

**FINANCE COMMITTEE  
OF THE BOARD OF REGENTS  
WESTERN KENTUCKY UNIVERSITY**

Conference Call - October 20, 1993

Meeting - October 22, 1993

Required statutory notice having been given, members of the Finance Committee of the Board of Regents were connected via conference call on Wednesday, October 20, 1993, at 11 a.m., CDT, to review the agenda for the Finance Committee meeting on October 22.

**[The media notification is attached as Exhibit I]**

All members of the Committee participated in the conference call; namely, Mr. Earl Fischer, Chair; Mr. C.C. Howard Gray; Mrs. Peggy Loafman; Mr. Fred Mudge, and Mr. Raymond Preston.

In addition, Board members Kristen Bale, Burns Mercer, Donald Smith, and Ray Mendel participated in the conference call along with President Thomas Meredith, Mrs. Liz Esters, Secretary; Dr. James Ramsey, Vice President for Finance and Administration; Dr. Cecile Garmon, Assistant Vice President for Finance and Administration; and Mr. Tom Harmon, Director, Accounts and Fiscal Services.

Mr. Spencer Coates and Mrs. Christy Thomas, representing Baird Kurtz & Dobson, Certified Public Accountants, joined the Finance Committee conference call and gave an extensive review and answered questions related to the ***1992-1993 Annual Financial Report***.

Items reviewed by the Committee during the call are as follows:

[ **Note:** page references relate to the bound Agenda for the October 22, 1993, Board Meeting.]

1. Recommendation for acceptance of the ***1992-93 Annual Financial Report*** and the audit of federally-funded programs [p. 14]
2. Recommendation for approval of the fund balance allocations [p.15] Revised 10/19/93 #2
3. Recommendation to revise the 1993/94 Combined Budgets [pp. 17-18]
4. Review of First Quarterly Financial Statement for 1993-94 [pp.11-13]
5. Recommendation for approval of budget priorities for guidance during the preparation of the 1994/95 budget [p.19]
6. Recommendation for approval of the preliminary funding request to the Council on Higher Education which is based on full formula

funding with state appropriations [pp. 22-23]  
Revised 10/19/93

7. Recommendation for adoption of a resolution authorizing the refunding of Western Kentucky University Consolidated Educational Buildings Revenue Bonds, *Series H and J* [pp. 20-21]

**Agenda Item 1:** As a follow-up to conference call discussions, documentation of corrective actions the University is taking to address each finding for federally funded programs and each comment and suggestion identified by Baird Kurtz & Dobson in the *1993-93 Annual Financial Report* and in the management letter. (**Exhibit II - pages 13-21**)

Additional information related to the Brown Agricultural Exposition Center project which converts heating from electric resistance to natural gas with the possibility of adding air conditioning was also provided to Board members and is included in **Exhibit II - page 22**

Figures related to the maintenance and operation of the physical plant were requested by the Committee and are also included in **Exhibit II - page 23.**

[See Exhibit II provided to the Board of Regents on October 22, 1993.]

**Agenda Item 4:**

Board members requested figures from the 1992 First Quarterly Financial Report for comparisons with the 1993 First Quarterly Report.

[See Exhibit III- page 24, provided to the Board of Regents on October 22, 1993.]

The Finance Committee concluded the lengthy review of the agenda at approximately 1 p.m. with no formal action taken.

Required statutory notice having been given, [See Exhibit I] the Finance Committee of the Board of Regents met at 8:15 a.m., CDT, Friday, October 22, 1993, in the Regents Conference Room of the Wetherby Administration Building.

The meeting was called to order at 8:15 a.m. by Mr. Earl Fischer, Chair. Other committee members in attendance were Mr. C.C. Howard Gray; Mrs. Peggy Loafman; Mr. Fred Mudge; and Mr. Ray Preston. The Committee was joined by Board members Mrs. Kristen Bale; Mr. Monnie Hankins; Dr. Ray Mendel; Mr. Burns Mercer, and Mr. Donald Smith. Others in attendance included President Thomas Meredith; Mrs. Liz Esters, Secretary to the Board of Regents; Dr. James Ramsey, Vice President for Finance and Administration; Dr. Cecile Garmon, Assistant Vice President for Finance and Administration; Mr. Tom Harmon, Director, Accounts and Fiscal Services; and Mr. Fred Hensley, Director of University Relations. In addition, Mr. Spencer Coates and Mrs.

Christy Thomas represented Baird Kurtz & Dobson, Certified Public Accountants.

Mr. Fischer stated that the telephone conference earlier in the week was called to review the lengthy agenda for the Finance Committee meeting.

The Committee reviewed the following seven items:

- **RECOMMENDATION FOR ACCEPTANCE OF THE 1992-93 ANNUAL FINANCIAL REPORT AND THE AUDIT OF FEDERALLY-FUNDED PROGRAMS**

**RECOMMENDATION:**

President Thomas C. Meredith recommends acceptance of the audited Annual Financial Report and audit of federally-funded programs for the 1992-93 fiscal year.

Note: The *1992-93 Annual Financial Report* was provided to Board members as a separate document and is filed in the Board's

official documents. The file also includes the corrective

actions the University is taking to address each finding

identified by Baird Kurtz and Dobson in the Annual Financial Report.

**Background:**

Representatives of the firm of Baird Kurtz & Dobson, Certified Public Accountants, worked with the Western Kentucky University staff in preparing the financial report for 1992-93, and were present at the meeting of the Board of Regents to review the report in detail and answer any questions from the Board.

Mr. Spencer Coates of Baird Kurtz & Dobson used overheads to highlight the various reports and opinions that were given on the audited financial statements for 1992-93. Several governmental reports are required by the Single Audit Act of 1984 which puts under one audit umbrella all of the audits of the various federal grants for compliance as well as the overall financial statements. Included under the audit umbrella are the following opinions:

- The first item in the Audit Report is the Standard Auditor's Report which states that the financial statements are fairly stated in all material respects, and the University received a clean opinion.
- The report also includes the schedule of federal awards which total approximately \$13 million; the audit says that those awards are fairly stated in all material respects.
- A report on compliance with financial statements, governmental regulations, applying governmental auditing standards applicable to financial statements.
- A report on general requirements applicable to federal awards. (There are certain prohibited activities with respect to federal awards--political activities; civil rights; etc.)
- Reports on compliance of specific requirements of applicable

major federal award programs, which at Western Kentucky University include 1) Student Financial Aid Programs; 2) Research and Development Grants; and 3) Head Start. Those

programs are tested heavily, and the audit reports specifically on the compliance with those major programs. This was a clean report with some findings listed; however, there were no major findings.

- Report on compliance with specific requirements applicable to non-major federal programs which states that, to the extent of the auditor's testing, any expenditures for non-major federal programs were in compliance with the specific requirements of the grant.
- One section of the audit report lists several findings related to the federal award programs; primarily student financial aid. The findings were minor; however, under governmental auditing standards, any findings are required to be reported.
- An overall report on control is required by governmental auditing standards which apprise as to whether or not the internal control of the university is satisfactory to meet governmental requirements for federal grants, etc.
- The audit also included three separate letters:
  - 1) Concerns HB 622, passed by the legislature a number of years ago which gave universities and other state agencies authority over expenditures. Because the University accepted that authority and makes its own expenditures, auditors are required to look at the internal control structure over those expenditures. This letter contained one recommendation; which was to quickly return

refund checks from vendors. Corrective action being taken is addressed is included in

**Exhibit II - pages 19-20.**

2) The overall management letter includes a couple of recommendations. It also includes past recommendations that have been addressed and corrected.

3) The overall audit committee letter that is required by Auditing Standard #61 that effectively spells out the responsibility of the auditors to the Finance Committee of the University. It basically says that there are certain accounting

estimates made in reserving for bad debts; and spells out what estimates were made.

Mr. Coates reviewed the Financial Statements of the University noting

the significance of the increase in the fund balance (\$3.1 million ) over the previous year-- \$10. 1 million for the 1992-93 compared to \$7.0 million over the previous year. For several previous years, it has been the recommendation of the auditors that, as a safe cushion, the unallocated portion of the fund balance should be around the 5% range of the total revenues for the year. The Finance Committee, the Board, and the administration were commended for working over time to increase the unallocated portion of the balance. Five years ago the reserve was \$250,000, and it has been increased every year since then.

Significant points of the Statement of Current Funds Expenditures and Other Changes were also reviewed by Mr. Coates.

The Finance Committee unanimously accepted the **1992-93 Annual Financial Report** and the audit of federally-funded programs.

● **RECOMMENDATION FOR APPROVAL OF THE FUND BALANCE ALLOCATIONS**

**RECOMMENDATION: (Revised 10/19/93 #2)**

President Thomas C. Meredith recommends approval of the fund balance allocations as shown in Table 4. Tables 1 and 2 provide summary information. Table 3 provides information on Fund Balance encumbrances and commitments.

**Table 1**  
Western Kentucky University  
1992-93 Fund Balance

Beginning Balance (7/1/92)	\$ 7,033,308
+Revenue	93,309,939
-Expenditures	83,515,577
-Transfers	<u>6,690,999</u>
=Ending Fund Balance (6/30/93)	\$10,136,671

**Table 2**  
Western Kentucky University  
1992-93 Fund Balance

Fund Balance (6/30/93)	<u>\$10,136,671</u>
1. Allocated	
-Encumbrances/Commitments	\$4,619,989
-Nonrecurring Expenditures	\$1,483,200
Total Allocated	6,103,189
2. Unallocated (Reserve)	\$4,033,482

**Table 3**  
Western Kentucky University  
1992-93 Fund Balance  
Allocated - Encumbrances and Commitments

Change Funds	150,000
Inventories	532,196
Encumbrances	1,828,182
Development Funds	24,915
Faculty/Graduate Research and Development	9,085
Preston Center Student Fees	269,774
Academic Excellence	3,070
Revenue Dependent Carry Forwards	442,266
Auxiliary Reserve	566,264
Personnel Commitments	37,660
Grant Cost Sharing Commitments	678,635
Departmental Carry Forwards	<u>77,942</u>
Total	\$4,619,989

**Table 4**  
Western Kentucky University

1992-93 Fund Balance  
Allocated - Nonrecurring Expenditures

Academic Instruction Equipment	\$ 100,000
Library Acquisitions	25,000
Campus Facility Improvements	75,000
President's Unrestricted Development	75,000
Supplement Research Committee Funding	20,000
Faculty Computer Program	193,000
Interactive Television - Fort Knox	67,400
Public Safety Programs	25,000
SGA Emergency Call Stations	7,800
Intramural Fields	40,000
Health Insurance	80,000
Vans	86,000
Administrative and Staff Salary Study	30,000
Business Services	
Three Chillers/Air Conditioners-Residence Halls	525,000
Student Affairs Master Plan Carry Forward	32,000
Improvements/Downing University Center	61,000
Residence Halls Furniture and Other Business Services Projects	<u>41,000</u>
 TOTAL	 \$1,483,200

A period of discussion with questions and answers followed a presentation by Dr. James Ramsey, Vice President for Finance and Administration, of the above tables. Mr. Mercer raised the question of the possibility of adding air conditioning to the project at the Agricultural Exposition Center. Efforts to combine the air conditioning project with the current project to effect cost savings were discussed. Dr. Ramsey presented research in the form of language from the budget bill for the State when the project was authorized by the General Assembly in 1990 to convert heating from electric resistance to natural gas...

*" To do so requires the addition of a 400-600 square foot mechanical room to house a gas-fired boiler, a chiller, and related equipment including pumps. In addition, air conditioning will be added to the facility." ...*

Dr. Ramsey noted that air conditioning is legally authorized; however, the project was originally authorized at \$350,000; the total cost of the project for heating and air conditioning would be approximately \$600,000, and the University does not have the authority to spend beyond 15% of the \$350,000 authorized by the General Assembly. Dr. Ramsey stated the options as: 1) go back to the General Assembly in January, 1994, requesting authorization for an increase in funding for the project to cover the air conditioning; 2) utilize private funds; if available; or 3) request that it be declared an emergency by the Secretary of Finance.

The Committee requested that additional information be obtained on the enhanced revenue picture for the Agricultural Exposition Center with air conditioning; the added expenses; and a feel for the possibility of an emergency declaration for funding be presented back to the Finance Committee within three weeks for determination on how to proceed.

The Finance Committee unanimously agreed to the fund balance allocations as recommended.

Chairman Fischer stated that, with the purchase of the additional vans approved in the fund balance allocations, it is the feeling of the Finance Committee that the older vehicles should be retired and that the number in the fleet of vehicles should not increase in order to hold down costs for maintenance and insurance, etc.

It was agreed that the University will pick up the cost of installation of the SGA Emergency Call Stations that were approved for funding as a part of the fund balance.

- **RECOMMENDATION TO REVISE THE 1993/94 COMBINED BUDGETS**

**RECOMMENDATION:**

President Thomas C. Meredith recommends that the Board of Regents revise the 1993-94 Combined Budgets as indicated in **Exhibit IV - page 25**.

**Background:**

As noted at prior meetings of the Board of Regents, funding for grants and other sponsored program activities often exceed the original budgeted amounts. This is reflected on the attached page by changes in both revenues and expenditures. In addition, the budget revisions presented reflect carry forwards from the 1992-93 to the 1993-94 budget and a portion of the fund balance allocations.

**Note:** The Revised 1993-94 Combined Budgets is attached as Exhibit IV.

Dr. Cecile Garmon, Vice President for Finance and Administration, reviewed the revised 1993-94 Combined Budgets which was presented to the Board in a new format that is the same being used in the quarterly report that are given to the Board.

The Finance Committee unanimously approved the recommended revision of the 1993/94 Combined Budgets.

- **REVIEW OF FIRST QUARTERLY FINANCIAL STATEMENT FOR 1993-94**

**Review of First Quarterly Financial Statement**

Attached as **Exhibit V - pages 26-27** is a summary of revenue and expenditure activities for the First Quarter of the budget year. A new reporting format is provided to the Board of Regents to provide improved summary information. Revenue collections appear consistent with expectations. Also, through the first three months, total university expenditures are 27.83 percent of the revised expenditure budget. Individual budget accounts are being monitored to ensure that expenditures are consistent with the budgeted amounts.

**Note:** The First Quarterly Financial Statement for 1993-94 is attached as Exhibit V.

Dr. Cecile Garmon reviewed information in the first quarterly financial statement for 1993-94. No action was taken by the Committee.

- **RECOMMENDATION FOR APPROVAL OF BUDGET PRIORITIES FOR GUIDANCE DURING THE PREPARATION OF THE 1994/95 BUDGET**

**RECOMMENDATION:**

President Thomas C. Meredith recommends the following budget priorities for guidance during the preparation of the 1994-95 budget of Western Kentucky University.

1. Continued enhancement of faculty and staff compensation
2. Recruitment and retention of minority faculty, staff and students
3. Continued funding for enhanced campus technology and networking of faculty and staff personal computers.
- 4.\* **Building maintenance.**

**Background:**

An effective budget process requires the identification of policy priorities prior to the development of the budget plan. The establishment of such priorities is the responsibility of the Board of Regents and the President. These policy priorities guide the development of the budget instructions; the development of departmental budgets; and the review of budgets by the University Budget Committee. The priorities established for the 1993-94 budget process were: 1) faculty and staff salaries, 2) faculty and staff benefits, 3) minority recruitment and retention; faculty, staff and students, and 4) university faculty computer acquisition program

President Meredith recommends that enhanced compensation for faculty and staff continue to be the number one priority for the forthcoming budget. Significant progress was made in improving faculty salaries during the last budget year. Dr. Meredith is directing the Salary Study Committee to update its analysis to assist in the establishment of faculty and staff salary guidelines for 1994-95. As part of the salary review process, efforts should be made to enhance the fringe benefits to faculty and staff. Healthcare costs are a concern at this time given both President Clinton's Healthcare Reform Program and the healthcare reform discussion taking place with state government.

President Meredith recommends to the Board as the second highest priority during the budget process the continued funding for the continued commitment to the recruitment and retention of minority faculty, staff and students. As part of this commitment, it is recommended that a full-time affirmative action position on campus be created.

Finally, as an institution Western Kentucky University is committed to recruiting the most talented faculty and staff available and to providing them with the resources that they need. The institution has successfully completed the objective of providing every faculty member on campus with a personal computer. Consistent with Western XXI, a third budget priority should be the continued networking of our faculty and student computers and the creation of a computer and technology backbone on campus.

President Meredith reviewed the recommended budget priorities for preparation of the 1994-95 budget. The first three priorities came from the administrative staff and the university Budget Committee.

\* **Item 4 (Building Maintenance)** was added following discussions by and at the suggestion of the Finance Committee.

The Finance Committee unanimously approved the three recommended budget priorities and the addition of Building Maintenance as the fourth priority.

- **RECOMMENDATION FOR APPROVAL OF THE PRELIMINARY FUNDING REQUEST TO THE COUNCIL ON HIGHER EDUCATION WHICH IS BASED ON FULL FORMULA FUNDING WITH STATE APPROPRIATIONS**

**RECOMMENDATION:**

President Meredith recommends that the Board of Regents approve the preliminary funding request to the Council on Higher Education which is based on full formula funding with state appropriations.

**Background:**

Every two years Western and the other seven public institutions prepare requests for state funding for the following biennium. This request process incorporates three stages: 1) in July the calculation is made of the request formula; 2) on September 1 the request is made to the Council on Higher Education based on full formula funding; and 3) on November 15, a request to the Governor's Office is made based on the Council's recommendations for higher education.

The request submitted on September 1 identifies Western's expenditure priorities for state appropriation and tuition revenue, assumes full funding of the request formula, and assumes full funding for expenditures not included in the formula. The attached list indicates the items and amounts of resources identified by Western for the 1994-96

biennium. President Meredith recommends that the Board of Regents approve this request. Early in November the Council on Higher Education will prepare a recommendation for all of higher education and Western will then develop another request based on a revised state appropriation as recommended by the Council.

**PROPOSED EXPENDITURE OF FORMULA-BASED  
STATE GENERAL FUND APPROPRIATION  
AND DEGREE CREDIT TUITION REVENUE INCREASES**

	1994/95	1995/96
Fixed Costs/Fringe Benefits	450,400	1,012,100
Fixed Costs/Utilities	437,600	726,500
Fixed Costs/Debt Service Increases	20,800	22,000
Compensation Increases Based on Salary Increases @ 5	2,545,600	5,235,800
Compensation Catch-up to Benchmark @ 7%	3,589,000	7,432,200
New faculty (7) + (2)	313,100	490,300
KERA-HJR-54	394,600	779,500
Operating Increase	599,600	1,177,600
Library Acquisitions	776,000	1,031,000
Minority Faculty/Staff/Student Development	105,900	469,900
Part Time Faculty Stipend Increase	200,000	200,000
New Staff (5) + (2)	176,400	268,500
Graduate Assistant Increased Stipend	200,000	200,000
Scholarships	184,200	462,300
Equipment	500,000	700,000
Telecommunication Equipment - Networking	750,000	850,000
Electronic Photography Lab	100,000	198,000
Various Capital Construction and Equipment from 6 Year	3,090,000	4,210,900

**PROPOSED EXPENDITURE OF AMOUNTS ABOVE/  
OUTSIDE THE FORMULA-BASED STATE GENERAL  
FUND APPROPRIATION (AND ASSOCIATED DEGREE  
CREDIT TUITION REVENUE INCREASES)**

Outcomes Assessment - Accountability	308,900	448,900
KERA-HJR-54	250,000	400,000
Excellence in Education	198,900	285,900
Kentucky Museum	615,000	0
Campus Facilities Audit	0	97,200
Debt Service for Various Capital Construction and Equipment from 6 Year Plan	3,874,600	7,398,400

Following a review of the recommendation by Dr. Cecile Garmon, the Finance Committee unanimously approved the preliminary funding request to the Council on Higher Education which is based on full formula funding with state appropriations.

- **RECOMMENDATION FOR ADOPTION OF A RESOLUTION AUTHORIZING THE REFUNDING OF WESTERN KENTUCKY UNIVERSITY CONSOLIDATED EDUCATIONAL BUILDING REVENUE BONDS, SERIES H AND J**

**RECOMMENDATION:**

President Meredith recommends the adoption of the attached Resolution authorizing the refunding of Western Kentucky University Consolidated Educational Buildings Revenue Bonds *Series H and J* and further delegating to the Executive Committee of the Board of Regents the final approval of the bond resolution, official statement, other bond related documents, and the acceptance of the interest rate bid on the bonds.

**Background:**

Western Kentucky University issues two types of revenue bonds: (1) Consolidated Educational Building Revenue Bonds and (2) Housing and Dining System Revenue Bonds. The Consolidated Educational Building Revenue bonds (Con. Ed.) are totally supported by General Fund appropriations from the Commonwealth of Kentucky. Housing and Dining System Revenue Bonds (H and D) are totally supported by revenues generated from the auxiliary enterprises of the University. Since the Con. Ed. Bonds are supported by General Fund appropriations of the Commonwealth, the Finance and Administration Cabinet of Kentucky state government makes the determination of the

timing of the refunding of these bonds. Based upon discussions with the Finance and Administration Cabinet, it is now recommended that the Board of Regents of Western Kentucky University approve the refinancing of two Con. Ed. bond issues: (1) the *Series H* Bonds originally sold in 1971 to finance the Cravens Graduate Center and the Ivan Wilson Center for Fine Arts and (2) the *Series J* Bonds sold in 1990 to finance the Preston Health and Activities Center. The estimated refunding would total approximately \$15 million. It is estimated that the total debt services savings over the life of the issues will be approximately \$955,000 with an average annual savings of \$55,000 per year. The present value savings is estimated at \$675,000. This savings will fall to the Commonwealth not the University, since the Commonwealth totally supports the debt service.

It is anticipated that the bonds will be sold at a date to be determined in early November. Approval of the Resolution by the Board of Regents would allow the Executive Committee of the Board to approve the final structure and documentation for the refunding issue and would allow the Executive Committee to accept the interest rate bids on the bonds.

## **RESOLUTION**

**WHEREAS**, Western Kentucky University in conjunction with the Finance and Administration Cabinet of the Commonwealth of Kentucky continually monitors the debt and liabilities of the University. Whereas, over the past year interest rates have continued to decline.

**WHEREAS**, it has been determined that a refunding of the Consolidated Educational Building Revenue Bonds *Series H and Series J* will generate significant debt service savings to the Commonwealth of Kentucky.

**NOW THEREFORE, BE IT RESOLVED** by the Board of Regents of Western Kentucky University that the refunding of the Consolidated Educational Buildings Revenue Bonds *Series H and J* be authorized; that the staff of Western Kentucky University working with the Commonwealth of Kentucky structure and market the refunding bonds; and that the final approval and acceptance of the interest rate on the refunding bonds be delegated to the Executive Committee of the Board of Regents.

Dr. Jim Ramsey reviewed the resolution authorizing the refunding of Consolidated Educational Buildings Revenue Bonds, *Series H and J*. The staff continues to monitor interest rates on Housing and Dining Bonds for possible savings, and the state people monitor the Consolidated Educational Buildings Revenue Bonds. It was the opinion of the Finance Committee that the Committee and the Board of Regents should exert efforts to return to the University monies saved from refinancing bonds.

The Finance Committee unanimously approved the adoption of the resolution authorizing the refunding of Western Kentucky University Consolidated Educational Buildings Revenue Bonds, *Series H and J*.

With no further business to come before the Committee, the meeting adjourned at approximately 10:25 a.m.