

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Management's Discussion and Analysis**  
**Years Ended June 30, 2012 and 2011**

**Statements of Cash Flows**

The Statements of Cash Flows impart additional information about University of Wisconsin System's financial results by providing relevant information about the cash receipts and cash payments during fiscal year 2012.

Cash flows for the years ending June 30, 2012, 2011, and 2010 are summarized as follows:

<i>(In Millions)</i>	<u>2012</u>	<u>2011</u>	<u>2010</u>
<b>Cash Flows:</b>			
Cash Received from Operations	\$ 3,381.3	\$ 3,377.4	\$ 3,140.0
Cash Expended for Operations	<u>(4,071.5)</u>	<u>(4,235.6)</u>	<u>(3,915.8)</u>
Net Cash Used in Operating Activities	( 690.2)	(858.2)	(775.8)
Net Cash Provided by (Used in)			
Investing Activities	4.0	12.9	8.6
Net Cash Used in Capital and Related			
Financing Activities	(180.3)	(301.5)	(256.1)
Net Cash Provided by Noncapital			
Financing Activities	<u>1,136.7</u>	<u>1,219.0</u>	<u>1,136.8</u>
Net Increase in Cash and Cash Equivalents	270.2	72.2	113.5
Cash and Cash Equivalents, Beginning	<u>1,077.3</u>	<u>1,005.1</u>	<u>891.6</u>
Cash and Cash Equivalents, Ending	<u>\$ 1,347.5</u>	<u>\$ 1,077.3</u>	<u>\$ 1,005.1</u>

The University of Wisconsin System's cash and cash equivalents increased by \$270.2 million due to an \$168.0 million decrease of net cash used in operating activities, a \$8.9 million decrease of cash provided from investing activities, a \$121.2 million decrease of net cash used for capital and related financing activities, and an \$82.3 million decrease of cash provided by noncapital financing activities. As defined by GASB Statement No. 35, the University of Wisconsin System's significant sources of cash provided by noncapital financing activities include state appropriations and private gifts and other receipts utilized to fund operating activities. Fiscal year 2012 state appropriations and gifts and other receipts received totaled \$912.6 and \$297.9 million, respectively, compared to \$1,101.4 and \$198.3 million, respectively, for fiscal year 2011.

**Factors Affecting Future Periods**

The 2011-13 biennial budget for the University of Wisconsin System calls for a continuation of state mandated cuts. The 2011-13 biennial budget removes \$250 million in General Purpose Revenue (GPR) funds from the base budget. Tuition revenues, which are capped at 5.5% annually during the biennium, will only partially offset this reduction in state support. Differential tuition plans approved prior to June 1, 2011, are exempt from this cap, but no new differential tuitions may be added during the 2011-13 biennium. The University of Wisconsin System will be required to absorb an additional lapse of nearly \$19.6 million in fiscal year 2012-13.

To continue providing high-quality, accessible educational opportunities during a time of scarce resources, the University of Wisconsin System has announced the first degree programs that will be offered under its UW Flexible Option starting in Fall 2013. The UW Flexible Option is designed for nontraditional adult students to earn college credit by demonstrating knowledge they have acquired through coursework, military training, on-the-job training, and other learning experiences. Students will make progress toward a degree by passing a series of assessments that demonstrate mastery of required knowledge and skills. The UW Flexible Option is one initiative in the 2013-15 biennial budget request that was forwarded to the Governor and state officials.

In addition, the University of Wisconsin System continues to work with various constituencies to implement the 2011-13 biennial budget provisions that redefine its relationship with the state. The state delegated management authorities

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Management's Discussion and Analysis**  
**Years Ended June 30, 2012 and 2011**

to the University of Wisconsin System, which will be extended to the University of Wisconsin System institutions as well, and may assist in managing some budget cuts. Implementation continues for the following management authorities provided in the 2011-13 biennial budget:

- **Budgeting and Financial Management:** While GPR appropriations for UW System Administration, State Laboratory of Hygiene, and Veterinary Diagnostic Laboratory appropriations are retained, remaining GPR appropriations are consolidated into two appropriations. The University of Wisconsin System is required to administer proportional shares of GPR funding to University of Wisconsin System institutions in the form of block grants. A separate fund will be established that contains all program revenues received by the University of Wisconsin System. Interest earnings will be provided to University of Wisconsin System institutions based on the program revenues generated and deposited into this separate fund. Institutions will continue to be required to use segregated student fees for the purpose for which they were generated.
- **Tuition:** The previous statutory language limiting increases in resident undergraduate tuition was deleted, and the issue of future tuition-setting authority was reviewed by a Special Task Force on UW Restructuring and Operational Flexibilities. In its August 2012 report, the Task Force recommended that the Board of Regents submit a tuition plan to the Legislature for its consideration.
- **Personnel System and Supplemental Pay Plans:** The Chancellor of University of Wisconsin-Madison is authorized to develop a new personnel system for employees of UW-Madison, while the Board of Regents is authorized to establish a new, separate personnel system for employees of all other University of Wisconsin System institutions. Both of these systems must be approved by the Joint Committee on Employment Relations (JCOER). All University of Wisconsin System employees will be transferred from the state personnel system to the new personnel systems at the University of Wisconsin System or University of Wisconsin-Madison beginning July 1, 2013.
- **Purchasing and Procurement:** Effective July 1, 2013, the Department of Administration (DOA) is required to delegate to the Board of Regents and to the University of Wisconsin-Madison the authority to enter into contracts for materials, supplies, equipment, or services that relate to higher education and which state agencies other than the University of Wisconsin System do not commonly purchase.
- **Travel:** Beginning on July 1, 2013, the Board of Regents is permitted to establish travel policies and reimbursement schedules for University of Wisconsin System employees.

As new educational programs and authorities are implemented, the University of Wisconsin System recognizes it must be accountable to students, elected officials, and citizens of Wisconsin. Therefore, University of Wisconsin System is committed to meeting the financial challenges it faces by continuing to foster strong partnerships with state and community leaders and exploring additional authority where appropriate. In addition, there is a continuing effort to implement best business practices and ensure maximum operating efficiency, in order to continue to provide a quality education while remaining affordable.



STATE OF WISCONSIN

Legislative Audit Bureau

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Joe Chrisman  
State Auditor

**INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS  
OF THE UNIVERSITY OF WISCONSIN SYSTEM**

University of Wisconsin System Board of Regents:

We have audited the accompanying financial statements of the University of Wisconsin (UW) System as of and for the years ended June 30, 2012, and June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of UW System management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the UW Foundation, which are presented in condensed format in Note 11A. These financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the UW Foundation amounts included in Note 11A, is based 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 of material misstatement. The financial statements of the UW Foundation were audited by other auditors in accordance with auditing standards generally accepted in the United States of America, but not in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements referred to in the first paragraph present only UW System and do not purport to, and do not, present fairly the financial position of the State of Wisconsin as of June 30, 2012, and June 30, 2011, the changes in its financial position, or where applicable, its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of UW System as of June 30, 2012, and June 30, 2011, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we will also issue a report dated December 13, 2012, on our consideration of UW System's internal control over financial reporting; our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements; and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Our audits were conducted for the purpose of forming an opinion on the financial statements of UW System. The supplementary information included as Management's Discussion and Analysis on pages 11 through 25 is presented for purposes of additional analysis and is not a required part of the financial statements. We have applied certain limited procedures to the information. These procedures consisted of inquiries of management about the methods of preparing the information and comparisons of the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to do so. The supplementary information on pages 3 through 9 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

LEGISLATIVE AUDIT BUREAU

December 13, 2012

by

  
Joe Chrisman  
State Auditor

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UNIVERSITY OF WISCONSIN SYSTEM  
Years Ended June 30, 2012 and 2011

## Audited Financial Statements

## Statements of Net Assets

University of Wisconsin System	June 30, 2012	June 30, 2011
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 1,347,503,294	\$ 1,077,329,742
Accounts Receivable, Net	270,037,088	243,792,180
Student Loans Receivable, Net	31,331,994	31,492,975
Capital Lease Receivable	1,734,458	2,046,552
Inventories	41,927,614	42,460,241
Prepaid Expenses	41,916,962	56,703,892
Deferred Charges	13,025,534	12,480,565
Total Current Assets	<u>1,747,476,944</u>	<u>1,466,306,147</u>
Noncurrent Assets:		
Endowment Investments	389,490,528	396,030,011
Student Loans Receivable, Net	159,402,200	159,995,290
Capital Lease Receivable	5,081,997	6,822,949
Land	153,136,989	146,661,290
Improvements Other Than Buildings, Net	160,985,009	162,906,852
Construction In Progress	628,269,767	472,054,609
Buildings, Net	3,178,609,464	2,939,943,940
Equipment, Net	348,342,634	352,846,024
Library Holdings	1,113,413,084	1,124,236,511
Total Noncurrent Assets	<u>6,136,731,672</u>	<u>5,761,497,476</u>
<b>TOTAL ASSETS</b>	<u>\$ 7,884,208,616</u>	<u>\$ 7,227,803,623</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	\$ 252,509,947	\$ 241,927,707
Notes and Bonds Payable	64,788,053	54,725,233
Capital Lease Obligations	6,600,565	6,195,666
Unearned Revenues	166,834,790	167,077,712
Compensated Absences	73,134,934	69,316,765
Deposits of Student Organizations	1,960,545	2,205,195
Total Current Liabilities	<u>565,828,834</u>	<u>541,448,278</u>
Noncurrent Liabilities:		
Notes and Bonds Payable	1,391,254,634	1,162,706,993
Capital Lease Obligations	18,479,708	23,712,627
Compensated Absences	63,292,247	62,629,523
Total Noncurrent Liabilities	<u>1,473,026,589</u>	<u>1,249,049,143</u>
<b>TOTAL LIABILITIES</b>	<u>\$ 2,038,855,423</u>	<u>\$ 1,790,497,421</u>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	\$ 4,101,633,987	\$ 3,951,308,708
Restricted for:		
Nonexpendable	154,999,375	155,641,629
Expendable	274,236,248	338,257,038
Student Loans	227,507,281	224,919,387
Other	226,823,333	159,745,430
Unrestricted	<u>860,152,969</u>	<u>607,434,010</u>
<b>TOTAL NET ASSETS</b>	<u>\$ 5,845,353,193</u>	<u>\$ 5,437,306,202</u>

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



## Statements of Cash Flows

University of Wisconsin System

Year Ended June 30, 2012

Year Ended June 30, 2011

<b>Cash Flows from Operating Activities</b>		
Student Tuition and Fees	\$ 1,102,826,449	\$ 1,072,373,614
Federal, State, Local, and Private Grants and Contracts	1,248,349,460	1,276,707,702
Sales and Services of Educational Activities	317,064,546	304,162,968
Sales and Services of Auxiliary Enterprises	387,073,324	348,830,394
Sales and Services to UW Hospital Authority	58,033,756	56,574,938
Payments for Salaries and Fringe Benefits	(2,781,407,744)	(2,973,734,050)
Payments to Vendors and Suppliers	(1,130,884,240)	(1,083,245,312)
Payments for Scholarships and Fellowships	(130,928,773)	(152,779,045)
Student Loans Collected	26,726,219	25,952,258
Student Loan Interest and Fees Collected	4,746,505	4,561,532
Student Loans Issued	(28,299,255)	(25,787,268)
Other Revenue, Net	236,486,766	288,215,864
<b>Net Cash Used in Operating Activities</b>	<b>(690,212,987)</b>	<b>(858,166,405)</b>
<b>Cash Flows from Investing Activities</b>		
Interest and Dividends on Investments, Net	8,796,446	8,069,472
Proceeds from Sales and Maturities of Investments	100,253,391	114,610,774
Purchase of Investments	(105,076,166)	(109,740,918)
<b>Net Cash Provided by Investing Activities</b>	<b>3,973,671</b>	<b>12,939,328</b>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Proceeds from Issuance of Capital Debt	398,981,968	273,299,281
Capital Appropriations	251,740,327	126,092,460
Gifts and Other Receipts	86,146,758	97,813,704
Purchase of Capital Assets	(636,843,605)	(631,392,537)
Principal Payments on Capital Debt and Leases	(167,406,001)	(57,306,260)
Interest Payments on Capital Debt and Leases	(112,955,122)	(109,985,862)
<b>Net Cash Used in Capital and Related Financing Activities</b>	<b>(180,335,675)</b>	<b>(301,479,214)</b>
<b>Cash Flows from Noncapital Financing Activities</b>		
State Appropriations	912,626,812	1,101,374,904
Gifts and Other Receipts	297,889,667	198,340,756
Transfer to State Agencies	(74,193,503)	(80,141,571)
Additions to Permanent Endowments	1,524,081	2,698,438
Student Direct Lending Receipts	814,836,885	796,692,453
Student Direct Lending Disbursements	(815,935,399)	(800,000,315)
<b>Net Cash Provided by Noncapital Financing Activities</b>	<b>1,136,748,543</b>	<b>1,218,964,665</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>270,173,552</b>	<b>72,258,374</b>
Cash and Cash Equivalents - Beginning of Year	1,077,329,742	1,005,071,368
<b>Cash and Cash Equivalents - End of Year</b>	<b>\$ 1,347,503,294</b>	<b>\$ 1,077,329,742</b>

**Statements of Cash Flows (Continued)**

University of Wisconsin System

Year Ended June 30, 2012    Year Ended June 30, 2011

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

Operating Loss	\$	(939,446,360)	\$	(977,787,781)
<i>Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities:</i>				
Depreciation Expense		238,412,424		224,072,691
Changes in Assets and Liabilities:				
Receivables, Net		(25,450,622)		42,917,995
Inventories		532,627		(1,527,789)
Prepaid Expenses		14,519,853		(9,493,321)
Deferred Charges		1,325,420		(4,234,164)
Accounts Payable and Accrued Liabilities		15,693,701		(112,846,113)
Unearned Revenues		(280,923)		(18,506,482)
Compensated Absences		4,480,893		(761,441)
<b>Net Cash Used in Operating Activities</b>	<b>\$</b>	<b>(690,212,987)</b>	<b>\$</b>	<b>(858,166,405)</b>

**Noncash Investing, Capital and Financing Activities**

Capital Leases (Initial Year):				
Fair Market Value	\$	2,269,550	\$	2,475,488
Current Year Cash Payments		(270,571)		(55,498)
Gifts-In-Kind		14,482,889		9,863,032
Net Change in Unrealized Gains and Losses		(14,910,911)		50,261,461

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

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2012 and 2011**

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

*Organization and Basis of Presentation:* The University of Wisconsin System consists of 13 universities, 13 two-year colleges, University of Wisconsin-Extension, and System Administration. The financial statements do not include the accounts of the University of Wisconsin Hospital and Clinics Authority (UWHCA), which became a legally separate public authority on June 29, 1996; the La Crosse Medical Health Science Consortium, Inc., which is a Wisconsin non-stock corporation tax exempt under Internal Revenue Code (IRC) 501(c)(3); or the University of Wisconsin Foundation. 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 of Wisconsin System by these organizations are reported at the time they are received. Note 11 describes the effect on the financial statements of other organizations, including the various affiliation and operating agreements with the UWHCA, La Crosse Medical Health Science Consortium, Inc., University of Wisconsin Medical Foundation, and Wisconsin Alumni Research Foundation (WARF), relating to the Wisconsin Institutes for Discovery. Post-retirement benefit plans for the University of Wisconsin System employees are administered by the State of Wisconsin's Department of Employee Trust Funds. The assets and liabilities of these programs are reported by the State of Wisconsin and not by the University of Wisconsin System.

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

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). In addition, the University of Wisconsin System applies all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The University of Wisconsin System has elected not to apply FASB pronouncements issued after November 30, 1989.

Intangible assets are recorded as prescribed in GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. Impacts related to expenditures for internally developed software that fall under this guidance are included in Note 9.

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

The Statements of Net Assets; the Statements of Revenues, Expenses, and Changes in Net Assets; and the Statements 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 – Management 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 Statements of Revenues, Expenses, and Changes in Net Assets classify the University of Wisconsin System's fiscal year activity as operating and non-operating. Operating revenue results from exchange transactions, such as payment received for providing goods and services, including tuition and fees, certain grants and contracts, sales and services of educational activities, and auxiliary enterprise revenue. Certain significant revenue streams relied upon for operations are reported as non-operating revenues, as defined by GASB Statement No. 35, including state appropriations, gifts, and investment income. The majority of

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2012 and 2011**

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

the University of Wisconsin System's expenses are exchange transactions which GASB defines as operating expenses for financial statement presentation. Non-operating expenses include capital financing costs and costs related to investment activity.

The Statements of Cash Flows present 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 ninety 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, the reports are audited by independent auditors.

*Summary of Significant Accounting Policies:* 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.

Restricted funds received as gifts and 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 to many of the University of Wisconsin System's program revenue sources, including segregated fee auxiliary operations. The net assets 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 net assets would be used only secondarily to support these restricted purposes.

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

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

Prepaid expenses represent payments made prior to June 30<sup>th</sup> for goods and services received after the close of the fiscal year, primarily health and life insurance coverage.

Deferred charges represent costs associated with revenues that have not yet been earned as of June 30<sup>th</sup>, primarily summer session costs incurred prior to the close of the fiscal year. The revenues and expenses of the 2012 summer session are reportable within the fiscal year beginning July 1, 2011 and ending June 30, 2012, based on the prorated portion of the number of summer session days that occurred in fiscal year 2012. The revenues and expenses of the 2011 summer session are reportable within the fiscal year beginning July 1, 2010 and ending June 30, 2011, based on the prorated portion of the number of summer session days that occurred in fiscal year 2011.

Accrual of interest on bonds payable, vendor payments not made as of June 30<sup>th</sup>, and salaries and fringe benefits paid after the close of the fiscal year, for hours worked by the University of Wisconsin System employees prior to June 30<sup>th</sup>, account for the major portion of accounts payable and accrued liabilities.

Inventories consist of consumable supplies used in operations or items held for resale. Fuels are reported at market value, while other inventories held by individual institutional cost centers are valued using a variety of cost flow assumptions that, for each type of inventory, are consistently applied from year to year. In

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2012 and 2011**

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

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 microcomputer outlets. Accounting policies related to capital assets are described in Note 9.

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.

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

Of the \$1,347.5 million and \$1,077.3 million in cash and cash equivalents as of June 30, 2012 and 2011, respectively, \$1,194.4 million and \$905.9 million, respectively, represents an amount held within the SIF; \$129.7 million and \$141.3 million, respectively, was maintained by individual University of Wisconsin System institutions in local bank accounts to meet operating needs; and \$23.4 million and \$30.1 million, respectively, was held at BNY Mellon to meet the cash needs associated with the investing activities of the Long Term and Intermediate Term Funds, which is also categorized as investments in accordance with governmental standards. Interest distributions are received on a monthly basis for balances associated with trust funds, federally-funded financial 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 of Wisconsin System.

*Custodial Credit Risk:* Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Fund will not be able to recover deposits that are in possession of an outside party. The University of Wisconsin System does not have a deposit policy specifically for custodial risk. Shares in the State Investment Fund are not required to be categorized under GASB Statement 40, *Deposit and Investment Risk Disclosures*.

For the remaining deposits, the University of Wisconsin System had balances in excess of Federal Deposit Insurance Corporation limits in the amount of \$5.4 million and \$12.8 million at June 30, 2012 and 2011, respectively. These amounts, deposited in approved financial institutions, are uninsured and uncollateralized. A state appropriation for losses on public deposits (s. 34.08, Wisconsin Statutes) 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, 2012 and 2011 are immaterial. The University of Wisconsin System does not have a formal deposit policy for foreign currency risk.

*Investments*

The University of Wisconsin System invests its Trust Funds, principally gifts and bequests, in two of its own investment pools: the Long Term and the Intermediate Term Funds. Investment policies and guidelines for these funds are governed and authorized by the Board of Regents. The current approved asset allocation policy for the Long Term Fund sets a general target of 35% marketable equities, 30% fixed

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2012 and 2011**

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

income, and 35% alternatives. The approved asset allocation for the Intermediate Term Fund is 15% marketable equities, 70% fixed income, 10% alternatives, and 5% cash. These target allocations were last affirmed/approved in December 2011.

The Long Term Fund consisted of the following investment categories on June 30, 2012 and 2011:

<b>Investment Category</b>	<b><u>2012</u></b>	<b><u>2011</u></b>
Common Stock and Convertible Securities	39.0%	41.4%
Bonds and Preferred Stock	12.3%	12.3%
Alternative Assets	21.3%	19.0%
Tactical Allocation Strategies	19.7%	19.0%
Real Assets	1.2%	0.6%
Custodial Pooled Cash and Cash Equivalents	<u>6.5%</u>	<u>7.7%</u>
<b>Total</b>	<b><u>100.0%</u></b>	<b><u>100.0%</u></b>

The Intermediate Term Fund consisted of the following investment categories on June 30, 2012 and 2011:

<b>Investment Category</b>	<b><u>2012</u></b>	<b><u>2011</u></b>
Common Stock and Convertible Securities	18.2%	16.2%
Bonds and Preferred Stock	79.2%	79.4%
Custodial Pooled Cash and Cash Equivalents	<u>2.6%</u>	<u>4.4%</u>
<b>Total</b>	<b><u>100.0%</u></b>	<b><u>100.0%</u></b>

Benefiting University of Wisconsin System 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. The annual spending rate is currently 4.0%. Distributions from the Intermediate Term Fund, principally quasi-endowments and unspent income distributions, consist of interest earnings distributed quarterly. Spending rate and interest distributions from both of these Funds are transferred to the SIF, pending near-term expenditures. During the fiscal year ending on June 30, 2012, the amount of net appreciation available to spend from the Long Term Fund was \$13,826,815, relative to \$13,425,039 available during the fiscal year ending June 30, 2011.

At June 30, 2012 and 2011, the University of Wisconsin System's investments are as follows:

<b>Investments:</b>	<b><u>2012</u></b>	<b><u>2011</u></b>
U.S. Government Securities	\$ 26,284,872	\$ 26,481,832
U.S. Agency Securities	12,295,072	16,216,893
Bonds and Preferred Stock	31,613,019	28,427,403
Common Stock and Convertible Securities	40,623,830	44,568,243
Pooled Equity Funds	102,343,201	110,495,714
Pooled Allocation Fund	64,530,347	64,711,016
Pooled Fixed Income Fund	38,029,923	37,954,453
Custodial Pooled Cash and Cash Equivalents	23,411,190	30,145,129
Limited Partnerships	<u>73,770,264</u>	<u>67,174,457</u>
<b>Total Investments</b>	<b><u>\$ 412,901,718</u></b>	<b><u>\$ 426,175,140</u></b>

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2012 and 2011**

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

The total return on the Long Term Fund, including capital appreciation, was -0.8% compared to 21.2% in fiscal year 2011. The total return on the Intermediate Fund, including capital appreciation, was 3.0% compared to 8.3% in fiscal year 2011. External investment counsel was utilized for funds representing 88.5% of the market value of the Long Term and Intermediate Term Funds, compared to 87.9% in fiscal year 2011. In addition to the limited partnerships market value listed above, the University of Wisconsin System had unfunded limited partnership commitments of \$24.4 million for the fiscal year ending June 30, 2012, relative to \$26.0 million for the fiscal year ending June 30, 2011.

*Credit Risk:* Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. For the Long Term Fund, fund-level asset allocation constraints limit exposure to below investment grade debt securities to no more than 20%; for the Intermediate Term Fund, exposure is limited to 15%. The University of Wisconsin System currently holds below investment grade securities within commingled vehicles representing 6.0% of total assets of the Long Term Fund and 6.3% of total assets of the Intermediate Term Fund. In addition, actively-managed, investment grade fixed income separate accounts must maintain an average portfolio quality of AA by Standard & Poor's and/or Aa by Moody's, and hold only securities rated BBB- by Standard & Poor's and/or Baa3 by Moody's or higher.

The following schedule displays the credit ratings as provided by Moody's Investor Service for debt securities held as of June 30, 2012 and 2011. Obligations of the United States and obligations explicitly guaranteed by the U.S. government have been included in the Aaa rating below.

<u>Ratings</u>	<u>2012</u>	<u>2011</u>
Aaa	\$ 52,698,423	\$ 58,251,859
Aa1	382,405	599,511
Aa2	846,078	2,518,614
Aa3	522,576	3,446,216
A1	3,174,977	1,139,535
A2	4,721,538	3,743,109
A3	4,654,997	3,394,755
Baa1	4,971,485	2,843,723
Baa2	6,255,446	4,249,302
Baa3	2,720,995	855,105
Ba2	9,046,138	8,814,789
B2	11,924,111	13,998,485
Caa1	-	4,081
Caa2	645,973	325,546
No Rating	5,657,745	4,895,951
Unrated Pooled Cash	<u>23,411,190</u>	<u>30,145,129</u>
Totals	<u>\$ 131,634,077</u>	<u>\$ 139,225,710</u>

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

**UNIVERSITY OF WISCONSIN SYSTEM**  
Notes to the Financial Statements  
Years Ended June 30, 2012 and 2011

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

*Concentration of Credit Risk:* Concentration of credit risk is the risk of loss attributed to the magnitude of an organization's investment in a single issuer. Actively-managed, fixed income separate accounts are limited to holding no more than 7.0% in any one issuer (U.S. Government/Agencies are exempted). During fiscal year 2012, the largest concentration in a non-U.S. Government/Agency was Citigroup, which represented 0.5% of total Trust Funds assets, compared to a 0.4% exposure to JP Morgan Chase in fiscal year 2011.

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

<u>Fixed Income Sector:</u>	<u>2012</u>		<u>2011</u>	
	<u>Market Value</u>	<u>Modified Duration</u>	<u>Market Value</u>	<u>Modified Duration</u>
Treasury Inflation Protected Securities	\$ 20,677,428	5.94	\$ 21,793,778	4.81
Government	5,762,099	5.26	4,450,157	6.34
U.S. Government Mortgages	6,929	3.12	7,376	3.08
Corporates and Other Credit	22,221,755	4.17	16,900,219	4.65
Collateralized Mortgage Obligations:	11,340,386	1.84	14,220,507	2.22
U.S. Agencies				
Collateralized Mortgage Obligations:	1,006,800	3.39	1,038,985	3.91
Corporate				
Commercial Mortgage Backed Securities	2,777,774	1.22	3,696,571	0.94
U.S. Private Placements	5,205,285	2.57	4,809,654	3.36
U.S. Agencies	454,260	2.36	459,255	3.18
Asset Backed Securities	761,178	0.12	2,281,072	0.24
Totals	<u>\$ 70,213,894</u>		<u>\$ 69,657,574</u>	

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

<u>Fixed Income Commingled Fund:</u>	<u>2012</u>		<u>2011</u>	
	<u>Market Value</u>	<u>Modified Duration</u>	<u>Market Value</u>	<u>Modified Duration</u>
Seix Advisors High Yield Fund	\$ 25,135,142	4.18	\$ 25,042,014	4.76

*Foreign Currency Risk:* Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. As of June 30, 2012, the Long Term and Intermediate Term Funds held equity securities denominated in foreign currencies within pooled investment vehicles only, with market values totaling \$100,499,297 and \$7,286,066, respectively, compared to prior fiscal year amounts of \$108,933,843 and \$6,714,631, respectively. Some of the trades for such foreign positions will not settle in foreign currencies until after the fiscal year end. For the Long Term and Intermediate Term Funds, it is generally expected and desired that foreign currency exposure is not hedged, as this enhances the diversification benefits from non-U.S. investments.

*Donor-restricted endowments:* For University-controlled, donor-restricted endowments, the Uniform Prudent Management of Institutional Funds Act as adopted in Wisconsin, permits the Board of Regents of the University of Wisconsin System to appropriate for current spending, an amount of realized and

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2012 and 2011**

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

unrealized endowment appreciation as they determine 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 \$122.8 million and \$123.5 million at June 30, 2012 and June 30, 2011, respectively, is available to meet spending rate distributions and is recorded in restricted net assets. The net appreciation figure as of June 30, 2011 has been restated from that reported in the prior year's note (\$207.6 million). The figure reported in the prior year's note reflected net appreciation for all accounts restricted by donors as to the use of principal *or* purpose, and therefore included non-endowed accounts. The figures reported here appropriately reflect net appreciation for only true endowments, where the donors have restricted the use of principal.

**NOTE 3 – Receivables**

Accounts receivable, consisting of amounts due from state agencies and other governments, amounts due from capital lease receivables, and student loans receivable as of June 30, 2012 and 2011, are summarized as follows:

	<u>2012</u>	<u>2011</u>
<b>Receivables (Net):</b>		
Student Academic Fees	\$ 25,827,419	\$ 23,675,580
Grants and Contracts	43,919,784	54,778,958
Educational Activities and Other	40,593,853	45,093,500
Auxiliary Enterprises	2,230,526	1,768,549
UW Hospital Authority and La Crosse Medical Health Science Consortium, Inc.	9,579,141	9,993,517
Investment	1,948,345	940,117
Student Loans Receivable	190,734,194	191,488,265
State Agencies	48,030,862	26,276,374
Other Governments	<u>104,723,613</u>	<u>90,135,086</u>
Total Receivables (Net)	<u>\$ 467,587,737</u>	<u>\$ 444,149,946</u>

Student loans receivable at June 30, 2012 included allowances for uncollectible loans of \$9.4 million relative to \$9.7 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 of Wisconsin System under the Perkins loan program and a variety of health professions loan programs.

The University of Wisconsin System distributed \$815.9 million in student loans through the United States Department of Education federal direct lending program during fiscal year 2012 and \$800.0 million in fiscal year 2011. These distributions and the related funding sources are not reflected as expenses and revenues in the financial statements. However, cash inflows and outflows are shown in the Statements of Cash Flows.

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2012 and 2011**

**NOTE 4 – 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 of Wisconsin System activities as of June 30, 2012 and 2011, are summarized as follows:

<b>Fiscal Year 2012</b>	<b>Salary and Fringe Benefits</b>	<b>Due to State Agencies and Other Governments</b>	<b>Vendors</b>	<b>Total Payables</b>
<b>UW System Activities:</b>				
Operating	\$ 20,785,345	\$ 64,424,328	\$ 46,624,226	\$ 131,833,899
Gifts, Grants, and Contracts	3,585,897	4,506,591	14,199,338	22,291,826
Capital Projects	-	2,851,566	91,338,586	94,190,152
Auxiliary Enterprises	530,338	220,312	1,120,457	1,871,107
Investment and Other	<u>37,738</u>	<u>380,786</u>	<u>1,904,439</u>	<u>2,322,963</u>
<b>Total Activities</b>	<b><u>\$ 24,939,318</u></b>	<b><u>\$ 72,383,583</u></b>	<b><u>\$ 155,187,046</u></b>	<b><u>\$ 252,509,947</u></b>

<b>Fiscal Year 2011</b>	<b>Salary and Fringe Benefits</b>	<b>Due to State Agencies and Other Governments</b>	<b>Vendors</b>	<b>Total Payables</b>
<b>UW System Activities:</b>				
Operating	\$ 18,939,429	\$ 50,712,475	\$ 58,632,397	\$ 128,284,301
Gifts, Grants, and Contracts	3,122,793	3,191,381	23,535,682	29,849,856
Capital Projects	-	800,761	77,353,903	78,154,664
Auxiliary Enterprises	462,617	293,413	1,160,457	1,916,487
Investment and Other	<u>20,411</u>	<u>427,543</u>	<u>3,274,445</u>	<u>3,722,399</u>
<b>Total Activities</b>	<b><u>\$ 22,545,250</u></b>	<b><u>\$ 55,425,573</u></b>	<b><u>\$ 163,956,884</u></b>	<b><u>\$ 241,927,707</u></b>

As of June 30, 2012, current liabilities totaled \$565.8 million inclusive of \$2.0 million in deposits of student organizations, \$252.5 million of accounts payable and accrued liabilities, \$166.8 million of unearned revenue, and the current portion of notes and bonds payable, capital lease obligations, and compensated absences. Noncurrent liabilities consisted of notes and bonds payable, capital lease obligations, and compensated absences that totaled \$1,473.0 million at June 30, 2012, relative to a total of \$1,249.0 million at June 30, 2011. Total noncurrent liabilities increased by \$224.0 million relative to fiscal year 2011.

Long-term liability activity for the fiscal years ended June 30, 2012 and 2011 is as follows:

<b>2012 Long-term Liabilities</b>	<b>Balance July 1, 2011</b>	<b>Increases/ Decreases</b>	<b>Balance June 30, 2012</b>	<b>Current Portion</b>
Bonds Payable	\$ 1,158,239,090	\$ 218,110,431	\$ 1,376,349,521	\$ 54,062,404
Notes Payable	59,193,136	20,500,031	79,693,167	10,725,649
Capital Lease Obligations	29,908,293	(4,828,021)	25,080,272	6,600,565
Compensated Absences	<u>131,946,288</u>	<u>4,480,893</u>	<u>136,427,181</u>	<u>73,134,934</u>
<b>Total</b>	<b><u>\$ 1,379,286,807</u></b>	<b><u>\$ 238,263,334</u></b>	<b><u>\$ 1,617,550,141</u></b>	<b><u>\$ 144,523,552</u></b>

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2012 and 2011**

**NOTE 4 – Liabilities (continued)**

<b>2011</b> <b>Long-term Liabilities</b>	<b>Balance</b> <b>July 1, 2010</b>	<b>Increases/ Decreases</b>	<b>Balance</b> <b>June 30, 2011</b>	<b>Current</b> <b>Portion</b>
Bonds Payable	\$ 936,147,464	\$ 222,091,626	\$ 1,158,239,090	\$ 46,666,857
Notes Payable	48,878,720	10,314,416	59,193,136	8,058,376
Capital Lease Obligations	33,504,600	(3,596,307)	29,908,293	6,195,666
Compensated Absences	<u>132,707,730</u>	<u>(761,442)</u>	<u>131,946,288</u>	<u>69,316,765</u>
<b>Total</b>	<b><u>\$ 1,151,238,514</u></b>	<b><u>\$ 228,048,293</u></b>	<b><u>\$ 1,379,286,807</u></b>	<b><u>\$ 130,237,664</u></b>

**NOTE 5 – Lease Commitments and Installment Purchases**

The University of Wisconsin System had capital lease obligations with a net present value of \$25,080,272 as of June 30, 2012 compared to \$29,908,293 at June 30, 2011. The payment schedule for capital lease obligations is as follows:

2013	\$ 7,634,579
2014	7,205,904
2015	6,225,773
2016	3,805,538
2017	2,347,523
2018-2022	<u>291,312</u>
Total Scheduled Lease Payments	27,510,629
Amount Representing Interest	<u>(2,430,357)</u>
Net Present Value	<u>\$ 25,080,272</u>

**Assets Held Under Capital Lease:**

<b>2012</b>	<b>Original Cost</b> <b>June 30, 2012</b>	<b>Accumulated</b> <b>Depreciation</b>	<b>Book Value</b> <b>June 30, 2012</b>
Buildings and Improvements	\$ 68,913,357	\$ 32,762,735	\$ 36,150,622
Equipment	<u>5,611,674</u>	<u>4,004,915</u>	<u>1,606,759</u>
<b>Total Assets</b>	<b><u>\$ 74,525,031</u></b>	<b><u>\$ 36,767,650</u></b>	<b><u>\$ 37,757,381</u></b>

<b>2011</b>	<b>Original Cost</b> <b>June 30, 2011</b>	<b>Accumulated</b> <b>Depreciation</b>	<b>Book Value</b> <b>June 30, 2011</b>
Buildings and Improvements	\$ 68,913,357	\$ 29,404,121	\$ 39,509,236
Equipment	<u>8,083,231</u>	<u>3,025,196</u>	<u>5,058,035</u>
<b>Total Assets</b>	<b><u>\$ 76,996,588</u></b>	<b><u>\$ 32,429,317</u></b>	<b><u>\$ 44,567,271</u></b>

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2012 and 2011**

**NOTE 5 – Lease Commitments and Installment Purchases (continued)**

Facilities and equipment rented through operating leases are not recorded as assets on the balance sheet. Operating lease expenditures amounted to \$28,189,502 for the fiscal year ended June 30, 2012. Minimum commitments for future operating lease payments are as follows:

2013	\$ 17,572,042
2014	15,288,247
2015	13,782,609
2016	12,248,149
2017	11,550,293
2018-2022	49,274,084
2023-2027	38,689,916
2028-2032	31,740,862
2033-2037	<u>1,618,549</u>
Total	<u>\$ 191,764,751</u>

The University of Wisconsin System has entered into installment purchase agreements during fiscal year 2012. The following is an analysis of the gross minimum installment payments, along with the present value of the minimum installment payments, as of June 30, 2012 for installment purchases:

2013	\$ 516,200
2014	516,200
2015	516,200
2016	516,200
2017	<u>516,200</u>
Total minimum future payments	\$ 2,581,000
Less: interest	<u>250,330</u>
Present value of net minimum payments	<u>\$ 2,330,670</u>

There were no installment purchase agreements in fiscal year 2011.

**NOTE 6 – Compensated Absences**

The compensated absences liability at June 30, 2012 consists of accumulated unpaid annual leave, compensatory time, personal holiday hours, and Saturday/legal holiday hours earned and vested. Compensated absences for the University of Wisconsin System employees at June 30, 2012 totaled \$136,427,181 compared with \$131,946,288 at June 30, 2011. The compensated absences balance consists of a \$73,134,934 current liability and \$63,292,247 noncurrent liability compared to a \$69,316,765 current liability and \$62,629,523 noncurrent liability for the previous year. The University of Wisconsin System leave policies restrict the accumulation of unused vacation and thus limit the actual payments made to employees upon termination or retirement.

**NOTE 7 – Retirement Benefits**

Retirement benefits are provided for substantially all employees through the Wisconsin Retirement System (WRS), a cost-sharing, multiple-employer, defined benefit plan governed by Chapter 40 of the Wisconsin Statutes. State and local government public employees are entitled to an annual formula retirement benefit based on the employee's final average earnings, years of creditable service, and a formula factor. Final average earnings is the average of the participant's three highest years' earnings. Creditable service is the creditable current and prior service expressed in years or decimal equivalents of partial years for which a participant receives earnings and makes contributions as required. The formula factor is a standard percentage based on employment category. If an employee's contributions, matching employer's contributions, and interest credited to the employee's account exceed the value of the formula benefit, the

**UNIVERSITY OF WISCONSIN SYSTEM**  
Notes to the Financial Statements  
Years Ended June 30, 2012 and 2011

**NOTE 7 – Retirement Benefits (continued)**

retirement benefit may instead be calculated as a money purchase benefit. WRS is part of the State of Wisconsin's financial reporting entity. Copies of the separately issued financial report that includes financial statements and required supplementary information may be obtained by writing to: Department of Employee Trust Funds, 801 West Badger Road, P.O. Box 7931, Madison, WI 53707-7931.

Generally, the State's policy is to fund retirement contributions on a level-percentage-of-payroll basis to meet normal costs of the retirement system. The retirement plan requires employee contributions equal to specified percentages of qualified earnings based on the employee's classification, as well as employer contributions at a rate determined annually. The University of Wisconsin System's contributions including employer and employee shares were \$228,659,074 for fiscal year 2012, compared to \$227,273,627 for the previous fiscal year. In December 2003, the State issued bonds and subsequently fully liquidated its prior service liability balance as of January 2003. State agencies are required to make future contributions to fund the bond payments. Bond payments totaling \$57,373,604 during fiscal year 2012, compared to bond payments totaling \$54,729,159 during fiscal year 2011, are included in transfer to state agencies on the financial statements.

In addition to the Wisconsin Retirement System, certain employees associated with federally funded activities are partially covered by the Federal Retirement Program. The University of Wisconsin System's contributions to this program amounted to \$174,369 during the current year, compared with \$180,531 for the previous year.

**NOTE 8 – Postemployment Benefits Other Than Pensions**

In accordance with the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, state and local governmental employers are required to display in financial reports other postemployment benefit expense/expenditures and related liabilities (assets), note disclosures, and if applicable, required supplementary information. The employees of the University of Wisconsin System are employees of the State. The financial statements of the University of Wisconsin System do not include other postemployment benefit expense/expenditures or the related liabilities (assets) other than those actually paid during fiscal year 2012 and 2011, which are included in salary and fringe benefits on the financial statements.

**Health Insurance**

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

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

As of the January 2011 actuarial valuation, the State's annual OPEB costs were \$77.4 million and \$128.4 million and the State's annual required contributions were \$89.6 million and \$136.9 million for fiscal years ended June 30, 2012 and June 30, 2011, respectively. The State's actual contributions were \$38.4 million in 2012 and \$52.8 million in 2011, which results in a net OPEB obligation for the State of \$406.5 million as of June 30, 2012, and \$367.5 million as of June 30, 2011, respectively. The portion of this obligation allocated to the University of Wisconsin System increased from \$167.4 million in fiscal year 2011 to \$197.8 million in fiscal year 2012. This obligation is included in the CAFR, but is not included in the University of Wisconsin System's financial statements due to differences in reporting requirements.

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2012 and 2011**

**NOTE 8 – Postemployment Benefits Other Than Pensions (continued)**

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

**Life Insurance and Duty Disability**

The Life Insurance program, a cost-sharing multiple-employer defined benefit plan held in trust, provides post-employment coverage to all eligible employees. The plan is administered under Wisconsin Statutes Section 40.70. Beginning at age 65, retirees and terminating members continue to receive basic coverage for life at the level of insurance in force before retirement. Retirees and terminating members under age 65 must continue to pay the employee premium to maintain coverage. The amount contributed by the University of Wisconsin System to this plan could not be determined.

The Duty Disability program, a cost-sharing multiple-employer defined benefit plan held in trust, offers special disability insurance for employees in protective occupations. This plan is administered under Wisconsin Statutes Section 40.65. Qualified employees receive benefits under this program approximating 80% of salary, less certain offsets, based upon the type and level of disability suffered and the implications of the disability on their ability to work. There are no employee contributions associated with this plan. The University of Wisconsin System contributed \$329,499 to this program during fiscal year 2012 compared to \$785,584 during fiscal year 2011.

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

**NOTE 9 – Capital Assets**

Land, buildings, improvements (e.g., parking lots, fences, street lighting, etc.), equipment, and library holdings are capitalized at cost at date of acquisition or fair market value at date of donation in the case of gifts-in-kind. Generally, capital equipment is defined as any single asset with a minimum value of \$5,000 and having a useful life of more than one year. Depreciation is calculated on a straight-line basis over the estimated useful lives of the respective assets: buildings over forty years, improvements over twenty years, and capital equipment over periods ranging from three to fifteen years for specified asset classes. The componentized methodology of depreciation is used for major research facilities generally using estimated useful lives ranging from ten to fifty years. The buildings and land related to the 13 two-year colleges are not owned by the UW System and thus are not reported in these financial statements. Library holdings are not depreciated because these resources are viewed as inexhaustible assets. Disposals of library holdings are removed at either a historically calculated average cost or at an amount that approximates original cost as nearly as is practical to determine. The University of Wisconsin System does not capitalize the \$317.0 million in 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. Two events resulted in some capital assets meeting the temporarily impaired definition of this standard for fiscal year 2012. On January 29, 2012 Drake Hall, a residence hall at the University of Wisconsin-La Crosse, had a fire in its basement and damages totaled \$2.5 million. All residents were relocated for the remainder of the Spring 2012 semester, but the residence hall was operational for the Fall 2012 semester. Flooding in June 2012 at University of

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2012 and 2011**

**NOTE 9 – Capital Assets (continued)**

Wisconsin-Superior caused an estimated \$6.6 million in damages to fourteen buildings and infrastructure. All buildings were operational for the Fall 2012 semester. In addition, library holdings losses estimated at \$17.2 million were sustained due to the flooding in the library. One asset met the temporarily impaired definition of this standard for fiscal year 2011. University of Wisconsin-Eau Claire's Campus School, net book value of \$439,289, was idle as of June 30, 2011 and was demolished in the spring of 2012.

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, 2012, the equipment balance includes \$57.5 million for intangible assets net of depreciation, compared to \$57.7 million at June 30, 2011.

Depreciation expense for the fiscal years ended June 30, 2012 and 2011 was \$238.4 million and \$224.1 million, respectively.

The change in book value from July 1, 2011 to June 30, 2012 is summarized as follows:

	<b>Book Value</b>				<b>Book Value</b>
	<b><u>July 1, 2011</u></b>	<b><u>Additions</u></b>	<b><u>Transfers</u></b>	<b><u>Deductions</u></b>	<b><u>June 30, 2012</u></b>
Buildings	\$ 4,871,138,369	\$ 121,173,326	\$ 262,277,333	\$ (7,892,398)	\$ 5,246,696,630
Improvements	362,529,720	6,776,158	4,472,309	-	373,778,187
Land	146,661,290	6,475,699	-	-	153,136,989
Construction in Progress	472,054,609	422,964,800	(266,749,642)	-	628,269,767
Equipment	1,108,102,487	86,524,656	-	(51,252,947)	1,143,374,196
Library Holdings	<u>1,124,236,511</u>	<u>23,044,843</u>	-	<u>(33,868,270)</u>	<u>1,113,413,084</u>
Subtotal	8,084,722,986	666,959,482	-	(93,013,615)	8,658,668,853
Less Accumulated Depreciation:					
Buildings	1,931,194,428	143,546,800	-	(6,654,062)	2,068,087,166
Improvements	199,622,868	13,170,310	-	-	212,793,178
Equipment	<u>755,256,463</u>	<u>81,695,314</u>	-	<u>(41,920,215)</u>	<u>795,031,562</u>
Total Accumulated Depreciation	2,886,073,759	238,412,424	-	(48,574,277)	3,075,911,906
Capital Assets, Net	<u>\$ 5,198,649,227</u>	<u>\$ 428,547,058</u>	<u>\$ -</u>	<u>\$ (44,439,338)</u>	<u>\$ 5,582,756,947</u>

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2012 and 2011**

**NOTE 9 – Capital Assets (continued)**

The change in book value from July 1, 2010 to June 30, 2011 is summarized as follows:

	<u>Book Value</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Transfers</u>	<u>Deductions</u>	<u>Book Value</u> <u>June 30, 2011</u>
Buildings	\$ 4,457,095,384	\$ 162,239,284	\$ 259,545,166	\$ (7,741,466)	\$ 4,871,138,368
Improvements	333,063,592	9,270,309	20,195,819	-	362,529,720
Land	130,933,496	15,823,294	-	(95,500)	146,661,290
Construction in Progress	481,502,873	270,292,721	(279,740,985)	-	472,054,609
Equipment	970,667,026	166,934,074	-	(29,498,613)	1,108,102,487
Library Holdings	<u>1,106,538,962</u>	<u>23,460,521</u>	<u>-</u>	<u>(5,762,972)</u>	<u>1,124,236,511</u>
Subtotal	7,479,801,333	648,020,203	-	(43,098,551)	8,084,722,985
Less Accumulated Depreciation:					
Buildings	1,804,734,136	130,966,230	-	(4,505,938)	1,931,194,428
Improvements	187,112,937	12,509,931	-	-	199,622,868
Equipment	<u>705,293,369</u>	<u>80,596,530</u>	<u>-</u>	<u>(30,633,436)</u>	<u>755,256,463</u>
Total Accumulated Depreciation	2,697,140,442	224,072,691	-	(35,139,374)	2,886,073,759
Capital Assets, Net	<u>\$ 4,782,660,891</u>	<u>\$ 423,947,512</u>	<u>\$ -</u>	<u>\$ (7,959,177)</u>	<u>\$ 5,198,649,226</u>

**NOTE 10 – Long Term Debt**

The State of Wisconsin issues general obligation bonds and notes on behalf of its constituent agencies, including the University of Wisconsin System, the proceeds of which are used to construct or acquire facilities and other capital assets. The University of Wisconsin System holds title to the assets thus acquired. As an enterprise fund of the State of Wisconsin, the University of Wisconsin System reports on its Statements of Net Assets that portion of the debt that will be repaid with program revenues generated by the University of Wisconsin System's self-supporting operations. Debt on academic facilities that is repaid by an appropriation from the State of Wisconsin to the University of Wisconsin System for that purpose is reported by the State of Wisconsin and not as an obligation of the University of Wisconsin System. However, cash inflows and outflows are shown in the Statements of Cash Flows.

The following information relates to the status of bonds and notes payable outstanding at June 30, 2012:

	<u>Maturity</u> <u>Dates</u>	<u>Balance</u> <u>July 1, 2011</u>	<u>New Debt/</u> <u>Accretion</u>	<u>Principal Paid/</u> <u>Adjustments</u>	<u>Balance</u> <u>June 30, 2012</u>
Bonds (Gross)	2013-2042	\$ 1,131,132,551	\$ 352,702,500	\$ (152,873,284)	\$ 1,330,961,767
Notes	2013-2031	<u>59,193,136</u>	<u>28,558,203</u>	<u>(8,058,172)</u>	<u>79,693,167</u>
		<u>\$ 1,190,325,687</u>	<u>\$ 381,260,703</u>	<u>\$ (160,931,456)</u>	<u>\$ 1,410,654,934</u>

The bonds have maturity dates ranging from November 1, 2011 to May 1, 2042. The notes have maturity dates ranging from May 1, 2013 to May 1, 2031.

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2012 and 2011**

**NOTE 10 – Long Term Debt (continued)**

As of June 30, 2012, the current and noncurrent bonds payable net of discounts, premiums, and deferred refunding totaled \$54,062,403 and \$1,322,287,117, respectively.

	<u>Balance</u> <u>June 30, 2012</u>	<u>Current</u>	<u>Noncurrent</u>
Bonds (Gross)	\$ 1,330,961,767	\$ 47,301,687	\$ 1,283,660,080
Discount	(317,084)	(28,490)	(288,594)
Premium	61,308,289	9,945,596	51,362,693
Deferred Refunding	<u>(15,603,452)</u>	<u>(3,156,390)</u>	<u>(12,447,062)</u>
Bonds (Net)	1,376,349,520	54,062,403	1,322,287,117
Notes	<u>79,693,167</u>	<u>10,725,650</u>	<u>68,967,517</u>
	<u>\$ 1,456,042,687</u>	<u>\$ 64,788,053</u>	<u>\$ 1,391,254,634</u>

The following information relates to the status of bonds and notes payable outstanding at June 30, 2011:

	<u>Maturity</u> <u>Dates</u>	<u>Balance</u> <u>July 1, 2010</u>	<u>New Debt/</u> <u>Accretion</u>	<u>Principal Paid/</u> <u>Adjustments</u>	<u>Balance</u> <u>June 30, 2011</u>
Bonds (Gross)	2012-2041	\$ 915,510,389	\$ 252,551,421	\$ (36,929,259)	\$ 1,131,132,551
Notes	2012-2030	<u>48,878,720</u>	<u>19,260,000</u>	<u>(8,945,584)</u>	<u>59,193,136</u>
		<u>\$ 964,389,109</u>	<u>\$ 271,811,421</u>	<u>\$ (45,874,843)</u>	<u>\$ 1,190,325,687</u>

The bonds have maturity dates ranging from November 1, 2011 to May 1, 2041. The notes have maturity dates ranging from May 1, 2012 to May 1, 2030.

As of June 30, 2011, the current and noncurrent bonds payable net of discounts, premiums, and deferred refunding totaled \$46,666,857 and \$1,111,572,233, respectively.

	<u>Balance</u> <u>June 30, 2011</u>	<u>Current</u>	<u>Noncurrent</u>
Bonds (Gross)	\$ 1,131,132,551	\$ 41,680,111	\$ 1,089,452,440
Discount	(345,632)	(28,548)	(317,084)
Premium	33,220,559	5,946,348	27,274,211
Deferred Refunding	<u>(5,768,388)</u>	<u>(931,054)</u>	<u>(4,837,334)</u>
Bonds (Net)	1,158,239,090	46,666,857	1,111,572,233
Notes	<u>59,193,136</u>	<u>8,058,376</u>	<u>51,134,760</u>
	<u>\$ 1,217,432,226</u>	<u>\$ 54,725,233</u>	<u>\$ 1,162,706,993</u>

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2012 and 2011**

**NOTE 10 – Long Term Debt (continued)**

Future debt service requirements for bonds and notes outstanding at June 30, 2012 are as follows:

Future Repayment Schedule

Fiscal Year	<u>Bonds</u>		<u>Notes</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 47,301,687	\$ 63,798,844	\$ 10,725,649	\$ 3,301,016
2014	47,260,554	61,939,594	11,262,168	3,449,072
2015	49,323,378	59,629,680	10,296,299	2,885,900
2016	53,308,770	57,185,520	8,012,293	2,371,019
2017	54,220,056	54,514,789	8,416,659	1,970,335
2018-2022	303,989,314	230,737,976	20,675,099	5,779,417
2023-2027	372,403,358	153,574,242	5,965,000	2,008,500
2028-2032	280,874,650	73,004,953	4,340,000	441,250
2033-2037	64,945,000	23,291,668	-	-
2038-2042	<u>57,335,000</u>	<u>7,170,730</u>	-	-
Total	<u>\$ 1,330,961,767</u>	<u>\$ 784,847,996</u>	<u>\$ 79,693,167</u>	<u>\$ 22,206,509</u>

As noted above, debt on academic facilities that is repaid by an appropriation from the State of Wisconsin to the University of Wisconsin System for that purpose is reported by the State of Wisconsin and not as an obligation of the University of Wisconsin System. As of June 30, 2012, the principal balance of such bonds and notes was \$1,563,874,817 and \$157,004,086, respectively. As of June 30, 2011, the principal balance of such bonds and notes was \$1,395,390,939 and \$137,648,908, respectively.

Debt service payments made by the State of Wisconsin for the years ended June 30, 2012 and 2011 were allocated as follows:

	<u>Bonds</u>	<u>Notes</u>
<b>2012</b>		
Principal	\$ -	\$ -
Interest	<u>57,366,662</u>	<u>155,544</u>
Total Paid	<u>\$ 57,366,662</u>	<u>\$ 155,444</u>
<b>2011</b>		
Principal	\$ 13,021,011	\$ -
Interest	<u>59,750,548</u>	<u>306,350</u>
Total Paid	<u>\$ 72,771,559</u>	<u>\$ 306,350</u>

**NOTE 11 – Other Organizations**

The Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and Statement No. 39, *Determining Whether Certain Organizations Are 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 of Wisconsin System has determined that, in accordance with the provisions of GASB Statement No. 14 and 39, the accounts of the following organizations are not included in the financial statements; however, the following financial information is provided.

**A – University of Wisconsin Foundation**

The University of Wisconsin (UW) Foundation is the official not-for-profit fund raising corporation for the University of Wisconsin-Madison and several other units of the University of Wisconsin System. It receives gifts and bequests, administers and invests securities and property, and disburses payments to and

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2012 and 2011**

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

on behalf of the University of Wisconsin for advancement of scientific, literary, athletic, and educational purposes. The UW Foundation reports on a fiscal year ended December 31. Copies of the separately issued financial statements may be obtained by writing to: University of Wisconsin Foundation, Attn: Finance, P.O. Box 8860, Madison, WI 53708-8860.

Significant financial data for the UW Foundation for the years ending December 31, 2011 and 2010 are presented below (in thousands):

<b>Condensed Balance Sheet</b>	<b><u>2011</u></b>	<b><u>2010</u></b>
<b>Assets:</b>		
Cash, Investments and Other Assets	\$ 2,526,064	\$ 2,635,576
Capital Assets, Net	<u>6,844</u>	<u>7,054</u>
<b>Total Assets</b>	<b><u>2,532,908</u></b>	<b><u>2,642,630</u></b>
<b>Liabilities:</b>		
Accounts Payable and Other Current Liabilities	34,234	30,575
Amounts Held for Other Component Units	251,335	251,702
Long-term Liabilities (Current and Noncurrent Portions)	<u>42,023</u>	<u>40,941</u>
<b>Total Liabilities</b>	<b><u>327,592</u></b>	<b><u>323,218</u></b>
<b>Fund Equity:</b>		
Invested in Capital Assets, Net of Related Debt	6,844	7,054
Restricted	2,046,529	2,137,485
Unrestricted	<u>151,943</u>	<u>174,873</u>
<b>Total Fund Equity</b>	<b><u>2,205,316</u></b>	<b><u>2,319,412</u></b>
<b>Total Liabilities and Fund Equity</b>	<b><u>\$ 2,532,908</u></b>	<b><u>\$ 2,642,630</u></b>
<b>Condensed Statement of Revenues, Expenses, and Changes in Fund Equity</b>		
<b>Program Expenses:</b>		
Depreciation	\$ 615	\$ 489
Payments to Primary Government	211,663	206,224
Other	<u>33,238</u>	<u>30,558</u>
<b>Total Program Expenses</b>	<b><u>245,516</u></b>	<b><u>237,271</u></b>
<b>Program Revenues:</b>		
Investment and Interest Income	(66,473)	278,377
Operating Grants and Contributions	197,542	165,668
Other	<u>351</u>	<u>50</u>
<b>Total Program Revenues</b>	<b><u>131,420</u></b>	<b><u>444,095</u></b>
<b>Net Program Revenues</b>	<b>(114,096)</b>	<b>206,824</b>
<b>Change in Fund Equity</b>	<b>(114,096)</b>	<b>206,824</b>
<b>Fund Equity, Beginning of Year</b>	<b><u>2,319,412</u></b>	<b><u>2,112,588</u></b>
<b>Fund Equity, End of Year</b>	<b><u>\$ 2,205,316</u></b>	<b><u>\$ 2,319,412</u></b>

**B – Funds Held In Trust by Others**

Funds held in trust by others are endowment funds held by trustees outside of the University of Wisconsin System Trust Funds for the benefit of the University of Wisconsin System. The market value of these funds amounted to \$159,098,147 at June 30, 2012, compared with \$164,682,389 at June 30, 2011.

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2012 and 2011**

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

**C – Lease Agreements**

**University of Wisconsin Hospital and Clinics Authority**

The University of Wisconsin Hospital and Clinics Authority (UWHCA), pursuant to an act of the Wisconsin State Legislature, began operating on June 29, 1996 as a separate public authority. As required by this legislation, the University of Wisconsin System 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, 2012, the present value of these future lease payments totaled \$2.5 million, compared to \$4.2 million at June 30, 2011, an amount equal to the principal on the related bonds outstanding; the asset is included on the balance sheet as part of the capital lease receivable, and the related debt is included as part of the total UW System bonds outstanding of \$1,331.0 million and \$1,131.1 million at June 30, 2012 and June 30, 2011, respectively. The leased facilities are not included as part of the University of Wisconsin System'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, 2012, the University of Wisconsin System received services from UWHCA totaling \$4.5 million and provided services to UWHCA totaling \$59.7 million, compared to amounts for fiscal year ended June 30, 2011 of \$4.6 million and \$53.7 million. The cost of the services provided and the associated revenue are separately identified in the Statements of Revenues, Expenses, and Changes in Net Assets. 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.

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

On June 6, 1997, the Board of Regents of the University of Wisconsin System entered into a Use Agreement with The La Crosse Medical Health Science Consortium, Inc. (The Consortium), a Wisconsin non-stock corporation tax exempt under Internal Revenue Code (IRC) 501(c)(3) with offices at 1725 State Street, La Crosse, Wisconsin 54601. 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 of Wisconsin System 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, 2012, the present value of these future lease payments totaled \$4.3 million, compared to \$4.7 million at June 30, 2011, an amount equal to the principal on the related bonds outstanding; the asset is included on the balance sheet as part of the capital lease receivable, and the related debt is included as part of the total UW System bonds outstanding of \$1,331.0 million and \$1,131.1 million at June 30, 2012 and June 30, 2011, respectively. The leased facilities are not included as part of the University of Wisconsin System'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 year ended June 30, 2012, the University of Wisconsin System 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 Statements of Revenues, Expenses, and Changes in Net Assets. 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.

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2012 and 2011**

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

**D – Other Agreements**

**University of Wisconsin Medical Foundation**

The University of Wisconsin (UW) Medical Foundation is the not-for-profit clinical practice organization for the faculty physicians of the UW School of Medicine and Public Health within UW-Madison. The UW Medical Foundation provides clinical sites, technical and professional staff, and administrative services for the UW 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 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 \$11.9 million to DHS during fiscal year 2012 and \$8.2 million in fiscal year 2011, representing the state's share of this difference. DHS then claimed the federal share of the difference from the federal government and subsequently provided \$28.7 million during fiscal year 2012 and \$23.3 million during fiscal year 2011, representing both the state and federal share of the difference, to the UW Medical Foundation. In addition, transfers by UW-Madison to the MA Trust Fund of \$16.8 million during fiscal year 2012 and \$25.0 million in fiscal year 2011 were also made under this program and are reported as a transfer to state agencies on the financial statements.

During fiscal year 2012, the UW Medical Foundation remitted \$59.7 million to UW-Madison as reimbursement for payments to DHS during fiscal years 2010 and 2011. The \$59.7 million that UW-Madison received from the UW Medical Foundation is included in the other non-operating revenues account on the financial statements.

**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 part of the University of Wisconsin-Madison organized under its 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 the University of Wisconsin-Madison and the designated technology transfer organization for the university. The facility was originally undertaken with \$50 million in State of Wisconsin and University funding, \$110 million contributed by WARF and a \$50 million donation from a private donor. The Morgridge Institute for Research, an independent 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 of Wisconsin System initially owned all of this land, the University of Wisconsin System and WARF became parties to a Real Property Exchange Agreement dated January 19, 2007. Under the terms of the Exchange Agreement, the University of Wisconsin System agreed to convey to WARF a portion of this land and WARF agreed to convey to the University of Wisconsin System properties of equal value as defined in the agreement. In fiscal years 2008-09 and 2010-11, the University of Wisconsin System 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.

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2012 and 2011**

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

The Wisconsin Institutes for Discovery is operated as a condominium. University of Wisconsin System and WARF are the members of The Wisconsin Institutes for Discovery Condominium Association, Inc. (the “Association”), as set forth in the Condominium Declaration dated September 25, 2009. Ownership of the facility has been determined to be 30% University of Wisconsin System and 70% WARF. Of the total capitalized cost, the University of Wisconsin System 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.

**NOTE 12 – Operating Expenses by Functional Classification**

Operating expenses by functional classification for the fiscal year ended June 30, 2012:

	<u>Salary and Fringe Benefits</u>	<u>Scholarships and Fellowships</u>	<u>Supplies and Services</u>	<u>Other</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$ 1,009,477,072	\$ 1,792,591	\$ 102,176,837	\$ 802,306	\$ -	\$ 1,114,248,806
Research	621,591,272	2,525,455	239,020,043	1,256,406	-	864,393,176
Public Service	185,347,569	692,387	125,785,564	2,770,918	-	314,596,438
Academic Support	266,306,136	36,717	87,446,507	365,031	-	354,154,391
Farm Operations	9,794,770	-	6,145,331	1,725	-	15,941,826
Student Services	254,078,819	604,912	135,429,799	274,707	-	390,388,237
Institutional Support	196,474,804	94,683	13,682,111	(14,176)	-	210,237,422
Operation/Maintenance	145,530,975	-	169,960,970	228,416	-	315,720,361
Financial Aid	5,812,975	125,028,598	4,461,919	1,817,011	-	137,120,503
Auxiliary Enterprises	109,909,356	153,430	207,735,380	324,326	-	318,122,492
Hospital	-	-	51,577,754	47	-	51,577,801
Depreciation	-	-	-	-	238,412,424	238,412,424
Total Operating Expenses	<u>\$ 2,804,323,748</u>	<u>\$ 130,928,773</u>	<u>\$ 1,143,422,215</u>	<u>\$ 7,826,717</u>	<u>\$ 238,412,424</u>	<u>\$ 4,324,913,877</u>

Operating expenses totaled \$4.3 billion. Salary and fringe benefits, scholarships and fellowships, and supplies and services and other expenses constituted 64.9%, 3.0%, and 26.6% of total operating expenses, respectively. Depreciation comprised \$238.4 million or 5.5% of total operating expenses.

Operating expenses by functional classification for the fiscal year ended June 30, 2011:

	<u>Salary and Fringe Benefits</u>	<u>Scholarships and Fellowships</u>	<u>Supplies and Services</u>	<u>Other</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$ 1,021,670,351	\$ 1,816,852	\$ 120,577,782	\$ 1,301,473	\$ -	\$ 1,145,366,458
Research	630,219,715	2,706,531	222,762,431	2,816,719	-	858,505,396
Public Service	195,155,264	1,345,549	105,954,144	1,725,789	-	304,180,746
Academic Support	277,104,634	57,325	67,145,274	55,457	-	344,362,690
Farm Operations	10,301,818	-	4,565,968	231	-	14,868,017
Student Services	252,036,554	723,594	131,508,427	36,518	-	384,305,093
Institutional Support	206,797,930	9,711	(57,452)	58,628	-	206,808,817
Operation/Maintenance	153,447,238	-	159,711,445	8,226	-	313,166,909
Financial Aid	6,916,011	146,049,551	1,273,572	1,836,970	-	156,076,104
Auxiliary Enterprises	108,651,842	69,931	197,830,389	(34,719)	-	306,517,443
Hospital	-	-	51,235,336	-	-	51,235,336
Depreciation	-	-	-	-	224,072,691	224,072,691
Total Operating Expenses	<u>\$ 2,862,301,357</u>	<u>\$ 152,779,044</u>	<u>\$ 1,062,507,316</u>	<u>\$ 7,805,292</u>	<u>\$ 224,072,691</u>	<u>\$ 4,309,465,700</u>

Operating expenses totaled \$4.3 billion. Salary and fringe benefits, scholarships and fellowships, and supplies and services and other expenses constituted 66.4%, 3.6%, and 24.8% of total operating expenses, respectively. Depreciation comprised \$224.1 million or 5.2% of total operating expenses.

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2012 and 2011**

**NOTE 13 – Classification of Net Assets**

Net assets are reported in the following six categories:

	<u>2012</u>	<u>2011</u>
• Invested in capital assets, net of related debt	\$ 4,101,633,987	\$ 3,951,308,708
• Restricted - Nonexpendable Net assets subject to externally-imposed stipulations that they be maintained permanently by the University of Wisconsin System including:		
> Gifts provided in trust as permanent endowment	154,999,375	155,641,629
• Restricted - Expendable Net assets whose use by the University of Wisconsin System is subject to externally-imposed stipulations that can be fulfilled by actions of the University of Wisconsin System pursuant to those stipulations or that expire by the passage of time including:		
> Funds managed by the University of Wisconsin System in trust as quasi-endowment	198,694,026	233,294,014
> Segregated fee auxiliary operations and auxiliary operations as established by state statute, respectively	75,542,222	104,963,024
• Restricted - Student Loans	227,507,281	224,919,387
• Restricted - Other Net assets of other legally separate appropriations	226,823,333	159,745,430
• Unrestricted Net assets that are not subject to externally-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Regents or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net assets are designated for academic and research programs and initiatives, and capital programs.	860,152,969	607,434,010

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 Board of Regents of the University of Wisconsin System cannot exercise total discretion over the use of net assets of segregated fee auxiliary operations because of statutory mandates; however, they do have discretion in the use of the net assets of quasi-endowments reported as unrestricted.

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2012 and 2011**

**NOTE 13 – Classification of Net Assets (continued)**

CAFR reclassifications as of June 30, 2012:

*(In Millions)*

	University of Wisconsin System	Auxiliary Operations	Quasi- Endowments	Student Loans	Other Postemployment Benefits (Note 8)	State of Wisconsin CAFR
Invested in Capital Assets, Net of Related Debt	\$ 4,101.6	\$ -	\$ -	\$ -	\$ -	\$ 4,101.6
Restricted for						
Nonexpendable	155.0	-	-	-	-	155.0
Expendable	274.2	(75.5)	65.8	-	-	264.5
Student Loans	227.5	-	-	(9.8)	(0.1)	217.6
Other	226.8	-	-	9.8	(37.6)	199.0
Unrestricted	<u>860.2</u>	<u>75.5</u>	<u>(65.8)</u>	<u>-</u>	<u>(160.1)</u>	<u>709.8</u>
Total Net Assets	\$ 5,845.3	\$ 0.0	\$ 0.0	\$ 0.0	\$ (197.8)	\$ 5,647.5

CAFR reclassifications as of June 30, 2011:

*(In Millions)*

	University of Wisconsin System	Auxiliary Operations	Quasi- Endowments	Student Loans	Other Postemployment Benefits (Note 8)	State of Wisconsin CAFR
Invested in Capital Assets, Net of Related Debt	\$ 3,951.3	\$ -	\$ -	\$ -	\$ -	\$ 3,951.3
Restricted for						
Nonexpendable	155.6	-	-	-	-	155.6
Expendable	338.3	(105.0)	69.5	-	-	302.8
Student Loans	224.9	-	-	(10.2)	(0.1)	214.6
Other	159.8	-	-	10.2	(30.6)	139.4
Unrestricted	<u>607.4</u>	<u>105.0</u>	<u>(69.5)</u>	<u>-</u>	<u>(136.7)</u>	<u>506.2</u>
Total Net Assets	\$ 5,437.3	\$ 0.0	\$ 0.0	\$ 0.0	\$ (167.4)	\$ 5,269.9

**NOTE 14 – Prior Period Adjustments**

Neither the June 30, 2012 nor the June 30, 2011 Statements of Net Assets include a prior period adjustment.

**NOTE 15 – Contingent Liabilities**

The University of Wisconsin System is covered by the State of Wisconsin's self-insurance program with settlements or judgments paid from the State Risk Management Fund. Loss experience is rated back to the individual University of Wisconsin institutions in subsequent years with a maximum payment of \$100,000 per incident.

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**

**Long-Term Debt**

In September 2012, the State of Wisconsin issued variable-rate obligations in the aggregate par amount of \$46,333,182 million of general obligation extendible municipal commercial paper notes on behalf of the University of Wisconsin System to be used for the acquisition, construction, development, extension, enlargement, or improvement of land, property, buildings, equipment, or facilities for public purposes.

**UNIVERSITY OF WISCONSIN SYSTEM**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2012 and 2011**

**NOTE 16 -- Subsequent Events (continued)**

In November 2012, the State of Wisconsin issued long-term debt in the aggregate par amount of \$107,039,584 of 2012 Series B general obligation bonds on behalf of the University of Wisconsin System to be used for the acquisition, construction, development, extension, enlargement, or improvement of land, property, buildings, equipment, or facilities for public purposes. The interest rates ranged from 2.55% to 5.00% payable semiannually, beginning May 1, 2013. The bonds mature May 1 of the years 2022 through 2033.

# Guidelines for the Evaluation of Distance Education

As Developed by the Council of Regional Accrediting Commissions (C-RAC)

UWM's online students have access to a range of supports to ensure success in online learning. University advisors assist online students with admissions, registration, and financial aid; provide academic advising; and help students access an array of web-based campus services:

- University Information Technology Services's (UITS) help desk ([https://www4.uwm.edu/uits/help/help\\_desk/index.cfm](https://www4.uwm.edu/uits/help/help_desk/index.cfm)) provides technical support for online students.
- The Student Accessibility Center (SAC) works with instructors on all student requests for accommodations in online courses (<http://www4.uwm.edu/sac/>).
- The Writing Center offers online tutoring to distance education students (229-4339; <http://www.uwm.edu/Dept/English/wcenter/onlinetutoring.html>).
- Panther Academic Support Services also offers online tutoring (229-3726 <http://www4.uwm.edu/tarc/>).
- UWM's Peoplesoft Student Information System, PAWS, enables students to register and access records through self-service.

Students can reach the help desk at UWM University Information and Technology Services (UITS) by email [help@uwm.edu](mailto:help@uwm.edu) or by phone (414) 229-4040 if in the Milwaukee area or by 1 877-381-3459, a national toll free number. The Help Desk is the central access contact for UWM technology information. The Help Desk provides a one-stop technology service support area for the entire campus and assists clients over the phone and via email. Consultants answer questions, troubleshoot problems and provide solutions about computers, email, voice mail, the Internet, campus applications (PAWS, PantherLink, D2L, etc.), Microsoft Office, viruses and security.

The UWM Golda Meir Library supports online students with a dedicated Distance Education Librarian and a Distance Education Services Department, accessible as a link off of the UWM Libraries home page. Currently enrolled students pursuing an education through distance learning methods are entitled to access to library resources and services equivalent to those provided for students in traditional campus settings. Faculty members are encouraged to use library e-reserve to make course readings easily accessible to students. The UWM Libraries supplies materials from the Libraries' own collection, as well as materials from other libraries. Articles are supplied electronically and books are delivered directly to the student's home, free of charge.

# Guidelines for the Evaluation of Distance Education

As Developed by the Council of Regional Accrediting Commissions (C-RAC)

UWM is utilizing best practices in instructional design to increase student-instructor interaction and engage students in active learning in its distance education programs. UWM's online and blended learning courses offer the same high-quality curriculum and are taught by the same faculty as on-campus classes, and they are designed to maximize learning outcomes. Courses go through a rigorous instructional design process that is built on a foundation of both disciplinary and instructional design expertise. UWM has been developing and enhancing online and blended learning programs and opportunities for traditional and non-traditional students since 1999. UWM's online Master's in Library and Information Science, for example, enrolls more than 500 students, making it one of the largest master's programs at UWM. It is nationally ranked as a 'Top 20' distance education MLIS program. Additionally, in 2012, UWM's U-Pace online instructional design approach, developed by Professor Diane Reddy and used in Psychology 101 and other general education online survey courses, won the National University Technology Network's Distance Education Innovation Award, which recognizes national contributions to the field of distance education.

Consistent with UWM's integrated approach to distance education, in which online programs are administered at the departmental level alongside face-to-face programs (as opposed to being housed in a separate outreach or distance education-focused unit), the University does not have unique merit criteria for evaluating teaching and scholarly work related to distance education. *All* instruction is evaluated annually as part of the merit review process. The University's Learning Technology Center has, however, disseminated quality standards for online instruction through its widely attended workshops, peer evaluation program, and Certificate in Online and Blended Teaching for faculty and instructional academic staff.

An array of technologies is available to UWM's faculty in delivering their online courses. The most pivotal technology is the learning management system, Desire2Learn (D2L). Desire2Learn (D2L.uwm.edu) offers our faculty the ability to disseminate course information, coordinate asynchronous class discussions, facilitate group projects, and provide students feedback on their learning through quizzing and gradebook features. Other technologies available to our faculty include tools to produce audio lectures, facilitate synchronous, showcase student work (D2L ePortfolio), and many more. All of these technologies are supported by the UWM Learning Technology Center (LTC), and helping to ensure that the technologies employed in distance education courses is appropriate to the course and program learning outcomes.



Office of the Chancellor

Chapman Hall  
 P.O. Box 413  
 Milwaukee, WI  
 53201-0413  
 414 229-4331 phone  
 414 229-2347 fax

**AFFIDAVIT OF MICHAEL R. LOVELL**

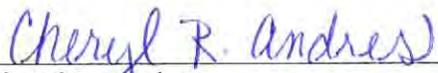
STATE OF WISCONSIN    )  
   ) ss  
 MILWAUKEE COUNTY    )

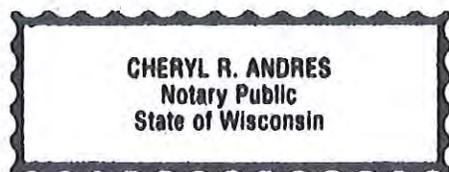
I, the undersigned, being duly first sworn, state as follows:

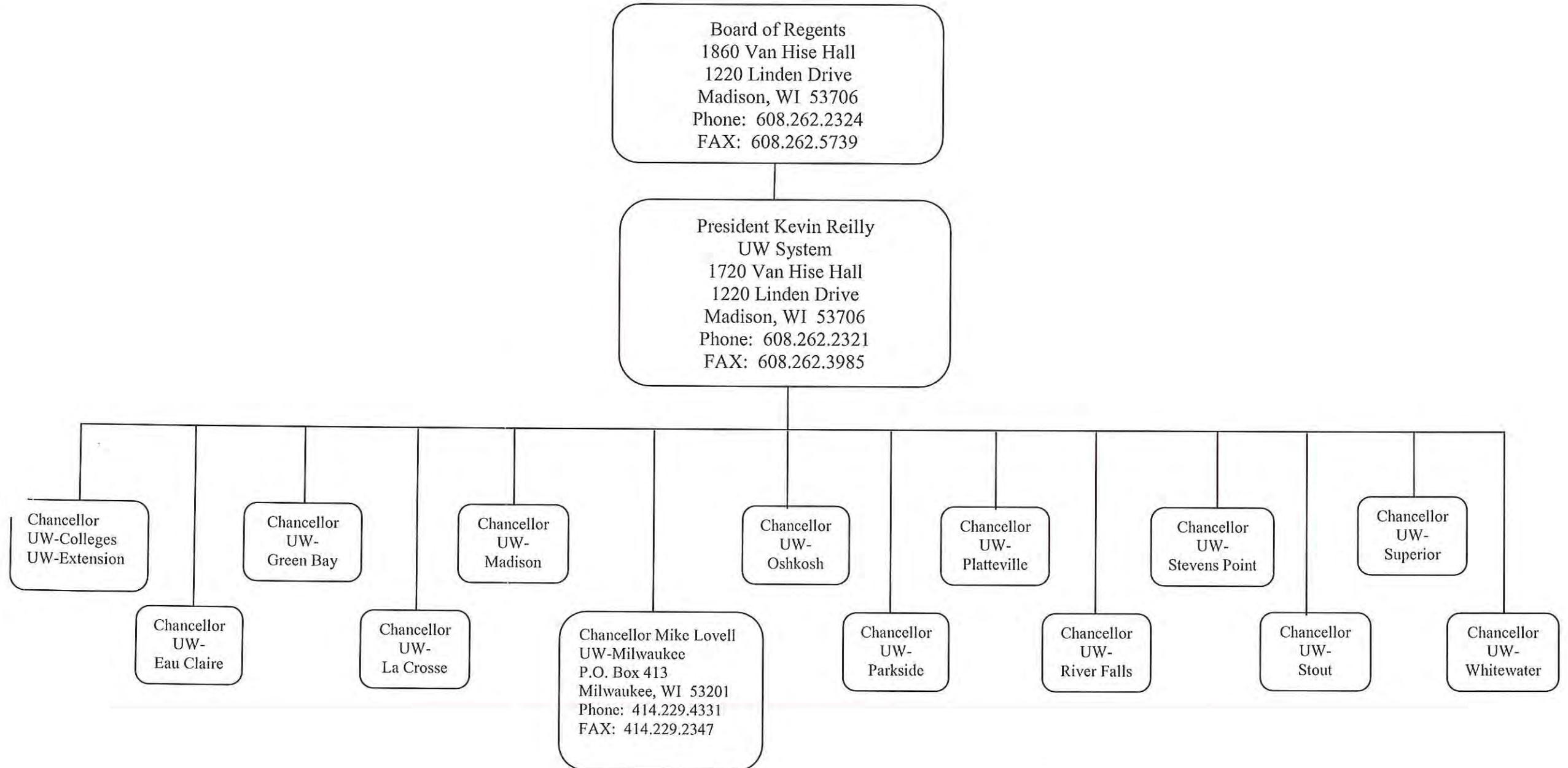
1. My name is Michael R. Lovell. I am the Chancellor of the University of Wisconsin-Milwaukee (hereinafter, "UWM").
2. UWM is a public institution of higher education within the University of Wisconsin System, which is organized and exists pursuant Wisconsin Statute Chapter 36. UWM is an institution in good standing within this System.
3. UWM is committed to offering high quality program to Iowa students through distance education delivery. UWM agrees to provide alternatives for students to complete their programs in the event that the institution closes a program before students have completed their course of study.

  
 \_\_\_\_\_  
 Affiant

SUBSCRIBED AND SWORN to before me this 11<sup>th</sup> day of June, 2013.

  
 \_\_\_\_\_  
 Cheryl R. Andres  
 Notary Public  
 Milwaukee County  
 My Commission expires:    July 28, 2013





# Complaint Contacts for States

[http://www4.uwm.edu/future\\_students/online/complaint-contacts.cfm](http://www4.uwm.edu/future_students/online/complaint-contacts.cfm)

## Contact Information for Outside State Complaints Relating to Distance Learning

Pursuant to the United States Department of Education's Program Integrity Rule, the University of Wisconsin-Milwaukee is required to provide all prospective and current students with the contact information of the state agency or agencies that handle complaints against postsecondary education institutions offering distance learning or correspondence education within that state. Students are encouraged to utilize the institution's internal complaint or review policies and procedures through the Dean of Students Office (<http://www4.uwm.edu/osl/dean/grievance.cfm>; 414 229-4632; [osl@uwm.edu](mailto:osl@uwm.edu)) or Office of the Provost (414-229-3203) prior to filing a complaint with the state agency or agencies. The link below provides a list of contacts from each state in which a student may file a complaint.

## Additional Information

UWM is currently applying for registration with the Maryland Higher Education Commission. UWM is subject to investigation of complaints by the Office of the Attorney General of the Maryland Higher Education Commission (MHEC). Contact information for MHEC:

Maryland Higher Education Commission  
6 N. Liberty Street, 10th Floor  
Baltimore, Maryland 21201

- <http://www.sheeo.org/stateauth/Links%20to%20Complaint%20Process.pdf>
- <http://www.sheeo.org> - click on [State Authorization Resources and Directory](#)