



Consolidated Financial Statements and Report of
Independent Certified Public Accountants

University of Wisconsin Foundation

December 31, 2011 and 2010

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Report of Independent Certified Public Accountants

Board of Directors
University of Wisconsin Foundation

We have audited the accompanying consolidated statements of financial position of the University of Wisconsin Foundation (a not-for-profit Wisconsin corporation, the “Foundation”) as of December 31, 2011 and 2010, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Foundation’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University of Wisconsin Foundation as of December 31, 2011 and 2010, and the changes in its net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The administrative expenses information on page 34 is presented for purposes of additional analysis, and is not a required part of the consolidated financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures. These additional procedures included comparing and reconciling information directly to the underlying accounting and other records used to prepare the consolidated financial statements and other additional procedures in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

A handwritten signature in cursive script that reads "Grant Thornton LLP". The signature is written in dark ink on a light-colored background.

GRANT THORNTON LLP

Milwaukee, Wisconsin

July 11, 2012

UNIVERSITY OF WISCONSIN FOUNDATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31,

ASSETS	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	\$ 97,660,612	\$ 82,937,639
Income and redemption receivables	15,836,544	134,316,963
Prepaid expenses	754,307	875,093
Pledges receivable, net	65,123,218	73,492,430
Investments	2,332,445,573	2,328,524,505
Property and equipment, net	6,843,641	7,054,207
Real estate	2,316,952	3,342,479
Notes receivable	1,394,991	1,454,592
Other assets	10,531,336	10,631,970
TOTAL ASSETS	<u>\$ 2,532,907,174</u>	<u>\$ 2,642,629,878</u>
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 2,703,893	\$ 2,625,252
Accrued expenses and other payables	4,505,716	1,826,750
Deferred compensation	1,426,961	1,425,193
Notes payable	1,598,192	3,838,925
Liability under split-interest agreements	40,424,355	37,102,174
Funds due to other organizations	276,932,637	276,399,675
TOTAL LIABILITIES	327,591,754	323,217,969
COMMITMENTS		
NET ASSETS		
Unrestricted	158,786,423	181,926,918
Temporarily restricted	1,214,730,355	1,345,297,639
Permanently restricted	831,798,642	792,187,352
	<u>2,205,315,420</u>	<u>2,319,411,909</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,532,907,174</u>	<u>\$ 2,642,629,878</u>

The accompanying notes are an integral part of these consolidated statements.

**UNIVERSITY OF WISCONSIN FOUNDATION
CONSOLIDATED STATEMENTS OF ACTIVITIES**

Year ended December 31, 2011, with
comparative totals for 2010

	2011			2010	
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Total
REVENUES, GAINS (LOSSES) AND OTHER SUPPORT					
Contributions	\$ 3,623,797	\$ 158,083,572	\$ 35,834,472	\$ 197,541,841	\$ 165,667,842
Interest and dividend income	5,254,488	18,788,904	-	24,043,392	18,376,687
Net investment gains (losses)	(24,828,886)	(65,687,975)	-	(90,516,861)	260,000,292
Other income	16,961	334,411	-	351,372	49,840
Reclassifications of net assets due to changes in donor restriction and matching fund programs	(7,206,855)	3,430,037	3,776,818	-	-
Net assets released from restriction	245,516,233	(245,516,233)	-	-	-
Total revenues, gains (losses) and other support	222,375,738	(130,567,284)	39,611,290	131,419,744	444,094,661
EXPENSES					
Payments to or for University of Wisconsin	211,663,494	-	-	211,663,494	206,223,864
Management and general expenses	19,109,557	-	-	19,109,557	17,817,883
Fundraising expenses	14,743,182	-	-	14,743,182	13,229,272
Total expenses	245,516,233	-	-	245,516,233	237,271,019
INCREASE (DECREASE) IN NET ASSETS	(23,140,495)	(130,567,284)	39,611,290	(114,096,489)	206,823,642
Net assets at beginning of year	181,926,918	1,345,297,639	792,187,352	2,319,411,909	2,112,588,267
Net assets at end of year	<u>\$ 158,786,423</u>	<u>\$ 1,214,730,355</u>	<u>\$831,798,642</u>	<u>\$ 2,205,315,420</u>	<u>\$ 2,319,411,909</u>

The accompanying notes are an integral part of these consolidated statements.

UNIVERSITY OF WISCONSIN FOUNDATION
CONSOLIDATED STATEMENT OF ACTIVITIES
Year ended December 31, 2010

	2010			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
REVENUES, GAINS (LOSSES) AND OTHER SUPPORT				
Contributions	\$ 3,435,711	\$ 109,169,422	\$ 53,062,709	\$ 165,667,842
Interest and dividend income	5,611,153	12,765,534	-	18,376,687
Net investment gains (losses)	(5,487,153)	265,487,445	-	260,000,292
Other income (expense)	72,907	(23,067)	-	49,840
Reclassifications of net assets due to changes in donor restriction and matching fund programs	(7,220,094)	17,537,685	(10,317,591)	-
Net assets released from restriction	237,271,019	(237,271,019)	-	-
Total revenues, gains (losses) and other support	233,683,543	167,666,000	42,745,118	444,094,661
EXPENSES				
Payments to or for University of Wisconsin	206,223,864	-	-	206,223,864
Management and general expenses	17,817,883	-	-	17,817,883
Fundraising expenses	13,229,272	-	-	13,229,272
Total expenses	237,271,019	-	-	237,271,019
INCREASE (DECREASE) IN NET ASSETS	(3,587,476)	167,666,000	42,745,118	206,823,642
Net assets at beginning of year	185,514,394	1,177,631,639	749,442,234	2,112,588,267
Net assets at end of year	<u>\$ 181,926,918</u>	<u>\$ 1,345,297,639</u>	<u>\$ 792,187,352</u>	<u>\$ 2,319,411,909</u>

The accompanying notes are an integral part of this consolidated statement.

UNIVERSITY OF WISCONSIN FOUNDATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31,

	2011	2010
Cash flows from operating activities		
Change in net assets	\$ (114,096,489)	\$ 206,823,642
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation of property and equipment	615,004	489,262
Net investment losses (gains)	90,950,123	(255,907,177)
Net gains on futures contracts	-	(4,087,138)
Realized (gains) losses on sales of real estate	(483,262)	544,702
Net gains on interest rate swap	-	(5,977)
Realized losses on notes receivable	50,000	-
Contributions to endowment funds	(35,834,472)	(53,062,709)
Changes in operating assets and liabilities		
Income receivable	119,480,419	(74,827,816)
Prepaid expenses	120,786	(74,539)
Pledges receivable	8,369,212	15,067,864
Collateral under securities lending agreement	-	17,744,103
Other assets	100,634	277,424
Accounts payable	78,641	(1,714,672)
Accrued expenses and other payables	2,678,966	13,218
Payable under securities lending agreement	-	(18,509,043)
Deferred compensation	1,768	168,135
Liability under split-interest agreements	3,322,181	1,341,060
Funds due to other organizations	532,962	37,704,595
	75,886,473	(128,015,066)
Net cash provided by (used in) operating activities		
Cash flows from investing activities		
Proceeds from sales and maturities of investments	1,034,555,968	898,663,297
Purchases of investments	(1,129,427,159)	(964,691,357)
Proceeds from sales and maturities of futures contracts	-	19,116,900
Purchases of futures contracts	-	(5,067,250)
Change in margin deposits for futures contracts	-	1,890,000
Proceeds from sales of real estate	1,344,466	972,894
Real estate acquisitions	(835,677)	(1,114,389)
Additions to notes receivable	(254,786)	(123,500)
Payments received on notes receivable	264,387	248,005
Additions to property and equipment	(404,438)	(292,178)
	(94,757,239)	(50,397,578)
Net cash used in investing activities		
Cash flows from financing activities		
Payments on notes payable	(2,240,733)	(664,330)
Proceeds from contributions to endowment funds	35,834,472	53,062,709
	33,593,739	52,398,379
Net cash provided by financing activities		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	14,722,973	(126,014,265)
Cash and cash equivalents at beginning of year	82,937,639	208,951,904
Cash and cash equivalents at end of year	\$ 97,660,612	\$ 82,937,639

UNIVERSITY OF WISCONSIN FOUNDATION
CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED
Years ended December 31,

	<u>2011</u>	<u>2010</u>
Supplemental disclosure of cash flow information		
Interest paid	\$ 16,146	\$ 84,580
Non-cash operating and investing activities:		
Gifts of investments	\$ 16,219,231	\$ 18,186,684
Gifts of real estate	903,600	879,000
Gifts of other assets	763,915	1,486,248
Note receivable settlement	1,000,000	-

The accompanying notes are an integral part of these consolidated statements.

UNIVERSITY OF WISCONSIN FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The University of Wisconsin Foundation (“Foundation”) is the official not-for-profit fund raising corporation for the University of Wisconsin Madison (“UW-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 UW-Madison for advancement of scientific, literary, educational and athletic purposes.

The Foundation established the UW-Madison Supporting Organization, Inc. (“Supporting Organization”) which is a separate legal entity. The Supporting Organization holds certain tax generating assets for the benefit and support of UW-Madison and the Foundation.

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

1. Basis of Consolidation

The Foundation and the Supporting Organization financial statements have been consolidated pursuant to accounting principles generally accepted in the United States of America (“GAAP”). All significant inter-entity transactions are eliminated in consolidation.

The 2010 financial transactions and account balances of the Supporting Organization are not included in the accompanying consolidated financial statements. The Supporting Organization held total assets of approximately \$512,000, as of December 31, 2010 and reported no liabilities at the end of the period. In 2010, net assets for this entity decreased \$1,841,000. The effects on the financial statements of this departure from GAAP are not material to the Foundation’s financial statements.

2. Use of Estimates

When preparing financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. Cash and Cash Equivalents

The Foundation considers all highly liquid debt instruments purchased with original maturities of three months or less to be cash equivalents. The carrying amount of cash equivalents approximates fair value due to the short maturities of these investments.

UNIVERSITY OF WISCONSIN FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

4. Pledges Receivable

Promises to give that are expected to be collected within one year are recorded at net realizable value. Promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using interest rates which the Foundation feels represent rates commensurate with the risk involved. The pledges receivable have been discounted at rates ranging from 0.88% to 7.37%.

5. Contributions

The Foundation recognizes a contribution received when it receives assets (financial or non-financial) from a donor that are specified for UW-Madison and other organizations within the University of Wisconsin System. The Foundation records contribution revenues in accordance with Financial Accounting Standards Board ("FASB") guidance, as (1) all donations received by the Foundation specifically benefit UW-Madison and other organizations within the University of Wisconsin System, (2) the Foundation and UW-Madison are financially interrelated, and (3) the Foundation is not a trustee.

Contributions that are restricted by the donor are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions.

6. Notes Receivable

The Foundation evaluates the credit quality of the receivables and establishes an allowance for doubtful accounts based primarily upon collection history, using a combination of factors including, but not limited to, collection experience, economic conditions and the note holder's financial condition. The Foundation writes-off notes receivable as a realized loss when they become uncollectible. Notes become past due when principal payments are not received in accordance with the agreed-upon terms. Interest charged on notes receivable is recorded as interest income. As of December 31, 2011 and 2010, the Foundation believes that all notes receivable are fully collectible.

7. Depreciation and Amortization

Expenditures for additions and improvements are capitalized, while replacements, maintenance and repairs that do not improve the useful lives of the assets are expensed as incurred.

UNIVERSITY OF WISCONSIN FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

7. Depreciation and Amortization - continued

Depreciation is provided in amounts sufficient to relate the cost of the depreciable assets to operations using the straight-line method over the following estimated service lives:

Buildings	15 to 39 years
Office furniture and equipment	5 to 10 years
Computer hardware and software	3 to 5 years
Leasehold improvements	(1)

(1) The shorter of their estimated useful lives or the remaining terms of the related leases.

8. Investments

Investments are stated at fair value and are recorded on the trade date. Realized gains and losses on sales of investments are determined on average cost basis.

Fair value is generally determined based on quoted market prices in active markets for identical assets or liabilities. If quoted market prices are not available, the Foundation uses valuation techniques that place greater reliance on observable inputs and less reliance on unobservable inputs. In measuring fair value, the Foundation may use net asset value (“NAV”) or its equivalent.

Investment securities are exposed to various risks including, but not limited to, interest rate and market and credit risks. Due to the level of risks associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term.

9. Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Unrestricted - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Foundation and/or the passage of time.

UNIVERSITY OF WISCONSIN FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

9. Net Assets - continued

Permanently restricted - Net assets subject to donor imposed stipulations that must be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on related investments for general or specific purposes.

10. Split-Interest Agreements

Assets contributed by donors under charitable remainder trust agreements and controlled by third parties are recognized at the present value of the estimated future distributions to be received by the Foundation over the term of the agreement. The Foundation records life income assets received at their fair value. The actuarially determined present value of the future annuity cash flow required to be paid to the donors or their beneficiaries is recorded as a liability in the statement of financial position. The Foundation records the difference between the fair value of the life income assets and the actuarially determined present value of future annuity cash flow as contribution revenue in the year the asset is received. The Foundation recorded contribution revenue of \$4,685,237 and \$919,229 as of December 31, 2011 and 2010, respectively, related to these agreements.

Gift annuities are contracts between the Foundation and individual donor(s). Each contract involves a gift of principal to the Foundation and an obligation by the Foundation to make payments as specified in the contract. Any deficit in income to be distributed will be funded first from the principal donated and, if that is insufficient, from other Foundation assets. The gift annuity liability recorded at December 31, 2011 and 2010 totaled \$7,581,607 and \$7,016,661, respectively.

Charitable Remainder Trusts, Charitable Lead Trusts and Pooled Income Funds are gifts in the form of trusts. Income and/or principal from these trusts are distributed to the named beneficiaries in the amount specified by each written agreement. Upon termination of the trust at some future date, the remaining principal and income will be distributed as specified in the agreement. The total liability recorded for Charitable Remainder Trusts and Charitable Lead Trusts at December 31, 2011 and 2010 totaled \$32,017,367 and \$29,091,441, respectively. The Pooled Income Funds liability totaled \$825,381 and \$994,072 at December 31, 2011 and 2010, respectively.

11. Administrative Expenses

Administrative expenses not specifically identifiable with the Expendable Accounts, Endowment Fund or Life Income and Life Estate Accounts are recorded in the General Fund and are not allocated. The Foundation has a policy of assessing management costs to the Endowment Fund at a rate of 1/4 of 1% at the end of each quarter. The amount assessed is based upon the prior quarter ending market value of the Endowment Fund and is used to offset some of the administrative expenses incurred by the General Fund on behalf of the Endowment Fund. As of December 31, 2011 and 2010, the amount assessed to the Endowment Fund was \$17,902,891 and \$16,042,431, respectively.

UNIVERSITY OF WISCONSIN FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

12. Guarantees

In 1998, the Foundation entered into a guarantee and support agreement on behalf of the Center for Advanced Studies in Business, Inc. ("CASB") to secure principal and interest payments on \$10,880,000 of fixed rate development revenue bonds used in funding the construction of the Fluno Center. In June 2008, CASB refinanced the development revenue bonds by obtaining a \$14,400,000 loan from Johnson Bank. This new loan is also guaranteed by the Foundation. The total loan outstanding as of December 31, 2011 was \$12,800,000. The loan is payable in quarterly installments through May 2013, when a balloon payment is due, and includes interest at a variable rate equal to the 90-day LIBOR rate plus 1.25% (effective rate of 1.78% at December 31, 2011).

13. Fair Value of Financial Instruments

For all financial instruments other than investments, the carrying value is a reasonable estimate of fair value because of the short-term nature of the financial instruments.

Fair value is defined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date (that is, an exit price). The exit price is based on the amount that the holder of the asset or liability would receive or need to pay in an actual transaction (or in a hypothetical transaction if an actual transaction does not exist) at the measurement date. In some circumstances, the entry and exit price may be the same; however, they are conceptually different. Note W discloses all required information.

14. Reclassifications

Certain reclassifications have been made to the 2010 financial statements to conform with the 2011 presentation.

15. Recent Accounting Pronouncements

In January 2010, the FASB issued Accounting Standards Update ("ASU") 2010-06, *Fair Value Measurements* ("Topic 820") – *Improving Disclosures about Fair Value Measurements*. ASU 2010-06 requires new disclosures regarding significant transfers between Levels 1 and 2 of the fair value hierarchy and the activity within Level 3 of the fair value hierarchy. ASU 2010-06 clarified existing disclosures regarding the level of disaggregation of assets or liabilities and the valuation techniques and inputs used to measure fair value. ASU 2010-06 was effective for the Foundation's first fiscal year beginning after December 31, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the rollforward of activity in Level 3 fair value measurements. Those disclosures were effective for fiscal years beginning after December 15, 2010. The adoption of this standard did not have a material impact on the Foundation's financial statements.

UNIVERSITY OF WISCONSIN FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

15. Recent Accounting Pronouncements - continued

In May 2011, FASB issued ASU 2011-04, *Fair Value Measurements* (“Topic 820”) - *Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRS*. ASU 2011-04 amends Topic 820, *Fair Value Measurements and Disclosures*, to converge the fair value measurement guidance of U.S. GAAP and International Financial Reporting Standards. ASU 2011-04 clarifies the application of existing fair value measurement requirements, changes certain principles in Topic 820 and requires additional fair value disclosures. ASU 2011-04 is effective for annual periods beginning after December 15, 2011. The guidance will primarily impact the Foundation’s disclosures, but otherwise is not expected to have a material impact on the Foundation’s financial statements.

NOTE B - FUND AND ACCOUNT DESCRIPTIONS

1. General Fund and Expendable Accounts

The General Fund records amounts which have not been restricted for a specific purpose by the donor. Expendable Accounts reflect gifts made for a specific purpose designated by the donor.

2. Endowment Fund Accounts

At December 31, 2011 and 2010, there were 4,417 and 4,008 funds pooled in an endowment fund for investment purposes (“Endowment Fund Accounts”). Generally, principal of the funds is to be kept intact with income from investments being distributed according to the wishes of the donor. For certain funds that are not permanently restricted, the donor may also request principal to be available for distribution.

3. Life Income (Split-Interest Gifts)

At December 31, 2011 and 2010, there were 337 and 349 charitable trusts that have been created for and trusted by the Foundation (“Life Income and Life Estate Accounts”). U.S. Bank, N.A. serves as the custodian.

NOTE C - INCOME TAXES

The Foundation has received a determination letter from the Internal Revenue Service stating that it is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (“IRC”). However, the Foundation is subject to federal and Wisconsin income taxes on its unrelated business income, as a result of ownership in various investment entities.

UNIVERSITY OF WISCONSIN FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE C - INCOME TAXES - Continued

As required by the uncertain tax position guidance issued by the FASB, the Foundation recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. The Foundation applied the uncertain tax position guidance to all tax positions for which the statute of limitations remained open.

The Foundation is subject to federal income taxes and files a state tax return in Illinois, New York, and Wisconsin. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. Tax years open to examination by tax authorities under federal statute of limitations include calendar years 2004, 2005, and 2008 through 2011. Open tax years under Wisconsin, Illinois and New York state statute of limitations include calendar years 2007 through 2011. For all states where the Foundation has not filed a state return, all tax years remain open.

The Foundation, if applicable, recognizes interest accrued related to unrecognized tax benefits in interest expense and recognizes penalties in operating expenses. During the years ended December 31, 2011 and 2010, the Foundation did not recognize any interest or penalties.

NOTE D - CONCENTRATION OF CREDIT RISK

The Foundation maintains deposits in financial institutions that consistently exceed the FDIC limit. The Foundation has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk.

NOTE E - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of December 31 are restricted for the following purposes:

	2011	2010
Endowed chairs/professorships	\$ 68,877,061	\$ 60,477,043
Research and programs	567,784,785	563,870,489
Undergraduate student financial support	79,787,296	68,730,915
Graduate student financial support	63,850,326	54,979,645
Faculty support	12,953,944	12,129,740
Building and grounds	43,972,329	52,514,091
Public service	5,933,035	5,825,130
Research equipment	508,511	423,953
Discretionary	202,212,852	180,396,486
Other	168,850,216	345,950,147
	<u>\$ 1,214,730,355</u>	<u>\$ 1,345,297,639</u>

UNIVERSITY OF WISCONSIN FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE E - TEMPORARILY RESTRICTED NET ASSETS - Continued

Net assets released from restriction by incurring expenditures that satisfy the designated purpose totaled \$245,516,233 and \$237,271,019 for the years ended December 31, 2011 and 2010, respectively.

NOTE F - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets as of December 31 consist of the following, the income of which is restricted for the following purposes:

	2011	2010
Endowed chairs/professorships	\$ 210,303,055	\$ 199,555,008
Research and programs	164,827,123	157,620,193
Undergraduate student financial support	178,402,094	167,802,985
Graduate student financial support	147,030,861	138,922,463
Faculty support	22,805,719	21,675,152
Building and grounds	2,884,969	2,952,837
Public service	16,428,091	15,768,332
Research equipment	506,782	506,782
Discretionary	36,124,830	34,456,161
Other	52,485,118	52,927,439
	<u>\$ 831,798,642</u>	<u>\$ 792,187,352</u>

NOTE G - ENDOWMENTS

The Foundation's endowment consisted of 3,430 and 3,325 individual funds at December 31, 2011 and 2010, respectively. These funds were established for a variety of purposes. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions and on state law.

Interpretation of Relevant Law

The Board of Directors of the Foundation has interpreted Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit or implicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

UNIVERSITY OF WISCONSIN FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE G – ENDOWMENTS - Continued

Interpretation of Relevant Law - continued

In accordance with UPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- the duration and preservation of the fund;
- the purpose of the Foundation and the donor-restricted endowment fund;
- general economic conditions;
- the possible effect of inflation and deflation;
- the expected total return from income and the appreciation of investments;
- other resources of the Foundation; and
- the investment policies of the Foundation.

Endowment Net Asset Composition by Type of Fund as of December 31, 2011

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	\$ (42,564,707)	\$ 190,487,258	\$ 831,798,642	\$ 979,721,193

Endowment Net Asset Composition by Type of Fund as of December 31, 2010

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	\$ (23,658,915)	\$ 254,041,495	\$ 792,187,352	\$ 1,022,569,932

Endowment Related Activities by Type of Fund for the year ended December 31, 2011

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	\$ (23,658,915)	\$ 254,041,495	\$ 792,187,352	\$ 1,022,569,932
Total investment loss	(18,905,792)	(22,943,023)	-	(41,848,815)
Contributions	-	-	35,834,472	35,834,472
Appropriation of endowment assets for expenditure	-	(40,611,214)	-	(40,611,214)
Transfers in for matching program	-	-	1,493,394	1,493,394
Net transfer to/from endowment funds	-	-	2,283,424	2,283,424
Endowment net assets, end of year	\$ (42,564,707)	\$ 190,487,258	\$ 831,798,642	\$ 979,721,193

UNIVERSITY OF WISCONSIN FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE G - ENDOWMENTS - Continued

Endowment Related Activities by Type of Fund for the year ended December 31, 2010

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	\$ (38,177,098)	\$ 175,037,809	\$ 749,442,234	\$ 886,302,945
Total investment return	14,518,183	115,893,383	-	130,411,566
Contributions	-	-	53,062,709	53,062,709
Appropriation of endowment assets for expenditure	-	(36,889,697)	-	(36,889,697)
Transfers in for matching program	-	-	3,068,124	3,068,124
Net transfer to/from endowment funds	-	-	(13,385,715)	(13,385,715)
Endowment net assets, end of year	<u>\$ (23,658,915)</u>	<u>\$ 254,041,495</u>	<u>\$ 792,187,352</u>	<u>\$ 1,022,569,932</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets and were \$42,564,707 and \$23,658,915 as of December 31, 2011 and 2010, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of permanently restricted contributions and continued appropriation for certain programs that were deemed prudent by the Board of Directors.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce long-term results that exceed the price and yield results of a diversified global market benchmark while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an average rate of return commensurate with spending, inflation, and expenses annually. Actual returns in any given year will vary.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places an emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

UNIVERSITY OF WISCONSIN FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE G - ENDOWMENTS - Continued

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation amended its spending policy effective July 1, 2010. The new spending policy appropriates 4.5% of the endowment fund's average fair value over the most recent 16 quarters for distribution. Under the former policy, the distribution rate was 4.75% of the endowment fund's average fair value over the most recent 12 quarters. The additional number of quarters used in calculating the average value was transitioned in beginning on the effective date of the amended policy.

In establishing its spending policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of 2 to 3% annually. This is consistent with the organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

NOTE H - OTHER ASSETS

Other assets consist of the following at December 31:

	<u>2011</u>	<u>2010</u>
Cash value of life insurance policies, net of policy loans of \$24,916 and \$22,593, respectively	\$ 3,899,134	\$ 3,708,413
Applied Security Analysis Investment Funds (A)	6,409,157	6,347,590
Applied Ventures Program Fund (B)	170,000	170,000
Income tax receivable and other miscellaneous assets	<u>53,045</u>	<u>405,967</u>
	<u>\$ 10,531,336</u>	<u>\$ 10,631,970</u>

- (A) Beginning in 1970 and at various times since, the Foundation received gifts to establish and add to Applied Security Analysis Investment Funds, which are used in classes at UW-Madison for investment and management education of students. The amounts presented represent the cumulative gifts and growth of these investments. These investments are carried at fair value.
- (B) During 1999 and 1998, the Foundation received gifts of securities from James Weinert, the proceeds to be used to establish an Applied Ventures Program within The Enterprise Center of the School of Business at UW-Madison. The primary objective of the program is to help business students, at all levels, prepare for careers in owning and/or managing entrepreneurial ventures and for careers as consultants to entrepreneurial enterprises. The investments are carried as an expendable account on the Foundation's records.

UNIVERSITY OF WISCONSIN FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE I - PLEDGES RECEIVABLE

Pledges receivable consist of the following as of December 31:

	2011	2010
Unconditional promises to give before unamortized discount and allowance for uncollectible pledges	\$ 78,073,820	\$ 87,319,544
Less unamortized discount	11,930,576	12,117,089
	<u>66,143,244</u>	<u>75,202,455</u>
Less allowance for uncollectible pledges receivable	1,020,026	1,710,025
	<u>\$ 65,123,218</u>	<u>\$ 73,492,430</u>
Amounts due in		
Less than one year	\$ 19,637,914	\$ 28,488,788
One to five years	50,607,424	45,072,218
More than five years	7,828,482	13,758,538
	<u>78,073,820</u>	<u>87,319,544</u>
Less unamortized discount and allowance	12,950,602	13,827,114
	<u>\$ 65,123,218</u>	<u>\$ 73,492,430</u>

NOTE J - INVESTMENTS

Investments consist of the following at December 31:

	2011		2010	
	Cost	Market value	Cost	Market value
Bond and debentures	\$ 56,517,368	\$ 88,818,578	\$ 215,752,881	\$ 247,638,732
Common stocks	577,537,791	644,730,526	461,722,387	588,217,728
Bond funds	648,232,978	654,981,337	371,627,334	393,810,895
Stock funds	146,816,050	141,074,411	99,341,383	112,213,374
Hedge funds	238,738,507	291,057,552	339,610,427	484,889,124
Limited partnerships	310,923,398	337,323,452	303,366,462	335,308,158
Real asset funds	160,527,270	171,228,619	174,795,074	163,523,203
Other funds	3,486,764	3,231,098	2,944,133	2,923,291
	<u>\$ 2,142,780,126</u>	<u>\$ 2,332,445,573</u>	<u>\$ 1,969,160,081</u>	<u>\$ 2,328,524,505</u>

UNIVERSITY OF WISCONSIN FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE K - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	2011	2010
Buildings	\$ 9,629,479	\$ 9,583,485
Computer hardware and software	1,197,179	888,543
Leasehold improvements	246,728	242,608
Office furniture and equipment	1,302,522	1,256,834
	<u>12,375,908</u>	<u>11,971,470</u>
Less accumulated depreciation and amortization	6,034,797	5,419,793
	6,341,111	6,551,677
Land	502,530	502,530
	<u>\$ 6,843,641</u>	<u>\$ 7,054,207</u>

NOTE L - REAL ESTATE

Gifts of real property received by the Foundation are valued and recorded based on the current market values on the date received. Values are determined from publications, appraisals and other sources that assist in establishing a fair market value.

Real estate of the General Fund, Expendable Accounts consists of the following at December 31:

	2011	2010
Parcels of land located in Brown County, held for the benefit of the UW-Green Bay	\$ 329,447	\$ 329,447
A parcel of land (approximately 700 acres) located in the Town of Adams, Green County, to be held for the benefit of UW-Madison College of Agriculture and Life Sciences and the School of Veterinary Medicine	651,448	644,103
A parcel of land located in Door County, held for the benefit of the UW-Green Bay	746,000	746,000
Two parcels of land in King County, Washington, held for the benefit of the UW-Madison German department	250,000	250,000
Parcels of land located in Valusia County, Florida, held for the benefit of the UW-Madison English department	-	345,288
Other parcels of land	83,841	279,425
Real estate in life income and life estate accounts (1)	256,216	748,216
	<u>\$ 2,316,952</u>	<u>\$ 3,342,479</u>

- (1) Consists of one and three parcels of land at December 31, 2011 and 2010, respectively. These parcels are valued at the fair market value at the date of gift which the Foundation believes approximates fair value.

UNIVERSITY OF WISCONSIN FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE M - NOTES RECEIVABLE

Notes receivable consist of the following at December 31:

	2011	2010
Cascade Asset Management, interest payable at 6% per year, received in full during 2011	\$ -	\$ 62,500
Drive Alternatives, LLC, interest payable on due date at 8%, final payment scheduled for October 2011, written off in 2011	-	50,000
Burton W. Hancock, interest payable monthly at 11.5%, final payment due September 2011, collateralized by property in Carpinteria, California (a)	87,488	87,488
I'm Organic LLC, interest payable at 8% per year, final payment due September 2012	50,000	50,000
Gunnar and Lorraine Johansen, interest payable on due date at 4%, final payment due on the closing of the sale of the property, collateralized by properties in Mendocino County, California	108,287	103,500
Stan Kosmides, interest payable monthly at 11%, final payment due November 2011, collateralized by property in South Lake Tahoe, California (a)	119,000	119,000
Lowther Brothers LLC, interest payable monthly at 4%, final payment due January 2015, collateralized by property in Sheboygan, Wisconsin	251,069	252,957
Robert D. McIntyre, interest payable monthly at 11% due with principal August 2010 collateralized by properties in South Lake Tahoe, California (a)	100,000	100,000
Julie and Francis Monarski, interest payable at 7%, monthly interest payments of \$500, final payment due September 2022, unsecured	129,147	129,147
North Water Property Development, LLC, interest payable at 3% per year, received in full during 2011	-	200,000
NxtMile, LLC, interest payable on due date at 8%, final payment due December 2012, guaranteed by owner	100,000	100,000
Ratio Inc., interest payable quarterly at 7%, final payment due December 2012, guaranteed by owner	50,000	50,000
Sandbox International LLC, interest payable quarterly at 8%, final payment due December 2012, guaranteed by owners	50,000	50,000
WindLift LLC, interest payable quarterly at 8%, final payment due December 2012, guaranteed by owner	100,000	100,000
Wisconsin Center for Educational Products and Services, Inc, interest payable at 0.51% per year, due February 2012	250,000	-
	\$ 1,394,991	\$ 1,454,592
Total notes receivable		

(a) The above notes are in default of original terms. The Foundation is currently extending the terms of these notes with the parties listed above.

UNIVERSITY OF WISCONSIN FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE N - INCOME AND REDEMPTION RECEIVABLES

Income and redemption receivables consist of the following at December 31:

	2011	2010
Investment income receivable	\$ 12,847,424	\$ 9,972,528
Loss recovery receivable	1,000,000	-
Interest receivable on notes receivable	155,030	117,155
Proceeds receivable on investment redemptions	1,834,090	124,227,280
	<u>\$ 15,836,544</u>	<u>\$ 134,316,963</u>

NOTE O - LEASE OBLIGATIONS

The Foundation has several operating lease agreements which expire at various dates through October 2016. Total rent expense for operating leases was \$101,942 and \$100,665 for the years ended December 31, 2011 and 2010, respectively.

Future minimum lease payments at December 31, 2011 are as follows;

Years ending December 31,	
2012	\$ 68,994
2013	70,349
2014	71,744
2015	49,333
2016	42,133
	<u>\$ 302,553</u>

NOTE P - COMMITMENTS

The Foundation entered into investment agreements and has the following outstanding investment commitments as of December 31:

	2011	2010
Limited partnership	\$ 96,747,042	\$ 92,609,295
Real asset funds	72,481,463	102,364,143
	<u>\$ 169,228,505</u>	<u>\$ 194,973,438</u>

The above outstanding commitments only include those entered into in U.S. dollars.

UNIVERSITY OF WISCONSIN FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE P - COMMITMENTS - Continued

As of December 31, the Foundation entered into investment agreements and has the following outstanding investment commitments in foreign currency:

	2011		2010	
	Original total commitment in foreign currency	Outstanding commitment remaining (U.S. dollars)	Original total commitment in foreign currency	Outstanding commitment remaining (U.S. dollars)
Limited partnerships	17,000,000 (Euros)	\$ 8,031,835	17,000,000 (Euros)	\$ 12,838,712
Limited partnerships	5,000,000 (Pounds)	3,475,368	5,000,000 (Pounds)	4,245,346
		<u>\$ 11,507,203</u>		<u>\$ 17,084,058</u>

NOTE Q - SECURITIES LENDING

In late 2010, the Foundation ended its participation in a securities lending program operated by its custodial bank. Under the terms of the related agreement, the program required brokers who borrow securities from the Foundation to provide collateral of a value at least equal to 102% of the then fair value of the loaned securities and accrued interest, if any. This collateral was then reinvested on behalf of the Foundation by the custodial bank.

The prime considerations of the collateral pool in which the collateral had been reinvested were liquidity and principal preservation. However, stress experienced by the fixed income market environment in recent years, and the fact that all of the securities held in the pool were subject to credit risk, resulted in a decline in the value of the collateral pool. In addition, certain securities in the pool have defaulted and the collateral backing said securities was placed in a liquidating trust. While the Foundation was still receiving cash flows from this trust, the value of the collateral comprising the trust incurred mark-to-market price declines prior to the Foundation exiting the program. In order to end this arrangement, the Foundation made a payment of \$3,775,880 during 2010, which represented the deficiency at the time. In exchange, the Foundation received a beneficial interest in the underlying illiquid collateral worth \$1,955,944 and \$1,952,553 at December 31, 2011 and 2010, respectively. Income from securities lending for the year ended December 31, 2010 was approximately \$74,000.

NOTE R - DEFERRED COMPENSATION

The Foundation has entered into deferred compensation agreements with a current and two former officers. Under these plans, the receipt of compensation may be deferred. IRC 457(b) limits the amount of annual compensation that may be elected for deferral and the manner in which the deferred compensation may be distributed. A liability of \$1,426,961 and \$1,425,193 for these plans is reflected on the statements of financial position as of December 31, 2011 and 2010, respectively.

UNIVERSITY OF WISCONSIN FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE S - NOTES PAYABLE

The Foundation had a note payable to U.S. Bank, N.A. The outstanding amount due was paid in full in March 2011. The balance outstanding as of December 31, 2010 was \$1,708,002.

The Foundation has a note payable with UW-Madison. The note is payable in five annual installments of \$532,731, with a final payment due in January 2014. All payments on the note apply to principal. The balances outstanding as of December 31, 2011 and 2010 are \$1,598,192 and \$2,130,923, respectively.

Interest expense totaled \$16,146 and \$84,580 for the years ended December 31, 2011 and 2010, respectively.

Following is a schedule of future maturities of notes payable as of December 31, 2011:

Years ending December 31,	
2012	\$ 532,731
2013	532,731
2014	<u>532,730</u>
	<u>\$ 1,598,192</u>

NOTE T - FUNDS DUE TO OTHER ORGANIZATIONS

FASB guidance establishes accounting standards for transactions in which a foundation accepts a contribution from a donor and agrees to transfer those assets, the return on investment of those assets, or both, to another entity that is specified by the donor. The guidance specifically requires that if a not-for-profit organization establishes a fund at a foundation with its own funds and specifies itself as the beneficiary of that fund, the foundation must account for the transfer of such assets as a liability. The Foundation refers to such funds as funds due to other organizations.

The University of Wisconsin Hospitals and Clinics Authority (the "Authority") Fund was established, whereby the Foundation will receive and invest funds on behalf of the Authority. The sole purpose of the fund is to aid the Authority in its teaching, research, healthcare delivery and public service roles. The principal balance and income earned are to be accumulated within this fund. At December 31, 2011 and 2010, the fair value of the funds due to the Authority was \$251,334,681 and \$251,702,069 respectively.

The University of Wisconsin Stevens Point Foundation ("UWSPF") Fund was established in 2006, whereby the Foundation will receive and invest funds on behalf of UWSPF. The sole purpose of the fund is to provide UWSPF with the opportunity to take advantage of the investment resources of the Foundation. At December 31, 2011 and 2010, the fair value of funds due to UWSPF was \$17,295,494 and \$17,552,263, respectively.

UNIVERSITY OF WISCONSIN FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE T - FUNDS DUE TO OTHER ORGANIZATIONS - Continued

The University of Wisconsin Stout Foundation (“UWSF”) Fund was established in 2009, whereby the Foundation will receive and invest funds on behalf of UWSF. The sole purpose of the fund is to provide UWSF with the opportunity to take advantage of the investment resources of the Foundation. At December 31, 2011 and 2010, the fair value of funds due to UWSF was \$1,176,657 and \$1,261,747, respectively.

The Wisconsin Alumni Association (“WAA”) Fund was established in 2009, whereby the Foundation will receive and invest funds on behalf of WAA. The sole purpose of the fund is to provide WAA with the opportunity to take advantage of the investment resources of the Foundation. At December 31, 2011 and 2010, the fair value of funds due to WAA was \$6,036,915 and \$3,921,095, respectively.

In addition, various donor agreements included in the Life Income and Life Estate accounts require specific amounts to be used for non-Foundation purposes. At December 31, 2011 and 2010, the fair value of funds due to other organizations was \$1,088,890 and \$1,962,501, respectively.

NOTE U - RETIREMENT PLANS

The Foundation has a defined contribution money purchase pension plan covering substantially all of its employees. Contributions to the defined contribution pension plan equal 10% of the compensation paid to the participants during the plan year, subject to limitations under Section 415 of the IRC. Total employer contributions to the plan were \$1,009,997 and \$987,349 as of December 31, 2011 and 2010, respectively.

The Foundation also has a defined contribution retirement plan formed under Section 403(b) of the IRC, which covers substantially all of its employees. Employer contributions to the retirement plan are discretionary subject to limitations under Section 415 of the IRC. There were no employer contributions to the plan for the year ended December 31, 2011 and 2010.

On March 31, 2012, the Foundation terminated both the money purchase pension plan and the 403(b) plan. On April 1, 2012, the Foundation began a defined contribution retirement plan formed under Section 401(k) of the IRC, which covers substantially all of its employees.

NOTE V - MAJOR CONTRIBUTORS

For the years ended December 31, 2011 and 2010, the Foundation received contributions from one source that comprised approximately 19% and 22%, respectively, of total contribution revenue.

UNIVERSITY OF WISCONSIN FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE W - FAIR VALUE OF FINANCIAL INSTRUMENTS

FASB guidance establishes a fair value hierarchy that distinguishes between assumptions based on market data (observable inputs) and the Foundation's assumptions (unobservable inputs). Determining where an asset or liability falls within that hierarchy depends on the lowest level input that is significant to the fair value measurement as a whole. An adjustment to the pricing method used within either Level 1 or Level 2 inputs could generate a fair value measurement that effectively falls in a lower level in the hierarchy. The hierarchy consists of three broad levels as follows:

- Level 1 - Quoted market prices in active markets for identical assets or liabilities.
- Level 2 - Inputs other than Level 1 inputs that are either directly or indirectly observable.
- Level 3 - Unobservable inputs developed using the Foundation's estimates and assumptions, which reflect those that market participants would use.

The determination of where an asset or liability falls in the hierarchy requires significant judgment. The Foundation evaluates its hierarchy disclosures each year and, based on various factors, it is possible that an asset or liability may be classified differently from year to year. However, the Foundation expects that changes in classifications between different levels will be rare.

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification pursuant to the valuation hierarchy. There have been no changes in the valuation methodologies used at December 31, 2011 and 2010.

Investments and Other Assets

When quoted market prices are available in an active market, securities are classified within Level 1 of the fair value hierarchy. If quoted market prices are not available or accessible, then fair values are estimated using pricing models, net asset value, matrix pricing or discounted cash flow models. The fair value of securities estimated using pricing models, net asset value or matrix pricing are generally classified within Level 2 of the fair value hierarchy. When discounted cash flow models are used, there is limited activity or less transparency around inputs to the valuation and securities are classified within Level 3 of the fair value hierarchy.

Alternative Investments

The private equity, timber, real estate, oil and gas and hedge funds, for which quoted market prices are not available, are carried at NAV per share or its equivalent. Management of the Foundation believes that the carrying amount of these financial instruments is a reasonable estimate of fair value.

UNIVERSITY OF WISCONSIN FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE W - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

The following table summarizes the valuation of financial instruments measured at fair value on a recurring basis in the statement of financial position at December 31, 2011:

	Total	Quoted prices in	Significant	Significant
		active markets for identical assets	other observable inputs	unobservable inputs
		Level 1	Level 2	Level 3
Investments				
Corporate bonds	\$ 399,760,806	\$ 9,965,071	\$ 389,795,735	\$ -
Federal and state government securities	123,359,961	-	123,359,961	-
Equity securities	754,612,828	242,893,999	506,015,091	5,703,738
Commingled funds	261,511,513	59,352,258	202,110,803	48,452
	<u>1,539,245,108</u>	<u>312,211,328</u>	<u>1,221,281,590</u>	<u>5,752,190</u>
Alternative investments				
Private equity	337,323,452	-	337,323,452	-
Timber	7,999,983	-	7,999,983	-
Real estate	70,642,853	-	70,642,853	-
Oil and gas	92,585,783	-	92,585,783	-
Hedge funds	291,057,552	-	291,057,552	-
	<u>799,609,623</u>	<u>-</u>	<u>799,609,623</u>	<u>-</u>
Total investments at fair value	<u>\$ 2,338,854,731</u>	<u>\$ 312,211,328</u>	<u>\$ 2,020,891,213</u>	<u>\$ 5,752,190</u>

The following table presents additional information about assets and liabilities measured at fair value on a recurring basis that have been measured using significant unobservable inputs (Level 3) for the year ended December 31, 2011:

	Corporate bonds	Equity securities	Commingled funds	Total
Beginning balance	\$ 53,692,754	\$ 7,856,464	\$ 55,158	\$ 61,604,376
Total realized and unrealized losses included in net assets	(589,253)	(273,846)	(6,706)	(869,805)
Purchases	-	656,069	-	656,069
Settlements	-	(2,534,949)	-	(2,534,949)
Net transfers in and/or out of Level 3	(53,103,501)	-	-	(53,103,501)
Ending balance	<u>\$ -</u>	<u>\$ 5,703,738</u>	<u>\$ 48,452</u>	<u>\$ 5,752,190</u>

UNIVERSITY OF WISCONSIN FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE W - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

The following table summarizes the valuation of financial instruments measured at fair value on a recurring basis in the statement of financial position at December 31, 2010:

	Total	Quoted prices in	Significant	Significant
		active markets for identical assets	other observable inputs	unobservable inputs
		Level 1	Level 2	Level 3
Investments				
Corporate bonds	\$ 358,292,947	\$ 6,410,726	\$ 298,189,467	\$ 53,692,754
Federal and state government securities	135,125,109	73,114	135,051,995	-
Equity securities	684,811,654	206,465,756	470,489,434	7,856,464
Commingled funds	172,921,900	43,049,222	129,817,520	55,158
	<u>1,351,151,610</u>	<u>255,998,818</u>	<u>1,033,548,416</u>	<u>61,604,376</u>
Alternative investments				
Private equity	335,308,158	-	335,308,158	-
Timber	8,546,046	-	8,546,046	-
Real estate	92,110,598	5,810,982	86,299,616	-
Oil and gas	62,866,559	-	62,866,559	-
Hedge funds	484,889,124	-	484,889,124	-
	<u>983,720,485</u>	<u>5,810,982</u>	<u>977,909,503</u>	<u>-</u>
Total investments at fair value	<u>\$ 2,334,872,095</u>	<u>\$ 261,809,800</u>	<u>\$ 2,011,457,919</u>	<u>\$ 61,604,376</u>

The following table presents additional information about assets and liabilities measured at fair value on a recurring basis that have been measured using significant unobservable inputs (Level 3) for the year ended December 31, 2010:

	Corporate bonds	Equity securities	Commingled funds	Total
Beginning balance	\$ 64,951,524	\$ 19,754,747	\$ 49,514	\$ 84,755,785
Total realized and unrealized gains included in net assets	6,526,460	12,747	5,644	6,544,851
Purchases	1,126	1,948,464	-	1,949,590
Settlements	(16,564,609)	(13,859,494)	-	(30,424,103)
Net transfers in and/or out of Level 3	(1,221,747)	-	-	(1,221,747)
Ending balance	<u>\$ 53,692,754</u>	<u>\$ 7,856,464</u>	<u>\$ 55,158</u>	<u>\$ 61,604,376</u>

The Foundation's policy is to recognize transfers in and transfers out as of the actual date of the event or change in circumstances that caused the transfer. Transfers in and out of Level 3 were due to the change in availability of pricing information.

UNIVERSITY OF WISCONSIN FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE W - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

The Foundation measures the fair value of investments in certain entities that do not have a quoted market price at the calculated NAV per share or its equivalent. The following table presents the fair value of the Foundation's investments in limited partnership funds, hedge funds and real asset funds that were determined based on the NAV as of December 31:

	2011			
	Fair value	Unfunded commitments	Redemption frequency	Redemption notice period
Hedge funds (b)	\$ 291,057,552	\$ -	Monthly-semi-annually	30-90 days
Limited partnership funds (c)	337,323,452	108,254,245	N/A	N/A
Real asset funds (e)	171,228,619	72,481,463	N/A	N/A
	2010			
	Fair value	Unfunded commitments	Redemption frequency	Redemption notice period
Hedge funds - commingled vehicles (a)	\$ 153,725,465	\$ -	Quarterly Monthly -	45 - 60 days
Hedge funds (b)	331,163,659	-	semi-annually	30 - 90 days
Limited partnership funds (c)	335,308,158	109,693,353	N/A	N/A
Real asset funds - open ended (d)	20,571,729	-	Quarterly	90 days
Real asset funds (e)	137,140,492	102,364,143	N/A	N/A

- (a) At December 31, 2010, comprised of investments in commingled hedge fund investment vehicles. One of the vehicles invested in numerous hedge fund strategies with the objective of generating an absolute return with low to moderate volatility. The remaining investment vehicles invested in long/short hedge funds with the objective of generating a return commensurate to certain public market equity indexes, while at the same time exhibiting a lower volatility of returns than the indexes. The fair values were estimated using the NAV per share of the investments. In 2010, there were no restrictions on redemptions from these investment vehicles.

UNIVERSITY OF WISCONSIN FOUNDATION
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December 31, 2011 and 2010

NOTE W - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

- (b) Comprised of various direct investments in hedge funds. The fair values have been estimated using the NAV per share of the investments. Investments with fair values comprising 4.5% and 4.1% of the fair value of this category as of December 31, 2011 and 2010, respectively, cannot be redeemed due to certain restrictions. Specifically, the funds represented are either in liquidation or the remaining balance is held in an illiquid “side pocket.” It is reasonable to assume that those investments with restrictions will be materially liquidated over the next two years.
- (c) Comprised of limited partnership funds that employ various strategies and are broadly categorized as either opportunistic, buyout or venture capital. These investments cannot be redeemed. The funds provide distributions only upon liquidation of the underlying assets. These funds are expected to be materially liquidated over the next 10 years. None of these limited partnership funds are expected to be sold. Therefore, the fair value of each individual investment has been estimated using the NAV.
- (d) At December 31, 2010, comprised of two open ended real asset investment funds that primarily make investments in real estate located in the U.S. The fair values of these investments were estimated using NAV per share of the investments. At the beginning of 2010, both of these funds have imposed redemption moratoriums which had been in place since late 2008. During 2010 the redemption provisions for both of the funds were lifted.
- (e) Comprised of various real asset funds that primarily employ tactical or opportunistic strategies. These investments cannot be redeemed. The funds provide distributions only upon liquidation of the underlying assets. These funds are expected to be materially liquidated over the next 10 years. None of these real estate investment funds are expected to be sold. Therefore, the fair value of each individual investment has been estimated using the NAV.

NOTE X - SUBSEQUENT EVENTS

The Foundation evaluated its December 31, 2011 consolidated financial statements for subsequent events through July 11, 2012, the date the consolidated financial statements were available to be issued. The Foundation is not aware of any subsequent events which would require recognition or disclosure in the consolidated financial statements.

SUPPLEMENTARY INFORMATION

**UNIVERSITY OF WISCONSIN FOUNDATION
ADMINISTRATIVE EXPENSES -
GENERAL FUND AND EXPENDABLE ACCOUNTS**

Years ended December 31

	2011	2010
Administrative expense - banking fees	\$ 44,860	\$ 42,970
Administrative expense - gift annuity surplus account	12,066	12,270
Administrative expense - payroll	54,367	43,896
Administrative expense - short-term investments	654,298	643,077
Bad debt expense	624,107	665,202
Brochures and printed matter	982,123	826,202
Computer equipment and software	161,557	90,095
Computer hardware maintenance	82,494	66,834
Computer maintenance and supplies	201,396	107,869
Computer programming and processing	116,000	133,388
Consulting expense	1,508,426	594,533
Contracted services	147,707	126,485
Credit card fees	113,794	256,689
Depreciation expense - building	309,135	290,611
Depreciation expense - computer equipment	253,097	157,265
Depreciation expense - furniture and fixtures	52,772	41,386
Equipment purchased	56,097	48,443
Insurance - general	301,095	246,453
Insurance for employees	1,308,221	1,242,612
Interest expense on mortgage	16,146	84,580
Lease payments	101,942	100,665
Mailing expense	43,615	101,597
Meeting expense	193,756	161,143
Miscellaneous expense	284	2,193
Moving expense	12,002	-
Paper products and cleaning supplies	15,091	14,520
Postage and express	528,321	289,210
Printer supplies	20,888	14,721
Professional services - accounting	272,423	232,865
Professional services - legal	500,718	145,087
Promotion and premiums	199,571	(25,659)
Purchased labor	64,230	55,780
Real estate taxes	-	6,687
Repairs and maintenance	101,925	43,206
Retirement plan contribution and expense	1,034,197	1,137,704
Salaries	12,518,115	11,415,196
Special events and projects	155,393	141,228
Social security taxes	837,602	753,647
State and federal tax expense	3,936	(13)
Stationery and office supplies	231,427	175,836
Telephone	140,966	131,992
Travel and subsistence	590,208	564,050
Unemployment compensation	6,800	891
Utilities	187,700	197,989
	<u>24,760,868</u>	<u>21,381,395</u>
Endowment Fund expense recapture	<u>(17,902,891)</u>	<u>(16,042,431)</u>
	<u>\$ 6,857,977</u>	<u>\$ 5,338,964</u>