STANDARD
SEVEN
FINANCE
Finance

Boise State’s Story

Financial resources represent a constraint for any University, but especially for a University such as Boise State, which is growing rapidly and at the same time moving to achieve our vision to become a metropolitan research university of distinction. We present as our “story” the summary from the most recent rating report on the 2009A bond issuance, in which Moody’s Investor Services confirmed the University’s municipal bond rating of A1.1 2 There is perhaps no better way to depict, in a comprehensive and unbiased manner, the status of our financial resources and the challenges we face.

“STRENGTHS

• Sound fundamental market position as an urban University in a growing metropolitan area should lead to stable enrollment (full-time equivalent of nearly 14,000 students in fall 2008) and continued growth in student charges pledged to bondholders.

• History of consistently favorable operating performance despite volatile funding environment, with a three-year average operating margin of 5.0% (FY 2006-2008) and good average debt service coverage of 2.5 times over the same period. Healthy growth of tuition revenue, which has increased at an average rate of 7% over the past three years, has contributed to the University’s decreasing dependence on state appropriations.

• Growth in financial resources, with expendable financial resources nearly doubling since FY 2004 ($186.4 million in FY 2008). We anticipate that conservative budgeting, operating surpluses, and improved fundraising associated with the current campaign will help offset investment losses and lead to stable to modest resource growth over time. BSU is in the midst of its first capital campaign [in fact, ours is a comprehensive campaign], having raised $107 million against a $175 million goal.

CHALLENGES

• Additional capital investment needed to support the University’s strategic plan, including academic space and additional student housing which could further leverage the University’s balance sheet and operations; however, the University is proceeding with caution in reaction to the current economic environment and to preserve its balance sheet.

1 2009A Moody’s ratings report
2 Rating Agency reports
strength. BSU plans to borrow an estimated $36 million in the next three to five years for the construction of a College of Business [and Economics] building and is considering a variety of funding options for additional housing needs.

- Reliant on state appropriations for nearly 35% of operating revenues in FY 2008. While state appropriations have increased in recent years, due in large part to an equity funding adjustment, Idaho, like other states, is currently facing fiscal challenges stemming from the difficult economic environment which has resulted in a 4% holdback for FY 2009 and potentially a 10% reduction in funding in the near-term. [Note: the actual reductions were a 4% hold back during FY 2009 (made permanent) and an 8% permanent reduction in base funding beginning with FY 2010].

- Efforts to expand research activity could be hampered by slowing of growth rate in federal funding sources. BSU has a modest research profile with $14.4 million of expenditures in FY 2008.”

—HOW DO WE BALANCE RESOURCES AND GOALS?

A key challenge identified by the Moody’s report is the tension between the investment required to support our vision and the limitations on resources available. Although the Moody’s report is focused on capital investment, that tension applies to all aspects of the University: How are we to make progress on our bold strategic plan and move toward our vision when faced with limited resources?

Two strategic goals from Charting the Course are key in meeting this challenge:

- Obtain fiscal resources necessary to support the vision
- Build and maintain facilities to support programs and create an attractive and accessible environment

It is foundationally important that we secure additional funds and that we build new facilities. However, it is also important that our organization be able to make the best possible use of those fiscal and physical resources. Hence the need for focus on a third of our strategic goals:

- Create an organization that is responsive to change

To achieve these goals and to achieve our vision, the University and the Division of Finance and Administration, in particular, are taking actions in the following three categories. These categories can be regarded as “key strategic aspects” of our operations and will be used to organize this chapter of the self study:
• Strategic Allocation of Resources: We must make the best use of the resource we have and must therefore be strategic in our decision making and our allocation of resources.

• Increased Resource Capacity: We must seek additional sources of revenue and capital funding.

• Responsibility and Sustainability: We must remain solvent and flexible enough to handle unforeseen obstacles. We must be responsible and open about our operations so as to engender the trust of our overseers and all stakeholders. We must reduce unnecessary costs.

Following discussion of these three key aspects of financial strategy, we present a comprehensive point-by-point response to the standards.
Standard Seven: Finance

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Finance: Key Strategic Aspects

Strategic Allocation of Resources

We have increased our ability to be strategic in our decision-making and our allocation of resources by (i) developing a vision and using that vision as a basis for a new strategic plan and a new master plan, (ii) developing and implementing a strategic planning and budgeting process, (iii) developing processes for making strategic decisions with respect to construction and remodeling of facilities, and (iv) facilitating a change in the potential use of student fees so as to give more flexibility in their allocation.

—A NEW VISION, STRATEGIC PLAN, AND CAMPUS MASTER PLAN

As is described in our response to Standard 1, President Bob Kustra defined our vision as becoming a metropolitan research university of distinction. The following year, Provost Sona Andrews led the development of the University’s strategic plan, Charting the Course, which guides activities as we strive to attain our vision. In the same year, the University revised its Campus Master Plan, as described in our response to Standard 8. The new vision, the new strategic plan, and the new master plan together form the foundation for our decision making regarding resources.

—STRATEGIC BUDGETING

Prior to fiscal year 2006, requests for funding outside of the budgeting cycle were made individually by units using a Supplemental Funding Request form. Such requests arrived year round, and were considered individually on their merits and available funding.

Beginning four years ago, the “off-cycle” funding request process was largely consolidated into the Annual Planning and Budget Process. In the new process, units are required to describe their strategic planning efforts and progress on strategic initiatives. Budget requests must be explicitly tied to Charting the Course and they must include a description of the means by which progress will be measured. Budget requests are strategically prioritized within each division, and final decisions on budget allocations are made by the President in consultation with the Vice President for Finance and Administration. This consolidation of requests into a single yearly process enables the strategic prioritization of initiatives and allocations. Not only does this allow for top down funding to be allocated thoughtfully, but it provides all departments and divisions with the
opportunity to see how they contribute to Boise State’s achievements.

As a testament to the robustness of our budget process, the same process was used during Spring 2009 to decide upon budget reductions. Proposed reductions were prioritized based on strategic impact, and the reductions were not allocated across the board. This is in direct contrast to the situation in 2002; in that year, Boise State responded to state-wide holdbacks with across the board cuts at the University.

It should be noted that opportunities do not always fall neatly into budget cycles. If, during the year, opportunities present themselves, executive management considers the strategic importance of the opportunity and may then fund the unbudgeted initiative. These initiatives are tracked and folded into the subsequent budget cycle as “off the top” commitments and typically will have memoranda of agreement between all parties involved.

—STRATEGIC PLANNING FOR FACILITIES

Following the revision of the Campus Master Plan, the Vice President for Finance and Administration led an effort to revise the processes by which the campus plant is expanded. The post of Associate Vice President for Campus Planning and Facilities was created to oversee planning efforts. The Facilities Planning Council was revamped to focus on prioritizing and approving construction projects in the context of the Campus Master Plan. Proposals for new buildings must be formally documented in a Project Agreement, which must then be approved by all appropriate decision makers. Finally, a Strategic Facilities Fee was developed and approved in 2006 as a way to issue bonds and leverage state, federal and donor funding to build a single structure.

—FLEXIBILITY IN ALLOCATION OF STUDENT FEES

Prior to 2004, Boise State was allowed to charge students a matriculation fee, but that fee could only be used to support facilities and other infrastructure, not to support instruction. To increase the flexibility with which we could allocate student fees, Boise State partnered with Idaho State University and Lewis-Clark State College to support legislation, enacted in April 2004, that would allow the charging of tuition to Idaho students. The purpose of the change was not to provide increased revenue, but instead to provide flexibility in managing fiscal resources to ensure that student fees could be spent strategically.

3 sample MOA - Construction Management
4 Sample Project Agreement
Resource Capacity

—IMPORTANCE OF ALTERNATIVES TO STATE FUNDING IN ACHIEVING THE VISION

7.B.1 – The institution provides evidence that it seeks and utilizes different sources of funds adequate to support its programs and services. The commitment of those resources among programs and services reflects appropriately the mission and goals and priorities of the institution.

Additional resources are necessary if we are to achieve our vision to become a metropolitan research university of distinction and at the same time continue to accommodate increased enrollments. However, we cannot expect the entire amount to be funded by the state, for the following reasons:

- State support of the University grew by 18% between FY 2002 and FY 2008 (Figures 7.1 and 7.2). However, during that same period, the total revenues to the University grew by 43%. Thus, the relative contribution of state funding to the University budget has decreased substantially, from 39.7% in FY 2002 to 32.8% in FY 2008. During the same period, state support to colleges and universities decreased from 11.6% of the total state budget to 9.6%.

- The State does not provide a separately identified source for capital improvements for higher education. Universities vie with all other agencies for capital funding from the Permanent Building Fund.

- The State has a mechanism known as Enrollment Workload Adjustment (EWA) that, in principle, is designed to provide additional revenue to growing universities to help them accommodate enrollment growth. The EWA is calculated based on only a fraction of the growth based on a rolling 3-yr historical average. Previously the fraction funded was 1/3 of growth. It was increased to 2/3 in FY2008. Growth has never been fully funded, and in fact, in some years EWA has not been funded at all.

It is therefore clear that to improve programs and facilities, to absorb growth in enrollments, and to embark on a new direction as a metro-
The University needs to find alternatives to state funding and will continue to seek additional sources of revenue. As can be seen in Figure 7.1, alternative sources of funding have grown substantially.

In the following narrative, we highlight several sources of increased resource capacity: fundraising, grants and contracts, contribution from auxiliaries, debt capacity, and public-private partnerships.

---FUNDRAISING AND DEVELOPMENT---

Fundraising operates under the umbrella of the Boise State University Foundation. The Foundation, founded in 1964, is a non-profit corporation devoted entirely to the benefit of Boise State. Its mission is to raise funds and support for the University’s academic programs, prudently manage all private funds donated to the University, and act as an envoy and link between the University and its constituents. The SBOE\(^6\) and the University\(^7\) have policies regarding fundraising and the relationship of the foundation to the University. A memorandum of understanding describes the relationship between the foundation and the University.\(^8\)

The Foundation is in the middle of Destination Distinction, its first comprehensive campaign. The planning stage of the campaign began in fiscal year 2006 with the first step requiring the creation of a staffing plan to “right size” the organization to support a campaign. In FY 2007, Campbell and Co. was engaged as campaign consultant to advise the Foundation with respect to tactics and goals.

Since 2006, new advancement officers have been hired to work with each college and additional support staff members (including a seasoned financial officer) have been added.

The total goal of the campaign is $175 million by June 30, 2011. Destination Distinction has four major components: $37 million for support of students, $26 million for support of faculty, $43 million for direct academic support, and $69 million for capital projects.

Through July 31, 2009, total gifts and pledges were $113.8 million or over 65% of the goal. Currently, the campaign goal and timeline remain in place.

In fiscal year 2007, the Foundation also engaged Hammond Associates to manage permanently and temporarily restricted funds. This change acknowledged the portfolio’s growth and the importance of maximizing resources through professional money management. The performance of the portfolio is review as often as needed for prudent oversight, but at least quarterly, by the Foundation Investment Committee.

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\(^6\) SBOE policy on gifts and foundations
\(^7\) Folder: Policies regarding University Advancement
\(^8\) MOU between Foundation and University
As with most investments, the portfolio did incur significant losses during the fall of 2008. Table 7.1 shows the change in assets during that timeframe.

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FY 2009 scholarships were not affected by current economic conditions. The Foundation’s appeal to our donors (the Dollars to Scholars targeted fundraising drive) and contribution of Foundation unrestricted funds ensure that FY2010 scholarships will remain at about the same level as FY2009. However, declines are possible in FY2011. The University and the Foundation are looking to other sources to shore up scholarships until Foundation balances recover. The portfolio stabilized and began to recover during the second half of the fiscal year. Performance through June 30, 2009, is included in the evidence folders.9

---GRANTS AND CONTRACTS---

As described in standard 4B, we have substantially increased our efforts to secure grants and contracts, with the effect that between FY 2002 and FY 2009, our sponsored projects funding has nearly doubled, from $19 million to $37 million.

The University has also made a concerted effort to secure additional federal funding through congressionally-directed appropriations. Prior to FY2008, essentially every project proposed by the academic community was forwarded to the Idaho delegation for their consideration. Beginning in FY 2008, a rigorous internal review process was established to ensure every proposed project was adequately vetted and evaluated according to the following criteria: (i) technical merit, (ii) consistency with strategic direction of the department, college, and University, (iii) benefit to Idaho and the region, (iv) project sustainability, and (v) availability of financial, physical, and administrative resources to support the project. External reviewers are also utilized to provide additional breadth and perspective to the review process.

Once a project is funded, the Division of Research closely monitors the progress of the work being conducted to ensure the University is...
a good steward of these public funds. The Division has also initiated a study to assess the economic impact of the Federal appropriations it has received in the past to further quantify the return on investment from each of these projects. Initial results of this work indicate that the new review process has aided greatly in streamlining the University’s annual appropriation requests while maximizing the positive impact of these projects on the state and the region.

—AUXILIARY CONTRIBUTION

Auxiliary enterprises at Boise State consist of the student service operations of Housing, Student Union and Food Service, Health and Wellness, Recreation, and Bookstore as well as Athletics, Parking, the Morrison Center; and certain other smaller operations.

Auxiliaries are expected to be self-supporting, operating without appropriated funding. The more complex auxiliaries maintain business plans that project ten years into the future and that build and maintain reserves to cover capital maintenance and upgrades. Some are allowed to charge student fees but do so only after obtaining student support in the fee hearing process and subsequently Presidential and then Board approval. Debt service attributable to auxiliary functions is generally allocated to the auxiliary. In some cases, such as parking, the Strategic Facilities Fee has been used to match parking revenues in order to subsidize the debt service for a new garage.

Auxiliaries exist to provide key services to the campus. However, in some cases, they also provide key streams of revenue, as illustrated by the following examples:

- The University Bookstore has generated a profit from sales during the last five years and nearly $2.5 million of those profits has been distributed to support student scholarships and graduate assistantships. The Bookstore has also contributed to the student union through rent of $1.3 million and $360,000 of furniture for the new Boise River Café.

- An analysis in 2007 determined that auxiliary’s were not being allocated the costs related to administrative functions provided by central administrations, e.g., legal, purchasing, payroll, accounting, and internal audit. As such, an administrative service charge was implemented in FY2008. This charge began as 3% of operating expense and has escalated to 4% for FY2010. The estimated $1.4 million of revenues created are to be used to support central service operations.
A university's debt capacity is an important asset, and the funding utilized to service debt must be carefully monitored. Therefore, the University has been creative in the re-structuring of debt, in the development of new sources of debt service funding, and in parlaying debt capacity into additional resources. The following are several key actions in this realm:

- The University has a debt portfolio consisting primarily of fixed-rate tax-exempt bonds. Although the outstanding portfolio is conservative, the University has been aggressive over the years in refinancing its fixed rate issuances. In doing so, the University has realized debt service savings totaling $6.8 million over the previous ten years.\(^\text{11}\)

- Prior to 2004, the University utilized a multi-system approach to issuing debt. Three bond systems existed and each debt issuance was separately secured by a dedicated student fee and/or by project net operating revenues. In 2001, it was determined that a single system secured by a larger pool of revenues would be advantageous. This shift to a single system was planned to occur in conjunction with the legislation allowing tuition to be charged to students. The change was enacted in phases because outstanding debt could only be converted to the single system after certain volumes were amassed. In April 2009, in conjunction with the issuance of debt for a new parking deck and a new academic building, the University was able to refund all outstanding bonds from the retired systems and thereby complete the transformation to a single bonding system.

- Another key shift in debt issuance strategy was the implementation of the Strategic Facilities Fee (SFF) in 2006, which occurred because of recognition that the University could not rely on the state to provide needed academic buildings. Historically, the construction of a new building would only be approved upon the accumulation of a sufficient amount of one type of funding. Although such a strategy was fiscally sound, it was slow and cumbersome. As an example, the Student Recreation Center was approved and constructed only upon the creation of a student recreation center fee large enough to support the entire debt payment. The SFF was created to match other funding sources such as donations, federal and state allocations, and operations to allow for faster realization of needed projects. For instance, the new Center for Environmental Science and Economic Development (CESED) building is being funded through a combination of the SFF, federal appropria-
tions, state appropriated capital funds, and University reserves. See additional description in Standard 8.

- At this stage in the University’s life cycle, debt capacity is an extremely valuable asset. In recognition of this issue, when Athletics was ready to build the recent stadium expansion, many discussions revolved around the use of debt capacity. A University backed bond provided the lowest cost of capital. As a result, the University created another new concept – the Academic Capital Project Fund (ACPF). Athletics was provided access to the bonding process in exchange for debt payments of 120% of actual debt service as well as an annual contribution to the ACPF. The contributions begin at $600,000 per year and escalate every five years by $100,000. By the end of the 20-year amortization the fund will have provided over $26 million back to the University to be used on academic capital projects.

—PUBLIC-PRIVATE PARTNERSHIP

The Divisions of Student Affairs and Finance and Administration recently executed a memo of understanding to enter into a public-private partnership for additional residential housing. The University has engaged a developer with proven expertise in delivering and managing the type of student housing needed. The capital required to finance the project is raised by the developer by selling company stock. Since no project level debt is issued to construct the project, the University is able to preserve debt capacity for other academic and auxiliary facilities. In constructing this agreement, the University is in close contact with rating agencies to ensure that the structure of any transaction will meet the financial and programmatic objectives.

Responsibility and Sustainability

—INTERACTION WITH THE STATE BOARD OF EDUCATION

The transformational path that Boise State is following requires thorough, clear, and transparent communication with the Idaho State Board of Education (SBOE) in order to obtain informal support and formal approvals. The Vice President for Finance and Administration takes the lead on the Business Affairs and Human Resources (Finance Committee) Board Agenda items and Audit Committee items. Every effort is made to ensure there are no surprises as approvals are obtained. For a significant purchase, new building (leased, purchased, or constructed), or policy change, infor-
mational items are presented to explain the goals and objectives and garner support for the direction prior to any effort to obtain approval. All items are linked to long-term board approved plans such as *Charting the Course*, the Campus Master Plan and the Eight Year Academic plan. The board is informed of the planned direction and purpose long before they are required to vote on an agenda item. This methodical process has allowed the University to be very successful in advancing initiatives with the approval and support of the Board.\(^{14}\)

The Board has created an Audit Committee and successfully obtained qualified outside members to serve along with three current board members.\(^{15}\)\(^{16}\) The committee is interested in improving the reporting and the performance measurements currently provided to the Board, which will allow a shift to results-oriented and higher-level oversight. Other topics of interest by the committee include internal controls and quarterly financial reporting. As a result of the approval of the Audit Committee’s Charter, the University’s Internal Audit function reports directly to the Audit Committee.\(^{17}\)

—INTERACTION WITH THE STATE ADMINISTRATIVE AGENCIES

Unlike our sister institution, the University of Idaho, Boise State and other state colleges and universities are subject to substantial administrative oversight through the State of Idaho Department of Administration:

- Purchases above $75,000 must be overseen, approved, and executed by the State Division of Purchasing.
- Building projects over $150,000 must be approved by the State Division of Public Works (DPW), all contracts are issued by the DPW, and a DPW project manager is assigned to those projects.
- Personnel activities for employees in the state classified system, including hiring, employment and compensation, and benefit processes, are dictated by the State Division of Human Resources. Human resource rules and policies for faculty and professional staff are set by the SBOE.
- The Office of Group Insurance oversees employee benefits for all employee classes
- The State dictates risk management and insurance coverages, and is involved with any litigation and claims.

In recent remarks to the SBOE, President Kustra declared that Boise State should be given the same level of autonomy from administrative controls as the University of Idaho. The benefits would

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\(^{14}\) Board approval of Stueckle Sky Center bonds  
\(^{15}\) Audit Committee Policy  
\(^{16}\) Committee Membership  
\(^{17}\) Audit Committee Charter approval
be reduced costs because of reduced bureaucracy, and increased accountability because of transparency in process. The current system places authority for contracting and decision making with the Department of Administration, but funding responsibility with the University. As a result, two levels of monitoring exist, which is costly, duplicative, and compromises true accountability.

Key to our success in gaining increased autonomy is that we have been highly responsible with our transactions in the past. The University is currently developing a white paper to be presented to the Board on the subject of higher education administrative efficiency; it will identify the financial and accountability benefits of this type of autonomy based on successful higher education systems in other states.

—NET ASSETS ANALYSIS AND DEBT CAPACITY

Boise State has focused on creating the financial strength to implement initiatives to become a metropolitan research university of distinction. When reviewing the changes over time in our net asset balances, our trends are consistent with these plans.\(^\text{18}\)

Net Assets Invested in Capital Assets, Net of Related Debt, have increased from $109 million in FY 2002 to $168 million in FY 2008. Nearly 750,000 square feet have been added since 2002 with another 200,000+ slated to come online over the next three years. Analysis shows that the University remains significantly short of space when compared to aspirational peers in the areas of housing, study space and research labs.\(^\text{19}\)

Increased facility needs have necessitated significant amounts of debt to be issued during the last 7 fiscal years. In total, the University had approximately $112 million in long-term debt as of June 30, 2002. At June 30, 2009 this number was approximately $235 million.

Unrestricted reserves have grown to support debt service and capital projects. Not all capital projects are paid for through debt, and, when appropriate, reserves are accumulated to fund smaller projects. In fact, projects are often funded through a combination of debt, donations and reserves to leverage all sources of revenue to achieve a stated goal (see additional detail in Standard 8).

We are aware of the balance between too many reserves accumulated impacting the cost of education to students and too few reserves to be financially prudent.

Management has used the KPMG/Prager Sealy ratio model supported by the National Association of College and University Business Officers (NACUBO) as one mechanism to review financial health. Boise State’s financial ratios reflect the story seen in the
Reserves and returns have been intentionally strong to support the debt needed for expansion. Boise State University has a strong composite index indicating that the lower Viability Ratio is acceptable. In addition, the University is cognizant of the importance of maintaining the Debt Service to Operating Budget ratio below the target ceiling of 8% and uses conservative estimates when estimating future revenues to project this ratio.

FIGURE 7.3. FINANCIAL RATIOS AS PRESENTED TO SBOE, FEBRUARY 26-27, 2009
Comprehensive Response to Element Indicators


—INSTITUTIONAL AUTONOMY

7.A.1 Governing boards and, where applicable, state agencies have given the institution appropriate autonomy in financial planning and budgeting matters within overall mandates and priorities.

Boise State is an agency of the State of Idaho and reports to the State Board of Education (SBOE). The University is recognized as a complex agency and is given the responsibility of presenting and justifying goals and financial needs. The University budgets all aspects of the organization in a rolling two-year process that is presented through the SBOE to the Legislative Budget Office.

A flowchart and narrative of the statutory framework provided by the Idaho State Division of Financial Management (DFM) gives citizens a clear understanding of the overall state process. Each year the DFM provides an annual Budget Development Manual to assist with the budgeting procedure. The Board also outlines specific budgeting parameters for the University to follow and has organized committees such as the audit committee and financial management committee to provide a level of oversight.

—STRATEGIC FINANCIAL PLANNING

7.A.2 The institution demonstrates that financial planning for the future is a strategically guided process. This planning includes a minimum of a three-year projection of major categories of income, specific plans for major categories of expenditures, and plans for the management of capital revenue and expenditures. Short and long-range capital budgets reflect the institution’s goals and objectives and relate to the plans for physical facilities and acquisition of equipment.

The University is responsible for all of its financial planning activities. Careful planning and resource allocation has allowed growth in spite of reductions in state support as a percent of the total state budget. At the University level, key financial and enrollment information is analyzed throughout the year to form the basis for appropriate adjustments to the current operating budget and to indicate the impact on future operating budgets. The University is therefore able to manage reserves in a manner that minimizes the impacts on departmental operating budgets and allows for timely communication regarding any impacts that are necessary. The University's fiscal staffs develop plans to manage personnel costs (furloughs, vacant positions, etc.) that are discussed with University leadership to determine acceptable options to deal with mid-year and future year budget adjustments.

20 Ratio Analysis presentation to Board
21 Division of Financial Management budget process
22 Statutory Framework for Budget Process
23 Budget Development Manual
24 Board Budget Policies
25 Board Committees of the Board
26 Audit Committee Charter
that occur. In addition, high-level 30-year projections are created to analyze debt capacity.\textsuperscript{27} Ten-year horizons are used to review auxiliary enterprise operations.\textsuperscript{28}

\textit{Charting the Course} is linked with the financial planning and budgeting process through the use of specific templates\textsuperscript{29} and work-sheets\textsuperscript{30} provided by the Budget office. Units that request funding must tie those initiatives to the University’s strategic plan. This is true whether the request is being presented in the budget process or an opportunity arises during the fiscal year: A flowchart depicting the budget process is provided in the exhibits.\textsuperscript{31}

The University has a defined policy for authorization of capital projects that is based on the Campus Master Plan.\textsuperscript{32} For additional information regarding capital project activities see Standard 8.

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\textbf{ANNUAL BUDGET}

\textbf{7.A.3} The institution publishes an annual budget distributed to appropriate constituencies, and the policies, guidelines, and processes for developing the budget are clearly defined and followed. Budget revisions are made promptly, and, when necessary, a revised budget or schedule of budget changes is developed and distributed to appropriate constituencies.

The Budget is published and distributed to both the State Board and campus management on an annual basis.\textsuperscript{33} 34 35 36 Each employee with budget responsibility is provided their budget information via the Peoplesoft system. The process by which enhancements to PeopleSoft are developed is fully documented and strictly followed. Budget transfers are allowed during the year and are controlled by the budget office and entered into the Peoplesoft system.\textsuperscript{37} These adjustments have not been material enough to warrant a fully revised budget to be published. Budgeted results vs. actual results are distributed to the campus on a monthly basis and reviewed by executive management.\textsuperscript{38} Individuals at the department level have access to reports\textsuperscript{39} that may be run at any time to review budgets and revisions.

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\textbf{CAPITAL DEBT OUTLAY}

\textbf{7.A.4} Debt for capital outlay purposes is periodically reviewed, carefully controlled, and justified, so as not to create an unreasonable drain on resources available for educational purposes. The institution has a governing board policy guiding the use and limit of debt.

The master plan of the campus has required (and will continue to require) significant building of new facilities. Debt is the tool that has been used to accomplish this growth. Debt is continually reviewed, restructured, and, if necessary, issued to meet the strategic needs. Specific repayment sources are identified for all projects. In addition, projections of debt service to operating budget ratio are
continually reviewed. The University has set the cap for this ratio at 8%, and that level has been accepted by the SBOE. Ongoing discussions are held with Moody's and Standard and Poor's to ensure the University is clear on its standing in the marketplace. In addition, unrestricted reserves are monitored and have been intentionally increased to support the issuance of additional debt.\textsuperscript{40, 41}

In addition, in March 2009, a Treasurer position was created at Boise State. This new position will head a department focused on managing and utilizing the limited resources of the University, including cash, investments, and debt. Although components of these processes have existed for some time within the Division of Finance and Administration, this new department is tasked with going beyond the daily operational tasks and taking a strategic role. Included as evidence is the PowerPoint presentation, “Treasury Review,”\textsuperscript{42} which lays out the expectations of the Treasury function and the most recent draft debt policy.\textsuperscript{43}

Currently, bonds are secured by all revenues except for state general fund appropriations and any restricted revenues, such as those from grants and contracts.

The University does make use of other forms of debt as opportunities arise, although they are much more limited. Examples of these are:

- A $5 million variable rate line of credit at 60% of prime allowed the purchase over time of property in the expansion zone now being used to construct the new facilities.
- A bank note that is paid by Athletics was used to expand the stadium corners in 1997 and was refinanced in 2007.
- A private note and donation was obtained by Athletics to purchase East Junior High in anticipation of construction of a new track facility.

### 7.B Adequacy of resources

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**DIVERSITY OF FINANCIAL SOURCES, AND STRATEGIC COMMITMENT**

7.B.1 The institution provides evidence that it seeks and utilizes different sources of funds adequate to support its programs and services. The commitment of those resources among programs and services reflects appropriately the mission and goals of the institution.

Substantial funding is needed to sustain progress toward the vision of the University. The University has increased research funding, sales revenues and gifts during the previous decade. Increases in student fees have also been required. The President and executive
management have also continued to effectively lobby for increased state support. Stimulus funding is a new source for FY 2010. The rate at which we can progress to achieve our vision is directly linked to increased funding.44

The University utilizes a variety of funding sources, which vary in restriction, to support programs and services offered. Systems and procedures are utilized to ensure that expenditures are appropriate for the funding source. Included as evidence are the following: “Funds Flow Diagram”45 describes funding sources.; “Sources and Uses of Funds”46 demonstrates expenses by fund and program; and “Achieving Distinction”47 depicts progress on the University’s strategic plan, Charting the Course, and includes a graph of revenues received from all sources.

—ADEQUACY TO MEET DEBT SERVICE

7.B.2 Adequate resources are available to meet debt service requirements of short-term and long-term indebtedness without adversely affecting the quality of educational programs. A minimum of three years’ history of the amount borrowed (whether internally or externally) for capital outlay and for operating funds is maintained. A five-year projection of future debt repayments is maintained.

Debt is carefully monitored. Current projections show the debt service to operating budget ratio to be approximately 6%. It will rise in fiscal year 2010 because of a balloon payment on a note, and then settle at approximately 6¼% in 2011. Debt capacity is planned to ensure it is used on strategically important construction. Debt has not been used for operational activities. Included as evidence is a chart that depicts how debt service immediately after previous issues compares with today’s operating budget. This chart displays how capacity has been utilized over time for academic, auxiliary, and infrastructure needs. Assumptions used for debt capacity projections are intentionally conservative to protect future administrations and students from unaffordable debt.48

In addition, pledged revenues that are available for debt service, and that are included in annual external audited financial statements, are far in excess of those required by bond covenants.49

—FINANCIAL STABILITY

7.B.3 Financial statements indicate a history of financial stability for the past five years. If an accumulated deficit has been recorded, a realistic plan to eliminate the deficit is approved by the governing board.

Boise State has a record of a strong financial condition as illustrated by audited financial statements.50 In 2008 the SBOE and Idaho universities partnered with Larry Goldstein of Campus Strategies to implement KPMG’s ratio analysis in order to further evaluate the

44 Fiscal KPIs
45 Funds Flow Diagram
46 Sources and Uses of Funds
47 Fiscal KPIs
48 Debt Capacity Projections
49 Debt Service Coverage
50 Audited Statements FY 2002 to current
University's financial performance. Boise State furthered this analysis to include peer institutions.51

—TRANSFER POLICIES

7.B.4 Transfers among the major funds and interfund borrowing are legal and guided by clearly stated policies in accordance with prudent financial planning and control.

The term “transfers” refers to a pre-GASB 34/35 accounting standard which does not exist today. With that context, two situations exist where transfers between funds are utilized. These transfers occur when an auxiliary unit is responsible for repayment of a bond issue and for the allocation of a portion of facilities and administrative (F&A) cost recovery, which is internally designated to cover expenses within Finance and Administration. Included as evidence is a “Funds Flow Diagram,”52 which gives a visual illustration of those transfers. Transfers are carefully monitored. Transfers of expenses are not allowed between appropriated and local funding sources unless there is documentation supporting the correction of an error.

—FINANCIAL RESOURCES

7.B.5 The institution demonstrates the adequacy of financial resources for the support of all of its offerings including specialized occupational, technical, and professional programs.

As indicated in evidence to support 7.B.3, the University has used the KPMG/Prager Sealy ratio model supported by NACUBO as one mechanism to review financial health. Returns and reserves are strong and are intentional to support the level of long-term debt. The University's Consolidated Financial Index compares favorably to peers (see Figure 7.4).53

Notes:
1. These comparisons are to Boise State’s 2001 peer group. A revision of that peer group is presently underway.
2. The red line represents a benchmark of 3.0.
—FINANCIAL AID

7.B.6 The institution identifies the sources of its student financial aid for current enrollments and provides evidence of planning for future financial aid in light of projected enrollments. It monitors and controls the relationship between unfunded student financial aid and tuition revenues.

The Enrollment Management Committee monitors the ratio between student enrollment and financial aid resources. This committee encompasses individuals from across campus who have a perspective relevant to student enrollment issues.\(^{54}\) Additionally, scholarships are an intentional part of the Comprehensive Campaign.\(^{55}\)

—FINANCIAL RESERVES

7.B.7 The institution maintains adequate financial reserves to meet fluctuations in operating revenue, expenses, and debt service.

As indicated in 7.B.3 and 7.B.5, financial results and reserves are strong. Reserves were utilized to absorb some of the impact of the economic downturn during FY 2009. Additional reserves have been set aside should they be needed for FY 2010 or FY 2011.

Included in evidence is a spreadsheet detailing reserve balances from FY 2002 through FY 2009.\(^{56}\)

—AUXILIARY ENTERPRISES

7.B.8 The institution demonstrates an understanding of the financial relationship between its education and general operations and its auxiliary enterprises and their respective contributions to the overall operations of the institution. This includes the institution’s recognition of whether it is dependent on auxiliary enterprise income to balance education and general operations or whether the institution has to use education and general operations income to balance auxiliary enterprises.

Each funding source is recognized as appropriate for different types of expenses. For example, appropriated money derived from the state’s general fund is rarely used to support auxiliary enterprises. Student fees are rarely used to fund entertainment expenses. Excess student fees accumulated for debt service are rarely used to fund operations. Exceptions are carefully considered. An example of an exception would be appropriated support for gender equity in Athletics. The Vice President of Finance and Administration works with the Athletic Director to identify the amount of gender equity funding that will be provided. They review the status of the NCAA approved plan as they make this determination.

The University utilizes the PeopleSoft Finance system to properly segregate auxiliary enterprise funds. SBOE policy V.B.4.a states that auxiliary enterprises must be essentially self-supporting and must cover expenses with revenues generated by the sale of goods and/or

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\(^{56}\) Net Asset Balances 02-08
\(^{57}\) Board policy V.B.4.a
\(^{58}\) Sample Plan vs. Actual Reports
\(^{59}\) Administrative Service Charge Policy
services rather than by state appropriations.\textsuperscript{57} Auxiliaries budget on a monthly basis and plan vs. actual reports are reviewed monthly. Material variances are discussed and corrective action is taken to ensure financial stability for the future. Samples of plan vs. actual reports are included as evidence.\textsuperscript{58}

In fiscal year 2008, Boise State implemented an administrative service charge to auxiliary units to recover costs incurred by central administration to provided services to campus. Auxiliary operating expenses are used as the indicator of services provided by central administration. Currently, 4\% of an auxiliary's operating expenses are charged to the enterprise and credited as revenue to central administration.\textsuperscript{59}

7.C: Financial Management

—REPORTS TO THE BOARD

\textit{7.C.1 The president reports regularly to the governing board about the financial adequacy and stability of the institution.}

The President provides an annual strategic update to the SBOE. In addition, the Board receives the following routine financial updates:

- Student fee request, including overview of financial needs
- Annual budget request
- Review of final budget after the legislative actions
- Annual review of external audit report and results
- Annual review of fund balances and financial ratios

These are usually jointly presented by the President and Vice President for Finance and Administration.\textsuperscript{60} In addition, the Vice President for Finance meets separately with the Audit and Finance Sub-committees of the SBOE approximately 12 times per year.\textsuperscript{61} Effective December 2008 quarterly financials are being provided to the SBOE.\textsuperscript{62}

—CHIEF FINANCIAL OFFICER AND ADMINISTRATIVE ORGANIZATION

\textit{7.C.2 Financial functions are centralized and are under a single qualified financial officer responsible to the president. Institutional business functions are under one or more qualified officers, are well organized, and function effectively. The complexity of the business organization reflects the size of the institution and the significance of its transactions.}

The Vice President of Finance & Administration has centralized authority for financial functions, as delegated by the President. Sponsored Projects Accounting and Auxiliaries report dually to the VPFA and to their functional areas with respect to finances. Deans
have financial responsibility to ensure policies and procedures are followed in their colleges. Colleges and auxiliary units have designated individuals to manage financial responsibilities. These positions have been added over time as the regulatory environment and systems used to track finances have become increasing complex. Competencies required of these positions vary based on the complexity of each college/auxiliary unit and have evolved accordingly. The most recent introduction of such a position was within the auxiliary unit Select-a-Seat. Included in evidence is a comprehensive organization chart showing business manager positions and their original creation dates.63

The President, VPFA, and Director of Accounting Services sign an attestation letter provided to the State of Idaho Controller’s Office certifying that internal controls are sufficient.64 Vice presidents, deans, and directors are also each required to sign an attestation letter annually that internal controls are sufficient within their division(s).65

A Good Governance open house is held annually, sponsored by Human Resources, Internal Audit, Purchasing, Accounts Payable, Administrative Accounting, Office of Sponsored Projects, Budget Office, Risk Management, and others as needed. The campus is invited and information regarding policy and procedures, FAQ’s, contacts for various processes, and external compliance regulations is disseminated. Attendance has been strong and feedback has been positive.66

The Division of Finance and Administration at Boise State provides foundational facilities, technology and process infrastructure that allows other divisions to focus on their contribution to the University’s mission and vision. All of these areas provide important operational support, and continually strive to improve their customer service. Specifically, Finance and Administration consists of the following departments:

- Accounting, Procurement and Treasury
- Budget Office
- Campus Planning and Facilities
- Department of Public Safety, Risk Management and Transportation
- Human Resource Services
- Office of Information Technology
- Taco Bell Arena
—CONTROL OF EXPENDITURES AND INCOME

7.C.3 All expenditures and income from whatever source, and the administration of scholarships, grants in aid, loans, and student employment, are fully controlled by the institution and are included in its regular planning, budgeting, accounting, and auditing procedures.

The All Funds Budget and Planning processes reflect all sources of revenue including appropriations, local funds, grants and contracts, auxiliary and academic sales and services, student fees, donations, and any other sources. All sources of revenue are controlled through the PeopleSoft financials system and are subject to all University policies, internal controls, and external audit.67

Policies described in section VI of the Policy and Procedure Manual68 outline appropriate uses of revenues and expense across campus. The Budget Office reviews University-wide budget to actual on a regular annual basis as part of the budget process. A sample budget vs. actual report used by departments is also included as evidence.69

—CASH MANAGEMENT AND INVESTMENT POLICIES

7.C.4 The institution has clearly defined and implemented policies regarding cash management and investments which have been approved by the governing board.

Investing and cash management activities are overseen by Idaho code and State Board policy.

The University currently has policies for Cash Handling, Change Funds & Petty Cash, Cash Management & Investment Policy, and Bank Accounts.70 As first described in 7.A.4 the recent introduction of the Treasury department has prompted a review of all policies related to cash, investments, and debt and a Debt policy is currently in draft form.

—ACCOUNTING SYSTEM

7.C.5 The institution’s accounting system follows generally accepted principles of accounting.

The University is a Governmental Accounting Standards Board institution and follows generally accepted accounting principles.71 Audit reports have all contained unqualified opinions, and are located in the exhibits.72

—EXTERNAL AUDIT

7.C.6 For independent institutions, the governing board is responsible for the selection of an auditing firm and receives the annual audit report.

7.C.7 Independent institutions are audited annually by an independent certified public accountant and the audit is conducted in accordance with generally accepted auditing standards. The audit includes a management letter. A summary of the latest audited financial statement is made available to the public.
7.C.10 All funds for financial aid and other specific programs not subject to governmental audit are audited annually by an independent certified public accountant and include a management letter.

External auditors are selected through a request-for-proposal process executed by the State Board of Education. The contract with the existing external auditor, Moss Adams, has been extended through FY 2012 by the Board.

The University is externally audited annually. There have been no formal management letter comments for many years. There has been one single audit finding on effort reporting that was cleared in the subsequent audit.73 74

All funds are subject to the external audit. In addition, each year, student financial aid and other programs are also subject to the A-133 single audit.

—INTERNAL AUDIT

7.C.11 The institution demonstrates a well-organized program of internal audit (where appropriate) and control that complements the accounting system and the external audit.

Internal audit is an active integral component of the University's control environment. The mission of Internal Audit and Advisory Services (IAAS) is to (i) provide independent, objective evaluation of internal operations at the University and (ii) provide consulting services designed to add value and improve the University’s operations.75 IAAS offers a fraud hotline and actively follows up on any concerns raised by campus or by management. An independent evaluator recently confirmed that IAAS's Quality Assurance Review self-evaluation conforms with the IIA standards.76

Historically, IAAS reported directly to the President, who approved the annual audit plan and all audit reports addressed to him. Copies of the reports were distributed to the external auditors, appropriate Vice Presidents, and the areas reviewed. This reporting structure was changed when the SBOE approved the SBOE's Audit Committee charter in February 2009. IAAS now functionally reports to the SBOE's Audit Committee and administratively to the President. This change in reporting structure was not intended to alter the current relationship between the IAAS and the President in conducting internal audits on campus. IAAS's charter and the annual audit plan will now be approved by SBOE's Audit Committee and will report significant findings to the Audit Committee. Additional detail is in Standard 9.

—AUDIT RECOMMENDATIONS AND REPORTS

7.C.12 The institution demonstrates that recommendations in the auditor’s management letter accompanying the audit report have been adequately considered.
7.C.13 Federal, state, external, and internal audit reports are made available for examination as part of any evaluation conducted by the Northwest Commission on Colleges and Universities.

There have been no formal Auditor comments in many years and therefore no recommendations to which to respond. 77

All external examinations have been included for review. 78

7.D Fundraising and Development

—FUNDRAISING POLICIES AND ETHICS
7.D.1 All college/University fundraising activities are governed by institutional policies, comply with governmental requirements, and are conducted in a professional and ethical manner.

Generally, all donations are received by the Boise State Foundation and, at the appropriate time, contributed to the University. 79 The SBOE 80 and the University 81 have policies regarding fundraising and the relationship of the Foundation to the University.

—ADMINISTRATION OF ENDOWMENT
7.D.2 Endowment and life income funds and their investments are administered by an appropriate institutional officer, foundation, or committee designated by the governing board. The organization maintains complete records concerning these funds and complies with applicable legal requirements.

All endowments are held by the Boise State Foundation. The Foundation endowment is managed by an investment advisor, Hammond Associates, according to policy set by the Foundation Investment Committee and approved by its Board of Directors. 82 Results are formally reviewed quarterly by the Foundation's Board, and are monitored as often as needed for prudent oversight, but at least quarterly, by the Foundation Investment Committee. This was as often as weekly during much of FY 2009.

—RELATIONSHIP BETWEEN FOUNDATION AND UNIVERSITY
7.D.3 The institution has a clearly defined relationship with any foundation bearing its name or which has as its major purpose the raising of funds for the institution.

The relationship between the Boise State Foundation and the University has been clearly defined in a recently revised State Board of Education Policy. The Foundation is recognized as a legally separate and distinct entity governed by a separate Board and operating in support of, but not under the direction of, the University. 83 A memorandum of understanding describes the relationship between the foundation and the University. 84
Commendations, Recommendations, and Action Plan

—COMMENDATIONS

- As is described in the Moody’s report, the University is in a strong financial position, largely because of sound financial management. There are many indicators of that soundness including a strong Composite Financial Index and an acceptable Debt Service to Operating Budget ratio.

- The powerful three-pronged approach (strategic allocation of resources, increased resource capacity, and responsibility and sustainability) used by the University will help us to move forward on our strategic plan. Especially notable is the University’s emphasis on responsibility, transparency, and openness, and that emphasis is paying off in sustained bond ratings and greater trust from the SBOE and other agencies.

- The Division of Finance and Administration is a pro-active partner in its work with Academics, Student Affairs, Research, Athletics, and other areas of the University. Their approach to management of the support areas helps to ensure that as the University continues to evolve it does so in a fiscally responsible and sustainable manner.

- The University has made a number of significant achievements in the area of financial management that support the strategic goals of obtaining and allocating funding, building and maintaining facilities, and creating a responsive organization. Those achievements include:
  
  - Legislation to allow charging tuition to support the cost of instruction.
  - Creation of a strategic budgeting process.
  - A refocusing of the Facilities Planning Council to prioritize capital projects, implementation of the Strategic Facilities Fee to leverage funding for capital projects, and creation of a Memorandum of Understanding regarding public-private partnership to fund student housing development.
  - Recognition of the contribution of auxiliaries to strategic University initiatives, and implementation of Administrative Service Charge.
  - Development of the University’s first comprehensive campaign, Destination Distinction.
Refunding of outstanding bond issues to achieve savings and lower cost of capital and creation of a single bonding system

Creation of the Academic Capital Project Fund.

—RECOMMENDATIONS

• Although the University has made substantial progress in revising strategic internal processes to enable the shift in the University’s vision, there remain a number of operational areas that will need to be examined and refocused to support Charting the Course and to ensure that resources are well spent.

—ACTION PLAN

• We will continue to focus on changes in policies and processes that will facilitate the strategic allocation and reallocation of resources, the securing of additional resources, and the managing of our operations in a responsible and sustainable manner. Projects identified for immediate action include:

  o Continued emphasis will be placed on the area of debt and cash management. Future objectives include introducing the appropriate amount of short-term and variable rate instruments into the debt portfolio, improving cash and working capital reporting to allow the University to better leverage current reserve balances, and creating a program of internal lending of reserve balances to fund strategic advancements and improvements.

  o The division is actively evaluating internal processes with respect to streamlining policy and procedure and leveraging technology, with major focus in the areas of human resources and payroll. In that light, the offices of information technology, human resources, administrative accounting, and financial systems have joined together to work with other campus entities to define a long-term project that would overhaul current processes.

  o The Purchasing Department is piloting a program to implement the Best Value Procurement methodology developed by Arizona State’s Performance Based Studies Research Group. The method would revolutionize contract awarding and post-award monitoring, resulting in higher quality services at lower costs.