

**UW System Board of Regents
Joint Meeting of the Audit Committee and Business & Finance Committee
University of Wisconsin-Madison
Gordon Dining & Event Center
Overture Room, 2nd Floor
770 W. Dayton Street
Madison, Wisconsin
And Via Webex Videoconference
December 8, 2022**

A Joint meeting of the Audit Committee and the Business and Finance Committee was called to order at 7:45 AM by the chair of the Audit Committee Regent John Miller.

A. Calling of the Roll

Present: Regents Jones, Miller, Peterson, Rai, Wachs, Colon, Manydeeds, and Weatherly

Present via Webex Video Conference: Regent Staton

Absent: Regents Beightol and Atwell. At all times, the Committee had a quorum.

B. Declaration of Conflicts

The Chair asked committee members to identify any conflicts of interest. There were none.

C. Approval of the Minutes of the December 5, 2019, Meeting of the Audit Committee and the Business and Finance Committee

Corrections: None

Questions/ Comments: None

Motion made by: Regent Jones

Motion seconded by: Regent Weatherly

Discussion: None

Motion carried unanimously (voice vote)

Discussion: None

Upon the direction of Regent Miller, a voice vote was taken, and the Committee unanimously approved the minutes of the December 5, 2019, Joint Audit and Business and Finance Committee meeting.

D. UW-System Draft 2022 Annual Financial Report

Julie Gordon, Senior Associate Vice President for Finance, UW System Administration, presented the draft of the 2022 Annual Report. Rod Dole, Director of Financial Reporting, UW System Administration spoke on the drivers impacting the financials.

UW System's Total Net Position stands at \$6.4 billion, an increase of nearly \$400 million over the prior year, largely due to investments in capital assets and an increase in projected earnings in the Restricted Net Pension Asset managed by the Department of Employee Trust

Funds. Other notable changes include a \$61 million decrease in endowment investments to a value of \$530 million, due to market fluctuations over the course of the year.

The UW System's Annual Financial Report is prepared using full accrual-based accounting, which is required by the Governmental Accounting Standards Board (GASB) and measures the financial performance and position of an entity by recognizing economic events when the transactions occur, regardless of when cash is paid or received.

In accordance with Generally Accepted Accounting Principles (GAAP), the draft Annual Financial Report for the year ending June 30, 2022, includes a Statement of Net Position; a Statement of Revenues, Expenses and Changes in Net Position; and a Statement of Cash Flows. Because the financial audit is not yet complete, it does not include an audit opinion from the Legislative Audit Bureau.

The accompanying Notes to the Financial Statements are an integral part of the statements, including both disclosures required by GASB, 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.

The pandemic and its aftereffects account for differences relative to the prior year, as a return to more normal campus activity levels led to operating revenue increases in areas like auxiliary services and athletics.

The report also touches on the Cash Management Fund established with the Board's approval last year, citing it as an example of revenue diversification opportunities being pursued by UW System.

As expressed in the report, UW System continues to prioritize responsible financial stewardship. The application of best practices developed during the pandemic, and the implementation of the strategic plan will further drive operational innovations to address current and new challenges in support of the System's mission.

The Statement of Net Position, provided on pages 22-23 of the 2022 Annual Financial Report, shows that the UW System's Total Net Position increased by \$378.5 million. Restricted Net Position—the "equity" with external limitations—increased between years by \$317.5 million, or 12.8%. However, the Statement of Net Position reports a \$111.6 million decrease in Unrestricted Net Position in FY 2022. Unrestricted Net Position represents the difference between assets, liabilities, and deferred outflows and inflows of resources that do not have external restrictions regarding their use or function. These changes between years primarily relate to three factors:

- Cash and Cash Equivalents decreased by \$328.8 million, or 14.8%, in FY 2022, largely due to the University Cash Management Fund's creation. This fund was established in accordance with State of Wisconsin statutes and investment policies and guidelines authorized by the Board of Regents, and it is governed by a Memorandum of Understanding between UW System Administration and UW-Madison. University Cash

Management Fund investments of \$479.3 million now appear as a separate line on the UW System's Statement of Net Position.

- Capital Assets increased \$169.6 million, or 3.0%, in FY 2022, as several large construction projects were in progress or completed during the year.
- Accounting standards for pensions and other postemployment benefits 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 2022, the Department of Employee Trust Funds, which manages the Wisconsin Retirement System, reported the pension plan's net position increased because of investment earnings being more than initially projected. As a result, the UW System's Net Pension Asset increased \$253.4 million, to nearly \$1.1 billion, in FY 2022. Condensed statements, with and without these accruals, are presented on page 18 so readers understand the magnitude of these required adjustments.

Statement of Revenues, Expenses and Changes in Net Position – Operating revenues, which are reported on page 24 of the 2022 Annual Financial Report, increased \$438.1 million, or 12.6%. This was driven by a greater return to traditional, on-campus activities for students, faculty, and staff in the 2021-22 academic year. For example, Sales and Services of Auxiliary Enterprises, such as housing and dining services, increased \$141.7 million, or 53.8%. Operating expenses also increased \$474.3 million, or 9.6%.

In total, an operating loss of nearly \$1.5 billion was reported in FY 2022. The UW System's operating loss will likely continue to be significant since governmental accounting standards require state appropriations to be reported as non-operating revenue. Within FY 2022 non-operating revenues, Coronavirus Federal Grants and Aid increased \$48.3 million, to \$288.8 million, while state appropriations increased by \$36.6 million for the state compensation plan and related fringe benefits.

Sr. AVP Julie Gordon shared that looking forward there will be challenges in the future from the following:

- Inflationary pressures affecting construction and operating costs
- Employee compensation pressures from a competitive labor market
- The end of the one-time coronavirus federal funding
- Enrollment
- Administrative Transformation Program

With no further action required of the committees or Board, the report was concluded.

Questions/Comments: Regent Peterson inquired when the financial benefits of ATP will be recognized. Julie Gordon responded that July 1 of 2024 is the go-live date and added in response to a question from Regent Rai that UW is already seeing some financial benefits with improvements that have already been made in the course of the project.

Regent Miller asked if the reduction in federal COVID relief funding was affecting this year's expenses with it being down 7.3% from the prior year. Sr. AVP Gordon stated that the cash balance is being reduced as a result of a culmination of issues that contribute to greater

expenses and noted that federal dollars were higher in FY22 as opposed to FY21. Regent Jones commented that the UW System will need to consider tuition going forward. Regent Weatherly asked about the impact on assets and liabilities with respect to leases. Rod Dole shared that the assets are valued based upon the present value of those leases. They are counteracting transactions. Every year lease agreements are re-evaluated over the lease term.

The meeting adjourned at 8:15 AM.

Respectfully submitted,

Brenda L. Joyce
Recording Secretary