<table>
<thead>
<tr>
<th>TAB</th>
<th>DESCRIPTION</th>
<th>ACTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>FY 2012 FINANCIAL STATEMENTS REVIEW</td>
<td>Motion to approve</td>
</tr>
<tr>
<td>2</td>
<td>FY 2012 COLLEGE and UNIVERSITIES’ FINANCIAL RATIOS</td>
<td>Information item</td>
</tr>
<tr>
<td>3</td>
<td>AMENDMENT TO BOARD POLICY&lt;br&gt;Section V.Y. Compliance Programs – Second Reading</td>
<td>Motion to approve</td>
</tr>
</tbody>
</table>
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_____
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.

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

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
Boise State University  Page 3
Idaho State University  Page 4
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.
BOARD ACTION

This item is for informational purposes only. Any action will be at the Board’s discretion.
<table>
<thead>
<tr>
<th>Primary Reserve</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008 2009 2010 2011 2012 Benchmark</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>0.58</td>
<td>0.54</td>
<td>0.55</td>
<td>0.61</td>
<td>0.56</td>
<td>0.40</td>
</tr>
<tr>
<td>Net Operating Revenues</td>
<td>3.7%</td>
<td>0.4%</td>
<td>2.2%</td>
<td>5.0%</td>
<td>3.6%</td>
</tr>
<tr>
<td>13.0%</td>
<td>-1.9%</td>
<td>5.8%</td>
<td>9.5%</td>
<td>6.1%</td>
<td>6.00%</td>
</tr>
<tr>
<td>Viability</td>
<td>0.75</td>
<td>0.67</td>
<td>0.68</td>
<td>0.83</td>
<td>0.78</td>
</tr>
<tr>
<td>CFI</td>
<td>3.98</td>
<td>1.85</td>
<td>2.91</td>
<td>3.98</td>
<td>3.28</td>
</tr>
<tr>
<td>*2008 was restated for FASB cu presentation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Idaho State University

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

**Idaho State University Primary Reserve**

**Idaho State University Net Operating Revenues**

**Idaho State University Return on Net Assets**

**Idaho State University Viability**

**ISU Consolidated Financial Index**
### University of Idaho - CFI Ratios - FY 2006 thru 2012

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>Benchmark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary Reserve Ratio</td>
<td>0.34</td>
<td>0.29</td>
<td>0.32</td>
<td>0.27</td>
<td>0.36</td>
<td>0.30</td>
<td>0.33</td>
<td>0.40</td>
</tr>
<tr>
<td>Net Operating Revenues</td>
<td>7.90%</td>
<td>1.96%</td>
<td>-2.20%</td>
<td>-5.66%</td>
<td>2.46%</td>
<td>6.13%</td>
<td>0.30%</td>
<td>2.00%</td>
</tr>
<tr>
<td>Return on Net Assets</td>
<td>11%</td>
<td>7.71%</td>
<td>0.41%</td>
<td>-5.49%</td>
<td>5.48%</td>
<td>7.86%</td>
<td>-0.25%</td>
<td>6.00%</td>
</tr>
<tr>
<td>Viability</td>
<td>0.9</td>
<td>0.81</td>
<td>0.72</td>
<td>0.66</td>
<td>0.82</td>
<td>0.73</td>
<td>0.79</td>
<td>1.25</td>
</tr>
<tr>
<td>CFI</td>
<td>3.9</td>
<td>2.4</td>
<td>1.31</td>
<td>0.28</td>
<td>2.38</td>
<td>2.66</td>
<td>1.53</td>
<td>3.0</td>
</tr>
</tbody>
</table>
The table and diagrams illustrate the financial performance of Lewis-Clark State College and LCSC Consolidated Financial Index across the years 2006 to 2012.

**Lewis-Clark State College**

- **Primary Reserve**
  - 2006: 0.25
  - 2007: 0.27
  - 2008: 0.28
  - 2009: 0.30
  - 2010: 0.36
  - 2011: 0.44
  - 2012 Benchmark: 0.40

- **Net Operating Revenues**
  - 2006: 4.50%
  - 2007: 2.20%
  - 2008: 1.70%
  - 2009: 4.80%
  - 2010: 4.60%
  - 2011: 7.30%
  - 2012: 6.90%

- **Return on Net Assets**
  - 2006: 7.3%
  - 2007: 10.20%
  - 2008: 3.60%
  - 2009: 10.00%
  - 2010: 20.00%
  - 2011: 10.50%
  - 2012: 8.20%

- **Viability**
  - 2006: 1.30
  - 2007: 1.67
  - 2008: 2.00
  - 2009: 1.37
  - 2010: 1.74
  - 2011: 2.67
  - 2012: 4.09

- **CFI**
  - 2006: 3.20
  - 2007: 3.50
  - 2008: 3.00
  - 2009: 3.60
  - 2010: 5.10
  - 2011: 5.50
  - 2012: 6.60

**LCSC Consolidated Financial Index**

- 2006: 3.20
- 2007: 3.50
- 2008: 3.00
- 2009: 3.60
- 2010: 5.10
- 2011: 5.50
- 2012: 6.60

The diagrams visually represent the trends and comparisons of these financial metrics over the specified years.
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____
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.
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.