

**AUDIT COMMITTEE  
DECEMBER 15, 2016**

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<b>TAB</b>	<b>DESCRIPTION</b>	<b>ACTION</b>
1	FY 2016 FINANCIAL STATEMENT AUDITS	Motion to approve
2	FY 2016 FINANCIAL RATIOS	Information item
3	FY 2016 NET POSITION BALANCES	Information item

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**SUBJECT**

Acceptance of college/university FY2016 audit findings reported by the Idaho State Board of Education (Board)'s external auditor

**APPLICABLE STATUTE, RULE OR POLICY**

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

**BACKGROUND/DISCUSSION**

The Board contracted 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.

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

There was one significant finding for Lewis-Clark State College related to Student Financial Assistance. Moss Adams' audit results presentation, which was provided to the Audit Committee, is attached for the Board's reference.

**IMPACT**

**ATTACHMENTS**

Attachment 1 - Moss Adams Audit Results Report

Page 3

**STAFF COMMENTS AND RECOMMENDATIONS**

On November 9, 2016, Moss Adams reviewed their audit findings with members of the Audit Committee and Board staff. This was followed by presentations by senior managers from the audited colleges and universities on their financial statements. Board members were subsequently provided the audit reports and financial statements. Staff recommends acceptance of the financial audit reports submitted by Moss Adams LLP.

**BOARD ACTION**

I move to accept from the Audit Committee the Fiscal Year 2016 financial audit reports for Boise State University, Idaho State University, University of Idaho, Lewis-Clark State College, and Eastern Idaho Technical College, as submitted by Moss Adams LLP in Attachment 1.

Moved by \_\_\_\_\_ Seconded by \_\_\_\_\_ Carried Yes \_\_\_\_\_ No \_\_\_\_\_

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**SUBJECT**

FY 2016 College and Universities' Financial Ratios

**BACKGROUND/DISCUSSION**

The ratios presented measure the financial health of the institution and include a "Composite Financial 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.

Institution foundations are reported as component units in the college and universities' financial statements. The nationally developed ratio benchmarks model is built around this combined picture.<sup>1</sup> An institution foundation holds assets for the purpose of supporting the institution. Foundation assets are nearly all restricted for institution purposes and are an important part of an institution's financial strategy and financial health.

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 Financial 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 and relative efficiency of each institution.

**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 their financial ratios and will be available for questions by the Board.

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<sup>1</sup> See *Strategic Financial Analysis for Higher Education: Identifying, Measuring & Reporting Financial Risks* (7th ed.). New York, NY: Prager, Sealy & Co., LLC; KPMG, LLP; Attain, LLC. The model's well vetted analysis developed by industry experts has been around and evolving since 1980. It is widely used and accepted in the higher education finance community.

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**BOARD ACTION**

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

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**SUBJECT**

FY 2016 College and Universities' Unrestricted Net Position

**REFERENCE**

December 2012-2016

Annual Audit report submitted to the Board

**BACKGROUND/DISCUSSION**

The net position balances are shown in the Attachments as of June 30, 2016. The net position is broken down as follows:

**Invested in capital assets, net of related debt:** This represents an institution's total investment in capital assets, net of accumulated depreciation and outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included.

**Restricted, expendable:** This represents resources which an institution is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

**Restricted, nonexpendable:** This represents endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

**Unrestricted:** This represents resources derived from student tuition and fees, and sales and services of educational departments and auxiliary enterprises. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff. Not all sources of revenue noted above are necessarily present in the unrestricted position.

Within the category of **Unrestricted Position**, the institutions reserve funds for the following:

**Obligated:** Contractual obligations represent a variety of agreements which support initiatives or operations that have moved beyond management planning into execution. Obligations include contracts for goods and services, including construction projects. Obligations contain debt service commitments for outstanding debt and staffing commitments for personnel. These amounts also consist of inventories and other balances for which contractual commitments exist.

**Designated:** Designated net position represents balances not yet legally contracted but have been dedicated to initiatives that have been deemed to be strategic or mission critical. Balances include capital or maintenance projects that are in active planning phases. Facility and administrative cost recovery returns

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from sponsored projects (grants and contracts) are reinvested in infrastructure or on efforts to obtain additional grant funding. Documented central commitments to initiatives that have been approved at an executive level are designated.

*Note: Designated reserves are not yet legally contracted, so technically they are still subject to management decision or reprioritization. However, it's critical to understand that these net position balances are a snapshot in time as of June 30, 2016, so reserves shown as "designated" on this report could be "obligated" at any point in the current fiscal year.*

**Unrestricted Funds Available:** Balance represents reserves available to bridge uneven cash flows as well as future potential funding shortfalls such as:

- Budget reductions or holdbacks
- Enrollment fluctuations
- Unfunded enrollment workload adjustment (EWA)
- Unfunded occupancy costs
- Critical infrastructure failures

**IMPACT**

The volatility of state funding as well as fluctuations in enrollment and tuition revenue necessitates that institutions maintain fund balances sufficient to stabilize their operating budgets. As such, the Board has set a minimum target reserve of 5% of operating expenditures as a benchmark in its [Strategic Plan](#) (Goal 3, Objective D). The institutions' unrestricted funds available as a percent of operating expenses are as follows:

	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
BSU:	3.5%	5.0%	6.1%	5.1%	5.3%
ISU:	7.3%	12.6%	16.2%	15.6%	11.8%
UI:	2.6%	2.7%	4.2%	5.1%	5.4%
LCSC:	3.8%	5.1%	6.5%	6.3%	6.0%

**ATTACHMENTS**

BSU Net Position Balances	Page 3
ISU Net Position Balances	Page 5
UI Net Position Balances	Page 7
LCSC Net Position Balances	Page 9

**STAFF COMMENTS AND RECOMMENDATIONS**

The institutions will present a brief analysis of their respective unrestricted net position.

**BOARD ACTION**

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