Minutes of the Quarterly Board of Regents Committee Meetings
Murray State University
Friday, December 4, 2009
Jesse Stuart Room – Pogue Library

Alan Stout, Chair, called the committee meetings of the Murray State University (MSU) Board of Regents (BOR) to order at 8:30 a.m. and welcomed members of the general public and University community. He expressed appreciation to the Regents for their attendance and reported Dr. Manchikanti was absent.

Academic Affairs Committee
8:30 a.m.

Jay Morgan, Chair
Constantine Curris
Phil Schooley
Alan Stout
Stephen Williams

Jay Morgan, Chair of the Academic Affairs Committee, called the meeting to order at 8:35 a.m. and reported all members were present.

Master of Science Degree – Chemical Manufacturing Management, approved

Mr. Schooley moved that the Board of Regents, upon the recommendation of the President of the University, approve the proposal from the University Academic Council for a new degree program – Master of Science Degree in Chemical Manufacturing Management. Mr. Stout seconded and discussion followed.

Gary Brockway, Provost and Vice President for Academic Affairs, reported there is a new degree program – Master of Science in Chemical Manufacturing Management – before the Board for consideration. He introduced Bonnie Higginson, Associate Provost, and Steve Cobb, Dean of Science, Engineering and Technology (SET). Dr. Higginson indicated Mike Kemp, Professor of Industrial and Engineering Technology, and Judy Ratliff, Chair of the Department of Chemistry, were extensively involved in developing this degree program. The proposed Master of Science in Chemical Manufacturing Management will better serve the needs of regional industry, represents a cooperative effort between the departments of Chemistry and Industrial and Engineering Technology and will be oriented toward application and practice rather than research and development. Once fully established, plans are to seek certification for the program as a Professional Master of Science through the National Professional Science Masters Association and, if successful, Murray State’s program will be the first in Kentucky to hold that designation. The program will also provide graduate education opportunities for individuals currently working in regional chemical manufacturing operations and will lead to opportunities for MSU chemistry undergraduate students, University of Kentucky (Paducah) Chemical Engineering undergraduates and international students seeking to enroll in a graduate program to gain additional science, technical and management education expertise. A number of regional industries have expressed support for the program, including ISP Chemicals, Lubrizol, CC Metals and Alloys and Estron in Calvert City, as well as McCoy and McCoy in Madisonville and Honeywell in Metropolis, Illinois. The program has undergone an initial 45-day review with the Council on Postsecondary Education (CPE) and, pending approval by the MSU Board of Regents, will be submitted for approval at the January 2010 CPE meeting. Dr. Cobb added the College of SET is excited about possibilities the program offers and believes it is a natural extension of the established Bachelor of Science in Management and Technology and Master of Science in Chemistry. This type of interdisciplinary program represents the future and will cement the University’s partnership with regional industry in Calvert City and beyond. There is no cost to establish this program because all courses are already being offered, with faculty in place, and the coursework is simply being restructured to meet regional industry needs.

Dr. Curris inquired about the internal procedures and timeline to be utilized to evaluate the success of this program. Dr. Cobb reported discussions have taken place internally and because
there is no additional cost associated with the new degree program and no outlay of resources will be required the bar is fairly low. Even if a relatively small number of students elect to participate in the program they would represent additional students the program did not have at its inception. Based on the response received from industry and applicants from the other two degree programs, it is predicted in the first year five to ten students could enroll in the program, with the goal of sustained enrollment of 15 to 20 students, and by nature these programs often have a relatively small population. There are other valued metrics, including developing partnerships with regional industries, and the long-term benefits extend beyond academic expectations and the number of enrolled students. A reasonable timeline to extensively review the success of the program would be after three years to determine if contacts have been made and whether other opportunities have been presented in terms of grants and contracts as a result of this association with regional industries. Dr. Higginson reported as the University moves toward achieving the Professional Master of Science designation a certification Board comprised of representatives from MSU’s regional industry partners will be in place to monitor progress of the program and provide feedback.

Mr. Adams asked for a prediction on the breakdown between traditional and nontraditional student participants for this program and Dr. Cobb indicated it is likely the program will attract more nontraditional students – those already in the workplace – and the number of traditional students will be fairly static. Most traditional students pursuing this degree will have completed their undergraduate degree in Chemistry or Chemical Engineering and have a desire to prepare for managerial or supervisory positions. It is hoped the program will attract individuals in the workforce who have risen through the ranks of a particular plant or industrial environment and would benefit from the technical enhancement and managerial aspects offered by the program. Whether a balance between traditional and nontraditional students can be achieved will in large part be based on listening to the needs of those interested in the program and meeting requested course scheduling preferences. In response to a Regent question about moving the program to Paducah Dr. Cobb indicated if the program is extended to Paducah it would no longer be a no-cost program and would require an expenditure of resources because University laboratories and faculty are based in Murray – although some non-laboratory components of the program could be offered at alternate sites.

Dr. Cobb indicated the timeline for seeking certification for this newly-established program is not presently known. Pursuing certification for a Professional Master of Science program is a new venture and the process to be utilized is now being explored. The majority of similar programs are located along the coast in major metropolitan areas and some certification agencies require the University to produce an actual graduate before the success of the program can be evaluated. Mr. Stout fully supports and applauds this effort because approximately three years ago Board discussion occurred on ways to better serve the Calvert City Complex and other industry in the area and this proposed degree program represents a move in the right direction. Dr. Higginson reported many letters were received endorsing the program and comments were made that the MSU bachelor’s degree in Chemistry prepares students well to enter into Calvert City industry positions (or elsewhere) but before long an interest in management develops and the Master of Science in Chemical Manufacturing Management will address that need. Dr. Dunn is excited to see work taking place centered around an interdisciplinary program and fully concurs the University will continue to develop additional similar initiatives – across all fields but particularly in the STEM disciplines. The University should consider targeting some faculty hires from around the country toward individuals with interdisciplinary expertise.

Dr. Morgan reported a motion and a second were received earlier. The motion carried.

Audit Committee
9 a.m.

William Adams, Chair
Constantine Curris
Laxmaiah Manchikanti
Alan Stout
Stephen Williams

William Adams, Chair of the Audit Committee, called the meeting to order at 8:55 a.m. and reported all members were present with the exception of Dr. Manchikanti.
Audited Financial Statements – General, discussed

Dr. Curris moved, seconded by Mr. Williams, that the Board of Regents discuss the 2008-09 general audited financial statements. Motion carried.

A presentation was made by Tom Denton, Vice President for Finance and Administrative Services, and Keith Messmer, representative from BKD – the University’s auditing firm. Mr. Messmer provided the following general audit highlights:

- A three-year history of net assets was provided and total assets increased from $243.6 million as of June 30, 2007, to $280.3 million as of June 30, 2009. The increase has primarily occurred in capital assets and over the last year there was an increase of over $20 million with Richmond College and the Chemistry Building comprising the majority of the increase.

- Cash and restricted cash are primarily invested with the Commonwealth of Kentucky. Some BKD clients have not been as fortunate to have invested as safely as the University and although some investment lines have decreased due to market conditions, the decrease at Murray State has not been as extensive as that at other universities.

- With regard to liabilities and net assets, deferred revenue is fairly consistent from year to year and as of June 30, 2009, represents monies received but not yet earned on summer tuition programs.

- With regard to bonds, notes and capital leases, $60 million in debt is not significant for an institution of Murray State’s size. Over the past year general receipts for $7.7 million were issued and regularly-scheduled principle payments were paid down on other debts. Other liabilities are fairly consistent from year to year and mainly represent accrued payroll and compensation and accounts payable.

- Net assets are at $200 million and increased by $20 million from two years ago.

Mr. Adams asked for explanation of the increase in unrestricted net assets and Mr. Messmer indicated it is a component of operations and the income statement illustrates the increase does not come from capital but from tuition and fees, less expenses, and is the residual component. Dr. Curris asked for further clarification regarding the source of the increase in unrestricted net assets reflected in the condensed financial information. It was reported the increase flows from annual operations but the basis for the $5 million increase in unrestricted net assets remains unclear. Mr. Denton reported the following resulted in the approximate $5 million increase in unrestricted net assets:

1) In the year just completed the University had $2.4 million in net tuition and fees (gross tuition less scholarships) which resulted in a net amount of $2.4 million in excess of budget from tuition and fees.

2) The University experienced substantial savings ($1.2 million) in the health insurance program but that will be absorbed in the current fiscal year when the new plan begins January 1, 2010. Mr. Adams asked for additional information with regard to the general audit and reference to “economic factors” in the management discussion letter related to a change in the University’s health insurance program. Mr. Denton reported the University is aware each year health care costs continue to escalate and recently undertook a review of the current health care plan, which resulted in a major plan redesign. There were health care savings from the past year that will be directed to cover a portion of the cost of the redesigned plan in addition to increased health care costs for the current year.

3) Although the University budgeted for an increase in utilities, the new campus buildings have proven to be much more efficient and a substantial utility savings resulted. The University further budgeted for anticipated increases in utility costs which did not materialize. These combined savings amount to approximately $600,000.

4) Some self-supporting accounts ended the fiscal year with positive balances and even though the money is restricted to the individual areas, it helps the University’s overall bottom line. The English as a Second Language Program has its own fee structure and there was substantial gain – approximately $700,000 – in that area. The mandatory Library Technology Fee resulted in approximately $265,000 budgeted with the total amount not being expended in the current year.

Mr. Messmer reported the following with regard to the statement of revenues and expenses:

- With regard to changes in net assets – income statement for the years ended 2007, 2008 and 2009 – while operating revenues have increased each year expenses have also increased. There is not a
significant change in the operating loss line item from year to year but a great deal of effort goes into simply maintaining this level, especially as it pertains to student retention, fees, grants and contracts and net auxiliary revenues plays a crucial role in maintaining revenue.

- With regard to expenses and a continuing decrease in state appropriations, the University must constantly monitor and control expenses, with investment income playing a major role in the University’s financial health.

- While the operating loss has not changed significantly over the last three years, operating revenues have decreased from $77 to $68 million over the same period with the largest portion representing a reduction in state appropriations, primarily a reduction last year of slightly less than $6 million. Investment income decreased from $4.8 million to a loss this year and while the University was not as significantly impacted as some other not-for-profit institutions, investment income decreased from prior year. Gifts decreased by $1.2 million.

- Other revenue – state capital appropriations – will fluctuate depending on construction the University has in progress and this year the figure was $12.9 million, including appropriations for the Chemistry Building.

Mr. Messmer further reported:

- With regard to the statement of revenues and expenses, for the period June 30, 2009, through June 30, 2010, the Board should begin to see an improvement in investment income and the Dow Jones reflects how MSU proceeds in this area. The University also holds a significant amount of money with the Foundation, which invests in equities, and the University is the beneficiary of any increases.

- The Audit Committee Management Letter and Representation Letter outline the audit scope and whether significant accounting policy changes were made throughout the year and two such changes included:
  1) Pell grant reclassification from operating to non-operating revenues for 2009, 2008 and 2007, which increased the University’s operating loss and moved it to non-operating income, and was restated for the three years presented, and
  2) University implementation of a change in accounting principle to recognize grants similar to Pell as non-operating revenues. Previously such grants were recognized as operating revenues.

- Discussions have taken place with management regarding alternative accounting treatments within accounting principles generally accepted in the United States for policies and practices for material items, including recognition, measurement and disclosure consideration related to the accounting for specific transactions, as well as general accounting policies. No matters were reportable.

- Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. The following areas involve significant areas of such estimates for which BKD is prepared to discuss management’s estimation process and their procedures for testing the reasonableness of those estimates:
  - fair value of investments
  - self-insurance accrual – accrual at year-end decreased due in large part to electronic claims processing, not because of lower costs
  - deferred revenues

- With regard to financial statement disclosures, the following areas involve sensitive financial statement disclosure for which BKD is prepared to discuss the issues involved and related judgments made in formulating those disclosures:
  - Revenue recognition and deferred revenues
  - Assets held by others (primarily the Foundation)
  - Related-party transactions (primarily the Foundation)
  - Risks and uncertainties
  - Pell grants reclassification to non-operating revenues
  - Change in accounting principles – grants similar to Pell grants treated as non-operating revenues during 2009
  - Current economic conditions with significant decline in the value of MSU Foundation investments
Mr. Messmer reported a major issue regarding risks and uncertainties in public universities, not just in the Commonwealth of Kentucky but throughout the United States, is reliance on state appropriations. Kentucky’s economy must rebound in order to generate state revenues and taxes to allow for continued higher education funding. A second risk is investments. The Foundation is critical to the support of Murray State and provides scholarships for students. If scholarship dollars from the Foundation did not exist MSU would not be able to attract as many students – which makes the Foundation’s investment portfolio critical to the University. A third area of risk is the capital campaign currently underway and while this represents a major undertaking it is also an initiative the University should be proud it did not back away from.

Internal control over financial reporting is where material weaknesses, significant deficiencies and control deficiencies are discussed. There were no material weaknesses to report. During the year-end audit procedures, BKD identified and proposed an audit adjustment relating to:

1) Recording of retainage payable and related construction in process and expenses; and
2) Recording of prior period effect of accrual of retirement benefits and employer payroll taxes related to accrued vacation.

When the University receives a contractor’s invoice retainage payable is typically 10 percent. According to generally accepted accounting principles (GAAP), BKD is proposing the retainage payable be recorded as a liability. Historically MSU and some other state universities have not recorded retainage payable as a liability but discussions are also taking place with those institutions because BKD believes it is a liability and should be recorded as a debit to fixed assets. The retainage feature provides protection for the University to ensure contractors deliver what is promised and BKD considers this to be a liability from the time the contract is signed until contractors begin work. Mr. Denton indicated state funding is accessed as needed by the University to pay construction project costs and at the end of the process the University pays the 10 percent retainage payable. The timing of the recognition of the liability is important and the University does not object to recording it at the point at which the contractor incurs the cost but this has not been past practice. There is some thought retainage payable should not be recorded until the end of the project and certain institutions believe the amount is not due until all work has been completed. State statute is not absolutely clear on this issue. The University has patterned its construction process after other schools and they currently do not report in this manner. BKD believes retainage payable is a liability and is indicating such to its university clients, although additional discussion must occur. Retainage payable would have been recorded as a liability this year but, due to Banner implementation, the audit to the state was behind schedule and it would have been detrimental to prolong the process any further. Dr. Dunn added the University has no issue with recording retainage payable in the manner indicated by BKD as it moves forward. The question was whether the University would go back and make this adjustment and declined to do so for this year for the reasons outlined. Mr. Adams indicated Board transparency has been discussed and he deferred to the Audit Committee to reach consensus on whether retainage payable should be shown as a liability. Mr. Messmer reported BKD audits the University of Kentucky and the University of Louisville (UofL) and currently they do not record retainage payable as a liability but are considering doing so at the recommendation of BKD. Research makes it difficult to argue against retainage payable being recorded in this manner and it will most likely become a reporting requirement next year. BKD recommends the University consider revising its policy in this area based on materiality of the year-end retainage amounts and the status of construction projects. Mr. Williams concurs with the auditor’s recommendation and believes it represents the most transparent approach to recognizing the University’s financial status.

Mr. Messmer reported the other proposed adjustment is accrued benefits on accrued vacation – the majority of which should have been recorded in prior years – but the additional accrual was not identified until this fiscal year and instead of restating prior year – because the total amount involved was immaterial – management determined the impact of recording the entire accrued amount during 2009 did not materially misstate the current year financial results and chose not to restate the prior years’ statements to include this accrual. There were no matters reportable regarding the quality of the University’s accounting principles.

There were two control deficiencies cited with regard to the payroll cycle and entity level controls. A payroll report is generated which department heads should review on a timely basis and this is not currently happening – due in part to Banner issues – but when certain controls
begin to lapse because of heavy workloads, management must be made aware of those control issues and their significance. BKD also noted the University has not been completing surprise cash counts during fiscal year ended 2009 and this is a key control that should be tested periodically throughout the year. It was recommended management reevaluate the importance of this control and consider implementing procedures to ensure timely testing. Mr. Denton reported with regard to the payroll reports, these are reports which were available under the old Condata and general ledger system of payroll. New reports are being compiled and should be completed within a few weeks which will help departments by providing more detail and should resolve this control deficiency. A cash count has now been conducted with cashiers in response to this finding. There are a multitude of locations on campus where cash is present and surprise counts at those locations have been conducted on a routine basis. The control deficiency relates to cashiers in the main Cashier’s Office and it was confirmed this finding represents a resource issue and the Internal Auditor will eventually be charged with ensuring surprise audits are conducted in a timely manner.

Mr. Messmer reported pledges receivable is an issue increasing in importance and as the University publicly launches its capital campaign, it is anticipated the relevance of pledge agreements will also increase. Many pledge agreements will contain wording specific to the individual donor and should be reviewed closely by personnel accountable for these gifts to ensure they are properly recorded in the records of the University or the Foundation. The University and Foundation are subject to different accounting recognition requirements and it should be determined which entity records pledges receivable. The majority of gifts are currently processed through the Foundation and Mr. Messmer believes this is where such gifts should be recorded. This does not mean the University will not also receive a limited number of gifts but BKD auditors must ensure the two entities are conversing with one another to ensure continuity. Mr. Adams indicated this issue has been discussed during Foundation Board of Trustees meetings and when individuals donate money to Murray State but do not specify whether the gift should be handled through the Foundation or the University, it can become an issue and questioned whether the situation has been addressed. Mr. Messmer reported the same scenario exists at UofL but they have now enacted a policy where any gift to the University is automatically redirected through the Foundation and which entity should record the gift never becomes an issue. Dr. Dunn stated the University has also undertaken an education campaign and provides this information in campaign materials and as discussions take place with donors the Development Office works to ensure the MSU giving process is clearly outlined. Gifts are occasionally given directly to the University but the issue is not as prevalent as in the past. Bob Jackson, Associate Vice President for Institutional Advancement, indicated when a gift is given to the University it is brought before the Board which then establishes a quasi-endowment to be administered by the Foundation. The issue is regular and consistent communication between all involved campus offices to ensure giving at Murray State is appropriately addressed.

Mr. Stout questioned whether the Board should eventually entertain a motion to put into effect a policy similar to that enacted at UofL so there are no questions with regard to the giving process and gifts to the University are not intended to be added to the general fund and should be used to assist in accomplishing the Foundation’s mission. Mr. Denton reported there are several complicated issues involved in this process but the University is generally successful in routing such donations through the Foundation and Mr. Jackson ensures donors are aware the University prefers gifts be directed in this manner. There are instances where an individual has passed away but their Will states a gift is being made to the institution – an example of where the gift belongs to the University and is recorded in restricted funds if the donor has restricted its use – but the Foundation is also asked to invest the money for the University. The gift is included in the Foundation’s portfolio but is recorded as being owned by the University and not the Foundation. There have been situations where donor intent is unclear and this is where difficulties can occur. Mr. Messmer indicated if a gift is restricted then a situation results where University and Foundation personnel must ensure the restriction is administered properly and there could be benefit to moving this responsibility solely to Foundation personnel because they are equipped to handle donations and can better track restrictions. The issue will not be resolved by simply enacting a policy and further discussion must occur. Dr. Dunn added this work is undertaken jointly and there are ongoing discussions among Development and Foundation staff to ensure accuracy in accepting and recording gifts. Discussions of this nature have taken place for some time and for cash gifts received by the University it is time to consider enacting a policy at Murray State similar to the one adopted by the University of Louisville. There is sufficient
concern the exceptions mentioned by Mr. Denton must be addressed before a “blanket” rule is issued.

Dr. Curris questioned whether Board policy currently exists to address how such gifts are handled in a broader sense regarding whether funds are given to the University or to the Foundation. Dr. Dunn confirmed a policy is in place but it does not specifically address the situation described earlier. Dr. Curris suggested staff closely review the issue and bring it back before the Board, indicating it is better to undertake this work at the beginning of the capital campaign than after gifts have already been made. Some unusual arrangements do exist because donors may not want their gift to go to the Foundation while others for various reasons do not want their gift to go to the University. The University must be careful how it handles estate gifts because there could be individuals disappointed with how estates are handled and MSU does not want to be sued by an individual who feels he or she – rather than the University – should receive the bulk of an estate and the University is placed in the position of defending its treatment of the gift if it varies from donor specifications. There are many nuances which must be taken into consideration but reviewing the policy and bringing it before the Board (with revisions deemed necessary by University staff) could be beneficial. Dr. Dunn agreed staff will proceed in this manner and Mr. Stout asked when the Board considers the issue that Tim Miller, Executive Director of the MSU Foundation, be present for the discussion.

**Audited Financial Statements – General, accepted**

On behalf of the Audit Committee, Mr. Williams moved that the Board of Regents, upon the recommendation of the President of the University, accept the following general audited financial statements for 2008-09:

a. Audit Committee Management Letter and Representation Letter  
b. Independence Letter  
c. General Financial Statement for the Year Ended 6/30/09  
d. House Bill 622 Compliance Report for the Year Ended 6/30/09  
e. Kentucky Lease Law Compliance Report for the Year Ended 6/30/09

Mr. Stout seconded and the motion carried.

**Audited Financial Statements – Federal Funds (A-133 Audit), accepted**

Mr. Messmer indicated with regard to federal funds (A-133 Audit), in addition to audit adjustments reported earlier there is a second finding (09-2) specific to student financial aid which also existed last year. The University informed auditors of the existence of this issue as it pertains to notifying the National Student Clearinghouse (NSC) when a student graduates – making them no longer eligible to receive federal loans. The NSC must be notified within 60 days of a student’s graduation which is a security procedure to prohibit students from securing additional loans to attend another university. The University notification to the NSC was 20 days late and MSU self-reported the situation. It was required to be listed as a finding because the University did not meet the requirement within 60 days and procedures are being implemented to prevent the situation from occurring again.

On behalf of the Audit Committee, Mr. Williams moved that the Board of Regents, upon the recommendation of the President of the University, accept the following federal funds (A-133) audited financial statement for 2008-09:


Mr. Stout seconded and the motion carried.

**Audited Financial Statements – Kentucky Institute for International Studies (KIIS), discussed**

Mr. Messmer reported the December 31, 2008, information is dated but the KIIS program is moving to Western Kentucky University (WKU) and auditors are close to finalizing the September 30, 2009, audit. Current assets include cash, cash equivalents and prepaid expenses. Cash is either held by the University in the general fund or in foreign accounts abroad.
Liabilities are deferred revenues where students have prepaid to participate in study abroad programs. The University will distribute to WKU the remainder from $700,000 in net assets (cash less expenses) to continue the KIIS program. These funds are part of the KIIS program and do not represent Murray State money and will be transferred once the audit is finalized – with the majority of funds having already been transferred – and the cost of the audit will be deducted from the amount transferred to WKU. Revenue and expenses for the KIIS program are similar to last year with net assets being higher at the beginning of the year than in 2007, which is surprising considering the economy. The operating loss amounted to $47,000 versus $54,000 income the prior year. There was also an investment loss which represented an adjustment in Euros. Net assets at the end of the year totaled $708,000, the majority of which will be transferred to Western.

Mr. Stout asked for reassurance that the most appropriate course of action was to allow the KIIS program to leave Murray State and the decision will not harm the institution’s stature. Dr. Dunn stated Jim McCoy, Associate Provost, will provide additional commentary during the international tuition pricing presentation but in terms of opportunities for MSU students no negative impact has resulted from the program moving to WKU. Every opportunity MSU students had for an international experience still exists whether or not the University hosts KIIS and serves as the consortium’s administrative and fiscal agent. KIIS utilized a number of Murray State faculty members to conduct study abroad trips and they are not forestalled from continuing to lead student groups in these experiences. There is some marginal benefit or residual that comes from having KIIS offices close to Murray State faculty members in terms of relationships which develop with the individuals leading tours and study abroad experiences for KIIS. Faculty who typically undertook this work for KIIS may be required to put more effort into continuing to participate in these study abroad experiences but the program is sponsored by faculty members from all institutions in the consortium. There may be some disappointment on the reputational side that Murray State was unable to retain KIIS when the consortium sought proposals to house the consortium at other universities. MSU presented a very strong proposal to continue to house the KIIS consortium but other institutions did as well and WKU dedicated tremendous resources toward supporting KIIS that MSU, and most other institutions competing in the process, were unable to match. The resource complement which came from Western played a powerful role in KIIS selecting WKU as their university agency. Dr. Dunn’s concern is ensuring Murray State students have full access to the same opportunities as other members of the consortium and provided assurance this continues to be the case. The University does not want to lose international experience numbers by virtue of KIIS moving to WKU and at this point is not drastically concerned about this situation developing. The University offers its own in-house study abroad opportunities, which is true at larger member institutions. The KIIS consortium was initiated many years ago to provide an avenue for study abroad opportunities but the University also administers a vibrant study abroad program which provides a wide array of opportunities through the Institute for International Studies (IIS). In terms of pricing, the University’s IIS study abroad cost is less than KIIS for a number of trips – which means the University is able to offer virtually as many trips but in a more cost efficient manner.

Mr. Denton reported many years ago when KIIS was initiated at Murray State a different funding situation existed and the University received state appropriations based on year-round enrollments and now, if enrollment factors in at all, it is only for the fall semester and KIIS primarily offers summer programs. At one time there was a financial incentive for the University to house the KIIS consortium which no longer exists. MSU also invested substantial indirect costs to maintain the program with various administrators working with KIIS and providing office space and utilities. Over the last ten years the University has not received any state appropriation specifically for the KIIS program. Dr. Dunn reported until spring 2008, when the Board decided to assess some administrative charges to KIIS, the University was heavily subsidizing the program. This led to discussion whether, considering the financial environment the University was facing, it could afford to continue to provide the same level of subsidy and the decision was made it could not. This likely played a role in KIIS issuing a Request for Proposals (RFP) seeking a new administrative and fiscal agent.

Ted Brown, Dean of Humanities and Fine Arts, indicated the KIIS program was housed in his college and many faculty taught in the program. He provided assurance that when KIIS sent out the RFP he asked the University administration to make a strong response and publicly thanked President Dunn, Vice President Denton and Dr. McCoy because the University made the very best proposal it could and maximized the offer in various ways. There were many conditions in
the RFP the University simply could not agree to, including the provision there be a seven-year agreement for the University to host the consortium which contained an additional provision the program would not be reviewed over that period. On the advice of General Counsel and University administrators, it was determined not to be in the best interest of the University to agree to this unreasonable condition – and there were several other similar conditions. Dr. Brown serves on the KIIS Board and attended meetings where the consortium agreement was discussed and for reasons he is not fully aware of it was not an open-minded process. He provided assurance this does not represent an instance of Murray State not trying to keep the KIIS program and was instead a matter of KIIS deciding they wanted to move the consortium elsewhere. Other conditions of the agreement provided the KIIS Director with free reign and less supervision and indicated the host university would basically have no program oversight. Dr. McCoy reported Luis Canales, Director of the Institute for International Studies, will shortly provide an update on study abroad initiatives, what has been happening over the past year and projections for the coming year but he has reported in spite of the economic downturn, and despite the fact that nationwide 70 percent of the public schools across the country have experienced dramatic declines in study abroad participation because of economic reasons, Murray State has been able to hold its own and projected numbers for summer 2010 are strong. Dr. Canales will brief the Board on the type of programs which have been developed to meet the needs of Murray State students. In response to a Regent question, Mr. Denton reported the annual cost for the University to subsidize the KIIS program was approximately $70,000 to $90,000 but this figure does not include personnel costs. Dr. Dunn indicated if students obtained Murray State credit for participating in the program there was also a significant indirect cost, or foregone revenue, in excess of $1 million. The University proposed instituting a tuition charge for KIIS students desiring to earn Murray State credit in an attempt to recapture some portion of foregone revenue.

**Audited Financial Statements – Kentucky Institute for International Studies (KIIS), accepted**

On behalf of the Audit Committee, Mr. Williams moved that the Board of Regents, upon the recommendation of the President of the University, accept the following audited financial statements for the Kentucky Institute for International Studies:

- a. KIIS Program Audit Committee Management Letter and Representation Letter
- b. KIIS Program Audit for the Year Ended 12/31/08

Dr. Curris seconded and the motion carried.

**House Bill 622 Compliance Report, explained**

Dr. Dunn asked that a brief explanation of the House Bill 622 Compliance Report be provided and Mr. Denton reported House Bill 622 represents legislation which delegated certain accounting operations for construction and real estate transactions be handled at the local university level as opposed to being conducted at the state level. The auditors must verify the University has conducted these processes appropriately. Dr. Dunn reported previously the Board – on behalf of the University – made a declaration to utilize this authority under House Bill 622 and the auditors must undertake a review to ensure institutional compliance with requirements of the Bill.

**Additional Audit Committee Recommendations, approved**

Mr. Adams stated it is the consensus of the Audit Committee to recommend to the Board that the University begin listing retainage payable as a liability based upon the recommendation of BKD auditors. At Dr. Curris’ suggestion the committee further recommends staff be directed to review current BOR policy with regard to gifts to the University and the Foundation and present the full Board with a recommendation for necessary changes.

Mr. Denton thanked Mr. Messmer and his staff; Jackie Dudley, Senior Director for Accounting and Financial Services; and Amy Sasseen, Assistant Director of Accounting, for their service to the University throughout the audit process. Mr. Adams expressed appreciation on behalf of the Board to these individuals and to Dr. Dunn, stating it is evident University management has handled finances in a responsible manner.
Adjournment

The Audit Committee adjourned at 10:05 a.m.

The Board adjourned for a break beginning at 10:05 a.m. Mr. Stout reconvened the Board of Regents committee meetings at 10:30 a.m.

Finance Committee
10 a.m.

Stephen Williams, Chair
William Adams
Marilyn Buchanon
Constantine Curris
Alan Stout

Stephen Williams, Chair of the Finance Committee, called the meeting to order at 10:30 a.m. and reported all members were present.

Compensation Review, discussed

Mr. Williams reported the recommendation before the Finance Committee is that the Board of Regents, upon the recommendation of the President of the University, approve a base salary increase of one percent, with a minimum of $400 (prorated for part-time employees), for all regular full-time and regular part-time employees hired before April 1, 2009, effective January 1, 2010, for exempt employees and January 2, 2010, for non-exempt employees. The salary increase would be calculated on the annual base amounts on July 1, 2009, for both exempt and non-exempt employees. A separate lump sum payment for approximately one-half of the increase would be disbursed in January 2010 with the balance prorated over the remainder of the 2009-10 fiscal year.

Murray State University cannot expect to continue to recruit and retain top tier faculty and staff if it continues to fall further behind in its compensation program and should make an effort to remain in line with what other Kentucky state universities have provided in terms of employee salary increases. The Board is aware of the state economic situation but has as a universal goal the advancement of MSU and employing and retaining quality faculty and staff plays a crucial role in the process. Dr. Dunn added consideration of the compensation issue will be based on available University finances to support the Board’s decision. A narrative and charts and schedules were provided where the University administration outlined scenarios to illustrate approaches utilized in the past to address salary issues. Any number of variables in these charts and schedules could be changed according to the desire of the Board, but as President he felt compelled to advance a recommendation to serve as a starting point which is what was provided. There is merit in considering an overall percentage increase and this is how the MSU Board has proceeded for some number of years in terms of wage and salary increases. In some years an across-the-board percentage increase was provided with an additional percentage added for merit. The Board last acted on the employee compensation issue in spring 2008 when it provided a one-time payment of $400 to all faculty and staff and the option of again proceeding in this manner was presented. Discussions indicate there may be an inclination by some Regents to utilize a flat percentage approach. If a percentage increase is provided across-the-board, highly compensated individuals will receive larger raises than individuals at the lower end of the pay scale. The proposals being presented today have a floor (minimum) which would have the effect of driving a larger percentage of any increase to lower paid employees. This recommendation represents a blend of typical practice for addressing overall compensation while reflecting concerns by the Board regarding the overall percentage approach. Each option presented can be changed as deemed necessary by the Board, including changing the floor amount or putting a ceiling or cap in place.

Dr. Dunn reported the first schedule outlines various scenarios and the corresponding effect on the general fund and auxiliaries to fund different options. The second schedule indicates where management has identified money for any salary increases but does not include accessing carryforwards held by the various operational units. Work was undertaken to instead determine
where adjustments in extant lines could be made to identify potential sources of funding for salary increases. If the Board determines additional dollars should be expended for salary increases, there would be a limited amount of funding available to accomplish this objective. The final schedule indicates how other Kentucky public universities have addressed the salary issue for their employees. Limited background information regarding statewide salary increases for employees of the Commonwealth of Kentucky was provided. Dr. Dunn would not advance a recommendation for salary increases if he did not believe the issue needs to be addressed for employee morale. There are also some political considerations which should be taken into account as the Board contemplates this action. Mr. Denton, Tom Hoffacker, Director for Human Resources, and Ms. Dudley were present to answer questions regarding faculty and staff compensation and the corresponding impact on the University budget. Mr. Denton reported all approaches presented are based on providing employees with a salary increase for the full year and for reasons related to the new payroll system it was necessary for the effective date of the increase to be January 1. Approximately one-half of the annual increase would be provided to employees in one lump sum payment in January and the balance would be distributed over the remainder of the fiscal year. There are two effective dates – one for exempt employees (faculty and professional staff) and one for non-exempt (hourly) employees – which are only one day apart based on the different pay periods. In response to a Regent question regarding which scenario will cause the least amount of long-term damage to the University’s financial situation, Mr. Denton reported a recurring source of funds has been identified to cover the cost of the recommendation being advanced – up to $800,000 – the scenario which assumes a 1 percent salary increase with a minimum of $400 and auxiliaries and grants (self-supporting areas) covering their share as is customary.

Mrs. Buchanon asked if there has been any indication the University will be forced into a rescission this year and issued a reminder that in September of last year the state announced there would be no rescission but this changed at the end of the year. Dr. Dunn reported the University is in the same situation this year and at this point has been held harmless from an appropriations standpoint. Since last June the Governor has indicated a desire to maintain higher education funding levels throughout this year with no rescission and this has been accomplished through the application of federal stimulus money in the Commonwealth Budget. The Consensus Forecasting Group meets today and it is believed the state economic outlook will not improve significantly. The University administration would be remiss if it did not acknowledge this should be a consideration in the decision process. If the University is faced with a rescission it would then begin accessing carryforwards in some manner (in proportion to unit budget share) to cover the giveback. Throughout the fall in depth discussions took place regarding the University identifying different funding sources and not solely relying on accessing carryforward monies held by each of the units. After much debate it was decided there was a strong desire to protect and maintain carryforwards as long as possible – a decision which led to the identification of the sources of funds which have been provided.

It was suggested that the Board should also consider exempting or setting a salary cap for individuals who make above a certain income level. Dr. Dunn indicated this would be appropriate for the Board to consider as it addresses the salary increase issue. Staff will do their best to prepare calculations and make accurate determinations on cost for any changes deemed necessary. This discussion will require full deliberation especially considering how potential salary increases will impact the University budget and the political element involved in providing employee raises at this time. Mr. Williams reported WKU provided a 1.5 percent salary increase for 2009-10, with a floor of $500 and a ceiling of $1,000, but confirmation was provided that the other public state universities did not provide any salary increase this year. Murray State provided a $400 one-time payment to employees in 2008-09 but this was not added to base salaries and there has been no adjustment to base salaries over the last three years.

Additional identified issues included:

- Consideration should be given to placing a ceiling or cap on salary increases for upper-level administrators earning above a certain salary. If a ceiling of $1,000 was established, 45 employees paid out of the General Fund making $100,000 or more would be affected and this group involves both administrative staff and faculty.

- The University has identified sources of funding for a total of $800,000 and salary increase costs should remain in close proximity to that amount – to include $80,000 funded through auxiliaries – in light of the fact the University could realistically be faced with another state rescission.
The Board should consider recommending a ceiling or cap be established (as well as a floor) and should also consider raising the floor somewhat higher than 1 percent – to increase the amount being provided to employees on the lower end of the pay scale – while maintaining an overall total cost of approximately $800,000 from the General Fund and $80,000 from auxiliaries. It is possible an additional $100,000 can be identified from the General Fund (and other similar sources) for a larger salary increase, but the administration would not be comfortable with committing to anything beyond the $800,000 limit and making a recommendation in excess of that amount would not be in the best interest of the University.

Assurance was provided that approving employee raises would not necessitate the elimination of any faculty or staff positions or lead to a reduction in unit funding. Clarification was provided that the sources of funds being used to pay for employee raises include utility savings, interest income not budgeted, tuition waivers and the worker’s compensation account (because costs were less than budget) and all funding sources are non-personnel related.

Discussion occurred regarding salary increases being added to a faculty member’s base salary and whether an increase to base salary during the year impacts summer teaching compensation. Full-time faculty are eligible to receive 7.5 percent compensation per course based on their salary and are not allowed to teach more than two courses during the summer – for a maximum of 15 percent extra compensation. Very few adjuncts are hired to teach during the summer but, if utilized, are paid a flat rate to teach a course.

The news coming out of Frankfort later today will be one issue to be taken into consideration if the $800,000 figure is modified. Staff agreed to provide an update to the Board during the Plenary Session to report the results of the Consensus Forecast Group meeting.

The Finance Committee agreed Mr. Denton and staff would compile additional information during lunch and provide the Board with requested data pertinent to the different alternatives to be discussed during Plenary Session. These alternatives take into consideration the desire of the Committee to provide employees with a 1 percent salary increase (possibly more), to increase the minimum floor for employees on the lower end of the pay scale and to set a ceiling or cap of $1,000 to $1,200 with the overall goal of not expanding necessary funding beyond $800,000 from the general fund and $80,000 from auxiliaries. Mr. Stout reported as Chair of the Board he addressed faculty and staff earlier in the semester during the Faculty/Professional Staff Luncheon and Staff Excellence Day, respectively. He assured both groups the Board would address the salary issue taking into consideration the overall financial condition of the University and the Commonwealth but he was also very careful not to commit the Board to anything definite in regard to compensation. Enrollment increases play an important role in this process and could help further address salary increases. If the Board elects to approve a salary increase he strongly urges it be applied to base salaries instead of offering employees another one-time payment. He is somewhat concerned with the cap or ceiling being proposed because ranking services continue to recognize Murray State as the premier comprehensive university in the state and it is important for the institution to maintain that level of quality. The University must be able to attract and retain the best and brightest, which includes upper-level and mid-level management, as well as faculty and staff.

Dr. Dunn asked if staff members are directed to undertake this work they should also be provided with parameters. Dr. Curris indicated difficult economic times have a more detrimental effect on lower paid employees and an across-the-board raise helps these individuals but the University must also maintain its top talent. He would be comfortable with a ceiling of $1,000 or $1,200 and requested both scenarios be reviewed but does not believe the Board can approve much more than the recommended 1 percent across-the-board increase and when data on ceilings of $1,000 and $1,200 is prepared, the effects of minimum increases of $400, $450 and $500 should also be included. Any savings resulting from the salary cap could then be added to minimum raise amounts.

On behalf of the Finance Committee, Dr. Curris moved that a recommendation be made to the Board of Regents to approve a base salary increase of 1 percent, with a cap of $1,000 per individual and a minimum amount, presumably exceeding $400 but to be decided after undertaking computations in light of the $1,000 cap to determine funding available to meet the Board’s desire for the overall gross salary increase expense not to exceed $800,000. The minimum would be prorated for part-time employees and the increase would be for all regular full-time and regular part-time employees hired before April 1, 2009, effective January 1, 2010,
for exempt employees and January 2, 2010, for non-exempt employees. The salary increase would be calculated on the annual base amounts on July 1, 2009, for both exempt and non-exempt employees. A separate lump sum payment for approximately one-half of the increase would be disbursed in January 2010 with the balance prorated over the remainder of the 2009-10 fiscal year. Mrs. Buchanon seconded and the motion carried. Staff also agreed to compile information on the effects of a $1,200 ceiling and floor scenarios of $400, $450 and $500.

Dr. Morgan thanked the Board for undertaking review of this issue because it was long overdue. Faculty members have consistently asked when they could expect to receive a raise to determine whether they should start searching for other employment. If young faculty members who have been at the University for only a few years (and are untenured) expect another year with no base salary increase, they most likely will start looking for employment elsewhere. By taking action on this particular agenda item the Board is beginning to show these young faculty members Murray State is concerned about salaries and advancement. What is being proposed is fair to faculty and to the Board – although it would be favorable if the percentage could be increased somewhat to include mid-level faculty and staff in the early stages of their careers. Dr. Dunn reported if a talented new faculty member or early promising scholar is identified but has received an offer from another institution, the ability exists to make a counteroffer in order to be responsive to market needs. This practice is not utilized for every faculty member receiving an offer from another institution but the University does attempt to retain promising scholars and talented faculty. This practice is also utilized to retain talented staff members.

Mr. Schooley indicated 1,100 Staff Surveys were recently distributed and there was a 57 percent response rate, with the majority of staff indicating they would like to see some sort of a raise. With regard to the minimum salary increase of $400, for a majority of staff on the lower end of the pay scale this would amount to a 2 to 3 percent increase which would be highly appreciated. The University does need to address salaries for individuals in the “middle group” referred to earlier.

Mr. Stout expressed appreciation to Board members for their input on this sensitive – but very important – issue and to Finance Committee Chair Stephen Williams for leading the discussion regarding compensation review.

Adjournment

The Finance Committee adjourned at 11:20 a.m.

International Relations

11 a.m.

Vickie Travis, Chair
Constantine Curris
Sharon Green
Jay Morgan
Phil Schooley

Vickie Travis, Chair of the International Relations Committee, called the meeting to order at 11:20 a.m. and reported all members were present.

Dr. McCoy introduced Dr. Canales and thanked the Board for the opportunity to provide information on MSU international enrollment and study abroad programs. During the November 2007 quarterly meeting the Board was presented with the University’s vision for further internationalizing the campus. The initiative was titled the “5/5/50” plan which specifically targeted goals of 5 percent of the student population being international students, 5 percent having participated in a study abroad program and 50 percent of faculty being internationally current. In spite of the economic challenges over this two-year period, significant progress has been made toward meeting international student enrollment goals. Also in spite of the economy and contrary to national trends, the University has maintained a remarkable degree of stability in student participation in study abroad opportunities. Preliminary indications from Digital Measures (faculty activity tracking software system) indicate the University is on schedule to meet the goal of 50 percent of MSU faculty maintaining international currency.
At the November meeting the Board also approved a new policy regarding international student tuition, particularly utilizing tuition discounts (for regular, non-resident tuition) for all international students in the amount of $2,500 per semester for undergraduates and $3,000 per semester for graduate students. For several years the University experienced consistent declining international student enrollment and during the November meeting Regents were presented with evidence that the pricing policy for international students was inconsistent and uncompetitive. The practice was inconsistent because over the years it had evolved to the point where some students from some foreign countries were awarded discounts while students from other countries were not which represented an “ad hoc” evolutionary development of policies. The policy was not competitive because the University’s non-resident tuition rate for students not receiving discounts was not competitive with tuition offered by Kentucky institutions or with other institutions competing for international students. As a result, the Board approved tuition discounts which were renamed Global Outreach Scholarships and the University fully recognized at that time there would be decreased revenue in the first and second year because tuition was being discounted and there would not be an immediate increase in enrollment. It was expected that in the third through fifth years the University would recoup lost revenues resulting in not only a positive financial gain but an enhancement to the international culture on campus for domestic students. The Board approved the tuition discounts with the provision that a report on the success of the initiative would be provided before the five-year assessment period expired.

Background information regarding the original estimate of the impact of international scholarships on tuition revenue was provided and has not changed from what was presented at the November 2007 meeting. A revised estimate of the impact of international scholarships on tuition revenue and a summary comparison of previous versus updated revenue impact estimates of Global Outreach Scholarships was also provided. The original estimate anticipated a decrease in gross revenue in year one (2008-09) and year two (2009-10) and a revised estimate was provided based on current enrollment data. There are 330 full-time international students on campus for fall 2009 which increased from 265 in fall 2007 and represents a 25 percent increase in international student enrollment over a two-year period. In 2008-09 the University exceeded enrollment targets so revenue did not decrease as much as originally anticipated. The University expected a $750,121 decrease in revenue which was reduced to $588,584 with increased enrollment. The University is ahead of the predicted schedule for fall 2009 and has exceeded enrollment targets (in policy) and is actually in the black in the second year – not the third year as originally anticipated. The program continues to recoup from first year losses so on a cumulative basis the policy is still in the red but is approximately $500,000 ahead of schedule after only two years. It appears the policy the Board enacted two years ago is not only bringing more international students to campus and enriching cultural activities for domestic students, but it is also producing a revenue return. If international enrollment stays flat from this point forward the policy would recoup losses over a five-year period. The University wants to meet the goal of having 5 percent of the student population comprised of international students and projects over the next three years it will be able to increase full-time international enrollment to over 500 students. The policy will then return significant revenue and educational benefits for MSU students. Enrollment increases are occurring at both the undergraduate and graduate levels but the increase in undergraduate students is more than projected and the increase in graduate students is less than projected. This is a result of new institutional relationships with key partners where students attend MSU on either 1+3 or 2+2 programs. The undergraduate student enrollment increase is heartening for the future in terms of the stability of numbers. Mr. Stout understands the importance of international student enrollment at Murray State in terms of cultural benefits but individuals also have a tendency to believe a University only needs to educate “its own” and should not bring international students to campus but should instead educate Kentuckians. He now realizes the value of international students in terms of enriching the campus environment and the local economy and this population is essential to the vitality of MSU.

Dr. Canales reported the study abroad outlook at Murray State is very promising for next year with early applications for summer and fall stronger than ever before. There are currently enough applications to fill the summer China Program and there will most likely be a wait list of students wanting to take part in this program. The fall Regensburg Program has nine applications and the University is currently working with six additional students helping them complete their applications. These numbers are promising especially considering the application deadline is not until February. For summer the University is expecting an increase in IIS numbers, especially due to the program administered by Regent Morgan. Five new faculty
programs are being added for the summer and are already generating a strong interest among
students. Four new partnerships with foreign institutions have been developed for the fall with
the University coming to the realization that developing partnerships is one of the most cost
effective ways to offer international experiences to students. The University must weather this
year because the economic conditions which have impacted the world have also impacted the
field of international education. Last summer numbers were not as good as expected but fall and
winter numbers are holding steady – although some declines are expected in the spring in part
due to the economy. At this point ten students have withdrawn from spring programs due to
financial difficulties. Although the economic impact has been significant there is also reason to
be optimistic, based on the number of initial applications.

Mrs. Travis thanked Drs. McCoy and Canales for their presentation and Dr. Dunn thanked Dr.
Canales, who joined the University this year, for his leadership. International education is a
complicated area that is fairly bureaucratic and Dr. Canales has ensured a smooth transition
between directors.

Adjournment

The International Relations Committee adjourned at 11:40 a.m. The committee meetings of the
Murray State University Board of Regents adjourned at 11:42 a.m.

Chair

Secretary

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