

**AUDIT COMMITTEE
DECEMBER 3, 2012**

TAB	DESCRIPTION	ACTION
1	FY 2012 FINANCIAL STATEMENTS REVIEW	Motion to approve
2	FY 2012 COLLEGE and UNIVERSITIES' FINANCIAL RATIOS	Information item
3	AMENDMENT TO BOARD POLICY Section V.Y. Compliance Programs – Second Reading	Motion to approve

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**AUDIT COMMITTEE
DECEMBER 13, 2012**

SUBJECT

Presentation of 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 2012 is the eighth 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.

IMPACT

The external auditor, Moss Adams, will present their audit findings.

STAFF COMMENTS AND RECOMMENDATIONS

In October, institution management presented their financial statements to the Audit Committee and Board staff. Moss Adams conducted a review of their audit findings with members of the Audit Committee, Business and Human Resources Committee and Board staff. Board members were subsequently provided the audit reports and financial statements.

BOARD ACTION

I move to accept from the Audit Committee the Fiscal Year 2012 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 _____

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**AUDIT
DECEMBER 13, 2012**

SUBJECT

FY 2012 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 college and universities' financial statements. Foundation assets in particular may have a material affect 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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University of Idaho	Page 5
Lewis-Clark State College	Page 6

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 13, 2012

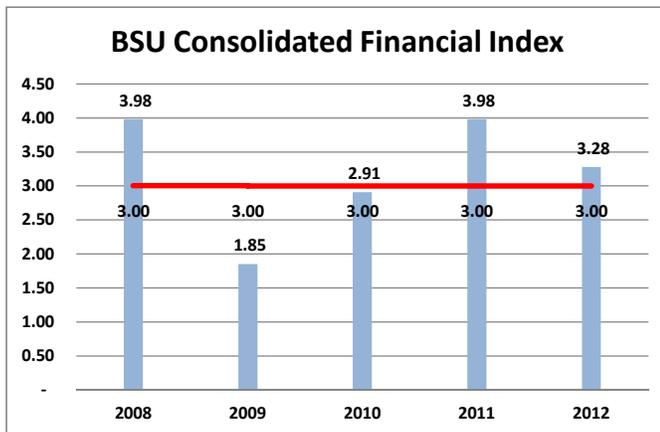
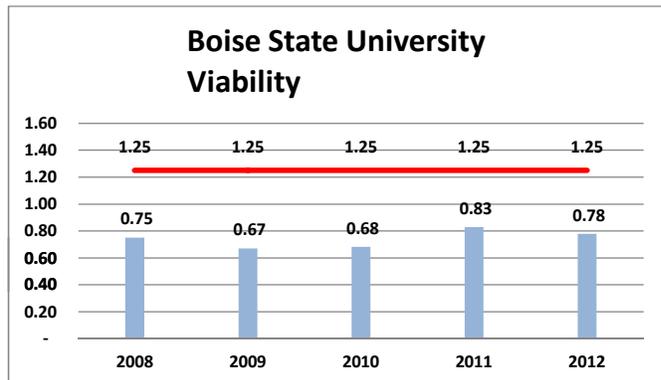
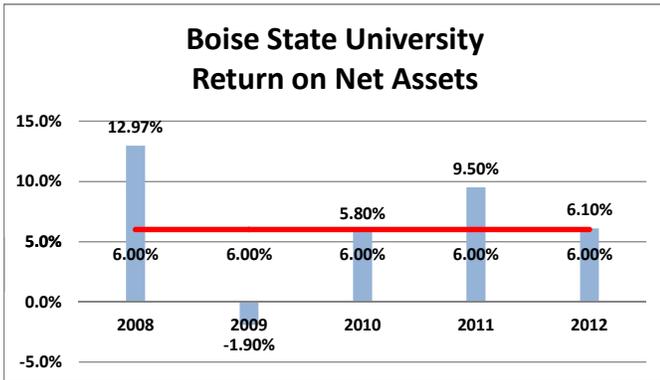
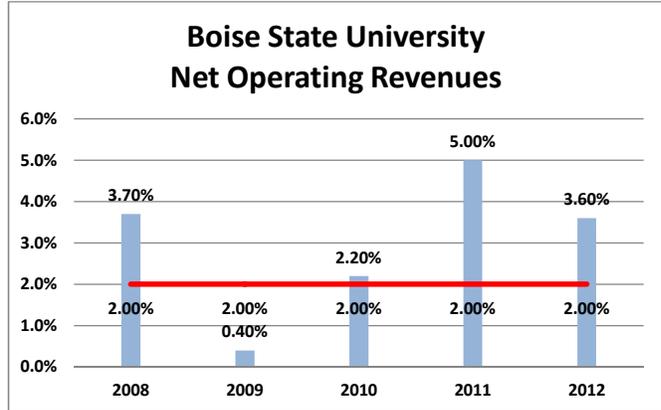
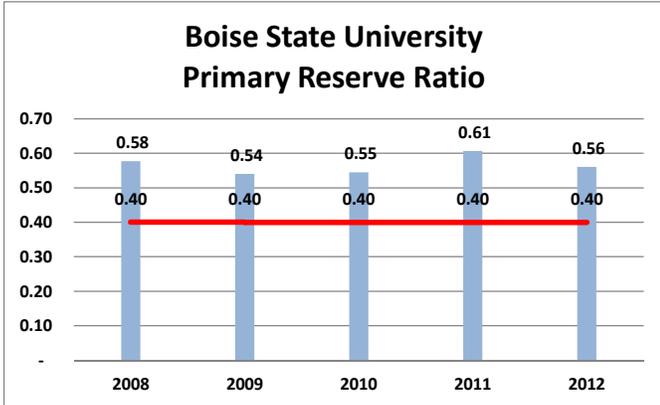
BOARD ACTION

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

Boise State University

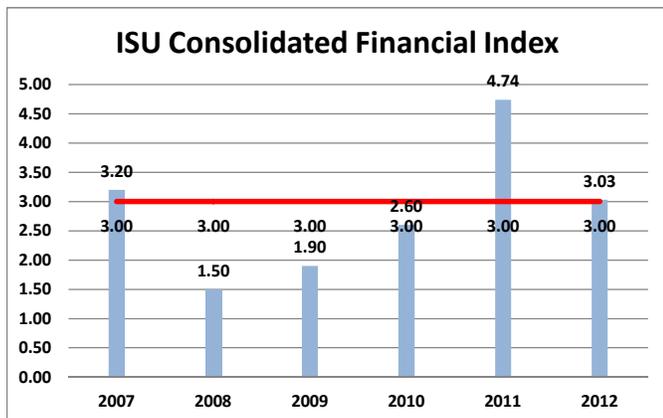
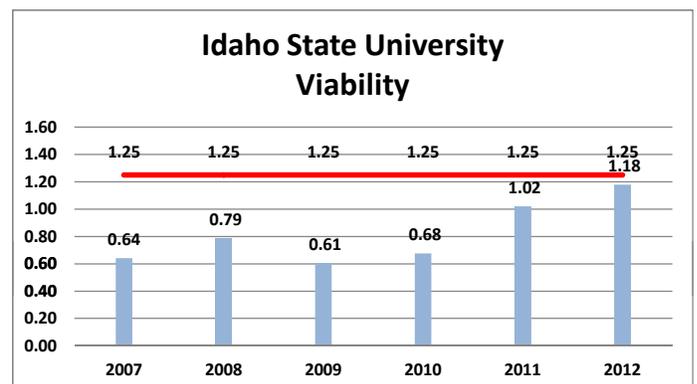
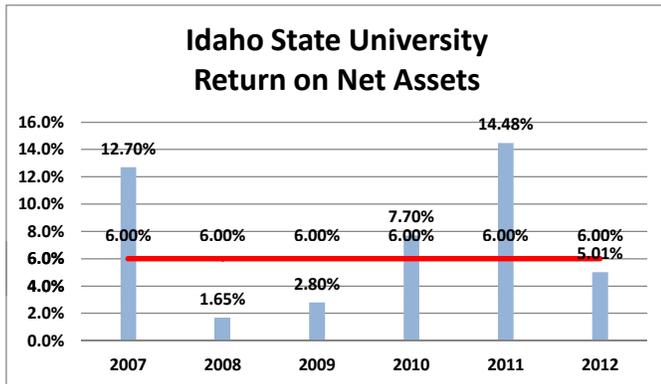
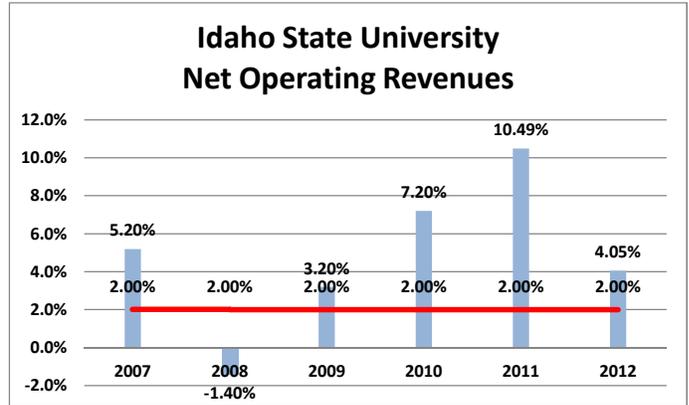
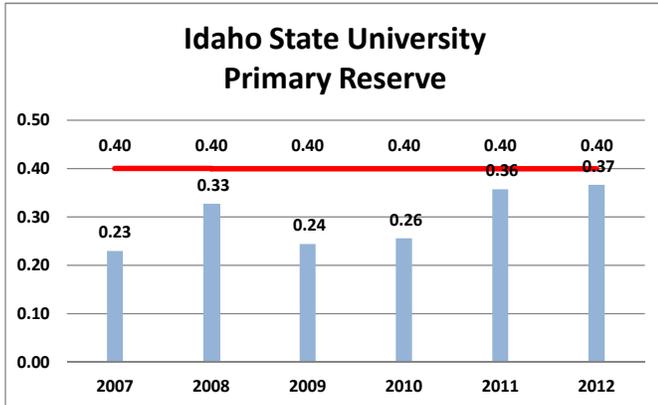
	2008	2009	2010	2011	2012	Benchmark
Primary Reserve	0.58	0.54	0.55	0.61	0.56	0.40
Net Operating Revenues	3.7%	0.4%	2.2%	5.0%	3.6%	2.00%
Return on Net Assets	13.0%	-1.9%	5.8%	9.5%	6.1%	6.00%
Viability	0.75	0.67	0.68	0.83	0.78	1.25
CFI	3.98	1.85	2.91	3.98	3.28	3.0

* 2008 was restated for FASB cu presentation



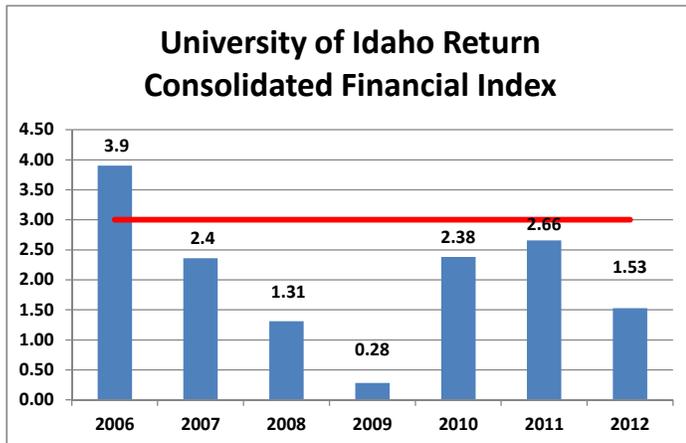
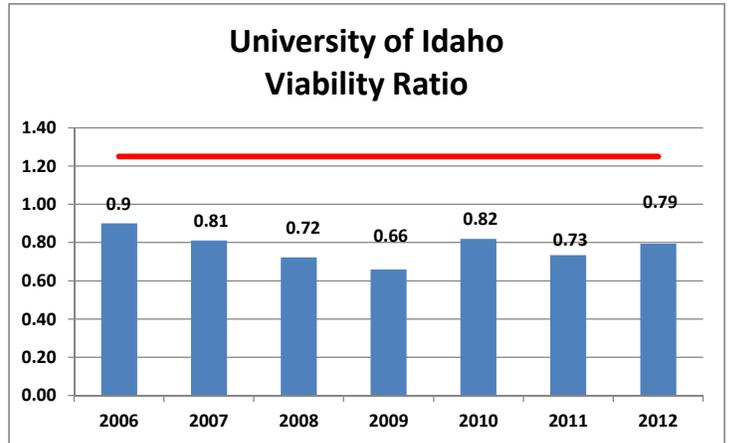
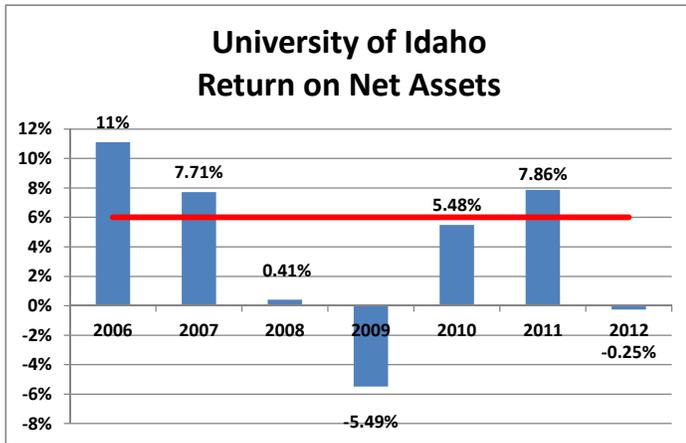
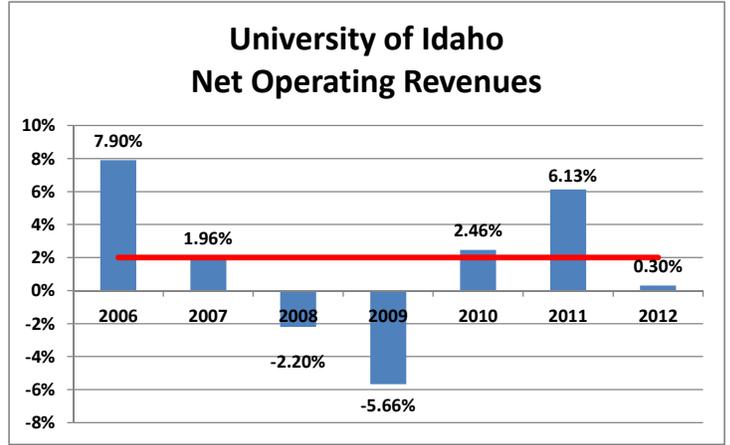
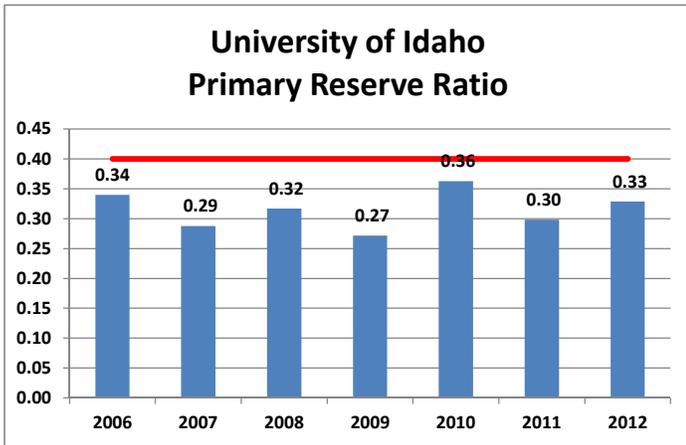
Idaho State University

	2007	2008	2009	2010	2011	2012	Benchmark
Primary Reserve	0.23	0.33	0.24	0.26	0.36	0.37	0.40
Net Operating Revenues	5.2%	-1.40%	3.20%	7.20%	10.49%	4.05%	2.00%
Return on Net Assets	12.7%	1.65%	2.80%	7.70%	14.48%	5.01%	6.00%
Viability	0.64	0.79	0.61	0.68	1.02	1.18	1.25
CFI	3.2	1.5	1.9	2.6	4.74	3.03	3.0



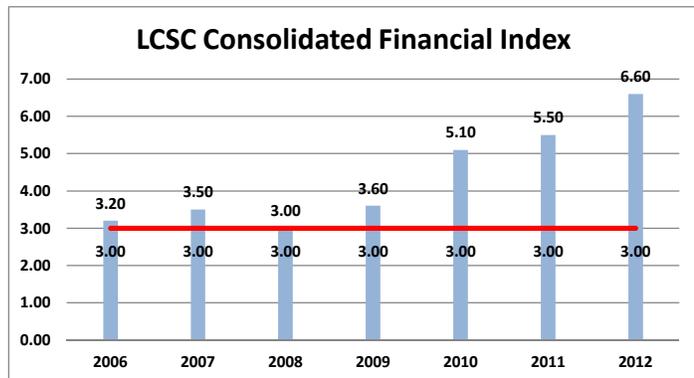
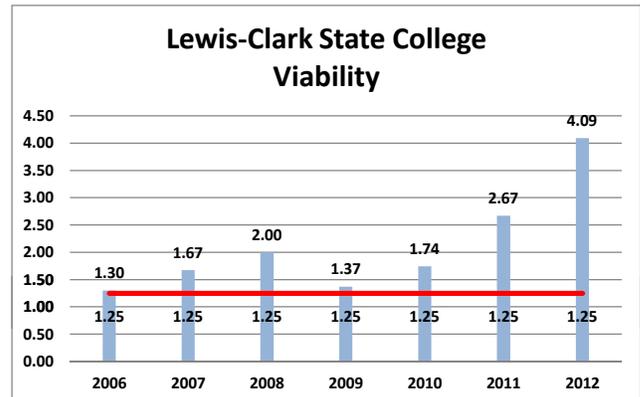
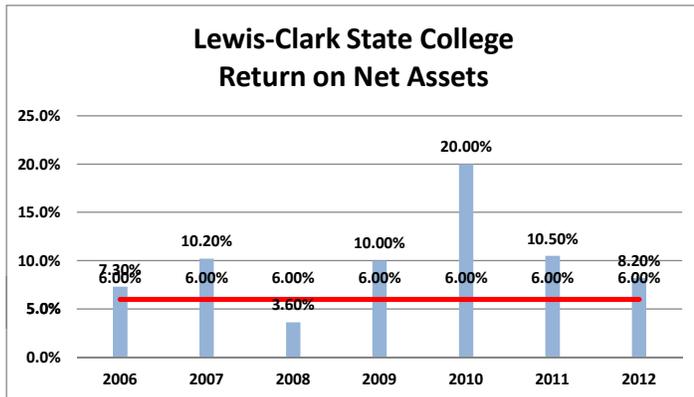
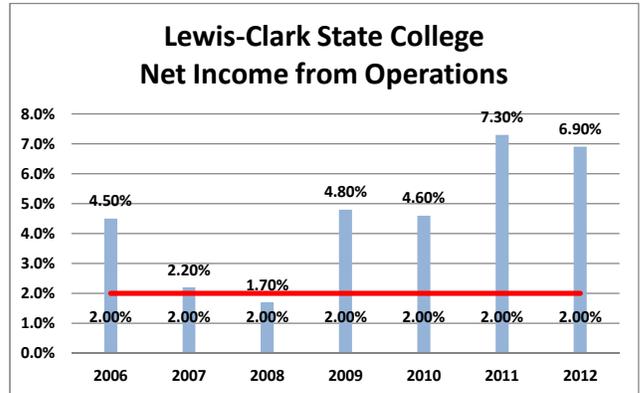
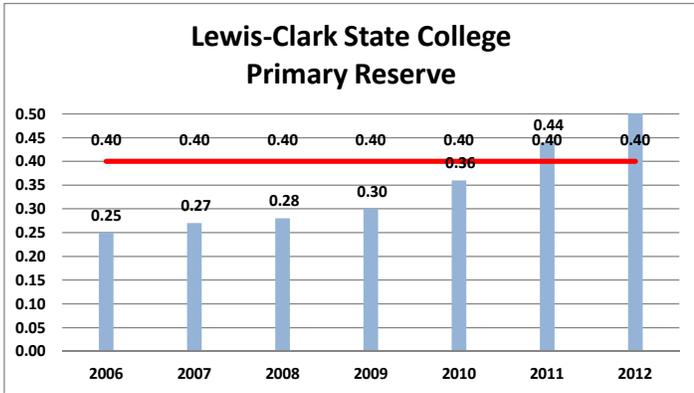
University of Idaho - CFI Ratios - FY 2006 thru 2012

	2006	2007	2008	2009	2010	2011	2012	Benchmark
Primary Reserve Ratio	0.34	0.29	0.32	0.27	0.36	0.30	0.33	0.40
Net Operating Revenues	7.90%	1.96%	-2.20%	-5.66%	2.46%	6.13%	0.30%	2.00%
Return on Net Assets	11%	7.71%	0.41%	-5.49%	5.48%	7.86%	-0.25%	6.00%
Viability	0.9	0.81	0.72	0.66	0.82	0.73	0.79	1.25
CFI	3.9	2.4	1.31	0.28	2.38	2.66	1.53	3.0



Lewis-Clark State College

	2006	2007	2008	2009	2010	2011	2012	Benchmark
Primary Reserve	0.25	0.27	0.28	0.30	0.36	0.44	0.40	0.40
Net Operating Revenues	4.5%	2.20%	1.70%	4.80%	4.60%	7.30%	6.90%	2.00%
Return on Net Assets	7.3%	10.20%	3.60%	10.00%	20.00%	10.50%	8.20%	6.00%
Viability	1.3	1.67	2.00	1.37	1.74	2.67	4.09	1.25
CFI	3.2	3.5	3.0	3.6	5.1	5.5	6.6	3.0



AUDIT
DECEMBER 13, 2012

SUBJECT

Board Policy V.Y. – Compliance Programs – second reading

REFERENCE

August 2010

Board was briefed on Audit Committee project to make policy recommendation for proper financial oversight and control, including such issues as codes of ethics or conduct, conflict of interest policy, and whistle-blower or other internal or external reporting procedures.

August 2012

Board approved 1st reading of new Board Policy V.Y.

BACKGROUND / DISCUSSION

The Audit Committee has been reviewing compliance and reporting processes and procedures by the institutions since 2010. The Committee directed staff and general counsel for the three universities to develop recommendations for a flexible structure to ensure compliance issues flow up to the Committee through a single point of contact or compliance officer. This included guidelines which would provide consistency for the institutions to follow in 1) deciding whether an investigation is warranted, and 2) if an investigation is required, what are the guidelines for performing the investigation.

IMPACT

Approval of revisions will constitute final adoption.

ATTACHMENTS

Attachment 1- Board Policy Section V.Y.

Page 3

STAFF COMMENTS AND RECOMMENDATIONS

There were no changes from the first reading. Staff recommends approval.

BOARD ACTION

I move to approve the second reading of the proposed new section, Board Policy V.Y., as presented in attachment 1.

Moved by _____ Seconded by _____ Carried Yes _____ No _____

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1. General

The Board is committed to ethical conduct and to fostering a culture of compliance with the laws and regulations which apply to the institutions and agencies under its governance.

2. Compliance Program

Each institution shall designate a chief compliance officer, approved by the Audit Committee (Committee), and shall ensure that the institution establishes a compliance audit program to be approved by the Committee which must address, at a minimum, the following:

- a. A code of ethics which applies to all employees.
- b. A published and widely disseminated list or index of all major compliance areas and responsibilities, and to categorize and prioritize these compliance areas and responsibilities by considering the risks, probability, and negative impact of potential events.
- c. A mechanism for coordinating compliance oversight, monitoring and reporting. This includes a management level group or individual with authority to examine compliance issues and assist the chief compliance officer in investigating, monitoring, and assessing compliance and/or recommending policies or practices designed to enhance compliance.
- d. A means of assuring institutional policies are regularly reviewed for compliance with current federal and state laws and regulations and Board policies.

3. Reporting

- a. The chief compliance officer of each institution will prepare and submit a semi-annual compliance report, on a confidential basis, to Board counsel and the Committee noting all material compliance matters occurring since the date of the last report, and identifying any revisions to the institution's compliance program.

For purposes of this policy, a compliance matter shall be considered material if:

- The perception of risk creates controversy between management and the internal auditor.
- It could have a material impact on the financial statements.
- Is or could be a matter of significant public interest or exposure.
- It may be reported in an external release of financial information.
- It relates to key controls over financial information that are being designed or redesigned, have failed, or otherwise are being addressed by the organization.

Idaho State Board of Education
GOVERNING POLICIES AND PROCEDURES
SECTION: V. FINANCIAL AFFAIRS
Subsection: Y. Compliance Programs

December 2012

- It involves fraud related to management.
 - It involves potential financial liability in excess of \$25,000
- b. Notwithstanding the foregoing, a material compliance matter must be reported to the Committee as soon as reasonably practicable if it could involve potential financial liability in excess of two hundred thousand dollars (\$200,000). A de minimus compliance matter need not be reported to the Committee at any time. A violation will be considered de minimus if it involves potential financial liability of less than twenty-five thousand dollars (\$25,000) and is a matter that has not been recurring or is not otherwise indicative of a pattern of noncompliance.
- c. Compliance concerns at agencies under the governance of the Board shall be reported to the Committee by the Board's Executive Director when, in his/her discretion, the matter presents extraordinary ethical, legal, or fiduciary responsibilities or obligations.