

**MINUTES OF THE FINANCE AND ADMINISTRATION COMMITTEE
THE UNIVERSITY OF TENNESSEE
BOARD OF TRUSTEES
NOVEMBER 2, 2006**

The meeting of the Finance and Administration Committee of the Board of Trustees was held at 3:00 p.m. EDT, Thursday, November 2, 2006 in the UT Plant Biotech Building, Rooms 156-157, in Knoxville, Tennessee.

- I. **Call to Order** - Mr. Bill Stokely, Chair called the meeting to order.
- II. **Roll Call** - Dr. Gary Rogers called the roll and advised the Chair that a quorum was present.

Present

Bill Stokely, Chair
Jim Haslam, II, Member
Andrea Loughry, Vice-Chair
Jerry Jackson, Member
John Petersen, Member
Don Stansberry, Ex-Officio
Charles Wharton, Member

Absent

Johnnie Amonette, Member

- III. **Approval of Minutes of Last Meeting**—Mr. Stokely called for consideration of the last meeting's minutes. On a motion made by Mr. Jim Haslam and seconded by Mr. Jerry Jackson, the minutes were unanimously approved as distributed.
- IV. **Treasurer's Report of Endowment Investment Performance**—
Information Item—The Chair, Mr. Bill Stokely asked Mr. Butch Peccolo, Treasurer, to give the Endowment Investment Performance Report. Butch asked the group to turn to the notebook materials provided with the Board books. As of June 30, 2006 the total of funds reached a new high of \$867 million, which includes the Tennessee Chairs of Excellence (\$106 million) and UC Foundation (\$112 million). The Tennessee Chairs of Excellence is administered by the State of Tennessee for higher education institutions and the UC Foundation board is responsible for administering its endowments. The University administers the funds; pooled endowments, separately invested endowments, and Life Income Trusts.

University endowment market values increased by \$83 million during the fiscal year evidencing the record level of new gifts and strong investment returns. University alumni and friends contributed \$41.8 million to create new endowments or add to existing endowments. In addition, investment returns supplied another \$41.2 million net of \$18.4 million in distribution from realized gains. University endowments totaled \$592 million of which

indebtedness of \$30.2 million. Salaries and benefits represent over 70% of total expenditures and they increased by 1.7% or \$18.5 million. Utilities, supplies and other services increased by 1.5% or \$4.4 million. The University received \$139 million in grants, \$68 million in contracts and \$9.5 million in appropriations. Mr. Peccolo reported that in accordance with Statement 39 the University's financial statements will discretely display information on the University of Chattanooga Foundation and University of Tennessee Foundation. The Board will receive a complete set of the Audited Statements once they have been completed; however, there will not be comparative statements until next year. Butch Peccolo stated that the University expects a clean opinion with no material weaknesses and that we are heading in the right direction. Dr. Gary Rogers took the opportunity to congratulate Mr. Ron Maples and Mr. Butch Peccolo for their good work and informed the Committee that they are weeks ahead of last year. Mr. Butch Peccolo also commended Mr. Ron Maples for a job well done.

- VI. **Approval of Revised Investment Policy**— Consent Item— Mr. Stokely asked Butch Peccolo to explain the request for Revised Investment Policy. Butch stated that currently there are eight (8) members on the Investment Committee and the request is to add two (2) members for a total of ten (10). Henry Nemcik first mentioned the suggestion to add the members to include representation from all across the state during the statewide capital campaign. Mr. Jim Haslam made the motion, seconded by Mr. Jerry Jackson and approved unanimously. Mr. Stokely reminded the new Trustees that any Board of Trustee member could ask for an item to be withdrawn.
- VII. **Approval of filing of Annual Flight Operations Report**—Action Item— Required Committee Motion to Approve—Mr. Stokely asked Sylvia Davis, Vice President, Administration and Finance to present the Annual Flight Operations Report. Per Sylvia Davis, Fiscal Policy 735 requires the annual reporting of the UT Flight Operations be given to the Finance and Administration Committee of the Board of Trustees. The University owns one aircraft: a 1978 Beechcraft King Air 200. The plane currently has over 12,500 total airframe hours. The UT King Air flew 311.9 hours in FY 2005 compared to the 7-year average of 412 hours. The decrease in usage for FY 2006 contributed to 6 weeks of outage for tail damage repair and other minor maintenance and routine inspections. The operating cost of the plane was \$577,125, capital cost was \$55,981 (windshields, etc.), for a total of \$633,106. Chartered aircraft is also used when the UT plane is not available. FY 2006 to FY 2005 operating difference is \$74,998 a decrease of 11.5%. The largest non-capital expenditure is salaries and benefits totaling \$271K and followed by fuel costs of \$112,854. There was a 26% increase in fuel prices. The largest user of the plane is the President's office and then the Athletic Department. Jim Haslam asked how much UT spent on commercial flights. Ms. Davis said that she could supply that information. Jerry Jackson asked if the plane was safe and questioned if the purchase of a new plane should be revisited. The plane is safe and staff continues to monitor replacement needs. Mr. Bill Stokely called for a motion to approve the annual report. Mr. Jerry Jackson made the motion, seconded by Mr. Jim Haslam and approved unanimously.

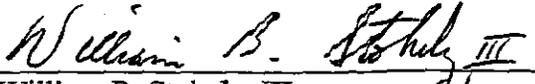
Ms. Davis said the draft policy describes the various fees assessed by the University and identifies the recommended highest level of approval required to implement the fee. In addition to documenting the fee approval levels, the task force included additional information on approved fee waivers and discounts currently in place but not included in any University policy. The working draft generally reflects current practices and includes a new annual reporting requirement identifying all fees assessed.

Mr. Joseph Sturdivant asked how student input was obtained for proposed increases in the Program and Service fees. Ms. Davis indicated the System requested that campuses seek input from the student leadership groups before proposing increases for consideration; however, a referendum was not required. Dr. Nick Dunagan, UT Martin Chancellor, provided an example where he surveyed students in Biology before implementing an increase in the lab fee. Ms. Davis asked Mr. Sturdivant to provide additional suggestions and encouraged other Committee members to provide comments as she continues to refine the policy.

- X. **Approval of FY 2007-08 Capital Outlay and Maintenance Requests—**
Consent Item—Chair, Mr. Stokely asked Dr. Gary Rogers, Chief Financial Officer to present the FY 2007-08 Capital Outlay and Maintenance Requests. Dr. Gary Rogers informed the Committee that the University administration developed the capital outlay and capital maintenance funding requests for FY 2007-2008 and subsequent years. The complete listing is behind Tab 11. The five year schedule for Capital Maintenance reflects \$183,070,000 in recommended maintenance projects. First request is to convert Cherokee Campus, currently an agriculture farm, to a research intensive campus. The site study reflects the capacity to develop research over a long period of time. Joint Institutes have expressed interest and there is also the possibility of partnering with ORNL. This project request is driven by the System rather than by the UT Knoxville campus. Another request is for a UTK Music building totaling \$30,000,000. A generous gift of \$10,000,000 will offset part of that cost. An additional request is for UTC to renovate and expand the Lupton Library. Renovations for Strong Hall and relocation of Audiology/Speech Pathology from under Neyland Stadium are on the project list, as is an improvement to the Veterinary Medicine facility. The University will receive an extra \$13 million from the state as part of a supplemental appropriation. Mr. Jim Haslam made motion, Mr. Jerry Jackson seconded item to be considered as consent item.

- XI. **Approval of FY 2007-08 Revenue/Institutionally Funded Projects—**
Consent Item—Mr. Stokely asked Dr. Gary Rogers, Chief Financial Officer to address the committee regarding the revenue/institutionally funded projects. Dr. Gary Rogers explained that the projects do not require state money. The projects will be funded by the institutions or auxiliary services. UT Knoxville has had discussions regarding a sorority village. Neyland Stadium, Phase III will consist of moving the academic departments that are currently housed in the Stadium to other locations. A motion was made by Mr. Jim Haslam, seconded by Mr. Jerry Jackson and approved unanimously.

XVII. **Adjournment**—Based on the fact that there was no further business to be brought before the committee, Mr. Stokely adjourned the meeting.



William B. Stokely, III
Chair, Finance & Administration Committee