



Nuclear Reactor Laboratory

UWNR University of Wisconsin-Madison

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June 16, 2010

RSC 1047

United States Nuclear Regulatory Commission
ATTN: Document Control Desk
Washington, D.C. 20555

Subject: Docket 50-156, License R-74
Response to Request for Additional Information
for License Renewal to Facility License No. R-74
University Of Wisconsin Nuclear Reactor
TAC No. ME1585 (Financial Qualification RAI)

Dear Sirs:

By letter, dated November 13, 2009, the Commission has requested additional information in order to complete the review for the University of Wisconsin Nuclear Reactor's (UWNR) request to renew facility license number R-74.

Enclosed are the responses to the request for additional information. The responses are provided in the same order as the Commission's requests. The format of the enclosure is to restate the request followed by the response. The original request is counter shaded to aid in the separation between request and response.

I certify under penalty of perjury that the foregoing is true and correct.

Sincerely,

Robert J. Agaise
Reactor Director

Executed on: 6/16/2010

Enclosure

A020
NRR

Responses to License Renewal Request for Additional Information

1. The U. S. Nuclear Regulatory Commission (NRC) staff will analyze the University's financial statements for the current year, which are required by 10 CFR 50.71 (b), to determine if the applicant is financially qualified to operate the UWNR. Since the University's financial statements provided with the application are currently out of date, please provide a copy of the latest financial statements for the NRC staff's review.

Licensee's Response:

The annual financial report for 2009 for the University of Wisconsin has been provided in attachment 1.

2. Pursuant to 10 CFR 50.33(f)(2), "the applicant shall submit estimates for total annual operating costs for each of the first five years of operation of the facility." Since the information included in the applicant's 2000 application for the UWNR is now out of date, please provide the following additional information:

- (a) The estimated operating costs for the each of the fiscal years (FY) 2011 through 2015 (the first five year period after the projected license renewal date).

Licensee's Response:

The estimated operating costs for fiscal years FY 2011 through 2015 are summarized below:

	2011	2012	2013	2014	2015
Salary & Wages [†]	\$216,748	\$216,748	\$223,452	\$225,687	\$227,943
Benefits	\$64,383	\$64,383	\$66,374	\$67,038	\$67,709
Supplies & Expenses [‡]	\$12,000	\$12,360	\$12,731	\$13,113	\$13,506
Total	\$293,132	\$293,492	\$302,557	\$305,837	\$309,158

[†] In an effort to reduce a deficit of the biennial state budget, the State of Wisconsin has furloughed state employees, including the University of Wisconsin, for 8 days per year of the biennial budget period. This amounts to a 3% reduction in salaries and wages. This estimate assumes the furloughs will not be reinstated in the next biennial budget period. Furthermore, the historically averaged merit based increase to salaries and wages has been about 1% per year.

[‡]The projection for supplies and expenses are based on expected cost for 2011 and adjusted by 3% per year to account for inflation.

(b) Confirm that the University's primary source(s) of funding to cover the operating costs for the above FY will be from the state-funded budget as described in the application.

Licensee's Response:

The following table outlines projected sources of funding to cover the operating costs for fiscal years FY 2011 through 2015:

	2011	2012	2013	2014	2015
Income					
State Funds	\$197,022	\$197,022	\$202,021	\$204,521	\$207,058
Grants and Gifts [†]	\$40,480	\$40,480	\$40,480	\$40,480	\$40,480
Auxiliary Enterprise [‡]	\$55,630	\$55,990	\$60,056	\$62,286	\$64,554
Outlays					
	\$293,132	\$293,492	\$302,557	\$305,837	\$309,158
Balance	\$0	\$1,309	\$271	\$(610)	\$(1,306)

[†]Grants and gifts include existing state and federal grants and financial gifts made to the University in support of the facility. These funds are encumbered and assumed to be disbursed in equal shares annually. There are no projections of assumed future grant income.

[‡]Auxiliary enterprise income includes services provided by the facility to users for a fee. These services include, but are not limited to, neutron activation analysis, isotope production, training, outreach and consultation. The projection for 2011 auxiliary enterprise income is based on the historical average over the last decade. Future projections are adjusted by 3% per year to account for inflation.

3. Section 15.3 of the application, "Financial Ability to Decommission the Facility", states that the expected cost to decommission the UWNR was \$1,200,000 in 2000. In order for the NRC staff to complete its review of the decommissioning cost estimate, please provide the following information:

(a) A current decommissioning cost estimate in 2010 dollars for the UWNR to meet the NRC's radiological release criteria for decommissioning the facility for unrestricted use pursuant to 10 CFR 50.75(d)(2)(i). Confirm that the basis for the cost estimate is still NUREG/CR-1756 as described in the application, showing costs specifically broken down into the categories of labor, waste disposal, other items (such as energy, equipment, and supplies), and a contingency factor of at least 25 percent.

Licensee's Response:

The cost analysis that follows was submitted to the NRC in accordance with 10 CFR 50.75 on July 19, 1990 and is reproduced in its entirety. The basis of the 1990 estimate was and the 2010 estimate still is NUREG/CR-1756.

Cost Category	Reference Estimate (1981 \$)	UWNR Estimate (1981 \$)
Disposal of Radioactive Materials Neutron activated materials reduced by 35% due to larger distance from core to shield (2.4 m diameter vs. 2.0 m) and UWNR wall not completely surrounding core. Also reduced because UWNR core is 1.2 m above pool bottom vs. 0.46 m.	16,610	10,800
Contaminated materials Reduction by 50% due to smaller building size, with cooling system and auxiliary equipment compactly housed in one area. Half the assumed rubble volume in reference reactor is outside the reactor building. In addition, pool concrete is well protected against contamination at UWNR due to liner and epoxy coating. Finally, the contamination level at UWNR is extremely low – even the estimate above would require a major fuel rupture to produce enough contamination to require the expenditure indicated.	60,600	30,300

Cost Category	Reference Estimate (1981 \$)	UWNR Estimate (1981 \$)
Radioactive Wastes The number from the reference document is used unchanged.	9,620	9,620
Total Disposal Costs	86,290	50,720
Staff Labor Our analysis of the work force required for our facility is 6.8 man-years vs. the 12.6 man-year estimate in the reference document. Even this is high, considering that the facility has been operated, upgraded, maintained, health physics services provided, etc. with a considerably smaller staff than indicated for decontamination. In addition, many of the items indicated as chargeable in the reference document are normal university overhead duties not borne specifically for the project in question. Therefore, the final estimate is 50% of the value in the reference.	530,570	265,285
Energy The value used in the reference document is used unchanged.	13,790	13,790
Special Tools and Equipment The value used in the reference document is used unchanged.	21,150	21,150
Miscellaneous Supplies The value used in the reference document is used unchanged.	6,210	6,210
Nuclear Insurance The value used in the reference document is used unchanged.	4,620	4,620
License Fees It is assumed that the university will remain exempted from the NRC licensing fees, so this item is zero for UWNR.	13,950	0,000

Cost Category	Reference Estimate (1981 \$)	UWNR Estimate (1981 \$)
Subtotal	676,580	361,775
Contingency (25%)	169,150	90,445
TOTAL	845,730	452,220

The cost of spent fuel shipment was assumed to be paid per current fuel contract with the U.S. Department of Energy. Cost for facility demolition and site restoration is not included, since it is expected that, once the reactor is decontaminated, the site will be used for other university activities.

The 1990 projection for decommissioning costs in 2000 assumed the decommissioning began in June 2000 when the operating license was scheduled to expire. The 1990 cost estimate assumed an increase of 5% per year. The 5% figure was based on the importance of salary in the estimate and recent history on pay rates for academic staff and civil service employees of the university. Therefore the price above, in 1981 dollars, was expected to escalate by a factor of 2.65 over the 20 year period of 1981-2000. Therefore the decommissioning cost of the facility was estimated to be \$1.2 million in 2000.

A more rigorous approach to address cost escalation using the inflation formula found in 10 CFR 50.75(c)(2) was used to determine the current decommissioning cost estimate, in 2010 dollars, to be \$1,995,448. A detailed numerical example of the application of this inflation formula is presented in response to question 3(c) below.

(b) A statement of the decommissioning method to be used (e.g., DECON, SAFSTOR, or other method).

Licensee's Response:

The method of decommissioning will be DECON; that is, the immediate removal of all radioactive material down to residual levels which will permit release of the property for unrestricted access.

(c) A description of the means of adjusting the cost estimate and associated funding level periodically over the life of the facility pursuant to 10 CFR 50.75(d)(2)(iii). Also, provide a numerical example updating the 2010 cost estimate.

Licensee's Response:

The means of adjusting the cost estimate and associated funding level for decommissioning of the facility is by use of the inflation formula found in 10 CFR 50.75(c)(2). Specifically, an adjustment factor equal to $0.65*L + 0.13*E + 0.22*B$ is used where L and E are escalation factors for labor and energy, respectively, and taken from regional data from the U.S. Department of Labor's Bureau of Labor Statistics and B is an escalation factor for waste burial taken from NUREG-1307.

To update the initial cost estimate in 1981 dollars to 2010 dollars the labor escalation factor was derived from the Employee Cost Indices, series ID ECU13302I and CIU2010000000230I(B) for non seasonally adjusted, total compensation, of private industry in the Midwest.

$$L_{1981} = 41.9$$

$$L_{2010} = 108.6$$

$$L_{1981-2010} = \frac{108.6}{41.9} = 2.592$$

It should be noted that the value of the Employee Cost Index for 1981 was taken from quarter 4 of 1982 data since no prior data was available and at the time of preparing these responses quarter 1 data for 2010 was not available and therefore quarter 4 data from 2009 was used.

The escalation factor for energy is taken from NUREG-1307, revision 13, section 3.2 for the reference BWR to be:

$$E = 0.54P + 0.46F$$

Where P reflects escalation in industrial electric power and is derived from the Producer Price Index, series WPU0543, for non seasonally adjusted industrial electric power; and F reflects escalation in fuel costs and is derived from the Producer Price Index, series WPU057303, for non seasonally adjusted no. 2 diesel fuel. These values were determined to be:

$$P_{1981} = 89.2$$

$$F_{1981} = 105$$

$$P_{2010} = 187$$

$$F_{2010} = 206.8$$

It should be noted that the value of the Producer Price Index for 1981 was taken from the annual average column and at the time of preparing these responses and the 2010 data was taken to be the preliminary February 2010 values.

Therefore

$$E_{1981} = 0.54P_{1981} + 0.46F_{1981}$$

$$E_{1981} = 0.54(89.2) + 0.46(105)$$

$$E_{1981} = 96.47$$

And

$$E_{2010} = 0.54P_{2010} + 0.46F_{2010}$$

$$E_{2010} = 0.54(187) + 0.46(206.8)$$

$$E_{2010} = 196.1$$

Finally

$$E_{1981-2010} = \frac{196.1}{96.47} = 2.033$$

The escalation factor for burial costs is taken from NUREG-1307, revision 13, table 2.1. The values developed for table 2.1 are normalized to 1986 and do not project beyond 2008. No additional data is available. Therefore the value for the generic LLW disposal site using vendors for the reference BWR, $B_{1986-2008} = 11.198$, is assumed as the value for $B_{1981-2010}$.

Applying the above derived escalation factors to the equation, $0.65*L + 0.13*E + 0.22*B$, the adjustment factor was determined to be:

$$0.65(2.592) + 0.13(2.033) + 0.22(11.198) = 4.413$$

Applying the 4.413 adjustment factor to the 1981 estimate of \$452,220 the current 2010 cost estimate for decommissioning was determined to be \$1,995,448.

This methodology will be used to adjusting the cost estimate and associated funding level every five years over the life of the facility pursuant to 10 CFR 50.75(d)(2)(iii).

4. The application indicates that the University plans to use a statement of intent (SOI) as the method to provide decommissioning funding assurance, as provided for by 10 CFR 50.75(e)(1)(iv) (Letter of Intent from the University to the NRC dated April 27, 2000). Where the applicant intends to use a SOI as the method to provide decommissioning funding assurance, the NRC staff must find that the applicant " ... is a Federal, State, or local government licensee ..." To make this finding, the applicant must state that it is a State government organization and that the decommissioning funding obligations of the applicant are backed by the State government, and also provide corroborating documentation. Further, the applicant must provide documentation verifying that the signator of the SOI is authorized to execute said document that binds the applicant. This document may be a governing body resolution, management directives, or other form that provides an equivalent level of assurance. Since the application does not include all of the above information, please submit the following:

(a) An updated SOI which includes the date of the submittal of the SOI; the current (2010) cost estimate for decommissioning; a statement that funds for decommissioning will be obtained when necessary; typed name and title of the signator, and original signature of the signator; and the signator's oath or affirmation attesting to the information.

Licensee's Response:

An updated Statement of Intent (SOI) provided by the Vice President for Finance of the University of Wisconsin, dated June 2, 2010, is included in attachment 2.

(b) Documentation that corroborates the statement in the application that the University is a State of Wisconsin government licensee pursuant to 10 CFR 50.75(e)(2)(iv).

Licensee's Response:

As indicated in the SOI found in attachment 2, the University is an agency of the State of Wisconsin, established pursuant to Chapter 36 of Wisconsin Statutes.

(c) A statement as to whether the decommissioning funding obligations for the UWNR are backed by the State of Wisconsin government. The application must also present information that corroborates this statement. For example, the documentation may be a copy of or complete citation to a state statute that expressly provides that the obligations, or at least the decommissioning funding obligations, of the applicant are obligations backed or supported by the full faith and credit of the State of Wisconsin. Or the documentation may be an opinion of the applicant's General Counsel with citations to statutes, regulations, and/or case law that the obligations, or at least with respect to the decommissioning funding obligations, of the applicant are obligations backed or supported by the full faith and credit of the State of Wisconsin.

Licensee's Response:

As indicated in the SOI found in attachment 2, the University is an agency of the State of Wisconsin, established pursuant to Chapter 36 of Wisconsin Statutes. As such all financial obligations are backed and supported by the full faith and credit of the State of Wisconsin.

(d) Documentation verifying that the signator of the SOI is authorized to execute such a document that binds the applicant financially. For example, provide a copy of the University's governing board or equivalent resolution that shows that the signator of the SOI has been authorized by University to bind the University financially, at least with respect to funding the decommissioning of the UWNR, or provide a copy of an official University delegation of authority showing that the signator of the SOI is authorized to bind the University financially, at least with respect to funding the decommissioning of the UWNR.

Licensee's Response:

As indicated in the SOI found in attachment 2, the Vice President of Finance of the University of Wisconsin is authorized to act on behalf of the University in making the declarations in the SOI pursuant to Regent Policy Document 13-3. A copy of Regent Policy Document 13-3 is provided in attachment 3.

Responses to License Renewal Request for Additional Information

Attachment 1

Annual Financial Report for 2009 for the University of Wisconsin

UNIVERSITY OF WISCONSIN SYSTEM
Years Ended June 30, 2009 and 2008

Audited Financial Statements

Statements of Net Assets

University of Wisconsin System

June 30, 2009

June 30, 2008

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 891,562,426	\$ 699,341,403
Accounts Receivable, Net	268,048,374	264,094,425
Student Loans Receivable, Net	33,867,372	34,011,950
Capital Lease Receivable	2,178,644	2,396,678
Inventories	40,108,400	37,455,028
Prepaid Expenses	39,257,446	33,823,220
Deferred Charges	7,204,596	5,655,363
Total Current Assets	<u>1,282,227,258</u>	<u>1,076,778,067</u>

Noncurrent Assets:

Endowment Investments	308,666,630	348,552,351
Student Loans Receivable, Net	165,447,552	165,787,014
Capital Lease Receivable	10,981,941	13,160,585
Land	130,112,829	121,585,235
Improvements Other Than Buildings, Net	109,471,620	97,423,488
Construction In Progress	227,772,184	358,378,124
Buildings, Net	2,641,202,809	2,324,596,066
Equipment, Net	256,212,875	251,322,813
Library Holdings	1,088,150,074	1,071,268,699
Total Noncurrent Assets	<u>4,938,018,514</u>	<u>4,752,074,375</u>

TOTAL ASSETS

\$ 6,220,245,772 \$ 5,828,852,442

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities	\$ 295,806,773	\$ 307,269,364
Notes and Bonds Payable	39,836,128	37,075,829
Capital Lease Obligations	5,651,473	5,473,980
Unearned Revenue	169,768,276	121,687,048
Compensated Absences	57,595,924	55,356,706
Deposits of Student Organizations	2,052,918	1,822,818
Total Current Liabilities	<u>570,711,492</u>	<u>528,685,745</u>

Noncurrent Liabilities:

Notes and Bonds Payable	788,739,126	766,657,457
Capital Lease Obligations	102,995,660	109,288,790
Compensated Absences	61,523,309	57,009,879
Total Noncurrent Liabilities	<u>953,258,095</u>	<u>932,956,126</u>

TOTAL LIABILITIES

\$ 1,523,969,587 \$ 1,461,641,871

NET ASSETS

Invested in Capital Assets, Net of Related Debt	\$ 3,515,700,004	\$ 3,306,078,369
Restricted for:		
Nonexpendable	122,923,573	150,149,852
Expendable	304,714,582	317,262,199
Student Loans	220,588,341	219,140,599
Other	216,370,915	156,969,265
Unrestricted	315,978,770	217,610,287
TOTAL NET ASSETS	<u>\$ 4,696,276,185</u>	<u>\$ 4,367,210,571</u>

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

Statements of Revenues, Expenses and Changes in Net Assets

University of Wisconsin System

Year Ended June 30, 2009

Year Ended June 30, 2008

OPERATING REVENUES

Student Tuition and Fees (Net of Scholarship Allowances of \$99,704,584 and \$90,874,751, respectively)	\$ 934,842,549	\$ 884,962,338
Federal Grants and Contracts	733,360,241	630,867,030
State, Local and Private Grants and Contracts	297,809,784	251,493,658
Sales and Services of Educational Activities	279,487,165	276,972,399
Sales and Services of Auxiliary Enterprises (Net of Scholarship Allowances of \$17,582,206 and \$15,935,669, respectively)	340,323,929	314,147,533
Sales and Services to UW Hospital Authority	47,491,416	45,864,626
Student Loan Interest Income and Fees	4,071,170	3,732,080
Other Operating Revenue	241,380,107	225,703,354
Total Operating Revenues	2,878,766,361	2,633,743,018

OPERATING EXPENSES

Salary and Fringe Benefits	2,691,383,369	2,577,615,559
Scholarships and Fellowships	99,128,864	88,914,660
Supplies and Services	1,059,484,634	1,014,294,964
Other Operating Expenses	4,961,328	4,544,811
Depreciation	189,334,626	174,719,876
Total Operating Expenses	4,044,292,821	3,860,089,870

OPERATING LOSS

(1,165,526,460) (1,226,346,852)

NON-OPERATING REVENUES AND EXPENSES

State Appropriations	1,012,123,927	953,640,764
Gifts	251,516,230	269,646,231
Investment (Loss) Income (Net of Investment Expense of \$1,137,219 and \$1,531,057, respectively)	(43,959,796)	10,777,248
Loss on Disposal of Capital Assets	(16,395,013)	(9,578,046)
Interest on Indebtedness	(36,971,878)	(35,701,859)
Transfer to State Agencies	(110,631,225)	(57,068,796)
Other Revenues (Expenses), Net	111,354,214	584,017
Income (Loss) Before Capital and Endowment Additions/Deductions	1,509,999	(94,047,293)
Capital Appropriations	202,350,119	114,539,164
Capital Contributions	124,463,862	70,961,590
Additions to Permanent Endowment	741,634	1,280,187
INCREASE IN NET ASSETS	329,065,614	92,733,648

NET ASSETS

Net Assets - Beginning of Period	4,367,210,571	4,274,264,046
Prior Period Adjustments	-	212,877
NET ASSETS - End of Period	\$ 4,696,276,185	\$ 4,367,210,571

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, 2009

Year ended June 30, 2008

Cash Flows from Operating Activities

Student Tuition and Fees	\$ 933,075,358	\$ 892,100,577
Federal, State, Local and Private Grants and Contracts	1,065,700,183	852,135,795
Sales and Services of Educational Activities	277,881,720	280,316,855
Sales and Services of Auxiliary Enterprises	338,402,376	319,539,894
Sales and Services to UW Hospital Authority	47,207,140	47,601,848
Payments for Salaries and Fringe Benefits	(2,698,899,261)	(2,469,304,096)
Payments to Vendors and Suppliers	(1,053,971,398)	(1,012,774,231)
Payments for Scholarships and Fellowships	(99,128,864)	(88,914,660)
Student Loans Collected	21,296,464	24,418,865
Student Loan Interest and Fees Collected	4,071,170	3,732,079
Student Loans Issued	(22,931,523)	(34,502,100)
Other Revenue, Net	244,963,594	198,062,982
Net Cash Used in Operating Activities	(942,333,041)	(987,586,192)

Cash Flows from Investing Activities

Interest and Dividends on Investments, Net	15,407,870	25,527,688
Proceeds from Sales and Maturities of Investments	122,791,151	192,286,496
Purchase of Investments	(142,110,540)	(183,788,082)
Net Cash (Used In) Provided by Investing Activities	(3,911,519)	34,026,102

Cash Flows from Capital and Related Financing Activities

Proceeds from Issuance of Capital Debt	61,906,160	54,753,733
Capital Appropriations	202,350,119	114,539,164
Gifts and Other Receipts	100,862,102	70,159,170
Purchase of Capital Assets	(407,500,086)	(419,628,481)
Principal Payments on Capital Debt and Leases	(118,876,754)	(109,565,465)
Interest Payments on Capital Debt and Leases	(88,189,194)	(90,240,184)
Net Cash Used in Capital and Related Financing Activities	(249,447,653)	(379,982,063)

Cash Flows from Noncapital Financing Activities

State Appropriations	1,136,024,054	1,074,599,979
Gifts and Other Receipts	361,780,502	269,025,117
Transfer to State Agencies	(110,631,225)	(57,068,796)
Additions to Permanent Endowments	741,635	1,280,187
Student Direct Lending Receipts	94,318,579	72,866,661
Student Direct Lending Disbursements	(94,320,309)	(72,961,847)
Net Cash Provided by Noncapital Financing Activities	1,387,913,236	1,287,741,301
Net Increase (Decrease) in Cash and Cash Equivalents	192,221,023	(45,800,852)

Cash and Cash Equivalents - Beginning of Year
Prior Period Adjustments

699,341,403
58,057

Cash and Cash Equivalents - End of Year

\$ 891,562,426 **\$ 699,341,403**

Statements of Cash Flows (Continued)

University of Wisconsin System

Year ended June 30, 2009

Year ended June 30, 2008

Reconciliation of Operating Loss to Net Cash Used in Operating Activities

Operating Loss	\$	(1,165,526,460)	\$	(1,226,346,852)
<i>Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities:</i>				
Depreciation Expense		189,334,626		174,719,876
Changes in Assets and Liabilities:				
Receivables, Net		(12,219,849)		(20,648,428)
Inventories		(2,653,371)		(617,678)
Prepaid Expenses		(3,029,314)		(2,374,176)
Deferred Charges		(1,608,053)		1,255,466
Accounts Payable and Accrued Liabilities		(1,462,836)		108,019,854
Unearned Revenue		48,079,567		(25,238,169)
Compensated Absences		6,752,649		3,643,915
Net Cash Used in Operating Activities	\$	(942,333,041)	\$	(987,586,192)

Noncash Investing, Capital and Financing Activities

Capital Leases (Initial Year):				
Fair Market Value	\$	1,408,032	\$	2,558,442
Current Year Cash Payments		(30,656)		(37,568)
Gifts-In-Kind		27,742,629		5,235,563
Net Change in Unrealized Gains and Losses		(58,584,030)		(38,711,046)

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, 2009 and 2008

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 and La Crosse Medical Health Science Consortium, Inc. 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 which are done to conform with reporting requirements related 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.

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 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 nonoperating. 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 nonoperating revenues, as defined by GASB Statement 35, including state appropriations, gifts, and investment income. The majority of the University of Wisconsin System's expenses are exchange transactions which GASB defines as operating expenses for financial statement presentation. Nonoperating expenses include capital financing costs and costs related to investment activity.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2009 and 2008

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

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 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 relative 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 30th, primarily summer session tuition payments, tuition and room deposits for the next fall term, advance ticket sales for athletic events, and amounts received from grant and contract sponsors which have not yet been earned under the terms of the agreement.

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

Deferred charges represent costs associated with revenues that have not yet been earned as of June 30th, primarily summer session costs incurred prior to the close of the fiscal year. The revenues and expenses of the 2009 summer session are reportable within the fiscal year beginning July 1, 2008 and ending June 30, 2009, based on the prorated portion of the number of summer session days that occurred in fiscal year 2009. The revenues and expenses of the 2008 summer session are reportable within the fiscal year beginning July 1, 2007 and ending June 30, 2008, based on the prorated portion of the number of summer session days that occurred in fiscal year 2008.

Accrual of interest on bonds payable 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 30th, account for the major portion of accounts payable and accrued liabilities.

Inventories consist of consumable supplies used in operations or items held for resale. Supplies held by central stores are valued at average cost, fuels are reported at market value, and 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 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 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

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2009 and 2008

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

based on quarterly reports from the limited partnerships' management. Annually, the reports are audited by independent auditors.

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.

Certain items in the June 30, 2008 financial statements have been reclassified or restated to correspond to the June 30, 2009 presentation. For example, Student Direct Lending Receipts and Disbursements as presented in the year ended June 30, 2008 Statement of Cash Flows were reduced by \$112,684,674 as a result of reclassifying the amounts to reflect Federal Family Education Loans rather than Direct Loans.

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 \$891.6 and \$699.3 million in cash and cash equivalents as of June 30, 2009 and 2008, respectively, \$629.0 and \$512.3 million, respectively, represents an amount held within the SIF; \$235.2 and \$141.8 million, respectively, was maintained by individual University of Wisconsin System institutions in local bank accounts to meet operating needs; and \$27.4 million and \$45.2 million, respectively, was held at Mellon Bank of Boston 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. Except for balances associated with trust funds, auxiliary operations, and federally funded financial aid programs which receive interest distributions on a monthly basis, no investment earnings from these assets accrue to the University of Wisconsin System.

Custodial Credit Risk: Custodial credit risk related to deposits is the risk that, in the event of a failure of a depository financial institution, the University of Wisconsin System will not be able to recover deposits that are in possession of an outside party. The University of Wisconsin System does not have a formal deposit policy for custodial credit risk.

The University of Wisconsin System had balances in excess of Federal Deposit Insurance Corporation limits in the amount of \$231.4 and \$139.9 million at June 30, 2009 and 2008, 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, 2009 and 2008 are immaterial. The University of Wisconsin System does not have a formal deposit policy for foreign currency risk.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2009 and 2008

NOTE 2 – Cash and Investments (continued)

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 24.5% marketable equities, 16.5% fixed income, 34% alternatives, and 25% tactical strategies. The approved asset allocation for the Intermediate Term Fund is 15% marketable equities, 65% fixed income, 10% alternatives, and 10% cash. These target allocations were last affirmed/approved in December 2008.

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, 2009, the amount available to spend from the Long Term Fund was \$12,276,180, relative to \$11,756,158 available during the fiscal year ending June 30, 2008.

At June 30, 2009 and 2008, the University of Wisconsin System's investments include credit risk Category 1 investments as defined by GASB (investments that are insured or registered and held by the University of Wisconsin System or its agents in the name of the University of Wisconsin System) and other investments not categorized by risk category as follows:

	<u>2009</u>	<u>2008</u>
Category 1:		
U.S. Government Securities	\$ 26,189,790	\$ 35,310,280
U.S. Agency Securities	12,475,867	13,303,707
Bonds and Preferred Stock	27,067,615	29,093,063
Common Stock and Convertible Securities	<u>33,931,083</u>	<u>46,198,532</u>
	<u>99,664,355</u>	<u>123,905,582</u>
Not Categorized:		
Pooled Equity Funds	73,013,822	88,909,167
Pooled Allocation Fund	58,155,616	57,456,075
Pooled Fixed Income Fund	28,088,917	19,934,461
Custodial Pooled Cash and Cash Equivalents	27,393,912	45,153,083
Limited Partnerships	<u>49,743,920</u>	<u>58,347,066</u>
	<u>236,396,187</u>	<u>269,799,852</u>
Total Investments	<u>\$ 336,060,542</u>	<u>\$ 393,705,434</u>

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2009 and 2008

NOTE 2 – Cash and Investments (continued)

The Long Term Fund consisted of the following investment categories on June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Investment Category		
Common Stock and Convertible Securities	36.7%	38.5%
Bonds and Preferred Stock	14.4%	13.9%
Alternative Assets	18.5%	19.3%
Tactical Allocation Strategies	21.6%	17.4%
Custodial Pooled Cash and Cash		
Equivalents	<u>8.8%</u>	<u>10.9%</u>
Total	<u>100.0%</u>	<u>100.0%</u>

The Intermediate Term Fund consisted of the following investment categories on June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Investment Category		
Common Stock and Convertible Securities	12.7%	3.7%
Bonds and Preferred Stock	81.9%	81.9%
Custodial Pooled Cash and Cash		
Equivalents	<u>5.4%</u>	<u>14.4%</u>
Total	<u>100.0%</u>	<u>100.0%</u>

The total return on the Long Term Fund, including capital appreciation, was (14.7)% compared to (2.7)% in fiscal year 2008. The total return on the Intermediate Fund, including capital appreciation, was 2.2% compared to 7.6% in fiscal year 2008. External investment counsel was utilized for funds representing 84.6%, compared to 83.8% in fiscal year 2008, of the market value of the Long Term and Intermediate Term Funds. In addition to the limited partnerships market value listed above, the University of Wisconsin System had unfunded limited partnership commitments of \$30.6 million for the fiscal year ending June 30, 2009, relative to \$20.6 million for the fiscal year ending June 30, 2008.

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 10%; for the Intermediate Term Fund, exposure is limited to 6%. 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. Credit risk guidelines for all mutual or commingled funds used are carefully reviewed and monitored. As of June 30, 2009, the actively-managed, investment grade fixed income separate accounts held a CIT Group Inc. security in the amount of \$114,862 rated Ba2 by Moody's and BB- by Standard & Poor's and a Windsor Financing, LLC security in the amount of \$89,765 rated Ba3 by Moody's and BB by Standard & Poor's. The CIT Group Inc. security was disposed of on August 3, 2009 and the Windsor Financing, LLC security was disposed of on July 16, 2009.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2009 and 2008

NOTE 2 – Cash and Investments (continued)

The following schedule displays the credit ratings as provided by Moody's Investor Service for debt securities held as of June 30, 2009 and 2008. Obligations of the United States and obligations explicitly guaranteed by the U.S. government have been included in the Aaa rating below, although they are considered to be without credit risk.

<u>Ratings</u>	<u>2009</u>	<u>2008</u>
Aaa	\$ 52,620,304	\$ 61,873,806
Aa1	-	1,181,754
Aa2	1,591,081	1,171,886
Aa3	1,134,921	2,989,847
A1	1,523,942	1,694,912
A2	5,150,987	1,663,987
A3	4,794,441	3,182,833
Baa1	860,018	1,724,573
Baa2	3,665,300	1,599,247
Baa3	1,253,211	1,742,248
Ba1	2,468,963	1,154,508
Ba2	2,518,060	1,755,612
Ba3	4,361,573	2,440,603
B1	3,350,655	3,064,299
B2	2,561,262	2,875,127
B3	2,327,121	3,964,843
Caa1	987,440	589,679
Caa2	56,671	-
Caa3	8,133	-
No Rating	2,588,105	2,971,747
Unrated Pooled Cash	<u>27,393,912</u>	<u>45,153,083</u>
Totals	<u>\$ 121,216,100</u>	<u>\$ 142,794,594</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.

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% in any one issuer (U.S. Government/Agencies are exempted). Credit concentration guidelines for all mutual or commingled funds used are carefully reviewed and monitored. During fiscal year 2009 and 2008, the largest concentration by a non-U.S. Government/Agency was Wachovia Bank with 0.6% and 0.9%, respectively, of total Trust Funds assets.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2009 and 2008

NOTE 2 – Cash and Investments (continued)

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. Duration-related guidelines for mutual or commingled funds used are carefully reviewed and monitored. 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>2009</u>		<u>2008</u>	
<u>Fixed Income Sector:</u>	<u>Market Value</u>	<u>Modified Duration</u>	<u>Market Value</u>	<u>Modified Duration</u>
Treasury Inflation Protected Securities	\$ 23,916,020	3.61	\$ 30,444,649	7.37
Government	2,488,731	7.42	968,791	1.29
U.S. Government Mortgages	7,797	2.80	4,170,685	5.49
Corporates and Other Credit	16,918,966	4.11	14,581,521	3.28
Collateralized Mortgage Obligations:	8,326,606	2.92	10,080,400	3.70
U.S. Agencies				
Collateralized Mortgage Obligations:	4,353,435	1.91	11,145,632	2.90
Corporate				
Commercial Mortgage Backed Securities	2,150,651	3.33	-	N/A
U.S. Private Placements	3,151,710	3.28	2,425,644	3.09
U.S. Agencies	4,242,963	4.91	3,308,069	4.28
Asset Backed Securities	793,912	3.70	1,276,448	3.04
Totals	<u>\$ 66,350,791</u>		<u>\$ 78,401,839</u>	

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

	<u>2009</u>		<u>2008</u>	
<u>Fixed Income Commingled Fund:</u>	<u>Market Value</u>	<u>Modified Duration</u>	<u>Market Value</u>	<u>Modified Duration</u>
Seix Advisors High Yield Fund	\$ 18,387,582	4.10	\$ 16,796,566	4.18

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, 2009, the Long Term and Intermediate Term Funds held equity securities denominated in foreign currencies within pooled investment vehicles only, with market values totaling \$75,967,071 and \$4,203,800, respectively, compared to prior fiscal year amounts of \$94,307,013 and \$1,153,656, 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. Foreign currency management practices and policies for mutual or commingled funds used are carefully reviewed and monitored.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2009 and 2008

NOTE 3 – Receivables

Accounts receivable, amounts due from state agencies and other governments, amounts due from capital lease receivables, and student loans receivable as of June 30, 2009 and 2008, are summarized as follows:

	<u>2009</u>	<u>2008</u>
Receivables (Net):		
Student Academic Fees	\$ 22,745,420	\$ 19,966,011
Grants and Contracts	61,321,890	45,676,609
Educational Activities and Other	11,920,913	15,607,511
Auxiliary Enterprises	5,663,497	2,252,614
UW Hospital Authority and La Crosse Medical Health Science Consortium, Inc.	14,679,596	16,791,998
Investment	1,150,638	9,930,666
Student Loans Receivable	199,314,924	199,798,964
State Agencies	57,843,933	62,753,863
Other Governments	<u>105,883,072</u>	<u>106,672,416</u>
Total Receivables (Net)	<u>\$ 480,523,883</u>	<u>\$ 479,450,652</u>

Student loans receivable at June 30, 2009 included allowances for uncollectible loans of \$10.5 million relative to \$10.8 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 \$94.3 million in student loans through the United States Department of Education federal direct lending program during fiscal year 2009 and \$73.0 million in 2008. 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.

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, 2009 and 2008, are summarized as follows:

Fiscal Year 2009	Salary and Fringe Benefits	Due to State Agencies and Other Governments	Vendors	Total Payables
UW System Activities:				
Operating	\$ 71,063,732	\$ 46,531,418	\$ 37,971,607	\$ 155,566,757
Gifts, Grants and Contracts	46,471,234	2,937,216	22,783,863	72,192,313
Capital Projects	-	868,617	49,917,876	50,786,493
Auxiliary Enterprises	5,453,301	1,170,077	5,914,800	12,538,178
Investment and Other	<u>477,769</u>	<u>430,953</u>	<u>3,814,310</u>	<u>4,723,032</u>
Total Activities	<u>\$ 123,466,036</u>	<u>\$ 51,938,281</u>	<u>\$ 120,402,456</u>	<u>\$ 295,806,773</u>

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2009 and 2008

NOTE 4 – Liabilities (continued)

Fiscal Year 2008	Salary and Fringe Benefits	Due to State Agencies and Other Governments	Vendors	Total Payables
UW System Activities:				
Operating	\$ 74,180,592	\$ 59,179,334	\$ 32,024,076	\$ 165,384,002
Gifts, Grants and Contracts	41,405,170	3,038,729	28,125,054	72,568,953
Capital Projects	-	1,178,132	42,967,342	44,145,474
Auxiliary Enterprises	5,540,810	2,590,452	4,120,404	12,251,666
Investment and Other	442,350	1,205,080	11,271,839	12,919,269
Total Activities	<u>\$121,568,922</u>	<u>\$ 67,191,727</u>	<u>\$ 118,508,715</u>	<u>\$ 307,269,364</u>

As of June 30, 2009, current liabilities totaled \$570.7 million inclusive of \$2.1 million in deposits of student organizations, \$295.8 million of accounts payable and accrued liabilities, \$169.8 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 \$953.3 million at June 30, 2009, relative to a total of \$933.0 million at June 30, 2008. Total noncurrent liabilities increased by \$20.3 million relative to fiscal year 2008.

A summarization of noncurrent liability activity for the fiscal year ended June 30, 2009 and 2008 follows:

2009 Noncurrent Liabilities	Balance July 1, 2008	Increases/ Decreases	Balance June 30, 2009	Current Portion
Bonds Payable	\$ 738,608,942	\$ 32,563,410	\$ 771,172,352	\$ 31,312,313
Notes Payable	65,124,344	(7,721,442)	57,402,902	8,523,815
Capital Lease Obligations	114,762,770	(6,115,637)	108,647,133	5,651,473
Compensated Absences	112,366,585	6,752,648	119,119,233	57,595,924
Total	<u>\$ 1,030,862,641</u>	<u>\$ 25,478,979</u>	<u>\$ 1,056,341,620</u>	<u>\$ 103,083,525</u>

2008 Noncurrent Liabilities	Balance July 1, 2007	Increases/ Decreases	Balance June 30, 2008	Current Portion
Bonds Payable	\$ 709,742,012	\$ 28,866,930	\$ 738,608,942	\$ 29,354,807
Notes Payable	72,807,570	(7,683,226)	65,124,344	7,721,022
Capital Lease Obligations	119,234,560	(4,471,790)	114,762,770	5,473,980
Compensated Absences	108,722,670	3,643,915	112,366,585	55,356,706
Total	<u>\$ 1,010,506,812</u>	<u>\$ 20,355,829</u>	<u>\$ 1,030,862,641</u>	<u>\$ 97,906,515</u>

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2009 and 2008

NOTE 5 – Lease Commitments

The University of Wisconsin System had capital lease obligations with a net present value of \$108,647,133 as of June 30, 2009 compared to \$114,762,770 at June 30, 2008. The payment schedule for capital lease obligations is as follows:

2010	\$ 10,511,221
2011	10,212,972
2012	9,990,172
2013	9,795,283
2014	9,773,518
2015-2019	31,579,099
2020-2024	25,308,377
2025-2029	30,791,510
2030-2034	37,462,580
2035-2039	<u>17,166,827</u>
Total Scheduled Lease Payments	192,591,559
Amount Representing Interest	<u>(83,944,426)</u>
Net Present Value	<u>\$ 108,647,133</u>

Assets Held Under Capital Lease:

2009	Original Cost June 30, 2009	Accumulated Depreciation	Book Value June 30, 2009
Buildings and Improvements	\$ 145,780,535	\$ 27,452,092	\$ 118,328,443
Equipment	<u>6,904,759</u>	<u>5,012,510</u>	<u>1,892,249</u>
Total Assets	<u>\$ 152,685,294</u>	<u>\$ 32,464,602</u>	<u>\$ 120,220,692</u>
2008	Original Cost June 30, 2008	Accumulated Depreciation	Book Value June 30, 2008
Buildings and Improvements	\$ 144,907,037	\$ 22,193,636	\$ 122,713,401
Equipment	<u>6,961,965</u>	<u>5,222,473</u>	<u>1,739,492</u>
Total Assets	<u>\$ 151,869,002</u>	<u>\$ 27,416,109</u>	<u>\$ 124,452,893</u>

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2009 and 2008

NOTE 5 – Lease Commitments (continued)

Facilities and equipment rented through operating leases are not recorded as assets on the balance sheet. Operating lease expenditures amounted to \$24,971,724 for the fiscal year ended June 30, 2009. Minimum commitments for future operating lease payments are as follows:

2010	\$ 22,036,251
2011	10,859,042
2012	7,448,927
2013	5,431,201
2014	4,915,157
2015-2019	24,169,742
2020-2024	24,957,212
2025-2029	24,332,838
2030-2034	<u>17,819,725</u>
Total	<u>\$ 141,970,095</u>

NOTE 6 – Compensated Absences

The compensated absences liability at June 30, 2009 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, 2009 totaled \$119,119,233 compared with \$112,366,585 for the previous year. The compensated absences balance consists of a \$57,595,924 current liability and \$61,523,309 noncurrent liability compared to a \$55,356,706 current liability and \$57,009,879 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 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, 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 made contributions of \$192,305,871 for fiscal year 2009, compared to \$182,100,932 for the previous fiscal year. In December 2003, the State issued bonds and subsequently fully liquidated its prior service liability balance as of

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Notes to the Financial Statements
Years Ended June 30, 2009 and 2008

NOTE 7 – Retirement Benefits (continued)

January 2003. State agencies are required to make future contributions to fund the bond payments. Bond payments totaling \$45,426,987 during fiscal year 2009, compared to bond payments totaling \$42,068,796 during fiscal year 2008, 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 \$276,461 during the current year, compared with \$361,304 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 2009, 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 1, 2007 actuarial valuation, the State's annual required contributions were \$158.7 million for 2008 and \$148.5 million for 2007. The State's actual contributions were \$48.8 million in 2008 and \$44.3 million in 2007, which results in a net OPEB obligation for the State of \$214.1 million as of December 31, 2008, and \$104.2 million as of December 31, 2007. The portion of this obligation allocated to the University of Wisconsin System increased from \$47.1 million in fiscal year 2008 to \$96.6 million in fiscal year 2009. 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.

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 or may be obtained by writing to: The Department of Administration, 101 East Wilson Street, Madison, Wisconsin 53702.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2009 and 2008

NOTE 8 – Postemployment Benefits Other Than Pensions (continued)

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 \$728,727 to this program during fiscal year 2009 compared to \$660,330 during fiscal year 2008.

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 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. 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 \$245.3 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 assets met the temporarily impaired definition of this standard. The University of Wisconsin - Whitewater's Central Heating Plant, net book value of \$5.3 million was idle as of June 30, 2008; however it was fully functional in Fall, 2008. The University of Wisconsin - Oshkosh's River Commons, net book value of \$.5 million, was idle as of June 30, 2008 and 2009. A decision was made on October 7, 2009 that the building will be replaced with expected insurance proceeds of \$3.1 million within the next two years. Insurance recoveries for the two buildings amounting to \$1.2 and \$1.0 million, respectively, are included in the other non-operating revenues (expenses), net, account on the financial statements.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2009 and 2008

NOTE 9 – Capital Assets (continued)

Depreciation expense for the fiscal years ended June 30, 2009 and 2008 was \$189.3 and \$174.7 million, respectively.

The change in book value from July 1, 2008 to June 30, 2009 is summarized as follows:

	<u>Book Value</u> <u>July 1, 2008</u>	<u>Additions</u>	<u>Transfers</u>	<u>Deductions</u>	<u>Book Value</u> <u>June 30, 2009</u>
Buildings	\$3,911,206,476	\$ 168,418,495	\$ 265,406,745	\$ (9,350,431)	\$4,335,681,285
Improvements	264,077,200	10,667,059	10,872,261	-	285,616,520
Land	121,585,235	8,527,594	-	-	130,112,829
Construction in Progress	358,378,124	145,673,066	(276,279,006)	-	227,772,184
Equipment	877,539,803	80,263,212	-	(43,071,374)	914,731,641
Library Holdings	<u>1,071,268,699</u>	<u>23,482,507</u>	-	<u>(6,601,132)</u>	<u>1,088,150,074</u>
Subtotal	6,604,055,537	437,031,933	-	(59,022,937)	6,982,064,533
Less Accumulated Depreciation:					
Buildings	1,586,610,410	114,424,933	-	(6,556,867)	1,694,478,476
Improvements	166,653,712	9,491,188	-	-	176,144,900
Equipment	<u>626,216,990</u>	<u>65,418,505</u>	-	<u>(33,116,729)</u>	<u>658,518,766</u>
Total Accumulated Depreciation	2,379,481,112	189,334,626	-	(39,673,596)	2,529,142,142
Capital Assets, Net	<u>\$4,224,574,425</u>	<u>\$ 247,697,307</u>	<u>\$ -</u>	<u>\$ (19,349,341)</u>	<u>\$4,452,922,391</u>

The change in book value from July 1, 2007 to June 30, 2008 is summarized as follows:

	<u>Book Value</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Transfers</u>	<u>Deductions</u>	<u>Book Value</u> <u>June 30, 2008</u>
Buildings	\$3,641,003,285	\$ 92,009,915	\$ 182,784,383	\$ (4,591,107)	\$3,911,206,476
Improvements	252,892,496	7,442,996	4,116,808	(375,100)	264,077,200
Land	118,360,744	3,231,813	-	(7,322)	121,585,235
Construction in Progress	314,073,031	231,206,284	(186,901,191)	-	358,378,124
Equipment	839,552,980	65,474,237	-	(27,487,414)	877,539,803
Library Holdings	<u>1,052,657,879</u>	<u>22,589,901</u>	-	<u>(3,979,081)</u>	<u>1,071,268,699</u>
Subtotal	6,218,540,415	421,955,146	-	(36,440,024)	6,604,055,537
Less Accumulated Depreciation:					
Buildings	1,486,385,416	103,128,136	-	(2,903,142)	1,586,610,410
Improvements	158,160,759	8,857,235	-	(364,282)	166,653,712
Equipment	<u>579,275,024</u>	<u>62,734,505</u>	-	<u>(15,792,539)</u>	<u>626,216,990</u>
Total Accumulated Depreciation	2,223,821,199	174,719,876	-	(19,059,963)	2,379,481,112
Capital Assets, Net	<u>\$3,994,719,216</u>	<u>\$ 247,235,270</u>	<u>\$ -</u>	<u>\$ (17,380,061)</u>	<u>\$4,224,574,425</u>

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2009 and 2008

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, 2009:

	<u>Maturity Dates</u>	<u>Balance July 1, 2008</u>	<u>New Debt/ Accretion</u>	<u>Principal Paid/ Adjustments</u>	<u>Balance June 30, 2009</u>
Bonds (Gross)	2010-2034	\$ 718,765,149	\$ 59,476,278	\$ (27,081,774)	\$ 751,159,653
Notes	2010-2017	<u>65,124,344</u>	<u>-</u>	<u>(7,721,442)</u>	<u>57,402,902</u>
		<u>\$ 783,889,493</u>	<u>\$ 59,476,278</u>	<u>\$ (34,803,216)</u>	<u>\$ 808,562,555</u>

The bonds have maturity dates ranging from October 15, 2009 to April 15, 2034. The notes have maturity dates ranging from May 1, 2010 to May 1, 2017.

As of June 30, 2009, the current and noncurrent bonds payable net of discounts, premiums, and deferred refunding totaled \$31,312,313 and \$739,860,039, respectively.

	<u>Balance June 30, 2009</u>	<u>Current</u>	<u>Noncurrent</u>
Bonds (Gross)	\$ 751,159,653	\$ 28,729,490	\$ 722,430,163
Discount	(74,086)	(12,854)	(61,232)
Premium	27,821,503	3,589,986	24,231,517
Deferred Refunding	<u>(7,734,718)</u>	<u>(994,309)</u>	<u>(6,740,409)</u>
Bonds (Net)	771,172,352	31,312,313	739,860,039
Notes	<u>57,402,902</u>	<u>8,523,815</u>	<u>48,879,087</u>
	<u>\$ 828,575,254</u>	<u>\$ 39,836,128</u>	<u>\$ 788,739,126</u>

The following information relates to the status of bonds and notes payable outstanding at June 30, 2008:

	<u>Maturity Dates</u>	<u>Balance July 1, 2007</u>	<u>New Debt/ Accretion</u>	<u>Principal Paid/ Adjustments</u>	<u>Balance June 30, 2008</u>
Bonds (Gross)	2009-2034	\$ 690,647,324	\$ 51,945,502	\$ (23,827,677)	\$ 718,765,149
Notes	2009-2017	<u>72,807,570</u>	<u>-</u>	<u>(7,683,226)</u>	<u>65,124,344</u>
		<u>\$ 763,454,894</u>	<u>\$ 51,945,502</u>	<u>\$ (31,510,903)</u>	<u>\$ 783,889,493</u>

The bonds have maturity dates ranging from October 15, 2008 to April 15, 2034. The notes have maturity dates ranging from May 1, 2009 to May 1, 2017.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2009 and 2008

NOTE 10 – Long Term Debt (continued)

As of June 30, 2008, the current and noncurrent bonds payable net of discounts, premiums, and deferred refunding totaled \$29,354,807 and \$709,254,135, respectively.

	Balance June 30, 2008	Current	Noncurrent
Bonds (Gross)	\$ 718,765,149	\$ 27,052,706	\$ 691,712,443
Discount	(86,940)	(12,854)	(74,086)
Premium	28,815,008	3,470,957	25,344,051
Deferred Refunding	<u>(8,884,275)</u>	<u>(1,156,002)</u>	<u>(7,728,273)</u>
Bonds (Net)	738,608,942	29,354,807	709,254,135
Notes	65,124,344	<u>7,721,022</u>	<u>57,403,322</u>
	<u>\$ 803,733,286</u>	<u>\$ 37,075,829</u>	<u>\$ 766,657,457</u>

Future debt service requirements for bonds and notes outstanding at June 30, 2009 are as follows:

Future Repayment Schedule

Fiscal Year	Bonds		Notes	
	Principal	Interest	Principal	Interest
2010	\$ 28,729,489	\$ 36,857,661	\$ 8,523,815	\$ 2,871,078
2011	29,318,799	35,405,172	8,946,571	2,444,421
2012	32,624,403	33,879,799	7,427,756	1,996,626
2013	34,516,556	32,267,915	7,789,463	1,625,238
2014	33,867,960	30,540,214	8,181,874	1,235,765
2015-2019	200,123,773	125,479,205	16,533,423	1,542,818
2020-2024	213,316,919	73,811,844	-	-
2025-2029	159,205,520	24,404,662	-	-
2030-2034	19,456,234	2,937,574	-	-
Total	<u>\$ 751,159,653</u>	<u>\$ 395,584,046</u>	<u>\$ 57,402,902</u>	<u>\$ 11,715,946</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, 2009, the principal balance of such bonds and notes was \$1,065,111,382 and \$137,649,536, respectively. As of June 30, 2008, the principal balance of such bonds and notes was \$997,418,270 and \$137,649,536, respectively.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2009 and 2008

NOTE 10 – Long Term Debt (continued)

Debt service payments made by the State of Wisconsin for the years ended June 30, 2009 and 2008 were allocated as follows:

	<u>Bonds</u>	<u>Notes</u>
2009		
Principal	\$ 76,117,449	\$ -
Interest	<u>45,781,343</u>	<u>2,001,335</u>
Total Paid	<u>\$ 121,898,792</u>	<u>\$ 2,001,335</u>
2008		
Principal	\$ 70,359,938	\$ -
Interest	<u>45,374,533</u>	<u>5,224,744</u>
Total Paid	<u>\$ 115,734,471</u>	<u>\$ 5,224,744</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 three groups of 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 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.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2009 and 2008

NOTE 11 – Other Organizations (continued)

A – University of Wisconsin Foundation (continued)

Significant financial data for the UW Foundation for the years ending December 31, 2008 and 2007 are presented below (in thousands):

Condensed Balance Sheet	2008	2007*
Assets:		
Cash, Investments and Other Assets	\$ 2,266,575	\$ 2,876,047
Capital Assets, Net	<u>7,523</u>	<u>7,788</u>
Total Assets	<u>\$ 2,274,098</u>	<u>\$ 2,883,835</u>
Liabilities:		
Accounts Payable and Other Current Liabilities	\$ 47,640	\$ 24,116
Amounts Held for Other Component Units	213,384	260,026
Long-term Liabilities (Current and Noncurrent Portions)	<u>43,599</u>	<u>54,457</u>
Total Liabilities	<u>304,623</u>	<u>338,599</u>
Fund Equity:		
Invested in Capital Assets, Net of Related Debt	7,523	7,788
Restricted	1,841,876	1,844,345
Unrestricted	<u>120,076</u>	<u>693,103</u>
Total Fund Equity	<u>1,969,475</u>	<u>2,545,236</u>
Total Liabilities and Fund Equity	<u>\$ 2,274,098</u>	<u>\$ 2,883,835</u>
Condensed Statement of Revenues, Expenses and Changes in Fund Equity		
Program Expenses:		
Depreciation	\$ 427	\$ 358
Payments to Primary Government	203,345	228,686
Other	<u>40,451</u>	<u>57,391</u>
Total Program Expenses	<u>244,223</u>	<u>286,435</u>
Program Revenues:		
Investment and Interest Income	(493,024)	183,334
Operating Grants and Contributions	160,980	269,929
Other	<u>506</u>	<u>91</u>
Total Program Revenues	<u>(331,538)</u>	<u>453,354</u>
Net Program (Expenses) Revenues	(575,761)	166,919
Change in Fund Equity	(575,761)	166,919
Fund Equity, Beginning of Year	<u>2,545,236</u>	<u>2,378,317</u>
Fund Equity, End of Year	<u>\$ 1,969,475</u>	<u>\$ 2,545,236</u>

*The Balance Sheet was audited but the Statement of Revenues, Expenses and Changes in Fund Equity was not.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2009 and 2008

NOTE 11 – Other Organizations (continued)

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 \$138,413,060 at June 30, 2009, compared with \$190,553,080 at June 30, 2008.

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, 2009, the present value of these future lease payments totaled \$7.7 million, 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 \$751.2 million. 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, 2009, the University of Wisconsin System received services from UWHCA totaling \$4.7 million and provided services to UWHCA totaling \$47.5 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, 2009, the present value of these future lease payments totaled \$5.5 million, 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 \$751.2 million. 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.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2009 and 2008

NOTE 11 – Other Organizations (continued)

C – Lease Agreements (continued)

During the fiscal year ended June 30, 2009, the University of Wisconsin System provided services and rent to The Consortium totaling \$.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.

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 \$35.9 million to DHS during fiscal years 2009 and 2008, representing the state's share of this difference. DHS then claimed the federal share of the difference from the federal government and subsequently provided \$79.6 million, representing both the state and federal share of the difference, to the UW Medical Foundation. During fiscal year 2009, the UW Medical Foundation remitted \$65.9 million to UW-Madison as reimbursement for the \$35.9 million that UW-Madison remitted to DHS as well as reimbursement for annual \$15 million transfers made by UW-Madison to the State's MA Trust Fund during fiscal years 2009 and 2008. The \$65.9 million that UW-Madison received from the UW Medical Foundation is included in the other non-operating revenues (expenses), net, account on the financial statements. The \$15 million transfers to the MA Trust Fund are reported as a transfer to state agencies on the financial statements.

University of Wisconsin Hospital and Clinics Authority

The University of Wisconsin Hospital and Clinics Authority (UWHCA) provides inpatient and outpatient hospital services to Medical Assistance (MA) recipients. Under federal MA rules, services provided by UWHCA are eligible for supplemental payments for the difference between the established MA reimbursement rate for the services provided and the actual cost of providing those services. Supplemental payments of \$49 million were paid to UWHCA by the Wisconsin Department of Health Services during the fiscal year ended June 30, 2009 for services provided during 1990 through 2006. UWHCA provided the funds to UW-Madison, which reported the \$49 million in the other non-operating revenues (expenses) account, net, on the financial statements.

Pursuant to 2009 Act 28, UW-Madison transferred \$49 million to the State's General Fund. This transfer is reported as a transfer to state agencies on the financial statements.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2009 and 2008

NOTE 12 – Operating Expenses by Functional Classification

Operating expenses by functional classification for the fiscal year ended June 30, 2009:

	<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	\$ 973,669,916	\$ 1,136,826	\$ 122,049,930	\$ 559,731	\$ -	\$ 1,097,416,403
Research	571,014,985	2,666,305	175,829,683	623,707	-	750,134,680
Public Service	189,516,419	199,588	109,146,413	1,424,550	-	300,286,970
Academic Support	266,033,887	62,839	68,062,634	(13,574)	-	334,145,786
Farm Operations	9,633,504	-	5,039,588	(1,192)	-	14,671,900
Student Services	237,387,994	(2,548,474)	131,033,769	87,176	-	365,960,465
Institutional Support	190,071,913	32,525	7,522,028	21,053	-	197,647,519
Operation/Maintenance	146,235,386	214	149,509,122	5,602	-	295,750,324
Financial Aid	5,798,883	97,562,080	275,615	2,488,899	-	106,125,477
Auxiliary Enterprises	102,020,482	16,961	193,525,615	(234,624)	-	295,328,434
Hospital	-	-	97,490,237	-	-	97,490,237
Depreciation	-	-	-	-	189,334,626	189,334,626
Total Operating Expenses	<u>\$ 2,691,383,369</u>	<u>\$ 99,128,864</u>	<u>\$ 1,059,484,634</u>	<u>\$ 4,961,328</u>	<u>\$ 189,334,626</u>	<u>\$ 4,044,292,821</u>

Operating expenses totaled \$4.0 billion. Salary and fringe benefits, scholarships and fellowships, and supplies and services and other expenses constituted 66.5%, 2.5%, and 26.3% of total operating expenses, respectively. Depreciation comprised \$189.3 million or 4.7% of total operating expenses.

Operating expenses by functional classification for the fiscal year ended June 30, 2008:

	<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	\$ 932,078,774	\$ 987,188	\$ 117,982,906	\$ 225,984	\$ -	\$ 1,051,274,852
Research	548,444,232	2,502,810	203,559,504	834,705	-	755,341,251
Public Service	186,454,866	242,083	125,041,155	814,432	-	312,552,536
Academic Support	256,170,823	64,119	67,539,601	(81,215)	-	323,693,328
Farm Operations	9,236,410	-	5,711,328	(11,584)	-	14,936,154
Student Services	226,241,604	(5,650,279)	117,656,728	(112,555)	-	338,135,498
Institutional Support	177,467,122	29,693	15,153,724	(250,691)	-	192,399,848
Operation/Maintenance	138,534,114	-	129,411,602	(19,663)	-	267,926,053
Financial Aid	5,475,134	90,725,492	4,360	2,876,652	-	99,081,638
Auxiliary Enterprises	97,512,480	13,554	185,333,309	268,746	-	283,128,089
Hospital	-	-	46,900,747	-	-	46,900,747
Depreciation	-	-	-	-	174,719,876	174,719,876
Total Operating Expenses	<u>\$ 2,577,615,559</u>	<u>\$ 88,914,660</u>	<u>\$ 1,014,294,964</u>	<u>\$ 4,544,811</u>	<u>\$ 174,719,876</u>	<u>\$ 3,860,089,870</u>

Operating expenses totaled \$3.9 billion. Salary and fringe benefits, scholarships and fellowships, and supplies and services and other expenses constituted 66.8%, 2.3%, and 26.4% of total operating expenses, respectively. Depreciation comprised \$174.7 million or 4.5% of total operating expenses.

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2009 and 2008

NOTE 13 – Classification of Net Assets

Net assets are reported in the following six categories:	<u>2009</u>	<u>2008</u>
• Invested in capital assets, net of related debt	\$ 3,515,700,004	\$ 3,306,078,369
• 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	122,923,573	150,149,852
• 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	165,295,490	176,179,645
➤ Auxiliary operations as established by state statute	139,419,092	141,082,554
• Restricted - Student Loans	220,588,341	219,140,599
• Restricted - Other Net assets of other legally separate appropriations	216,370,915	156,969,265
• 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.	315,978,770	217,610,287

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 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, 2009 and 2008

NOTE 13 – Classification of Net Assets (continued)

CAFR reclassifications as of June 30, 2009:

(In Millions)

	<u>University of Wisconsin System</u>	<u>Auxiliary Operations</u>	<u>Quasi- Endowments</u>	<u>Student Loans</u>	<u>Other Postemployment Benefits (Note 8)</u>	<u>State of Wisconsin CAFR</u>
Invested in Capital Assets, Net of Related Debt	\$ 3,515.7	\$ -	\$ -	\$ -	\$ -	\$ 3,515.7
Restricted for						
Nonexpendable	122.9	-	-	-	-	122.9
Expendable	304.7	(139.4)	54.7	-	-	220.0
Student Loans	220.6	-	-	(7.7)	-	212.9
Other	216.4	-	-	7.7	(17.6)	206.5
Unrestricted	<u>316.0</u>	<u>139.4</u>	<u>(54.7)</u>	<u>-</u>	<u>(79.0)</u>	<u>321.7</u>
TOTAL NET ASSETS	<u>\$ 4,696.3</u>	<u>\$ 0.0</u>	<u>\$ 0.0</u>	<u>\$ 0.0</u>	<u>\$ (96.6)</u>	<u>\$ 4,599.7</u>

CAFR reclassifications as of June 30, 2008:

(In Millions)

	<u>University of Wisconsin System</u>	<u>Auxiliary Operations</u>	<u>Quasi- Endowments</u>	<u>Student Loans</u>	<u>Other Postemployment Benefits (Note 8)</u>	<u>State of Wisconsin CAFR</u>
Invested in Capital Assets, Net of Related Debt	\$ 3,306.1	\$ -	\$ -	\$ -	\$ -	\$ 3,306.1
Restricted for						
Nonexpendable	150.1	-	-	-	-	150.1
Expendable	317.3	(141.1)	69.4	-	-	245.6
Student Loans	219.1	-	-	(8.9)	-	210.2
Other	157.0	-	-	8.9	(8.6)	157.3
Unrestricted	<u>217.6</u>	<u>141.1</u>	<u>(69.4)</u>	<u>-</u>	<u>(38.5)</u>	<u>250.8</u>
TOTAL NET ASSETS	<u>\$ 4,367.2</u>	<u>\$ 0.0</u>	<u>\$ 0.0</u>	<u>\$ 0.0</u>	<u>\$ (47.1)</u>	<u>\$ 4,320.1</u>

NOTE 14 – Prior Period Adjustments

The June 30, 2009 Statement of Net Assets does not include a prior period adjustment.

The June 30, 2008 Statement of Net Assets include prior period adjustments showing an increase of \$212,877. These adjustments are summarized as follows:

<u>Adjustment</u>	<u>Amount</u>
Cash	\$ 58,057
Buildings, Net of Accumulated Depreciation	<u>154,820</u>
Total	<u>\$ 212,877</u>

UNIVERSITY OF WISCONSIN SYSTEM
Notes to the Financial Statements
Years Ended June 30, 2009 and 2008

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

In September 2009, the State of Wisconsin issued long-term debt of \$138.4 million of 2009 Series C and D 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. A 3% through 5.9% interest rate is payable semiannually on May 1 and November 1, beginning May 1, 2010 for the 2009C series and 2009D series respectively. The bonds mature May 1 of the years 2012 through 2030, 2034, and 2040.

Responses to License Renewal Request for Additional Information

Attachment 2

Statement of Intent



Vice President for Finance

1624 Van Hise Hall
1220 Linden Drive
Madison, Wisconsin 53706
(608) 262-1311
(608) 263-2046 Fax

website: <http://www.wisconsin.edu>

June 2, 2010

William C. Schuster IV, Project Manager
Research and Test Reactors Branch A
Division of Policy and Rulemaking
Office of Nuclear Reactor Regulation
United States
Nuclear Regulatory Commission
Washington, D.C. 20555-0001

Re: University of Wisconsin-Request for Additional Information
Regarding the License Renewal for the University of Wisconsin Nuclear Reactor (TAC
No. ME1585); Docket No. 50-156

Dear Mr. Schuster:

The Board of Regents of the University of Wisconsin System doing business as the University of Wisconsin-Madison ("University"), hereby states its intent to obtain funds necessary for decommissioning, when necessary, for the University of Wisconsin Nuclear Reactor (TAC No. ME 1585). The estimated cost for decommissioning, as set forth in the related submission of Mr. Robert Agasie, Reactor Director, is \$1,995,488. The University is an agency of the State of Wisconsin, established pursuant to Chapter 36, Wisconsin Statutes. I certify that, in accordance with Regent Policy Document 13-3 (attached), I am authorized to act on behalf of the University in making this declaration.

Sincerely,

Deborah A. Durcan
Vice President for Finance
University of Wisconsin System

Sworn to and subscribed before me
this 2nd day of June 2010.

Patricia A. Brady
Notary Public
Permanent Commission

Attachment

C: Robert Agasie, Reactor Director
Patricia A. Brady, General Counsel

Responses to License Renewal Request for Additional Information

Attachment 3

Regent Policy Document 13-3



BOARD OF REGENTS



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Regent Policy Documents

SECTION 13: CONTRACTS

13-3 AUTHORIZATION TO SIGN DOCUMENTS

(Formerly 93-1)

Upon recommendation of the President of the University of Wisconsin System, Regent Resolution #7844, approved by the Board on February 5, 1999, is rescinded; and the following revised resolution is approved, effective immediately:

Any of the following corporate or administrative officers of the University of Wisconsin System: Secretary, Assistant Secretary of the Board; the President, any Vice President, and any administrative officer or administrative assistant designated by the President of the University of Wisconsin System are authorized to sign:

1. Proposals, agreements, contracts, and contract supplements for research work or any other purposes upon approval of the project by the President or any Vice President of the University of Wisconsin System or the appropriate chancellor or designee with the following extramural entities: the United States Government, any of its agencies or departments, any state or municipality, or any agency or department thereof, or any nonprofit organization.
2. Certifications, releases, inventory reports and other documents as required by the government in connection with the termination of the contracts with the federal government for research and educational services furnished by the University of Wisconsin System.
3. Applications, notices, bonds and other instruments required by the federal government in connection with matters relating to federal laws and regulations for the purchase and use of tax-free alcohol in the laboratories of the University of Wisconsin System.
4. Purchase orders and other instruments required by the federal government for the procurement of narcotics for use in laboratories of the University of Wisconsin and in University Hospitals.
5. Grants, contracts, and leases, except where paragraph 8 of this policy applies, and agreements with private, profit-making organizations, with the understanding that those agreements in excess of \$500,000 require formal acceptance by the Regents prior to execution.
6. Royalty agreements with the University of Wisconsin Press.
7. Transactions of the University of Wisconsin System's employee savings bond accounts.
8. Leases require formal acceptance by the Board of Regents prior to execution if: (1) a proposed leased space is not available in an existing building and would require the construction of a new building to satisfy the space need; or (2) negotiations for a new lease would involve leased space in excess of 10,000 assignable square feet; or (3) the proposed initial term of a lease would exceed 5 years (excluding renewal options).

A summary of grants, contracts, leases and agreements, including royalty agreements with the University of Wisconsin Press, will be reported quarterly to the Vice President for Finance.

History: Res. 6314 adopted 2/5/93; replaces 72-2(a), 75-2, 83-2, 91-10, 92-2. (See also Policy 13-2); amended by Res. 7548 (9/5/97) and by Res. 7844 (2/5/99) and by Res. 8074 (2/00) and by Res. 8875 (6/04).

[Return to the policy index](#)

The Regent Policy Documents were adopted and are maintained pursuant to the policy-making authority vested in the Board of Regents by Wis. Stats. § 36. The Regent Policy Documents manifest significant policies approved by the University of Wisconsin System Board of Regents.

This document is a ready reference for those charged with carrying out these policies. Unless noted otherwise, associated documents and reports may be obtained from the Office of the Secretary of the Board of Regents, 1860 Van Hise Hall, 1220 Linden Drive, Madison, WI 53706, ph 608-262-2324. <http://www.uwsa.edu/bor/policies/>

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