Mr. Stout stated there is a committee structure in place where Board members serve on various committees. Some committees will meet in formal session and pass action in regard to issues before the committee and then make recommendations to the full Board. The full Board will address issues arising from those committee meetings during the plenary session. He encouraged all members of the Board to discuss any issues with the pertinent committee even though they may not be an actual member and reminded all that only committee members can vote during the committee meetings. He encouraged full discussion during the committee meetings because it is helpful during the plenary session if Board members do not re-discuss issues that have already been covered during the committee meetings. Mr. Stout added that when a motion is presented in the full Board meeting the Chair need only provide a short summary of committee discussion in reference to the specific item on the agenda.

Mr. Bill Adams, Chair of the Audit Committee, began at 8:40 a.m. stating there are two items on the agenda for discussion, the Sarbanes-Oxley presentation and the scope of the audit on the Science Complex. The Sarbanes-Oxley report indicates that the role of the Audit Committee is changing and that has been brought about by national situations involving boards. He stated there was a period of time where boards tended to simply exist but now responsibility with regard to accountability has been brought to the forefront and all audit committees must acknowledge accountability and be cognizant of and participate in it. He introduced Mr. Tom Denton who presented an overview of the Board’s responsibility as it pertains to the Audit Committee.

Mr. Denton stated that last year a publication from Price Waterhouse was distributed to Board members. There were a number of suggestions for universities on how to apply Sarbanes-Oxley in a university setting. In 2002 Sarbanes-Oxley was passed because of corruption in the corporate world in management and accounting. He pointed out that these suggestions are not required for universities but should be reviewed to determine if they should be implemented in a university setting. Mr. Denton showed a Powerpoint presentation with the following leading practices:

1. To establish a separate Audit Committee. Mr. Denton reported that the MSU Board has already done this and there are five members on the committee. This answers practice #2 below.
2. To appoint at least three members, preferably five or seven, to the Audit Committee, with the idea of having an odd number so there are no ties in voting.
3. Audit Committee members should be independent with no members from management. Mr. Denton reported that the Board meets this requirement.
4. If possible, include one financial expert as defined by Sarbanes-Oxley. Mr. Denton stated that when corporations first looked at this practice it was a very difficult practice to meet because it required an accountant or CPA. It was then softened so more companies could meet the definition. Currently someone with an understanding of generally accepted accounting principles and knowledge of auditing functions; experience in preparing, auditing, and analyzing statements and an understanding of internal controls and procedures can be utilized.
5. Write a charter that includes Audit Committee responsibilities and review and update periodically. Mr. Denton reported that Murray State must work on this practice but does have within the Bylaws of the Board the following charge:
“The Audit Committee shall work with the President and the Vice President for Administrative Services on matters pertaining to the annual audit of the financial affairs of the University. The Committee shall recommend to the full Board the hiring of a firm of auditors and the term of this contract. Upon completion of the annual audit, the Committee shall review with the auditors, the President and the Vice President the results of the audit and any recommendations made. After such review the Committee shall report to the full Board and present the audit report for acceptance.”

6. Meet as often as necessary to fulfill the Committee’s responsibility, typically four or more times per year. Mr. Denton stated the MSU Board meets this requirement with four quarterly meetings per year in addition to special meetings as necessary.

7. Be responsible for all facets of relationships with the independent, external auditor, including approving their services, approving their appointment, determining who is appointed and their compensation. Mr. Denton reported that the University does a RFP and takes bids for pricing.

8. Work closely with the internal auditor, an important resource for the Audit Committee. Mr. Denton reported that MSU’s Internal Auditor is Mr. Al Choate and he reports directly to the President of the University. He is assigned tasks and reports findings to the President and Mr. Denton. He stated Mr. Choate is often used by the University’s external auditors and in the University’s general financial statement audit there are a certain number of hours that he is budgeted to work for them. He will assist on the College of Science audit as well.

9. Enhance disclosure in the footnotes to the financial statements as well as in the management, discussion and analysis (MD&A) and supplemental schedules; add MD&A to the annual report if it is not already included. Mr. Denton reported that Murray State currently meets this practice.

10. Consider requiring management to certify the accuracy and completeness of the financial reports. Mr. Denton reported management already signs off on a representation letter for the auditors that any information known to the University has been provided and no fraud or misstatements are evident.

11. Post governance materials on the institution’s website to enhance the transparency of the governance process. Mr. Denton stated this refers to more than financial information and includes governance material such as Board policies and faculty and staff policies. Currently some of this information is on the website but the issue needs to be addressed further. Dr. Dunn reported that information will keep coming as work toward policy revision continues.

12. Oversee and be well informed about internal controls because they are key to the accuracy and efficacy of the financial reporting system. Consider asking management to certify the internal controls and enhance documentation of key internal controls. Mr. Denton reported MSU is examining enhanced internal controls and each year the auditors meet with him to determine what their focus will be.

13. Enhance the Audit Committee’s understanding of enterprise risk management, as well as institutional specific risks. Mr. Denton stated this is a broad item and includes more than financial risk. Discussions have taken place about risk management, looking at specific risks from emergency preparedness to facility type and reputational risks. He stated there are a number of risk areas and even actions taken by the Board have some risk attached. Dr. Dunn stated that one of the things he and Mr. Denton have discussed is how to handle this practice and both feel it is something that the Audit Committee should address. He suggested there are a host of ways to handle this issue such as:

1. Many insurance carriers offer property, casualty, errors and omissions, all umbrella liability coverage, because they have a large investment and will provide assistance for risk management. Dr. Dunn does not know the nature of that with regard to MSU’s carriers but indicated it is a very common practice.

2. Dr. Dunn stated a survey could also be undertaken by an outside firm that would conduct a risk management assessment over and above what insurance carriers would normally do.

3. Dr. Dunn reported that some institutions hire a full-time risk manager and that person is involved similar to the way an Internal Auditor would be. Risk managers examine this issue on an ongoing basis but he is not sure the University is large enough to warrant the expense of a risk manager. Dr.
Dunn and Mr. Denton agree there is benefit to an increased risk management function but are not quite sure of the most efficient way to achieve it.

14. Increase knowledge of Audit Committee members about regulatory compliance matters so they can continue to improve their ability to oversee the institution’s compliance. Mr. Denton stated there are a number of regulatory bodies for an institution on both the federal and state level.

15. Ensure there is a system for confidential employee complaints. Mr. Denton reported that more frequently it is necessary to have in place a system for receiving complaints and for retention and logging and following up on those complaints. He further stated this revolves around the confidentiality aspect and many times the legal office handles such issues. He suggested the University take a look at this as well.

16. Oversee the institution’s Code of Conduct and plan for ensuring compliance. Mr. Denton stated there are statutory provisions for the Board of Regents and employees but the institution itself should adopt a Code of Conduct and perform ethics training. He reported that the University is currently examining this issue. Dr. Dunn reminded the Board this was discussed at the Retreat and the CPE is pushing for the universities to develop a Code of Ethics. Dr. Dunn asked Mr. John Rall to review the issue because a Code of Ethics was noticeably absent from the University. Mr. Rall had done some work on a Code of Ethics previously but given the CPE’s position Dr. Dunn asked him to move forward on developing the document which could be included within the context of Board of Regents Policy Manual revisions.

Mr. Denton stated that he would ensure every member of the Board received a copy of the Sarbanes-Oxley Report. In response to a question from Dr. Manchikanti, Mr. Denton replied that Sarbanes-Oxley is a group of federal lawmakers formed in response to problems in the corporate world revolving around all sorts of issues. Mr. Denton went on to say that even in the special audit BKD is conducting they are careful to make very clear they are not auditing any of their own member’s work, stating that those types of provisions were in place in the past but were not followed as closely.

Dr. Manchikanti asked if the document from Price Waterhouse was the law and Mr. Denton replied it simply provided suggestions to the universities. They have adopted the Sarbanes-Oxley law from corporate law and have identified certain sections which could apply to universities to ensure good practices. Mr. Denton stated that in the future the governing body for business officers at institutions such as MSU will be developing more specific recommendations but this is the best model currently available and provides guidelines that will enable the University to improve transparency.

Dr. Dunn stated there has been speculation since Sarbanes-Oxley passed that it could apply to public bodies at some point and this is reflective of getting ahead of that and thinking about what it would mean for MSU. He feels that even if a Sarbanes-Oxley type act would not be applied to public bodies it is still a set of best practices to follow. Mr. Rall had asked Mr. John Rall to prepare a Code of Ethics recently and Mr. Rall wanted to move forward with addressing a number of institutional accountability issues in the private sector/corporate world and those same concepts of accountability carry over to public institutions like Murray State.

Mr. Adams thanked Mr. Denton and stated he would provide an update on the audit for the Science Complex. He reported there have been several conversations with Mr. Denton and BKD and he was privy to two conference calls in August. The result of those conversations was to develop an Engagement Letter and send it to Frankfort for approval for funding. Dr. Dunn reminded the Board that a copy of the Engagement Letter is located at Tab #1 in the supplemental packet. Mr. Denton reported that at the last special meeting the Board agreed to engage the auditors for a special review and they have agreed to the scope of the engagement letter. The contract was approved by the State Contract Review Committee earlier this week and their auditor has contacted the University and will begin work on the audit shortly.

Mr. Denton pointed out that the front page of the Engagement Letter outlines the agreement between the University and the auditors and the scope of their work. The first paragraph outlines BKD’s services and responsibilities. They will evaluate whether state funding specifically received for construction of the Science Complex was used to defray the cost of other capital projects.
He further reported that discussions have taken place with Mary McKinley, an auditing partner from Louisville, as to how the University can meet that objective and those steps are outlined in items #1-4. Mr. Denton further stated that when the University expends dollars for a particular project those costs are accumulated for two or three days and then an electronic wire transfer of funds is requested from the Frankfort construction account that holds bond proceeds for the University’s operating account.

Mr. Denton stated that BKD will select a minimum sample of 50 revenue receipts which could have multiple contractor or vendor payments attached to them and they will examine the invoices to determine if they were specifically for construction of the Science Complex. Secondly, Mr. Denton reported BKD will examine vendors on the accounts payable list and trace that back to the subcontractors the University expected to work on the project when the awards were given, stating that not every vendor will appear on that particular list up front and if they do not it will be determined why.

Mr. Denton reported that #3 three pertains to internal controls. Through interviews with management BKD will document the University’s internal controls and processes for capital construction projects.

Mr. Denton indicated that #4 states BKD will propose recommendations for improvements in internal controls and the approval processes related to expenditure of state appropriations not just for this particular project but for all capital construction projects at the University.

Mr. Denton indicated that the remainder of the Engagement Letter details this is not strictly an audit because BKD is not giving an opinion but rather will present any findings detected. Mr. Denton pointed out that the Board should remember this engagement is not designed to prevent or discover errors, misrepresentations, fraud or illegal acts, and BKD does not guarantee they will find all such errors or misstatements. They obviously try to do so but do not guarantee it. Mr. Taylor questioned this last point and asked if BKD discovered an obvious error or fraud if they were required to report it to the University. Mr. Denton clarified these procedures are not designed to discover such things and BKD is covering itself as would be the case in any audit performed. BKD cannot design a program that guarantees it will catch all problems, especially within such a complex situation. Mr. Stout stated that if something like that were discovered it would be in the category to be reported. Mr. Denton reassured the Board that BKD would report any findings, including obvious cases of fraud.

Ms. Hays asked if the state reviewed the contract and Mr. Denton indicated that the State Contract Review Committee examined and approved the contract last Monday. Ms. Hays asked if whatever the outcome if the Board would be in good shape if no discretions are discovered. She asked if when this audit is completed the University would be able to receive funding or if the gray area Mr. Taylor referred earlier would still exist. Mr. Denton clarified that funding had not been cut off to the University but instead the University is attempting to change the budget language to enable the money to be used for both buildings. Dr. Dunn stated asking for this audit was the prerogative of the Board and is not responsive to any directive issued to the University.

Ms. Hays asked if the Board would be able to accomplish with this verbiage what they set out to do as a Board. Mr. Denton stated that Mr. Adams as the Audit Committee Chair participated in the development of the Engagement Letter and asked if he was still comfortable with the verbiage. Mr. Adams stated that the main idea is the Board has reviewed the matter and employed an outside firm to also review the matter. If anything is identified the Board will act accordingly to ensure they are performing their fiduciary responsibility. He feels that up until this point the Board has not officially addressed this matter and acted accordingly.

Ms. Hays inquired as to whether a sample of 50 was an adequate test over this period of time. Mr. Adams reported there were 150 total transactions but each transaction had multiple other transactions attached to it. During discussions it was not known how long it would take to review a sample so he requested that a minimum of 50
would be reviewed although as many as possible would be examined within the dollars approved for this purpose. He further stated the University’s Internal Auditor would be utilized for a portion of the work and perhaps BKD can utilize work already undertaken. It has been verified with the auditor that there are 150 total transactions and 50 will be tested which comprises 30 percent of the transactions. Mr. Adams went on to say that in a general audit only a 6-8 percent review of samples are tested but this was unacceptable to him and he requested that as many as possible be tested, with a minimum of 50.

Mrs. Travis agreed that 50 might not be an adequate number. Ms. Hays stated that she understands what the percentage means as it pertains to an audit but feels this is a different situation where the University is attempting to prove itself to the state. She wants to ensure that an adequate number is tested so the Board does not set itself up to be left with a fiduciary gray area. She further stated since the Board is going this far she wants to make sure it goes far enough. Mr. Adams stated he agrees with her 100 percent.

Dr. Dunn mentioned a cost/benefit analysis is required in these situations, stating that every transaction can be tested but it would be necessary to leave the audit open ended and most likely the cost would exceed $100,000. If the Board decides to pursue this avenue that is certainly one option but if the Board desires to do something else, to stay within the cost parameters, then this proposal seems to be what can be accomplished for $20,000. If the Board states they desire every transaction be tested that can be accomplished but it will take longer and will cost tremendously more than $20,000.

Dr. Dunn cautioned the Board to consider whether something is going to come from such an extensive audit that will warrant the expenditure of an additional $80,000 to $100,000. He feels this proposal represents the middle ground for all parties involved given the directive of the Board. Mr. Hays asked if it will accomplish what the Board wants to accomplish with the audit whatever the number of transactions. She wants to know if the University will be able to say to the Legislature due diligence has been performed and that will be accepted. Mr. Adams responded that he does believe by this action the Board is performing due diligence but the Legislature’s opinion of due diligence is the question. Mr. Stout agreed and stated there was no action to be taken on this issue and it was simply provided as an update. Mr. Adams pointed out that the University received verbal approval from the state to expend the dollars and move the audit forward.

Mr. Denton stated that the remainder of the agreement outlines Murray State’s responsibilities and BKD’s responsibilities and associated fees.

Mr. Taylor inquired whether there are restrictions to be interpreted from the Engagement Letter that BKD has the ability to engage with and deal with the Audit Committee and the Regents directly. In keeping with leading practices #3, that the Audit Committee be independent of management, he wants to ensure that there are no problems or restrictions with the auditors contacting him or members of the committee directly with questions or inquiries. Mr. Denton stated this is one of the reasons Mr. Adams became involved early in the process so the auditors could meet and get to know him and hear what his questions were.

Mr. Taylor stated that BKD needs to understand this is different from a standard audit review and that the Board has authorized and will oversee the audit. Mr. Denton stated he believes BKD to be very clear on this issue. Mr. Adams pointed out that there was an initial engagement letter and there were four subsequent drafts so quite a bit of discussion took place to reach this point.

Mr. King asked if the audit would be completed prior to legislative session and Mr. Denton stated that an attempt would be made to complete the audit by the November Board meeting. Mr. Stout thanked Mr. Adams and Mr. Denton for their work and stated his appreciation to the members of the Audit Committee.

Audit Committee adjourned at 9:25 a.m.
Ms. Hays, Chair of the Buildings and Grounds Committee, began at 9:25 a.m. stating that there were two items on the agenda, the Six-Year Capital Plan and Closed Session to consider property acquisition. She then turned the floor over to Dr. Dunn.

Dr. Dunn asked Dr. Dewey Yeatts, Chief Facilities Officer and Associate Vice President for Facilities Management, to provide an update on the Six-Year Capital Plan. Dr. Dunn stated that the document currently before the Board is not the entire Capital Plan and does not include every possible type of project that might be envisioned for the University over the next six years. Projects are reported by type, whether they are new construction, renovation, acquisition of equipment or instructional technology and are reported by funding source, including general revenue, agency bond or non-general revenue. The document represents an outline of the major projects of the Six-Year Capital Plan.

Dr. Dunn commended the efforts of Dr. Yeatts and his staff in compiling this information. He indicated that the University is required to list every possible project across the different areas and report that information to the state. He pointed out that reporting a project does not mean the University will actually undertake the project but if there is anything the University wishes to do it must be included. Given this requirement, Murray State’s plan totaled approximately $660 million and requires Board adoption. The final filing date is October 15 and Dr. Yeatts and his staff are continuing to make minor changes to the document. He stated that the motion before the Board requests that the President be granted authority to make any necessary last minute changes to the plan.

Dr. Yeatts stated that any project over $600,000 is considered a capital construction project and must be included in this document for approval. He reported that the first fiscal year biennium 2008-2010 is the only listing of projects that must be prioritized by the University with all the remaining projects listed alphabetically without any particular order of importance. Dr. Dunn cautioned against making any less of this document than it is, stating that it is an inventory of all possible things. The University does not currently know if the projects will be funded or how the Board will decide to expend available limited resources, but if the project is not listed here it cannot be pursued.

Ms. Hays stated that Item #4 for the next biennium is construction of the Breathitt Veterinary Center and on page 9 for the 2012-2014 biennium refurbishing the Animal Holding Center at BVC is listed. Ms. Hays asked for clarification whether this would be a request for the new building or the old. Dr. Dunn stated a similar situation exists with Ordway Hall in that there is a new building on the list but also demolishing the existing one.

Dr. Yeatts clarified that the University must assume the best/worst case scenario and, therefore, it is possible that replacement and renovation would be on the same list as a new building. The best case scenario would be to construct a new Breathitt Veterinary Center and the University is extremely optimistic that will happen since it has been supported by the Council on Postsecondary Education and the Capital Planning Advisory Board. In the event a new BVC building is not funded, if the replacement and renovation cost is in excess of $600,000 it must also be listed.
He indicated to the Board that if they look at agency bonds for some of the residential colleges, they will find the replacement of a facility but also total renovation. Dr. Yeatts stated that the document must now be submitted electronically but the hard copy contains a description of the projects which explains in the event an item is funded all similar projects would no longer be required and would be dropped from the plan.

Ms. Hays asked whether projects were required to remain within the same biennium or whether they could be moved from one to the other. Dr. Yeatts stated that the projects can be moved until October 15. He added that the entire document has been completely renovated and is more plausible in terms of being funded and included are projects that could move forward as capital projects. Dr. Dunn stated if a capital project is listed in an out biennium, for instance the refurbishment of College Courts, and a funding source is subsequently identified for that project, the University could enter into a public/private partnership to secure funding and proceed on refurbishing College Courts. He added that nothing forestalls the University from starting work on a project in an out biennium if it has already been identified in the plan. Ms. Hays asked if a project is moved to the current biennium whether the Board would be made aware of that change and Dr. Dunn assured her the Board would be notified.

Mr. Taylor asked if this document restricts the University from requesting additional funding from the General Assembly in January 2008. Dr. Yeatts stated that additional funding through the Six-Year Capital Plan can be requested up until the point the plan is authorized. Once a project has been authorized a scope increase can be requested for up to 15 percent of the project. The Capital Projects and Bond Oversight Committee has legislative authority to approve an increase but often the Finance and Administration Cabinet examines it as well.

Dr. Dunn stated that Dr. Yeatts is very liberal in terms of cost so that the University will not be required to ask for a scope increase. Mrs. Winchester asked if these were actual dollar amounts that it would take to build the building today or whether they were an estimate for two or three years from now. Dr. Yeatts indicated that it depends on where the project hits in this plan. For 2012-2014 projects an attempt has been made to estimate what actual construction costs would be based on available historical data. He further stated that with capital construction projects the total scope of the project includes all soft costs such as architectural engineering fees, bonding costs, insurance costs, bidding costs and hard costs or construction dollars.

Mr. Adams asked for clarification on why the Blackburn Science Building had been listed for renovation in the 2008-10 plan and in the 2010-12 plan was listed for demolition but now is listed for renovation again. Dr. Yeatts indicated this was a good question and when originally seeking funding for the new Science Complex project one of the requirements was that the University would not pursue work on Blackburn Science because the conclusion had been reached, with agreement from the CPE and their architectural consultant David Banks, that it was not feasible to utilize the Blackburn Science Building as a science complex in its current condition.

Dr. Yeatts reported that one of the stipulations in pursuing the new Science Complex was a requirement by the state that the building be demolished so the University would not incur operation or maintenance costs in the future. This past year the CPE commissioned a national consultant, VFA Incorporated of Boston, to prepare a statewide facilities condition report. Additional project consultants included Pauley and Associates, a firm from Denver, CO, that performed a study based on fit for continued use of various facilities across the state as well as on the Murray State campus. Dr. Yeatts further indicated that after the study VFA Inc. and Pauley and Associates concluded that Blackburn Science Building was not fit for continued use as a science building. They did conclude, however, that the building was structurally sound and recommended it stay in MSU’s physical plant stock and be renovated for other purposes. He pointed out that the dollar figure that is displayed is VFA’s estimated cost for renovation. The CPE now supports this project as a continued use facility. Dr. Yeatts suggested it could be used to temporarily house engineering and physics until a new building can be constructed.

Mr. Adams asked if there is a chance engineering and physics would stay in Blackburn Science permanently and Dr. Yeatts replied that the University is examining the possibility of a portion of the faculty and staff remaining. Mr. Adams stated that means they are not going to make it across the street and Dr. Dunn replied it will depend on how successful the University is going back to the Legislature. If a new building can be constructed as originally planned and
intentioned as part of a three building campus, it may be the case that those programs would not need to be housed there. If the University is not successful in securing funding to provide the size building needed to support a full move then other options must be examined. Dr. Yeatts agreed that this is the University’s contingency plan. Dr. Dunn stated if the University is able to move all of the sciences over to the Science Campus, then an opportunity would exist for Blackburn to become academic space for other programs and there is great need for such space.

Mrs. Buchanon asked if the University will continue to pursue the third phase of the Science Complex, engineering and physics, and if this is simply Plan B. Drs. Dunn and Yeatts agreed that the University’s number one priority is completing the third phase of the Science Complex. Mr. Taylor stated that as far as the state is concerned they have funded the engineering and physics building. Dr. Dunn clarified the final phase must be requested.

Mr. Taylor cautioned that the University’s capital budget request must include everything necessary to advance this project forward and he pointed out prior requests have been off budget. Dr. Dunn stated staff members have been working on this request over the past nine months and have been talking to all legislators, not just those in the 18 country service region, to help them understand this is indeed Murray State’s objective.

Mr. Taylor stated that this issue needs to be resolved through one final appropriation. Dr. Dunn agreed and stated if that happens at all it will happen this spring. Mrs. Buchanon requested that no matter what the number happens to be the University needs to make sure it is the correct number for the project originally intended. Dr. Dunn stated the University will put that number out there but what is received is it. Mrs. Buchanon stated she understands that but doesn’t feel the University should diminish its wish list. Dr. Dunn stated the University will go forward with proposing the building necessary to finish the campus as intended and will make that case vigorously and articulate it well, including support of the audit for those legislators who might request it.

Mr. Adams stated if the University received the final appropriation it will be two to three years down the road before the building comes to fruition. He asked if there was a plan in place to improve some of the things demonstrated during the campus tour the evening prior in the Blackburn Science Building, areas in Faculty Hall and other areas that need upgrading. Dr. Yeatts stated that the University does have such plans in place. He further pointed out that since 1997-98 the University has been under the assumption that the state would require demolition of Blackburn Science so maintenance has been deferred. He and his staff are fully aware that building is now going to stay on line and upgrades are necessary.

Mr. Adams stated that TRIO and ROTC received the benefits from the upgrades to this point and he is concerned about biology and physics. Dr. Yeatts stated that biology and chemistry will move out of the Blackburn Science Building completely. Biology is currently 98 percent moved and when the chemistry building is completed they will utilize classrooms and lecture halls within that building. He pointed out that physics could remain in Blackburn for a while, depending on funding the University receives. He stated the feasibility of utilizing the area for storage for all three departments is being explored.

Mrs. Buchanon indicated she did not see planning money for the Library listed in the Six-Year Capital Plan. Dr. Dunn stated the Library has been listed as a project and the University will make that funding request to the Legislature in spring 2008. Dr. Yeatts clarified that Murray State has requested funding for both the Library and Breathitt Veterinary Center.

Mr. Adams asked if the facility condition report referred to earlier was the same report that stated MSU has more square footage than any other university in the Commonwealth and whether this comes into play with building new buildings and renovating old buildings and in essence increasing the University’s square footage.

Dr. Yeatts stated he was concerned when this study was first put forward that it would be used against the University. He is now somewhat resolved that it will help the University because it has correctly pointed out that although Murray State has a considerable amount of space it is not space that is adequate for utilization. He cited the examples of Ordway Hall and the Industrial Education Building which need to be demolished and the fact that significant renovations need to occur to ensure proper utilization of space.
Ms. Hays made a motion that the Buildings and Grounds Committee recommend the Board approve the 2008-2014 Six-Year Capital Plan and Capital Budget Requests for the 2008-2010 State Biennial Budget and grant the President the authority to make necessary modifications in the plan and report back to the Board if modifications are required. Mr. Adams seconded and the motion carried.

Ms. Hays requested a motion that the Buildings and Grounds Committee and the entire Board go into Closed Session pursuant to KRS 61.810(1)(b) for the purpose of discussing future acquisition of real estate. Mrs. Buchanon moved, seconded by Mrs. Travis, that the Board go into Closed Session. Motion carried.

Mr. Stout stated that the Board would take a brief break prior to beginning Closed Session. Closed Session began at 10:10 a.m.

Ms. Hays asked for a motion for the Buildings and Grounds Committee and entire Board to go into Open Session. Mr. Adams moved, seconded by Mrs. Buchanon, that the Board go into Open Session. Motion carried.

Open Session began at 11:05 a.m. Mr. Stout reported that there was no action taken during Closed Session.

Ms. Hays stated the Buildings and Grounds Committee meeting is concluded.

Meeting adjourned at 11:05 a.m.

RECORD OF DEVELOPMENT/INVESTMENTS COMMITTEE MEETING
Board of Regents
Murray State University
Friday, September 14, 2007
Jesse Stuart Room – Pogue Library
10:30 a.m.

Alan Stout, Chair
Marilyn Buchanon
Beverly Ford
Jay Morgan
Vickie Travis

Mr. Stout, Chair of the Development/Investments Committee, began at 11:05 a.m. stating that there was one agenda item for the Committee and that was the Comprehensive Capital Campaign for Murray State University. He then turned the floor over to Dr. Dunn.

Dr. Dunn stated that work around this initiative had taken place on campus prior to his arrival. There are three imperatives that are crucial for the University and all of these fit into the need for outreach as a defining element for a comprehensive university. The notion of excellence is also crucial. For the University to move in that direction it is clear it cannot depend on the two traditional and largest sources of revenue – tuition and fees and state appropriations – to move to the next level.

Dr. Dunn further reported that when he refers to the next level he is talking about those initiatives that will allow the University to demonstrate excellence across all areas and could include the academic side of the house where there is a tremendous need for scholarships and endowed professorships and chairs. This could also include student service efforts that the University wants to undertake.

Dr. Dunn reported that the University leadership has discussed the tremendous capital needs and in order to work toward this imperative of excellence a new and more powerful revenue stream centered around gifts to the University needs to be identified. Friends and donors
willing to invest in Murray State University to get to that next level must also be located. The ability to move to the next level is not going to come from state support or tuition and fees.

Something separate, different and targeted for that specific purpose is needed. Dr. Dunn stated that to him this makes the argument for a capital campaign.

Dr. Dunn reported the University increased giving but must look at something that pushes it forward in a very dynamic and vibrant way. Simply increasing giving allows the University to keep the wheels on the machine but to accomplish those things that put the University up a notch a new funding source must be identified.

Dr. Dunn stated that the semi-annual meeting of the MSU Foundation Board of Trustees takes place in October and the University will ask to move forward with a Comprehensive Capital Campaign. In preparation for that a presentation will be made to the Board to explain what a capital campaign entails — not only for the Foundation — but also for the University. It is a process that will potentially last as long as five years.

Dr. Dunn reported that work toward this initiative has been taking place for some time. A campaign consultant, Alan Zacharias, has been hired and during the transition between presidents work was undertaken to start thinking about this initiative but was put on the back burner to some degree because a campaign cannot be started during a transitional period. Mr. Carter and Mr. Jackson have invested time to ensure the infrastructure within the Office of Development is in place and Dr. Dunn is confident the Office of Development has taken the necessary steps to ensure the proper infrastructure is in place.

Dr. Dunn stated that with Board of Trustees approval in October the necessary pieces will be in place to kickoff a capital campaign and be able to do it well and successfully. If the University is going to be about those things that move it forward, such as scholarship needs, chairs, buildings and programs, this type of work must be accomplished first. He stated that the University’s success over the past year is the best indicator that the University is ready to undertake this initiative.

Dr. Dunn stated that the presentation would outline for the Board their role and responsibilities during a capital campaign. He introduced Mr. Bob Jackson, Associate Vice President for Institutional Advancement, and the University’s campaign consultant, Dr. Alan Zacharias. He stated that Mr. Jackson would provide a brief history of what has transpired within the Office of Development and Dr. Zacharias will indicate the direction the University needs to head if there is a desire to undertake a capital campaign.

Mr. Jackson thanked Dr. Dunn and Chair Stout. He stated that many Board members have already met and talked with Dr. Zacharias over the past two and a half years. Mr. Jackson reported that the Office of Development has been in campaign mode and it has been a transitional time. He stated that it seems like every college in the nation is somewhere within the campaign process and these are normal trends. Dr. Dunn added that some take the position that a University should always be in campaign mode.

Mr. Jackson asked the Board to refer to the handouts from the Office of Development and reported the following from 2006 Giving USA:

- U.S. Charitable Giving is $295 billion, up 4.2 percent.
- Individual giving comprises 75 to 76 percent of the total $295 billion.
- Bequests at $22.91 billion comprise a major portion of this overall number.
- When bequests and foundations, such as family foundations or property controlled foundations, are combined together they raise the 76 percent to about 90 percent.
- Colleges and universities received out of that $295 billion approximately $28 billion, up 9.4 percent. Mr. Jackson stated that these trends are expected to continue to continue.

Mr. Jackson reviewed 40 years of history of giving in the United States. He reported that the economy does not play a major role in terms of giving and one trend that has started nationally is wealth transfer. A study from the Boston College Social Welfare Research Institute estimates that $41 trillion will transfer from one generation to another in the next four decades. The study estimates that $12 to $24 trillion will transfer to charities, including colleges and universities.
Mr. Jackson outlined what his office has been involved in over the last 2½ years. The University retained the firm of Gonser, Gerber, Tinker and Stuhrl (GGTS) out of Chicago and their consultant Alan Zacharias. GGTS conducts capital campaign consulting work throughout the United States. MSU’S campaign was initiated in December of 2004 with Dr. Zacharias reviewing the University’s development efforts and making recommendations related to improving development and advancement efforts. A gift planning program was added to work with individuals and estates on major planned gifts. He indicated this had resulted in a number of large gifts to the University over the last several months.

Mr. Jackson reported that a college-based development program had been created where a development officer has been placed in the various colleges and the Library and that development officer has responsibility for any development work conducted out of that college. In addition, a new initiative as it relates to research and cultivation has been put in place.

Mr. Jackson then provided the following facts regarding donors to MSU:

- 13,146 gifts were processed in fiscal year 2007 which ended June 30. Mr. Stout stated that average gift size was $492.
- $6,479,329 was raised in fiscal year 2007.
- $3,142,781 was raised in fiscal year 2006. Mrs. Buchanon asked if any of this comes from the previous Vision Quest campaign and Mr. Jackson stated it is a very small amount. Mr. Taylor asked if future bequests were included and Mr. Jackson indicated they were not. He further stated that charitable remainder trusts are counted when possession is taken and the Foundation is managing the money. If a trust has been established but is being held elsewhere it is not counted.
- 5,540 phon-a-thon donors pledged $301,177.
- 1,291 direct mail donors pledged $143,234.
- 385 faculty and staff members donated $168,083 last year. Mr. Jackson is very pleased with this number and reported that two years ago the number was about $80,000.

Mr. Jackson provided a chart outlining the breakdown in the annual fund from Fiscal Year 2006 to Fiscal Year 2007. The first area, development and major gifts, increased from $1,327,902 to $2,582,464. Mr. Jackson indicated that the amount attributed to Vision Quest is tapering off, moving from $577,174 to $226,014. Mrs. Buchanon asked what year Vision Quest started and Mr. Carter responded that the campaign started in 1997 and officially ended in 2001, indicating if an individual committed to a five-year gift in 2001 that would stretch the campaign out until that gift was completed.

Dr. Dunn stated there had been a lack of focus on major gifts and trust giving prior to the arrival of Mr. Jackson but due to his focus on doing this work better the University is now seeing the benefit of major giving. Dr. Dunn knows, through intelligence available to the development officers, that there are many Murray State alumni who have the potential to give major gifts who have never been contacted by Murray State University. He indicated this is now the focus for Mr. Jackson and his staff and the payoff will be evident over the coming years. Dr. Dunn stated how pleased he is with this number, especially considering that it was drastically absent before.

Mr. Jackson indicated that matching gifts ($37,015) refer to corporate gifts where employees of corporations have matching funds that are still coming in. Pledges ($131,777) include those made in the phon-a-thon process that will be coming in over the next several months. Development pledges ($494,350) include pledges from individuals made over two, three or five years. Bequests/Trusts/Other category ($14,108,752) includes known bequests and trusts that are in the University’s planned giving portfolio. These are gifts to the University that have not been fully realized at this point in time. Total pending gifts are $14,771,894.
Mr. Jackson discussed the planned giving packet presented to the Board, indicating that it includes several brochures and booklets outlining various ways of giving and also a newsletter that is mailed twice a year. He stated that as of June 30, 2005, the University had $4,513,500 in planned gifts. Through promotion and planning that amount has increased to $14,108,752 as of June 30, 2007.

Mr. Jackson highlighted selected gifts which included the Jeffrey and Sallie Clarke endowment, Jesse L. Jones family clock tower and Rosemary and Harry L. Crisp II Soccer Complex. Mr. Jackson reported that the trust he referred to earlier will endow a large scholarship with 40 percent of the trust designated for study abroad opportunities for Murray State students. This gift comes from a donor who has lived all over the world and that was an important aspect of the gift.

Mr. Jackson reported that other trusts have been put in place over the last couple of years, including an anonymous trust of $1.5 million, nearly $1 million in other charitable trusts and a large gift for a Center for Environmental Studies and Research in the College of Science, Engineering and Technology. He also reported a major estate gift is in process from a donor in Florida. Mr. Jackson, Mr. Carter and Dr. Dunn have been working on cultivating this seven-figure gift for some time and hopefully the University will receive good news within the next several months. In addition, he reported that a gift from the Bill and Helen Roberts Estate has endowed the largest ever nursing scholarship at Murray State University.

Mr. Jackson expressed appreciation to the staff of the Office of Development for their hard work, including Jennie Rottinghaus, Sue Fenske, Kelly Workman and Linda Moore. He then turned the floor over to Dr. Alan Zacharias.

Dr. Zacharias thanked the Board for the opportunity to address them with regard to a Comprehensive Capital Campaign for Murray State University. He stated that America is a uniquely philanthropic country and Alexis de Tocqueville in his Democracy in America, written in the 1800s, described America as a unique place where whenever an issue or cause arises Americans gather around it to solve it. This value, this philanthropic culture, is becoming a great force throughout the world. Dr. Zacharias believes the world is in the midst of a philanthropic revolution that started about 25 years ago. Ronald Reagan said in 1982 that the capacity of Americans to give to support organizations in which they believe is unquenchable and forms the bedrock of a free society. President Clinton just published a book titled Giving in which he describes how Americans respond to challenges and opportunities to make a difference.

Dr. Zacharias believes the time is right for a capital campaign for Murray State University. He stated that any good campaign is about more than raising money. It must be about accomplishing a vision. The 2005 Strategic Plan for Murray State is to build a reputation as one of the best student-centered comprehensive universities in the nation. He stated this is a lofty vision that is being accomplished in many ways. As an alumnus and an outside consultant he stated what the Board has accomplished as leaders of the University is astounding and encouraging, stating that for 17 consecutive years the University has been in the top rankings of U.S. News and World Report. He further stated that Murray State alumni are serving in distinguished positions throughout and the country and the world.

Dr. Zacharias indicated that the founder of his firm in Chicago was the Vice President of Northwestern University and was the first development officer in the 1930s and 40s to realize the importance of the strategic vision for an institution and developing that into a communications plan that relays that vision to various constituencies. This is the standard by which all development advancement programs are built today. The highest destiny of an institution can be realized only by a concerted effort to formulate its mission, crystallize its vision, define its objectives and take the necessary steps to realize them. What is extraordinary about this statement is nowhere is raising money mentioned.

Dr. Zacharias stated that an organization can use a campaign for much more than a means to raise money. It could present an opportunity to instill the values of the institution as part of its culture and transform the way the institution’s mission and vision are accomplished. He presented an organizational pyramid diagram and indicated that development and advancement are about more than raising money. He stated that the bricks that form the bottom two layers of
the pyramid, the foundation, include credibility of the organization and its leadership, including
the Board and the President. He stated if the integrity or motives of a CEO or president come
into question that undermines the ability of donors to catch hold of a vision. He stated that
organizational consistency is strengthened with a solid institution that uses best practices in
managing finances, planning its academic programs and instituting student affairs consistently.

Dr. Zacharias stated that the third base of the pyramid is the strategic planning process
which includes a clear sense of the institution and what it wishes to become and the values it
holds dear and considers non-negotiable. The goals and priorities that must be achieved in order
to reach this mission and vision should be identified. He further stated this is the purpose of the
strategic planning process in addition to forming the year-to-year work plan. It helps provide a
long-term outlook on outcomes rather than simply looking for short-term fixes, determining how
to use philanthropy to ensure long-term success for the University.

Dr. Zacharias indicated that internal and external communication must take the strategic
plan and communicate it into key messages to future prospective students, their parents and
alumni and citizens of the commonwealth and beyond. He stated that the fact there has been a
rise in faculty and staff giving over the last couple of years without undertaking a faculty and
staff campaign is extraordinary and is part of the internal communications process. This
indicates faculty and staff are genuinely proud of the MSU’s accomplishments and they take
ownership in the University and will invest in it – which is a form of volunteer engagement.

Dr. Zacharias pointed out that very seldom will a university be successful in fundraising
if it has a weak Board in place, indicating that the strength of the governing board and foundation
board sets the pace for success in a campaign. He stated it is absolutely critical to have Board
and volunteer engagement. Dr. Zacharias reported that a solid advancement plan and philosophy
that includes development is already in place at Murray State University.

Dr. Zacharias pointed out with trends in public higher education both in the
Commonwealth and throughout the United States there are pressures on the state budget for
medicare and medicade, prison funding, etc. that leave very little funding available for additional
money for higher education. Therefore, private support must become a larger source of revenue.
He stated that non-profit organizations are growing at approximately 5 percent per year so there
is even more competition for the donated dollar.

Dr. Zacharias stated the reason this happens is illustrated by the fact that a campaign
validates and sets institutional priorities, helps identify and develop new leadership, focuses
public attention on the institution and its programs, unites constituents around a vision,
strengthens faculty, staff and volunteer morale and has a positive effect on public image. He
stated that campaigns can boost enrollment by drawing attention to the success of the institution.

Dr. Zacharias mentioned the process of university advancement and stated that during a
campaign the 80/20 rule applies where 20 percent of the donors drive 80 percent of giving. He
stated that according to what is being experienced elsewhere, it is more like a 90/10 split. The
emphasis that Mr. Jackson and his team have placed on major gift fundraising and engaging the
entire University around it is critical. He reported that without major gift orientation it is very
difficult to succeed in a campaign and much of what has taken place over the last two years has
been to prepare the Development Office internally for a campaign. He further stated that
relationships are being cultivated with donors and leadership gifts secured.

Dr. Zacharias reported that in January through March of 2008 a case statement will be
developed in preparation for the campaign readiness study to determine the confidence of
prospective donors. GGTS will interview key alumni and friends, convene a campaign
organizing committee and begin the quiet phase of a seven-year campaign.

Dr. Zacharias stated that the campaign for Murray State is expected to build on the
University’s rankings as one of the nation’s top 10 master’s level universities. He feels this is an
extraordinary accomplishment and the time is right to build on that strength. He clarified that he
is referring to transformational change and this exists at the intersection of what Murray State
can achieve and what potential supporters value. The purpose of the Campaign Readiness Study
is to focus on what donors are resonating to as it pertains to their vision for the University. Dr.
Zacharias reported the following processes were underway or would be shortly:
• Developing a case statement.
• Interviewing of 50 to 60 individuals to test alumni and stakeholder satisfaction.
• A review of the image and marketing position of the University to determine if it is resonating and achieving the desired objectives.
• Determining a campaign goal (perhaps $50 million).
• Identifying the availability of leadership and the key prospects for major gifts.

Dr. Zacharias indicated that he would deliver a final report to the Board of Regents and Board of Trustees during their spring meetings.

Mr. Taylor asked what the cost projections are for undertaking a capital campaign. Mr. Jackson stated that the cost of securing a firm such as GGTS and other related costs are paid for out of the Foundation from undistributed funds that are raised for that specific purpose. Dr. Zacharias stated that his firm recommends institutions plan on spending 4 to 7 percent for campaign expenses and reassured the Board particular attention would be paid to monitoring the costs of the campaign. Acceptable costs range from 15 to 25 cents on the dollar.

Mr. Jackson reported that a formal invitation would be mailed to Board members for the Ribbon Cutting for the Clock Tower project and Jesse D. Jones dinner to recognize previous clock tower donors as well as others at the institution for their philanthropic work. Dr. Dunn stated the University is taking an event Mr. Jones wanted to do and turning it into a soft opening the Capital Campaign.

Dr. Zacharias stated that for symbolic reasons it is important that the public see the Board of Regents aligned and behind the campaign. He encouraged the Board to attend as many public events as possible because it is a wonderful, powerful and understated way to show support. Dr. Dunn added that after the Foundation moves forward it would seem appropriate for the Board to endorse the Capital Campaign by Resolution. Mr. Stout encouraged the Board to attend as many events as possible and expressed appreciation to Dr. Zacharias and Mr. Jackson.

Meeting adjourned at 11:55 a.m.
funding formula or way of driving state support to public institutions of higher education. He reported the administration remains uncertain where this issue is going but it is being monitored closely.

Dr. Dunn reported that one element that has surfaced within the past month is the formulation of a Business Plan. He stated that many Regents will recall in the last funding cycle UK moved forward with a Business Plan and they took the position if the Commonwealth is asking them to become a top 20 research institution in the country that is going to take a certain level of support from the state. They crafted a business plan to illustrate that and it carried great cache in Frankfort. The legislators viewed it as a means for supporting higher education and at one time the notion existed that the business plan was going to drive funding for higher education from the state. He stated that is not the case at this point but given the appointment of Mr. Brad Cowgill as President of the CPE the issue has returned to the forefront and he has requested that the universities prepare their business plans. Dr. Dunn stated the plans will serve as a means to illustrate the gap between keeping the machine running and what an institution must do to meet the 2020 enrollment and degree production goals. The universities must also demonstrate how they intend to cover that gap.

Dr. Dunn reported that the University was given only a month lead time to prepare a business plan for submission to the CPE and it was submitted this past week. The plan is a draft and no final action by the Board is requested. Dr. Dunn stated the University is working on the assumption that this will continue to be the vehicle to show the 2020 gap and will eventually come before the Board for final adoption. He stated that Mr. Denton, Carl Prestfeldt and Jackie Dudley have been the lead staff members in preparation of the plan. Dr. Dunn pointed out the revenue table on page 19 of the plan shows the state funding required to fulfill the 2020 mandate. Mr. Prestfeldt attempted to lay out the University’s case on the expense side in the schedules presented which support the expense numbers. Dr. Dunn stated that a lot of assumptions were made around the schedules presented in order to build the 2020 plan.

Dr. Dunn asked the Board if they would like for Mr. Prestfeldt to provide more detail or whether they wanted to study the plan for adoption at a later date. He stated the University attempted to approach the issue by carefully studying what could be supported around the numbers to push this plan forward. He stated that to the extent there is a piece of funding pushed by the 2020 plan this could be a driver for that funding. The CPE feels if they are going to increase the size of the pie the universities must show through their business plans the need for the increase. Dr. Dunn stated the University had a lot of the pieces already in place to build such a plan but didn’t actually know when and if it was truly going to happen. After his appointment, Mr. Cowgill directed the universities to prepare their business plans to cover the 2020 gap. Dr. Dunn again reported this is not the final document but that it would eventually be brought before the Board for adoption.

Mr. Taylor asked if the CPE intended to present the university plans to the 2008 General Assembly. Dr. Dunn stated he believes that is ultimately their intention because the business plans were submitted to the CPE. They will take pieces of the 2020 business plans and make presentations to the General Assembly as they make their funding requests. Mr. Taylor asked if Dr. Dunn anticipates the Board approving this document in its final form at the November Board meeting. Dr. Dunn stated that could well be the case so the University is prepared for the spring legislative session.

Mr. Prestfeldt stated the report is preliminary and a shorter time horizon was used that only goes to 2012. He indicated that given all the externalities that could occur politically and economically even that was somewhat of a stretch. It is possible it may need to be extended to 2020 based on what the other universities are doing. He reported that those handing in the plans at the meeting on September 10 were also referring to their plans as being drafts. Dr. Dunn stated there was no template provided for the business plan and that was part of the frustration for the senior administrators. Guidance was not provided as to whether capital expenditures should be included and there were no guidelines as to whether the plan should run to 2020. Assumptions that all universities should take into consideration were not outlined. However, the budget officers and the vice presidents for finance did reach a general consensus on how to approach this issue and Murray State’s plan will not look drastically different from the others. As more information comes forward the University will firm up and arrive at a final plan. He
stated that at the Governor’s Trusteeship Conference over the weekend the Regents would most likely hear a great deal about the business plans.

Mr. Prestfeldt stated that Mr. Cowgill mentioned that the CPE may develop its own plan to be revealed in October. Mr. Taylor asked if Mr. Prestfeldt anticipates the CPE integrating all the university plans together. Mr. Prestfeldt stated that the understanding is currently that the CPE will not integrate the plans.

Mr. Taylor clarified that no action was required on behalf of the Finance Committee in regard to the business plan and Dr. Dunn confirmed that to be the case.

Ms. Hays asked why O&M on page 19 increases from $400,000 in 2009-10 to $1,379,000 in 2010-11. Mr. Prestfeldt stated that represents a cumulative effect of a growth assumption based on the fact that enrollment will increase and the University is attempting to retain academic quality and excellence through the student-faculty ratio. With this scenario and based on these assumptions more faculty will be coming on line and that accounts for some of the increase. In addition, the University is addressing fixed costs, including inflation for health insurance. He stated the plan was based on a lot of assumptions but it is an attempt to quantitatively articulate the possibility of costs given a growth model that assumes an increase in conferred degrees.

Dr. Dunn stated this was an important point and that the entire plan is driven by the 2020 numbers. Dr. Dunn reminded the Regents that at the Board Retreat in July he indicated the potential was there for this to take place. It became clear the CPE numbers had become the coin of the realm when Mr. Cowgill issued the directive to the universities to develop plans for the 2020 goals. Dr. Dunn added that much of this is driven by the increase in enrollment that the University has to assume to reach the 2020 numbers.

Mr. Prestfeldt referred to a previous discussion regarding pushing the edge, stating that there is a small subgroup working on funding distribution methodology that came up with the idea of using business plans plus a pro-rated distribution. Mr. Prestfeldt stated his role is to advocate for the University and if the CPE followed pro-rated distribution on the business plan and the University came in low it could end up losing money. He stated this particular exercise is part of the biennial budget request to be submitted in November. Dr. Dunn clarified that a revenue budget has been presented and represents what the University anticipates based on additional costs associated with increasing the number of students.

Mr. Stout stated that a lot of information was contained in the draft and suggested the Regents review it thoroughly before the next meeting in November. Mr. Stout requested that the Finance Committee adjourn.

Adjournment was at 12:15 p.m.