

{University of Toledo}

Board of Trustees

2012 Audit Report Presentation

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Audit Presentation Agenda

- **University of Toledo Audit Team Leaders**
- **Required Communications**
- **New Pronouncements**
- **Open Matters**
- **Appendix - Definitions**

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Audit Team Leaders

Robb Rose	Audit Partner Robb.Rose@plantemoran.com	419.842.6188
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Required Communications

- **Plante Moran Report**

- “Unqualified Opinion” was issued on FY 2012 Financial Statements
- Foundation is presented as a component unit – discretely presented component
- University of Toledo Clinical Faculty, Inc. is presented as a component unit – blended component unit – changed from prior year as it was discretely presented in FY 2011
- Medical Assurance Company and Science, Technology & Innovation Enterprises, Inc. – blended component units
- Our second report addresses internal control over financial reporting and compliance and other matters as required by *Generally Accepted Governmental Auditing Standards (GAGAS)*
- A-133 – Audit of Federal Expenditures
- NCAA Agreed Upon Procedures

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Required Communications (continued)

- **Plante Moran Responsibilities under GAAS and GAGAS**

- To gain a basic understanding of the internal controls, policies and procedures in order to design an effective and efficient audit approach, not for the purpose of providing assurance on the internal control structure.
- To test compliance with certain provisions of laws, regulations, contracts and grants that have a direct and material effect.
- To gain an understanding of internal control over financial reporting.
- To express an opinion on the University's financial statements.
- To provide reasonable, not absolute, assurance of detecting material misstatement.

- **Significant Accounting Policies**

- The significant accounting policies used by University of Toledo are described in the notes, specifically footnote 1, to the financial statements. These existing policies were consistently applied and there were no changes in significant accounting policies to report for FY 2012.

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Required Communications (continued)

- **Management Judgments and Accounting Estimates**

- We are required to report to you amounts in the financial statements that are subject to management's judgment in what is recorded as well as items, that by their nature, are significant accounting estimates.
- Significant estimates made by management include:

Student Accounts Receivable and Loans Receivable Allowance for Uncollectible Accounts - The University's management has established the student loans receivable allowances by applying estimated uncollectible percentages to the balances based upon their status (e.g., current, past due, in default). The uncollectible percentages were estimated based upon prior experience at the University. We have evaluated and concur with the uncollectible percentages used based on our experience with other universities, available historical information, and discussions with management.

Patient Accounts Receivable Allowance for Uncollectible Accounts - Management has also estimated bad debt expense for the year, as well as the related allowance for uncollectible accounts relating to patient revenue. These estimates are based on percentage of patient revenue and by review of certain accounts receivable aging categories. The percentages used are based on prior experience. Our conclusions regarding the reasonableness of these estimates are based on reviewing historical trends, on testing collectability of large accounts, on performing retrospective analysis, and on testing management's computations.

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Required Communications (continued)

- **Management Judgments and Accounting Estimates (continued)**

Contractual allowances are established for potential third party payment disallowances - Management followed a consistent methodology with the prior year in determining contractual adjustments and allowances. Management is conservative in its estimation of third party settlements and we believe the underlying methodology is reasonable based on our review of historical results and current communications with third parties including payment histories. Changes in estimates on third party settlements had an insignificant impact on 2012 operations.

Liability for Contingent Liabilities - Management has also estimated the ultimate expense, including litigation and settlement expense, for incidents, which may result in malpractice claims occurring during the year, as well as the estimate of those claims, which have not been reported at year-end. This estimate is determined by an actuary (using certain actuarial assumptions and determinations) and is also based on conclusions reached by in-house risk manager, legal counsel, and on historical outcomes of previous cases in the Hospital's geographic area. Our conclusions regarding the reasonableness of this estimate are based on discussions with management, the risk manager, and communication with outside counsel.

Liability for Medical/Dental/Workers' Compensation Self-insurance - The University's management has an estimated liability for medical claims incurred but not reported based upon their prior experience and discussions with their third-party administrator. We have evaluated and concur with the liability for medical self-insurance based upon our experience with other universities, available historical information, and discussions with management.

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Required Communications (continued)

- **Management Judgments and Accounting Estimates (continued)**

Alternative Investments - The University values funds based on valuations provided by fund managers or the general partners. We have evaluated and concur with the values recorded.

Fair Value of Derivative Instruments – The University's management has established an estimate for the fair value of the interest rate swaps based on mid-market values. Mid-market values attempt to approximate the current economic value using various prices and rates based on the underlying assets or reference rates and also mathematical models. We have evaluated and concur with the estimated fair value based upon our independent analysis of management's basis for their conclusion.

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Required Communication (continued)

- **Significant Auditing Adjustments:**

- There were no significant adjustments proposed by us during the course of our audit.

- **Quality of Accounting Policies**

- University of Toledo's accounting policies are consistent in their application and the information presented in the financial statements and related disclosures is complete and presented clearly.

- **Disagreements with Management**

- There were no disagreements with Management on financial accounting and reporting matters.

- **Consultation with Other Accountants**

- To the best of our knowledge, Management has had no consultations with other independent accountants regarding accounting or auditing matters or alternative presentations.

- **Discussion Prior to Retention**

- All discussions with Management occurred in the normal course of our professional relationship and the responses were not a condition of our retention.

- **Management Cooperation**

- Management cooperated with us and provided us with complete access to the books and records of the University of Toledo.

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Required Communications (continued)

- **Corrected and Uncorrected Misstatements**

- There was one error noted in accounts payable with respect to contractor invoices that were improperly excluded from accounts payable at June 30, 2012. Invoices in the amount of \$984,814, that were related to work performed in June 2012, were received after the University's accounts payable cut-off date and therefore not detected by the University for proper accrual. This amount has not been recorded by the University at June 30, 2012.

- **Communications with Management**

- There were no communications with Management other than our engagement letter and Management's representation letter to us. In the course of our audit we receive correspondence from the Universities external legal counsel as well as speak with the University's internal counsel to address current litigation and similar matters of a significant nature.

- **Significant Additions to Managements' Representations**

- There were no significant additions to managements' representations.

- **Independence**

- The Plante Moran audit team was involved with the University of Toledo throughout the year in performance of the audits.

- **Other Services**

- Plante Moran has provided the following other services to the University of Toledo in the past year:
 - Performing agreed upon procedures on Health Science Campus related to state grant requiring such procedures be performed.
 - Review of the University's 990T



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Upcoming Accounting Pronouncements

- **GASB 60 – Accounting and Financial Reporting for Service Concession Arrangements**
 - Effective with the fiscal year ending June 30, 2013
 - Required to address financial reporting related to service concession agreements.
- **GASB 61 – The Financial Reporting Entity Omnibus**
 - Effective with the fiscal year ending June 30, 2013
 - Required to address modifications to certain requirements for inclusion of component units in the financial reporting entity.
- **GASB 62 – Codification of Accounting and Financial Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements**
 - Effective with the fiscal year ending June 30, 2013
 - Certain FASB Statements and Interpretations, APB Opinions, and Accounting Research Bulletins of the AICPA Committee on Accounting Procedure will now be incorporated into GASB literature.

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Upcoming Accounting Pronouncements

- **GASB 63 – Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position**
 - Provides financial reporting guidance for deferred inflows and outflows of resources
 - Effective for the fiscal year ended June 30, 2013.
- **GASB 65 – Items Previously Reported as Assets and Liabilities**
 - Establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities.
 - Provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources.
 - Effective for financial statements for the fiscal year ended June 30, 2013.
- **GASB 68 – Accounting and Financial Reporting for Pensions**
 - Requires entities providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI).
 - Effective for financial statements for the fiscal year ended June 30, 2015.

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GASB Issues Under Consideration

Clarity standards – Change in Auditing Standards

- The Auditing Standards Board of the American Institute of Certified Public Accountants undertook its Clarity Project to make existing U.S. auditing standards easier to understand and apply, and to converge, to the extent possible, U.S. generally accepted auditing standards with International Standards on Auditing issued by the International Auditing and Assurance Standards Board.
- So far, 47 sections of the new auditing standards have been issued, with 3 more sections anticipated to be finalized in the next few months.
- Expect additional time meeting the new Group Audit standards, requiring Plante Moran input into the audit planning and testing of component units and joint ventures – including meeting with the auditors of related entities.
- These additional requirements will increase the time required to complete future audit engagements.
- Effective for financial statements for the fiscal year ended June 30, 2013.

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Open Matters and Audit Results

- **Open Matters**
 - NCAA Agreed Upon Procedures
 - A133 Compliance Audit
 - Substantially completed
 - One major program – Student Financial Aid Cluster
 - Compliance finding related to notification of student's right to cancel award
 - No questioned costs to report at this time
- **Audit Results**
 - The scope of our audit was as planned.
 - Complete cooperation was given to us throughout the audit by everyone at the University.

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Appendix - Definitions

- **Control Deficiency**

- A 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 misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that even if the control operates as designed, the control objective is not always met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively. Control deficiencies may involve one or more of the five interrelated components of internal control.

- **Significant Deficiency**

- 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.

- **Material Weakness**

- A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.
- No material weaknesses have been identified during the 2012 audit.

- **Fraud**

- The term "fraud" includes "misstatements" arising from fraudulent financial reporting and misstatements arising from misappropriation of assets.
- "Misstatements" arising from "fraudulent financial reporting" are intentional misstatements, or omissions of amounts or disclosures in financial statements intended to deceive financial statement users.
- "Misstatements" arising from "misappropriation of assets" involve the theft of assets where the effect of the theft causes the financial statements not to be presented in conformity with GAAP.
- The University is responsible for the design and implementation of programs and controls to prevent and detect fraud.

- **GAAP**

- Generally Accepted Accounting Principles. Used by almost all entities in the USA to prepare periodic financial statements.

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Appendix - Definitions

- **GAAS**
 - Generally Accepted Auditing Standards. The standards that govern the conduct of independent audits of non-public companies, as determined by the Auditing Standards Board (ASB) of the AICPA.
- **GAGAS**
 - Generally Accepted Governmental Auditing Standards. Informally known as “Yellow Book”, these standards guide all audits of governmental units.
- **GASB**
 - Governmental Accounting Standards Board is the governing accounting body that issues reporting pronouncements. The University of Toledo prepares their financial statements in accordance with these pronouncements and guidance.
- **Unqualified Opinion**
 - A signed representation by an auditor as to the reliability and fairness of a set of financial statements. The opinion could be qualified, unqualified, except for or adverse. At The University of Toledo, the opinion is unqualified which is the best opinion to have from an auditor.
- **Auditor Opinion Date**
 - The date the audit is completed and the auditor can provide their opinion. This is defined as the date the audit fieldwork and reviews are completed and the date management has reviewed the financial statements and provided a signed representation letter to the auditors and approval by the audit committee.
- **Material Misstatement**
 - To present accidental or intentional untrue financial statement information that influences a University's value and therefore, the reliance on inaccurate and incorrect financial information used in decision making.
- **Significant Adjustments**
 - A material error in financial reporting discovered by the auditor during performance of their audit fieldwork which was large enough that it was required to be booked to the financial statements and disclosed to the audit committee or board.

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Appendix - Definitions

- **Passed Adjustments**

- A summary of proposed account adjustments not recorded by management and reviewed by auditors and determined, individually or in the aggregate, not to have a significant effect on the financial reporting process and therefore they are not recorded in the financial statements.

- **Allowance**

- An estimate determined by management based on past history of write off of student and contribution's receivable of the amount of student and contribution receivables at June 30 that are not expected to be received.

- **NCAA Agreed Upon Procedures**

- National Collegiate Athletic Association requires procedures to be performed in accordance with their bylaws. These procedures relate to the classification of revenues and expenses by athletic program and the content within the respective line items of revenues and expenses.

- **A-133 Audit**

- The U.S. Office of Management and Budget (OMB) Circular A-133 which sets forth standards for obtaining consistency and uniformity among Federal agencies for the audit of States, local governments, and non-profit organizations expending Federal awards. This is also known as "Single Audit" and is focused on programs funded with federal dollars. At The University of Toledo, this primarily consists of student financial aid and research and development grants.

- **990T**

- Corporate income tax form for exempt organization unrelated income. This primarily relates to income earned on limited partnerships that is considered taxable by the IRS (real estate and natural resources), and non-educational use of institutional property.

- **Non-Exchange Transaction**

- Revenues received by the University that are deemed not related to the University providing a service. They consist primarily of investment income, gifts and state operating appropriations. State appropriations are subject to annual approval by state legislature and are reported based on the state operating budget that funds the appropriation to the University.

A background image showing a group of graduates in black caps and gowns, seated in rows, likely at a graduation ceremony. The focus is on the graduates in the foreground, with others blurred in the background.

{Thank you}

We appreciate the opportunity to
serve the University of Toledo.

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