | <u>\$ 5,010,217</u> | <u>\$ (14,727,645)</u> |

In addition, the contributions subsequent to the measurement date of \$21.2 million (a deferred outflow of resources) will be included as a reduction of the net OPEB liability in the next year (2022). The deferred outflows and inflows of resources to be recognized in the future OPEB expense for the fiscal year ended June 30, 2021 and 2020 are as follows:

| | Fiscal Year ended June 30, 2021 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--|---|--|
| Difference Between Expected and Actual Experience | \$ 6,615,180 | \$ 24,104,829 | \$ (17,489,649) |
| Change in Proportion | 2,920,109 | 6,352,643 | (3,432,534) |
| Assumption Changes | (87,602,839) | 20,765,592 | (108,368,431) |
| Employer Contributions Subsequent to Measurement Date | 21,239,503 | 21,239,503 | — |
| Total | <u>\$ (56,828,047)</u> | <u>\$ 72,462,567</u> | <u>\$ (129,290,614)</u> |

| | Fiscal Year ended June 30, 2020 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--|---|--|
| Difference Between Expected and Actual Experience | \$ 25,235,057 | \$ 26,544,058 | \$ (1,309,001) |
| Change in Proportion | (335,048) | 3,587,848 | (3,922,896) |
| Assumption Changes | (92,186,550) | 22,859,730 | (115,046,280) |
| Employer Contributions Subsequent to Measurement Date | 25,201,728 | 25,201,728 | — |
| Total | <u>\$ (42,084,813)</u> | <u>\$ 78,193,364</u> | <u>\$ (120,278,177)</u> |

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 9 – Postemployment Benefits Other Than Pensions (continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in future OPEB expense as follows:

| Fiscal Year ended June 30 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--------------------------------------|---|--|
| 2022 | \$ 5,122,306 | \$ (16,161,327) |
| 2023 | 5,122,306 | (16,161,327) |
| 2024 | 5,122,306 | (16,161,327) |
| 2025 | 5,122,306 | (16,161,327) |
| 2026 | 5,122,306 | (16,161,327) |
| Thereafter | 25,611,534 | (48,483,979) |
| Total | <u>\$ 51,223,064</u> | <u>\$ (129,290,614)</u> |

The total OPEB expense is determined as follows:

| | |
|---|----------------------|
| Service Cost | \$ 21,722,254 |
| Interest | 11,015,711 |
| Recognition of Deferred Outflows of Resources | 5,519,937 |
| Recognition of Deferred Inflows of Resources | (18,779,016) |
| Total OPEB Expense | <u>\$ 19,478,886</u> |

The Schedule of Changes in the University's proportionate share of the total OPEB liability and related ratios is presented as required supplementary information following the notes to the financial statements.

Supplemental Health Insurance Conversion Credit Program

The Supplemental Health Insurance Conversion Credit Program (SHICC) is a single-employer defined benefit OPEB plan. GASB standards classify the SHICC as a single-employer defined benefit OPEB plan with multiple participating employers, which includes the State, the University, and other component units of the State. The plan is administered through a trust.

The SHICC program allows members with more than 15 years of eligible service to convert unused sick leave balances into credits to pay for post-retirement health insurance premiums. The SHICC program provides a limited match of the members sick leave credits earned through the Accumulated Sick Leave Conversion Credit (ASLCC) program. ASLCC program credits are computed at the time of retirement, layoff or death by multiplying the sick number of hours of unused sick leave by the highest hourly pay rate at which the employee accrued sick leave that is eligible for conversion. The SHICC program also includes a provision for the restoration of 500 hour of credits upon retirement, layoff or death provided at least 500 hours of accrued sick leave were used for a single injury or illness during the three years immediately preceding the retirement, layoff or death while in University service. SHICC benefits and other plan provisions are established by Chapter 40 of the Wisconsin Statutes.

All ASLCC program credits must be used before the SHICC program credits. Unused ASLCC and SHICC credits have no cash value, are carried forward from year to year without interest, and when total health insurance premiums paid on behalf of the retired employee exceed the conversion credits, no further payments are made under the ASLCC and SHICC programs. ASLCC and SHICC

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 9 – Postemployment Benefits Other Than Pensions (continued)

credits may be escrowed indefinitely after retirement for participants who provide evidence of comparable health insurance coverage from another source.

OPEB Plan Fiduciary Net Position. ETF issues a standalone Annual Comprehensive Financial Report (ACFR) which can be found at <https://etf.wi.gov/about-etf/reports-and-studies/financial-reports-and-statements>.

Benefits Provided. The SHICC plan provides eligible members with credits that can be used to pay for post-retirement health insurance.

Contributions. The ETF Board approves contribution rates annually, based on recommendations from the actuary. Recommended rates are based on an annual valuation, taking into consideration an estimate of the present value of future benefits and the present value of future contributions in accordance with Wis. Stat. § 40.05(4)(by). Employer contributions made during a member's working lifetime funds a post-retirement benefit.

Employer Contribution rate for the University as of December 31, 2020 and December 31, 2019 was 0.3 percent.

During the reporting period, the SHICC recognized \$6.6 million and \$6.4 million in contributions from the University, respectively.

OPEB Asset, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB. The University reported an asset of \$124.5 million and \$67.9 million for its proportionate share of the net OPEB asset at June 30, 2021 and 2020, respectively. The June 30, 2021 and June 30, 2020 net OPEB asset was measured as of December 31, 2020 and 2019, respectively, and the total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2020 and 2019, respectively. The University's proportion of the net OPEB asset was based on the University's share of contributions to the OPEB plan relative to the contributions of all participating employers. At December 31, 2020, the University's proportion was 44.7 percent, which was unchanged from its proportion measured as of December 31, 2019. At December 31, 2019, the University's proportion was 44.7 percent, which was unchanged from its proportion measured as of December 31, 2018.

For the fiscal year ended June 30, 2021 and June 30, 2020, the University recognized OPEB income of \$16.0 million and \$0.8 million, respectively.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 9 – Postemployment Benefits Other Than Pensions (continued)

At June 30, 2021, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Fiscal Year ended June 30, 2021 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--|---|--|
| Difference Between Projected and Actual Experience | \$ (56,958,705) | \$ — | \$ (56,958,705) |
| Net Difference Between Projected and Actual Earnings | (47,799,096) | — | (47,799,096) |
| Assumption Changes | 7,403,447 | 7,403,447 | — |
| Change in Proportion | 85,967 | 112,605 | (26,638) |
| Employer Contributions Subsequent to Measurement Date | 2,582,277 | 2,582,277 | — |
| Total | <u>\$ (94,686,110)</u> | <u>\$ 10,098,329</u> | <u>\$ (104,784,439)</u> |

At June 30, 2020, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Fiscal Year ended June 30, 2020 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--|---|--|
| Difference Between Projected and Actual Experience | \$ (45,883,045) | \$ — | \$ (45,883,045) |
| Net Difference Between Projected and Actual Earnings | (26,105,492) | — | (26,105,492) |
| Assumption Changes | 8,800,674 | 8,800,674 | — |
| Change in Proportion | (7,236) | 24,548 | (31,784) |
| Employer Contributions Subsequent to Measurement Date | 3,146,805 | 3,146,805 | — |
| Total | <u>\$ (60,048,294)</u> | <u>\$ 11,972,027</u> | <u>\$ (72,020,321)</u> |

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in future OPEB expense as follows:

| Fiscal Year ended June 30 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--------------------------------------|---|--|
| 2022 | \$ 1,218,184 | \$ (23,535,169) |
| 2023 | 1,218,184 | (16,770,760) |
| 2024 | 1,218,184 | (26,254,529) |
| 2025 | 1,218,184 | (16,141,777) |
| 2026 | 1,218,184 | (8,725,785) |
| Thereafter | 1,425,132 | (13,356,419) |
| Total | <u>\$ 7,516,052</u> | <u>\$ (104,784,439)</u> |

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 9 – Postemployment Benefits Other Than Pensions (continued)

Actuarial Assumptions. The total OPEB asset in the December 31, 2020 and December 31, 2019 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | | |
|--|--------------------------------|--------------------------------|
| Actuarial Valuation Date | December 31, 2020 | December 31, 2019 |
| Measurement Date of Net OPEB Liability | December 31, 2020 | December 31, 2019 |
| Actuarial cost method | Entry age normal | Entry age normal |
| Long-term expected rate of return | 7.00% | 7.00% |
| Discount rate | 7.00% | 7.00% |
| Salary increases: Wage inflation Seniority/merit | 3.00% 0.1% - 5.6% | 3.00% 0.1% - 5.6% |
| Mortality rates | Wisconsin 2018 Mortality Table | Wisconsin 2018 Mortality Table |
| Health Care Trend Rate | 3.0% per year | 3.2% per year |

Actuarial assumptions are based upon an experience study conducted in 2018 that covered a three-year period from January 1, 2015 to December 31, 2017. The Total OPEB Asset for December 31, 2020 is based upon the December 31, 2020 actuarial valuation.

Long-Term Expected Return on Plan Assets. The assets of the SHICC are commingled with assets from other benefit programs and invested in the Core Retirement Investment Trust (Core Fund). Earnings are allocated between the benefit programs based on the average balance invested for each program. The State of Wisconsin Investment Board (SWIB) manages the Core Fund with oversight by the SWIB Board of Trustees, as authorized in Wis. Stat. § 25.17. The long-term expected rate of return is reviewed every three years in conjunction with the Wisconsin Retirement System experience study.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 9 – Postemployment Benefits Other Than Pensions (continued)

Best estimates of geometric real rates of return of each major asset class included in the OPEB plan's target allocation are summarized in the following table:

| Asset Class | As of December 31, 2020 | | As of December 31, 2019 | |
|-----------------------------------|----------------------------|---|----------------------------|---|
| | Asset Allocation | Long-Term Expected Real Rate of Return | Asset Allocation | Long-Term Expected Real Rate of Return |
| Global Equities | 51.0% | 4.7% | 49.0% | 5.1% |
| Fixed Income | 25.0% | 0.8% | 24.5% | 2.1% |
| Inflation Sensitive Assets | 16.0% | (0.4)% | 15.5% | 1.2% |
| Real Estate | 8.0% | 3.1% | 9.0% | 3.5% |
| Private Equity/Debt | 11.0% | 7.6% | 8.0% | 7.6% |
| Multi-Asset | 4.0% | 3.3% | 4.0% | 4.0% |
| Total Fund | 115.0% | 4.1% | 110.0% | 4.6% |
| Inflation | | 2.4% | | 2.5% |
| Long-Term Expected Rate of Return | | 7.0% | | 7.0% |

The long-term expected rate of return is 7.0 percent which is consistent with the prior year. The long-term expected rate of return on OPEB 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 OPEB 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.

Single Discount Rate. A single discount rate of 7.0 percent was used to measure the Total OPEB Asset for the current year and prior year. This single discount rate was based on the expected rate of return on OPEB plan investments of 7.0 percent. The projection of cash flows used to determine this single discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rate. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the Total OPEB Asset and projections were excluded from this report.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 9 – Postemployment Benefits Other Than Pensions (continued)

Sensitivity of the University's Proportionate Share of Net OPEB Asset to Changes in the Discount Rate. The following presents what the University's proportionate share of the net OPEB asset calculated using the discount rate of 7.0 percent, as well as what the University's proportionate share of the net OPEB asset would be if it were calculated using a discount rate that is 1-percentage-point lower or higher than the current discount rate:

| | 1% Decrease in Discount Rate | Current Discount Rate | 1% Increase in Discount Rate |
|------------------------|---|----------------------------------|---|
| June 30, 2021 | | | |
| Discount Rate | 6.00 % | 7.00 % | 8.00 % |
| OPEB Liability/(Asset) | \$ (83,443,568) | \$ (124,539,601) | \$ (160,033,338) |
| June 30, 2020 | | | |
| Discount Rate | 6.00 % | 7.00 % | 8.00 % |
| OPEB Liability/(Asset) | \$ (26,882,044) | \$ (67,871,882) | \$ (103,368,380) |

Sensitivity of the University's Proportionate Share of Net OPEB Asset to Changes in the Healthcare Cost Trend Rates. The following presents the University's proportionate share of the collective net OPEB asset, calculated using the assumed healthcare cost trend rate, as well as what the plan's net OPEB asset would be if it were calculated using an assumed healthcare cost trend rate that is one percentage point lower or one percentage point higher than the current discount rate:

| | 1% Decrease in Discount Rate | Current Discount Rate | 1% Increase in Discount Rate |
|------------------------|---|----------------------------------|---|
| June 30, 2021 | | | |
| Healthcare Trend Rate | 2.00 % | 3.00 % | 4.00 % |
| OPEB Liability/(Asset) | \$ (155,012,190) | \$ (124,539,601) | \$ (95,018,846) |
| June 30, 2020 | | | |
| Healthcare Trend Rate | 2.20 % | 3.20 % | 4.20 % |
| OPEB Liability/(Asset) | \$ (96,360,209) | \$ (67,871,882) | \$ (40,814,587) |

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 10 – Deferred Outflows and Deferred Inflows of Resources

At June 30, 2021 and June 30, 2020, the University reported deferred outflows of resources from the following sources:

| Deferred Outflows of Resources | Pension | Other Post-Employment Benefits | Debt Refundings | Other | Total |
|---|-------------------------|---------------------------------------|------------------------|----------------------|-------------------------|
| Fiscal Year 2021 | | | | | |
| Differences between expected and actual experience | \$ 1,203,622,767 | \$ 24,104,829 | \$ — | \$ — | \$ 1,227,727,596 |
| Net differences between projected and actual earnings on pension and OPEB plan investments | — | 4,625,909 | — | — | 4,625,909 |
| Employer contributions subsequent to the measurement date | 71,501,588 | 23,821,780 | — | — | 95,323,368 |
| Changes in Actuarial Assumptions | 18,862,976 | 152,391,470 | — | — | 171,254,446 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 1,334,581 | 8,385,569 | — | — | 9,720,150 |
| Unamortized Losses | — | — | 38,273,332 | — | 38,273,332 |
| Asset Retirement Obligations | — | — | — | 9,255,156 | 9,255,156 |
| Total Deferred Outflows | \$ 1,295,321,912 | \$ 213,329,557 | \$ 38,273,332 | \$ 9,255,156 | \$ 1,556,179,957 |
| Fiscal Year 2020 | | | | | |
| Differences between expected and actual experience | \$ 817,248,486 | \$ 26,544,058 | \$ — | \$ — | 843,792,544 |
| Net differences between projected and actual earnings on pension and OPEB plan investments | — | 4,695,336 | — | — | 4,695,336 |
| Employer contributions subsequent to the measurement date | 88,132,080 | 28,348,533 | — | — | 116,480,613 |
| Changes in Actuarial Assumptions | 33,549,892 | 123,432,636 | — | — | 156,982,528 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 1,916,859 | 5,991,118 | — | — | 7,907,977 |
| Unamortized Losses | — | — | 43,303,067 | — | 43,303,067 |
| Asset Retirement Obligations | — | — | — | 10,250,843 | 10,250,843 |
| Total Deferred Outflows | \$ 940,847,317 | \$ 189,011,681 | \$ 43,303,067 | \$ 10,250,843 | \$ 1,183,412,908 |

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

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

At June 30, 2021 and June 30, 2020, the University reported deferred inflows of resources from the following sources:

| Deferred Inflows of Resources | Pension | Other Postemployment Benefits | Debt Refundings | Other | Total |
|---|------------------------|--|----------------------------|------------------|-------------------------|
| Fiscal Year 2021 | | | | | |
| Differences between expected and actual experience | \$ 259,258,177 | \$ 85,041,055 | \$ — | \$ — | \$ 344,299,232 |
| Net differences between projected and actual earnings on pension and OPEB plan investments | 1,561,316,010 | 47,799,096 | — | — | 1,609,115,106 |
| Changes in Actuarial Assumptions | — | 130,611,859 | — | — | 130,611,859 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 1,243,369 | 7,057,192 | — | — | 8,300,561 |
| Unamortized Gains | — | — | 1,211 | — | 1,211 |
| Gifts | — | — | — | 71,513 | 71,513 |
| Total Deferred Inflows | \$1,821,817,556 | \$ 270,509,202 | \$ 1,211 | \$ 71,513 | \$ 2,092,399,482 |
| Fiscal Year 2020 | | | | | |
| Differences between expected and actual experience | \$ 408,978,175 | \$ 55,866,246 | \$ — | \$ — | \$ 464,844,421 |
| Net differences between projected and actual earnings on pension and OPEB plan investments | 880,160,820 | 26,105,492 | — | — | 906,266,312 |
| Changes in Actuarial Assumptions | — | 143,227,438 | — | — | 143,227,438 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 183,875 | 7,971,752 | — | — | 8,155,627 |
| Unamortized Gains | — | — | 126,148 | — | 126,148 |
| Gifts | — | — | — | 78,707 | 78,707 |
| Total Deferred Inflows | \$1,289,322,870 | \$ 233,170,928 | \$ 126,148 | \$ 78,707 | \$ 1,522,698,653 |

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

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*; GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*; GASB Statement No. 80, *Blending Requirements for Certain Component Units, an amendment of GASB Statement No. 14*; and GASB Statement No. 90, *Majority Equity Interests—An Amendment of GASB Statements No. 14 and No. 61* provide guidance in determining whether organizations are to be included as part of a reporting entity. The University has defined significance as 5% of the primary government (individual campus) that the potential component unit exists to support. The University has determined that the Campus Foundations individually and in aggregate exceed the 5% threshold and therefore are disclosed in these financial statements as discretely presented component units. The following pages show the summarized financial information of the major component unit campus foundations.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 11 - Other Organizations (continued)

Condensed financial statement information related to the University's campus foundations for the year ended June 30, 2021 is as follows:

| Condensed Statement of Financial Position | University of Wisconsin Foundation, Inc. | The University of Wisconsin Milwaukee Foundation Inc. | Others | Total |
|--|---|--|-----------------------|------------------------|
| ASSETS | | | | |
| Cash and Cash Equivalents | \$ 15,642,741 | \$ 8,271,438 | \$ 20,742,335 | \$ 44,656,514 |
| Income and Redemption Receivables | 290,079,648 | — | 18,978 | 290,098,626 |
| Pledges Receivable, Net | 140,664,551 | 16,491,556 | 22,386,451 | 179,542,558 |
| Prepaid Expenses and Other Assets | 8,620,066 | 1,661,383 | 17,849,347 | 28,130,796 |
| Investments | 5,223,802,186 | 217,134,458 | 477,297,867 | 5,918,234,511 |
| Property and Equipment, Net | 13,652,218 | 66,371,045 | 90,723,879 | 170,747,142 |
| Real Estate | — | — | 1,910,180 | 1,910,180 |
| TOTAL ASSETS | \$5,692,461,410 | \$ 309,929,880 | \$ 630,929,037 | \$6,633,320,327 |
| LIABILITIES AND NET ASSETS | | | | |
| LIABILITIES | | | | |
| Accounts Payable | \$ 5,749,442 | \$ 58,578 | \$ 3,828,061 | \$ 9,636,081 |
| Pending Investment Purchases Payable | 349,396,887 | — | — | 349,396,887 |
| Accrued Expenses and Other Liabilities | 28,183,724 | 3,402,675 | 14,544,150 | 46,130,549 |
| Note Payable | — | 77,763,308 | 75,243,225 | 153,006,533 |
| Liability Under Split-Interest Agreements | 46,825,628 | — | 960,251 | 47,785,879 |
| Funds Due to Other Organizations | 296,667,031 | 4,044,488 | 340,449 | 301,051,968 |
| Total Liabilities | 726,822,712 | 85,269,049 | 94,916,136 | 907,007,897 |
| NET ASSETS | | | | |
| Without Donor Restrictions | 158,065,377 | 8,350,953 | 39,206,775 | 205,623,105 |
| With Donor Restrictions | 4,807,573,321 | 216,309,878 | 496,806,126 | 5,520,689,325 |
| Total Net Assets | 4,965,638,698 | 224,660,831 | 536,012,901 | 5,726,312,430 |
| TOTAL LIABILITIES AND NET ASSETS | \$5,692,461,410 | \$ 309,929,880 | \$ 630,929,037 | \$6,633,320,327 |
| Condensed Statement of Activities | | | | |
| REVENUES, GAINS AND OTHER SUPPORT | | | | |
| Contributions | \$ 383,703,656 | \$ 18,666,032 | \$ 44,112,934 | \$ 446,482,622 |
| Investment Return, Net of Fees | 917,304,195 | 40,239,630 | 81,383,333 | 1,038,927,158 |
| Rental Income | — | 5,565,853 | 7,338,618 | 12,904,471 |
| Other Income | 3,934,238 | 3,151,458 | 7,167,799 | 14,253,495 |
| Total Revenues, Gains and Other Support | 1,304,942,089 | 67,622,973 | 140,002,684 | 1,512,567,746 |
| EXPENSES | | | | |
| Program Expenses | 305,424,681 | 25,804,776 | 35,195,050 | 366,424,507 |
| Management and General Expenses | 28,955,156 | 4,298,393 | 5,402,971 | 38,656,520 |
| Fund raising Expenses | 27,587,580 | 856,620 | 4,944,261 | 33,388,461 |
| Total Expenses | 361,967,417 | 30,959,789 | 45,542,282 | 438,469,488 |
| INCREASE IN NET ASSETS | 942,974,672 | 36,663,184 | 94,460,402 | 1,074,098,258 |
| Net Assets - Beginning of Year | 4,022,664,026 | 187,997,647 | 441,552,499 | 4,652,214,172 |
| Net Assets - End of Year | \$4,965,638,698 | \$ 224,660,831 | \$ 536,012,901 | \$5,726,312,430 |

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 11 - Other Organizations (continued)

Condensed financial statement information related to the University's campus foundations for the year ended June 30, 2020 is as follows:

| Condensed Statement of Financial Position | University of Wisconsin Foundation, Inc. | The University of Wisconsin Milwaukee Foundation Inc. | Others | Total |
|--|---|--|-----------------------|------------------------|
| ASSETS | | | | |
| Cash and Cash Equivalents | \$ 55,488,244 | \$ 5,818,081 | \$ 20,074,343 | \$ 81,380,668 |
| Income and Redemption Receivables | 81,080,794 | 374,768 | 40,280 | 81,495,842 |
| Pledges Receivable, Net | 99,533,804 | 20,369,716 | 28,677,945 | 148,581,465 |
| Prepaid Expenses and Other Assets | 11,717,002 | 1,955,191 | 12,808,574 | 26,480,767 |
| Investments | 4,168,998,081 | 177,015,249 | 383,898,307 | 4,729,911,637 |
| Property and Equipment, Net | 15,075,585 | 68,894,253 | 93,491,630 | 177,461,468 |
| Real Estate | — | — | 1,005,867 | 1,005,867 |
| TOTAL ASSETS | \$4,431,893,510 | \$ 274,427,258 | \$ 539,996,946 | \$5,246,317,714 |
| LIABILITIES AND NET ASSETS | | | | |
| LIABILITIES | | | | |
| Accounts Payable | \$ 12,767,324 | \$ 53,136 | \$ 3,860,838 | \$ 16,681,298 |
| Pending Investment Purchases Payable | 54,219,318 | — | — | 54,219,318 |
| Accrued Expenses and Other Liabilities | 10,277,996 | 2,573,498 | 13,524,922 | 26,376,416 |
| Note Payable | — | 79,568,754 | 80,076,838 | 159,645,592 |
| Liability Under Split-Interest Agreements | 41,598,000 | — | 781,075 | 42,379,075 |
| Funds Due to Other Organizations | 290,366,846 | 4,234,223 | 200,774 | 294,801,843 |
| Total Liabilities | 409,229,484 | 86,429,611 | 98,444,447 | 594,103,542 |
| NET ASSETS | | | | |
| Without Donor Restrictions | 179,646,343 | 4,021,513 | 29,027,096 | 212,694,952 |
| With Donor Restrictions | 3,843,017,683 | 183,976,134 | 412,525,403 | 4,439,519,220 |
| Total Net Assets | 4,022,664,026 | 187,997,647 | 441,552,499 | 4,652,214,172 |
| TOTAL LIABILITIES AND NET ASSETS | \$4,431,893,510 | \$ 274,427,258 | \$ 539,996,946 | \$5,246,317,714 |
| Condensed Statement of Activities | | | | |
| REVENUES, GAINS AND OTHER SUPPORT | | | | |
| Contributions | \$ 304,160,374 | \$ 28,370,062 | \$ 45,415,341 | \$ 377,945,777 |
| Investment Return, Net of Fees | 63,923,526 | 6,664,549 | 20,316,646 | 90,904,721 |
| Rental Income | — | 5,585,204 | 1,781,877 | 7,367,081 |
| Other Income | 5,504,482 | 3,154,278 | 4,136,422 | 12,795,182 |
| Total Revenues, Gains and Other Support | 373,588,382 | 43,774,093 | 71,650,286 | 489,012,761 |
| EXPENSES | | | | |
| Program Expenses | 243,943,131 | 29,370,657 | 39,356,332 | 312,670,120 |
| Management and General Expenses | 14,135,435 | 1,238,382 | 6,025,122 | 21,398,939 |
| Fundraising Expenses | 33,971,811 | 737,852 | 5,264,860 | 39,974,523 |
| Total Expenses | 292,050,377 | 31,346,891 | 50,646,314 | 374,043,582 |
| OTHER CHANGES IN NET ASSETS | — | — | 29,560,650 | 29,560,650 |
| INCREASE IN NET ASSETS | 81,538,005 | 12,427,202 | 50,564,622 | 144,529,829 |
| Net Assets - Beginning of Year | 3,941,126,021 | 175,570,445 | 390,987,877 | 4,507,684,343 |
| Net Assets - End of Year | \$4,022,664,026 | \$ 187,997,647 | \$ 441,552,499 | \$4,652,214,172 |

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 11 – Other Organizations (continued)

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 and is reported as a blended component unit of the University of Wisconsin Hospital and Clinics Authority. 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.

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 \$11.1 million to DHS during fiscal year 2021 and \$11.1 million in fiscal year 2020, representing the state's share of this difference. DHS then claimed the federal share of the difference from the federal government and subsequently provided \$26.9 million during fiscal year 2021 and \$26.5 million during fiscal year 2020, representing both the state and federal share of the difference, to the UWMF. In addition, transfers of \$15.8 million and \$15.5 million were made by UW-Madison to the MA Trust Fund under this program during fiscal year 2021 and fiscal year 2020, respectively, reported as a transfer to state agencies on the financial statements.

During fiscal year 2021, the UWMF remitted \$26.9 million to UW-Madison as reimbursement for payments to DHS during fiscal year 2020. During fiscal year 2020, the UWMF remitted \$26.5 million to UW-Madison as reimbursement for payments to DHS during fiscal year 2019.

In addition, UW-Madison incurred expenditures for which reimbursement was received from the UWMF. Of the \$143.0 million expended in fiscal year 2021, \$132.0 million was for salaries and fringe benefits of staff in the UW-Madison School of Medicine. In fiscal year 2020, of the \$141.4 million expended, \$129.8 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, and is reported as a discrete component unit within the financial statements of the State of Wisconsin. 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, 2021, the present value of these future lease payments totaled \$38,582, compared to \$60,988 at June 30, 2020, an amount equal to the principal on the related bonds outstanding; the asset is included on the statement of net position as part of the capital lease receivable, and the related debt is included as part of the total University bonds outstanding of \$1,485.8 million and \$1,501.1 million at June 30, 2021 and June 30, 2020, 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.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 11 – Other Organizations (continued)

During the fiscal year ended June 30, 2021, the University received services from UWHCA totaling \$4.7 million and provided services to UWHCA totaling \$56.9 million, compared to amounts for fiscal year ended June 30, 2020 of \$4.6 million and \$52.6 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.

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 Institute 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. As such, The Wisconsin Institutes for Discovery does not meet the criteria of a component unit of the University.

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.

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. As such, The Consortium does not meet the criteria of a component unit of the University.

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 made payments equal to the debt service on all

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 11 – Other Organizations (continued)

outstanding bonds issued by the State of Wisconsin to acquire, construct, or improve the leased facilities. All lease payments were made as of June 30, 2020 and all obligations satisfied. 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 years ended June 30, 2021 and 2020, the University provided services and rent to The Consortium totaling \$0.6 million and \$0.7 million, respectively. 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 – 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 \$234.6 million at June 30, 2021, compared with \$195.2 million at June 30, 2020. During fiscal year 2021, \$1.3 million of these funds was made available by the trustees for spending. In fiscal year 2020, \$1.2 million of these funds was made available by the trustees for spending.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 12 – Operating Expenses by Functional Classification

Operating expenses by functional classification for the fiscal year ended June 30, 2021:

| | Salary and Fringe Benefits | Scholarships and Fellowships | Supplies and Services | Other | Depreciation | Total |
|--------------------------|---|---|----------------------------------|----------------------|-----------------------|-------------------------|
| Instruction | \$ 949,577,949 | \$ 2,040,507 | \$ 57,450,039 | \$ 7,722,643 | \$ — | \$ 1,016,791,138 |
| Research | 784,380,789 | 2,216,401 | 269,425,582 | 3,586,062 | — | 1,059,608,834 |
| Public Service | 214,572,524 | 171,205 | 123,754,502 | 9,092,910 | — | 347,591,141 |
| Academic Support | 324,745,885 | 100,391 | 90,053,058 | (1,936,187) | — | 412,963,147 |
| Student Services | 321,524,491 | 656,344 | 166,298,318 | (389,620) | — | 488,089,533 |
| Institutional Support | 293,719,937 | 58,123 | 34,081,308 | (553,445) | — | 327,305,923 |
| Operation/Maintenance | 164,189,406 | — | 154,334,610 | 1,038,768 | — | 319,562,784 |
| Financial Aid | 110,772,799 | 180,832,832 | 460,583 | 4,358 | — | 292,070,572 |
| Auxiliary Enterprises | 101,772,960 | 10,236 | 158,168,857 | (440,043) | — | 259,512,010 |
| Other Functions | 13,784,975 | — | 55,626,930 | 6,340 | — | 69,418,245 |
| Depreciation | — | — | — | — | 348,856,263 | 348,856,263 |
| Total Operating Expenses | <u>\$ 3,279,041,715</u> | <u>\$ 186,086,039</u> | <u>\$ 1,109,653,787</u> | <u>\$ 18,131,786</u> | <u>\$ 348,856,263</u> | <u>\$ 4,941,769,590</u> |

Operating expenses totaled \$4.9 billion. Salary and fringe benefits; scholarships and fellowships; and supplies and services and other expenses constituted 66.3%, 3.8%, and 22.8% of total operating expenses, respectively. Depreciation comprised \$348.9 million or 7.1% of total operating expenses.

Operating expenses by functional classification for the fiscal year ended June 30, 2020:

| | Salary and Fringe Benefits | Scholarships and Fellowships | Supplies and Services | Other | Depreciation | Total |
|--------------------------|---|---|----------------------------------|----------------------|-----------------------|-------------------------|
| Instruction | \$ 1,205,386,151 | \$ 1,126,040 | \$ 110,095,850 | \$ (1,790,158) | \$ — | \$ 1,314,817,883 |
| Research | 740,382,841 | 2,103,369 | 286,246,434 | 3,257,887 | — | 1,031,990,531 |
| Public Service | 218,670,384 | 369,392 | 117,030,882 | 12,601,656 | — | 348,672,314 |
| Academic Support | 335,448,576 | 132,437 | 103,997,911 | 2,673,357 | — | 442,252,281 |
| Student Services | 330,405,648 | 645,584 | 168,175,301 | 1,482,675 | — | 500,709,208 |
| Institutional Support | 307,329,110 | 1,050,290 | 29,109,270 | 1,167,649 | — | 338,656,319 |
| Operation/Maintenance | 166,561,937 | 5 | 144,358,756 | 1,852,663 | — | 312,773,361 |
| Financial Aid | 112,362,332 | 159,621,294 | 249,194 | 1,059,463 | — | 273,292,283 |
| Auxiliary Enterprises | 114,531,848 | 63,738 | 182,880,708 | 1,371,438 | — | 298,847,732 |
| Other Functions | 13,621,988 | — | 55,664,912 | (1,738) | — | 69,285,162 |
| Depreciation | — | — | — | — | 329,097,681 | 329,097,681 |
| Total Operating Expenses | <u>\$ 3,544,700,815</u> | <u>\$ 165,112,149</u> | <u>\$ 1,197,809,218</u> | <u>\$ 23,674,892</u> | <u>\$ 329,097,681</u> | <u>\$ 5,260,394,755</u> |

Operating expenses totaled \$5.3 billion. Salary and fringe benefits; scholarships and fellowships; and supplies and services and other expenses constituted 67.4%, 3.1%, and 23.2% of total operating expenses, respectively. Depreciation comprised \$329.1 million or 6.3% of total operating expenses.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 13 – Classification of Net Position

Net Position is reported in the following categories: Net Investment in Capital Assets, Restricted - Nonexpendable, Restricted - Expendable, 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. Restricted - Expendable includes 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, 2021 and 2020

NOTE 13 – Classification of Net Position (continued)

The amounts within each category at June 30, 2021 and June 30, 2020 are as follows:

| | <u>2021</u> | <u>2020</u> |
|--|-------------------------------|-------------------------------|
| Net Investment in Capital Assets | \$3,669,694,247 | \$3,574,415,523 |
| Restricted - Nonexpendable Permanent Endowment | 259,629,079 | 205,407,241 |
| Restricted - Expendable | | |
| Restricted for Pensions | 831,629,182 | 430,532,171 |
| Restricted for Other Post-Employment Benefits | 124,539,601 | 67,871,882 |
| Restricted Endowment Earnings | 4,069,573 | 41,263,066 |
| Restricted Donor Investments | 348,070,808 | 249,188,007 |
| Auxiliary Operations - Segregated Fees | 106,856,770 | 94,042,124 |
| Restricted for Student Loans | | |
| Federal Aid | 16,196,343 | 19,546,235 |
| Gifts | 35,674,500 | 35,375,612 |
| Endowment Funds | 2,827,249 | 9,772,835 |
| Subtotal | <u>54,698,092</u> | <u>64,694,682</u> |
| Restricted - Other | | |
| Federal Aid | 53,644,813 | 67,706,491 |
| Gifts and Nonfederal Grants & Contracts | 393,633,723 | 295,052,487 |
| Construction Fund | 302,867,939 | 227,797,018 |
| Segregated Revenue | 1,598,600 | 1,784,513 |
| All Other Restricted Program Revenue | 3,395,337 | 3,217,389 |
| Subtotal | <u>755,140,412</u> | <u>595,557,898</u> |
| Total Restricted - Expendable | 2,225,004,438 | 1,543,149,830 |
| Unrestricted | | |
| Tuition (Academic & Extension Student Fees) | 196,620,364 | 122,307,520 |
| General Operations | 75,758,478 | 65,937,991 |
| Auxiliary Operations (Non-Segregated Fee) | 82,491,422 | 138,670,197 |
| Indirect Cost Reimbursement | 154,909,087 | 107,785,479 |
| Quasi-Endowment Funds | 52,276,011 | 44,231,447 |
| Unrestricted Donor Investments | 68,064,496 | 57,233,170 |
| All Other Unrestricted Program Revenue | 75,813,822 | 75,057,891 |
| Gifts and Nonfederal Grants & Contracts | (61,574,489) | 14,800,838 |
| Federal Aid [^] | (123,042,736) | (112,450,734) |
| All Other Non-Program Revenue [*] | (675,365,252) | (437,015,473) |
| Total Unrestricted | <u>(154,048,797)</u> | <u>76,558,326</u> |
| Total Net Position | <u><u>\$6,000,278,967</u></u> | <u><u>\$5,399,530,920</u></u> |

[^] Funds are typically collected on a reimbursement basis resulting in a negative balance at year end.

^{*} 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, 2021 and 2020

NOTE 13 – Classification of Net Position (continued)

The following table shows reclassifications which are done to conform to reporting requirements related to the State of Wisconsin's ACFR. 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.

ACFR reclassifications as of June 30, 2021 (in millions):

| | University of Wisconsin System | Auxiliary Operations | Endowments | Student Loans | State of Wisconsin ACFR |
|-------------------------------------|---|---------------------------------|-------------------|--------------------------|--|
| Net Investment in Capital Assets | \$ 3,669.7 | \$ — | \$ — | \$ — | \$ 3,669.7 |
| Restricted for | | | | | |
| Pension | 831.6 | — | — | — | 831.6 |
| OPEB | 124.5 | — | — | — | 124.5 |
| Nonexpendable | 259.6 | — | — | — | 259.6 |
| Expendable | 459.0 | (106.9) | 52.3 | — | 404.4 |
| Student Loans | 54.7 | — | — | (54.7) | — |
| Other | 755.1 | — | — | 54.7 | 809.8 |
| Unrestricted | (154.0) | 106.9 | (52.3) | — | (99.4) |
| Total Net Position | <u>\$ 6,000.2</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 6,000.2</u> |

ACFR reclassifications as of June 30, 2020 (in millions):

| | University of Wisconsin System | Auxiliary Operations | Endowments | Student Loans | State of Wisconsin ACFR |
|-------------------------------------|---|---------------------------------|-------------------|--------------------------|--|
| Net Investment in Capital Assets | \$ 3,574.4 | \$ — | \$ — | \$ — | \$ 3,574.4 |
| Restricted for | | | | | |
| Pension | 430.5 | — | — | — | 430.5 |
| OPEB | 67.9 | — | — | — | 67.9 |
| Nonexpendable | 205.4 | — | — | — | 205.4 |
| Expendable | 384.5 | (94.0) | 83.2 | — | 373.7 |
| Student Loans | 64.7 | — | — | (9.8) | 54.9 |
| Other | 595.5 | — | — | 9.8 | 605.3 |
| Unrestricted | 76.6 | 94.0 | (83.2) | — | 87.4 |
| Total Net Position | <u>\$ 5,399.5</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 5,399.5</u> |

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 14 – Prior Period Adjustments and Other Restatements

Neither the June 30, 2021 nor the June 30, 2020 Statement of Net Position include a prior period adjustment or other restatement. Student Direct Lending activity from the prior year has been reclassified to conform to the current year's presentation in the Statement of Cash Flows.

NOTE 15 – Contingent Liabilities

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

The University of Wisconsin System is party in a number of legal actions. While final resolutions have not yet been determined, management is of the opinion that any liabilities resulting from these actions will not have a material adverse effect on the University of Wisconsin System's financial position.

NOTE 16 – Subsequent Events

In December 2021, the State of Wisconsin issued \$212.8 million of 2021 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, 2022. The bonds mature annually beginning May 1, 2023 through May 1, 2042. The total par amount of the 2021 Series B bonds that was issued, and additional purchase premium proceeds from that issue, for University of Wisconsin purposes is \$150.9 million.

In September 2021, the State of Wisconsin issued \$326.4 million of 2021 Series 4 general obligation refunding bonds (taxable) to be used for the advanced refunding of certain principal of previously issued general obligation bonds. The interest rates associated with these bonds were set at 1.1 percent to 2.2 percent payable semiannually beginning May 1, 2022. The bonds mature annually beginning May 1, 2027 through May 1, 2036.

In July 2020, the State of Wisconsin issued \$164.0 million of 2020 Series 3 general obligation refunding bonds (taxable) to be used for the advanced refunding of certain principal of previously issued general obligation bonds. The interest rates associated with these bonds were set at 0.4 percent to 2.5 percent payable semiannually beginning November 1, 2020. The bonds mature annually beginning May 1, 2022 through May 1, 2035 along with term bonds maturing May 1, 2038 and May 1, 2042.

In November 2020, the State of Wisconsin issued \$224.5 million of 2020 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, 2021. The bonds mature annually beginning May 1, 2022 through May 1, 2041. The total par amount of the 2020 Series B bonds that was issued, and additional purchase premium proceeds from that issue, for University purposes is \$115.2 million.



Years Ended June 30, 2021 and 2020

REQUIRED SUPPLEMENTARY INFORMATION

UNIVERSITY OF WISCONSIN SYSTEM
Required Supplementary Information and
Notes to Required Supplementary Information
Years Ended June 30, 2021 and 2020

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:

| Fiscal Year* | Proportion of the NPL (NPA) | Proportionate Share of the NPL (NPA) | Covered Payroll | Proportionate Share as a Percentage of Covered Payroll | WRS' Net Position as a Percentage of the Total Pension Liability |
|---------------------|------------------------------------|---|------------------------|---|---|
| 2021 | 13.32% | \$(831,629,182) | \$2,197,452,793 | (37.85)% | 105.26% |
| 2020 | 13.35% | \$(430,532,171) | \$2,141,382,732 | (20.11)% | 102.96% |
| 2019 | 13.34% | \$474,419,425 | \$2,034,643,431 | 23.32% | 96.54% |
| 2018 | 13.44% | \$(399,079,716) | \$1,967,891,964 | (20.28)% | 102.93% |
| 2017 | 13.54% | \$112,698,659 | \$1,929,105,545 | 5.79% | 99.10% |
| 2016 | 13.59% | \$220,459,696 | \$1,924,520,818 | 11.47% | 98.20% |
| 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:

| Fiscal Year* | Contractually Required Contributions | Contributions Made | Contribution Deficiency (Excess) | Covered Payroll | Contributions Made as a Percentage of Covered Payroll |
|---------------------|---|---------------------------|---|------------------------|--|
| 2021 | \$149,158,680 | \$149,158,680 | \$— | \$2,197,452,793 | 6.79% |
| 2020 | \$140,901,540 | \$140,901,540 | \$— | \$2,141,382,732 | 6.58% |
| 2019 | \$136,968,134 | \$136,968,134 | \$— | \$2,034,643,431 | 6.73% |
| 2018 | \$134,517,079 | \$134,517,079 | \$— | \$1,967,891,964 | 6.84% |
| 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, 2021

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

Changes in assumptions. Actuarial assumptions are based upon an experience study conducted in 2018 using experience from 2015 - 2017. No significant change in assumptions were noted for 2020-21 or 2019-20 compared to the prior year.

UNIVERSITY OF WISCONSIN SYSTEM
Required Supplementary Information and
Notes to Required Supplementary Information
Years Ended June 30, 2021 and 2020

University of Wisconsin System's Proportionate Share of the OPEB Liability
Retiree Life Insurance Fund

The University's proportionate share of the OPEB liability is provided below:

| Fiscal Year* | Proportion of the OPEB Liability | Proportionate Share of the OPEB Liability | Covered Payroll | Proportionate Share as a Percentage of Covered Payroll | Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability |
|---------------------|---|--|------------------------|---|--|
| 2021 | 41.96% | \$363,828,903 | \$1,296,225,000 | 28.1% | 27.80% |
| 2020 | 42.09% | \$287,530,560 | \$1,253,058,000 | 23.0% | 33.75% |
| 2019 | 41.83% | \$180,490,611 | \$1,205,222,000 | 15.0% | 44.36% |
| 2018 | 41.42% | \$204,440,597 | \$1,318,898,190 | 15.5% | 41.63% |

*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 2018 was the first year for reporting this information, a full 10-year schedule will not be available until fiscal year 2027.

University of Wisconsin System's OPEB Contributions
Retiree Life Insurance Fund

The University's OPEB contributions are provided below:

| Fiscal Year* | Contractually Required Contributions | Contributions Made | Contribution Deficiency (Excess) | Covered Payroll | Contributions Made as a Percentage of Covered Payroll |
|---------------------|---|---------------------------|---|------------------------|--|
| 2021 | \$644,090 | \$644,090 | \$— | \$1,296,225,000 | 0.05% |
| 2020 | \$483,771 | \$483,771 | \$— | \$1,253,058,000 | 0.04% |
| 2019 | \$580,265 | \$580,265 | \$— | \$1,205,222,000 | 0.05% |
| 2018 | \$552,145 | \$552,145 | \$— | \$1,318,898,190 | 0.04% |

*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 2018 was the first year for reporting this information, a full 10-year schedule will not be available until fiscal year 2027.

Notes to Required Supplementary Information
for the Year Ended June 30, 2021

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

Changes in assumptions. Actuarial assumptions are based upon an experience study conducted in 2018 using experience from 2015-2017. Significant assumption changes for 2020-21 compared to the prior year include a decrease in the discount rate from 2.84% to 2.22%. Significant assumption changes for 2019-20 compared to the prior year include a decrease in the discount rate from 4.20% to 2.84%, an updated expected return on plan assets from 5.00% to 4.25%, an expected premium rate change updated from 0% future increases to a 5% annual increase effective April 1, 2020 for nine years, and an inflation rate updated from 2.30% to 2.20% based on current and future expected market expectations.

UNIVERSITY OF WISCONSIN SYSTEM
Required Supplementary Information and
Notes to Required Supplementary Information
Years Ended June 30, 2021 and 2020

University of Wisconsin System's Proportionate Share of the OPEB Liability
Retiree Health Insurance Plan

The University's proportionate share of the OPEB liability is provided below:

| Fiscal Year* | Proportion of the OPEB Liability | Proportionate Share of the OPEB Liability | Covered Payroll | Proportionate Share as a Percentage of Covered Payroll |
|---------------------|---|--|------------------------|---|
| 2021 | 44.78% | \$ 287,515,221 | \$ 1,780,579,173 | 16.1% |
| 2020 | 44.37% | \$ 302,798,250 | \$ 1,725,367,417 | 17.6% |
| 2019 | 43.95% | \$ 237,204,014 | \$ 1,622,101,587 | 14.6% |
| 2018 | 43.89% | \$ 315,687,625 | \$ 1,577,063,898 | 20.0% |

*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 2018 was the first year for reporting this information, a full 10-year schedule will not be available until fiscal year 2027.

University of Wisconsin System's OPEB Contributions
Retiree Health Insurance Plan

The University's OPEB contributions are provided below:

| Fiscal Year* | Contractually Required Contributions | Contributions Made | Contribution Deficiency (Excess) | Covered Payroll | Contributions Made as a Percentage of Covered Payroll |
|---------------------|---|---------------------------|---|------------------------|--|
| 2021 | \$ 457,551,942 | \$ 457,551,942 | \$— | \$ 1,780,579,173 | 25.7% |
| 2020 | \$ 437,853,488 | \$ 437,853,488 | \$— | \$ 1,725,367,417 | 25.4% |
| 2019 | \$ 435,919,184 | \$ 435,919,184 | \$— | \$ 1,622,101,587 | 26.9% |
| 2018 | \$ 433,914,171 | \$ 433,914,171 | \$— | \$ 1,577,063,898 | 27.5% |

*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 2018 was the first year for reporting this information, a full 10-year schedule will not be available until fiscal year 2027.

Notes to Required Supplementary Information
for the Year Ended June 30, 2021

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

Changes in assumptions.

Changes Effective June 30, 2020

Healthcare claims costs and trend were updated based on most recent modeling.

The discount rate was changed to 2.21% for the June 30, 2020 measurement from 3.50% for the June 30, 2019 measurement.

Changes Effective June 30, 2019

Healthcare claims costs and trend were updated based on most recent modeling.

Administrative expenses no longer include costs associated with the administration of medical and prescription claims. These costs are now reflected in the respective per capita healthcare costs, as they are built into the premium rates used to develop these costs.

UNIVERSITY OF WISCONSIN SYSTEM
Required Supplementary Information and
Notes to Required Supplementary Information
Years Ended June 30, 2021 and 2020

University of Wisconsin System's Proportionate Share of the OPEB Liability
Retiree Health Insurance Plan (continued)

The discount rate was changed to 3.50% for the June 30, 2019 measurement from 3.87% for the June 30, 2018 measurement.

The excise tax on high cost health plans was repealed effective December 20, 2019 and as such has been removed from this valuation.

Changes Effective June 30, 2018

The discount rate was changed to 3.87% for the June 30, 2018 measurement from 3.58% for the June 30, 2017 measurement.

The participation rates changed. The Participation rate was previously 85%, and was changed to 80% immediate commencement, with 12.5% of the deferred participants electing coverage each year for eight years, based on the Segal study completed in July 2019.

Lapse rates were added. In this valuation we are assuming 10% of participants that are covered lapse coverage each year, based on the Segal study completed in July 2019.

The inflation, salary scale, retirement, termination, disability and mortality rates were changed in conjunction with the 2015-2017 pension assumption study completed by GRS in 2018.

No assets accumulated in a trust that meets the criteria of paragraph 4 of GASB 75 to pay related benefits.

UNIVERSITY OF WISCONSIN SYSTEM
Required Supplementary Information and
Notes to Required Supplementary Information
Years Ended June 30, 2021 and 2020

University of Wisconsin System's Proportionate Share of the OPEB Liability(Asset)
Supplemental Health Insurance Conversion Credit Program

The University's proportionate share of the OPEB liability or (asset) is provided below:

| Fiscal Year* | Proportion of the OPEB Liability (Asset) | Proportionate Share of the OPEB Liability (Asset) | Covered Payroll | Proportionate Share as a Percentage of Covered Payroll | Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability (Asset) |
|---------------------|---|--|------------------------|---|--|
| 2021 | 43.73% | \$ (124,539,601) | \$ 2,197,452,793 | (5.7)% | 130.8% |
| 2020 | 44.72% | \$ (67,871,882) | \$ 2,141,382,732 | (3.2)% | 116.3% |

*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 2020 was the first year for reporting this information, a full 10-year schedule will not be available until fiscal year 2029.

University of Wisconsin System's OPEB Contributions
Supplemental Health Insurance Conversion Credit Program

The University's OPEB contributions are provided below:

| Fiscal Year* | Contractually Required Contributions | Contributions Made | Contribution Deficiency (Excess) | Covered Payroll | Contributions Made as a Percentage of Covered Payroll |
|---------------------|---|---------------------------|---|------------------------|--|
| 2021 | \$ 6,595,006 | \$ 6,595,006 | \$— | \$ 2,197,452,793 | 0.3% |
| 2020 | \$ 6,425,910 | \$ 6,425,910 | \$— | \$ 2,141,382,732 | 0.3% |

*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 2020 was the first year for reporting this information, a full 10-year schedule will not be available until fiscal year 2029.

Notes to Required Supplementary Information
for the Year Ended June 30, 2021

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

Changes of assumptions. The actuarial assumptions used to develop Total OPEB liability, including the single discount rate, long-term expected rate of return and expected inflation remained consistent with prior year. Refer to Note 9 for the Actuarial Assumptions.



Years Ended June 30, 2021 and 2020

SUPPLEMENTAL INFORMATION

CHART 1
COMPARISON OF CURRENT FUNDS REVENUES
2011 - 2021

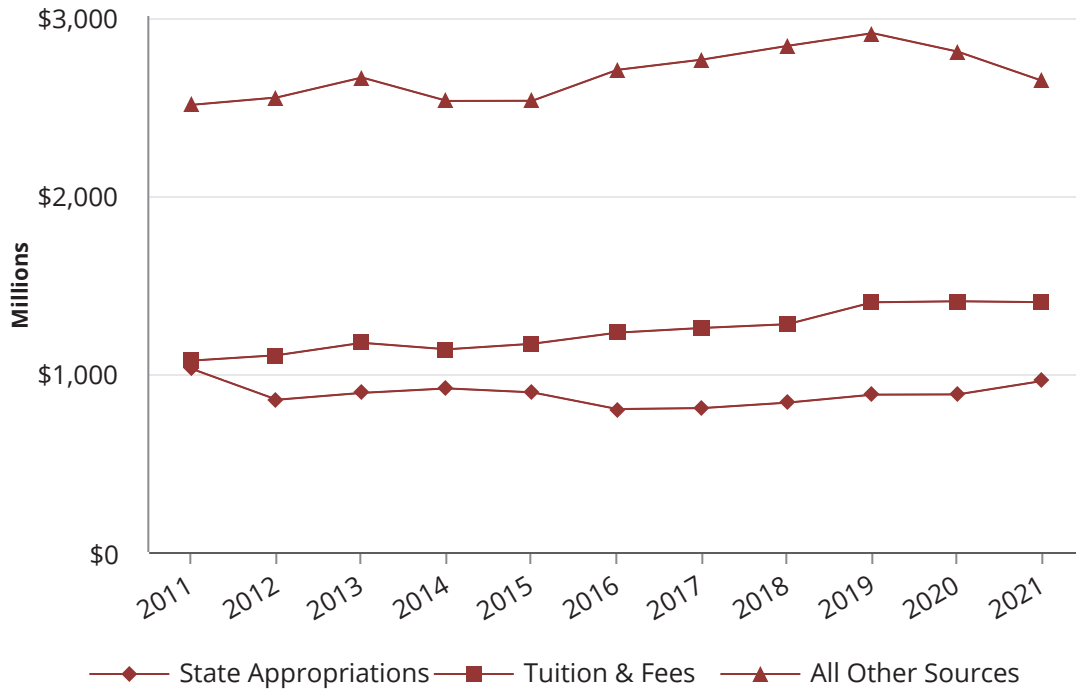


CHART 2
COMPARISON OF CURRENT FUNDS REVENUES
ADJUSTED FOR INFLATION
2011 - 2021

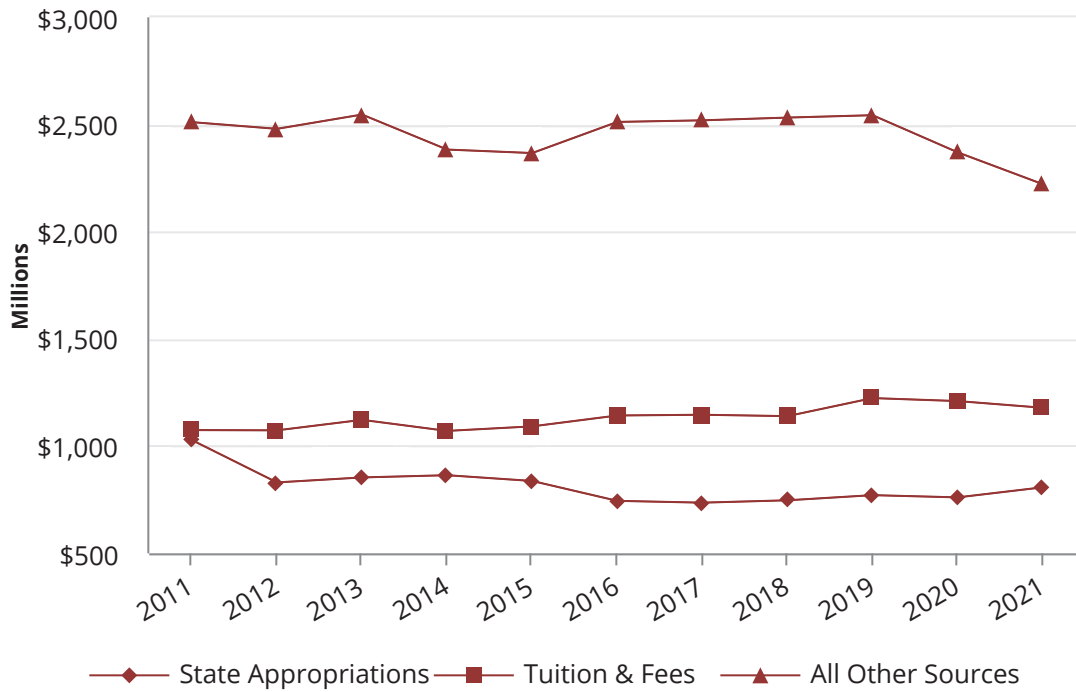
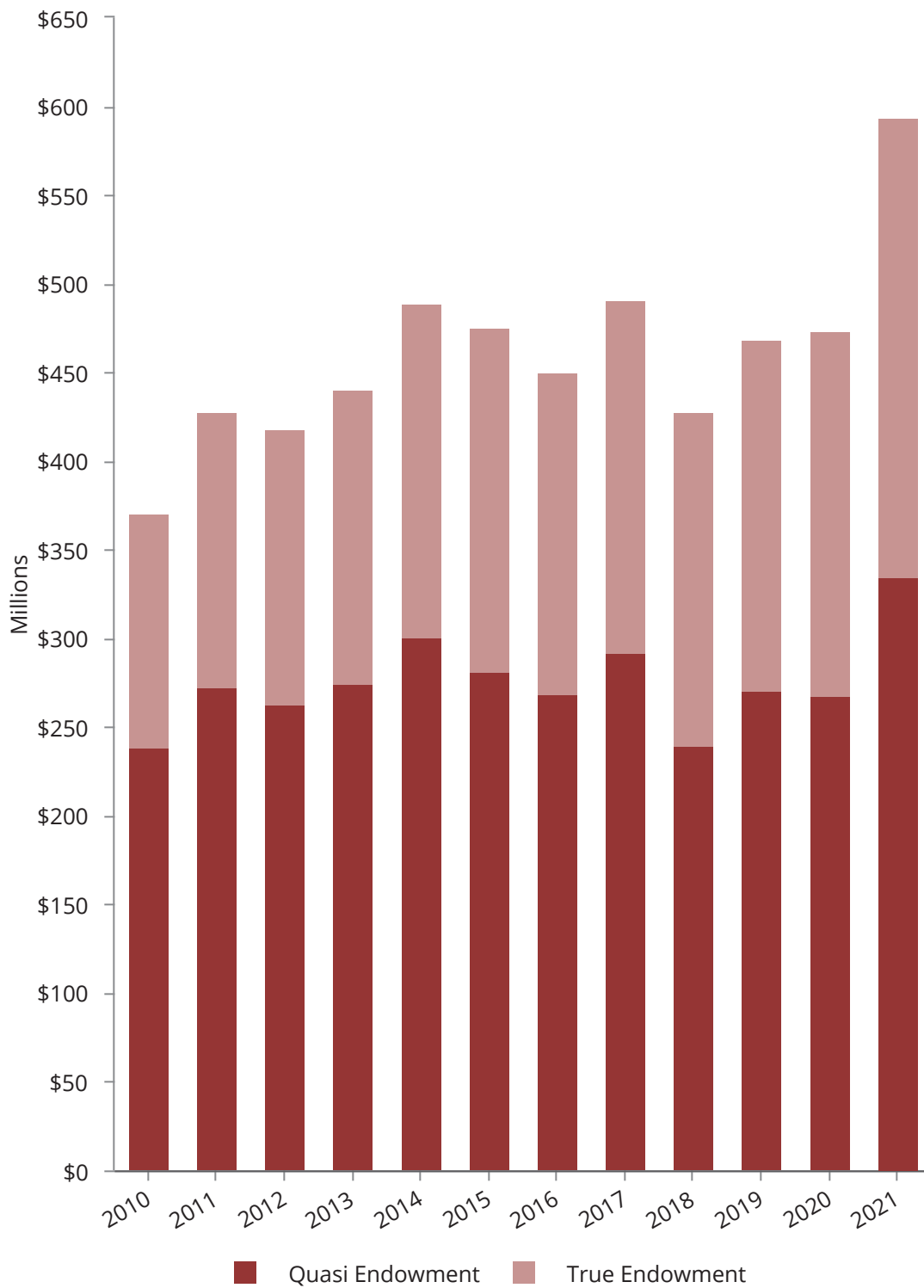


CHART 3
UNIVERSITY-CONTROLLED ENDOWMENTS
2010 - 2021



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

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