Grant Thornton

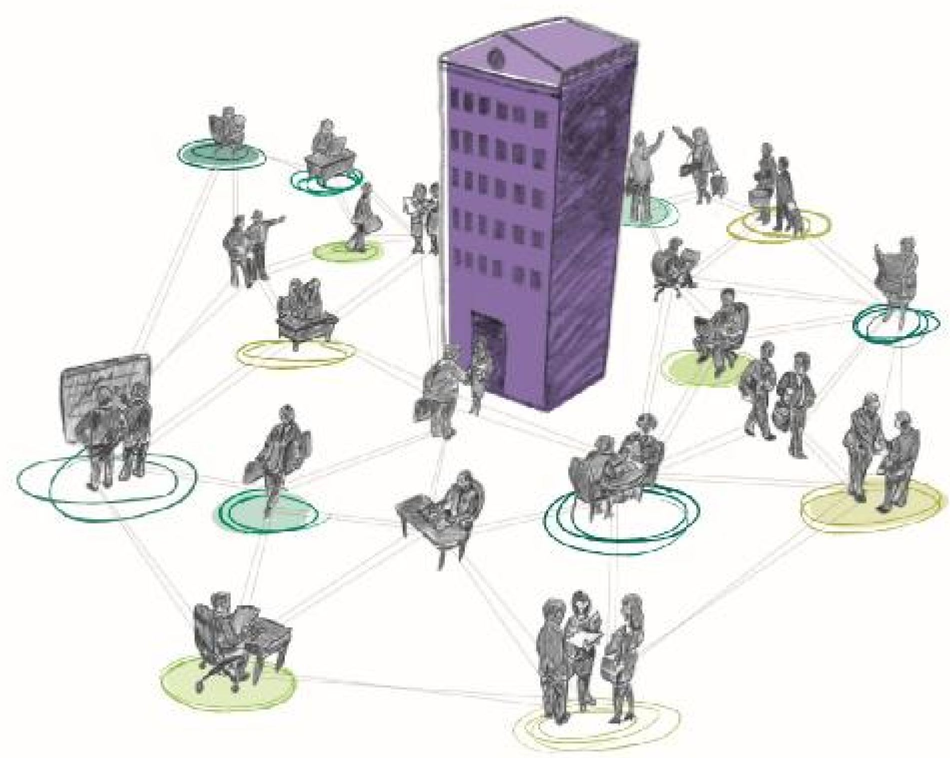
2015 Presentation to the Audit Committee of The Nevada System of Higher Education

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 of the System's financial statements as prepared by management, conducted under US GAAS and *Government Auditing Standards*
- 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, including the Schedule of Expenditures of Federal (SEFA) Awards, 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
- Communicating fraud and abuse with regard to federal and state programs
- Communicating specific matters to you on a timely basis; we do not design our audit for this purpose
- Reporting material non-compliance related to laws, regulations, contracts and grant agreements, as well as significant deficiencies and/or material weaknesses in internal control related to financial reporting
- Reporting material non-compliance with federal awards requirements applicable to major program(s) audited under OMB Circular A-133, as well as significant deficiencies and/or material weaknesses in internal control over compliance

An audit provides reasonable, not absolute, assurance that the financial statements do not contain material misstatements due to fraud or error. 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
- 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 and over compliance with federal and state grant requirements
- 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

Those Charged with Governance and Management responsibilities

Those Charged with Governance and Management are Responsible for preparing the financial statements of NSHE in accordance with GASB:

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)

Governmental Accounting Standards Board (GASB) Those Charged with Governance

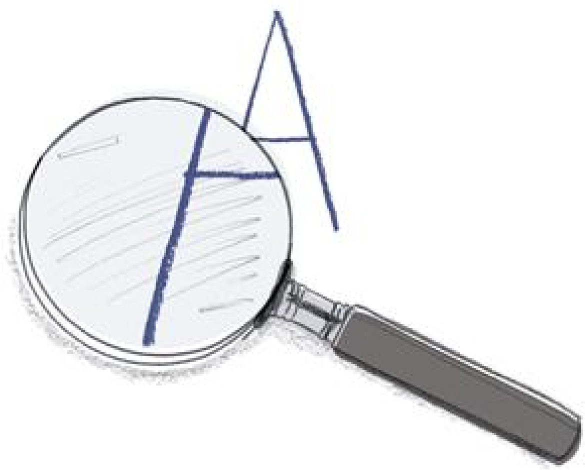
GASB is an independent, private-sector, not-for-profit organization that establishes and improves standards of financial accounting and reporting for U.S. state and local governments, including state university systems. The basic financial statements for a state and local government are:

- 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

Selected new pronouncements effective for the year ended June 30, 2014 or subsequent periods

	Effective date	Impact
GASB Statement No. 68/71, Accounting and Financial Reporting for Pensions	June 30, 2015	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. NSHE implemented statement in the current year.
GASB Statement No. 72, Fair Value Measurement and Application	June 30, 2016	Addresses accounting and financial reporting issues related to fair value measurements. Statement provides guidance for determining a fair value measurement and applying to certain investments and disclosures. Impact has not been identified at this time.
GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB 68	June 30, 2016	Improves the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. Impact has not been identified at this time.
GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits other than Pensions	June 30, 2018	Addresses accounting and financial reporting by state and local governments for postemployment benefits other than pensions. Impact has not been identified at this time.

Audit scope and results



Audit timeline

March 2015	Client reacceptance	• Client reacceptance • Engagement letter • Meet with management to confirm expectations
April/May 2015	Planning	• Discuss scope of work and timetable • Identify current-year audit issues and discuss recently issued accounting pronouncements of relevance • Develop appropriate audit plan
May - September 2015	Preliminary risk assessment procedures & Interim procedures	• Update understanding of internal control environment • Perform walk-throughs of business processes and controls • Perform majority of A-133 (Single Audit) compliance testing • Perform selective substantive testing on interim balances
September – November 2015	Final fieldwork and deliverables	• Perform final phase of audit and year-end fieldwork procedures • Meet with management to discuss results • Issue opinions of the financial statements and compliance over major federal programs • Submit results to the Audit Committee

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 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**
Grant Thornton			
University of Nevada, Reno Foundation	39.0%	23.9%	Comprehensive
Athletic Association, University of Nevada, Inc.	1.4%	0.1%	Comprehensive
Integrated Clinical Services, Inc.	3.6%	41.7%	Comprehensive
University of Nevada, Las Vegas Foundation	48.2%	26.1%	Comprehensive
Other			
Western Nevada College Foundation	0.5%	0.5%	Analytical
Rebel Golf Foundation	0.9%	0.1%	Analytical
UNLV Alumni Association	0.4%	0.7%	Analytical
UNLV Singapore	1.1%	2.4%	Targeted
Other unaffiliated auditors			
DRI Foundation	0.1%	1.2%	Analytical
DRI Research Park	0.0%	0.0%	Analytical
Truckee Meadows Community College Foundation	0.7%	1.4%	Targeted
Great Basin College Foundation	1.3%	0.5%	Analytical
UNLV Research Foundation	1.3%	0.1%	Analytical
UNLV Rebel Football Foundation	0.4%	0.1%	Analytical
College of Southern Nevada Foundation	1.0%	0.4%	Analytical
Nevada State College Foundation	0.5%	0.9%	Analytical

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.

Significant risks and other areas of focus

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

Areas of focus	Audit results
Tuition revenue and related receivables/deferrals	• Obtain 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. • Obtain an understanding of the semester schedules and billing schedule. Perform substantive testing on receivables and deferred amounts to ensure proper cutoff. • Review management's analysis of allowance for doubtful accounts for consistency with methodology and accuracy of inputs
Federal and State grant revenue and related receivables/deferrals	• 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. • Select a random sample of grant revenue receivable and test balance to ensure appropriately recorded.
Net pension liability and deferred inflows and outflows	• Obtained PERS audit report, performed testing of completeness and accuracy of data submitted to PERS, performed testing of reasonableness of actuarial assumptions and reviewed reasonableness of accounting entries and financial statement disclosures.

Significant risks and other areas of focus, continued

Areas of focus	Audit results
Financial reporting and disclosures	• Review of financial statements and related disclosures for accuracy and completeness. • Trace amounts to supporting documentation. • Review documentation regarding implementation of newly effective GASB pronouncements and determine reasonableness of presentation.
Fair value of financial instruments (alternative investments)	• Review documentation over process to value alternative investments and trace to supporting documentation, including audited financial statements of the respective alternative investment funds.
Compliance with requirements of Student Financial Aid, Research and Development, Adult Education, TAACCCT, and Gear Up.	• Audit five major programs in accordance with the OMB A-133 Compliance Supplement. All findings are noted in the Schedule of Findings and Questioned Costs.

Areas of focus for OMB Circular A-133 Audit

The following provides an overview of the major programs tested this year, which has been determined based on final schedule of expenditures of federal awards. and the results of that testing.

Major program	Results
Student financial aid	• $420.5 million 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 Special Tests and Provisions – Disbursements To or On Behalf of Students
Research and development	• $90.7 million of grants and contracts; unmodified opinion
Adult Education (CFDA 84.002)	• $3.3 million of grants and contracts; unmodified opinion
GearUp (CFDA 84.334)	• $9.9 million of grants and contracts; unmodified opinion
TAACCCT (CFDA 17.282)	• $5.3 million of grants and contracts; unmodified opinion

Summary of adjustments ($000s)

Description	Increase (Decrease) to: Assets	Liabilities	Net Postion	Change in Net Postion
Recorded adjustments				
None Noted				
Net impact	$ -	$ -	$ -	$ -
Unrecorded adjustments				
1 Pledge revenue				(1,143)
Net position			(1,143)	
PBC - To record prior year effect of unrecorded prior year pledge receivable recorded in the current year.				
2 Unrestricted net position			(1,839)	
Employee compensation and benefits				1,839
PBC - To record prior year effect of summer school payroll liability.				
3 Short-term investments				(1,197)
Investment income, net				(760)
Unrestricted net position			1,957	
PBC - To record difference between June 30 estimated and actual market values, including prior year effect.				
Net impact	$ -	$ -	$ (1,025)	$ (1,261)

Management believes the unrecorded adjustments are immaterial to the financial statements. Unrecorded misstatements could be potentially material to future financial statements. As such, we request that these unrecorded adjustments be corrected.

Summary of adjustments ($000s) – Schedule of Expenditures of Federal Awards - Disclosures

GT noted during our testing of the Schedule of Expenditures of Federal Awards:

1) There were approximately $680 of expenditures under the TAACCCT major program that had been incurred in the current fiscal year and were not reported on the draft SEFA. The TAACCCT grant was awarded in four rounds which each have a lead institution, with expenditures incurred at several institutions. For a specific round, all institutions incurring expenditures report those expenditures to the lead institution, who then submits one request for reimbursement. At that time, the lead institution records the expenditure. When grants involve intra-institutional transactions as described above, the System prepares the SEFA based on the expenditures reported by the lead institution, which can cause a timing difference in the period the expenditures are reported in. This was corrected by the System for the TAACCCT program.

2) During our testing of completeness of expenditures during the R&D major program, we noted that there were approximately $375 of expenditures that had been incurred in the current fiscal year that were not reported on the draft SEFA. These expenditures were excluded from UNR's total expenditures as they did not have a CFDA number. This is being corrected by the System.

Internal control matters

Compliance and internal control deficiencies associated with the five major federal programs that we consider to be material weaknesses and significant deficiencies 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. 68.

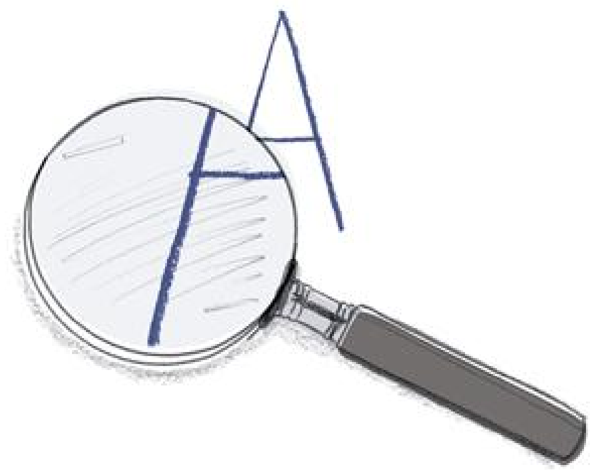
Significant difficulties encountered during the audit

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 for all 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, 2015
Report on Internal Control Over Financial Reporting and On Compliance and Other Matters Required by Government Auditing Standards for the year ended June 30, 2015
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, 2015
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.

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_custom.asp?clientid=15191)

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

Technical updates

Accounting updates

Selected pronouncements effective for the year ending June 30, 2015 or subsequent periods- GASB

GASB	Title	Effective date
Statement 68	*Accounting and Financial Reporting for Pensions- an Amendment of GASB Statement No. 27*	Periods beginning after June 15, 2014
Statement 71	*Pension transition for contributions made subsequent to the measurement date- an amendment of GASB Statement No. 68*	To be applied simultaneously with GASB No. 68
Statement 72	*Fair Value Measurements and Application*	Periods beginning after June 15, 2105
Statement 73	*Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*	Periods beginning after June 15, 2015
Statement 75	*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.*	Fiscal years beginning after June 15, 2017
Statement 76	*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*	Reporting periods beginning after June 15, 2015

GASB Statement 68, *Accounting and financial reporting for pensions- an amendment of GASB Statement No. 27*

Summary	Potential Impact
• Scope is limited to pensions provided through trusts that meet certain criteria • Excludes all OPEB (there is a separate GASB project to revisit accounting for OPEB) • Applies to employers and non-employer contributing entities that have a legal obligation to make contributions directly to a pension plan • Revised recognition, measurement, and disclosure requirements for all employers Ø Liability is measured net of pension plan's fiduciary net position and is fully recognized in accrual-basis financial statements Ø Changes in the obligation are recognized as o expense in the period of the change OR o deferred outflows/inflows of resources with expense recognized over defined future periods • Defines net pension liability - overall pension obligation reduced by assets of the plan • Each participating employer must record allocated share of unfunded liability (i.e., a government participating in a cost-sharing pension plan will report a liability in its own financial statements that is equivalent to its long-term proportionate share of the collective net pension liability- allocation will be based on the employers expected contribution effort relative to that of all contributors to the plan) • Effective for periods beginning after June 14, 2014 (year ending June 30, 2015 for June 30 year ends)	Pronouncement will have a significant impact on the statement of net position for employers participating in defined benefit and defined contribution plans (and nonemployer contributing entities) that will be recording an estimated/apportioned pension liability for the first time.

GASB Statement 71, *Pension transition for contributions made subsequent to the measurement date- an amendment of GASB Statement No. 68*

Summary	Potential Impact
• Clarification of adoption issue related to GASB Statement No. 68 related to contributions made subsequent to measurement date • In certain circumstances, there could be a situation where a government entity would be understating deferred outflows in the transition year of adoption of GASB Statement No. 68. • Effective simultaneous with adoption of GASB Statement No. 68	If a governmental employer or non-employer contributing entity makes contributions to its pension plan after the measurement date of the beginning net pension liability, these must be recognized as a deferred outflow of resources.

GASB Statement 72, *Fair Value Measurement and Application*

Summary	Potential Impact

• Defines "fair value" as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date."
• Governments are generally required to measure investments at fair value using one of three techniques
Ø Market approach
Ø Cost approach
Ø Income approach
• Establishes a three level hierarchy of inputs to valuation techniques used to measure fair value. The guidance is very similar to existing guidance for FASB organizations.
    • Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
    • Level 2 inputs are inputs—other than quoted prices—included within Level 1 that are observable for the asset or liability, either directly or indirectly.
    • Level 3 inputs are unobservable inputs, such as management's assumption of the default rate among underlying mortgages of a mortgage-backed security
• Requires disclosures to be made about fair value measurement, the level of fair value hierarchy, and valuation techniques.
• Effective for periods beginning after June 15, 2015.
	This will significantly impact accounting for certain investments that may have been reported at cost due to ambiguity within previous guidance. In addition, all public colleges and universities will need to revise the existing disclosures to conform to the new disclosure requirements, which are very similar to current disclosure requirements for FASB organizations. Gathering the "Leveling" information required to be disclosed could be difficult to identify and time-consuming, depending on the instruments that are within the three categories of the valuation hierarchy. Pubic institutions are encouraged to review disclosures of large/complex private (FASB) institutions for helpful examples.

GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*

Summary	Potential Impact
• GASB 75 replaces the requirements related to OPEB accounting and reporting currently provided in GASB 45. • Defined benefit OPEB plans administered through a trust meeting certain criteria must report a net OPEB liability on the face of its financial statements, similar to the requirement to report the net pension liability in accordance with GASB 68. • When a government participates in a cost-sharing plan the government shall report a liability equal to its proportionate share of the collective OPEB liability. • A government that does not provide OPEB through a trust that meets the specified criteria must report the total OPEB liability related to its employees. • There are alternative measurements available for plans with less than 100 members.	Universities with other postretirement plans will most likely see impact to the financial position and expanded note disclosures. Similar to adoption of GASB 68, Universities should begin to evaluate the information needed to adopt the guidance as a significant portion of that information may come from state or other related entities.

GASB Statement 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*

Summary	Potential Impact

• Reduces the U.S. GAAP hierarchy for government standards from four to two categories of authoritative GAAP.
    • The first category consists of the GASB Statements.
    • The second comprises GASB Technical Bulletins, Implementation Guides, and AICPA guidance cleared by the GASB.
• Statement 76 also addresses the use of authoritative and non-authoritative literature for situations when the accounting treatment for a transaction or event is not specified in GAAP.
	Depending on what accounting policies a University uses to report its financial transactions, existing guidance could potentially no longer be considered authoritative and could result in necessary changes in accounting as a result of adoption of this standard. Management should review key accounting policies to ensure they are based on guidance that continues to be authoritative.

GASB projects and pre-agenda research

Project	Timing
Asset Retirement Obligations	Exposure Draft anticipated December 2015
Fiduciary Responsibilities	Exposure Draft anticipated December 2015
Conceptual Framework - Recognition	On Hold
Leases	Exposure Draft anticipated January 2016
Debt disclosures	Pre-agenda research
Debt extinguishments	Pre-agenda research
Financial reporting model	Pre-agenda research

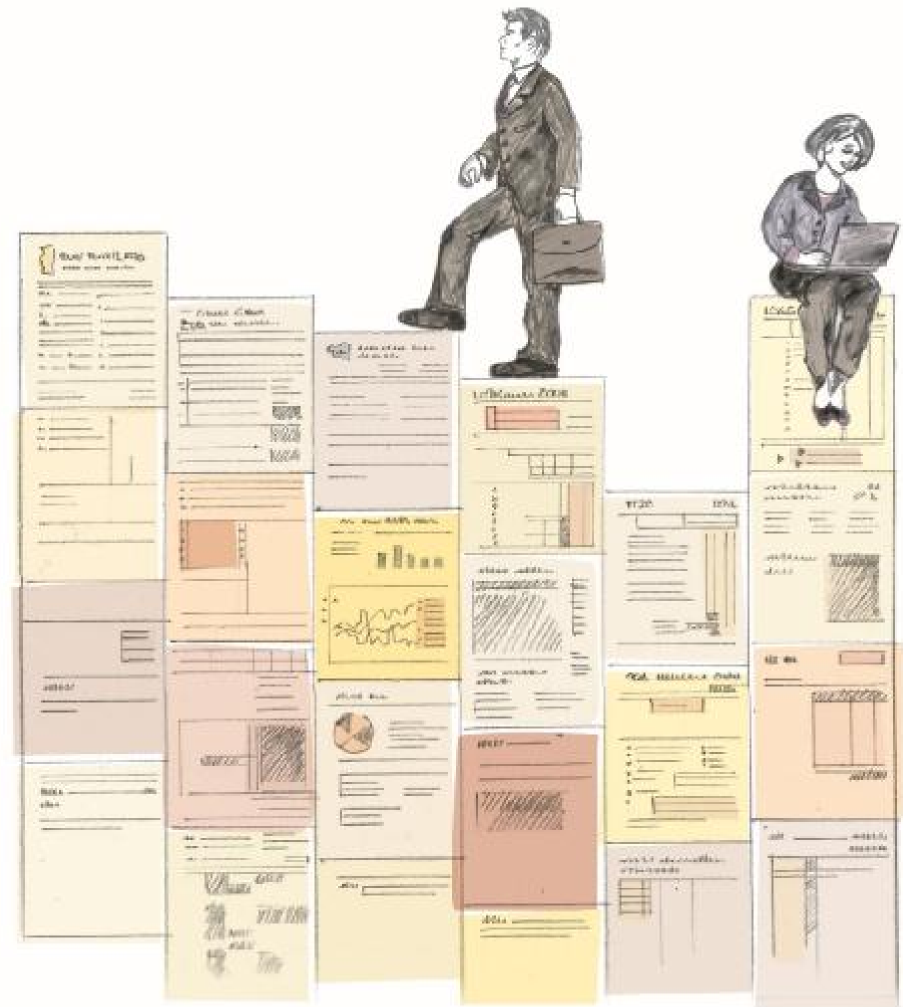
GASB major project – Asset Retirement Obligations

Summary	Potential Impact
The objective of this project would be to improve financial reporting by developing requirements on recognition and measurement for asset retirement obligations (ARO), other than landfills. One major topic expected to be addressed will be what constitutes an ARO and what the term retirement should encompass in the guidance. The project will determine a general approach to recognition and measurement of an ARO, considering existing practice among governments and feedback received from preparers and auditors regarding their concerns about complexity, comparability, and the balance of costs and benefits. The project also will consider the following issues: 1. Should costs, if any, associated with AROs be capitalized? If so, how should these costs be recognized and measured? 2. What information about AROs should be disclosed in the notes to the financial statements?	This proposed standard is intended to reduce diversity in practice and related inconsistency in current reporting; thereby enhancing comparability between governmental entities. It would also improve the usefulness of information for external users, including rating agencies and analysts by expanding disclosure requirements related to these obligations.

GASB major project – Leases

Summary	Potential Impact
• The objective of this project is to reexamine issues associated with lease accounting, considering improvements to existing guidance. This project will provide a basis for the Board to consider whether current operating leases meet the definitions of assets or liabilities. • The project is considering the following issues: 1. What types of leases are entered into by state and local governments? 2. What specific user needs exist regarding governmental leases and what decision-useful or accountability information is needed to meet those needs? 3. Are current accounting and financial reporting standards appropriate to meet essential user needs? 4. Should there be a distinction between types of leases, such as operating and capital? 5. If current standards are not considered adequate, what additional potential requirements should be considered? • The board is currently deliberating various topics within the scope of this project such as lessee disclosures, lessor recognition and measurement and lessor disclosures. An exposure draft is expected in Q1 2016.	Similar to the GASB Major Project addressing fair value measurements, this project reflects an effort by the GASB to align its accounting for leases with the accounting guidance proposed by the FASB and IASB as a joint project. The most significant change could be the elimination of most arrangements currently recorded as operating leases. If requirements are standardized as proposed, the impact on all entities with lease arrangements could be profound. While still at least several years away, public colleges and universities are encouraged to inventory all existing lease agreements, closely monitor the FASB Leases project and begin to analyze the potential impact on key financial ratios, debt covenants, and credit ratings.

Regulatory updates



Update on audit guidance for federally sponsored awards

The 2015 compliance supplement associated with audits of federal awards was issued in July 2015. There were several significant changes within that compliance supplement, including the following:

- Part 3 (which addresses the compliance requirements) has been divided into two subparts- 3.1 and 3.2. Subpart 3.1 reflects guidance for awards issued prior to December 24, 2014 (effective date of Uniform Grant Guidance) and subpart 3.2 reflects guidance for awards on or after December 24, 2014 (those awards subject to new requirements per Uniform Grant Guidance)
- Eliminated Davis-Bacon Act and Real Property Acquisition and Relocation Assistance compliance requirements
- What was referred to as "Period of Performance" is now referred to as "Period of Availability"
- Eliminated requirement to test compliance with FFATA reporting requirements
- Part 5 was updated to reflect revised eligibility criteria for Federal Pell Grant
- Removed from Part 5 Perkins loan cancellation program
- The guidance in Part 6 (which addresses internal controls over federal awards) was removed entirely. OMB plans to issue guidance on internal controls in the 2016 compliance supplement to reflect changes as a result of Uniform Grant Guidance and the Green Book. Part 6 instead refers to the Green Book and COSO for guidance on internal controls.

Industry Trends

Moody's: Fiscal 2014 medians show easing pressures at public and private universities

- Much of the higher education sector is stabilizing into balanced operations, increased liquidity, and slowly strengthening balance sheets.
- Double-digit investment returns, robust philanthropic support and limited borrowing led to continued strengthening of private university balance sheets.
- Nonetheless, approximately 20% of universities continue to confront material revenue growth pressures.
- Even as net tuition revenue growth has slowed for the public sector, aggregate state funding modestly increased for the first time in over a decade, which modestly narrowed the gap between state appropriations and revenue from tuition and student fees.

Fiscal 2014 median trends: public universities

- **A majority of public colleges and universities have increased liquidity, balanced operations and grown financial resources.** Operations have stabilized to levels more consistent with pre- recession levels, generating a median cash flow margin of nearly 11% in FY 2014. Expendable financial resources to debt and operations ratios reached 0.95 and 0.55, respectively, in FY 2014.
- **State appropriations** comprised 24.3% of operating revenue in FY 2014 compared to 23.9% in 2013.
- Global/nationals continue to capitalize on strong brands, growing aggregate **enrollment** 5.4% since 2010 compared to a 1.7% decline at regionals.
- **Net tuition revenue growth remains low**, forcing continued expense management. For the fourth consecutive year, the rate of median net tuition revenue growth weakened; FY 2014 was 3.6%, down from 9.8% in FY 2010. Growth at global/nationals is stronger at 4.9%, compared to regionals at 2.5%. The nationwide focus on affordability will likely keep growth closer to inflation.
- Despite a favorable interest rate environment, **aggregate debt increased 6%** in FY 2014 from the prior year, primarily driven by global/national universities. Public universities continued to **invest in capital above the rate of depreciation** at 1.4 times in FY 2014.

Trends addressing "Are we effective?"

Department of Education rating system: consumer tool, not a college ranking tied to financial aid funding. Data on net price, the gap between family contribution and the cost of attendance, % of PELL recipients, first generation status, family income, completion rates (IPEDS and NSLDS), transfer rates, and graduates' employment, loan repayment and further education measures will be used.

- Seek UT, on-line tool for the University of Texas System, provides data across 400 fields of study on graduates median earnings and loan payments, program descriptions, average time to degree, industries in which graduates work and estimated job growth till 2022.
- A liberal arts school's website has "Outcomes" with data from the Higher Education Data Sharing Consortium Alumni Survey to report on financial independence, professional accomplishment & personal fulfillment of graduates

Broad and specialized knowledge is sought by two-thirds of employers: critical thinking/analytic reasoning, complex problem solving, applied learning in real world settings, teamwork skills in diverse settings, ethical reasoning and written and oral communications. Schools must do more to gauge learning outcomes.

- Interactive on-line learning has the potential to deliver better learning outcomes due to advances in cognitive science and intelligent software.

Trends addressing enrollment challenges

- Strategies include **admissions marketing**, selling your college's value, **financial aid** programs targeted to the **middle class**, and capturing half of the estimated 5 million **student veterans** transitioning out of the military by 2020.
- **Income inequality** on college completion rates is being addressed through enhanced program accessibility that includes weekend and evening courses, student support services that include specialized advising targeted towards at-risk students and high student-faculty engagement through an anytime-anywhere communications strategy. A Freshman Academic Institute serves as a 3 week residential bridge to first year academic readiness.
- **HBCU's** enrollment challenge: Widening the enrollment pipeline includes aggressive targeting of transfer students, stop-outs, and dual enrollment, transfer admissions program; Creating high-demand programs to attract high- ability African American students. HBCUs historically produced proportionately more undergraduates who pursue professional degrees.
- **Boosting retention** rates through 1st Interest Groups, innovative pre-orientation programs, interdisciplinary New Student Life onboarding experience, peer mentoring initiatives, and Advisor Education Workshops for faculty advisers.

Research funding: trends impacting mission

- **Federal funding** for university research was $39.5 billion in 2013 and has **decreased $1.5 billion since 2011**, straining resources for research-intensive institutions. Federal spending is 59% of total expenditures, down from 62% in 2011. State spending is 5.5%, down from 5.8% (most recent NCES data).
- R&D **total spending increased 2% while federal spending *decreased* 1.7%.** Institutional spending increased 9.8% to $15 billion and now comprises 22% of total R&D. Unreimbursed indirect costs represents 31% of Institutional spending.
- **Primary federal funders:** HHS $21.2 billion, NSF $5.5 billion and DOD $5 billion. Funding directed to life sciences (56%), engineering (16%), physical sciences (8%) and computer and environmental sciences (9%). Computer science grew 20% from 2011.
- **Federal and state government are questioning** if 'research' should be a primary mission of universities, the teaching commitment of research faculty, is research crucial to the educational mission, and the value of research efforts.
- **Universities are adapting different models** to integrate research and education:
  - Ø Blending research intensive and teaching intensive missions through new organizational structures and collaborations on campus
  - Ø Establishing separate campuses to foster research collaborations with global companies and other universities that drive new academic programs

Trends impacting fiscal sustainability

- **Adjunct faculty** receiving long-term contracts in response to concerns of quality teaching and advising by itinerant 'road scholars' and unionization activities.
- Increased scholarships awards to **Division I athletes** and life-time image rights
- 'Voluntary' **payment in lieu of taxes** programs imposed **by municipal governments**, keeping acquired property on the tax rolls and funding capital investments in municipal parks and public areas.
- Competition for global students and a doubling of students studying outside their home country between 2000-2012 drives **demand for housing**.
- **Public-private partnerships for housing** (Texas A&M, University of Kentucky), monetizing or securitizing existing assets (Ohio State, Keele University), and relying on the surrounding private or commercial real estate market can transfer financial risks, but may be limited in the transfer of student safety and pricing due to the strategic importance of housing. Multi-institutional collaborative P3s increasing in urban areas (Chicago, Boston)
- On-line learning is a complement to residential program and not a substitute.

Restoring public faith: items for Board action

- Establish a process for **presidential compensation** that is supported by a compensation philosophy and full board participation, and considers the legal considerations imposed by the IRS, as well as the consequences of widened compensation gaps between presidents and senior administrators and faculty.
- Avoid the **adoption of business tools** that undermine a pluralistic campus community, shared governance and transformative education. Use modern business tools to sharpen administrative and student efficiencies and services.
- Promote the **communication of institutional value**, with data, as an economic engine that creates jobs, provides educated workforce, performs groundbreaking research that in itself will create future jobs, engages in community service, and educates students who are then employed and live in-state, adding to the local/state economy.
- Provide **oversight of academic quality** by becoming aware of issues that define quality and educational outcomes. Strategic academic affairs committees that receive and analyze metrics about quality and outcomes can help the Board.
- Consider **strategic risks factors** when making policy decisions and ask questions that enable choices to be made in line with tolerable levels of risk.

Grant Thornton's Client Service Cycle

Grant Thornton's Client Service Cycle is our model for delivering high quality, personalized service. Our commitment to this recurring process helps us ascertain that you receive the full benefits of working with us, year after year.

- What's important to you?
- How would you rate the team's overall service delivery?
- Would you refer Grant Thornton to a friend or colleague?

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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