Dear Friends,

I am pleased to provide you with the fiscal year 2018 report for the Office of Treasury Operations. This was a year of positive change and growth for the University of Illinois System. The mission of Treasury Operations is to support system leadership, protect and grow its assets, and promote student education, research, public service, health care, and economic development.

In FY18, the State of Illinois appropriated $889 million to the system for expenditure years FY17 and FY18. The State issued $6 billion in bonds to reduce its bill backlog, which enabled timely payments to the system. Thus, the system’s operating pool balances increased and ended the year at $2.7 billion.

Our 10-year endowment returns were a robust 7.5%, and the operating and endowment pools distributed $65.8 million—almost 20% more than in fiscal year 2017. Treasury Operations participated in the establishment of a public-private partnership to build and finance a new $112 million academic and residential facility at the heart of the University of Illinois at Chicago. Furthermore, our team members worked on a system-wide capital planning process and debt capacity study for the new chief financial officer and system leadership.

Our teams helped the system grow as a global leader, meet facility construction goals, support teaching and research efforts, and enhance the student experience. Descriptions of each team’s services and noteworthy figures are included herein.

Peter Newman, PhD, CFA
Associate Vice President for Treasury Operations
OUR EMPLOYEES as of DECEMBER 31, 2018

Julie Bass
Sarah Bohannen
Jennifer Brown
Brent Bucklake
Traci Buras
Josh Burns
Debra Carter
Kathleen Cooke
Kelly Cooper
Rod Coty
Sarah Crane
John Ealy
Scott Eichman
Sara Featherlin
Christine Flaningam
Darlene Frazier
Tina Harlan
Brad Hart
Marc Henkel
Joy Hoffman
Denise Hogan
Melita Irwin
Nichole Jackson
Mickie Johnson
Carla Kuzian
Misty Lockhart
Laura Manrique
Kim Maxwell
Geri Melchiorre
Angela Midkiff
Kevin Miller
Anita Million
Peter Newman
Jonathan Norvell
Patricia Peacock
Brandi Perry
Bob Plankenhorn
Nicole Roberts
Shelly Romack
Kim Rosdail
Amy Schaefer
Nick Schmidt
Kim Smith
Annette Souchay
Craig Steagall
Brenda Sutherland
Terry Thompson
Brent Tiedemann
Reggie Varnado
Paige Voorhees
Jill Wilberg
Mackenzie Williams
The University of Illinois System has 49 farm properties in its care, of which 32 are endowments. Our team manages the farms and serves as fiduciary for the endowed farms’ beneficiaries.

Our responsibilities are accomplished by focusing on optimal net income and improving farm properties while pursuing environmental stewardship, positive local community relations, and supporting the educational and research missions of the system’s three universities. Farm managers closely monitor soil fertility and conservation practices to optimize returns while ensuring long-term productivity. The success of the farm managers and farm operators relies on building and maintaining collaborative relationships. Furthermore, our stewardship improves these farmlands’ value.

As fiduciaries for these farms, we encourage profitability while limiting risk as much as possible. Our farm leases stay current with agricultural market prices, which helps us to ensure yearly income. Earnings from endowment farms support University research, student fellowships, scholarships, and student loans. These returns also support 4-H activities and operation of the Allerton Park and Retreat Center.

Our presence in each farming community builds positive public relations and furthers the University of Illinois’ mission and vision for research, public service, and economic development.

DISTRIBUTIONS from AGRICULTURE ENDOWMENTS in FY 2018

- Scholarships $612,057
- Student loans $64,539
- Education $226,354
- Research and improvement $618,319
- Allerton support $998,241

$2.5 million: distributions from endowment farms
$460,100: distributions from other managed farms
$97.9 million: total value of all managed endowment farm properties
13,584: acres of Illinois farmland managed
CAPITAL FINANCING

We collaborate with our clients to meet their borrowing requirements. Through our cooperative process, we supply clients with tools, ideas, and data to assist them in making informed financing decisions. Our services include modeling pro-forma operating budgets, stress testing plans, and debt capacity studies. We employ a financial advisory firm to provide market intelligence and structuring advice. We consider a variety of tools and structures to ensure that units can meet their borrowing needs.

In addition to ensuring debt service is made accurately and promptly for the life of all bonds that the University of Illinois System issues, this office is responsible for record retention and compliance obligations. Monitoring compliance with financing agreements is a long-term, ongoing task. Most of the debt we issue is tax-exempt and highly regulated by the Internal Revenue Service. Additionally, we regularly check in with our financial advisor to review current market conditions in search of refunding opportunities that can save the system units millions of dollars each year.

Through the course of the State budget crisis and beyond, we have worked diligently with Moody’s Investors Service and Standard & Poor’s to promote our fiscal conservatism and strong management. Our efforts has enabled us to maintain the highest possible credit ratings, and thus ensure the lowest possible borrowing costs for the system.

DEBT OUTSTANDING as of JUNE 30, 2018 with BOND CREDIT RATINGS

- Auxiliary Facilities System: $1,029.2 million, A1/A-
- Certificates of Participation: $180.2 million, A1/A-
- Energy Service Contracts: $34.4 million, Not Rated
- Health Services Facility System: $108.7 million, Baa1/A-
- University of Illinois Chicago South Campus: $29.9 million, A2/A-

Figures are in millions. Moody’s / Standard & Poor’s.
The University of Illinois System has over 72 bank accounts and 26 lockboxes for its units and those of University Related Organizations and affiliated agencies. Our team manages daily cash flows, relationships, and unclaimed property. We maintain a monthly cash forecast, ensuring an ample amount of liquidity is available at all times. Modeling the relationships and services for multiple banks creates a broader, critical view of each bank’s performance, structure, and fees. Knowledge of transaction history allows us to recognize discrepancies that would otherwise go unnoticed. Managing the bank’s daily monitoring of account activity typically requires dual control for all processes. Knowledge of transaction history informs our negotiations with banks and advising for units. We are equipped to offer practical business advice that is current with internal needs and the banking market.

With annual receipts and disbursements over $5 billion each, managing cash flows is a daily, high-volume task requiring a keen attention to detail. Each day we evaluate and determine appropriate balances for each bank account, so that we can pool the majority of funds in a concentration account for overnight investing. Our team moves cash every day that banks are open, even when the system is closed. Lockbox services simplify the collection and processing of accounts receivable for units with many transactions. Under our guidance, more units use paperless, electronic lockbox billing for increased efficiency and reduced administrative costs. Fraud control includes daily monitoring of account activity and requires dual control for all processes. Knowledge of transaction history allows us to recognize discrepancies that would otherwise go unnoticed. Managing access and limits for bank accounts creates an additional layer of control.

Managing the relationships and services for multiple banks creates a broader, critical view of each bank’s performance, structure, and fees. Knowledge of transaction history allows us to recognize discrepancies that would otherwise go unnoticed. Managing users’ access and limits for bank accounts creates an additional layer of control. Lockbox services simplify the collection and processing of accounts receivable for units with many transactions. Under our guidance, more units use paperless, electronic lockbox billing for increased efficiency and reduced administrative costs. Fraud control includes daily monitoring of account activity and requires dual control for all processes. Knowledge of transaction history allows us to recognize discrepancies that would otherwise go unnoticed. Managing users’ access and limits for bank accounts creates an additional layer of control.
I-CARD PROGRAMS

Our office and ID Centers provide products and services centered on electronic and physical identification and devices. We centrally fund all card-printing supplies for each university ID Center and carding station. Our office issues all University Identification Numbers (UINs), provides card data and applications, and oversees the “one card” program for the entire University of Illinois System, including UI Health.

We fund the software, equipment, and supplies used at the ID Centers to produce IDs. Our centralized, bulk ordering saves money and spares others’ time and effort. We also enable Campus Recreation sites on the Chicago and Urbana campuses to provide visitor IDs for members.

ID Centers issue all University IDs, including i-cards, visitor cards, and other affiliate IDs, verifying the identity of each person who receives one. For students, ID Centers are the only unit performing identity assurance.

Our office is the authoritative source for all UINs. This includes generating UINs for external affiliates so they receive the services they require.

We supply data, database connections, file shares, card swipes, and query applications to over 100 units. Many units use our technology to verify a person’s role, status, or other data points electronically. With up-to-date information, units can provision services quickly and accurately.

We manage the student banking relationship, as part of our one card program. Each cardholder needs only one card for identification, campus spending, door access, and other services.

CARD SWIPES USED for UNIVERSITY DEBIT and MEAL PLAN SPENDING in FY2018

- Chicago meal plans: 553,526
- Springfield meal plans: 329,076
- Urbana meal plans: 2,216,822

- Dragon Dollar$: 108,914
- Campus Cash: 124,391
- Café Credits and Illini Cash: 1,813,461

- University-operated debit accounts: 2,046,766 total swipes
- Meal plan accounts: 3,099,424 total swipes

14: unit employees
119,382: person UINs generated
57,108: ID cards issued
2,413,941: card swipes transacted at locations using our applications
5,146,190: swipes made to spend university dining and debit plan funds
1,199: card swipe reports generated for units
INVESTMENTS

Our team oversees and monitors the management of the University of Illinois System’s operating and endowment funds, which comprise nearly $3.2 billion. As fiduciaries, our role is to make prudent investments that balance risk and total return.

Oversight begins with our Board of Trustees–approved asset allocation policy and the selection of investment managers and funds to fulfill each mandate. We provide investment guidelines for the assets to control risk at the onset. On an ongoing basis, we maintain close contact with our investment managers to analyze performance, investment allocations, risk controls, and organizational developments.

Portfolio monitoring is a daily task. We developed a suite of analytical tools that enable our office to examine our investment funds and accounts for potential risk concerns. Our real-time view of portfolio characteristics allows us to respond quickly to market and geopolitical events.

We routinely perform stress testing to understand how portfolios will react under various interest rate environments. Scenarios are derived from a combination of forecasts from investment managers, the Federal Open Market Committee, and federal funds future pricing, along with our analysis of market data.

Our forethought, monitoring, and proactive modeling enable us to ensure that our assets are invested prudently and efficiently, even in uncertain financial times.

### OPERATING POOL LIQUIDITY during FY 2018

Percentages are allocations on June 30, 2018

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and equivalents</td>
<td>28%</td>
</tr>
<tr>
<td>Enhanced cash</td>
<td>22%</td>
</tr>
<tr>
<td>Short duration</td>
<td>20%</td>
</tr>
<tr>
<td>Intermediate aggregate</td>
<td>18%</td>
</tr>
<tr>
<td>Endowment pool</td>
<td>12%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
</tr>
</tbody>
</table>

### ENDOWMENT POOL ALLOCATIONS for FY 2018

- U.S. equity: 16.2%
- Non-U.S. equity: 12.1%
- Global equity: 26.2%
- Real estate: 6.4%
- Farmland: 4.8%
- Cash equivalents: 0.8%
- Fixed income: 20.5%
- Hedge funds: 6.5%
- Private equity: 6.5%

3: unit employees
$3.2 billion: assets under management
$65.8 million: investment income distributed
61: due diligence meetings held with 25 investment managers
5: investment funds/accounts added to our platform
MERCHANT CARD SERVICES

Our team facilitates electronic payment processing for the units (“merchants”) that accept credit and debit cards, and we help administer the online system for issuing Amazon eGift cards.

The iPay software we wrote and support handles the online payment processing for many units. iPay allows merchants to accept all major credit cards and electronic checks without requiring them to handle any payment data. This resource is a convenience and reduces the security impact for units’ websites.

Our service includes operational support and training. We handle all charge disputes, monitor sales figures, and post daily sales revenue to merchants’ accounts. We also develop, initiate, and oversee the annual self-assessment process required for units to comply with the Payment Card Industry Data Security Standard (PCI DSS).

In partnership with Cash Management, our team enables researchers to pay human subjects with Amazon eGift cards that can be emailed or printed. We wrote and help support the application used for obtaining eGift cards. Business managers and research investigators appreciate the convenience, ease, and control of paying with eGift cards instead of cash. Eliminating cash handling prevents losses and provides savings.

Our software and support helps hundreds of faculty and staff members conduct their units’ research and business with efficiency and security.

PAYMENT CARD TRANSACTIONS VOLUME, FIVE-YEAR TREND

In FY 2018, the University of Illinois System, in participation with the Illinois State Treasurer's Office ePAY program, began converting to a new payment processor. This transition will entail new merchant IDs and payment processing equipment for all system merchants.

3: unit employees
340: payment card disputes researched
278: total merchants
110: online merchants using iPay payment processing
525: unique CFOAPs used to post revenue in iPay
304: EMV terminals deployed
34,697: Amazon eGift cards issued

2.85 million: payment card transactions processed
$115 million: payment card transactions
$21.8 million: iPay transactions
RISK MANAGEMENT

The University of Illinois System faces many risks. Our unit assists in identifying and managing those risks and determining whether to accept, transfer, or self-insure potential liabilities.

We coordinate the purchase of over 50 commercial insurance policies, including medical malpractice, crime, property, and cyber liability. Like an insurance agency, we oversee the renewals, billings, and financial reconciliations of these policies and related settlements. We regularly manage a variety of risks by identifying key hazards and measuring the costs and benefits of assuming a risk. We recommend attainable improvements to reduce the number and gravity of claims, easing the impact to unit budgets. We perform these daily insurance-related functions and look for ways to reduce costs without undue exposure.

Our unit also administers the workers’ compensation self-insurance programs, coordinating and controlling claim activities, which includes negotiating and settling claims. Workers’ Compensation collaborates with injured workers, supervisors, and health-care providers to help ensure a speedy and safe return to work. We promote the cost savings and physical and organizational benefits of return-to-work programs, and we work with units to improve safety practices. We also review medical bills and correct inaccuracies, which leads to lower costs.

15: unit employees
3,956: insured medical professionals
52: policies bought or renewed
3,842: certificates of insurance issued
$14.6 billion: insurance value of the system’s buildings, contents, and collections

MAJOR INSURANCE COSTS, TWO-YEAR COMPARISON

Figures are in millions.
FY 2018 ANNUAL REPORT

TAX COMPLIANCE AND ANALYSIS

The University of Illinois System is required to comply with tax rules even though it’s a state entity. All units are affected by tax matters, which are related not only to income and payroll but also to benefits, sales, purchases, and payments. Our team serves as a resource for these and other issues for the system and its three universities, across the United States and worldwide.

We routinely consult with and advise academic and administrative units on issues such as payments to students and foreign nationals or employment and fringe benefits. Similarly, we assess implications for units with state or international programs.

We establish and maintain effective connections with colleagues in hundreds of units and various external relations, including other universities, governmental agencies, consultants, and attorneys. We lead and coordinate the required correspondence in response to tax inquiries or audit requests.

We further compliance efforts by monitoring higher education tax legislation, determining impacts and risks, and communicating results. Our team develops comprehensive tax policies and promotes awareness to maximize compliance. We also identify and research operational issues to ensure that procedures align with relevant laws and rules.

Through all of our commitment and effort we protect and maintain the system’s exempt status and minimize its potential tax exposure. Our ability to bring expertise, interpret complex matters, provide recommendations, and communicate outcomes is significant to making informed and responsible decisions in the system’s best interest.

The Tax Cuts and Jobs Act (TCJA) of 2017 is the largest tax reform in over 30 years. Tax Compliance and Analysis has been instrumental in assessing the impact of reporting requirements and potential liabilities as well as implementing changes affecting unrelated business income, fringe benefits, employment withholdings, and other TCJA provisions that affect the system.

IRS Forms Prepared with Consultation from Tax

94,262: 1098-T, Tuition Statement
68,822: W2, Wage and Tax Statement
3,027: 1042-S, Foreign Persons’ U.S. Source Income
6,132: 1099-MISC, Miscellaneous Income
46,242: 1095, Health Coverage Forms

3: unit employees
221: units consulted
35: countries researched for tax and legal requirements
45: US states and territories researched
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