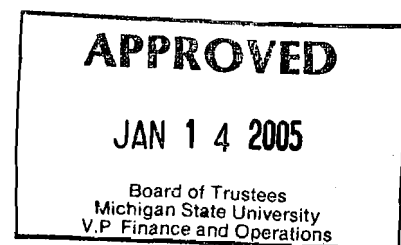


## TRUSTEE FINANCE & AUDIT COMMITTEE

Friday, January 14, 2005  
9:30 a.m.  
Board Room, Administration Building

### ***A G E N D A***

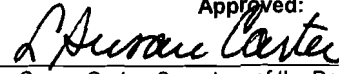
- A. Approval of Agenda
- B. Approval of the December 10, 2004, Minutes of the Trustee Finance & Audit Committee Attachment 1.B
- C. AE – DPPS – Replace air conditioning w/ chiller and air handling units Attachment 1.C
- D. AE – Fee Hall – Replace chillers, cooling towers, and pumps Attachment 1.D
- E. AE – Food Stores Bakery Attachment 1.E
- F. BC – Campus Steam Distribution – repair tunnel between vaults 182 and 183 Attachment 1.F
- G. Appoint External Auditors Attachment 1.G
- H. Approve Carlyle Investment Partners Attachment 1.H



## TRUSTEE FINANCE & AUDIT COMMITTEE

Friday, December 10, 2004  
Board Room, Administration Building

Approved:



L. Susan Carter, Secretary of the Board of Trustees

- Call to order:** 9:00 a.m.
- Committee Members Present:** Trustee Pittman, Trustee Ferguson, Trustee Nugent, and Trustee Porteous.
- Others Present:** Trustee Cook, Trustee Gonzales, and Trustee Romney; President McPherson and Provost and President-Designate Simon, Vice President Poston, and Secretary Carter; Faculty Liaison Representatives Helton, Maleczka, Melnick, Moch, and Sticklen; Student Liaison Representatives Hill, Schepers and Weber.

**A. Approval of the Agenda**

Upon a motion by Trustee Porteous, supported by Trustee Nugent, the Committee voted to approve the Trustee Finance & Audit Committee agenda as presented.

**B. Acceptance of the Friday, November 12, 2004, Minutes of the Trustee Finance & Audit Committee**

Upon a motion by Trustee Porteous, supported by Trustee Nugent, the Committee voted to approve the Trustee Finance & Audit Committee minutes as presented.

**C. Fund Functioning as an Endowment: Floriculture Endowment Fund**

Upon a motion by Trustee Nugent, seconded by Trustee Porteous, the Committee voted to recommend to the Board of Trustees establishment of a fund functioning as an endowment entitled: Floriculture Endowment Fund.

Vice President Poston indicated that this recommendation included \$30,000, attained from registration fees generated from the Floriculture College of Knowledge certificate program. Future revenues and gifts are also expected to be added to this fund and the income will be used to enhance programs in the floriculture arena, with an emphasis on extension and outreach programs.

Meeting adjourned: 9:03 a.m.



**MICHIGAN STATE  
UNIVERSITY**

**APPROVED**


JAN 14 2005

Board of Trustees  
Michigan State University  
V.P. Finance and Operations

January 5, 2005

**MEMORANDUM**

**To:** Trustee Finance and Audit Committee

**From:** Fred Poston 

**Subject:** Appointment of Architect/Engineer  
Department of Police and Public Safety –  
Replace Air Conditioning with Chiller and Air Handling Units

**RECOMMENDATION:**

BE IT RESOLVED that the Trustee Finance and Audit Committee recommends to the Board of Trustees that DiClemente Siegel Design, Inc. be appointed as the architect/engineer for the project entitled: Department of Police and Public Safety – Replace Air Conditioning with Chiller and Air Handling Units.

**BACKGROUND:**

This project involves the replacement of the air conditioning systems with a chilled water system within the Police and Public Safety building.

A selection committee consisting of University personnel reviewed proposals submitted by firms that had the qualifications and expertise necessary to complete the design of this project.

It is recommended that DiClemente Siegel Design, Inc. be appointed to provide architectural/engineering services for this project.

DiClemente Siegel Design, Inc. is a 70-person firm established in 1969 with offices in Southfield, Michigan. DiClemente Siegel Design, Inc. is a full-service firm providing architectural, engineering and construction-related services with in-house staff. The University has previously appointed DiClemente Siegel Design, Inc. for several projects on campus, including the Regional Chilled Water Plant – Replace Chillers 1 & 2 project.

cc: D. Brower, R. Flinn, P. Fowler, J. Kacos, G. Klein,  
K. Lindahl, J. Mumma, R. Nestle, D. Quinney

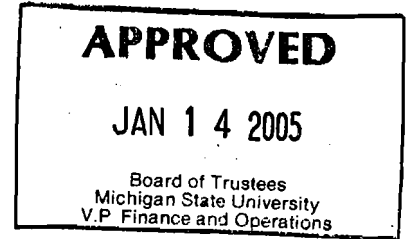
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**MICHIGAN STATE  
UNIVERSITY**



January 5, 2005

**MEMORANDUM**

**To:** Trustee Finance and Audit Committee  
**From:** Fred Poston   
**Subject:** Appointment of Architect/Engineer  
Fee Hall – Replace Chillers, Cooling Towers and Pumps

**RECOMMENDATION:**

BE IT RESOLVED that the Trustee Finance and Audit Committee recommends to the Board of Trustees that HarleyEllis be appointed as the Architect/Engineer for the project entitled: Fee Hall – Replace Chillers, Cooling Towers and Pumps.

**BACKGROUND:**

This project involves the replacement of two deteriorated absorption chillers and related cooling towers and pumps within Fee Hall.

A selection committee, consisting of University personnel reviewed proposals submitted by firms that had the qualifications and expertise necessary to complete the design of this project.

It is recommended that HarleyEllis be appointed to provide architectural/engineering services for this project. HarleyEllis is a 307-person firm established in 1908 with offices in Southfield, Michigan. HarleyEllis is a full-service firm providing architectural, engineering and construction-related services with in-house staff. The University has previously appointed HarleyEllis for several projects on campus, including the Biochemistry HVAC renovation project.

cc: D. Brower, R. Flinn, P. Fowler, J. Kacos, G. Klein, W. Latta,  
K. Lindahl, J. Mumma, R. Nestle, , D. Quinney

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**MICHIGAN STATE**  
**UNIVERSITY**

January 5, 2005

**MEMORANDUM**



**To:** Trustee Finance and Audit Committee

**From:** Fred Poston 

**Subject:** Appointment of Architect/Engineer  
Food Stores – Relocate MSU Bakery

**RECOMMENDATION:**

BE IT RESOLVED that the Trustee Finance and Audit Committee recommends to the Board of Trustees that Design Plus be appointed as the Architect/Engineer for the project entitled: Food Stores – Relocate MSU Bakery.

**BACKGROUND:**

This project includes an addition and renovation to the Food Stores building resulting in the relocation of the MSU Bakery from Brody Hall.

A selection committee consisting of University personnel reviewed proposals submitted by firms that had the qualifications and expertise necessary to complete the design of this project.

It is recommended that Design Plus be appointed to provide architectural/engineering services for this project. Design Plus is a 66-person firm established in 1979, with offices in Grand Rapids, Michigan. Design Plus is a full-service firm providing mechanical and electrical engineering and construction-related services with in-house staff. The firm's technical and creative expertise in food processing facilities and renovations has been demonstrated on numerous similar projects around the State of Michigan.

cc: D. Brower, R. Flinn, P. Fowler, C. Gagliano, J. Kacos, G. Klein,  
B. Latoszewski, K. Lindahl, J. Mumma, R. Nestle, D. Quinney

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**MICHIGAN STATE  
UNIVERSITY**

**APPROVED**  
  
JAN 14 2005  
  
Board of Trustees  
Michigan State University  
V.P. Finance and Operations

January 5, 2005

**MEMORANDUM**

**To:** Trustee Finance and Audit Committee  
**From:** Fred Poston   
**Subject:** Bid and Contract Award  
Campus Steam Distribution – Repair Tunnel between Vaults 182 and 183

**RECOMMENDATION:**

BE IT RESOLVED that the Trustee Finance and Audit Committee recommends to the Board of Trustees that a contract in the amount of \$210,060 be awarded to Sandborn Construction, Inc., and that a budget in the amount of \$310,000 be established for the project entitled: Campus Steam Distribution – Repair Tunnel between Vaults 182 and 183.

**BACKGROUND:**

This project involves the repair and replacement of tunnel floor segments, steam and condensation pipe supports, and guides between vaults 182 and 183 (south of the Food Science Building). The following bids were received:



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<u>BIDDERS</u>	<u>BASE BID</u>
Sandborn Construction, Inc.	\$210,060
Kares Construction Company, Inc.	257,000

This project was advertised in accordance with University practices. One woman-owned business (Sandborn Construction, Inc.) submitted a bid. No minority-owned businesses submitted bids.

It is recommended that the following budget be established:

Construction Contract	\$210,060
Engineering & Architectural Services	30,000
Campus Planning & Administration Services	1,900
Contingency	<u>68,040</u>
<b>TOTAL</b>	<b>\$310,000</b>

The Physical Plant Division estimated this project at \$300,000 in October 2004.

The project is intended to be funded from General Fund – Utilities.

cc: D. Brower, R. Flinn, P. Fowler, P. George, J. Kacos, G. Klein, K. Lindahl,  
J. Mumma, R. Nestle, D. Quinney

**MICHIGAN STATE  
UNIVERSITY**

**APPROVED**


**JAN 14 2005**

Board of Trustees  
Michigan State University  
V.P. Finance and Operations

January 5, 2005

**MEMORANDUM**

**To:** Trustee Finance and Audit Committee

**From:** Fred Poston 

**Subject:** Appointment of the University's External Auditors

**RECOMMENDATION:**

BE IT RESOLVED that the Trustee Finance and Audit Committee recommends to the Board of Trustees:

That KPMG LLP be reappointed as the University's auditors for FY 2004-2005 at a fee of \$256,950 including out-of-pocket expenses; and

That Dr. Fred Poston, Vice President for Finance and Operations and Treasurer, is authorized to sign on behalf of the Board of Trustees the KPMG LLP engagement letter dated November 12, 2004, addressed to the Chairperson of the Finance and Audit Committee.

**BACKGROUND:**

At its October 22, 1999 meeting, the Michigan State University Board of Trustees approved, in accordance with its policy on the rotation of auditors, a recommendation of its Trustee Finance and Audit Committee that the administration be authorized to initiate a process to select new auditors and begin a new six-year auditor eligibility cycle with the 1999-2000 audit, during which the auditing firm initially selected would be eligible for annual reappointment by the Board of Trustees for a total of six years, provided price, service, and other terms and conditions of the appointment were satisfactory.

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Vice President

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At its February 2000 meeting and again at its December 2000, 2001, 2002, and 2003 meetings, the MSU Board of Trustees selected KPMG LLP as the University's auditors for FY 2000 through FY 2004. Action is now needed to initiate the FY 2005 audit process. Under the Board's current policy, FY 2005 will be the final year for KPMG LLP to perform the University's audit.

cc: D. Brower, G. Deppong, G. Klein, K. Lindahl, T. Luccock, V. Schimizzi

**MICHIGAN STATE  
UNIVERSITY**

**APPROVED**

JAN 14 2005

Board of Trustees  
Michigan State University  
V.P. Finance and Operations

January 5, 2005

**MEMORANDUM**

**To:** Trustee Finance and Audit Committee

**From:** Fred L. Poston



**Subject:** New Investment Manager – Carlyle Partners

**RECOMMENDATION:**

BE IT RESOLVED that the Trustee Finance and Audit Committee recommends to the Board of Trustees the selection of Carlyle Partners as a private equity manager.

**BACKGROUND:**

Carlyle Partners (Carlyle) is currently raising Carlyle Partners IV, L.P. (Fund IV) to continue the firm's core U.S.-focused private equity investment strategy. Fund IV will generally seek to make 40-50 control-oriented commitments in growth equity financings, strategic joint ventures with corporate partners and recapitalizations. Fund IV has a target capitalization of \$5.0 billion with a hard cap of \$6.5 billion, to include a minimum of \$250 million committed by the founders of Carlyle and the members of the Carlyle Partners IV investment team. Carlyle held a first close on Fund IV in December 2004 on approximately \$5 billion and plans a second and final close on January 31, 2005.

Carlyle manages an extensive portfolio of 22 funds (covering a variety of strategies and geographical focuses) with \$20 billion in commitments. While managing a large, multi-line firm increases organizational hierarchy and decreases the time that management can spend on any one fund, Fund IV represents Carlyle's core, flagship product. Cambridge Associates expects the firm to devote sufficient attention to this fund's investment and portfolio management. Cambridge also noted that Carlyle has a high media profile and employs former senior government officials as advisors which could translate into potential "headline risk".

Carlyle will continue to target equity investments across a wide range of sizes, although the fund is expected to focus primarily on large deals. While historically Carlyle has specialized in the defense and aerospace industries, it

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has developed significant expertise in other sectors, such as telecommunications and media. In addition, Carlyle continues to build resources devoted to other industry sectors, including industrial manufacturing, automotive-related products, healthcare, and consumer products. Fund IV expects to focus on US investments, but expects to devote approximately 10% of the Fund capital to international investments, primarily in Europe.

Carlyle's prior U.S. buyout funds have produced attractive historical returns. As of June 30, 2004 Fund II (1994 \$1.3 billion) had returned a multiple of 2.0x of committed capital, and a net IRR of more than 30%, as confirmed by Cambridge Associates. Fund III (2000, \$3.8 billion), which is nearing the end of its five-year investment period, has delivered a net IRR of 10.6%, above its peer vintage year benchmark mean as confirmed by Cambridge Associates.<sup>1</sup>

Fund IV represents a good opportunity for MSU to invest with a well-respected manager focusing primarily on the larger capitalization sector of the buyout market. While investors should be aware of Carlyle's high profile and its rapid growth of funds under management, Cambridge Associates expects that Carlyle's experienced team, depth of resources and sector-focused strategy that contributed to the superior performance of Carlyle's previous U.S. buyout funds will provide competitive advantages to Fund IV and position it to generate above median returns. A commitment to Fund IV will comprise a core component of MSU's large capitalization US buyout exposure. Cambridge Associates recommends that MSU make a \$4.0 million commitment to Fund IV. The size of this commitment takes into account two factors: 1) MSU's two recent commitments to large buyout funds (\$5 million to Providence Equity Partners V and \$3 million to TPG Partners IV); and 2) the fact that large buyout firms, including Providence, TPG, and Carlyle have been syndicating deals at an increased rate, raising the potential for less diversification of the underlying investments among MSU's various investment managers portfolios.

cc: D. Brower, N. Carter, G. Klein, K. Lindahl

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<sup>1</sup> Carlyle has reported that as of June 30, 2004, Fund I (1990, \$100 m) had on a gross basis delivered an IRR of 31.9% and returned a 3.1x multiple of capital invested. Cambridge Associates has not confirmed these returns.