Grant Thornton

2015 Presentation to the NSHE Board of Regents – Integrated Clinical Services, Inc.

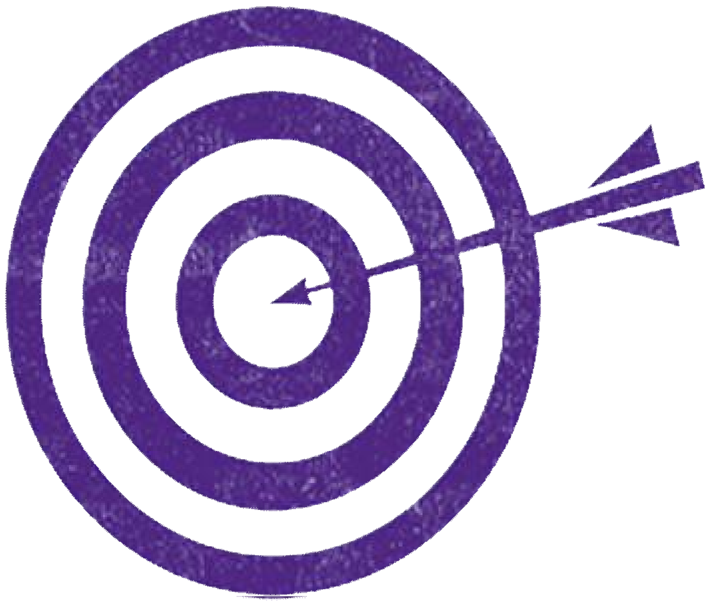
October 6, 2015

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.



Our responsibilities

We are responsible for:

- Performing an audit of the ICS'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 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 ICS'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, including supplementary information such as SEFA (Schedule of Expenditures of Federal Awards) and SESA (Schedule of Expenditures of State Awards 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

Audit timeline

March 2015	Client reacceptance	• Client reacceptance • Engagement letter • Conduct internal client service planning meeting, including coordination with audit support teams such as IT
May/June 2015	Planning	• Meet with management to confirm expectations and discuss business risks • Discuss scope of work and timetable • Identify current-year audit issues and discuss recently issued accounting pronouncements of relevance • Initial audit committee communications
May – September 2015	Preliminary risk assessment procedures	• Develop audit plan that addresses risk areas • Update understanding of internal control environment • Coordinate planning with management and develop work calendar
May – September 2015	Interim procedures	• 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 - October 2015	Final fieldwork and deliverables	• Perform final phase of audit and year-end fieldwork procedures • Meet with management to discuss results • Present 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 revenues is the appropriate benchmark for the ICS.
- We believe total expenditures in the Research and Development major program is the appropriate benchmark for the OMB Circular A-133 Single Audit.

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).

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
Revenue recognition; allowance estimates for contractual adjustments and doubtful accounts; collectability of accounts receivable	During our audit we tested the validity of accounts receivable and revenue, adequacy of the allowances for contractual adjustments and doubtful accounts.
Completeness of accounts payable/due to affiliates	During our audit confirmed amounts payable to affiliates. In addition, we tested the completeness of accounts payable to testing subsequent disbursements.
Investments, including alternative investments and related earnings	During our audit we: - Confirmed investments with custodian and, if applicable, fund manager. - Tested valuation of investments that are not publicly traded by performing an independent assessment of the valuation methodology and/or testing management's process to determine fair value. This include obtaining audited financial statements of the investment fund.

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
Research and development	- No findings were noted

Summary of adjustments

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.

	Increase (Decrease) to:				
Description	**Assets**	**Liabilities**	**Net Position**	**Revenue**	**Expenses**
Recorded adjustments					
To record deferred rent expense		461,837			461,837
Net impact	$ -	$ 461,837	$ -	$ -	$ 461,837
Unrecorded adjustments					
See next slide					

Summary of adjustments - continued

	Increase (Decrease) to:				
Description	**Assets**	**Liabilities**	**Net Position**	**Revenue**	**Expenses**
Unrecorded adjustments					
To pass on adjusting deferred rent to actual - NFPRP	-	19,968	(19,968)	-	(90,183)
To pass on adjusting deferred rent to actual - MSAN	-	31,425	(31,425)	-	(8,023)
To pass on adjusting deferred rent to actual - MSAS	-	-	-	-	(152,273)
To pass on recording copier lease properly under capital lease accounting - MSAS	75,859	87,647	(11,787)	-	2,428
To pass on reversing accrual for audit fees to retained earnings - MSAN	-	(35,880)	35,880	-	-
To pass on restating prior year for claims processed in current year related to prior periods - MSAS	-	-	-	(304,641)	-
To pass on restating prior year for claims processed in current year related to prior periods - MSAN	-	-	-	(31,026)	-
To pass on recording the June operating expenses billed in July by UNR - MSAS	-	31,134	31,134	-	31,134
Net impact	75,859	134,294	3,834	(335,667)	(216,917)

Disclosure adjustments

Recorded disclosure adjustments

The following is a description of necessary adjustments to disclosures identified during the audit that were made by the ICS:

- None noted

Unrecorded disclosure adjustments

The following is a description of possible adjustments to disclosures identified during the audit that were not made by ICS:

- None noted

Internal control matters

Control deficiencies that are of a lesser magnitude than a significant deficiency were communicated to management.

- Accounting for leases: straight-lining of escalating rents
- Formal documentation of approvals for information system changes and upgrades

Internal control matters

Our responsibility

- Obtain reasonable assurance about whether the financial statements are free of material misstatement
- Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of ICS's internal control
- We express no opinion on the effectiveness of internal control
- Control deficiencies that are of a lesser magnitude than a significant deficiency will be (or were) communicated to management.

Definitions

- A deficiency in internal control ("control deficiency") exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.
- A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of ICS's financial statements will not be prevented, or detected and corrected, on a timely basis.
- A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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, *Accounting and Financial Reporting for Pensions*

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

Significant difficulties encountered during the audit

No significant difficulties were encountered.

Related parties and related party transactions

The Entity regularly enters into various transactions with University of Nevada School of Medicine (UNSOM). A summary of which is as follows:

- Reimburses UNSOM for physician salaries
- Pays UNSOM Dean's tax/department chair tax
- Covered under UNSOM's Medical malpractice insurance
- Reimburses UNSOM for general and administrative expenses

Quality of accounting practices and alternative treatments

Accounting policies

We noted ICS utilized consistent and appropriate accounting policies. No new accounting policies were noted.

Accounting estimates

Significant estimates are involved in patient services revenue recognition, the allowance for contractual adjustments, the allowance for doubtful accounts, and in the valuation of investments

Disclosures

Financial statements and related disclosures appear clear, complete, neutral and consistent.

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.

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, 2015
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 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.

IRS & Independent Information Gathering

Summary

IRS Reporting & Court Rulings

IRS resources remain strained as charity watchdogs request digitally readable Forms 990 and continue to provide information to the public that the IRS cannot. For example, in Public.Resource.Org v U.S. Internal Revenue Service, the court required the IRS to produce Forms 990 in a digitally readable format. Currently, the 990 is converted into an image file, making it difficult to conduct digital searches of multiple forms or for specific information.

What does this mean for your college or university?

- By early 2016, the IRS expects to enable a digitally readable format of the Form 990. Data disclosed on the Form 990, such as officer compensation, will be more easily searchable and comparable to other organizations.
- IRS' digitally readable files will exclude extraneous information provided by exempt organizations but not required by the IRS Form 990 instructions. Does Schedule J include a narrative explaining compensation practices not required by the Form instructions? Have you reviewed Schedule O disclosures for appropriate and required governance and oversight disclosures?
- While the IRS fights resource constraints to publicize data, independent charity watchdogs are revolutionizing the review and comparison of tax exempt organizations.
- For example, Forms 990-T are published on projects.propublica.org. Is the Form 990-T available on your organization's website? Do the audit committee or board review the Form 990-T prior to filing with the IRS?

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:
  - Blending research intensive and teaching intensive missions through new organizational structures and collaborations on campus
  - Establishing separate campuses to foster research collaborations with global companies and other universities that drive new academic programs

This communication is intended solely for the information and use of management and the Board of Directors NSHE Board of Regents and is not intended to be and should not be used by anyone other than these specified parties.

www.grantthornton.com

Grant Thornton LLP is a member firm within Grant Thornton International Ltd. Grant Thornton International Ltd and the member firms are not a worldwide partnership. Services are delivered independently by the member firms.