

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

**October 21, 1996**

**AGENDA ITEM 1 - Call to Order**

Required statutory notice having been given, the Finance Committee of the Board of Regents of Western Kentucky University was called to order in the Regents Conference Room of the Wetherby Administration Building on the Western campus at 2:40 p.m., CDT, by Mr. Burns Mercer, Chair.

**AGENDA ITEM 2 - Roll Call**

Mr. Gray, Mr. Mercer, and Mr. Preston were present when the meeting was called to order. Mr. Fischer joined the meeting at approximately 3 p.m.

Mr. Martin was absent.

Regent Gramling was also in attendance.

In addition, others present were Dr. Thomas C. Meredith, President; Mrs. Liz Esters, Staff Assistant and Secretary to the Board of Regents; Ms. Ann Mead, Director, Budget and Management Information, Dr. Jerry Wilder, Vice President for Student Affairs; and Mr. Fred Hensley, Vice President for Institutional Advancement

**AGENDA ITEM 3 - Recommendation for acceptance of the 1995-96 Annual Financial Report**

**RECOMMENDATION:**

President Thomas C. Meredith recommends that the Board of Regents accept the 1996-97 Annual Financial Report prepared by Western Kentucky University and audited by the independent accounting firm of Baird, Kurtz & Dobson.

**BACKGROUND:**

The financial statements of the university are the responsibility of university management. Compliance with laws, regulations, terms and conditions of contracts and grants is also the responsibility of university management. The establishment and maintenance of an internal control structure is likewise the responsibility of university management. Western Kentucky University employs an external independent auditor to provide to the Board of Regents opinions that the financial statements present fairly the financial position of the university; that the university has complied with applicable laws, regulations, contracts and grants; and that the design and

operation of the university's internal control structure is effective.

Baird, Kurtz & Dobson has again completed the audit for Western Kentucky University for the fiscal year ended June 30, 1996. The audit presented by Baird, Kurtz & Dobson to the Board of Regents is a clean audit.

In the management letter presented to the Board of Regents, three recommendations are presented for the Board's consideration. The Vice President for Finance and Administration has requested the appropriate managers for each of the areas of responsibility relative to the recommendation to prepare a response to the recommendation.

**[The financial reports were presented to Board members in their agenda packets, and a copy is filed in the Board's official files along with a handout that reflects responses to the auditor's recommendations.]**

Mr. Tom Harmon, Director, Accounts and Fiscal Services, presented the Annual Financial Report for 1995-96 fiscal year which includes the audited financial statement along with the unqualified auditor's opinion. Mr. Harmon noted that the management letter made three suggestions or recommendations which have been addressed, and copies were included in the materials handed to the Committee prior to the meeting. These were very minor, and corrective actions are in place. Two other important documents included in the financial reports are:

- The closing package, which is similar to the annual financial report,
- and the House Bill 622 Compliance Document.

The closing package is put together for the State to format our financial statements for Kentucky's annual financial report; it transforms our figures into their format. The letter from the auditor states that we are in compliance with the authority delegated to Western under House Bill 622 in terms of accounting, payroll, purchasing, etc.

Mr. Harmon introduced Ms. Sherri Stokes and Mr. Ron Shrewsbury from Baird, Kurtz & Dobson. Ms. Stokes presented the Annual Financial Statement and answered specific questions from the Committee.

Chairman Mercer asked the auditors if there was anything that they would like to say to the committee in executive session, and the auditor's response was that there was not.

**AGENDA ITEM 2 - Recommendation for acceptance of the Quarterly Financial Report and approval of the Revised Budget for the first quarter of 1996-97.**

## **BACKGROUND:**

Total realized Educational and General (E&G) revenue as a percentage of the budget is very comparable to the 1995-96 first quarter revenue. The tuition revenue appears to be in-line with what was collected during the first quarter of last year. There are some fees which have not been posted. However, preliminary reports indicate that once all fees are collected, tuition revenue should surpass the 1995-96 tuition revenue for the first quarter.

Auxiliary Enterprises revenue declined slightly in the first quarter. This decline was due primarily to a change in the method of purchasing departmental computer hardware whereby sales are no longer recorded through the Bookstore. Also, it does not appear that there will be a significant change in the housing revenue over the previous year.

The increase in the revised budget is almost exclusively due to the carry forward of grants and contracts and encumbrances.

Mr. Harmon reported that the first quarter financial statement, compared to one year ago, is right on schedule. Revenues and expenditures are down in Auxiliaries a little bit as a result of a change in computer purchase procedures in the bookstore. Mr. Harmon responded to questions from the Committee about the first quarter financial statement and the recommended revised budget.

Motion for acceptance of the first quarter financial report and approval of the revised budget for the first quarter of 1996-97 was made by Mr. Preston, seconded by Mr. Gray and carried.

**AGENDA ITEM 3 - Recommendation for approval of the Educational and General fund balance allocations in the amount of \$3,033,011 and Auxiliary Enterprise fund balance allocations in the amount of \$988,474.**

## **BACKGROUND:**

The University over realized its revenues and under expended funds allocated in comparison to budgeted amounts for the year ending June 30, 1996. The total fund balance is \$17,797,475 of which \$3,033,011 is available for allocation. The difference reflects the reserve, prior Board and Institutional commitments, and accounting requirements. (Items such as working capital and encumbrances.) The amounts of the ending fund balance that are recommended as allocated to the reserves are \$4,116,500 and \$600,000 for Educational and General and Auxiliary Enterprises, respectively.

The recommended items to be funded from the fund balance are based on the following principles:

1. Fund balance allocations should apply to nonrecurring expenses.
2. Fund balance allocations are not made for regular operating expenses.
3. Fund balance allocations are recommended based upon university priorities.

**[Note: The recommended allocations are reflected on the following page.]**

President Meredith commented that the fund balance dollars are now available for allocation as a result of the marvelous job done by the people on campus in terms of managing their budgets. Dr. Meredith reported that over the last three years, excluding computer purchases, over \$2 million in instructional equipment alone has been distributed from fund balance, and this has made a significant impact in the classrooms.

President Meredith noted that in recommending the allocation of the fund balance dollars, the following principles are followed:

- Project expenditures should conform to university priorities.
- Project expenditures should be for nonrecurring expenses, whenever possible.
- Project expenditures should be for capital/equipment, or operating.
- Each management area of university should have some discretion to allocate funds to priority needs.

Ms. Mead, Director of Budget and Management Information, discussed the information contained in the recommendation. The Fund Balance of \$17,797,475 is comprised of two pieces: Education and General - \$13,443,374 and Auxiliary Enterprises - \$4,354,101. The increase in fund balance for 1995-96 was about \$2.3 million; in comparison to June 1995, the increase was about \$2.2 million. Ms. Mead noted that of the approximate \$13.4 million, commitments of approximately \$10.4 million have been made and cannot be allocated for any other purpose without redirection from the Board leaving approximately \$3 available for allocation to nonrecurring strategic directives.

The table shown below reflects an **Analysis of 1995/96 Fund Balance and Proposed Allocations:**

	<u>Educational and General</u>	<u>Auxiliary Enterprises</u>
Fund Balance as of June 30, 1996	\$13,443,374	\$4,354,101
<b>1. Allocated/Proposed Allocations</b>		
Reserve	4,116,521	600,000
Accounting Requirements	2,008,816	1,460,856
Commitments (e.g., indirect cost recovery distribution, revenue-dependent accounts)	1,539,734	0
Prior BOR Allocations		
Programmatic Initiatives	589,242	0
Capital Projects	2,156,050	544,682

Subtotal	\$10,410,363	\$2,605,538
<b>2. Available for Allocations</b>	<b>\$3,033,011</b>	<b>\$988,474</b>

In the process to determine how to allocate the \$3 million, the vice presidents came in with lists that totalled slightly better than \$5.5 million and worked together to bring forth the recommendation they felt would best meet the needs of the institution.

Ms. Mead stated, "Dr. Burch was highly supportive of funding the deferred maintenance projects as recommended." President Meredith added, "One of the nice things that Dr. Burch has brought to our campus is a big view of the total place. She understands that instructional costs can be fixing the north wing of Thompson in terms of the heating and cooling. If people are miserable in there, then not much learning is going to take place. She has brought that to the table. It hasn't been something that she's had to agree to."

Ms. Mead reported that the group agreed that there were deferred maintenance projects that were very high priority that needed to be funded, then agreed on programmatic initiatives that became separately identifiable. The middle category "University-wide priorities" were also agreed upon. There was a balance left, and it was agreed to allocate a percentage to each vice presidential area based on the percentage of their unrestricted E & G budget, recognizing that there are important nonrecurring needs in each vice presidential area. Each vice president can then go back to their unfunded requests and fund what they believe to be the most important.

Mr. Gray asked if the effort that went into the recommended allocation included the Board's established budget goals. President Meredith indicated that maintenance was a priority goal, and the primary thrust of the recommendation is for maintenance. Also, Vice President Burch worked with the deans and directed them to tie their initiatives back to implementing "New Level." Items reflected under Support for Academics and Academics Facilities, Dr. Burch believes, all have a specific tie back to "New Level."

Mr. Mercer asked about the amount initially funded by the Board for

Development that was reviewed at a later date.

President Meredith reported that the Board initially approved the position of Vice President for Institutional Advancement that was to be self-supporting. Vice President Hensley reported that the Board, in October, 1994, approved \$350,000 from the fund balance allocation. That \$350,000 has been used for the last two years to assist with planning and implementation of the major gifts campaign. Mr. Hensley stated, "We are now approaching the end of that \$350,000, and an additional \$350,000 is being requested to implement the campaign as we move into a faster pace, more aggressive fund raising mode. I'd like to say to you that that will last more than the next 12 months, but I'm just not sure at this point. As we move into a faster track and more aggressive mode in fund raising, I'm not sure we can make it last 24 months, but I think that will be, certainly enough, to make it at least 12-18 months."

Mr. Hensley stated that the \$350,000 would be used to continue the three new positions that were funded with the initial \$350,000, (trust accountant position, gift entry position, and research assistant position) and enhance funds that have already been set aside in academic colleges for hiring collegiate directors of development to serve the four academic colleges, and restaffing a position for the University Library and Kentucky Museum.

Mr. Gray asked for a report at the next Board meeting of where the Foundation is since its' inception. Mr. Gray suggested that the Major Gift Fundraising Plan, presented in October, 1994, be compared to where we currently are.

President Meredith suggested that the Board of Regents should meet with the Foundation Board in the near future, at this critical point in the career of fund raising efforts at Western, and hear a presentation and give input and advice on moving forward to the next phase and level in the fund raising efforts.

Chairman Mercer called for a blue print "of where we have been and where we are going, and the approximate time it's going to take to get there so that the Board can have a score card and be reassured that we are meeting our goals."

With no further discussion, motion for approval of the recommended fund

balance allocations was made by Mr. Preston, seconded by Mr. Gray, and carried.

#### **AGENDA ITEM 4 - Operational Plan**

The Operational Plan will be discussed at the full Board meeting and also at the Board Retreat; however, the Finance Committee held a brief, preliminary discussion on the plan.

President Meredith stated that it is the administration's intention for the Board to hear this at the Board meeting; the Board may be ready to do some finalizing then, or may want to draw some closure at the retreat.

Mr. Gray felt there should be enough measurement included that, so that at each Board meeting, there could be a review of where we are in accordance with the strategic plan and operational plan.

Mr. Mercer sought input from the committee about holding the Finance Committee meetings on days other than the day of the Board meeting and asked the committee how to structure the meetings for the coming year. He stated, "In preparation for the budget, I think we have all been a little disappointed at the rush at the end of each year that we have with the budget. "

Mr. Preston stated, " I would like to see information that we received prior to this meeting before every one of them. I think it would be most helpful if we have the board meeting at 1 p.m. in the afternoon, and we could have the Finance Committee in the morning and spend whatever amount of time we need to get our chores done."

Mr. Fischer stated that he had strongly suggested to the new Chair that there should be some separation of the committee's structure from the Board structure from the standpoint of the board meeting day.

Mr. Gray suggested that the Finance Committee, or some part of the committee, should have some interaction with the University Budgeting Committee. Mercer suggested that members of the committee could rotate meeting with the University Budgeting Committee. President Meredith indicated his willingness to do whatever the Board desired in that regard.

Mr. Gray made a motion for the Finance Committee of the Board of Regents to go into closed session for discussions or deliberations on the future

acquisitions or sale of real property as authorized by KRS 61.810a. The motion was seconded by Mr. Preston.

The Committee, accompanied by President Meredith, Ms. Esters, and Ms. Gramling went into closed session at approximately 3:50.

Upon returning from closed session at approximately 4:10, p.m., Mr. Mercer stated that, "During the closed session, the Committee discussed only matters within the scope of the motion, took no formal action and made no decisions."

With no further business to come before the committee, motion for adjournment was made by Mr. Preston, and seconded by Mr. Gray. The committee adjourned at 4:10 p.m.