

**UW SYSTEM
2013 ANNUAL FINANCIAL REPORT
AND AUDITOR'S OPINION**

EXECUTIVE SUMMARY

BACKGROUND

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

REQUESTED ACTION

This report is submitted for information only.

DISCUSSION

Overview of Accrual-Based Financial Reporting

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

In accordance with GAAP, the UW System Annual Financial Report for the year ending June 20, 2013, includes the following statements:

- Statement of Net Position
- Statement of Revenues, Expenses and Changes in Net Position
- Statement of Cash Flows

It also includes an unmodified or "clean" audit opinion from the Legislative Audit Bureau. The accompanying "Notes to the Financial Statements" are an integral part of the statements, including disclosures required by GAAP and explanations intended to aid the reader in understanding the statements. In addition, the Annual Financial Report includes a "Management's Discussion and Analysis" (MD&A) that is intended to provide an objective and less-technical analysis of the UW System's financial activities. Of particular interest within the MD&A is a section entitled "Factors Affecting Future Periods." The UW System's Annual Financial Report may be found at: <http://www.uwsa.edu/fadmin/finrep/afr.htm> .

Analysis of the UW System’s financial statements and notes provides management with an understanding of operations and assists in making business decisions. The statements may also be used by Regents and other key stakeholders, including legislators and the Higher Learning Commission, in evaluating financial performance. Because the UW System’s financial statements are included in the State’s CAFR, financial institutions, such as lending and bond rating agencies, use the statements when extending debt securities to finance capital projects.

It is important to note that the financial statements in the 2013 UW System Annual Financial Report reflect activity for the 2012-13 fiscal year only, which runs from July 1, 2012 to June 30, 2013. They do not reflect the significant actions included in the 2013-15 biennial budget, which began July 1, 2013. 2013 Wisconsin Act 20 included a two-year freeze on tuition rates and required UW System to provide \$114.1 million in funding for ongoing costs and base reductions. In addition, Act 20 required UW to provide \$88.5 million from its program revenue balances to fund several one-time initiatives and transfers.

Analysis of Financial Statements

At an overall UW System level, total revenues and expenses increased from fiscal year 2012 and fiscal year 2013, as shown in the table below.

(in millions)	2013	2012	Percentage Change
Total Revenues (accrual-based)	\$5,080.8	\$4,890.9	3.9%
Total Expenses (accrual-based)	4,577.4	4,482.9	2.1%
Increase In Net Position	503.4	408.0	

According to the UW System’s audited financial statements, total revenues in fiscal year 2013 were nearly \$5.1 billion, which represents an increase of \$189.9 million, or 3.9%, from fiscal year 2012. The primary factors contributing to the revenue increase were Tuition and Fees, Gifts, and Investment Income. Total expenses in fiscal year 2013 were nearly \$4.6 billion. This is an increase of \$94.5 million, or 2.1%, from fiscal year 2012, with the majority of the increase relating to salary and fringe benefits.

The UW System’s Net Position, which is defined as the difference between assets and liabilities, increased by \$503.4 million from fiscal year 2012 to fiscal year 2013.

(in millions)	2013	2012	Percentage Change
Total Assets	\$8,555.8	\$7,884.1	8.5%
Total Liabilities	2,207.1	2,038.8	8.3%
Net Position	6,348.7	\$5,845.3	8.6%

Net Position is divided into the following three categories:

- Invested in Capital Assets, which increased by \$111.2 million in fiscal year 2013.
- Restricted by External Stipulations, such as legal or donor restrictions, which increased by \$172.7 million.
- Unrestricted, which increased by \$219.5 million. The largest factors to this increase in Unrestricted were:
 - Tuition - \$95.4 million

- General Operations - \$29.9 million
- Auxiliary Operations - \$21.9 million

In an effort to make our financial statements more understandable and transparent, Note 13, entitled Classification of Net Position, has been revised to provide additional information on the sources of UW System's Net Position.

Cash and Cash Equivalents, from the Statement of Cash flows, increased \$337.8 million in 2013, to \$1.685 billion. The largest factors for this increase are:

- Tuition - \$91.1 million
- Construction/bond proceeds - \$79.6 million
- Federal grants and contracts - \$50.0 million
- General Operations - \$35.5 million

Because Cash and Cash Equivalents are accrual-based in our financial statements, it should not be confused with, and does not represent, a year-end program revenue cash balance. Accrual-based Cash and Cash Equivalents differ from year-end program revenue cash balances in that Cash and Cash Equivalents include:

- Account clearing activity, such as tax withholding collected but not yet paid
- Proceeds received from the issuance of capital debt above actual debt paid

Financial Reporting Impacts

Considerable attention and scrutiny to UW System program revenue cash balances began in early 2013. Subsequently, 2013 Wisconsin Act 20 imposed a number of requirements for the UW System to develop policies around the management of its revenues, expenses, and balances. To meet the legislative requirement for a policy addressing balances, the Board of Regents approved Regent Policy Document (RPD) 21-6, Program Revenue Balances and Reserves Policy, in October 2013. This policy is currently awaiting legislative action.

As previously noted, UW System's audited financial statements contained in the Annual Financial Report reflect the full accrual of all financial transactions, as prescribed by GAAP. Program revenue balances calculated under RPD 21-6 are calculated on a modified cash basis, and will not include all accrual transactions.

RELATED REGENT POLICIES

None

February 6, 2014

Agenda Item I.2.e.

2013 ANNUAL FINANCIAL REPORT AND AUDITOR'S OPINION

The complete report can be viewed at <http://www.uwsa.edu/fadmin/finrep/afr.htm>

Internal Audit
Calendar Year 2014 Audit Plan

AUDIT COMMITTEE:

Resolution:

That, upon the recommendation of the Interim President of the University of Wisconsin System, the Board of Regents approves the Calendar Year 2014 Audit Plan.

OFFICE OF INTERNAL AUDIT

EXECUTIVE SUMMARY

BACKGROUND

The Office of Internal Audit provides objective review and analysis services in order to add value to, protect, and strengthen the University of Wisconsin System. Annually, the Office develops a risk-based audit plan to determine internal audit activity priorities, consistent with the organization's goals.

REQUESTED ACTION

Approval of Resolution I.2.f.

That, upon the recommendation of the Interim President of the University of Wisconsin System, the Audit Committee approves the Calendar Year 2014 Internal Audit Plan.

DISCUSSION

The *2014 Audit Plan* highlights proposed topics to be audited during calendar year 2014.

Additionally, it should be noted that this plan assumes full staffing within the Office of Internal Audit and does not include reserves for unplanned projects, such as investigations. During the year should significant modifications to the 2014 audit plan be deemed necessary for any reasons, the Chief Audit Executive (CAE) will notify the Chair of the Audit Committee of the Board of Regents as soon as practical.

RELATED REGENT POLICIES

None.

UW-System Administration
CALENDAR YEAR 2014 AUDIT PLAN

1) Strategic:

- Flexible Degree Option:
 - Review of internal controls over the flexible degree option
 - Document compliance with financial aid and Title IV requirements
 - Review assessment integrity including:
 - Proctoring processes,
 - Adequacy of technology and related controls for subscription enrollment and expiration,
 - Qualifications and accountability of academic success coaches,
 - Compensation agreements for faculty “mentoring” of students, and
 - Quality and timeliness of student and employer feedback.

- Governance/Ethics:
 - Review documentation of System and Institutional governance and ethics policies, including but not limited to:
 - Tone at the top
 - Ethics education and training requirements
 - Conflict of interest policies
 - Policies regarding personal relationships which may impact independence of work
 - Employees' responsibility to report fraudulent activity
 - May include recommendations such as implementation of a hotline and documentation and communication of whistle blower protection

2) Financial:

- Query Library Data Integrity: The query library is a compilation of reports which are available to UW faculty, staff and administrative HRS users. The reports have been delivered with PeopleSoft or were developed by the HRS Project Team.
 - Document departments using query library report information for internal and external reporting
 - Review and document individuals with authority to initiate new report development by DoIT, and those with access to make changes to information within reports or format of reports after they are developed
 - Review and document process for evaluating accuracy of report information

- Donor Intent:
 - Document controls in place to ensure appropriate accounting
 - Test a sample of new gifts for identified restrictions and intentions
 - Test a sample of spending occurring on gifts with temporary or permanent restrictions to ascertain compliance with donor intent

- NCAA Division III:
 - Review significant policies and procedures applicable to the athletics program including compliance with select aspects of NCAA Bylaw Article 15 related to financial aid and Article 15.4.5 Athletics Staff Involvement
 - Ascertain the adequacy of internal controls and compliance with policies related to various categories of athletics' revenues and expenses

3) Compliance:

- PCI Compliance: Payment Card Industry Data Security Standards affect organizations that handle cardholder information for the major debit, credit, prepaid, ATM, and POS cards.
 - Test compliance with applicable regulations
 - Review institutional processes for potential efficiencies and cost savings of working collaboratively system-wide to obtain proper validation from fewer outside parties
- Affordable Care Act (ACA) Reporting Requirements:
 - Evaluate internal controls to monitor compliance with ACA
 - Review policies and procedures in place for reporting requirements including mandatory disclosures to employees and IRS
 - Review compliance with benefits coverage, i.e. adjunct faculty
- Animal Research:
 - Examine necessary documentation for compliance with related federal regulations
 - Review internal controls to ensure compliance
 - Review facility inspection reports and research protocols

4) Operational:

- Grading Data Security:
 - Review of policies and procedures for professors/grad students to safeguard information entered for student grades, grade changes, information reported
 - Review internal controls over security of the student information systems
- Appointment Letters for LTEs:
Examine letters of appointment for limited appointees' compliance with system and institution policies.

CALENDAR YEAR 2014 PLAN: Carry Forward Topics

Physical Security/Access

COBRA

Payroll

Travel

Clery

Procurement (P-cards)

Payroll/Benefits (Gross to Net)

Follow up on Management Responses from prior engagements

CALENDAR YEAR 2014 PLAN: Consulting/Committee Work

Human Resource System (HRS) Controls

Travel Management and Operations Committee

Premium in Advance

Enterprise Risk Management Committee

UW Colleges Contractual Agreement
with Neebo Complete College Outfitter

BUSINESS AND FINANCE COMMITTEE

Resolution:

That, upon the recommendation of the Chancellor of the University of Wisconsin Colleges and the Interim President of the University of Wisconsin System, the Board of Regents approves the contractual agreement between the University of Wisconsin Colleges and Neebo Complete College Outfitter to provide Bookstore Services.