

Minutes of the Meeting of the Board of Trustees of the University of Kentucky, Tuesday, September 20, 2005.

The Board of Trustees of the University of Kentucky met at 1:00 p.m. (Lexington time) on Tuesday, September 20, 2005, in the Board Room on the 18th Floor of Patterson Office Tower.

A. Meeting Opened

Mr. James Hardymon, Chair, called the meeting to order at 1:05 p.m. and asked Ms. Barbara Jones, General Counsel, to administer the oath of office to three Trustees who have not had the oath before at a public hearing like this.

B. Oath of Office

Barbara Jones, General Counsel, administered the Oath of Office to the following members:

Penelope Brown, appointed by Governor Ernie Fletcher to replace Elaine Wilson, for a term ending June 30, 2011.

Dermontti Dawson, appointed by Governor Ernie Fletcher to replace Alice Sparks, for a term ending June 30, 2011.

Rebecca Ellingsworth, who will serve as Student Trustee for the 2005-06 academic year.

The new members received a round of applause.

C. Roll Call

The following members of the Board of Trustees answered the call of the roll: Mira Ball, Stephen Branscum, Penny Brown, Dermontti Dawson, Jeff Dembo, Marianne Smith Edge, Rebecca A. Ellingsworth, Ann Haney, James Hardymon (Chair), Pamela May, Billy Joe Miles, Roy Moore, Phillip Patton, Steven Reed, Frank Shoop, Myra Leigh Tobin, JoEtta Wickliffe, Billy Wilcoxson, Russ Williams, and Barbara Young. The university administration was represented by President Lee T. Todd, Jr., Interim Provost Scott Smith, Executive Vice President for Finance and Administration Frank Butler, Executive Vice President for Health Affairs Michael Karpf, Executive Vice President for Research Wendy Baldwin, and General Counsel Barbara W. Jones.

Members of the various news media were also in attendance. A quorum being present, the Chair declared the meeting officially open for the conduct of business at 1:08 p.m.

D. Nominating Committee Report

Mr. Hardymon asked Ms. Tobin to take the chairs seat and receive the report from the Nominating Committee.

Ms. Tobin called on Mr. Frank Shoop, Chair of the Nominating Committee, to give his report.

Mr. Shoop reported that the Nominating Committee met that morning to consider the nomination of officers of the Board and the members of the Executive Committee. The Nominating Committee submitted the following nominations for officers:

Chair	James Hardymon
Vice Chair	JoEtta Wickliffe
Secretary	Pamela May
Assistant Secretary	Barbara Jones

Mr. Shoop moved that the slate of officers be approved. Mr. Patton seconded the motion.

Ms. Tobin stated that there was a motion and a second. She asked if there were any nominations from the floor.

Mr. Patton moved that the nominations cease.

Ms. Tobin said that there were no nominations from the floor. She repeated the slate of nominations from the Nominating Committee and called for a vote. The motion carried unanimously. Ms. Tobin asked Mr. Hardymon to take over the chair's seat and Pam May to take the secretary's seat.

Mr. Hardymon thanked the Board for their support. He said it had been an interesting year, and he hoped the next year will be even more interesting. He has enjoyed working with the Board, and he is proud of the committees' work. He said he liked his association with the university staff and Ms. Wickliffe, particularly, for her support as vice chair. He welcomed Ms. May in her new role as secretary.

Mr. Shoop continued his report. On behalf of the Nominating Committee, he submitted the following nominations for members of the Executive Committee:

James Hardymon, Chair
JoEtta Wickliffe
Roy Moore
Steve Reed
Billy Wilcoxson
Pam May, ex officio

He moved approval of the slate of nominations for the Executive Committee.

Mr. Hardymon asked for a second to the motion or for any nominations from the floor. Mr. Branscum seconded Mr. Shoop's motion. Ms. Haney moved that the nominations cease. Mr. Hardymon repeated the slate of nominations for the Executive Committee and called for a vote. The motion carried unanimously.

E. Consent Items

Mr. Hardymon noted the consent items on the agenda. He asked if there were any questions or comments about the consent items. Ms. Smith Edge moved approval. Her motion, seconded by Mr. Reed, carried without dissent. The consent items follow:

Minutes – June 14, 2005

Minutes of Retreat – August 21-22, 2005

Minutes of Special Called Meeting – September 7, 2005

Minutes of Special Called Meeting – September 8, 2005

PR 2 Personnel Actions

AACR 1 Candidates for Degrees

FCR 1 Anonymous Gift for Cardiovascular Imaging

FCR 2 The Albert G. and Lorraine N. Clay Charitable Lead Trust

FCR 3 UK Health Care Leadership Team Gifts and Pledges

FCR 4 Kentucky Hospital Research and Education Foundation Gift and Pledge

FCR 5 Kentucky Pharmacists Education Research Foundation Gift and Pledge

FCR 6 Janet H. Koller Estate Gift

FCR 7 Gifts and Pledges to the College of Nursing Millennium Fund

FCR 8 Ruth J. Suotham Estate Gift

FCR 9 Gifts to the Kevin Heidrich/Team 7 endowment for ALS Patient Services

FCR 10 The Abercrombie Foundation Pledge

FCR 11 D. Ray Ball Pledge

FCR 12 Steve Canfield Pledge

FCR 13 Givens Real Property Partnership Limited Pledge

FCR 14 Lennie House Pledge

FCR 15 Ramsey Farm Pledge

FCR 16 Chris Sullivan Pledge

FCR 17 Jude Thompson Gift and Pledge

FCR 18 S. Craig Welch Pledge

FCR 19 Anonymous Pledge to the Capital Projects Gift Fund

FCR 20 Report of Leases

Mr. Hardymon asked for a motion for approval of the consent items. Ms. Smith Edge moved approval. Mr. Branscum seconded the motion.

President Todd called attention to AACR 1 on the consent agenda and referred to line three and four of the recommendation. Based on Governing Regulations changes at the last

meeting, it should read, “upon certification by the registrar and approval by the elected faculty of the University Senate.”

Mr. Hardymon asked for any further comments. He called for a vote on the consent items, including the amendment to AACR 1. The motion carried without consent. (See consent items at the end of the Minutes.)

F. Schedule of Meetings for the Board of Trustees for 2006

Mr. Hardymon noted that the schedule of meetings for the Board of Trustees for 2006 were in the Board packet. He said that the dates were discussed at the retreat, and the Board gave general approval at that time. This is an information item and does not need action.

G. President’s Report to the Trustees (PR 1)

President Todd called attention to the following items in PR 1:

A record \$274 million in grants and contracts have been received in fiscal year 2005-06. This is the third year the university has received over \$200 million. This is really a testament to the faculty and staff. President Todd said that he is extremely proud of this accomplishment.

The College of Medicine departments rank among NIH’s Top 20. This ranking includes the basic sciences as well as the clinical departments and is quite an achievement.

Nearly \$5 million in grant funds for homeland security research campus wide. Congressman Hal Rogers brought to Kentucky a virtual homeland security laboratory. There were 11 grants given out last year. The University of Kentucky received approximately \$5 million of those grants and is working jointly with other universities in the state.

The Chellgren Center for Undergraduate Excellence is a collaborative effort. With the assistance of Paul Chellgren and the state’s Bucks for Brains program, the university was able to endow a position to keep its focus on undergraduate education. As UK tries to achieve the Top 20 research goal, it will still focus on the undergraduate population.

The television program *60 Minutes* aired a 12-minute feature regarding UK’s Parkinson’s disease researchers and patients who participated in the clinical trial of the drug GDNF. This has received some good coverage. Leslie Stahl, CBS correspondent, was on campus to film the 12-minute feature.

President Todd said that PR 1 contains some great information about the faculty and staff achievements. He encouraged the Board to look at those achievements.

H. The Dream and the Challenge, Strategic Plan Progress Report

President Todd gave the annual update on the Strategic Plan. He called attention to the report on the university's success that had been given to the members of the Board. The report allows the administration to measure the goals and objectives that were planned approximately three years ago. The next round of strategic goals and objectives will be set in the spring 2006. He thanked Dr. Connie Ray and her staff for putting the data together.

President Todd reviewed the following goals in the report and elaborated on the slides:

Goal I	Reach for National Prominence
Goal II	Attract and Graduate Outstanding Students
Goal III	Attract, Develop, and Retain a Distinguished Faculty
Goal IV	Discover, Share, and Apply New Knowledge
Goal V	Nurture Diversity of Thought, Culture, Gender and Ethnicity
Goal VI	Elevate the Quality of Life for Kentuckians

He praised Dr. Karpf and his staff for increasing the clinical income. They have made significant increases by more than doubling the projected percent of increase, and this has been tremendous.

President Todd said that another goal was to increase the market value of the university's endowment to \$500 million. The report shows that it has been increased to \$538 million; however, an updated number as of this meeting indicated that it is \$555 million. The administration and staff have really done a great job in achieving this goal. He praised Mike Richey, Associate Vice President for Development and Chief Development Officer, who has followed in Mr. Terry Mobley's footsteps in helping to achieve this goal. Under Mr. Mobley's guidance, Mr. Richey has really brought some enthusiasm to that area. President Todd said that he believes that at the end of last month the university was at \$811 million toward its billion-dollar campaign. Mr. Richey had set a goal of \$150 million by the end of this calendar year, and he feels that goal will be met.

President Todd said that it is difficult to increase the university's ACT scores when taking the freshman class enrollment from 3,000 to 4,000. He said that he is extremely proud of the fact that the university has maintained its ACT range. He anticipates that the scores will increase next year. He noted that 26 percent of the freshman class had ACT scores of 28 or above. That represents 77 more students in this year's freshman class with that standing than there were in last year's class. He pointed out that 30 percent of the freshman class had a high school GPA of 3.8 or above, and that represents 115 more freshman this year with that grade point average. He said that he is very proud of the quality of the freshman class. This is a testament to the recruiting efforts and a statement to the scholarships that have been awarded. President Todd noted that the disappointing number was that the university is down significantly in African-American freshman.

President Todd said the graduate and professional enrollment goals were 7,500. The university is at 7,252. Some of that impact is because of 9-11 and the decreased number of incoming international students.

The university's undergraduate enrollment goal is 18,707. It is now at 18,500. It has been necessary to watch the size of the freshman class because of budget constraints and the inability to add faculty. The administration did not feel that it could continue to grow the freshman class any faster; therefore, the numbers have been held back. There was, however, an increase this year.

The recent CPE meeting released information showing that the overall population for Kentucky increased only 1.5 percent this past year, which is not enough to get toward the 2020 goal. A lot of that increase was in the Kentucky Community and Technical College System (KCTCS), and UK probably had the largest increase for undergraduates in the state of Kentucky this last year.

President Todd said that the university wants to increase the retention rate for undergraduate students. The goal was to increase the first- to second-year retention rate to 83 percent. While it appears that the university will not make that goal, there was a slight increase this year over last year. He pointed out that this goal has not been accomplished, and there is still work to do.

President Todd reported that the six-year graduation rate goal was exceeded two years ago, but it was not exceeded in the fall of 2004. Therefore, this goal has not been met. Other state four-year institutions are at 30 percent and 40 percent in this measure. Being up in the area of 60 percent is somewhat pleasing for the administration. The goal is to be at 70 percent, and that is where UK's benchmarks are. The Top 20 Business Plan information that will be provided to the Board will show that this is the target that UK really needs to achieve by 2020.

President Todd talked about faculty salaries. While there have been increases, UK's benchmarks are increasing salaries to higher levels than UK. He said that he is going to put the highest premium for next year's budgeting process on faculty salaries. There have to be some increases in faculty and staff salaries in order to get where the university needs to go. In the Top 20 Business Plan, salaries will be put in as part of the budgeting process in order to try to catch up with this statistic. President Todd said that he is very pleased with the faculty that the university has been able to retain during this period of time and also with the faculty that have been recruited. The university has had some faculty leave because of salary conditions.

In the federal research dollars area, the latest number is for 2004. The university was at \$130 million. With the performance this past year, UK should be above the goal of \$140 million. President Todd said that he has asked the staff to look at the Top 20 universities that are above UK and plot their federal research dollars over time starting back in the 1940's and 1950's when the federal government started investing in research at universities to determine where those universities experienced their break point. If such research was done for the state of Kentucky, clearly when HB 1 passed in 1997 would have shown up as a transition time because that is when those numbers started growing for UK. President Todd said that he is very pleased

with the results and very pleased with the amount of research the university is doing to affect Kentucky's problems. He was pleased to report that the university is on target to complete this goal.

Under the goal of discover, share, and apply new knowledge, doctoral enrollment and doctoral degrees awarded are two things that the university is tracking.

Dr. Jeanine Blackwell, Dean of the Graduate School, announced at graduation that the university has exceeded its goal for awarding doctoral degrees. It was a very pleasant announcement, and this achievement is very important.

President Todd reported that the university is behind its goal in doctoral enrollment. Some of that could still be due to the situation with international students. The economy could also have an effect. The university will continue to work hard in this recruitment area. This goal is still to be achieved.

Post doctoral enrollment is very important, and it really is a measure of the amount of research the university is doing because post-doctoral students come to join faculty who are active in research. This is after they finish their Ph.D. The students are really on top of their game at that point and want to go into an institution to work with faculty members. The university has exceeded that goal by 20. It still has another year to go. President Todd said that he is very pleased with this accomplishment.

President Todd noted that in the area of diversity of thought, culture, gender, and ethnicity, UK will not meet its goal. He reported that he had been meeting with faculty, Interim Provost Scott Smith, Associate Provost Phil Kramer, and Vice President Bill Turner to discuss improving the strategies in these areas and to get the African-American diversity where the administration wants it to be and where it needs to be for the good of the university.

President Todd talked about the resident African-American retention rate. Two goals have been achieved: overall undergraduate retention and graduate enrollment of resident African-American students.

President Todd noted that in general first-year retention is down, at 73 percent, and the graduation rate is 53 percent. He pointed out that between the end of the freshman year and graduation there is work that needs to be done. He said that strategies will be put in place to meet those goals.

President Todd said that the university has never been able to meet the African-American administrative and managerial goals in the faculty and staff areas. The administration will have to focus strategies in that area in order to improve the percentage. He pointed out that there is work to be done there.

President Todd said the university had done much better in hiring females for those areas. The university is close to meeting its goal for hiring female faculty and has exceeded the goal in the executive and managerial staff areas. One of the good things about tracking these each year

is you begin to see where you are falling short. You then set strategies to try to fix those things, and that is the process the administration is going through right now.

President Todd reported that progress is being made to achieve the goal to elevate the quality of life for Kentuckians. In information provided by Dr. Baldwin earlier, she mentioned that the Patent Trademark Office has been quite slow in issuing patents in the last couple of years. They are going through some systems changes, but UK has exceeded its goal of the number of patent applications for the last two years.

President Todd noted that the university will also be measuring the number of start-ups businesses last year and specifically where those start-ups were.

He talked about the amount of money the university is spending in research that is directed toward public service. With the Commonwealth collaboratives, the university will be focusing on 23 issues in Kentucky. As the university focuses on those issues, more funding should follow. The \$55 million from outside grants and contracts is new money coming to Kentucky to solve Kentucky's issues.

President Todd concluded his report by calling attention to the 2004-05 Summary of Progress slide and noted that the goal had been achieved for 14 key indicators. While some goals may not show progress, the university is making progress on some of them. He mentioned areas that the university needs to focus on and give particular attention to, including faculty salaries being noticeably low and African-American enrollment in the freshman class. He was pleased to report that some progress has been made in these tight fiscal times.

I. Naming of Building (PR 3)

President Todd recommended that the Board approve renaming the Public Service Commission Building the "Robert Straus Behavioral Research Building" located at 515 Oldham Court. The building is currently being refurbished so the university can use it to do some externally funded and other behavioral science research on a variety of medically related conditions, as well as for alcohol and drug research.

Professor Straus came to UK in 1956 as a member of the planning staff for the newly started University of Kentucky Medical Center. He served as the first Coordinator for Academic Affairs for the College of Medicine and for 28 years as Chairman of the Department of Behavioral Science in the College of Medicine. In addition to his service, scholarship, and research, he has trained generations of behavioral scientists and physicians at the University of Kentucky.

This recommendation has been reviewed by the Committee on Naming University Buildings. They found it to be in compliance with university policies. President Todd recommended approval of PR 3.

On motion made by Mr. Shoop, seconded by Ms. Tobin, and carried, PR 3 was approved without dissent. (See PR 3 at the end of the Minutes.)

J. Quantitative Waiver for Submission of Requests for New Academic Programs (PR 4)

President Todd said that PR 4 is a recommendation that the Board adopt a resolution for submission of a quantitative waiver to the Council on Postsecondary Education (CPE). This quantitative waiver allows the university to submit new program requests to CPE. In the Kentucky Plan for Equal Opportunities in Higher Education, there were eight objectives established for the University of Kentucky. If UK failed to meet three of those objectives, the administration must go before CPE with the recommendation that CPE waive the clause that would no longer allow UK to recognize new academic programs.

President Todd noted that UK missed three of the objectives. He briefly reviewed each of the objectives missed and noted that the employment of African-American in executive administrative and managerial positions needs serious attention. President Todd said that the university will have to submit strategies for each of the objectives missed in order to try to get back in line with the CPE requirements.

President Todd reported that Deneese Jones led the University Commission on Diversity in setting up a diversity plan task force for a university-wide diversity plan that is inclusive of all of these goals before she left the university this past summer.

He recommended that the Board authorize the work plan in PR 4. Following the Board's approval, it will then be submitted to CPE so the university can continue to add courses.

Dr. Dembo said that all of these objectives apply to Africans-Americans and yet in numbers 2, 3, and 4 of the ones in which the university has made inadequate progress it is not specifically indicated that those are African-American students. For accuracy, it probably should be stated as such.

President Todd agreed with Dr. Dembo's comments and said that it needed to be corrected. He expressed appreciation to Dr. Dembo for pointing that out.

On motion made by Ms. Haney, seconded by Ms. Smith Edge, and carried, PR 4 was approved without dissent. (See PR 4 at the end of the Minutes.)

K. Audit Subcommittee Report

Mr. Hardymon said that the Finance Committee has a subcommittee which is the Audit Subcommittee. It meets twice a year at a minimum, and Ms. Wickliffe is the chair of both the Finance Committee and the Audit Subcommittee. He asked Ms. Wickliffe to give the Audit Subcommittee report and then go into the Finance Committee report.

Ms. Wickliffe reported that the Audit Subcommittee is made up of Billy Joe Miles, Myra Tobin, and herself. The Audit Subcommittee's primary charge is to provide oversight of UK's

financial practices, internal controls, financial management, and standards of conduct. The subcommittee is responsible for reviewing financial statements, assuring the Board that the statements reflect the financial condition of UK, determining the accuracy of internal controls, assuring the Board that any significant non-compliance with regulatory matters will be brought to the Board's attention, and insuring adherence to UK's conflict-of-interest policy.

Ms. Wickliffe reported that the subcommittee met with Mr. Joe Reed, the internal auditor of the internal audit committee of the university, and the external auditors Deloitte & Touche. Internal controls have been reviewed and found to be very good. Mr. Reed and his staff seem to have a strong internal program as confirmed by the external auditors. Ms. Wickliffe commended Mr. Reed and his staff on the professional performance of the work. The annual report is available to all Board members of the internal audit committee.

Mr. Hardymon and Ms. Wickliffe met with the external auditors, specifically Mr. Jim Carpenter, and discussed the audit and management's cooperation. Mr. Carpenter assured them that there were no problems in getting information to them to perform their audit.

Ms. Wickliffe reported that the other item discussed in the Audit Subcommittee meeting was the renewal option for the independent auditors. The university's four-year contract ended on June 30, 2004, but UK had the option to renew two one-year contracts, which it did. At the end of the two-year contract, the partner will be changed even though the second-line partner has been changed every year in the last three years. The increase in the price of that will be according to the CPI (consumer price index) and that right now is somewhere between the 2 percent and 3 percent.

Ms. Wickliffe reported that the Audit Subcommittee did have a good discussion on the Sarbanes Oxley Act that the Board discussed at its retreat. All of the items that UK was not complying with, even though UK does not have to be in compliance at this time, have been or will be corrected by this time next year.

Ms. Wickliffe thanked Mr. Reid and his staff for the progress they have made on the internal audit. It looks as though it is a good program. It has been reviewed by the external auditors, and they were very pleased as well. She recognized Mr. Reid who was in the audience.

L. Finance Committee Report – Gifts and Pledges (FCR 1 through 19)

Ms. Wickliffe noted that FCRs 1 through 20 are consent items. FCR 1 through 19 are gifts and pledges that total \$9.7 million: \$4.4 million will be matched by the state under the endowment match program, and \$5.3 million for the basketball practice facility.

M. Report of Lease (FCR 20)

Ms. Wickliffe reported that FCR 20, which is on the consent agenda, is the report of leases not exceeding \$30,000. There are three renewals and one new lease.

N. Approval of Lease (FCR 21)

Ms. Wickliffe said that FCR 21 is a lease between the College of Medicine and Blazer Parkway Venture, LLC. The space is located at 3470 Blazer Parkway in Lexington, and the lease will run through June 30, 2010. On behalf of the Finance Committee, she moved the adoption of FCR 21. Ms. Tobin seconded her motion, and it carried without dissent. (See FCR 21 at the end of the Minutes.)

O. Acceptance of Audit Report and the Report on Compliance and on Internal Control for the University of Kentucky for 2004-05 (FCR 22)

Ms. Wickliffe said that FCR 22 is the Acceptance of Audit Report and the Report on Compliance and on Internal Control for the University of Kentucky for 2004-05. The Finance Committee was given a detailed and thorough report by Mr. Marc Mathews, Controller, on FCR 22. She commented about the report from President Todd at the very beginning. She called attention to the independent auditors report and read the following statement from their report: "In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the University of Kentucky and affiliated corporations as of June 30, 2005 and 2004, and their changes in net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America." Ms. Wickliffe said that this statement specifies that it is a clean, unqualified audit and one that the university wants each time. She encouraged the Board to read the notes that better clarify what the figures represent.

Mr. Wickliffe reported that the university ended the year in excellent financial condition. As of June 30, 2005 the university has assets of \$2.45 billion, liabilities of \$582 million, and fund balances of \$1.863 billion. She noted that new assets increased \$125 million or 6 percent during the year. She moved the adoption of FCR 22, and Ms. Haney seconded her motion.

Mr. Hardymon said that the financials are something that some spend a little more time enjoying than others. As a Board, they should look at a couple of items: net assets improvement of \$125 million shows UK is a very strong organization, and to run the university, you have to have a fund balance. To see it improving is very positive. These two items show the strength of the organization. It is more or less called balance sheet management instead of maybe just regular revenue and expenses.

Mr. Hardymon expressed appreciation to Mr. Butler, Mr. Owen, and Dr. Smith for their good work. A good set of financials allows the Board to be comfortable. He said that he had a motion and second and called for a vote. FCR 22 was approved without dissent. (See FCR 22 at the end of the Minutes.)

P. Adoption of University of Kentucky Debt Policy (FCR 23)

Ms. Wickliffe called upon Mr. Henry Clay Owen, Treasurer, to comment on FCR 23.

Mr. Owen said that the proposed debt policy statement provides guidance on the strategic use of debt as a funding source and establishes a process for identifying and prioritizing capital projects that require debt. Generally, the allocation of debt to specific projects will be made based upon the importance of the project to the core mission of the University of Kentucky and also whether the project will generate enough revenues to pay the debt service. In other words, the use of debt is somewhat limited at UK. It is a valuable resource, but it is not unlimited. We have to use debt wisely, and the policy contemplates that we would do that.

The debt policy statement is attached to FCR 23. The purpose and objectives of the debt policy are stated on pages 1 and 2 of the document. There is a debt matrix allocation which is a four-quadrant model that shows an approach to identifying and prioritizing capital projects that would require debt.

Mr. Owen explained that generally projects that will receive the highest priority are in quadrant one, and those would represent projects that are critically important to the core missions of the University of Kentucky and would generate a revenue stream.

Quadrant two represents projects that are also critically important to the mission of the university but would not generate additional revenue or debt service but would require an allocation of general funds to support that.

Projects that fall in quadrants three and four would be judged to be projects that are not critical to the core missions. Quadrant three would have an income stream to support the debt service. Quadrant four would not, and they would generally receive the lowest priority.

The debt policy does not assume that any project that would fall in any of the four quadrants could not be funded. Circumstances will dictate that. Final decision, of course, will be up to the Board of Trustees as recommended by the President.

Mr. Owen said that financial ratios had been provided on page 4, and they also provided ratings indicator ratios that are shown on page 5. For those interested, the formulas of these ratios and how the ratios are put together are on pages 11 and 12. These financial ratios will give the administration an indication as to the overall financial health of the university from a balance-sheet prospective, from an operating perspective, and also from a capital perspective. Each time the university incurs debt or at least annually, based on the audited financial statements of the university, we would calculate these ratio, we would compare them to the ratios of our peer institutions even though the debt policy does not assume that we will have a targeted bond rating which is Aa3 for the university. That is certainly a rating that is desirable for the university. That rate probably puts the university in the top 25 percent of all institutions in terms of credit worthiness as reflected by the bond rating.

The Executive Vice President of Finance and Administration, Mr. Butler, will have overall responsibility for management of the capital debt of the university. Others will be involved in reviewing projects and setting priorities. This group, headed by Mr. Butler, then would make recommendations to the President for projects to be funded with debt, and then, of course, the President would make those recommendations to the Board of Trustees.

The Board in December adopted AR II 1.4-1 which calls for a process for approving all capital projects of the university that exceed \$400,000. All projects would come to the Board for approval on an individual basis if they cost \$400,000 or more. All debt that would be issued under this policy would also come to the Board for approval. Mr. Owen said that he would be happy to try to answer any questions that anyone may have on the debt policy.

Mr. Wilcoxson asked Mr. Owen to give an example that would fall into each of the quadrants. Mr. Owen gave the following examples:

Quadrant one would be a research building which would support research grant activity which generates an indirect cost reimbursement stream of revenue that then could be used to pay the underlying debt service. In other words, the project would be self-supporting by paying the debt;

Quadrant two would be an academic building that is needed for teaching or to serve students but which would not generate new revenues but, in effect, would have to be supported by the general fund;

Quadrant three would be another project that may not be critical to the mission of the university but would have a revenue stream, and

Quadrant four would represent a project not critical to the core that would not have a revenue stream.

Mr. Hardymon said that the Finance Committee has been working quite a bit on regulations and procedures, but there are still more to go. Periodically, you have to put some things in place to be sure that generations of people know how the university is to operate. This somewhat falls in that category. Yet, with hospital projects and debt situations as we try to really make a jump start into the Top 20, debt and how to use debt are things that we are going to be looking at very hard.

On behalf of the Finance Committee, Ms. Wickliffe moved the adoption of FCR 23. Mr. Shoop seconded the motion, and it carried without dissent. (See FCR 23 at the end of the Minutes.)

Q. A Resolution of the Board of Trustees of the University of Kentucky Approving a Trust Agreement Dated as of November 1, 2005 between the University of Kentucky and the Trustee Named Therein, Providing for the Authorization, Issuance, and Sale from Time to Time of General Receipts Obligations of the University of Kentucky, Providing for the Payment of Such Obligations, and the Securing of Such Payment, and Authorizing Other Matters Related Thereto (FCR 24)

Ms. Wickliffe said that FCR 24 is A Resolution of the Board of Trustees of the University of Kentucky Approving a Trust Agreement Dated as of November 1, 2005 between the University of Kentucky and the Trustee Named Therein, Providing for the Authorization, Issuance, and Sale from Time to Time of General Receipts Obligations of the University of Kentucky, Providing for the Payment of Such Obligations, and the Securing of Such Payment, and Authorizing Other Matters Related Thereto.

Ms. Wickliffe said that this new Trust Agreement or “General Bond Resolution” basically changes the university’s debt structure from a “segmented” approach to a consolidated approach that will bring all debt under a single structure secured by a pledge of the general receipts of the university.

A General Receipts structure is security for the university’s debt. It will provide for the lowest cost of capital and a greater debt capacity for the entire university.

The new debt structure has been reviewed and endorsed by the state’s Office of Financial Management (Finance and Administration Cabinet); Moody’s Investors Services; Morgan Stanley, the financial advisors; and Peck, Shaffer & Williams the bond counsel.

Ms. Wickliffe recognized Roger Peterman of Peck, Shaffer & Williams, who was present, and said he would be pleased to answer any questions about the Trust Agreement. Melissa Bastan of Morgan Stanley was also present to answer any questions about the credit structure and/or the general receipts pledge.

Mr. Hardymon asked if the staff was comfortable with the resolution.

Mr. Owen said the new Trust Agreement is one of the most important things that has been done at the university for a number of years in structuring debt. He reminded the Board of the previously issued bonds under three separate trust indentures; one for the consolidated education buildings project, one for the housing and dining system, and one for the University Hospital. Each of those resolutions would require individual issuance of debt, and the revenues received would be revenues from only those particular projects. The consolidation under a single debt structure will give the opportunity to access the bond markets on an equal basis for all projects and will be more accepted in the market, which leads to a lower cost of capital on a consolidated basis rather than on an individual basis. Our bond-rating agencies in the past have always put all of this together in assigning the bond ratings, but that is not always clear to the

bond-buying public or whoever might be out there. This is an excellent move for the University of Kentucky and positions the university well on a go-forward basis.

On behalf of the Finance Committee, Ms. Wickliffe moved the adoption of FCR 24. Ms. Ball seconded the motion, and it carried without dissent. (See FCR 24 at the end of the Minutes.)

R. Resolution of the Board of Trustees of the University of Kentucky (“State Agency”) Approving a Financing/Lease Agreement among the State Agency, the Kentucky Asset/Liability Commission, and the Finance and Administration Cabinet of the Commonwealth of Kentucky for the Purpose of Providing Financing for an Authorized Project (FCR 25)

Ms. Wickliffe said that FCR 25 is a Resolution of the Board of Trustees of the University of Kentucky (“State Agency”) Approving a Financing/Lease Agreement among the State Agency, the Kentucky Asset/Liability Commission, and the Finance and Administration Cabinet of the Commonwealth of Kentucky for the Purpose of Providing Financing for an Authorized Project. This action represents the first borrowing under the new General Receipts Trust Indenture that was just passed.

This resolution provides the initial \$100 million of debt financing for the Hospital Patient Care Facility, using the legislative authority granted by the 2005 General Assembly. The actual debt will be issued by the Commonwealth’s Asset/Liability Commission (ALCo) to take advantage of its legislative authority for the negotiated sale of bonds. The negotiated sale will likely take place during the last two weeks of October, with an expected closing date of approximately November 1, 2005.

On behalf of the Finance Committee, Ms. Wickliffe moved the adoption of FCR 25. Mr. Reed seconded the motion, and it carried without dissent. (See FCR 25 at the end of the Minutes.)

Mr. Hardymon mentioned that the Board was brought up to date on the movement of the University Hospital project at the recent retreat. Since the University Hospital Committee was meeting following the Board meeting, he did not ask Ms. Young or the hospital administrators to comment on FCR 25.

S. Consent to Modification of Listed External Trusts (FCR 26)

Ms. Wickliffe said that FCR 26 is the Consent to Modification of Listed External Trusts. There are 12 of those accounts listed in FCR 26, and they are handled by Bank One. UK is an income beneficiary of certain external trusts for which Bank One serves as Trustee. Distributions from these external trusts have been limited to income only. The Kentucky Principal and Income Act became effective January 1, 2005, which now authorizes Trustees to manage trusts on a “total return” basis. This approach permits Trustees to include a prudent portion of capital appreciation in the distribution to beneficiaries.

This action will allow the Trustee to more properly allocate trust assets to investment classes to maximize total return, which will allow the trust to keep pace with inflation and increase the distributions to UK. Distributions will generally be consistent with the university's endowment spending rate (currently at 4.75 percent; 4.5 percent in 2007 and thereafter.) Last year, the return that we got was 1.8 percent, and that was on \$430,000. So, you can see that if we cash this then we can more than likely come in somewhere between a 3 percent and a 5 percent return versus that 1.8 percent that we had last year.

On behalf of the Finance Committee, Ms. Wickliffe moved the adoption of FCR 26. Ms. May seconded the motion, and it carried without dissent. (See FCR 26 at the end of the Minutes.)

T. Construct Biological/Pharmaceutical Complex, Phase I and Upgrade/Modify Coldstream Research Campus Facilities (FCR 27)

Ms. Wickliffe said that FCR 27 is Construct Biological/Pharmaceutical Complex, Phase I and Upgrade/Modify Coldstream Research Campus Facilities. This approves two capital construction projects. The Biological/Pharmaceutical Complex Phase I was authorized by the 2005 General Assembly and funded with \$40 million of state bonds. The cost estimate is \$120 million. The appropriation is only about one-third of the estimated cost.

Phase I of the Biological/Pharmaceutical complex will shell 242,000 gross square feet for the College of Pharmacy. The university has requested the 2006 General Assembly to provide an additional \$80 million to fitup the shelled space.

The University purchased the Coldstream Center Building which was formerly called the Lexel Building in June 2004. The renovations are necessary to meet the needs of commercial occupants. That is going to take around \$700,000. The renovations will be phased in as space is leased and will be funded by the university and commercial occupants. The initial phase of \$700,000 will be funded by the university. The complete renovation will not exceed \$2.4 million.

On behalf of the Finance Committee, Ms. Wickliffe moved the adoption of FCR 27. Dr. Moore seconded the motion, and it carried without dissent. (See FCR 27 at the end of the Minutes.)

U. IRIS Project Phase II (FCR 28)

Ms. Wickliffe said that FCR 28 involves the IRIS Project. She referred to a brochure that was distributed at the Finance Committee meeting and urged members not present at that meeting to get a copy of the brochure.

The IRIS, the Integrated Resources Information System, is the complete replacement of core UK administrative systems including finance, purchasing, human resources, student information, and the faculty effort distribution system.

Phase I involved the replacement of the core systems and cost \$40 million. The funding was a combination of reserves and lease/purchase financing. Phase II will cost \$20 million and will be funded using lease/purchase financing. Repayment of the lease/purchase will be from the university's general fund.

Phase II will improve the administrative functions initiated in Phase I and add additional modules, which will provide "paperless" workflow; readily accessible student information for advising; faculty and staff self-service opportunities to change personal address, tax, and benefit information.

Phase I, the financials, will be the first module to "go live" on October 1. Other Phase I modules will "go live" through October 2006. Phase II will begin on November 1, 2005 and will end by June 30, 2008. Phase II should be the completion of the project.

On behalf of the Finance Committee, she moved the adoption of FCR 28. Mr. Williams seconded the motion.

Mr. Hardymon asked Dr. David Hardison, IRIS Functional Project Manager, to comment about the startup on October 1, and Dr. Hardison spoke very confidently about it. He asked Mr. Williams, who has been very involved with the project, for any comment.

Mr. Williams said UK was somewhat late to the party when it came to replacing its information system. That has probably turned out to be to the university's advantage because other institutions suffered major problems, such as being over their budget. UK has learned from their mistakes. He said that, in his opinion, the efficiency and the effectiveness of the project is a model for others.

Mr. Hardymon called for a vote, and FCR 28 passed without dissent. (See FCR 28 at the end of the Minutes.)

V. Disposition of Property (FCR 29)

Ms. Wickliffe said that FCR 29 deals with Disposition of Property. This is property that the university will sell at public auction. It is located at 656 Berry Lane in Lexington. The property is appraised at \$166,250, and the proceeds will be given to the School of Music. On behalf of the Finance Committee, she moved the adoption of FCR 29. Ms. Tobin seconded her motion, and it carried without dissent. (See FCR 29 at the end of the Minutes.)

W. 2005-06 Budget Revisions (FCR 30)

Ms. Wickliffe said that FCR 30 is 2005-06 Budget Revisions. The budget revisions total \$784,000, about a .5 percent increase in the university's \$1.7 billion budget. At the time the budget was approved in June, the university did not know the exact increase in federal appropriations. The majority of the new funds that are on page 2 of the action item are in the federal appropriations, and they will be spent for the Agriculture Cooperative Extension Service.

On behalf of the Finance Committee, she moved the adoption of FCR 30. Ms. Tobin seconded her motion, and it carried without dissent. (See FCR 30 at the end of the Minutes.)

X. Patent Assignment Report (FCR 31)

Ms. Wickliffe said that FCR 31 is the Patent Assignment Report from April 1 through July 31. The report includes five new patent applications, and they came from Applied Energy Research, the Department of Chemistry, the Department of Ophthalmology, the Department of Chemical and Materials Engineering, and the Department of Veterinary Science. She said that Dr. Baldwin was present and could answer any questions about the patents.

During fiscal year 2004-05, the university applied for 26 patents; 15 of those patents were issued, and UK received \$856,263. That is up 12 percent from the year before. During the current fiscal year, one patent has been issued, and that has totaled \$68,500.

On behalf of the Finance Committee, she moved the adoption of FCR 31. Ms. May seconded the motion, and it passed without dissent. (See FCR 31 at the end of the Minutes.)

Mr. Hardymon said that he hoped to get some information items back on the agenda in the near future and have Dr. Baldwin give a report on the research in the items.

Y. Capital Construction Report (FCR 32)

Ms. Wickliffe said that FCR 32 involves the capital construction projects. Three projects were completed: the Infrastructure on Utility Upgrade Phase 1 (\$753,988), the Steam and Condensate Pipe Replacement (\$1,124,679), and the Electronic Access Rural Demonstration Project for College of Law (\$247,855).

There were two contracts amended. There was a small design amendment on the CPST project for \$12,400. Another design phase on the Hospital project was added at an amount of \$1,572,700. This amendment during May brought the design totals at this time to \$2,672,860. However, another amendment in the current quarter, which was August, will take the fees up to \$8,663,854. Ultimately the overall design fees are anticipated to total between \$35 million and \$39 million. Further phases of the design will come forward as future amendments to the original contract.

There were eight change orders over \$25,000 as follows:

Two in CPST (for interior work electric room changes).

Four on the recently completed Housing Project (sidewalks, plantings, mailboxes, and Life Safety).

Two in Parking Structure #6. The Parking Structure project was significantly amended to add in additional parking level to the structure off Virginia Avenue. This was adding one level, and that level will include 176 spaces for a cost of \$1,797,284.

On behalf of the Finance Committee, Ms. Wickliffe recommended the adoption of FCR 32. Mr. Branscum seconded the motion, and it carried without dissent. (See FCR 32 at the end of the Minutes.)

Mr. Hardymon thanked Ms. Wickliffe for her good report. He said that it is good that the Finance Committee continues to track these projects.

Z. Investment Committee Report

Mr. Wilcoxson reported that the Endowment investments had a market value at June 30, 2005 of \$548.4 million compared to \$503.8 million on June 30, 2004, an increase of \$44.6 million for the fiscal year. The increase of \$44.6 million is the net result of additions from gifts and matching RCTF funds of \$32.1 million, investment earnings of \$39.3 million, less spending withdrawals of \$26.8 million in support of UK programs.

For the fiscal year ended June 30, 2005, the Endowment returned 7.8 percent, favorable on an absolute basis, but disappointing when compared to the policy benchmark return of 9.3 percent. The underperformance was due to poor performance by our U.S equity and non-U.S equity asset classes.

The favorable results for the quarter ending June 30, 2005 were followed by a positive return of 3 percent for the months of July and August. For the twelve months ended August 31, the Endowment returned 14 percent, which is slightly above the policy benchmark, and that is an indicator that the things we are doing relative to changing our asset allocation and our management structure are working.

Since July 1, 1992, UK's total endowment return is 9.4 percent and the Endowment Foundation benchmark is 9.5 percent. This is right on target. Mr. Wilcoxson said that he would be happy to answer any questions.

AA. Student Affairs Committee Report

Ms. Smith Edge, Chair of the Student Affairs Committee, reported that the committee met that morning. Members of the committee that were present were Phil Patton and Russ Williams. The committee also welcomed the new Student Government President Becky Ellingsworth as well as members of Dr. Pat Terrell's Student Affairs Staff and several of the other Board members.

Ms. Smith Edge complimented Shane Tedder, who is the student coordinator, along with 11 other members, of the resident-life recycling program. The program has recycled almost 24,000 pounds of cardboard during the recent move-in of students. During the first three weeks of the fall semester, over 15 tons of recyclable materials were diverted from the landfills. While this is very positive, it also returns about \$12,000 to \$14,000 in annual income back to the university. Even though these students do get a stipend, this is a very admirable program that many are not aware of, and this quantity is more than the amount recycled during the entire fall semester 2002. The students are doing a good job with the recycling program.

The committee highlighted many of the successes that have occurred since the beginning of the fall semester. UK Fusion, which many are aware of, is now in its third year. This occurs on Monday prior to the beginning of the fall semester. Over 950 students participate with 56 agencies throughout Lexington. This project has become so successful that additional projects will need to be identified next year so that every student who wants to participate will have a project. The university has actually saturated all the available service programs in the surrounding communities. UK continues to develop the town and gown relationship, and that is a benefit.

One of the other enhancements of the town and gown relationship is students can now use a plus account debit card off campus in about 10 different locations. They have already incurred \$48,000 of sales.

Despite the successes of the fall semester, there was an unfortunate death of another student. The committee is again dealing with alcohol issues. Some time was spent on that issue in the meeting since the high risk of alcohol usage continues to be a great challenge facing students in the university community. The Student Affairs Committee will focus exclusively on this issue at an upcoming meeting and will bring back some recommendations to the full Board in the near future.

The Student Affairs Committee heard briefly about a program review for the Student Center that has been completed. The committee is very optimistic about a new and renovated center with additional space for students.

During the next month, the committee will look at reviewing changes in the Governing Regulations, Administrative Regulations, and the Code of Student Conduct in light of some of the recent issues with Student Government as well as some other issues. The Committee hopes to discuss proposed changes at the October meeting.

BB. Athletic Association Board of Directors Report

Mr. Shoop, Trustee representative, reported that the Athletic Association Board of Directors met Wednesday, September 14. There were no action items on the agenda.

President Todd reported that the official notice of NCAA recertification had been received and there were glowing remarks about the program.

The Hall of Fame weekend was a big success. That is a tremendous addition to UK's traditions.

Mr. Barnhart reported that it was a good year financially for athletics, and athletics turned in a balanced budget. He reported on the practice facility and Memorial Coliseum's renovation. He also said that citizens of the commonwealth and the SEC Conference had responded well to the Katrina hurricane victims.

One of the head coaches of Women's Tennis left UK, and the position was filled with Carlos Drada, an assistant coach from Kentucky who was promoted. Mr. Barnhart could not say enough good things about this Mr. Drada.

The Board heard from Dr. Raynor Mullins, Chair of the Athletic Board's Long-Range Planning Committee. Dr. Mullins reported that his committee is working on the first comprehensive long-range planning report that has been done at the university. It is still in draft form but should be presented to the Athletic Board for approval at the next Athletic Board meeting.

Mr. Hardymon asked Rob Mullens if he wished to make any comments.

Mr. Mullens reiterated Mr. Shoop's comments about the success of the Hall of Fame event.

Mr. Dawson agreed that it was a great event. While the guys played football years before him, it was a great opportunity to meet some that he had heard a lot about.

CC. Alumni Association Report

On behalf of her fellow alumni trustees, Ms. Smith Edge, senior alumni trustee, gave a brief overview of the Alumni Association. She called attention to the alumni materials that had been distributed at the Board table and said that she would mention some of the highlights in the report of the Alumni Association.

Ms. Smith Edge mentioned the quarterly *Alumnui* magazine gets mailed once a year to all UK alums whether or not they are members of the Alumni Association. For those present who were not members or friends of the Alumni Association, she said that she, Ms. Haney, and Ms. Tobin would be at the door collecting membership applications from anyone interested in becoming a member.

The UK Alumni Association provides continuity (communication) between the university and its alumni. Their vision is to strengthen the international distinction of the UK Alumni Association as the umbrella organization for all alumni, and to continue to enhance the mission of the University of Kentucky. That does include the efforts to provide an ongoing connection between alumni and the university community.

The association's values, strategic plans, and goals are aligned with the university's Strategic Plan and goals as well.

The association has had an increase in membership by almost 7 percent, to over 35,000 UK members (about 22,000 annual members and over 13,548 life members). It is exciting that student membership has now increased to 1,600 new paying members. Thirty percent of the fall 2004 freshman class chose to show their loyalty to the university early in their career. This response is great.

The university provides a connection between the university and alumni through the *Kentucky Alumni* magazine, an electronic newsletter, and broadcast e-mails. The association has awarded 77 student scholarships in the amount of \$88,000 over the past year. It is extremely involved in student recruitment and college fairs literally around the country. The association has numerous programs and events to aid in retention and to help create an environment conducive to success. The Alumni Association also stays very active with alums through career counseling services. One of the association's large functions is always record updates. The association is constantly working on updating the database of all alumni.

The Alumni Association supports the efforts of several academic colleges and other campus units at association and alumni club events by running numerous reports and also having speakers at various association and alumni club events throughout the country. The association has always asked President and Mrs. Todd to attend the alumni events, and they have been in California as well as others places.

King Alumni House has hosted over 130 events with about 7,400 participants this past year and also stayed very involved in providing alumni tours and athletic tours as well. It remains the strong conduit between university and alumni.

On behalf of Ms. Tobin, Ms. Haney, and herself, Ms. Smith Edge thanked President Todd for the university's support.

Ms. Haney complimented the alumni staff. She reported that she has just stepped down as the president of the Alumni Association, and she praised them for their good work. It is not a large staff by membership size in comparison to UK's benchmarks, but the staff is thoroughly dedicated to the university and the work of the alumni. She complimented Stan Key, Liz Demoran, and the staff and said they are fantastic.

Ms. Smith Edge pointed out that the *Kentucky Alumni* magazine distributed to them has the ballot inside for the 2006 alumni trustee position which will be her position since she will be retiring as alumni trustee in June 2006. This is an opportunity for alums to be able to make a decision about their representation on the Board.

DD. Equine Research Foundation Report

Mr. Shoop, Trustee representative, began by saying that he wants to schedule an equine research presentation to the Board in the next few months.

He reported that during fiscal 2004-05 there were two meetings at the Gluck Center. One was held on Friday, December 3, 2004 and another on Monday, May 23, 2005. Mr. Don Robinson was elected chair, and his term is for a two-year period. He took over for Mrs. Alice Chandler who is a wonderful lady. She did a tremendous job in the position as chair of the Equine Center.

At the May meeting the Board accepted the proposed budget of \$457,000 for the upcoming fiscal year, and of that total, some \$360,000 comprised the research budget. Most of

the money is spent on research. The budget documents also show an endowment of \$4, 600,000 in the Equine Research General Endowment.

One little disappointment is that Dr. Peter Timoney, a long-time director of the Gluck Center, announced his plans to retire in the next year and return to his research efforts. He has been with the Gluck Center for many years and has been a moving force. He is a wonderful individual and has done an outstanding job at the Gluck Center, which is recognized worldwide.

EE. Resolutions

Mr. Hardymon said that there were two resolutions to be read, and he asked Mr. Reed to read the first resolution.

Mr. Reed said that the first resolution is honoring former Trustee Alice Stevens Sparks. He read the following resolution:

WHEREAS, Alice Stevens Sparks served on the University of Kentucky Board of Trustees since 1999, and

WHEREAS, Alice Sparks has chaired the Board of Trustees Academic Affairs Committee and was a member of the Board's Nominating Committee, and

WHEREAS, Alice Sparks has admirably and faithfully presided over many significant changes in the academic policies, administration and organization at the University of Kentucky, and

WHEREAS, Alice Sparks is one of the most steadfast and loyal supporters and cheerleaders of the students, faculty, and staff in the academic realm of the university and the student-athletes and their coaches and leaders,

NOW, THEREFORE, BE IT RESOLVED that the members of the UK Board of Trustees express to Alice Stevens Sparks how much each of us have sincerely enjoyed working alongside her and cheering with her the progress and success of the University during her tenure and wish her great success and happiness in all her future efforts.

Mr. Reed said that one of the benefits of being able to read a resolution is that you get to add a couple of personal comments. When he thinks of the University of Kentucky motto to dream, challenge, and succeed, it reminds him of the university's mission to the students, and it really is wonderful knowing that the university has that great mission. Being able to work alongside Alice Sparks, he learned of her love for students, her work ethic, the sacrifices she made, and her concern for students. Another great benefit of being on the Board is the fact that you are helping these students to dream, challenge, and succeed, and that you develop friendships with people as wonderful as Alice Sparks. Ms. Sparks made people more inspired. He thanked her for effect she had on him.

Mr. Hardymon called upon Ms. May to read the next resolution.

Ms. May began with her personal comments before reading the resolution. “For the new members on the Board, you are beginning down an amazing path and you are going to come into contact with some amazing people over the next few years. The great thing is that you get here and you meet people from all kinds of backgrounds and different experiences. They offer different levels of excitement to the Board and different resources. The sad thing is each year you are going to lose some of those people because you are going to rotate off the Board and some you will not see again. Some may drop you a note in the mail, but it is not the same thing as being at the Board table with them.

You know we are always happy to see new members come. It is with sadness that at the same meeting we have resolutions honoring those that have gone before. Some return to us I understand but many times these people will pass through for the work they have done. It is really fitting to welcome new members and read resolutions for those rotating off at the same meeting to say thank you for what they have done before. There could not be a more impressive group of people to serve with and a more important thing than to try to guide the young people of this Commonwealth and direct its future.”

She read the following resolution for Elaine Wilson:

WHEREAS, Elaine A. Wilson has been a member of the University of Kentucky Board of Trustees since 1999 and

WHEREAS, Elaine Wilson served as the Board of Trustee’s Secretary, as an ex officio member of the Board’s Executive Committee and as a member of the Board’s Academic Affairs and Human Resources committees, and

WHEREAS, Elaine Wilson, who is associate facility director of Oakwood in Somerset, Kentucky, and

WHEREAS, Elaine Wilson serves in many other civic functions, including as a member of the Somerset Independent Schools Board of Education, Hospice of Lake Cumberland, the National Association of Social Workers, the American Association of Mental Retardation, and is a past member of the Board of Directors of the United Way of Kentucky as well as past president of the United Way of South Central Kentucky,

NOW, THEREFORE, BE IT RESOLVED, that the members of the University of Kentucky Board of Trustees offer their profound thanks to Elaine A. Wilson for her faithful service to both her alma mater, the University of Kentucky, and to the citizens of the Commonwealth of Kentucky through her many other civic commitments. We wish her the best that life offers her in every undertaking.

Mr. Hardymon asked that the Board give Ms. Sparks and Ms. Wilson a round of applause.

FF. Consideration of New Contract for President Lee T. Todd, Jr.

Mr. Hardymon said that there was one more item on the agenda and that was the consideration of a new contract for President Todd. He said that he would give his comments and then move into the formal process after that. He gave the following statement:

In June as a Board we evaluated President Todd's job performance. We overwhelmingly agreed that the performance has been extremely positive. Some examples that we saw was the quality of our student body has continuously improved. Even in tough budgetary circumstances, we have attracted nationally renowned faculty. With several hires, plans for expansion, and increased efficiency, UK HealthCare has made significant steps towards national prominence, and our growth as a research institution has reached records heights. Last year alone our research dollars topped \$274 million. The third year in a row our efforts exceeded \$200 million. The bottom line, we have made important progress towards our goal of becoming a Top 20 research institution. At the same time we have a long way to go to reach our goals between now and 2020.

The next few years represent a critical juncture in our efforts. We must, in fact, significantly accelerate our progress if we hope to reach the important goals we have for this institution and for this state.

Against that backdrop, the Board instructs me to begin working with the President on a new contract, something President Todd and I have met several times about since June. In addition earlier this month we held briefings as a Board to discuss a proposed contract. The sessions were thoughtful, insightful, and extremely productive. Many of your comments have been incorporated in today's proposal.

In this proposal we have sought to do three things:

1. Reward President Todd for his leadership in moving this institution forward.
2. Move the UK president's compensation closer to the average of presidents at the institutions in which we compare ourselves.
3. Challenge the president to move us even further, faster, as a university by tying his compensation more clearly to our success in reaching strategic objectives, objectives to be set forth by the President and the Board.

During this process I also examined what other institutions do in terms of presidential compensation. Three significant points jumped out at me. The typical renewal contract has a length of three to four years. My review indicates UK president's compensation is well behind that of presidents at our benchmark institutions. That base salary does not include additional inducements paid by foundation boards or bonuses paid by meeting strategic objectives.

This proposed contract addresses all these three points. The contract is about three years in length from execution today through June 30, 2008. The President's base salary in the contract is \$286,000. In subsequent years of the contract the President will receive any annual increase generated generally authorized for faculty and staff.

In addition, the President will be paid \$25,000 annually for chairing the Research Foundation Board and \$25,000 annually for chairing UK Athletic Association Board. Clearly much of the President's efforts and focus are in attracting research dollars. He also must spend a great deal of time working with our Athletics Department, overseeing its progress and insuring its continued success both on the field and in the classroom.

And as I alluded to you, we have started as a Board to fashion clear strategic objectives that we expect the President to meet over the course of the year. These objectives which we will finalize in the coming weeks will include such items as

- Making significant progress toward the goals outlined in the university's three-year Strategic Plan.
- Managing cost to insure UK performs to budget, including special oversight of the hospital's expansion project.
- Continuing to work with governmental leaders to achieve our legislative priorities and funding needs.
- Improving communications with the Board, faculty, staff, and students.
- Increasing endowment dollars.
- Working to complete and begin to execute a realistic and achievable Top 20 business plan.

Upon achieving these objectives and others this year, the President would be eligible for a \$125,000 bonus. His maximum cash compensation for this year then would be \$460,000. In 2007 and 2008, upon completion of strategic objectives set forth by the Board, the President would be eligible for incentive bonuses in the amount of \$150,000 each year.

My experience as a corporate board member is that the full bonus amounts are rarely achieved. However, there is an expectation that if performance measurers are met, a majority of the bonus would be paid. As a Board governing this institution we would and should expect no less from our president in his leadership and his performance.

Should the President complete his contract, he would be eligible for a retention bonus in 2008 of \$100,000. In addition, if Lee continues to serve as president until the mandatory retirement age of 65, he would be entitled to receive full salary and benefits equal to one

full year. All of this is a signal that we want this president to succeed, to complete his contract, and to remain as president of this institution beyond the terms of this contract.

Now, there is a very important change in this contract versus the last one. This contract clearly seeks to provide incentives to create maximum performance now rather than rewarding the President for performance after the fact. For example, it proposes a significant change from the previous contract which contemplated a larger payout upon retirement as president. That change involved such things as an annual payment of no less than 80 percent of his base salary if he continued in another position, which he could for a number of years.

This proposal chooses to incentivize performance now. Upon retirement as president, Dr. Todd has the option to return to the faculty in the College of Engineering with a salary determined by the dean of that college. Other aspects of this contract (life insurance, deferred compensation, retirement, and health insurance) would remain substantially unchanged.

The proposed contract in my judgment rewards this president for his performance thus far. It challenges him to take bolder steps in the future and creates a more competitive compensation package for the leader of an institution that aspires to be among the best in the country.

With that, Mr. Hardymon entertained a motion for acceptance of the proposed three-year contract for President Todd. Mr. Patton moved approval and Mr. Williams seconded the motion. Mr. Hardymon said that he knew the Board worked hard on the contract, and he expressed appreciation for their hard work.

Mr. Patton said that he really appreciated Mr. Hardymon's hard work guiding the Board through the process. His experience of serving on other corporate boards was a great benefit to the Board in how it arrived at the contract. He said that he feels very good about all of it.

Mr. Hardymon thanked Mr. Patton and said like everything else it takes a team. He noted that the President was very good to work with during the process, and Barbara Jones kept him in line.

Ms. Tobin expressed thanks to Mr. Hardymon and said the university is very fortunate to have a Kentuckian to lead it. She called attention to the *Kentucky Alumni Magazine* and noted that Dr. Todd's name was in there for being recognized as one of the Distinguished Alumni in May 2005. This is something that is done only every five years.

Mr. Shoop said that it goes without saying that one reason all of the Board is not speaking up is that the Board is very confident with this president.

Mr. Hardymon called for a vote, and the motion carried without dissent.

President Todd thanked the Board for its support over these four pleasant years. It has been an interesting time. He feels honored to serve the institution that Patsy and he attended, then worked here, hired employees from here, and now is back in this position. He thanked Mr. Hardyman for the way in which he proceeded through this process and the diligence that he demonstrated in working with the Board and him to come to a contract that he is very pleased with.

President Todd thanked his wife, who has been a vital piece of this job, and their children, all of whom have had to increase their tolerance level for husband and father and have been extremely supportive in that regard. He also thanked his staff.

Some people said before he took the position and shortly into the position when the budget cuts came that the university should forego the Top 20 challenge, but none of them ever wanted to do that. The staff has worked extremely hard to do everything to put this into the reality column.

President Todd also thanked the faculty, the staff, and student body who have seen some interesting times and made tremendous progress. They are certainly up to the job of helping to continue to move this great institution forward.

He said he was humbled by the Board's confidence and the opportunity to serve the university.

GG. Meeting adjourned

With no further business to come before the Board, Mr. Hardyman adjourned the meeting at 3:53 p.m.

Respectfully submitted,

Pamela R. May
Secretary, Board of Trustees

(PR 2, 3, and 4; AACR 1; FCR 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30, 31, and 32 which follow are official parts of the Minutes of the meeting.)