Final Action by the

Western Kentucky University

Board of Regents

in Response to the Audit

August 20, 1992
October 29, 1992
Members of the Western Kentucky University Community

Dear Members:

As you are aware, House Bill 149 enacted by the 1992 General Assembly created a new selection process for the appointment of members to the Boards of Regents of our state universities. As a result of this selection process, Governor Brereton C. Jones appointed a new Board of Regents to Western Kentucky University on July 1, 1992.

Upon taking office the first and foremost focus of the Board of Regents has been to address in a forthright manner the audit performed by Arthur Andersen & Co. Each member of the Board of Regents was provided with a copy of the audit. The audit was discussed in detail by the Board and with members of the University’s administrative staff. The Board of Regents reviewed in detail the institution’s response to the audit and has discussed this response, again both as a Board and with individuals of the University’s administrative staff. A great deal of thought and reflection have taken place by the members of Western Kentucky University’s Board of Regents on this subject.

As a result, the Board has addressed each of the nineteen recommendations made in the institution’s response to the Arthur Andersen audit and the University’s own review of its internal fiscal and management practices. A summary of the action of the Board of Regents is compiled in this document for your review. The Board is positive about these actions and looks forward to seeing Western Kentucky University move ahead in these difficult times.

Sincerely,

Burns E. Mercer
Chairman, Board of Regents

BEM:ttc
Background:

On August 20, 1992, the Western Kentucky University Board of Regents adopted nineteen recommendations that resulted from the audit by Arthur Andersen & Co. and from the institution’s internal reviews of its fiscal and management controls. Presented below are each of the recommendations adopted by the Board at either its August 20th meeting or October 29th meeting.

Section A. Agency Funds

1. **Action Taken:** The University had reviewed 81 existing agency accounts. As a result of this review, 55 agency accounts had been closed. It had been determined that 26 agency accounts were properly classified (see Appendix A).

   On August 20, 1992, the Board of Regents approved these actions taken by the University.

2. **Action Taken:** On August 20, 1992, the Board of Regents adopted the following agency fund investment policy:

   Interest earned on agency funds will be deposited in an Investment Earnings Account. Earnings will be distributed annually for the Student Housing Deposit Account and quarterly for the Hilltopper Athletic Foundation. The remainder of the earnings will be transferred to the General Fund at the end of the fiscal year.

3. **Action Taken:** On August 20, 1992, the Board of Regents adopted the following policy:

   The funds held by the University on behalf of the Hilltopper Athletic Foundation will earn interest which shall be credited to the Hilltopper Athletic Foundation. Interest calculations will be made at the end of each month based on the interest rate earned by the University for that month. The interest earnings will be distributed on a quarterly basis no later than October 15, January 15, April 15, and July 15. An annual interest fee of one percent on gross
earnings will be charged by the University for handling the Hilltopper Athletic Foundation account. The Hilltopper Athletic Foundation will receive a bill for the administrative fee at the time the July 15 interest check is distributed, and the Hilltopper Athletic Foundation will be responsible for paying the maintenance fee by no later than August 1.

4. **Action Taken:** The same maintenance fee is to be charged for housing deposits as is charged for Hilltopper Athletic Foundation deposits. However, this fee should be waived until the end of the 1994-95 fiscal year due to the requirement that over a three-year period the housing auxiliary must develop a substantial reserve to serve as a debt reserve for housing bonded indebtedness.

On August 20, 1992, the Board of Regents adopted the above policy.

5. **Action Taken:** On August 20, 1992, the Board of Regents approved receiving quarterly statements of revenues and expenditures concerning agency accounts.

6. **Action Taken:** On August 20, 1992, the Board of Regents approved the closing of the President’s Unrestricted Account funded from interest earnings on agency accounts.

**Section B. Annual Allowance**

7. **Action Taken:** On October 29, 1992, the Board of Regents adopted the following policy on the President’s contract.

The President of Western Kentucky University shall continue to be paid an annual allowance of $24,000 per year to cover certain non-reimbursement expenses that the Board of Regents expects the President to incur. The source of funds for the annual allowance from the institution will be reduced to $12,000. The balance of the allowance will be from private funds to be raised by the Board of Regents.

The Board of Regents further approved the payment of the annual allowance from October 1991 to the present from private funds to be raised by the Board of Regents.

The Board of Regents also authorized the Chairman of the Board of Regents to approve the President’s contract, based upon the draft contract and after consultation with each member of the Board of Regents.
Section C. Physical Plant

8,9,10 **Action Taken:** On October 29, 1992, the Board of Regents adopted the Policy and Procedures for Physical Plant Department shown in Appendix B.

These policies include charges for physical plant work, special events budgeting, and charges at the President’s home and office.

11. **Action Taken:** Any capital construction work at the President’s Home or Office, outside of the President’s budget for each entity, must be approved by the Finance and Investment Committee of the Board.

On August 20, 1992, the Board of Regents adopted the above policy.

12. **Action Taken:** The current lease for the President’s home with the College Heights Foundation was extended. The Board of Regents indicated that the University should continue to be responsible for all maintenance, repair, and improvements at the President’s Home, including those associated with air conditioning units. As outlined in a memorandum from Vice President Ramsey to President Meredith dated October 12, 1992 (Appendix C), an issue was raised by the Finance and Administration Cabinet of the Commonwealth of Kentucky concerning the appropriateness of the University’s assuming responsibility for capital improvements on property not owned by the University. As a result, the Board of Regents approved the lease included in Appendix C. This lease is silent on the subject of the responsibility of capital improvements. The correspondence between Dr. Meredith and President Thompson clarifying the lease agreement between the University and the College Heights Foundation is a part of the official file on the lease for the President’s home.

This final action was taken by the Board of Regents on October 29, 1992.

13. **Action Taken:** On October 29, 1992, the Board of Regents adopted the following procedures to refine the current policy of monitoring budgets on campus in terms of expenditures and revenues at regular intervals during the fiscal year. This refinement includes the provision of formal explanations by departments when there are extraordinary variations between budget and expenditure or revenue and expenditure.

"After the University accounts are closed and audited at the end of each fiscal year, an examination will be made of all accounts and those accounts which show deficits will be analyzed according to the funding basis."
1.0 Unit accounts funded without corresponding revenue.

Based on the revised budget, accounts which show a negative balance of at least $100 for the total account will be identified. The vice president of each area will be notified and asked to provide an explanation.

2.0 Unit accounts whose expenditures are directly related to specific revenue.

An examination will be made of revenue generated by these units. In cases where actual revenue does not equal projected revenue, an analysis of expenditure will be made. The appropriate vice president will be asked for an explanation if a discrepancy exists between actual revenue and expenditure."

3.0 See #5 Action Taken.

Section D. Food Service

14. Action Taken: The Board of Regents reaffirmed the current practice of charging for those expenditures for major functions held at the President’s Home or at other locations on campus and hosted by the President to the account entitled General Institutional Expenditures - Food Products.

On August 20, 1992, the Board of Regents reaffirmed this policy.

Section E. Expenditures of Dr. and Mrs. Meredith and the Board of Regents

15. Action Taken: On October 29, 1992, the Board of Regents adopted the policy contained in Appendix D concerning purchasing procedures as they relate to development accounts.

16. Action Taken: On October 29, 1992, the Board of Regents adopted the following:

"Western Kentucky University’s Board of Regents finds that it is often necessary for the spouse of the President to travel as a designated official of the University representing the public interest of the University. The spouse of the President will be entitled to reimbursement of her/his travel expenses pursuant to the travel regulations and procedures of the Finance and Administration Cabinet of the Commonwealth of Kentucky and Western Kentucky University."
The Board of Regents does hereby require the President to secure approval from the Chairman of the Board or his designee whenever the President's spouse is traveling in an official capacity representing the public interest of the University."

17. **Action Taken:** The Board of Regents reaffirmed the policy that all reimbursements for expenditures incurred by members of the Board of Regents follow University regulations.

On August 20, 1992, the Board of Regents confirmed this policy.

**Section F. Unrestricted Contributions**

18. **Action Taken:** On August 20, 1992, the Board of Regents expanded the procedural policy which governs all reimbursements through Unrestricted Funds Distribution. Once the goal of $250,000 has been reached, the percent of the unrestricted development funds to be placed in the Academic Excellence Fund each year should be reduced from 15 percent to 10 percent. Only 90 percent of the interest earnings from the endowment may be expended each fiscal year, with the remaining 10 percent of the interest earnings being returned to the corpus of the endowment. The 90 percent - 10 percent policies became effective July 1, 1992, while the reduction in the percent of unrestricted development funds from 15 - 10 percent shall become effective at the time the goal is reached.

19. **Action Taken:** The Board of Regents approved the return to the General Institutional Fund during the 1993 fiscal year of the $10,000 that was transferred to Development Program - Unallotted Contingency Fund from General Institutional Funds during fiscal year 1990 for the purpose of meeting the obligations incurred by the Unrestricted Development Funds Review Committee (for faculty, staff, and student development).

On August 20, 1992, the Board of Regents approved this procedure.

Attachments
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**GRAND TOTAL** 51,108,084.08

**TOTAL # OF FUNDS** 81

**CREDIT ACCOUNTS**

- 105.91 CREDIT AGENCY ACCOUNT
- 52,122.87 CREDIT DEVELOPMENT ACCOUNTS
- 21,122.87 CREDIT HOUSING INCOME
- 100,651.70 CREDIT MUNICIPAL BONDS

**CREDIT ACCOUNTS**

- 204,754.73
RECOMMENDED POLICY AND PROCEDURES
FOR PHYSICAL PLANT DEPARTMENT

This relates to Items #8, 9, and 10 of the Recommendations adopted by the Board of Regents at the August 20 meeting.

Introduction

Western Kentucky University is committed to excellence in carrying out its fundamental mission of educational service. Through this commitment, the University promotes the fullest possible development and expansive possibilities for its students and others who seek its assistance. In particular, the principle of excellence is basic to Western's academic programs but extends as well to all pursuits in services at the University (Western XXI). This commitment to excellence extends to the Physical Plant Department of the University.

In keeping with the institutional goals and objectives of Western Kentucky University, the mission of the Physical Plant Department is to foster a quality environment for teaching, learning, and service through effective management of campus facilities.

The priority objectives of the Physical Plant Department are as follows:

A. To maintain and preserve the Commonwealth's substantial interest in all University facilities through a carefully planned program of preventative and corrective maintenance and a scheduled reduction of deferred maintenance;

B. To foster quality teaching and learning by providing a comfortable, inviting, and aesthetically pleasing environment for faculty, staff, students, guests, and alumni;

C. To ensure that all proposed changes, renovations, and additions to the University's physical facilities are fully aligned with University and departmental objectives and values; and

D. To make available additional services peripheral to and in support of this mission statement.
Background:

The Physical Plant Department has often ended each fiscal year with actual expenditures in excess of budgeted expenditures. This can be attributed to a number of factors related to allocation of funds, management of resources with regard to the organization's mission, and accounting methods for reimbursement of recoverable expenditures. Also contributing to these over expenditures are unbudgeted resources to cover the expenditure for items such as special events and athletics, unbudgeted expenditures for facility additions and modifications and capital renewal.

Our goal is to develop a budgeting, accounting, and billing system that addresses concerns which have been raised and which provides a management tool that can be utilized to budget, monitor, and audit the financial performance of our Physical Plant Department. Equally important is the development of a clear and concise set of procedures that can be communicated and utilized by users across campus.

Definitions

The Physical Plant Department performs a variety of functions and services. To develop a budgeting, accounting, and billing system that is understood, several terms must be defined.

1. Operations and Maintenance

   a. Education and General (E & G)

   E & G Operations and Maintenance includes all labor, material, equipment, contract costs, and miscellaneous costs associated with the normal upkeep of E & G financed buildings and grounds. The annual operating budget should provide funding for defined levels of scheduled operations and maintenance of these facilities.

   b. Auxiliary

   Auxiliary Operations and Maintenance includes labor, material, equipment, contract costs, and miscellaneous costs associated with the normal upkeep of Auxiliary financed facilities. The annual operating budget should provide funding of defined levels of scheduled for operations and maintenance of these facilities.

2. Additions and Modifications to Facilities

Additions and Modifications to facilities fall into three general categories: additions to existing E & G or Auxiliary facilities.

1Athletics is part of the Educational and General Budget.
modifications to existing E & G or Auxiliary facilities, and functional improvements to these facilities. All such work costs less than $200,000 and is not authorized by the General Assembly. These operations are performed or coordinated by the Physical Plant on a request basis.

3. Capital Construction

Capital Construction is defined as projects which exceed $200,000 in project costs. Capital construction projects must be authorized by the General Assembly and such projects are managed by the Department of Facilities Management in the Finance and Administration Cabinet, Commonwealth of Kentucky.

4. Special Events

Special events are sponsored or hosted by the University for promotional value, community benefit, or their ability to produce revenue.

Procedures

1. Operation and Maintenance (Both E & G and Auxiliary)

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<tr>
<td><strong>A.</strong></td>
<td>At the start of each budget cycle, the Physical Plant Department will provide to the Vice President for Administration and Technology and the University Budget Committee a projection of normal maintenance that should be performed during the next year for both Education and General funded projects and Auxiliary funded projects. A five-year maintenance schedule will also be developed.</td>
</tr>
<tr>
<td><strong>B.</strong></td>
<td>The Vice President for Administration and Technology will recommend to the University Budget Committee a funding level for both Education and General and Auxiliary operation and maintenance. The recommended budget will provide an identification of service levels to be provided and the associated costs.</td>
</tr>
<tr>
<td><strong>C.</strong></td>
<td>The University Budget Committee will review the proposed operations and maintenance budgets.</td>
</tr>
<tr>
<td><strong>D.</strong></td>
<td>The University Budget Committee will recommend an operation maintenance funding level for E &amp; G and Auxiliary projects and the defined service levels this funding will provide.</td>
</tr>
<tr>
<td><strong>E.</strong></td>
<td>The management of the operations and maintenance budget will be the responsibility of the Physical Plant. A quarterly report will be prepared which details services performed and expenditures incurred during the prior quarter.</td>
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</table>
2. Additions and Modifications to Facilities

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<tbody>
<tr>
<td>A.</td>
<td>All departments (including the President’s Office and President’s Home) will request a cost estimate in writing from Physical Plant for any addition and/or modification to facilities. Structural changes involving classrooms or space utilized university wide will first be reviewed and approved by the appropriate Dean or Vice President.</td>
</tr>
<tr>
<td>B.</td>
<td>Physical Plant Department will provide a cost and time estimate on a Physical Additions and Modifications Form. The Physical Plant Department will provide an itemized cost estimate for both labor and material.</td>
</tr>
<tr>
<td>C.</td>
<td>A department that accepts this estimate will authorize work to begin by signing the Physical Additions and Modifications Form. This form will also be sent to the Department of Accounts and Budgetary Control and funds will immediately be encumbered.</td>
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</table>
| D. | Once the Physical Plant Department completes its work on a project, it will submit the Physical Additions and Modifications Form to Accounts and Budgetary Control with a statement that work is completed. Accounts and Budgetary Control will interaccount the department to reimburse an account established in the Physical Plant Department.  
   i. If the department is dissatisfied with the quality of work, the department should meet with the Physical Plant Department. Disputes will be referred to the Vice President for Administration and Technology to resolve.  
   ii. If final cost exceeds the estimate, the department will meet with the Physical Plant Department. Any disputes will be referred to the Vice President for Administration and Technology. |
| E. | The University will transfer $100,000 from the 1992 fund balance to a newly created Physical Facilities Pool to finance projects that are institutional wide in nature and which are not specifically provided for in departmental budgets. Such projects will be approved by the President.  
   The Budget Committee will recommend to the President a funding level for the Physical Facilities Pool for the 1993-94 budget and all subsequent budgets. |
3. Capital Construction

A. Physical Plant Department and University Architect will work with a newly created University Capital Planning Committee to identify capital needs for a two-year and six-year planning cycle.

   i. Each department will submit to the Capital Planning Committee their capital needs and deferred maintenance requests for a two-year and six-year planning cycle.

B. The Capital Planning Committee will provide to the University Budget Committee a prioritized list of capital projects and cost estimates.

C. The Capital Planning Committee will recommend to the President projects for inclusion in the University budget request to the Council on Higher Education for state funding.

4. Special Events

A. All services of Physical Plant Department required for Special Events will be coordinated through University Relations.

B. University Relations will provide the Vice President for Administration and Technology a list of services required, a cost estimate, and a source of payment on a Special Events Request Form.

C. If funds are available, University Relations will authorize the Physical Plant to do the associated work. If funds are not available, the Vice President for Administration and Technology will approve all work in advance.

D. The required work will be performed.

E. The Physical Plant Department will send the Special Events Request Form to Accounts and Budgetary Control upon completion of the work.

F. University Relations will invoice off-campus or on-campus group designated to pay for special event when appropriate.

G. Where no payment is to be made (or amount does not cover full cost), Accounts and Budgetary Control will maintain as separate account and provide Board of Regents with a quarterly report.

JRR:ttc
Western Kentucky University
Office of the Vice President for Administration and Technology

October 12, 1992

MEMORANDUM

TO: Dr. Thomas C. Meredith, President
FROM: James R. Ramsey, Vice President for Administration and Technology
SUBJECT: Lease with College Heights Foundation for the President's Home

Immediately following the Board of Regents meeting on August 20, we began the process to finalize the lease extension between the University and the College Heights Foundation (CHF) for the President's Home.

The lease with the CHF was extended until November 1, 1992. In the process of drafting a long-term lease, I had a discussion with representatives of the Real Properties Division of Kentucky state government in Frankfort. They indicated that given the non-affiliate status of the College Heights Foundation, the University was precluded from responsibility for improving the leased property. They clarified that for property leased by a University from a public entity (such as the case with our Glasgow campus), the University could make permanent improvements to the facilities as long as the University has entered into a long-term lease. However, their interpretation was that since the College Heights Foundation is a non-affiliate corporation, the University could not be responsible for capital improvements to the property even with the existence of a long-term lease.

The Board of Regents designated the Finance and Investment Committee of the Board to review and approve the renewal of the current lease for the President's Home with the College Heights Foundation with final Board ratification by November 1. Attached is a draft lease that satisfies the legal interpretation of Real Properties outlined above. I recommend that this lease be reviewed and approved by the Finance and Investment Committee and that if acceptable to the Committee this lease be presented to the Board of Regents.

JRR:ttc

Attachment
RECOMMENDATION:

President Thomas C. Meredith recommends the approval of the Procedures for Expenditure of Development Funds.

Background:

This relates to Item #15 of the Recommendations adopted by the Board of Regents at the August 20 meeting.

PROCEDURES FOR EXPENDITURE OF DEVELOPMENT FUNDS

1. DEFINITION

1.1 Development funds are funds received as a result of gifts (private, cooperative, or from any other source to include interest earned on such funds) to Western Kentucky University or any department or program thereof.

1.2 Unrestricted Development Funds are funds on which the donor has not placed any restrictions on the use of such funds.

1.3 Restricted Development Funds are funds on which the donor has placed restrictions on the use of such funds.

2. EXPENDITURE OF UNRESTRICTED DEVELOPMENT FUNDS

2.1 All Unrestricted Development Funds and any interest derived therefrom shall be expended in accordance with Commonwealth of Kentucky Purchasing Statutes (KRS45A.) and in accordance with the University’s purchasing policies as approved by the Western Kentucky University Board of Regents.

3. EXPENDITURE OF RESTRICTED DEVELOPMENT FUNDS

3.1 Expenditure of Restricted Development Funds and any interest derived therefrom shall be expended in a manner consistent with restrictions placed thereon by the donor.
4. EXCEPTIONS

4.1 Any request for an exception to the above policies must be made in writing to the Vice President for Administration and Technology explaining the rationale for an exception. Any exceptions granted shall be authorized by a finding of fact by the Vice President for Administration and Technology. This finding of fact will specify the reasons for an exception and will be maintained as part of the official financial files recording the expenditure.

5. NON-AFFILIATE CORPORATIONS

5.1 This policy does not apply to expenditures of non-affiliate corporations. However, this policy shall be communicated to each non-affiliate corporation which is identified with the University and each will be encouraged to adhere to this policy to the extent possible.

6. COMMUNICATIONS

6.1 This policy will be officially communicated to each unit on campus.