

MINUTES OF THE ANNUAL MEETING OF THE BOARD OF DIRECTORS  
UNIVERSITY OF LOUISVILLE FOUNDATION, INC.

In Open Session

The Board of Directors of the University of Louisville Foundation, Inc. met on Thursday, September 18, 2003 in the President's Suite, Papa John's Cardinal Stadium with members present and absent as follows:

Present: Mr. Malcolm Chancey, Jr., Chairman  
Mr. Morris Borowitz  
Mr. Ulysses L. Bridgeman, Jr.  
Mr. H. Scott Davis, Jr.  
Mr. Burt Deutsch  
Mr. Larry Hayes  
Mr. J. Chester Porter  
Mr. Robert W. Rounsavall, III  
Dr. James R. Ramsey  
Ms. Sandy Metts Snowden  
Mr. William G. Wilcox

Absent: Mr. Nathaniel Green  
Dr. Joe Kutz

Foundation  
Legal Counsel: Ms. Leslie Vidra, Stites & Harbison

From UofL  
Research Fndn: Mr. Kevin Cogan

From the  
University: Mr. Larry Owsley, Vice President for Business Affairs  
Mr. Mike Curtin, Vice President for Finance  
Mr. David Barker, Director of Audit Services  
Ms. Cheri Jones, Associate Director, Audit Services  
Ms. Susan Magness, Assistant Treasurer, UofL Foundation, Inc.  
Mr. Joe Gahlinger, Assistant to the VP for Business Affairs  
Mrs. Kathleen M. Smith, Assistant Secretary  
Mrs. Debbie Dougherty, Board Liaison

I. Convene Meeting

Having determined a quorum present, Chairman Chancey called the meeting to order at 11:50 a.m.

II. Consent Agenda

- Minutes for June 19, 2003

From the Finance Committee:

- Information Item: Investment Performance Summary
- Information Item: Investment Review by Cambridge Associates

Chairman Chancey read the roll of consent agenda items. Hearing no objections, Chairman Chancey declared the consent agenda approved.

III. Action Item: Approval of Recommendation for Liquidation and Reinvestment of Assets

Mr. Deutsch reported the Finance Committee met on September 16 and heard presentations from four different bond managers. In March 2002, the Finance Committee recommended, and the Board approved, a change in the target asset allocation from 75 % equity / 25 % fixed income to 80 % equity / 20 % fixed income for the next year. The Committee historically has followed a disciplined approach to rebalancing to achieve the current 80/20 equity/fixed income allocation targets. Mr. Deutsch stated that all funds recommended for liquidation are over-allocated with respect to their respective target allocations.

Mr. Deutsch reported the Finance Committee recommends rebalancing also. This recommendation includes the provision that distribution among the three fixed income managers will be reviewed annually. This decision to change fixed income managers was based on two considerations: 1) the frequency of underlying manager changes and manager-hiring criteria employed by the firm; 2) as ULF has moved to a 20% fixed income allocation it is important that this allocation serve effectively as a deflation hedge, with less emphasis on “value added” or credit and equity-like risks in the fixed income portfolio. Mr. Deutsch made a motion, which Mr. Chancey seconded to approve the following resolution

**RESOLUTION on Rebalancing reallocations:**

**The Finance Committee’s recommendation to reallocate \$13 million from equity holdings to fixed income to rebalance the managed portfolio back to the target allocations of 80% equities and 20% fixed income. As of August 31, 2003 the actual allocation was 82.9% equities and 17.1% fixed income. The specific reallocations are as follows:**

**Liquidate:**

<b>Hilliard Lyons</b>	<b>- \$2 million</b>
<b>M. A. Weatherbie</b>	<b>- \$3 million</b>
<b>ICM</b>	<b>- \$2 million</b>
<b>EARNEST</b>	<b>- \$1 million</b>
<b>Silchester</b>	<b>- \$3.5 million</b>
<b>Värde Fund</b>	<b>- \$1.7 million (This will close this fund.)</b>
<b>Liquidations can only occur at calendar year end.)</b>	
<b>TOTAL</b>	<b>\$13.2 million</b>

**Purchase:**

**Added to holdings to be liquidated from Commonfund Bond Funds to be reinvested in new fixed income money managers (see Fixed Income Manager Resolution).**

**RESOLUTION: Fixed Income Manager Changes**

**The Finance Committee's recommendation to liquidate all endowment holdings in The Commonfund Bond Funds (approximately \$77.5 million as of August 31, 2003) and reinvesting the proceeds along with the \$13.2 million to be reallocated from equity holdings (total of \$90.7 million) as follows:**

**\$40 million to Deutsche Asset Management Core Fixed Income with the remainder divided equally between Vanguard Total Bond Market Index Fund and Wells Capital Management Montgomery U. S. Core Fixed Income (approximately \$25.3 million each).**

The motion passed unanimously.

V. Report of Nominating Committee

Chairman Chancey asked President Ramsey, Chair of the Nominating Committee, to present nominations from the Nominating Committee. President Ramsey made a motion, which Ms. Snowden seconded, to approve the Nominating Committee's recommendation for 2003-04 officers as follows:

Chairman	Malcolm B. Chancey, Jr.
Vice Chairman	J. Chester Porter
Treasurer	H. Scott Davis, Jr.
Secretary	Burt J. Deutsch
Assistant Treasurer	Michael J. Curtin
Assistant Secretary	Kathleen M. Smith
Foundation Counsel	Stites & Harbison, Leslie Vidra

Executive Committee

Chairman	Malcolm B. Chancey
Ex. Officio	James R. Ramsey
	H. Scott Davis, Jr.
	Burt J. Deutsch
	J. Chester Porter

VI. Action Item: Approval of Banking Resolutions

President Ramsey reported this action stems from the reorganization implemented July 1, 2003. It updates the banking authority and is routine in nature. Mr. Davis made a motion, which Ms. Snowden seconded, to approve the

**President's recommendation that the University of Louisville Foundation, Inc. Board of Directors adopt the attached resolutions relating to bank accounts at Republic Bank and Trust, Louisville, Kentucky and Republic Bank and Trust, Shelbyville, Kentucky.**

The motion passed unanimously.

VII. Action Item: Approval of Signature Authority

President Ramsey reported this action stems from the reorganization and adds Mike Curtin to the list of authorized signatures. Mr. Rounsavall made a motion, which Mr. Deutsch seconded, to approve the

**Signature Authority Resolution (copy attached).**

The motion passed unanimously.

VIII. Review of the Audit

Chairman Chancey reported that earlier this week Mr. Dave Barker, Director of Audit Services, presented to the Finance Committee a preliminary, confidential and advisory draft of the audit of presidential travel and entertainment expenses for 1999-2002. Chairman Chancey thanked Mr. Barker and Ms. Cheri Jones, Associate Director of Audit Services, for their assistance with this project. Their work produced a professional and thorough report, and Mr. Chancey expressed his appreciation for the many hours of staff overtime to achieve this preliminary draft so quickly. Mr. Chancey noted that, unlike the situation in Tennessee, UofL's Board of Trustees and Foundation Directors established in 1996 internal controls and oversight practices that set boundaries for presidential spending. Mr. Chancey said this audit demonstrates that those policies have worked in the manner intended. Mr. Chancey asked Mr. Deutsch, as Chair of the Finance Committee, to report on the findings of the audit.

Mr. Deutsch noted the audit discovered no glaring problems either in the processes or expenditures. This audit spans a period of 3 ½ years. Mr. Deutsch called attention to a key point contained in page 1, "In our opinion, Dr. Shumaker's credit card and reimbursed expenditures were adequately supported. However, policies and practices relative to the use of the Foundation credit card and reimbursements can be improved as detailed in the recommendations set out in this report." Mr. Deutsch asked Mr. Barker to review the audit with the Board.

Mr. Barker provided a thorough review of the audit report, noting that there were reporting mechanisms in place for approximately 3-4 years where the president and his office had reported to various officers and officials of the UofL.

Foundation board and the Board of Trustees. Mr. Barker said this audit was part of a planned scheduled audit. Subsequent to the University of Tennessee allegations about Dr Shumaker, Mr. Barker met with President Ramsey and Board of Trustees Audit Committee Chair Ms. Snowden, along with holding a separate session with the Foundation Executive Committee, to discuss expanding the level of the audit thereby making this audit to test 100%. He noted the breakdown for funding source was 53% ULF; 45% University of Louisville Research Foundation; and 2% general funds. The audit team compared quarterly reports with each transaction to determine if it was clearly documented for business purposes for the transaction and in compliance with policy and procedure.

To evaluate business purposes, the audit team observed the documentation was clear. A log existed for each credit card transaction, which noted the business purpose of the expense or in personal. He used the logs in conjunction with available receipts and trip itineraries, as well as met with president's office staff to complete his review.

Mr. Barker's team also reviewed personal transactions. President Shumaker used the credit card on a regular basis for personal purchases. He noted that during this period, Dr. Shumaker used the credit card for \$36,000 of personal transactions; of that \$36,000, all but approximately \$2000 was reimbursed routinely by Dr. Shumaker. Mr. Barker reported the recent receipt of \$2000 from Dr. Shumaker for the unreimbursed expense.

Mr. Barker discussed the area of airfare class. He referenced the University policy covers economic class for domestic travel, and business class for international travel. This area was a little more difficult to evaluate. In reviewing the files, the Audit determined most flights were booked economy and upgrades were issued based on frequent flyer miles. The audit team recommended when frequent flyer upgrades are issued, the file should reflect such documentation. Chairman Chancey observed that prior to Dr. Shumaker's arrival at UofL, he had accumulated a large number of frequent flyer miles.

In response to Mr. Cogan's inquiry regarding the percentage of allocations for expenditures paid, Mr. Barker stated the audit team looked at each transaction's purpose and determined its appropriate allocation. Those percentages could change over time. Mr. Chancey stated that the UofL Foundation expenses were fundraising related.

Mr. Barker then acknowledged the comprehensive review of credit card receipts, with his staff analyzing each transaction. Based on this review, the audit team recommended doing a better job of collecting original receipts to document the credit card transaction. However, without those receipts, the audit team was able to review the trip file documentation and determine the legitimacy of the trip. He noted the availability of the credit card statements.

With respect to meals and lodging, the audit team concluded most charges represented reasonable costs. He cited some instances where he thought the

amounts for meals could be out of line. Specifically, one meal at Vincenzo's and one at Morton's Restaurants. Mr. Deutsch commented that this judgment, out of context, would be hard to validate, but he thought the costs for the restaurants were probably in line with the rates at those facilities.

Mr. Barker reviewed the category for reimbursements. The audit team determined there were just a few which should not have been reimbursed. He also noted reasonable documentation existed.

Mr. Barker compared the quarterly reports with each transaction and confirmed that 97% of all transactions were reported in the quarterly reports. He stated the 3% was inadvertent omission, represented nothing unusual, and was small in nature. He recommended continuing this reporting process.

Mr. Barker reported that part of this review included evaluating executive and trustee expenses. He noted this area was in good shape. There were four requests not approved by the Controller's Office for lack of supervisor's signature. The Controller subsequently tightened up the review procedure.

Chairman Chancey thanked Mr. Barker and Ms. Jones for their report and asked what a typical audit would review. Mr. Barker estimated an audit would normally sample 20%. In response to Mr. Porter's inquiry concerning the use of credit cards for personal expenses and the appropriate approval required, Mr. Barker noted the 1998 audit reviewed credit card transactions. The 1998 audit recognized that incidental personal expenditures were acceptable. Chairman Chancey expressed that during the quarterly reporting and audit processes, the board members/trustees review these data as post audit. Mr. Chancey observed that the appropriateness of an expense is a judgment call he expects the President to make. He asked Mr. Barker if he believed President Shumaker operated in a manner using appropriate judgement 95-98% of the time; Mr. Barker responded yes, there appeared to be no totally unrelated expenses.

Mr. Deutsch affirmed the quarterly report provides a review of the CEO's practice of following management policies. Mr. Deutsch stated his confidence in this procedure.

Mr. Bridgeman inquired about the timing of submission of these materials to the public. Chairman Chancey responded that if the Foundation directors accept this report today as complete, the Foundation will voluntarily release the report coincidental with the Board of Trustees release of the UofL Research Foundation report. President Ramsey reported the Board of Trustees Audit Committee will meet next week to review and release the UofL Research Foundation audit. Mr. Porter expressed concern that only one designated person handle media inquiries.

In response to Ms. Snowden's inquiry to add the Audit Committee and Mr. Cogan's inquiry to add the Chair of the ULRF to the distribution list, Mr. Barker responded that a recommendation from the audit team would include such persons be added to the quarterly report distribution list. Mr. Hayes arrived at 12:50 p.m.

Mr. Deutsch made a motion, which Mr. Davis seconded, to approve the

**Finance Committee's recommendation to approve the audit of Executive Expenses and the Committee's recommendation to approve the audit with addition of quarterly reporting to the Board of Trustees Audit Committee and ULRF Chair.**

The motion passed unanimously.

VIII. Report of the President

President Ramsey acknowledged the great start of the Fall semester, noting this freshman class produced the best ACT scores and GPAs in the school's history.

At the June Foundation board of directors meeting, President Ramsey agreed to work on a repayment schedule for Cardinal Park. He has worked with Athletics staff and developed a recommended plan which was recently presented to the Foundation Finance Committee. Mr. Curtin elaborated and acknowledged his discussion with Chairman Chancey and promised to present a written schedule at the next UofL Foundation board meeting.

IX. Report of the Chair

Chairman Chancey reported the litigation was progressing. The Foundation has raised a lot of money and has funded many school projects and endowed many chairs. Instead of allowing the media to call the Foundation secretive, the Foundation we will be proactive. The Foundation has retained the services of Creative Alliance to assist with the media interaction. Creative Alliance is drafting a public relations strategy for the Foundation. Chairman Chancey expressed his desire to let the public know the many projects and scholarships supported by Foundation funds. He indicated this open process should not prejudice the Foundation's legal position. He said Debbie Scoppecchio will work with Rae Goldsmith regarding the release of the audits.

In response to Mr. Rounsavall's inquiry regarding an annual report, Chairman Chancey stated the Foundation does provide an annual report to the 1798 Society; however, he noted that it doesn't disseminate beyond that group. This process will advise the public that the Foundation represents good stewardship of private funds. Dr. Ramsey departed the meeting at 1:00 p.m.

IX. Executive Session - Directors Only

Litigation Update

Ms. Vidra reported that oral arguments are set for 9:30 a.m. on Wednesday, October 8 at the Jefferson County Court House in Louisville. Mr. Borowitz asked if it might be wise to compare our investments now to what has been contributed.

Messrs. Deutsch and Davis will bring this back to the next meeting. In terms of asset growth, the ULF needs to look at the overall situation. Mr. Davis offered to list the terms of performance of funds, and he noted the Foundation's funds rank in the 4<sup>th</sup> percentile of the endowment universe that Cambridge Associates manages. Mr. Borowitz indicated he would like to see the dollar return. Mr. Wilcox added that in addition to the dollar return, he would like to see the dollar contributed, disbursed, and remaining value. Mr. Borowitz cautioned that if the Foundation ever becomes a public foundation, it will need to report what has been invested in the principal, as well as contributions and expenses.

X. Adjournment

Mr. Davis made a motion, which Mr. Bridgeman seconded, to adjourn the meeting at 1:15 p.m. The motion passed unanimously.

**BOARD ACTION:**

Passed       X        
Did not pass                       
Other                             

Asst. Secretary           *Katalin M. Smith*