

**AUDIT COMMITTEE
DECEMBER 8, 2011**

TAB	DESCRIPTION	ACTION
1	FINANCIAL STATEMENTS REVIEW	Motion to approve
2	2011 COLLEGE and UNIVERSITIES' FINANCIAL RATIOS	Information item
3	OFFICE OF THE STATE BOARD OF EDUCATION - FY 2011 LEGISLATIVE AUDIT	Information item

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**AUDIT COMMITTEE
DECEMBER 8, 2011**

SUBJECT

Presentation of the Colleges and Universities annual financial statements by institution management and audit findings by the Board's external auditor

APPLICABLE STATUTE, RULE OR POLICY

Idaho State Board of Education Bylaws, Section V.H.4.f.

BACKGROUND/DISCUSSION

The Board contracts with Moss Adams LLP, an independent certified public accounting firm, to conduct the annual financial audits of Boise State University, Idaho State University, University of Idaho, Lewis-Clark State College, and Eastern Idaho Technical College. FY 2011 is the seventh year that Moss Adams has conducted audits of the financial statements for the colleges and universities.

The audits are conducted in accordance with Generally Accepted Government Auditing Standards and include an auditor's opinion on the basic financial statements.

Along with this agenda item, Board members will receive for each institution the Independent Auditor's Report and Financial Statements for the Year Ended June 30, 2011, which also contains the Management's Discussion and Analysis.

IMPACT

Vice Presidents for Finance and/or the Controllers for each institution will present their financial statements for fiscal year 2011 to the Board. This will be followed by Moss Adams presentation of their audit findings.

The audited financial statements present the financial activity at each audited institution and include the following reports:

- Management's Discussion and Analysis
- Statement of Net Assets
- Statement of Revenues, Expenses and Changes in Net Assets
- Statement of Cash Flows
- Notes to the Financial Statements

STAFF COMMENTS AND RECOMMENDATIONS

In early October, institution management presented their financial statements to the Audit Committee and Board staff.

In early October, Moss Adams conducted a preliminary review of their audit findings with members of the Audit Committee and Board staff.

**AUDIT COMMITTEE
DECEMBER 8, 2011**

BOARD ACTION

I move to accept from the Audit Committee the Fiscal Year 2011 financial audit reports for Boise State University, Idaho State University, University of Idaho, Lewis-Clark State College, and Eastern Idaho Technical College, as presented by Moss Adams LLP.

Moved by _____ Seconded by _____ Carried Yes _____ No _____

**AUDIT
DECEMBER 8, 2011**

SUBJECT

FY 2011 College and Universities' Financial Ratios

BACKGROUND/DISCUSSION

The ratios presented measure the financial health of the institution and include the composite index comprised of four ratios. The ratios are designed as a management tool to measure financial activity and trends within an institution. They do not lend themselves to comparative analysis between institutions because of the varying missions and current initiatives taking place at a given institution. An important caveat is that affiliated entities (e.g. foundations) are reported as component units in the colleges' and universities' financial statements. Foundation assets in particular may have a material effect on an institution's ratios even though foundation assets are not liquid for purposes of institutional operating expenses. As such, the institutions' respective ratios may be artificially inflated by foundation assets. That said, these ratio benchmarks are the industry standard, and no benchmarks have been developed which exclude affiliated entity assets.

Ratio	Measure	Benchmark
Primary reserve	Sufficiency of resources and their flexibility; good measure for net assets	.40
Viability	Capacity to repay total debt through reserves	1.25
Return on net assets	Whether the institution is better off financially this year than last	6.00%
Net operating revenues	Whether institution is living within available resources	2.00%
Composite Index	Combines four ratios using weighting	3.0

IMPACT

The ratios and analyses are provided in order for the Board to review the financial health of each institution and to show the relative efficiency of their enterprise.

ATTACHMENTS

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STAFF COMMENTS AND RECOMMENDATIONS

The institutions will present a brief analysis of the financial ratios and be available for questions by the Board.

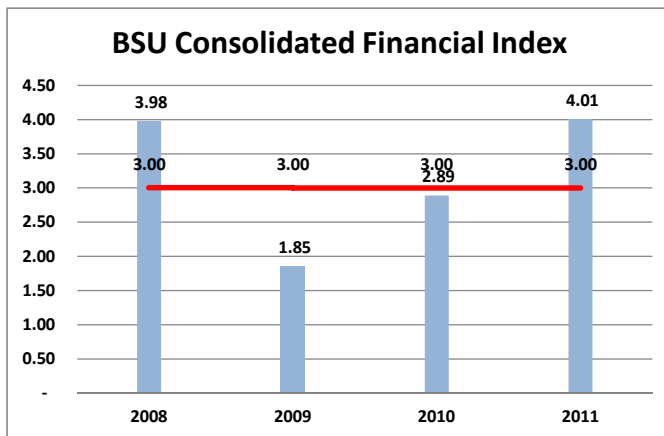
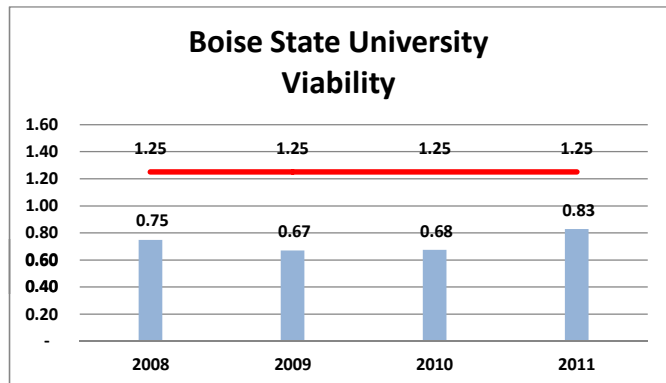
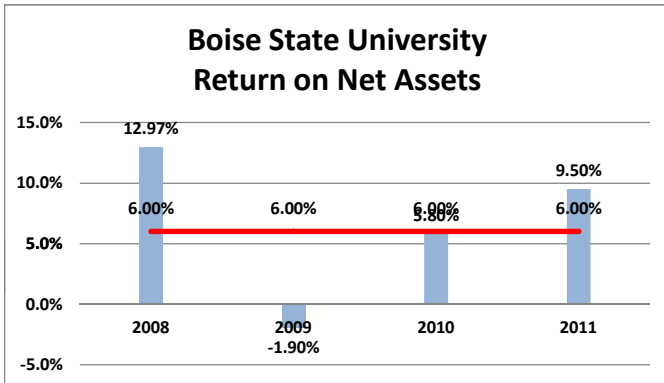
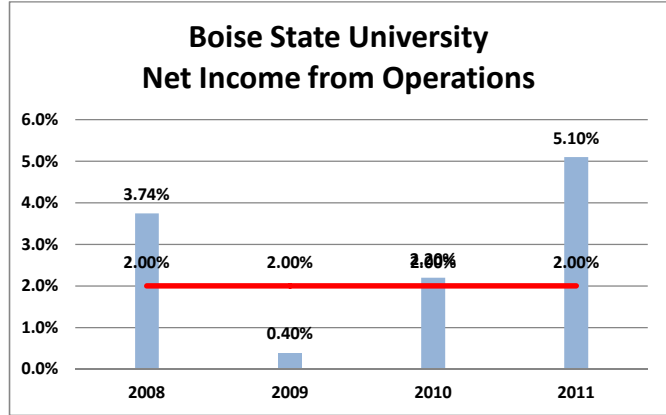
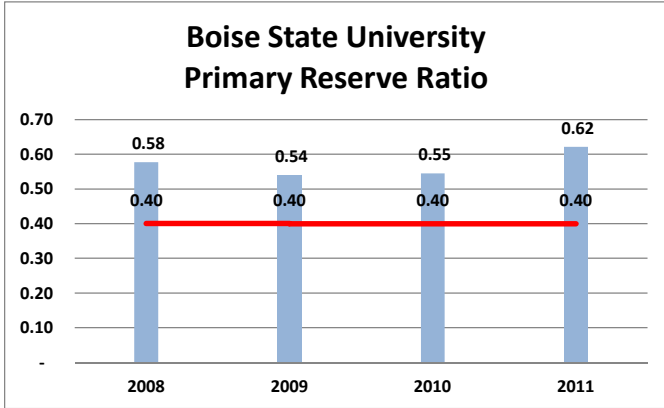
AUDIT
DECEMBER 8, 2011

BOARD ACTION

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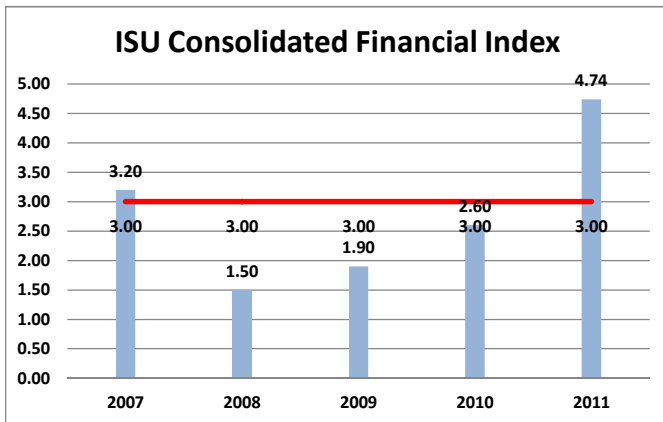
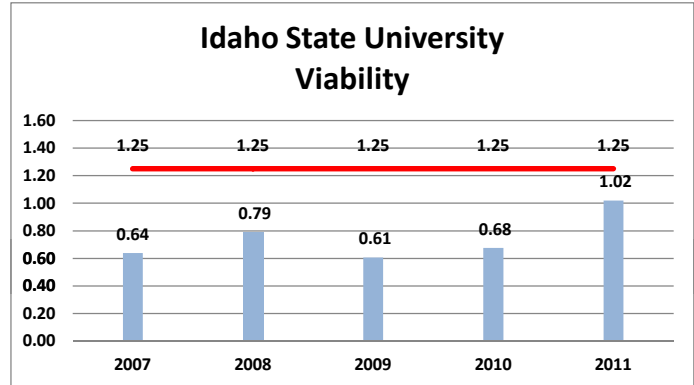
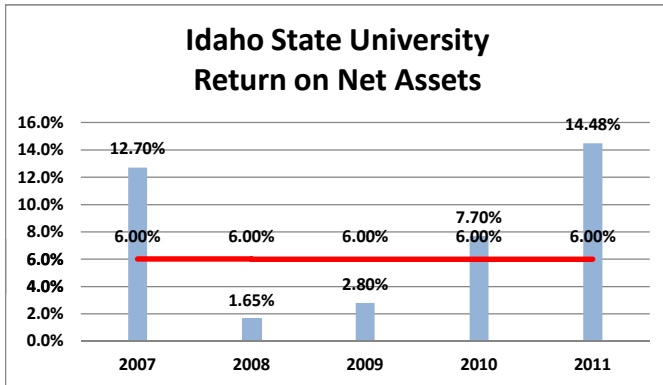
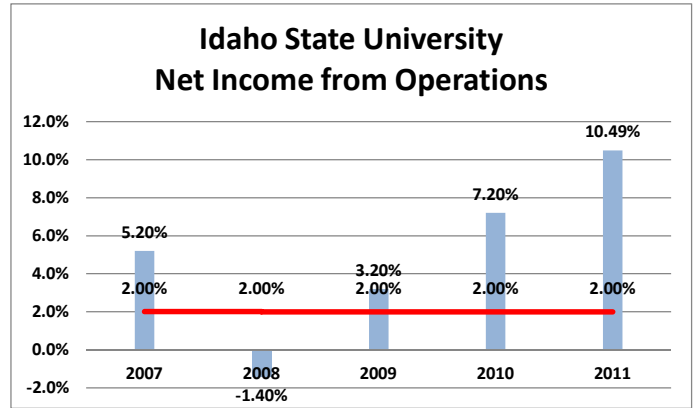
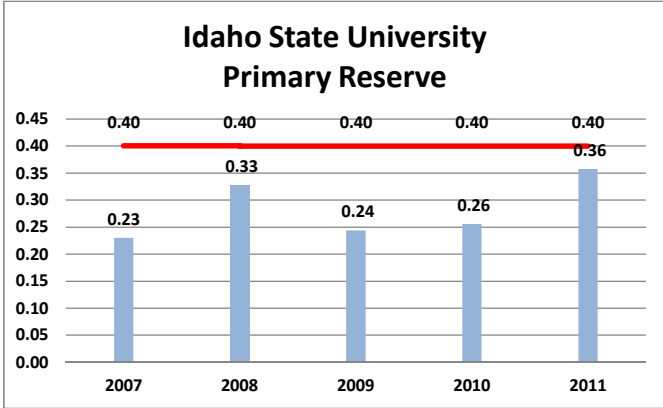
Boise State University

	2008	2009	2010	2011	Benchmark
Primary Reserve	0.58	0.54	0.55	0.62	0.40
Net Operating Revenues	3.7%	0.4%	2.2%	5.1%	2.00%
Return on Net Assets	13.0%	-1.9%	5.8%	9.5%	6.00%
Viability	0.75	0.67	0.68	0.83	1.25
CFI	3.98	1.85	2.89	4.01	3.0



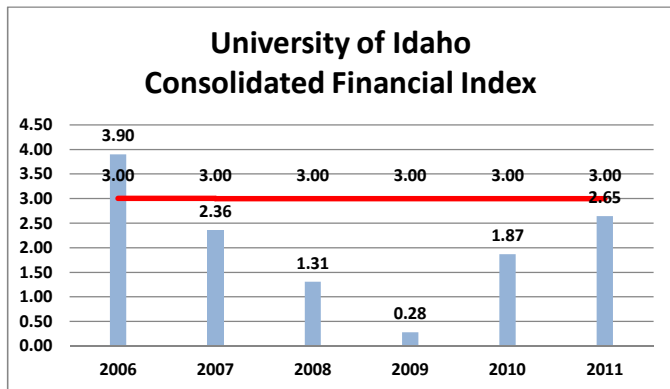
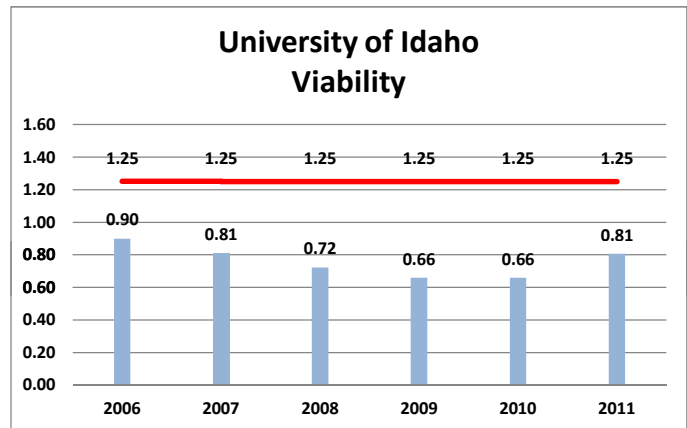
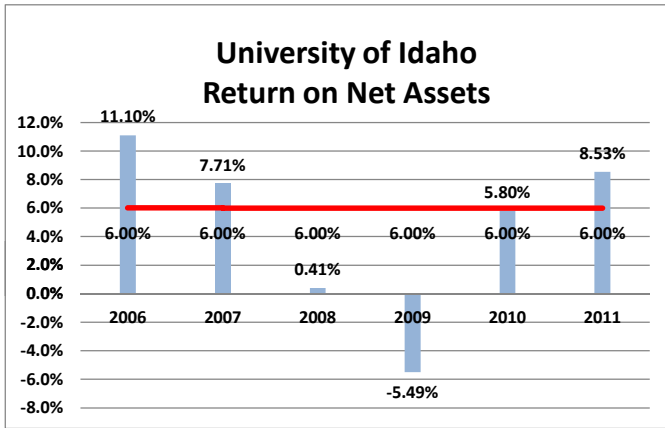
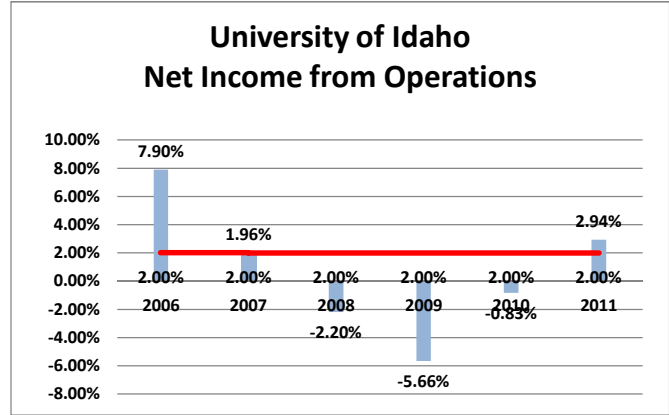
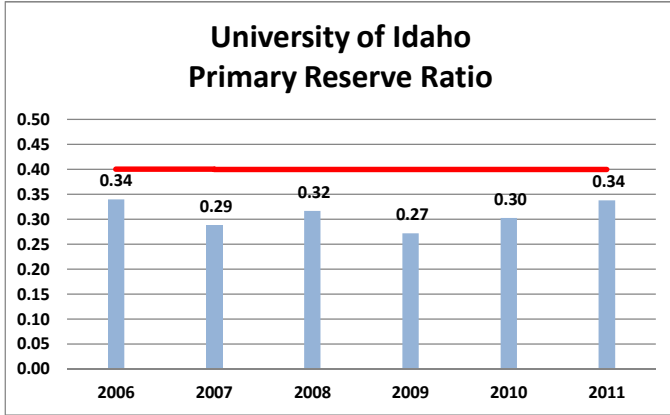
Idaho State University

	2007	2008	2009	2010	2011	Benchmark
Primary Reserve	0.23	0.33	0.24	0.26	0.36	0.40
Net Operating Revenues	5.2%	-1.40%	3.20%	7.20%	10.49%	2.00%
Return on Net Assets	12.7%	1.65%	2.80%	7.70%	14.48%	6.00%
Viability	0.64	0.79	0.61	0.68	1.02	1.25
CFI	3.2	1.5	1.9	2.6	4.7	3.0



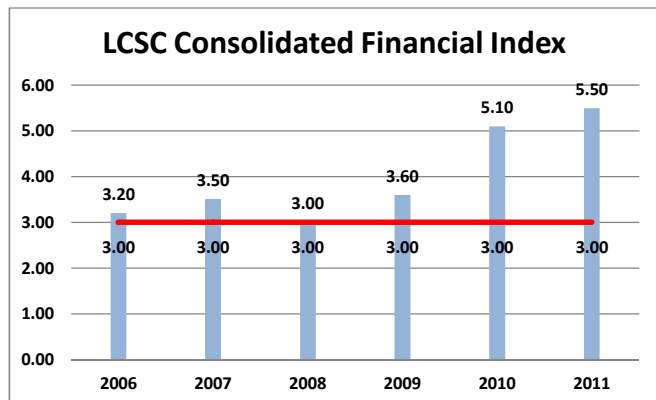
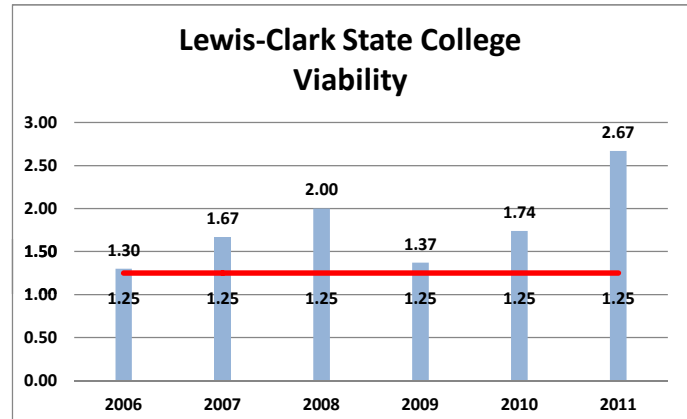
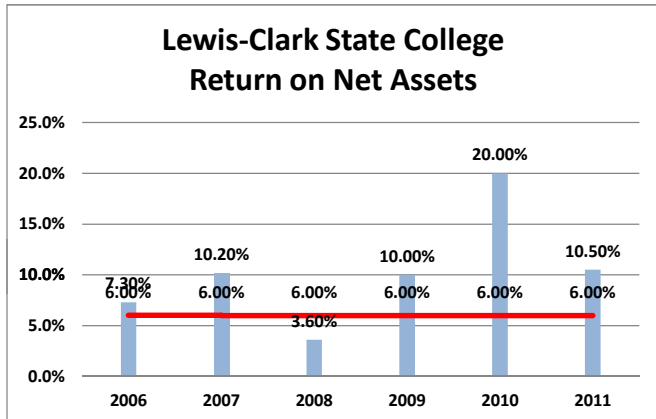
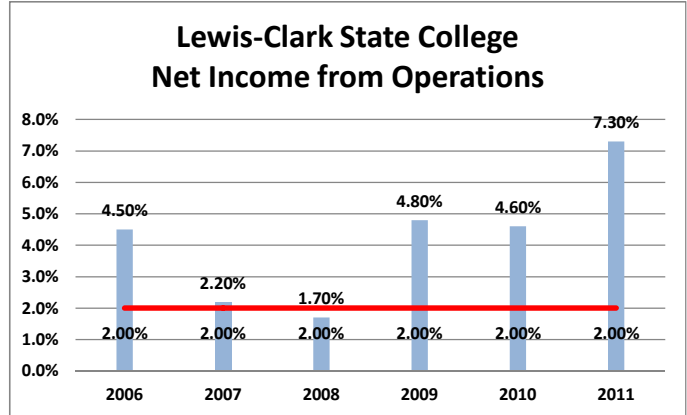
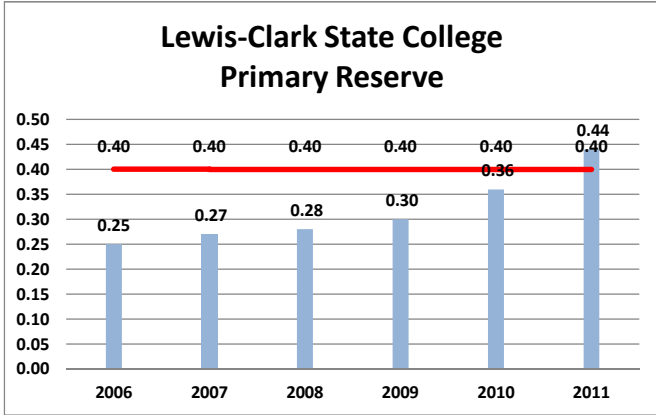
University of Idaho

	2006	2007	2008	2009	2010	2011	Benchmark
Primary Reserve Ratio	0.34	0.29	0.32	0.27	0.30	0.34	0.40
Net Operating Revenues	7.90%	1.96%	-2.20%	-5.66%	-0.83%	2.94%	2.00%
Return on Net Assets	11%	7.71%	0.41%	-5.49%	5.80%	8.53%	6.00%
Viability	0.9	0.81	0.72	0.66	0.66	0.81	1.25
CFI	3.9	2.4	1.31	0.28	1.87	2.646168	3.0



Lewis-Clark State College

	2006	2007	2008	2009	2010	2011	Benchmark
Primary Reserve	0.25	0.27	0.28	0.30	0.36	0.44	0.40
Net Operating Revenues	4.5%	2.20%	1.70%	4.80%	4.60%	7.30%	2.00%
Return on Net Assets	7.3%	10.20%	3.60%	10.00%	20.00%	10.50%	6.00%
Viability	1.3	1.67	2.00	1.37	1.74	2.67	1.25
CFI	3.2	3.5	3.0	3.6	5.1	5.5	3.0



**AUDIT COMMITTEE MEETING
DECEMBER 8, 2011**

SUBJECT

FY 2011 Legislative Audit: Office of the State Board of Education

APPLICABLE STATUTE, RULE, OR POLICY

Audit Committee Charter

BACKGROUND/DISCUSSION

The Audit Committee Charter provides that the Committee shall assist the State Board of Education ("Board") in its financial oversight responsibilities over the institutions under the Board's governance including the Office of the State Board of Education ("Office"). The Legislative Services Office's Audit Division reviews the Office every three years. Staff brought the audit report to the Committee for its review. The Committee had no questions or concerns.

IMPACT

The attached management report has been released and made public by authority of the Joint Finance-Appropriations Committee (JFAC) co-chairs.

The management review covers the fiscal years ended June 30, 2008, 2009 and 2010. The review covered general administrative procedures and accounting controls to determine if activities are properly recorded and reported. Legislative Audits did not identify any significant conditions or weaknesses in the general administrative and accounting controls of the Office.

ATTACHMENTS

Legislative Services Office Management Report

Page 3

STAFF COMMENTS AND RECOMMENDATIONS

Staff had no comments or recommendations

COMMITTEE ACTION

This item is for informational purposes only. Any action will be at the Committee's discretion.

**AUDIT COMMITTEE MEETING
DECEMBER 8, 2011**

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State of Idaho

Legislative Services Office

Management Report

A communication to the Joint Finance-Appropriations Committee

OFFICE OF THE STATE BOARD OF
EDUCATION

FY 2008, 2009, AND 2010

Report MR50110
Date Issued: October 7, 2011

Serving Idaho's Citizen Legislature



Don H. Berg, Manager

Idaho Legislative Services Office
Legislative Audits Division

OFFICE OF THE STATE BOARD OF EDUCATION

SUMMARY

PURPOSE OF MANAGEMENT REVIEW

We conducted a management review of the Office of the State Board of Education covering the fiscal years ended June 30, 2008, 2009, and 2010. Our review covered general administrative procedures and accounting controls to determine that activities are properly recorded and reported.

The intent of this review was not to express an opinion, but to provide general assurance on internal controls and to raise the awareness of management and others of any conditions and control weaknesses that may exist and offer recommendations for improvement.

CONCLUSION

We did not identify any significant conditions or weaknesses in the general administrative and accounting controls of the Office.

FINDINGS AND RECOMMENDATIONS

There are no findings and recommendations in this report or the prior report.

PRIOR FINDINGS AND RECOMMENDATIONS

The prior report contained one finding and recommendation, which was evaluated as part of the current review and is satisfactorily closed.

AGENCY RESPONSE

The Board has reviewed the report and is in general agreement with its contents.

FINANCIAL INFORMATION

The following financial data is for informational purposes only.

OFFICE OF THE STATE BOARD OF EDUCATION – FY 2010

Fund	Description	Appropriation Balance	Plus Receipts	Plus Net Transfers	Less Disbursements	Appropriation Balance
0001	General Fund	\$36,128,531	\$0	\$0	\$35,663,556	\$464,975 *
0125	Indirect Cost Recovery Fund	161,367	19,854	0	0	181,221
0346	American Reinvestment Fund	0	1,339,827	0	1,339,700	127
0348	Federal Fund	5,561,955	2,807,099	(99,671)	1,111,279	7,158,104 **
0349	Miscellaneous Revenue Fund	840,727	362,336	41,235	76,064	1,168,234
0403	Opportunity Scholarship Fund	20,837,741	227,357	0	895,667	20,169,431
0506	Community College Fund	3,700	0	7,300	0	11,000
		<u>\$63,534,021</u>	<u>\$4,756,473</u>	<u>(\$51,136)</u>	<u>\$39,086,266</u>	<u>\$29,153,092</u>

*Amount reverted to General Fund

**Federal cash advance for the U.S. Department of Education GEAR UP scholarship program.

OTHER INFORMATION

We discussed other issues which, if addressed, would improve internal control, compliance, and efficiency.

This report is intended solely for the information and use of the State of Idaho and the Office of the Board of Education and is not intended to be used by anyone other than these specified parties.

We appreciate the cooperation and assistance given to us by the executive director, Mike Rush, and his staff.

ASSIGNED STAFF

Patrick Aggers, CPA, CFE, Managing Auditor

J.E. Bowden, CPA, CFE, In-Charge Auditor

Brian Butkus, Staff Auditor

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AGENCY RESPONSE



IDAHO STATE BOARD OF EDUCATION
650 W. State Street | P.O. Box 83720 | Boise, Idaho 83720-0037
208-334-2270 | FAX: 208-334-2632
email: board@osbe.idaho.gov

September 23, 2011

Don Berg, Division Manager
Legislative Services Office
Legislative Audits Division
State Capitol, Rm E135
Boise, ID 83720

Dear Mr. Berg,

I have reviewed the Fiscal Year 2008-2010 Management Report conducted by your office, and am pleased to note that there are no findings or recommendations contained in the report for this audit period. The report concludes "We did not identify any significant conditions or weaknesses in the general administrative and accounting controls of the office." I hereby accept the audit report and its conclusion.

The Office of the State Board of Education is committed to maintaining the highest operating standards and welcomes this opportunity to review and improve our procedures and internal controls.

It was a pleasure working with your staff, and I especially want to thank J. E. Bowden, CPA, and Brian Butkus for their cooperation and professionalism throughout the course of their work.

Sincerely,

A handwritten signature in cursive script that reads "Mike Rush".

Mike Rush
Executive Director

APPENDIX

HISTORY

The constitutional and statutory authority for the State Board of Education and the Board of Regents of the University of Idaho is found in Article IX, Sections 2 and 10, of the Idaho Constitution and throughout Title 33 of the Idaho Code. Idaho Code, Section 33-102A establishes the Office of the State Board of Education as an executive agency of the Board.

PURPOSE

The Office of the State Board of Education assists the Board in the execution of its legal responsibilities. Consistent with that role, the Office functions to:

- Provide information, analysis, and recommendations associated with the Board's decision-making process, including policy decisions affecting K-12, student assessment, higher education programming, college and university building projects, and financing.
- Coordinate the function and activities of those agencies and institutions governed by or funded through the Board.
- Initiate, in cooperation with those agencies and institutions, long-term planning efforts responsive to emerging legal, social, and fiscal events in the State, region, and nation.
- Interact, as directed by the Board, with other branches and representatives of State government.
- Provide public information with respect to the Board, its policies, and its institutions.
- Establish and coordinate the Board's plan for K-12 and higher education in Idaho.
- Administer all programs and services assigned to the Board by statute, regulation, or appropriation.

The Office is funded by a General Fund appropriation, as well as federal funds used to support various positions and activities relating to federal grant management. Miscellaneous funds are used to administer proprietary schools and the GIANTS program. General Fund appropriations are also appropriated to health education and special programs.

In addition to the activities and duties described above, the Office is the State Education Agency (SEA) that has the authority to receive all federal education funds. While the majority of these funds are passed directly to the State Department of Education and then to local districts, a small percentage of federal funds, with the assistance of State dollars, are used to operate programs which the Board oversees.

Health Education Programs

The General Fund appropriation for health education is used for the Western Interstate Commission for Higher Education–Professional Student Exchange Program (WICHE-PSEP); the Washington, Wyoming, Alaska, Montana, Idaho (WWAMI) compact; the Utah/Idaho Medical Program; the Family Practice Residency Program; and the Psychiatry Residency Program.

WICHE-PSEP provides Idaho residents an opportunity to attend an out-of-state optometry program. WWAMI provides Idaho residents access to medical seats at the University of Washington School of Medicine. The Utah/Idaho Medical Program provides Idaho residents access to medical seats at the University of Utah School of Medicine. This appropriation helps cover the costs of the students' education.

Idaho's two Family Practice Residency Programs provide the final three years of formal family physician residency training. The program encourages newly graduated medical doctors to practice in Idaho. The Family Practice Residency of Southwest Idaho Program, located in Boise, provides training for nine new residents each year. The Idaho State University Family Residency Program, located in Pocatello, provides training for four new residents each year. Patient fees, local hospital contributions, and the State General Fund pay for the programs. Students from both the Idaho State College of Health Sciences and Health Related Profession and Boise State University's College of Health Sciences also receive training in the residency programs.

The Psychiatry Residency Program offers training for residents who spend the first two years at University of Washington and the last three years in Boise. Clinical rotations are at the Boise Veterans Administration Hospital, St. Alphonsus Regional Medical Center, St. Luke's Regional Medical Center, and rural rotations around the State.

Special Programs

Scholarships and grants provide financial support to students attending Idaho's post-secondary educational institutions. The following scholarship and grant programs are funded by General Fund appropriations and federal funds:

Idaho Promise Scholarship - Category A

Offers approximately 100 new scholarships each year (up to 400 total active recipients) to outstanding Idaho high school seniors who plan to pursue post-secondary academic or vocational studies at one of Idaho's public or private institutions of higher education. The Office of the State Board of Education determines award amounts.

Idaho Promise Scholarship - Category B

Provides up to \$250 per semester for all Idaho high school seniors graduating with a grade point average of at least 3.0 or an ACT score of at least 20. The scholarships are limited to two years and to students younger than 22 years of age. Recipients must maintain at least a 2.5 GPA to remain eligible. Participating institutions may provide up to a 1:1 match.

Opportunity Scholarship

A need-based scholarship is designed on a shared responsibility model with State dollars being the "last dollars." This means that a student must apply for federal aid and have a self or family contribution element before they would be eligible for the Opportunity Scholarship. In fiscal years 2008 and 2009, \$10 million was put into an endowment fund to provide funding for these scholarships.

Other Scholarship programs governed by the Board include:

- Atwell J. Parry College Work-Study Program
- Minority/"At Risk" Student Scholarship Program
- Teachers/Nurses Loan Forgiveness Program
- Freedom Scholarship
- Police/Firefighters Scholarships
- "Grow Your Own" Teacher Corp. Scholarship
- Leveraging Educational Assistance Program (LEAP)
- Paul Douglas Teacher Scholarship
- Byrd Scholarships

Other Programs

The Idaho Council for Technology in Learning (ICTL) was created to apply technology to meet the public need for an improved and thorough public education system. The ICTL consists of 14 members, including legislators, the State Superintendent of Public Instruction, a private business representative, a State Board of Education member, and other public officials involved in education. The Council's goal is to ensure coordination and effective implementation of State-funded learning technologies. The Council makes recommendations for expenditures of ICTL funds. The State Board of Education must approve these recommendations before funds may be spent.

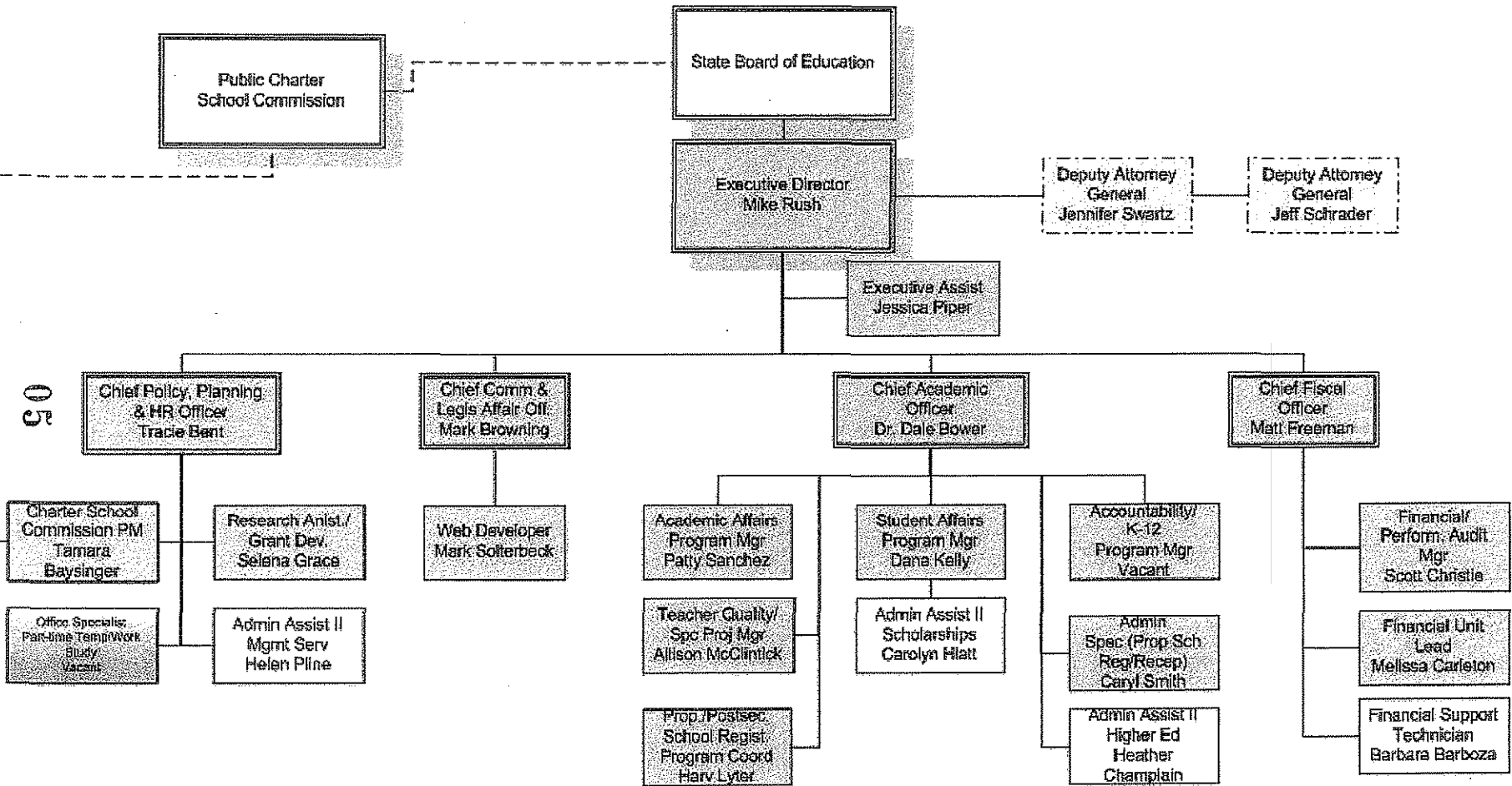
ORGANIZATION

The State Board of Education consists of eight members. The Governor appoints seven members to five-year terms. The State Superintendent of Public Instruction serves as the executive secretary of the Board.

The Board appoints the executive director of the Office of the State Board of Education. The current executive director is Mike Rush. A professional staff and general administrative staff assist the executive director. The Office's organization chart is illustrated on the following page.

Office of the State Board of Education

AUDIT COMMITTEE



03

TAB 3 Page 12

Purple filled positions are non-classified; yellow-filled positions are classified positions; gray-filled positions are group positions.
 AAII Mgmt Serv. supports all of Management Services (Policy/Planning and Communications)