

**UW SYSTEM
2018 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 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 required by GASB and measures the financial performance and position of an entity by recognizing economic events when the transactions occur, regardless of when cash is paid or received.

In accordance with GAAP, the draft Annual Financial Report for the year ending June 30, 2018, 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 a draft unmodified or "clean" audit opinion from Plante Moran, the external firm hired earlier this year. The State of Wisconsin's Legislative Audit Bureau conducted all prior financial audits, as required by state statute.

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 interest within the MD&A is a section entitled Factors Affecting Future Periods.

Analysis of the UW System's draft financial statements and notes may provide management with a better understanding of operations and 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 Draft Financial Statements

Statement of Net Position – There were several significant changes within the UW System’s net position between fiscal year (FY) 2018 and FY 2017, as reflected in the table below.

Net Position (*in millions*):

	<u>2018</u>	<u>2017</u>	<u>\$ Change</u>	<u>% Change</u>
Net Investment in Capital Assets	\$ 3,519.6	\$ 3,435.9	\$ 83.7	2.4%
Restricted Net Position	1,600.3	1,098.7	501.6	45.7%
Unrestricted Net Position	<u>310.2</u>	<u>912.9</u>	<u>(602.7)</u>	(66.0%)
Total Net Position	<u>\$ 5,430.1</u>	<u>\$ 5,447.5</u>	<u>\$ (17.4)</u>	(0.3%)

The Statement of Net Position, provided on page 18 of the 2018 Annual Financial Report, shows that the UW System’s Net Position remained relatively stable, decreasing by \$17.4 million. Restricted Net Position categories—the “equity” with external limitations—have increased between years by \$501.6 million, or 45.7%. However, the Statement of Net Position reports a \$602.7 million decrease in Unrestricted Net Position, from \$912.9 million in FY 2017 to \$310.2 million in FY 2018. 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.

These significant changes between years relate to accounting standards for pensions and other postemployment benefits, specifically Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, and Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. These standards essentially require governmental entities to report the difference between the value of a plan’s assets and the present value of projected benefit payments. In FY 2018, the Department of Employee Trust Funds, which manages the Wisconsin Retirement System, reported the pension plan’s net position increased because of investment earnings being significantly higher than projected. As a result, the UW System’s Net Pension Liability of \$112.7 million in FY 2017 swung to a \$399.1 million Net Pension Asset in FY 2018.

Statement of Revenues, Expenses and Changes in Net Position – Three prior period adjustments impact our beginning Net Position, and are detailed in Note 14. The largest adjustment relates to library holdings, which were previously considered inexhaustible assets and not depreciated. At the request of our external auditor and in line with current industry practice, the FY 2017 financial statements have been revised to reflect depreciation, resulting in a \$962.3 million reduction in Net Investment in Capital Assets.

Operating revenues and expenses, which are reported on page 19 of the 2018 Annual Financial Report, are relatively consistent between FY 2018 and FY 2017. An increase of \$60.6 million, or

1.7%, was reported in operating revenues, while operating expenses decreased \$28.9 million, or 0.6%. Though UW resident undergraduate tuition remained frozen in 2016-2017, there was an increase of \$21.1 million in nonresident and graduate tuition and fees revenue. Within operating expenses, salary and fringe benefit expenses decreased \$71.8 million. However, this change is wholly attributed to the accrual adjustments in pension and other postemployment benefit expense. Overall salary and fringe benefit expense increased \$55.3 million if the pension accruals related to GASB Statement No. 68 and No. 75 are eliminated.

In total, an operating loss of over \$1.3 billion was reported in both years. The UW System's operating loss will likely continue to be significant since GASB standards require state appropriations to be reported as non-operating revenue.

Within non-operating revenues, state appropriations increased by \$30.6 million and capital appropriations from the state increased \$39.0 million in FY 2018. The UW System also reported a \$24.2 million increase in capital contributions from private sources, from \$20.7 million in FY 2017 to \$44.9 million in FY 2018.

RELATED REGENT POLICIES

None

ANNUAL FINANCIAL REPORT

2018



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Madison, WI 53706**

Editor: Ginger Hintz

Cover Photo: UW-Eau Claire students walk across the campus mall in front of Centennial Hall, the newest academic building on campus. Centennial Hall houses the university's College of Education and Human Sciences administrative units; new classroom space; the departments of education studies, special education, English and languages; and select student support services. Classrooms are equipped with Smart Boards and flat screens and have technology to support iPads and other electronic devices to provide students with the best possible experiences and education.

Originally established in 1916 as a teacher's college, UW-Eau Claire is consistently rated among the top 10 public Midwestern universities and recognized nationally for quality academics and high return on investment. More than 87 percent of students have at least two high-impact experiences, which include study abroad, internships, intercultural immersion, service-learning, and faculty-student research. Blugolds receive essential preparation for 21st-century careers, with abundant opportunities to master leadership skills and get résumé-building experiences.

Since Chancellor James Schmidt began serving as the university's eighth chancellor in 2013, he has led UW-Eau Claire through strategic initiatives, building projects, and more. As of July 1, 2018, as part of a broader UW System restructuring initiative, UW-Eau Claire now welcomes a branch campus, UW-Eau Claire – Barron County.

Photo: UW-Eau Claire

University of Wisconsin System 2018 Annual Financial Report

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2018 Annual Financial Report

OFFICERS

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Interim Vice President for University Relations

Karen Schmitt,
Interim Vice President for Academic and Student
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Quinn Williams,
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Director of Financial Reporting

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Michael M. Kraus,
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CHANCELLORS

Vacant, 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

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Andrew J. Leavitt, UW-Oshkosh

Deborah Ford, UW-Parkside

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Bernie Patterson, UW-Stevens Point

Bob Meyer, UW-Stout

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Michael Grebe, Waukesha

Eve Hall, Milwaukee

Mike Jones, Milwaukee

Tracey Klein, Milwaukee

Regina Millner, Madison

Janice Mueller, Madison

Drew Petersen, Madison (Regent Vice President)

Cris Peterson, Grantsburg

Jason R. Plante, Eau Claire

Ryan Ring, UW-Eau Claire

Bryan Steil, Beloit

S. Mark Tyler, Woodville

Gerald Whitburn, Wausau



Years Ended June 30, 2018 and 2017

INTRODUCTION FROM THE PRESIDENT

DRAFT



INTRODUCTION FROM THE PRESIDENT

FINANCIAL REPORT 2018

The University of Wisconsin (UW) System remained a vibrant institution in fiscal year 2018, and continued to play a significant role in the State of Wisconsin and its economy. The UW System had another strong year in delivering a quality, accessible and affordable education for our students. Specifically, in fiscal year 2018:

- The UW System enrolled more than 174,000 students across 13 four-year and 13 two-year campuses;
- Approximately 31% of Wisconsin high school students enrolled in a UW institution immediately upon graduation;
- Students of color comprised nearly 16% of UW System students;
- More than 36,000 associate, bachelor's, master's and other advanced degrees

were awarded across all UW System campuses – with nearly 25% of those degrees in STEM and health-related fields;

- UW System launched an historic restructuring, integrating each two-year campus with a four-year institution to improve student access to higher education, increase efficiency, and better utilize resources while maintaining affordability;
- A new economic impact study found that UW System contributes \$24 billion to the state's economy each year, which is a 23-fold return on Wisconsin's investment in the university;
- The private sector is the overwhelming beneficiary of UW System's economic impact, receiving 75 percent – or \$18 billion – annually.

FY 2017-2018 Annual Financial Report Highlights

This 2018 Annual Financial Report shows that the UW System was able to achieve these accomplishments while its equity (called "Total Net Position") remained relatively stable in fiscal year 2018, decreasing by \$17.4 million, or 0.3%. However, we experienced more notable changes within categories of net position.

The Unrestricted Net Position (which describes resources not restricted by outside sources, such as the federal government or donors) declined by \$602.6 million, or 66.0%. This decline in unrestricted resources can be primarily attributed to accrual adjustments required by governmental accounting standards for Wisconsin Retirement System (WRS) and other postemployment benefits (OPEB) activity. The WRS adjustments in particular have varied significantly from year to year, and negatively affected the UW System's Unrestricted Net Position by \$669.5 million in fiscal year 2018. In contrast, the WRS accrual adjustments increased the Unrestricted Net Position by \$3.9 million in fiscal year 2017. The 2018 adjustments are due to changes in WRS

investment earnings being significantly higher than anticipated. Page 16 of this report provides the 2017 and 2018 condensed financial statements with and without these accrual adjustments to highlight the effect of WRS and OPEB adjustments.

The reduction in Unrestricted Net Position is largely offset with an increase in Net Position Restricted - Expendable of nearly \$511.7 million. This increase is due to two factors:

1. The WRS adjustments noted above also included the recognition of a \$399.1 million net pension asset, which is captured as a restricted but expendable portion of the UW System's Net Position. The UW System reported a pension liability of \$112.7 million in fiscal year 2017.
2. The UW System's cash and cash equivalents balance increased nearly \$202.3 million in fiscal year 2018. \$61.4 million of this change is due to an increase in bond proceeds and cash held for construction projects. In addition, in fiscal year 2018, the UW System transferred investment responsibility to the State of Wisconsin Investment Board (SWIB). The transfer to SWIB resulted in an asset allocation strategy that increased cash and cash equivalents over the prior year by \$79.5 million.

The UW System 2018 and 2017 financial statements incorporate three prior period adjustments or restatements to beginning balances, all of which are identified in Note 14 (Page 71).

1. The Governmental Accounting Standards Board (GASB) enacted Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This statement became effective for fiscal year 2018, and as described above, reduced the Unrestricted Net Position by \$220.9 million.

2. The UW System previously considered its Library Holdings to be inexhaustible assets that were not depreciated. While this was an accepted practice within higher education, peers began recognizing depreciation as Library Holdings changed in nature and electronic media became more prevalent. At the request of our external auditors and in line with current industry practice, the fiscal year 2017 financial statements have been revised to depreciate Library Holdings and reflect a \$962.3 million reduction in Net Investment in Capital Assets.
3. The Federal Perkins Loan Program, which was funded with a combination of federal and institutional funds, expired on October 1, 2015. Federal funding of approximately \$151.4 million will need to be returned to the federal government and is now reported as a liability, reducing the UW System's 2017 Net Position.

The UW System continues to be guided by 2020FWD, the strategic framework that reflects the needs and expectations of our students, citizens, communities and businesses. 2020FWD recognizes that access to a quality education is critical in supporting the economic vitality, health and well-being of all Wisconsin residents. To help improve student access and success, UW resident undergraduate tuition was frozen for the fifth consecutive year in 2017-18. In November 2017, the UW System Board of Regents also approved a resolution to restructure UW two-year campuses and UW-Extension.

The UW System's financial position must support the 2020FWD initiatives, tuition freeze and transition and transformation of our campuses, while continuing to preserve the quality and excellence for which the UW System is known. Doing so will not only benefit UW graduates but the State of Wisconsin as a whole.

Ray Cross, President

Independent Auditor's Report

To the 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 System (the "UW System"), an enterprise fund of the State of Wisconsin, and its aggregate discretely presented component units as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the University of Wisconsin System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports has been furnished to us and, in our opinion, insofar as it relates to the amounts included for the UW System, is based solely on the reports of the other auditors. We conducted our audit 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*, 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 aggregate discretely presented component units were not audited under 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 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 audit opinion.

Opinion

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Wisconsin System and its aggregate discretely presented component units as of June 30, 2018, and the changes in its financial position, and its cash flows, where applicable, thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

To the Joint Legislative Audit Committee,
Members of the University of Wisconsin Board of Regents,
and Dr. Raymond Cross, President
University of Wisconsin System

Emphasis of Matters

We draw attention to Note 1, which explains that these financial statements present only the University of Wisconsin System, an enterprise fund of the State of Wisconsin, and its aggregate discretely presented component units, and do not purport to, and do not, present fairly the financial position of the State of Wisconsin as of June 30, 2018, and the changes in its financial position, and the changes in its cash flows, where applicable thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Notes 1 and 14 to the financial statements, the University of Wisconsin System adopted the provisions under GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, as of July 1, 2017. Our opinion is not modified with respect to this matter.

As discussed in Note 1 to the financial statements, the University of Wisconsin System has a change in reporting entity for the reporting of its component units. The campus foundations are now presented as discretely presented component units; in the prior year only the University of Wisconsin Foundation, Inc. was included. Our opinion is not modified with respect to this matter.

As discussed in Note 4 and 14 to the financial statements, the University of Wisconsin System has elected to change its method of accounting for library holdings in 2018 and 2017. Our opinion is not modified with respect to this matter.

Other Matters

Report on Prior Year Financial Statements

The financial statements of the University of Wisconsin System as of and for the year ended June 30, 2017 were audited by a predecessor auditor who expressed an unmodified opinion on those financial statements. The predecessor auditor's report was dated January 31, 2018.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of UW System's proportionate share of the net pension (asset) liability and OPEB liability, the schedule of UW System's pension and OPEB contributions, and the related notes are to be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the UW System's financial statements. The supplementary information on pages 78 and 79 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information on pages 78 and 79 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

To the Joint Legislative Audit Committee,
Members of the University of Wisconsin Board of Regents,
and Dr. Raymond Cross, President
University of Wisconsin System

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2018 on our consideration of University of Wisconsin System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering University of Wisconsin System's internal control over financial reporting and compliance.

December 6, 2018

DRAFT



Years Ended June 30, 2018 and 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

DRAFT

UNIVERSITY OF WISCONSIN SYSTEM
Management's Discussion and Analysis
Years Ended June 30, 2018 and 2017

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, 2018 and 2017, with comparative information for the year ended June 30, 2016, where appropriate. This discussion has been prepared by management, is unaudited, and should be read in conjunction with the financial statements and footnotes.

For the fiscal years presented, the University consists of 13 universities, 13 two-year colleges, University of Wisconsin (UW)-Extension, and System Administration. In academic year 2017-2018, the University enrolled 174,516 students, employed approximately 32,161 faculty and staff, and granted 36,825 associate, bachelor's, master's, and other advanced degrees. University institutions were awarded over \$902.6 million in federal grants and contracts in fiscal year 2018 and an additional \$626.4 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.

<i>Degrees Granted</i>		<i>Headcount Enrollments</i>	
<i>UW-Madison</i>	<i>10,940</i>	<i>UW-Madison</i>	<i>43,450</i>
<i>UW-Milwaukee</i>	<i>5,299</i>	<i>UW-Milwaukee</i>	<i>25,381</i>
<i>UW-Eau Claire</i>	<i>2,160</i>	<i>UW-Eau Claire</i>	<i>10,825</i>
<i>UW-Green Bay</i>	<i>1,349</i>	<i>UW-Green Bay</i>	<i>7,178</i>
<i>UW-La Crosse</i>	<i>2,252</i>	<i>UW-La Crosse</i>	<i>10,534</i>
<i>UW-Oshkosh</i>	<i>2,530</i>	<i>UW-Oshkosh</i>	<i>13,935</i>
<i>UW-Parkside</i>	<i>783</i>	<i>UW-Parkside</i>	<i>4,308</i>
<i>UW-Platteville</i>	<i>1,791</i>	<i>UW-Platteville</i>	<i>8,558</i>
<i>UW-River Falls</i>	<i>1,263</i>	<i>UW-River Falls</i>	<i>6,110</i>
<i>UW-Stevens Point</i>	<i>1,783</i>	<i>UW-Stevens Point</i>	<i>8,208</i>
<i>UW-Stout</i>	<i>1,989</i>	<i>UW-Stout</i>	<i>9,401</i>
<i>UW-Superior</i>	<i>536</i>	<i>UW-Superior</i>	<i>2,590</i>
<i>UW-Whitewater</i>	<i>2,744</i>	<i>UW-Whitewater</i>	<i>12,430</i>
<i>UW Colleges</i>	<i><u>1,406</u></i>	<i>UW Colleges</i>	<i><u>11,608</u></i>
<i>Total</i>	<i><u>36,825</u></i>	<i>Total</i>	<i><u>174,516</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, 2018 and 2017, and includes all assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference between the two reported as net position. Current assets are those that are available to satisfy current liabilities inclusive of assets that will be converted to cash within one year. Current liabilities are those that will be paid within one year. Increases or decreases in net position provide an indicator of the improvement or erosion of the University's financial health when considered in conjunction with non-financial information, such as conditions of facilities and enrollment levels. Net Position is divided into three major categories: Net Investment in Capital Assets, Restricted, and Unrestricted. Net Investment in Capital Assets consists of capital assets reduced by the outstanding balances of borrowings for the construction, acquisition, or improvement of those assets. Restricted Net Position has constraints put on by external parties, such as sponsors for research and donors, or by State Statute and Board of Regent policy as in the case of student segregated fees. Unrestricted Net Position consists of funds that do not meet either of those definitions.

UNIVERSITY OF WISCONSIN SYSTEM
Management's Discussion and Analysis
Years Ended June 30, 2018 and 2017

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

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

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

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

UNIVERSITY OF WISCONSIN SYSTEM
Management's Discussion and Analysis
Years Ended June 30, 2018 and 2017

Analysis of Financial Position and Results of Operations

The University's total net position remained stable after fiscal year 2018. As of June 30, 2018, the University had total assets of \$8.3 billion and total liabilities of \$2.8 billion.

<u>Statement of Net Position (in millions)</u>			
	<u>2018</u>	<u>2017</u> <u>Restated</u>	<u>2016</u> <u>Restated</u>
Current Assets	\$ 2,206.2	\$ 2,009.0	\$ 1,988.3
Capital Assets, Net	5,140.1	5,060.0	5,035.8
Other Noncurrent Assets	<u>986.9</u>	<u>619.1</u>	<u>583.5</u>
Total Assets	8,333.2	7,688.1	7,607.6
Deferred Outflows of Resources	750.5	815.1	1,181.5
Current Liabilities	555.1	540.9	623.8
Noncurrent Liabilities	<u>2,248.9</u>	<u>2,154.8</u>	<u>2,227.6</u>
Total Liabilities	2,804.0	2,695.7	2,851.4
Deferred Inflows of Resources	849.6	359.9	472.6
Net Investment in Capital Assets	3,519.6	3,435.9	3,420.9
Restricted Net Position	1,600.3	1,098.7	1,211.5
Unrestricted Net Position	<u>310.2</u>	<u>913.0</u>	<u>832.7</u>
Total Net Position	<u>\$ 5,430.1</u>	<u>\$ 5,447.6</u>	<u>\$ 5,465.1</u>

Current assets minus current liabilities represents the net working capital of the University. Net working capital increased from \$1,468.1 million at June 30, 2017 to \$1,651.5 million at June 30, 2018. The net working capital at year end represented approximately 122 days of 2018 operating expenses. This indicates that the University could support normal operations for 122 days without additional revenues or liquidating noncurrent assets.

The following table contains a summary of Current Assets which consists primarily of operating cash and cash equivalents, accounts receivable, student loans receivable, supply inventories, and prepaid expenses. The largest change between 2018 and 2017 was in cash and cash equivalents which increased by \$202.3 million. This change relates to increased state, local and private grants and contracts; a shift between Endowment Investments and cash and cash equivalents related to the transfer of investment management to the State of Wisconsin Investment Board (SWIB); and increased program revenue cash for funding construction projects.

Current Assets (in millions)	<u>2018</u>	<u>2017</u>	<u>2016</u>
Cash & Cash Equivalents	\$ 1,868.4	\$ 1,666.1	\$ 1,642.6
Accounts Receivable, Net	259.0	241.6	244.0
Other Current Assets	<u>78.8</u>	<u>101.3</u>	<u>101.7</u>
Total Current Assets	<u>\$ 2,206.2</u>	<u>\$ 2,009.0</u>	<u>\$ 1,988.3</u>

The Board of Regents has authority to invest gifts and bequests received by the University. Through March 2018, investments were primarily held in two investment pools: The Long Term Fund and the Intermediate Term Fund. Effective April 1, 2018 and as permitted through Section 36.11 (11m) of the Wisconsin statutes, the Board of Regents transferred its investment management responsibilities to the State of Wisconsin Investment Board (SWIB). As a result of this transfer, the Board of Regents eliminated the Intermediate Term Fund as a separate investment pool. 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

UNIVERSITY OF WISCONSIN SYSTEM
Management's Discussion and Analysis
Years Ended June 30, 2018 and 2017

twelve-quarter moving average market value of the Fund. A comparison of university-controlled endowments over the past several years can be found in Chart 3 on page 79 of this report. Additional information on cash and investments is provided in Note 2 to the Financial Statements.

Non-current assets are comprised mainly of endowment investments, capital assets (net of accumulated depreciation), and student loans receivable. Endowment investments, valued at \$419.5 million at June 30, 2018, decreased by \$32.7 million during fiscal year 2018. The decrease was driven by market-based fluctuations in investment performance. However, investment earnings related to the pension plan fiduciary net position outpaced projected earnings resulting in a net pension asset of \$399.1 million that increased non-current assets.

Non-current liabilities increased by \$94.1 million in fiscal year 2018. The most significant reason for this is the adjustment to the other postemployment benefits. The total other postemployment benefits is based on a roll-forward of the December 31, 2016 valuation liabilities to December 31, 2017. 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 and 75. This change reduced plan net position and that resulted in recording a \$220.5 million net pension liability at June 30, 2016. In 2017, the plan fiduciary net position increased, which was driven by an increase in investment income. This increase in fiduciary net position reduced the net pension liability to \$112.7 million at June 30, 2017. As noted above, in 2018, as investment income continued to increase, the plan fiduciary net position further increased resulting in a net pension asset of \$399.1 million at June 30, 2018.

Further, these reporting changes resulted in \$53.5 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 13 to the Financial Statements.

Capital and Debt Activities

Of the \$5.4 billion in net position, \$3.5 billion is net investment in capital assets. In an effort to maintain quality in the University's academic and research programs and residence halls, the University has implemented a long-range plan to fund new construction and modernize existing facilities. Capital additions consist of new construction, replacement and renovation of academic and research facilities, as well as significant investment in technology and equipment. Note 4 to the Financial Statements describes the University's capitalization and depreciation policies, and includes summarized changes in the book value of these assets. Note 6 to the Financial Statements describes the University's long term debt and includes summarized information on those balances, as well as future debt service requirements.

There are three primary sources of funding for University capital projects: General Fund Supported Borrowing (GFSB) 20-year state-issued bonds repaid with General Program Revenue (GPR); Program Revenue Supported Borrowing (PRSB) 20- or 30-year state-issued bonds repaid with the University program revenue; Program Revenue Cash; and cash from gift and grant funds. State general obligation bonds issued for the University's purpose are rated by Moody's and S&P Aa1 and AA, respectively.

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Major Construction Projects

During fiscal year 2018, several major construction projects were in progress including these projects with a budget of \$50.0 million or more:

UW Institution	Project	Primary Purpose	Approx. Budget (in millions)	Primary Funding Sources
Milwaukee	NWQ Renovation	Academic	\$52.1	GFSB/PRSB/Cash
Madison	Music Performance Building	Academic	55.8	Gifts
Madison	Witte Residence Hall Renovation	Student Life	52.8	PRSB/Cash
Madison	New South East Recreational Facility (SERF)	Student Life	96.5	PRSB/Gifts
Madison	Chemistry Building	Academic	93.8	GFSB/Gifts/Cash
Platteville	Sesquicentennial Hall	Academic	55.2	GFSB/PRSB

Several construction projects were completed in FY 2018 including these projects with \$50.0 million or more in actual expenditures:

UW Institution	Project	Primary Purpose	Approx. Budget (in millions)	Primary Funding Sources
La Crosse	Science Lab Building	Academic	\$ 82.0	GFSB
Stevens Point	Chemistry-Biology Building	Academic	75.2	GFSB/Cash

Statement of Revenues, Expenses, and Changes in Net Position

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

	2018	2017 Restated	2016 Restated
Total Revenues	\$ 5,080.9	\$ 4,958.0	\$ 4,746.7
Total Expenses	<u>5,065.8</u>	<u>5,101.6</u>	<u>5,036.3</u>
Income (Loss) Before Capital and Endowment Additions	15.1	(143.6)	(289.6)
Capital Appropriations, Contributions & Endowment Additions	<u>188.4</u>	<u>126.0</u>	<u>137.4</u>
Increase (Decrease) in Net Position	<u>\$ 203.5</u>	<u>\$ (17.6)</u>	<u>\$ (152.2)</u>

UNIVERSITY OF WISCONSIN SYSTEM
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Years Ended June 30, 2018 and 2017

The University's operating and non-operating revenues are provided in the table below. Operating revenues increased \$147.5 million since fiscal year 2016 with the primary increase in non-resident tuition and all other operating revenues. Non-operating revenues increased \$186.6 million between fiscal year 2016 and fiscal year 2018 primarily due to changes in state appropriations, gifts, investment income (loss), and other non-operating revenues.

Operating Revenues (in millions):	2018	2017 Restated	2016 Restated
Student Tuition and Fees, Net	\$ 1,279.3	\$ 1,258.2	\$ 1,231.8
Federal Grants and Contracts	599.6	610.4	617.2
State, Local, & Private Grants and Contracts	432.6	439.8	414.6
Sales and Services of Educational Activities	319.5	335.6	317.1
Sales and Services of Auxiliaries, Net	445.4	429.5	418.1
All Other Operating Revenues	<u>537.6</u>	<u>479.8</u>	<u>467.7</u>
Total Operating Revenues	3,614.0	3,553.3	3,466.5
Non-Operating Revenues:			
State Appropriations	838.8	808.2	802.7
Gifts	370.0	378.1	303.1
Federal Pell Grants	162.7	150.9	162.7
Net Investment Income (Loss)	45.1	56.2	(3.4)
Other Non-Operating Revenues	<u>50.3</u>	<u>11.3</u>	<u>15.1</u>
Total Non-Operating Revenues	<u>1,466.9</u>	<u>1,404.7</u>	<u>1,280.2</u>
Total Revenues	<u>\$ 5,080.9</u>	<u>\$ 4,958.0</u>	<u>\$ 4,746.7</u>

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

Operating Expenses:	2018	2017 Restated	2016 Restated
Instruction	\$ 1,257.6	\$ 1,369.5	\$ 1,321.4
Research	984.5	960.5	932.4
Public Service	299.0	306.2	309.2
Academic Support	401.9	395.4	393.1
Student Services	479.1	440.2	449.1
Institutional Support	311.6	298.5	278.8
Operation/Maintenance	284.4	295.9	293.8
Financial Aid	155.1	144.6	153.7
Auxiliary Enterprises	363.3	363.3	335.9
Other Functions	81.2	81.3	77.4
Depreciation	<u>324.0</u>	<u>315.1</u>	<u>305.3</u>
Total Operating Expenses	4,941.7	4,970.5	4,850.1
Non-Operating Expenses	<u>124.1</u>	<u>131.1</u>	<u>186.2</u>
Total Expenses	<u>\$ 5,065.8</u>	<u>\$ 5,101.6</u>	<u>\$ 5,036.3</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 78 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.

UNIVERSITY OF WISCONSIN SYSTEM
Management's Discussion and Analysis
Years Ended June 30, 2018 and 2017

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

	<u>2018</u>	<u>Adjustment for Pension and OPEB</u>	<u>Adjusted 2018</u>	<u>2017 Restated</u>	<u>Adjustment for Pension and OPEB</u>	<u>Adjusted 2017 Restated</u>
Current Assets	\$ 2,206.2	\$ -	\$ 2,206.2	\$ 2,009.0	\$ -	\$ 2,009.0
Capital Assets, Net	5,140.1	-	5,140.1	5,060.0	-	5,060.0
Other Noncurrent Assets	<u>986.9</u>	<u>399.1</u>	<u>587.8</u>	<u>619.1</u>	-	<u>619.1</u>
Total Assets	8,333.2	399.1	7,934.1	7,688.1	-	7,688.1
Deferred Outflows of Resources	750.5	699.6	50.9	815.1	765.2	49.9
Current Liabilities	555.1	-	555.1	540.9	-	540.9
Noncurrent Liabilities	<u>2,248.9</u>	<u>520.1</u>	<u>1,728.8</u>	<u>2,154.8</u>	<u>402.3</u>	<u>1,752.5</u>
Total Liabilities	2,804.0	520.1	2,283.9	2,695.7	402.3	2,293.4
Deferred Inflows of Resources	849.6	849.0	0.6	359.9	359.0	0.9
Net Investment in Capital Assets	3,519.6	-	3,519.6	3,435.9	-	3,435.9
Restricted Net Position	1,600.3	399.1	1,201.2	1,098.7	-	1,098.7
Unrestricted Net Position	<u>310.2</u>	<u>(669.5)</u>	<u>979.7</u>	<u>913.0</u>	<u>3.9</u>	<u>909.1</u>
Total Net Position	<u>\$ 5,430.1</u>	<u>\$ (270.4)</u>	<u>\$ 5,700.5</u>	<u>\$ 5,447.6</u>	<u>\$ 3.9</u>	<u>\$ 5,443.7</u>

In fiscal year 2018, salary and fringe benefits expenses amounted to \$3,185.0 million, including \$53.5 million related to the pension and other postemployment benefit obligations. Compared to fiscal year 2017, salary and fringe benefits expenses amounted to \$3,256.8 million, including \$180.6 million related to the pension and other postemployment benefit obligations.

Factors Affecting Future Periods

On August 18, 2016, the UW System Board of Regents approved the **2020 FWD** Strategic Framework focused on affordability, excellence, and developing tomorrow's workforce. Since then, the UW System has been working on developing, planning, and implementing specific priorities in the four categories: Educational Pipeline, University Experience, Business & Community Mobilization, and Operational Excellence.

One Educational Pipeline project being implemented is the restructure of the UW Colleges campuses and UW-Extension. In November 2017, the UW System Board of Regents approved this proposed restructure to improve student access and success, increase efficiencies, and better align with Wisconsin's future workforce needs. Effective July 1, 2018, the 13 two-year campuses formerly known as UW Colleges were joined as branch campuses with seven of the UW System's UW four-year comprehensive and research institutions. The primary division of UW-Extension were joined with UW-Madison and UW System Administration. Efforts will continue through 2018-19 to ensure all activities are transitioned to the appropriate units to allow for proper reporting of financial data.

One Operational Excellence project being developed, planned and implemented is UW Shared Services for Human Resources, Information Technology, and Procurement, which is being designed to standardize, consolidate and streamline administrative activities. Implementation is currently targeted for July 1, 2019; however, as needs surface, some activities are already beginning to emerge.

The 2017-2019 State budget requires continuing the freeze of resident undergraduate tuition at fiscal year 2012-13 levels for the upcoming 2018-19 fiscal year, equating to a 6-year tuition freeze. As the 2019-2021 State budget is developed, the UW System will work with elected officials to advocate for additional resources and flexibilities to ensure affordability for students, reinvigorate the economy, and enhance the quality of life for the citizens of Wisconsin.



Years Ended June 30, 2018 and 2017

**FINANCIAL STATEMENTS OF
THE UNIVERSITY OF WISCONSIN SYSTEM**

DRAFT

University of Wisconsin System

Statement of Net Position

	June 30, 2018	June 30, 2017 Restated
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 1,868,379,238	\$ 1,666,087,168
Accounts Receivable, Net	258,980,403	241,562,798
Student Loans Receivable, Net	29,654,594	28,618,075
Capital Lease Receivable	321,752	806,186
Inventories	30,406,816	42,581,433
Prepaid Expenses	18,432,120	29,382,705
Total Current Assets	2,206,174,923	2,009,038,365
Noncurrent Assets		
Endowment Investments	419,501,417	452,170,586
Student Loans Receivable, Net	167,753,582	166,584,383
Capital Lease Receivable	634,906	288,493
Capital Assets, Net	5,140,070,819	5,059,991,539
Restricted Net Pension Asset	399,079,716	-
Total Noncurrent Assets	6,127,040,440	5,679,035,001
TOTAL ASSETS	\$ 8,333,215,363	\$ 7,688,073,366
DEFERRED OUTFLOWS OF RESOURCES	\$ 750,468,949	\$ 815,034,378
LIABILITIES		
Current Liabilities		
Accounts Payable and Accrued Liabilities	\$ 202,208,968	\$ 204,283,467
Notes and Bonds Payable	104,041,499	94,191,384
Capital Lease Obligations	1,267,191	2,030,473
Unearned Revenue	172,327,282	170,602,882
Compensated Absences	69,904,647	67,651,794
Deposits Held for Others	5,370,176	2,112,060
Total Current Liabilities	555,119,763	540,872,060
Noncurrent Liabilities		
Notes and Bonds Payable	1,491,855,415	1,503,216,934
Capital Lease Obligations	28,453,963	28,928,030
Perkins Loan Program	138,736,513	149,944,372
Compensated Absences	69,657,569	70,394,687
Other Postemployment Benefits	520,128,222	289,642,369
Net Pension Liability	-	112,698,659
Total Noncurrent Liabilities	2,248,831,682	2,154,825,051
TOTAL LIABILITIES	\$ 2,803,951,445	\$ 2,695,697,111
DEFERRED INFLOWS OF RESOURCES	\$ 849,615,429	\$ 359,879,237
NET POSITION		
Net Investment in Capital Assets	\$ 3,519,597,333	\$ 3,435,929,349
Restricted for		
Nonexpendable	188,177,512	198,295,429
Expendable	1,412,106,194	900,424,385
Unrestricted	310,236,399	912,882,233
TOTAL NET POSITION	\$ 5,430,117,438	\$ 5,447,531,396

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, 2018

Year ended June 30, 2017

Restated

OPERATING REVENUES

Student Tuition and Fees (net of Scholarship Allowances of \$231,390,962 and \$220,565,252, respectively)	\$ 1,279,301,028	\$ 1,258,247,921
Federal Grants and Contracts	599,573,179	610,430,702
State, Local, and Private Grants and Contracts	432,616,538	439,810,579
Sales and Services of Educational Activities	319,509,820	335,614,882
Sales and Services of Auxiliary Enterprises (net of Scholarship Allowances of \$39,909,228 and \$39,021,034, respectively)	445,365,237	429,498,449
Sales and Services to UW Hospital and Clinics Authority	69,724,811	69,204,214
Student Loan Interest Income and Fees	3,479,344	4,219,759
Other Operating Revenue	464,400,716	406,339,694
Total Operating Revenues	3,613,970,673	3,553,366,200

OPERATING EXPENSES

Salaries	2,368,536,269	2,323,319,574
Fringe Benefits	763,014,250	752,896,466
Fringe Benefits Related to Noncash Pension and OPEB	53,479,879	180,588,384
Total Salary and Fringe Benefits	3,185,030,398	3,256,804,424

Scholarship and Fellowships	157,604,259	145,168,431
Supplies and Services	1,262,627,392	1,228,565,407
Other Operating Expenses	12,342,885	24,897,718
Depreciation	323,984,139	315,103,057
Total Operating Expenses	4,941,589,073	4,970,539,037

OPERATING LOSS

(1,327,618,400) (1,417,172,837)

NON-OPERATING REVENUES AND EXPENSES

State Appropriations	838,806,261	808,158,994
Gifts	370,022,335	378,123,774
Federal Pell Grants	162,691,351	150,867,894
Investment Income (net of Investment Expense of \$3,210,788 and \$3,267,338, respectively)	45,052,676	56,204,617
Loss on Disposal of Capital Assets	(2,055,179)	(803,491)
Interest Expense on Capital Asset-related Debt	(50,557,057)	(53,396,335)
Transfer to State Agencies	(71,553,703)	(76,859,460)
Other Nonoperating Revenues	50,279,509	11,276,915

Income (Loss) Before Capital and Endowment Additions 15,067,793 (143,599,929)

Capital Appropriations	142,359,852	103,318,235
Capital Grants and Gifts	44,932,710	20,756,875
Additions to Permanent Endowment	1,145,488	1,954,918

INCREASE (DECREASE) IN NET POSITION

203,505,843 (17,569,901)

NET POSITION

Net Position - beginning of period	5,447,531,396	6,578,858,650
Prior Period Adjustment	(220,919,801)	(1,113,757,353)

NET POSITION - end of period \$ 5,430,117,438 \$ 5,447,531,396

University of Wisconsin System

Statement of Cash Flows

	Year ended June 30, 2018	Year ended June 30, 2017 Restated
Cash Flows from Operating Activities		
Student Tuition and Fees	\$ 1,278,249,820	\$ 1,263,103,745
Federal, State, Local, and Private Grants & Contracts	1,004,312,891	1,047,154,906
Sales and Services of Educational Activities	331,979,897	325,953,004
Sales and Services of Auxiliary Enterprises	449,794,186	427,465,110
Sales and Services to UW Hospital Authority	67,962,661	67,799,320
Payments for Salaries and Fringe Benefits	(3,135,657,198)	(3,091,078,622)
Payments to Vendors and Suppliers	(1,267,997,865)	(1,279,149,826)
Payments for Scholarships and Fellowships	(157,604,259)	(145,168,431)
Student Loans Collected	34,860,482	35,958,740
Student Loan Interest and Fees Collected	3,479,344	4,219,758
Student Loans Issued	(38,867,000)	(36,039,084)
Other Revenue	441,671,806	393,152,186
Net Cash Used in Operating Activities	<u>(987,815,235)</u>	<u>(986,629,194)</u>
Cash Flows from Investing Activities		
Interest and Dividends on Investments, Net	56,477,115	14,640,000
Proceeds from Sales and Maturities of Investments	606,554,944	90,983,630
Purchase of Investments	(574,778,660)	(86,812,606)
Net Cash Provided by Investing Activities	<u>88,253,399</u>	<u>18,811,024</u>
Cash Flows from Capital and Related Financing Activities		
Proceeds from Issuance of Capital Debt	283,953,586	211,454,882
Payments for Debt Retirements (Refundings)	(198,809,814)	(121,337,989)
Capital Appropriations	142,359,852	103,318,235
Gifts and Other Receipts	59,991,791	34,249,805
Purchase of Capital Assets	(366,419,063)	(338,020,308)
Principal Payments on Capital Debt and Leases	(213,662,660)	(229,213,907)
Interest Payments on Capital Debt and Leases	(134,558,006)	(137,807,978)
Net Cash Used in Capital and Related Financing Activities	<u>(427,144,314)</u>	<u>(477,357,260)</u>
Cash Flows from Noncapital Financing Activities		
State Appropriations	1,045,774,472	1,030,490,983
Gifts and Other Receipts	392,489,922	368,001,225
Federal Pell Grants	162,691,351	150,867,894
Transfer to State Agencies	(71,553,703)	(76,859,460)
Additions to Permanent Endowments	1,145,488	1,954,918
Student Direct Lending Receipts	660,690,781	678,992,387
Student Direct Lending Disbursements	(662,240,091)	(684,748,687)
Net Cash Provided by Noncapital Financing Activities	<u>1,528,998,220</u>	<u>1,468,699,260</u>
Net Increase in Cash and Cash Equivalents	202,292,070	23,523,830
Cash and Cash Equivalents - beginning of year	<u>1,666,087,168</u>	<u>1,642,563,338</u>
Cash and Cash Equivalents - end of year	<u>\$ 1,868,379,238</u>	<u>\$ 1,666,087,168</u>

University of Wisconsin System

Statement of Cash Flows (continued)

Year ended June 30, 2018

Year ended June 30, 2017

Restated

Reconciliation of Operating Loss to Net Cash Used in Operating Activities

Operating Loss	\$	(1,327,618,400)	\$	(1,417,172,837)
<i>Adjustments to Reconcile Operating Loss to</i>				
<i>Net Cash Used in Operating Activities:</i>				
Depreciation Expense		323,984,139		315,103,057
Changes in Assets, Liabilities and Deferred Outflows and				
Inflows of Resources:				
Receivables, net		(20,274,054)		3,818,201
Inventories		12,174,617		(701,063)
Prepaid Expense (including Deferred Charges)		14,359,318		305,344
Accounts Payable and Accrued Liabilities		(35,977,511)		(65,839,309)
Perkins Loan Liability		(11,207,859)		(1,456,322)
Unearned Revenue		1,748,902		(7,800,174)
Compensated Absences		1,515,734		6,525,525
Net Pension Asset & Related Deferred Outflows of Resources		82,971,505		379,089,051
Net Pension Liability & Related Deferred Inflows of Resources		(21,787,360)		(220,276,509)
Other Postemployment Benefits		(7,704,266)		21,775,842
Net Cash Used in Operating Activities	\$	(987,815,235)	\$	(986,629,194)

Noncash Investing, Capital and Financing Activities

Capital Leases (Initial Year):				
Fair Market Value	\$	607,586	\$	1,871,975
Current Year Cash Payments		78,986		39,496
Gifts-In-Kind		3,451,445		3,181,697
Net Change in Unrealized Gains		2,219,619		30,438,389

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Years Ended June 30, 2018 and 2017

FINANCIAL STATEMENTS OF RELATED UNIVERSITY CAMPUS FOUNDATIONS

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

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University of Wisconsin System Campus Foundations
Consolidated Statements of Financial Position

	June 30, 2018	June 30, 2017
ASSETS		
Cash and Cash Equivalents	\$ 157,067,432	\$ 133,677,269
Income and Redemption Receivables	26,247,913	15,562,129
Pledges Receivable, Net	175,326,722	174,136,100
Prepaid Expenses and Other Assets	27,002,501	24,064,246
Investments	4,336,283,723	4,085,314,355
Property and Equipment, Net	194,543,943	200,004,069
Real Estate	10,354,733	3,967,768
	<u>4,926,826,967</u>	<u>4,636,725,936</u>
TOTAL ASSETS	\$ 4,926,826,967	\$ 4,636,725,936
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable	\$ 6,871,606	\$ 8,491,060
Pending Investment Purchases Payable	54,783,240	55,001,392
Accrued Expenses and Other Liabilities	48,696,811	27,737,343
Note Payable	175,205,910	182,452,271
Liability Under Split-Interest Agreements	45,438,021	45,902,480
Funds Due to Other Organizations	282,320,826	296,110,667
Total Liabilities	<u>613,316,414</u>	<u>615,695,213</u>
NET ASSETS		
Unrestricted	159,146,933	150,033,199
Temporarily Restricted	2,187,331,526	2,004,822,425
Permanently Restricted	1,967,032,094	1,866,175,099
Total Net Assets	<u>4,313,510,553</u>	<u>4,021,030,723</u>
	<u>\$ 4,926,826,967</u>	<u>\$ 4,636,725,936</u>
TOTAL LIABILITIES AND NET ASSETS	\$ 4,926,826,967	\$ 4,636,725,936

Consolidated Statements of Activities

	Year ended June 30, 2018	Year ended June 30, 2017
REVENUES, GAINS AND OTHER SUPPORT		
Contributions	\$ 394,117,599	\$ 434,663,455
Interest and Dividend Income	52,472,592	38,573,903
Net Investment Gains	247,237,966	322,472,749
Rental Income	12,512,616	9,934,479
Other Income	11,322,932	12,110,928
Total Revenues, Gains and Other Support	<u>717,663,705</u>	<u>817,755,514</u>
EXPENSES		
Program Expenses	344,567,683	313,660,432
Management and General Expenses	46,167,986	68,600,464
Fundraising Expenses	34,448,206	34,045,610
Total Expenses	<u>425,183,875</u>	<u>416,306,506</u>
INCREASE IN NET ASSETS	292,479,830	401,449,008
Net Assets - Beginning of Year	<u>4,021,030,723</u>	<u>3,619,581,715</u>
Net Assets - End of Year	\$ 4,313,510,553	\$ 4,021,030,723

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



Years Ended June 30, 2018 and 2017

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

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UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2018 and 2017

NOTE 1 – Organization and Summary of Significant Accounting Policies

Basis of Accounting and Financial Statement Presentation

The University of Wisconsin System (University) is a major enterprise fund of the State of Wisconsin. The financial statements are presented in the proprietary fund financial statements of the State of Wisconsin's 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 2018, the University adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

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

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.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2018 and 2017

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

Financial Reporting Entity

For the fiscal years presented, 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*, GASB Statement No. 61, *The Financial Reporting Entity; Omnibus, an amendment of GASB Statements No. 14 and No. 34*, and GASB Statement No. 80, *Blending Requirements for Certain Component Units, an amendment of GASB Statement No. 14*. Based upon the application of these criteria, the 13 campus foundations are included in the financial statements as discretely presented component units because they operate entirely for the benefit of the University.

Other Organizations

The financial statements do not include the accounts of the University of Wisconsin Hospital and Clinics Authority (UWHCA), which 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; and La Crosse Medical Health Science Consortium, Inc. had on the University's financial statements.

Summary of Significant Accounting Policies

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

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

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2018 and 2017

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

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

Prepaid expenses represent payments made prior to June 30th for goods and services received after the close of the fiscal year, primarily health and life insurance coverage, and costs associated with revenues that have not yet been earned as of June 30th, primarily summer session costs incurred prior to the close of the fiscal year. The revenues and expenses of the 2018 summer session are reportable within the fiscal year beginning July 1, 2017 and ending June 30, 2018, based on the prorated portion of the number of summer session days that occurred in fiscal year 2018. The revenues and expenses of the 2017 summer session are reportable within the fiscal year beginning July 1, 2016 and ending June 30, 2017, based on the prorated portion of the number of summer session days that occurred in fiscal year 2017.

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 using the economic resources measurement focus and the accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

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

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

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

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2018 and 2017

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

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

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

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

New Accounting Pronouncements

GASB Statement No. 87 (GASB 87), *Leases*, establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. As a result, recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources (revenues) or outflows of resources (expenses) based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The provisions of GASB 87 are effective for fiscal year 2021.

GASB Statement No. 89 (GASB 89), *Accounting for Interest Cost Incurred before the End of a Construction Period*, will enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplify accounting for interest cost incurred before the end of a construction period. Paragraphs 5–22 of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, are superseded by this Statement. The provisions of GASB 89 are effective for fiscal year 2021.

GASB Statement No. 90 (GASB 90), *Majority Equity Interests—An Amendment of GASB Statements No. 14 and No. 61*, aims to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. The provisions of GASB 90 are effective for fiscal year 2020.

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

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2018 and 2017

NOTE 2 – Cash and Investments

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of shares in the State Investment Fund (SIF), a short-term pool of state and local funds managed by the State of Wisconsin Investment Board (SWIB) with oversight by a Board of Trustees as authorized in Wisconsin Statutes Sections 25.17 (3) (b), (ba), (bd), and (dg). SWIB is not registered with the SEC as an investment company. The fair value of the investment in the SIF is based on net asset value (NAV) per share (or its equivalent), as of June 30, 2018. The SIF is a commingled fund with the investment objective of safety of principal and liquidity while earning a competitive money market rate of return. The valuation of the underlying investments of the SIF depends on asset class. Repurchase Agreements and non-negotiable Certificates of Deposit are valued at cost. All remaining short-term debt investments (U.S. Government/Agency securities, Banker's Acceptances, Commercial Paper, and negotiable Certificates of Deposit) are carried at fair value. Because quoted market prices for SIF securities are often not available, at month end, BNY Mellon, as SWIB's custodial bank, compiles fair values from third party pricing services which use matrix pricing models to estimate a security's fair value. There are no unfunded commitments relating to the SIF and shares of the SIF can be fully redeemed at any time with no notice or other restrictions. Further information about the investments in the SIF can be obtained from the separately issued State Investment Fund Annual Financial Report for the Fiscal Year Ended June 30, 2018.

Of the \$1,868.4 million and \$1,666.1 million in cash and cash equivalents as of June 30, 2018 and 2017, respectively, \$1,678.8 million and \$1,437.8 million, respectively, represent amounts held within the SIF; \$189.4 million and \$192.3 million, respectively, was maintained by individual University institutions in local bank accounts to meet operating needs; and for fiscal year 2017, \$36.0 million was held at BNY Mellon to meet the cash needs of the investing activities of the Trust Fund with a small, residual amount held as of June 30, 2018. 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 \$182.5 million and \$185.2 million at June 30, 2018 and 2017, 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, 2018 and 2017 are immaterial. The University does not have a formal policy for foreign currency risk.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2018 and 2017

NOTE 2 – Cash and Investments (continued)

Investments

The University invests its Trust Funds, primarily gifts and bequests, in accordance with the investment policies and guidelines governed and authorized by the Board of Regents. Through March 2018, the University managed these funds in two of its own internally-developed investment pools: the Long Term and the Intermediate Term Funds. The approved asset allocation policy for the Long Term Fund set a general target of 35% marketable equities, 30% fixed income, and 35% alternatives. The approved asset allocation for the Intermediate Term Fund set a general target of 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.

Effective April 1, 2018 and as permitted through Section 36.11 (11m) of the Wisconsin statutes, the Board of Regents transferred its investment management responsibilities to the State of Wisconsin Investment Board (SWIB). As a result of this transfer, the Board of Regents eliminated the Intermediate Term Fund as a separate investment pool. The new SWIB-managed Long Term Fund has a target asset allocation to public markets of the following: 57% public equities, 20% fixed income, and 23% inflation sensitive securities. SWIB achieves these allocations through the use of passive, externally-managed funds. This change in investment strategy will impact the comparative nature of the tables in Note 2 for FY 2018. In addition, the Long Term Fund continues to have an allocation to private markets through a "legacy" portfolio that is expected to self-liquidate over time as investments are sold and cash proceeds are received. The target allocations to public markets were last affirmed/approved by the Board of Regents in April 2018.

The SWIB-managed Long Term Fund consisted of the following actual asset allocation by investment category on June 30, 2018 and 2017:

<u>Investment Category</u>	<u>2018</u>	<u>2017</u>
Global Equities	40.7%	-
Treasury Inflation Protection Securities (TIPS)	16.9%	-
Investment Grade Government/Credit	16.7%	-
Hedged Non-U.S. Equities (Developed Markets)	5.2%	-
Real Estate Investment Trusts (REITs)	2.7%	-
Emerging Markets Equities	2.3%	-
Private Markets ¹	<u>15.5%</u>	<u>-</u>
Total	<u>100.0%</u>	<u>N/A</u>

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

The former Long Term Fund (prior to SWIB's management) consisted of the following actual asset allocation by investment category on June 30, 2018 and 2017:

<u>Investment Category</u>	<u>2018</u>	<u>2017</u>
Common Stock and Convertible Securities	-	37.3%
Bonds and Preferred Stock	-	12.1%
Alternative Assets	-	21.1%
Tactical Allocation Strategies	-	20.3%
Real Assets	-	1.6%
Custodial Pooled Cash and Cash Equivalents	<u>-</u>	<u>7.6%</u>
Total	<u>N/A</u>	<u>100.0%</u>

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2018 and 2017

NOTE 2 – Cash and Investments (continued)

The former Intermediate Term Fund (prior to its elimination as of March 31, 2018) consisted of the following actual asset allocation by investment category on June 30, 2018 and 2017:

<u>Investment Category</u>	<u>2018</u>	<u>2017</u>
Common Stock and Convertible Securities	-	14.0%
Bonds and Preferred Stock	-	79.8%
Custodial Pooled Cash and Cash Equivalents	-	6.2%
Total	<u>N/A</u>	<u>100.0%</u>

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 former Intermediate Term Fund, which is primarily comprised of expendable gifts, consisted of quarterly interest earnings distributions. Spending rate and interest distributions from both Funds are transferred to the SIF, pending near-term expenditures. During the fiscal year ended June 30, 2018, the amount made available to spend from these funds was \$16.7 million, relative to \$16.4 million available during the fiscal year ended June 30, 2017.

At June 30, 2018 and 2017, the University's investments were as follows:

<u>Investments</u>	<u>2018</u>	<u>2017</u>
Equity Index Funds	\$ 202,240,226	\$ -
Fixed Income Index Funds	141,285,489	-
Real Estate Index Fund	11,122,064	-
Short Term Fund	1,673	-
Private Markets Limited Partnership	64,851,965	91,351,997
U.S. Government Securities	-	32,354,823
U.S Agency Securities	-	13,735,429
Bonds and Preferred Stock	-	26,832,773
Common Stock and Convertible Securities	-	57,029,057
Pooled Equity Funds	-	104,789,375
Pooled Allocation Fund	-	81,515,914
Pooled Fixed Income Fund	-	44,561,218
Total Investments	<u>419,501,417</u>	<u>452,170,586</u>
Custodial Pooled Cash and Cash Equivalents	<u>98,567</u>	<u>35,992,988</u>
Total Investments and Cash and Cash Equivalents	<u>\$ 419,599,984</u>	<u>\$ 488,163,574</u>

A large portion of the decline in the total value of investments from the prior fiscal year is due to the elimination and liquidation of the former Intermediate Term Fund as of March 31, 2018. The proceeds from the liquidation of these investments (\$86.2 million) were transferred to the SIF, holdings of which are not classified as investments in the above investment table.

The total return on the Long Term Fund, including capital appreciation, was 8.10% for fiscal year 2018 compared to 14.4% in fiscal year 2017. The total return on the Intermediate Fund, including capital appreciation, was 1.2% for the nine months ending March 31, 2018 when the Fund was liquidated, compared to 3.4% for the full fiscal year 2017. As of April 2018, all funds are externally managed, compared to 89.8% in fiscal year 2017.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2018 and 2017

NOTE 2 – Cash and Investments (continued)

Credit Risk: Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit ratings issued by the major rating agencies are one indication of the perceived credit quality of the issuer. As of June 30, 2017, the University was exposed to credit risk directly through separately-managed accounts (where individual securities are owned) and indirectly through the ownership of shares of commingled or mutual funds. As of June 30, 2018, the University held only passive, commingled funds selected by SWIB.

The following schedule displays the credit ratings as provided by Moody’s Investor Service for debt securities owned as of June 30, 2018 and 2017. Obligations of the United States and obligations explicitly guaranteed by the U.S. government are included in the Aaa rating below.

Ratings	2018	2017
Aaa	\$ -	\$ 57,880,582
Aa1	-	656,223
Aa2	-	1,327,674
Aa3	-	1,432,982
A1	-	3,457,407
A2	-	3,731,260
A3	-	2,213,940
Baa1	-	6,233,197
Baa2	-	4,290,309
Baa3	-	1,728,246
Ba2	-	12,603,486
B2	-	18,976,035
Caa2	-	1,589,597
No Rating	141,285,489	495,808
Unrated Pooled Cash	<u>98,567</u>	<u>36,860,485</u>
Totals	<u>\$ 141,384,056</u>	<u>\$ 153,477,231</u>

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

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of an organization’s investment in a single issuer. Separately-managed debt/fixed income accounts that the University held as of June 30, 2018 and 2017 were limited to holding no more than 7.0% in any one issuer (U.S. Government/Agencies were exempted).

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University used the option adjusted modified duration method to analyze interest rate risk for separately-held securities. Separately-managed debt/fixed income accounts that the University held as of June 30, 2017 were expected to maintain their overall duration to plus or minus two years versus the benchmark’s duration (the Reams account) or to

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2018 and 2017

NOTE 2 – Cash and Investments (continued)

within plus or minus one year of the established benchmark's duration (the Applied Security account). The following schedule displays the interest rate risk statistics for individually-held debt securities owned as of June 30, 2018 and 2017, grouped by sector.

<u>Fixed Income Sector</u>	<u>2018</u>		<u>2017</u>	
	<u>Market Value</u>	<u>Effective Duration</u>	<u>Market Value</u>	<u>Effective Duration</u>
Treasury Inflation Protected Securities	-	-	\$ 16,832,412	5.38
U.S. Government	-	-	19,982,444	5.34
U.S. Government Mortgages	-	-	4,667,512	4.92
Corporates and Other Credit	-	-	17,486,302	2.95
Collateralized Mortgage Obligations:				
U.S. Agencies	-	-	2,537,106	1.67
Corporate	-	-	165	0.00
Commercial Mortgage Backed Securities	-	-	3,127,148	4.39
U.S. Private Placements	-	-	<u>8,289,936</u>	2.89
Totals	<u>N/A</u>		<u>\$ 72,923,025</u>	

The following schedule displays the interest rate risk statistics for the commingled debt/fixed income funds held as of June 30, 2018 and 2017, as determined by the providers of the funds.

<u>Fixed Income Commingled Fund</u>	<u>2018</u>		<u>2017</u>	
	<u>Market Value</u>	<u>Effective Duration</u>	<u>Market Value</u>	<u>Effective Duration</u>
BlackRock U.S. TIPS Fund B	\$ 71,053,725	7.66	\$ -	-
BlackRock Government/Credit Bond Index Fund B	70,231,764	6.35	-	-
Seix Advisors High Yield Fund	-	-	35,403,050	3.42
iShares 0-5 Year TIPS ETF	-	-	<u>9,158,169</u>	2.62
Totals	<u>\$ 141,285,489</u>		<u>\$ 44,561,219</u>	

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. As of June 30, 2017, the Long Term and Intermediate Term Funds held equity securities denominated in foreign currencies within pooled, or commingled, investment vehicles only, with market values totaling \$115.6 million and \$6.3 million, respectively. As of June 30, 2018, the Long Term Fund held positions only in passively-managed, indexed commingled funds which may invest in securities denominated in foreign currencies. However, the fund used for exposure to developed market equities generally seeks to hedge against the variations in returns deriving solely from the value of the foreign currencies in the fund relative to the U.S. dollar. The fund used for exposure to emerging market equities generally does not engage in similar foreign currency hedging efforts, due largely to the high cost and more limited efficacy of such hedging.

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

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2018 and 2017

NOTE 2 – Cash and Investments (continued)

endowments. Net appreciation since the inception of the endowment accounts of \$141.9 million and \$126.0 million at June 30, 2018 and June 30, 2017, respectively, is available to meet spending rate distributions and is recorded as restricted net assets.

Fair Value Measurements: The University and the Foundations categorize their fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The three levels of the fair value hierarchy are described as follows:

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

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

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

As of June 30, 2018, all of the University's investments were measured at fair value using the net asset value per share or its equivalent. The following table presents these investments by investment category.

<u>Investments</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Measured at NAV</u>	<u>Total June 30, 2018</u>
Equity Index Funds	\$ -	\$ -	\$ -	\$ 202,240,226	\$ 202,240,226
Fixed Income Index Funds	-	-	-	141,285,489	141,285,489
Real Estate Index Fund	-	-	-	11,122,064	11,122,064
Short Term Fund	-	-	-	1,673	1,673
Private Equity Limited Partnership	-	-	-	<u>64,851,965</u>	<u>64,851,965</u>
Total Investments at fair value	-	-	-	419,501,417	419,501,417
Custodial Pooled Cash and Cash Equivalents	<u>98,567</u>	-	-	-	<u>98,567</u>
Total Investments at fair value and Custodial Pooled Cash and Cash Equivalents	<u>\$ 98,567</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 419,501,417</u>	<u>\$ 419,599,984</u>

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2018 and 2017

NOTE 2 – Cash and Investments (continued)

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

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

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

As of June 30, 2017, the University's investments were measured at fair value within the fair value hierarchy established by generally accepted accounting principles, as well as by using the net asset value per share or its equivalent. The following table presents these investments by investment category.

Investments

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Measured at NAV</u>	<u>Total June 30, 2017</u>
U.S. Government Securities	\$ 31,154,065	\$ 1,200,758	\$ -	\$ -	\$ 32,354,823
U.S. Agency Securities	-	13,735,429	-	-	13,735,429
Bonds and Preferred Stock	-	27,889,307	-	-	27,889,307
Pooled Fixed Income Fund	9,158,169	34,346,515	-	-	43,504,684
Common Stock and Convertible Securities	57,029,057	-	-	-	57,029,057
Pooled Equity Funds	53,401,109	51,388,266	-	-	104,789,375
Pooled Allocation Fund	81,515,914	-	-	-	81,515,914
Private Markets Limited Partnerships	-	-	-	91,351,997	91,351,997
Total Investments at fair value	232,258,314	128,560,275	-	91,351,997	452,170,586
Custodial Pooled Cash and Cash Equivalents	35,992,988	-	-	-	35,992,988
Total Investments at fair value and Custodial Pooled Cash and Cash Equivalents	<u>\$ 268,251,302</u>	<u>\$ 128,560,275</u>	<u>\$ -</u>	<u>\$ 91,351,997</u>	<u>\$ 488,163,574</u>

As part of the investment management transfer to SWIB, Terrace Investment Holdings II SMF, LLC was created to centrally hold and manage the University's investments in private markets Limited Partnership Funds. This investment is illiquid and is generally not resold or redeemed. Distributions from the fund will be received over the life of the investment as the underlying investments are liquidated. The investment strategy of the limited partnership focuses globally on corporate finance,

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2018 and 2017

NOTE 2 – Cash and Investments (continued)

venture capital, and forestry/agricultural investments. The fund-of-funds limited partnership is estimated to have an average remaining life of approximately 5 years at June 30, 2018. The estimated remaining life of the underlying investments are between 0-11 years at June 30, 2018.

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

<u>Investment Type</u>	<u>2018</u>		<u>2017</u>	
	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>
Private Markets Limited Partnership Funds	\$ 64,851,965	\$ 23,585,146	\$ 91,351,997	\$ 24,354,984

No further new commitments to these or other private markets funds are anticipated. The existing positions in the private markets Limited Partnership Funds will eventually self-liquidate, as underlying private investments are sold off and distributions are made to investors. Note that the large decline in fair value from the prior fiscal year, but not unfunded commitments, is due to the liquidation of the University's investment in a hedge fund-of-funds limited partnership as part of the transition to SWIB.

As of June 30, 2018, the Foundations' investments were measured at fair value within the fair value hierarchy established by generally accepted accounting principles, as well as by using the net asset value (NAV) per share or its equivalent. The following table presents these investments by investment category.

<u>Investments</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total June 30, 2018</u>
Certificates of Deposit	\$ -	\$ 1,143,009	\$ -	\$ 1,143,009
Money Market Funds	7,658,554	7,173,453	-	14,832,007
Federal and State Government Securities	167,347,095	1,424,327	-	168,771,422
Equity Securities	597,926,843	-	3,951,924	601,878,767
Debt Securities	523,875,740	25,768,457	-	549,644,197
Bond Funds	316,138,548	393,146,577	-	709,285,125
Stock Funds	184,442,284	1,250,821,616	35,416,635	1,470,680,535
Electronically Traded Funds	128,233,629	-	-	128,233,629
Mutual Funds	27,526,031	-	-	27,526,031
Other	<u>1,685,250</u>	<u>-</u>	<u>4,582,677</u>	<u>6,267,927</u>
Subtotal	<u>\$ 1,954,833,974</u>	<u>\$ 1,679,477,439</u>	<u>\$ 43,951,236</u>	3,678,262,649
Alternate Investments Measured at NAV:				
Private Equity				316,039,512
Timber				5,434,478
Real Estate				80,961,903
Oil and Gas				124,785,961
Hedge Funds				94,562,169
Other				<u>36,237,051</u>
Total investments at fair value				<u>\$ 4,336,283,723</u>

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2018 and 2017

NOTE 2 – Cash and Investments (continued)

As of June 30, 2017, the Foundations' investments were measured at fair value within the fair value hierarchy established by generally accepted accounting principles, as well as by using the net asset value (NAV) per share or its equivalent. The following table presents these investments by investment category.

<u>Investments</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total June 30, 2017</u>
Certificates of Deposit	\$ -	\$ 1,142,849	\$ -	\$ 1,142,849
Money Market Funds	8,784,061	7,177,533	-	15,961,594
Federal and State Government Securities	19,407,696	188,873,163	-	208,280,859
Equity Securities	481,507,109	-	5,007,253	486,514,362
Debt Securities	18,207,321	446,809,664	-	465,016,985
Bond Funds	362,961,713	388,102,106	-	751,063,819
Stock Funds	163,059,831	1,140,453,805	30,531,215	1,334,044,851
Electronically Traded Funds	162,197,861	-	-	162,197,861
Mutual Funds	14,439,295	-	-	14,439,295
Other	<u>2,244,253</u>	<u>-</u>	<u>11,236,631</u>	<u>13,480,844</u>
Subtotal	<u>\$ 1,232,809,140</u>	<u>\$ 2,172,559,120</u>	<u>\$ 46,775,099</u>	3,452,143,359
Alternate Investments Measured at NAV:				
Private Equity				338,627,219
Timber				10,250,673
Real Estate				64,630,018
Oil and Gas				118,421,749
Hedge Funds				69,457,424
Other				<u>31,783,913</u>
Total investments at fair value				<u>\$ 4,085,314,355</u>

NOTE 3 – Receivables

Accounts receivable and student loans receivable as of June 30, 2018 and June 30, 2017, are summarized as follows:

<u>Receivables (Net)</u>	<u>2018</u>	<u>2017</u>
Student Academic Fees	\$ 27,520,471	\$ 27,073,948
Grants and Contracts	42,463,725	47,083,535
Educational Activities and Other	42,426,799	51,321,923
Auxiliary Enterprises	13,677,395	13,504,929
UW Hospital Authority and La Crosse Medical Health Science Consortium Inc.	956,658	1,094,679
Investment	967,213	1,637,397
Student Loans Receivable	197,408,176	195,202,458
State Agencies	22,375,387	29,640,084
Other Governments	<u>109,549,413</u>	<u>71,300,982</u>
Total Receivables (Net)	<u>\$ 457,345,237</u>	<u>\$ 437,859,935</u>

Student loans receivable at June 30, 2018 included allowances for uncollectible loans of \$9.1 million relative to \$9.0 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.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2018 and 2017

NOTE 3 – Receivables (continued)

Allowances for uncollectible on all non-student loan receivables totaled \$22.4 million and \$19.7 million at June 30, 2018 and 2017, respectively.

The University distributed student loans through the United States Department of Education federal direct lending program totaling \$662.2 million during fiscal year 2018 and \$684.7 million in fiscal year 2017. 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. 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.

In fiscal year 2018, UW System elected to change the method of accounting for library holdings which is being applied retrospectively. Library holdings held as collections and not depreciating them is no longer a common accounting approach with other large university systems that the UW System often considers peers. The University will treat library holdings as a composite asset and depreciate over a 15-year average life. At June 30, 2017, the library holdings balance includes a \$961.0 million prior period adjustment for accumulated depreciation.

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 2018 or 2017. Insurance recoveries received in fiscal year 2018 include \$3.0 million and in fiscal year 2017 included \$2.2 million for a building fire at the University of Wisconsin-Milwaukee. Insurance recoveries are reported as other non-operating revenues in the financial statements.

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, establishes accounting and financial reporting standards for an intangible asset that lacks physical substance, is nonfinancial in nature, has a useful life extending beyond one year, and is not acquired or created primarily for the purpose of directly obtaining income or profit. Intangible assets are capitalized with a minimum value of \$1.0 million and are included in the equipment balance. Depreciation for intangible assets is calculated on a straight-line basis over ten years. At June 30, 2018, the equipment balance includes \$45.0 million for intangible assets net of depreciation, compared to \$35.5 million at June 30, 2017.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2018 and 2017

NOTE 4 – Capital Assets (continued)

Depreciation expense for fiscal years ended June 30, 2018 and 2017 was \$324.0 million and \$315.1 million, respectively.

The change in book value from July 1, 2017 to June 30, 2018 is summarized as follows:

	Book Value July 1, 2017	Additions	Transfers	Deductions	Book Value June 30, 2018
Buildings	\$ 7,004,935,050	\$ 25,132,675	\$ 32,749,000	\$ -	\$ 7,062,816,725
Improvements	494,475,057	6,728,562	(1,357,798)	-	499,845,821
Land	156,977,401	41,006	-	-	157,018,407
Construction in Progress	231,043,044	296,902,210	(44,594,807)	-	483,350,447
Equipment	1,173,081,591	73,028,929	(397,931)	(47,118,926)	1,198,593,663
Library Holdings	<u>1,120,151,973</u>	<u>18,785,575</u>	<u>(131,161)</u>	<u>(15,954,237)</u>	<u>1,122,852,150</u>
Subtotal	\$ 10,180,664,116	\$ 420,618,957	\$ (13,732,697)	\$ (63,073,163)	\$ 10,524,477,213

Less Accumulated Depreciation:

	Book Value July 1, 2017	Additions	Transfers	Deductions	Book Value June 30, 2018
Buildings	\$ 2,990,349,607	\$ 210,317,629	\$ -	\$ -	\$ 3,200,667,236
Improvements	290,336,788	16,500,127	-	-	306,836,915
Equipment	879,006,132	74,784,262	-	(44,296,084)	909,494,310
Library Holdings	<u>960,980,050</u>	<u>22,382,121</u>	<u>-</u>	<u>(15,954,238)</u>	<u>967,407,933</u>
Total Accumulated Depreciation	5,120,672,577	323,984,139	-	(60,250,322)	5,384,406,394
Capital Assets, Net	<u>\$ 5,059,991,539</u>	<u>\$ 96,634,818</u>	<u>\$ (13,732,697)</u>	<u>\$ (2,822,841)</u>	<u>\$ 5,140,070,819</u>

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

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

Less Accumulated Depreciation:

	Book Value July 1, 2016	Additions	Transfers	Deductions	Book Value June 30, 2017
Buildings	\$ 2,784,430,248	\$ 206,241,119	\$ (321,760)	\$ -	\$ 2,990,349,607
Improvements	274,117,485	16,219,303	-	-	290,336,788
Equipment	856,133,462	69,981,312	-	(47,108,642)	879,006,132
Library Holdings	<u>962,356,660</u>	<u>22,661,323</u>	<u>-</u>	<u>(24,037,933)</u>	<u>960,980,050</u>
Total Accumulated Depreciation	4,877,037,855	315,103,057	(321,760)	(71,146,575)	5,120,672,577
Capital Assets, Net	<u>\$ 5,035,838,416</u>	<u>\$ 32,768,994</u>	<u>\$ (2,006,892)</u>	<u>\$ (6,608,979)</u>	<u>\$ 5,059,991,539</u>

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2018 and 2017

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, 2018 and 2017, are summarized as follows:

Fiscal Year 2018		Due to State Agencies and Other Governments		Vendors	Total Payables
<u>UW System Activities</u>	<u>Salary and Fringe Benefits</u>	<u>Other Governments</u>	<u>Vendors</u>		<u>Total Payables</u>
Operating	\$ 7,496,656	\$ 72,078,877	\$ 42,072,092	\$ 121,647,625	
Gifts, Grants, and Contracts	1,515,017	2,650,211	11,091,338	15,256,566	
Capital Projects	-	433,548	43,703,664	44,137,212	
Auxiliary Enterprises	1,640,202	1,007,630	7,204,418	9,852,250	
Investment and Other	25,126	372,319	10,917,870	11,315,315	
Total Activities	<u>\$ 10,677,001</u>	<u>\$ 76,542,585</u>	<u>\$ 114,989,382</u>	<u>\$ 202,208,968</u>	

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

Long-term liability activity for the fiscal years ended June 30, 2018 and 2017 is as follows:

<u>Long-term Liabilities</u>	<u>Balance July 1, 2017</u>	<u>Increases (Decreases)</u>	<u>Balance June 30, 2018</u>	<u>Current Portion</u>
2018				
Bonds Payable	\$ 1,520,059,406	\$ 17,901,494	\$ 1,537,960,900	\$ 89,063,565
Notes Payable	77,348,912	(19,412,898)	57,936,014	14,977,934
Capital Lease Obligations	30,958,503	(1,237,349)	29,721,154	1,267,191
Perkins Loan Program	149,944,372	(11,207,859)	138,736,513	-
Compensated Absences	138,046,481	1,515,735	139,562,216	69,904,647
Net Pension Liability	112,698,659	(112,698,659)	-	-
Other Postemployment Health	289,642,369	26,045,256	315,687,625	-
Other Postemployment Life	-	204,440,597	204,440,597	-
Total	<u>\$ 2,318,698,702</u>	<u>\$ 105,346,317</u>	<u>\$ 2,424,045,019</u>	<u>\$ 175,213,337</u>
2017				
Bonds Payable	\$ 1,483,207,141	\$ 36,852,265	\$ 1,520,059,406	\$ 74,777,773
Notes Payable	97,601,448	(20,252,536)	77,348,912	19,413,611
Capital Lease Obligations	34,138,739	(3,180,236)	30,958,503	2,030,473
Perkins Loan Program	151,400,693	(1,456,321)	149,944,372	-
Compensated Absences	131,520,957	6,525,524	138,046,481	67,651,794
Net Pension Liability	220,459,696	(107,761,037)	112,698,659	-
Other Postemployment Benefits	267,866,527	21,775,842	289,642,369	-
Total	<u>\$ 2,386,195,201</u>	<u>\$ (67,496,499)</u>	<u>\$ 2,318,698,702</u>	<u>\$ 163,873,651</u>

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2018 and 2017

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 reported bond balance at June 30, 2018 does not include bonds considered in-substance defeased with a principal balance of \$62.7 million and premium balance of \$3.5 million. The related bonds are not yet callable, but cash has been put in escrow to pay the related principal payments until May 2028, at which time the bonds will be called.

The following information is the University's proportionate share of the new bonds issued by the State of Wisconsin during the fiscal years of 2018 and 2017:

2018 Series	Interest Rate	Maturity Fiscal Year	Initial Amount	Use
2017-B	4.00% - 5.00%	2038	\$ 20,837,841	Capitalized Projects
2017-1	2.00% - 5.00%	2031	79,412,816	Refunding
2017-2	5.00%	2028	66,149,401	Refunding
2017-3	4.00% - 5.00%	2034	34,164,650	Refunding
2018-A	4.00% - 5.00%	2036	55,957,843	Capitalized Projects
			<u>\$ 256,522,551</u>	

2017 Series	Interest Rate	Maturity Fiscal Year	Initial Amount	Use
2016-A	4.00% - 5.00%	2037	\$ 48,079,589	Capitalized Projects/Refunding
2016-B	4.00% - 5.00%	2026	6,959,300	Capitalized Projects
2016-2	1.50% - 5.00%	2030	115,727,732	Refunding
2016-D	4.00% - 5.00%	2037	20,467,129	Capitalized Projects
2017-A	4.00% - 5.00%	2037	50,261,863	Capitalized Projects
			<u>\$ 241,495,613</u>	

The following information relates to the status of bonds and notes payable outstanding at June 30, 2018:

	Balance July 1, 2017	New Debt/ Accretion	Principal Paid/ Adjustments	Balance June 30, 2018
Bonds (Gross)	\$ 1,404,433,151	\$ 76,795,685	\$ (71,798,479)	\$ 1,409,430,357
Notes	<u>77,348,912</u>	-	<u>(19,412,898)</u>	<u>57,936,014</u>
Total	<u>\$ 1,481,782,063</u>	<u>\$ 76,795,685</u>	<u>\$ (91,211,377)</u>	<u>\$ 1,467,366,371</u>

The bonds have maturity dates ranging from November 1, 2018 to May 1, 2042. The notes have maturity dates ranging from August 1, 2018 to May 1, 2022. Interest rates range from 0.8% to 7.0%.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2018 and 2017

NOTE 6 – Long Term Debt (continued)

As of June 30, 2018, the current and noncurrent bonds and notes payable net of discounts and premiums totaled \$104.0 million and \$1,491.9 million, respectively.

	Balance June 30, 2018	Current	Noncurrent
Bonds (Gross)	\$ 1,409,430,357	\$ 66,047,036	\$ 1,343,383,321
Discount	(186,590)	(15,809)	(170,781)
Premium	<u>128,717,133</u>	<u>23,032,338</u>	<u>105,684,795</u>
Bonds (Net)	1,537,960,900	89,063,565	1,448,897,335
Notes	<u>57,936,014</u>	<u>14,977,934</u>	<u>42,958,080</u>
Total	<u>\$ 1,595,896,914</u>	<u>\$ 104,041,499</u>	<u>\$ 1,491,855,415</u>

The following information relates to the status of bonds and notes payable outstanding at June 30, 2017:

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

The bonds have maturity dates ranging from November 1, 2017 to May 1, 2042. The notes have maturity dates ranging from August 1, 2017 to May 1, 2022. Interest rates range from 0.8% to 7.0%.

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

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

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2018 and 2017

NOTE 6 – Long Term Debt (continued)

Future debt service requirements for bonds and notes outstanding at June 30, 2018 are as follows:

Fiscal Year(s)	Bonds		Notes	
	Principal	Interest	Principal	Interest
2019	\$ 66,047,036	\$ 67,288,502	\$ 14,977,934	\$ 2,730,059
2020	68,915,827	63,674,624	16,666,685	2,052,352
2021	65,539,466	59,258,732	19,300,848	1,278,879
2022	69,278,802	55,825,078	6,989,803	349,490
2023	74,830,680	52,426,357	744	-
2024-2028	455,150,550	200,998,546	-	-
2029-2033	429,919,470	98,365,711	-	-
2034-2038	135,783,526	27,908,925	-	-
2039-2042	43,965,000	4,379,225	-	-
Total	<u>\$ 1,409,430,357</u>	<u>\$ 630,125,700</u>	<u>\$ 57,936,014</u>	<u>\$ 6,410,780</u>

As noted above, debt on academic facilities that is repaid by an appropriation from the State of Wisconsin to the University for that purpose is reported by the State of Wisconsin and not as an obligation of the University. As of June 30, 2018, the principal balances of such bonds and notes were \$1,420.1 million and \$140.8 million, respectively. As of June 30, 2017, the principal balances of such bonds and notes were \$1,449.5 million and \$144.2 million, respectively. Debt service payments made by the State of Wisconsin for the years ended June 30, 2018 and 2017 were allocated as follows:

	<u>2018</u>	<u>Bonds</u>	<u>Notes</u>
Principal	\$ 110,729,177	\$ 110,729,177	\$ 28,954,785
Interest	65,995,945	65,995,945	1,288,305
Total Paid	<u>\$ 176,725,122</u>	<u>\$ 176,725,122</u>	<u>\$ 30,243,090</u>
	<u>2017</u>	<u>Bonds</u>	<u>Notes</u>
Principal	\$ 118,310,777	\$ 118,310,777	\$ 35,112,946
Interest	67,506,174	67,506,174	1,402,092
Total Paid	<u>\$ 185,816,951</u>	<u>\$ 185,816,951</u>	<u>\$ 36,515,038</u>

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2018 and 2017

NOTE 7 – Lease Commitments

The University had capital lease obligations with a net present value of \$29.7 million as of June 30, 2018 compared to \$31.0 million at June 30, 2017. The payment schedule for capital lease obligations is as follows:

<u>Fiscal Year(s)</u>	<u>Obligations</u>
2019	\$ 3,398,336
2020	3,164,460
2021	2,886,687
2022	2,624,207
2023	2,495,092
2024-2028	12,399,831
2029-2033	12,363,920
2034-2038	12,363,920
2039-2043	<u>12,363,920</u>
Total Scheduled Lease Payments	64,060,373
Amount Representing Interest	<u>(34,339,220)</u>
Net Present Value	<u>\$ 29,721,153</u>

Assets Held Under Capital Lease:

<u>June 30, 2018</u>	<u>Original Cost</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>
Buildings and Improvements	\$ 29,286,500	\$ 3,294,731	\$ 25,991,769
Equipment	<u>3,028,946</u>	<u>1,848,744</u>	<u>1,180,202</u>
Total Assets	<u>\$ 32,315,446</u>	<u>\$ 5,143,475</u>	<u>\$ 27,171,971</u>

<u>June 30, 2017</u>	<u>Original Cost</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>
Buildings and Improvements	\$ 62,006,405	\$ 24,301,017	\$ 37,705,388
Equipment	<u>2,680,831</u>	<u>1,927,909</u>	<u>752,922</u>
Total Assets	<u>\$ 64,687,236</u>	<u>\$ 26,228,926</u>	<u>\$ 38,458,310</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 \$39.1 million for the fiscal year ended June 30, 2018.

Minimum commitments for future operating lease payments are as follows:

<u>Fiscal Year(s)</u>	<u>Commitments</u>
2019	\$ 23,721,844
2020	23,188,322
2021	20,590,615
2022	15,322,320
2023	14,177,624
2024-2028	62,446,542
2029-2033	54,931,598
2034-2038	39,150,156
2039-2043	24,721,000
2044-2048	<u>14,820,000</u>
Total	<u>\$ 293,070,021</u>

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2018 and 2017

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.

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

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

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

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

The WRS also provides death and disability benefits for employees.

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

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2018 and 2017

NOTE 8 – Retirement Benefits (continued)

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

<u>Year</u>	<u>Core Fund Adjustment</u>	<u>Variable Fund Adjustment</u>
2008	6.6%	0.0%
2009	(2.1)%	(42.0)%
2010	(1.3)%	22.0%
2011	(1.2)%	11.0%
2012	(7.0)%	(7.0)%
2013	(9.6)%	9.0%
2014	4.7%	25.0%
2015	2.9%	2.0%
2016	0.5%	(5.0)%
2017	2.0%	4.0%

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

During the reporting period, the University's contributions recognized by the WRS amounted to \$134.5 million and \$127.8 million, respectively. Contribution rates as of June 30, 2018 and 2017 were:

<u>Employee Category</u>	<u>June 30, 2018</u>		<u>June 30, 2017</u>	
	<u>Employee</u>	<u>Employer</u>	<u>Employee</u>	<u>Employer</u>
General (including teachers)	6.8%	6.8%	6.6%	6.6%
Executives & Elected Officials	6.8%	6.8%	6.6%	6.6%
Protective with Social Security	6.8%	10.6%	6.6%	9.4%
Protective without Social Security	6.8%	14.9%	6.6%	13.2%

Pension Assets, Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2018, the University reported a net pension asset of \$399.1 million for its proportionate share of the net pension asset, compared to the net pension liability of \$112.7 million at June 30, 2017. The net pension asset was based on an actuarial valuation performed as of December 31, 2016, with roll forward to December 31, 2017, and a measurement date of December 31, 2017. The University's proportion of the total net pension asset was determined based on the average of the University's contributions to the WRS over the three most recent calendar years relative to the average contributions of all participating employers for the same period. At December 31, 2017, the University's proportion was 13.4%, which was a decrease of 0.1% from its proportion measured as of December 31, 2016.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2018 and 2017

NOTE 8 – Retirement Benefits (continued)

For the fiscal year ended June 30, 2018 and June 30, 2017, the University recognized pension expense of \$170.2 million and \$284.3 million, respectively.

At June 30, 2018, total deferred outflows and inflows of resources to be recognized in the current pension expense are as follows:

	Fiscal Year ended June 30:	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	\$ (161,848)	\$ -	\$ (161,848)
Change in Proportion Assumption Changes	(742,937)	-	(742,937)
	<u>(4,358,996)</u>	<u>-</u>	<u>(4,358,996)</u>
Total	<u>\$ (5,263,781)</u>	<u>\$ -</u>	<u>\$ (5,263,781)</u>

The deferred outflows and inflows of resources to be recognized in the future pension expense are as follows:

	Fiscal Year ended June 30:	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	\$ (1,618,482)	\$ -	\$ (1,618,482)
Change in Proportion Assumption Changes	(7,429,370)	-	(7,429,370)
	<u>(43,589,955)</u>	<u>-</u>	<u>(43,589,955)</u>
Total	<u>\$ (52,637,807)</u>	<u>\$ -</u>	<u>\$ (52,637,807)</u>

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

Fiscal Year ended June 30	Deferred Outflows of Resources	Deferred Inflows of Resources
2019	\$ 358,465,443	\$ (363,816,080)
2020	128,587,089	(265,621,944)
2021	119,887,653	(223,427,860)
2022	957,561	-
2023	<u>-</u>	<u>-</u>
Totals	<u>\$ 607,897,746</u>	<u>\$ (852,865,884)</u>

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

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2018 and 2017

NOTE 8 – Retirement Benefits (continued)

Actuarial assumptions. The total pension asset in the December 31, 2017, and the total pension liability in the December 31, 2016 actuarial valuations were determined using the following fiscal year 2018 and 2017, respectively, actuarial assumptions, applied to all periods included in the measurement.

	2018	2017
Actuarial Valuation Date:	December 31, 2016	December 31, 2015
Measurement Date of Net Pension Asset/Liability	December 31, 2017	December 31, 2016
Actuarial Cost Method:	Entry Age	Entry Age
Asset Valuation Method:	Fair Value	Fair Value
Long-Term Expected Rate of Return:	7.2%	7.2%
Discount Rate:	7.2%	7.2%
Salary Increases:		
Inflation	3.2%	3.2%
Seniority/Merit	0.2% - 5.6%	0.2% - 5.6%
Mortality:	Wisconsin 2012 Mortality Table	Wisconsin 2012 Mortality Table
Post-Retirement Adjustments*	2.1%	2.1%

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

Actuarial assumptions are based upon an experience study conducted in 2015 using experience from 2012-2014. The total pension asset for December 31, 2017 is based upon a roll-forward of the liability calculated from the December 31, 2016 actuarial valuation.

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

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

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2018 and 2017

NOTE 8 – Retirement Benefits (continued)

Single Discount Rate. A single discount rate of 7.2% was used to measure the total pension asset as of December 31, 2017 and 2016. This single discount rate was based on the expected rate of return on pension plan investments of 7.2% and a long term bond rate of 3.78%. Because of the unique structure of the WRS, the 7.2% expected rate of return implies that a dividend of approximately 2.1% will always be paid. For purposes of the single discount rate, it was assumed that the dividend would always be paid. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments (including expected dividends) of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension asset.

Sensitivity of the University’s proportionate share of the net pension (asset)/liability to changes in the discount rate. The following presents the University’s proportionate share of the net pension (asset)/liability calculated using the discount rate of 7.2 percent, as well as what the University’s proportionate share of the net pension (asset)/liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.2%) or 1-percentage-point higher (8.2%) than the current rate for fiscal years ended June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
1% Decrease to Discount Rate	\$ 1,032,555,481	\$ 1,468,661,552
Current Discount Rate	\$ (399,079,716)	\$ 112,698,659
1% Increase to Discount Rate	\$ (1,487,166,756)	\$ (933,332,672)

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

Other Retirement Benefits

In addition to the WRS, certain employees associated with federally funded activities are partially covered by the Federal Retirement Program. The University's contributions to this program totaled \$58,806 during fiscal year 2018, compared with \$74,331 during fiscal year 2017.

NOTE 9 – Postemployment Benefits Other Than Pensions

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

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2018 and 2017

NOTE 9 – Postemployment Benefits Other Than Pensions (continued)

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

ETF issues publicly available financial reports that include financial statements, additional note disclosures, and required supplementary information for these plans. The reports are available at www.etf.wi.gov or may be obtained upon request from: Department of Employee Trust Funds, 4822 Madison Yards Way, Madison, Wisconsin 53705-9100.

The State of Wisconsin 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 or may be obtained by writing to: Department of Administration, 101 East Wilson Street, Madison, Wisconsin 53703.

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

Retiree Life Insurance Funds

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

The plans provide postemployment life insurance coverage to all eligible employees of participating employers. The plans are established by Wisconsin Statutes Chapter 40.70. ETF contracts with Securian Financial Group, Inc (Securian) as a third party administrator for the Retiree Life Insurance plans. Benefit terms may be modified by the GIB, subject to state and federal legislative constraints.

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

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

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2018 and 2017

NOTE 9 – Postemployment Benefits Other Than Pensions (continued)

Employers are required to pay the following contributions for active members to provide them with basic coverage after age 65. There are no employer contributions for pre-65 annuitant coverage. All contributions are actuarially determined.

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

Employee contributions are based upon nine age bands through age 69 and an additional eight age bands for those age 70 and over. Participating employees must pay monthly contribution rates per \$1,000 of coverage until the age of 65 (age 70 if active). The employee contribution rates in effect for the year ended December 31, 2017 are as listed below:

Attained Age	Basic	Supplemental
Under 30	\$ 0.04	\$ 0.04
30-34	0.04	0.04
35-39	0.04	0.04
40-44	0.06	0.06
45-49	0.10	0.10
50-54	0.16	0.16
55-59	0.22	0.22
60-64	0.30	0.30
65-69	0.39	0.39

During the reporting period, the OPEB plan recognized \$552,145 in contributions from the University.

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

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

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

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2018 and 2017

NOTE 9 – Postemployment Benefits Other Than Pensions (continued)

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

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

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

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB. At June 30, 2018, the University reported a liability of \$204,440,597 for its proportionate share of the net OPEB liability. The net liability was measured as of December 31, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of January 1, 2017, rolled forward to December 31, 2017. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The University's proportion of the net OPEB liability was based on the University's share of contributions to the OPEB plan relative to the contributions of all participating employers. At December 31, 2017, the University's proportion was 41.4 percent, which was a decrease of 1.8 percent from its proportion of 43.2 percent measured as of December 31, 2016.

At June 30, 2018, the University reported deferred outflows and inflows of resources related to OPEB from the following sources:

	<u>Fiscal Year ended June 30:</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference Between Expected and Actual Experience	\$ (1,917,278)	\$ -	\$ (1,917,278)
Net Differences Between Projected and Actual Earnings on OPEB Plan Investments	2,011,697	2,011,697	-
Assumption Changes	17,844,053	17,844,053	-
Changes in Proportion	<u>(6,313,448)</u>	<u>-</u>	<u>(6,313,448)</u>
Total	<u>\$ 11,625,024</u>	<u>\$ 19,855,750</u>	<u>\$ (8,230,726)</u>

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2018 and 2017

NOTE 9 – Postemployment Benefits Other Than Pensions (continued)

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

Fiscal Year ended June 30:	Deferred Outflows of Resources	Deferred Inflows of Resources
2019	\$ 7,249,310	\$ (2,964,580)
2020	3,382,479	(1,309,987)
2021	3,382,479	(1,309,987)
2022	2,891,823	(1,309,987)
2023	2,891,823	(1,309,987)
Thereafter	<u>57,836</u>	<u>(26,198)</u>
Total	<u>\$ 19,855,750</u>	<u>\$ (8,230,726)</u>

The total OPEB expense is determined as follows:

Net Proportionate Share of Plan OPEB Expense (Income)	\$ 19,691,777
Net Amortization of Deferred Amounts from Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	<u>(999,272)</u>
Total OPEB Expense	<u>\$ 18,692,505</u>

Actuarial Assumptions. The total OPEB liability in the January 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Valuation Date	January 1, 2017
Measurement Date of Net OPEB Liability	December 31, 2017
Actuarial cost method	Entry age normal
20-year tax-exempt municipal bond yield	3.44%
Long-term expected rate of return	5.00%
Discount rate	3.60%
Salary increases:	
Inflation	3.20%
Seniority/merit	0.2% - 5.6%
Mortality rates	Wisconsin 2012 Mortality Table

Long-Term Expected Return on Plan Assets. The long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. Investments for the OPEB plan are held with Securian, the insurance carrier. Interest is calculated and credited to the OPEB plan based on the rate of return for a segment of the insurance carrier's general fund, specifically 10-year A- Bonds (as a proxy, and not tied to any specific investments). The overall aggregate interest rate is calculated using a tiered approach based on the year the funds were originally invested and the rate of return for that year. Investment interest is credited based on the aggregate rate of return, and assets are not adjusted to fair market value. Furthermore, the insurance carrier guarantees the principal amounts of the reserves, including all interest previously credited thereto.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2018 and 2017

NOTE 9 – Postemployment Benefits Other Than Pensions (continued)

State OPEB Life Insurance
Asset Allocation Targets and Expected Returns
As of December 31, 2017

<u>Asset Class</u>	<u>Index</u>	<u>Target Allocation</u>	<u>Deferred Long-Term Expected Geometric Real Rate of Return</u>
US Government Bonds	Barclays Government	1%	1.13%
US Credit Bonds	Barclays Credit	65%	2.61%
US Long Credit Bonds	Barclays Long Credit	3%	3.08%
US Mortgages	Barclays MBS	31%	2.19%
Inflation			2.30%
Long-Term Expected Rate of Return			5.00%

Single Discount Rate. A single discount rate of 3.60 percent was used to measure the total OPEB liability. The plan’s fiduciary net position was projected to be insufficient to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total OPEB liability is equal to the single equivalent rate that results in the same actuarial present value as the long-term expected rate of return applied to benefit payments, to the extent that the plan’s fiduciary net position is projected to be sufficient to make projected benefit payments, and the municipal bond rate applied to benefit payment to the extent that the plan’s fiduciary net position is projected to be insufficient.

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

	1% Decrease in Discount Rate (2.60%)	Current Discount Rate (3.60%)	1% Increase in Discount Rate (4.60%)
OPEB Liability	\$ 278,342,113	\$ 204,440,597	\$ 147,080,426

OPEB Plan Fiduciary Net Position. Detailed information about the OPEB plan’s fiduciary net position is available in separately issued financial statements available at <http://etf.wi.gov/publications/cafr.htm>.

Retiree Health Insurance Funds

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

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

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2018 and 2017

NOTE 9 – Postemployment Benefits Other Than Pensions (continued)

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

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

Contributions. As of the January 2017 actuarial valuation, the State’s annual required contributions were \$97.9 million and \$98.4 million for fiscal years ended June 30, 2018 and June 30, 2017, respectively. The State’s annual OPEB costs were \$85.4 million and \$79.4 million for fiscal years ended June 30, 2018 and June 30, 2017, respectively, and the State’s actual contributions were \$43.2 million in fiscal year 2018 and \$38.4 million in fiscal year 2017, which results in a net OPEB obligation for the State of \$719.3 million as of June 30, 2018, and \$583.7 million as of June 30, 2017.

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

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

Retirees pay the full premium until age 65 directly to the plan either through “out-of-pocket” or from unused accumulated sick leave conversion credits. The value of the sick leave benefit is defined as compensated absences and reported under the provisions of GASB Statement No. 16, *Accounting for Compensated Absences*.

Contribution requirements are established and may be amended by the GIB. Premiums for non-Medicare retirees are based on an effective rate structure for the health care service provider selected. Monthly rates range from \$543 to \$1,371 for single coverage and \$1,331 to \$3,422 for family coverage.

Total Retiree Health OPEB Liability. The OPEB plan liability was measured as of June 30, 2017. It was determined by an actuarial valuation as of January 1, 2017. The University reported a liability of \$315.7 million for its proportionate share of the OPEB liability amounts as of a June 30, 2018 reporting date. At June 30, 2018, the University’s proportion was 43.9 percent which was a decrease of 1.0 percent from its proportion of 44.9 percent measured as of June 30, 2016.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2018 and 2017

NOTE 9 – Postemployment Benefits Other Than Pensions (continued)

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

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

OPEB Liability – June 30, 2017	\$ 345,677,859
Service Cost	31,638,843
Interest	10,359,467
Differences Between Expected and Actual Experience	(1,780,330)
Change of Assumptions	(53,342,935)
Benefit Payments	<u>(16,865,279)</u>
OPEB Liability – June 30, 2018	<u>\$ 315,687,625</u>

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

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2018 and 2017

NOTE 9 – Postemployment Benefits Other Than Pensions (continued)

The total OPEB liability in the January 1, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Actuarial Valuation Date	January 1, 2017
Measurement Date of Total OPEB Liability	June 30, 2017
Actuarial cost method	Entry age level percent of pay
Asset Valuation Method	N/A
Inflation	3.2%
Salary increases	Vary by service and employee class, including inflation
Discount Rate	Discount rate was changed to 3.58% for the June 30, 2017 measurement from 2.85% for the June 30, 2016 measurement. The 2015 valuation used a discount rate of 3.56%
Health care cost trend rates (calendar year basis from January 1, 2017)	
Medical	2.33% for one year then 5.25% graded to 4.5% over three years
Prescription drug	-4.9% for one year then 8.5% graded to 4.5% over seven years
Dental	3.5% for one year then 4.0%
Administrative costs	4.8% for one year then 3.0%
Benefit Changes	None
Participation Rate	Decreased from 95% to 85%
Assumed Claims	Costs were changed to reflect the expected claims in effect for 2017
Disability Rates	Rates for General and Executive and Elected employees were changed to match the pension valuation as of December 31, 2014
Withdrawal Rate	Withdrawal rate for General female employees with 0 years of service was changed to match the pension valuation as of December 31, 2014
Trend Rates	Trend rates were re-established to adjust to the claims experience for 2018. Both medical and prescription coverages were assumed to have an ultimate trend of 4.50%
Benefit End Date	Benefits end when participants turn 65 years old

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2018 and 2017

NOTE 9 – Postemployment Benefits Other Than Pensions (continued)

Valuation assumption changes decreased the liability by \$51.0 million due to raising the discount rate to 3.58 percent from 2.85 percent based on the Bond Buyer, 20-year, general obligation municipal bond index rate closest to the measurement date (but not beyond). The assumptions used in the January 1, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2012 to December 31, 2014. In addition, the assumed participation rate was lowered from 95 percent to 85 percent to account for some retirees electing to be covered on the exchanges established by the Affordable Care Act rather than in the retiree health plan. Other assumptions used, such as mortality, disability and retirement rates for active members, are consistent with an actuarial valuation on the Wisconsin Retirement Plan dated December 31, 2014.

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

	1% Decrease in Discount Rate (2.58%)	Current Discount Rate (3.58%)	1% Increase in Discount Rate (4.58%)
OPEB Liability	\$ 337,629,187	\$ 315,687,625	\$ 294,731,002

Sensitivity of the University’s Proportionate Share of Total OPEB liability to Changes in the Healthcare Cost Trend Rates. The following presents what the University’s liability would be if it were calculated using a healthcare trend rate that is 1-percentage-point lower or higher than the current healthcare trend rate:

	1% Decrease in Healthcare Trend Rate	Current Healthcare Trend Rate	1% Increase in Healthcare Trend Rate
OPEB Liability	\$ 279,238,231	\$ 315,687,625	\$ 359,030,016

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB. The total deferred outflows and inflows of resources are amortized over the average active participants service life of 11 years. For the year ended June 30, 2018, the University recognized negative OPEB expense amounting to \$19.9 million.

Total deferred outflows and inflows of resources to be recognized in the current OPEB expense are as follows:

	Fiscal Year ended June 30:	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	\$ (161,848)	\$ -	\$ (161,848)
Change in Proportion	(490,362)	-	(490,362)
Assumption Changes	<u>(4,358,996)</u>	<u>-</u>	<u>(4,358,996)</u>
Total	<u>\$ (5,011,206)</u>	<u>\$ -</u>	<u>\$ (5,011,206)</u>

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2018 and 2017

NOTE 9 – Postemployment Benefits Other Than Pensions (continued)

In addition, the contributions subsequent to the measurement date of \$18,979,895 (a deferred outflow of resources) will be included as a reduction of the net OPEB liability in the next year (2019). The deferred outflows and inflows of resources to be recognized in the future OPEB expense are as follows:

	Fiscal Year ended June 30:	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	\$ (1,618,482)	\$ -	\$ (1,618,482)
Change in Proportion Assumption Changes	(4,903,622)	-	(4,903,622)
Employer Contributions Subsequent to Measurement Date	(43,589,955)	-	(43,589,955)
	<u>18,979,895</u>	<u>18,979,895</u>	<u>-</u>
Total	<u>\$ (31,132,164)</u>	<u>\$ 18,979,895</u>	<u>\$ (50,112,059)</u>

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

	Fiscal Year ended June 30:	Deferred Outflows of Resources	Deferred Inflows of Resources
2019	\$	-	\$ (5,011,206)
2020		-	(5,011,206)
2021		-	(5,011,206)
2022		-	(5,011,206)
2023		-	(5,011,206)
Thereafter		-	<u>(25,056,029)</u>
Total		<u>N/A</u>	<u>\$ (50,112,059)</u>

The total OPEB expense is determined as follows:

Service Cost	\$ 25,133,032
Interest	10,359,467
Recognition of Deferred Inflows	<u>(5,011,206)</u>
Total OPEB Expense	<u>\$ 36,987,105</u>

The Schedule of Changes in the University's proportionate share of the Total OPEB Liability and Related Ratios is presented as required supplementary information following the notes to the financial statements.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2018 and 2017

NOTE 10 – Deferred Outflows and Deferred Inflows of Resources

At June 30, 2018 and June 30, 2017, the University reported deferred outflows of resources and deferred inflows of resources from the following sources:

<u>Deferred Outflows</u>	<u>Pension</u>	<u>Other Postemployment Benefits</u>	<u>Debt Refundings</u>	<u>Total</u>	
Fiscal Year 2018					
Differences between expected and actual experience	\$ 507,040,745	\$ -	\$ -	\$ 507,040,745	
Net differences between projected and actual earnings on pension plan investments	-	2,011,697	-	2,011,697	
Employer contributions subsequent to the measurement date	74,807,123	18,979,895	-	93,787,018	
Changes in Actuarial Assumptions	78,850,365	17,844,053	-	96,694,418	
Changes in proportion and differences between employer contributions and proportionate share of contributions	25,064	-	-	25,064	
Unamortized Losses	<u>-</u>	<u>-</u>	<u>50,910,007</u>	<u>50,910,007</u>	
Total Fiscal Year 2018 Deferred Outflows	<u>\$ 660,723,297</u>	<u>\$ 38,835,645</u>	<u>\$ 50,910,007</u>	<u>\$ 750,468,949</u>	
Fiscal Year 2017					
Differences between expected and actual experience	\$ 42,567,356	\$ -	\$ -	\$ 42,567,356	
Net differences between projected and actual earnings on pension plan investments	556,377,930	-	-	556,377,930	
Employer contributions subsequent to the measurement date	49,593,620	-	-	49,593,620	
Changes in Actuarial Assumptions	116,721,223	-	-	116,721,223	
Unamortized Losses	<u>-</u>	<u>-</u>	<u>49,774,249</u>	<u>49,774,249</u>	
Total Fiscal Year 2017 Deferred Outflows	<u>\$ 765,260,129</u>	<u>\$ -</u>	<u>\$ 49,774,249</u>	<u>\$ 815,034,378</u>	
<u>Deferred Inflows</u>	<u>Pension</u>	<u>Other Postemployment Benefits</u>	<u>Debt Refundings</u>	<u>Other</u>	<u>Total</u>
Fiscal Year 2018					
Differences between expected and actual experience	\$ 237,176,849	\$ 3,535,760	\$ -	\$ -	\$ 240,712,609
Net differences between projected and actual earnings on pension plan investments	548,497,947	-	-	-	548,497,947
Changes in Actuarial Assumptions	-	43,589,955	-	-	43,589,955
Changes in proportion and differences between employer contributions and proportionate share of contributions	4,966,507	11,217,070	-	-	16,183,577
Unamortized Losses	-	-	575,913	-	575,913
Gifts	<u>-</u>	<u>-</u>	<u>-</u>	<u>55,428</u>	<u>55,428</u>
Total Fiscal Year 2018 Deferred Inflows	<u>\$ 790,641,303</u>	<u>\$ 58,342,785</u>	<u>\$ 575,913</u>	<u>\$ 55,428</u>	<u>\$ 849,615,429</u>
Fiscal Year 2017					
Differences between expected and actual experience	\$ 351,089,965	\$ -	\$ -	\$ -	\$ 351,089,965
Changes in proportion and differences between employer contributions and proportionate share of contributions	7,903,108	-	-	-	7,903,108
Unamortized Losses	-	-	824,641	-	824,641
Gifts	<u>-</u>	<u>-</u>	<u>-</u>	<u>61,523</u>	<u>61,523</u>
Total Fiscal Year 2017 Deferred Inflows	<u>\$ 358,993,073</u>	<u>\$ -</u>	<u>\$ 824,641</u>	<u>\$ 61,523</u>	<u>\$ 359,879,237</u>

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2018 and 2017

NOTE 11 – Other Organizations

GASB Statement No. 14, *The Financial Reporting Entity*, GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, an amendment of GASB Statement No. 14, GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, an amendment of GASB Statements No. 14 and No. 34, and GASB Statement No. 80, *Blending Requirements for Certain Component Units*, an amendment of GASB Statement No. 14 provide guidance in determining whether organizations are to be included as part of a reporting entity. The University has defined significance as 5% of the primary government (individual campus) that the potential component unit exists to support. As of June 30, 2018, the University has determined that the Campus Foundations individually and in aggregate exceed the 5% threshold and therefore are disclosed in these financial statements as discretely presented component units. The following pages show the summarized financial information of the major component unit campus foundations.

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UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2018 and 2017

NOTE 11 – Other Organizations (continued)

Condensed financial statement information related to the University's campus foundations for the year ended June 30, 2018 is as follows:

Condensed Statement of Financial Position	University of Wisconsin Foundation, Inc.	The University of Wisconsin Milwaukee Foundation Inc.	Others	Total
ASSETS				
Cash and Cash Equivalents	\$ 130,916,735	\$ 5,412,565	\$ 20,738,132	\$ 157,067,432
Income and Redemption Receivables	25,817,848	390,924	39,141	26,247,913
Pledges Receivable, Net	122,589,146	16,204,604	36,532,972	175,326,722
Prepaid Expenses and Other Assets	6,741,875	1,558,055	18,702,571	27,002,501
Investments	3,860,699,207	157,618,943	317,965,573	4,336,283,723
Property and Equipment, Net	18,926,940	74,312,871	101,304,132	194,543,943
Real Estate	<u>9,276,327</u>	<u>-</u>	<u>1,078,406</u>	<u>10,354,733</u>
TOTAL ASSETS	<u>\$ 4,174,968,078</u>	<u>\$ 255,497,962</u>	<u>\$ 496,360,927</u>	<u>\$ 4,926,826,967</u>
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts Payable	\$ 2,419,408	\$ 131,134	\$ 4,321,064	\$ 6,871,606
Pending Investment Purchases Payable	54,783,240	-	-	54,783,240
Accrued Expenses and Other Liabilities	28,758,099	2,418,097	17,520,615	48,696,811
Note Payable	-	82,970,274	92,235,636	175,205,910
Liability Under Split-Interest Agreements	44,599,135	-	838,886	45,438,021
Funds Due to Other Organizations	<u>279,228,731</u>	<u>2,891,321</u>	<u>200,774</u>	<u>282,320,826</u>
Total Liabilities	<u>409,788,613</u>	<u>88,410,826</u>	<u>115,116,975</u>	<u>613,316,414</u>
NET ASSETS				
Unrestricted	129,327,363	808,156	29,011,414	159,146,933
Temporarily Restricted	1,883,399,918	145,968,212	157,963,396	2,346,478,459
Permanently Restricted	<u>1,752,452,184</u>	<u>20,310,768</u>	<u>194,269,142</u>	<u>1,967,032,094</u>
Total Net Assets	<u>3,765,179,465</u>	<u>167,087,136</u>	<u>381,243,952</u>	<u>4,313,510,553</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,174,968,078</u>	<u>\$ 255,497,962</u>	<u>\$ 496,360,927</u>	<u>\$ 4,926,826,967</u>
Condensed Statement of Activities				
REVENUES, GAINS AND OTHER SUPPORT				
Contributions	\$ 313,184,081	\$ 35,165,211	\$ 45,768,307	\$ 394,117,599
Interest and Dividend Income	47,585,892	-	4,886,700	52,472,592
Net Investment Gains (Losses)	213,774,081	9,429,925	24,033,960	247,237,966
Rental Income	-	5,758,561	6,754,055	12,512,616
Other Income	<u>6,109,982</u>	<u>-</u>	<u>5,212,950</u>	<u>11,322,932</u>
Total Revenues, Gains and Other Support	<u>580,654,036</u>	<u>50,353,697</u>	<u>86,655,972</u>	<u>717,663,705</u>
EXPENSES				
Program Expenses	279,541,953	22,474,587	42,551,143	344,567,683
Management and General Expenses	37,841,323	2,111,749	6,214,914	46,167,986
Fundraising Expenses	25,720,620	3,552,236	5,175,350	34,448,206
Total Expenses	<u>343,103,896</u>	<u>28,138,572</u>	<u>53,941,407</u>	<u>425,183,875</u>
INCREASE IN NET ASSETS	237,550,140	22,215,125	32,714,565	292,479,830
Net Assets - Beginning of Year	<u>3,527,629,325</u>	<u>144,872,011</u>	<u>348,529,387</u>	<u>4,021,030,723</u>
Net Assets - End of Year	<u>\$ 3,765,179,465</u>	<u>\$ 167,087,136</u>	<u>\$ 381,243,952</u>	<u>\$ 4,313,510,553</u>

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2018 and 2017

NOTE 11 – Other Organizations (continued)

Condensed financial statement information related to the University's campus foundations for the year ended June 30, 2017 is as follows:

Condensed Statement of Financial Position	University of Wisconsin Foundation, Inc.	The University of Wisconsin Milwaukee Foundation Inc.	Others	Total
ASSETS				
Cash and Cash Equivalents	\$ 105,043,144	\$ 10,474,931	\$ 18,159,194	\$ 133,677,269
Income and Redemption Receivables	15,304,453	204,704	52,972	15,562,129
Pledges Receivable, Net	131,720,292	16,199,479	26,216,329	174,136,100
Prepaid Expenses and Other Assets	6,942,478	1,581,352	15,540,416	24,064,246
Investments	3,653,235,317	129,331,981	302,747,057	4,085,314,355
Property and Equipment, Net	20,201,517	76,701,292	103,101,260	200,004,069
Real Estate	<u>2,889,362</u>	-	<u>1,078,406</u>	<u>3,967,768</u>
TOTAL ASSETS	<u>\$ 3,935,336,563</u>	<u>\$ 234,493,739</u>	<u>\$ 466,895,634</u>	<u>\$ 4,636,725,936</u>
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts Payable	\$ 2,918,308	\$ 148,991	\$ 5,423,761	\$ 8,491,060
Pending Investment Purchases Payable	55,001,392	-	-	55,001,392
Accrued Expenses and Other Liabilities	11,037,754	2,689,023	14,010,566	27,737,343
Note Payable	-	84,575,584	97,876,687	182,452,271
Liability Under Split-Interest Agreements	45,048,021	-	854,459	45,902,480
Funds Due to Other Organizations	<u>293,701,763</u>	<u>2,208,130</u>	<u>200,774</u>	<u>296,110,667</u>
Total Liabilities	<u>407,707,238</u>	<u>89,621,728</u>	<u>118,366,247</u>	<u>615,695,213</u>
NET ASSETS				
Unrestricted	122,490,421	865,121	26,677,657	150,033,199
Temporarily Restricted	1,745,855,111	123,952,169	135,015,145	2,004,822,425
Permanently Restricted	<u>1,659,283,793</u>	<u>20,054,721</u>	<u>186,836,585</u>	<u>1,866,175,099</u>
Total Net Assets	<u>3,527,629,325</u>	<u>144,872,011</u>	<u>348,529,387</u>	<u>4,021,030,723</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,935,336,563</u>	<u>\$ 234,493,739</u>	<u>\$ 466,895,634</u>	<u>\$ 4,636,725,936</u>
Condensed Statement of Activities				
REVENUES, GAINS AND OTHER SUPPORT				
Contributions	\$ 338,449,963	\$ 27,140,768	\$ 69,072,724	\$ 434,663,455
Interest and Dividend Income	33,582,155	-	4,991,748	38,573,903
Net Investment Gains (Losses)	290,973,860	11,441,389	20,057,500	322,472,749
Rental Income	-	5,693,336	4,241,143	9,934,479
Other Income	<u>7,129,328</u>	<u>(696,020)</u>	<u>5,677,620</u>	<u>12,110,928</u>
Total Revenues, Gains and Other Support	670,135,306	43,579,473	104,040,735	817,755,514
EXPENSES				
Program Expenses	253,168,819	25,969,868	34,521,745	313,660,432
Management and General Expenses	61,243,330	1,717,917	5,639,217	68,600,464
Fundraising Expenses	<u>25,279,558</u>	<u>3,666,370</u>	<u>5,099,682</u>	<u>34,045,610</u>
Total Expenses	<u>339,691,707</u>	<u>31,354,155</u>	<u>45,260,644</u>	<u>416,306,506</u>
INCREASE IN NET ASSETS	330,443,599	12,225,318	58,780,091	401,449,008
Net Assets - Beginning of Year	<u>3,197,185,726</u>	<u>132,646,693</u>	<u>289,749,296</u>	<u>3,619,581,715</u>
Net Assets - End of Year	<u>\$ 3,527,629,325</u>	<u>\$ 144,872,011</u>	<u>\$ 348,529,387</u>	<u>\$ 4,021,030,723</u>

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2018 and 2017

NOTE 11 – Other Organizations (continued)

A – University of Wisconsin Medical Foundation

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

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

Under the CPE program, DHS is able to claim additional federal MA funds based upon the difference between the established MA reimbursement rate for the services provided by the UW-Madison faculty physicians group and the actual cost of providing those services. To enable the draw of these federal funds by DHS, UW-Madison remitted a total of \$11.3 million to DHS during fiscal year 2018 and \$8.5 million in fiscal year 2017, representing the state's share of this difference. DHS then claimed the federal share of the difference from the federal government and subsequently provided \$26.6 million during fiscal year 2018 and \$26.1 million during fiscal year 2017, 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 \$15.4 million during fiscal year 2018 and \$11.5 million in fiscal year 2017 were also made under this program and are reported as a transfer to state agencies on the financial statements.

During fiscal year 2018, the UWMF remitted \$42.7 million to UW-Madison as reimbursement for payments to DHS during fiscal year 2017. The UWMF did not remit any reimbursements during fiscal year 2017.

In addition, UW-Madison incurred expenditures for which reimbursement was received from the UWMF. Of the \$114.5 million expended in fiscal year 2018, \$101.8 million was for salaries and fringe benefits of staff in the UW-Madison School of Medicine. In fiscal year 2017, of the \$103.7 million expended, \$91.9 million was for salaries and fringe benefits of staff in the UW-Madison School of Medicine.

B – University of Wisconsin Hospital and Clinics Authority

The University of Wisconsin Hospital and Clinics Authority (UWHCA), pursuant to an act of the Wisconsin State Legislature, began operating on June 29, 1996 as a separate public authority. As required by this legislation, the University has entered into various affiliation and operating agreements with UWHCA, including a lease agreement. Under the terms of the lease, UWHCA makes payments equal to the debt service on all outstanding bonds issued by the State of Wisconsin to acquire, construct, or improve the leased facilities. At June 30, 2018, the present value of these future lease payments totaled \$0.14 million, compared to \$0.18 million at June 30, 2017, 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 \$1,435.1 million and \$1,404.4 million at June 30, 2018 and June 30, 2017, respectively. The leased facilities are not included as part of the University's investment in buildings since they have been reported by UWHCA in their audited financial statements in accordance with the generally accepted accounting principles that pertain to the reporting of leased assets.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2018 and 2017

NOTE 11 – Other Organizations (continued)

B – University of Wisconsin Hospital and Clinics Authority (continued)

During the fiscal year ended June 30, 2018, the University received services from UWHCA totaling \$5.0 million and provided services to UWHCA totaling \$69.7 million, compared to amounts for fiscal year ended June 30, 2017 of \$4.9 million and \$69.2 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.

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

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

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2018 and 2017

NOTE 11 – Other Organizations (continued)

D – La Crosse Medical Health Science Education Research Center

On June 6, 1997, the Board of Regents entered into a Use Agreement with The La Crosse Medical Health Science Consortium, Inc. (The Consortium), a Wisconsin non-stock corporation tax exempt under IRC 501(c)(3) with offices at 1725 State Street, La Crosse, Wisconsin. The Use Agreement makes available the exclusive use of the La Crosse Medical Health Science Education Research Center to The Consortium. As required by this Use Agreement, the University has entered into various operating agreements with The Consortium, including a lease agreement. Under the terms of the lease, The Consortium makes payments equal to the debt service on all outstanding bonds issued by the State of Wisconsin to acquire, construct, or improve the leased facilities. At June 30, 2018, the present value of these future lease payments totaled \$0.82 million, compared to \$0.99 million at June 30, 2017, 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. The leased facilities are not included as part of the University's investment in buildings since they have been reported by The Consortium in their audited financial statements in accordance with the generally accepted accounting principles that pertain to the reporting of leased assets.

During the fiscal years ended June 30, 2018 and 2017, the University provided services and rent to The Consortium totaling \$0.7 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 – 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 \$194.9 million at June 30, 2018, compared with \$187.5 million at June 30, 2017. During fiscal year 2018, \$1.1 million of these funds was made available by the trustees for spending. In fiscal year 2017, \$1.4 million of was available by the trustees for spending.

NOTE 12 – Operating Expenses by Functional Classification

Operating expenses by functional classification for the fiscal year ended June 30, 2018:

	Salary and Fringe Benefits	Scholarships and Fellowships	Supplies and Services	Other	Depreciation	Total
Instruction	\$ 1,137,524,125	\$ 1,871,450	\$ 115,928,100	\$ 2,277,509	\$ -	\$ 1,257,601,184
Research	678,592,984	4,402,803	299,136,284	2,328,773	-	984,460,844
Public Service	199,867,665	594,357	92,926,513	5,488,856	-	298,877,391
Academic Support	303,537,046	228,268	97,955,799	187,981	-	401,909,094
Farm Operations	11,171,935	-	7,013,669	(1,123)	-	18,184,481
Student Services	310,758,954	748,423	167,605,123	(3,805)	-	479,108,695
Institutional Support	268,665,397	2,868,114	39,966,356	98,188	-	311,598,055
Operation/Maintenance	149,743,404	-	134,583,908	45,008	-	284,372,320
Financial Aid	5,322,076	146,883,786	1,070,034	1,800,655	-	155,076,551
Auxiliary Enterprises	119,846,812	7,058	243,303,851	120,843	-	363,278,564
Hospital	-	-	63,137,755	-	-	63,137,755
Depreciation	-	-	-	-	323,984,139	323,984,139
Total Operating Expenses	<u>\$ 3,185,030,398</u>	<u>\$ 157,604,259</u>	<u>\$ 1,262,627,392</u>	<u>\$ 12,342,885</u>	<u>\$ 323,984,139</u>	<u>\$ 4,941,589,073</u>

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2018 and 2017

NOTE 12 – Operating Expenses by Functional Classification (continued)

Operating expenses totaled \$4.9 billion. Salary and fringe benefits, scholarships and fellowships, and supplies and services and other expenses constituted 64.5%, 3.2%, and 25.5% of total operating expenses, respectively. Depreciation comprised \$324.0 million or 6.5% of total operating expenses.

Operating expenses by functional classification for the fiscal year ended June 30, 2017:

	Salary and Fringe Benefits	Scholarships and Fellowships	Supplies and Services	Other	Depreciation	Total
Instruction	\$ 1,254,551,353	\$ 2,403,501	\$ 94,199,162	\$ 18,326,297	\$ -	\$ 1,369,480,313
Research	662,946,548	2,679,780	294,965,179	(88,634)	-	960,502,873
Public Service	204,760,380	556,466	95,288,038	5,642,548	-	306,247,432
Academic Support	294,512,160	151,446	100,489,084	267,490	-	395,420,180
Farm Operations	10,841,883	-	7,372,576	(44,441)	-	18,170,018
Student Services	288,133,481	1,022,115	151,021,635	42,639	-	440,219,870
Institutional Support	261,858,489	74,652	37,172,935	(651,464)	-	298,454,612
Operation/Maintenance	144,542,542	702	151,358,609	(33)	-	295,901,820
Financial Aid	5,191,940	138,262,200	(281,791)	1,427,216	-	144,599,565
Auxiliary Enterprises	129,465,647	17,569	233,814,162	(23,900)	-	363,273,478
Hospital	-	-	63,165,818	-	-	63,165,818
Depreciation	-	-	-	-	315,103,057	315,103,057
Total Operating Expenses	<u>\$ 3,256,804,423</u>	<u>\$ 145,168,431</u>	<u>\$ 1,228,565,407</u>	<u>\$ 24,897,718</u>	<u>\$ 315,103,057</u>	<u>\$ 4,970,539,036</u>

Operating expenses totaled \$4.8 billion. Salary and fringe benefits, scholarships and fellowships, and supplies and services and other expenses constituted 65.5%, 2.9%, and 24.7% of total operating expenses, respectively. Depreciation comprised \$315.1 million or 6.3% of total operating expenses.

NOTE 13 – Classification of Net Position

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

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

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2018 and 2017

NOTE 13 – Classification of Net Position (continued)

The amounts within each category at June 30, 2018 and June 30, 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Net Investment in Capital Assets	\$ 3,519,597,333	\$ 3,435,929,349
Restricted – Nonexpendable		
Permanent Endowment	188,177,512	198,295,429
Restricted – Expendable		
Restricted for Pensions	399,079,716	-
Restricted Endowment Earnings	85,548,343	34,265,646
Restricted Donor Investments	184,522,986	214,700,842
Auxiliary Operations – Segregated Fees	89,562,658	74,422,544
Restricted for Student Loans		
Federal Aid	34,027,391	43,840,431
Gifts	32,047,657	31,618,941
Endowment Funds	<u>13,364,280</u>	<u>13,364,280</u>
Subtotal	79,439,328	88,823,652
Restricted – Other		
Federal Aid	46,527,942	42,289,201
Gifts and Nonfederal Grants & Contracts	282,805,370	262,361,431
Endowment Funds	11,183,544	11,183,544
Construction Fund	229,766,918	168,658,548
Segregated Revenue	491,902	476,830
All Other Restricted Program Revenue	<u>3,177,487</u>	<u>3,242,147</u>
Subtotal	573,953,163	488,211,701
Total Restricted - Expendable	1,412,106,194	900,424,385
Unrestricted		
Tuition (Academic & Extension Student Fees)	146,332,124	290,915,885
General Operations	99,502,178	153,061,091
Auxiliary Operations (Non-Segregated Fee)	200,189,927	287,213,712
Indirect Cost Reimbursement	128,800,892	148,983,490
Quasi-Endowment Funds	82,703,693	78,158,492
All Other Unrestricted Program Revenue	18,305,386	26,944,529
Gifts and Nonfederal Grants & Contracts^	1,492,060	34,609,487
Federal Aid^	(62,872,893)	(20,580,698)
All Other Non-Program Revenue*	<u>(304,216,968)</u>	<u>(86,423,755)</u>
Total Unrestricted	310,236,399	912,882,233
Total Net Position	<u>\$ 5,430,117,438</u>	<u>\$ 5,447,531,396</u>

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

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

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2018 and 2017

NOTE 13 – Classification of Net Position (continued)

The following table shows reclassifications which are done to conform to reporting requirements related to the State of Wisconsin's CAFR. As a reporting entity, the 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, 2018 (in millions):

	University of Wisconsin System	Auxiliary Operations	Quasi- Endowments	Student Loans	State of Wisconsin CAFR
Net Investment in Capital Assets	\$ 3,519.6	\$ -	\$ -	\$ -	\$ 3,519.6
Restricted for					
Pension	399.1	-	-	-	399.1
Nonexpendable	188.2	-	-	-	188.2
Expendable	359.6	(89.6)	37.3	-	307.3
Student Loans	79.4	-	-	(9.8)	69.6
Other	574.0	-	-	9.8	583.8
Unrestricted	<u>310.2</u>	<u>89.6</u>	<u>(37.3)</u>	<u>-</u>	<u>362.5</u>
Total Net Position	<u>\$ 5,430.1</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,430.1</u>

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

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

Restatements not included in Fiscal Year 2017 CAFR:

Library Holdings	\$ (960.3)
Perkins Liability	<u>(150.7)</u>
Total Restatements	<u>(1,111.0)</u>
Restated Net Position	<u>\$ 5,447.5</u>

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2018 and 2017

NOTE 14 – Prior Period Adjustments and Other Restatements

The June 30, 2018 Statement of Net Position includes the following prior period adjustment.

<u>Accounts Affected</u>	<u>Amount</u>	<u>Explanation</u>
Unrestricted Net Position	\$ 220,919,801	OPEB liability adjustment as it relates to GASB
Other Postemployment Benefits	(220,919,801)	No. 75

The June 30, 2017 Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position include the following prior period adjustments and restatements:

<u>Accounts Affected</u>	<u>Amount</u>	<u>Explanation</u>
Net Investment in Capital Assets	\$ 962,356,660	
Accumulated Depreciation - Library Holdings	(960,980,050)	Change in accounting principle – begin depreciation of Library Holdings
Depreciation Expense	22,661,323	
Loss on Disposal	(24,037,933)	
Perkins Loan Liability Net Position – Restricted for Student Loans	\$ (151,400,693) 151,400,693	Change in accounting principle – begin reporting of liability for federal share of fund

NOTE 15 – Contingent Liabilities

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

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

NOTE 16 – Subsequent Events

In October 2018, the State issued \$259.0 million of 2018 Series B general obligation bonds to be used for the acquisition, construction, development, extension, enlargement or improvement of land, water, property, highways, buildings, equipment or facilities for public purposes. The interest rates associated with these bonds were set at 5.0 percent payable semiannually beginning May 1, 2019. The bonds mature annually beginning May 1, 2020 through May 1, 2039. The total par amount of these bonds issued for University of Wisconsin purposes is \$106.3 million; additional purchase premium proceeds from this issue were also applied for UW purposes.



Years Ended June 30, 2018 and 2017

REQUIRED SUPPLEMENTARY INFORMATION

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UNIVERSITY OF WISCONSIN SYSTEM
Required Supplementary Information and
Notes to Required Supplementary Information
Years Ended June 30, 2018 and 2017

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

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

Fiscal Year*	Proportion of the NPL (NPA)	Proportionate Share of the NPL (NPA)	Covered Payroll	Proportionate Share as a Percentage of Covered Payroll	WRS' Net Position as a Percentage of the Total Pension Liability
2018	13.44%	\$ (399,079,716)	\$ 1,967,891,964	(20.28%)	102.9%
2017	13.54%	\$ 112,698,659	\$ 1,929,105,545	5.79%	99.1%
2016	13.59%	\$ 220,459,696	\$ 1,924,520,818	11.47%	98.2%
2015	13.44%	\$ (330,166,674)	\$ 1,896,092,723	17.41%	102.74%

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

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

University of Wisconsin System's Pension Contributions
Wisconsin Retirement System

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

Fiscal Year	Contractually Required Contributions	Contributions Made	Contribution Deficiency (Excess)	Covered Payroll	Contributions Made as a Percentage of Covered Payroll
2018	\$ 134,517,079	\$ 134,517,079	\$ -	\$ 1,967,891,964	6.84%
2017	\$ 127,760,738	\$ 127,760,738	\$ -	\$ 1,929,105,545	6.62%
2016	\$ 131,542,672	\$ 131,542,672	\$ -	\$ 1,924,520,818	6.84%
2015	\$ 133,468,069	\$ 133,468,069	\$ -	\$ 1,896,092,723	7.04%

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

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

Notes to Required Supplementary Information
for the Year Ended June 30, 2018

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.

UNIVERSITY OF WISCONSIN SYSTEM
Required Supplementary Information and
Notes to Required Supplementary Information
Years Ended June 30, 2018 and 2017

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

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

Fiscal Year*	Proportion of the OPEB Liability	Proportionate Share of the OPEB Liability	Covered Payroll	Proportionate Share as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
2018	41.42%	\$ 204,440,597	\$ 1,318,898,190	15.5%	41.63%

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

GASB standards require the presentation of 10 years of information. Because fiscal year 2018 was the first year for reporting this information, a full 10-year schedule will not be available until fiscal year 2027.

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

The University's OPEB contributions are provided below:

Fiscal Year	Contractually Required Contributions	Contributions Made	Contribution Deficiency (Excess)	Covered Payroll	Contributions Made as a Percentage of Covered Payroll
2018	\$ 552,145	\$ 552,145	\$ -	\$ 1,318,898,190	0.04%

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

GASB standards require the presentation of 10 years of information. Because fiscal year 2018 was the first year for reporting this information, a full 10-year schedule will not be available until fiscal year 2027.

Notes to Required Supplementary Information
for the Year Ended June 30, 2018

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.

UNIVERSITY OF WISCONSIN SYSTEM
Required Supplementary Information and
Notes to Required Supplementary Information
Years Ended June 30, 2018 and 2017

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

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

Fiscal Year*	Proportion of the OPEB Liability	Proportionate Share of the OPEB Liability	Covered Payroll	Proportionate Share as a Percentage of Covered Payroll
2018	43.89%	\$ 315,687,625	\$ 1,577,063,898	20.0%

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

GASB standards require the presentation of 10 years of information. Because fiscal year 2018 was the first year for reporting this information, a full 10-year schedule will not be available until fiscal year 2027.

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

The University's OPEB contributions are provided below:

Fiscal Year	Contractually Required Contributions	Contributions Made	Contribution Deficiency (Excess)	Covered Payroll	Contributions Made as a Percentage of Covered Payroll
2018	\$ 433,914,171	\$ 433,914,171	\$ -	\$ 1,577,063,898	27.5%

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

GASB standards require the presentation of 10 years of information. Because fiscal year 2018 was the first year for reporting this information, a full 10-year schedule will not be available until fiscal year 2027.

Notes to Required Supplementary Information
for the Year Ended June 30, 2018

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.

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

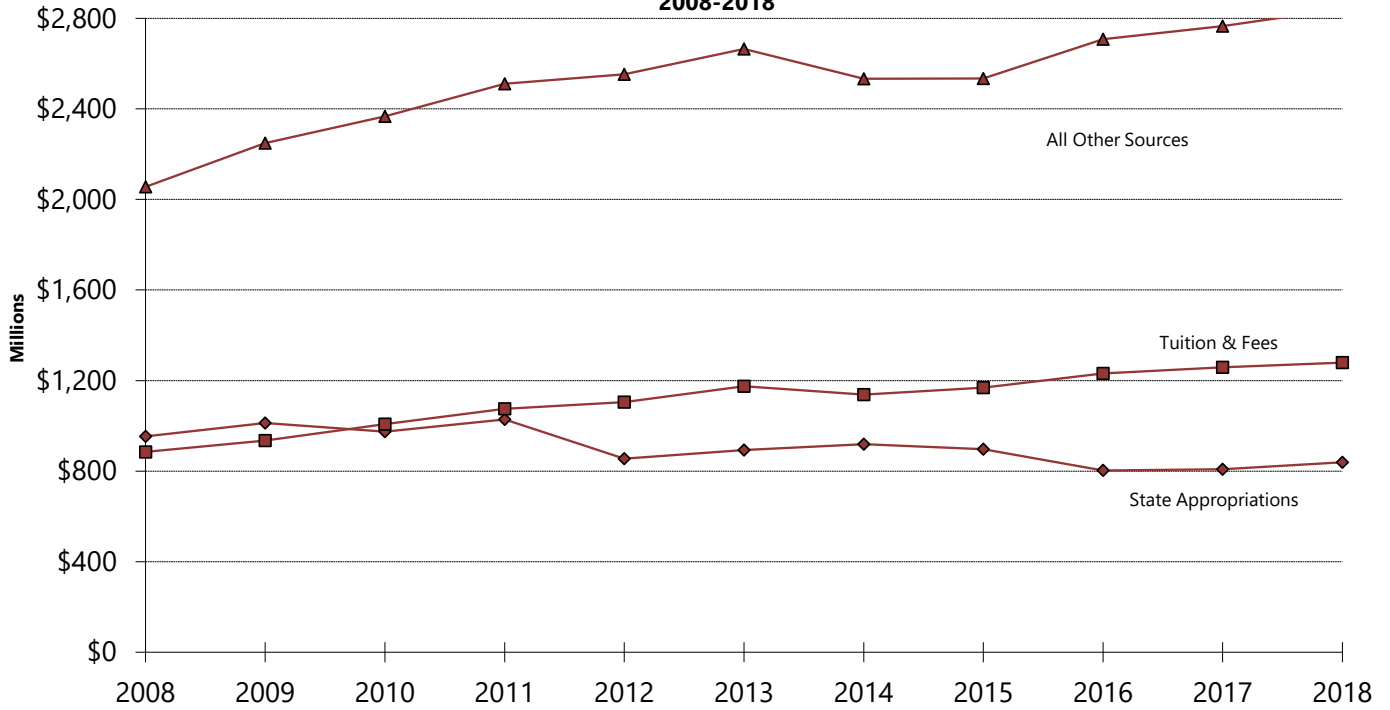


Years Ended June 30, 2018 and 2017

SUPPLEMENTAL INFORMATION

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**CHART 1
COMPARISON OF CURRENT FUNDS REVENUES
2008-2018**



**CHART 2
COMPARISON OF CURRENT FUNDS REVENUES
ADJUSTED FOR INFLATION
2008- 2018**

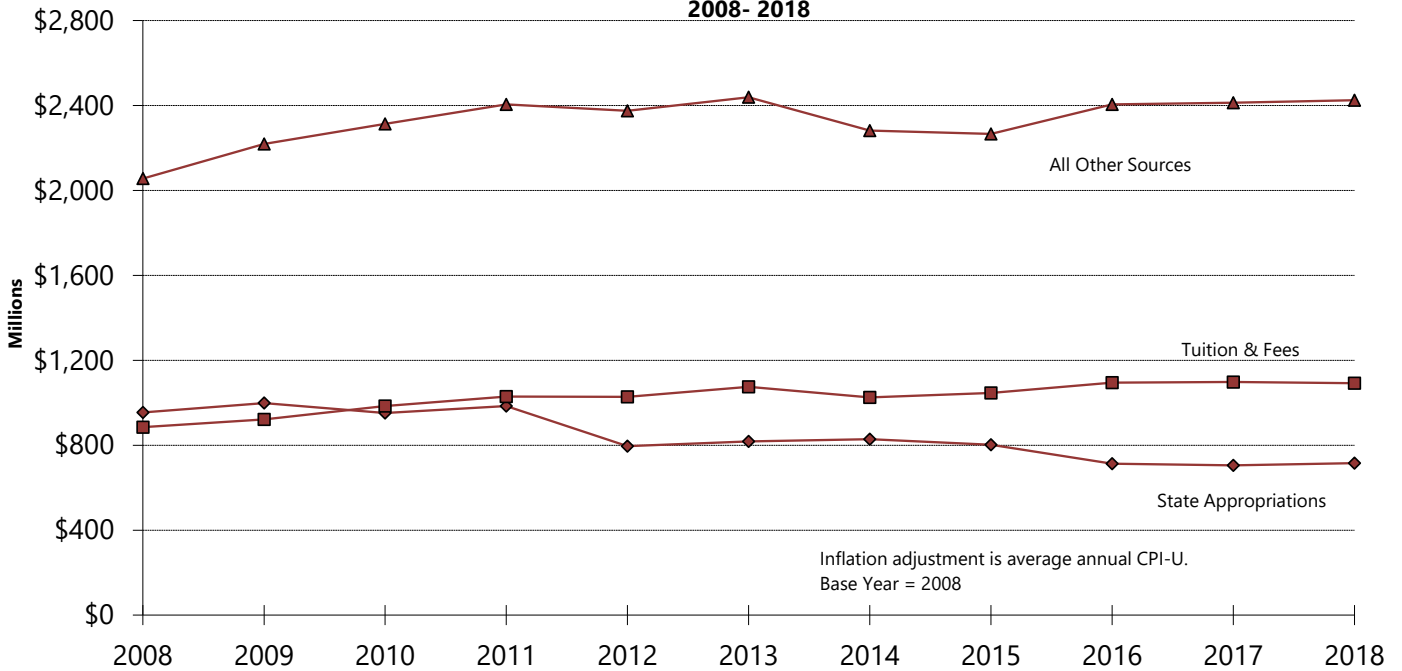
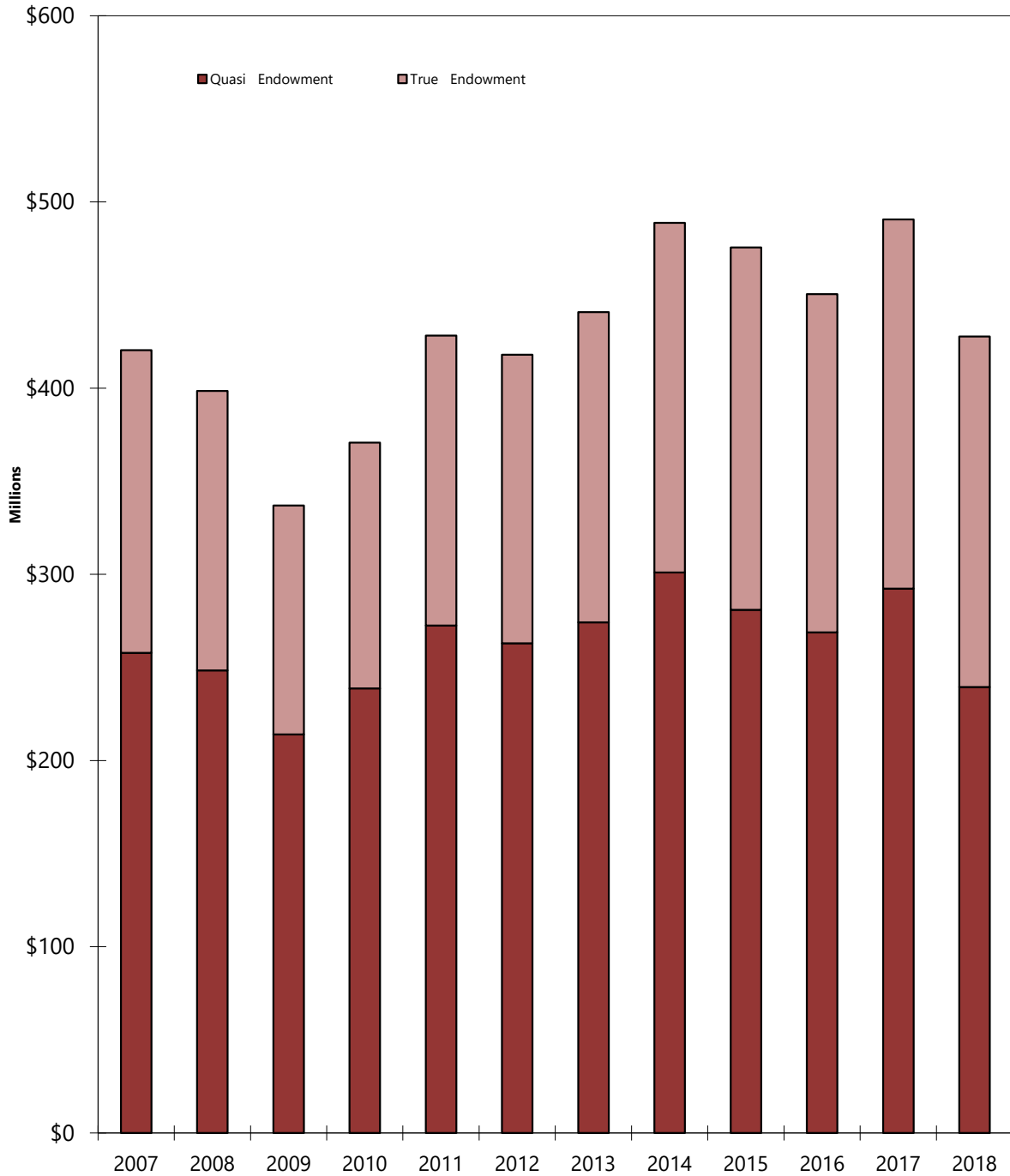


CHART 3
UNIVERSITY-CONTROLLED ENDOWMENTS
2007-2018



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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