



# 2013 Presentation to the Audit Committee of The Nevada System of Higher Education

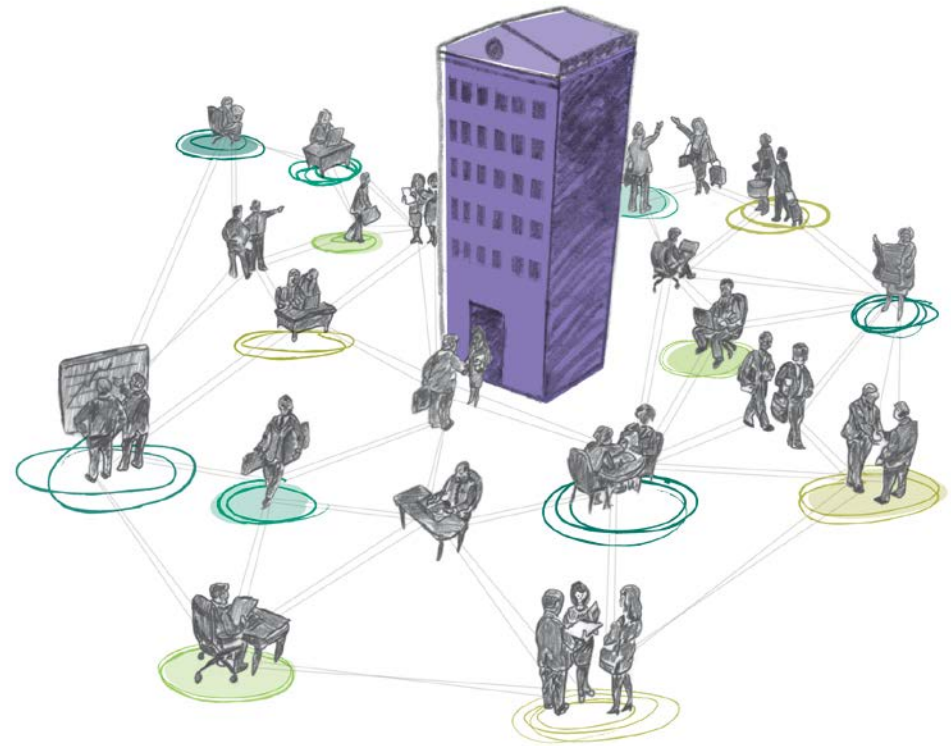


# Our values are CLEARR

To achieve our global vision, we capitalize on our strengths by embracing the following values:

- Unite through global **Collaboration**
- Demonstrate **Leadership** in all we do
- Promote a consistent culture of **Excellence**
- Act with **Agility**
- Ensure deep **Respect** for people
- Take **Responsibility** for our actions

Our values serve as the foundation of each step we take toward achieving our vision. They guide our decision-making and provide a framework for our people to make correct and appropriate choices.



# Responsibilities



# Our responsibilities

We are responsible for:

- Performing an audit under US GAAS (and generally accepted government auditing standards) of the financial statements prepared by management, with your oversight
- Forming and expressing an opinion about whether the financial statements are presented fairly, in all material respects in accordance with US GAAP
- Forming and expressing an opinion about whether certain supplementary information is fairly stated in relation to the financial statements as a whole
- Reading other information and considering whether it is materially inconsistent with the financial statements
- Forming opinions over compliance associated with major federal programs.
- Communicating specific matters to you on a timely basis.

An audit provides reasonable, not absolute, assurance that the financial statements do not contain material misstatements due to fraud or error or provide a legal opinion on federal award compliance. It does not relieve you or management of your responsibilities. Our respective responsibilities are described further in our engagement letter.

# Those Charged with Governance and Management responsibilities

## Those Charged with Governance

Those charged with governance are responsible for:

- Overseeing the financial reporting process
- Overseeing the federal award compliance process
- Setting a positive tone at the top and challenging the System's activities in the financial arena
- Discussing significant accounting and internal control matters with management
- Informing us about fraud or suspected fraud, including its views about fraud risks
- Informing us about other matters that are relevant to our audit, such as:
  - Objectives and strategies and related business risks that may result in material misstatement
  - Matters warranting particular audit attention
  - Significant communications with regulators
  - Matters related to the effectiveness of internal control and your related oversight responsibilities
  - Your views regarding our current communications and your actions regarding previous communications

## Management

Management is responsible for:

- Preparing and fairly presenting the financial statements in accordance with US GAAP
- Designing, implementing, evaluating, and maintaining effective internal control over financial reporting
- Communicating significant accounting and internal control matters to those charged with governance
- Providing us with unrestricted access to all persons and all information relevant to our audit
- Informing us about fraud, illegal acts, significant deficiencies, and material weaknesses
- Adjusting the financial statements, including disclosures, to correct material misstatements
- Informing us of subsequent events
- Providing us with certain written representations
- Complying with federal laws and regulations with respect to Federal awards
- Designing, implementing, evaluating and maintaining effective internal control over Federal award compliance.

# Management's Responsibilities for Financial Reporting

## **Governmental Accounting Standards Board (GASB)**

GASB is an independent, private-sector, not-for-profit organization that establishes and improves standards of financial accounting and reporting for U.S. state and local governments, including state university systems. The basic financial statements for a state and local government are:

- ❖ The Statement of Net Position
- ❖ The Statement of Revenues, Expenses and Changes in Net Position
- ❖ The Statement of Cash Flows
- ❖ Management's Discussion & Analysis is also considered Required Supplementary Information to be reported with the basic financial statements

## **Financial Reporting Entity of NSHE**

The Financial Reporting Entity of NSHE includes:

- ❖ The System (Eight Colleges and Universities plus System Administration)
- ❖ System-Related Organizations (16 not-for-profit organizations including fund raising foundations and faculty medical practice plans)

Selected new pronouncements effective for the year ended June 30, 2013 or subsequent periods

	Effective date	Impact
<b>GASB Statement No. 60,</b> Accounting and Financial Reporting For Service Concession Arrangements	June 30, 2013	Concession arrangement is defined as an arrangement between a transferor and an operator in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. Per institutions' reviews of agreements, UNLV's arrangement with Barnes & Noble was the only contract to be identified as a concession arrangement. No significant impact on financial statements.
<b>GASB Statement No. 61,</b> Defining the Financial Reporting Entity	June 30, 2013	Statement modifies certain requirements for inclusion of component units in the financial reporting entity. All component units were reviewed and determined to be properly included and reported as discretely presented component units on the financial statements. No significant impact on financial statements.
<b>GASB Statement No. 62,</b> Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements	June 30, 2013	Objective of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in FASB and AICPA pronouncements issued before November 30, 1989 which does not conflict or contradict GASB pronouncements. Implemented with no significant impact on financial statements.

Selected new pronouncements effective for the year ended June 30, 2013 or subsequent periods  
(continued)

	Effective date	Impact
<b>GASB Statement No. 63</b> , Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position	June 30, 2013	Transactions that result in the consumption or acquisition of net assets in one period that are applicable to future periods are defined as deferred outflows of resources and deferred inflows of resources. Definition of net position includes these transactions. Significant impact on financial statements due to implementation is the change from net assets to net position.
<b>GASB Statement No. 65</b> , Items Previously Reported as Assets and Liabilities	June 30, 2014	Statement establishes accounting and financial reporting standards that reclassify certain items that were previously reported as assets and liabilities and recognizes as outflows of resources or inflow of resources. Items requiring consideration include refunding of debt, non-exchange transactions, intra-entity transfers of future revenues, debt issuance costs, initial direct costs of operating leases, sale-leaseback transactions, loan origination fees and costs, commitment fees and costs, purchase of a loan, regulated operations. Impact has not been identified at this time.
<b>GASB Statement No. 68</b> , Accounting and Financial Reporting for Pensions	June 30, 2015	Statement addresses accounting and financial reporting for pensions that are provided to employees through pension plans that are administered through trusts meeting certain criteria and establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefits payment to their actuarial present value and attribute that present value to periods of employee service. Impact has not been identified at this time.



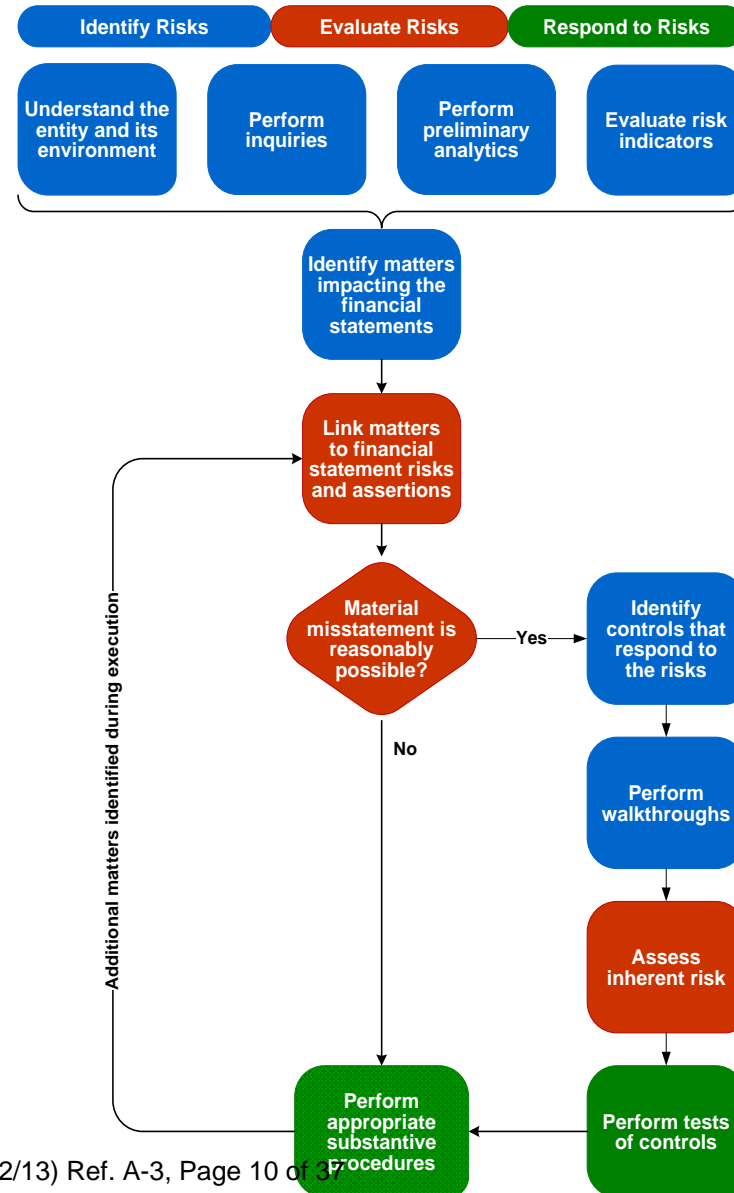
# Audit scope and results



# Horizon audit methodology

We approach our audits by:

- Understanding the System's business, including the environment it operates in
- Using that knowledge and understanding to analyze the company's financial statements
- Determining materiality
- Identifying areas more likely to be materially misstated
- Focusing audit attention and effort on those areas



# Audit timeline

March 2013	Client acceptance	<ul style="list-style-type: none"> <li>• GT client reacceptance procedures</li> <li>• Engagement Letter signed</li> <li>• Meet with management to confirm expectations</li> </ul>
April/May 2013	Planning	<ul style="list-style-type: none"> <li>• Discuss scope of work and timetable</li> <li>• Identify current year audit issues</li> <li>• Develop appropriate audit plan</li> </ul>
May - September 2013	Preliminary risk assessment procedures	<ul style="list-style-type: none"> <li>• Evaluate internal controls</li> <li>• Perform interim federal compliance testing</li> <li>• Review significant accounting policies</li> </ul>
September - November 2013	Final fieldwork and deliverables	<ul style="list-style-type: none"> <li>• Perform year-end procedures</li> <li>• Issue opinions on the financial statements and related reports</li> <li>• Meet with management to discuss results</li> <li>• Submit results to the Audit Committee</li> </ul>

# Materiality

Essentially, materiality is the magnitude of an omission or misstatement that likely influences a reasonable person's judgment. It is based on a relevant financial statement benchmark.

- We believe that total assets is the appropriate benchmark for both, the System and the System Related Organizations.

Financial statement items greater than materiality are in scope. Other areas less than materiality may be in scope if qualitative factors are present (for example, related party relationships or transactions and fraud risk).



# Group audit of System-Related Organizations

System Related Organizations	Assets*	Revenues*	Response**
<b>Grant Thornton</b>			
University of Nevada, Reno Foundation	37.81%	19.89%	Comprehensive
Athletic Association, University of Nevada, Inc.	1.63%	1.45%	Targeted
Integrated Clinical Services, Inc.	4.36%	52.45%	Comprehensive
University of Nevada, Las Vegas Foundation	48.22%	14.23%	Comprehensive
<b>Other</b>			
Western Nevada College Foundation	0.57%	0.46%	Analytical
Rebel Golf Foundation	1.04%	0.12%	Analytical
UNLV Alumni Association	0.47%	0.94%	Analytical
UNLV Singapore Unlimited	1.42%	6.34 %	Targeted

Note: Grant Thornton audited 100% of the Nevada System of Higher Education.

\* The benchmark is based on the percentage of the consolidated assets and revenues, respectively, of the System Related Organizations. Grant Thornton audited approximately 92% and 88%, respectively.

\*\* A comprehensive response consists of an audit of the component's financial information, appropriately modified for our audit of the System.

<b>Other unaffiliated auditors</b>			
DRI Foundation	0.13%	1.02 %	Analytical
DRI Research Park	0.00%	0.05%	Analytical
Truckee Meadows Community College Foundation	0.33%	0.80%	Analytical
Great Basin College Foundation	1.31%	0.46%	Analytical
UNLV Research Foundation	0.92%	0.06%	Analytical
UNLV Rebel Football Foundation	0.18%	0.07%	Analytical
College of Southern Nevada Foundation (AUDIT COMMITTEE #2/02/13) Ref: A-9, Page 10 of 37	1.18%	1.18%	Analytical
Nevada State College Foundation	0.42%	0.56%	Analytical

In our auditor's report on the System, we make reference to the audits performed by the other unaffiliated auditors.

## Significant risks and results

The following provides an overview of the areas of significant audit focus based on our risk assessments and procedures performed.

Areas of focus	Results
Tuition revenue and related receivables/deferrals	<ul style="list-style-type: none"> <li>• Obtained the rates in effect for the year under audit. Use this information to set expectations of revenue for tuition and fees. Perform detailed tuition reasonableness test based on this information.</li> <li>• Obtain an understanding of the semester schedules and billing schedule. Perform substantive testing on receivables and deferred amounts to ensure proper cutoff.</li> <li>• Review management's analysis of allowance for doubtful accounts for consistency with methodology and accuracy of inputs</li> </ul>
Federal and State grant revenue and related receivables/deferrals	<ul style="list-style-type: none"> <li>• Perform detailed testing of grant revenue by selecting a random sample and test grant contract, request for reimbursement, receipt of payment and reasonableness of expenses to revenue recorded.</li> <li>• Select a random sample of grant revenue receivable and test balance to ensure appropriately recorded.</li> </ul>

## Significant risks and results, continued

Areas of focus	Results
Financial reporting and disclosures	<ul style="list-style-type: none"> <li>• Review of financial statements and related disclosures for accuracy and completeness.</li> <li>• Trace amounts to supporting documentation.</li> <li>• Review documentation regarding implementation of newly effective GASB pronouncements and determine reasonableness of presentation.</li> </ul>
Fair value of financial instruments (alternative investments)	<ul style="list-style-type: none"> <li>• Review documentation over process to value alternative investments and trace to supporting documentation, including audited financial statements of the respective alternative investment funds.</li> </ul>
Compliance with requirements of Student Financial Aid and Research and Development.	<ul style="list-style-type: none"> <li>• Audit two major programs in accordance with the OMB A-133 Compliance Supplement. All findings are noted in the Schedule of Findings and Questioned Costs.</li> </ul>

# Summary of adjustments (\$000s)

Increase (Decrease) to:

Description	Assets	Liabilities	Net Position	Changes in Net Position
<b>Unrecorded adjustments</b>				
<u>PAJE #1: (CSN) To pass on recording calculated variance due to under/over awards for FY12.</u>		921	(921)	
<u>PAJE #2: (CSN) To pass on recording calculated variance due to under/over awards for FY13.</u>		867		(867)
<u>PAJE #3: (UNLV) To record Barnes &amp; Nobles concession arrangement</u>	731	873	(308)	166
<u>PAJE #4: (UNR) To eliminate UNR Foundation Revenue and A/R that was doubled booked</u>	(861)			(861)
<u>PAJE #5: (UNR) To project revenue cut-off error for deposits for programs that began prior to year-end</u>		(2,150)		2,150
<u>PAJE #6: (UNR) To properly classify scholarship discount and scholarship expense</u>				
Scholarship and fellowships				1,112
Student tuition and fees				(1,112)
Net impact	(AUDIT COMMITTEE \$512)	(AUDIT COMMITTEE \$512)	(AUDIT COMMITTEE \$1,226)	(AUDIT COMMITTEE \$512)

Management believes the unrecorded adjustments are immaterial to the financial statements. Unrecorded misstatements could be potentially material to future financial statements.





# OMB Circular A-133 Compliance Audits

## Major programs subject to procedures

- Student Financial Aid Cluster: \$372,000,000 of grants and loans to students; unmodified opinion, except for qualifications relating to Special Tests and Provisions – Verification, Special Tests and Provisions – Enrollment Reporting, and Reporting – Common Origination and Disbursement System.
- Research and Development Cluster: \$132,000,000 of grants and contracts; unmodified opinion

## Compliance and Control findings

See Schedule of Findings and Questions Costs for details of compliance and control findings to be reported in connection with our OMB A-133 compliance audit of the System.

## Internal control matters

Several compliance and internal control deficiencies associated with the two major federal programs are summarized in the Schedule of Findings and Questioned Costs in the OMB A-133 reporting package.

Control deficiencies that are of a lesser magnitude than a significant deficiency both for the financial statement audit and the OMB A-133 audits were verbally communicated to management.

# Other required communications

## Disagreements with management

We had no disagreements with management.

## Management's consultations with other accountants

We are not aware of any consultations by management with other accountants regarding accounting or auditing matters.

## Significant issues discussed with management

Adoption of new accounting pronouncements:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*
- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus amendment of GASB Statements No. 14 and No. 34*
- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.*
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*

## Other required communications (continued)

### Significant difficulties encountered during the audit

No difficulties were encountered.

### Other information in documents containing audited financial statements

Upon reading the other information, we did not identify any material inconsistencies or material misstatements of fact.

# Quality of accounting practices and alternative treatments



# Quality of accounting practices and alternative treatments

## Accounting policies

Accounting policies are disclosed in Note 2 of the financial statements, and appear consistent and appropriate.

## Accounting estimates

Significant accounting estimates include the fair value of alternative investments. Management has informed us that in determining the appropriateness of this fair value determination, they evaluated all significant information from fund managers, including audited financial statements of the funds invested in.

## Disclosures

Financial statement and related disclosures appear to be clear and complete. Disclosures are presented with overall neutrality, consistency and clarity.

# Other matters



# Deliverables

## Deliverables

Report on the financial statements of the Nevada System of Higher Education (the "System") for the year ended June 30, 2013

Report on Internal Control Over Financial Reporting and On Compliance and Other Matters Required by Government Auditing Standards for the year ended June 30, 2013

Report on Compliance for Each Major Program and On Internal Control Over Compliance as required by OMB Circular A-133 for the year ended June 30, 2013

Schedule of Findings and Questioned Costs

Provide timely and appropriate communication with management and the Audit Committee regarding technical audit, accounting and internal control matters.

Issue written communications to management and the audit committee describing significant deficiencies and/or material weaknesses, if any, noted during our audit.

Data Collection Form to be submitted to Single Audit Clearinghouse (review and approval of form completed by System Management).



# Commitment to promote ethical and professional excellence

We are committed to promoting ethical and professional excellence. To advance this commitment, we have put in place a phone and Internet-based hotline system.

The Ethics Hotline (1.866.739.4134) provides individuals a means to call and report ethical concerns.

The EthicsPoint URL link

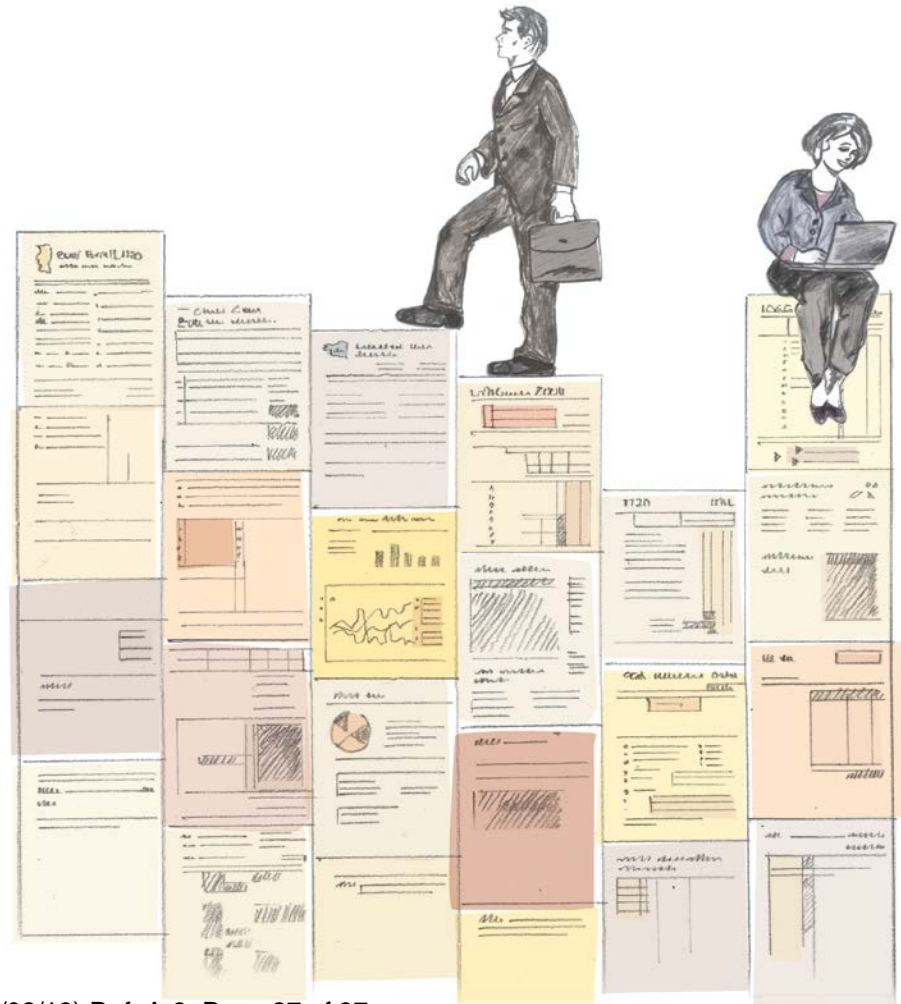
- Can be found on our internal website
- Can be accessed from our external website  
([https://secure.ethicspoint.com/domain/en/report\\_customer.asp?clientid=15191](https://secure.ethicspoint.com/domain/en/report_customer.asp?clientid=15191))

Disclaimer: EthicsPoint is not meant to act as a substitute for the System's "whistleblower" obligations.

# Technical updates



# Regulatory Updates



# Data Collection Form Updates 2013

Summary	Potential impact
<p>As the final data collection form (DCF) updates are not expected until the end of Fall 2013, the OMB has granted an automatic extension until December 31, 2013 for fiscal 2013 single audits with due dates prior to the release of the 2013 DCF.</p> <p>Proposed changes to the 2013 Data Collection Form in the following areas:</p> <ul style="list-style-type: none"> <li>• Auditor EIN will be required</li> <li>• New federal awards findings page for additional detailed reporting on each finding including type of compliance requirement, type of deficiency, and the existence of questioned costs.</li> <li>• Reporting federal loan and loan guarantees</li> <li>• Audit finding reference number in standardized format of the four digit year and a three digit sequence (ex. 2013-001).</li> <li>• Potential for system changes including new log in procedures, new data format requirements for uploading submissions including text searchable, unlocked, unencrypted PDF's.</li> </ul>	<p>When preparing the data collection form for FY13, be aware that additional information may be required.</p>

# OMB proposed changes to Cost Circulars

Summary	Potential impact
<p>The OMB is in the process of a comprehensive reform of guidance for Federal policies relating to grants with non-Federal stakeholders, with a goal of creating a more efficient and transparent process to meet the high standards of the 21<sup>st</sup> century.</p> <p>The reform ideas under discussion are in four main categories:</p> <ol style="list-style-type: none"> <li>1. Section A: Reforms to Administrative Requirements (the government-wide Common Rule implementing Circular A-102; Circular A-110; and Circular A-89).</li> <li>2. Section B: Reforms to Cost Principles (Circulars A-21, A-87, and A-122).</li> <li>3. Section C: Reforms to Audit Requirements (Circulars A-133 and A-50).</li> <li>4. Section D: Additional Suggestions Outside of the Guidance Reform.</li> </ol> <p>Timing for comments on the initial proposed changes was through May 2, 2013. Further timelines have not been announced.</p>	<p>Changes to guidance entities must follow in administering federal grants, as well as changes to the A133 audit process for grants.</p>

# Industry updates

## Higher education industry trends



# Strategic issues

- Globalization
  - recruitment and foreign competition
  - campuses abroad
- Price and revenue pressures
  - price sensitivity suppresses tuition growth
  - perceived high debt levels
  - sustainability of discount rate
- Diversifying revenue sources
- Digital revolution and business model
- Cost reduction
- Partnerships, ventures, collaborations



# Public policy issues

- Federal attention to issues of cost and outcomes, linking student aid to demonstrating outcomes and constraining costs
- Decreased or, at best stable, state support for public universities
- Continued focus on compliance (UBIT, intermediate sanctions)
- Pressure from local governments for payments-in-lieu of taxes (PILOT)





# Moody's 2013 outlook

- Negative outlook for all types of colleges and universities
- Particularly concerned about universities that are highly dependent on tuition and enroll primarily regionally
- Move to fixed rate debt and slowed capital investment
- Rating downgrades exceeded upgrades in 2012 (34:3)
- Increasing risk of regulation and accreditation sanctions
- Governance & management strength key to long-term sustainability

A warning for all  
colleges and  
universities

(AUDIT COMMITTEE 12/02/13) Ref. A-3, Page 33 of 37

MOODY'S

# Standard & Poor's 2013 outlook

- "Increasingly volatile"
- Constrained margins leading institutions to re-evaluate their business models
- Increasing price sensitivity among families
- Delivery models (MOOCs, online programs and other trends)
- More institutions developing strategies to manage risks
- Uncertain Federal funding environment
- Reductions in state funding for public universities

A warning for all  
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universities

**STANDARD  
& POOR'S**  
RATINGS SERVICES

# EDUCAUSE Top Ten IT Issues in Higher Ed

- Leveraging the wireless and device explosion on campus
- Improving student outcomes using technology
- Developing an institution-wide cloud strategy
- Developing organizational model to accommodate changing IT environment
- IT security and balance between openness and security
- Funding
- Online learning
- IT consumerization and "bring your own device"
- Transforming institution's business with IT
- Using analytics to support institutional outcomes



# TRENDS WE SEE among our clients

- Assessing the "**business model**" – net revenue flat, costs difficult to reduce
- Improving student **retention rates** is becoming an important revenue enhancement strategy as well as an approach to improving student graduation rates
- Developing responses to proliferation of **online** courses
- Re-examining **spending policies** pertaining to quasi-endowment funds and the spending rate in general in light of lower average returns (past and anticipated)
- Developing internal controls over external **non-financial data** such as admissions statistics

This communication is intended solely for the information and use of management and the Audit Committee of the Nevada System of Higher Education and is not intended to be and should not be used by anyone other than these specified parties.



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