



2016 Presentation to the Audit Committee of The Nevada System of Higher Education

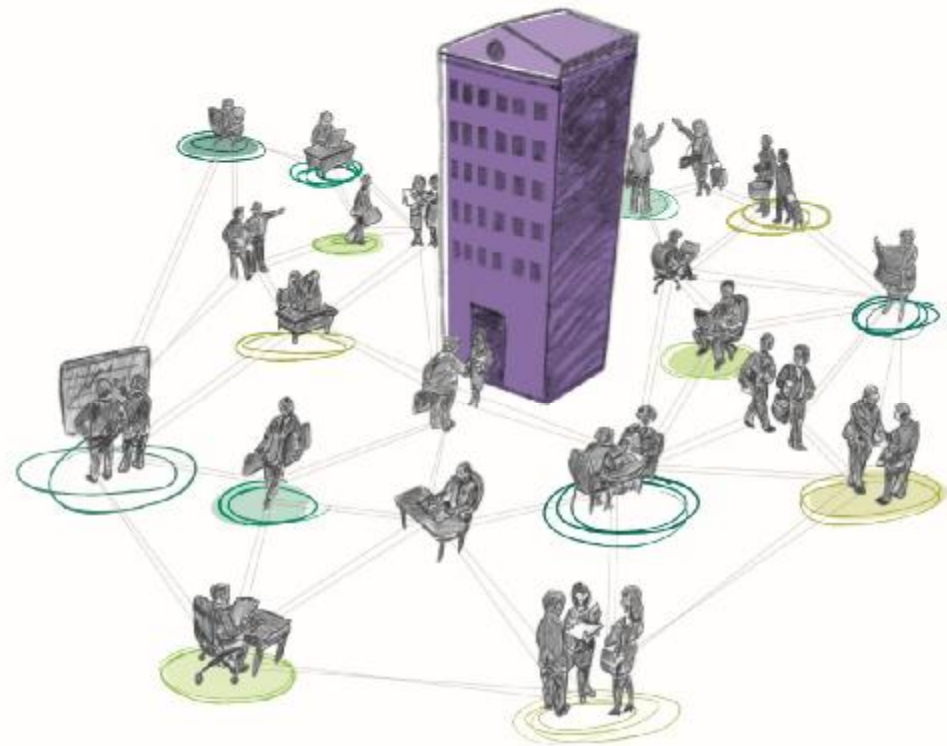


Our values are CLEARR

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 Uniform Guidance, 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, including supplementary information such as SEFA (Schedule of Expenditures of Federal Awards) 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

Those Charged with Governance and Management responsibilities

Financial Reporting Entity of NSHE

The Financial Reporting Entity of NSHE includes:

- The System (Eight Colleges and Universities plus System Administration)
- System-Related Organizations (17 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, 2016 or subsequent periods

	Effective date	Impact
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, and determining a fair value level. NSHE implemented statement in the current year.
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.
GASB Statement No. 78 , Pensions Provided through Certain Multiple-Employer Define Benefit Pension Plans	June 30, 2017	Addresses practice issues regarding the scope and applicability of Statement No. 68, Accounting and Financial Reporting for Pensions. Impact has not been identified at this time.
GASB Statement No. 80 , Blending Requirements for Certain Component Units	June 30, 2017	Improves financial reporting by clarifying the financial statement presentation requirements for certain component units. Impact has not been identified at this time.
GASB Statement No. 82 , Pension Issues	June 30, 2017	Addresses certain issues that have been raised in respect to Statement No. 68, specifically the presentation of payroll-related measures in RSI, and the classification of payments made by employers to satisfy employee (plan member) contribution requirements. Impact has not been identified at this time.

Audit scope and results



Audit timeline

March 2016	Client reacceptance	<ul style="list-style-type: none"> • Client reacceptance • Engagement letter • Meet with management to confirm expectations
April/May 2016	Planning	<ul style="list-style-type: none"> • 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 2016	Preliminary risk assessment procedures & Interim fieldwork	<ul style="list-style-type: none"> • Update understanding of internal control environment • Perform walk-throughs of business processes and controls • Perform majority of Uniform Guidance (Single Audit) compliance testing • Perform selective substantive testing on interim balances
September – October 2016	Final fieldwork and deliverables	<ul style="list-style-type: none"> • 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 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	39.3%	24.5%	Comprehensive
Athletic Association, University of Nevada, Inc.	1.1%	0.0%	Comprehensive
Integrated Clinical Services, Inc.	3.1%	38.3%	Comprehensive
University of Nevada, Las Vegas Foundation	48.4%	26.1%	Comprehensive
Other			
UNLV Rebel Soccer Foundation	0.0%	0.1%	Analytical
UNLV Singapore	0.9%	0.7%	Analytical
Great Basin College Foundation	1.2%	0.3%	Analytical
Other unaffiliated auditors			
Western Nevada College Foundation	0.4%	0.3%	Analytical
UNLV Rebel Golf Foundation	0.8%	0.1%	Analytical
UNLV Alumni Association	0.4%	0.8%	Analytical
DRI Foundation	0.1%	0.9%	Analytical
DRI Research Park	0.0%	0.0%	Analytical
Truckee Meadows Community College Foundation	0.8%	3.0%	Targeted
UNLV Research Foundation	1.1%	0.1%	Analytical
College of Southern Nevada Foundation	0.9%	0.6%	Analytical
Nevada State College Foundation	1.4%	4.3%	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 94% and 90%, 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	<ul style="list-style-type: none"> • Obtained the rates in effect for the year under audit and used this information to set expectations of revenue for tuition and fees. Performed detailed tuition reasonableness test based on this information. • Obtained an understanding of the semester and billing schedules. Performed substantive testing on receivables and deferred amounts to ensure proper cutoff. • Reviewed management's analysis of allowance for doubtful accounts for consistency with methodology and accuracy of inputs. • Performed detailed testing of PeopleSoft Student Account revenue by selecting a random sample, then testing verified charges and receipt of payment to revenue recorded.
Federal, State, local and other grant revenue and related receivables/deferrals	<ul style="list-style-type: none"> • Performed detailed testing of grant revenue by selecting a random sample and testing grant contract, request for reimbursement, receipt of payment and reasonableness of expenses to revenue recorded. • Selected a random sample of grant revenue receivable and tested balance to ensure appropriately recorded.
Sales and Service Revenue	<ul style="list-style-type: none"> • Performed detailed testing of sales and services revenues by selecting a random sample and testing verified charges, and receipt of payment to revenue recorded. • Performed analytical review and substantive testing on receivables and deferred amounts to ensure proper cutoff.

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
Net pension liability and deferred inflows and outflows	<ul style="list-style-type: none"> 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.
Fair value measurement of investments priced with models or similar techniques	<ul style="list-style-type: none"> Gained an understanding of management's process Tested management's fair value estimates, confirmed balances, and tested balance to ensure all investments have been appropriately recorded.
Fair value of financial instruments (alternative investments)	<ul style="list-style-type: none"> Tested documentation over process to value alternative investments and traced to supporting documentation, including audited financial statements of the respective alternative investment funds.

Significant risks and other areas of focus, continued

Areas of focus	Audit results
Financial reporting and disclosures	<ul style="list-style-type: none"> • Reviewed financial statements and related disclosures for accuracy and completeness. • Traced amounts to supporting documentation. • Reviewed documentation regarding implementation of newly effective GASB pronouncements and determined reasonableness of presentation.
Management override of internal controls	<ul style="list-style-type: none"> • Identified where fraud could occur and extracted specific entries for testing. • Tested that appropriate internal controls are in place in accordance with their purpose.
Compliance with requirements of Student Financial Aid, Substance Abuse and Mental Health Service (CFDA 93.243), and Career and Technical Education – Basic Grants to States (CFDA 84.048).	<ul style="list-style-type: none"> • Audited three major programs in accordance with the Uniform Guidance Compliance Supplement. All findings are noted in the Schedule of Findings and Questioned Costs.



Areas of focus for Uniform Guidance Audit

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

Major program	Results
Student financial aid	<ul style="list-style-type: none"> • \$396.9 million of grants and loans to students; unmodified opinion, except for qualifications relating to Special Tests and Provisions – Enrollment Reporting and Special Tests and Provisions – Return of Title IV Funds for Withdrawn Students
Substance Abuse and Mental Health Service (CFDA 93.243),	<ul style="list-style-type: none"> • \$3.4 million of grants and contracts; unmodified opinion
Career and Technical Education – Basic Grants to States (CFDA 84.048)	<ul style="list-style-type: none"> • \$3.2 million of grants and contracts; unmodified opinion



Summary of adjustments (\$000s)

Description	Increase (Decrease) to:				Change in Net Position
	Assets	Liabilities	Net Position		
<u>Recorded adjustments</u>					
<i>None Noted</i>					
Net impact	\$ -	\$ -	\$ -	\$ -	-
<u>Unrecorded adjustments</u>					
UNR - Gifts					(1,103)
UNR - Other Grants and Contracts					1,103
To pass on adjusting revenue accounts that were not appropriately mapped.					
Net impact	\$ -	\$ -	\$ -	\$ -	-

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



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 the System'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 both for financial statement audit and single audits were verbally 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 the System's financial statements will not be prevented, or detected and corrected, on a timely basis. .
- 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 Uniform Guidance reporting package.



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 pronouncement:
- GASB Statement No. 72, *Fair Value Measurement and Application*

Significant difficulties encountered during the audit

No difficulties were encountered.

Related parties and related party transactions

No previously undisclosed related party transactions were encountered.

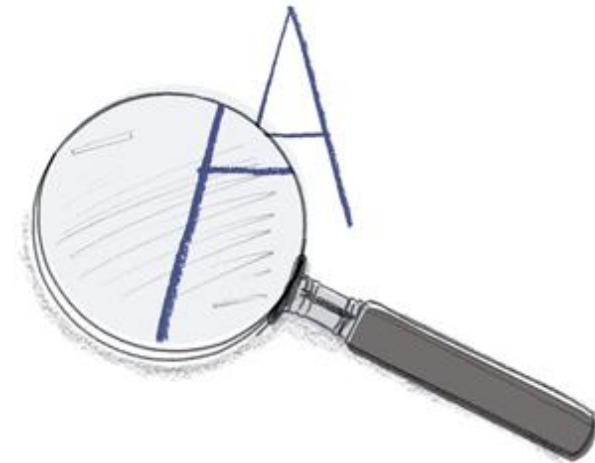
Other information in documents containing audited financial statements

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

Other required communications (continued)



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, 2016

Report on Internal Control Over Financial Reporting and On Compliance and Other Matters Required by Government Auditing Standards for the year ended June 30, 2016

Report on Compliance for Each Major Program and On Internal Control Over Compliance. Required by the Uniform Guidance for the year ended June 30, 2016

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_customer.asp?clientid=15191)

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



Technical updates



Accounting updates



Selected pronouncements effective for the year ending June 30, 2016 or subsequent periods- GASB

GASB	Title	Effective date
Statement 75	<i>Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.</i>	Fiscal years beginning after June 15, 2017
Statement 78	<i>Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans</i>	Periods beginning after December 15, 2015
Statement 80	<i>Blending Requirements for Certain Component Units</i>	Periods beginning after June 15, 2016
Statement 82	Pension Issues	Periods beginning after June 15, 2016



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

Summary	Potential Impact
<ul style="list-style-type: none"> • 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. 	<p>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.</p>

GASB Statement 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*

Summary	Potential Impact
<ul style="list-style-type: none"> • Amends the scope and applicability of GASB 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that: <ol style="list-style-type: none"> 1. is not a state or local governmental pension plan; 2. is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers; and 3. has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. 	<p>Impact to be determined based on specifics of the cost-sharing multiple-employee defined benefit pension plan.</p>



GASB Statement 80, *Blending Requirements for Certain Component Units*

Summary	Potential Impact
<ul style="list-style-type: none">• GASB 80 clarifies the display requirements in GASB Statement No. 14, The Financial Reporting Entity, by requiring these component units to be blended into the primary state or local government’s financial statements in a manner similar to a department or activity of the primary government.• The guidance addresses diversity in practice regarding the presentation of not-for-profit corporations in which the primary government is the sole corporate member.• Although GASB 80 applies to a limited number of governmental units, such as, for example, public hospitals, the GASB intends for it to enhance the comparability of financial statements among those units and improve the value of this information for users of state and local government financial statements.	<p>Impact to be determined based on component units of the governments.</p>



GASB Statement 82, *Pension Issues*

Summary	Potential Impact
<ul style="list-style-type: none">• Addresses the following:<ul style="list-style-type: none">• Presentation of payroll-related measures in required supplementary information• Selection of assumptions and the treatment of deviations from guidance in Actuarial Standards of Practice for financial reporting purposes, and• Classification of payments made by employers to satisfy plan member contribution requirements.• GASB 82 is designed to improve consistency in the application of the pension standards by clarifying or amending related areas of existing guidance. Specifically, the practice issues raised by stakeholders during implementation relate to GASB 67, 68, and 73.	<p>This changes the payroll amounts disclosed in the required supplementary tables to "Pensionable Wages".</p>



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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