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Combined Financial Statements and Report of Independent Certified Public Accountants

University of Nevada School of Medicine - Multispecialty Group Practice North, Inc.; Multispecialty Group Practice South, Inc.; Nevada Family Practice Residency Program, Inc. and Campus Pharmacy, Inc. (Integrated Clinical Services, Inc.)

June 30, 2016 and 2015

Contents

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Report of Independent Certified Public Accountants

The Board of Directors of Integrated Clinical Services, Inc.
and the Board of Regents of the Nevada System of Higher Education

Report on the financial statements

We have audited the accompanying combined financial statements of University of Nevada School of Medicine – Multispecialty Group Practice North, Inc.; the University of Nevada School of Medicine Multispecialty Group Practice South, Inc.; Campus Pharmacy, Inc. and the Nevada Family Practice Residency Program, Inc. (collectively "Integrated Clinical Services, Inc." or "ICS"), which comprise the combined statements of financial position as of June 30, 2016 and 2015, and the related combined statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of University of Nevada School of Medicine – Multispecialty Group Practice North, Inc.; the University of Nevada School of Medicine Multispecialty Group Practice South, Inc.; Campus Pharmacy, Inc. and the Nevada Family Practice Residency Program, Inc. (collectively "Integrated Clinical Services, Inc." or "ICS") as of June 30, 2016 and 2015, and the changes in their net position and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other matters

Required supplementary information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the combined financial statements. Such information, although not a required part of the combined financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the combined financial statements in an appropriate operational, economic, or historical context. This required supplementary information is the responsibility of management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. These limited procedures consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the combined financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other reporting required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated November 1, 2016, on our consideration of ICS's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the ICS's internal control over financial reporting and compliance.

Grant Thornton LLP

Reno, Nevada
November 1, 2016

Integrated Clinical Services, Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

June 30, 2016

Integrated Clinical Services, Inc. comprised of four separate individual corporations – Campus Pharmacy, Inc ("Pharmacy"), University of Nevada School of Medicine Multispecialty Group Practice North, Inc. ("MSAN"), Multispecialty Group Practice South Inc. ("MSAS"), and Nevada Family Practice Residency Program, Inc. ("Mojave" or "NFPRP"), an umbrella corporation, University of Nevada School of Medicine Integrated Clinical Services ("Integrated Clinical Services, Inc." or "ICS") – presents its financial statements for fiscal year 2015-2016, with information from the prior fiscal year presented for comparison purposes. These financial statements should be read in conjunction with the audited financial statements of the Nevada System of Higher Education. Unless otherwise indicated, where reference is to fiscal year 2015-2016, it is to the fiscal year ended June 30, 2016.

Integrated Clinical Services, Inc.'s financial statements are comprised of three statements: the Combined Statements of Net Position; the Combined Statements of Revenues, Expenses and Changes in Net Position; and the Combined Statements of Cash Flows. The Notes to the Combined Financial Statements, provided as mandated by Governmental Accounting Standards Board pronouncements, provide additional information that is essential to a full understanding of the financial statements.

These financial statements present Integrated Clinical Services, Inc.'s financial position resulting from operations over the fiscal year ended June 30, 2016. They include explanatory footnotes to explain or provide additional detail regarding the financial information presented. Where applicable, the financial statements present supplemental information regarding the individual corporations comprising Integrated Clinical Services, Inc.

INTEGRATED CLINICAL SERVICES, INC.

The University of Nevada Reno ("UNR") is currently the only public medical school in the state. UNR's medical school has 11 clinical education departments including Family Medicine, Internal Medicine, Pediatrics, Surgery, Obstetrics/Gynecology, Psychiatry and Behavioral Sciences, as well as five nationally-recognized basic science departments. The medical school was chartered in 1969 to provide statewide medical education and patient care, and continues to expand its role in the State's educational system.

In 1998 the School of Medicine established Integrated Clinical Services, Inc. as separate, not-for-profit corporations comprised of multispecialty physicians, enabling access to diverse patient populations for medical students, residents, and fellows in an educational environment. As the State's largest faculty physician practice group, the School of Medicine employs 143 full time physicians, 86 part-time physicians, and 15 volunteers in 47 different medical specialties engaged in education, patient care, and research. Treating more than 300,000 plus patients a year, our physicians' primary goal is improving the quality of health care in Nevada. Integrated Clinical Services, Inc.'s resources are located in nine physician practice offices in Reno and thirteen physician practice offices in the Las Vegas area.

Integrated Clinical Services, Inc. provides continued development and expansion of a physician faculty committed to meeting the health care needs of Nevada residents. Integrated Clinical Services, Inc. generates revenue to enhance financial resources available for the School of Medicine to preserve and fulfill its multiple missions, and is therefore included in the financial statements of the Nevada System of Higher Education as a discrete component unit.

INTEGRATED CLINICAL SERVICES, INC. - FINANCIAL POSITION

The Combined Statements of Net Position presents the assets, liabilities, and net position of Integrated Clinical Services, Inc. as of the end of fiscal year 2015-2016. The Statements contain data concerning current and noncurrent assets and liabilities, and net position (assets less liabilities) as of the end of the fiscal year. The Combined Statements of Net Position reflect the assets available to continue Integrated Clinical Services, Inc.'s operation and how much Integrated Clinical Services, Inc. owes to vendors, employees, and lending institutions. Finally, the Combined Statements of Net Position provides a picture of the availability of assets for expenditure by Integrated Clinical Services, Inc.

INTEGRATED CLINICAL SERVICES, INC. - FINANCIAL POSITION - Continued

The major components of Integrated Clinical Services, Inc.'s assets, liabilities, and net position, as of June 30, 2016 and 2015 are as follows:

				Percent Change	
	2016	2015	2014	FY 15 to FY 16	FY 14 to FY 15
ASSETS					
Current assets					
Cash and cash equivalents	$ 4,576,548	$ 4,829,085	$ 4,396,905	(5%)	10%
Investments	3,191,165	6,463,793	6,648,138	(51%)	(3%)
Patient accounts receivable, net	10,661,676	9,231,260	10,438,606	15%	(12%)
Other receivables	966,328	924,498	1,022,995	5%	(10%)
Inventory	518,637	510,221	357,419	2%	43%
Prepaid expenses and other assets	306,054	465,932	764,572	(34%)	(39%)
Total current assets	20,220,408	22,424,789	23,628,635	(10%)	(5%)
Non-current assets					
Property and equipment, net	806,194	1,299,424	1,309,347	(38%)	(1%)
Total assets	$ 21,026,602	$ 23,724,213	$ 24,937,982	(11%)	(5%)
LIABILITIES AND NET POSITION					
Current liabilities					
Current portion of long-term notes payable and capital lease obligations	$ 62,853	$ 64,195	$ 136,794	(2%)	(53%)
Accounts payable	4,057,943	4,563,887	4,497,376	(11%)	1%
Accrued payroll and employee related expenses	1,638,043	1,725,251	1,629,090	(5%)	6%
Other accrued expenses	1,053,428	933,775	460,443	13%	2%
Due to affiliates, net	11,282,895	7,809,040	3,397,401	44%	130%
Total current liabilities	18,095,162	15,096,148	10,121,104	20%	45%
Notes payable and capital lease obligations, net of current portion	135,898	198,751	66,637	(32%)	198%
Total liabilities	18,231,060	15,294,899	10,187,741	19%	46%
Net position					
Invested in capital assets, net of related debt	607,443	1,036,478	1,198,941	(41%)	(14%)
Unrestricted	2,188,099	7,392,836	13,551,300	(70%)	(42%)
Total net position	2,795,542	8,429,314	14,750,241	(67%)	(40%)
Total liabilities and net position	$ 21,026,602	$ 23,724,213	$ 24,937,982	(11%)	(5%)

INTEGRATED CLINICAL SERVICES, INC. - FINANCIAL POSITION - Continued

Integrated Clinical Services, Inc.'s assets

Integrated Clinical Services, Inc.'s total assets decreased in fiscal year 2015-2016 by $2,697,611 or 11% to $21,026,602. Total assets in fiscal year 2014-2015 decreased by $1,213,769 or 5% to $23,724,213 over fiscal year 2013-2014. Cash and cash equivalents for fiscal year 2015-2016 decreased by $252,537 or 5% to $4,576,548. The decrease is attributable to MSAN departments of Pathology, Pediatrics, and Internal Medicine being transferred to third party management groups like Aurora Diagnostics and Renown. As management services are transferred to third parties, operations for those department cease to be included in the financial statements of Integrated Clinical Services, Inc. As well, on-going training of the physician(s) and staff to be more efficient in using the Practice Management ("PM") and Electronic Medical Records ("EMR") systems. For fiscal year 2014-2015 compared to fiscal year 2013-2014, cash and cash equivalents increased by $432,180 or 10% to $4,829,085. The increase is attributable to further training of the physician(s) and staff to be more efficient in using the PM and EMR systems. Fiscal year 2015-2016 investments decreased by $3,272,628 or 51% to $3,191,165. The decrease was due to drawn downs for payments on outstanding Dean's tax and the devaluation of the market investing activities by the CommonFund. The CommonFund is one of the leading investment firms for colleges, universities, foundations, and other tax-exempt organizations. These funds were primarily invested in Multi-Strategy Bond Index Funds and Equity Index Funds carried at fair value at June 30, 2016. Investments for fiscal year 2014-2015 over fiscal year 2013-2014 decreased by $184,345 or 3% to $6,463,793. The decrease was due to the devaluation of the market investing activities by the CommonFund.

Patient accounts receivable, net of contractual allowances for fiscal year 2015-2016 increased by $1,430,416 or 15% to $10,661,676. The increase was due to increased patient volumes in accounts receivable balance(s) after the implementation of the PM and EMR systems. For fiscal year 2014-2015, patient accounts receivable decreased by $1,207,346 or 12% to $9,231,260. The decrease was due to cleaning up the accounts receivable balance(s) after the implementation of the PM and EMR systems.

Capital assets include medical equipment, computer equipment, furniture, fixtures and office equipment, buildings, vehicles, and leasehold improvements. Spending accounted for capital additions of $100,227, including $13,160 for new medical equipment, $77,711 for computer equipment, and $4,802 for furniture, fixture and office equipment and $4,554 for leasehold improvements.

Accumulated depreciation decreased $595,048 or 7% to $7,532,348 at June 30, 2016. Fiscal year 2014-2015 over 2013-2014 accumulated depreciation increased $185,500 or 2% to $8,127,396 at June 30, 2015. Depreciation expense for the years ended June 30, 2016 and 2015 was $234,461 and $333,500, respectfully.

Integrated Clinical Services, Inc.'s liabilities

Integrated Clinical Services, Inc.'s total liabilities increased in fiscal year 2015-2016 by $2,936,159 or 20% to $18,231,058. The increase was due to the increased obligation on MSAN's due to affiliates and accounting for the increase in deferred leases for MSAS. Total liabilities for fiscal year 2014-2015 over 2013-2014 increased by $5,107,158 or 51% to $15,294,899. The increase was due to the increased obligation on MSAN's due to affiliates and accounting for the increase in deferred leases for MSAS.

Accounts payables decreased from $4,563,887 at June 30, 2015 to $4,057,943 at June 30, 2016, a decrease of $505,944 or 11%. Accounts payables increased from $4,497,376 at June 30, 2014 to $4,563,887 at June 30, 2015, an increase of $66,511 or 1%.

INTEGRATED CLINICAL SERVICES, INC. - FINANCIAL POSITION - Continued

Integrated Clinical Services, Inc.'s liabilities - Continued

Long-term liabilities decreased from $198,751 at June 30, 2015 to $135,898 at June 30, 2016, a decrease of $62,853 or 32%. This decrease was due to completion of the capital lease obligation on additional ultra-sound equipment. Long-term liabilities increased from $66,637 at June 30, 2014 to $198,751 at June 30, 2015 an increase of $132,114 or 198%. This increase was due to capital lease obligation on additional ultra-sound equipment.

Integrated Clinical Services, Inc.'s net position

Net position represents the residual interest in Integrated Clinical Services, Inc.'s assets after all liabilities are deducted. Integrated Clinical Services, Inc.'s net position at June 30, 2016 totaled $2,795,542, a decrease of $5,633,772 or 67% during the year. Integrated Clinical Services, Inc.'s net position at June 30, 2015 totaled $8,429,314, a decrease of $6,320,927 or 43% from the prior year. Integrated Clinical Services, Inc.'s net position is reported in two major categories: invested in capital assets net of related debt and unrestricted.

Under generally accepted accounting principles, net position that is not subject to externally imposed restrictions governing their use must be classified as unrestricted for financial reporting purposes. Although Integrated Clinical Services, Inc.'s unrestricted net position of $2,188,099 at June 30, 2016 and $7,392,836 at June 30, 2015 are not subject to externally imposed restrictions, these net position generally result from providing or agreeing to provide health care services and receiving income from investing in income-producing assets minus expenses incurred to provide health care services, providing other community benefits and performing educational and administrative functions. The limits on the use of unrestricted net assets are the broad limits resulting from the environment in which Integrated Clinical Services, Inc. operates and the limits resulting from contractual agreements with suppliers, creditors and others entered into the ordinary course of business.

INTEGRATED CLINICAL SERVICES, INC. - RESULTS OF OPERATIONS

The Combined Statements of Revenues, Expenses and Changes in Net Position is a presentation of Integrated Clinical Services, Inc.'s operating results for the year. It indicates whether the financial condition has improved or deteriorated.

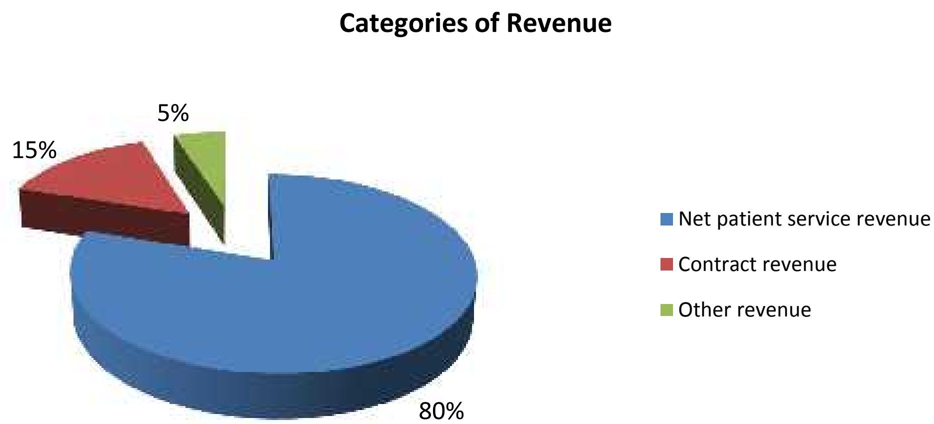
Generally, operating revenues are earned for providing pharmaceuticals and services to the various patients and clients of Integrated Clinical Services, Inc. Operating expenses are those expenses incurred to acquire or produce the pharmaceuticals and services provided in return for the operating revenues, and to carry out Integrated Clinical Services, Inc.' mission. Revenues and expenses for which pharmaceuticals and services are not provided, such as interest expense, are reported as non-operating revenues or expenses.

INTEGRATED CLINICAL SERVICES, INC. - RESULTS OF OPERATIONS - Continued

The following table compares the results of operations for the year ended June 30, 2016 to those for the year ended June 30, 2015, and June 30, 2015 compared to June 30, 2014.

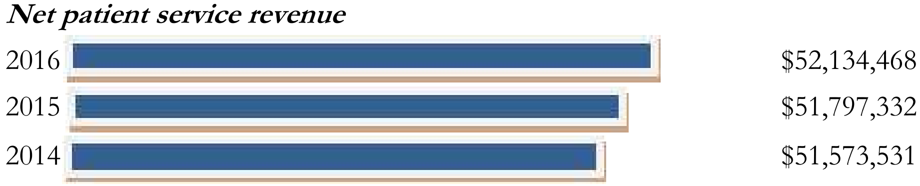
				Percent Change	
	2016	2015	2014	FY 15 to FY 16	FY 14 to FY 15
Revenues					
Net patient service revenue	$ 52,134,468	$ 51,797,332	$ 51,573,531	0.5%	0%
Contract revenue	9,716,733	8,686,033	8,131,280	13%	7%
Other revenue	2,907,911	3,485,553	3,709,914	(17%)	(6%)
Total revenues	64,759,112	63,968,918	63,414,725	1%	1%
Operating expenses					
Employee salaries, wages and benefits	23,656,280	23,615,027	22,772,746	(4%)	4%
Physician services	19,047,640	17,957,439	15,911,621	6%	13%
Medical fees	12,893,740	14,049,728	12,244,028	0%	15%
Supplies	10,107,763	10,249,724	9,751,059	(1%)	5%
Purchased services, insurance and other	4,601,079	4,282,031	4,132,381	7%	4%
Depreciation and amortization	234,461	333,500	496,338	(30%)	(33%)
Total operating expenses	70,540,963	70,487,449	65,308,173	0%	7%
Operating gain (loss)	(5,781,851)	(6,518,531)	(1,893,448)	(11%)	220%
Nonoperating income	148,079	197,604	747,814	(25%)	(74%)
CHANGE IN NET POSITION	(5,633,772)	(6,320,927)	(1,145,634)	(11%)	411%
Net position – beginning of year	8,429,314	14,750,241	15,895,875	(43%)	(7%)
Net position – end of year	$ 2,795,542	$ 8,429,314	$ 14,750,241	(67%)	(40%)

INTEGRATED CLINICAL SERVICES, INC. - RESULTS OF OPERATIONS - Continued
Categories and percentages of operating and non-operating revenues that support Integrated Clinical Services, Inc.'s core activities for the year ended June 30, 2016 are as follows:



The Combined Statements of Revenues, Expenses, and Changes in Net Position reflect a negative year with a decrease in the net position at the end of the year. A review of the individual revenue and expense categories that contributed to the overall decrease in the net position reveals the following:

Net patient service revenue



Patient service revenue, net of contract allowance, bad debt and refunds, increased by $337,138, or 0.7% for the year ended June 30, 2016 to $52,134,470. The increase was due to an increase in the number of patients using the facilities. Patient service revenue, net of contract allowances, bad debt and refunds, increased by $223,801 or .4% for the year ended June 30, 2015 to $51,797,332. The increase was due to an increase in the number of patients using the facilities.

Contract revenue

Contract revenue from federal, state, and local governments, as well as private organizations increased by $1,129,262 or about 13% to $9,815,295 for the year ended June 30, 2016. For the year ended June 30, 2015, contract revenue from federal, state, and local governments, as well as private organizations increased by $554,753 or about 7% to $8,686,033. The increase is explained by slight growth in the number of contracts and improved rates to provide clinical services to various organizations. One specific contract between OBY/GYN and Sunrise Hospital for Call Service for $400,000 and increased Fee for Service billing as well.

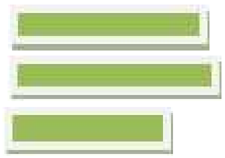
Integrated Clinical Services, Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED
(Unaudited)

June 30, 2016

INTEGRATED CLINICAL SERVICE INC. - RESULTS OF OPERATIONS - Continued

Other revenues

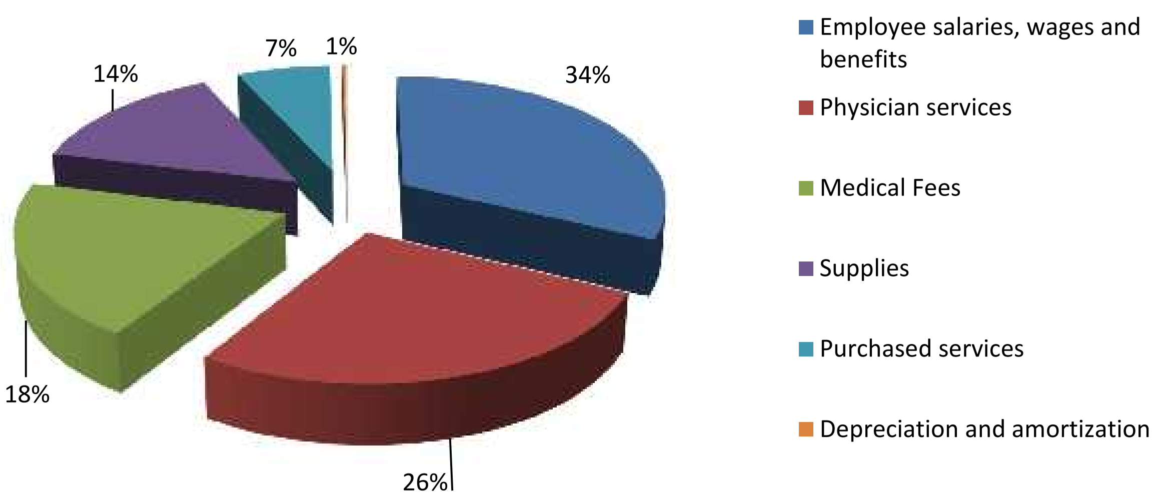


2016	$2,907,911
2015	$3,485,553
2014	$3,709,914

Other revenues for the year ended June 30, 2016 decreased $577,642 or 17% to $2,907,911. Other revenues for the year ended June 30, 2015 decreased $224,361 or 6% to $3,485,553. The decrease in 2016 was primarily due to Nevada Family Practice Residency Program (NFPRP) or Mojave receiving less funding from the agreement with Clark County to monitor psychiatric drugs in children.

Categories and percentages of expenses related to Integrated Clinical Service Inc.'s core activities for the year ended June 30, 2016 are as follows:

Categories of Expenses

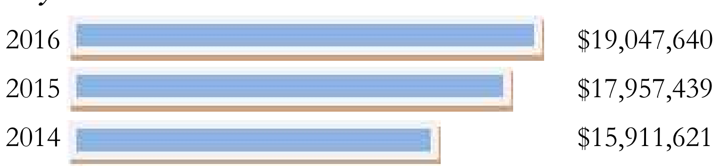


INTEGRATED CLINICAL SERVICE INC. - RESULTS OF OPERATIONS - Continued

Employee salaries, wages and benefits

Employee salaries, wages and benefits of $23,656,280 for the year ended June 30, 2016 decreased by $41,253 a decrease of 0.2% from the year ended June 30, 2015. The decrease is related to MSAN restructure of practice plan to Renown and Aurora Diagnostics. Employee salaries, wages and benefits of $23,615,027 for the year ended June 30, 2015 increased by $842,281, an increase of 4% from the year ended June 30, 2014. The increase is related to temporary employees to assist in the implementation of the new practice management system and the electronic medical records system.

Physician services



Physician services of $19,047,640 for the year ended June 30, 2016 increased by $1,090,201 or 6% from the year ended June 30, 2015, primarily due to recruitment of physicians to the practice plan for expansion of services. Physician services of $17,957,439 for the year ended June 30, 2015 increased by $2,045,818 or 13% from the year ended June 30, 2014, primarily due to recruitment of physicians to the practice plan for expansion of services.

Medical fees

Medical fees of $12,893,740 for the year ended June 30, 2016 decreased by $1,155,988 or 8% from the year ended June 30, 2015. The decrease in medical fees was due in part with rent expense for MSAN Pediatrics and Internal Medicine moving to Renown. Medical fees of $14,049,728 for the year ended June 30, 2015 increased by $1,805,700 or 15% from the year ended June 30, 2014. The increase in medical fees was due in part with rent expense in opening the new Henderson clinic.

INTEGRATED CLINICAL SERVICE INC. - RESULTS OF OPERATIONS - Continued

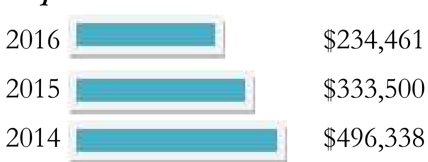
Supplies

Supplies of $10,107,763 for the year ended June 30, 2016 decreased by $141,961 or 1% from the year ended June 30, 2015. The decrease was due to Pharmacy and MSAS drugs purchases. Supplies of $10,249,724 for the year ended June 30, 2015 increased by $498,665 or 5% from the year ended June 30, 2014. The increase was due to Pharmacy and MSAS drugs purchases.

Purchased services

Purchased services of $4,601,079 for year ended June 30, 2016 increased by $319,048 or 7% from the year ended June 30, 2015. The increase was due to managing the outside service purchase contracts in MSAS Internal Medicine for Gastroenterology Services and Surgery: orthopedics and plastics. Purchased services of $4,282,031 for the year ended June 30, 2015 increased by $149,650 or 4% from the year ended June 30, 2014. The increase was due to managing the outside service purchase contracts in Surgery: orthopedics and plastics.

Depreciation and amortization



Depreciation and amortization of $234,461 for the year ended June 30, 2016 decreased by $99,039 or 30% from the year ended June 30, 2015, reflecting assets being fully depreciated. Depreciation and amortization of $333,500 for the year ended June 30, 2015 decreased by $162,838 or 33% from the year ended June 30, 2014, reflecting assets being fully depreciated.

INTEGRATED CLINICAL SERVICE INC. - CASH FLOWS

A summary comparison of cash flows for fiscal years 2016 and 2015 is as follows:

Cash Flows

For the years ended June 30,

	2016	2015	2014
Cash provided by (used in)			
Operating activities	$ (3,867,818)	$ 314,293	$ (878,965)
Noncapital financing activities	-	(117,586)	(124,768)
Capital and related financing activities	370,002	(146,081	(291,990)
Investing activities	3,245,689	381,554	71,817
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(252,127)	432,180	(1,223,906)
Cash and cash equivalents, beginning of year	4,829,085	4,396,905	5,620,811
Cash and cash equivalents, end of year	$ 4,576,548	$ 4,829,085	$ 4,396,905

The Combined Statements of Cash Flows presents detailed information about the cash activities of Integrated Clinical Services, Inc. during the year. The statement is divided into five parts. The first section reflects operating cash flows and shows the net cash provided by or used in the operating activities of Integrated Clinical Services, Inc. The second section reflects the cash flows from noncapital financing activities. The third reflects cash flows from capital and related financing activities. This section reflects the cash used for the acquisition and construction of capital assets and related items and related funding received. The fourth section reflects the cash flows from investing activities which reflects net proceeds received from the sale of investment securities. The fifth section provides reconciliation between ICS's net income and the net cash provided by or used in operating activities. Overall, cash and cash equivalents decreased by $252,537 in the fiscal year 2016 and increased by $432,180 in the fiscal year 2015.

Other issues

As financial pressures continue to impact Integrated Clinical Services, Inc. and the University of Nevada School of Medicine, as well as other healthcare providers in Nevada and the rest of the country, we look for additional investment opportunities in healthcare operations and facilities to supplement and enhance our programs. Through this strategy, we are continuing to augment our core activity with partnerships and other forms of alliances with physicians, public and private agreements (within the constraints of the law), to continue to provide the local communities with state-of-the-art healthcare facilities and resources. We also continue to explore other forms of hospital/ physician affiliations and other collaborative efforts.

Requests for information

This report is designed to provide a general overview of Integrated Clinical Services, Inc.'s finances for all interested parties. Questions concerning the information contained in this report should be addressed to the School of Medicine Dean, MS 332, Reno, NV 89557.

BASIC FINANCIAL STATEMENTS

Integrated Clinical Services, Inc.

COMBINED STATEMENTS OF NET POSITION

June 30,

ASSETS

	2016	2015
CURRENT ASSETS		
Cash and cash equivalents	$ 4,576,548	$ 4,829,085
Investments	3,191,165	6,463,793
Patient accounts receivable, net of estimated contractual allowances and estimated uncollectibles totaling $12,275,498 and $9,693,155 for 2016 and 2015, respectively	10,661,676	9,231,260
Other receivables	966,328	924,498
Inventories	518,637	510,221
Prepaid expenses and other assets	306,054	465,932
Total current assets	20,220,408	22,424,789
NON-CURRENT ASSETS		
Property and equipment, net	806,194	1,299,424
Total assets	$ 21,026,602	$ 23,724,213

LIABILITIES AND NET POSITION

	2016	2015
CURRENT LIABILITIES		
Current portion of debt and capital lease obligations	$ 62,853	$ 64,195
Accounts payable	4,057,943	4,563,887
Accrued payroll and employee related expenses	1,638,043	1,725,251
Other accrued expenses	1,053,428	933,775
Due to affiliates, net	11,282,895	7,809,040
Total current liabilities	18,095,162	15,096,148
DEBT AND CAPITAL LEASE OBLIGATIONS, net of current portion	135,898	198,751
Total liabilities	18,231,060	15,294,899
COMMITMENTS AND CONTINGENCIES (Note J)	-	-
NET POSITION		
Invested in capital assets, net of related debt	607,443	1,036,478
Unrestricted	2,188,099	7,392,836
Total net position	$ 2,795,542	$ 8,429,314

The accompanying notes are an integral part of these statements.

Integrated Clinical Services, Inc.

COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Years ended June 30,

	2016	2015
Revenues		
Net patient service revenue	$ 52,134,468	$ 51,797,332
Contract revenue	9,716,733	8,686,033
Other revenue	2,907,911	3,485,553
Total revenues	64,759,112	63,968,918
Operating expenses		
Employee salaries, wages and benefits	23,656,280	23,615,027
Physician services	19,047,640	17,957,439
Medical fees	12,893,740	14,049,728
Supplies	10,107,763	10,249,724
Purchased services, insurance and other	4,601,079	4,282,031
Depreciation and amortization	234,461	333,500
Total operating expenses	70,540,963	70,487,449
Operating loss	(5,781,851)	(6,518,531)
Nonoperating income (expense)		
Interest income	-	93
Interest expense	(10,723)	(6,605)
Gain on sale of assets	186,687	7,000
Investment income, net	(27,885)	197,116
Total nonoperating income	148,079	197,604
CHANGE IN NET POSITION	(5,633,772)	(6,320,927)
Net position - beginning of year	8,429,314	14,750,241
Net position - end of year	$ 2,795,542	$ 8,429,314

The accompanying notes are an integral part of these statements.

Integrated Clinical Services, Inc.

COMBINED STATEMENTS OF CASH FLOWS

Years ended June 30,

	2016	2015
Cash flows from operating activities:		
Receipts from patients and third-party payors	$ 50,704,052	$ 53,004,678
Payments to employees for services and benefits	(23,743,488)	(23,518,866)
Payments to suppliers	(43,411,196)	(41,441,602)
Other receipts	12,582,814	12,270,083
Net cash provided by (used in) operating activities	(3,867,818)	314,293
Cash flows from noncapital financing activities:		
Payments on notes payable	-	(112,170)
Payments of interest	-	(5,416)
Net cash used in noncapital financing activities	-	(117,586)
Cash flows from capital and related financing activities:		
Payments on notes payable and capital leases	(64,195)	(24,623)
Payments of interest	(10,723)	(1,189)
Proceeds from sale of equipment	545,683	7,000
Purchases of property and equipment	(100,227)	(127,269)
Net cash used in capital and related financing activities	370,538	(146,081)
Cash flows from investing activities:		
Interest on investments	62	93
Proceeds from sales of investments	3,244,681	381,461
Net cash provided by investing activities	3,244,743	381,554
NET INCREASE (DECREASE) IN CASH	(252,537)	432,180
Cash and cash equivalents - beginning of year	4,829,085	4,396,905
Cash and cash equivalents - end of year	$ 4,576,548	$ 4,829,085
Reconciliation of gain from operations to net cash provided by operating activities:		
Operating loss	$ (5,781,851)	$ (6,518,531)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	234,461	333,500
Changes in operating assets and liabilities:		
Patient accounts receivable	(1,430,416)	1,207,346
Other receivables	(41,830)	98,497
Inventory	(8,416)	(152,802)
Due to and from affiliates	3,473,855	4,411,639
Prepaid expenses and other assets	159,878	298,640
Accounts payable	(505,944)	66,511
Accrued payroll and employee related expenses	(87,208)	96,161
Other accrued expenses	119,653	473,332
Net cash provided by (used in) operating activities	$ (3,867,818)	$ 314,293
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 10,723	$ 6,605
Supplemental noncash investing and financing activities information:		
Reinvested interest and dividends on investments and unrealized gain on investments	$ (26,939)	$ 197,116

The accompanying notes are an integral part of these statements.

NOTE A - ORGANIZATION AND OPERATIONS

Campus Pharmacy, Inc ("Pharmacy"), Multispecialty Group Practice North ("MSAN"), Multispecialty Group Practice South ("MSAS") and Nevada Family Practice Residency Program ("Mohave" or "NFPRP") are multi-specialty medical practice groups established and organized for the benefit of the University of Nevada School of Medicine ("UNSOM") and its faculty physicians who are engaged in patient care activities. MSAN and MSAS were incorporated as a not-for-profit corporation on October 19, 1994, under the name University of Nevada School of Medicine Multispecialty Group Practice, Inc. as one combined entity. On July 25, 1997, MSAN became a separate not-for profit corporation under the name University of Nevada School of Medicine Multispecialty Group Practice North, Inc. MSAS remained under the original articles of incorporation until the name of the original entity changed to University of Nevada School of Medicine Multispecialty Group Practice South, Inc. NFPRP was incorporated as a not-for-profit corporation on June 17, 1983. Campus Pharmacy Inc. was incorporated on March 12, 2014 as a non-for-profit corporation; effective July 1, 2015, assets, liabilities and operations of the Pharmacy were split from NFPRP into this new legal entity

The practice administration components of the UNSOM at its Reno and Las Vegas campuses have formed an umbrella not-for-profit corporation named University of Nevada School of Medicine Integrated Clinical Services, Inc. ("ICS") to integrate all functions of the practice plans statewide. The purpose is to provide strategic planning and to assure that the goals, policies and practices of MSAN, MSAS, and Mojave operate to serve the School of Medicine within the boundaries of their vision and mission. Pharmacy, MSAN, MSAS, and Mojave are blended component units of ICS.

The combined practice plans are considered to be a component unit of the Nevada System of Higher Education, as defined by Government Accounting Standards Board (GASB) Statement 39, *Determining Whether Certain Organizations are Component Units*.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – The accompanying financial statements have been prepared by combining Pharmacy, MSAN, MSAS, and Mojave, which combined entities are collectively referred to as "Integrated Clinical Services, Inc." or the "Organization." The Organization uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Intercompany accounts and transactions have been eliminated in combination.

Net position is required to be classified for accounting and reporting purposes in the following categories:

- Invested in capital assets, net of related debt – Capital assets, net of accumulated depreciation, reduced by outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- Restricted – Net position resulting from transactions with purpose restrictions until the resources are used for the specific purpose or for as long as the provider requires the resources to remain intact.
- Unrestricted - Net position that are neither restricted nor invested in property and equipment, net of related debt. The only limits on unrestricted net position are broad limits resulting from the nature of the Organization and the purpose specified in its articles of incorporation or by laws and limits resulting from contractual agreement, if any.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

1. **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

2. **Cash and Cash Equivalents**

Cash and cash equivalents include demand deposit accounts and cash invested in money market funds.

3. **Investments**

Investments are recorded at fair value. The fair value of certificates of deposit are based on quoted market prices and other observable inputs such as quoted prices for similar assets, quoted prices in inactive markets, or inputs corroborated by observable market data. The Organization's pooled investments are reported at the net asset value ("NAV") reported by the fund managers, which is used as a practical expedient to estimate the fair value of the Organization's interest therein, unless it is probable that all or a portion of the investments will be sold for an amount different from NAV. As of June 30, 2016 and 2015, the Organization had no plans or intentions to sell investments at amounts different from NAV.

4. **Patient Accounts Receivable**

Patient accounts receivable represents receivables under various payment agreements with third-party commercial insurance companies, governmental payors, individual patients and others for services already rendered, and includes an allowance for contractual adjustments and uncollectible accounts which are charged to operations based upon management's estimates. Contractual adjustments result from the difference between gross charges and the established or negotiated rates for physician services performed and amounts management estimates to be collected by certain third-party commercial insurance companies, government sponsored health care programs and other third parties (not including personal guarantors of patients). Bad debt adjustments include amounts deemed uncollectible by management. Provisions for contractual adjustments and uncollectible amounts are estimated and recorded in the same period services are rendered.

The provisions for contractual adjustments and uncollectible accounts are determined based upon an evaluation of historical collection experience, anticipated reimbursement levels and other relevant factors. Adjustments and changes in estimates are recorded in the period in which they are determined.

5. **Inventories**

Inventories are valued at the lower of cost or market with cost being determined using the first-in, first-out method.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

6. Property and Equipment

Capital asset purchases and leasehold improvements are recorded at cost, net of accumulated depreciation and amortization. Asset purchases in excess of $2,000 are capitalized. Depreciation for property and equipment purchases is calculated using the straight-line method and is provided over the estimated useful life of each class of depreciable asset of three to forty years. Depreciation for leasehold improvements is calculated using the straight-line method and is provided over the shorter of the estimated useful life of the asset or the lease term. Equipment under capital lease obligations is recorded at the present value of the minimum lease payments at the inception of the lease, and depreciated over the shorter of the lease term or the estimated useful life of the equipment.

7. Income Taxes

Pharmacy, MSAN, MSAS and Mojave are not-for-profit corporations as defined in Section 501 (c)(3) of the Internal Revenue Code and are exempt from federal income taxes. The Organization recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. Management believes there are no amounts subject to unrelated business income tax and, therefore, no provision for income taxes has been recorded in the accompanying financial statements.

8. Net Patient Services Revenue

The Organization has agreements with third-party payors that provide for payments at amounts different from the Organization's established rates. A summary of the payment arrangements with major third-party payors follows:

- *Medicare* is a federal health insurance program which provides coverage for people 65 and older, for certain disabled people, and for some people with End Stage Renal Disease. Medicare reimburses physician claims based on a resource based relative value scale (RBRVS). This is a scale that assigns values to procedures in relation to one another; and is used to establish the Medicare fee schedule. The Organization is paid according to the Medicare fee schedule.
- *Medicaid* is a medical coverage program jointly funded by both the states and the federal government for those residents who qualify because of an annual income which falls below the state or nationally indicted poverty level. The Organization is paid according to the Medicaid fee schedule.
- *Commercial and Other Insurance* – The Organization has entered into agreements with numerous nongovernmental third-party payors to provide patient care to beneficiaries under a variety of payment arrangements. These include contracts with commercial insurance companies and workers' compensation plans, which reimburse the Organization on a fee schedule, a percentage of billed charges, or a percentage of RBRVS.

Net patient service revenue is reported when services are provided to patients at the estimated net realizable amounts from patients, third-party payors including Medicare and Medicaid, and others for services rendered, including estimated retroactive audit adjustments under reimbursement agreements

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

8. Net Patient Services Revenue - Continued

with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Contractual adjustments include differences between established billing rates and amounts reimbursable under various contractual agreements. Contractual adjustments are recorded as deductions from professional fee revenue to arrive at net patient service revenues. Contractual adjustments of $52,422,174 and $46,262,452 were incurred during the years ended June 30, 2016 and 2015, respectively. Normal differences between final reimbursement and estimated amounts accrued in previous years are recorded as adjustments of the current year's contractual adjustments. Bad debt expense of $7,043,544 and $7,797,625 was incurred during the years ended June 30, 2016 and 2015, respectively.

9. Contract Revenue

Contract revenues include agreements the Organization has with various local hospitals and other organizations for on-call services and medical directorship. These agreements are based on specified rates. Revenue for contract revenue is recognized when the services are performed.

10. Operating Expenses

Substantially all of the Organization's operating expenses are directly or indirectly related to patient care activities.

11. Compensated Absences

The Organization's full time employees earn paid time off (PTO) benefits at varying rates depending on years of service. Unused PTO benefits accumulate and may be rolled over to the following year. Employees may accumulate PTO hours up to a specified maximum and once capped, the accrual will drop into a sick leave bank which is also capped. Only unused PTO balances will be paid to employees upon separation provided they have completed at least six months of continuous service. The estimated amount of accrued PTO is reported as accrued payroll and employee related expenses.

12. New Accounting Pronouncements

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68), which improves accounting and financial reporting by state and local governments for pensions. This statement supersedes GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers*, as well as Statement No. 50, *Pension Disclosures*. GASB 68 is effective for fiscal years beginning after December 15, 2014. The Organization adopted the guidance in fiscal year 2015; there was no impact on their financial position or results of operations.

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is 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. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. GASB 72 was effective for fiscal years beginning after June 15, 2015.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

12. New Accounting Pronouncements - Continued

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. GASB 74 is effective for fiscal years beginning after June 15, 2016. Adoption is not anticipated to impact the Organization.

NOTE C - CONCENTRATION OF CREDIT RISK

The Organization grants credit without collateral to its patients, most of who are local residents and are insured under third-party insurance and governmental payor agreements. The components of receivables from patients and third-party payors for the year ended June 30, 2016 and 2015 are as follows:

	2016	2015
Medicare	14%	14%
Medicaid	42%	34%
Commercial insurance	24%	23%
Other third-party payors	5%	6%
Patients	15%	23%
	100%	100%

NOTE D - CASH, CASH EQUIVALENTS AND INVESTMENTS

As of June 30, cash and cash equivalents consist of the following:

	2016	2015
Cash on deposit	$ 4,576,548	$ 4,829,085

The fair value of investments at June 30 is as follows:

	2016	2015
Pooled equity index fund	$ 2,034,216	$ 3,321,969
Pooled bond index fund	1,156,949	2,580,380
Certificates of deposit	-	561,444
	$ 3,191,165	$ 6,463,793

NOTE D - CASH, CASH EQUIVALENTS AND INVESTMENTS - Continued

At June 30, 2016, the Organization's investments had the following maturities:

		Investment Maturities (in Years)		
	Fair Value	Less than 1	1 – 5	6 – 10
Pooled equity index fund	$ 2,034,216	$ 2,034,216	$ -	$ -
Pooled bond index fund	1,156,949	1,156,950	-	-
	$ 3,191,165	$ 3,191,166	$ -	$ -

Interest and dividend income and realized and unrealized gains and losses are included as non-operating expense – interest in the accompanying combined statement of revenues, expenses and changes in net position. During the years ended June 30, 2016 and 2015, the Organization earned $80,424 and $129,966 from interest and dividends and ($92,782) and $88,057 from unrealized gains (losses) in investment fair value. Investment expenses of $14,580 and $20,814 were netted against earnings.

The Organization estimates the fair value of the certificates of deposit at cost plus accrued interest. Included in the investment balance at June 30, 2016 and 2015 are certificates of deposit of approximately $0 and $561,441, respectively, which served as security on the Organization's note payable (Note G).

Investment Risk Factors

There are many factors that can affect the fair value of investments. Some factors, such as credit risk and concentrations of credit risk may affect fixed income securities, which are particularly sensitive to credit risks and changes in interest rates.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Organization will not be able to recover its deposits. The Organization does not have a deposit policy for custodial credit risk. Custodial credit risk for investments is the risk that, in the event the failure of the counterparty to a transaction, the Organization will not be able to recover the value of its investments. As of June 30, 2016 and 2015, the Organization had $7,664,243 and $12,113,787, respectively, exposed to custodial credit risk.

Credit Risk

Fixed income securities are subject to credit risk, which is the chance an issuer or other counterparty to an investment will not fulfill its obligations. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. As of year-end, the Organization's investments are not rated. The Organization does not have a policy for credit risk.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The Organization does not have a policy for interest rate risk.

NOTE E - FAIR VALUE MEASUREMENTS

The Organization accounts for investments according to a fair value hierarchy that distinguishes between assumptions based on market data (observable inputs) and the Organization's assumptions (unobservable inputs). The hierarchy consists of three broad levels as follows:

- Level 1: Quoted market prices in active markets for identical assets or liabilities.
- Level 2: Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; or valuations based on models where significant inputs are observable or can be corroborated by observable market data.
- Level 3: Valuations based on models where significant inputs are not observable, and for which the determination of fair value requires significant management judgment or estimation.

The Organization estimates the fair value of the certificates of deposit at cost plus accrued interest. No unrealized appreciation or depreciation has been recorded for either year ended June 30, 2016 or 2015 respectively. Included in the investment balance at June 30, 2016 and 2015 are certificates of deposit of approximately $0 and $561,444, respectively, which serve as security on the Organization's line of credit (Note G).

The Organization has classified investments in pooled investment funds that have been measured at NAV. NAV is used as a practical expedient to estimate the fair value of such investments unless it is probably that all or a portion of the investment will be sold for an amount different than NAV. As of June 30, 2016, the Organization had no plans or intentions to sell investments at amounts different from NAV. The Organization may redeem investments monthly with five days' notice prior to month end.

The following table presents the financial assets carried at fair value by level within the valuation hierarchy as of June 30, 2016:

	NAV
Pooled equity index fund	$ 2,034,216
Pooled bond index fund	1,156,949
	$ -

The following table presents the financial assets carried at fair value by level within the valuation hierarchy as of June 30, 2015:

	Level 2	NAV
Certificates of deposit	$ 561,444	$ -
Pooled equity index fund	-	3,321,969
Pooled bond index fund	-	2,580,380
	$ 561,444	$ 5,902,349

NOTE F - PROPERTY AND EQUIPMENT

The property and equipment activity for the year ended June 30, 2016 is as follows:

	June 30, 2015	Additions	Disposals	June 30, 2016
Medical equipment	$ 3,078,581	$ 13,160	$ (337,342)	$ 2,754,399
Computer equipment	1,431,164	77,711	(23,423)	1,485,452
Furniture, fixtures and office equipment	1,853,741	4,802	(170,615)	1,687,928
Buildings	803,189	-	(576,585)	226,604
Vehicles	106,449	-	-	106,449
Leasehold improvements	2,153,696	4,554	(80,533)	2,077,717
Property and equipment, at cost	9,426,820	100,227	(1,188,498)	8,338,549
Less: Accumulated depreciation	(8,127,396)	(234,461)	829,502	(7,532,355)
Property and equipment, net	$ 1,299,424	$ (134,234)	$ (358,996)	$ 806,194

The property and equipment activity for the year ended June 30, 2015 is as follows:

	June 30, 2014	Additions	Disposals	June 30, 2015
Medical equipment	$ 2,973,445	$ 253,136	$ (148,000)	$ 3,078,581
Computer equipment	1,429,020	2,144	-	1,431,164
Furniture, fixtures and office equipment	1,814,387	44,632	(5,278)	1,853,741
Buildings	803,189	-	-	803,189
Vehicles	106,449	-	-	106,449
Leasehold improvements	2,124,753	28,943	-	2,153,696
Property and equipment, at cost	9,251,243	328,855	(153,278)	9,426,820
Less: Accumulated depreciation	(7,941,896)	(333,500)	148,000	(8,127,396)
Property and equipment, net	$ 1,309,347	$ (4,645)	$ (5,278)	$ 1,299,424

At June 30, 2016 and 2015, property and equipment include capital leased assets of approximately $375,679, net of accumulated depreciation of approximately $365,567 and $310,630, respectively, and included in medical equipment above. Current period amortization of these assets is included in depreciation and amortization on the accompanying combined statements of revenue, expenses and changes in net position.

NOTE G - DEBT AND CAPITAL LEASE OBLIGATIONS

	2016	2015
Notes payable bearing interest at 5.99%, collateralized by equipment, due in monthly installments of principal and interest of $749, matures December 2016.	$ 4,415	12,861
Capital lease obligations at imputed interest varying from 4.6% to 4.88%, collateralized by equipment, principal and interest payable in aggregate monthly installments from $1,796 to $3,727, maturing between June 2018 and June 2020.	194,336	250,085
	198,751	262,946
Less: Current portion	(62,853)	(64,195)
	$ 135,898	$ 198,751

The activity with respect to current and noncurrent portion of debt for the years ended June 30, 2016 and 2015 is as follows:

	Current	Noncurrent
Balance as of June 30, 2014	$ 136,794	$ 66,637
New obligations	36,397	159,911
Principal payments	(136,793)	-
Reclassification	27,797	(27,797)
Balance as of June 30, 2015	64,195	198,751
New obligations	-	-
Principal payments	(64,195)	-
Reclassification	62,853	(62,853)
Balance as of June 30, 2016	$ 62,853	$ 135,898

NOTE G - DEBT AND CAPITAL LEASE OBLIGATIONS - Continued

Interest expense of $10,723 and $6,605 were incurred during the years ended June 30, 2016 and 2015, respectively.

Principal and interest payments due on the revolving line of credit, notes payable and capital lease obligations at June 30, 2016 are as follows:

	Principal	Interest	Total
Years ending June 30,			
2017	$ 62,853	$ 7,909	$ 70,762
2018	54,027	5,058	59,085
2019	41,810	2,911	44,721
2020	40,061	933	40,994
	$ 198,751	$ 16,811	$ 215,562

The Organization leases certain equipment under capital lease obligations. At June 30, 2016, the future minimum lease payments are as follows:

Years ending June 30,	
2017	$ 66,268
2018	59,086
2019	44,721
2020	40,994
Total future minimum lease payments	211,069
Less: Amount representing interest	(16,733)
Present value of future minimum lease payments	194,336
Less: Current portion	(58,437)
Long-term portion	$ 135,899

NOTE H - TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES

UNSOM pays the salaries for all its faculty physician members. The Organization reimburses UNSOM for any amounts not covered by state appropriations, grant contract income, or other sources that are administered by UNSOM. During the years ended June 30, 2016 and 2015, the Organization paid approximately $19,048,000 and $17,957,000, respectively, to UNSOM for physician salaries. At June 30, 2016 and 2015, the Organization owed UNSOM a total of approximately $9,270,000 and $4,781,000, respectively, for salaries and is included in the net due to affiliates in the accompanying combined statement of net position.

The Organization incurs Dean's tax payable to the UNSOM Dean's account based on a percentage of the cash collected on patient fee-for-service and net clinical contractual revenues. The Board of Directors of the respective organizations and the Dean of UNSOM can modify the percentage rate annually. During the year ended June 30, 2016, the percentage to be remitted at 5% of the cash collected on patient fee-for service revenues, and remained 0% of net clinical contractual income generated by the Organization. During the years ended June 30, 2016 and 2015, the Organization recognized expense of approximately $2,115,000 and $2,547,000, respectively, for Dean's tax and is included as medical fees in the accompanying combined statements of revenue, expenses, and changes in net position. At June 30, 2016 and 2015, the Organization owed to UNSOM a total of approximately $2,013,000 and $3,343,000, respectively, for Dean's tax and is included in the net due to affiliates in the accompanying combined statements of net position.

The Organization is covered under a professional liability insurance policy for medical malpractice claims that is purchased by UNSOM and names MSAN, MSAS, and NFPRP as additional named insureds. The policy is on a claims-made basis and provides coverage of $1,000,000 per claim and $3,000,000 per year in the aggregate. UNSOM presently intends to renew claims-made coverage annually and expects to be able to obtain such coverage. During fiscal years 2016 and 2015, the Organization did not reimburse UNSOM for any portion of the professional liability insurance premiums.

UNSOM sub-leases clinical space from MSAS at the Patient Care Center on a month-to month basis. During the year ended June 30, 2016, UNSOM paid MSAS a total of $7,105 for rents and related expenses. At June 30, 2016 and 2015, $0 and $0, respectively, was due to the Organization from UNSOM for rents and related expenses and is included in the net due to affiliates in the accompanying combined statements of net position.

UNSOM also collects payments from Medicaid on behalf of certain NFPRP programs. At June 30, 2016 and 2015, the Organization was owed a total of $29,963 and $0, respectively, and is included in the net patient accounts receivable in the accompanying combined statements of net position.

UNSOM has granted MSAN the use of two of its facilities in addition to some fully depreciated medical equipment, office equipment and furniture without any charges or at a nominal maintenance charge. Such donated properties remained as assets on UNSOM's financial records.

NOTE I - RETIREMENT PLAN

The Organization participates in a defined contribution retirement plan sponsored by the ICS under Section 401(k) of the Internal Revenue Code that covers all employees who are 21 year of age or older. Eligibility to qualify to participate requires the employee must complete six months and a minimum of 500 hours of service. The employee entry date is the first day of the plan year quarter, coinciding with or next following the date eligibility requirements are satisfied. The employer contributions begin after one year of service and the employee is credited with a minimum of 1,000 hours of service. Employees must work a minimum of 83.33 hours each month to continue receiving the organization's QNEC.

Employees may elect to defer a portion of their salary either a flat dollar amount or a percentage, not to exceed the dollar limit set by federal law. Contributions may be pre-tax or Roth. Catch up contributions are allowed over the age of 50 or if turning 50 in the calendar year and in accordance with federal regulations.

During the years ended June 30, 2016 and 2015, the Organization changed from a $50 per month Qualified Non-Elective Contribution (QNEC) to match of up to 2% for each eligible employee for a total of approximately $295,481 and $207,550, respectively.

NOTE J - COMMITMENTS AND CONTINGENCIES

Leases

The Organization has leases for clinic and office space which expire at various times through 2025. The leases contain various escalation and renewal provisions. Rent expense under these leases totaled approximately $4,920,065 and $4,418,857 in fiscal years 2016 and 2015, respectively, and is included as medical fees in the accompanying combined statements of revenues, expenses, and changes in Net Position. Future minimum lease payments under non-cancelable operating leases at June 30, 2016 are as follows:

	Combined Operating Leases
Years ending June 30,	
2017	$ 4,323,988
2018	3,738,479
2019	3,429,696
2020	1,786,469
2021	1,731,851
Thereafter	4,075,220
	$ 19,085,703

NOTE J - COMMITMENTS AND CONTINGENCIES - Continued

Malpractice Insurance

Accounting principles generally accepted in the United States of America required that a health care facility disclose the estimated costs of malpractice claims in the period of the incident of malpractice if it is reasonably possible that liabilities may be incurred and losses can be reasonably estimated. As stated above, management does not record any additional accruals for losses related to malpractice claims because there are no deductibles or self-insured retention. Furthermore, management is not aware of and does not believe that there are any outstanding claims or unasserted claims probable of assertion against the Organization beyond the insurance coverage levels which would have a material adverse effect on the Organization's financial condition.

Other

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with these laws and regulations is subject to periodic government review, interpretation and audits, as well as regulatory actions unknown and unasserted at this time.

The Organization is subject to various lawsuits and claims arising out of the normal course of business. Management and Organization's legal counsel are of the opinion that the ultimate liability from such matters will not have a material adverse impact on the Organization's financial position.

NOTE K - SUBSEQUENT EVENTS

Effective July 1, 2017, ICS will cease operating medical practices in Southern Nevada and begin to wind down of its Southern Nevada clinical operations. This would include the likely winding down of MSAS. ICS will continue to collect revenues for clinical services and supplies provided to patients in Southern Nevada on or before June 30, 2017.

UNR School of Medicine (UNR Med) has continued to enter into agreements with third parties to manage certain medical practices. This includes contracts with Renown/Hometown Health Management Company to manage the clinical practices of the Departments of Internal Medicine (except for Endocrinology) and Pediatrics. It also includes a contract with Aurora Diagnostics to manage the clinical practice of the Department of Pathology. As these management agreements take effect, MSAC/ICS no longer manages the day-to-day operations of the clinical practices. UNR Med and ICS continue to negotiate management agreements that may shift management of the day-to-day operations of other clinical practices including Endocrinology (in the Department of Internal Medicine), Family Medicine and Psychiatry

NOTE L - RELATED ORGANIZATIONS

The combined financial statements include the financial data of the Organization's discretely presented practice plans. Condensed combining financial data of the related Organizations as follows:

NOTE J - BLENDED COMPONENT UNITS - Continued

Combining Statement of Net Position
June 30, 2016

ASSETS	MSAN	MSAS	Mojave / NFPRP	Pharmacy*	Eliminations	Combined
CURRENT ASSETS						
Cash and cash equivalents	$ 204,537	$ 1,372,434	$ 777,065	$ 2,222,512	$ -	$ 4,576,548
Investments	-	367,914	738,418	2,084,833	-	3,191,165
Patient accounts receivable, net	1,020,053	6,576,788	2,696,131	368,704	-	10,661,676
Other receivables	186,053	780,275	-	-	-	966,328
Intercompany receivables	-	1,863,123	2,316,309	2,242,385	(6,421,817)	-
Inventory	14,731	-	-	503,906	-	518,637
Due from affiliates, net					-	-
Prepaid expenses and other assets	66,646	196,014	43,394	-	-	306,054
Total current assets	1,492,020	11,156,548	6,571,317	7,422,340	(6,421,817)	20,220,408
PROPERTY AND EQUIPMENT, NET	47,482	543,792	19,933	194,987	-	806,194
Total assets	$ 1,539,502	$ 11,700,340	$ 6,591,250	$ 7,617,327	$ (6,421,817)	$ 21,026,602
LIABILITIES AND NET POSITION						
CURRENT LIABILITIES						
Current portion of debt and capital lease obligations	$ -	$ 62,853	$ -	$ -	$ -	$ 62,853
Accounts payable	622,937	2,866,994	252,938	318,850	(3,776)	4,057,943
Accrued payroll and employee related expenses	289,805	755,415	567,941	24,882	-	1,638,043
Other accrued expenses	245,800	807,628	-	-	-	1,053,428
Due to affiliates, net	9,518,971	1,849,920	(108,290)	22,294	-	11,282,895
Intercompany payables	2,197,066	34,358	4,186,617	-	(6,418,041)	-
Total current liabilities	12,874,579	6,377,168	4,899,206	366,026	(6,421,817)	18,095,162
DEBT AND CAPITAL LEASE OBLIGATIONS, net of current portion	-	135,898	-	-	-	135,898
Total liabilities	12,874,579	6,513,066	4,899,206	366,026	(6,421,817)	18,231,060
NET POSITION (DEFICIT)						
Invested in capital assets, net of related debt	47,482	345,041	19,933	194,987	-	607,443
Unrestricted	(11,382,559)	4,842,233	1,672,111	7,056,314	-	2,188,099
Total net position (deficit)	(11,335,077)	5,187,274	1,692,044	7,251,301	-	2,795,542
Total liabilities and net position	$ 1,539,502	$ 11,700,340	$ 6,591,250	$ 7,617,327	$ (6,421,817)	$ 21,026,602

* *Pharmacy was split from NFPRP effective July 1, 2016.*

NOTE J - BLENDED COMPONENT UNITS - Continued

Combining Statement of Revenues, Expenses and Changes in Net Position
Year ended June 30, 2016

	MSAN	MSAS	Mojave / NFPRP	Pharmacy*	Eliminations	Combined
Revenues						
Net patient service revenue	$ 7,205,354	$ 26,132,002	$ 10,358,805	$ 8,438,307	$ -	$ 52,134,468
Contract revenue	1,697,666	8,019,067	-	-	-	9,716,733
Other revenue	548	1,865,175	1,042,188	-	-	2,907,911
Total revenues	8,903,568	36,016,244	11,400,993	8,438,307	-	64,759,112
Operating expenses						
Employee salaries, wages and benefits	4,102,729	11,455,434	7,717,025	381,092	-	23,656,280
Physician services	4,737,817	12,938,722	830,268	540,833	-	19,047,640
Medical fees	1,850,940	7,617,974	3,136,223	288,603	-	12,893,740
Supplies	804,496	2,186,654	62,909	7,053,704	-	10,107,763
Purchased services, insurance and other	262,933	3,723,852	611,355	2,939	-	4,601,079
Depreciation and amortization	20,004	171,245	25,864	17,348	-	234,461
Total operating expenses	11,778,919	38,093,881	12,383,644	8,284,519	-	70,540,963
Operating loss	(2,875,351)	(2,077,637)	(982,651)	153,788	-	(5,781,851)
Nonoperating income (expense)						
Interest expense	-	(10,723)	-	-	-	(10,723)
Gain on sale of asset	139,805	6,250	40,632	-	-	186,687
Investment income, net	-	(2,911)	(6,532)	(18,442)	-	(27,885)
Total nonoperating income	139,805	(7,384)	34,100	(18,442)	-	148,079
CHANGE IN NET POSITION	(2,735,546)	(2,085,021)	(948,551)	135,346	-	(5,633,772)
Net position (deficit) - beginning of year	(8,599,531)	7,272,295	2,640,595	7,115,955	-	8,429,314
Net position (deficit) - end of year	$ (11,335,077)	$ 5,187,274	$ 1,692,044	$ 7,251,301	$ -	$ 2,795,542

* *Pharmacy was split from NFPRP effective July 1, 2016.*

NOTE J - BLENDED COMPONENT UNITS - Continued

Combining Statement of Net Position
June 30, 2015

ASSETS	MSAN	MSAS	NFPRP	Eliminations	Combined
CURRENT ASSETS					
Cash and cash equivalents	$ 137,597	$ 1,427,287	$ 3,264,201	$ -	$ 4,829,085
Investments	-	1,241,935	5,221,858	-	6,463,793
Patient accounts receivable, net	1,518,787	6,372,607	1,339,866	-	9,231,260
Other receivables	123,772	800,726	-	-	924,498
Intercompany receivables	-	1,902,168	2,750,396	(4,652,564)	-
Inventory	12,956	-	497,265	-	510,221
Due from affiliates, net	-	17,614	203,373	(220,987)	-
Prepaid expenses and other assets	136,426	278,248	51,258	-	465,932
Total current assets	1,929,538	12,040,585	13,328,217	(4,873,551)	22,424,789
PROPERTY AND EQUIPMENT, NET	68,598	650,014	580,812	-	1,299,424
Total assets	$ 1,998,136	$ 12,690,599	$ 13,909,029	$ (4,873,551)	$ 23,724,213
LIABILITIES AND NET POSITION					
CURRENT LIABILITIES					
Current portion of debt and capital lease obligations	$ -	$ 64,195	$ -	$ -	$ 64,195
Accounts payable	982,012	2,929,275	673,983	(21,383)	4,563,887
Accrued payroll and employee related expenses	282,499	776,770	665,982	-	1,725,251
Other accrued expenses	245,088	688,687	-	-	933,775
Due to affiliates, net	6,519,015	703,925	807,087	(220,987)	7,809,040
Intercompany payables	2,569,053	56,701	2,005,427	(4,631,181)	-
Total current liabilities	10,597,667	5,219,553	4,152,479	(4,873,551)	15,096,148
DEBT AND CAPITAL LEASE OBLIGATIONS, net of current portion	-	198,751	-	-	198,751
Total liabilities	10,597,667	5,418,304	4,152,479	(4,873,551)	15,294,899
NET POSITION (DEFICIT)					
Invested in capital assets, net of related debt	68,598	387,068	580,812	-	1,036,478
Unrestricted	(8,668,129)	6,885,227	9,175,738	-	7,392,836
Total net position (deficit)	(8,599,531)	7,272,295	9,756,550	-	8,429,314
Total liabilities and net position	$ 1,998,136	$ 12,690,599	$ 13,909,029	$ (4,873,551)	$ 23,724,213

Integrated Clinical Services, Inc.

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2016 and June 2015

NOTE J - BLENDED COMPONENT UNITS - Continued

Combining Statement of Revenues, Expenses and Changes in Net Position
Year ended June 30, 2015

	MSAN	MSAS	NFPRP	Eliminations	Combined
Revenues					
Net patient service revenue	$ 8,174,188	$ 24,516,638	$ 19,106,506	$ -	$ 51,797,332
Contract revenue	1,857,248	6,828,785	-	-	8,686,033
Other revenue	13,974	2,450,061	1,021,518	-	3,485,553
Total revenues	10,045,410	33,795,484	20,128,024	-	63,968,918
Operating expenses					
Employee salaries, wages and benefits	4,197,754	10,729,254	8,688,019	-	23,615,027
Physician services	5,843,463	10,823,587	1,290,389	-	17,957,439
Medical fees	2,077,988	8,641,977	3,329,763	-	14,049,728
Supplies	1,087,619	1,988,714	7,173,391	-	10,249,724
Purchased services, insurance and other	415,613	3,093,975	772,443	-	4,282,031
Depreciation and amortization	43,927	229,603	59,970	-	333,500
Total operating expenses	13,666,364	35,507,110	21,313,975	-	70,487,449
Operating loss	(3,620,954)	(1,711,626)	(1,185,951)	-	(6,518,531)
Nonoperating income (expense)					
Interest income	-	93	-	-	93
Interest expense	-	(6,404)	(201)	-	(6,605)
Gain on sale of asset	-	7,000	-	-	7,000
Investment income, net	-	23,938	173,178	-	197,116
Total nonoperating income	-	24,627	172,977	-	197,604
CHANGE IN NET POSITION	(3,620,954)	(1,686,999)	(1,012,974)	-	(6,320,927)
Net position (deficit) - beginning of year	(4,978,577)	8,959,294	10,769,524	-	14,750,241
Net position (deficit) - end of year	$ (8,599,531)	$ 7,272,295	$ 9,756,550	$ -	$ 8,429,314

COMPLIANCE SECTION

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Report of Independent Certified Public Accountants on Internal Control over Financial Reporting and on Compliance and Other Matters Required by Government Auditing Standards

The Board of Directors of Integrated Clinical Services, Inc.
and the Board of Regents of the Nevada System of Higher Education

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combined financial statements of the University of Nevada School of Medicine Multispecialty Group Practice North, Inc.; the Multispecialty Group Practice South, Inc., Campus Pharmacy, Inc. and the Nevada Family Practice Residency Program, Inc. (collectively referred to as "Integrated Clinical Services, Inc." or the "Organization") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements, and have issued our report thereon dated November 1, 2016.

Internal control over financial reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting ("internal control") to design audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control 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 Organization'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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2016-001 that we consider to be significant deficiencies in the Organization's internal control.

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Compliance and other matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Organization's response to findings

The Organization's response to our findings, which is described in the accompanying schedule of findings and responses, was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on the Organization's response.

Intended purpose

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Grant Thornton LLP

Reno, Nevada
November 1, 2016

Grant Thornton LLP
U.S. member firm of Grant Thornton International Ltd

Integrated Clinical Services, Inc.

SCHEDULE OF FINDINGS AND RESPONSES

Year ended June 30, 2016

FINDING 2016-001 – Significant Deficiency over Patient Revenue and Receivables

Criteria
Pursuant to GASB 34, paragraph 16, the statement of net position and the statement of revenues, expenses and changes in net position should be prepared using the economic resources measurement focus and accrual basis accounting.

Condition
While testing to the criteria above, specific to patient revenues and receivables, we noted the following matters:

- In our samples to test the validity of the patient accounts receivable, we noted twelve out of two hundred and one tested were invalid receivables.

    - Eight of the errors at MSAS were due to incorrect coding within the electronic medical record system. All eight errors were eventually detected and corrected after year end by the billing department as part of their control process, however the general ledger was not adjusted to reflect these errors due to timing. Errors were detected one to three months after year end.

    - Four errors at the Pharmacy were due to improper recording payments as cash sales instead of applying to outstanding patient balances.

- At Mojave, the allowance for uncollectable patient receivables had a debit balance of $299,164, which added to the overall receivable balances as opposed to reducing it for an estimate of uncollectible patient receivables.

- We noted that the level of gross patient service receivables is elevated due to the time lag between when services are rendered and payment in received. This time lag is impacted by errors in coding in the electronic medical records of services rendered, the identification of and correction of coding or other errors, the time constraints within the billing department to both process initial claims and follow up on potentially invalid charges due to errors in the electronic medical records system. Also, at Mojave, the process of converting to the new billing system took place in fiscal 2016 so implementation in the current year also impacted the time lag.

Context
ICS had gross patient accounts receivable of $22,937,174 at June 30, 3016 along with an allowance for uncollectable receivables of $12,275,498, resulting in a net patient receivable $10,661,676 at that date.

Effect

- The errors noted in the patient accounts receivable:

    - For the errors detected at MSAS, the eight errors totaled $14,334 in gross patient receivables. At high level, extrapolating this error to the entire population, the over-recorded accounts receivable could be over-stated by approximately $180,000, gross, or $62,442, net of the related contractual allowance. Billing errors are a component in determining the estimated contractual allowance, a high error rate increases the contractual allowance in future periods obscuring the actual amount of discounts agreed to with insurance providers.

      Management has determined that these errors are immaterial and has not correct the financial statements.

FINDING 2016-001 – Significant Deficiency over Patient Revenue and Receivables - Continued

Effect - Continued

- o The four errors were receivables that were shown as uncollected and aged, but were actually paid prior to June 30, 2016, it was further determined that all past due accounts at the Pharmacy were already paid in full. The total error at Pharmacy was $20,244.

  Management has determined that these errors are immaterial and has not corrected the financial statements.

- Management has determined that this error is immaterial and has not corrected it in the financial statements.

- The length of the billing cycle contributes to a lower collectability rate. The contractual allowance/bad debt expense increased 27% at MSAS over prior year due in part to the write off of stale dated receivables during the year. In addition, the reliance on the billing department to detect all errors, as opposed to preventing them, increases the risk that errors in coding will not be detected or corrected.

Cause
The internal control process did not prevent these errors from occurring or being corrected in a timely manner.

Recommendation
We recommend that management develop and implement control processes over patient receivable to allow for the proper prevention and timely detection of errors within the billing process and decrease the time lag between services rendered and compensation collected.

RESPONSES TO FINDINGS

Year Ended June 30, 2016

FINDING 2016-001– Significant Deficiency over Patient Revenue and Receivables

- UNR SOM / ICS have engaged consultants to identify areas of strengths and weakness of MSAS revenue cycle. In the Revenue Cycle process the consultants reviewed the whole revenue cycle beginning with the patient being scheduled (front end), physician documentation (Middle) and Billing (Back End). UNR SOM / ICS received from the consultants recommendation's August 3, 2016. In these recommendations finance and operations have and are addressing these recommendations with developing and implementing additional control processes. Some of these processes include:
  - Standardized clinical processes
  - Developing management dashboards
  - Clinical chairs must mandate an enforce 100% compliance for medical staff to properly document all patient treatment and services in the EMR System
- Implementation should start January 1, 2017

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