

BYLAWS
BOARD OF REGENTS
MOREHEAD STATE UNIVERSITY

Adopted: April 15, 1983
Amended: April 30, 1983
Amended: November 15, 1996
Amended: December 3, 2009
Amended: March 10, 2011
Amended: March 29, 2018/Corrected: December 6, 2018

Section 1: The Board of Regents

- 1.1 Bylaws.** The governing body of Morehead State University is the Board of Regents, which by statute is responsible for the essential governance of the University. Absent statutory direction to the contrary, these bylaws shall govern the conduct of the Board of Regents (hereinafter the “Board”), a governing board pursuant to KRS Chapter 164.
- 1.2 Statutory authority.** The Board is established by KRS 164.310 and KRS 164.321. Its powers, duties and responsibilities are described in KRS 164.350, 164.360, 164.365, and 164.400, and elsewhere in statute.
- 1.3 Powers and Duties.** The general powers and duties conferred upon the Board of Regents to carry out the purposes of Morehead State University are provided by law in the Kentucky Revised Statutes 164.350. In addition thereto and included therein, such powers and duties are:
1. The establishment, periodic and regular review, and promotion of the mission and goals of the University;
 2. The authorization of the creation or discontinuance of degrees upon approval of the Council on Postsecondary Education;
 3. The election of a Chair of the Board, Vice Chair, and Secretary, and the appointment of a Treasurer;
 4. The appointment and removal of the President of the University;
 5. The exclusive responsibility for reviewing the performance of the President;
 6. The appointment of faculty members upon the recommendation of the President and the appointment of such administrative officers upon recommendation of the President;

7. The determination of guidelines for salary ranges for all faculty, administrative and University personnel and the establishment of insurance, retirement and other programs for the benefit of faculty, administrative and other personnel;
8. The establishment or discontinuance of any faculty rank;
9. The adoption of policies for granting leaves of absence and the approval of promotions for administration and faculty members;
10. The review and establishment of policies and procedures for granting tenure of faculty members;
11. The regulation of government and discipline of students including appeal to the Board pursuant to KRS 164.370 and the regulation of government and discipline of faculty. (KRS 164.360(3))
12. The determination of the number of divisions, departments, bureaus, offices, and agencies needed for the successful conduct of the University;
13. The approval of general budget policies which would govern student financial aid programs;
14. The fixing of tuition, special charges and other fees, subject to approval by the Council on Postsecondary Education;
15. Upon appropriate clearances, the issuance of revenue bonds to finance projects required by or convenient for students under its governance;
16. The care and preservation of all property belonging to the University;
17. The submission of such reports and budget requests as may be required by State Government;
18. The approval of the annual budget and quarterly ratification of budget amendments;
19. The formulation and periodic revision of long-range plans;
20. The granting of diplomas and conferring of degrees upon the recommendation of the President and faculty;
21. The appointment of a bank or trust company to serve as the university's depository. (KRS 164.440)
22. The establishment of a schedule for reports from the President as to the accounting for the receipt of money, the disbursement of funds, and the condition of the university. (KRS 164.460)
23. The adherence to the Board of Regents Code of Ethics and University Code of Ethics, PG-61, as approved by this Board and amended from time to time.

24. The protection of students' rights to free expression of religious and political viewpoints across campus including the protection of student organizations and use of outdoor areas for free expression pursuant to KRS 164.348.
 25. Review and evaluation of the manner in which the University is fulfilling its mission of instruction, service and research, with particular concern for the quality of education programs and services.
 25. The Board of Regents shall approve the Constitutions of the Faculty Senate, Staff Congress and Student Government Association, and all personnel and student handbooks. They shall govern in their respective jurisdictions except where in conflict with these Bylaws.
 26. No individual member or committee shall take official action for the Board unless authorized by the Board.
- 1.4 Membership.** The Board of Regents is composed of eleven (11) members as determined by the applicable statute with the membership to be selected as provided therein. (KRS 164.321)
- 1.5 Orientation.** All appointed and elected members of the Board of Regents are required to attend and complete an orientation program by the Council on Postsecondary Education and the institution as a condition of their service and eligibility for appointment or election to a second term. (KRS 164.321(9))
- 1.6 Member Removal.** Members of the Board of Regents appointed by the Governor may be removed by the Governor for cause pursuant to KRS 63.080(2) or per the provisions in KRS 63.080(3) and (4). (KRS 164.321(10)) Faculty and staff representatives on the Board can serve only while maintaining employment at the University. The student representative can serve only while maintaining his/her status as a student and his/her status as president of the student government association.
- 1.7 Board Self-Evaluation.** The Board of Regents will conduct an annual evaluation of its performance. The method of the evaluation will be determined by the Board.
- 1.8 Bylaws Review.** The Board of Regents will conduct a review of these Bylaws every four (4) years to ensure the Bylaws continue to be effective in defining the Board's responsibilities and expectations in supporting the mission of the institution.

Section 2: Officers

- 2.1 Election.** The officers of the Board of Regents shall consist of the Chair, Vice Chair, President, Treasurer, Secretary to the Board of Regents, and such other officers as the Board of Regents deems necessary to carry out its responsibility of governing the University.

1. **CHAIR** - The Chair shall be elected annually as provided by law, and the Chair shall be limited to no more than four consecutive terms. The Chair is charged with the duty of maintaining that level of interest and activity among the members of the Board of Regents as will best contribute to the determination of Board policies, wise planning for the future, intelligent and considerate observance of the rights of the students, faculty, and staff.

The Chair shall preside at all Board of Regents' meetings and shall fix the order of business and shall perform such additional duties as may be imposed on his/her office by statute or by the direction of the Board.

2. **VICE CHAIR** - The Vice Chair shall be elected annually pursuant to KRS 164.330 and shall be limited to no more than four consecutive terms. The Vice Chair acts for the Chair when the latter is absent from a meeting.
3. **TREASURER** – The Board of Regents shall appoint a Treasurer annually at the time the Secretary is elected. The Treasurer shall be responsible for the funds of the Board of Regents and such other statutory duties as set forth in KRS 164.420 as well as responsibilities as may be delegated to the office by the Board of Regents. No member of the Board of Regents shall be appointed Treasurer.
4. A Chair, Vice Chair, and Secretary shall be elected annually at the first quarterly meeting to serve for the ensuing calendar year or until the officers are elected according to the following procedural guidelines:
 - a. The Chair declares that nominations are in order;
 - b. The Chair recognizes any member for the purpose of making a nomination;
 - c. If after each member has had an opportunity to make a nomination and only one name has been placed in nomination for that particular office, the Chair shall declare that person elected by unanimous consent; and
 - d. If more than one name is placed in nomination for a particular office, a vote shall be taken. Names shall be voted upon in the same order in which the nominations occurred. The nominee first receiving a vote of majority of members present and voting shall be declared elected.

Section 3: Regular Meetings

All meetings of the Board of Regents shall be held at times and places convenient to the public. Meetings of the Board are of three kinds: regular meetings, special meetings, and emergency meetings.

- 3.1 Meeting Schedule.** There shall be four (4) quarterly meetings of the Board of Regents each calendar year. These meetings shall be held on such dates and at such places for the succeeding calendar year as the Board of Regents shall determine at its last regular meeting of the calendar year. The meeting date(s) may be changed by the Chair in cases of need.
- 3.2 Notice.** Due notice in writing of the regular meeting and of any changes in the dates, times, or places of a regular meeting of the Board or of a committee thereof shall be given by the Secretary of the Board of Regents. Such notice shall be delivered personally, by mail, or transmitted electronically or as otherwise permitted by statute to each local newspaper of general circulation, each news service, and each local radio or television station serving Morehead State University and the communities where the University's regional campus centers are located.

The public will be provided a copy of the schedule of regular Board or committee meetings.

Section 4: Special and Emergency Meetings

- 4.1 Special Meetings.** The Chair of the Board or a majority of the members of the Board may call a special meeting pursuant to KRS 61.823(2). Also, the President or two members of the Board may in writing request the Chair to call a special meeting (KRS 164.340). The Chair shall designate the date, time and place of the special meeting. The Secretary shall give written notice of the meeting to all Regents pursuant to KRS 61.823(4). The Board may transact any or all business that it may transact at a regular meeting, however, discussions and action at the meeting shall be limited to items listed on the agenda in the notice.
- 4.2 Emergency Meetings.** In case of an emergency which prevents compliance with the statutory notice requirements for a special meeting, an emergency meeting may be held pursuant to statute. (KRS 61.823(5))
- 4.3 Notice.** Notice of special meetings shall be delivered to each Board member and each media organization which has filed a written request, including a mailing address, to receive notice of special meetings. Notices of special meetings must be delivered to each of the above at least 24 hours prior to the time of such meeting, unless the 24-hour notice is specifically excepted by Kentucky Revised Statutes for an emergency meeting. All

notices of special meetings shall indicate the date, time, and place of the special meeting as well as the item(s) of business to be considered. Notice shall also be posted pursuant to KRS 61.823(4)(c).

Section 5: Agenda

- 5.1 Distribution.** For all meetings the President shall prepare an Agenda which shall be transmitted to each Regent seven (7) days prior to the meeting.
- 5.2 Preparation.** All regular meeting agendas shall include the minimum of the following:
1. Roll call;
 2. Report of the President; and
 3. Quarterly Financial Statement.
- 5.3 Participation by Non-Board Members.** Other members of the University community and members of the public are welcome to attend open meetings of the Board or any of its committees but may not address the Board or otherwise participate in the meetings except pursuant to a previously approved request for appearance to be heard, or upon specific request of the Board or committee at its meeting.

Except as provided above, persons desiring to be heard by the Board of Regents will first submit to the President in writing the subject matter and the reason for desiring a hearing before the Board of Regents, or a committee thereof, ten (10) days prior to a scheduled meeting. The President shall call the request to the attention of the Chair, who shall determine whether or not the subject matter is relevant and material to Morehead State University. The President may, in his/her discretion, under special circumstances, waive the ten-day notice provision and establish a lesser notice period.

Section 6: Quorum

- 6. Quorum.** A majority of the members of the Board shall constitute a quorum for the transaction of business, but no appropriation of money nor any contract that requires an appropriation or disbursement of money shall be made, and no teacher employed or dismissed, unless a majority of all the members of the Board vote for it. (KRS 164.340)

Section 7: Presiding Officer

- 7. Presiding Officer.** The Chair shall preside at all Board of Regents' meetings and shall fix the order of business and shall perform such additional duties as may be imposed on his/her office by statute or by the direction of the Board.

- 7.1 Communication with Board.** All communications of the University directed to the Board of Regents shall be channeled through the Office of the President. All communications from the Board of Regents shall be similarly channeled through the Chair and copies thereof furnished to the President.

Section 8: Rules of Order

- 8. Procedures.** All meetings shall be conducted in accordance with the principles of procedure prescribed in the most recent edition of Robert's Rules of Order.

Section 9: Committees

- 9.1 Committees.** The Board may organize standing committees and refer matters to them. The Chair may establish special committees and prescribe their duties.

- 9.2 Standing Committees.** The standing committees of the Board of Regents are: the Executive Committee and the Audit Committee. The Board may reorganize its committee structure after a new member is appointed or elected to the Board of Regents and may from time to time establish ad hoc committees to facilitate its work.

- 9.2.1 Executive Committee.** The Executive Committee is composed of five members: the Chair of the Board of Regents who shall serve as Chair of the Committee, the Vice Chair of the Board of Regents, the immediate past Chair of the Board of Regents and two other Board Members appointed by the Board Chair. If the immediate past Board Chair no longer serves on the Board, a third Board member shall be appointed by the Chair to serve on the Committee.

The Executive Committee shall meet as necessary as called by the Chair or the President. The President may appoint a staff member to serve as the Committee's administrative agent.

The Committee shall:

- a. Provide guidance to the President on matters arising between regular meetings;
- b. Advise, review and provide guidance on all issues relating to the University;
- c. Serve as the President's Evaluation and Compensation Committee; and
- d. Perform any and all other functions that may be assigned to it by the Board of Regents.

- 9.2.2 Audit Committee.** The Audit Committee is composed of at least four members of the Board. The Vice Chair of the Board shall serve as Chair of the Audit Committee with at

least three other Board members who shall be appointed by the Chair of the Board of Regents.

The purpose, membership qualifications, duties and responsibilities, resources and authority, and meeting requirements of the Committee are governed by the Audit Committee Charter (attached).

Section 10: Minutes

- 10.1 Duties of the Secretary.** The Board of Regents shall elect a Secretary annually pursuant to KRS 164.330.

The Secretary will attend all meetings of the Board and shall record all the Minutes of all proceedings and shall perform all statutory duties pursuant to KRS 164.450. He/she shall perform other functions which are usual to the duties of a Secretary and shall assist the Board in the discharge of its official duties.

- 10.2 Public Record.** All Minutes of the Board of Regents shall after their approval by the Board of Regents and upon the direction of the Chair be open to inspection by any citizen according to established procedures for such inspection under existing statutes governing freedom of information and open records. All Regents shall be provided with approved copies of all Minutes of their actions. Similarly, all other public records, as provided by Kentucky Revised Statutes, shall be made available to the public in accordance with those statutes.

Section 11: Executive Sessions

- 11. Executive Sessions.** No final action will be taken at any closed session of the Board. However, the Board may from time to time conduct closed sessions for the purposes authorized by KRS 61.810; e.g., engaging in:

1. Deliberations on the future acquisition or sale of real property by a public agency, but only when publicity would be likely to affect the value of a specific piece of property to be acquired for public use or sold by a public agency;
2. Discussions of proposed or pending litigation against or on behalf of the public agency;
3. Discussions or hearings which might lead to the appointment, discipline, or dismissal of an individual employee, member or student without restricting that employee's, member's or student's right to a public hearing if requested, provided that this exception is designed to protect the reputation of individual persons and shall not be interpreted to permit discussion of general personnel matters in secret; and

4. Meetings which federal or state law specifically require to be conducted in privacy.

In conducting a closed session, the following requirements shall be met except as may be excluded by statute:

1. Notice shall be given in regular open meeting of the general nature of the business to be discussed in closed session, the reason for the closed session and the specific provision of KRS 61.810 authorizing the closed session;
2. Closed sessions may be held only after a motion is made and carried by a majority vote in open, public session;
3. No matters may be discussed at a closed session other than those publicly announced prior to convening the closed session; and
4. No final action may be taken at a closed session.

Section 12: President

12.1 Appointment. Refer to Section 1.3, item 4.

12.2 Duties and Responsibilities. The President of the University shall be the Chief Executive Officer of the University and may be a member of the General Faculty.

As Chief Executive Officer of the University, the President shall have the following duties and responsibilities:

- a. Operate the University in conformity with the purposes and policies established by the Board of Regents;
- b. Act as adviser to the Board of Regents and attend all meetings of the Board;
- c. Develop rules and regulations necessary to carry out the purposes of the policies established by the Board of Regents;
- d. Recommend policies and programs which in the President's opinion best promote the University's interests;
- e. Recommend to the Board of Regents long-range educational goals as well as programs and new degrees to best attain the goals;
- f. Recommend promotions, reassignments, and leaves of absence of all employees, and faculty sabbaticals to the Board of Regents for ratification;
- g. Develop an appropriate organization and designate positions and their titles for

- effective University administration, subject to Board of Regents' ratification;
- h. Appoint and determine compensation of University employees under conditions set by the Board and subject to Board of Regents' ratification;
 - i. Suspend and/or reassign University employees as appropriate at any time for proper cause following consultation with appropriate officer(s) or employee(s) and the affected employee, subject to ratification by the Board of Regents;
 - j. Prepare and submit to the Board of Regents a biennial budget request;
 - k. Report in writing to the Board of Regents, pursuant to its established schedule, a full account of receipts of money from all sources, amount and purpose of all disbursements, and report of the University's condition;
 - l. Develop and administer performance reviews of administrative personnel;
 - m. Maintain effective relationships and communication with the students, faculty and staff;
 - n. Respect the role of students, faculty and staff in University governance;
 - o. Support and encourage diversity throughout the University community;
 - p. Guard and protect the interests of students;
 - q. Assume responsibility for student discipline and impose appropriate penalties, including expulsion;
 - r. Accept responsibility for and supervise the establishment and maintenance of proper alumni relationships through the appropriate designated individual;
 - s. Assure the effective coordination of fundraising activities university-wide by:
 - Insuring the ability of the institution to secure charitable gifts, operating funds, additions to endowments, gifts for facilities, and grants and contracts which enable it to fully accomplish its mission and are in accordance with the policies of the Board;
 - Overseeing the implementation of suitable fundraising strategies that identify major gift prospects and donor interests, and assess cultivation opportunities; and
 - Working closely with the Board of Regents and senior University officers to cultivate and solicit prior and prospective donors via personal meetings.
 - t. Develop and implement an effective legislative strategy that includes:
 - Engaging elected officials and the public in constructive and responsive dialogue;

- Building the support necessary to sustain the quality and accessibility of Morehead State University;
 - Actively participating in communicating and explaining Board policies and information which relate specifically to the University's mission, programs, strengths, needs, and goals; and
 - Advocating the cause of the University that is consistent with the accomplishment of institutional objectives approved by the Board.
- u. Collaborate and work effectively with the Council on Postsecondary Education;
- v. Lead a robust internal self-assessment process that focuses on enhancing the quality of student learning, University programs and services, and results in meeting the standards of accrediting bodies strategic to the success of the institution;
- w. Ensure that the institution maintains accreditation with the Southern Association of Colleges and Schools Commission on Colleges (SACSCOC);
- x. Maintain campus physical, technological, and social infrastructure that supports the strategic plan for the institution;
- y. Build effective relationships and partnerships with internal and external constituencies that meet the needs of the region that the University serves, consistent with its mission and public policy;
- z. Distribute written information provided by the Office of the Attorney General and the Department for Libraries and Archives pursuant to KRS 164.465;
- aa. Attend and participate in all meetings of the Board of Regents unless excused when the President's status is under consideration. He/she may attend all meetings of committees of the Board. The President, with the approval of the Board members, may invite other members of the University staff or faculty to accompany him in attendance at any meeting. They may address the Board or otherwise participate upon request of the Board, any member, or the President;
- bb. The President or his designee shall be authorized to execute in the name and on behalf of the University any instrument which may require the name of the University to be signed thereto and the Secretary shall have the authority to attest same. The Chair or Vice Chair shall be authorized to sign when a member of the Board's signature is required.
- cc. Review and authorize university contracts, agreements, and payments that legally or financially bind the university as deemed appropriate by the President and/or Board;
- dd. Perform such other duties as may be required by the Board of Regents.

12.3 Evaluation. The Board of Regents has the exclusive responsibility for reviewing the performance of the President.

Section 13: Amendments

13.1 Amendments. These Bylaws may be amended at any regular meeting by the Board of Regents by a majority vote of all the members of the Board, provided the proposed amendment(s) have been submitted to the Board at least ten (10) days prior to the meeting upon which the amendment(s) are to be voted upon. The ten-day provision may be waived upon a vote of the majority of the membership.

**Morehead State University
Board of Regents
Audit Committee Charter**

Adopted: June 10, 2010

Purpose

The primary function of the Audit Committee (the “Committee” is to assist the Board of Regents in fulfilling its oversight responsibilities relating to: the integrity of the University’s financial statements, the systems of internal control, the performance of the University’s independent auditors and internal audit function, the independent auditors’ qualifications and independence, and the University’s compliance with legal and regulatory requirements. In so doing, it is the responsibility of the Committee to maintain free and open communication among the Committee members, independent auditors, the internal auditor, and management of the University. The Committee shall take all appropriate actions to set the overall University tone for quality financial reporting, sound business risk practices, and ethical behavior.

Membership

The Committee shall consist of members who are independent of management and the University in fact and appearance. Members of the Committee shall be considered independent as long as they do not accept any consulting, advisory, or other compensatory fee from the University and are not affiliated persons of the University, its affiliated corporations, or management.

Committee members should be “financially literate,” and at least one member should be a “financial expert.” Financial literacy is defined as being able to read and understand fundamental financial statements. Financial expert means a person who has: an understanding of generally accepted accounting principles and financial statements, experience applying such principles, experience preparing, auditing, analyzing or evaluating financial statements, experience with internal controls, and an understanding of audit committee functions.

Duties and Responsibilities

While the Committee has the responsibilities and powers set forth in this Charter, it is not the Committee’s duty to plan or conduct audits or to determine that the University’s financial statements are complete, accurate and in accordance with generally accepted accounting principles. Management is responsible for the preparation, presentation, and integrity of the University’s financial statements and for the appropriateness of the accounting principles and reporting policies used by the University. The independent auditors are responsible for auditing the University’s financial statements.

The following shall be the principal duties and responsibilities of the Committee. These are set forth as a guide with the understanding that the Committee may modify or supplement them as appropriate:

- Be directly responsible for the appointment, compensation, and retention of the University's independent auditor. Approve the minimum scope of the annual audit. Evaluate annually the qualifications and performance of the independent auditor. Ensure that the independent auditor assigns the appropriate experts to the audit engagement. The independent auditor shall have direct access to the Committee.
- Review with management, the independent auditor, and the internal auditor their judgments about: the quality, not just the acceptability, of the University's accounting principles, the reasonableness of significant judgments, the degree of aggressiveness or conservatism in applying the accounting principles, and the clarity and completeness of the financial statements and related disclosures.
- Review and approve the annual financial statements of the University and the audit report on Federal Awards received by the University as required by OMB Circular A-133.
- On an annual basis, obtain a report from the independent auditor regarding required communication under Statement of Auditing Standards No. 114, as amended. Review with the independent auditor:
 - Any significant difficulties encountered during the course of the audit, any restrictions on the scope of work or access to required information, and any disagreements among management and the independent auditor in connection with the preparation of the financial statements.
 - Any formal communications between the audit team and the auditor's home office regarding auditing or account issues encountered during the engagement.
 - Any letters issued addressing internal controls, business process improvements, or other recommendations, and the schedule of unadjusted differences (if any) prepared by the independent auditor.
 - Important accounting policies and practices used by the University, all alternative treatments of financial information within generally accepted accounting principles, the ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor.
 - Developments and emerging issues in the higher education industry including ways to improve operations or business practices.

- The Committee shall pre-approve all audit and non-audit services provided by the independent auditors. The independent auditor is prohibited from performing the following non-audit services:
 - Bookkeeping
 - Financial information systems design, implementation, or operation.
 - Appraisal or valuation services, fairness opinions, or contribution-in-kind reports
 - Actuarial services
 - Internal audit outsourcing services
 - Management functions or human resources
 - Broker or dealer, investment advisor, or investment banking services
 - Legal services and expert services unrelated to the audit
 - Preparing the indirect cost proposal or cost allocation plan
 - Other services that would violate the U.S. General Accounting Office Independence Standard.
- The Committee shall ensure proper rotation of the lead and concurring audit partners on the University's engagement. The Committee shall ensure rotation of the lead and concurring audit partners every five years with a time out of two years.
- Review new and significant accounting pronouncements, and understand their impact on the University's financial statements.
- Review compliance with governmental laws and regulations.
- Obtain and review the annual internal control certification letter signed by appropriate management personnel.
- Review and appraise the organizational structure, adequacy of resources, qualifications, independence, and activities of the University's Office of Internal Audits.
- Review and concur with the appointment, reassignment, or termination of the Director of Internal Audits.
- Periodically review the University's Internal Audit charter for necessary changes.

- Receive a summary of findings from completed internal audits, the status of implementing related recommendations, and future audit activities planned by the University's Office of Internal Audits.
- Approve procedures for the receipt, retention, and treatment of complaints received by the University regarding accounting, internal accounting controls or auditing matters, including procedures for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.
- Inquire of management, the internal auditor, and the independent auditor about significant financial, operational, compliance, and reputational risks facing the University. These risks are defined as follows:
 - Financial – Loss of assets or resources. Also includes the reliability of the University's internal and external reporting.
 - Operational – Effectiveness and efficiency of the University's operations and use of resources.
 - Compliance – Compliance with all applicable laws and regulations as well as compliance with University policies and procedures.
 - Reputational – Risks that affect the University's reputation or brand.
- Assess the steps management has taken to mitigate such risks or exposures.
- Obtain reports concerning any financial fraud resulting in losses to the University or involving University employees.
- Provide oversight regarding the University's conflict of interest and code of ethics policies.
- Review and assess the adequacy of this Charter on a three-year basis or more frequently if deemed necessary.

Resources and Authority

The Committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities, and personnel of the University and with the authority to engage independent counsel and other advisors if deemed necessary to carry out its duties at University expense.

Meetings

The Committee shall meet at least two times per year. A majority of the members of the Committee will constitute a quorum for the transaction of business. The Committee shall maintain written minutes of its meetings. Reports of all meetings will be made to the Board of Regents.

The Committee may request any regent, officer, employee, outside counsel, or independent auditor to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee.

As part of its responsibility to foster open communication, the Committee shall provide sufficient opportunity for the internal and independent auditors to meet privately with the Committee. At least annually, the Committee shall meet with the independent auditor, the internal auditor and management.

Morehead State University

University Debt Policy

Adopted: September 26, 2013

Purpose:

To fulfill its mission, Morehead State University must make ongoing strategic capital investments in academic, student life, and other plant facilities using an appropriate mix of funding sources including state bonds and appropriations, University bonds, capital leases, internal reserves, operating funds and private gifts.

The purpose of the Debt Policy is to ensure the appropriate mix of funding sources is utilized and to provide guidance on the strategic use of debt. Debt is a valuable source of capital project financing but should be limited to projects that relate to the mission and strategic objectives of the University. The amount of debt incurred has an impact on the financial health of the University and its credit rating.

This Policy provides a discipline and framework to be used by senior administration to evaluate the appropriate use of debt in capital financing plans.

Objectives:

The objectives stated below provide the framework for decisions regarding the use and management of traditional and non-traditional external debt. The Debt Policy and objectives are subject to re-evaluation and change over time.

1. Outlines a process for identifying and prioritizing capital projects considered eligible for debt financing and assuring that debt-financed projects have a clear and feasible plan of repayment. Projects that relate to the core mission and have associated revenues will generally be given higher priority for debt financing.
2. Defines the process to be used as well as quantitative tests that will be used to evaluate the University's overall financial health, liquidity, and present and future debt capacity.
3. Establishes guidelines to limit the risk of the total external debt portfolio. The University will manage debt on a portfolio basis, rather than on a transactional or project specific basis; will use an appropriate mix of fixed and variable rate debt (as permitted by State Law) to achieve the lowest cost of capital while limiting exposure to market interest rate shifts; and protect the operational liquidity of the University.
4. Establishes guidelines for communication with rating agencies and investors to ensure appropriate communication of the University's creditworthiness and strategy.
5. Assigns responsibilities for the implementation and management of the University's Debt Policy.

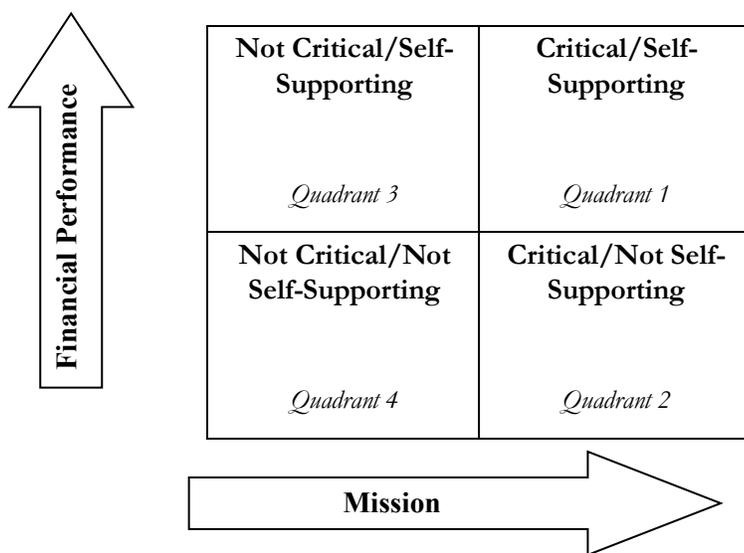
Debt Policy Framework

1. Process for Identifying and Prioritizing Capital Projects Requiring Debt

The University has significant capital needs and recognizes that external debt is a strategic, but limited, resource that can be used as a multi-pronged strategy for funding those needs. Additionally, the University must compete with all other state agencies for capital projects bonding authority as the Commonwealth of Kentucky has imposed limits on the aggregate amount of outstanding debt attributable to the State. Therefore it is essential that the University appropriately prioritize capital projects requiring debt.

The debt allocation matrix below depicts an approach to prioritizing capital projects requiring debt.

Figure 1. Debt Allocation Matrix



Explanation of debt allocation matrix

Quadrant 1:

Project **is critical** to the core missions of research, service or instruction **and** has its own funding source (i.e., non-general fund supported).

Quadrant 2:

Project **is critical** to the core missions of research, service or instruction **but does not** have its own funding source (i.e., will require-general fund support).

Quadrant 3:

Project is **not critical** to the core missions of research, service or instruction **but** has its own funding source (i.e., non-general fund supported).

Quadrant 4:

Project is **not critical** to the core missions of research, service or instruction **and does not** have its own funding source (i.e., will require general fund support).

Note that approval of projects in Quadrant 3 and 4 will reduce the ability to issue debt for the mission critical projects identified in Quadrants 1 and 2.

Guidelines for Prioritizing Capital Projects Requiring Debt

The following guidelines will be used to prioritize capital projects and make decisions about financing options and use of debt:

- Only projects related to the mission of the University, directly or indirectly, will be eligible for debt financing.
- In assessing the possible use of debt, all financing and revenue sources will be considered such as state bonds, University bonds, philanthropy, project-generating revenues, expendable reserves and capital leases. Debt is to be used conservatively and strategically.
- The University will consider other funding opportunities (e.g., joint ventures, real estate development, etc.) when appropriate and advantageous to the University. Opportunities and financing sources will be evaluated within the context of the Debt Policy and will include a comprehensive assessment of the risks, costs, and benefits of such strategies.
- Projects that have a related revenue stream or can create budgetary savings will receive priority consideration as long as they are consistent with the University's overall strategic objectives and fully vetted capital plan. Projects that are inconsistent with overall strategy may not receive a higher priority simply because they are self-supporting.

Project Specific Quantitative Tests

Every project considered for debt financing must have a management-approved plan of project costs, including incremental operating expenses and revenues. The Provost or appropriate vice president must approve these plans. Incremental revenues include revenue increases directly associated with the project (e.g., usage fees) that can only be realized if the project is undertaken. Similarly, incremental expenses include any increase in expected operating costs associated with the project. Revenues and costs savings should be estimated conservatively, especially for high risk projects. The net present value of each project will be calculated by summing the discounted value of the annual net project cash flows over the life of the project.

2. Evaluation of University's Overall Financial Health

Financial Ratios/Institutional Quantitative Tests

Beyond project specific analysis, there are multiple factors that affect overall institutional debt capacity and debt affordability. These include both internal factors as well as external factors. Before undertaking any new borrowing, the University will assess its broad institutional health, both at the current point in time and forward looking, to determine its ability to absorb additional fixed capital costs while maintaining its overall financial health. Among the areas that will be considered are:

- **Market Position** – the ability to compete for students, extramural grants, faculty and staff, and philanthropic funds;

- **Operations** – projections for key revenue and expense drivers and the ability to generate a balanced budget, including funds for strategic reinvestment;
- **Financial Reserves** – the existing level of financial reserves, the liquidity of those reserves, and the capacity to grow reserves through investment returns, operations, philanthropy;
- **Debt and Other Liabilities** – existing debt levels, other liabilities which affect ability to absorb new debt, and the structure of borrowing, including covenants;
- **External Factors** – including the federal and state regulatory environment, state funding environment and general economic conditions (inflation, home prices, financial market performance).

In addition to these general factors that affect the University's debt capacity and affordability, the University will establish guidelines for overall debt management using a select number of financial ratios calculated and reported annually and when new debt is issued; and revised periodically to reflect any changes in accounting standards. Calculation of these ratios will be based on the audited consolidated financial statements on a University-wide basis.

Debt Ratios

In order to evaluate the impact of current or proposed future debt obligations, the University will monitor and report the following debt ratios as part of its standard annual financial reporting practices. The values of these ratios will be compared to higher education standards (where available) and in a trend analysis to help the University leadership more fully evaluate its financial risk profile.

- **Unrestricted Resource (Net Assets) to Debt (times coverage) and Expendable Resources (Net Assets) to Debt (times coverage):** These two capital ratios measure the University's liquid assets to its debt and serve as a measure of balance sheet flexibility as well as balance sheet leverage. While it is anticipated that the University will pay debt service from operating revenues, this ratio highlights the ability to use balance sheet resources for some period of time if necessary to support debt repayment.
- **Debt Service to Operating Expenses (percentage):** Assesses how much of the University's operating expenses are consumed by debt repayment. It is assumed that debt repayment is a fixed, obligatory cost that reduces the University's ability to reallocate funds within its operating budget.
- **Average Debt Service Coverage (times coverage):** Measures the ability to repay debt from current operating funds. This ratio measures, over a three-year period, whether sufficient operating cash flow is generated to issue and repay additional debt.
- **Direct Debt to Cash Flow (times coverage):** Measures the total debt burden compared to the University's annual cash flow generating ability.
- **Debt to Revenues (percent):** Measures the University's debt as a percent of total revenue and provides an overall measure of income statement leverage.

3. Managing Risk of Total Debt Portfolio

Managing External Debt

The University recognizes that there are numerous types of financing structures for external debt, each with specific benefits, risks, and costs. These will be reviewed by management within the context of the debt policy and the overall portfolio to ensure that any financial product or structure is consistent with the University's objectives. Regardless of what financing structure(s) is(are) utilized, a full understanding of the transaction, including (i) quantification of potential risks and benefits, and (ii) analysis of the impact on University creditworthiness and debt capacity, will be required.

Mix of Fixed and Variable Debt

Due to the financing flexibility and lower interest cost typically associated with variable rate debt, it may be desirable, depending on market conditions, to maintain a portion of the University's aggregate debt on a floating (variable) rate basis. However, variable rate debt also introduces volatility to the debt service obligations. Therefore, the University will balance the mix of variable and fixed rate debt, although the actual percentage for debt outstanding will fluctuate from time-to-time due in part to financing needs, prevailing market interest rates, and the liquidity profile of the institution.

4. Communications with Ratings Agencies and Investors

The University will maintain ongoing communications and interaction with bond rating agencies to educate the agencies about the general credit structure and financial performance of the University in order to attain the highest credit rating possible. Maintaining an acceptable credit rating will permit the University to continue to issue debt and finance capital investments at favorable interest rates, although the attainment or maintenance of a specific rating is not an objective of this policy.

The University will also at the time of sale and on an ongoing basis keep investors in the University's bonds informed regarding the University's financial condition through appropriate means, such as timely posting of financial statements and other continuing disclosure documents.

5. Responsibility for Implementation and Management of the University's Debt Policy

The Chief Financial Officer and Vice President for Administration is directly responsible for implementation and management of the debt policy, coordination of the ad hoc debt management committee and reporting of all debt issues.

Facilities Planning and Facilities Management

The Assistant Vice President for Facilities Management is responsible for estimating and defining capital project costs and in maintaining a list of projects that are being considered. The Chief Financial Officer and Vice President for Administration is responsible for developing capital planning documents for the current year, current biennium and the six-year capital plan.

Treasury Management

The Chief Financial Officer and Vice President for Administration will maintain a schedule of current and forecasted debt and associated payment of principal, interest, and fees. He or she is responsible for the administration of all aspects of debt financing, including accounting, reporting, and

coordination with financial advisors, underwriters, and bond counsel to issue new debt or refinance existing debt.

Management

An ad-hoc debt management committee consisting of the following members and any other individual designated by the Chief Financial Officer and Vice President for Administration will meet on a regular basis to review the University's external debt capacity, liquidity measures, and projects requested to be funded in whole or in part with debt.

- Chief Financial Officer and Vice President for Administration
- Executive Director of Budgets and Financial Planning
- Director of Accounting and Financial Services
- Dean of the College of Business and Public Policy
- Vice President for University Advancement

The projects to be considered must be submitted by the Provost or a vice president. The Chief Financial Officer and Vice President for Administration will present the committee's recommendations to the President.

Board of Regents

The Board of Regents will review and approve the annual capital project plan as well as each individual debt financing transaction exceeding \$600,000. Additionally, the Board will review and approve the implementation of this Debt Policy and will be apprised of any significant future changes proposed.

Review of Debt Policy

This Debt Policy should be reviewed at least annually by the Debt Management Committee designated above and changed only when it no longer reflects the debt philosophy of the University. Consistent application of the University's Debt Policy provides evidence of debt management discipline over the long term.

Debt Management Practices

The University will reference Appendix B entitled "Debt Management Practices" which contains the best practices for the University to assist in implementing this Debt Policy.

Appendix A
Formulas and Benchmarks for Key Ratios

A1. UNRESTRICTED RESOURCES (NET ASSETS) TO DEBT (TIMES COVERAGE)

$$\frac{\text{UNRESTRICTED NET ASSETS}}{\text{DEBT}^1}$$

A2. EXPENDABLE RESOURCES (NET ASSETS) TO DEBT (TIMES COVERAGE)

$$\frac{\text{EXPENDABLE RESOURCES}^2}{\text{DEBT}}$$

B. DEBT SERVICE TO OPERATING EXPENSES (%)

$$\frac{\text{MAXIMUM DEBT SERVICE}^3}{\text{TOTAL OPERATING EXPENSES}^4}$$

C. AVERAGE DEBT SERVICE COVERAGE (TIMES COVERAGE)

$$\frac{\text{3 YEAR AVERAGE OF: OPERATING MARGIN}^5 + \text{DEPRECIATION AND INTEREST EXPENSE}}{\text{MAXIMUM DEBT SERVICE}}$$

D. DEBT TO CASH FLOW (TIMES COVERAGE)

$$\frac{\text{DEBT}}{\text{OPERATING MARGIN} + \text{DEPRECIATION AND INTEREST EXPENSE}}$$

E. DEBT TO REVENUE (%)

$$\frac{\text{DEBT}}{\text{OPERATING REVENUES}^6}$$

1 Debt includes par amount of general receipts bonds and notes, Consolidated Educational Building Revenue Bonds, capital leases and notes payable.

2 Expendable resources measured as unrestricted net assets plus expendable restricted net assets.

3 Measured as the maximum debt service as of the end of the most recent fiscal year.

4 Total operating expenses measured as operating expenses per SRECNA, less student financial aid expense plus interest on capital asset related debt.

5 Operating margin is the net loss or gain from operations per the SRECNA, plus state appropriations, plus non-capital and non-permanently endowed gifts and grants, plus 4.5% of the prior year-end cash and investments, minus interest on capital related debt.

6 Total operating revenues are the operating revenues per SRECNA plus state appropriations, non-capital and non-permanently endowed gifts and grants, plus 4.5% of the prior year-end cash and investments, minus student financial aid expense.

Appendix B

Debt Management Practices

Structure and Maturity

The University will issue bonds to finance capital projects under the provisions of trust indentures approved by the Board of Regents. The following trust indentures have been approved by the Board of Regents:

- General Receipts Obligation Revenue Bonds
- Consolidated Educational Buildings Revenue Bonds
- Consolidated Housing and Dining System Revenue Bonds

Debt in the form of capitalized lease obligations will be approved by the Board of Regents and issued on behalf of the University by the Commonwealth of Kentucky's Asset Liability Commission, the State Property and Buildings Commission, and other financing entities.

The University will employ maturity structures that correspond with the life of the facilities financed. As market dynamics change, maturity structures should be reevaluated. Call features should be structured to provide the highest degree of flexibility relative to cost.

Methods of Sale

The University will use the method of sale which will achieve the lowest cost of capital considering the complexity of the transaction. Generally, this can be achieved utilizing a competitive sales method for the placement of bond offerings. However, for transactions using new or non-traditional pledges of University revenues, or those involving greater complexity, a negotiated method of sale will be considered, and legislative approval requested, on an individual transaction basis. The negotiated sales method allows the utilization of a greater scope of services from the underwriting community.

Refunding Targets

The University will continuously monitor its outstanding tax-exempt debt portfolio for refunding and/or restructuring opportunities. For a stand-alone refunding, the University will enter into an advance refunding transaction that, in general, produces at least 3-5% present value savings (based on refunded bonds), with this threshold higher for those transactions with a long escrow period. Advance refunding transactions must weigh the current opportunity against possible future refunding opportunities. For current refundings, the University will consider transactions that, in general, produce a least a 1.5 – 3% present value savings (based on refunded bonds). In addition to the net present value percentage savings, the annual dollar savings provided by any refunding will be reviewed, as for large refunding transactions; significant savings may accrue even though the percentage of net present value savings falls below the thresholds defined above.

A refunding also will be considered if it relieves the University of certain limitations, covenants, payment obligations, or reserve requirements that reduce flexibility. The University also will consider refinancing certain obligations within a new money offering, even if savings levels are minimal, in order to consolidate debt into a general revenue pledge and/or reduce the administrative burden and cost of managing many small outstanding obligations.

Office of Financial Management

The Commonwealth of Kentucky's Office of Financial Management, in accordance with Kentucky Revised Statute 42.400, shall review and approve, prior to the issuance, all proposed bond issues, bond anticipation notes, or interim external debt financings.

Selection of Financial Advisors, Underwriters and Bond Counsel

The University will, in accordance with Kentucky Revised Statute 45A.840, utilize a Request For Proposal process to select financial advisors, underwriters and bond counsel. Multiple firms may be selected to provide financial advisory, underwriting, and bond counsel services for a specific contract period of time. The firms utilized on an individual transaction will be selected based upon expertise related to the specific transaction. Additionally, the University may utilize the financial advisors, underwriters and bond counsel selected by the Commonwealth of Kentucky's Office of Financial Management through their own similar competitive process.

Post Issuance Compliance

The University will monitor its debt portfolio to remain within compliance of federal and state law to maintain tax-exempt status for those bonds that it applies.

1. Bond Proceeds Investment – The University, in concert with the Commonwealth of Kentucky's Office of Financial Management, will invest bond-funded construction funds, capitalized interest funds, and costs of issuance funds appropriately to achieve the highest return available under arbitrage limitations. When sizing bond transactions, the University will consider funding on either a net or gross basis.
2. Disclosure – The University will continue to meet its ongoing disclosure requirements in accordance to Securities and Exchange Commission Rules 15c2-12. The University will submit financial reports, statistical data, and any other material events as required under outstanding bond indentures.
3. Arbitrage – The University will comply with federal arbitrage requirements on invested tax-exempt bond proceeds, causing arbitrage rebate calculations to be performed annually and rebate payments to be remitted to the Internal Revenue Service periodically, as required.
4. Change of Use – The University will note changes in the uses of tax exempt issuance proceeds, the use of projects financed by tax exempt bonds and changes in the regulatory environment that may affect the University's compliance requirements or the debt's tax-exempt status.