

3/27/2017

BOARD OF REGENTS OF THE UNIVERSITY OF WISCONSIN SYSTEM

I.2. Business and Finance Committee

Thursday, April 6, 2017  
9:00 a.m. – 10:30 a.m.  
UW-Platteville  
Ullsvik Hall, Nohr Art Gallery  
Platteville, Wisconsin

- a. Approval of the Minutes of the February 2, 2017 Meeting of the Business and Finance Committee
- b. UW-Platteville Presentation – *Mapping our Destiny: Intentional Decision-Making at UW-Platteville*
- c. University of Wisconsin System Annual Financial Report
- d. UW System Contractual Agreement (Option to Extend) – Desire to Learn (D2L)  
[Resolution I.2.d.]
- e. UW-Whitewater – Dining Services Contractual Agreement  
[Resolution I.2.e.]
- f. UW-Madison Contractual Agreement – Target PharmaSolutions, Inc.  
[Resolution I.2.f.]
- g. UW-Madison Contractual Agreement – Madison Vaccines, Inc.  
[Resolution I.2.g.]
- h. UW-Madison Contractual Agreements – Johnson Controls, Inc.  
[Resolution I.2.h.]
- i. UW-Madison Contractual Agreement – Amazon Pickup Points, LLC  
[Resolution I.2.i.]
- j. Report of the Subcommittee on Investments
- k. Report of the Vice President(s)

**UW SYSTEM  
2016 ANNUAL FINANCIAL REPORT  
AND AUDITOR'S OPINION**

**EXECUTIVE SUMMARY**

**BACKGROUND**

The UW System publishes an Annual Financial Report that includes financial statements prepared in accordance with Generally Accepted Accounting Principles (GAAP), as prescribed by the Governmental Accounting Standards Board. The statements are audited by the Legislative Audit Bureau, and also appear, in a somewhat modified format, in the State of Wisconsin's Comprehensive Annual Financial Report (CAFR).

**REQUESTED ACTION**

This report is submitted for information only.

**DISCUSSION AND RECOMMENDATIONS**

Overview of Accrual-Based Financial Reporting

The UW System's Annual Financial Report is prepared using full accrual-based accounting, which is an accounting method that measures the performance and position of an entity by recognizing economic events when the transactions occur, regardless of when cash is paid or received. This is in contrast to cash-based accounting, which reports transactions only when cash is exchanged. Accrual-based accounting is required by GAAP.

In accordance with GAAP, the Annual Financial Report for the year ending June 30, 2016, includes a Statement of Net Position; a Statement of Revenues, Expenses and Changes in Net Position; and a Statement of Cash Flows. It also includes an unmodified or "clean" audit opinion from the Legislative Audit Bureau. The accompanying Notes to the Financial Statements are an integral part of the statements, including both disclosures required by GAAP and explanations intended to aid the reader in understanding the statements. In addition, the Annual Financial Report includes a "Management's Discussion and Analysis" (MD&A) that is intended to provide an objective and easily readable analysis of the UW System's financial activities. Of particular interest within the MD&A is a section entitled Factors Affecting Future Periods. The UW System's Annual Financial Report may be found at <http://www.uwsa.edu/fadmin/finrep/afr.htm>.

Analysis of the UW System's financial statements and notes may be performed to provide management with an understanding of operations and to assist in making business decisions. The statements may also be used by regents and other key stakeholders, including legislators and the Higher Learning Commission, in evaluating financial performance. Finally, because the UW System's financial

statements are included in the State's CAFR, financial institutions, such as lending and bond rating agencies, use the statements when extending debt securities to finance capital projects.

### Analysis of Financial Statements

*Statement of Net Position* – There were a number of significant changes within the UW System's net position between fiscal year (FY) 2016 and FY 2015, as reflected in the table below.

Net Position ( <i>in millions</i> )	2016	2015	\$ Change	% Change
Net Investment in Capital Assets	4,383.3	4,386.4	(3.1)	(0.07%)
Restricted Net Position	1,211.5	1,468.9	(257.4)	(17.52%)
Unrestricted Net Position	<u>984.1</u>	<u>833.8</u>	<u>150.3</u>	18.02%
Total Net Position	6,578.9	6,689.1	(110.2)	(0.02%)

The UW System's Total Net Position decreased by \$110.2 million in FY 2016. This is the first time that the Total Net Position has declined since 2002, when new financial reporting requirements were established by the Governmental Accounting Standards Board (GASB).

As shown on the Statement of Net Position (page 18 of the 2016 Annual Financial Report), all UW Restricted Net Position categories—the “equity” with external limitations—have decreased between years by a total of \$260.5 million, or 4.4%. The Statement of Net Position also reports a \$150.3 million increase in Unrestricted Net Position, from \$833.8 million in FY 2015 to \$984.1 million in FY 2016. Unrestricted Net Position represents the difference between assets, liabilities, and deferred outflows and inflows of resources, or the UW System's equity that does not have external restrictions regarding its use or function. However, a significant reason for this increase in Unrestricted Net Position is the accrual of a net pension liability. Without this accrual, the UW System's Unrestricted Net Position would have actually declined by \$57.2 million.

In FY 2015, the UW System implemented a new accounting standard—GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. GASB Statement No. 68 requires governmental entities to report the difference between the value of the pension plan's assets and the present value of projected benefit payments. In FY 2016, the Department of Employee Trust Funds, which manages the Wisconsin Retirement System, reported the UW System pension plan's net position decreased due to changes in actuarial assumptions and less-than-anticipated investment earnings, resulting in a net pension liability. While a \$330 million pension asset was reported for the UW System in FY 2015, a \$220 million pension liability is reported for FY 2016.

*Statement of Revenues, Expenses and Changes in Net Position* – Operating revenues and expenses, which are reported on page 19 of the 2016 Annual Financial Report, are relatively consistent between FY 2016 and FY 2015. An increase of \$184.9 million (5.37%) was reported in operating revenues, while operating expenses increased \$178.7 million (3.83%). Within operating expenses, salary and fringe benefit expenses increased \$159.8 million, which is attributed to the change in pension expense of \$179.4 million. Overall salary and fringe benefit expense decreased \$19.5 million when the pension accrual related to GASB Statement No. 68 is eliminated.

In total, an operating loss of over \$1.2 billion was reported in both years. The UW System's operating loss will likely continue to be significant since GASB standards require the state appropriations received to be reported as non-operating revenue.

Within non-operating revenues, general state appropriations decreased by \$93.8 million, from nearly \$896.6 million in FY 2015 to \$802.7 million in FY 2016, as the UW System absorbed a portion of its 2015-17 biennial budget reduction. Capital appropriations from the state decreased \$68.4 million in FY 2016 as capital projects were not enumerated. With a weakened investment market, investment income also declined by approximately \$8 million.

#### **RELATED REGENT POLICIES**

None

# ANNUAL FINANCIAL REPORT

# 2016



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Madison, WI 53706**

**Editor: Lana Becker**

**Cover Photo:** University of Wisconsin–Whitewater students gather in front of Upham Hall, home to the Departments of Biological Sciences, Chemistry, Geography, and Physics. Completed in 1962, Upham Hall was the first building used exclusively for classrooms at UW-Whitewater. The building underwent extensive renovations and additions to transform it into a first-class science facility.

Originally founded in 1868, UW-Whitewater now enrolls approximately 12,000 students who have access to innovative programs designed to meet the world's changing needs. The growing field of water management, for example, requires expertise in environmental law, natural resources, aquatic biology, chemistry, and ecology. The unique media arts and game development program gives students experience in art, computer science, and communication. UW-Whitewater's entrepreneurship program allows students to test their skills and business ideas, participate in early-stage business plan contests, and pitch their ideas to a panel of judges, potentially earning money to carry out their winning ideas. UW-Whitewater is proud of its nationally recognized undergraduate research program, a springboard for graduate school or starting a career. At UW-Whitewater, students find small classes, caring faculty members, and a campus community excited about learning.

**Photo:** UW-Whitewater

# University of Wisconsin System 2016 Annual Financial Report

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# 2016 Annual Financial Report

## OFFICERS

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Interim Vice President for Finance

Robert G. Cramer,  
Vice President for Administration

Jessica Tormey,  
Interim Vice President for University Relations

James P. Henderson,  
Vice President for Academic and Student Affairs

Tomas L. Stafford,  
General Counsel/Assistant Trust Officer

## FINANCE STAFF

Ginger Hintz,  
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Administration and Controller

Lana Becker,  
Director of Financial Reporting

Renee Stephenson,  
Assistant Vice President of Budget  
Development and Planning

Ruth M. Anderson,  
Associate Vice President for  
Administrative Services

Alexandria Roe,  
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Planning and Budget

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

Diann Sypula,  
Director for UW Service Center

Michael M. Kraus,  
Special Assistant

## CHANCELLORS

Cathy Sandeen, UW Colleges and UW-Extension

James Schmidt, UW-Eau Claire

Gary L. Miller, UW-Green Bay

Joe Gow, UW-La Crosse

Rebecca Blank, UW-Madison

Mark Mone, UW-Milwaukee

Andrew J. Leavitt, UW-Oshkosh

Deborah Ford, UW-Parkside

Dennis Shields, UW-Platteville

Dean Van Galen, UW-River Falls

Bernie Patterson, UW-Stevens Point

Bob Meyer, UW-Stout

Renée Wachter, UW-Superior

Beverly Kopper, UW-Whitewater

## REGENTS

John R. Behling, Eau Claire (Regent Vice President)

Mark J. Bradley, Wausau

José Delgado, Waukesha

Lisa Erickson, UW-River Falls

Tony Evers, Madison

Margaret Farrow, Pewaukee

Michael Grebe, Waukesha

Eve Hall, Milwaukee

Tim Higgins, Appleton

Tracey Klein, Milwaukee

James Langnes III, UW-Whitewater

Edmund Manydeeds, Eau Claire

Regina Millner, Madison (Regent President)

Janice Mueller, Madison

Drew Petersen, Madison

Bryan Steil, Beloit

S. Mark Tyler, Woodville

Gerald Whitburn, Wausau





*Years Ended June 30, 2016 and 2015*

## INTRODUCTION FROM THE PRESIDENT



## INTRODUCTION FROM THE PRESIDENT

### FINANCIAL REPORT 2016

Thank you for taking an interest in the UW System's Annual Financial Report for fiscal year (FY) 2016, which received an unmodified (clean) audit opinion. The UW System is one of the most respected systems of public higher education in America, serving nearly 180,000 students each year. We stand ready to leverage our people, ideas, and resources to help address the state's economic and demographic challenges to build a stronger foundation for Wisconsin's future.

To do so, the UW System consulted with approximately 5,000 citizens as well as civic, business, economic development and other leaders from across the state to develop 2020FWD—a comprehensive strategic framework that reflects the needs of Wisconsin and its citizens. New State funding in the biennial budget and the financial resources of

the UW System, which are summarized in this 2016 Annual Financial Report, will be critical in helping to achieve the goals defined in 2020FWD.

### Annual Financial Report Highlights

In 2002, the Governmental Accounting Standards Board (GASB) established new financial reporting requirements called GASB No. 34 for state and local governments throughout the United States. GASB 34 made annual reports more comprehensive and easier to understand. **FY2016 is the first time since 2002 that the UW System's total net position declined.**

There are two main reasons the UW System's FY2016 total net position is \$110 million lower than in FY2015:

1. **Wisconsin Retirement System (WRS) Adjustment.** As a State agency, we were required to accrue a significant pension liability this year. The Wisconsin Department of Employee Trust Funds (ETF) manages WRS.
  - In FY2015, ETF reported a \$330 million pension **asset** for the UW System.
  - In FY2016, this became a \$220 million pension **liability** – a swing of \$550 million.
  - According to ETF, the liability is due to lower-than-expected investment returns and changes in actuarial assumptions.

*Note: the salary and fringe benefits expense is reported at a higher amount in FY2016, this increase is entirely due to the accrual of the pension liability as noted above.*

2. **State resources dedicated to UW System declined in FY2016.** The State's 2015-17 biennial budget included a \$250 million budget reduction for the UW System.

- To absorb this reduction, state appropriations for the UW System declined by nearly \$94 million in the first year of this biennium.
- The remaining reduction will need to be absorbed in the second year of the biennium, or FY2017.

To manage these changes, the UW System has achieved success in our attempts to diversify our revenues and reduce expenses. For example, we have increased our grant and contract activity from the federal government and private entities by a total of \$46 million between FY2015 and FY2016. In addition, UW System has effectively managed its staffing levels and reduced our payroll costs by \$19 million over this two-year period.

Other *FY2016 Annual Financial Report* highlights include:

- **Cash balance is essentially flat.** The UW System's cash balance did not change significantly after taking into account the timing of health insurance payments and additional revenues received from federal grants and contracts.
- **Operating expenses declined.** Due to a reduction in staffing, the UW System's salary and fringe expenses declined by \$19 million. However, this decline was offset by a \$179 million accounting adjustment due to the WRS changes as noted above.

- **Capital appropriations declined.** The State appropriation for capital projects in FY2016 declined \$68 million as capital renovation and repair projects were put on hold. As a result, our capital assets depreciated by more than what we could put back into them in FY2016.

As we rely more on grants, gifts, and other non-state funds, we will continue to demonstrate how these resources are fueling the world-class work of our faculty and staff, and delivering a solid return on investment to every student, parent, donor, and taxpayer.

The UW System remains a leading contributor to the future of Wisconsin and our economy with a \$15+ billion impact each year. We remain committed to quality, performance, accountability and transparency in all of our financial matters.

Ray Cross  
President



# STATE OF WISCONSIN | Legislative Audit Bureau

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

Joe Chrisman  
State Auditor

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

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

Members of the University of Wisconsin Board of Regents, and  
Dr. Raymond Cross, President  
University of Wisconsin System

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the University of Wisconsin (UW) System and its discretely presented component unit as of and for the years ended June 30, 2016, and June 30, 2015, and the related notes to financial statements, which collectively comprise UW System's financial statements listed in the table of contents.

#### **Management's Responsibility for the Financial Statements**

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

#### **Auditor's Responsibility**

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

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, which is issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the UW Foundation were audited in accordance with auditing standards generally accepted in the United States of America, but not in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's

judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Opinion**

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of UW System and the discretely presented component unit as of June 30, 2016, and June 30, 2015, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphases of Matter**

As discussed in Note 1 to the financial statements, the financial statements referred to in the first paragraph present only UW System's financial statements and do not purport to, and do not, present fairly the financial position of the State of Wisconsin as of June 30, 2016, and June 30, 2015, the changes in financial position, or where applicable, cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the financial reporting entity includes the UW Foundation, which is presented as a discrete component unit. In prior annual financial reports, the UW Foundation's condensed financial statements were presented in the notes to the financial statements.

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

As discussed in Note 1 to the financial statements, in fiscal year (FY) 2014-15, UW System implemented Governmental Accounting Standards Board (GASB) Statement Number 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, and GASB Statement Number 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. These statements revise accounting and financial reporting for pensions by state and local government employers.

As discussed in Note 13, in FY 2014-15, UW System elected to change its method of reporting the liability related to postemployment benefits other than pensions.

Our opinion is not modified with respect to these matters.

## Other Matters

*Required Supplementary Information*—Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis, the schedule of UW System’s Proportionate Share of the Net Pension Liability (Asset), the schedule of UW System’s Pension Contributions, and the related notes, as listed in the table of contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the GASB, which considers it to be essential for placing the financial statements in an appropriate operational, economic, or historical context. In accordance with auditing standards generally accepted in the United States of America, we have applied certain limited procedures to the required supplementary information that included inquiries of management about the methods of preparing the information. We further compared the information for consistency with management’s responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to do so.

*Accompanying Information*—Our audits were conducted for the purpose of forming an opinion on the financial statements of UW System. The supplementary information on pages 4 and 5 and on pages 66 and 67 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated March 30, 2017, on our consideration of UW System’s internal control over financial reporting; our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements; and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be used when considering UW System’s internal control over financial reporting and compliance.

LEGISLATIVE AUDIT BUREAU



Joe Chrisman  
State Auditor

March 30, 2017



*Years Ended June 30, 2016 and 2015*

## MANAGEMENT'S DISCUSSION AND ANALYSIS



**UNIVERSITY OF WISCONSIN SYSTEM**  
**Management's Discussion and Analysis**  
**Years Ended June 30, 2016 and 2015**

**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, 2016 and 2015, with comparative information for the year ended June 30, 2014, where appropriate. This discussion has been prepared by management and should be read in conjunction with the financial statements and footnotes.

The University consists of 13 universities, 13 two-year colleges, University of Wisconsin (UW)-Extension, and System Administration. In academic year 2015-2016, the University enrolled 178,571 students, employed approximately 31,500 faculty and staff, and granted 34,784 bachelors, masters, and other advanced degrees. University institutions were awarded over \$931.6 million in federal grants and contracts in fiscal year 2016 and an additional \$586.2 million from non-federal sponsors. The University has a long tradition of public service, embodied by an ongoing commitment to the Wisconsin Idea, that the boundaries of the University are the boundaries of the State.

<b>Degrees Granted</b>		<b>2015-16 Headcount Enrollments</b>	
<i>UW-Madison</i>	<i>10,560</i>	<i>UW-Madison</i>	<i>43,064</i>
<i>UW-Milwaukee</i>	<i>5,392</i>	<i>UW-Milwaukee</i>	<i>27,119</i>
<i>UW-Eau Claire</i>	<i>2,269</i>	<i>UW-Eau Claire</i>	<i>10,531</i>
<i>UW-Green Bay</i>	<i>1,398</i>	<i>UW-Green Bay</i>	<i>6,779</i>
<i>UW-La Crosse</i>	<i>2,190</i>	<i>UW-La Crosse</i>	<i>10,486</i>
<i>UW-Oshkosh</i>	<i>2,240</i>	<i>UW-Oshkosh</i>	<i>14,059</i>
<i>UW-Parkside</i>	<i>731</i>	<i>UW-Parkside</i>	<i>4,443</i>
<i>UW-Platteville</i>	<i>1,623</i>	<i>UW-Platteville</i>	<i>8,950</i>
<i>UW-River Falls</i>	<i>1,364</i>	<i>UW-River Falls</i>	<i>5,958</i>
<i>UW-Stevens Point</i>	<i>2,000</i>	<i>UW-Stevens Point</i>	<i>9,255</i>
<i>UW-Stout</i>	<i>1,917</i>	<i>UW-Stout</i>	<i>9,535</i>
<i>UW-Superior</i>	<i>474</i>	<i>UW-Superior</i>	<i>2,489</i>
<i>UW-Whitewater</i>	<i>2,608</i>	<i>UW-Whitewater</i>	<i>12,351</i>
<i>UW Colleges</i>	<i><u>18</u></i>	<i>UW Colleges</i>	<i><u>13,552</u></i>
<i>Total</i>	<i><u>34,784</u></i>	<i>Total</i>	<i><u>178,571</u></i>

**Using the Financial Statements**

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

The Statement of Net Position is a financial condition snapshot as of June 30, 2016 and 2015, and includes all assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference between the two reported as net position. Current assets are those that are available to satisfy current liabilities inclusive of assets that will be converted to cash within one year. Current liabilities are those that will be paid within one year. Increases or decreases in net position provide an indicator of the improvement or erosion of the University's financial health when considered in conjunction with non-financial information, such as conditions of facilities and enrollment levels. Net

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Management's Discussion and Analysis**  
**Years Ended June 30, 2016 and 2015**

Position is divided into three major categories: Net Investment in Capital Assets, Restricted, and Unrestricted. Net Investment in Capital Assets consists of capital assets reduced by the outstanding balances of borrowings for the construction, acquisition, or improvement of those assets. Restricted Net Position has constraints put on by external parties, such as sponsors for research and donors, or by State Statute and Board of Regent policy as in the case of student segregated fees. Unrestricted Net Position consists of funds that do not meet either of those definitions.

The Statement of Revenues, Expenses, and Changes in Net Position presents the University's operating results as well as non-operating revenues and expenses. Operating revenues are comprised primarily of student tuition and fees, grants and contracts, and auxiliary service activities. GASB Statement No. 35 requires that state appropriations, gifts, and investments be reported as non-operating revenue. Public universities, including the University, are typically reliant on these revenue sources to fulfill their missions and, therefore, report operating expenses in excess of operating revenues. As a result, non-operating revenues are a significant component in determining the increase or decrease in total net position.

The Statement of Cash Flows summarizes cash inflows and outflows by category as relating to operating, capital, financing, or investing activities. Cash flow information can be used to evaluate the financial viability of the University and its ability to meet financial obligations as they mature. Cash flows from operating activities result from exchange transactions in which one party gives another something in return. Cash flows from investing activities are a result of the purchase or sale of investments, withdrawals from the long-term investment pool, and collecting interest and dividends earned. Cash flows from capital activities include receipts from capital grants, donor receipts specifying use for capital assets, and activity related to debt issued for the explicit purpose of acquisition, construction, or improvement of capital assets. Cash flows from noncapital financing activities include state appropriations and private gifts restricted for noncapital purposes.

The Notes to the Financial Statements are an integral part of the basic financial statements and communicate information essential for fair presentation. For example, the notes convey information concerning significant accounting policies used to prepare the financial statements, detailed information on cash and investments, capital assets, notes and bonds payable, relationships with affiliated organizations, and classification of net position.

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

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Management's Discussion and Analysis**  
**Years Ended June 30, 2016 and 2015**

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

The University's financial standing remained relatively strong at the conclusion of fiscal year 2016. As of June 30, 2016, the University had total assets of \$ 8.6 billion and total liabilities of \$ 2.7 billion.

<b><u>Statement of Net Position (in millions)</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>
Current Assets	\$ 1,988.3	\$ 1,905.0	\$ 1,846.8
Capital Assets, Net	5,998.2	6,006.0	5,991.3
Other Noncurrent Assets	<u>583.5</u>	<u>941.0</u>	<u>628.9</u>
Total Assets	8,570.0	8,852.0	8,467.0
Deferred Outflow of Resources	1,181.5	284.4	19.1
Current Liabilities	623.8	590.0	536.6
Noncurrent Liabilities	<u>2,076.2</u>	<u>1,848.2</u>	<u>1,609.9</u>
Total Liabilities	2,700.0	2,438.2	2,146.5
Deferred Inflows of Resources	472.6	9.1	0.5
Net Investment in Capital Assets	4,383.3	4,386.4	4,366.0
Restricted Net Position	1,211.5	1,468.9	1,025.7
Unrestricted Net Position	<u>984.1</u>	<u>833.8</u>	<u>947.4</u>
Total Net Position	<u>\$ 6,578.9</u>	<u>\$ 6,689.1</u>	<u>\$ 6,339.1</u>

Current assets minus current liabilities represents the net working capital of the University. Net working capital increased from \$1,315.0 million at June 30, 2015 to \$1,364.5 million at June 30, 2016. The net working capital at year end represented approximately 103 days of 2016 operating expenses. This indicates that the University could support normal operations for 103 days without additional revenues or liquidating noncurrent assets.

As shown in the following table, the change in Current Assets was comprised of increases in cash of \$105.8 million and accounts receivable of \$23.3 million. The cash increase is primarily related to an increase in accounts payable and accrued liabilities and the timing of payments.

<b><u>Current Assets (in millions)</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>	<b><u>Change</u></b>
Cash & Cash Equivalents	\$ 1,642.6	\$ 1,536.8	\$ 105.8
Accounts Receivable, Net	244.0	220.7	23.3
Other Current Assets	<u>101.7</u>	<u>147.5</u>	<u>(45.8)</u>
Total Current Assets	<u>\$ 1,988.3</u>	<u>\$ 1,905.0</u>	<u>\$ 83.3</u>

The Board of Regents has authority to invest gifts and bequests received by the University. Investments are valued at market and held primarily in two investment pools: the Long Term Fund and the Intermediate Term Fund. The Board of Regents establishes investment policies and guidelines, including target investment allocations. Benefiting UW entities receive quarterly distributions from the Long Term Fund, principally endowed assets, based on an annual spending rate applied to a 12-quarter moving average market value of the Fund. Distributions from the Intermediate Term Fund, principally quasi-endowments and unspent income distributions, consist of interest earnings distributed quarterly.

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Management's Discussion and Analysis**  
**Years Ended June 30, 2016 and 2015**

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

Non-current assets decreased and non-current liabilities increased in fiscal year 2016. The most significant reasons for this are the adjustments to the net pension asset and endowment investments. In 2015, the Wisconsin Retirement System completed an experience study from 2012-2014, which resulted in a change in the mortality assumptions used when calculating the actuarial valuation required by Governmental Accounting Standards Board Statement (GASB) No. 68. This change reduced plan net position and that resulted in recording a net pension liability at June 30, 2016 totaling \$220.5 million, compared to the net pension asset reported at June 30, 2015 totaling \$330.2 million.

As shown in the following table, the change in unrestricted net position is primarily related to GASB Statement No. 68.

Total Net Position (in millions)	2016			2015			Change Adjusted Net Position
	Net Position	GASB 68 Adjustment	Adjusted Net Position	Net Position	GASB 68 Adjustment	Adjusted Net Position	
Net Investment in Capital Assets	\$ 4,383.2	\$ -	\$ 4,383.2	\$ 4,386.4	\$ -	\$ 4,386.4	\$ (3.2)
Restricted for:							
Pensions	-	-	-	330.2	(330.2)	-	-
Nonexpendable	181.7	-	181.7	194.5	-	194.5	(12.8)
Expendable	340.7	-	340.7	322.9	-	322.9	17.8
Student Loans	235.8	-	235.8	236.6	-	236.6	(0.8)
Other	453.4	-	453.4	384.6	-	384.6	68.8
Unrestricted	<u>984.1</u>	<u>(452.4)</u>	<u>531.7</u>	<u>833.8</u>	<u>(244.8)</u>	<u>589.0</u>	<u>(57.3)</u>
Total Net Position	<u>\$ 6,578.9</u>	<u>\$ (452.4)</u>	<u>\$ 6,126.5</u>	<u>\$ 6,689.0</u>	<u>\$ (575.0)</u>	<u>\$ 6,114.0</u>	<u>\$ 12.5</u>

Further, these reporting changes resulted in \$122.6 million of additional pension expense being included on the Statement of Revenues, Expenses, and Changes in Net Position. These changes are more fully described in Notes 1 and 8 to the Financial Statements.

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

### **Capital and Debt Activities**

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

**UNIVERSITY OF WISCONSIN SYSTEM**  
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There are three primary sources of funding for University capital projects: General Fund Supported Borrowing (GFSB) 20-year state-issued bonds repaid with General Program Revenue (GPR); Program Revenue Supported Borrowing (PRSB) 20- or 30-year state-issued bonds repaid with the University program revenue; and cash from gift and grant funds.

**Major Construction Projects**

During fiscal year 2016, several major construction projects were in progress including these projects with a budget of \$50.0 million or more:

<u>UW Institution</u>	<u>Project</u>	<u>Primary Purpose</u>	<u>Approx Budget (in millions)</u>	<u>Primary Funding Sources</u>
La Crosse	Science Lab Building	Academic	\$ 82.0	GFSB
La Crosse	Student Union	Student Life	53.0	PRSB
Madison	Music Performance Building	Academic	55.8	Gifts
Madison	New South East Recreational Facility	Student Life	87.5	PRSB/Gifts
Madison	Chemistry Building	Academic	112.5	GFSB/Gifts
River Falls	Health & Human Performance/Recreation Building (Falcon Center)	Academic & Athletics	69.3	GFSB/PRSB/Gifts
Stevens Point	Chemistry-Biology Building	Academic	75.0	GFSB

Several construction projects were completed in FY 2016 including this project with \$50.0 million or more in actual expenditures:

<u>UW Institution</u>	<u>Project</u>	<u>Primary Purpose</u>	<u>Approx Budget (in millions)</u>	<u>Primary Funding Sources</u>
Madison	Memorial Union Renovations	Student Life	\$ 116.5	PRSB/Gifts

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

Total expenses increased more than total revenues, resulting in an increase of \$160.4 million in Loss before Capital and Endowment Additions for fiscal year 2016. The decrease in Capital Appropriations, Contributions & Endowment Activities is primarily due to a \$68.4 million decrease in capital appropriations during the period. A summary of the Statement of Revenues, Expenses, and Changes in Net Position is as follows (in millions):

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total Revenues	\$ 4,746.7	\$ 4,688.8	\$ 4,712.4
Total Expenses	<u>5,034.9</u>	<u>4,816.6</u>	<u>4,833.4</u>
Loss Before Capital and Endowment Additions	(288.2)	(127.8)	(121.0)
Capital Appropriations, Contributions & Endowment Additions	<u>137.4</u>	<u>192.5</u>	<u>144.1</u>
Increase (Decrease) in Net Position	<u>\$ (150.8)</u>	<u>\$ 64.7</u>	<u>\$ 23.1</u>

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Management's Discussion and Analysis**  
**Years Ended June 30, 2016 and 2015**

The University's operating and non-operating revenues are provided in the table below. Operating revenues increased \$221.6 million since fiscal year 2014. Non-operating revenues decreased \$187.3 million between fiscal year 2014 and fiscal year 2016 primarily due to changes in state appropriations and investment income (loss).

Operating Revenues (in millions):	<b><u>2016</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>
Student Tuition and Fees, Net	\$ 1,231.8	\$ 1,169.2	\$ 1,138.3
Federal Grants and Contracts	779.9	759.2	804.2
State, Local, & Private Grants and Contracts	414.6	389.5	358.3
Sales and Services of Educational Activities	317.1	327.8	312.0
Sales and Services of Auxiliaries, Net	418.1	401.8	405.7
All Other Operating Revenues	<u>467.7</u>	<u>396.7</u>	<u>389.1</u>
Total Operating Revenues	3,629.2	3,444.2	3,407.6
Non-Operating Revenues:			
State Appropriations	802.7	896.6	918.7
Gifts	303.1	304.9	292.3
Net Investment Income (Loss)	(3.4)	4.7	63.0
Other Non-Operating Revenues	<u>15.1</u>	<u>38.4</u>	<u>30.8</u>
Total Non-Operating Revenues	<u>1,117.5</u>	<u>1,244.6</u>	<u>1,304.8</u>
Total Revenues	<u>\$ 4,746.7</u>	<u>\$ 4,688.8</u>	<u>\$ 4,712.4</u>

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

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

Operating Expenses:	<b><u>2016</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>
Instruction	\$ 1,321.4	\$ 1,199.1	\$ 1,171.8
Research	932.4	729.0	759.4
Public Service	309.2	302.3	307.3
Academic Support	393.1	403.2	398.7
Student Services	449.1	442.1	420.7
Institutional Support	278.8	282.8	266.7
Operation/Maintenance	293.8	308.3	312.1
Financial Aid	153.7	298.2	323.1
Auxiliary Enterprises	335.9	337.8	340.6
Other Functions	77.4	76.7	76.4
Depreciation	<u>303.9</u>	<u>290.4</u>	<u>273.5</u>
Total Operating Expenses	4,848.7	4,669.9	4,650.3
Non-Operating Expenses	<u>186.2</u>	<u>146.7</u>	<u>183.1</u>
Total Expenses	<u>\$ 5,304.9</u>	<u>\$ 4,816.6</u>	<u>\$ 4,833.4</u>

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Management's Discussion and Analysis**  
**Years Ended June 30, 2016 and 2015**

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

Salary & Fringe Benefits Expenses	2016			2015			Change Adjusted Expense
	<u>Expense</u>	<u>GASB 68 Adjustment</u>	<u>Adjusted Expense</u>	<u>Expense</u>	<u>GASB 68 Adjustment</u>	<u>Adjusted Expense</u>	
Salaries	\$ 2,297.4	\$ 0.0	\$ 2,297.4	\$ 2,311.8	\$ 0.0	\$ 2,311.8	\$ (14.4)
Fringe Benefits	<u>896.7</u>	<u>122.6</u>	<u>774.1</u>	<u>722.5</u>	<u>(56.8)</u>	<u>779.2</u>	<u>(5.1)</u>
Total	<u>\$ 3,194.1</u>	<u>\$ 122.6</u>	<u>\$ 3,071.5</u>	<u>\$ 3,034.3</u>	<u>\$ (56.8)</u>	<u>\$ 3,091.1</u>	<u>\$ (19.6)</u>

**Factors Affecting Future Periods**

2015 Wisconsin Act 55, the 2015-17 biennial budget, mandated a number of items that impact the University's funding. The 2015-17 biennial budget required a freeze of resident undergraduate tuition at the 2014-15 levels, which had already been frozen at the 2012-13 level. The result is a four-year tuition freeze. These freezes included differential tuition, with one exception. The Board of Regents was allowed to implement differential tuition at UW-Stevens Point by a student referendum after the effective date of the biennial budget act. The differential tuition was approved in fiscal year 2017.

The 2015-17 biennial budget includes a reduction in base funding of \$100.0 million in 2016-17, with an additional \$25.0 million lapse.

The Fall 2016 preliminary enrollment headcount results have decreased 3,277.





*Years Ended June 30, 2016 and 2015*

## FINANCIAL STATEMENTS OF THE UNIVERSITY OF WISCONSIN SYSTEM

# University of Wisconsin System

## Statement of Net Position

	June 30, 2016	June 30, 2015
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 1,642,563,338	\$ 1,536,783,613
Accounts Receivable, Net	243,985,000	220,730,330
Student Loans Receivable, Net	29,478,288	29,717,900
Capital Lease Receivable	598,576	1,119,049
Inventories	41,880,370	41,103,276
Prepaid Expenses	29,789,708	75,496,001
Total Current Assets	1,988,295,280	1,904,950,169
Noncurrent Assets		
Endowment Investments	415,469,781	442,477,891
Student Loans Receivable, Net	166,958,146	166,665,720
Capital Lease Receivable	1,094,679	1,693,255
Land	156,327,199	156,065,166
Improvements Other Than Buildings, Net	193,700,015	201,248,836
Construction in Progress	221,893,302	295,693,992
Buildings, Net	4,006,069,175	3,893,760,969
Equipment, Net	296,071,798	313,889,892
Library Holdings	1,124,133,587	1,145,325,745
Restricted Net Pension Asset	-	330,166,674
Total Noncurrent Assets	6,581,717,682	6,946,988,140
<b>TOTAL ASSETS</b>	<b>\$ 8,570,012,962</b>	<b>\$ 8,851,938,309</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 1,181,485,510</b>	<b>\$ 284,450,532</b>
<b>LIABILITIES</b>		
Current Liabilities		
Accounts Payable and Accrued Liabilities	\$ 284,771,463	\$ 267,062,248
Notes and Bonds Payable	89,332,234	84,578,011
Capital Lease Obligations	4,029,556	4,565,334
Unearned Revenue	178,391,222	171,605,987
Compensated Absences	65,213,517	60,378,633
Deposits of Student Organizations	2,100,749	1,791,077
Total Current Liabilities	623,838,741	589,981,290
Noncurrent Liabilities		
Notes and Bonds Payable	1,491,476,355	1,498,218,824
Capital Lease Obligations	30,109,183	32,201,469
Compensated Absences	66,307,440	69,348,780
Other Post-Employment Benefits	267,866,527	248,443,125
Net Pension Liability	220,459,696	-
Total Noncurrent Liabilities	2,076,219,201	1,848,212,198
<b>TOTAL LIABILITIES</b>	<b>\$ 2,700,057,942</b>	<b>\$ 2,438,193,488</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<b>\$ 472,581,880</b>	<b>\$ 9,130,093</b>
<b>NET POSITION</b>		
Net Investment in Capital Assets	\$ 4,383,247,748	\$ 4,386,420,962
Restricted for		
Pensions	-	330,166,674
Nonexpendable	181,685,224	194,516,535
Expendable	340,691,976	322,963,429
Student Loans	235,752,483	236,630,413
Other	453,399,934	384,562,564
Unrestricted	984,081,285	833,804,683
<b>TOTAL NET POSITION</b>	<b>\$ 6,578,858,650</b>	<b>\$ 6,689,065,260</b>

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, 2016

Year ended June 30, 2015

### OPERATING REVENUES

Student Tuition and Fees (net of Scholarship Allowances of \$209,182,883 and \$217,118,571, respectively)	\$ 1,231,769,606	\$ 1,169,243,775
Federal Grants and Contracts	779,878,762	759,191,723
State, Local, and Private Grants and Contracts	414,611,523	389,486,587
Sales and Services of Educational Activities	317,062,423	327,804,385
Sales and Services of Auxiliary Enterprises (net of Scholarship Allowances of \$36,664,303 and \$38,009,118, respectively)	418,106,282	401,820,535
Sales and Services to UW Hospital Authority	66,904,179	64,378,938
Student Loan Interest Income and Fees	6,117,607	5,048,251
Other Operating Revenue	394,715,321	327,276,623
<b>Total Operating Revenues</b>	<b>3,629,165,703</b>	<b>3,444,250,817</b>

### OPERATING EXPENSES

Salary and Fringe Benefits	3,194,138,043	3,034,292,313
Scholarship and Fellowships	149,708,841	135,765,108
Supplies and Services	1,194,940,208	1,178,010,643
Other Operating Expenses	5,980,105	31,448,855
Depreciation	303,909,224	290,407,130
<b>Total Operating Expenses</b>	<b>4,848,676,421</b>	<b>4,669,924,049</b>

### OPERATING LOSS

(1,219,510,718) (1,225,673,232)

### NON-OPERATING REVENUES AND EXPENSES

State Appropriations	802,720,319	896,594,132
Gifts	303,128,514	304,934,087
Investment Income (net of Investment Expense of \$1,855,890 and \$1,190,609, respectively)	(3,379,926)	4,740,164
Loss on Disposal of Capital Assets	(46,667,732)	(17,380,655)
Interest on Indebtedness	(60,945,948)	(55,885,617)
Transfer to State Agencies	(78,616,495)	(73,493,087)
Other	15,070,271	38,417,698

Loss Before Capital and Endowment Additions (288,201,715) (127,746,510)

Capital Appropriations	89,089,071	157,514,928
Capital Contributions	43,888,230	30,966,668
Additions to Permanent Endowment	4,437,142	3,994,276

**INCREASE (DECREASE) IN NET POSITION** (150,787,272) 64,729,362

### NET POSITION

Net Position - beginning of period	6,689,065,260	6,339,102,492
Prior Period Adjustment	40,580,662	285,233,406
<b>NET POSITION - end of period</b>	<b>\$ 6,578,858,650</b>	<b>\$ 6,689,065,260</b>

# University of Wisconsin System

## Statement of Cash Flows

Year ended June 30, 2016

Year ended June 30, 2015

### Cash Flows from Operating Activities

Student Tuition and Fees	\$ 1,212,440,434	\$ 1,189,658,119
Federal, State, Local, and Private Grants & Contracts	1,199,638,158	1,155,906,892
Sales and Services of Educational Activities	312,457,963	327,235,652
Sales and Services of Auxiliary Enterprises	421,219,101	412,803,261
Sales and Services to UW Hospital Authority	67,166,806	65,105,094
Payments for Salaries and Fringe Benefits	(3,007,519,376)	(3,044,970,948)
Payments to Vendors and Suppliers	(1,158,497,227)	(1,172,482,960)
Payments for Scholarships and Fellowships	(149,708,841)	(135,765,108)
Student Loans Collected	35,662,700	36,849,871
Student Loan Interest and Fees Collected	6,117,605	5,048,251
Student Loans Issued	(37,187,680)	(36,165,915)
Other Revenue	383,601,599	345,415,742
<b>Net Cash Used in Operating Activities</b>	<b>(714,608,758)</b>	<b>(851,362,049)</b>

### Cash Flows from Investing Activities

Interest and Dividends on Investments, Net	13,611,081	11,344,557
Proceeds from Sales and Maturities of Investments	90,863,273	114,805,498
Purchase of Investments	(82,336,993)	(106,433,202)
<b>Net Cash Provided by Investing Activities</b>	<b>22,137,361</b>	<b>19,716,853</b>

### Cash Flows from Capital and Related Financing Activities

Proceeds from Issuance of Capital Debt	140,868,892	257,313,601
Payments for Debt Retirements (Refundings)	(67,869,138)	(193,954,399)
Capital Appropriations	89,053,439	157,514,928
Gifts and Other Receipts	43,521,287	37,929,040
Purchase of Capital Assets	(350,079,759)	(310,179,803)
Capital Lease Obligations	-	(349,562)
Principal Payments on Capital Debt and Leases	(194,752,243)	(189,679,173)
Interest Payments on Capital Debt and Leases	(144,387,371)	(139,536,164)
<b>Net Cash Used in Capital and Related Financing Activities</b>	<b>(483,644,893)</b>	<b>(380,941,532)</b>

### Cash Flows from Noncapital Financing Activities

State Appropriations	993,552,714	1,085,923,022
Gifts and Other Receipts	316,512,455	334,804,606
Transfer to State Agencies	(78,616,495)	(73,493,087)
Additions to Permanent Endowments	4,437,142	3,994,276
Student Direct Lending Receipts	711,023,609	735,807,220
Student Direct Lending Disbursements	(705,594,072)	(736,410,700)
<b>Net Cash Provided by Noncapital Financing Activities</b>	<b>1,241,315,353</b>	<b>1,350,625,337</b>

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

Cash and Cash Equivalents - beginning of year

Prior Period Adjustment

### Cash and Cash Equivalents - end of year

65,199,063	138,038,609
1,536,783,613	1,398,745,004
40,580,662	
<b>\$ 1,642,563,338</b>	<b>\$ 1,536,783,613</b>

## University of Wisconsin System

### Statement of Cash Flows (continued)

Year ended June 30, 2016

Year ended June 30, 2015

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

Operating Loss	\$ (1,219,510,718)	\$ (1,225,673,232)
<i>Adjustments to Reconcile Operating Loss to</i>		
<i>Net Cash Used in Operating Activities:</i>		
Depreciation Expense	303,909,224	290,407,130
Changes in Assets and Liabilities and Deferreds:		
Receivables, net	(23,421,445)	81,306,541
Inventories	(777,094)	1,491,813
Prepaid Expense (including Deferred Charges)	45,089,241	(3,190,270)
Accounts Payable and Accrued Liabilities	29,473,341	39,939,473
Unearned Revenue	6,785,234	7,144,985
Compensated Absences	1,793,544	(1,457,571)
Net Pension Asset & Related Deferred Outflows	(891,715,209)	(64,561,189)
Net Pension Liability & Related Deferred Inflows	1,014,341,720	7,793,196
Other Post-Employment Benefits	19,423,402	15,437,075
<b>Net Cash Used in Operating Activities</b>	<b>\$ (714,608,758)</b>	<b>\$ (851,362,049)</b>

#### Noncash Investing, Capital and Financing Activities

Capital Leases (Initial Year):		
Fair Market Value	\$ 1,742,499	\$ 1,069,364
Current Year Cash Payments	19,694	153,114
Gifts-In-Kind	3,437,933	1,690,616
Net Change in Unrealized Gains (Losses)	(27,057,955)	(33,375,342)

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*Years Ended June 30, 2016 and 2015*

## FINANCIAL STATEMENTS OF THE UNIVERSITY OF WISCONSIN FOUNDATION

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



# University of Wisconsin Foundation (UW-Madison)

## Consolidated Statements of Financial Position

December 31, 2015

December 31, 2014

### ASSETS

Cash and Cash Equivalents	\$ 258,854,516	\$ 188,835,022
Income and Redemption Receivable	41,977,689	12,096,229
Prepaid Expenses	1,674,044	1,554,015
Pledges Receivable, Net	191,901,461	66,646,407
Investments	2,969,597,110	2,987,366,133
Property and Equipment, Net	20,723,829	17,437,128
Real Estate	3,295,943	4,150,549
Notes Receivable	1,331,487	1,169,804
Other Assets	3,578,998	4,894,108
<b>TOTAL ASSETS</b>	<b>\$ 3,492,935,077</b>	<b>\$ 3,284,149,395</b>

### LIABILITIES AND NET ASSETS

Accounts Payable	14,299,640	3,120,861
Pending Investment Purchases Payable	15,675,403	1,202,177
Accrued Expenses and Other Payables	4,935,754	4,487,927
Deferred Revenue	136,533	978,035
Deferred Compensation	2,260,880	2,261,553
Note Payable	2,878,218	-
Liability under Split-Interest Agreements	43,884,223	47,334,577
Funds Due to Other Organizations	232,142,012	315,706,715
Total Liabilities	316,212,663	375,091,845

### NET ASSETS

Unrestricted	197,756,088	228,726,061
Temporarily Restricted	1,464,488,384	1,398,302,164
Permanently Restricted	1,514,477,942	1,282,029,325
Total Net Assets	3,176,722,414	2,909,057,550
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 3,492,935,077</b>	<b>\$ 3,284,149,395</b>

## University of Wisconsin Foundation (UW-Madison)

	Year Ended December 31, 2015	Year Ended December 31, 2014
<b>Consolidated Statements of Activities</b>		
<b>REVENUES, GAINS AND OTHER SUPPORT</b>		
Contributions	\$ 543,596,612	\$ 380,492,270
Interest and Dividend Income	23,480,260	34,240,797
Net Investment Gains (Losses)	(28,580,959)	62,277,780
Other Income	7,500,104	3,472,023
<b>Total Revenues, Gains and Other Support</b>	<b>\$ 545,996,017</b>	<b>\$ 480,482,870</b>
<b>EXPENSES</b>		
Payments to or for University of Wisconsin	220,615,230	246,727,971
Management and General Expenses	31,328,870	25,965,684
Fundraising Expenses	26,387,053	18,871,007
<b>Total Expenses</b>	<b>278,331,153</b>	<b>291,564,662</b>
<b>INCREASE IN NET ASSETS</b>	<b>267,664,864</b>	<b>188,918,208</b>
Net assets - beginning of year	2,909,057,550	2,712,559,170
Contribution of WAA net assets	-	7,580,172
<b>Net assets at end of year</b>	<b>\$ 3,176,722,414</b>	<b>\$ 2,909,057,550</b>

## University of Wisconsin Foundation (UW-Madison)

	Year Ended December 31, 2015	Year Ended December 31, 2014
<b>Consolidated Statements of Cash Flows</b>		
<b>Cash Flows from Operating Activities</b>		
Change in Net Assets	\$ 267,664,864	\$ 188,918,208
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities, Net of Effects of Merger:		
Depreciation of Property and Equipment	1,728,265	1,140,134
Net Investment Loss (Gain)	30,897,454	(62,310,337)
Realized Gains on Sales of Real Estate	(2,316,495)	(17,443)
Realized Losses on Sale of Property and Equipment	30,351	-
Realized Losses on Notes Receivable	-	50,000
Contributions to Endowment Funds	(85,228,092)	(68,190,571)
Contributions of Real Estate	(802,177)	(1,139,023)
Changes in Operating Assets and Liabilities:		
Income Receivable	(715,828)	2,351,036
Prepaid Expenses	(120,029)	(492,887)
Pledges Receivable	(125,255,054)	(2,978,996)
Other Assets	1,315,110	(45,399)
Accounts Payable	11,178,779	417,915
Accrued Expenses and Other Payables	447,827	827,783
Deferred Revenue	(841,502)	(1,394,665)
Deferred Compensation	(673)	23,893
Liability Under Split-Interest Agreements	(3,450,354)	2,484,541
Funds Due to Other Organizations	(79,407,195)	3,552,399
<b>Net Cash Provided by Operating Activities</b>	<b>15,125,251</b>	<b>63,196,588</b>
<b>Cash Flows from Investing Activities</b>		
Proceeds from Sales and Maturities of Investments	2,069,563,605	1,024,761,548
Purchases of Investments	(2,101,541,950)	(1,137,536,911)
Proceeds from Sales of Real Estate	3,973,278	121,943
Additions to Notes Receivable	(304,866)	-
Payments Received on Notes Receivable	143,183	107,809
Additions to Property and Equipment	(5,045,317)	(4,952,665)
Cash Received in Merger	-	1,509,979
<b>Net Cash Used in Investing Activities</b>	<b>(33,212,067)</b>	<b>(115,988,297)</b>
<b>Cash flows from Financing Activities</b>		
Proceeds from Notes Payable	3,100,000	-
Payments on Notes Payable	(221,782)	(532,731)
Proceeds from Contributions to Endowment Funds	85,228,092	68,190,571
<b>Net Cash Provided by Financing Activities</b>	<b>88,106,310</b>	<b>67,657,840</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>70,019,494</b>	<b>14,866,131</b>
Cash and Cash Equivalents - beginning of year	188,835,022	173,968,891
<b>Cash and Cash Equivalents - end of year</b>	<b>\$ 258,854,516</b>	<b>\$ 188,835,022</b>
<b>Non-cash Operating and Investing Activities</b>		
Gifts of investments	\$ 124,406,066	\$ 115,106,824
Net assets acquired through merger	\$ -	\$ 7,580,172



*Years Ended June 30, 2016 and 2015*

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

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2016 and 2015**

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

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

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

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

In fiscal year 2015, the University implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which reports an actuarially-determined net pension liability (asset), deferred inflows of resources, and deferred outflows of resources for pension-related payments. The effect of this change is detailed in Notes 10 and 13.

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

The Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows have been prepared using the economic resources measurement focus and the accrual basis of accounting. The University of Wisconsin System reports as a Business Type Activity, as defined by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. Business Type Activities are those that are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Revenues, Expenses, and Changes in Net Position classifies the University's fiscal year activity as operating and non-operating. Operating revenue results from exchange transactions, such as payment received for providing goods and services, including tuition and fees, certain grants and contracts, sales and services of educational activities, and auxiliary enterprise revenue. Certain significant revenue streams relied upon for operations are reported as non-operating revenues, as defined by GASB Statement No. 35, including state appropriations, gifts, and investment income. The majority of the University's expenses are exchange transactions, which GASB defines as operating expenses for financial statement presentation. Non-operating expenses include capital financing costs and costs related to investment activity.

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2016 and 2015**

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

The Statement of Cash Flows presents the change in the cash and cash equivalents balance for the fiscal year. Cash and cash equivalents include bank accounts and investments with original maturity dates of 90 days or less at the time of purchase. These investments consist primarily of commercial paper, money market funds, and U.S. Treasury bills. Investments in marketable securities are carried at fair value as established by the major securities markets. Investments in limited partnerships are carried at fair value based on quarterly reports from the limited partnerships' management. Annually, these reports are audited by independent auditors.

***Financial Reporting Entity***

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

The decision to include a potential component unit in the University's reporting entity is based on the criteria set forth in GASB Statement No. 14, *The Financial Reporting Entity*, GASB Statement No. 39, *Determining whether Certain Organizations are Component Units*, an amendment of GASB Statement No. 14, and GASB Statement No. 61, *The Financial Reporting Entity; Omnibus*, an amendment of GASB Statements No. 14 and No. 34. Based upon the application of these criteria, the University of Wisconsin Foundation (Foundation) is presented as a discrete component unit.

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

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2016 and 2015**

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

**Other Organizations**

The financial statements do not include the accounts of the University of Wisconsin Hospital and Clinics Authority (UWHCA), which became a legally separate public authority on June 29, 1996; the University of Wisconsin Medical Foundation (UWMF), which is a blended component unit of UWHCA as of June 25, 2015, or the La Crosse Medical Health Science Consortium, Inc., which is a Wisconsin non-stock corporation tax exempt under Internal Revenue Code (IRC) 501(c)(3). In addition, the financial statements do not include the accounts of various legally independent and fully self-governing support organizations, such as booster clubs and alumni groups; funds contributed to the University by these organizations are reported at the time they are received. Note 11 describes the effect affiliation and operating agreements with the UWMF; UWHCA; Wisconsin Alumni Research Foundation (WARF), relating to the Wisconsin Institutes for Discovery; La Crosse Medical Health Science Consortium, Inc.; and University of Wisconsin-Platteville Real Estate Foundation had on the University's financial statements.

***Summary of Significant Accounting Policies***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

The University eliminates intra-fund assets and liabilities to prevent double counting in the Statement of Net Position. Likewise, revenues and expenses related to internal service activities are also eliminated in the Statement of Revenues, Expenses, and Changes in Net Position.

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

Prepaid expenses represent payments made prior to June 30<sup>th</sup> for goods and services received after the close of the fiscal year, primarily health and life insurance coverage, and costs associated with revenues that have not yet been earned as of June 30<sup>th</sup>, primarily summer session costs incurred prior to the close of the fiscal year. The revenues and expenses of the 2016 summer session are reportable within the fiscal year beginning July 1, 2015 and ending June 30, 2016, based on the prorated portion of the number of summer session days that occurred in fiscal year 2016. The revenues and expenses of the 2015 summer session are reportable within the fiscal year beginning July 1, 2014 and ending June 30, 2015, based on the prorated portion of the number of summer session days that occurred in fiscal year 2015.

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2016 and 2015**

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

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

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

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

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

Restricted funds received as gifts, grants, and contracts are used according to donor restrictions or the specific purpose of the grantor. In addition, restrictions are statutorily established that limit the use of certain resources for specific purposes. These restrictions apply not only to state support but also to many of the University's program revenue sources, including segregated fee auxiliary operations. The funds reported as restricted will be used in accordance with the purposes for which they are restricted and are the first resources used for these purposes. Unrestricted funds would be used only secondarily to support these restricted purposes.

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

**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 25.14 and 25.17. SWIB is not registered with the SEC as an investment company. The objectives of this fund are to provide liquidity, safety of principal, and a reasonable rate of return. Investments consist primarily of obligations of the U.S. Government and its agencies and high quality commercial bank and corporate debt obligations.



**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2016 and 2015**

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

Of the \$1,642.6 million and \$1,536.8 million in cash and cash equivalents as of June 30, 2016 and 2015, respectively, \$1,468.7 million and \$1,310.4 million, respectively, represent amounts held within the SIF; \$145.0 million and \$197.5 million, respectively, was maintained by individual University institutions in local bank accounts to meet operating needs; and \$28.9 million and \$28.9 million, respectively, was held at BNY Mellon to meet the cash needs associated with the investing activities of the Long Term and Intermediate Term Funds. The cash held at BNY Mellon is also categorized as investments, in accordance with governmental accounting standards. Interest distributions are received 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 \$137.5 million and \$190.5 million at June 30, 2016 and 2015, respectively. These amounts, deposited in approved financial institutions, are uninsured and uncollateralized. A state appropriation for losses on public deposits (Wisconsin Statutes Section 34.08) insures up to \$400,000 over the amount of federal insurance.

*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, 2016 and 2015 are immaterial. The University does not have a formal policy for foreign currency risk.

***Investments***

The University invests its Trust Funds, primarily gifts and bequests, in two of its own investment pools: the Long Term and the Intermediate Term Funds. Investment policies and guidelines for these funds are governed and authorized by the Board of Regents. The current approved asset allocation policy for the Long Term Fund sets a general target of 35% marketable equities, 30% fixed income, and 35% alternatives. The approved asset allocation for the Intermediate Term Fund is 15% marketable equities, 70% fixed income, 10% alternatives, and 5% cash. These target allocations were last affirmed/approved by the Board of Regents in December 2015.

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2016 and 2015**

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

The Long Term Fund consisted of the following investment categories on June 30, 2016 and 2015:

<b>Investment Category</b>	<b><u>2016</u></b>	<b><u>2015</u></b>
Common Stock and Convertible Securities	35.5%	38.5%
Bonds and Preferred Stock	12.1%	11.4%
Alternative Assets	22.4%	21.0%
Tactical Allocation Strategies	21.8%	21.0%
Real Assets	1.8%	1.6%
Custodial Pooled Cash and Cash Equivalents	<u>6.4%</u>	<u>6.5%</u>
<b>Total</b>	<b><u>100.0%</u></b>	<b><u>100.0%</u></b>

The Intermediate Term Fund consisted of the following investment categories on June 30, 2016 and 2015:

<b>Investment Category</b>	<b><u>2016</u></b>	<b><u>2015</u></b>
Common Stock and Convertible Securities	14.1%	14.4%
Bonds and Preferred Stock	79.2%	81.2%
Custodial Pooled Cash and Cash Equivalents	<u>6.7%</u>	<u>4.4%</u>
<b>Total</b>	<b><u>100.0%</u></b>	<b><u>100.0%</u></b>

Benefiting University entities receive quarterly distributions from the Long Term Fund, which is primarily comprised of endowed assets, based on an annual spending rate applied to a twelve-quarter moving average market value of the Fund. The annual spending rate is currently 4.0%. Distributions from the Intermediate Term Fund, which is primarily comprised of expendable gifts, consist of quarterly interest earnings distributions. Spending rate and interest distributions from both of these Funds are transferred to the SIF, pending near-term expenditures. During the fiscal year ended June 30, 2016, the amount of net appreciation available to spend from the Long Term Fund was \$16.5 million, relative to \$16.0 million available during the fiscal year ended June 30, 2015.

At June 30, 2016 and 2015, the University's investments were as follows:

<b>Investments:</b>	<b><u>2016</u></b>	<b><u>2015</u></b>
U.S. Government Securities	\$ 33,279,438	\$ 37,284,343
U.S Agency Securities	15,826,848	11,477,073
Bonds and Preferred Stock	22,209,877	25,611,025
Common Stock and Convertible Securities	47,524,597	58,432,589
Pooled Equity Funds	92,825,134	102,189,076
Pooled Allocation Fund	78,965,111	81,218,886
Pooled Fixed Income Fund	37,750,769	38,852,862
Custodial Pooled Cash and Cash Equivalents	28,887,081	28,902,659
Limited Partnerships	<u>87,568,699</u>	<u>87,412,036</u>
<b>Total Investments</b>	<b><u>\$ 444,837,554</u></b>	<b><u>\$ 471,380,549</u></b>

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2016 and 2015**

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

The total return on the Long Term Fund, including capital appreciation, was -2.6% compared to 1.5% in fiscal year 2015. The total return on the Intermediate Fund, including capital appreciation, was 2.7% compared to 1.2% in fiscal year 2015. External investment counsel was utilized for funds representing 89.6% of the market value of the Funds, compared to 90.4% in fiscal year 2015. In addition to the limited partnerships market value listed above, the University had \$24.3 million in unfunded limited partnership commitments for the fiscal year ended June 30, 2016, compared to \$25.0 million for the fiscal year ended June 30, 2015.

*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. In addition, Reams actively-managed, high quality fixed income account must maintain an average portfolio quality of A or higher, and a minimum of 85% investment grade (BBB or higher), and Applied Securities must maintain an average portfolio quality of AA, and hold only securities rated BBB- or higher.

The following schedule displays the credit ratings as provided by Moody's Investor Service for debt securities held as of June 30, 2016 and 2015. Obligations of the United States and obligations explicitly guaranteed by the U.S. government are included in the Aaa rating below.

<b><u>Ratings</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>
Aaa	\$ 61,182,230	\$ 60,597,464
Aa1	-	694,972
Aa2	1,841,117	893,636
Aa3	834,258	1,018,150
A1	1,980,324	3,495,695
A2	2,343,265	3,304,373
A3	1,893,742	2,966,110
Baa1	4,370,290	4,671,349
Baa2	4,030,109	2,289,152
Baa3	836,398	2,366,755
Ba1	606,396	-
Ba2	11,033,419	7,508,507
Ba3	370,475	-
B1	280,906	380,513
B2	13,210,156	16,679,293
B3	109,631	162,672
Caa2	2,230,656	692,864
Caa3	76,919	5,947
No Rating	395,315	4,321,171
Unrated Pooled Cash	<u>30,328,407</u>	<u>28,902,659</u>
Totals	<u>\$ 137,954,013</u>	<u>\$ 140,951,282</u>

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2016 and 2015**

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

*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 investments are registered in the name of the University, and the University does not participate in any securities lending programs through its custodial bank. Investment securities underlying the University's investment in shares of external investment pools or funds are in custody at those entities. The shares owned in these external investment pools are registered in the name of the University. The University does not have a formal policy for custodial credit risk.

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

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

**Fixed Income Sector:**

	<b>2016</b>		<b>2015</b>	
	<u>Market Value</u>	<u>Effective Duration</u>	<u>Market Value</u>	<u>Effective Duration</u>
Treasury Inflation Protected Securities	\$ 18,589,117	5.09	\$ 19,150,191	7.09
U.S. Government	18,346,600	4.11	16,920,899	4.74
U.S. Government Mortgages	6,309,840	4.35	1,309,806	5.82
Corporates and Other Credit	15,713,538	2.97	17,794,053	3.12
Collateralized Mortgage Obligations:				
U.S. Agencies	4,213,815	1.00	11,271,422	2.12
Corporate	7,514	0.42	14,270	1.18
Commercial Mortgage Backed Securities	3,282,340	0.92	2,206,575	6.97
U.S. Private Placements	4,695,541	2.67	5,147,885	2.75
U.S. Agencies	-	0.00	-	0.00
Asset Backed Securities	<u>157,858</u>	0.03	<u>436,167</u>	0.08
Totals	<u>\$ 71,316,163</u>		<u>\$ 74,251,268</u>	

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2016 and 2015**

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

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

<b><u>Fixed Income Commingled Fund:</u></b>	<b>2016</b>		<b>2015</b>	
	<u>Market Value</u>	<u>Modified Duration</u>	<u>Market Value</u>	<u>Modified Duration</u>
Seix Advisors High Yield Fund	\$ 28,488,582	3.23	\$ 29,736,660	3.56
IT Fund Multi Asset	<u>9,262,186</u>	2.51	<u>9,116,201</u>	3.60
Totals	<u>\$ 37,750,768</u>		<u>\$ 38,852,961</u>	

*Foreign Currency Risk:* Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. As of June 30, 2016, the Long Term and Intermediate Term Funds held equity securities denominated in foreign currencies within pooled investment vehicles only, with market values totaling \$98.0 million and \$5.4 million, respectively, compared to prior fiscal year amounts of \$107.6 million and \$6.1 million, respectively. Some of the trades for such foreign positions will not settle in foreign currencies until after the fiscal year end. For the Funds, it is generally expected and desired that foreign currency exposure is not hedged, as this enhances the diversification benefits from non-U.S. investments.

*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 \$106.2 million and \$123.2 million at June 30, 2016 and June 30, 2015, respectively, is available to meet spending rate distributions and is recorded as restricted net assets.

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

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

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2016 and 2015**

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total June 30, 2016</u>
<b>Investments:</b>				
Custodial Pooled Cash and Cash Equivalents	\$ 28,887,081	\$ -	\$ -	\$ 28,887,081
U.S. Government Securities	31,851,446	1,427,992	-	33,279,438
U.S. Agency Securities	-	15,826,848	-	15,826,848
Bonds and Preferred Stock	-	22,209,877	-	22,209,877
Pooled Fixed Income Fund	33,252,140	4,498,629	-	37,750,769
Common Stock and Convertible Securities	47,524,597	-	-	47,524,597
Pooled Equity Funds	50,745,922	42,079,212	-	92,825,134
Pooled Allocation Fund	78,965,111	-	-	78,965,111
Limited Partnerships (measured at net asset value)	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>87,568,699</u>
<b>Total investments at fair value</b>	<u>\$ 271,226,297</u>	<u>\$ 86,042,558</u>	<u>\$ -</u>	<u>\$ 444,837,554</u>

The following table sets forth by level, within the fair value hierarchy, the University's investments at fair value as of June 30, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total June 30, 2015</u>
<b>Investments:</b>				
Custodial Pooled Cash and Cash Equivalents	\$ 28,902,659	\$ -	\$ -	\$ 28,902,659
U.S. Government Securities	35,974,537	1,309,806	-	37,284,343
U.S. Agency Securities	-	11,477,073	-	11,477,073
Bonds and Preferred Stock	-	25,611,025	-	25,611,025
Pooled Fixed Income Fund	34,030,510	4,822,352	-	38,852,862
Common Stock and Convertible Securities	58,432,589	-	-	58,432,589
Pooled Equity Funds	53,916,119	48,272,957	-	102,189,076
Pooled Allocation Fund	81,218,886	-	-	81,218,886
Limited Partnerships (measured at net asset value)	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>87,412,036</u>
<b>Total investments at fair value</b>	<u>\$ 292,475,300</u>	<u>\$ 91,493,213</u>	<u>\$ -</u>	<u>\$ 471,380,549</u>

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2016 and 2015**

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

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

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

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

<b>Investment Type</b>	<b><u>Fair Value</u></b>	<b>2016</b>	<b><u>Fair Value</u></b>	<b>2015</b>
		<b>Unfunded Commitments</b>		<b>Unfunded Commitments</b>
Limited partnership funds	\$ 87,568,699	\$ 24,349,875	\$ 87,412,036	\$ 24,965,707

**NOTE 3 – Receivables**

Accounts receivable and student loans receivable as of June 30, 2016 and June 30, 2015, are summarized as follows:

<b>Receivables (Net):</b>	<b>2016</b>	<b>2015</b>
Student Academic Fees	\$ 30,560,332	\$ 12,806,677
Grants and Contracts	43,647,286	36,232,221
Educational Activities and Other	40,075,308	33,678,660
Auxiliary Enterprises	11,993,875	11,942,993
UW Hospital Authority and La Crosse Medical Health Science Consortium Inc.	6,432,130	7,813,806
Investment	481,759	1,469,277
Student Loans Receivable	196,436,434	196,383,620
State Agencies	36,280,762	29,812,320
Other Governments	<u>76,206,803</u>	<u>89,786,680</u>
<b>Total Receivables (Net)</b>	<b><u>\$ 442,114,689</u></b>	<b><u>\$ 419,926,254</u></b>

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2016 and 2015**

**NOTE 3 – Receivables (continued)**

Student loans receivable at June 30, 2016 included allowances for uncollectible loans of \$9.2 million relative to \$9.4 million in the prior year. Principal repayment and interest rates of university and federal loans vary. Federal loan programs are funded primarily with federal contributions to the University under the Perkins loan program and a variety of health professions loan programs.

The University distributed student loans through the United States Department of Education federal direct lending program totaling \$705.6 million during fiscal year 2016 and \$736.4 million in fiscal year 2015. These distributions and the related funding sources are not reflected as expenses and revenues in the financial statements. However, cash inflows and outflows are shown in the Statement of Cash Flows.

**NOTE 4 – Capital Assets**

Land, buildings, improvements (e.g., parking lots, fences, street lighting, etc.), equipment, and library holdings are capitalized at cost at date of acquisition or fair market value at date of donation in the case of gifts-in-kind. Generally, capital equipment is defined as any single asset with a minimum value of \$5,000 and having a useful life of more than one year. Depreciation is calculated on a straight-line basis over the estimated useful lives of the respective assets: buildings over 40 years, improvements over 20 years, and capital equipment over periods ranging from 3 to 15 years for specified asset classes. The componentized methodology of depreciation is used for major research facilities generally using estimated useful lives ranging from 10 to 50 years. The buildings and land related to the 13 two-year colleges are not owned by the University and thus are not reported in these financial statements. Library holdings are not depreciated because these resources are viewed as inexhaustible assets. Disposals of library holdings are removed at either a historically calculated average cost or at an amount that approximates original cost as nearly as is practical to determine. The University does not capitalize works of art or historical treasures that are held for exhibition, education, research, and public service. These collections are neither disposed of for financial gain nor encumbered in any way. Proceeds from the sale, exchange, or other disposal of any item belonging to a collection of works of art or historical treasures must be applied to the acquisition of additional items for the same collection.

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, establishes accounting and financial reporting standards for a capital asset that has experienced a significant, unexpected decline in its service utility. No individual asset met these criteria in fiscal year 2016 or 2015. Insurance recoveries received in fiscal year 2016 include \$2.4 million for storm damage at the University of Wisconsin-Platteville. Insurance recoveries received in fiscal year 2015 include \$8.2 million for flood damage at the University of Wisconsin-Superior and \$2.7 million for storm damage at the University of Wisconsin-Platteville. Insurance recoveries are reported as other non-operating revenues in the financial statements.



**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2016 and 2015**

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

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, 2016, the equipment balance includes \$37.5 million for intangible assets net of depreciation, compared to \$42.2 million at June 30, 2015.

Depreciation expense for fiscal years ended June 30, 2016 and 2015 was \$303.9 million and \$290.4 million, respectively.

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

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

Less Accumulated Depreciation:

	<b>Book Value July 1, 2015</b>	<b>Additions</b>	<b>Transfers</b>	<b>Deductions</b>	<b>Book Value June 30, 2016</b>
Buildings	\$ 2,584,851,968	\$ 201,270,269	\$ -	\$ (1,691,989)	\$ 2,784,430,248
Improvements	257,857,352	16,351,324	-	(91,191)	274,117,485
Equipment	<u>803,528,361</u>	<u>86,287,631</u>	<u>1,018,576</u>	<u>(34,701,106)</u>	<u>856,133,462</u>
Total Accumulated Depreciation	3,646,237,681	303,909,224	1,018,576	(36,484,286)	3,914,681,195
Capital Assets, Net	<u>\$ 6,005,984,600</u>	<u>\$ 44,802,581</u>	<u>\$ (614,631)</u>	<u>\$ (51,977,747)</u>	<u>\$ 5,998,195,076</u>

The change in book value from July 1, 2014 to June 30, 2015 is summarized as follows:

	<b>Book Value July 1, 2014</b>	<b>Additions</b>	<b>Transfers</b>	<b>Deductions</b>	<b>Book Value June 30, 2015</b>
Buildings	\$ 6,250,645,202	\$ 83,972,554	\$ 147,223,066	\$ (3,227,885)	\$ 6,478,612,937
Improvements	439,129,729	5,796,654	14,179,805	-	459,106,188
Land	155,754,862	310,304	-	-	156,065,166
Construction in Progress	329,025,710	128,071,653	(161,403,371)	-	295,693,992
Equipment	1,051,578,796	81,931,091	(4,441,152)	(11,650,482)	1,117,418,253
Library Holdings	<u>1,139,186,343</u>	<u>22,814,357</u>	<u>-</u>	<u>(16,674,955)</u>	<u>1,145,325,745</u>
Subtotal	\$ 9,365,320,642	\$ 322,896,613	\$ (4,441,652)	\$ (31,553,322)	\$ 9,652,222,281

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
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**NOTE 4 – Capital Assets (continued)**

Less Accumulated Depreciation:

	<b>Book Value July 1, 2014</b>	<b>Additions</b>	<b>Transfers</b>	<b>Deductions</b>	<b>Book Value June 30, 2015</b>
Buildings	\$ 2,398,119,622	\$ 189,455,035	\$ -	\$ (2,722,689)	\$ 2,584,851,968
Improvements	241,963,900	15,893,452	-	-	257,857,352
Equipment	<u>733,921,223</u>	<u>85,058,643</u>	<u>(4,001,526)</u>	<u>(11,449,979)</u>	<u>803,528,361</u>
Total Accumulated Depreciation	3,374,004,745	290,407,130	(4,001,526)	(14,172,668)	3,646,237,681
Capital Assets, Net	<u>\$ 5,991,315,897</u>	<u>\$ 32,489,483</u>	<u>\$ (440,126)</u>	<u>\$ (17,380,654)</u>	<u>\$ 6,005,984,600</u>

**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, 2016 and 2015, are summarized as follows:

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

<b>Fiscal Year 2015</b>	<b>Salary and Fringe Benefits</b>	<b>Due to State Agencies and Other Governments</b>	<b>Vendors</b>	<b>Total Payables</b>
<b>UW System Activities:</b>				
Operating	\$ 22,608,604	\$ 74,392,524	\$ 62,843,472	\$ 159,844,600
Gifts, Grants, and Contracts	3,551,707	16,696,697	6,543,161	26,791,565
Capital Projects	-	5,400,578	55,993,842	61,394,420
Auxiliary Enterprises	3,874,589	665,099	4,395,912	8,935,600
Investment and Other	<u>56,241</u>	<u>388,593</u>	<u>9,651,229</u>	<u>10,096,063</u>
Total Activities	<u>\$ 30,091,141</u>	<u>\$ 97,543,491</u>	<u>\$ 139,427,616</u>	<u>\$ 267,062,248</u>

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2016 and 2015**

**NOTE 5 – Liabilities (continued)**

Long-term liability activity for the fiscal years ended June 30, 2016 and 2015 is as follows:

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

<b>Long-term Liabilities 2015</b>	<b>Balance <u>July 1, 2014</u></b>	<b>Increases (Decreases)</b>	<b>Balance <u>June 30, 2015</u></b>	<b>Current Portion</b>
Bonds Payable	\$ 1,485,806,595	\$ (22,567,192)	\$ 1,463,239,403	\$ 70,857,560
Notes Payable	97,179,335	22,378,097	119,557,432	13,720,451
Capital Lease Obligations	42,360,946	(5,594,143)	36,766,803	4,565,334
Compensated Absences	131,184,984	(1,457,571)	129,727,413	60,378,633
Other Post-Employment Benefits	<u>233,006,049</u>	<u>15,437,076</u>	<u>248,443,125</u>	<u>-</u>
Total	<u>\$ 1,989,537,909</u>	<u>\$ 8,196,267</u>	<u>\$ 1,997,734,176</u>	<u>\$ 149,521,978</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.

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

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

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

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2016 and 2015**

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

As of June 30, 2016, the current and noncurrent bonds payable net of discounts and premiums totaled \$51.7 million and \$1,332.4 million, respectively.

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

The following information relates to the status of bonds and notes payable outstanding at June 30, 2015:

	<b>Balance</b>	<b>New Debt/</b>	<b>Principal Paid/</b>	<b>Balance</b>
	<b><u>July 1, 2014</u></b>	<b><u>Accretion</u></b>	<b><u>Adjustments</u></b>	<b><u>June 30, 2015</u></b>
Bonds (Gross)	\$ 1,412,487,159	\$ 203,139,479	\$ (244,171,248)	\$ 1,371,455,390
Notes	<u>97,179,335</u>	<u>38,453,213</u>	<u>(16,075,116)</u>	<u>119,557,432</u>
Total	<u>\$ 1,509,666,494</u>	<u>\$ 241,592,692</u>	<u>\$ (260,246,364)</u>	<u>\$ 1,491,012,822</u>

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

	<b>Balance</b>		
	<b><u>June 30, 2015</u></b>	<b><u>Current</u></b>	<b><u>Noncurrent</u></b>
Bonds (Gross)	\$ 1,371,455,390	\$ 54,895,506	\$ 1,316,559,884
Discount	(234,017)	(15,808)	(218,209)
Premium	<u>92,018,030</u>	<u>15,977,862</u>	<u>76,040,168</u>
Bonds (Net)	1,463,239,403	70,857,560	1,392,381,843
Notes	<u>119,557,432</u>	<u>13,720,451</u>	<u>105,836,981</u>
Total	<u>\$ 1,582,796,835</u>	<u>\$ 84,578,011</u>	<u>\$ 1,498,218,824</u>

Future debt service requirements for bonds and notes outstanding at June 30, 2016 are as follows:

<b>Fiscal Year(s)</b>	<b>Bonds</b>		<b>Notes</b>	
	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>
2017	\$ 51,733,242	\$ 65,059,369	\$ 20,252,175	\$ 4,193,484
2018	54,861,096	62,452,034	19,414,003	3,358,388
2019	60,979,649	59,861,262	14,977,934	2,631,528
2020	62,863,861	56,928,893	16,666,685	1,980,650
2021	60,799,994	53,314,880	19,300,847	1,244,347
2022-2026	387,717,736	216,189,374	6,989,804	349,490
2027-2031	399,528,630	123,209,586	-	-
2032-2036	235,594,150	40,866,168	-	-
2037-2041	64,820,000	10,383,208	-	-
2042	<u>5,190,000</u>	<u>207,600</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 1,384,088,358</u>	<u>\$ 688,472,374</u>	<u>\$ 97,601,448</u>	<u>\$ 13,757,887</u>

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
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**NOTE 6 – Long Term Debt (continued)**

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, 2016, the principal balances of such bonds and notes were \$1,475.4 million and \$177.6 million, respectively. As of June 30, 2015, the principal balances of such bonds and notes were \$1514.6 million and \$193.3 million, respectively. Debt service payments made by the State of Wisconsin for the years ended June 30, 2016 and 2015 were allocated as follows:

<b>2016</b>	<b><u>Bonds</u></b>	<b><u>Notes</u></b>
Principal	\$ 122,176,211	\$ -
Interest	<u>68,148,936</u>	<u>507,248</u>
Total Paid	<u>\$ 190,325,147</u>	<u>\$ 507,248</u>
 <b>2015</b>	 <b><u>Bonds</u></b>	 <b><u>Notes</u></b>
Principal	\$ 117,355,400	\$ -
Interest	<u>71,973,491</u>	<u>-</u>
Total Paid	<u>\$ 189,328,891</u>	<u>\$ -</u>

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

The University had capital lease obligations with a net present value of \$34.1 million as of June 30, 2016 compared to \$36.8 million at June 30, 2015. The payment schedule for capital lease obligations is as follows:

2017	\$ 6,316,179
2018	3,987,979
2019	2,871,831
2020	2,695,829
2021	2,558,598
2022-2026	12,363,920
2027-2031	12,363,920
2032-2036	12,363,920
2037-2041	12,363,920
2042-2046	<u>4,945,568</u>
Total Scheduled Lease Payments	72,831,664
Amount Representing Interest	<u>(38,692,925)</u>
Net Present Value	<u>\$ 34,138,739</u>

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
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**NOTE 7 – Lease Commitments and Installment Purchases (continued)**

Assets Held Under Capital Lease:

<b>2016</b>		<b>Accumulated</b>	
	<b><u>Original Cost</u></b>	<b><u>Depreciation</u></b>	<b><u>Book Value</u></b>
Buildings and Improvements	\$ 98,199,857	\$ 47,279,973	\$ 50,919,884
Equipment	<u>13,428,899</u>	<u>9,322,669</u>	<u>4,106,230</u>
Total Assets	<u>\$ 111,628,756</u>	<u>\$ 56,602,642</u>	<u>\$ 55,026,114</u>

<b>2015</b>		<b>Accumulated</b>	
	<b><u>Original Cost</u></b>	<b><u>Depreciation</u></b>	<b><u>Book Value</u></b>
Buildings and Improvements	\$ 98,199,857	\$ 43,492,157	\$ 54,707,700
Equipment	<u>13,484,281</u>	<u>9,644,740</u>	<u>3,839,541</u>
Total Assets	<u>\$ 111,684,138</u>	<u>\$ 53,136,897</u>	<u>\$ 58,547,241</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 \$33.0 million for the fiscal year ended June 30, 2016. Minimum commitments for future operating lease payments are as follows:

2017	\$ 16,787,630
2018	15,880,929
2019	13,421,498
2020	11,858,262
2021	11,164,432
2022-2026	49,289,837
2027-2031	43,311,648
2032-2036	9,830,567
2037-2041	70,000
2042-2046	<u>10,500</u>
Total	<u>\$ 171,625,303</u>

The University entered into installment purchase agreements during fiscal year 2016. Gross minimum future installment payments, along with the present value of the minimum installment payments, as of June 30, 2016 for installment purchases are as follows:

2017	\$ 17,569
2018	12,589
2019	4,728
2020	<u>4,728</u>
Total Minimum Future Payments	39,614
Amount Representing Interest	<u>(2,847)</u>
Present Value of Net Minimum Payments	<u>\$ 36,767</u>

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2016 and 2015**

**NOTE 8 – Retirement Benefits**

**Wisconsin Retirement System**

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

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.

**Accounting Changes.** The WRS adopted GASB Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73* during the year ended December 31, 2015. GASB Statement No. 82 addresses the presentation of payroll-related measures in the Required Supplementary Information, the selection of assumptions used in determining the total pension liability and related measures, and the classification of employer-paid member contributions.

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

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

Final average earnings is the average of the participant's three highest years' earnings. Creditable service is the creditable current and prior service expressed in years or decimal equivalents of partial years for which a participant receives earnings and makes contributions as required. The formula factor is a standard percentage based on employment category.

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2016 and 2015**

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

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

The WRS also provides death and disability benefits for employees.

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

<u>Year</u>	<u>Core Fund Adjustment</u>	<u>Variable Fund Adjustment</u>
2006	0.8%	3.0%
2007	3.0%	10.0%
2008	6.6%	0.0%
2009	(2.1)%	(42.0)%
2010	(1.3)%	22.0%
2011	(1.2)%	11.0%
2012	(7.0)%	(7.0)%
2013	(9.6)%	9.0%
2014	4.7%	25.0%
2015	2.9%	2.0%

**Contributions.** Required contributions are determined by an annual actuarial valuation in accordance with Chapter 40 of the Wisconsin Statutes. The employee required contribution is one-half of the actuarially determined contribution rate for general category employees, including teachers, and Executives and Elected Officials. Employer 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, 2016 and 2015**

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

During calendar years 2015 and 2014, the University's contributions recognized by the WRS amounted to \$131.5 million and \$133.5 million, respectively. Contribution rates as of June 30, 2016 and 2015 were:

<b>Employee Category</b>	<b>June 30, 2016</b>		<b>June 30, 2015</b>	
	<b>Employee</b>	<b>Employer</b>	<b>Employee</b>	<b>Employer</b>
General (including teachers)	6.6%	6.6%	6.8%	6.8%
Executives & Elected Officials	6.6%	6.6%	7.7%	7.7%
Protective with Social Security	6.6%	9.4%	6.8%	9.5%
Protective without Social Security	6.6%	13.2%	6.8%	13.1%

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.*** At June 30, 2016, the University reported a net pension liability of \$220.5 million for its proportionate share of the net pension liability compared to a net pension asset of \$330.2 million at June 30, 2015. The net pension liability was based on an actuarial valuation performed as of December 31, 2014, with roll forward to December 31, 2015 and a measurement date of December 31, 2015. The University's proportion of the total net pension liability was determined based on the average of University's contributions to the WRS over the three most recent calendar years relative to the average contributions of all participating employers for the same period. At December 31, 2015, the University's proportion was 13.60%, which was an increase of 0.15% from its proportion measured as of December 31, 2014.

For the fiscal year ended June 30, 2016 and June 30, 2015, the University recognized pension expense of \$264.2 million and \$127.8 million, respectively.

The amount reported as pension-related deferred outflows resulting from the University's contributions subsequent to the measurement date is recognized as part of the net pension liability calculation in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension benefits will be recognized in pension expense as follows:

<b>Fiscal Year ended</b>	<b>Deferred Outflows</b>	<b>Deferred Inflows</b>
<b><u>June 30:</u></b>	<b><u>of Resources</u></b>	<b><u>of Resources</u></b>
2017	\$ 283,967,490	\$ 114,473,335
2018	283,967,490	114,473,335
2019	283,967,490	114,473,335
2020	237,280,650	113,382,764
2021	4,942,148	14,898,488

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, 2016 and 2015**

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

**Actuarial assumptions.** The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Valuation Date:	December 31, 2014
Measurement Date of Net Pension Liability	December 31, 2015
Actuarial Cost Method:	Entry Age
Asset Valuation Method:	Fair Value
Long-Term Expected Rate of Return:	7.2%
Discount Rate:	7.2%
Salary Increases:	
Inflation	3.2%
Seniority/Merit	0.2% - 5.6%
Mortality:	Wisconsin 2012 Mortality Table
Post-Retirement Adjustments*	2.1%

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

*Starting with 2015, this item includes the impact of known Market Recognition Account deferred gains/losses on the liability for dividend payments.*

Actuarial assumptions are based upon an experience study conducted in 2012 using experience from 2009-2011. The total pension liability for December 31, 2015 is based upon a roll-forward of the liability calculated from the December 31, 2014 actuarial valuation.

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2016 and 2015**

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

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

<u><b>Asset Class</b></u>	<b>Core Fund</b>		<b>Variable Fund</b>	
	<u><b>Long-Term Real Rate of Return</b></u>	<u><b>Target Allocation</b></u>	<u><b>Long-Term Real Rate of Return</b></u>	<u><b>Target Allocation</b></u>
US Equities	4.7%	23.0%	4.7%	70%
International Equities	5.6%	22.0%	5.6%	30%
Fixed Income	1.6%	37.0%	n/a	--
Inflation Sensitive Assets	1.4%	20.0%	n/a	--
Real Estate	3.6%	7.0%	n/a	--
Private Equity/Debt	6.5%	7.0%	n/a	--
Multi-Asset	3.8%	4.0%	n/a	--
Cash	0.9%	(20.0%)	n/a	--

**Single Discount Rate.** A single discount rate of 7.2% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.2% and a long term bond rate of 3.57%. Because of the unique structure of the WRS, the 7.2% expected rate of return implies that a dividend of approximately 2.1% will always be paid. For purposes of the single discount rate, it was assumed that the dividend would always be paid. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments (including expected dividends) of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2016 and 2015**

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

***Sensitivity of the University's proportionate share of the net pension liability (asset) to changes in the discount rate.*** The following presents the University's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.2 percent, as well as what the University's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.2%) or 1-percentage-point higher (8.2%) than the current rate for fiscal years ended June 30, 2016 and 2015:

	<b>2016</b>	<b>2015</b>
1% Decrease to Discount Rate	\$ 1,548,658,807	\$ 931,457,039
Current Discount Rate	\$ 220,794,780	\$ (330,166,674)
1% Increase To Discount Rate	\$ (816,290,702)	\$ (1,326,546,070)

***Pension plan fiduciary net position.*** Detailed information about the pension plan's fiduciary net position is available in separately issued financial statements available at <http://www.etf.wi.gov/publications/15et8600.pdf>.

**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 \$81,056 during fiscal year 2016, compared with \$92,384 during fiscal year 2015.

**NOTE 9 – Postemployment Benefits Other Than Pensions**

In accordance with the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, state and local governmental employers are required to display in financial reports other postemployment benefit expense/expenditures and related liabilities (assets), note disclosures, and if applicable, required supplementary information. University employees are employees of the State.

**Health Insurance**

The State's Health Insurance Program, a cost-sharing multiple-employer defined benefit plan not held in trust, is an employer-sponsored program offering group medical coverage to eligible employees and retirees of the State. ETF and the Group Insurance Board have program administration and oversight responsibilities under Wisconsin Statutes Sections 15.165(2) and 40.03(6).

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2016 and 2015**

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

Under this plan, retired employees of the State contribute the same healthcare premium as active employees, creating an implicit rate subsidy for retirees. This implicit rate subsidy, which is calculated to cover pre-age 65 retirees (since at age 65 retirees are required to enroll in Medicare when eligible), is treated as another postemployment benefit (OPEB).

As of the January 2015 actuarial valuation, the State's annual required contributions were \$94.5 million and \$86.2 million for fiscal years ended June 30, 2016 and June 30, 2015, respectively. The State's annual OPEB costs were \$76.8 million and \$70.5 million for fiscal years ended June 30, 2016 and June 30, 2015, respectively, and the State's actual contributions were \$36.7 million in fiscal year 2016 and \$41.8 million in fiscal year 2015, which results in a net OPEB obligation for the State of \$542.7 million as of June 30, 2016, and \$502.6 million as of June 30, 2015. The portion of this obligation allocated to the University increased from \$248.4 million in fiscal year 2015 to \$267.9 million in fiscal year 2016.

The State of Wisconsin Comprehensive Annual Financial Report includes financial statements, additional note disclosures, and required supplementary information for this plan. That report is publicly available at [www.doa.state.wi.us](http://www.doa.state.wi.us) or may be obtained by writing to: Department of Administration, 101 East Wilson Street, Madison, Wisconsin 53703.

**Life Insurance and Duty Disability**

The Life Insurance program, a cost-sharing multiple-employer defined benefit plan held in trust, provides post-employment coverage to all eligible employees. The plan is administered under Wisconsin Statutes Section 40.70. Beginning at age 65, retirees and terminating members continue to receive basic coverage for life at the level of insurance in force before retirement. Retirees and terminating members under age 65 must continue to pay the employee premium to maintain coverage.

The Duty Disability program, a cost-sharing multiple-employer defined benefit plan held in trust, offers special disability insurance for employees in protective occupations. This plan is administered under Wisconsin Statutes Section 40.65. Qualified employees receive benefits under this program approximating 80% of salary, less certain offsets, based upon the type and level of disability suffered and the implications of the disability on their ability to work. There are no employee contributions associated with this plan. The University contributed \$37,127 to this program during fiscal year 2016 compared to \$56,473 during fiscal year 2015.

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

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2016 and 2015**

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

At June 30, 2016 and June 30, 2015, the University reported deferred outflows of resources and deferred inflows of resources from the following sources:

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

<b><u>Fiscal Year 2016</u></b>	<b><u>Deferred Outflows of Resources</u></b>	<b><u>Deferred Inflows of Resources</u></b>
Differences between expected and actual experience	\$ 36,951,510	\$ (464,658,848)
Net differences between projected and actual earnings on pension plan investments	902,669,272	-
Employer contributions subsequent to the measurement date	50,250,757	-
Changes in Actuarial Assumptions	154,477,640	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	(6,849,697)
<b>Total</b>	<b><u>\$ 1,144,349,180</u></b>	<b><u>\$ (471,508,545)</u></b>
<b><u>Fiscal Year 2015</u></b>	<b><u>Deferred Outflows of Resources</u></b>	<b><u>Deferred Inflows of Resources</u></b>
Differences between expected and actual experience	\$ 47,863,893	\$ -
Net differences between projected and actual earnings on pension plan investments	159,882,647	-
Employer contributions subsequent to the measurement date	44,887,431	-
Changes in Actuarial Assumptions	-	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	(7,793,196)
<b>Total</b>	<b><u>\$ 252,633,971</u></b>	<b><u>\$ (7,793,196)</u></b>

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

	<b><u>2016</u></b>	<b><u>2015</u></b>
Unamortized Losses	\$ 37,136,330	\$ 31,816,561
Unamortized Gains	<u>(1,073,335)</u>	<u>(1,336,897)</u>
<b>Total</b>	<b><u>\$ 36,062,995</u></b>	<b><u>\$ 30,479,664</u></b>

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2016 and 2015**

**NOTE 11 – Other Organizations**

GASB Statement No. 14, *The Financial Reporting Entity*, GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, an amendment of GASB Statement No. 14, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, an amendment of GASB Statements No. 14 and No. 34, provide guidance in determining whether organizations are to be included as part of a reporting entity. The University has determined that, in accordance with the provisions of GASB Statements No. 14, 39, and 61, the accounts of the following organizations are not included in the financial statements; however, the following financial information is provided.

**A – University of Wisconsin Medical Foundation**

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

During fiscal year 2007-08, the Wisconsin Department of Health Services (DHS) implemented a Certified Public Expenditure (CPE) program for the services the UW faculty physicians group provides to Medical Assistance (MA) recipients. Because the UW faculty physicians group qualifies as a public provider, it is eligible to receive cost-based reimbursement under federal MA rules.

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 \$9.7 million to DHS during fiscal year 2016 and \$7.3 million in fiscal year 2015, representing the state's share of this difference. DHS then claimed the federal share of the difference from the federal government and subsequently provided \$22.7 million during fiscal year 2016 and \$17.2 million during fiscal year 2015, representing both the state and federal share of the difference, to the UWMF. In addition, transfers by UW-Madison to the MA Trust Fund of \$13.0 million during fiscal year 2016 and \$9.9 million in fiscal year 2015 were also made under this program and are reported as a transfer to state agencies on the financial statements.

During fiscal year 2016, the UWMF remitted \$17.2 million to UW-Madison as reimbursement for payments to DHS during fiscal year 2015. The \$17.2 million that UW-Madison received from the UWMF is included in the other non-operating revenues account on the financial statements.

In addition, UW-Madison incurred expenditures for which reimbursement was received from the UWMF. Of the \$98.4 million expended in fiscal year 2016, \$88.7 million was for salaries and fringe benefits of staff in the UW-Madison School of Medicine.

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2016 and 2015**

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

**B – University of Wisconsin Hospital and Clinics Authority**

The University of Wisconsin Hospital and Clinics Authority (UWHCA), pursuant to an act of the Wisconsin State Legislature, began operating on June 29, 1996 as a separate public authority. As required by this legislation, the University has entered into various affiliation and operating agreements with UWHCA, including a lease agreement. Under the terms of the lease, UWHCA makes payments equal to the debt service on all outstanding bonds issued by the State of Wisconsin to acquire, construct, or improve the leased facilities. At June 30, 2016, the present value of these future lease payments totaled \$0.2 million, compared to \$0.2 million at June 30, 2015, an amount equal to the principal on the related bonds outstanding; the asset is included on the balance sheet as part of the capital lease receivable, and the related debt is included as part of the total University bonds outstanding of \$1,384.1 million and \$1,371.5 million at June 30, 2016 and June 30, 2015, respectively. The leased facilities are not included as part of the University's investment in buildings since they have been reported by UWHCA in their audited financial statements in accordance with the generally accepted accounting principles that pertain to the reporting of leased assets.

During the fiscal year ended June 30, 2016, the University received services from UWHCA totaling \$4.8 million and provided services to UWHCA totaling \$66.9 million, compared to amounts for fiscal year ended June 30, 2015 of \$4.9 million and \$64.4 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 Institutes for Discovery, is organized under the UW-Madison Graduate School. The private portion of the facility is owned by the Wisconsin Alumni Research Foundation (WARF), which is an independent, nonprofit foundation chartered to support research at UW-Madison and the designated technology transfer organization for the university. The facility was originally undertaken with \$50.0 million in State of Wisconsin and University funding, \$110.0 million contributed by WARF, and a \$50.0 million donation from a private donor. The Morgridge Institute for Research, an independent IRC 501(c)(3) medical research organization, occupies the majority of the WARF-owned portion of the building.



**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2016 and 2015**

**NOTE 11 – Other Organizations**  
**C – The Wisconsin Institutes for Discovery (continued)**

The Wisconsin Institutes for Discovery facility is a 300,000 square foot building located at 330 North Orchard Street in Madison, Wisconsin. Since the University initially owned all of this land, the University and WARF became parties to a Real Property Exchange Agreement dated January 19, 2007. Under the terms of the Exchange Agreement, the University agreed to convey to WARF a portion of this land, and WARF agreed to convey to the University properties of equal value as defined in the agreement. In fiscal years 2008-09 and 2010-11, the University recorded \$4.3 million and \$7.7 million, respectively, as Land and Capital Contributions for the fair market value of the properties WARF has conveyed to the University of Wisconsin System under this agreement. The remainder of the property was transferred to the Board of Regents of the University in November 2016.

The Wisconsin Institutes for Discovery is operated as a condominium. University and WARF are the members of The Wisconsin Institutes for Discovery Condominium Association, Inc. (Association), as set forth in the Condominium Declaration dated September 25, 2009. Ownership of the facility has been determined to be 30% University and 70% WARF. Of the total capitalized cost, the University capitalized \$60.1 million as Buildings, and the remaining amount was capitalized by WARF. Under the terms of the Condominium Declaration, the Association contracts with WARF for purposes of the management and operation of the property. The parties also entered into an Operating and Services Agreement that sets forth the mutually agreed upon specifics of such management and operation.

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

On June 6, 1997, the Board of Regents entered into a Use Agreement with The La Crosse Medical Health Science Consortium, Inc. (The Consortium), a Wisconsin non-stock corporation tax exempt under IRC 501(c)(3) with offices at 1725 State Street, La Crosse, Wisconsin. The Use Agreement makes available the exclusive use of the La Crosse Medical Health Science Education Research Center to The Consortium. As required by this Use Agreement, the University has entered into various operating agreements with The Consortium, including a lease agreement. Under the terms of the lease, The Consortium makes payments equal to the debt service on all outstanding bonds issued by the State of Wisconsin to acquire, construct, or improve the leased facilities. At June 30, 2016, the present value of these future lease payments totaled \$1.5 million, compared to \$2.6 million at June 30, 2015, an amount equal to the principal on the related bonds outstanding; the asset is included on the balance sheet as part of the capital lease receivable, and the related debt is included as part of the total University bonds outstanding of \$1,384.1 million and \$1,371.5 million at June 30, 2016 and June 30, 2015, respectively. The leased facilities are not included as part of the University's investment in buildings since they have been reported by The Consortium in their audited financial statements in accordance with the generally accepted accounting principles that pertain to the reporting of leased assets.

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2016 and 2015**

**NOTE 11 – Other Organizations**

**D – La Crosse Medical Health Science Education Research Center (continued)**

During the fiscal year ended June 30, 2016, the University provided services and rent to The Consortium totaling \$0.67 million. The cost of the services provided and the associated revenue are included in the Statement of Revenues, Expenses, and Changes in Net Position. The amounts spent for services received are included as salaries and fringe benefits and supplies and services expenses on this statement. The services received were funded by an equivalent amount of revenue from state appropriations.

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

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

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

**F – Funds Held In Trust by Others**

Funds held in trust by others are endowment funds held by trustees outside of the University Trust Funds for the benefit of the University. The market value of these funds amounted to \$177.2 million at June 30, 2016, compared with \$187.9 million at June 30, 2015. During fiscal year 2016, \$1.1 million of these funds was made available by the trustees for spending.

**NOTE 12 – Classification of Net Position**

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

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

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2016 and 2015**

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

The amounts within each category at June 30, 2016 and June 30, 2015 are as follows:

	<b><u>2016</u></b>	<b><u>2015</u></b>
Net Investment in Capital Assets	\$ 4,383,247,748	\$ 4,386,420,962
Restricted – Pensions	-	330,166,674
Restricted – Nonexpendable		
Permanent Endowment	181,685,224	194,516,535
Restricted – Expendable		
Quasi-Endowment	247,116,988	235,454,703
Auxiliary Operations – Segregated Fees	<u>93,574,988</u>	<u>87,508,726</u>
Subtotal	340,691,976	322,963,429
Restricted – Student Loans		
Federal Aid – Student Loans	191,342,336	191,887,916
Gifts – Student Loans	31,045,867	30,229,582
Endowment Funds	<u>13,364,280</u>	<u>14,512,915</u>
Subtotal	235,752,483	236,630,413
Restricted – Other		
Federal Aid	34,321,130	22,807,886
Gifts and Nonfederal Grants & Contracts	279,704,890	226,598,149
Endowment Funds	11,183,544	15,313,214
Construction Fund	124,826,819	117,429,175
Segregated Revenue	537,231	410,541
All Other Restricted Program Revenue	<u>2,826,320</u>	<u>2,003,599</u>
Subtotal	453,399,934	384,562,564
Unrestricted		
Tuition (Academic & Extension Student Fees)	376,901,931	363,504,921
General Operations	156,194,334	136,168,650
Auxiliary Operations (Non-Segregated Fee)	271,955,630	224,417,917
Indirect Cost Reimbursement	159,901,195	166,571,897
Endowment Funds	51,704,640	66,191,813
All Other Unrestricted Program Revenue	31,356,062	31,474,619
Gifts and Nonfederal Grants & Contracts (Note 1)	(30,992,666)	(35,945,278)
Federal Aid (Note 1)	(4,142,058)	(14,154,229)
All Other Non-Program Revenue (Note 2)	<u>(28,797,783)</u>	<u>(104,425,627)</u>
Subtotal	984,081,285	833,804,683
Total Net Position	<u>\$ 6,578,858,650</u>	<u>\$ 6,689,065,260</u>

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

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

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2016 and 2015**

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

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

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

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

CAFR reclassifications as of June 30, 2015 (in millions):

	<b>University of Wisconsin System</b>	<b>Auxiliary Operations</b>	<b>Quasi- Endowments</b>	<b>Student Loans</b>	<b>State of Wisconsin CAFR</b>
Net Investment in					
Capital Assets	\$ 4,386.4	\$ -	\$ -	\$ -	\$ 4,386.4
Restricted for					
Pensions	330.2	-	-	-	330.2
Nonexpendable	194.5	-	-	-	194.5
Expendable	323.0	(87.5)	51.9	-	287.4
Student Loans	236.6	-	-	(11.0)	225.6
Other	384.6	-	-	11.0	395.6
Unrestricted	<u>833.8</u>	<u>87.5</u>	<u>(51.9)</u>	<u>-</u>	<u>869.4</u>
Total Net Position	<u>\$ 6,689.1</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,689.1</u>

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2016 and 2015**

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

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

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

The June 30, 2015 Statement of Revenues, Expenses, and Changes in Net Position includes the following two prior period adjustments:

<b><u>Account Affected</u></b>	<b><u>Amount</u></b>	<b><u>Explanation</u></b>
Restricted Net Pension Asset	\$518,239,456	Implementation of GASB Statement No. 68
Net Position	(518,239,456)	
Other Post-Employment Benefits Liability	(233,006,049)	Change in accounting principle for reporting the liability related to post-employment benefits other than pensions. This liability was disclosed in prior years. However, including it in the statements provides a more complete picture of the UW System's future liabilities.
Net Position	233,006,049	

**NOTE 14 – Contingent Liabilities**

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

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

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2016 and 2015**

**NOTE 15 – Subsequent Events**

In July 2016, the State issued \$93.7 million of general obligation bonds. Of the \$93.7 million, \$84.0 million was issued as tax exempt obligations (Series B) and \$9.7 million was issued as taxable obligations (Series C). The bonds of both series are 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 the Series B bonds were set at 4.0 to 5.0 percent payable semiannually beginning November 1, 2016 and the interest rates associated with the Series C bonds were set at 0.80 to 2.00 percent payable semiannually beginning November 1, 2016. The Series B bonds mature annually beginning May 1, 2018 through May 1 2023, and the Series C bonds mature annually beginning May 1, 2018 through May 1, 2026. The total par amount of the 2016 Series B bonds issued for University purposes was \$10.9 million; additional purchase premium proceeds from this issue were also applied for UW purposes. No 2016 Series C bonds were issued for University purposes.

In August 2016, the State of Wisconsin (State) issued \$370.8 million of 2016 Series 2 Refunding general obligation bonds to be used for advance refunding of certain principal of previously issued general obligation bonds. The interest rates associated with these bonds were set at 1.5 to 5.0 percent payable semiannually beginning November 1, 2016. The bonds mature annually beginning November 1, 2021 through November 1, 2030.

In September 2016, the State issued \$136.0 million of 2016 Series A general obligation commercial paper notes to be used to fund previously issued general obligation extendible municipal commercial paper notes. A portion of the previously issued general obligation extendible municipal commercial paper notes were issued for borrowing purposes for the University.

In October 2016, the State issued \$324.4 million of general obligation bonds. The bonds are 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 the bonds were set at 4.0 to 5.0 percent payable semiannually beginning May 1, 2017. The bonds mature annually beginning May 1, 2018 through May 1 2037. The total par amount of the 2016 Series D bonds issued for University purposes was \$17.1 million; additional purchase premium proceeds from this issue were also applied for University purposes.

In March 2017, the State issued \$335.3 million of general obligation bonds. The bonds are 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 the bonds were set at 4.0 to 5.0 percent payable semiannually beginning November 1, 2017. The bonds mature annually beginning May 1, 2022 through May 1, 2037. The total par amount of the 2017 Series A bonds issued for University purposes was \$88.9 million; additional purchase premium proceeds from this issue were also applied for University purposes.

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**UNIVERSITY OF WISCONSIN SYSTEM**  
**Required Supplementary Information**  
**and Notes to Required Supplementary**  
**Information**  
**Years Ended June 30, 2016 and 2015**

**Required Supplementary Information**

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

	<u><b>2016</b></u>	<u><b>2015</b></u>
Proportion of the net pension liability (asset)	13.59%	13.44%
Proportionate share of the net pension liability (asset)	\$ 220,794,780	\$ (330,166,674)
Covered-employee payroll	\$ 1,924,520,818	\$ 1,896,092,723
Proportionate share as a percentage of covered payroll	11.47%	17.41%
Plan's fiduciary net position as a percentage of the total pension liability	98.2%	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

	<u><b>2016</b></u>	<u><b>2015</b></u>
Contractually required contributions	\$ 131,542,672	\$ 133,468,069
Contributions recognized in relation to the contractually required contributions	<u>131,542,672</u>	<u>133,468,069</u>
Contribution deficiency (excess)	\$ -	\$ -
Covered-employee payroll	\$ 1,924,520,818	\$ 1,896,092,723
Contributions recognized as a percentage of covered-employee payroll	6.84%	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, 2016**

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

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



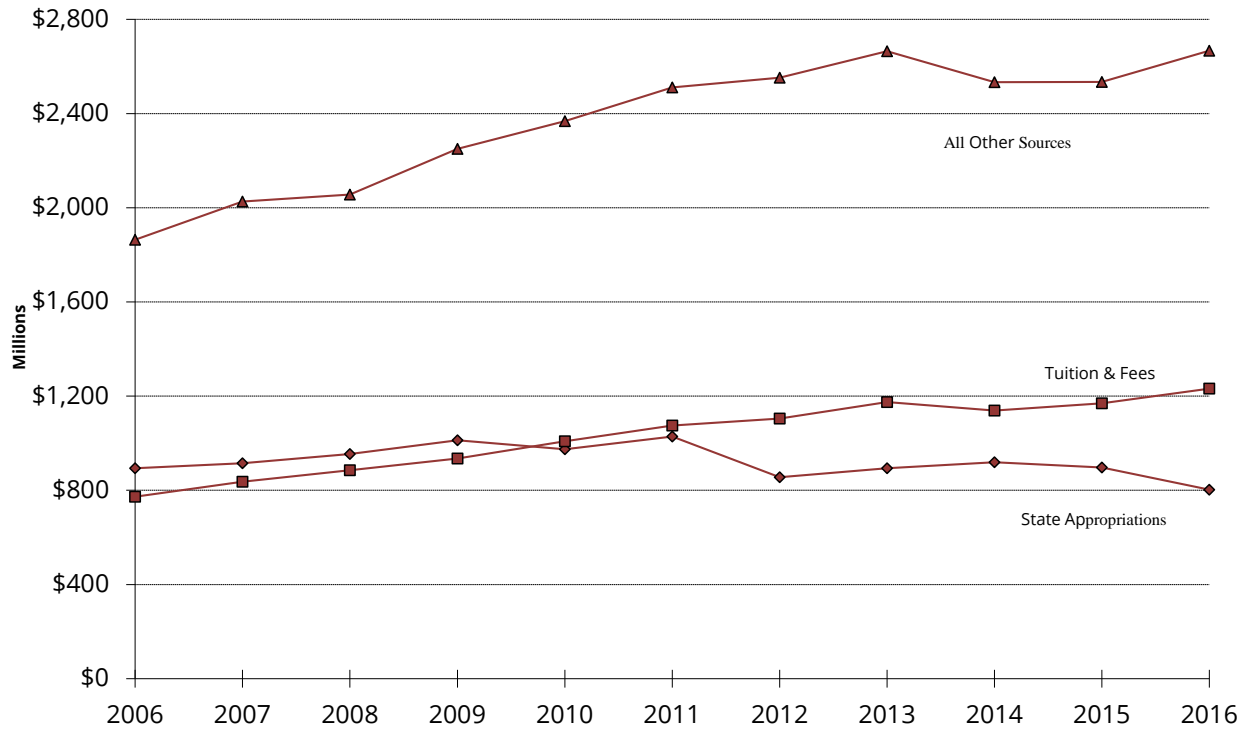
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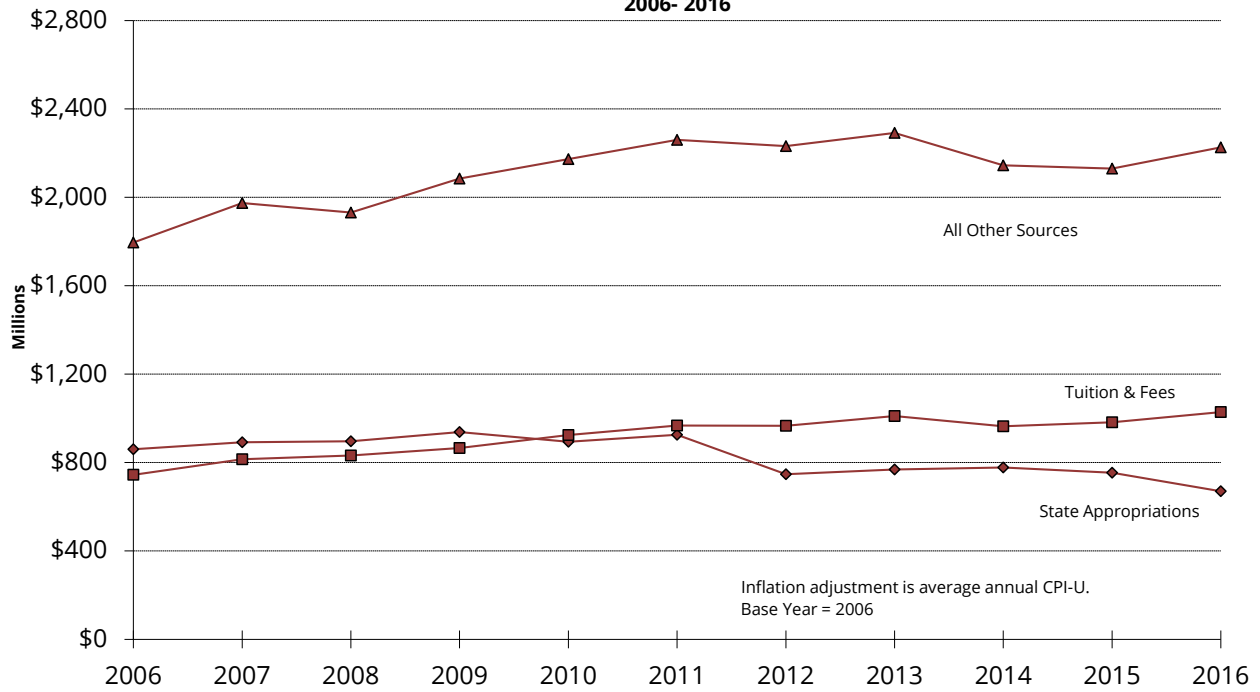
*Years Ended June 30, 2016 and 2015*

## SUPPLEMENTAL INFORMATION

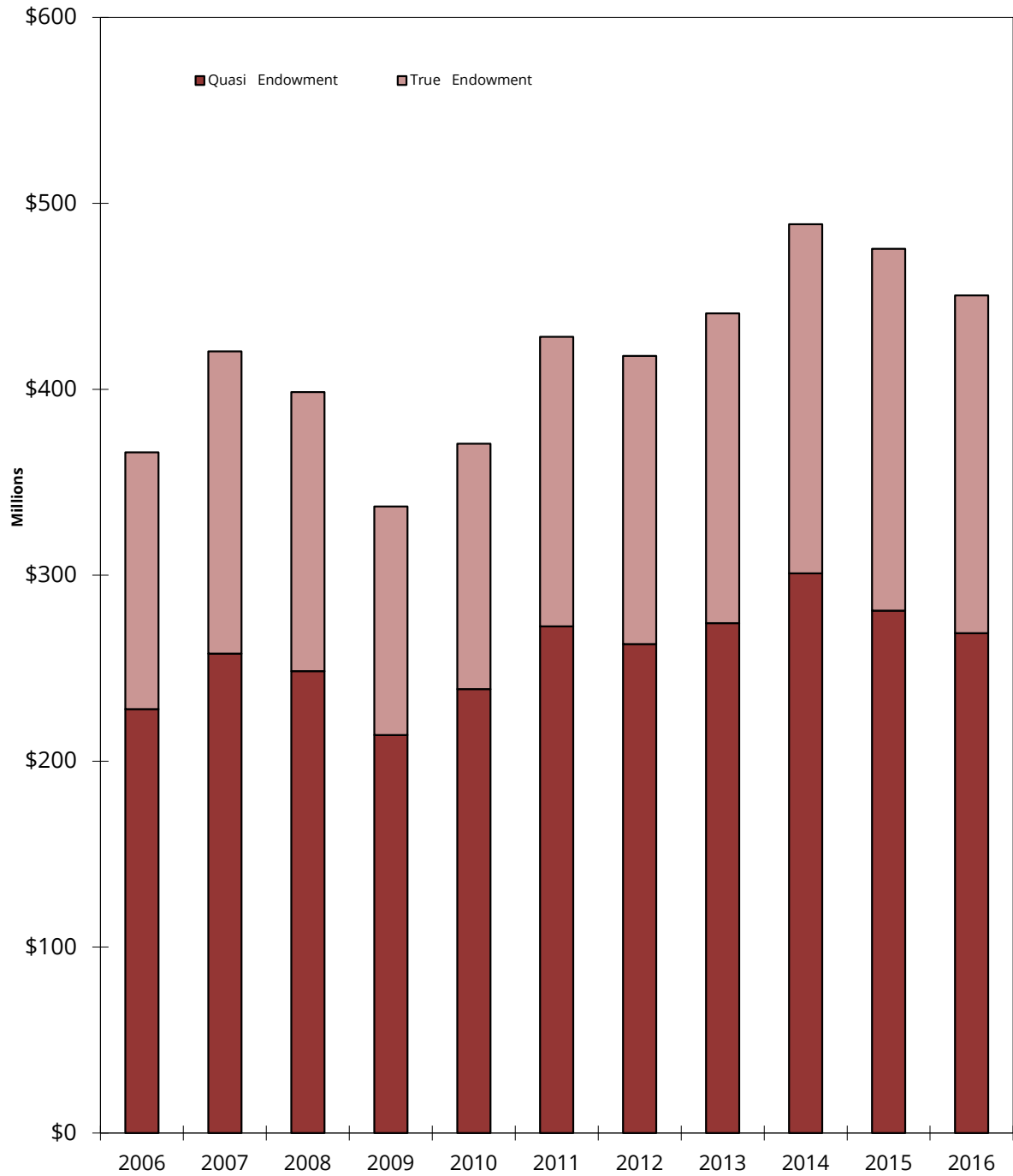
**CHART 1**  
**COMPARISON OF CURRENT FUNDS REVENUES**  
**2006-2016**



**CHART 2**  
**COMPARISON OF CURRENT FUNDS REVENUES**  
**ADJUSTED FOR INFLATION**  
**2006- 2016**



**CHART 3**  
**UNIVERSITY-CONTROLLED ENDOWMENTS**  
**2006-2016**



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

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University of Wisconsin System  
Contractual Agreement Extension  
with Desire2Learn Ltd. for  
Learning Management Software

BUSINESS AND FINANCE COMMITTEE

Resolution:

That, upon recommendation of the President of the University of Wisconsin System, the Board of Regents approves the option of a contract extension between the UW System and Desire2Learn Ltd., for the products, licenses, and services related the Learning Management System.

**UNIVERSITY OF WISCONSIN SYSTEM  
CONTRACTUAL AGREEMENT EXTENSION  
WITH DESIRE2LEARN LTD. FOR LEARNING MANAGEMENT SOFTWARE**

**BACKGROUND**

Desire2Learn's (D2L) Brightspace, is the enterprise Learning Management System (LMS) standardized at all University of Wisconsin System institutions. The LMS is the software platform through which UW System delivers online course material and interactions for traditional, blended, and totally online courses. It is licensed for use by all students and faculty at all institutions and is a core component of the academic information technology infrastructure. The D2L system was originally selected through a competitive RFP process in 2003. The UW System signed a five-year extension in 2008 and again in 2013. The system delivered more than 45,000 courses in Spring and Fall 2016 semesters to over 150,000 students. It continues to see an increase in usage every year.

The Learn@UW Executive Committee is a systemwide committee of individuals with teaching and learning, and technical expertise. The Committee provides vision, strategic direction and oversight for instructional applications and tools that support teaching and learning across the UW System. The Learn@UW Executive Committee studied the LMS market this past year, and determined it was time to go to the market with an RFP to review and vet all Learning Environment systems. The purpose of this contract is to establish an optional extension in case D2L is not the winner of a new contract. This extension period will allow for a reasonable transition of courses from the D2L system to a new system. This contract is simply an option and may not be exercised.

**REQUESTED ACTION**

Approval of Resolution I.2.d.

**DISCUSSION**

Under the direction of the LEARN@UW Executive Committee, the UW System has negotiated a two-year extension contract with D2L with the following provisions:

- The cost of the contract is \$2.6 million over the two-year extension. The contract provides an extension of the existing terms and conditions with D2L for a two-year period, if needed.
- D2L will continue to provide the use of online e-Portfolio functionality to all UWS students during their tenure on campuses and for free after graduation.

- D2L must provide the UW System with annual confirmation that the software has passed security vulnerability testing conducted by a third party.

## **RELATED REGENT POLICIES**

Regent Policy Document 13-1: General Contract Authority, Approval, and Reporting.



UW-Whitewater Dining Services Agreement  
with A'viands, LLC

BUSINESS AND FINANCE COMMITTEE

Resolution:

That, upon the recommendation of the Chancellor of the University of Wisconsin-Whitewater and the President of the University of Wisconsin System, the Board of Regents approves the Dining Services contractual agreement between the University of Wisconsin System Board of Regents, doing business as the University of Wisconsin-Whitewater, and A'viands, LLC to provide Dining Services for a period of five years, effective June 1, 2017 with two one-year renewal options.

**UW-WHITewater DINING SERVICES AGREEMENT WITH  
A'VIANDS, LLC**

**EXECUTIVE SUMMARY**

**BACKGROUND**

UW System Board of Regents policy RPD 13-1 requires any grant or contract with private profit-making organizations in excess of \$1,000,000 be presented to the Board for formal acceptance prior to execution.

The University of Wisconsin-Whitewater ran a competitive Request for Proposal (RFP) process (PS-17-2474) to seek a Dining Services contractor for the institution and is seeking approval for award.

**REQUESTED ACTION**

Approval of Resolution I.2.e.

**DISCUSSION**

UW-Whitewater has contracted for dining services since the 1970's, with the current contract expiring on May 31, 2017. In response to a Request for Proposal (PS-17-2474 Dining Services) four vendors submitted a proposal: Compass Group USA, by and through its Chartwells Division, A'viands, LLC, Sodexo Operations, LLC and Aramark Educational Services, LLC. A'viands, LLC, was selected as the winning provider of these services. An eleven-member evaluation committee, including six students, and five staff members completed the scoring process, which was led by UW System Procurement staff. The A'viands, LLC, proposal meets all of the UW-Whitewater desired outcomes.

Some highlights of the contract are as follows:

- Contractor will assume operation of the Dining Services under the new contract on June 1, 2017 for five years with two one-year extensions, for a potential seven-year contract.
- The contractor will operate all dining services, including the residential dining program, retail operations, catering, conferences, camps and summer activities.
- Annual net revenue to the contractor is valued at approximately \$4.63 million per year.
- The estimated savings from the previous contract is \$0.639 million annually for a 12.1% reduction.
- Estimated revenue to the vendor for the life of the contract is \$32.41 million.

- UW-Whitewater will receive an estimated annual commission of \$518,000 annually, or a minimum annual guarantee of \$435,000 whichever is greater.
- Estimated commissions to UW-Whitewater for the life of the contract are \$3.63 million.
- The contractor will invest \$1.0 million in refreshing and refurbishing campus dining spaces.

## **RELATED REGENT POLICIES**

Regent Policy Document 13-1: General Contract Authority, Approval and Reporting

State of Wisconsin  
University of Wisconsin System  
Office of Procurement  
780 Regent Street

CONTRACT NO. PS-17-2474

COMMODITY CODE: 96219

DATE: March 27, 2017

SERVICE: Dining Services for the University of Wisconsin-Whitewater

CONTRACT TERM: A five (5) year contract effective June 1, 2017 through May 31, 2018 with two (2) one year (1) renewal options

REFERENCE: Per the attached Specifications and vendor's response to Request for Proposal # PS-17-2474

VENDOR: A'viands, LLC  
1751 County Road B West, Suite 300  
Roseville, MN 55113

VENDOR CONTACT: Mr. Greg Rich, Vice President – Higher Education & Business Dining  
Phone: (612) 432-0254  
E-Mail Address: [grich@aviands.com](mailto:grich@aviands.com)

FEIN NO: 01-0794459

COMMISSION AND  
GUARANTEE: Per the attached Bid Specifications Page No. 103. Commission: 15.40% all declining balance sales (other than non-commissionable Dining Dollar sales in Drumlin and Esker), retail including Catering, Alcoholic Beverage, camps/conferences, Convenience Stores and cash sales), Guarantee: \$435,000 or Commission whichever is greater.

COMMISSION  
PAYMENTS: Due on or before the 20th day of the period for the previous period's receipts.  
See Page 105 of bid specifications.

PERFORMANCE BOND: Currently on file at UW System Procurement in the amount of \$600,000 and to be maintained in force by the contractor for the life of the contract.

INSURANCE  
CERTIFICATE: To be maintained on file with UW System Procurement at 780 Regent Street, Madison, Wisconsin, 53715, in the amounts specified on Page 54 Section B, Number 14 Insurance Requirements of the specifications.

ESTIMATED CONTRACT  
TERMINATION DATE: May 31, 2024

CONTRACT  
DISTRIBUTION: Mr. Bob Barry, Executive Director University Center – UW-Whitewater  
Phone Number: (262) 472-6223  
E-Mail: [barryr@uww.edu](mailto:barryr@uww.edu)

For further information contact:  
Paul D. Schlough  
UW System Procurement  
Telephone: 608-265-0557

UW-Madison Contractual Agreement  
with Target PharmaSolutions, Inc.

BUSINESS AND FINANCE COMMITTEE

Resolution:

That, upon the recommendation of the Chancellor of the University of Wisconsin-Madison and the President of the University of Wisconsin System, the Board of Regents approves the contractual agreement between the Board of Regents of the University of Wisconsin System, doing business as UW-Madison, and Target PharmaSolutions, Inc.

**UW-MADISON CONTRACTUAL AGREEMENT  
WITH TARGET PHARMASOLUTIONS, INC.**

**EXECUTIVE SUMMARY**

**BACKGROUND**

UW System Board of Regents policy requires any grant or contract with private profit-making organizations in excess of \$1,000,000 be presented to the Board for formal approval prior to execution.

**REQUESTED ACTION**

Adoption of Resolution I.2.f., approving the contractual agreement between the Board of Regents and Target PharmaSolutions, Inc.

**DISCUSSION AND RECOMMENDATIONS**

The University of Wisconsin-Madison School of Medicine and Public Health, with assistance from the Office of Research and Sponsored Programs at the University of Wisconsin-Madison, has negotiated a Master Clinical Study Agreement with Target PharmaSolutions, Inc. In consideration for providing the requested clinical research, Target PharmaSolutions, Inc., could potentially pay the University in excess of \$1,000,000. The research projects are anticipated to be conducted during the period from April 7, 2017 through completion of the studies.

This is a Master Clinical Study Agreement for longitudinal, observational, non-interventional studies of FDA-approved medications and other therapies used in usual clinical practice.

**RELATED REGENT POLICIES**

Regent Policy Document 13-1, General Contract Signature Authority, Approval, and Reporting

UW-Madison Contractual Agreement  
with Madison Vaccines, Inc.

BUSINESS AND FINANCE COMMITTEE

Resolution:

That, upon the recommendation of the Chancellor of the University of Wisconsin-Madison and the President of the University of Wisconsin System, the Board of Regents approves the contractual agreement between the Board of Regents of the University of Wisconsin System, doing business as UW-Madison, and Madison Vaccines, Inc.

**UW-MADISON CONTRACTUAL AGREEMENT  
WITH MADISON VACCINES, INC.**

**EXECUTIVE SUMMARY**

**BACKGROUND**

UW System Board of Regents policy requires any grant or contract with private profit-making organizations in excess of \$1,000,000 be presented to the Board for formal approval prior to execution.

**REQUESTED ACTION**

Adoption of Resolution I.2.g., approving the contractual agreement between the Board of Regents and Madison Vaccines, Inc.

**DISCUSSION AND RECOMMENDATIONS**

The University of Wisconsin-Madison School of Medicine and Public Health, with assistance from the Office of Research and Sponsored Programs at the University of Wisconsin-Madison, has negotiated a Sponsored Research Agreement with Madison Vaccines, Inc. In consideration for providing the requested research, Madison Vaccines, Inc., shall pay the University an estimated \$1,232,754. The research project is anticipated to be conducted during the period from May 1, 2017 through the conclusion of the study. The research will be conducted in the UW Carbone Cancer Center under the direction of Dr. Glenn Liu.

The study is titled, "Pilot Trial of pTVG-HP DNA Vaccine and Pembrolizumab in Patients with Castration-Resistant, Metastatic Prostate Cancer." The research is a clinical study of a potential prostate cancer vaccine.

**RELATED REGENT POLICIES**

Regent Policy Document 13-1, General Contract Signature Authority, Approval, and Reporting



UW-Madison Contractual Agreement  
With Johnson Controls, Inc.

BUSINESS AND FINANCE COMMITTEE

Resolution:

That, upon the recommendation of the Chancellor of the University of Wisconsin-Madison and the President of the University of Wisconsin System, the Board of Regents approves one new and four existing contractual agreements between the Board of Regents, doing business as University of Wisconsin-Madison, and Johnson Controls, Inc.

**UW-MADISON CONTRACTUAL AGREEMENT  
WITH JOHNSON CONTROLS, INC.**

**EXECUTIVE SUMMARY**

**BACKGROUND**

UW Board of Regents policy requires any grant or contract with private profit-making organizations in excess of \$1,000,000 be presented to the Board for formal approval prior to execution.

**REQUESTED ACTION**

Approval of Resolution I.2.h.

**DISCUSSION**

The Facilities Planning and Management Division at the University of Wisconsin-Madison entered into four project agreements with Johnson Controls, Inc., commencing in October 2010 through April 2015, and is in the final stages of completing the necessary paperwork for one additional project pending Board of Regent approval. The scope of these contracts encompasses various energy conservation improvement projects in multiple buildings on the main campus. UW System Administration recently informed UW-Madison that approval of these subcontractor relationships by the Department of Administration's Division of Facilities Development (DFD), did not obviate the need to obtain prior Board of Regents' approval of the DFD form subcontracts, and now seeks to rectify this oversight by obtaining retroactive approval.

Under these agreements, UW-Madison is providing services for building energy improvements including replacement of air handling units and fume hoods, new reheat coils and exhaust valves, new energy management systems including control systems, and various lighting upgrades. The services for the five projects will be provided through December 2018. Although there are five projects, within each project there are multiple subcontracts to separate individual building scope work. The DFD-approved contract values to UW-Madison associated with such services total \$26,375,929; however, due to mutually agreed upon changes, the current contracts were reduced to \$14,538,302, to reflect removal of portions of the work from the original scope. To date, \$11,091,956 in payments have been made to UW-Madison pursuant to these agreements. A pending subcontract for work in Russell Labs, valued at \$1,839,481, is included in this request and will bring the overall total contract value to \$16,377,783. The work is being overseen by Facilities Planning and Management operational staff. The attached summary document provides an overview of the projects, related subcontract components, and original vs current subcontract values.

Energy Conservation projects are managed through DFD. DFD did approve UW-Madison as a subcontractor for this work and all of the projects were previously approved by the Board of Regents as part of the All Agency program prior to submission to the State Building Commission for its review and approval.

#### **RELATED REGENT POLICIES**

Regent Policy Document 13-1: General Contract Authority, Approval, and Reporting.

## UW-Madison Subcontracts with JCI

3/24/2017

Project w/Subcontracts	Date Executed	DFD approved Subcontractor Value on NTP**	Original Subcontract Value	Current Subcontract Value *
<b>Multi-Building Phase 2</b>				
10C2S - Rennebohm Original	10/22/2010		\$2,420,000	\$2,335,216
10C2S - Tunnels Original	10/25/2010		\$4,500,000	\$1,105,382
10C2S - AOSS Original	11/10/2010		\$690,000	\$624,142
10C2S - Biochemistry Original	11/12/2010		\$2,000,000	\$898,335
10C2S - ECB Original	11/14/2010		\$1,817,000	\$1,678,003
10C2S - Genetics Biotech Original	11/14/2010		\$1,690,000	\$809,830
<b>TOTALS</b>		<b>\$14,000,000</b>	<b>\$13,117,000</b>	<b>\$7,450,908</b>
<b>Multi-Building Phase 4</b>				
12F1K - Bock Lab Original	10/1/2012		\$1,555,690	\$718,234
12F1K - Lighting Original	10/1/2012		\$2,803,325	\$1,115,093
12F1K - SVM Original	10/1/2012		\$2,740,166	\$1,872,681
12F1K - Tunnel PH 2	6/12/2013		\$1,735,000	\$653,241
<b>TOTALS</b>		<b>\$8,014,181</b>	<b>\$8,834,181</b>	<b>\$4,359,249</b>
<b>Multi-Building Phase 6</b>				
13C2U - Waisman Original	10/4/2013		\$1,464,918	\$880,893
13C2U - WIMR Original	10/21/2013		\$381,300	\$147,024
<b>TOTALS</b>		<b>\$1,846,218</b>	<b>\$1,846,218</b>	<b>\$1,027,917</b>
<b>Multi-Building Phase 7</b>				
14L1X - McArdle Lab Original	4/8/2015		\$2,405,755	\$1,610,655
14L1X - Henry Mall Original	4/8/2015		\$109,775	\$89,573
<b>TOTALS</b>		<b>\$2,515,530</b>	<b>\$2,515,530</b>	<b>\$1,700,228</b>
<b>Multi-Building Phase 8</b>				
16G1F - Russell Labs in process	TBD	<b>\$3,200,000</b>	<b>\$1,839,481</b>	<b>\$1,839,481</b>
<b>TOTALS</b>		<b>\$3,200,000</b>	<b>\$1,839,481</b>	<b>\$1,839,481</b>
<b>TOTAL VALUE OF ALL CONTRACTS</b>		<b>\$29,575,929</b>	<b>\$28,152,410</b>	<b>\$16,377,783</b>

\*Contracts are reduced by change order to JCI to perform digital control work and subcontract for electrical, insulating etc. and material purchases as requested by campus.

\*\* NTP - Notice to Proceed

UW-Madison Contractual Agreement  
with Amazon Pickup Points, LLC

BUSINESS AND FINANCE COMMITTEE

Resolution:

That, upon the recommendation of the Chancellor of the University of Wisconsin-Madison and the President of the University of Wisconsin System, the Board of Regents approves the contractual agreement between the Board of Regents of the University of Wisconsin System, doing business as UW-Madison, and Amazon Pickup Points, LLC. This agreement replaces the Amazon Pickup Points contract the Board of Regents approved in August 2016, which will not be executed.

April 7, 2017

Agenda item I.2.i.

## **UW-MADISON CONTRACTUAL AGREEMENT WITH AMAZON PICKUP POINTS, LLC**

### **EXECUTIVE SUMMARY**

#### **BACKGROUND**

UW System Board of Regents policy requires that any grant or contract with private profit-making organizations in excess of \$1,000,000 or, that in the judgment of the President of the UW System warrant Board review, shall be presented to the Board for approval prior to execution.

#### **REQUESTED ACTION**

Adoption of Resolution I.2.i., approving the contractual agreement between the Board of Regents and Amazon Pickup Points, LLC, replacing the unexecuted agreement the Board approved in August 2016.

#### **DISCUSSION**

In August 2016, the Board of Regents approved an agreement with Amazon Pickup Points, LLC, for an Amazon retail pickup location at the Red Gym on the UW-Madison campus. The Red Gym site was to serve as a pickup location for merchandise students, faculty and staff ordered online. Since then, various developments led UW-Madison and Amazon to negotiate a revised agreement for an on-campus retail site.

It was determined after additional consultation with faculty, staff and students that the Red Gym was a less-than-optimal location for the retail facility. A location at Sellery Hall, one of the University's southeast residence halls, emerged as an alternate location and is the agreed-upon site under the new contract. Site work at Sellery Hall is anticipated to begin this summer, with the intent that the pickup facility will be complete for the fall semester.

Since August of 2016, Amazon has revised the business model for its retail pickup points and moved to a model of providing a flat annual payment rather than a commission based on annual sales. Under the current model, Amazon will pay UW-Madison \$190,000 per year over five years, less certain expenses associated with facility improvements made by Amazon. In comparison, the agreement the Regents approved in August guaranteed the University a

\$100,000 minimum annual payment and additional revenue based on sales volume, less improvement-related expenses.

The primary factors driving UW-Madison to enter into this agreement are the same that existed in August:

- It will provide a convenience for students and other members of the campus community, while also reducing delivery vehicle traffic on campus.
- At a time of changing budget realities and increasing financial challenges, it will generate additional revenue for investment in the University's public mission.
- The agreement and the process that led to it demonstrate the University's willingness and ability to work with private-sector partners in creative ways.

Amazon has entered into similar agreements with other universities, including Purdue University, the University of Massachusetts-Amherst, the University of California-Berkeley, the University of California-Davis, the University of California-San Diego, California State University-Long Beach, the University of Pennsylvania, the University of Texas at Austin, the Georgia Institute of Technology, the University of Illinois at Urbana-Champaign, the University of Illinois at Chicago, and Stony Brook University.

## **RELATED REGENT POLICIES**

Regent Policy Document 13-1, General Contract Signature Authority, Approval, and Reporting