The Advancement and Public Affairs Committee of the Board of Trustees of The University of Tennessee met at 11:00 a.m. (eastern time) on June 16, 2009 in the West Wing, 4th Floor of the Haslam Business Building Campus of the University of Tennessee, Knoxville in Knoxville, Tennessee.

I. CALL TO ORDER

Mr. George Cates, Chair of the Committee called the meeting to order and welcomed everyone to the meeting.

II. ROLL CALL

The Chair called the roll of Committee members. Those present were:

- Mr. George Cates, Chair
- Mr. Charles Anderson
- Ms. Monice Moore Hagler
- Mr. James Murphy
- Dr. Jan Simek
- Mr. Karl Schledwitz
- Mr. Charles Wharton

III. APPROVAL OF MINUTES OF LAST MEETING

The Chair referred the Committee to the minutes from the February 18, 2009 meeting of the committee. A motion to approve the minutes was duly made, seconded and unanimously approved.

IV. OPENING REMARKS BY COMMITTEE CHAIR

Mr. Cates began the meeting with a few comments. Much has been said about waning State support in the current recession; he referred all to page 3 of the budget document, a graphic depiction of the long slide in State support as a proportion of UT revenues. While still the largest single source of funds for the University, the trend line is down for the long term, and showing no promise of reversal in the predictable future. This is the same trend as at virtually all other statue universities, as well. While the State will continue as our primary partner – it is in the interest of both the State and the University that this remain so – we must deal with the reality that its proportion of our total support will continually decrease. Tuition, auxiliary services, research – all are significant and important sources of revenue, and each is to be supported vigorously. However, none shows the hope or the promise of being able to replace the diminishing State support.

Mr. Cates pointed to the nurture and substantial increase in the school’s development effort as the only realistic answer to the current and future funding needs. Only the vigorous increase in giving from private, corporate, and foundation resources can fill the funding gap – and add greatly to the overall revenues and, over time, provide the financial resources for material growth in the University. Other state schools have followed this path very successfully over the past several decades, and UT must do the same. The gigantic first
step – closing in on a successful billion dollar campaign – is hugely encouraging, and must become the pattern for the future. To make that happen, we must quickly find ways to greatly increase the size of our very effective development department. Each development associate adds a large multiple of their costs in direct, new revenues to the University. We cannot afford to postpone the addition of many, many more development people if we are to begin, now, to fill the large and growing gap between current funding and the school’s needs. Toward that specific strategic objective, Mr. Cates asked Charles Wharton, Chair of the Foundations Study Committee, to provide an update on that committee’s crucially important work.

Mr. Wharton gave a full report at the last board meeting. Since that time, he and Henry Nemcik have continued to meet with stakeholders. They have met several times with colleagues in Nashville, the state comptroller and the director of state audit to ensure all are in agreement in how we will approach this. Mr. Wharton and Henry have had about 40-50 meetings across the state and are continuing to solicit feedback. At this time, the Committee’s goals have remained unchanged which are to develop best practices so that over the years private funding can help make up the state funding gap. It is a daunting task so the Committee is making sure to get it right the first time hence, Mr. Wharton and Mr. Nemcik are taking a lot of time to meet with everyone who has an interest. These meetings will continue and sometime within the next 6-9 months the Committee will be able to get started.

V. UPDATE ON FEDERAL, STATE, AND MEDIA RELATIONS

Hank Dye, Vice President for Public and Government Relations, was not present for this meeting. He was in Nashville preparing for the legislative session to end. Dr. Jan Simek, Interim President, provided an update on state relations. Dr. Simek stated that this has been one of the most challenging legislative sessions from the University of Tennessee’s perspective in Government Relations in a very long time. It stems from budget problems at the state level and continuing declines in revenues. The legislature and the Governor’s office attempt to deal with those issues. The University of Tennessee is very engaged and a lot of time has been spent in Nashville as required and needed in order to answer questions and provide information to legislators in efforts to come to terms with the needs of the university.

One of the biggest issues is reorganization in higher education. We believe very strongly that the University of Tennessee today is the best it’s ever been. We have the best students, faculty and the institution is in an upward trajectory despite budget difficulties. Dr. Simek is confident that we can continue that upward trajectory through these budget difficulties. We have been successful in defeating several legislative initiatives that could have been detrimental to the university. The Governor and a select group interested in higher education will have a rational conversation about how best to organize. The University of Tennessee and the Tennessee Board of Regents system have put together a task force that includes academic and administrative leadership from both of those units that are talking about the delivery of higher education and how we might define our roles more clearly so that each element in higher education has a clear mission and goal with as little overlap as possible, so we are efficiently using resources that are available to us. Chair of the Board, Mr. Jim Murphy, agreed that nothing is going to happen between now and when the legislative session ends. The Governor wants to study between now and January 1, 2010 what positive steps can be taken in this area with no preconceived notion as to what those are. There is a good degree of unanimity that that is the approach that needs to be taken. Change for change is not what we’re after, everyone involved wants to improve higher education in the state of Tennessee.
The second aspect of concern is capital projects and ongoing budget negotiations in Nashville. That has been the focus for the last few weeks. Critical capital programs that are already funded came in to jeopardy. Dr. Simek then shared an e-mail from Hank that set the present situation in Nashville.

- This has been the busiest session from UT’s standpoint in a long time.
- There were 20 bills and resolutions that directly affected UT, compared to a normal flow of six or eight. Fortunately, all of them have either gone our way, or we were able to postpone or neutralize them.
- The Senate and the House Committees had passed budget amendments which will now be voted on in both houses. The Senate version has restored a portion of our capital projects, specifically Cherokee Farm, UTC Library and UTK Music Building, plus Solar Institute related projects. The House version restored all UT capital projects, plus the addition of $1 million for the Dental School at UTHSC.
- The process will begin in an effort to reach sufficient compromise to craft a joint bill that both houses can agree to vote on.

Mr. Dye closed his e-mail by thanking the group for the support the university has received. Dr. Simek commented that the success of this process goes to Hank and especially Anthony Haynes, Associate Vice President and Director of State Relations, in the job they’ve done in Nashville.

Trustee Don Stansberry asked what capital projects are still missing from the Senate bill. The only ones in the Senate bill at present are Cherokee Farm, UTC Library and UTK Music Building. Not a part of the Senate bill is the Dental Building, Estabrook Hall and UT Martin renovations. The Veterinary school is not part of this process. A funding source has been found for that, but we still have to go through the process of approval from the State Building Commission. Trustee Karl Schledwitz asked what that funding source is. Dr. Simek replied that we are going to try to redirect the Governors Chair program. The way it is geared up has allowed us to put some one time money away since we don’t have all of the positions filled. We plan on taking some of that and put it towards the Veterinary school. There are also some funds that will be freed up in auxiliary accounts if it is approved. The college itself also has some access to stimulus funds that they will put towards it. A bare minimum of $17 million is needed to make substantial renovations and achieve accreditation.

V1. REPORT BY CHAIR OF THE DEVELOPMENT COUNCIL

Mr. Jim Powell, Chair of the UT Development Council reported on the activities of the Development Council. The past meeting was at UT Martin. The Council toured some of the research classrooms on the campus and then on Friday night, the Council attended an event hosted by the Kirklands at their home. It was a very successful meeting. The steel drums group at UTM needs $25,000 to purchase their own drums. Their current drums are on loan from the University of Kentucky. During the meeting, $5,500 was raised towards this purchase. The events ended with the UTM Rodeo on Saturday night.

The spring meeting will be held in Memphis. This will be a pay as you go meeting. By this fall, the Council will be able to have some sort of an auxiliary group. If you are on the Council and have rotated off, you will be invited to all meetings. The key is to keep former Council members involved.

Suzy Garner, Director of Development gave a report of the activities of the UT Alliance of Woman Philanthropists. The mission of this group is to encourage, inspire and educate women to be philanthropic leaders at the University of Tennessee. They had their spring
board meeting in April. It focused on preparation of the spring symposium, grants and
election of new leadership. The new chair of this group is Sandie Fancher who is a
pharmacy graduate from the UTHSC and will be leading this group for the next two years.
In addition, with the first symposium on April 25, all general members of the alliance were
invited (included all women who have given $25,000 or more to any unit at the university).
Around 100 were in attendance with a great deal of enthusiasm. The focus seems to be on
volunteerism leadership. Susan Packer was the keynote speaker. She is co-founder of
HGTV. For those of you who missed this event, the alliance partnered with athletics for
Lane Kiffin’s Football Clinic for Women, just fewer than 250 women attended and there
were rave reviews. It was a great event to do engage women donors and to personally
recognize them for what they have done for the university. One of the items the Board
focused on at the April meeting was the Annual Giving Circle. In addition to covering their
meeting costs and their campaign gifts, these women make an annual contribution of
$3,500 each year in which they fund a grant. They open up a request for proposals to each
campus and institute. This is the second year and it is a very exciting process. The
Alliance received a total of 18 grants. The total funding requested was $275,390.
Unfortunately, the Alliance was not able to award all applications. The total funding for
2009 was $48,375 that was split four ways: (1) two grants for UTC for graduate school and
school of nursing; (2) the Institute of Agriculture (for their garden project); and (3) the
College of Veterinary Medicine received $18,000 to develop non-surgical pet
contraceptives. You name it, the grants cover it. The most important aspect is to see why
the Alliance chose to fund these programs. The purpose of the grants are to provide seed
funding for new innovative programs or to help students, faculty, and staff to enhance or
make changes to establish programs.

Mr. Powell also reported that the Development Council and Women’s Alliance will meet
jointly October 1-3 on the Knoxville campus. Each member of these groups makes an
annual gift to cover the costs of the meetings so both groups continue to be self supporting.
Development Council members pay $1,000 annually and the Women’s Alliance members
pay $3,500 per year.

VII. REPORT BY PRESIDENT OF THE NATIONAL ALUMNI ASSOCIATION

Mr. Ford Little, president of the UTAA gave a report of the Association on behalf of over
315,000 members. In his role as president, he has been given the opportunity to see
firsthand the many serious issues facing his Alma matter. He continues to appreciate the
time and talent each of the Board is devoting to address the challenges before the
university.

When times are tough, it is important to reach out to constituents to keep them informed
and engaged, not only about the challenges, but to remind them of the good things as well.
Alumni staff and volunteers throughout the system have worked hard this past year at
“friend-raising” by building relationships with people across the state, nation and the world.
As of June 30, more than 90,000 people will have attended an alumni-sponsored event.
Mr. Little highlighted some other programs that the UTAA is doing to support the university
and its alumni.
In regard to the Annual Giving Program (Annual Fund), the UTAA has partnered with the campuses to raise annual support for academic programs system-wide as well as to generate gifts to support the programs of the Alumni Association.

This year, the UTAA implemented a “dual ask,” meaning the fall was dedicated to generating support for campuses and colleges and the spring focused on an “ask” for the Association. During the year, more than $2.1 million has been raised for these college and campus funds which are an increase of 65% over the previous year.

Dollars contributed during the spring to the Association will again be allocated to support students and faculty during the 2009-10 academic year. At their June meeting the UTAA Board of Governors will recommend these dollars be used to fund $464,000 in scholarships, $77,000 in faculty awards and $49,000 in legislative internships across the four campuses.

The UTAA is also partnering with each campus on a career services project to benefit alumni looking to find or change a job. Funding from the UTAA this next year will allow each campus to subscribe to an online job search network by Employon, which utilizes the latest “spidering” technology to go out to the web and search for a job.

The strategic planning process is very close to getting underway. Bids have been received from prospective consultants and proposals are being reviewed at this time. A contract should be signed by June 30 and the process will begin thereafter.

In just a few weeks, Dan Brown of Brentwood, Tennessee will assume the role as President of the Association. Dan is a good man who cares deeply about the university and the Board will enjoy getting to know and work with him in the year ahead.

As Mr. Little’s term comes to an end, he has been honored to serve as President of the Association. His family has been involved with the university for three generations and will always do anything to assist and promote it. Mr. Little personally thanks Dr. Simek, the chancellors, the staff, Henry Nemcik and the Board of Trustees for the support extended to him during the past year.

VIII. ANNUAL REPORT OF UC FOUNDATION

Bob Lyon, Vice Chancellor for University Advancement and UC Foundation Liaison presented the report of the UC Foundation. Mr. Lyon directed the Committee to the UC Foundation Annual Report for FY 2009 that is located in their Board book. He brings greetings from UC Foundation Chair Jerry Adams.

Finances, Endowments, Gifts
The first six bulleted items are brag points. This does not necessarily tell you how the UC Foundation (UCF) compares to other places. As various metrics are followed, one of the items used is the endowment per full time equivalent enrollment for students. It is an item UCF compares favorably to with almost any other group.

Other items highlighted which are direct results of fundraising are:

- UTC campaign numbers as of May 31, 2009 are $49.2 million. We have just closed 4-5 million in additional gifts that are not UT documented.
- Contributions received thru February 28, 2009 for the current fiscal year equal $3,216,958 which is an increase from this time last year.
• Foundation giving represents only a portion of total giving to UTC since a significant portion of gifts bypass the Foundation and flow directly to the university. Foundation and university cumulative gifts and pledges for fiscal year 2009 thru May 24 total $14,137,973 which is an increase from this time last year.

**Real Estate**
The items listed in this section relate primarily to a student housing project. Campus Development Foundation, Inc., a subsidiary of the UF Foundation, owns Probasco South Campus, a 1,645 bed student housing complex.

Mr. Lyon did want to make the Board aware of a lawsuit between Place Collegiate Development as developer of the project which has resulted in lien of nearly $3,000,000 against part of Probasco South Campus housing. In essence, the UC Foundation paid a developer but the developer did not pay the contractor. In court, there was a judgment against the developer but in the process, there is a lean against the property that certainly affects the UC Foundation. There is no lean against the UC Foundation.

**Investment Activity**
The one-year total return as of December 31, 2009 was down 31.9% compared to a benchmark of -35.5%. The 3-year return was down 5.9% vs. the benchmark of -7.9% and the 5-year return was down 1.9% vs. the benchmark of -2/4%.

As of April 17, 2009, the year to date total was up, and the market value grew from $70.8 million on March 31, 2009 to $74.5 million. The hedge fund position has been reduced slightly as one manager has been discontinued. Positions have been added in private equity, real estate and fixed income.

**Other Items**
The UC Foundation is pleased to announce that Mr. Foy is a new Board member of the UC Foundation effective July 1 and joins Mr. Jim Hall who is already a UC Foundation Board member.

Effective July 1, Ruth Holmberg will be the first women ever to hold the position of Chair of the UC Foundation.

The UC Foundation traditionally maintained separate pools by managing their own funds. They work similarly to the UT Investment Committee in the fact there is a consultant. There have been discussions recently about the possibility of the UC Foundation joining the UT Consolidated Investment Pool. Those conversations are on-going.

Mr. Lyon reported that the UC Foundation has not received any gifts that would place a financial liability on the University.

**IX. ANNUAL REPORT OF UT FOUNDATION**

Mr. Nemcik had some words of wisdom for Dr. Simek from President Dabney from a letter he wrote in 1903 just before he resigned. “I must have more means to work with. I cannot continue forever to make bricks without straw. I have had to raise from $40,000 – $50,000 each year to pay for current expenses of the work. I have had to do this chiefly by soliciting
funds in amounts running from $10 up. A most humiliating and disagreeable method which was injuring my usefulness.” As you look back historically, this is a period when the university did not get any state funding and Ayres Brown actually got state funding during his presidency after Dabney. Fundraising was here from the beginning and it looks like what goes around comes around. We are heading right back there.

The UT foundation is a system foundation which accepts gifts from Chattanooga, Memphis, Martin and all other units throughout the system. The UTFI tries to take gifts that the university may have difficulty accepting or may not be comfortable with accepting. The UTFI also takes gifts that are easily acceptable by the university where donors have a preference to give through a foundation.

The affiliation agreement between the university and the UTFI requires that an annual UTFI report is made at the annual Board of Trustees meeting in June. The UC Foundation is voluntarily making these reports on an annual basis.

As you can see, the UTFI has taken some real estate gifts. Some developers who are not developing their property at this time have donated these properties to the university. The UTFI also has a Martin Rodeo gift which the Foundation is receiving gifts to pay a note attached to some land being paid off on behalf of Martin. The Foundation is doing some unique things that the university is not in a position to do.

UTFI continues to add revenue on an annual basis. Butch Peccolo will provide a report of the Foundation budget during the Finance Committee. The growth has been tremendous and is due in part to the campaign in progress. When talking about positioning the university in the future, as it relates to fundraising, a foundation is needed with significant assets to defray the costs of fundraising and friend-raising long-term. This is a good start but as Charles Wharton indicated, the university is several decades behind having this in place at a level that will sustain growth in the future.

Mr. Nemcik and Dr. Simek meet on a monthly basis to talk about Foundation issues and to coordinate activities of the university with those of the Foundation. The Foundation has not received any gifts that would place a financial liability on the university. The Foundation launched a gift annuity program in 2008. To date, the Foundation has nine annuity gifts totaling over $763,000. The Foundation also has a $500,000 reserve fund for that program. The Foundation invests the annuity money as it comes in and that has declined total assets but the Foundation is still comfortable with the annuity program. This is reviewed by the UTFI Board on an annual basis.

The Foundation invests with the UT Consolidated Investment Pool and the long-term goal is to have all assets of the university invested to maximize potential for all parties.

X. CAMPAIGN UPDATE

Mr. Nemcik referred the Committee to the UT Campaign Expectancy Chart. He prepared a forecast in 2005 that demonstrates the normal growth curve of a campaign (blue line on the chart). If every one of the points is met, the university will hit a billion dollars. The orange line actually demonstrates what was received during that period. The university has exceeded each year at each of the points needed in order to achieve a billion dollar
campaign. The red line is the Dow Jones adjustment. Giving has gone down overall over the last 1.5 years to correlate with the market. We are very positive to move toward our billion dollar campaign and hopefully exceed that by a big margin. The orange line for 2008 – 2009 is not filled in but is declining at this point and correlating with the same downward slope of the Dow Jones average line. Normally the university is about 8-12 months behind the Dow. Hopefully we will be coming out of this as Dow improves and be able to get more on line with targets of maximizing performance over the next few years of the campaign.

The university is a member of a company called Eduventures along with approximately 70 other major universities (public & private). Eduventures is a benchmarking firm that helps us understand where we are in our programs as compared to our peers. It has been extremely helpful. Mr. Nemcik directed the Committee to the Eduventures Member Poll taken in February 2009. This poll taken from the 70 universities indicates the following: (1) pledges are declining at double-digit rates (dollar value and number of commitments) and suggests impact of economy on cash revenue may extend longer due to fewer pledges being paid in future years; (2) annual giving holding relatively steady; and (3) private institutions making fewer and less dramatic budget cuts than publics. In regard to annual giving, by instituting the second annual giving program this past year, our annual giving overall is up. Our donors have been very generous.

The university has experienced some of the same issues as the other public and private institutions polled in this study such as receiving smaller commitments than initially expected as well as delays in pledge commitments. The university has not been immune from what is going on nationally.

The university is down for FY09 in total fundraising compared to last year. However, when this poll was done, the university was down 24% but now that number is at 15%. We are now seeing a slight increase and we remain optimistic. This is viewed as a success in this economy. The number of major gift commitments is also down compared to last year. There are some gifts that are expected to close by the end of year which may help the campaign numbers.

The UTAA is currently working on an outreach program to university alumni. This includes: (1) career counseling (2) alumni networking events have been increased both at the UTAA level and the unit level, and (3) professional development seminars have increased. The Association is working diligently on online social networking. There is one person who will be in a position after the strategic plan to make a recommendation system-wide how we might move forward. There would be an expense to purchase a software package.

**Campaign Update**

We are at $858 million. If we are forecasting our normal activity we may actually cross the $1 billion threshold a year ahead of time.

**Planned Giving**

Mr. Nemcik wanted to give an overview of the role that planned giving plays from a national perspective. As we know, most folks during their lifetime have a difficult time making significant gifts. The largest endowment level gifts are given in bequests or other types of bequests. It is not uncommon for mature programs to receive 1/3 annual income from bequests and trusts. We are not at that point yet but we are moving in this direction. Donors are considering planned gifts at much earlier ages around 50 years of age. Planned giving component in campaign is likely to increase. We are going to be doing a statewide advertisement on gift annuities in the future. They will be advertised in local newspapers. Programs have been restrained over the years by lack of resources. We have had an emphasis on trusts and the campaign is really designed to increase our future revenue on an annual basis. We expect that planned gifts will be a major part of our campaign totals.
As indicated on the charts, the largest number of deferred gifts by age are 75 years and above. These gifts do not come to the university until after the death of the donor. The largest number of the value of deferred gifts by age is 75 years and over. The most important chart is the chart titled Donor Heaven. Our donors who make planed gifts are some of the most committed people that the university has. They are pledging in most cases a good portion if not all of their estate. You have to have great faith and trust in the organization. That means you have to have solid leadership of the Board and the president, great faculty, great students which does not happen on its own. Just because we may ask doesn’t mean we will receive these gifts. On average, we receive between $3 million to $5 million of matured planned gifts. We need to increase that number over the years. This is why in campaigns we have a fiduciary responsibility not only to look at gifts currently but look at what the university needs in the future. This is significant strategic part of our planning in the campaign and it is starting to pay dividends.

XI. ANNUAL REPORT OF THE NAMING OF INTERIOR SPACES AND GROUNDS

Mr. Nemcik presented the annual report of interior/grounds spaces named on the campuses/sites to the Committee. The following is the report as received by each campus/unit:

<table>
<thead>
<tr>
<th>Campus/Unit</th>
<th>Naming of Facility (Interior/Grounds) 2008-2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Institute of Agriculture</td>
<td>None to report</td>
</tr>
<tr>
<td>UT Chattanooga</td>
<td>None to report</td>
</tr>
<tr>
<td>UT Knoxville</td>
<td>Within the James A. Haslam II Business Building:</td>
</tr>
<tr>
<td></td>
<td>John C. Compton Dean's Suite</td>
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<tr>
<td></td>
<td>Stokely Hospitality Suite</td>
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<tr>
<td></td>
<td>William E. and Pamela R. Lee Team Room</td>
</tr>
<tr>
<td></td>
<td>Bill F. Breeding Team Room</td>
</tr>
<tr>
<td>UT Knoxville Athletics</td>
<td>Within John C. Hodges Library:</td>
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<tr>
<td></td>
<td>Dixie Marie Wooten Student Study Area</td>
</tr>
<tr>
<td>UT Knoxville Athletics:</td>
<td>Within the Brenda Lawson Building:</td>
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<tr>
<td></td>
<td>PR &amp; Marketing Suite is now the Toby McKenzie PR &amp; Marketing Suite</td>
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<tr>
<td>UT Health Science Center</td>
<td>None to report</td>
</tr>
<tr>
<td>UT Martin</td>
<td>J. Houston Gordon Library in the Paul Meek Library</td>
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<tr>
<td></td>
<td>(the museum located in the Paul Meeks Library)</td>
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</tbody>
</table>

XII. OTHER BUSINESS

No other business stated.

XIII. ADJOURNMENT

With no other business to discuss, the meeting was adjourned.