

Minutes of the Meeting of the Board of Trustees of the University of Kentucky, Sunday, October 14, 2012

The Board of Trustees of the University of Kentucky met on Sunday, October 14, 2012 in the Board Room on the 18th floor of Patterson Office Tower.

A. Meeting Opened

Dr. E. Britt Brockman, chair of the Board of Trustees, called the meeting to order at 1:40 p.m. Chair Brockman asked Trustee Sheila Brothers, 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: C.B. Akins, Sr., Stephen Bilas, E. Britt Brockman, Sheila Brothers, Mark Bryant, Jo Hern Curris, Oliver Keith Gannon, Kelly Sullivan Holland, Pamela T. May, Billy Joe Miles, Terry Mobley, Charles Sachatello, C. Frank Shoop, James W. Stuckert, Irina Voro, John Wilson, and Barbara Young. Absent from the meeting was William C. Britton, William S. Farish, and Carol Martin “Bill” Gatton. Secretary Brothers announced that a quorum was present.

The University administration was represented by President Eli Capilouto, Interim Provost Tim Tracy, Vice President for Health Affairs Michael Karpf, General Counsel-Select William Senior Associate General Counsel T. Lynn Williamson.

The University faculty was represented by Chair of the University Senate Council Lee Blonder, and the University staff was represented by Chair of the Staff Senate Mike Adams.

Guests and members of the news media were also in attendance.

C. Consent Items

Chair Brockman called attention to the one consent item on the agenda, the minutes for the regular meeting of the Board on September 11, 2012. Trustee Stuckert moved approval of the consent items. Trustee Akins seconded the motion, and it carried without dissent. (See consent items listed below on the Board of Trustees website, www.uky.edu/Trustees, under agenda.)

Minutes, September 11, 2012

D. Chairman’s Report

Chair Brockman began by reporting that there had been no requests since the last meeting to speak or appear before the Board.

Chair Brockman announced that the Executive Committee would be tasked with a review of the current committee structure of the Board of Trustees, with a report to the Board at the December 11, 2012 meeting.

Chair Brockman extended thanks to those involved in making the Board of Trustees retreat meaningful and productive. For their efforts, he offered special thanks to Amy Hisel, Bill Swinford, Angie Martin, Bob Wiseman, Jay Blanton, Jim Tracy, Vince Kellen, Provost Tim Tracy, President Capilouto, the staff of University Sound and Lights, UK Catering, Physical Plant Division, and UK Information Technology. The Board gave a round of applause.

E. Proposed Guiding Principles for the President and the Campus (CR 1)

Chair Brockman introduced CR 1, the guiding principles for the President and the campus. These guiding points were a result of the discussions from the weekend's retreat. The recommendation is that the President, in recognition of the rapidly changing environment of higher education, and in consultation with University constituents, focus the University's efforts on the following:

- Continuing emphasis on undergraduate education and infrastructure of the campus core;
- Strengthening mechanisms for faculty and staff recruitment, rewards and retention;
- Conducting an assessment of what constitutes a strong environment for research, creative scholarship, and graduate and professional education;
- Continuing the development and introduction of the values-based financial model that aligns revenues and expenses to meet the University's mission, and ensure that units develop strategic plans in alignment with University's overall strategic planning process;
- Developing a plan for implementing innovative, technology-rich content delivery to address needs in a constantly changing learning environment; and
- Continuing to develop a master plan that creates a 21st century living-learning environment and is sensitive to community concerns.

Chair Brockman asked for discussion. As there was no discussion, the motion passed, with one abstention from Trustee Voro. (See CR 1 on the Board of Trustees website, www.uky.edu/Trustees, under agenda.)

F. Nominating Committee Report

Trustee Shoop, Chair of the Nominating Committee reported that the Committee met that morning and received two NCRs.

G. Reappointment of Board of Director University of Kentucky Mining Engineering Foundation, Inc. (NCR 1)

Trustee Shoop stated that NCR 1 recommends that the Board approve the reappointment of Mr. James W. Stuckert as a trustee member to the University of Kentucky Mining Engineering Foundation Inc. Board of Directors for two-year term ending September 30, 2014. The bylaws of the Foundation require that the Board of Trustees approve appointments to the Board of Directors.

On behalf of the Nominating Committee, Trustee Shoop moved approval of NCR 1 and it passed without dissent. (See NCR 1 on the Board of Trustees website, www.uky.edu/Trustees, under agenda.)

H. Appointment of Trustee to the University of Kentucky Research Foundation Board of Directors (NCR 2)

Trustee Shoop stated that NCR 2 recommended that the Board approve the appointment of Mr. Mark P. Bryant as a trustee member to the University of Kentucky Research Foundation Board of Directors for a three-year term ending September 30, 2015. The bylaws of the Foundation require that the Board of Trustees approve appointments to the Board of Directors.

On behalf of the Nominating Committee, Trustee Shoop moved approval of NCR 2 and it passed without dissent. (See NCR 2 on the Board of Trustees website, www.uky.edu/Trustees, under agenda.)

I. Athletics Committee Report

Trustee Akins, Chair of the University Athletics Committee, reported that the Committee met that morning to discuss two items. The Committee reviewed and endorsed PR 1, a revision of Governing Regulation II regarding an increase to the threshold amount for review of Athletics capital projects.

The committee then considered the financial statements of the University of Kentucky Athletics Association (UKAA) and the Department of Intercollegiate Athletics. Mary McKinley partner with the BKD, the University's external auditors, provided a brief overview of the annual audit process in the Audit Subcommittee. As an affiliated corporation, UKAA was included in the University's consolidated financial statement. BKD issued unqualified opinions on the University's and UKAA's separately presented financial statements.

Trustee Akins stated that with the dissolution of UKAA, the external auditors will perform a separate audit of the Department of Intercollegiate Athletics in the future. As part of the transition, Angie Martin, Treasurer, reviewed the unaudited financial statements of the department which consolidated UKAA and other Athletic operations. The Committee accepted the financial statements as presented.

J. Proposed Revision to the Governing Regulation: University Athletics Committee (PR 1)

President Capilouto stated that PR 1 recommended that the Board of Trustees receive and vote to accept for the first reading the revision of Governing Regulation II relating to the University Athletic Committee. The revision increases the threshold amount the Committee must review for capital projects in Athletics from \$400,000 to \$600,000. On a motion made by Trustee Akins, seconded by Trustee Curris, PR 1 passed without dissent. (See PR 1 on the Board of Trustees website, www.uky.edu/Trustees, under agenda.)

K. Honorary Degree Recipients (PR 2)

President Capilouto asked the Board to consider PR 2. Pursuant to the Conditions of Merit for Honorary Degrees, the University Joint Committee on Honorary Degrees has recommended to the elected faculty senators of the University Senate that the specified honorary degrees be awarded to James D. (J.D.) Crowe, David L. Lawless, and Charles L. Shearer. The elected faculty senators approve this recommendation.

Trustee Stuckert moved approval of PR 2. It was seconded by Trustee Mobley and passed without dissent. (See PR 2 on the Board of Trustees website, www.uky.edu/Trustees, under agenda.)

L. Resolution of the Board of Trustees of the University of Kentucky Relating to the Refunding of Bonds heretofore Issued in Accordance with a Lease Agreement among the University, the Kentucky Asset/Liability Commission, the Finance and Administration Cabinet of the Commonwealth of Kentucky and the State Property and Buildings Commission of the Commonwealth of Kentucky (FCR1)

Trustee Stuckert, chair of the Finance Committee, stated that the FCR 1 concerned the refunding of several bonds from 1998 and 2002. On behalf of the Finance Committee, he moved adoption of FCR 1 and it passed without dissent. (See FCR 1 on the Board of Trustees website, www.uky.edu/Trustees, under agenda.)

M. Acceptance of Audit Report and the Report on Internal Control for the University of Kentucky for FY 2011-12 (FCR 2)

Trustee Stuckert stated that FCR 2 involved the acceptance of the audit report and the report on the internal control for the University of Kentucky for the fiscal year 2011-12. He reminded the Board that all FCRs were fully vetted at the Finance Committee meeting that met prior to the Board meeting.

On behalf of the Finance Committee, Trustee Stuckert moved approval of FCR 2. Dr. Brockman opened the floor for discussion.

Trustee Voro stated she would abstain from the vote due to her confusion regarding BKD's non-audit of KMSF and their non-opinion on the Management's Discussion and Analysis portion of the financial statement. She also asked the cost of the external audit and if an audit of UK's management had been performed in recent years.

Trustee Stuckert stated that the cost of the external audit is \$336,000.

With no further discussion, the vote was 16 affirmative votes with one abstention from Trustee Voro. (See FCR 2 on the Board of Trustees website, www.uky.edu/Trustees, under agenda.)

N. Authorization of Lease for Phase II-A Housing and Amendment for Phase I Ground Lease (FCR 3)

Trustee Stuckert stated that FCR 3 involved the authorization of the lease for Phase II-A Student Housing and Amendment for Phase I Ground Lease. He reported that Treasurer Angie Martin and Vice President Bob Wiseman gave a comprehensive report at the Finance Committee meeting regarding these two items.

On behalf of the Finance Committee, Trustee Stuckert moved approval of FCR 3 and it passed without dissent. (See FCR 3 on the Board of Trustees website, www.uky.edu/Trustees, under agenda.)

O. Approval of Lease (FCR 4)

Trustee Stuckert stated that FCR 4 involved the approval of a lease with Royal Lexington Apartments in the amount of approximately \$2.2 million for 364 beds effective August 1, 2013 through June 30, 2014. This proposed lease will be funded from housing revenues.

On behalf of the Finance Committee, Trustee Stuckert moved approval of FCR 4 and it passed without dissent. (See FCR 4 on the Board of Trustees website, www.uky.edu/Trustees, under agenda.)

P. Other Business

Trustee Curris congratulated the cast and crew, the College of Fine Arts and former Board of Trustees member Everett McCorvey for the *Phantom of the Opera* performance. Trustee Young and President Capilouto also added their compliments.

Trustee Voro drew the Board's attention to the memorandum from Senate Council Chair Lee X. Blonder. She reported that there had been two faculty forums to discuss the second round of budget cuts. She reminded the Board that President Capilouto would address the University Senate on October 22nd.

Trustee Young asked Trustee Voro what percentage of faculty attended or responded to the forums. A discussion followed regarding the faculty's concern of the current budget situation. Dr. Blonder and Trustee John Wilson both summarized that the faculty are very concerned and look forward to the continued dialogue with President Capilouto regarding this important issue.

Q. Meeting Adjourned

Hearing no further business, Chair Brockman adjourned the meeting at 2:02 p.m.

Respectfully submitted,



Sheila Brothers,
Secretary

(CR 1, NCR 1 and 2, PR 1 and 2, FCR 1, 2, 3 and 4 are official parts of the Minutes of the meeting.)

CR 1

Chairman, Board of Trustees
October 14, 2012

Members, Board of Trustees:

PROPOSED GUIDING PRINCIPLES FOR THE PRESIDENT AND THE CAMPUS

Recommendation: that the President in recognition of the rapidly changing environment of higher education, and in consultation with University constituents, focus the University's efforts on:

- Continuing emphasis on **undergraduate education** and **infrastructure** (campus core); and
- Strengthening mechanisms for faculty and staff **recruitment, rewards** and **retention**; and
- Conducting an assessment of what constitutes a strong environment for research, creative scholarship, and graduate and professional education; and
- Continuing the development and introduction of the **values-based financial model** that aligns revenues and expenses to meet the University's mission, and ensure that **individual units develop strategic plans** in alignment with the University's overall strategic planning process; and
- Developing a plan for implementing innovative, **technology-rich content delivery** to address needs in a constantly changing learning environment; and
- Continuing to develop a **master plan** that creates a 21st century living and learning environment and is sensitive to community concerns.

Action taken: Approved Disapproved Other _____

NCR 1

Office of the President
October 14, 2012

Members, Board of Trustees:

REAPPOINTMENT OF BOARD OF DIRECTOR
UNIVERSITY OF KENTUCKY MINING ENGINEERING FOUNDATION, INC.

Recommendation: that the Board of Trustees approve the reappointment of Mr. James W. Stuckert as a Trustee member to the University of Kentucky Mining Engineering Foundation, Inc. Board of Directors for a two-year term ending September 30, 2014.

Background: In accordance with the Bylaws of the University of Kentucky Mining Engineering Foundation, Inc., two members shall be from the Board of Trustees, and those appointments shall be approved by the Board of Trustees. The term shall be for two years. Trustee appointments to affiliated boards must be approved by the Nominating Committee before submission to the Board.

Action taken: Approved Disapproved Other _____

NCR 2

Office of the President
October 14, 2012

Members, Board of Trustees:

APPOINTMENT OF TRUSTEE TO THE UNIVERSITY OF KENTUCKY
RESEARCH FOUNDATION BOARD OF DIRECTORS

Recommendation: that the Board of Trustees approve the appointment of Mr. Mark P. Bryant as a Trustee member to the University of Kentucky Research Foundation (UKRF) Board of Directors for a term ending September 30, 2015.

Background: In accordance with the Bylaws of the University of Kentucky Research Foundation, two members shall be from the Board of Trustees. The term shall be for three years. Trustee appointments to affiliated boards must be approved by the Nominating Committee before submission to the Board. Mr. Bryant is replacing former Board member Mr. Erwin Roberts whose term on the Board of Trustees had expired on June 30, 2012.

Action taken: Approved Disapproved Other _____

PR 1

Office of the President
October 14, 2012

Members, Board of Trustees:

PROPOSED REVISION TO GOVERNING REGULATION:
UNIVERSITY ATHLETICS COMMITTEE

Recommendation: that the Board of Trustees receive and vote to accept for the first reading the attached revision of Governing Regulation (GR) II, relating to the University Athletics Committee. The revision increases the threshold amount the Committee must review for capital projects in Athletics from \$400,000 to \$600,000.

Background: When the University Athletics Committee of the Board was established in 2011, it was charged with reviewing capital construction projects if the cost is expected to exceed \$400,000. The proposed revision increases this amount to \$600,000 to be consistent with the amount the Board's Finance Committee reviews for capital projects, and also with state laws regarding capital projects that must have legislative authorization.

A revised copy of the relevant section of GR II is attached. Proposed additions are underlined; proposed deletions are lined through.

At the time of the printing of the agenda book, the proposed revision is being circulated to the following constituencies: the University Senate, the Staff Senate and the Student Government Association.

Action taken: Approved Disapproved Other _____



UNIVERSITY OF
KENTUCKY
Regulations

Governing Regulation, Part II

Responsible Office: Board of Trustees

Effective: ~~Draft~~6/19/2012

Supersedes Version: ~~6/19/2012~~
12/13/2011

Governance of the University of Kentucky

Major Topics

- A. Introduction
- B. Board of Trustees - Membership
 - 1. Definition
 - 2. Membership
 - (a) Appointed Members
 - (b) Elected Members
 - (c) Non-voting Members
 - (d) Removal of Members
 - 3. Officers
- C. Meetings of the Board of Trustees
- D. Conflicts of Interest of Board Membership
- E. Standing and Special Committees
 - 1. Standing Committee General Rules
 - 2. Standing Committees
 - (a) Executive Committee
 - (b) Academic Affairs Committee
 - (c) Finance Committee and Audit Subcommittee
 - (d) Human Resources Committee
 - (e) Investment Committee
 - (f) Nominating Committee
 - (g) Student Affairs Committee
 - (h) University Athletics Committee
 - (i) University Health Care Committee
 - (j) University Relations Committee
 - 3. Special Committees
- F. Powers and Responsibilities of the Board of Trustees

programs of the University and its affiliated corporations. These responsibilities include: formulating and reviewing investment policies; appointing, monitoring and evaluating investment managers and consultants; and reviewing and approving plans for the general management of the endowment funds of the University.

In addition to the Trustee members, the Investment Committee may, from time to time, have the Chair of the Board of Trustees appoint, upon recommendation of the University President, non-voting Community Advisory Members to assist it in its functions by providing specialized advice and support. Said Community Advisory Members shall be selected on the basis of their expertise in such areas as investment management and finance. The appointments of Community Advisory members to the Investment Committee shall be for three years and may be reappointed for an unlimited number of three year terms. The maximum number of Community Advisory members authorized at any one time shall be three (3).

The Investment Committee Chair reports to the Board of Trustees after each meeting of the committee on the performance results of endowment investments. Policies of the committee are implemented by the Office of the Treasurer in carrying out the day-to-day operations of the University's endowment funds.

(f) Nominating Committee

This committee:

- (i) Nominates officers of the Board of Trustees and members of the Executive Committee; and
- (ii) Reviews and recommends the appointment of trustees to the boards and committees of the University and its affiliated entities.

(g) Student Affairs Committee

This committee reviews:

- (i) Recommendations regarding revisions of the Code of Student Conduct; and
- (ii) Recommendations concerning the general welfare of students and the adoption of rules, procedures, rights, and responsibilities governing non-academic relationships between the University and its students.

(h) University Athletics Committee

The NCAA requires a member institution's chief executive officer to have ultimate responsibility and final authority for the conduct of the intercollegiate athletics program. In addition, the Southern Association of Colleges and Schools (SACS) requires an institution's chief executive officer to have ultimate responsibility for, and exercise appropriate administrative and fiscal control over, the intercollegiate athletics program.

To assist the President in carrying out this responsibility, the Athletics Committee is responsible for:

- (i) Providing counsel to the President concerning matters or activities of the Athletics Department;
- (ii) Reviewing the Athletics Department's annual budget and audit reports, major expenditures and acquisitions, and construction of facilities if the cost is expected to exceed \$~~400,000~~600,000; and
- (iii) Providing needed information to the Board of Trustees.

PR 2

Office of the President
October 14, 2012

Members, Board of Trustees:

HONORARY DEGREE RECIPIENTS

Recommendation: that the Board of Trustees approve awarding the degree of Honorary Doctor of Arts to James Dee (“J.D.”) Crowe and an Honorary Doctor of Letters to David L. Lollis and an Honorary Doctor of Letters to Charles L. Shearer as approved and recommended by the University Faculty.

Background: Pursuant to the Conditions of Merit for Honorary Degrees, the University Joint Committee on Honorary Degrees has recommended to the elected Faculty Senators that the specified honorary degree be awarded to James Dee (“J.D.”) Crowe, David L. Lollis, and Charles L. Shearer. The elected Faculty Senators have approved the recommendation.

Biographical sketches of the recipients are attached.

Action taken: Approved Disapproved Other _____

James Dee ("J.D.") Crowe - Honorary Doctorate Citation - 2012

James Dee ("J.D.") Crowe, a native of Lexington and resident of Nicholasville, Kentucky began playing the banjo when he was 12 years old and was informally apprenticed to the late bluegrass music great, Earl Scruggs. In the mid 1950's, he was offered a job with Jimmy Martin's Sunny Mountain Boys while still in his teens.

In the late 1960's, Crowe formed the Kentucky Mountain Boys, principally performing in Central Kentucky and other areas of the commonwealth. By the early 1970's, J.D. changed the band's name to The New South and included material from rock and country music sources. Many important musicians have been a part of the band over the years, including Ricky Skaggs, Keith Whitley, Tony Rice, Jerry Douglas, and Doyle Lawson. After recording more than a dozen albums and having played literally all over the United States and in numerous foreign countries, Crowe is universally recognized as a great ambassador for Kentucky, and for bluegrass music. Inducted into the International Bluegrass Music Association's Hall of Fame in 2003, he is also a recipient of the Kentucky Governor's Award in the Arts for his contributions to the state's folk heritage.

The subject of a book-length biography and a 90-minute television tribute in recent years, Crowe is acclaimed for exemplifying the highest ideals of artistic creativity and musical innovation over a career that spans more than half a century.

This banjoist and bandleader's sense of service to the University of Kentucky is real and demonstrable. J.D. is revered as a teacher, and not only by other musicians privileged to join his band. When asked by UK faculty, he has freely and repeatedly donated his time to appear in English and music classes where students learn about Appalachian music and bluegrass music, as well as Kentucky and southern culture and history. Crowe humbly, yet readily shares with these students an abundance of detailed information and the unique perspective of a master artist.

This native son of the commonwealth has helped immeasurably to expand the audience for bluegrass music, Kentucky's enduring musical gift to the world. For all of his accomplishments, James Dee ("J.D.") Crowe is recommended for an honorary Doctor of Arts degree from the University of Kentucky.

David L. Lollis - Honorary Doctorate Citation - 2012

David L. Lollis is the past president of Appalbanc and is the past president of the Federation of Appalachian Housing Enterprises (FAHE). Appalbanc is an award-winning Community Development Financial Institution (CDFI) whose primary mission is to promote individual and community development in rural central Appalachia through the financial products developed by the Human/Economic Appalachian Development Corporation (HEAD), the Federation of Appalachian Housing Enterprises, Inc. (FAHE), and the Appalachian Federal Credit Union (AFCU).

As president of FAHE, Lollis was responsible for the Federation's programs. He has an extensive background in administration and management, much of which has been in housing programs. David has worked for over 40 years in both the public and private sectors.

His federal government experience includes positions in the Commerce Department's Office of Business Economics; in the Labor Department's Employment and Training Administration; and in the Office of Economic Opportunity/Community Services Administration.

At the state government level Lollis served in the Kentucky Governor's Office, the Office of Policy and Management, and the Office of the Secretary of the Department for Human Resources. He was elected Chair of the Appalachian Advisory Council and was appointed by the Governor as a Commissioner of the Kentucky Appalachian Commission.

At the annual Kentucky Governor's Housing Conference in 1992, David was presented the Dorothy J. Williams' Lifetime Achievement Award for his contribution for conceptualizing and directing quality housing programs in Kentucky.

Besides his distinguished record of community and government service, Lollis directed the Mount Beulah Center in Edwards, Mississippi under the auspices of the Christian Church. In this role, he was a tireless advocate for civil rights. David also worked as an associate professor at New York University in their Center for the Study of the Unemployed.

In retirement, he continues to serve on a number of national, regional, and local boards, and serves as a consultant on various projects. For all of his accomplishments, David L. Lollis is recommended for an honorary Doctor of Letters degree from the University of Kentucky.

Charles L. Shearer - Honorary Doctorate Citation - 2012

Charles L. Shearer, a native of Louisville, earned a bachelor of science degree in accounting, followed by a master's in diplomacy and international commerce, both from the University of Kentucky.

Intrigued by his first teaching assignment in higher education as an instructor at UK's Henderson Community College in the late 1960's, Shearer went on to pursue further graduate study, attaining his Ph.D. in economics from Michigan State University. Following additional teaching and administrative assignments, first at Michigan State, then at Albion College, Charles was named Vice President for Finance at Transylvania University in Lexington in 1979.

He was selected as president of Transylvania in 1983, beginning what would become a long and distinguished tenure at the helm of the 16th oldest college in the United States. During Shearer's 27 years at Transy's helm, the institution's student enrollment grew by more than 75 percent, with corresponding growth in the number of faculty members and majors offered. Fund-raising, together with financial aid and scholarship programs, increased exponentially under his leadership. Transylvania reached a number-12 ranking among national liberal arts colleges for its alumni participation rate. Ratings for the university's academic quality attained unprecedented heights. The school's endowment grew to an all-time high. The Bingham Program for Excellence in Teaching was established to reward outstanding faculty members. A number of state-of-the-art academic buildings, a new campus center, new residence hall construction, and greatly-improved facilities for athletics and recreation were added during Charles' nearly three decades as the university's top officer.

One of the most important initiatives in the area of athletics during Charles' tenure was the move from the scholarship-based National Association of Intercollegiate Athletics (N-A-I-A) to the non-scholarship Division Three of the National Collegiate Athletic Association (N-C-A-A). This placed Transy among its peer institutions, with a dedication to the student-athlete ideal in the context of the overall academic and social purposes of the university.

In the community, President Shearer instituted the First-year Urban Program where freshman students actively participate in service projects. Other student service initiatives begun under his direction include Alternative Spring Break, Jump-Start, and an annual holiday party for children of the Big Brothers/Big Sisters of the Bluegrass.

Charles' service on the boards of countless organizations, his selection as a recipient of numerous local, state, and national awards, and his principled leadership as a champion of intellectual rigor and academic freedom - For all of his accomplishments, Charles L. Shearer is recommended for an honorary Doctor of Letters degree from the University of Kentucky.

FCR 1

Office of the President
October 14, 2012

Members, Board of Trustees:

RESOLUTION OF THE BOARD OF TRUSTEES OF THE UNIVERSITY OF KENTUCKY RELATING TO THE REFUNDING OF BONDS HERETOFORE ISSUED IN ACCORDANCE WITH A LEASE AGREEMENT AMONG THE UNIVERSITY, THE KENTUCKY ASSET/LIABILITY COMMISSION, THE FINANCE AND ADMINISTRATION CABINET OF THE COMMONWEALTH OF KENTUCKY AND THE STATE PROPERTY AND BUILDINGS COMMISSION OF THE COMMONWEALTH OF KENTUCKY

Recommendation: That the Board of Trustees adopt the Resolution attached hereto authorizing the execution and delivery of such agreements, certificates and instruments that may be necessary or appropriate for the refunding of outstanding Agency Fund Revenue and Revenue Refunding Bonds, Project No. 80, Series A (the "Prior Bonds") of State Property And Buildings Commission (the "Commission").

Background: The Prior Bonds were issued to finance the Center for Rural Health and the Commonwealth Stadium Expansion projects under Financing/Lease Agreements dated as of August 1, 1998 and June 26, 2002, respectively (the "Leases") among the University, the Commission, the Kentucky Asset/Liability Commission and the Finance and Administration Cabinet. The Prior Bonds can be refunded to achieve debt service savings. This Resolution authorizes the delivery of any agreements, certificates and instruments of the University that may be required for the refunding of the Prior Bonds by the Commission.

Action taken: Approved Disapproved Other_____

RESOLUTION OF THE BOARD OF TRUSTEES OF THE UNIVERSITY OF KENTUCKY RELATING TO THE REFUNDING OF BONDS HERETOFORE ISSUED IN ACCORDANCE WITH A LEASE AGREEMENT AMONG THE UNIVERSITY, THE KENTUCKY ASSET/LIABILITY COMMISSION, THE FINANCE AND ADMINISTRATION CABINET OF THE COMMONWEALTH OF KENTUCKY AND THE STATE PROPERTY AND BUILDINGS COMMISSION OF THE COMMONWEALTH OF KENTUCKY

WHEREAS the University of Kentucky has heretofore entered into a Financing/Lease Agreement dated as of August 1, 1998, with the Kentucky Asset/Liability Commission ("ALCO"), the State Property And Buildings Commission of the Commonwealth of Kentucky (the "Commission") and the Finance and Administration Cabinet of the Commonwealth of Kentucky (the "Cabinet") related to the Commonwealth Stadium Expansion (the "1998 Lease"), and a Financing/Lease Agreement dated as of June 26, 2002, with ALCO, the Commission and the Cabinet related to the Center for Rural Health (the "2002 Lease" and together with the "1998 Lease," the "Leases"); and

WHEREAS, the Commission has, in accordance with the Leases, previously issued and there are outstanding the Commission's Agency Fund Revenue and Revenue Refunding Bonds, Project No. 80, Series A (the "Prior Bonds"); and

WHEREAS, the Commission intends, in cooperation with the University, to issue revenue bonds (the "Bonds") for the purpose of refunding the Prior Bonds which Bonds will constitute Related Bonds, as defined in the 1998 Lease, and Bonds, as defined in the 2002 Lease, the principal of and interest on which will be payable under the Lease as the Debt Servicing Obligation, as defined in the respective Lease; and

NOW THEREFORE, it is hereby resolved and ordered by the Board of Trustees of the University of Kentucky as follows:

Section 1. Determinations. This Board of Trustees hereby finds and determines that the facts set forth in the recitals to this Resolution.

Section 2. Authorizations. The Chairman and Treasurer are each hereby authorized to execute, acknowledge and deliver, on behalf of the University, such agreements, certificates and instruments that may be necessary or appropriate, in the opinion of Peck, Shaffer & Williams LLP, as bond counsel for the Commission, in order to effect the refunding of the Prior Bonds and the intent of this Resolution, including, but not limited to, any amendments or supplements to the Leases.

Section 3. Effective Date. This resolution shall take effect immediately upon its adoption.

ADOPTED AND APPROVED this _____ day of October, 2012.

**UNIVERSITY OF KENTUCKY ,
STATE AGENCY**

By: _____
Chairman

CERTIFICATE

It is certified that the foregoing is a true and correct copy of a resolution duly adopted by the Board of Trustees of the University of Kentucky on the ____ day of October, 2012, and such resolution has not been altered, amended or repealed.

IN WITNESS WHEREOF, the undersigned has executed this Certificate this ____ day of _____, 2012.

Secretary

70035vv3

FCR 2

Office of the President
October 14, 2012

Members, Board of Trustees:

ACCEPTANCE OF AUDIT REPORT
AND THE REPORT ON INTERNAL CONTROL
FOR THE UNIVERSITY OF KENTUCKY FOR FY 2011-12

Recommendation: that the Board of Trustees accept (1) the University of Kentucky audited financial statements for the fiscal year ended June 30, 2012, consisting of the Statements of Net Assets; Statements of Revenues, Expenses and Changes in Net Assets; Statements of Cash Flows; Notes to Financial Statements; and Management’s Discussion and Analysis; and (2) the Independent Auditor's Report on Internal Control Based on the Audit of Financial Statements.

Background: The financial statements for the year ended June 30, 2012 have been audited by BKD LLP, Certified Public Accountants. The financial statements were prepared in accordance with Governmental Accounting Standards Board (“GASB”) Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities*, which focuses on the financial condition, results of operations, and cash flows of the University as a whole, with resources classified for accounting and reporting purposes into four net asset categories: invested in capital assets (net of related debt), restricted-nonexpendable, restricted-expendable, and unrestricted. The Audit Subcommittee has reviewed the financial statements and the auditor’s report.

The financial statements of the University include its operations, the UK HealthCare Hospital System (an organizational unit of the University), the University’s for-profit subsidiary (Kentucky Healthcare Enterprise, Inc.), and its affiliated non-profit corporations [i.e. entities for which the University is financially accountable as defined by GASB Statement No. 14 and amended by GASB Statement No. 39 which meet the definition of an affiliated corporation under Kentucky Revised Statute (KRS) section 164A.550]:

- The University of Kentucky Research Foundation and its for-profit subsidiaries (Kentucky Technology, Inc. and Coldstream Laboratories, Inc.);
- The Fund for Advancement of Education and Research in the University of Kentucky Medical Center;
- University of Kentucky Athletic Association;
- Central Kentucky Management Services, Inc.;
- University of Kentucky Mining Engineering Foundation, Inc.;
- University of Kentucky Gluck Equine Research Foundation, Inc.;

- University of Kentucky Humanities Foundation, Inc.; and
- University of Kentucky Center on Aging Foundation, Inc.

The financial statements also include the operations of Kentucky Medical Services Foundation, Inc. (KMSF), a non-profit entity for which the University is financially accountable as defined by GASB, but which is not an affiliated corporation under the KRS.

The financial statements and the independent auditor's report have been provided separately. The documents may be viewed at:

<http://www.uky.edu/EVPFA/Controller/Docs/2012UniversityofKentuckyConsolidatedFinancialStatements.pdf>

Action taken: Approved Disapproved Other _____

FCR 3

Office of the President
October 14, 2012

Members, Board of Trustees:

AUTHORIZATION OF LEASE FOR PHASE II-A STUDENT HOUSING
AND
AMENDMENT FOR PHASE I GROUND LEASE

Recommendations: that the Board of Trustees authorize the President, or his designee, to:

1. Enter into long-term leases with an affiliate of Education Realty Trust, Inc. (“EdR”) guaranteed by Education Realty Operating Partnership, LP for purposes of development and management of Phase II-A of the student housing project.
2. Amend the long-term ground lease with EdR for the Phase I student housing project. The amendments include: (1) removal of demolition costs in the amount of \$518,000; (2) removal of university project reimbursement of \$50,000; and (3) reduce the fall 2013 rental rate from \$3,490 to \$3,325.

Background: At the Board of Trustees retreat on October 1 and 2, 2011, the Board identified the need to expand and improve student housing facilities as a primary strategic priority. On October 26, 2011, the University issued a Request for Proposal seeking developers with the capacity and interest in partnering with the University to complete a long-term housing plan. On December 13, 2011, the University announced that it would negotiate with EdR, a third-party developer, to improve, expand, and potentially manage student housing beginning with Phase I to construct two new buildings on Haggin Field. The authorized Phase I project is under construction by EdR with 601 beds scheduled to house University of Kentucky students in August 2013.

The University’s housing stock currently includes 5,154 undergraduate beds and 816 efficiency, one- and two-bedroom apartments for graduate students and family housing. The average age of the residence halls and apartments is 45 years and 49 years, respectively. On-campus land is limited; thus, incremental replacement of undergraduate housing is essential.

The public private partnership (P3) strategy is appropriate for UK given the advanced age of the student housing stock and the University’s desire to modernize and expand it quickly while reserving debt capacity for other capital projects. EdR will provide a 100 percent equity investment in UK’s student housing. The University will continue to provide the Residence Life programs.

EdR is a publicly traded real estate investment trust headquartered in Memphis, Tennessee, with more than 50 years of student housing experience. Since 2000, EdR has completed more than \$2.3 billion in collegiate housing transactions, including investing \$1.3 billion in private equity. EdR currently owns or manages 65 student housing properties with approximately 36,100 beds in 24 states, including four facilities at the University of Louisville.

Phase II-A includes the development of five residence halls with a total of 2,317 undergraduate beds at four sites: Blazer parking lot, Wildcat Lodge, Cooperstown Buildings D and E, and Haggin Hall. The five new residence halls included in Phase II-A are expected to come on-line by August 2014. Phase II-A represents the second step in the transformation of student housing. The total development is anticipated to include up to 9,000 replacement and expansion beds and be completed by Fall 2018.

Phase II-A will include four leases to EdR for a term of 75 years and include maintenance standards for the facilities and parameters for the room rental rates for the duration. In addition to receiving funds to provide Residence Life programs, the University will receive a percentage of gross revenues and a share of net income (after EdR achieves a minimum internal rate of return).

The Phase I ground lease is also requested to be amended to reflect a decrease in the rental rate due to an anticipated reduction in expenses and development costs. The University will initiate the asbestos abatement, demolition, and disposal of the following buildings for the purposes of site development for Phase II-A: Cooperstown Building D, Cooperstown Building E, Wildcat Lodge, Haggin Hall, and K-Lair.

A summary of the terms and a draft of the leases will be available prior to the Board meeting at http://www.uky.edu/Housing/facilities_documents.html. The draft agreements may be modified prior to execution, if necessary. Any substantive modifications will be reported to the Board. If the Board authorizes the President to enter into these long-term leases, an affiliation agreement between the University and EdR outlining how the housing facilities would be operated and maintained will also be executed.

Action taken: Approved Disapproved Other _____

FCR 4

Office of the President
October 14, 2012

Members, Board of Trustees:

APPROVAL OF LEASE

Recommendation: that the Vice President for Financial Operations and Treasurer be authorized to negotiate and execute a lease between the University of Kentucky and Royal Lexington Apartments, 695 Winnie Street, Lexington, Kentucky, for space located at 695 Winnie Street, Lexington, Kentucky.

Background: At its October 10, 2006 meeting, the Board of Trustees amended governing Regulation II.A.6(g), requiring that all leases in excess of \$200,000 be approved by the Board of Trustees. The President or his designated representative is authorized to enter into leases and easements not exceeding \$200,000 in value.

The University is experiencing a significant increase in undergraduate enrollment. The fall 2012 entering class exceeds 4,600 students, an increase of almost 500 students over the prior fall semester. The fall 2013 entering class is expected to be even larger. The increased enrollment is causing a surge in demand for on-campus housing.

On December 13, 2011, the University announced that it would negotiate with EdR, a third-party developer, to improve, expand, and potentially manage student housing beginning with Phase I to construct two new buildings on Haggin Field. The authorized Phase I project is under construction by EdR with 601 beds scheduled to house University of Kentucky students in August 2013. The University is currently in negotiations with EdR for the development and management of Phase II-A. This next phase will involve the demolition of older housing stock. The University's housing stock will not materially increase until fall 2014.

Given the increase in enrollment and the timing of the housing project, it is recommended that the University enter into a lease to provide additional student housing. The proposed lease is for 364 beds in 3-bedroom and 4-bedroom apartments effective August 1, 2013 through June 30, 2014 at a cost of \$2,208,180. The proposed lease will be funded from housing revenues.

Kentucky Revised Statute §48.111 requires legislative authorization of all leases with an annual cost of \$200,000 or more. This lease is authorized in the enacted 2012-14 Executive Budget. Contingent upon the Board of Trustees' approval, the lease will be reported to the Capital Projects and Bond Oversight Committee.

Action taken: Approved Disapproved Other _____