BOARD OF REGENTS OF THE UNIVERSITY OF WISCONSIN SYSTEM

Joint Audit and Business & Finance Committees

Thursday, December 5, 2019
8:00 a.m. – 8:55 a.m.

James R. Connor University Center
UC 275
228 Wyman Mall
Whitewater, Wisconsin

A. Approval of the Minutes of the Joint Meeting with the Business & Finance Committee on June 6, 2019

B. Plante Moran External Audit: Annual Financial Report

C. Legislative Audit Bureau Report 19-5: Progress Report on Personnel Systems Recommendations

D. Move into closed session to discuss audit findings and responses as required by s. 19.85(1)(c) and (d), Wis. Stats.

Audit Committee

Thursday, December 5, 2019
9:00 a.m. – 10:30 a.m.

James R. Connor University Center
UC 275
228 Wyman Mall
Whitewater, Wisconsin

A. Approval of the Minutes of the October 10, 2019 Meeting of the Audit Committee

B. Presentation on Today's Key Risks in Higher Education by Janice Abraham, President and CEO of United Educators

C. Internal Audit
   1. Fiscal Year 2020 Audit Plan Progress Report
   2. Summarized Results of Audits Recently Issued
   3. Progress on Management Responses to Audit Reports

D. Internal Controls and Enterprise Risk Management
   1. Enterprise Risk Management Update

PLANTE MORAN EXTERNAL AUDIT: ANNUAL FINANCIAL REPORT

REQUESTED ACTION

For information only.

SUMMARY

Overview of Accrual-Based Financial Reporting

The UW System's Annual Financial Report is prepared using full accrual-based accounting, which is required by Governmental Accounting Standards Board 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 (generally accepted accounting principles), the draft Annual Financial Report for the year ending June 30, 2019, 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 audit external firm.

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.

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) 2019 and FY 2018, as reflected in the following table.

Net Position *(in millions):*

	2019	2018	$ Change	% Change
Net Investment in Capital Assets	$ 3,587.1	$ 3,519.6	$ 67.5	1.9%
Restricted Net Position	1,197.6	1,600.3	(402.7)	(25.2%)
Unrestricted Net Position	575.0	310.2	264.8	85.3%
Total Net Position	$ 5,359.7	$ 5,430.1	$ (70.4)	(1.3%)

The Statement of Net Position, provided on page 18-19 of the 2019 Annual Financial Report, shows that the UW System's Net Position decreased by $70.4 million. Restricted Net Position categories—the "equity" with external limitations—have decreased between years by $402.7 million, or 25.2%. However, the Statement of Net Position reports a $264.8 million increase in Unrestricted Net Position in FY 2019. 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 2019, the Department of Employee Trust Funds, which manages the Wisconsin Retirement System, reported the pension plan's net position decreased because of investment earnings being significantly less than initially projected. As a result, the UW System's Net Pension Asset of $399.1 million in FY 2018 swung to a $474.4 million Net Pension Liability in FY 2019. Restricted and Unrestricted Net Position with and without these GASB accruals are presented on page 17 so readers understand the magnitude of these adjustments.

Statement of Revenues, Expenses and Changes in Net Position – Operating revenues, which are reported on page 20 of the 2019 Annual Financial Report, increased $24.4 million, or 0.6%. Operating expenses increased $304.2 million, or 6.0%, primarily due to increases in salary and fringe benefit expenses. These changes in expenses are attributed to the accrual adjustments in pension and other postemployment benefit expense and the 2017-19 pay plan that, as approved by the Joint Committee on Employment Relations approved, requiring 2% in July 2018 and an additional 2% in January 2019.

In total, an operating loss of $1.6 billion was reported in FY 2018. 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 $74.0 million and capital appropriations from the state decreased $87.5 million in FY 2019.

BACKGROUND

Analysis of the UW System's draft financial statements and notes are intended to 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 Comprehensive Annual Financial Report (CAFR), financial institutions, such as lending and bond rating agencies, use the statements when extending debt securities to finance capital projects.

Previous Action or Discussion

In June 2019, the Business & Finance and Audit Committees met with Plante Moran, the UW System's external auditors. Plante Moran communicated their responsibilities under generally accepted auditing standards and an overview of the planned scope and timing of the FY 2019 financial audit.

ATTACHMENTS

A) 2019 UW System Annual Financial Report

ANNUAL FINANCIAL REPORT

2019

UNIVERSITY OF WISCONSIN SYSTEM

Published by the Office of Finance
University of Wisconsin System
1220 Linden Drive
Madison, WI 53706

Editor: Rod Dole

Cover Photo: University of Wisconsin-Stout students walk across campus in front of Bowman Hall and its iconic 135-foot clock tower. Currently under renovation, Bowman Hall dates back to 1897 and is the university's second-oldest building. The university's founder, James Huff Stout, opened the school in 1891.

Today UW-Stout is a comprehensive, career-focused polytechnic university with an enrollment of approximately 8,500 students. The university was the first-ever higher education recipient of the prestigious Malcolm Baldrige Award, which recognizes achievement in areas such as leadership, strategic planning, information and analysis, process management, and organizational performance results. UW-Stout remains the only four-year higher education institution to win the award. The university's students, faculty, and staff use applied learning, scientific theory, and research to solve real-world problems, grow the state's economy, and serve society.

Located in scenic Menomonie, Wisconsin, the campus has a long and rich history of providing a distinct array of programs. Its students enjoy a 98.7% rate of finding employment or continuing their education after they graduate. The university is proud of its industry partnerships - with nationally recognized companies like Target, Thomson Reuters, IBM, Kohl's, and 3M - as well as its contributions to the local and regional economy. For every $1 invested in UW-Stout, taxpayers receive $3.50 in economic contributions. An impact study commissioned in 2016 found that, as a whole, the university contributes $271.8 million per year to the regional economy.

Photo Credit: UW-Stout

University of Wisconsin System
2019 Annual Financial Report

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Regents, Chancellors, and Officers of the UW System

OFFICERS

Raymond Cross,
President

Sean Nelson,
Vice President for Finance

Robert G. Cramer,
Vice President for Administration

David Brukardt,
Interim Vice President for Corporate Relations and Economic Engagement

Anny Morrobel-Sosa,
Vice President for Academic and Student Affairs

Quinn Williams,
General Counsel

FINANCE STAFF

Julie Gordon,
Senior Associate Vice President for Finance

Ginger Hintz,
Assistant Vice President for Financial Administration and Controller

Rod Dole,
Director of Financial Reporting

Renee Stephenson,
Assistant Vice President of Budget Development and Planning

Charles Saunders,
Director for Trust Funds/Assistant Trust Officer

CHANCELLORS

James Schmidt, UW-Eau Claire
Sheryl Van Gruensven, UW-Green Bay, Interim
Joe Gow, UW-La Crosse
Rebecca M. Blank, UW-Madison
Mark Mone, UW-Milwaukee
Andrew J. Leavitt, UW-Oshkosh
Deborah Ford, UW-Parkside
Dennis J. Shields, UW-Platteville
Dean Van Galen, UW-River Falls
Bernie L. Patterson, UW-Stevens Point
Patrick Guilfoile, UW-Stout, Interim
Renée Wachter, UW-Superior
Dwight C. Watson, UW-Whitewater

REGENTS

Robert Atwell, Green Bay
Scott Beightol, Madison
José Delgado, Waukesha
Michael Grebe, Waukesha (Regent Vice President)
Eve Hall, Milwaukee
Mike Jones, Milwaukee
Tracey Klein, Milwaukee
Becky Levzow, Madison
Edmund Manydeeds III, Eau Claire
Janice Mueller, Madison
Drew Petersen, Madison (Regent President)
Cris Peterson, Grantsburg
Jason R. Plante, Eau Claire
Carolyn Standford Taylor, Madison
Karen Walsh, Madison
Gerald Whitburn, Wausau

Years Ended June 30, 2019 and 2018

INTRODUCTION FROM THE PRESIDENT

INTRODUCTION FROM THE PRESIDENT

FINANCIAL REPORT 2019

The University of Wisconsin System remained a vibrant institution in fiscal year 2018-19 and continues to play a significant role in the State of Wisconsin and its economy. A recent economic impact study found that the 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.

In fiscal year 2018-19, the UW System had another strong year in delivering a quality, accessible, and affordable education for our students - a topic being shared with business and community leaders throughout Wisconsin as part of the UW System's All In Wisconsin tour.

Specifically:

- The UW System enrolled more than 171,600 students across its 13 universities, including 13 branch campuses.
- Approximately 32% of Wisconsin high school students enrolled in a UW institution immediately upon graduation.
- Students of color comprised more than 16% of UW System students.
- Across all UW campuses, more than 36,600 associate, bachelor's, master's and other advanced degrees were awarded, with 38% of those degrees in STEM and health-related fields.
- UW institutions also reported research expenditures of over $1.1 billion.

FY 2018-2019 Annual Financial Report Highlights

In achieving these accomplishments, the UW System's fiscal year 2018-19 Total Net Position decreased $70.4 million, a reduction of 1.3%. A greater understanding of the UW System's financial picture can be gleaned by dissecting the 2019 Annual Financial Report at a more granular level.

Current assets minus current liabilities represent the net working capital of the UW System. The working capital at year-end represented approximately 112 days of 2018-19 operating expenses, down from 119 days at the end of 2017-18. This reduction in working capital means the UW System has fewer resources to address unexpected costs or to take advantage of new opportunities. The changes within the 2018-19 financial statements are often the result of changes in financial investment markets, federal and state legislation, and accounting principles.

The financial markets impacted the UW System's 2018-19 financial statements, most notably through changes in the Wisconsin Retirement

System (WRS), which is managed by the State of Wisconsin's Department of Employee Relations (ETF). The WRS reported a Net Pension Liability in 2018-19, with the UW System's share of that being $474.4 million. This is a significant swing from our Restricted Net Pension Asset of $399.1 million in 2017-18. The change is largely attributable to an investment return that was below the level anticipated by ETF and changes in the long-term expected rate of return. ETF previously assumed a long-term rate of return of 7.2% but has revised that expectation to 7.0%. With lesser earnings anticipated, the UW System will need to contribute additional funds to the WRS, to ensure the necessary dollars are available when needed. The impact this swing from an asset to a liability has on the UW System's Restricted and Unrestricted Net Position is summarized in Note 13 of the 2019 Annual Financial Report.

Federal and state legislation affected a number of items within the UW System's 2018-19 financial statements as well.

- The UW System's Salaries expense increased $105.2 million between 2017-18 and 2018-19. This increase is largely accounted for with the 2017-19 pay plan, which the Joint Committee on Employment Relations approved in February 2018 and allowed for 2% effective July 1st, 2018 and an additional 2% effective January 1st, 2019.

- State Appropriations increased nearly $74.0 million in 2018-19. The 2017-19 biennial budget provided additional funding to the UW System for such items as outcomes based funding and the Tommy G Thompson Center on Public Leadership. However, Capital Appropriations decreased $87.5 million in 2018-19.

- The Student Loan Receivable balances - both current and noncurrent - decreased by $24.1 million in 2018-19. The federal Perkins Loan Program ended in September 2015. While loan payments have been received from students, no new loans are being issued.

Finally, the UW System implemented Governmental Accounting Standards Board (GASB) Statement No. 83, Asset Retirement Obligations, in 2018-19. This GASB statement requires the UW System to recognize a liability when there are regulatory or legal obligations for decommissioning certain capital assets. UW-Madison estimates a $12.0 million future liability for decommissioning its nuclear reactor and reports this amount as a Noncurrent Liability.

Through all these changes, 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 sixth consecutive year in 2018-19. In addition, the UW System's plan to restructure UW Colleges and UW-Extension - undertaken to ensure the UW System is in a position to provide greater access, affordability, and opportunity for our students - was officially approved by the Higher Learning Commission, effective July 1, 2018.

The UW System's financial position must support the 2020FWD initiatives, tuition freeze, 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 benefits UW graduates but also the State of Wisconsin.

Ray Cross, President

UNIVERSITY OF WISCONSIN SYSTEM

Years Ended June 30, 2019 and 2018

INDEPENDENT AUDITOR'S REPORT

DRAFT

DRAFT

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 years ended June 30, 2019 and 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 audits. 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 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 audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, 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.

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

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, 2019 and 2018 and the changes in its financial position and its cash flows, where applicable thereof, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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 omponent units, and do not purport to, and do not, present fairly the financial position of the State of Wisconsin as of June 30, 2019 and 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of UW System's proportionate share of the net pension (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 supplementary 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 an opinion on the financial statements that collectively comprise the UW System's financial statements. The introduction from the president on pages 4 and 5 and the supplementary information on pages 88 and 89 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introduction from the president and the supplementary information have 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 them.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated December 5, 2019 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 5, 2019

Years Ended June 30, 2019 and 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

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, 2019 and 2018, with comparative information for the year ended June 30, 2017, where appropriate. This discussion has been prepared by management, is unaudited, and should be read in conjunction with the financial statements and footnotes.

The University is made up of 13 four-year universities and 13 additional campuses affiliated with seven of the four-year institutions. In academic year 2018-2019, the University enrolled 171,636 students, employed approximately 32,456 faculty and staff, and granted 36,690 associate, bachelor's, master's, and other advanced degrees. University institutions were awarded over $985.7 million in federal grants and contracts in fiscal year 2019 and an additional $688.5 million from non-federal sponsors. The University has a long tradition of public service, embodied by an ongoing commitment to the Wisconsin Idea, that the boundaries of the University are the boundaries of the State.

Degrees Granted	
UW-Madison	*11,062*
UW-Milwaukee	*5,062*
UW-Eau Claire	*2,330*
UW-Green Bay	*1,494*
UW-La Crosse	*2,397*
UW-Oshkosh	*2,776*
UW-Parkside	*776*
UW-Platteville	*1,889*
UW-River Falls	*1,365*
UW-Stevens Point	*2,074*
UW-Stout	*1,923*
UW-Superior	*547*
UW-Whitewater	*2,995*
Total	*36,690*

Headcount Enrollments	
UW-Madison	*44,116*
UW-Milwaukee	*27,444*
UW-Eau Claire	*11,547*
UW-Green Bay	*8,581*
UW-La Crosse	*10,579*
UW-Oshkosh	*16,424*
UW-Parkside	*4,325*
UW-Platteville	*8,966*
UW-River Falls	*6,139*
UW-Stevens Point	*9,107*
UW-Stout	*8,748*
UW-Superior	*2,601*
UW-Whitewater	*13,059*
Total	*171,636*

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, 2019 and 2018, and includes all assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference between the two reported as net position. Current assets are those that are available to satisfy current liabilities inclusive of assets that will be converted to cash within one year. Current liabilities are those that will be paid within one year. Increases or decreases in net position provide an indicator of the improvement or erosion of the University's financial health when considered in conjunction with non-financial information, such as conditions of facilities and enrollment levels. Net Position is divided into three major categories: Net Investment in Capital Assets, Restricted, and Unrestricted. Net Investment in Capital Assets consists of capital assets reduced by the outstanding balances of borrowings for the construction, acquisition, or improvement of those assets. Restricted Net Position has constraints put on by external parties, such as sponsors for research and donors, or by State Statute and Board of Regent policy as in the case of student segregated fees. Unrestricted Net Position consists of funds that do not meet either of those definitions.

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

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

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

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

Analysis of Financial Position and Results of Operations

The University's total net position remained stable after fiscal year 2019. As of June 30, 2019, the University had total assets of $8.2 billion and total liabilities of $3.3 billion.

Statement of Net Position (in millions)	**2019**	**2018**	**Restated 2017**
Current Assets	$ 2,298.0	$ 2,312.2	$ 2,009.0
Capital Assets, Net	5,258.4	5,140.1	5,060.0
Other Noncurrent Assets	612.8	986.9	619.1
Total Assets	8,169.2	8,439.2	7,688.1
Deferred Outflows of Resources	1,340.4	$750.5	815.1
Current Liabilities	658.6	661.2	540.9
Noncurrent Liabilities	2,654.7	2,248.8	2,154.8
Total Liabilities	3,313.3	2,910.0	2,695.7
Deferred Inflows of Resources	836.6	849.6	359.9
Net Investment in Capital Assets	3,587.1	3,519.6	3,435.9
Restricted Net Position	1,197.6	1,600.3	1,098.7
Unrestricted Net Position	575.0	310.2	913.0
Total Net Position	$ 5,359.7	$ 5,430.1	$ 5,447.6

Current assets minus current liabilities represents the net working capital of the University. Net working capital decreased from $1,651.0 million at June 30, 2018 to $1,639.4 million at June 30, 2019. The net working capital at year end represented approximately 112 days of 2019 operating expenses. This indicates that the University could support normal operations for 112 days without additional revenues or liquidating noncurrent assets.

In 2018, the University elected to change the method of accounting for library holdings which was 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 treats library holdings as a composite asset and depreciate over a 15-year average life. At June 30, 2017, the capital asset balance and net investment in capital assets includes a $961.0 million prior period adjustment for accumulated depreciation.

The following table contains a summary of Current Assets which consists primarily of operating cash and cash equivalents, securities lending collateral, accounts receivable, student loans receivable, supply inventories, and prepaid expenses. The largest change between 2019 and 2018 was in accounts receivable, net, which decreased by $10.0 million.

Current Assets (in millions)	**2019**	**2018**	**2017**
Cash & Cash Equivalents	$ 1,863.7	$ 1,868.4	$ 1,666.1
Securities Lending Collateral	109.3	106.0	—
Accounts Receivable, Net	249.0	259.0	241.6
Other Current Assets	76.0	78.8	101.3
Total Current Assets	$ 2,298.0	$ 2,312.2	$ 2,009.0

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

Non-current assets are comprised mainly of endowment investments, capital assets (net of accumulated depreciation), and student loans receivable. Endowment investments, valued at $466.8 million at June 30, 2019, increased by $47.3 million during fiscal year 2019. The increase was driven by market-based fluctuations in investment performance. In 2018, 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. In 2019, however, changes in actuarial assumptions , including a reduction in the discount rate and long-term expected rate of return from 7.2% in 2018 to 7.0% in 2019, and investment earnings related to the pension plan fiduciary net position that were below projected earnings resulted in a net pension liability of $474.4 million that increased non-current liabilities. Deferred outflows increased by $589.9 million in fiscal year 2019, due to adjustments related to pension and other postemployment benefit obligations.

Non-current liabilities increased by $405.9 million in fiscal year 2019. The most significant reason for this is the adjustment to the pension plan net fiduciary net position. In 2017, the plan fiduciary net postion 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. In 2019, however, as noted above, changes in actuarial assumptions, and investment earnings related to the pension plan fiduciary net position below projected earnings resulted in a net pension liability of $474.4 million that increased non-current liabilities.

Further, these reporting changes resulted in $153.0 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, $3.6 billion is net investment in capital assets. In an effort to maintain quality in the University's academic and research programs and residence halls, the University has implemented a long-range plan to fund new construction and modernize existing facilities. Capital additions consist of new construction, replacement and renovation of academic and research facilities, as well as significant investment in technology and equipment. Note 4 to the Financial Statements describes the University's capitalization and depreciation policies, and includes summarized changes in the book value of these assets, including major construction projects completed or in progress. Note 6 to the Financial Statements describes the University's long term debt and includes summarized information on those balances, as well as future debt service requirements.

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

Statement of Revenues, Expenses, and Changes in Net Position

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

	2019	2018	2017 Restated
Total Revenues	$ 5,302.0	$ 5,183.7	$ 5,061.3
Total Expenses	5,486.1	5,168.6	5,204.9
(Loss) Income Before Capital and Endowment Additions	(184.1)	15.1	(143.6)
Capital Appropriations, Contributions & Endowment Additions	113.7	188.4	126.0
(Decrease) Increase in Net Position	$ (70.4)	$ 203.5	$ (17.6)

The University's operating and non-operating revenues are provided in the table below. Operating revenues increased $187.8 million since fiscal year 2017 with the primary increase in non-resident tuition and all other operating revenues. Non-operating revenues increased $156.2 million between fiscal year 2017 and fiscal year 2019 primarily due to changes in state appropriations, gifts, investment income (loss), and other non-operating revenues.

Operating Revenues (in millions):	2019	2018	2017 Restated
Student Tuition and Fees, Net	$ 1,402.3	$ 1,382.1	$ 1,361.5
Federal Grants and Contracts	617.0	599.6	610.4
State, Local, & Private Grants and Contracts	447.5	432.6	439.8
Sales and Services of Educational Activities	371.8	319.5	335.6
Sales and Services of Auxiliaries, Net	433.6	445.4	429.5
All Other Operating Revenues	469.0	537.6	479.8
Total Operating Revenues	3,741.2	3,716.8	3,656.6
Non-Operating Revenues:			
State Appropriations	883.6	838.8	808.2
Gifts	395.7	370.0	378.1
Federal Pell Grants	160.0	162.7	150.9
Net Investment Income (Loss)	86.4	45.1	56.2
Other Non-Operating Revenues	35.1	50.3	11.3
Total Non-Operating Revenues	1,560.8	1,466.9	1,404.7
Total Revenues	$ 5,302.0	$ 5,183.7	$ 5,061.3

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

Operating Expenses:	**2019**	**2018**	**2017 Restated**
Instruction	$ 1,452.9	$ 1,257.6	$ 1,369.5
Research	987.1	984.5	960.5
Public Service	364.8	298.9	306.2
Academic Support	428.7	401.9	395.4
Student Services	505.5	479.1	440.2
Institutional Support	309.1	311.6	298.5
Operation/Maintenance	298.9	284.4	295.9
Financial Aid	243.6	257.9	247.9
Auxiliary Enterprises	359.7	363.3	363.3
Other Functions	71.0	81.2	81.3
Depreciation	327.3	324.0	315.1
Total Operating Expenses	5,348.6	5,044.4	5,073.8
Non-Operating Expenses	137.5	124.2	131.1
Total Expenses	$ 5,486.1	$ 5,168.6	$ 5,204.9

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 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. Increase in Instruction operating expenses during fiscal year 2019 attributed to the increase in pension plan expense reported within salary and fringe benefits expense.

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

	2019	Adjustment for Pension and OPEB	Adjusted 2019	2018	Adjustment for Pension and OPEB	Adjusted 2018
Current Assets	$ 2,298.0	$ —	$ 2,298.0	$ 2,312.2	$ —	$ 2,312.2
Capital Assets, Net	5,258.4	—	5,258.4	5,140.1	—	5,140.1
Other Noncurrent Assets	612.8	—	612.8	986.9	399.1	587.8
Total Assets	8,169.2	—	8,169.2	8,439.2	399.1	8,040.1
Deferred Outflows of Resources	1,340.4	1,284.3	56.1	750.5	699.6	50.9
Current Liabilities	658.6	—	658.6	661.2	—	661.2
Noncurrent Liabilities	2,654.7	892.1	1,762.6	2,248.8	520.1	1,728.7
Total Liabilities	3,313.3	892.1	2,421.2	2,910.0	520.1	2,389.9
Deferred Inflows of Resources	836.6	835.9	0.7	849.6	849.0	0.6
Net Investment in Capital Assets	3,587.1	—	3,587.1	3,519.6	—	3,519.6
Restricted Net Position	1,197.6	—	1,197.6	1,600.3	399.1	1,201.2
Unrestricted Net Position	575.0	(443.7)	1,018.7	310.2	(669.5)	979.7
Total Net Position	$ 5,359.7	$ (443.7)	$ 5,803.4	$ 5,430.1	$ (270.4)	$ 5,700.5

In fiscal year 2019, salary and fringe benefits expenses amounted to $3,551.8 million, including $173.3 million related to the pension and other postemployment benefit obligations. Compared to fiscal year 2018, salary and fringe benefits expenses amounted to $3,287.9 million, including $53.5 million related to the pension and other postemployment benefit obligations.

Factors Affecting Future Periods

2019 Wisconsin Act 9, the 2019-21 biennial budget, requires continuing the freeze of UW resident undergraduate tuition at fiscal year 2012-13 levels for fiscal years 2019-20 and 2020-21, equating to an 8-year freeze.

Act 9 also provides the UW System with additional funding for two purposes. First, the UW System will receive additional operating funds of $22.5 million in each year of the biennium. On August 1, 2019, the UW Board of Regents approved a plan to distribute this funding to UW institutions using its previously approved outcomes-based funding model. Second, the UW System will receive $1.0 million in fiscal year 2019-20 and $7.8 million in 2020-21 in Dairy Innovation Hub funding, which will be allocated to UW-Madison, UW-Platteville, and UW-River Falls.

UNIVERSITY OF WISCONSIN SYSTEM

Years Ended June 30, 2019 and 2018

FINANCIAL STATEMENTS OF THE UNIVERSITY OF WISCONSIN SYSTEM

University of Wisconsin System

Statement of Net Position

	June 30, 2019	June 30, 2018
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 1,863,664,528	$ 1,868,379,238
Securities Lending Collateral	109,337,546	106,030,701
Accounts Receivable, Net	249,038,177	258,980,403
Student Loans Receivable, Net	27,301,006	29,654,594
Inventories	28,503,604	30,406,816
Prepaid Expenses & Other Current Assets	20,156,386	18,753,872
Total Current Assets	2,298,001,247	2,312,205,624
Noncurrent Assets		
Endowment Investments	466,760,603	419,501,417
Student Loans Receivable, Net	145,968,657	167,753,582
Other Noncurrent Assets	64,257	634,906
Capital Assets, Net	5,258,401,274	5,140,070,819
Restricted Net Pension Asset	—	399,079,716
Total Noncurrent Assets	5,871,194,791	6,127,040,440
TOTAL ASSETS	$ 8,169,196,038	$ 8,439,246,064
DEFERRED OUTFLOWS OF RESOURCES	$ 1,340,373,786	$ 750,468,949
LIABILITIES		
Current Liabilities		
Accounts Payable and Accrued Liabilities	$ 186,032,029	$ 202,208,968
Securities Lending Collateral Liabilities	109,337,546	106,030,701
Notes and Bonds Payable	109,579,603	104,041,499
Capital Lease Obligations	1,343,880	1,267,191
Unearned Revenue	176,330,079	172,327,282
Compensated Absences	70,758,824	69,904,647
Deposits Held for Others	5,228,726	5,370,176
Total Current Liabilities	658,610,687	661,150,464
Noncurrent Liabilities		
Notes and Bonds Payable	1,510,431,076	1,491,855,415
Capital Lease Obligations	28,022,684	28,453,963
Perkins Loan Program	138,736,513	138,736,513
Compensated Absences	73,415,512	69,657,569
Other Postemployment Benefits	417,694,625	520,128,222
Net Pension Liability	474,419,425	—
Capital Asset Retirement Obligation	12,009,060	—
Total Noncurrent Liabilities	2,654,728,895	2,248,831,682
TOTAL LIABILITIES	$ 3,313,339,582	$ 2,909,982,146
DEFERRED INFLOWS OF RESOURCES	$ 836,551,776	$ 849,615,429

(continued)

University of Wisconsin System

Statement of Net Position (continued)

	June 30, 2019	June 30, 2018
NET POSITION		
Net Investment in Capital Assets	$ 3,587,086,479	$ 3,519,597,333
Restricted for		
Nonexpendable	197,906,470	188,177,512
Expendable		
Pension	—	399,079,716
Gifts, Grants & Contracts	305,130,900	282,805,370
Donor Investments & Earnings	290,166,435	281,254,873
Construction Fund	167,906,942	229,766,918
Student Loans & Federal Aid	140,079,872	125,967,270
Other	96,405,297	93,232,047
Total Restricted-Expendable	999,689,446	1,412,106,194
Unrestricted	574,996,071	310,236,399
TOTAL NET POSITION	$ 5,359,678,466	$ 5,430,117,438

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, 2019	Year ended June 30, 2018
OPERATING REVENUES		
Student Tuition and Fees (net of Scholarship Allowances of $284.1 million and $263.0 million, respectively)	$ 1,402,278,192	$ 1,382,132,924
Federal Grants and Contracts	617,064,489	599,573,179
State, Local, and Private Grants and Contracts	447,497,191	432,616,538
Sales and Services of Educational Activities	371,841,000	319,509,820
Sales and Services of Auxiliary Enterprises (net of Scholarship Allowances of $45.9 million and $39.9 million, respectively)	433,575,510	445,365,237
Sales and Services to UW Hospital and Clinics Authority	56,979,334	69,724,811
Student Loan Interest Income and Fees	4,917,698	3,479,344
Other Operating Revenue	407,053,708	464,400,716
Total Operating Revenues	3,741,207,122	3,716,802,569
OPERATING EXPENSES		
Salaries	2,473,709,488	2,368,536,269
Fringe Benefits	904,817,990	865,846,146
Fringe Benefits Related to Noncash Pension and OPEB	173,256,249	53,479,879
Total Salary and Fringe Benefits	3,551,783,727	3,287,862,294
Scholarship and Fellowships	142,248,667	157,604,259
Supplies and Services	1,306,102,684	1,262,627,392
Other Operating Expenses	21,184,061	12,342,885
Depreciation	327,325,155	323,984,139
Total Operating Expenses	5,348,644,294	5,044,420,969
OPERATING LOSS	(1,607,437,172)	(1,327,618,400)
NON-OPERATING REVENUES AND (EXPENSES)		
State Appropriations	883,658,233	838,806,261
Gifts	395,661,321	370,022,335
Federal Pell Grants	160,031,504	162,691,351
Investment Income (net of Investment Expense of $0.8 million and $3.2 million, respectively)	86,360,332	45,052,676
Loss on Disposal of Capital Assets	(19,343,209)	(2,055,179)
Interest Expense on Capital Asset-related Debt	(54,097,369)	(50,557,057)
Transfer to State Agencies	(64,134,111)	(71,553,703)
Other Nonoperating Revenues	35,129,044	50,279,509
(Loss) Income Before Capital and Endowment Additions	(184,171,427)	15,067,793
Capital Appropriations	54,910,058	142,359,852
Capital Grants and Gifts	52,964,901	44,932,710
Additions to Permanent Endowment	5,857,496	1,145,488
(DECREASE) INCREASE IN NET POSITION	(70,438,972)	203,505,843
NET POSITION		
Net Position - beginning of period	5,430,117,438	5,447,531,396
Change in Accounting Principle	—	(220,919,801)
NET POSITION - end of period	$ 5,359,678,466	$ 5,430,117,438

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

University of Wisconsin System

Statement of Cash Flows

	Year ended June 30, 2019	Year ended June 30, 2018
Cash Flows from Operating Activities		
Student Tuition and Fees	$ 1,401,491,714	$ 1,381,081,716
Federal, State, Local, and Private Grants & Contracts	1,072,871,884	1,004,312,891
Sales and Services of Educational Activities	364,457,661	331,979,897
Sales and Services of Auxiliary Enterprises	439,580,688	449,794,186
Sales and Services to UW Hospital Authority	57,378,670	67,962,661
Payments for Salaries and Fringe Benefits	(3,359,674,494)	(3,238,489,094)
Payments to Vendors and Suppliers	(1,329,725,067)	(1,267,997,865)
Payments for Scholarships and Fellowships	(142,248,667)	(157,604,259)
Student Loans Collected	35,018,216	34,860,482
Student Loan Interest and Fees Collected	4,917,698	3,479,344
Student Loans Issued	(10,484,330)	(38,867,000)
Other Revenue	389,220,281	441,671,806
Net Cash Used in Operating Activities	(1,077,195,746)	(987,815,235)
Cash Flows from Investing Activities		
Interest and Dividends on Investments, Net	44,271,932	56,477,115
Proceeds from Sales and Maturities of Investments	44,010,643	606,554,944
Purchase of Investments	(58,967,134)	(574,778,660)
Net Cash Provided by Investing Activities	29,315,441	88,253,399
Cash Flows from Capital and Related Financing Activities		
Proceeds from Issuance of Capital Debt	128,157,292	283,953,586
Payments for Debt Retirements (Refundings)	—	(198,809,814)
Capital Appropriations	54,910,058	142,359,852
Gifts and Other Receipts	57,696,922	59,991,791
Purchase of Capital Assets	(446,705,623)	(366,419,063)
Principal Payments on Capital Debt and Leases	(247,850,321)	(213,662,660)
Interest Payments on Capital Debt and Leases	(143,526,616)	(134,558,006)
Net Cash Used in Capital and Related Financing Activities	(597,318,288)	(427,144,314)
Cash Flows from Noncapital Financing Activities		
State Appropriations	1,119,709,499	1,045,774,472
Gifts and Other Receipts	415,472,942	392,489,922
Federal Pell Grants	160,031,504	162,691,351
Transfer to State Agencies	(64,134,111)	(71,553,703)
Additions to Permanent Endowments	5,857,496	1,145,488
Student Direct Lending Receipts	642,821,804	660,690,781
Student Direct Lending Disbursements	(639,275,251)	(662,240,091)
Net Cash Provided by Noncapital Financing Activities	1,640,483,883	1,528,998,220
Net (Decrease) Increase in Cash and Cash Equivalents	(4,714,710)	202,292,070
Cash and Cash Equivalents - beginning of year	1,868,379,238	1,666,087,168
Cash and Cash Equivalents - end of year	$ 1,863,664,528	$ 1,868,379,238

Statement of Cash Flows (continued)

	Year ended June 30, 2019	Year ended June 30, 2018
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating Loss	$ (1,607,437,172)	$ (1,327,618,400)
Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities:		
Depreciation Expense	327,325,155	323,984,139
Changes in Assets, Liabilities and Deferred Outflows and Inflows of Resources:		
Receivables, net	33,090,386	(20,274,054)
Inventories	1,903,213	12,174,617
Prepaid Expense (including Deferred Charges)	(5,367,352)	14,359,318
Accounts Payable and Accrued Liabilities	(8,540,157)	(35,977,511)
Perkins Loan Liability	—	(11,207,859)
Unearned Revenue	3,961,813	1,748,902
Compensated Absences	4,612,119	1,515,734
Deferred Outflows of Resources	(584,769,538)	82,971,505
Pension Liability (Asset) and Deferred Inflows of Resources	860,459,384	(21,787,360)
Other Postemployment Benefits	(102,433,597)	(7,704,266)
Net Cash Used in Operating Activities	$ (1,077,195,746)	$ (987,815,235)
Noncash Investing, Capital and Financing Activities		
Capital Leases (Initial Year):		
Fair Market Value	$ 712,464	$ 607,586
Current Year Cash Payments	120,485	78,986
Gifts-In-Kind	4,479,936	3,451,445
Net Change in Unrealized Gains	25,525,728	2,219,619

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

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UNIVERSITY OF WISCONSIN SYSTEM

Years Ended June 30, 2019 and 2018

FINANCIAL STATEMENTS OF RELATED UNIVERSITY CAMPUS FOUNDATIONS

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

University of Wisconsin System Campus Foundations

Consolidated Statements of Financial Position

		June 30, 2019		June 30, 2018
ASSETS				
Cash and Cash Equivalents	$	41,035,732	$	157,067,432
Income and Redemption Receivables		61,807,183		26,247,913
Pledges Receivable, Net		153,112,772		175,326,722
Prepaid Expenses and Other Assets		19,475,078		27,002,501
Investments		4,653,845,118		4,336,283,723
Property and Equipment, Net		187,097,143		194,543,943
Real Estate		4,136,138		10,354,733
TOTAL ASSETS	$	5,120,509,164	$	4,926,826,967
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts Payable	$	5,796,578	$	6,871,606
Pending Investment Purchases Payable		82,648,552		54,783,240
Accrued Expenses and Other Liabilities		30,647,935		48,696,811
Note Payable		163,077,223		175,205,910
Liability Under Split-Interest Agreements		43,471,964		45,438,021
Funds Due to Other Organizations		290,753,527		282,320,826
Total Liabilities		616,395,779		613,316,414
NET ASSETS				
Without Donor Restrictions		175,820,329		159,146,933
With Donor Restrictions		4,328,293,056		4,154,363,620
Total Net Assets		4,504,113,385		4,313,510,553
TOTAL LIABILITIES AND NET ASSETS	$	5,120,509,164	$	4,926,826,967

Consolidated Statements of Activities

		Year ended June 30, 2019		Year ended June 30, 2018
REVENUES, GAINS AND OTHER SUPPORT				
Contributions	$	411,597,999	$	394,117,599
Interest and Dividend Income		40,359,122		52,472,592
Net Investment Gains		124,549,127		247,237,966
Rental Income		9,631,027		12,512,616
Other Income		9,891,446		11,322,932
Total Revenues, Gains and Other Support		596,028,721		717,663,705
EXPENSES				
Program Expenses		341,854,160		344,567,683
Management and General Expenses		23,077,436		46,167,986
Fundraising Expenses		36,923,335		34,448,206
Total Expenses		401,854,931		425,183,875
INCREASE IN NET ASSETS		194,173,790		292,479,830
Net Assets - Beginning of Year		4,309,939,595		4,021,030,723
Net Assets - End of Year	$	4,504,113,385	$	4,313,510,553

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

UNAUDITED

Years Ended June 30, 2019 and 2018

NOTES TO THE FINANCIAL STATEMENTS OF THE UNIVERSITY OF WISCONSIN SYSTEM

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 2019, the University adopted GASB Statement No. 83, *Certain Asset Retirement Obligations* (GASB 83) and GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placement* (GASB 88). 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.

Other operating revenues are summarized as follows:

	Year ended June 30, 2019	Year ended June 30, 2018
Athletics	$ 151,308,297	$ 142,874,926
Student Health Services	50,146,063	49,440,477
Student Union/Student Center	46,333,790	46,462,297
All Other Areas	159,265,558	225,623,016
Total Other Operating Revenues	$ 407,053,708	$ 464,400,716

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.

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

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

Financial Reporting Entity

The University is made up of 13 four-year universities and 13 additional campuses affiliated with seven of the four-year institutions. The University has also considered all potential component units for which it is financially accountable and other affiliated organizations where the nature and significance of their relationships, including their ongoing financial support, with the University are such that exclusion would cause the University's financial statements to be misleading or incomplete.

The decision to include a potential component unit in the University's reporting entity is based on the criteria set forth in GASB Statement No. 14, *The Financial Reporting Entity*, GASB Statement No. 39, *Determining whether Certain Organizations are Component Units, an amendment of GASB Statement No. 14*, GASB Statement No. 61, *The Financial Reporting Entity; Omnibus, an amendment of GASB Statements No. 14 and No. 34,* 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, 12 campus foundations are included in the financial statements as discretely presented component units because they operate entirely for the benefit of the University.

Other Organizations

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

Summary of Significant Accounting Policies

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

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

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

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

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 2019 and 2018 summer sessions are reportable within the fiscal year beginning July 1 and ending June 30, based on the prorated portion of the number of summer session days that occurred in fiscal year 2019 and 2018, respectively.

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

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

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

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.

Reclassifications

Certain amounts from the prior year have been reclassified. On the statement of revenues, expenses, and changes in net position $102.8 million has been reclassed from student tuition and fees to fringe benefits and on the statement of cash flows that same amount has been reclassed from student tuition and fees to payments for salaries and fringe benefits to more accurately reflect the nature of these funds. Current assets and current liabilities have been increased by $106.0 million to reflect investments offered up as collateral and related liabilities under securities lending arrangements with the University's investment manager. Operating loss and net position has not been affected by these changes.

Newly Adopted Accounting Pronouncements

Effective for the fiscal year ended June 30, 2019, the University adopted GASB Statement No. 83, *Certain Asset Retirement Obligations* (GASB 83), which establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for capital asset retirement obligations. In accordance with the statement, the University has recognized capital asset retirement obligations of $12.0 million as of June 30, 2019, related to decommissioning costs for a nuclear research reactor as required by the United States Nuclear Regulatory Commission. This obligation was recognized based on the best estimate of the current value of outlays expected to be incurred. The corresponding deferred outflow of resources is amortized over the estimated remaining useful life of the associated tangible capital asset coinciding with a licensure period through the year 2031. The University has issued a statement to the United States Nuclear Regulatory Commission of intent to obtain funds necessary for decommissioning, when necessary. No restricted assets are set aside for payment of the capital asset retirement obligations. June 30, 2018 amounts have not been restated as the impact of GASB 83 is not deemed to materially impact the financial reporting for the fiscal year ended June 30, 2018.

Effective for the fiscal year ended June 30, 2019, the University adopted GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placement* (GASB 88). This statement requires additional information related to debt be disclosed in the financial statements. The adoption of GASB 88 has been applied retrospectively and impacts Note 6 of the financial statements.

New Accounting Pronouncements

GASB Statement No. 84 (GASB 84), *Fiduciary Activities*, intends to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The provisions of GASB 84 are effective for fiscal year 2020.

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

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

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.

GASB Statement No. 91 (GASB 91), *Conduit Debt Obligations*, provides a single method of reporting conduit debt obligations by issuers and aims to eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement clarifies the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The provisions of GASB 91 are effective for fiscal year 2022.

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

NOTE 2 – Cash and Investments

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of shares in the State Investment Fund (SIF), a short-term pool of state and local funds managed by the State of Wisconsin Investment Board (SWIB) with oversight by a Board of Trustees as authorized in Wisconsin Statutes Sections 25.17 (3) (b), (ba), (bd), and (dg). SWIB is not registered with the SEC as an investment company. The fair value of the investment in the SIF is based on net asset value (NAV) per share (or its equivalent), as of June 30, 2019. 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, 2019.

Of the $1,863.7 million and $1,868.4 million in cash and cash equivalents as of June 30, 2019 and 2018, respectively, $1,622.4 million and $1,678.8 million, respectively, represent amounts held within the SIF; $241.3 million and $189.4 million, respectively, was maintained by individual University institutions in local bank accounts to meet operating needs; and a small, residual amount was held at BNY Mellon to meet the cash needs of the investing activities of the Trust Fund. Interest distributions are received on a monthly basis for balances associated with trust funds, federal aid programs, and funds attributable to the appropriations listed in Wisconsin Statutes Section 20.285(1) (Li). Investment earnings for all other funds do not accrue to the University.

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

For the remaining deposits, the University had balances in excess of Federal Deposit Insurance Corporation limits totaling $234.6 million and $182.5 million at June 30, 2019 and 2018, 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, 2019 and 2018 are insignificant. The University does not have a formal policy for foreign currency risk.

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. Effective, April 1, 2018, the Board of Regents transferred its investment management responsibilities to the State of Wisconsin Investment Board (SWIB) as permitted through Section 36.11 (11m) of the Wisconsin statutes. The SWIB-managed Long Term Fund has a target asset allocation to public markets of the following: 57% public equities, 20% fixed income, and 23% inflation sensitive securities. SWIB achieves these allocations through the use of externally-managed index funds. In addition, this fund continues to have an allocation to private markets through a "legacy" portfolio that will self-liquidate over time as investments are sold and cash proceeds are received. The target allocations to public markets were last affirmed/ approved by the Board of Regents in April 2018.

Effective April 1, 2019, a new internally managed investment fund was established for a limited and select number of participating Trust Funds accounts. This fund was established by the University Board of Regents to provide educational investment management opportunity for the UW-Madison School of Business's Applied Security Analysis Program. The "RegentFund" is an intermediate-term fixed income portfolio, governed by and subject to a University Board of Regents approved Memorandum of Understanding, which includes detailed investment guidelines.

The SWIB-managed Long Term Fund consisted of the following actual asset allocation by investment category on June 30, 2019 and 2018:

Investment Category	2019	2018
Global Equities	40.0%	40.7%
Treasury Inflation Protection Securities (TIPS)	17.0%	16.9%
Investment Grade Government/Credit	17.2%	16.7%
Hedged Non-U.S. Equities (Developed Markets)	5.1%	5.2%
Real Estate Investment Trusts (REITs)	2.6%	2.7%
Emerging Markets Equities	2.4%	2.3%
Private Markets[1]	15.7%	15.5%
Total	100.0%	100.0%

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

The RegentFund (effective as of April 1, 2019) consisted of the following actual asset allocation by investment category on June 30, 2019 and 2018:

Investment Category	2019	2018
Fixed Income Securities	94.4%	—
Short Term Investment Funds	5.6%	—
Total	100.0%	N/A

NOTE 2 – Cash and Investments (continued)

Benefiting University entities receive quarterly distributions from the Long Term Fund, which is primarily comprised of endowed assets, based on an annual spending rate applied to a twelve-quarter moving average market value of the Fund. The annual spending rate is currently 4.0%. Distributions from the RegentFund, which is primarily comprised of expendable gifts, consisted of quarterly interest earnings distributions. Spending rate and interest distributions from both Funds are transferred to the SIF, pending near-term expenditures. During the fiscal year ended June 30, 2019, the amount made available to spend from these funds was $16.2 million, relative to $16.7 million available during the fiscal year ended June 30, 2018.

At June 30, 2019 and 2018, the University's investments were as follows:

Investments	**2019**	**2018**
Equity Index Funds	$ 217,973,035	$ 202,240,226
Fixed Income Index Funds	157,309,946	141,285,489
Real Estate Index Fund	11,724,118	11,122,064
Fixed Income Securities	6,972,692	—
Short Term Investment Funds	412,590	1,673
Private Markets Limited Partnership	72,368,222	64,851,965
Total Investments	466,760,603	419,501,417
Cash and Cash Equivalents	—	98,567
Total Investments and Cash and Cash Equivalents	$ 466,760,603	$ 419,599,984

The total return on the Long Term Fund, including capital appreciation, was 7.5% for fiscal year 2019 compared to 8.1% in fiscal year 2018. The total return on the RegentFund, including capital appreciation, was 3.7% for the three months beginning April 1, 2019 when the Fund was initiated. As of fiscal year ended June 30, 2019, 98.4% of funds were externally managed, compared to 100% at fiscal year ended 2018.

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, 2019, the University was exposed to credit risk directly through its singular separately-managed fixed income portfolio, the RegentFund, and indirectly through the ownership of shares of commingled or mutual funds.

NOTE 2 – Cash and Investments (continued)

The following schedule displays the credit ratings as provided by Moody's Investor Service for debt securities owned as of June 30, 2019 and 2018. Obligations of the United States and obligations explicitly guaranteed by the U.S. government are included in the Aaa rating below.

Ratings	2019	2018
Aaa	$ 1,010,468	$ —
Aa1	235,197	—
A1	230,567	—
A2	205,230	—
A3	1,015,456	—
Baa1	930,924	—
Baa2	1,707,644	—
Baa3	833,365	—
Ba1	273,170	—
Ba2	268,995	—
Ba3	129,900	—
B1	131,625	—
Unrated Bond Fund	157,309,946	141,285,489
Unrated Short Term Investments	412,741	—
Unrated Pooled Cash	—	98,567
Totals	$ 164,695,228	$ 141,384,056

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, 2019 and 2018 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. Fixed income securities held by the University as of June 30, 2019 was expected to be within a range of two years below to one year above the effective duration of the established benchmark's duration.

NOTE 2 – Cash and Investments (continued)

The following schedule displays the interest rate risk statistics for individually-held debt securities owned as of June 30, 2019 and 2018, grouped by sector.

Fixed Income Sector	**2019**		**2018**	
	Market Value	Effective Duration (In Years)	Market Value	Effective Duration (In Years)
Corporate Debt	$ 5,962,225	4.91	—	—
Government Debt	1,423,057	5.32	—	—
Totals	$ 7,385,282		N/A	

The following schedule displays the interest rate risk statistics for the commingled debt/fixed income funds held as of June 30, 2019 and 2018, as determined by the providers of the funds.

Fixed Income Commingled Fund	**2019**		**2018**	
	Market Value	Effective Duration (In Years)	Market Value	Effective Duration (In Years)
BlackRock U.S. TIPS Fund B	$ 78,255,104	7.48	$ 71,053,725	7.66
BlackRock Government/Credit Bond Index Fund B	79,054,842	6.59	70,231,764	6.35
Totals	$ 157,309,946		$ 141,285,489	

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Long Term Fund held positions only in passively-managed, indexed commingled funds which may invest in securities denominated in foreign currencies. However, the fund used for exposure to developed market equities generally seeks to hedge against the variations in returns deriving solely from the value of the foreign currencies in the fund relative to the U.S. dollar. The fund used for exposure to emerging market equities generally does not engage in similar foreign currency hedging efforts, due largely to the high cost and more limited efficacy of such hedging. Deposits in foreign currency for the RegentFund at June 30, 2019 are immaterial.

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

The University receives 75 percent of the net revenue derived from all securities lending activities and the bank receives the remainder of the net revenue. Interest and dividend income earned by the University in conjunction with the securities lending program is reported as part of non-operating investment income in the Statement of Revenues, Expenses, and Changes in Net Position.

NOTE 2 – Cash and Investments (continued)

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

At June 30, 2019 and 2018, the fair value of securities loaned was $109,337,546 and $106,030,701, respectively, while the collateral held was $109,337,546 and $106,030,701, respectively. Collateral received consisted of cash. The cash collateral was invested in a U.S. Dollar Cash Collateral Pool. There was no non-cash collateral received as of June 30, 2019 and 2018, respectively. In accordance with accounting standards the value of the collateral held and a corresponding liability to return the collateral have been reported on the accompanying Statement of Net Position.

Donor-restricted endowments: For University-controlled, donor-restricted endowments, the Uniform Prudent Management of Institutional Funds Act, as adopted in Wisconsin, permits the Board of Regents of the University to appropriate, for current spending, an amount of realized and unrealized endowment appreciation as it determines to be prudent. Realized and unrealized appreciation in excess of that amount appropriated for current spending is retained by the endowments. Net appreciation since the inception of the endowment accounts of $147.1 million and $141.9 million at June 30, 2019 and June 30, 2018, 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.

NOTE 2 – Cash and Investments (continued)

As of June 30, 2019, the University's investments were measured at fair value within the fair value hierarchy established by generally accepted accounting principles, as well as by using the net asset value per share or its equivalent. The following table presents these investments by investment category.

Investments	**Level 1**	**Level 2**	**Level 3**	**Measured at NAV**	**Total June 30, 2019**
Equity Index Funds	$ —	$ —	$ —	$ 217,973,035	$ 217,973,035
Fixed Income Index Funds	—	—	—	157,309,946	157,309,946
Real Estate Index Fund	—	—	—	11,724,118	11,724,118
Fixed Income Securities	1,010,467	5,962,225	—	—	6,972,692
Short Term Investment Funds	412,590	—	—	—	412,590
Private Equity Limited Partnership	—	—	—	72,368,222	72,368,222
Total Investments at Fair Value	$1,423,057	$5,962,225	$ —	$ 459,375,321	$ 466,760,603

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.

NOTE 2 – Cash and Investments (continued)

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

Investments	**Level 1**	**Level 2**	**Level 3**	**Measured at NAV**	**Total June 30, 2018**
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 Investment Funds	—	—	—	1,673	1,673
Private Equity Limited Partnership	—	—	—	64,851,965	64,851,965
Total Investments at fair value	—	—	—	419,501,417	419,501,417
Cash and Cash Equivalents	98,567	—	—	—	98,567
Total Investments at fair value and Cash and Cash Equivalents	$ 98,567	$ —	$ —	$ 419,501,417	$ 419,599,984

As part of the investment management transfer to SWIB, Terrace Investment Holdings SMF, LLC was created to centrally hold and manage the University's investments in private markets Limited Partnership Funds. This investment is illiquid and is generally not resold or redeemed. Distributions from the fund will be received over the life of the investment as the underlying investments are liquidated. The investment strategy of the limited partnership focuses globally on corporate finance, venture capital, and forestry/agricultural investments. The fund-of-funds limited partnership is estimated to have an average remaining life of approximately 5 years at June 30, 2019. The estimated remaining life of the underlying investments are between 0-10 years at June 30, 2019.

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:

	2019		**2018**	
Investment Type	**Fair Value**	**Unfunded Commitments**	**Fair Value**	**Unfunded Commitments**
Private Markets Limited Partnership Funds	$ 72,368,222	$ 16,921,959	$ 64,851,965	$ 23,585,146

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 2 – Cash and Investments (continued)

As of June 30, 2019, the Foundations' investments were measured at fair value within the fair value hierarchy established by generally accepted accounting principles, as well as by using the net asset value (NAV) per share or its equivalent. The following table presents these investments by investment category.

Investments	Level 1	Level 2	Level 3	Total June 30, 2019
Certificates of Deposit	$ —	$ 224,490	$ —	$ 224,490
Money Market Funds	6,887,439	5,097,257	—	11,984,696
Federal and State Government Securities	138,923,763	758,210	—	139,681,973
Equity Securities	588,773,400	—	3,951,924	592,725,324
Debt Securities	513,610,571	68,890,342	—	582,500,913
Bond Funds	314,961,922	394,472,517	—	709,434,439
Stock Funds	93,058,988	1,259,254,034	31,707,692	1,384,020,714
Exchange Traded Funds	125,077,921	—	—	125,077,921
Mutual Funds	141,384,293	—	—	141,384,293
Other	1,722,195	—	4,540,893	6,263,088
Subtotal	$ 1,924,400,492	$ 1,728,696,850	$ 40,200,509	$3,693,297,851
Alternate Investments Measured at NAV:				
Private Equity				316,039,512
Timber				5,434,478
Real Estate				82,685,280
Oil and Gas				124,785,961
Hedge Funds				92,249,904
Other				42,297,826
Total investments at fair value				$4,356,790,812

NOTE 2 – Cash and Investments (continued)

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.

Investments	Level 1	Level 2	Level 3	Total June 30, 2018
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
Exchange Traded Funds	128,233,629	—	—	128,233,629
Mutual Funds	27,526,031	—	—	27,526,031
Other	1,685,250	—	4,582,677	6,267,927
Subtotal	$ 1,954,833,974	$ 1,679,477,439	$ 43,951,236	$ 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				36,237,051
Total investments at fair value				$ 4,336,283,723

NOTE 3 – Receivables

Accounts receivable and student loans receivable as of June 30, 2019 and June 30, 2018, are summarized as follows:

Receivables (Net)	2019	2018
Student Academic Fees	$ 20,714,592	$ 27,520,471
Grants and Contracts	75,981,697	42,463,725
Educational Activities and Other	43,794,645	42,426,799
Auxiliary Enterprises	10,916,210	13,677,395
UW Hospital Authority and La Crosse Medical Health Science Consortium Inc.	7,506,582	—
Investment	95,936	967,213
Student Loans Receivable	173,269,663	197,408,176
State Agencies	23,048,258	22,375,387
Other Governments	66,980,257	109,549,413
Total Receivables (Net)	$ 422,307,840	$ 456,388,579

Student loans receivable at June 30, 2019 included allowances for uncollectible loans of $7.6 million relative to $9.1 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.

NOTE 3 – Receivables (continued)

Allowances for uncollectible on all non-student loan receivables totaled $29.4 million and $22.4 million at June 30, 2019 and 2018, respectively.

The University distributed student loans through the United States Department of Education federal direct lending program totaling $639.3 million during fiscal year 2019 and $662.2 million in fiscal year 2018. These distributions and the related funding sources are not reflected as expenses and revenues in the financial statements. However, related cash inflows and outflows are shown in the Statement of Cash Flows.

NOTE 4 - Capital Assets

Land, buildings, improvements (e.g., parking lots, fences, street lighting, etc.), equipment, and library holdings are capitalized at cost at date of acquisition or acquisition value at the date of donation in the case of gifts-in-kind. Generally, capital equipment is defined as any single asset with a minimum value of $5,000 and having a useful life of more than one year. Depreciation is calculated on a straight-line basis over the estimated useful lives of the respective assets: buildings over 40 years, improvements over 20 years, 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 additional campuses are not owned by the University and thus are not reported in these financial statements. The University does not capitalize works of art or historical treasures that are held for exhibition, education, research, and public service. These collections are neither disposed of for financial gain nor encumbered in any way. Proceeds from the sale, exchange, or other disposal of any item belonging to a collection of works of art or historical treasures must be applied to the acquisition of additional items for the same collection.

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, establishes accounting and financial reporting standards for a capital asset that has experienced a significant, unexpected decline in its service utility. No individual asset met these criteria in fiscal year 2019 or 2018. Insurance recoveries received in fiscal year 2019 included $1.5 million for legal settlement costs to resolve loan obligations of the University of Wisconsin - Oshkosh Foundation. Insurance recoveries received for a building fire at the University of Wisconsin-Milwaukee in fiscal year 2019 included $1.7 million and in fiscal year 2018 included $3.0 million. 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, 2019, the equipment balance includes $29.6 million for intangible assets net of depreciation, compared to $31.8 million at June 30, 2018.

Depreciation expense for fiscal years ended June 30, 2019 and 2018 was $327.3 million and $324.0 million, respectively.

During both fiscal year 2018 and 2019, several major construction projects were in progress including the following projects with a budget of $50.0 million or more:

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

NOTE 4 - Capital Assets (continued)

During fiscal year 2019, several new major construction projects were initiated and in progress including the following projects with a budget of $50.0 million or more:

UW Institution	Project	Primary Purpose	Approx. Budget (in millions)	Primary Funding Sources
Madison	Gymnasium/Natatorium Replacement	Student Life	$ 126.3	PRSB/Gifts
Madison	Sellery Residence Hall Addition and Renovation	Student Life	78.8	PRSB/Cash
Madison	Veterinary School Addition and Renovation	Academic	128.1	GFSB/Gifts
Milwaukee	Chemistry Building STEM Program Renovation	Academic	129.5	GFSB

No major construction projects were completed during fiscal year 2019. Several construction projects were completed during fiscal year 2018, including the following projects with $50.0 million or more in actual expenditures:

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

The change in book value from July 1, 2018 to June 30, 2019 is summarized as follows:

	Book Value July 1, 2018	**Additions**	**Transfers**	**Deductions**	**Book Value June 30, 2019**
Buildings	$ 7,062,816,725	$ 40,450,166	$ 43,097,020	$ (5,163,109)	$ 7,141,200,802
Improvements	499,845,821	3,698,802	11,160,245	—	514,704,868
Land	157,018,407	—	1,193,684	—	158,212,091
Construction in Progress	483,350,447	291,458,401	(38,536,303)	(1,879,839)	734,392,706
Equipment	1,198,593,663	83,136,429	16,988,101	(134,418,143)	1,164,300,050
Library Holdings	1,122,852,150	19,004,117	—	(14,786,471)	1,127,069,796
Subtotal	$ 10,524,477,213	$ 437,747,915	$ 33,902,747	$ (156,247,562)	$ 10,839,880,313

Less Accumulated Depreciation:

	Book Value July 1, 2018	**Additions**	**Transfers**	**Deductions**	**Book Value June 30, 2019**
Buildings	$ 3,200,667,236	$ 212,247,003	$ —	$ (54,000)	$ 3,412,860,239
Improvements	306,836,915	16,608,117	—	54,000	323,499,032
Equipment	909,494,310	76,258,182	95,628	(115,561,666)	870,286,454
Library Holdings	967,407,933	22,211,853	—	(14,786,472)	974,833,314
Total Accumulated Depreciation	5,384,406,394	327,325,155	95,628	(130,348,138)	5,581,479,039
Capital Assets, Net	$ 5,140,070,819	$ 110,422,760	$ 33,807,119	$ (25,899,424)	$ 5,258,401,274

NOTE 4 - Capital Assets (continued)

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	1,120,151,973	18,785,575	(131,161)	(15,954,237)	1,122,852,150
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	960,980,050	22,382,121	—	(15,954,238)	967,407,933
Total Accumulated Depreciation	5,120,672,577	323,984,139	—	(60,250,322)	5,384,406,394
Capital Assets, Net	$ 5,059,991,539	$ 96,634,818	$ (13,732,697)	$ (2,822,841)	$ 5,140,070,819

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, 2019 and 2018, are summarized as follows:

Fiscal Year 2019

UW System Activities	Salary and Fringe Benefits	Due to State Agencies and Other Governments	Vendors	Total Payables
Operating	$ 30,149,999	$ 58,506,363	$ 22,579,737	$ 111,236,099
Gifts, Grants, and Contracts	1,455,253	5,241,665	8,062,457	14,759,375
Capital Projects	—	433,548	52,650,616	53,084,164
Auxiliary Enterprises	1,550,972	2,374,686	2,392,648	6,318,306
Investment and Other	20,983	355,977	257,125	634,085
Total Activities	$ 33,177,207	$ 66,912,239	$ 85,942,583	$ 186,032,029

Fiscal Year 2018

UW System Activities	Salary and Fringe Benefits	Due to State Agencies and Other Governments	Vendors	Total Payables
Operating	$ 7,496,656	$ 72,078,877	$ 42,072,092	$ 121,647,625
Gifts, Grants, and	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	$ 10,677,001	$ 76,542,585	$ 114,989,382	$ 202,208,968

Long-term liability activity for the fiscal years ended June 30, 2019 and 2018 is as follows:

Long-term Liabilities 2019	Balance July 1, 2018	Increases (Decreases)	Balance June 30, 2019	Current Portion
Bonds Payable	$ 1,537,960,900	$ 13,265,022	$ 1,551,225,922	$ 92,912,919
Notes Payable	57,936,014	10,848,743	68,784,757	16,666,684
Capital Lease Obligations	29,721,154	(354,590)	29,366,564	1,343,880
Perkins Loan Program	138,736,513	—	138,736,513	—
Compensated Absences	139,562,216	4,612,120	144,174,336	70,758,824
Net Pension Liability	—	474,419,425	474,419,425	—
Other Post-employment Health	315,687,625	(78,483,611)	237,204,014	—
Other Postemployment Life	204,440,597	(23,949,986)	180,490,611	—
Capital Asset Retirement Obligations	—	12,009,060	12,009,060	—
Total	$ 2,424,045,019	$ 412,366,183	$ 2,836,411,202	$ 181,682,307

NOTE 5- Liabilities (continued)

Long-term Liabilities 2018	Balance July 1, 2017	Increases (Decreases)	Balance June 30, 2018	Current Portion
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 Post-employment Health	289,642,369	26,045,256	315,687,625	—
Other Post-employment Life	—	204,440,597	204,440,597	—
Total	$ 2,318,698,702	$ 105,346,317	$ 2,424,045,019	$ 175,213,337

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, 2019 does not include bonds considered in-substance defeased with a principal balance of $62.7 million and premium balance of $2.7 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 2019 and 2018:

2019 Series	Interest Rate	Maturity Fiscal Year	Initial Amount	Use
2018-B (Bond)	5.00 %	2039	$ 91,722,960	Capitalized Projects
2019-A (Note)	1.55% - 2.00%	2038	25,670,036	Capitalized Projects
			$ 117,392,996	

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
			$ 256,522,551	

The following information relates to the status of bonds and notes payable outstanding at June 30, 2019:

	Balance July 1, 2018	New Debt/ Accretion	Principal Paid/ Adjustments	Balance June 30, 2019
Bonds (Gross)	$ 1,409,430,357	$ 91,722,960	$ (65,900,564)	$ 1,435,252,753
Notes	57,936,014	25,670,036	(14,821,293)	68,784,757
Total	$ 1,467,366,371	$ 117,392,996	$ (80,721,857)	$ 1,504,037,510

The bonds have maturity dates ranging from November 1, 2019 to May 1, 2042. The notes have maturity dates ranging from August 1, 2019 to May 1, 2038. Interest rates range from 1.0% to 7.0%.

As of June 30, 2019, the current and noncurrent bonds and notes payable net of discounts and premiums totaled $109.6 million and $1,510.4 million, respectively.

NOTE 6 - Long Term Debt (continued)

	Balance June 30, 2019	Current	Noncurrent
Bonds (Gross)	$ 1,435,252,753	$ 71,478,228	$ 1,363,774,525
Discount	(235,083)	(22,313)	(212,770)
Premium	116,208,252	21,457,004	94,751,248
Bonds (Net)	1,551,225,922	92,912,919	1,458,313,003
Notes	68,784,757	16,666,684	52,118,073
Total	$ 1,620,010,679	$ 109,579,603	$ 1,510,431,076

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	77,348,912	—	(19,412,898)	$ 57,936,014
Total	$ 1,481,782,063	$ 76,795,685	$ (91,211,377)	$ 1,467,366,371

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%.

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	128,717,133	23,032,338	105,684,795
Bonds (Net)	1,537,960,900	89,063,565	1,448,897,335
Notes	57,936,014	14,977,934	42,958,080
Total	$ 1,595,896,914	$ 104,041,499	$ 1,491,855,415

Future debt service requirements for bonds and notes outstanding at June 30, 2019 are as follows:

Fiscal	Bonds		Notes	
Year(s)	Principal	Interest	Principal	Interest
2020	$ 71,478,228	$ 68,272,129	$ 16,666,684	$ 2,996,438
2021	68,163,866	63,728,238	19,300,848	2,305,681
2022	71,898,701	60,163,506	7,147,188	1,376,292
2023	77,610,183	56,633,955	—	1,026,801
2024	93,824,295	52,823,147	—	1,026,801
2025-2029	463,733,220	197,623,328	—	5,134,007
2030-2034	403,412,329	92,847,123	—	5,134,007
2035-2039	155,281,931	28,808,195	25,670,037	3,915,388
2040-2044	29,850,000	2,262,275	—	—
Total	$ 1,435,252,753	$ 623,161,896	$ 68,784,757	$ 22,915,415

NOTE 6 - Long Term Debt (continued)

As noted above, debt on academic facilities that is repaid by an appropriation from the State of Wisconsin to the University for that purpose is reported by the State of Wisconsin and not as an obligation of the University. As of June 30, 2019, the principal balances of such bonds and notes were $1,314.8 million and $116.9 million, respectively. As of June 30, 2018, the principal balances of such bonds and notes were $1,420.1 million and $140.8 million, respectively. Debt service payments made by the State of Wisconsin for the years ended June 30, 2019 and 2018 were allocated as follows:

2019	Bonds	Notes
Principal	$ 109,055,689	$ 33,539,843
Interest	70,177,266	2,696,967
Total Paid	$ 179,232,955	$ 36,236,810

2018	Bonds	Notes
Principal	$ 110,729,177	$ 28,954,785
Interest	65,995,945	1,288,305
Total Paid	$ 176,725,122	$ 30,243,090

NOTE 7 – Lease Commitments

The University had capital lease obligations with a net present value of $29.4 million as of June 30, 2019 compared to $29.7 million at June 30, 2018. The payment schedule for capital lease obligations is as follows:

Fiscal Year(s)	Obligations
2020	$ 3,461,099
2021	3,214,723
2022	2,889,275
2023	2,604,376
2024	2,488,774
2025 - 2029	12,398,970
2030 - 2034	12,363,920
2035 - 2039	12,363,919
2040 - 2044	9,891,136
Total Scheduled Lease Payments	61,676,192
Amount Representing Interest	(32,309,628)
Net Present Value	$ 29,366,564

Assets Held Under Capital Lease:

June 30, 2019	Original Cost	Accumulated Depreciation	Book Value
Buildings and Improvements	$ 29,286,500	$ 4,026,894	$ 25,259,606
Equipment	2,266,856	1,186,453	1,080,403
Total Assets	$ 31,553,356	$ 5,213,347	$ 26,340,009

NOTE 7 – Lease Commitments (continued)

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

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 $36.8 million for the fiscal year ended June 30, 2019.

NOTE 7 – Lease Commitments (continued)

Minimum commitments for future operating lease payments are as follows:

Fiscal Year(s)	Commitments
2020	$ 24,891,485
2021	23,198,763
2022	20,036,052
2023	15,124,559
2024	14,811,864
2025 - 2029	63,737,597
2030 - 2034	56,545,862
2035 - 2039	35,931,283
2040 - 2044	24,714,000
2045 - 2049	14,820,000
Total	$ 293,811,465

NOTE 8 – Retirement Benefits

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

ETF issues a standalone Comprehensive Annual Financial Report (CAFR), which can be found at http://etf.wi.gov/publications/cafr.htm

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

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

Benefits provided. Employees who retire at or after age 65 (54 for protective occupations and 62 for elected officials and executive service retirement plan participants, if hired on or before 12/31/2016) are entitled to a retirement benefit based on a formula factor, their final average earnings, and creditable service.

Final average earnings is the average of the participant's three highest annual earnings periods. Creditable service includes current service and prior service for which a participant received earnings and made contributions as required. Creditable service also includes creditable military service. The retirement benefit will be calculated as a money purchase benefit based on the employee's

NOTE 8 – Retirement Benefits (continued)

contributions plus matching employer's contributions, with interest, if that benefit is higher than the formula benefit.

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

The WRS also provides death and disability benefits for employees.

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

Year	Core Fund Adjustment	Variable Fund Adjustment
2008	6.6%	0%
2009	(2.1)%	(42)%
2010	(1.3)%	22%
2011	(1.2)%	11%
2012	(7.0)%	(7)%
2013	(9.6)%	9%
2014	4.7%	25%
2015	2.9%	2%
2016	0.5%	(5)%
2017	2.0%	4%
2018	2.4%	17%

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

NOTE 8 – Retirement Benefits (continued)

During the reporting period, the University's contributions recognized by the WRS amounted to $137.0 million and $134.5 million, respectively. Contribution rates as of June 30, 2019 and 2018 were:

Employee Category	June 30, 2019		June 30, 2018	
	Employee	Employer	Employee	Employer
General (including teachers)	6.7%	6.7%	6.8%	6.8%
Executives & Elected Officials	6.7%	6.7%	6.8%	6.8%
Protective with Social Security	6.7%	10.7%	6.8%	10.6%
Protective without Social Security	6.7%	14.9%	6.8%	14.9%

Pension Assets, Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2019, the University reported a net pension liability of $474.4 million for its proportionate share of the net pension liability, compared to the net pension asset of $399.1 million at June 30, 2018. The net pension liability was measured as of December 31, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2017 rolled forward to December 31, 2018. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The University's proportion of the net pension liability was based on the University's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2018, the University's proportion was 13.3%, which was a decrease of 0.1% from its proportion measured as of December 31, 2017. 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.

For the fiscal year ended June 30, 2019 and June 30, 2018, the University recognized pension expense of $317.7 million and $170.2 million, respectively.

At June 30, 2019, the University reported deferred outflows and inflows of resources related to pensions from the following sources:

	Fiscal Year ended June 30, 2019	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	$ (283,643,792)	$ 369,500,896	$ (653,144,688)
Change in Proportion	(892,678)	1,137,227	(2,029,905)
Employer Contributions Subsequent to Measurement Date	102,270,078	102,270,078	—
Net Difference Between Expected and Actual Earnings	692,857,041	692,857,041	—
Assumption Changes	79,969,783	79,969,783	—
Total	$ 590,560,432	$ 1,245,735,025	$ (655,174,593)

NOTE 8 – Retirement Benefits (continued)

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

	Fiscal Year ended June 30, 2018	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	$ 269,863,896	$ 507,040,745	$ (237,176,849)
Change in Proportion	(4,941,443)	25,064	(4,966,507)
Employer Contributions Subsequent to Measurement Date	74,807,123	74,807,123	—
Net Difference Between Expected and Actual Earnings	(548,497,947)	—	(548,497,947)
Assumption Changes	78,850,365	78,850,365	—
Total	$ (129,918,006)	$ 660,723,297	$ (790,641,303)

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, 2019. 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
2020	$ 490,900,120	$ (315,496,801)
2021	262,834,008	(218,063,660)
2022	254,203,153	(176,200,788)
2023	135,527,664	54,586,657
2024	—	—
Totals	$1,143,464,945	$ (655,174,592)

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

NOTE 8 – Retirement Benefits (continued)

Actuarial assumptions. The total pension liability in the December 31, 2017, and the total pension asset in the December 31, 2016 actuarial valuations were determined using the following fiscal year 2019 and 2018, respectively, actuarial assumptions, applied to all periods included in the measurement.

	2019	**2018**
Actuarial Valuation Date:	December 31, 2017	December 31, 2016
Measurement Date of Net Pension Asset/Liability	December 31, 2018	December 31, 2017
Actuarial Cost Method:	Entry Age	Entry Age
Asset Valuation Method:	Fair Value	Fair Value
Long-Term Expected Rate of Return:	7.0%	7.2%
Discount Rate:	7.0%	7.2%
Salary Increases:		
Inflation	3.0%	3.2%
Seniority/Merit	0.1% - 5.6%	0.2% - 5.6%
Mortality:	Wisconsin 2018 Mortality Table	Wisconsin 2012 Mortality Table
Post-Retirement Adjustments*	1.9%	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 2018 that covered a three-year period from January 1, 2015 to December 31, 2017. Based on this experience study, actuarial assumptions used to measure the total pension liability changed from prior year, including the discount rate, long-term expected rate of return, post-retirement adjustment, wage inflation rate, mortality and separation rates. The total pension liability for December 31, 2018 is based upon a roll-forward of the liability calculated from the December 31, 2017 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:

NOTE 8 – Retirement Benefits (continued)

Asset Allocation Targets and Expected Returns for Fiscal Year 2019

Core Fund Asset Class	Asset Allocation %	Long-Term Expected Nominal Rate of Return %	Long-Term Expected Real Rate of Return %
Global Equities	49.0%	8.1%	5.5%
Fixed Income	24.5%	4.0%	1.5%
Inflation Sensitive Assets	15.5%	3.8%	1.3%
Real Estate	9.0%	6.5%	3.9%
Private Equity/Debt	8.0%	9.4%	6.7%
Multi-Asset	4.0%	6.7%	4.1%
Total Core Fund	110.0%	7.3%	4.7%
Variable Fund Asset Class			
U.S. Equities	70.0%	7.6%	5.0%
International Equities	30.0%	8.5%	5.9%
Total Variable Fund	100.0%	8.0%	5.4%

New England Pension Consultants Long Term US CPI (Inflation) Forecast: 2.5%

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

Single Discount Rate. A single discount rate of 7.0% was used to measure the total pension liability, as opposed to a discount rate of 7.2% for the prior year. This single discount rate is based on the expected rate of return on pension plan investments of 7.0%. Because of the unique structure of WRS, the 7.0% expected rate of return implies that a dividend of approximately 1.9% will always be paid. For purposes of the single discount rate, it was assumed that the dividend would always be paid. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments (including expected dividends) of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the University's proportionate share of the net pension (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 7.0 percent and 7.2 percent for the fiscal years ended June 30, 2019 and 2018, respectively, 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 or 1-percentage-point higher than the current rate for fiscal years ended June 30, 2019 and 2018:

	2019	2018
1% Decrease to Discount Rate (2019: 6.0%; 2018: 6.2%)	$ 1,885,392,486	$ 1,032,555,481
Current Discount Rate (2019: 7.0%; 2018: 7.2%)	$ 474,419,425	$ (399,079,716)
1% Increase to Discount Rate (2019: 8.0%; 2018: 8.2%)	$ (574,748,485)	$ (1,487,166,756)

NOTE 8 – Retirement Benefits (continued)

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://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 $51,961 during fiscal year 2019, compared with $58,806 during fiscal year 2018.

NOTE 9 – Postemployment Benefits Other Than Pensions

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

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

NOTE 9 – Postemployment Benefits Other Than Pensions (continued)

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

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

Employers are required to pay the following contributions 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. Contribution rates as of June 30, 2019 are:

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, 2018 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 $580,265 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).

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:

Age	Coverage
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, 2019, the University reported a liability of $180.5 million for its proportionate share of the net OPEB liability. The net liability was measured as of December 31, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of January 1, 2018, rolled forward to December 31, 2018. 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, 2018, the University's proportion was 41.8 percent, which was an increase of 0.4 percent from its proportion of 41.4 percent measured as of December 31, 2017. 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.

For the year ended June 30, 2019, the University recognized OPEB expense of $15.0 million. For the year ended June 30, 2018, the University recognized OPEB expense of $18.7 million.

At June 30, 2019, the University reported deferred outflows and inflows of resources related to OPEB from the following sources:

	Fiscal Year ended June 30, 2019:	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	$ (7,828,979)	$ —	$ (7,828,979)
Net Differences Between Projected and Actual Earnings on OPEB Plan Investments	3,573,199	3,573,199	—
Assumption Changes	(19,182,026)	14,659,851	(33,841,877)
Changes in Proportion	(3,446,808)	1,569,536	(5,016,344)
Total	$ (26,884,614)	$ 19,802,586	$ (46,687,200)

NOTE 9 – Postemployment Benefits Other Than Pensions (continued)

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

	Fiscal Year ended June 30, 2018:	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**
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	(6,313,448)	—	(6,313,448)
Total	$ 11,625,024	$ 19,855,750	$ (8,230,726)

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**
2020	$ 4,208,070	$ (8,226,100)
2021	4,208,070	(8,226,100)
2022	4,208,070	(8,226,100)
2023	3,712,584	(8,226,100)
2024	3,190,900	(8,226,100)
Thereafter	274,892	(5,556,700)
Total	$ 19,802,586	$ (46,687,200)

The total OPEB expense is determined as follows:

Net Proportionate Share of Plan OPEB Expense (Income)	$ 15,728,831
Net Amortization of Deferred Amounts from Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	(728,662)
Total OPEB Expense	$ 15,000,169

NOTE 9 – Postemployment Benefits Other Than Pensions (continued)

Actuarial Assumptions. The total OPEB liability in the January 1, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Valuation Date	January 1, 2018
Measurement Date of Net OPEB Liability	December 31, 2018
Actuarial cost method	Entry age normal
20-year tax-exempt municipal bond yield	4.10%
Long-term expected rate of return	5.00%
Discount rate	4.20%
Salary increases:	
Inflation	3.00%
Seniority/merit	0.1% - 5.6%
Mortality rates	Wisconsin 2018 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.

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

Asset Class	Index	Target Allocation	Deferred Long-Term Expected Geometric Real Rate of Return
U.S. Government Bonds	Barclays Government	1%	1.44%
U.S. Credit Bonds	Barclays Credit	40%	2.69%
U.S. Long Credit Bonds	Barclays Long Credit	4%	3.01%
U.S. Mortgages	Barclays MBS	54%	2.25%
U.S. Municipal Bonds	Bloomberg Barclays Muni	1%	1.68%
Inflation			2.30%
Long-Term Expected Rate of Return			5.00%

Single Discount Rate. A single discount rate of 4.20 percent was used to measure the total OPEB liability for the current year, as opposed to a discount rate of 3.60 percent for the prior year. 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

NOTE 9 – Postemployment Benefits Other Than Pensions (continued)

position is projected to be sufficient to make projected benefit payments, and the municipal bond rate, determined using the Bond Buyer General Obligation 20-Bond Municipal Bond Index, applied to benefit payment to the extent that the plan's fiduciary net position is projected to be insufficient. The plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through December 31, 2033.

Sensitivity of the University's Proportionate Share of Net 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 (3.20%)	Current Discount Rate (4.20%)	1% Increase in Discount Rate (5.20%)
OPEB Liability	$245,987,232	$180,490,611	$129,771,332

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.

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 $100.8 million and $97.9 million for fiscal years ended June 30, 2019 and June 30, 2018, respectively. The State's annual OPEB costs were $52.4 million and $85.4 million for fiscal years ended June 30, 2019 and June 30, 2018, respectively, and the State's actual contributions were $40.8 million in fiscal year 2019 and $43.2 million in fiscal year 2018, which results in a net OPEB obligation for the State of $539.7 million as of June 30, 2019, and $719.3 million as of June 30, 2018.

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

NOTE 9 – Postemployment Benefits Other Than Pensions (continued)

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, 2018. It was determined by an actuarial valuation as of January 1, 2017. The University reported a liability of $237.2 million for its proportionate share of the OPEB liability amounts as of a June 30, 2019 reporting date. At June 30, 2019, the University's proportion was 44.0 percent which was a increase of 0.1 percent from its proportion of 43.9 percent measured as of June 30, 2017. 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.

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, 2018	$ 315,687,625
Service Cost	25,509,090
Interest	11,910,415
Differences Between Expected and Actual Experience	369,849
Change of Assumptions	(98,334,274)
Benefit Payments	(17,938,691)
OPEB Liability – June 30, 2019	$ 237,204,014

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.

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 (used for June 30, 2018 and June 30, 2017 measurement dates)
Measurement Date of Total OPEB Liability	June 30, 2018
Actuarial cost method	Entry age normal
Asset Valuation Method	N/A
Inflation	Inflation was changed from 3.00% for the June 30, 2018 measurement from 3.20% for the June 30, 2017 measurement
Salary increases	Separate merit and longevity increase rates by employer and service, plus 3.00% were used for the June 30, 2018 measurement compared to varying salary increases by service and employee class plus 3.20% inflation for the June 30, 2017 measurement
Discount Rate	Discount rate was changed to 3.87% for the June 30, 2018 measurement from 3.58% for the June 30, 2017 measurement
Health care cost trend rates (calendar year basis from January 1, 2017)	
Medical	5.25% for 2018 grading down 0.25% per year to 4.50%
Prescription drug	8.50% for 2018 grading down 0.50% per year to 5.00%
Dental	4.00% for 2018 and thereafter
Administrative costs	3.00% for 2018 and thereafter
Benefit Changes	None
Participation Rate	Decreased from 85% to 80%
Assumed Claims	Per capita claims costs were based on prremium equivalent rates for plan year 2017, adjusted to reflect plan changes effective January 1, 2017 and actuarial factors applied to weighted average premium rates to estimate costs
Disability Rates	Rates for General, Executive and Elected employees were changed to match the 2015-2017 experience study for the pension valuation compared to the 2012-2014 experience study used in the prior year
Withdrawal Rate	Rate was changed to match the 2015-2017 experience study for the pension valuation compared to the 2012-2014 experience study used in the prior year
Excise Tax	Excise tax on high cost health plans beginning in 2022. Gross Average Claims were trended using the Plan Blended Medical and Prescription Drug Trend Rate, offset by the 2018 threshold trended at 2.6% for 2018 and the assumed rate of inflation for subsequent periods. The tax is assumed to be 40% of the difference, beginning in 2022.
Benefit End Date	Benefits end when participants turn 65 years old

Valuation assumption changes decreased the liability by $128.2 million due to raising the discount rate to 3.87 percent from 3.58 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, 2015 to December 31, 2017. In addition, the assumed participation rate was lowered from 85 percent to 80 percent based on a study completed in July 2019. Other assumptions used, such as mortality,

NOTE 9 – Postemployment Benefits Other Than Pensions (continued)

disability and retirement rates for active members, are consistent with analysis shown in the Experience Study Report performed by the pension actuary, completed for the period 2015-2017 and the Wisconsin 2017 Mortality Table.

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 (2.87%)	Current Discount Rate (3.87%)	1% Increase in Discount Rate (4.87%)
OPEB Liability	$254,038,320	$237,204,014	$221,323,805

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	$209,691,945	$237,204,014	$269,905,594

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB. The total deferred outflows and inflows of resources are amortized over the average active participants service life of 10 years. For the year ended June 30, 2019, the University recognized OPEB expense amounting to $22.6 million. For the year ended June 30, 2018, the University recognized OPEB expense amounting to $19.9 million.

Total deferred outflows and inflows of resources to be recognized in the current OPEB expense for the fiscal year ended June 30, 2019 and 2018 are as follows:

	Fiscal Year ended June 30, 2019:	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	$ (128,727)	$ 38,290	$ (167,017)
Assumption Changes	(14,678,921)	—	(14,678,921)
Total	$ (14,807,648)	$ 38,290	$ (14,845,938)

	Fiscal Year ended June 30, 2018:	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	(4,358,996)	—	(4,358,996)
Total	$ (5,011,206)	$ —	$ (5,011,206)

NOTE 9 – Postemployment Benefits Other Than Pensions (continued)

In addition, the contributions subsequent to the measurement date of $17,977,163 (a deferred outflow of resources) will be included as a reduction of the net OPEB liability in the next year (2020). The deferred outflows and inflows of resources to be recognized in the future OPEB expense for the fiscal year ended June 30, 2019 and 2018 are as follows:

	Fiscal Year ended June 30, 2019:	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	$ (1,124,335)	$ 334,448	$ (1,458,783)
Change in Proportion	(3,933,999)	479,259	(4,413,258)
Assumption Changes	(128,210,497)	—	(128,210,497)
Employer Contributions Subsequent to Measurement Date	17,977,163	17,977,163	—
Total	$ (115,291,668)	$ 18,790,870	$ (134,082,538)

	Fiscal Year ended June 30, 2018:	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	$ (1,618,482)	$ —	$ (1,618,482)
Change in Proportion	(4,903,622)	—	(4,903,622)
Assumption Changes	(43,589,955)	—	(43,589,955)
Employer Contributions Subsequent to Measurement Date	18,979,895	18,979,895	—
Total	$ (31,132,164)	$ 18,979,895	$ (50,112,059)

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	$ —	$ (14,807,648)
2020	—	(14,807,648)
2021	—	(14,807,648)
2022	—	(14,807,648)
2023	—	(14,807,648)
Thereafter	—	(59,230,591)
Total	N/A	$ (133,268,831)

NOTE 9 – Postemployment Benefits Other Than Pensions (continued)

The total OPEB expense is determined as follows:

Service Cost	$	25,509,090
Interest		11,910,415
Recognition of Deferred Outflows		38,290
Recognition of Deferred Inflows		(14,845,938)
Total OPEB Expense	$	22,611,857

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.

NOTE 10 – Deferred Outflows and Deferred Inflows of Resources

At June 30, 2019 and June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources from the following sources:

Deferred Outflows	**Pension**	**Other Post-Employment Benefits**	**Debt Refundings**	**Other**	**Total**
Fiscal Year 2019					
Differences between expected and actual experience	$ 369,500,896	$ 334,448	$ —	$ —	$ 369,835,344
Net differences between projected and actual earnings on pension and OPEB plan investments	692,857,041	3,573,199	—	—	696,430,240
Employer contributions subsequent to the measurement date	102,270,078	17,977,163	—	—	120,247,241
Changes in Actuarial Assumptions	79,969,783	14,659,851	—	—	94,629,634
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,137,227	2,048,795	—	—	3,186,022
Unamortized Losses	—	—	44,960,019	—	44,960,019
Asset Retirement Obligations	—	—	—	11,085,286	11,085,286
Total Deferred Outflows	$1,245,735,025	$ 38,593,456	$ 44,960,019	$ 11,085,286	$ 1,340,373,786
Fiscal Year 2018					
Differences between expected and actual experience	$ 507,040,745	$ —	$ —	$ —	507,040,745
Net differences between projected and actual earnings on pension and OPEB 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	—	—	50,910,007	—	50,910,007
Total Deferred Outflows	$ 660,723,297	$ 38,835,645	$ 50,910,007	$ —	$ 750,468,949

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

Deferred Inflows	**Pension**	**Other Postemployment Benefits**	**Debt Refundings**	**Other**	**Total**
Fiscal Year 2019					
Differences between expected and actual experience	$ 653,144,688	$ 9,287,762	$ —	$ —	$ 662,432,450
Changes in Actuarial Assumptions	—	162,052,374	—	—	162,052,374
Changes in proportion and differences between employer contributions and proportionate share of contributions	2,029,905	9,429,602	—	—	11,459,507
Unamortized Gains	—	—	332,732	—	332,732
Gifts	—	—	—	274,713	274,713
Total Deferred Inflows	$ 655,174,593	$ 180,769,738	$ 332,732	$ 274,713	$ 836,551,776
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 and OPEB 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 Gains	—	—	575,913	—	575,913
Gifts	—	—	—	55,428	55,428
Total Deferred Inflows	$ 790,641,303	$ 58,342,785	$ 575,913	$ 55,428	$ 849,615,429

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. 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.

NOTE 11 – Other Organizations (continued)

Condensed financial statement information related to the University's campus foundations for the year ended June 30, 2019 is as follows:

Condensed Statement of Financial Position	(unaudited) **University of Wisconsin Foundation, Inc.**	(unaudited) **The University of Wisconsin Milwaukee Foundation Inc.**	(unaudited) **Others**	**Total**
ASSETS				
Cash and Cash Equivalents	$ 14,352,673	$ 6,865,794	$ 19,817,265	$ 41,035,732
Income and Redemption Receivables	61,322,010	448,327	36,846	61,807,183
Pledges Receivable, Net	105,016,732	15,019,533	33,076,507	153,112,772
Prepaid Expenses and Other Assets	7,283,671	1,361,305	10,830,102	19,475,078
Investments	4,157,753,513	166,812,031	329,279,574	4,653,845,118
Property and Equipment, Net	17,055,651	71,584,049	98,457,443	187,097,143
Real Estate	3,544,489	—	591,649	4,136,138
TOTAL ASSETS	$ 4,366,328,739	$ 262,091,039	$ 492,089,386	$ 5,120,509,164
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts Payable	$ 1,909,273	$ 122,804	$ 3,764,501	$ 5,796,578
Pending Investment Purchases Payable	82,648,552	—	—	82,648,552
Accrued Expenses and Other Liabilities	10,085,247	2,430,924	18,131,764	30,647,935
Note Payable	—	81,300,595	81,776,628	163,077,223
Liability Under Split-Interest Agreements	42,673,164	—	798,800	43,471,964
Funds Due to Other Organizations	287,886,482	2,666,271	200,774	290,753,527
Total Liabilities	425,202,718	86,520,594	104,672,467	616,395,779
NET ASSETS				
Without Donor Restrictions	144,599,437	2,653,644	28,567,248	175,820,329
With Donor Restrictions	3,796,526,584	172,916,801	358,849,671	2,346,478,459
Total Net Assets	3,941,126,021	175,570,445	387,416,919	4,504,113,385
TOTAL LIABILITIES AND NET ASSETS	$ 4,366,328,739	$ 262,091,039	$ 492,089,386	$ 5,120,509,164
Condensed Statement of Activities				
REVENUES, GAINS AND OTHER				
Contributions	341,625,459	25,132,662	44,839,878	411,597,999
Interest and Dividend Income	35,853,328	—	4,505,794	40,359,122
Net Investment Gains (Losses)	112,677,479	9,740,116	2,131,532	124,549,127
Rental Income	—	5,647,041	3,983,986	9,631,027
Other Income	5,447,052	50,000	4,394,394	9,891,446
Total Revenues, Gains and Other Support	495,603,318	40,569,819	59,855,584	596,028,721
EXPENSES				
Program Expenses	275,391,164	27,201,863	39,261,133	341,854,160
Management and General Expenses	16,414,420	1,201,155	5,461,861	23,077,436
Fund raising Expenses	27,851,178	3,683,492	5,388,665	36,923,335
Total Expenses	319,656,762	32,086,510	50,111,659	401,854,931
INCREASE IN NET ASSETS	175,946,556	8,483,309	9,743,925	194,173,790
Net Assets - Beginning of Year	3,765,179,465	167,087,136	377,672,994	4,309,939,595
Net Assets - End of Year	$ 3,941,126,021	$ 175,570,445	$ 387,416,919	$ 4,504,113,385

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	9,276,327	—	1,078,406	10,354,733
TOTAL ASSETS	4,174,968,078	255,497,962	496,360,927	4,926,826,967
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	279,228,731	2,891,321	200,774	282,320,826
Total Liabilities	409,788,613	88,410,826	115,116,975	613,316,414
NET ASSETS				
Without Donor Restrictions	129,327,363	808,156	29,011,414	159,146,933
With Donor Restrictions	3,635,852,102	166,278,980	352,232,538	4,154,363,620
Total Net Assets	3,765,179,465	167,087,136	381,243,952	4,313,510,553
TOTAL LIABILITIES AND NET ASSETS	$ 4,174,968,078	$ 255,497,962	$ 496,360,927	$ 4,926,826,967
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	6,109,982	—	5,212,950	11,322,932
Total Revenues, Gains and Other Support	580,654,036	50,353,697	86,655,972	717,663,705
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	343,103,896	28,138,572	53,941,407	425,183,875
INCREASE IN NET ASSETS	237,550,140	22,215,125	32,714,565	292,479,830
Net Assets - Beginning of Year	3,527,629,325	144,872,011	348,529,387	4,021,030,723
Net Assets - End of Year	$ 3,765,179,465	$ 167,087,136	$ 381,243,952	$ 4,313,510,553

NOTE 11 – Other Organizations (continued)

A – University of Wisconsin Medical Foundation

The University of Wisconsin Medical Foundation (UWMF) is the not-for-profit clinical practice organization for the faculty physicians of the School of Medicine and Public Health within the UW-Madison and is reported as a blended component unit of he University of Wisconsin Hospital and Clinics Authority. The UWMF provides clinical sites, technical and professional staff, and administrative services for the UW-Madison faculty physicians group.

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

Under the CPE program, DHS is able to claim additional federal MA funds based upon the difference between the established MA reimbursement rate for the services provided by the UW-Madison faculty physicians group and the actual cost of providing those services. To enable the draw of these federal funds by DHS, UW-Madison remitted a total of $11.2 million to DHS during fiscal year 2019 and $11.3 million in fiscal year 2018, representing the state's share of this difference. DHS then claimed the federal share of the difference from the federal government and subsequently provided $26.7 million during fiscal year 2019 and $26.6 million during fiscal year 2018, 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 $15.5 million during fiscal year 2019 and $15.4 million in fiscal year 2018 were also made under this program and are reported as a transfer to state agencies on the financial statements.

During fiscal year 2019, the UWMF remitted $33.3 million to UW-Madison as reimbursement for payments to DHS during fiscal year 2018. During fiscal year 2018, the UWMF remitted $42.7 million to UW-Madison as reimbursement for payments to DHS during fiscal year 2017.

In addition, UW-Madison incurred expenditures for which reimbursement was received from the UWMF. Of the $129.0 million expended in fiscal year 2019, $116.9 million was for salaries and fringe benefits of staff in the UW-Madison School of Medicine. In fiscal year 2018, of the $114.5 million expended, $101.8 million was for salaries and fringe benefits of staff in the UW-Madison School of Medicine.

B – University of Wisconsin Hospital and Clinics Authority

The University of Wisconsin Hospital and Clinics Authority (UWHCA), pursuant to an act of the Wisconsin State Legislature, began operating on June 29, 1996 as a separate public authority, and is reported as a discrete component unit within the financial statements of the State of Wisconsin. As required by this legislation, the University has entered into various affiliation and operating agreements with UWHCA, including a lease agreement. Under the terms of the lease, UWHCA makes payments equal to the debt service on all outstanding bonds issued by the State of Wisconsin to acquire, construct, or improve the leased facilities. At June 30, 2019, the present value of these future lease payments totaled $0.12 million, compared to $0.14 million at June 30, 2018, an amount equal to the principal on the related bonds outstanding; the asset is included on the statement of net position as part of the capital lease receivable, and the related debt is included as part of the total University bonds outstanding of $1,435.3 million and $1,435.1 million at June 30, 2019 and June 30, 2018, respectively. The leased facilities are not included as part of the University's investment in buildings since they have been reported by UWHCA in their audited financial statements in accordance with the generally accepted accounting principles that pertain to the reporting of leased assets.

During the fiscal year ended June 30, 2019, the University received services from UWHCA totaling $5.1 million and provided services to UWHCA totaling $57.0 million, compared to amounts for fiscal year ended June 30, 2018 of $5.0 million and $69.7 million. The cost of the services provided and the associated revenue are separately identified in the Statement of Revenues, Expenses, and Changes in

NOTE 11 – Other Organizations (continued)

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

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

D – La Crosse Medical Health Science Education Research Center

On June 6, 1997, the Board of Regents entered into a Use Agreement with The La Crosse Medical Health Science Consortium, Inc. (The Consortium), a Wisconsin non-stock corporation tax exempt under IRC 501(c)(3) with offices at 1725 State Street, La Crosse, Wisconsin. As such, The Consortium does not meet the criteria of a component unit of the University.

The Use Agreement makes available the exclusive use of the La Crosse Medical Health Science Education Research Center to The Consortium. As required by this Use Agreement, the University has entered into various operating agreements with The Consortium, including a lease agreement. Under the terms of the lease, The Consortium 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, 2019, the present value of these future lease payments totaled $0.52 million, compared to $0.82 million at June 30, 2018, an amount equal to the principal on the related bonds outstanding; the asset is included on the statement of net position as part of the capital lease receivable, and the related debt is included as part of the total University bonds outstanding. The leased facilities are not included as part of the

NOTE 11 – Other Organizations (continued)

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, 2019 and 2018, 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 $196.4 million at June 30, 2019, compared with $194.9 million at June 30, 2018. During fiscal year 2019, $1.1 million of these funds was made available by the trustees for spending. In fiscal year 2018, $1.1 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, 2019:

	Salary and Fringe Benefits	Scholarships and Fellowships	Supplies and Services	Other	Depreciation	Total
Instruction	$ 1,315,949,829	$ 1,251,704	$ 125,299,550	$ 10,471,096	$ —	$ 1,452,972,179
Research	692,046,296	3,169,800	290,068,353	1,865,103	—	987,149,552
Public Service	214,337,538	546,929	143,141,295	6,750,206	—	364,775,968
Academic Support	323,983,152	688,886	104,674,406	(672,154)	—	428,674,290
Farm Operations	13,158,625	—	7,490,451	24,756	—	20,673,832
Student Services	325,671,886	763,397	178,270,635	782,723	—	505,488,641
Institutional Support	279,926,847	2,071,299	27,798,895	(735,319)	—	309,061,722
Operation/Maintenance	155,755,015		142,089,940	1,041,964	—	298,886,919
Financial Aid	110,422,990	133,737,111	492,970	(1,051,708)	—	243,601,363
Auxiliary Enterprises	120,531,549	19,541	236,414,915	2,707,394	—	359,673,399
Hospital	—	—	50,361,274	—	—	50,361,274
Depreciation	—	—	—	—	327,325,155	327,325,155
Total Operating Expenses	$ 3,551,783,727	$ 142,248,667	$ 1,306,102,684	$ 21,184,061	$ 327,325,155	$ 5,348,644,294

Operating expenses totaled $5.3 billion. Salary and fringe benefits; scholarships and fellowships; and supplies and services and other expenses constituted 66.4%, 2.7%, and 24.8% of total operating expenses, respectively. Depreciation comprised $327.3 million or 6.1% of total operating expenses.

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	108,153,972	146,883,786	1,070,034	1,800,655	—	257,908,447
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	$ 3,287,862,294	$ 157,604,259	$ 1,262,627,392	$ 12,342,885	$ 323,984,139	$ 5,044,420,969

Operating expenses totaled $5.0 billion. Salary and fringe benefits; scholarships and fellowships; and supplies and services and other expenses constituted 65.2%, 3.1%, and 25.3% of total operating expenses, respectively. Depreciation comprised $324.0 million or 6.4% 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.

NOTE 13 – Classification of Net Position (continued)

The amounts within each category at June 30, 2019 and June 30, 2018 are as follows:

	2019	2018
Net Investment in Capital Assets	$3,587,086,479	$3,519,597,333
Restricted - Nonexpendable Permanent Endowment	197,906,470	188,177,512
Restricted - Expendable		
Restricted for Pensions	—	399,079,716
Restricted Endowment Earnings	89,474,275	85,548,343
Restricted Donor Investments	200,692,160	195,706,530
Auxiliary Operations - Segregated Fees	93,772,886	89,562,658
Restricted for Student Loans		
Federal Aid	46,732,101	34,027,391
Gifts	35,067,774	32,047,657
Endowment Funds	9,812,464	13,364,280
Subtotal	91,612,339	79,439,328
Restricted - Other		
Federal Aid	48,467,533	46,527,942
Gifts and Nonfederal Grants & Contracts	305,130,900	282,805,370
Construction Fund	167,906,942	229,766,918
Segregated Revenue	541,859	491,902
All Other Restricted Program Revenue	2,090,552	3,177,487
Subtotal	524,137,786	562,769,619
Total Restricted - Expendable	999,689,446	1,412,106,194
Unrestricted		
Tuition (Academic & Extension Student Fees)	152,731,901	146,332,124
General Operations	115,515,415	99,502,178
Auxiliary Operations (Non-Segregated Fee)	227,741,105	200,189,927
Indirect Cost Reimbursement	116,538,350	128,800,892
Quasi-Endowment Funds	95,028,756	82,703,693
All Other Unrestricted Program Revenue	65,964,890	18,305,386
Gifts and Nonfederal Grants & Contracts	64,936,379	1,492,060
Federal Aid^	(65,017,654)	(62,872,893)
All Other Non-Program Revenue*	(198,443,071)	(304,216,968)
Total Unrestricted	5,359,678,467	310,236,399
Total Net Position	$5,359,678,466	$5,430,117,438

^ 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.

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, 2019 (in millions):

	University of Wisconsin System	Auxiliary Operations	Quasi-Endowments	Student Loans	State of Wisconsin CAFR
Net Investment in Capital Assets	$ 3,587.1	$ —	$ —	$ —	$ 3,587.1
Restricted for					
Pension	—	—	—	—	—
Nonexpendable	197.9	—	—	—	197.9
Expendable	383.9	(93.8)	60.5		339.5
Student Loans	91.6	—	—	(9.8)	81.8
Other	524.1	—	—	9.8	607.0
Unrestricted	575.0	93.8	(60.5)	—	497.3
Total Net Position	$ 5,359.6	$ —	$ —	$ —	$ 5,359.6

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	310.2	89.6	(37.3)	—	362.5
Total Net Position	$ 5,430.1	$ —	$ —	$ —	$ 5,430.1

NOTE 14 – Change in Accounting Principle

The June 30, 2018 Statement of Net Position includes the following change in accounting principle.

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

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 August 2019, the State issued $220.6 million of 2019 Series A 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 the bonds were set at 4.0 to 5.0 percent payable semiannually beginning November 1, 2019. The bonds mature annually beginning May 1, 2021 through May 1, 2040. The total par amount of the 2019 Series A bonds that was issued for University of Wisconsin purposes is $97.8 million; additional purchase premium proceeds from this issue were also applied for UW purposes.

In October 2019, the State issued $329.7 million of 2019 Series 1 general obligation refunding bonds (taxable) to be used for the advance refunding of general obligation bonds previously issued by the State of Wisconsin for general governmental purposes. The interest rates associated with these bonds were set at 1.757 to 2.531 percent payable semiannually beginning May 1, 2020. The bonds mature annually beginning May 1, 2023 through May 1, 2033.

In December 2019, the State plans to issue $267.2 million of 2019 Series general obligation bonds. The bonds are to be used for the acquisition, construction, development, extension, enlargement or improvement of land, water, property, highways, buildings, equipment or facilities for public purposes. The interest rates associated with the bonds were set at 4.0 to 5.0 percent payable semiannually beginning May 1, 2020. The bonds mature annually beginning May 1, 2021 through May 1, 2040. The total par amount of the 2019 Series B bonds planned to issue for University of Wisconsin purposes is $96.9 million; additional purchase premium proceeds from this issue were also applied for UW purposes.

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UNIVERSITY OF WISCONSIN SYSTEM

Years Ended June 30, 2019 and 2018

REQUIRED SUPPLEMENTARY INFORMATION

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

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

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
2019	13.34%	$474,419,425	$2,034,643,431	23.32%	96.54%
2018	13.44%	$(399,079,716)	$1,967,891,964	(20.28)%	102.93%
2017	13.54%	$112,698,659	$1,929,105,545	5.79%	99.10%
2016	13.59%	$220,459,696	$1,924,520,818	11.47%	98.20%
2015	13.44%	$(330,166,674)	$1,896,092,723	17.41%	102.74%

*The amounts presented for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year. GASB standards require the presentation of 10 years of information. Because fiscal year 2015 was the first year for reporting this information, a full 10-year schedule will not be available until fiscal year 2024.

University of Wisconsin System's Pension Contributions
Wisconsin Retirement System

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

Fiscal Year*	Contractually Required Contributions	Contributions Made	Contribution Deficiency (Excess)	Covered Payroll	Contributions Made as a Percentage of Covered Payroll
2019	$136,968,134	$136,968,134	$—	$2,034,643,431	6.73%
2018	$134,517,079	$134,517,079	$—	$1,967,891,964	6.84%
2017	$127,760,738	$127,760,738	$—	$1,929,105,545	6.62%
2016	$131,542,672	$131,542,672	$—	$1,924,520,818	6.84%
2015	$133,468,069	$133,468,069	$—	$1,896,092,723	7.04%

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

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

Notes to Required Supplementary Information for the Year Ended June 30, 2019

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

Changes in assumptions. Actuarial assumptions are based upon an experience study conducted in 2018 using experience from 2015 - 2017. Based on the experience study conducted in 2018, actuarial assumptions used to develop total pension liability changed, including a decrease in the discount rate from 7.2% to 7.0%, and a decrease in the long-term expected rate of return from 7.2% to 7.0%, post-retirement adjustment, wage inflation rate, mortality and separation rates.

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
2019	41.83%	$180,490,611	$1,205,222,000	15.0%	44.36%
2018	41.42%	$204,440,597	$1,318,898,190	15.5%	41.63%

*The amounts presented for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year. GASB standards require the presentation of 10 years of information. Because fiscal year 2018 was the first year for reporting this information, a full 10-year schedule will not be available until fiscal year 2027.

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

The University's OPEB contributions are provided below:

Fiscal Year*	Contractually Required Contributions	Contributions Made	Contribution Deficiency (Excess)	Covered Payroll	Contributions Made as a Percentage of Covered Payroll
2019	$580,265	$580,265	$—	$1,205,222,000	0.05%
2018	$552,145	$552,145	$—	$1,318,898,190	0.04%

*The amounts presented for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year. GASB standards require the presentation of 10 years of information. Because fiscal year 2018 was the first year for reporting this information, a full 10-year schedule will not be available until fiscal year 2027.

Notes to Required Supplementary Information
for the Year Ended June 30, 2019

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

Changes in assumptions. Actuarial assumptions are based upon an experience study conducted in 2018 using experience from 2015 - 2017. Based on the experience study conducted in 2018, actuarial assumptions used to develop total OPEB liability changed, including the discount rate, wage inflation rate, mortality and separation rates.

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
2019	43.95%	$ 237,204,014	$ 1,622,101,587	14.6%
2018	43.89%	$ 315,687,625	$ 1,577,063,898	20.0%

*The amounts presented for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year. GASB standards require the presentation of 10 years of information. Because fiscal year 2018 was the first year for reporting this information, a full 10-year schedule will not be available until fiscal year 2027.

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

The University's OPEB contributions are provided below:

Fiscal Year*	Contractually Required Contributions	Contributions Made	Contribution Deficiency (Excess)	Covered Payroll	Contributions Made as a Percentage of Covered Payroll
2019	$ 435,919,184	$ 435,919,184	$—	$ 1,622,101,587	26.9%
2018	$ 433,914,171	$ 433,914,171	$—	$ 1,577,063,898	27.5%

*The amounts presented for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year. GASB standards require the presentation of 10 years of information. Because fiscal year 2018 was the first year for reporting this information, a full 10-year schedule will not be available until fiscal year 2027.

Notes to Required Supplementary Information
for the Year Ended June 30, 2019

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

Changes in assumptions. Valuation assumption changes decreased the liability by $128.2 million due to raising the discount rate to 3.87 percent from 3.58 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, 2015 to December 31, 2017. In addition, the assumed participation rate was lowered from 85 percent to 80 percent based on a study completed in July 2019. Other assumptions used, such as mortality, disability and retirement rates for active members, are consistent with analysis shown in the Experience Study Report performed by the pension actuary, completed for the period 2015-2017 and the Wisconsin 2017 Mortality Table.

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

UNIVERSITY OF WISCONSIN SYSTEM

Years Ended June 30, 2019 and 2018

SUPPLEMENTAL INFORMATION

CHART 1
COMPARISON OF CURRENT FUNDS REVENUES
2009 -2019

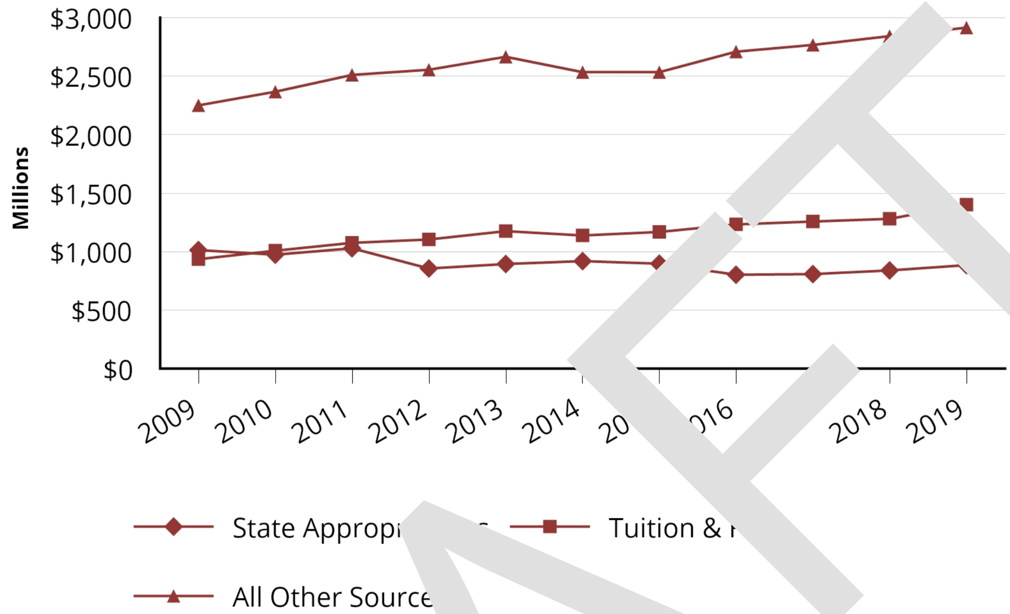


CHART 2
COMPARISON OF CURRENT FUNDS REVENUES
ADJUSTED FOR INFLATION
2009 - 2019

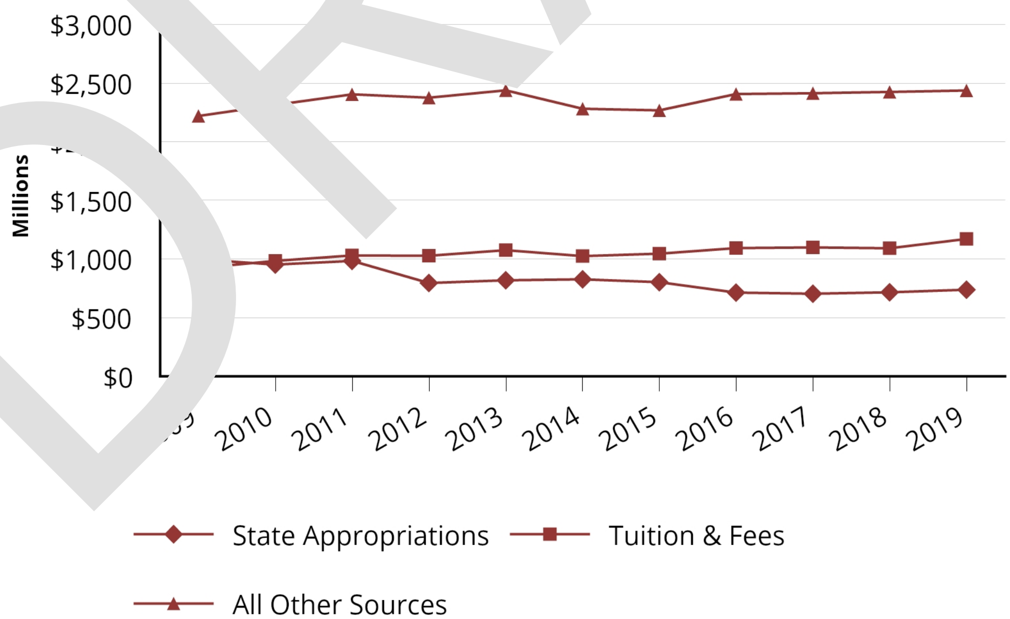
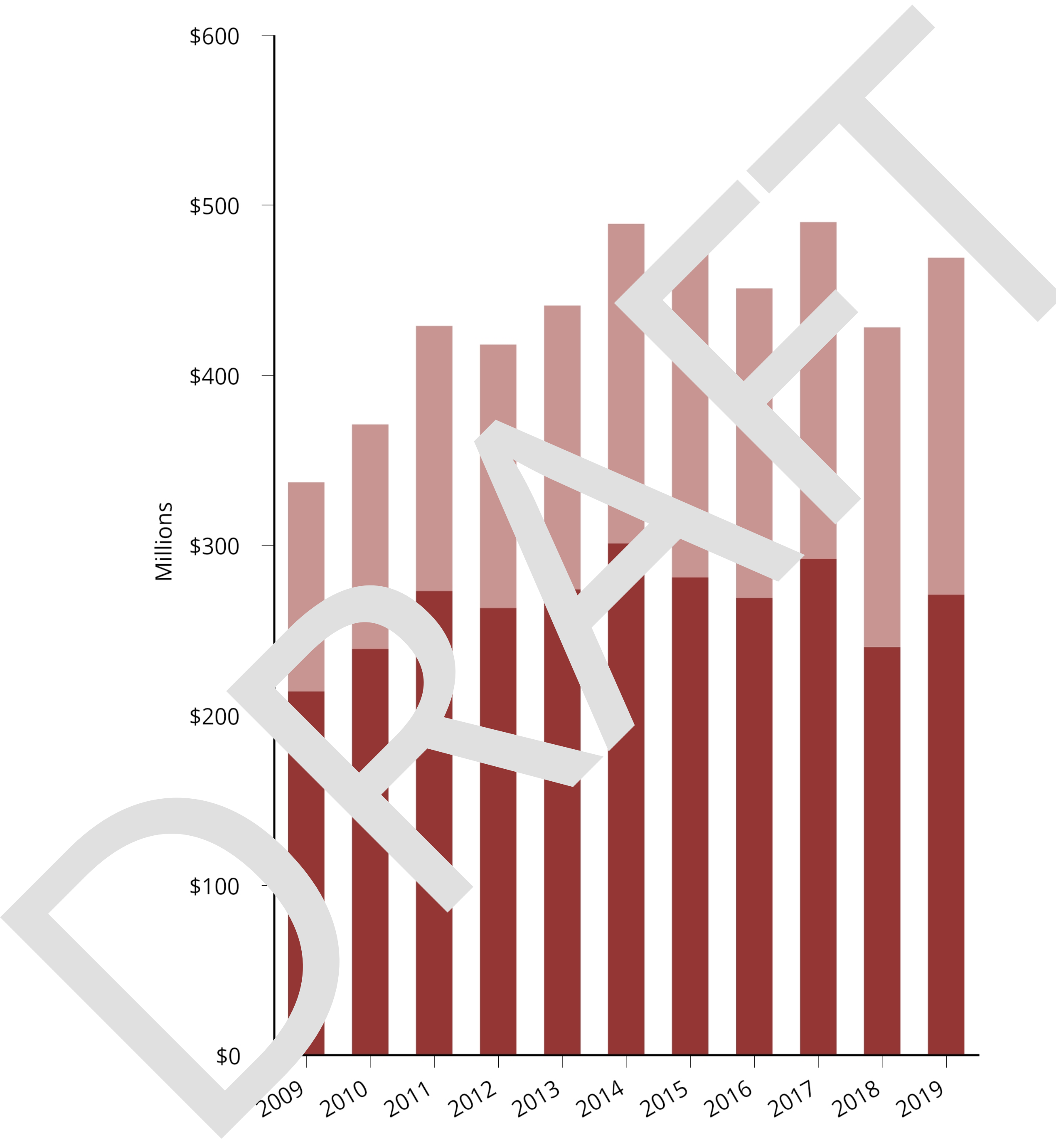


CHART 3
UNIVERSITY-CONTROLLED ENDOWMENTS
2009 -2019



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

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Joint Committee of Business & Finance and Audit **Item C**
December 5, 2019

LEGISLATIVE AUDIT BUREAU AUDIT REPORT 19-5: PROGRESS REPORT ON PERSONNEL SYSTEMS RECOMMENDATIONS

REQUESTED ACTION

This item is for information only.

SUMMARY

LAB Audit Report 19-5 provided recommendations related to six areas of personnel systems: performance management, merit-based pay, extraordinary salary ranges, pay plan, HRS entry codes for pay actions, and grievances upon dismissal. A systemwide deadline of December 31, 2019, was set for implementation of the recommendations.

UW System Human Resources convened workgroups for each of the identified areas to review the current state and identify the next steps to implement the LAB's recommendations. This included reviewing policies and processes for revision across all institutions and at the system level. Once steps were identified, engagement with shared governance and leadership occurred at both the system and institution levels and the work began. This is a progress report on the implementation of the LAB recommendations.

Presenter(s)

- Dr. Shenita Brokenburr, Senior Associate Vice President and Chief Human Resource Officer, UW System Administration

BACKGROUND

In May 2019, the Legislative Audit Bureau (LAB) completed its fiscal year 2018-19 management audit of the UW System. LAB identified the following areas for review during this audit: program revenue balance reporting, UW System's personnel systems, and the relationships between UW System institutions and primary fundraising foundations, real estate foundations, and other affiliated organizations.

Specific to personnel systems, LAB highlighted policies at UW institutions that did not consistently comply with UWSA policy and, further, indicated that some institutions lacked published guidelines. LAB also noted recommendations specific to UW-Madison to improve policies related to extraordinary salary ranges and to ensure grievance policies and procedures comply with statutory requirements.

Related Policies

- UW System Administrative Policy 1254: Performance Management
- UW System Administrative Policy 1255: Teaching Assistants Selection, Training and Evaluation
- UW System Administrative Policy 1277: Compensation
- UW System Administrative Policy 1278: Pay Plan Distribution
- Recommendation #9 of the 1992 Report of the Governor's Commission on University of Wisconsin Compensation, adopted by the Board as Regent Resolution #6198
- Regent Policy Document 20-2: Student Evaluation of Instruction
- Regent Policy Document 20-9: Guidelines for Tenured Faculty Review and Development
- Wis. Admin. Code § UWS 3.05, Periodic Review

ATTACHMENTS

None

PRESENTATION ON TODAY'S KEY RISKS IN HIGHER EDUCATION BY JANICE ABRAHAM, PRESIDENT AND CEO OF UNITED EDUCATORS

REQUESTED ACTION

For information and discussion only.

SUMMARY

Janice Abraham will be speaking on today's key risks in higher education and how best to deal with them.

Presenter(s)

- Janice Abraham, President and CEO of United Educators

BACKGROUND

Janice Abraham joined United Educators (UE) Insurance as president and CEO in 1998, leading it to become known as the premier risk management and liability insurance business.

Prior to joining UE, Abraham served the higher education community in many roles:

- CFO at Whitman College
- Board member of the National Association of College and University Business Officers (NACUBO) and the Western Association of College and University Business Officers (WACUBO)
- Various senior positions at Cornell University

She is a trustee of Whitman College and American University, and on The Institutes Board of Directors, the Griffith Foundation's Leadership Council, American University's School of International Service Dean's Advisory Council, and the Association of Governing Boards of Universities and Colleges (AGB) Editorial Board. She also serves on the board of the Campagna Center, a social service non-profit. Abraham served as the first woman chair of the board of governors of the American Property Casualty Insurers Association (APCIA) from 2009-2010, and currently serves on the association's executive and finance committees.

She writes and speaks frequently on education and risk issues, and in 2013 authored the book *Risk Management: An Accountability Guide for University and College Boards*. Abraham earned an MBA from the Wharton School at the University of Pennsylvania and a bachelor's degree in international service from American University.

Audit Committee **Item C.1.**
December 5, 2019

FISCAL YEAR 2020 AUDIT PLAN PROGRESS

REQUESTED ACTION

For information and discussion only.

SUMMARY

One of the responsibilities of the Audit Committee, as outlined in the committee charter, is to review and approve the annual internal audit plan and receive interim progress reports at least quarterly.

The attached chart provides a summary of audit progress for the Fiscal Year 2020 Audit Plan. As requested at the June meeting, we have added an audit of post-tenure review to the plan.

Presenter(s)

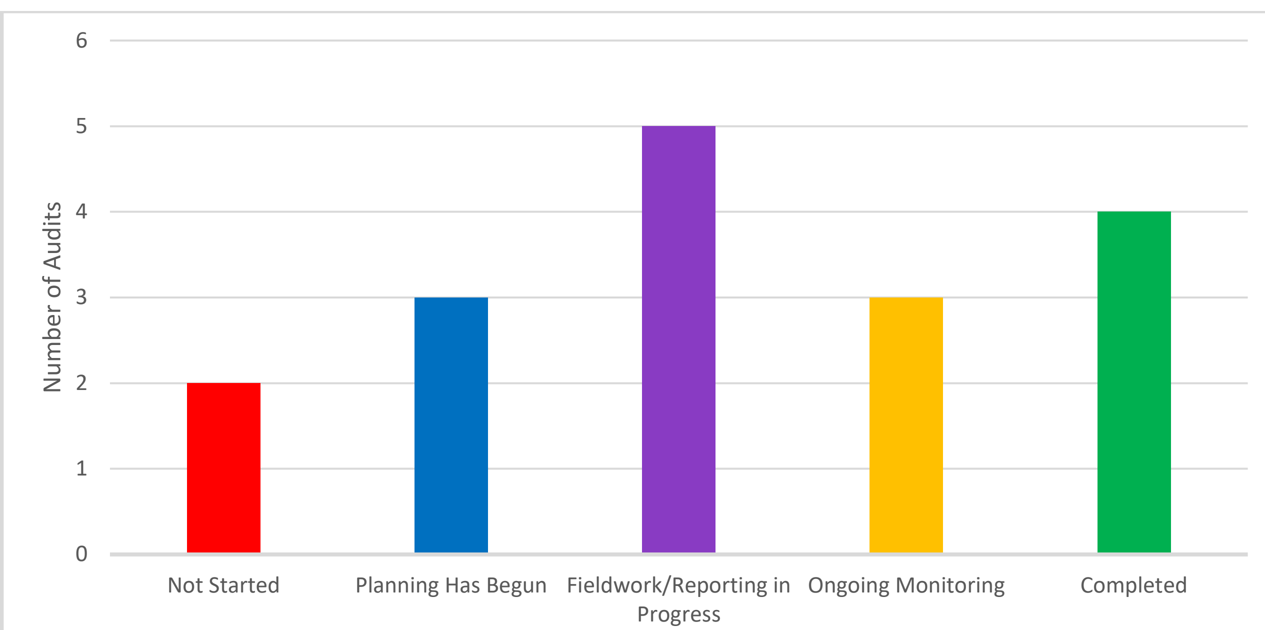
- Lori Stortz, Chief Audit Executive

ATTACHMENTS

A) UW System Administration Office of Internal Audit Fiscal Year 2020 Audit Plan Progress Chart.

UW SYSTEM ADMINISTRATION
OFFICE OF INTERNAL AUDIT
FISCAL YEAR 2020
AUDIT PLAN PROGRESS

	Title	Risks
1	Payroll (Continuous Monitoring)	Fraud
2	Purchasing Cards (Continuous Monitoring)	Fraud, Embezzlement
3	Shop @ UW (Continuous Monitoring)	Fraud, Embezzlement
4	Payment Card Industry Compliance	Data Breach of Personally Identifiable Information (PII)
5	Information Technology Procurement	Fraud, Security, Waste, Recording, Safeguarding
6	DoIT Services Group	Billing, Monitoring, Proper Prioritization
7	Institutional Relationships with Foundations and Other Affiliated	Fraud, Embezzlement, Reputation
8	Oversight of Programs with Minors	Physical Safety and Security
9	Discrimination, Harassment and Retaliation	Physical Safety and Security, Legal Compliance
10	Offboarding of Employees	Physical Access to Buildings, Access to Systems
11	Human Resource System (HRS) Segregation of Duties and UW-Madison	Fraud, Breach of Protected Information, Data Accuracy
12	Student Information Systems and Databases Security	IT Security, Breach of PII
13	Laboratory Safety	Physical Security and Safety, Legal Compliance
14	NCAA Athletics Division I Consulting Engagements	Regulatory Compliance, Revenue Loss
15	Other Affiliated Organizations	Fraud, Embezzlement, Reputation
16	External Assessment (Self-Assessment with Independent Validation)	Conformance with Standards and Code of Ethics
17	Post-Tenure Review	Compliance with Board Policy



Audit Committee **Item C.2.**
December 5, 2019

SUMMARIZED RESULTS OF AUDITS RECENTLY ISSUED

REQUESTED ACTION

For information and discussion only.

SUMMARY

Since the October 10, 2019 meeting of the Audit Committee, the Office of Internal Audit has issued the following reports:

- Institutional Relationships with Foundations and Other Affiliated Organizations
- UW-Madison NCAA Compliance Audit – Executive Summary
- Discrimination, Harassment and Retaliation – Executive Summary and Best Practices Letter

Presenter(s)

- Lori Stortz, Chief Audit Executive

BACKGROUND

One of the responsibilities of the Audit Committee, as outlined in the committee charter, is to summarize results of audits recently issued.

Audit Committee **Item C.3.**
December 5, 2019

PROGRESS ON MANAGEMENT RESPONSES TO AUDIT REPORTS

REQUESTED ACTION

For information and discussion only.

SUMMARY

One of the responsibilities of the Office of Internal Audit as outlined in the charter is to establish a follow-up process to monitor and identify whether corrective actions have been effectively implemented, or whether senior management has accepted the risk of not taking action. The Audit Committee has requested regular progress reports on this monitoring.

Presenter(s)

- Lori Stortz, Chief Audit Executive

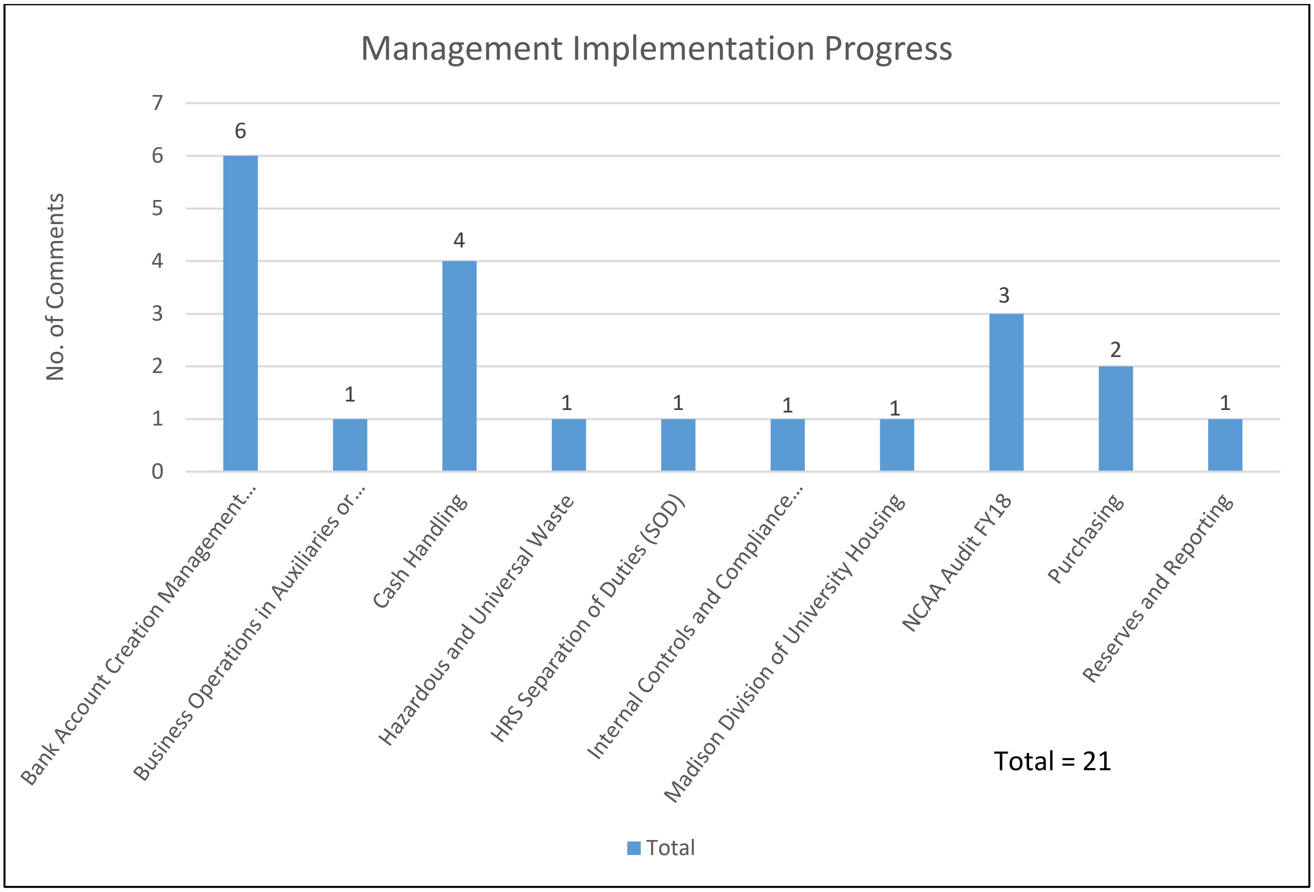
BACKGROUND

The following charts present audits issued during fiscal year 2016 through fiscal year 2020 and the progress management has made toward resolving the comments and recommendations included in the audit reports. Management's corrective action plans were audited by the Office of Internal Audit to determine if they were implemented.

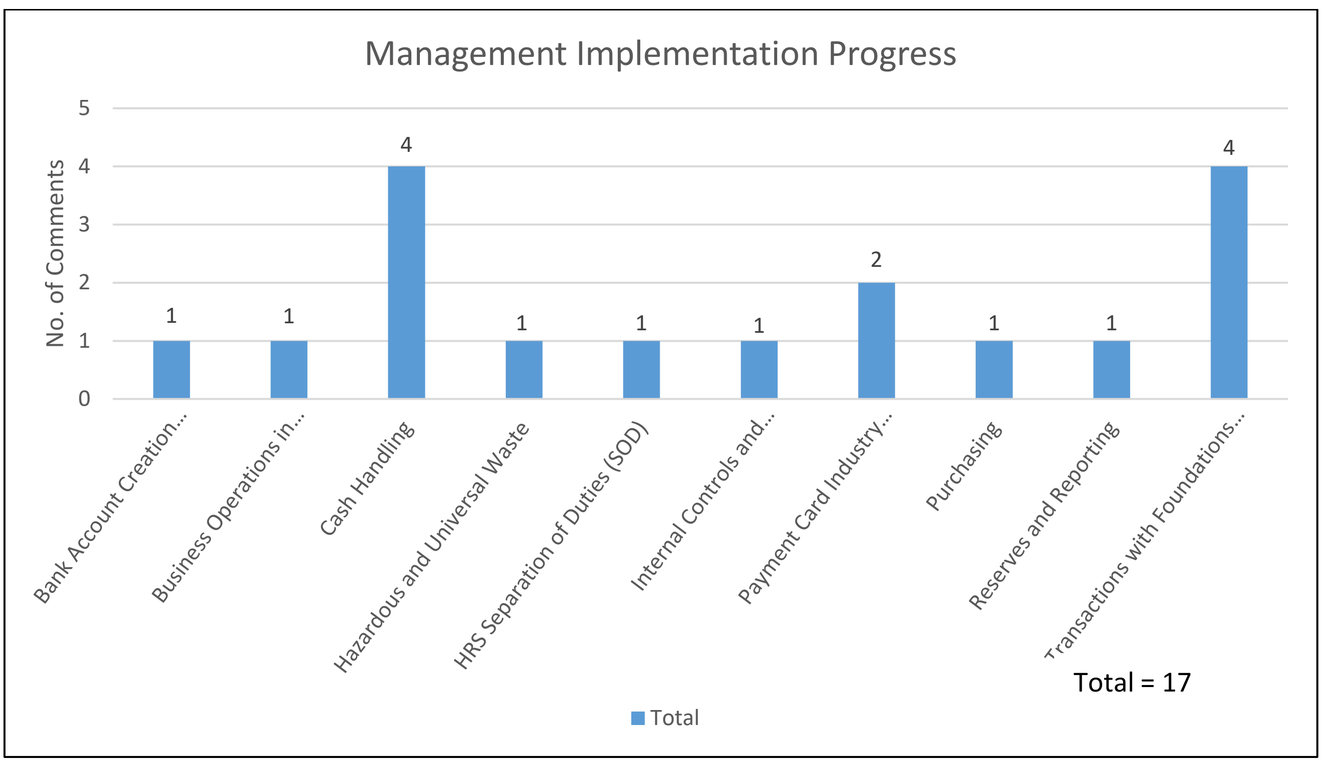
ATTACHMENTS

A) UW System Administration Office of Internal Audit Follow-Up Presentation.

Prior Reporting Period

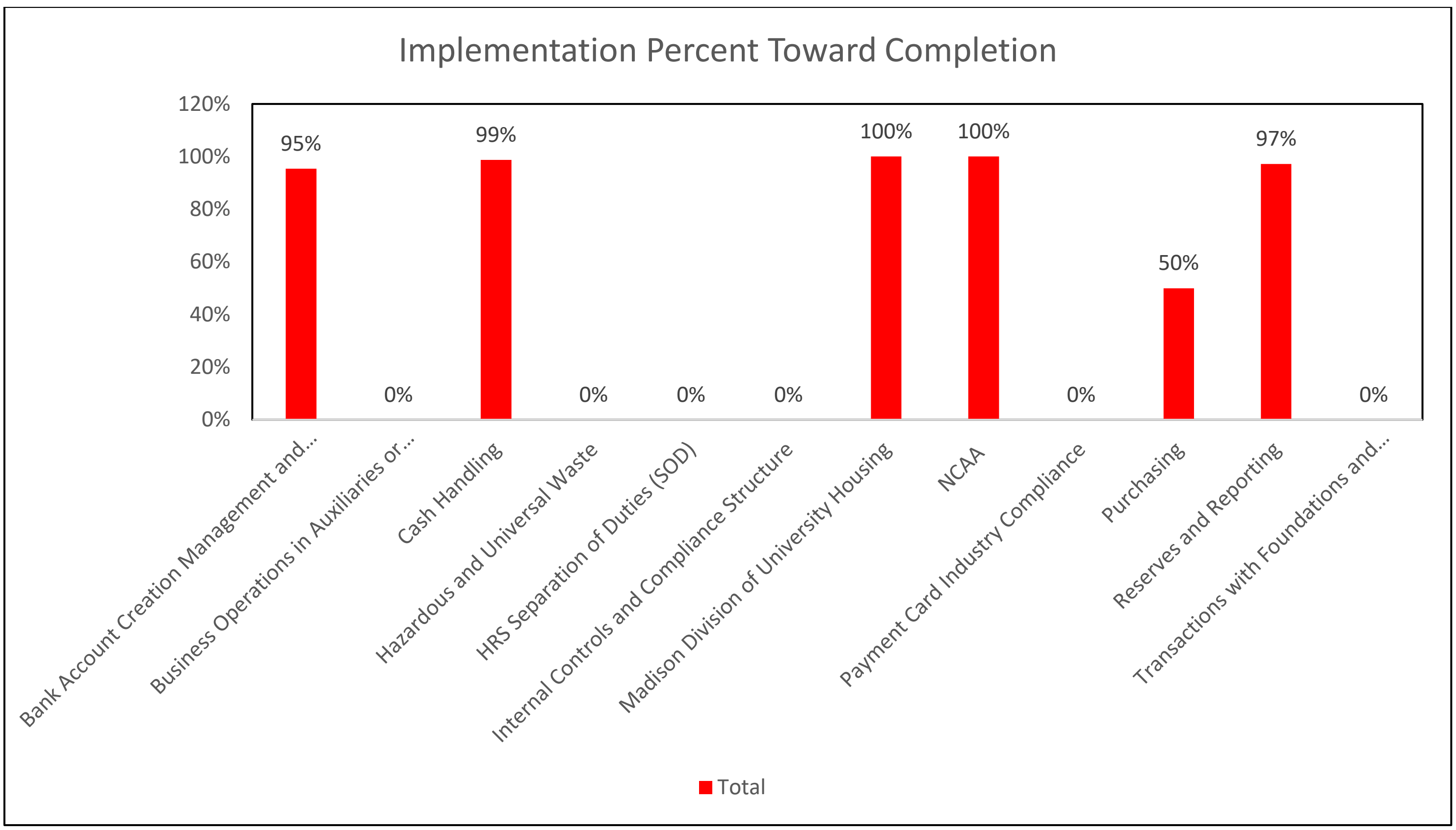


Current Reporting Period



Roll-forward from Prior Reporting Period to Current Reporting Period

Audit	Previously Reported Open Comments	Comments Issued	Comments Closed	Current Open Comments
Bank Account Creation Management and Oversight	6	0	5	1
Business Operations in Auxiliaries or Student Services	1	0	0	1
Cash Handling	4	0	0	4
Hazardous and Universal Waste	1	0	0	1
HRS Separation of Duties (SOD)	1	0	0	1
Internal Controls and Compliance Structure	1	0	0	1
Madison Division of University Housing	1	0	1	0
NCAA	3	0	3	0
Payment Card Industry Compliance	0	2	0	2
Purchasing	2	0	1	1
Reserves and Reporting	1	0	0	1
Transactions with Foundations and Affiliated Organizations	0	4	0	4
Total	21	6	10	17



The above charts and graphs do not necessarily represent all audit comments outstanding due to timing issues

Audit Committee **Item D.1.**
December 5, 2019

INTERNAL CONTROLS AND ENTERPRISE RISK MANAGEMENT

REQUESTED ACTION

For information and discussion only.

SUMMARY

The Office of Risk Management continued to work on mitigation plans with risk owners for their Enterprise Risk Management Focus Risks. ERM workshops were conducted for Cyber Security and Title IX to assist in developing mitigation plans.

Mitigation plans for the last two of the four Focus Risks for FY 2020 will be presented in December.

Presenter(s)

- Angela Ryan, Director, Risk Management
- Ruth Anderson, Associate Vice President for Administrative Services
- Katie Ignatowski, Director of Compliance and Integrity
- Sarah Harebo, Title IX and Clery Administrator
- Katherine Mayer, Associate Vice President for Information Security

BACKGROUND

Enterprise Risk Management (ERM) is a framework to systematically identify, evaluate and manage risks to the organization and its business goals and operations.

UW System is a $6 billion organization with a complex set of risks. Regent Policy Document 1-1 sets forth the shared mission of the UW System and its institutions. In pursuit of the shared mission and the core missions of the doctoral and comprehensive institutions, UW System Administration and the 13 institutions manage many employees, house and feed students, field athletic teams, conduct cutting-edge research and engage globally. All these operations bring risks to the system and its institutions.

While there are many risks, there are also many employees who manage risks within their operations. The UW System has systems in place to manage risks including internal controls, standardized policies, risk transfer through insurance or using suppliers, and health and safety programs. The ERM program creates a process to systematically identify and prioritize the key risks across the operation.

ATTACHMENTS

A) UW System Enterprise Risk Management Update: Slidedeck.

UW System
Enterprise Risk Management Update

Ruth Anderson, Associate Vice President, Administrative Services

Angela Ryan, Director, Risk Management

December 2019

ERM Update

- Recap of Key Risk List and Heat Map
- Risk Mitigation Plan Presentations
  - Title IX
  - Cyber Security

UW System Risk Identification Results

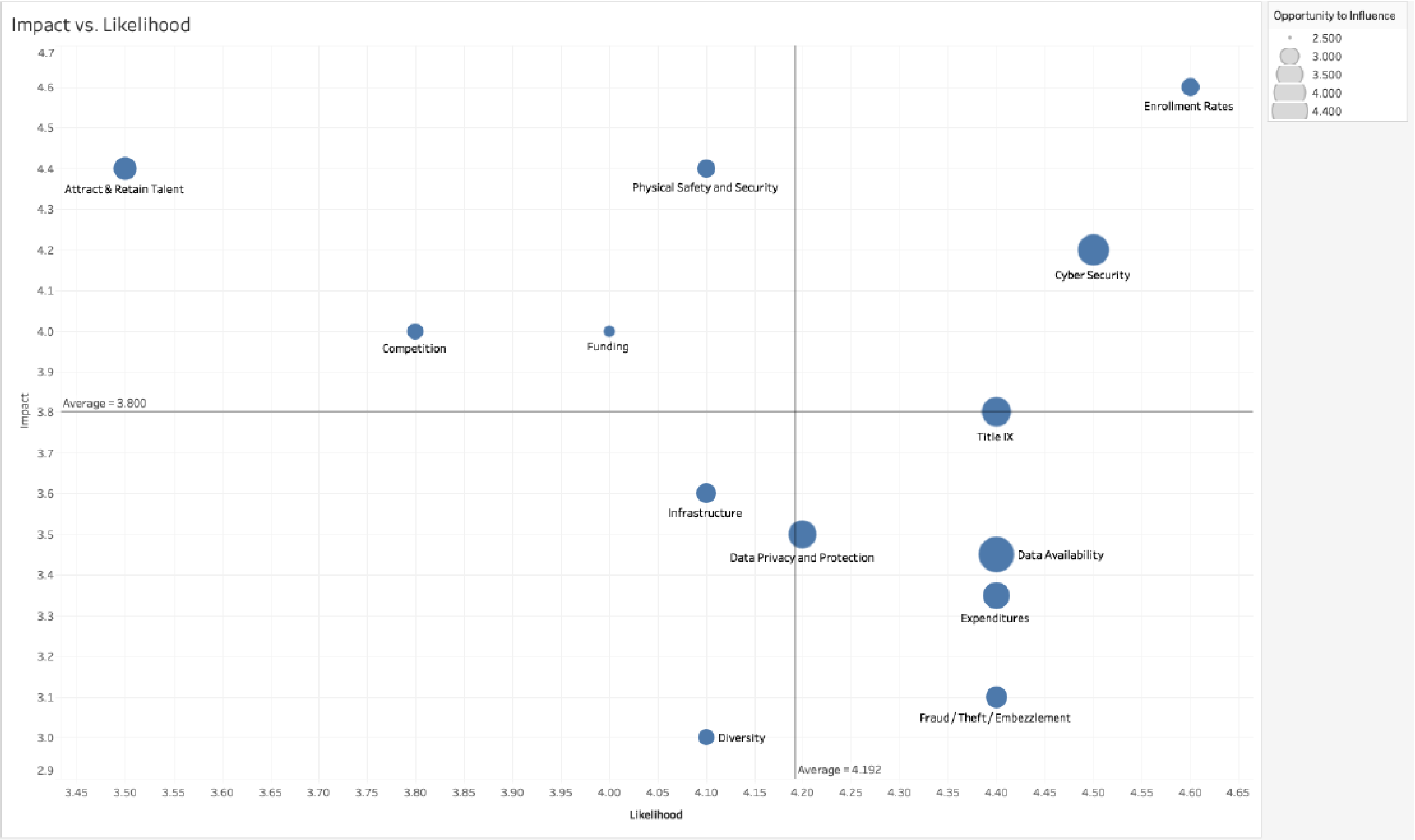
Key Risks Emerging From Surveys and Interviews *

Financial	Human Capital	Operational	Strategic	Legal / Regulatory
Expenditures	Attract and Retain Talent	Data Availability	Competition	Data Privacy & Protection
Funding	Diversity	Cyber Security	Enrollment Rates	Fraud / Theft / Embezzlement
		Physical Infrastructure		Title IX
		Physical Safety & Security		Ethics **
		Digital Infrastructure **		

*Risks are listed in no particular order
**Risks not scored for heat map

UNIVERSITY OF WISCONSIN SYSTEM

UW System ERM Heat Map



*Data Availability and Expenditures scores were adjusted slightly to separate the two circles on the heat map

Risk Mitigation Plan-Title IX

Risk Description	*Risk that a person, on the basis of sex, is excluded from participation in, denied the benefits of, or subjected to discrimination under any education program or activity receiving federal financial assistance; includes the risk of responding appropriately to reports of sex discrimination, sexual harassment, sexual violence, intimate partner violence, and stalking involving faculty, staff, and students as well as pregnant and parenting students.* ***This Risk Mitigation Plan is not inclusive of NCAA Compliance beyond training requirements related to sexual misconduct and interpersonal violence.*	
Key Controls (Current)	Prevention: • Creation and funding of a UW System Compliance Office • Creation and funding of UW System Title IX and Clery Administrator position to evaluate, coordinate, and support systemwide Title IX compliance • Development of compliance matrices to clarify ownership and responsibility • Establishment of three systemwide councils and communities of practice: UW Title IX Council, UW Prevention Council, and UW Clery Council • Implementation of mandatory training requirements and delivery of professional development • Participation in Action Collaborative of National Academy of Sciences on addressing Title IX related issues • Dedicated staff and programming on each campus including anonymous reporting capabilities • Advocates on each campus- either employees or contracted with local service organizations • Adoption of institutional policies in accordance with UW System policy • Creation of individual institutional and UW System website sections on Title IX • Title IX Resource development	Reactive: • Insurance liability coverage • Advocate on each campus • Trained investigators • Resources to those that report and are going through the Title IX investigation process • Interim measures and support • Potential for informal resolution • Ability for both Complainant and Respondent to utilize an advocate • Established and consistent policy, procedure, and resolution process • Due process protections and due diligence in response to reports

Risk Mitigation Plan-Title IX

<table>
<tr><td>Risk Response</td><td colspan="2">Mitigate</td></tr>
<tr><td>Action Plan for those Risks that are retained</td><td>Prevention:
Review Title IX Coordinator reporting structures for autonomy and ability to serve all members of the campus community as well as recommendations for workload and resource dedication
Creation of templates and best practices through collaboration with Title IX Council and UW-Shared Services
Development of in-house mandatory training regarding Title IX, EO, NCAA, Hearing Boards, and mandatory reporting in collaboration with Title IX and Prevention Councils as well as UW-Shared Services
Consider appropriate budget and resource allocations for Title IX compliance at each campus
Provide one UW System Title IX professional development training per year
Evaluate and update recommendations of President's Task Force and Working Group on Sexual Harassment
Address new ED – OCR Title IX regulations</td><td>Reactive:
Standardization of investigation reports and processes
Creation of UW System report templates
Improvement of Recordkeeping/Data Management
Pursue improved organization and standardization of records management
Monitor and analyze data for trends, patterns, and potential areas of concern
Establish systemwide mechanism for the reporting of information to the Board of Regents in collaboration with UW-Shared Services
Development of communication strategies
Implement communication protocols for updating and reporting to Chancellors and upper-level administrators as well as UW System leaders
Establish public relations controls
Collaborate with other UW System offices and campuses on areas that may incorporate Title IX issues, e.g. Campus Climate Surveys
Make full-time, trained investigators available to serve UW System through UW-Shared Services
Explore options for pooling additional resources, such as investigators and hearing panels</td></tr>
</table>

UNIVERSITY OF WISCONSIN SYSTEM

Risk Mitigation Plan-Title IX

Implementation Date	*On-going – Certain aspects are already underway, such as the Councils. The full Title IX Strategic Compliance Plan will be established no later than March of 2020 for presentation to the Board of Regents.*			
Risk Score Before Treatment	*Likelihood: 4.4*	*Impact: 3.8*	*Effectiveness: 3.8*	*Ranking Composite: 63.5*
Risk Monitoring/ Key Risk Indicators	▪ Maintain legal and regulatory compliance ▪ Utilization of the UW System Councils to establish communities of practice and best practices ▪ Review progress under established and revisited Task Force and Working Group recommendations FY 2020 Objectives: ▪ Incorporate findings of internal audit and develop remedial action plans ▪ Develop a strategic plan to outline initiatives and goals; monitor progress with the plan with the understanding that this may evolve with new ED regulations and responses required by our own internal Title IX audit ▪ Hold initial annual professional development training			
Risk Owner	Katie Ignatowski, Director of Compliance & Integrity and Sarah E. Harebo, Title IX and Clery Administrator			

Risk Mitigation Plan – Cyber Security

Risk Description	*Compromise of the confidentiality, integrity or availability of UW System hardware, software or data assets, due to theft, alteration, destruction or misuse of institutional systems or data, resulting in substantial financial loss, threat to health/safety, legal liability, reputational harm or inability to conduct the university's core mission.*	
Key Controls (Current)	• Establishment of a dedicated UW System Office of Information Security • Creation and on-going execution of a formal Information Security program and work plan • Refinement of existing policies to focus on highest risks and providing clarity to institutions • Employment of standard technical controls such as firewalls, anti-virus, etc. in select environments across UW System • Third party cyber security risk assessments for all institutions • Third party penetration testing of selected environments • Structured educational phishing campaigns • Incident response tabletop exercises • Threat intelligence sharing through Wisconsin Statewide Intelligence Center (WSIC) and Research and Education Networks Information Sharing and Analysis Center (REN-ISAC) • Creation of a system-wide risk register • Enhanced physical controls and camera-based monitoring in select environments across UW System	• Policy-driven security awareness training for all UW System employees • Deployment of multifactor authentication for faculty and staff throughout UW System • Deployment of an enterprise security suite to protect against a wide range of Internet-based threats • Codification of Emergency Operations Center (EOC) membership, process and convening for qualifying cyber security incidents • Established retainer with third party experts to assist in incident response activities, including digital forensics • Enhanced partnership with various agencies, including WI Departments of Administration, Justice, Military Affairs, local law enforcement, Department of Homeland Security and the Federal Bureau of Investigation • The purchase and continuous enhancement of UW Systems' cyber liability insurance policy
Risk Response	*Mitigate*	

Risk Mitigation Plan – Cyber Security

Action Plan for those Risks that are Retained	• Build out the UW System Information Security policy portfolio, including new policies related to: Information Security Risk Management, Vendor Risk Management, Asset Management and Privacy • Investigate and select new modern, modular and adaptive security awareness training content to improve education and awareness of UW System • Investigate and recommend a system-wide IT asset inventory/discovery tool		• Expand the use of multifactor authentication to include the student population • Expand implementation of the enterprise security suite capabilities to enhance monitoring and response actions • Assist UW-Shared Services in developing and delivering the information security operations service • Publish a standardized incident response plan for use across all UW System institutions and exercise the plan through annual cyber security tabletop events	
Implementation Date	*Continuous throughout calendar year 2020 and beyond*			
Risk Score Before Treatment	*Likelihood: 4.5*	*Impact: 4.2*	*Effectiveness: 4.0*	*Ranking Composite: 75.6*
Risk Monitoring/ Key Risk Indicators	• Conduct periodic review of institutions' action plans to address findings from third party cyber security risk assessments • Conduct periodic review and updates to system-wide risk registry and corresponding action plans to focus on highest risk areas • % completion rate for employee security awareness training • Tabletop exercise results and lessons learned incorporated into the system-wide incident response plan • % of UW System students using multifactor authentication • % of IT assets inventoried throughout UW System			
Risk Owner	Robert Cramer, Vice President for Administration / Katherine Mayer, Assoc VP for Information Security			

Appendix: Scale Criteria

Risk Assessment Scales: **Likelihood**

Rating	Likelihood	
	Description	Criteria - Probability of Occurring
5	*Almost Certain / Already Occurring*	• Greater than 90% probability of occurrence in the next 1-3 years • Nearly sure to happen, or already occurring
4	*Likely*	• Between 60% and less than 90% probability of occurrence in the next 1-3 years
3	*Potential*	• Between 30% and less than 60% probability of occurrence in the next 1-3 years • Realistic that it may occur, but less than certain
2	*Unlikely*	• Between 10% and less than 30% probability of occurrence in the next 1-3 years
1	*Rare*	• Less than 10% probability of occurrence in the next 1-3 years • Possible but not expected to occur

Appendix: Scale Criteria

Risk Assessment Scales: **Effectiveness**

Rating	Effectiveness (Opportunity to Improve Risk Management)	
	Description	**Criteria**
5	*High*	• Significant opportunity to improve risk management practices by (1) closing major gaps in current practices and/or (2) dramatically improving the results from resources devoted to risk management
4		
3	*Medium*	• Some opportunity to improve risk management practices by (1) closing some gaps in current practices and/or (2) improving some results from resources devoted to risk management
2		
1	*Low*	• Low opportunity to improve risk management practices; risks are managed effectively using an appropriate level of resources

Risk Score Calculations

Likelihood x Impact=Risk Ranking

Risk Ranking x Effectiveness= Risk Composite Score

UNIVERSITY OF WISCONSIN SYSTEM

Appendix: Scale Criteria

Risk Assessment Scales: **Impact**

<table>
<tr><th rowspan="2">Rating</th><th colspan="4">Impact</th></tr>
<tr><th>Financial</th><th>Reputational</th><th>Operational / Health / Safety</th><th>Legal / Regulatory / Compliance</th></tr>
<tr><td>5
Critical</td><td>• Adverse change in revenue of over 25% in a given year
• Cash payment, fine or increase in operating costs in excess of $20M
• Adverse change in research funding of over 25%</td><td>• Sustained (e.g., one month), negative national or state media coverage
• Significant brand impairment</td><td>• Fatalities and/or severe health impacts
• Complete and total loss of critical systems (e.g., IT, equipment, etc.) for one week or more</td><td>• Regulatory action negatively impacting UWS for 3+ years
• Criminal violation or investigation
• Loss of accreditation</td></tr>
<tr><td>4
High</td><td></td><td></td><td></td><td></td></tr>
<tr><td>3
Moderate</td><td>• Adverse change in revenue between 15%-24% in a given year
• Cash payment, fine or increase in operating costs between $6M-$20M
• Adverse change in research funding of between 16%-24%</td><td>• One off story but feeds into a negative narrative
• Negative local media coverage
• Limited brand impairment</td><td>• Major (but non-fatal) health impacts
• Loss of critical systems (e.g., IT, equipment, etc.) for 2-3 days</td><td>• Regulatory action negatively impacting UWS for over a 1-2 year time horizon
• Non-criminal violation or investigation
• Accreditation is put on probation</td></tr>
<tr><td>2
Low</td><td></td><td></td><td></td><td></td></tr>
<tr><td>1
Minor</td><td>• Adverse change in revenue of 5%-15% in a given year
• Cash payment, fine or increase in operating costs less than $5M
• Adverse change in research funding of 5%-15%</td><td>• One off story
• No impact on reputation
• No brand impairment</td><td>• No impact on health or safety
• Loss of critical systems (e.g., IT, equipment, etc.) for a couple hours or less</td><td>• No sustainable regulatory impacts or action required
• One off warning letter issued and can be resolved
• No loss of accreditation
• No violation or investigation</td></tr>
</table>