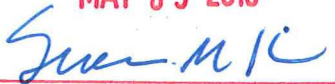


MAY 09 2016


SECRETARY OF THE BOARD

MEETING OF THE AUDIT, BUDGET, FINANCE, AND FACILITIES COMMITTEE
OF THE BOARD OF TRUSTEES OF THE UNIVERSITY OF ILLINOIS
MARCH 7, 2016

This meeting of the Audit, Budget, Finance, and Facilities Committee was held on Monday, March 7, 2016, at 1:00 p.m., in Room 1030, National Center for Supercomputing Applications, 1205 West Clark Street, Urbana campus, Urbana, Illinois. Attendance via videoconference was available in Room 270, College of Pharmacy, 833 South Wood Street, Chicago campus, Chicago, Illinois; and the Hatmaker Room, Room 550, Public Affairs Center, One University Plaza, Springfield campus, Springfield, Illinois.

Trustee Ramón Cepeda, chair of the committee, convened the meeting and asked the clerk to call the roll. The following committee members were present: Mr. Ramón Cepeda, Mr. Edward L. McMillan, Mr. James D. Montgomery. The following student trustees were present: Mr. Jaylin D. McClinton¹, Urbana campus; Mr. Jauwan Hall, Chicago campus. Mr. Lester H. McKeever Jr., treasurer, and Mr. Dominique Wilson, voting student trustee from the Springfield campus, were absent. President Timothy L. Killeen was present.

¹ Mr. McClinton arrived at 1:01 p.m.

Also in attendance were: Dr. Michael D. Amiridis, chancellor, Chicago campus, and vice president, University of Illinois; Dr. Susan J. Koch, chancellor, Springfield campus, and vice president, University of Illinois; Dr. Christophe Pierre, vice president for academic affairs; Mr. Walter K. Knorr, comptroller (and vice president/chief financial officer); Dr. Lawrence B. Schook, vice president for research; Mr. Thomas R. Bearrows, University counsel; Dr. Susan M. Kies, secretary of the Board of Trustees and of the University; and Ms. Dedra M. Williams, secretary designate of the Board of Trustees and of the University. Attached is a listing of other staff members and some members of the media in attendance at this meeting.

Mr. Cepeda welcomed everyone to the meeting and asked if there were any comments or corrections to the minutes from the meeting held January 11, 2016. On motion of Mr. McMillan, seconded by Mr. Montgomery, the minutes were approved. There were no "nay" votes.

PRESENTATIONS AND REVIEW OF RECOMMENDED BOARD ITEMS
FOR THE MEETING OF THE BOARD OF TRUSTEES
OF THE UNIVERSITY OF ILLINOIS ON MARCH 16, 2016

Mr. Cepeda asked certain individuals in attendance to provide presentations and report on the items that will appear on the Board's agenda at its meeting on March 16, 2016. All proposed agenda items discussed at the meeting are on file with the clerk.

Student Health Insurance Rates for Urbana, Chicago,
and Springfield Campuses, Academic Year 2016-17

Mr. Cepeda asked Dr. Pierre to discuss the proposed health insurance rates for the Urbana, Chicago, and Springfield campuses for Academic Year 2016-17. Dr. Pierre said that the proposed rates reflect an almost 12 percent increase at Urbana and almost 21 percent at Springfield, and he discussed the factors contributing to these increases. He told the committee that some students may obtain health insurance outside of the University and that some are insured through their parents. Brief discussion followed regarding the proposed costs.

Health Services Facilities System Revenue Bonds, Series 2013A (Alternate Projects)

Next, Mr. Cepeda asked Mr. Robert L. Plankenhorn, assistant vice president for treasury operations, to report on the recommendation to approve the reallocation of funds from the Lobby SW Plaza, kitchen reconfiguration, and freight elevator upgrade projects to some alternate projects, which he said represent enhanced utilization of the bond funds to support the combined strategic infrastructure replacement with enhanced care delivery and revenues. Committee members discussed the delayed and alternate projects, and Mr. Knorr informed them that this recommendation was also discussed at the University Healthcare System Committee meeting that was held the previous week.

Capital and Real Estate Items

Mr. Cepeda then asked Mr. Michael B. Bass, senior associate vice president and deputy comptroller, to discuss recommended capital and real estate items. Mr. Bass first reported on the recommendation to approve construction contracts for renovation at the Everitt Laboratory, Urbana, and he reviewed the timeline for the project, budget, source of funding, and Minority and Female Business Enterprise (MAFBE) participation rates. Mr. Bass then discussed the recommendation to approve the construction contract for renovation at the Irwin Center for Doctoral Study in Business at Urbana. He said the Board approved the project in March 2014, and he gave information on the recommended construction contract, including the estimated completion date, source of funds, and MAFBE participation rate. Brief discussion followed regarding the process by which vendors are certified as MAFBE firms.

Next, Mr. Bass reported on the recommendation to approve the construction contract for the student union at Springfield and said the project was approved by the Board in January 2014. He discussed the budget for the project and source of funds, and President Killeen commented on the creativity and hard work involved in securing funding for this project. Mr. Bass also reported on MAFBE participation rates for the recommended construction contract for the project.

Mr. Bass then discussed the recommendation to increase the project budget and award construction contracts for the main building addition at the Construction and Engineering Research Laboratory at Urbana and said this project will allow one of the main

buildings to transition back into primarily research laboratory space and replace the use of leased space. He discussed aspects of the project and reviewed the source of funding and MAFBE participation rates for the construction contract. Next, Mr. Bass reported on the recommendation to employ a construction manager for the Design Center Facility at Urbana. He said the project was approved by the Board in September 2015 and that the Design Center Facility will provide a space for student collaboration. He reviewed some components of the project and the MAFBE participation rate of the recommended firm's subcontractors. Mr. Cepeda asked whether the recommended vendor had been used by the University for any previous projects, and Mr. Bass listed some previous work done by the firm, indicating that they performed well in the past.

Next, Mr. Bass discussed the recommendation to approve the project for research laboratories at the Medical Sciences Building at Chicago. He told the committee that the existing teaching laboratories are obsolete, underused, and in need of repair, and that the goal of this project is to redevelop these laboratories into state of the art research laboratories to accommodate innovative research programs and attract investors. He discussed the scope of the work and source of funding for the project. Mr. Bass then reported on the recommendation to approve the increase in the project budget and professional services consultant contract for the Clinical Performance Center at the College of Medicine, Chicago. He stated that the project, which was approved by the Board in September 2014, will create new headquarters for the existing Dr. Allan L. and Mary L. Graham Clinical Performance Center. Mr. Bass described plans for the space and said it was originally intended to be housed on one floor of the Mile Square Health Center. He said that one floor

has been found to be inadequate to accommodate some planned areas for the space, and he described the proposed build-out of an additional floor and requirements for the construction of this space. He reviewed the anticipated timeline for the project and source of funds.

Lastly, Mr. Bass reported on the recommendation to approve construction contracts for mechanical and electrical upgrades at the University of Illinois Medical Center, Chicago. He referred to the Board's approval of the Medical Center infrastructure modernization and remodeling project in January 2010 and a subsequent project budget increase in November 2012, and he described the scope of work included in this construction contract. He also provided MAFBE participation rates for this contract.

Purchase Recommendations

Next, Mr. Cepeda asked Mr. Richard D. Elmore, assistant vice president for procurement services, to report on purchase recommendations. Mr. Elmore discussed the recommended purchase of neurostimulator systems and pain control pump systems for pain management therapy for the University of Illinois Hospital and Health Sciences System on an as needed basis, with a cost not to exceed \$6.0 million over a three-year contract term. He said the University is receiving a discount of 5 percent to 10 percent off the list price. Mr. Montgomery asked how much money the hospital receives for the use of these services, and Mr. Michael Zenn, chief financial officer, University of Illinois Hospital, said that it depends on the payor, noting that the hospital is sometimes paid the full cost.

Mr. Elmore then provided information on the recommendation to purchase consulting services for the University of Illinois Hospital and Health Sciences System on an as-needed basis and said this makes available the services of consultants in several areas as needs are identified. He emphasized the benefit of having these services prequalified in order to comply with State procurement laws and confirmed that this is the same approach used in previous years.

Next, Mr. Elmore gave an overview of the recommended purchase of student accident and illness insurance for students at Springfield. He said that pricing is based on an estimated number of enrolled students, and he referred to the presentation on health insurance rates that was already provided.

Mr. Elmore then discussed the recommended purchase of temporary information technology and consulting services for Urbana, Chicago, and Springfield. He said that the State's Business Enterprise Program (BEP) Council found that there is a strong basis in evidence to determine that discrimination is present in certain sectors of the information technology/telecom industry and passed a resolution declaring that a sheltered market shall exist in those sectors of the information technology/telecom industry where a disparity has been demonstrated. Mr. Elmore said that 28 BEP-certified firms will be used as needed, subject to availability of funding, for temporary information technology and telecom services. He said that the University will recognize 100 percent BEP credit for any orders issued under these contracts. Mr. Montgomery inquired about the selected firms and the Business Enterprise for Minorities, Females, and Persons with Disabilities Act, and Mr. Elmore provided additional details about the firms and referred

to the aspirational goals of the legislation. President Killeen commented that this is the first sheltered market that has been established and referred to positive feedback from the Black Caucus.

Next, Mr. Elmore provided information on renewal options, beginning with the renewal option for purchase of maintenance and repair work at the utilities production plants at Urbana. He then reviewed the renewal option for student health insurance at Urbana, the cost of which has previously been discussed, and the renewal option for maintenance and storage media at the National Petascale Computing Facility. Committee members discussed the use of the Blue Waters supercomputer, and President Killeen said it is widely utilized and that he would provide additional details at a later date. Lastly, Mr. Elmore provided information on the renewal option for the purchase of dental supplies required for use in clinics at the College of Dentistry. He referred to the vendor's past performance and said the vendor maintained adequate stock of supplies in the College of Dentistry's clinics.

Endowment Investment Performance and Program Update

At 2:00 p.m., Mr. Cepeda asked Mr. Dean A. Hagan, director of University investments, and Dr. Peter J. Newman, associate vice president for treasury operations, to present the endowment investment performance update (materials on file with the clerk). Mr. Hagan gave a capital markets review and commented that the Federal Reserve raised rates in December for the first time in nearly a decade. He presented the global economic environment for 2015. Next, Mr. Hagan showed endowment pool benchmark rankings

compared to peer institutions, and he presented the NACUBO Commonfund Study of Endowments, which he said showed that University endowment pool performance compared favorably to its peer group across all time periods. He discussed asset allocation of the endowment pool and the endowment pool investment implementation update. Mr. Hagan presented preliminary year to date performance and referred to recent volatility in the market. Brief discussion followed regarding the performance of the endowment over the past 5- and 10-year periods and the amount of funding that is generated per year.

Fiscal Year 2015 Financial Audit

Mr. Cepeda then asked Mr. Patrick M. Patterson, controller and senior assistant vice president, to present the results of the Fiscal Year 2015 financial audit (materials on file with the clerk). Mr. Patterson said the University received a clean, unmodified opinion from CliftonLarsonAllen, the University's State-appointed auditor. He gave an overview of three University-wide findings and one finding at the hospital, and he described efforts to improve in these areas. He thanked all involved for their efforts and for the positive outcome. Mr. Patterson then reviewed financial statement highlights. He said that the results of the Fiscal Year 2015 federal and State compliance audits are expected to be released on March 31, 2016, and will be presented at the May meeting of this committee. Mr. Cepeda thanked all involved for their hard work.

Summary of Internal Audit Activity

At 2:17 p.m., Mr. Cepeda asked Ms. Julie A. Zemaitis, executive director of University audits, to provide a presentation on internal audit activity for quarter ended December 31, 2015 (materials on file with the clerk). Ms. Zemaitis presented the audit plan completion status for Fiscal Year 2016 and commented on the hours used for special projects, noting that the plan is flexible by design. She discussed audit recommendation findings from October 1, 2015, through December 31, 2015, and presented the implementation of audit recommendations through the second quarter of Fiscal Year 2016. She told the committee that the ending balance is the lowest to date, and she thanked all involved for this progress. Ms. Zemaitis reported on the aging of outstanding recommendations by management's original implementation date and showed the number of recommendations with management's original implementation dates of 2015 and prior. She provided additional information on high risk audit recommendations with management's original implementation dates of Fiscal Year 2014 and prior.

Ms. Zemaitis then discussed effective risk management and described how the three lines of defense model is implemented at the University, and she emphasized the importance of coordinating efforts and effectively using University resources. Mr. McMillan referred to the progress made on the implementation of audit recommendations with management's original implementation dates of 2015 and prior and said this is a tremendous accomplishment, noting that this required a commitment from management. He expressed appreciation and congratulations to all involved.

Legislative, Budget, and Financial Updates

Next, Mr. Cepeda asked Mr. Knorr to give legislative, budget, and financial updates. Mr. Knorr referred to the governor's recent budget address, which confirmed reductions in funding to higher education, and he discussed the impact of this and other recommendations made by the governor. He reported on the University's unbilled vouchers to the State and the State's unpaid bills, which he said total \$7.4 billion. Mr. Knorr said that Standard and Poor's and Moody's affirmed the University's credit rating, and he informed the committee of savings achieved through the refunding of auxiliary bonds in January. Mr. Montgomery and Mr. Knorr briefly discussed cash flow, and Mr. McMillan congratulated Mr. Knorr on the savings achieved through the auxiliary bond refinancing, noting that this is an achievement in this financial environment. Mr. Knorr congratulated his team and thanked them for their efforts in successfully completing the bond refinancing.

OLD BUSINESS

There was no business presented under this aegis.

NEW BUSINESS

Mr. Cepeda announced that the next meeting of this committee is scheduled for Monday, May 9, 2016, at 1:00 p.m.

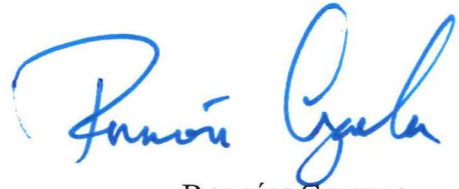
MEETING ADJOURNED

On motion of Mr. Montgomery, seconded by Mr. McMillan, the meeting adjourned at 2:36 p.m. There were no "nay" votes.

Respectfully submitted,



SUSAN M. KIES
Clerk



RAMÓN CEPEDA
Chair



EILEEN B. CABLE
Assistant Clerk