

APPROVED BY THE
COMMITTEE

SEP 04 2012

Susan M. Kies
SECRETARY OF THE BOARD

MEETING OF THE AUDIT, BUDGET, FINANCE, AND FACILITIES COMMITTEE
OF THE BOARD OF TRUSTEES OF THE UNIVERSITY OF ILLINOIS

July 9, 2012

This meeting of the Audit, Budget, Finance, and Facilities Committee was held on Monday, July 9, 2012, beginning at 1:00 p.m. via videoconference in Room 1030, National Center for Supercomputing Applications, 1205 West Clark Street, Urbana; Room 414, Administrative Office Building, 1737 West Polk Street, Chicago; and the Hatmaker Room, Room 550, Public Affairs Center, One University Plaza, Springfield. Trustee Edward L. McMillan, chair of the committee, convened the meeting and asked the clerk to call the roll. The following committee members were present: Mr. Edward L. McMillan, Mr. James D. Montgomery, Ms. Pamela B. Strobel. Mr. Lawrence Oliver was absent. Mr. David Pileski, student trustee from the Urbana campus, and Mr. John W. Tienken, voting student trustee from the Springfield campus, were present. Dr. Timothy N. Koritz was also present telephonically.

Also present were President Robert A. Easter; Dr. Phyllis M. Wise, vice president, University of Illinois, and chancellor of the Urbana campus; Mr. Walter K. Knorr, vice president/chief financial officer and comptroller; Dr. Christophe Pierre, vice president for academic affairs; Dr. Joe G.N. Garcia, vice president for health affairs; Mr. Thomas R. Bearrows, University counsel; and Dr. Susan M. Kies, secretary.

Attached is a listing of other staff members in attendance at this meeting, as well as some members of the media.

Mr. McMillan welcomed everyone to the meeting and asked if there were any comments or corrections to the minutes from the meeting that was held on May 21, 2012. On motion of Mr. Montgomery, seconded by Ms. Strobel, the minutes were approved. There were no "nay" votes.

REVIEW OF RECOMMENDED BOARD ITEMS FOR THE MEETING OF THE BOARD
OF TRUSTEES OF THE UNIVERSITY OF ILLINOIS ON JULY 19, 2012

Capital Projects

Mr. McMillan then asked Mr. Michael B. Bass, senior associate vice president and deputy comptroller, to report on items related to capital projects and real estate that will be on the agenda for the Board meeting on July 19, 2012 (materials on file with the clerk). Mr. Bass provided information regarding an item requesting an increase in the project budget and to award construction contracts for the Mile Square Health Center. He provided a brief history of the project and explained why this increase is needed, stating that this will allow for a full build out of the first two floors of the Mile Square Health Center. Mr. Bass said that the top three floors will remain shelled space until tenants are identified. He told committee members that the University received good bids for this project, and that the MAFBE (Minority and Female Business Enterprise) participation rate is 22 percent. Mr. Bass then responded to questions regarding the proposed budget increase, and he provided information regarding the funding sources for the project. He stated that he is optimistic that the University will receive an extension on the grant that

is being used to fund part of the project, and Dr. Heather J. Haberaecker, executive assistant vice president for business and finance, agreed. Dr. Joe G.N. Garcia, vice president for health affairs, emphasized the importance of the Mile Square Health Center and the opportunity it provides to meet the needs of the community and at risk populations. He stated this may also lead to referrals for specialized care. Additional discussion regarding funding sources followed. Some concern was expressed regarding the three shelled floors of the building, and Mr. Bass explained that this allows for flexibility and for an opportunity to best use this space, noting the important geographic location of the building. Mr. McMillan commented that it would be more difficult and more expensive to add these floors at a later date, and Dr. Garcia referred to the need for high quality space on the Chicago campus, stating that these floors will likely be occupied by funded researchers focused on community and health disparities among at risk populations. No additional concerns were stated, and there was no objection to moving this item forward to the full board.

Medical Center Renovations and Mechanical Upgrades

Mr. Bass then provided information regarding the recommended electrical construction contract for renovations and mechanical upgrades for the medical center at Chicago. He stated that MAFBE participation is approximately 23 percent. Dr. Koritz stated that this work at the medical center will protect the University's investment. There were no additional questions or comments.

Employ Architect/Engineer for Stanley O. Ikenberry
Commons—Residence Hall No. 3

Mr. Bass then discussed the recommended professional services contract for an architect/engineer for Stanley O. Ikenberry Commons—Residence Hall No. 3 at Urbana. He discussed the participation of diverse vendors for the project, and Mr. Montgomery inquired about assurances that the minority subcontractors identified in bids are utilized. Mr. Bass explained it would require a great deal of effort and resources to consistently verify the subcontractors that are paid on each project, noting that the University does not currently have the staff needed to do this.

There were no additional questions regarding these items. Dr. Koritz left the meeting at 1:35 p.m.

PRESENTATIONS TO THE COMMITTEE

Fiscal Year 2012 Financial and Compliance External Audit Plan Presentation

At 1:35 p.m., Mr. McMillan asked Ms. Maxine Sandretto, assistant vice president for business and finance, to introduce the financial and compliance external audit plan presentation. Ms. Sandretto stated that she oversees the external audit that is provided by auditors hired by the Illinois Auditor General and provided some background information regarding the handling of the financial audit, federal audit, and State audit. She stated that she and her colleagues intend to work diligently with the firm KPMG and the Office of the Illinois State Auditor General, and she then introduced Ms. Jackie Dippel from KPMG.

Ms. Dippel began the presentation (materials on file with the clerk) by reviewing the audit scope and deliverables for the fiscal year that ended on June 30, 2012. She provided information about the engagement team involved in the audit, described objectives and responsibilities, and presented four phases of audit methodology. She also discussed the involvement of other external auditors for University Related Organizations and said that a subcontractor firm will also be used. She presented preliminary risk assessments and the planned audit approach for each, reported on the OMB Circular A-133 Federal single audit, and provided information regarding State compliance attestation and supplemental financial information. She then discussed engagement timing, listed new accounting pronouncements, and provided information about KPMG's Audit Committee Institute. The presentation concluded at 1:49 p.m. There were no questions or comments.

CONTINUATION OF THE REVIEW OF RECOMMENDED BOARD ITEMS
FOR THE MEETING OF THE BOARD OF TRUSTEES OF THE UNIVERSITY OF
ILLINOIS ON JULY 19, 2012

Research Park Master Plan Update

Mr. McMillan asked Mr. Michael B. Bass, senior associate vice president for business and finance, to provide information regarding the proposed update to the master plan at the University of Illinois Research Park. Mr. Bass briefly reviewed the proposed updates and discussed the advantages of these changes, and explained that this updated plan has been approved by the Research Park board of managers. Mr. McMillan commented that

this is an improvement over the previous plan. There were no additional questions or comments.

Amendment for Investment Policy Update and Operating Funds

At 1:51 p.m., Mr. Dean A. Hagan, director of University investments, introduced Mr. Brady O'Connell from Hewitt EnnisKnupp, Inc. Mr. Hagan reviewed the agenda for the presentation (materials on file with the clerk) and provided an update on the operating pool policy update implementation. He compared the distribution of operating pool funds from December 31, 2011, to May 31, 2012, noting improved diversification. Mr. O'Connell then provided a capital markets review as of May 31, 2012, and discussed endowment pool rankings over one-, five-, and three-year periods. He presented the endowment pool performance attribution for the year ending March 31, 2012, and he and Ms. Strobel briefly discussed total private equity. Mr. O'Connell indicated that the negative performance of this was due to the brief reporting period and stated that he would use a longer of period of time to show the total private equity performance in the future. Mr. O'Connell then presented the 2011 NACUBO study results. Next, Mr. Hagan provided an update on the hedge fund endowment manager search process, which he said will be complete by the end of the 2012 calendar year, and he discussed the proposed investment policy revisions that will be included as an agenda item at the Board meeting on July 19, 2012. Mr. Knorr commented briefly on the proposed changes. A brief discussion regarding ethics guidelines and requirements regarding relationships with

investment firms followed, and the presentation and related discussion concluded at 2:13 p.m.

Amendment for Investment Policy Endowment and Operating Funds

Mr. Hagan and Dr. Peter J. Newman, senior assistant vice president for treasury operations, confirmed this recommendation was discussed during the previous presentation.

Replacement Liquidity Facility Variable Rate Demand Certificates of Participation, Series 2004

Mr. Knorr discussed the need for a replacement liquidity facility for Variable Rate Demand Certificates of Participation, Series 2004, due to a downgraded credit rating at Bank of America and the potential negative effects resulting from it. He explained that the recommendation is to replace the Bank of America liquidity facility with The Bank of New York Mellon. Brief discussion followed.

Purchase Recommendations

Next, Mr. McMillan asked Dr. Heather J. Haberaecker, executive assistant vice president for business and finance, to review the purchase recommendations that will be on the agenda for the meeting of the Board of Trustees on July 19, 2012 (materials on file with the clerk). Dr. Haberaecker provided information regarding a contract for the recommended purchase of an extended service agreement for combustion turbine generators at Chicago and explained that this contract includes repairs, replacement parts,

and unlimited overhauls. She said that functioning combustion turbine generators are important to the hospital for heating and sterilization purposes.

Dr. Haberaecker then discussed the recommended purchase of access to an electronic patient care system for the College of Medicine at Rockford, and stated that this is the most cost-effective approach to enable to use of electronic medical records, noting that this will also improve patient care. Dr. Haberaecker responded to brief questions regarding these purchases.

There were no objections to moving the items listed above forward to the full board.

REPORTS AND PRESENTATIONS, CONTINUED

Preliminary Budget Request

Mr. McMillan then asked Dr. Christophe Pierre, vice president of academic affairs, to provide a presentation on the preliminary fiscal year 2014 budget request (materials on file with the clerk). Dr. Pierre stated that the annual budget request is required by the State, and he reviewed current key issues and important dates related to the budget. He said that the preliminary budget request of \$82.8 million includes funding for strengthening academic quality, addresses facility operational needs, and considers inflationary and other cost increases. He then discussed the preliminary campus capital priority request, presented a chart depicting capital appropriations to the University from

2000 through 2013. He stated that a finalized presentation will be available in September.

State Budget and Legislative Update

Mr. Knorr asked Mr. Michael B. Bass, senior associate vice president for business and finance, to provide an update on the agenda item which provides support for the University of Illinois Foundation and University of Illinois Alumni Association and was approved by the Board on May 31, 2012. Mr. Bass informed the committee that the fiscal year 2013 operating support for the Foundation and Alumni Association has been reduced to \$6,782,500 and \$2,394,300, respectively, to reflect the reduction in the University's fiscal year 2013 general appropriation.

Mr. Knorr then provided a provided a brief report on State finances, and stated that the State receivable is currently \$207.0 million. He said that 30 percent of the State appropriation is due to the University, and that he will provide additional information regarding State finances at the upcoming Board meeting. He also referred to a scheduled appearance before the Legislative Audit Commission on August 29, 2012, and indicated that Mr. Lester H. McKeever, Jr., treasurer, will also be in attendance at the hearing.

OLD BUSINESS

There was no business presented under this aegis.

NEW BUSINESS

Mr. McMillan announced that the next meeting of this committee is scheduled for Tuesday, September 4, 2012, at 1:00 p.m.

MEETING ADJOURNED

On motion of Mr. Montgomery, seconded by Ms. Strobel, the meeting adjourned at 2:40 p.m. There were no "nay" votes.

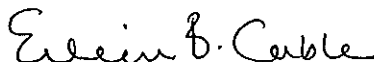
Respectfully submitted,



Susan M. Kies
Clerk



Edward L. McMillan
Chair



Eileen B. Cable
Assistant Clerk

AUDIT, BUDGET, FINANCE, AND FACILITIES COMMITTEE MEETING
STAFF AND PUBLIC ATTENDANCE, MEETING OF JULY 9, 2012

Urbana Campus Site

Randy Kangas, Associate Vice President for Planning and Budgeting, University Administration
Jackie Dippel, KPMG
Jan Dennis, Assistant Director, University Relations
Darrell Hoemann, photographer, News Gazette
Robert Plankenhorn, Director of Capital Financing, OBFS
Menah Pratt-Clarke, Associate Chancellor, Urbana-Champaign campus
Sandra Street, Director of Planning and Budgeting, University Administration
Jo Menacher, Associate Director of Planning and Budgeting, University Administration
Phyllis Wise, Chancellor, Urbana-Champaign campus
Peter Newman, Senior Assistant Vice President of Treasury Operations, OBFS
Dean Hagan, Director of University Investments, OBFS
Julie Wurth, reporter, News Gazette
Mike Bass, senior associate vice president for business and finance and deputy comptroller
Janier Koss, staff, Board of Trustees
Jill Odom, Administrative Assistant, Office of the Vice President/Chief Financial Officer and Comptroller
Pat Patterson, Controller and Senior Assistant Vice President, OBFS
Maxine Sandretto, Assistant Vice President for Business and Finance, Urbana-Champaign campus
Julie Zemaitis, Executive Director of University Audits, University Administration
Avijit Ghosh, Special Assistant to the President, University Administration
Robert Easter, President, University Administration
Susan Kies, Secretary, Board of Trustees
Christophe Pierre, Vice President for Academic Affairs, University Administration
Sue Parker, staff, Board of Trustees
Julia Kuehn, staff, Board of Trustees

Chicago Campus Site

Walter Knorr- Vice President and Chief Financial Officer and Comptroller, University Administration
Heather Haberaecker, Executive Assistant Vice President for Business and Finance, Chicago campus
Tom Bearrows, University Counsel, University Administration
Mark Donovan, Vice Chancellor for Administrative Services; Chicago campus
Joseph Vitosky, Assistant Vice President of Capital Programs and Real Estate Services, OBFS
Kevin Duff, Manager of University Planning and Design, OBFS
Frank Goldberg, Vice Provost for Resource Planning and Management, Chicago campus
Joe G.N. Garcia, Vice President for Health Affairs, Chicago campus
Brady O'Connell, Hewitt Ennis Knupp
Michael Jonen, Associate Vice President for Health Affairs, Chicago campus