

Minutes of the Meeting of the Board of Trustees of the University of Kentucky,
Tuesday, April 25, 2006.

The Board of Trustees of the University of Kentucky met at 1:00 p.m. (Lexington time) on Tuesday, April 25, 2006, 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 1:07 p.m. and asked Ms. Pam May, secretary of the Board, to call the roll.

B. Roll Call

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

Mr. Hardymon explained that two of the Board members absent were out of town, and one member was attending a funeral. He noted that they had given their input.

Members of the various news media were also in attendance.

A quorum was present, and the meeting officially opened for the conduct of business at 1:08 p.m.

C. Consent Items

Mr. Hardymon called attention to the consent items on the agenda: Minutes of the March 7, 2006 meeting, PR 2 - Personnel Actions, AACRs 1 and 2 – Candidates for Degrees for the University System and the Bluegrass Community and Technical College, and FCRs 1 through 11, which involve some very fine gifts and pledges. He asked for a motion for approval of the consent items. Ms. Haney moved approval. Mr. Reed seconded the motion, and it carried without dissent. The following are consent items:

Minutes – March 7, 2006

PR 2 Personnel Actions (Consent)

AACR 1 Candidates for Degrees – University System (Consent)

AACR 2 Candidates for Degrees – Bluegrass Community and Technical
College (Consent)

FCR 1 Bell Alcohol and Addictions Chair Gifts and Pledge (Consent)

- FCR 2 Roger Disilvestro Gift and Pledge (Consent)
- FCR 3 William Stamps Farish Fund Gift and Pledge (Consent)
- FCR 4 Gifts and Pledges to the E. Preston Hicks Chair for Orthodontics and Oral Health Research (Consent)
- FCR 5 Estate of John C. Hubbard Gift (Consent)
- FCR 6 Dorothy Nelms Gift and Pledge (Consent)
- FCR 7 Medical Alumni Association Gifts and Pledge (Consent)
- FCR 8 Gene and Deborah Gabbard Charitable Remainder Unitrust Pledge (Consent)
- FCR 9 Estate of Edith H. Harmon Gift (Consent)
- FCR 10 Estate of Anthony Leonard Boaden Wyatt Gift (Consent)
- FCR 11 Renaming of Professorship in Behavioral Science and Acceptance of Pledge (Consent)

(See PR 2, AACRs 1 and 2, and FCRs 1 through 11 at the end of the Minutes.)

D. President's Report to the Trustees (PR 1)

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

The legislators fully funded the university's Top 20 Business Plan in the biennial budget. The university received the authority for the remainder of funding for the hospital project which is on schedule. Full funding was received for the \$120 million pharmacy biology complex facility. This is a victory and major accomplishment. President Todd reminded the Board that the university had to pay 40 percent of the funding for the BBSRB facility, a previous large research building, which means the university is paying \$2.3 million out of research income every year for 20 years to pay for that building. President Todd said that he is extremely pleased with the outcome of the legislative session. UK, as well as other universities in the state, did not receive as much the first year of the biennium; however, the second year was funded well.

President Todd said that the budget will be brought to the Board in June, and it will reflect that a lot of decisions have been made. There have already been some announcements about salaries.

The Robinson Scholars Program makes a national impact. The program was recognized as one of only seven National Association of Student Personnel Administrators Gold Excellence Award winners. It also received a \$50,000 grant from the IFSA Foundation to fund 10 students to study abroad. The first class of students in this program graduated last year, and there are students graduating this semester. The rate of those students who leave high school and go to college is far superior to the typical rate in those regions. A survey is planned to see how many graduates of the program have been able to go back to their home counties.

The statistics in Kentucky for students who study abroad are pretty dismal, especially in some rural areas. The \$50,000 grant will provide the university an opportunity to have some students study abroad. Hopefully, the students who study abroad will return and market the importance of studying around the world to the students in their region.

The Undergraduate Scholars Showcase will be held at 4:30 p.m. following the Board meeting. President Todd said that if students go to a research university such as UK, they should feel creativity and discovery early on. The undergraduate scholars not only feel it, but they are involved in it. This showcase shows the university's commitment to undergraduate education. When looking at the receptivity of the Top 20 Business Plan, there are four factors: undergraduate education, graduate education, faculty, and research. This showcase highlights some of UK's academic stars and shows the importance of the university's undergraduate investment.

The Collaborative Center for Literacy Development in the College of Education received a \$2.8 million grant to improve literacy for adolescent readers.

The College of Education is a partner in a five-year, \$26 million project to establish an Appalachian Regional Education Laboratory.

A reporter with the *Chronicle of Higher Education* visited campus in March for two days, and a photographer came and took pictures for an article. The university received good coverage in the article. President Todd said that he considers the *Chronicle* to be the *Wall Street Journal* of Higher Education.

President Todd said that there had also been an article about the university in *USA Today*. He had interviews with *Business Week* in New York and *The Wall Street Journal* in Boston. These articles are exposing some of the activities at UK, and this is another way of building the university's reputation nationally.

The university received a \$1.8 million National Science Foundation grant to enrich mathematical skills for Powell and Bath counties. This is probably the fourth project the university has ongoing now to improve math and science skills in different parts of Kentucky.

The APR averages are out for all of the athletic departments. UK had 15 of 22 teams that exceeded or tied the national average among all universities.

The Markey Cancer Center announced its first formal network affiliation agreement with three hospitals throughout the state that will create a collaborative provider network and keep cancer patients close to home for treatment. The hospitals are located in Harrison County, Morehead, and Rockcastle County. Three of the hospital directors spoke at the news conference and said they liked UK's approach because it addressed their needs. For instance, some locations need doctors while others may need equipment. By keeping patients in their communities, this helps the revenue

stream for that hospital and that county. President Todd said that he wants UK to have more of these relationships.

President Todd called attention to an article in the paper about UK releasing \$4.2 million for classroom improvements and student lounges. This mainly involves the areas that touch learning and socializing from an academic point of view for the students. He mentioned various areas that would be receiving some of this money such as: the Student Center, the CATS den area, student office area, the Singletary Center, and Chemistry-Physics.

President Todd said that the two-year budget has allowed these improvements to be made. He noted that this is the first time during his presidency that the university has had a two-year budget. There have been budget sessions every year until now. Provost Smith and the deans were helpful in making money available for classroom improvements. Hopefully, all of the projects will be completed before the students return next year, and it will also be very uplifting to the faculty.

Mr. Hardymon reflected on President Todd's first item in his report about the legislators' support for UK's Top 20 Business Plan. He asked Ms. Tobin to read a resolution to the Board.

Ms. Tobin said the resolution is from the University of Kentucky, Board of Trustees recognizing Kentucky's policy leaders, and it is dated April 25, 2006. She read the following resolution:

WHEREAS, Kentucky's success in this new century depends, more than ever before, upon the development and sustenance of a vigorous and rigorous education system at all levels; and

WHEREAS, at the zenith of that system stands the University of Kentucky; and

WHEREAS, the people of the Commonwealth have created a compact with their university that it become a Top 20 public research university by 2020, recognizing that people who live and work and raise families in states with Top 20 universities enjoy education levels, health, and economic success well above the national average; and

WHEREAS, this compact reflects the University of Kentucky's responsibility to the people of this Commonwealth and the people's responsibility to their flagship university; and

WHEREAS, at its December 2005 meeting the University of Kentucky Board of Trustees approved the Top 20 Business Plan; and

WHEREAS, the 2006 Kentucky General Assembly embraced the letter and the spirit of the Business Plan, providing a substantial funding increase that will allow

Kentucky's flagship university to continue with renewed strength its determined march toward Top 20 status; and

WHEREAS, the General Assembly and the Governor have been consistent advocates for the development of UK's education and research facilities and the expansion of UK's health care enterprise; and

WHEREAS, support for the University of Kentucky transcends regions of the state, branches of the government, chambers of the legislature, and the partisan differences of individuals; and

WHEREAS, the Kentucky General Assembly, the Governor, and the University of Kentucky Board of Trustees are partners in accepting the moral imperative to improve the lives and lot of the people of Kentucky; and

WHEREAS, history will record this as the moment when Kentuckians and their leaders confronted the clear view of the cost of and rewards for achieving Top 20 status and chose to hold fast to the ambitious and difficult agenda of building a university of international stature;

NOW THEREFORE BE IT RESOLVED that we, the members of the University of Kentucky Board of Trustees, do hereby express our heartfelt gratitude to Kentucky's policy leaders for their substantial and visionary support and their eagerness to lock arms with us as we traverse the path to Top 20 status, undaunted by the enormity of the task before us and secure in the knowledge that we share the noble and necessary cause of building the future that Kentucky's children deserve.

Ms. Tobin noted that the resolution will be signed by the Board's chair James F. Hardymon.

Mr. Hardymon called for a motion of approval for the resolution. Dr. Moore made the motion for approval. Ms. Tobin seconded his motion, and it carried without dissent.

President Todd then asked Dean James Cibulka to give his presentation about the College of Education. He said that Dean Cibulka has been doing a great job with the college.

E. College of Education Report

Dean James Cibulka provided an overview of the College of Education. He began by sharing information regarding the college history, organization, and staffing. The College of Education was created officially in 1923, but it had prepared teachers for the Commonwealth operating as a Normal School since 1880. The college maintains 6 academic departments, 5 affiliated units, and 16 centers/clinics/labs and special offices.

Personnel for FY 06 include: 89 regular faculty positions including 4 endowed professors and 1 endowed chair; 3 research title faculty; 33 bi-weekly staff; 17 professional staff; and 18 other grant-funded staff.

Dean Cibulka also discussed the mission statement of the college. He called attention to two particular sentences. One indicates the importance of creating a culture of reflective practice and inquiry within a diverse community of students, faculty, and staff. Dean Cibulka indicated that the college takes this aspect of its mission very seriously. He also pointed out that the mission statement focuses not only on the research mission of the college, but in addition, the statement stresses the college's land-grant mission. Both are equally important to the faculty. As the college contributes research that expands our knowledge of teaching and learning processes, it will not turn its back on the Commonwealth. Indeed, much of the research conducted by the faculty directly benefits Kentucky's quality of life.

The wide array of academic programs offered by the college is a reflection of its commitment to preparing education professionals who will contribute to the quality of life in the Commonwealth. The college maintains: 13 undergraduate programs leading to initial teacher certification; 2 non-certification undergraduate programs; 6 non-certification graduate programs; 10 graduate programs leading to initial teacher certification; 15 graduate programs leading to advanced teacher certification; 4 graduate programs in school leadership; 5 programs leading to endorsement of existing teaching certificate; and 11 Ed.D. and Ph.D. programs. The 2005 headcount enrollment consisted of 1,701 bachelors, 407 masters, 48 specialists, and 283 doctorate students. Total degrees awarded in 2006 were 743, compared with 497 in 2002. Growth in enrollments and degrees awarded in the college has been achieved without increasing staffing levels, which either have been constant or declining in recent years.

Also noted were the accrediting and program approval agencies for the college which include National Council for the Accreditation of Teacher Education, Kentucky Education Professional Standards Board, American Psychological Association, National Association of School Psychologists, and Council on Rehabilitation Education.

Dean Cibulka shared the following priorities for the College of Education:

- Increase national visibility and rankings
- Strengthen Research Productivity
- Emphasize Outreach and Community Engagement
- Enhance Development, and
- Improve Diversity

The Rehabilitation Counseling program ranks sixth internationally for research productivity, while the Educational Psychology program ranks as the nineteenth most productive research program in the country.

The College of Education received a performance level of “excellent” (a Quality Performance Index of 3.7 on a scale of 4.0) on the Kentucky Quality Performance Index Report Card issued by the Kentucky Education Professional Standards Board. In 2005-06, 323 students completed programs preparing them to be teachers. The college is addressing shortage areas in mathematics and science education, foreign language education, and special education.

Total primary and collaborative grants/contracts have grown. Both are important because the college has a long history of participating in collaborative research projects with other units on campus. Primary contracts and grants are expected to exceed \$6 million in the current year, while collaborative grants exceed \$19 million. Selected research projects for the college currently include:

- Collaborative Center on Literacy Development
State grants of \$2.4 million for Reading Recovery, Kentucky Adult Literacy Institute, Reading First, and the federally funded Striving Readers Program (\$2.8 million over 5 years)
- Appalachian Math and Science Partnership
- Appalachian Regional Education Laboratory (U.S. Department of Education grant in collaboration with CAN Corporation and the University of Virginia), and
- Great Schools Initiative (Knight Foundation grant to address closing the achievement gap in Fayette County Public Schools)

Dean Cibulka shared the following challenges for the College of Education:

- Balancing the research and land-grant missions of the College
- Managing the regulatory and political environment in the Commonwealth
- Resources to retain and recruit outstanding faculty, and
- Outdated and overcrowded facilities

Dean Cibulka thanked the Board of Trustees for the opportunity to present information about the College of Education’s goals, accomplishments, and priorities. He indicated that this is an exciting time to be at UK, and that he looks forward to working with President Todd and new Provost Kumble Subbaswamy on the new strategic plan, and in particular, on addressing the goals of the Top 20 Business Plan.

Mr. Hardymon thanked Dean Cibulka and his faculty for getting engaged in some of the issues that make UK’s presence at the state and local levels much more effective than previously. He expressed pleasure with Dean Cibulka’s enthusiasm for his work.

F. Proposed Revision to the Governing Regulations (Reviews of Educational Units and Their Chief Administrative Officers) (PR 3)

President Todd said that PR 3 is a proposed revision to the Governing Regulations, and this is the first preliminary consideration for approval. It is a result of a

Southern Association of Colleges and Schools (SACS) change in their principles of accreditation where they are stressing the ongoing importance of planning and evaluation activities. The Governing Regulation that is in existence now is being revised to align with the changes in the Administrative Regulations that involve the governing of program review and the review of chief academic officers in order to insure compliance with SACS.

At present, the Governing Regulations focus on educational units, deans, and department chairs as needing review, but the new proposal will require program review for both educational and administrative units. It will also extend required reviews of deans and department chairs to include other chief administrative officers who are not addressed in the current version. The Administrative Regulations are also being revised accordingly.

Mr. Hardymon reiterated that this is a preliminary consideration for approval. It will be on the agenda for final approval in June. He called for a motion for approval. Ms. Wickliffe moved approval. Her motion was seconded by Ms. Tobin and carried. (See PR 3 at the end of the Minutes.)

G. Appointment of Board of Directors – University of Kentucky Business Partnership Foundation, Inc. (PR 4)

President Todd said that PR 4 is a recommendation for the approval of the appointment of Paul Chellgren and James Geisler to the Board of Directors of the University of Kentucky Business Partnership Foundation for four-year terms beginning immediately and extending through the spring of 2010 Board meeting of the Business Partnership Foundation. These appointments are recommended by the interim provost and have to be approved by the Board.

President Todd called attention to the brief biographical information on each of the individuals. He noted that most everyone knows Mr. Chellgren and mentioned that Mr. Geisler visited campus last year at the invitation of Mr. Hardymon to speak to the first MBA class under the new restructured MBA program. He asked for approval of these new members to the Business Partnership Foundation Board.

Mr. Hardymon said that he had known Mr. Chellgren for a long time, and he met Mr. Geisler when he was in the corporate world. He and Mr. Geisler did a number of joint projects involving aerospace with United Technologies. Mr. Geisler is the chief finance officer for a \$25 billion and growing organization.

Mr. Hardymon told the story about Mr. Geisler calling him to say that he was a graduate of UK and wanted to help the university. Mr. Hardymon said that he invited Mr. Geisler to come to the university and spend time with President Todd and the dean at the business school. Following the visit, he was put on the list for consideration for an appointment to the Business Partnership Foundation Board.

Mr. Hardymon called for a motion of approval. Mr. Dawson moved approval. Ms. Young seconded the motion. Mr. Hardymon asked if there were any comments or questions, and Dr. Dembo spoke.

Dr. Dembo made the following comments:

Fellow trustees, it is on the basis of my passion that I need to respond to this issue. First, I want to make it clear that my comments are not to impugn these two individuals, nor to imply that they are not qualified to serve on this foundation board. However, I would like to call attention to the fact that the Business Partnership Foundation Board is almost exclusively composed of white males. For example, out of the current 26 members only 2 are females, and one of them is our own trustee JoEtta Wickliffe, not that she does not count, but, that it sends a message to the public that the university was only able to find one other qualified woman outside our own academic community to serve on this board.

This is inconsistent with our own ethical principles and code of conduct that talk about diversity of thought, culture, gender, and ethnicity as one of our values. Strength is gained by having different beliefs and opinions around the table, and the result and outcome of any decision making is strengthened based on diverse input toward that decision making. Just look around this table and think. Our own Board of Trustees has that strength, and we are a strong board because of our own diversity.

Another point to be made is that this foundation board is associated with the Gatton College. One might ask the question: Does the composition of this board reflect the composition of the Gatton College? Currently, undergraduate female enrollment at the Gatton College is about 37 percent. If you look at the number of women on this board, that is 8 percent, and by adding two more white males, it will decrease that number even further.

I do not think that sets a good example, and even though Dean Sudharshan and Provost Smith indicate that the Gatton College is actively working to increase enrollment of women, there is a pipeline that has to be created, and it takes years sometimes to see the benefits. I do not think the same kind of pipeline has to be created to appoint qualified and interested people to a board like this.

Finally, let me close by saying that diversity is a goal that can only be achieved slowly, one step at a time making consistent progress with each and every decision along the way with that as a desired outcome. I think it takes courage and persistence to do it, to strive for inclusivity. When we discussed a diversity issue at our October meeting regarding the Mining Engineering Foundation Board, President Todd told us we will have to do better. Well in my opinion, here is an opportunity to do better. So, before I get to hear what my fellow trustees have to say, I will close with two questions: If not now, when? And if not us, who?

Mr. Hardymon thanked Dr. Dembo for his comments. In the spirit of full communication, Dr. Dembo has communicated with the dean on this issue, and the dean has responded.

President Todd reminded the Board that Trustee Elaine Wilson was on the Business Partnership Foundation Board, and she rotated off. Kim Burris, an African-American female, had served on the board for many years, and she is no longer on the board.

President Todd said that he appreciated Dr. Dembo pointing this out. He noted that he would ask the head of the multicultural affairs office to give him a summary of all diversity distributions on all the boards that the Board has appointment responsibility over to insure that the administration and Board are very cognizant of any other appointments that are made in the future.

Dean Sudharshan has provided a list of things that he has tried to do to broaden diversity in the college since he has been at UK the last three years. The dean is trying to cultivate a couple of members for this board, but these two gentlemen are extremely high-profile members for a board of this nature. President Todd said that he would like to encourage the dean to proceed with some level of aggressiveness.

Ms. Ball asked if the board members rotate and if there is a certain number every year.

President Todd said that they are four-year terms, and he assumes they do rotate.

Mr. Hardymon agreed with President Todd's comments. He noted that he had served on the board two terms. The board is very valuable, particularly with the plans which are high on the priority list for expansion.

Ms. Ball said that Dr. Dembo's point is well taken, and the Board of Trustees needs to remember that every time they have board appointments to come before them for approval.

President Todd said it would have to be remembered before it becomes an agenda item.

Dr. Moore said that he wanted to reinforce Dr. Dembo's comments. Having previously been Senate Council Chair and having sat in the "peanut gallery" at Board meetings, he has seen the difference in how much more diverse this Board is now than it was at that time. It does indeed make a difference, and that is why he thinks the Board really does have to think about this a lot and take whatever steps it can to make sure that there is diversity on all of these boards.

Mr. Williams said that he supported Dr. Dembo's comments as well, and he shares his concerns. The point is that it is a good idea. The Board cannot really make changes until it is aware of what changes need to be made. It is very important. He said that he is grateful for the biographies on these two gentlemen because often the Board does not know a whole lot about appointees.

Mr. Hardymon said that there was a motion and a second, and he called for a vote. PR 4 was approved with Dr. Dembo voting against it. (See PR 4 at the end of the Minutes.)

H. Audit Subcommittee Report

Ms. Wickliffe, chair of the Audit Subcommittee, reported that the subcommittee met that morning with representatives from Deloitte & Touche. The subcommittee accepted the engagement letter for another year, and Deloitte & Touche will be conducting the audit for the coming year. The subcommittee also had a report from the internal auditors.

I. Finance Committee Report

Ms. Wickliffe, chair of the Finance Committee, reported that FCRs 1 through 11 were consent items involving gifts and pledges that total \$3.35 million, of which \$2 million is eligible to be matched by the state. With these gifts, the university has matched \$32 million of the \$66.67 million available from the Endowment Match Program.

J. Acceptance of Interim Financial Report for the University of Kentucky for the Nine Months ended March 31, 2006 (FCR 12)

Ms. Wickliffe said that FCR 12 is the acceptance of the Interim Financial Report for the university for the nine months ending March 31, 2006. As of this date, revenues are at 82 percent, and expenditures are at 71 percent of the \$1.7 billion budget amount.

Net deferred revenues (revenues less expenditures) equal \$184 million, an amount which provide excellent cash flow and financial position for the university.

Assets totaled \$2.7 billion as of March 31, 2006. That is an increase of \$347 million, or 15 percent, since March 2005. Endowment assets accounted for \$188 million of this increase, and that was due to the establishment of the \$100 million hospital quasi-endowment, coupled with new gifts and increases in the fair market value of the endowment.

In summary, at the end of the first nine months of the 2005-06 fiscal year financial operations are consistent with the budget plan, and the university's financial condition continues to be excellent.

On behalf of the Finance Committee, Ms. Wickliffe moved approval of FCR 12. Ms. Haney seconded the motion, and it carried without dissent. (See FCR 12 at the end of the Minutes.)

Mr. Hardymon said that this is a stronger balance sheet, and revenues and expenses are very much in line.

K. Report on the 2006 Kentucky General Assembly (FCR 13)

Ms. Wickliffe reported that FCR 13 is the Report on the 2006 Kentucky General Assembly. The General Assembly passed the 2006-08 Biennial Budget, House Bill 380. The bill includes operating funds and capital project authorizations for UK.

Operating Funds

2006-07: \$4.6 million base funding increase (1.5 percent increase)
2007-08: \$20.9 million base funding increase (6.7 percent increase)

With this appropriation, the General Assembly fully funds the implementation of the Top 20 Business Plan. For that, Ms. Wickliffe said the Board can be very grateful in the resolution addressed to them at this meeting. This should not only help move the university forward but also help the citizens of the Commonwealth.

Capital Projects - Highlights

The 2006 Kentucky General Assembly provided state bonds for one project that fully funded Phase II of the Biological/ Pharmaceutical Complex with \$79.8 million of state bonds.

They also provided the requested \$175 million authorization for Phase II of the Patient Care Facility:

\$150 million agency bonds
\$25 million agency funds

The General Assembly also enacted Senate Bill 84 which increases the thresholds of capital projects that do not require legislative authorization:

Capital construction projects from \$400,000 to \$600,000
Equipment from \$100,000 to \$200,000
Information technology systems from \$400,000 to \$600,000

Senate Bill 83 increased the maximum cost of capital construction projects that may be performed by postsecondary institution employees from \$100,000 to \$200,000.

Ms. Wickliffe then referred to the items that were vetoed. The university was encouraged to find the money for some of those things. In one of those items, the word "encouraged" was taken out, and the remainder became a directive to support the county

extension enhancement initiatives. UK also lost the monies to expand and upgrade the Livestock Disease and Diagnostic Center Phase 2, \$13.5 million of state bonds.

The Council on Postsecondary Education (CPE) lost \$13.9 million of capital renewal maintenance pool funding. UK's share would have been \$3.4 million

CPE's research support initiative is \$6 million of non-recurring funds. UK would have gotten \$4 million of that, and UofL would have gotten \$2 million. That would have been provided in the 2007-08. UK lost that.

UK also lost the renovation funding for Blazer Hall cafeteria which was \$3.10 million in agency bonds. The installation of air conditioning and heating for Keeneland Hall, which involved \$7.13 million in agency bonds, was also lost. All in all, however, UK came out extremely well.

On behalf of the Finance Committee, Ms. Wickliffe moved the adoption of FCR 13. Mr. Branscum seconded the motion, and it carried without dissent. (See FCR 13 at the end of the Minutes.)

L. Patent Assignment Report (FCR 14)

Ms. Wickliffe said that FCR 14 is the Patent Assignment Report. This report contains one patent assignment for the treatment of chronic pain in victims of spinal cord injury. It is interesting for the Board to know that UK ranks 19th among land-grant universities overall and licensing income and 25th in patents. These figures are from fiscal year ending 2003.

As of March 31, 2006, UK has 306 active patents and 102 active licenses. Royalties for the year ending March 31, 2006 are \$758,205. There have been 5 start-ups, 12 licenses, 13 patents, and 70 disclosures.

On behalf of the Finance Committee, Ms. Wickliffe moved the adoption of FCR 14. Mr. Dawson seconded her motion, and it carried without dissent. (See FCR 14 at the end of the Minutes.)

M. Amendment Statement Regarding (FCR 13)

Mr. Hardymon said that FCR 13 was approved as amended. He said that he hoped those that made the motions for approval recognized that Ms. Wickliffe amended it.

N. Investment Committee Report

Mr. Wilcoxson, chair of the Investment Committee, reported that the Investment Committee met that morning. The university's endowment had a market value of \$711.4 million as of March 31, 2006, compared to a \$538.4 million market value as of June 30,

2005. This is an increase of \$173 million during the current fiscal year, which is the result of establishing the hospital quasi-endowment for \$100 million, gift and matching RCTF funds of \$28.3 million, investment income of \$62.2 million, and withdrawals in support of the UK programs of \$17.5 million.

For the nine months ending March 31, the endowment investment pool returned 11.8 percent, compared to the policy benchmark return of 11.4 percent.

In order to increase the university's exposure to non-U.S. small-cap and emerging markets stocks and also to lower management fees, the committee approved a 4 percent allocation to State Street Global Advisers for a non-U.S. index fund strategy. This change will reduce the target allocation for Capital Guardian who is the current non-U.S. equity manager. State Street will charge 19 basis points annually for the non-U.S. index fund compared to 43 basis points currently charged by Capital Guardian.

Mr. Hardymon indicated that April should be a good month, too. The market seems to be doing pretty well.

Mr. Wilcoxson agreed and mentioned that through the years the Investment Committee has been a very conservative, low-risk committee. The committee has outperformed the policy benchmark since its inception.

O. Business Partnership Foundation Board Report

Ms. Wickliffe, Trustee representative on the foundation board, reported that the Business Partnership Foundation Board met on September 23, 2005 and April 7, 2006. She reviewed the highlights of each meeting.

September 23, 2005

Announcement of retirement of Kim Burse and Jerry Wethington as Board members.

Presentation of a summary of the initiatives undertaken by the College since July 1, 2003.

Report on the college's financial status report.

Report on the development activities and a fundraising update.

Introduction of two new professors.

Presentation of the "Immersive MBA" program.

Comments from President Todd on his approach to the Top 20 Business Plan.

Presentation of the advertising campaign.

April 7, 2006

A status update on the efforts under way at the college to review and revise the undergraduate program was provided by Professor Scott Kelley, who is chairing the task force assigned to that effort. The last major review was conducted 30 years ago, and this review is being carried out to design the best undergraduate program at a research university that UK can possibly deliver. The redesign will

also accommodate the increased student body, as proposed in the Top 20 Business Plan.

A fundraising challenge, posed by foundation board member, Mr. Creed Smith, was presented by Development Committee Co-Chair Mr. Tim Haymaker. Mr. Smith has challenged fellow board members to match collectively his unrestricted pledge of \$100,000 over two years.

Actions being taken for meeting the goals of the Capital Campaign were presented by Dean Sudharshan. He also asked the foundation board to voice its support for the college's new building being retained as the top university priority among academic buildings, after the pharmacy building. Mr. Carol Martin Gatton pledged another \$500,000 towards the building, if the ground is broken per his time stipulation.

There was an update of the major communications (both internal and external) campaign planned by the college.

There was a presentation delivered by alumnus Mr. Scott Packard, President and CEO of Wright Tree Service Inc, Des Moines, Iowa. His presentation focused on his business career, the tree service industry, comments on immigrant labor, and response to crises like Katrina.

Associate Dean Paul Jarley provided a snapshot of the applicant pool for the newly launched (fall 2006) undergraduate program titled, "Global Scholars Program."

Ms. Wickliffe completed her report by announcing the next meeting is scheduled for September 29, 2006 in Lexington.

P. Mining Engineering Foundation Board Report

Mr. Williams, Trustee representative on the foundation board, reported that the Mining Engineering Foundation has continued to provide financial support for mining engineering recruitment efforts. The foundation funds the salary for a part-time recruiter, including all the recruiting costs. Last fall, the number of students in the Mining Engineering program was 70, an increase from 58 the previous year. The foundation, along with President Todd and other members of the administration, were successful in getting \$200,000 from the state budget for mining engineering scholarships from coal severance tax revenues.

Volunteers to the foundation are currently developing alumni fundraising strategies similar to that used by the College of Law, and private giving to this foundation has been up considerably over the last two years, partially due to increased fundraising efforts and partially due to research in the coal market.

Mr. Williams reported that the foundation board meets in the spring and in the fall.

Q. Report on American Association of Governing Boards of Colleges and Universities Annual Conference

Mr. Hardymon reminded the Board that Dr. Dembo had been honored by being chosen to participate in the American Association of Governing Boards of Colleges and Universities conference in Florida. He called upon Dr. Dembo to give a general report about the conference.

Dr. Dembo reported that he attended the association's annual conference on trusteeship. It was composed of trustees from all over the country from both public and private institutions. It was interesting to learn how different boards are from one another. For instance, some boards have 50 plus members while some may have as few as 7 or 8 members. Some boards govern all the state institutions at the state level, others much as we do at the institutional level. These different types of boards have very different missions, yet everyone has in common their devotion to higher education and being in a position of governance.

Dr. Dembo said that one of the things that came out of the meeting is that UK is not in this alone. Everybody is struggling with the same issues on a daily, if not yearly, basis. He pointed out a couple of comments that could be shared with the UK Board of Trustees. First of all, the presentation that he gave was a roundtable called Working with Faculty. We are very special in the state of Kentucky in that every state university board must have faculty, student, and staff trustees. That is a rarity. Less than 10 percent of all boards have faculty, and the way that the trustees communicate with the faculty is quite variable. In some cases trustees serve on some of the board committees in an ex officio manner, and, at other universities and colleges, there is little to no communication between the board and the faculty. It was a very interesting discussion and lots of good questions came up, particularly about the relationship of faculty trustees to the board. He had only the best things to say about the type of interaction at UK.

One of the keynote speakers was Jim Fallows, who is the national correspondent for the *Atlantic Monthly*. Mr. Fallows talked about the current environment of higher education and presented a couple of suggestions. From his perspective, he advised trustees to prepare for even greater volatility ahead. It is an uncertain political climate; he predicts even greater economic swings of funding over the next 5–10 years in higher education. Mr. Fallows charged the board members present to join the public fight. He said that now, more than ever, boards need to be public in their opinions to lead the debate to help inform policy makers about the directions that higher education needs to go. Dr. Dembo said that in looking back at our experience in Kentucky, UK has been particularly effective with that most recently.

Mr. Fallows reported that he had been the editor for *U.S. News and World Report* before going to *Atlantic Monthly*, and he assumed the group wanted him to talk about the

magazine's rankings of colleges. He gave two take-home messages to the board members. First, even though he had been with *U.S. News and World Report*, he said do not judge your institution on the basis of these rankings. Second, he said to encourage your institutions to develop as many rankings as possible. You are not bound to only one but rather can look at a wide-ranging variety of rankings.

Dr. Dembo said there was another speaker, Jeffrey Sonnenfeld, the senior associate dean with Yale University School of Management, who dissected reasons why boards succeed and fail. Dr. Sonnenfeld talked about the prior role of boards, specifically being an auditing and monitoring body. They were individuals who had a vested interest in the school. Now, the responsibility of the trustees is much more complex, and boards need to cope with this expanded complexity.

Dr. Sonnenfeld talked about 4 pathologies that prevent boards from working effectively. One is Groupthink. He said that it is pathological when there is too much righteous agreement on topics with no courage for dissent. The second is Bystander apathy – a lack of engagement by board members on important issues or lack of board engagement as a whole in issues of great importance. Dr. Dembo noted that he would give the UK Board excellent marks for absence of such apathy. The third is obedience to authority – “If the president says it's so, it must be so.” The fourth is brand conformity. This is pathology where the trustees uphold a certain identity or mission even though it is obsolete, despite the university needing some changes.

Dr. Sonnenfeld also talked about some of the characteristics of effective boards.

Dr. Dembo pointed out two things that could be of use to the UK Board to discuss at a future session. One is the importance of a periodic evaluation of how the board itself performs. The board concentrates heavily on the performance of the chief executive officer, but the performance of the board's own functioning may also be something to consider. Another thing of importance is to know what information the board needs to best do its work. When new members are appointed to the board, there is a lot of information for them to learn. If there is anything that can be done to more effectively shorten the ramp up time and better orient the new board members, that could benefit the board.

Brit Kirwan, a renowned educator and chancellor of the University System of Maryland, said that we are in the early stages of a crisis in education. Competing needs for public dollars are drawing down public investment in higher education, and he cannot see any force that will reverse this. Meanwhile, there is a surging demand for education. We must get on top of this with cost containment. If we don't, what will America be or become?

Dr. Dembo said that he was invited to a special breakfast held by the *Chronicle of Higher Education*. They invited 10 other trustees to talk about how the *Chronicle* can better cover higher education. It was a very interesting breakfast with exchange of many ideas around the table, but there seemed to be particular interest in the Top 20 Business

Plan. People have heard about it. After the session was over, Paul Fain, a *Chronicle* reporter who wrote the article that just came out about UK, said talking with President Todd was one of the most interesting things that he has done in a long time. Mr. Fain said that he is interested to see what happens to the Top 20 Business Plan. The plan is now going to be on the radar screen nationally, and that is a lot to be proud of.

Mr. Hardymon thanked Dr. Dembo for his report. He said the board evaluation process is now in the corporate New York Stock Exchange world. Self evaluations are required of prominent board members once a year. Most boards have a facilitator to come in and keep the boards on the subject. Mr. Hardymon predicts that the process will eventually get to UK. For whatever reason, financial processes and procedures are being brought from the corporate world into educational institutions.

R. Comment about the CATSPY Awards Event

Mr. Hardymon asked Rob Mullens to comment about the CATSPY event that evening.

Mr. Mullens reported that the fourth annual CATSPY awards event would be that evening. This event is UK Athletics' annual celebration of student-athlete achievements. It is a night of celebration that is very well received by the students-athletes, and the students are at their best. The fun begins at 6:30 p.m. at Rupp Arena with a reception, and the awards recognition begins at 8:30 p.m. Park on High Street and follow the blue carpet into the Lexington Civic Center. Mr. Mullens said that he had tickets available for anyone needing them.

Mr. Hardymon said that he attended the event last year, and he will attend it again this year.

S. University Hospital Committee Report

Ms. Young reported that the University Hospital Committee met the previous afternoon and received a favorable financial report. The report showed strong performance with very good recovery from a weak performance in February. This month's good statistics were led by increasingly vigorous admissions volumes and ranked utilization per case. In March 2006, inpatient net revenue increased about 18 percent. Outpatient net revenue increased 12.7 percent over the previous one.

In line with this volume increase, total operating expenses were up 8.4 percent compared to last March. Operating margin for March 2006 was 8.2 percent. The committee also learned that \$100 million of designated investments were transferred to the UK Board as true investment earnings. This should definitely help the hospital with its investment earning percentages.

For the nine months ending in March, the increase in net assets has been approximately \$42 million. The Hospital is in good shape, and its financial health and

continued growth supports the strategic initiative undertaken this year. Some conversation will be held in the near future about speeding up the overall building process.

The committee received a report on the building project, and it is on schedule. Work on the parking garage has begun. The architects have presented a preliminary presentation of the bed tower, lobby, bridge, and exterior landscaping. They are still working on design as there are a lot of details involved.

In other projects, the proposal for renovation and expansion of the emergency room has gone out for bid, and the project should begin in June 2006. This project is over \$4 million and has been a concern for many people. The project is not going to solve all problems, but it should provide marked improvement during the interim until completion of the bed tower project.

The committee also heard very interesting reports on patient quality and safety and on the tracking of hospital infection rates. Great effort is being made to get all of these numbers into an established protocol to improve overall statistics of hospital operation, an issue which has received extensive coverage in the news media. It is difficult to get comparative data on this issue, but the staff is making great progress in these efforts.

T. University of Kentucky Center on Aging Foundation, Inc. (“Corporation”)
Amendment to Articles of Incorporation and Bylaws (UHCR 1)

Ms. Young said that UHCR 1 is a recommendation that the Board of Trustees approve an amendment to the Articles of Incorporation of the Corporation and the revised Bylaws of the Corporation.

The Center on Aging Foundation is a not-for-profit support organization of the university, established to support the university’s Center on Aging and related programs. Due to organizational changes and the need to update the articles and bylaws, the Board of Directors of the corporation determined that amendments were needed to identify correct titles of officials, expand the number of members of the board of the corporation from “up to 33” now to “up to 41” members, and provide for senior status board members. Ms. Young noted that there is a correction in Exhibit B, Article 2, Section one under membership. It should read at least 27, not 25.

The amendments were approved by the Board of the Corporation at its September 2005 and March 2006 meetings and were presented to the University Hospital Committee. On behalf of the committee, Ms. Young moved approval of UHCR 1. Dr. Dembo seconded her motion, and it carried without dissent. (See UHCR 1 at the end of the Minutes.)

U. Introduction of Dr. Ernie Yanarella

Dr. Moore asked Dr. Yanarella to stand and be recognized as he formally announced that Dr. Ernie Yanarella will be succeeding him on July 1. Most Board members know Ernie because he is the outgoing chair of the Senate Council. Dr. Moore said that it is kind of a tradition at UK to elect a former chair of the Senate Council to the Board. Both he and Dr. Dembo were chairs of the Senate Council at one time.

Dr. Yanarella is an outstanding individual, and he will be a superb faculty trustee. He is a professor in the Political Science Department. His department has a long history of involvement in faculty and shared governance.

V. Introduction of Jonah Brown

Ms. Ellingsworth said she would also like to introduce her successor, the newly elected student government president. He is Jonah Brown, and he will be starting on the Board July 1. Mr. Brown ran an excellent campaign and won by over 400 votes. He will be taking over the student government office following finals week.

Mr. Hardymon asked Mr. Brown to remain following the meeting so the Board members could meet him.

W. Announcement about June Board Meeting

Mr. Hardymon informed the Board that the June meeting will probably take more time than the normal meeting. There will be a full agenda, including the Strategic Plan, the budget, and other reports. The meeting could last as late as 3:30 p.m.

X. University Hospital Committee Announcement

Ms. Young announced that the University Hospital Committee would meet in the Board Room immediately following the Board meeting.

Y. Meeting Adjourned

With no further business to be transacted, Mr. Hardymon called for a motion of adjournment. Ms. May made the motion. Ms. Tobin seconded the motion, and it carried

without dissent. The meeting was adjourned at 2:30 p.m.

Respectfully submitted,

Pamela R. May
Secretary, Board of Trustees

(PR 2, 3, and 4; AACR 1 and 2; FCR 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, and 14; and UHCR 1 which follow are official parts of the Minutes of the meeting.)