University of Toledo Audit Presentation Agenda

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• **Plante Moran Report**
  • “Unmodified Opinion” was issued on FY 2015 Financial Statements
  • Foundation is presented as a component unit – discretely presented component
  • University of Toledo Physicians, Medical Assurance Company, and Rocket Innovations (formerly, 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
• **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.
  - The University adopted GASB Statement No. 68, Accounting and Reporting for Pensions - an amendment of GASB Statement No. 27 and Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. Adopting these Statements resulted in significant changes to the defined benefit related footnote disclosures as well as the Required Supplementary Information schedules.
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.
• 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 continues to be conservative in its estimation of third party settlements and contractual allowances based on current at-risk dollars. 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 2015 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.
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.

**Net pension liability** – The University’s estimate of the net pension liability recorded is based upon the University’s proportionate share of the actuarial determined net pension liability of OPERS and STRS. The University’s proportionate share was calculated based on the University’s proportionate share of annual contributions to the plans.
University of Toledo
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.
• **Corrected and Uncorrected Misstatements**
  - There were no corrected or uncorrected misstatements.

• **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:
    - Review of the University’s 990T
• **GASB Fair Value Measurement**
  - In February 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 72, Fair Value Measurement and Application. The proposed statement addresses accounting and financial reporting issues related to fair value measurements. It also introduces the concept of a hierarchy of inputs to valuation techniques used to measure fair value, Level 1, 2, and 3, similar to the FASB standards. The statement will be effective for June 30, 2016.

• **Tax Abatement Disclosures**
  - In August 2015, the Governmental Accounting Standards Board (the “GASB”) issued GASB Statement No. 77, Tax Abatement Disclosures. Under GASB 77, College and Universities will be required to disclose a brief description of the abatement, including the names of the governments entering into the tax abatement agreement and the specific taxes being abated, and the gross dollar amount, on an accrual basis, by which the Institution’s tax revenues were reduced during the reporting period as a result of the tax abatement agreement. The provisions of this statement are effective for financial statements for the year ended June 30, 2017.
Accounting for OPEB

In June 2015, the Governmental Accounting Standards Board (the “GASB”) issued GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Under GASB 75 and similar to GASB 68 (pensions), the Institution, as a cost-sharing employer, will be required to recognize its proportionate share of the collective unfunded net Other Post Employment Benefits (OPEB) liability, OPEB expense, and deferred OPEB outflows (inflows) of the State’s Retirement System plan within its financial statements. This will be a significant change for every participating employer in all cost-sharing plans around the country. Institutions will see a significant liability reflected on their balance sheets along with an impact to OPEB expenses and a corresponding reduction to unrestricted net position. There are also expanded disclosures and required supplemental information to be added to the institution’s financial statement. The institution will also be required to track certain components of the net OPEB liability (deferred inflows/outflows) and amortize over the appropriate periods in accordance with the standard. The institution has not yet determined what its share of the unfunded net OPEB liability is but it is expected to be significant and material to the Institution’s financial statements. The provisions of this statement are effective for financial statements for the year ending June 30, 2018.
• New Rules Governing the Management and Audit of Federal Programs

• In December 2013, the Office of Management and Budget (OMB) issued the long-awaited reforms in a document titled Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Audit. This reform of OMB guidance is an attempt to reduce administrative burden for non-federal entities receiving a portion of the $600 billion in federal grants that are awarded annually, while reducing the risk of waste, fraud, and abuse. These revisions are clearly the most significant change to occur in relation to federal grants management in recent history. These regulations will be effective on December 26, 2014, one year after its publication date. However, standards set forth related to the audit requirements will be effective for audits of fiscal years beginning on or after January 1, 2015; i.e., the first single audits affected by this rule will be for the year ending December 31, 2015.

• The new rules combine eight previously separate sets of OMB regulations into one streamlined, comprehensive policy. This consolidated document is aimed at eliminating duplicative or almost duplicative language in order to clarify where policy is substantively different across types of entities and where it is not. This guidance supersedes requirements from various prior OMB Circulars and provides reforms in three main areas:
  • Audit Requirements - For fiscal years beginning on or after January 1, 2015, the threshold for obtaining a federal awards audit will increase from the current threshold of $500,000 of annual federal spending to $750,000. There will also be significant changes to the criteria for qualifying as a low-risk auditee and a reduction in the number of major programs required to be tested for some clients.
  • Cost Principles - Effective December 26, 2014, the new guidance provides for a de minimis indirect cost rate of 10 percent of modified total costs for entities that have never had a negotiated indirect cost rate. It also provides for a one-time extension of up to four years of a federally approved negotiate indirect cost rate.
  • Internal Controls - Effective December 26, 2014, non-federal entities receiving federal funding must follow new guidance on internal controls. This guidance covers a wide array of topics including time and effort reporting, conflict of interest disclosure, procurement standards, and sub-recipient monitoring.
University of Toledo
Open Matters and Audit Results

• **Open Matters**
  • Management representation letter
  • NCAA Agreed Upon Procedures
  
  • A133 Compliance Audit
    • Substantially completed
    • One major program: Student Financial Aid Cluster
    • No questioned costs or deficiencies 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.
• 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 2014 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.
University of Toledo
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.

• **Unmodified Opinion**
  • A signed representation by an auditor as to the reliability and fairness of a set of financial statements. The opinion could be modified, unmodified, except for or adverse. At The University of Toledo, the opinion is unmodified 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.
• **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.
Thank you

We appreciate the opportunity to serve the University of Toledo.