

**UW SYSTEM  
2014 ANNUAL FINANCIAL REPORT**

**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 AND RECOMMENDATIONS**

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 Annual Financial Report for the year ending June 20, 2014, includes a Statement of Net Position; a Statement of Revenues, Expenses and Changes in Net Position; and a Statement of Cash Flows. It also includes 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 both disclosures required by GAAP and explanations intended to aid the reader in understanding the statements. In addition, the Annual Financial Report includes a "Management's Discussion and Analysis" (MD&A) that is intended to provide an objective and easily readable analysis of the UW System's financial activities. Of 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 may be performed to provide management with an understanding of operations and to assist in making business decisions. The statements may also be used by Regents and other key stakeholders, including legislators and the Higher Learning Commission, in evaluating financial performance. Finally, because the UW System's financial

statements are included in the State’s CAFR, financial institutions, such as lending and bond rating agencies, use the statements when extending debt securities to finance capital projects.

### Analysis of Financial Statements

According to the UW System’s audited financial statements, total revenues in fiscal year 2014 were nearly \$4.9 billion, as shown in the table below. This represents a decrease of \$218.6 million, or 4.3%, from fiscal year 2013. There were two primary factors contributing to the revenue decrease. Tuition and Fees decreased nearly \$36.4 million, or 3.1%, from fiscal year 2013 to fiscal year 2014. Grants and Contracts from all sources – federal, state, local, and private – also decreased \$120.2 million, or 9.4%, over the same time period.

(in millions)	2014	2013	Percentage Change
Total Revenues	\$4,856.5	\$5,075.1	(4.3%)
Total Expenses	4,833.4	4,604.8	4.9%
Increase In Net Position	23.1	470.3	

Total expenses in fiscal year 2014 were approximately \$4.8 billion. This is an increase of \$228.6 million, or 4.9%, from fiscal year 2013. The majority of this increase relates to salary and fringe benefits expenses and supplies and services expense.

The UW System’s Net Position, which is defined as assets and deferred outflows less liabilities and deferred inflows, increased by \$23.3 million from fiscal year 2013 to fiscal year 2014.

(in millions)	2014	2013	Percentage Change
Total Assets	\$8,467.0	\$8,522.9	(0.7%)
Deferred Outflows	19.1	13.9	37.4%
Total Liabilities	2,146.5	2,221.0	(3.4%)
Deferred Inflows	0.5	0.0	n/a
Net Position	\$6,339.1	\$6,315.8	0.4%

Net Position is divided into three categories:

- invested in capital assets, which increased nearly \$195.1 million in fiscal year 2014;
- restricted by external stipulations, such as law or donor restrictions, which decreased by \$39.6 million; and
- unrestricted, which decreased by \$132.2 million.

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

### Financial Reporting Impacts

Considerable attention to the UW System’s program revenue balances began in early 2013. To establish a policy addressing balances, the Board of Regents approved Regent Policy Document (RPD) 21-6, *Program Revenue Calculation Methodology and Fund Balances Policy*, in June 2014. This policy creates

reporting thresholds for certain program revenue funds. The first report under this policy was presented to the Board of Regents in October 2014.

As previously noted, the 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 5, 2014

Agenda Item I.2.b.

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The complete report can be viewed at

[https://www.wisconsin.edu/financial-administration/download/  
university\\_of\\_wisconsin\\_system\\_annual\\_financial\\_reports/2014-Annual-Financial-Report.pdf](https://www.wisconsin.edu/financial-administration/download/university_of_wisconsin_system_annual_financial_reports/2014-Annual-Financial-Report.pdf)