OCTOBER MEETING, 2002

The University of Michigan
Ann Arbor
Thursday, October 17, 2002

The Regents convened at 1:50 p.m. in the Michigan Rooms, Harding Mott University Center, on the campus of the University of Michigan-Flint. Present were President Coleman and Regents Brandon, Deitch, Horning, Maynard, McGowan, Newman, Taylor, and White. Also present were Interim Provost Courant, Interim Executive Vice President Greenfield, Vice President Harper, Vice President and General Counsel Krislov, Chancellor Little, Chancellor Mestas, Vice President Rudgers, Interim Chief Financial Officer Slottow, Vice President and Secretary Tedesco, Vice President Ulaby, and Vice President Wilbanks.

President's Opening Remarks

President Coleman called the meeting to order. She cited a number of noteworthy faculty and staff accomplishments and recognition received by faculty and staff during the past month, including the award of a MacArthur Foundation "Genius" grant to Associate Professor Eric Mueggler. She noted that the Michigan Journalism Fellows Program has been renamed the "Knight-Wallace Fellows at Michigan" program, in recognition of gifts that have been received from the Knight Foundation and Mike Wallace. She also noted that a National Poverty Research Center has been established at the University of Michigan by the U.S. Department of Health and Human Services. Finally, she reported that the University had been named "Corporation of the Year" by the Michigan Minority Business Development Council and that Louis Green, manager of the University's Supplier Diversity Program, had received a "Corporate Champion Award" from the Michigan Women's Business Council.

Appointment of Provost and Executive Vice President for Academic Affairs. President Coleman announced her recommendation of Paul Courant as provost and executive vice president for academic affairs. She noted that Professor Courant had been a faculty member for nearly 30 years and that she had found him to be an excellent person to work with in his role as interim provost.

Regent Deitch moved approval of the appointment of Paul Courant as provost and executive vice president for academic affairs, effective October 1, 2002, to continue through July 31, 2005, with a review following the second year of the term and possible reappointment for a term of five years. Regent Brandon seconded the motion, and it was approved unanimously. A round of applause followed.

PricewaterhouseCoopers LLP Presentation and Discussion

Interim Chief Financial Officer Slottow introduced Jack McCarthy, executive partner, and Darrell Burks, overall engagement partner, for PricewaterhouseCoopers LLP ("PWC"). Mr. McCarthy named the employees from the firm who were responsible for overseeing the various facets of the University's audit. He noted that George Johnson and Company was a partner in the audit. He listed the audits that had been completed, which include the University and its sub-units, the Department of Intercollegiate Athletics, the Hospitals and Health Centers, Veritas Insurance Corporation, and separate audits of the Alumni Association, the William Davidson Institute, and the University Musical Society. Reviews had also been conducted of the control environments for the Property Disposition and Printing Services departments. Several other audits are in process, including those for the Michigan Health Corporation and M-Care.

Mr. Burks described the four phases of the audit: "scoping" to focus the work on areas management has identified; understanding the business risk and how it is managed; evaluating how well the business is managed; and validating the assessment to be satisfied that the audit conclusions can be supported. He reviewed the audit approach in detail by noting some of the questions that are asked to gain an understanding of the institution. He also noted the various processes and systems that are reviewed to evaluate the internal control structure. The next step is to evaluate information from a third party environment, going outside of the University to gain corroborating evidence to support the previous conclusions.

Mr. Burks summarized the audit results, noting that "No material misstatements or illegal acts were noted." He also stated that "Our audits did not disclose any material deficiencies in the University's internal control structure." He pointed out that the financial statements for the year ended June 30, 2002 are reported on a consolidated basis.

Mr. Burks reviewed the required communications between an auditor and its client, and noted the auditor's response to each. He stated that it was noteworthy that there were no significant audit adjustments resulting from the audit.

Mr. Burks noted that PWC had identified "observations and recommendations" to improve controls and reduce risk and have conveyed these to management. He reported that comments presented last year regarding the University of Michigan Press have been satisfactorily addressed. Due to turnover in management at the Office for Student Publications, last year's comments regarding the Office of Student Publications are still in the process of being addressed; therefore, progress will be evaluated in fiscal 2003.

Interim Chief Financial Officer Slottow observed that the status of all observations made by the auditors in FY 2002 will be brought to the Board for review within six months time. He also noted that an area of focus planned for the FY2002 audit that was not done included an internal control review at the Hospitals and Health Centers. Mr. Slottow noted that the audit included extensive review and testing of all components of the Hospitals' revenue cycle with no material concerns. However, the expense cycles had less focus due to staffing issues at PWC. He added that the internal control review for the Hospitals and Health Centers would begin in the next several weeks.

Finally, Mr. Burks commented on emerging issues, such as passage of the Sarbanes-Oxley Act of 2002, which will change drastically how audits are conducted in the public environment. He noted that GASB is considering a requirement for recording of the estimated present value of post-retirement benefits as a liability in financial statements, and that the University currently does disclose this information in the footnotes to the financial statements. It was noted that current discussion is focusing on whether there will be a requirement to fund some portion of post-retirement benefits in conjunction with the requirement that it be accrued.

Interim Chief Financial Officer Slottow commented that as adoption of these requirements gets closer, there will be discussions with the Regents about how it will affect both the audited financial statements and the University's financial situation.

Mr. Slottow called attention to the University of Michigan Financial Report for the year ended June 30, 2002, which had been distributed at the meeting. Regent Deitch commented that the book was "best in class."

Mr. Slottow introduced Cheryl Soper, University controller, and Russ Fleming, manager of financial reporting, noting that they and their staffs are largely responsible for the audit's outstanding results and unqualified opinion.

Annual Report of Investments

Mr. Slottow introduced Mr. Erik Lundberg, chief investment officer, who gave a presentation on the University's investments for Fiscal Year 2002. He noted that the University has

$5.2 billion in investments, divided into four categories: Endowment funds, University Investment Pool (working capital), Veritas (the University's insurance company), and M-Care (health maintenance organization).

He noted that the endowment had grown from about $0.2 billion in 1983 to $3.4 billion in 2002, and that the University's $5.2 billion in financial assets consists of the Long Term Portfolio (65%) and other investments (35%). The strategic framework for investment of the endowment, which was established by the Regents, includes diversified investment management, a long-term horizon with equity orientation, commitment to alternative assets, insulation of University operations from volatility through a spending rate of 5% of the 3-year average market value of the endowment, and total return investing.

Mr. Lundberg reviewed the asset allocation of the Long Term Portfolio, noting that currently 77% is invested in marketable securities and 23% in alternative assets. He described the asset allocation, which consists of about ¼ in fixed income investments, ¼ in alternative assets, ¼ in domestic equities, and the remainder divided among international equities and absolute return investments (with 1% in cash); and also described the asset allocation within the alternative assets class. Finally, he compared the allocation on June 30, 2002 with the model portfolio.

Mr. Lundberg noted that market returns in general were down for fiscal year 2002, and compared the performance of the Long Term Portfolio with the one-year benchmarks in each category. The returns for domestic equities, international equities, and total marketable securities performed better than their respective benchmarks, while fixed income and absolute return investments underperformed their benchmarks. Compared with the benchmark for returns for the 3-year period ending June 30, 2002, the Long Term Portfolio exceeded the benchmark in most categories and total marketable securities returned 4.7% compared to the return rate for the benchmarks of -1.0%. For the category of alternative assets, total alternative assets lost less than the benchmark for one year, and outperformed the marketable securities significantly from inception to June 30, 2002 (24.1% compared to 9.9% overall).

Finally, Mr. Lundberg displayed a chart illustrating the performance of the Long Term Portfolio from a long-term perspective. This indicates a return of 10.8% over a five year period. During the same period, institutions in the top quartile returned more than 8.4%, while the median during that time period was 6.5%.

He concluded by describing the University Investment Pool, which totals $1.5 billion and has virtually matched its benchmark in terms of performance for one year (8.7%) and 3 years (7.8%). The outlook is for continued volatility in the markets with a promise for increase in assets over the long term. The approach will be to pursue a coherent and diversified investment strategy, focus on taking appropriate risks, maintain a long term perspective, and generate positive relative and absolute returns.

Regent Newman inquired as to whether the University has any risk in terms of pension funding. President Coleman responded that the University has a defined contribution plan which is held by another entity, and has no obligation beyond these contributions, the investment of which is the responsibility of individual employees.

Consent Agenda

Minutes. Vice President Tedesco submitted for approval the minutes of the meeting of September 19, 2002.

Reports. Interim Chief Financial Officer Slottow submitted the Plant Extension Report and the Regents' Report on Non-competitive Purchases over $5,000 from Single Sources from June 16, 2002 through September 15, 2002.

Provost Courant submitted the Human Resources and Affirmative Action Report.

Litigation Report. Vice President Krislov submitted the Litigation Report.

Research Report. Vice President Ulaby submitted the report of Projects Established, September 1 - September 30, 2002.

University of Michigan Health System. Interim Executive Vice President Greenfield commented on procedures being performed at the University of Michigan Hospitals and Health System that are receiving national media attention.

Division of Student Affairs. Vice President Harper had no additional report.

University of Michigan-Dearborn. Chancellor Little reported on a recent publication by a UM-Dearborn faculty member and also announced a grant the campus had received to create a program to help the Dearborn public school system work with children who do not have strong English skills.

University of Michigan-Flint. President Coleman thanked Chancellor Mestas for hosting the meeting on the Flint campus. Chancellor Mestas noted that his "report" had consisted of a partial performance of the play, "Master Harold and the Boys," performed during the pre-meeting luncheon.

Michigan Student Assembly Report. The written MSA report was received as submitted, as MSA President Sarah Boot was unable to attend the meeting.

Voluntary Support. Interim Vice President Wilbanks submitted the reports of voluntary support for September 2002.

Personnel Actions/Personnel Reports. Provost Courant called attention to the recommendation for the reappointment of Earl Lewis as dean of the Horace H. Rackham School of Graduate Studies and vice provost for academic affairs and graduate studies.

Retirement Memoirs. Vice President Tedesco submitted memoirs for four retiring faculty members.

Memorials. No deaths of active faculty members were reported to the Regents this month. Regent Maynard called attention to the recent death of Eugene Feingold, professor emeritus of health services management and policy, noting that he had been active in public policy and public health issues, including having served on the Tobacco Divestment Advisory Committee. It was noted that he also served on the board of directors of M-Care.

Degrees. Provost Courant submitted for approval the August 2002 Doctoral Degree List, final degree lists for the May and August, 2002 commencements, and changes to previously approved degree lists.

Approval of Consent Agenda. On a motion by Regent Maynard, seconded by Regent White, the Regents unanimously approved the Consent Agenda.

Washtenaw Area Transportation Study Representative

Interim CFO Slottow informed the Regents that the University has joined the Washtenaw Area Transportation Study (WATS). Henry D. Baier, associate vice president for facilities and operations, will become a member of the Policy Committee and David Miller, manager of bus operations, will serve on the Technical Advisory Committee. Membership in this organization will allow the University to apply for federal funding for transportation improvements.

University of Michigan Financial Statements for the Year ended June 30, 2002

On a motion by Regent Deitch, seconded by Regent White, the Regents unanimously approved adopting the University of Michigan Financial Statements for the Year ended June 30, 2002, as submitted.

Refinancing of Hospital Revenue Refunding, Series 1993A Bonds

On a motion by Regent Taylor, seconded by Regent Deitch, the Regents unanimously approved adoption of the following resolution authorizing the interim chief financial officer or the interim treasurer to issue Hospital Revenue Refunding Bonds to refinance all or a portion of the Hospital 1993A bonds, and: develop the terms, and negotiate and execute the legal documentation for the financing with the assistance of the underwriter and outside legal counsel; obtain and approve a final proposal for the bonds.

RESOLUTION OF THE REGENTS OF THE UNIVERSITY OF MICHIGAN AUTHORIZING THE ISSUANCE AND DELIVERY OF HOSPITAL REVENUE BONDS, AND PROVIDING FOR OTHER MATTERS RELATING THERETO

WHEREAS, the Regents of the University of Michigan (the "Issuer") constitutes a constitutional body corporate established pursuant to Article VIII, Section 5 of the Michigan Constitution of 1963, as amended, with the general supervision of the University of Michigan (the "University") and the control and direction of all expenditures from the University's funds; and

WHEREAS, the Issuer entered into a master indenture, as supplemented (the "Master Indenture") dated as of May 1, 1986 with U.S. Bank National Association (successor to Comerica Bank) as Master Trustee (the "Master Trustee"), pursuant to which revenue obligations for the benefit of the University of Michigan Hospitals (the "Hospital") have been and will be issued and secured; and

WHEREAS, the Issuer has previously issued under the Master Indenture its $102,230,000 Hospital Revenue Refunding Bonds, Series 1993A, dated as of January 1, 1993 (the "Prior Bonds") and has determined it may be appropriate and in the best interest of the Issuer to refund all or a portion of the Prior Bonds, as determined by an Authorized Officer (hereinafter defined) (the portion of the Prior Bonds to be refunded being herein called the "Refunded Bonds"); and

WHEREAS, in the exercise of its constitutional duties, and in order to prudently control and direct expenditures from the University's funds, the Issuer determines it is necessary and desirable to authorize the issuance of a series of hospital revenue obligations (the "Bonds") to provide funds which, together with other available funds, may be used to refund the Refunded Bonds, and to pay certain costs incurred in connection with the issuance and sale of the Bonds and the refunding of the Refunded Bonds; and

WHEREAS, the Bonds will be issued pursuant to a trust indenture (the "Series Indenture") to be entered into by and between the Issuer and a trustee (the "Series Trustee") to be selected by the Chief Financial Officer, or Treasurer of the University (each an "Authorized Officer") as a series of revenue obligations under the Master Indenture; and

WHEREAS, the Issuer has retained Lehman Brothers (the "Underwriter"), to undertake market analysis with respect to the sale of the Bonds and to submit an offer to purchase the Bonds pursuant to a Bond Purchase Agreement (the "Bond Purchase Agreement") to be negotiated with the Underwriter and executed and delivered on behalf of the Issuer by an Authorized Officer; and

NOW, THEREFORE, BE IT RESOLVED BY THE REGENTS OF THE UNIVERSITY OF MICHIGAN, AS FOLLOWS:

1. The Issuer hereby authorizes the issuance, execution and delivery of the Bonds of the Issuer to be designated as shall be determined by an Authorized Officer (but which designation shall include the words "HOSPITAL REVENUE REFUNDING BONDS") with appropriate series designation, in the aggregate original principal amount to be established by an Authorized Officer, but not to exceed the principal amount necessary to produce proceeds of $96,000,000, to be dated as of the date or dates established by an Authorized Officer, for the purpose of providing funds which, together with other available funds, may be used to pay all or a portion of the costs of refunding the Refunded Bonds and to pay costs incidental to the issuance of the Bonds and to the refunding. The Bonds shall be serial bonds, or term bonds, which may be subject to redemption requirements as shall be established by an Authorized Officer, but the first maturity shall be not earlier than June 1, 2003 and the last maturity shall be no later than December 1, 2033. The Bonds may bear no interest or may bear interest at stated fixed rates for the respective maturities thereof as shall be established by an Authorized Officer, but the highest fixed rate of interest for any maturity shall not exceed 6% per annum, and the Bonds may be issued in whole or in part as capital appreciation bonds, which for their term or any part thereof bear no interest but appreciate in principal amount over time at compounded rate (not in excess of 6% per annum) to be determined by an Authorized Officer. The Bonds may be subject to redemption prior to maturity at the times and prices and in the manner as shall be established by an Authorized Officer. The average annual scheduled principal and interest requirements on the Bonds shall not exceed $10,000,000. Interest on the Bonds shall be payable at the times as shall be specified by an Authorized Officer. The Bonds shall be issued in fully registered form in denominations, shall be payable as to principal and interest in the manner, shall be subject to transfer and exchange, and shall be executed and authenticated, all as shall be provided in the Series Indenture. The Bonds shall be sold to the Underwriter pursuant to the Bond Purchase Agreement for a price to be established by an Authorized Officer (but the Underwriter's discount, exclusive of original issue discount, shall not exceed 0.75% of the principal amount thereof) plus accrued interest, if any, from the dated date of the Bonds to the date of delivery thereof.

2. The Bonds shall be limited and not general obligations of the Issuer payable from Hospital Gross Revenues (as defined in the Master Indenture) and equally and ratably secured with all other Revenue Obligations (as defined in the Master Indenture) by an irrevocable pledge of the Pledged Hospital Gross Revenues (as defined in the Master Indenture) and the funds from time to time on deposit in certain of the funds created pursuant to the Master Indenture and shall be additionally secured by the funds from time to time on deposit in certain of the funds created pursuant to the Series Indenture.

Except as provided in the Master Indenture and the Series Indenture, no recourse shall be had for the payment of the principal amount of or interest or premium on the Bonds or any obligation of the Issuer under the Master Indenture or the Series Indenture, or any claim based thereon against the State of Michigan, the Issuer, or any officer or agent thereof, as individuals, either directly or indirectly, nor shall the Bonds or any obligation of the Issuer under the Master Indenture or the Series Indenture become a lien on or be secured by any property, real, personal or mixed of the State of Michigan or the Issuer or the University, other than the Pledged Hospital Gross Revenues and the moneys from time to time on deposit in certain of the funds established by the Master Indenture and the Series Indenture.

3. The right is reserved to issue additional bonds, notes or other obligations payable from Hospital Gross Revenues, or secured on a parity basis with the Bonds from the Pledged

Hospital Gross Revenues, upon compliance with the terms and conditions set forth in the Master Indenture.

4. Either Authorized Officer is hereby authorized and directed, in the name and on behalf of the Issuer and as its corporate act and deed, to determine which of the Prior Bonds shall be refunded, to designate any underwriters in addition to Lehman Brothers, to negotiate, execute and deliver the Series Indenture and the Bond Purchase Agreement, in each case subject to the terms hereof.

5. Either the President of the University of Michigan or the Chief Financial Officer is hereby authorized, empowered and directed, in the name and on behalf of the Issuer, and as its corporate act and deed, to execute the Bonds by placing her or his manual or facsimile signature thereon, and to deliver the Bonds to the Underwriter in exchange for the purchase price thereof, as shall be provided in the Bond Purchase Agreement.

6. Either Authorized Officer is hereby authorized to prepare or arrange to be prepared the Preliminary Official Statement with respect to the Bonds and to prepare or arrange to be prepared, and to execute and deliver on behalf of the Issuer, the Official Statement with respect to the Bonds and such supplements or amendments to the Official Statement as may be required pursuant to the Bond Purchase Agreement. The Underwriter is hereby authorized to circulate and use the Preliminary Official Statement and the Official Statement, as the same may be so supplemented or amended, in accordance with applicable law, in the offering, marketing and sale of the Bonds.

7. Each of the Authorized Officers, the Secretary, the General Counsel, and any other appropriate officer of the University are hereby authorized to perform all acts and deeds and to execute and deliver all instruments and documents for and on behalf of the Issuer or the University required by this resolution, the Master Indenture, the Series Indenture, or the Bond Purchase Agreement, or necessary, expedient and proper in connection with the issuance, sale and delivery of the Bonds or any issue or series thereof, and the ongoing operation of the financing programs represented by the Bonds, all as contemplated hereby. Any reference to an officer of the Issuer or the University herein shall include any interim or acting officer appointed by the Issuer.

8. The Authorized Officers are, or either of them is, hereby authorized, empowered and directed, in the name of and on behalf of the Issuer, and as its corporate act and deed, to negotiate, execute and deliver an escrow agreement, if necessary, relating to the Refunded Bonds, in such form as an Authorized Officer shall approve upon recommendation of legal counsel, subject to the terms hereof, which approval shall be conclusively evidenced by the execution of such escrow agreement.

9. In accordance with the requirements of Rule 15c2-12 of the United States Securities and Exchange Commission, the Issuer is required in connection with the issuance of the Bonds to enter into a Disclosure Undertaking for the benefit of the holders and beneficial owners of the Bonds. Either Authorized Officer is authorized to cause to be prepared and to execute and deliver, on behalf of the Issuer, the Undertaking.

10. All resolutions or parts of resolutions or other proceedings of the Issuer in conflict herewith be and the same are hereby repealed insofar as such conflict exists.

Tunnels--Upjohn Building to University Hospital Piping Replacement Project

On a motion by Regent Taylor, seconded by Regent Maynard, the Regents unanimously approved a project for improving the utility tunnel piping from the Upjohn Building to University Hospital, involving replacement of the domestic hot water supply (DHWS) piping, domestic hot water return (DHWR) piping, and low pressure steam condensate (LPC) piping as described in the Regents Communication, and authorized issuing the project for bids and awarding construction contracts providing that bids are within the approved budget.

Bentley Historical Library Addition

On a motion by Regent White, seconded by Regent McGowan, the Regents unanimously approved issuing the Bentley Historical Library Addition Project for bids and awarding construction contracts providing that bids are within the approved budget.

College of Engineering Computer Science and Engineering Building

Interim Chief Financial Officer Slottow noted that this request and those involving the other two proposed new College of Engineering buildings address the first of the three step approval process necessary before construction can begin on a building. The next step will be presentation and approval of the schematic design and full exploration of parking options on the North Campus.

Regent McGowan commented that it would be very helpful for the Board to have a discussion of the new proposed North Campus Master Plan before the schematic design is presented for this project and the other two College of Engineering projects. President Coleman responded that this would be done prior to presenting schematic designs for any of the three College of Engineering projects presented today, and Mr. Slottow agreed that this would be very appropriate.

Regent Newman inquired about funding for the architect; it was noted that funding comes from College of Engineering reserves and gifts. Interim Chief Financial Officer Slottow commented that cash flow and financing issues for this project had been carefully reviewed.

Regarding parking associated with the three projects, Mr. Slottow noted that all three projects would be coordinated centrally through the office of the associate vice president for facilities and operations and that the University's planning consultant, Venturi, Scott Brown, would also be involved. Regent McGowan commented that she would like to have all views on North Campus parking issues presented to the Regents.

On a motion by Regent Newman, seconded by Regent Maynard, the Regents unanimously approved the College of Engineering Computer Science and Engineering Building Project as described and authorized commissioning Diamond and Schmitt Architects, Inc. for its design.

College of Engineering Advanced Technology Laboratories Biomedical Engineering Project

On a motion by Regent Newman, seconded by Regent Taylor, the Regents unanimously approved the College of Engineering Advanced Technology Laboratories Biomedical Engineering Project as described and authorized commissioning Zimmer Gunsul Frasca Partnership for its design.

College of Engineering Electrical Engineering and Computer Science (EECS) Building Solid State Electronics Lab Addition and Renovation Project

On a motion by Regent Taylor, seconded by Regent Deitch, the Regents unanimously approved the College of Engineering Electrical Engineering and Computer Science Building Solid State Electronics Lab Addition and Renovation Project as described and authorized commissioning The Smith Group for its design.

Animal Research Facility Room Renovations

On a motion by Regent Maynard, seconded by Regent Newman, the Regents unanimously approved the Animal Research Facility Room Renovations Project as described, and authorized issuing the project for bids and awarding construction contracts providing that bids are within the approved budget.

University of Michigan Medical School Medical Science I Building Cyclotron Relocation/Addition Project

On a motion by Regent White, seconded by Regent Deitch, the Regents unanimously approved the Cyclotron Relocation/Addition Project as described in the Regents Communication and authorized commissioning Lord, Aeck & Sargent, Inc. for its design.

Subcontract Agreement between the University of Michigan and IDE Research, LLC

On a motion by Regent Brandon, seconded by Regent Newman, the Regents unanimously approved a subcontract agreement with IDE Research, LLC for conducting a research project in the Medical School. Because the co-founder and co-owner of IDE Research, LLC, Dr. Neal Clinthorne, is also a University of Michigan employee, this agreement falls under the State of Michigan Conflict of Interest Statute. The following information is provided in compliance with statutory requirements:

1. Parties to the agreement are the University of Michigan and IDE Research, LLC.
2. Terms of the agreement conform to University policy. The period of performance for the project is six (6) months and the amount of funding support is $50,081.
3. Dr. Clinthorne has no pecuniary interest in the project.

Public Comments

The Regents heard comments from the following individuals, on the topics indicated: Michael J. Franzblau and Joseph Savin, alumni, on the Second Conference on Palestine Solidarity; and David Boyle, alumnus, on “listening and responding to the community.”

President Coleman noted that MSA President Sarah Boot had not arrived. She commended her on her hard work during the semester and urged board members to read her report in the agenda.

There being no further business, the meeting was adjourned at 3:20 p.m. The next meeting will take place November 14, 2002.