AUDIT
DECEMBER 21, 2016

TAB	DESCRIPTION	ACTION
1	FY 2017 FINANCIAL STATEMENT AUDITS	Motion to approve
2	FY 2017 FINANCIAL RATIOS	Information item
3	FY 2017 NET POSITION BALANCES	Information item
4	LEWIS-CLARK STATE COLLEGE FOUNDATION OPERATING AGREEMENT	Motion to approve

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SUBJECT

College/university FY2017 audit findings reported by the Idaho State Board of Education's external auditor

REFERENCE

December 2016	Board reviewed FY 2016 audit findings

APPLICABLE STATUTE, RULE OR POLICY

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

BACKGROUND/DISCUSSION

The Idaho State Board of Education (Board) has 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 financial audits for FY2017 were conducted in accordance with Generally Accepted Government Auditing Standards and include an auditor's opinion on the basic financial statements prepared by each of the five institutions.

IMPACT

There were two significant findings for Boise State University, related to internal controls for Research and Development. There was one significant finding for the University of Idaho, related to posting of journal entries. Moss Adams' audit results presentation, which was provided to the Audit Committee, is attached for the Board's reference.

ATTACHMENTS

Attachment 1 - Moss Adams Audit Results Report	Page 3

STAFF COMMENTS AND RECOMMENDATIONS

On November 8, 2017, 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 provided with copies of the audit reports and financial statements. The institutions which received significant findings have identified actions to correct and prevent recurrence of the noted problems. Staff recommends acceptance of the financial audit reports submitted by Moss Adams.

BOARD ACTION

I move to accept from the Audit Committee the Fiscal Year 2017 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_____

SUBJECT

FY 2017 College and Universities' Financial Ratios

BACKGROUND/DISCUSSION

The ratios presented measure the financial health of each institution and include a "Composite Financial Index" based on four key ratios. The ratios are designed as management tools to measure financial activity and key trends within an institution over time. They typically do not lend themselves to comparative analysis between institutions because of the varying missions and structures of the institutions and current strategic initiatives underway at a given institution at a given time.

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.[1] An institution's 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.

This year the institutions were asked to add two additional ratios: Debt Burden and Life of Capital Assets. The Debt Burden ratio is calculated as debt service divided by adjusted expenditure. The benchmark for this ratio is set by the institution for no more than 8% per Board policy. The Age of Capital Assets ratio is calculated as accumulated depreciation divided by depreciation expense. The benchmark for this ratio is 10 for research institutions and 14 for undergraduate liberal arts institutions.

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
Debt Burden	Institution's dependence on borrowed funds	<= 8%
Age of Capital Assets	Recent vs deferred investments	10 - 14

IMPACT

[1] 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.

These financial ratios and analyses are provided in order for the Board to review the financial health and year-to-year trends at the institutions. The ratios reflect a financial snapshot as of fiscal year end. The Audit Committee reviews key financial performance factors on a quarterly basis.

ATTACHMENTS

STAFF COMMENTS AND RECOMMENDATIONS

Staff will provide a brief tutorial on the definition and uses of the four key ratios and the Composite Financial Index. Institution representatives will be ready to provide a brief analysis of their financial ratios and answer Board members' questions.

BOARD ACTION

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

SUBJECT

FY 2017 College and Universities' Unrestricted Net Position Balances

REFERENCE

December 2012-2017	Annual Audit reports submitted to the Board

BACKGROUND/DISCUSSION

Net position balances provide a tool to gauge the amount and types of assets held by an institution. An analysis of unrestricted expendable assets provides insights into some of the "reserves" which might be available in order for an institution to meet emergency needs. The net position balances as of June 30, 2017 for Boise State University, Idaho State University, the University of Idaho, and Lewis-Clark State College are attached. The net position reports for the four institutions are broken out by the following categories:

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 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, 2017, 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%, as measured by "Unrestricted Available" funds divided by annual operating expenses. This benchmark was originally included in the Board's strategic plan but removed when the plan was recently streamlined. Staff has proposed (in a separate agenda item) an amendment to Board Policy V.B. to incorporate the 5% target in policy. The institutions' unrestricted funds available as a percent of operating expenses over the past five fiscal years are as follows:

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
BSU:	5.0%	6.1%	5.1%	5.3%	5.5%
ISU:	12.6%	16.2%	15.6%	11.8%	7.8%
UI:	2.7%	4.2%	5.1%	5.4%	5.0%
LCSC:	5.1%	6.5%	6.3%	6.0%	5.2%

ATTACHMENTS

STAFF COMMENTS AND RECOMMENDATIONS

All four of the affected institutions met the Board's 5% reserve target in FY2017. Representatives from the institutions are ready to provide a brief analysis of their financial net position balances and year-to-year trends.

BOARD ACTION

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

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LEWIS-CLARK STATE COLLEGE

SUBJECT

Revised operating agreement with Lewis-Clark State College (LCSC) Foundation

REFERENCE

October 2009	Board approved LCSC operating agreement with LCSC Foundation
August 2012	Board approved revised operating agreement
February 2015	Board approved revised operating agreement

APPLICABLE STATUTE, RULE, OR POLICY

Idaho State Board of Education (Board) Governing Policies & Procedures, Section V.E.

BACKGROUND/DISCUSSION

State Board policy stipulates that *"each institution shall enter into a written operating agreement with each recognized foundation that is affiliated with the institution."* The proposed revision to the LCSC operating agreement updates the agreement approved by the Board in 2015 to address the following points:

1) Extends the term of the agreement from March 2018 to March 2021.
2) Revises Exhibit F to further clarify the intention of Board Policy V.E. by adding the statement, "*No board member shall accept from any source any material gift or gratuity in excess of fifty dollars ($50.00) that is offered, or reasonably appears to be offered, because of the position held within the Foundation; nor should an offer of a prohibited gift or gratuity be extended by such an individual on a similar basis*" at the conclusion of paragraph three.

IMPACT

The proposed revisions will update the agreement to reflect a three-year extension to March of 2021 and will provide clarity within the conflict of interest form to align more clearly with Board Policy V.E.

ATTACHMENTS

STAFF COMMENTS AND RECOMMENDATIONS

The revised language in Exhibit F follows the wording included in Board Policy V.E.2.c.v. on Conflict of Interest and Code of Ethics and Conduct. The Audit Committee reviewed the proposed revision to the LCSC-LCSC Foundation Operating Agreement at its meeting on November 8, 2017 and has forwarded it to the Board for approval. Approval of the proposed revised agreement will also restart the three-year cycle for future Board review and approval, if no other substantive revisions are needed prior to March 2021.

Staff recommends approval.

BOARD ACTION

I move to approve the revisions to the Operating Agreement between Lewis-Clark State College and the Lewis-Clark State College Foundation, Inc., as presented in Attachment 1.

Moved by ____________ Seconded by___________ Carried Yes _____ No _____