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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, 2017 and 2016

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, 2017 and 2016, 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.

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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, 2017 and 2016, 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 October 31, 2017, 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
October 31, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

June 30, 2017

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. ("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 2016-2017, 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 2016-2017, it is to the fiscal year ended June 30, 2017.

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, 2017. 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.

As of June 30, 2017, the University of Nevada Reno ("UNR") is 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 approximately 125 full time physicians, 75 part-time physicians, and 20 volunteers in 47 different medical specialties engaged in education, patient care, and research. Treating more than 300,000 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 2016-2017. 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, 2017 and 2016 are as follows:

	2017	2016	2015	Percent Change FY 16 to FY 17	Percent Change FY 15 to FY 16
ASSETS					
Current assets					
Cash and cash equivalents	$ 6,591,018	$ 4,576,548	$ 4,829,085	44%	(5%)
Investments	3,595,352	3,191,165	6,463,793	13%	(51%)
Patient accounts receivable, net	8,290,194	10,661,676	9,231,260	(22%)	15%
Other receivables	3,167,283	966,328	924,498	228%	5%
Inventory	472,777	518,637	510,221	(9%)	2%
Prepaid expenses and other assets	141,138	306,054	465,932	(54%)	(34%)
Total current assets	22,257,762	20,220,408	22,424,789	10%	(10%)
Non-current assets					
Property and equipment, net	633,053	806,194	1,299,424	(21%)	(38%)
Total assets	$ 22,890,815	$ 21,026,602	$ 23,724,213	9%	(11%)
LIABILITIES AND NET POSITION					
Current liabilities					
Current portion of long-term notes payable and capital lease obligations	$ -	$ 62,853	$ 64,195	(100%)	(2%)
Accounts payable	3,555,579	3,390,943	4,563,887	5%	(11%)
Accrued payroll and employee related expenses	1,027,258	1,638,043	1,725,251	(37%)	(5%)
Other accrued expenses	2,320,566	1,053,428	933,775	120%	13%
Due to affiliates, net	15,658,768	11,949,895	7,809,040	31%	44%
Total current liabilities	22,562,171	18,095,162	15,096,148	25%	20%
Notes payable and capital lease obligations, net of current portion	-	135,898	198,751	(100%)	(32%)
Total liabilities	22,562,171	18,231,060	15,294,899	24%	19%
Net position					
Invested in capital assets, net of related debt	633,053	607,443	1,036,478	4%	(41%)
Unrestricted	(304,409)	2,188,099	7,392,836	(114%)	(70%)
Total net position	328,644	2,795,542	8,429,314	(88%)	(67%)
Total liabilities and net position	$ 22,890,815	$ 21,026,602	$ 23,724,213	9%	(11%)

INTEGRATED CLINICAL SERVICES, INC. - FINANCIAL POSITION - Continued

Integrated Clinical Services, Inc.'s assets

Integrated Clinical Services, Inc.'s total assets in fiscal year 2016-2017 increased by $1,864,213 or 9% to $22,890,815 over fiscal year 2015-2016. Total assets in fiscal year 2015-2016 decreased by $2,697,611 or 11% to $21,026,602 over fiscal year 2015-2016. Cash and cash equivalents for fiscal year 2016-2017 increase by $2,014,430 or 44% to $6,591,018. The increase is attributable to in part with the new process in tracking hospital charges along with the sale of Campus Pharmacy III in Las Vegas to University of Nevada Las Vegas School of Medicine. For fiscal year 2015-2016 compared to fiscal year 2014-2015, cash and cash equivalents decreased by $252,537 or 5% to $4,576,548. The decrease is attributable to further training of the physician(s) and staff to be more efficient in using the PM and EMR systems. Fiscal year 2016-2017 investments increased by $404,187 or 13% to $3,595,352. The increase was due to appreciation on 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, 2017. Investments for fiscal year 2015-2016 over fiscal year 2014-2015 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.

Patient accounts receivable, net of contractual allowances for fiscal year 2016-2017 decreased by $2,371,482 or 22% to $8,290,194. The decrease was due to MSAN department Internal Medicine being transferred to third party management group Renown thus a significant decrease in patient volumes in accounts receivables. 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 balances after the implementation of the PM and EMR systems. Other revenue and receivables increased due to the recognition of the Center for Medicare and Medicaid Services ("CMS") Upper Payment Limits ("UPL") match. UPL payments are formulated to bridge the gap in teaching entities that see a disproportionate share of Medicaid patients.

Capital assets include medical equipment, computer equipment, furniture, fixtures and office equipment, buildings, vehicles, and leasehold improvements. Spending accounted for capital additions of $4,424 for new medical equipment. Accumulated depreciation decreased $93,655 or 1% to $7,438,697 at June 30, 2017. Fiscal year 2014-2015 over 2013-2014 accumulated depreciation decreased $595,048 or 7% to $7,532,348 at June 30, 2016. Depreciation expense for the years ended June 30, 2017 and 2016 was $177,565 and $234,461, respectfully.

Integrated Clinical Services, Inc.'s liabilities

Integrated Clinical Services, Inc.'s total liabilities increased in fiscal year 2016-2017 by $4,331,111 or 24% to $22,562,171. The increase was due to the increased obligation of faculty salaries of MSAN's and MSAS's that is accounted for in Due to Affiliates. Integrated Clinical Services, Inc.'s total liabilities increased in fiscal year 2015-2016 by $2,936,159 or 20% to $18,231,060. 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 $4,057,943 at June 30, 2016 to $3,555,579 at June 30, 2017, a decrease of $502,364 or 12%. 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%.

INTEGRATED CLINICAL SERVICES, INC. - FINANCIAL POSITION - Continued

Integrated Clinical Services, Inc.'s liabilities - Continued

Long-term liabilities decreased from $135,898 at June 30, 2016 to $0 at June 30, 2017. This decrease was due to full payment of the capital lease obligation on ultra-sound equipment. 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 the decrease of the 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, 2017 totaled $328,644, a decrease of $2,466,898 or 88% during the year. 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.

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 $(304,409) at June 30, 2017 and $2,188,099 at June 30, 2016 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED
(Unaudited)

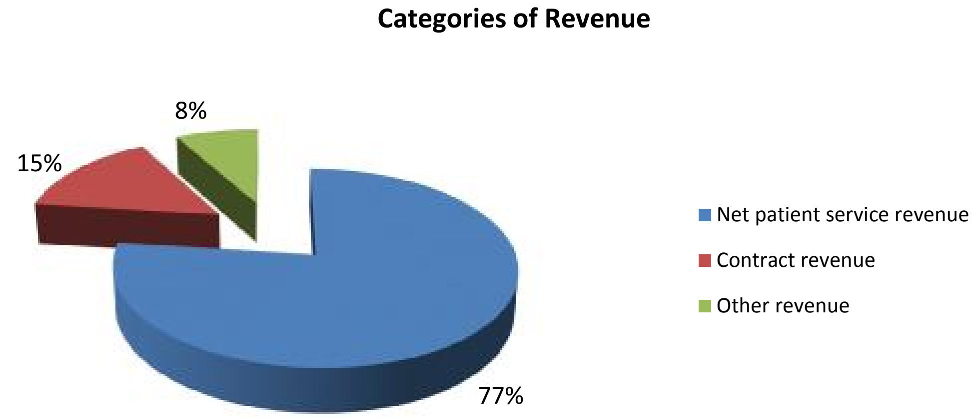
June 30, 2017

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

The following table compares the results of operations for the year ended June 30, 2017 to those for the year ended June 30, 2016, and June 30, 2016 compared to June 30, 2015.

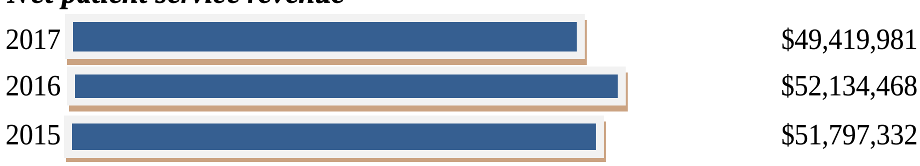
				Percent Change	
	2017	2016	2015	FY 16 to FY 17	FY 15 to FY 16
Revenues					
Net patient service revenue	$ 49,419,981	$ 52,134,468	$ 51,797,332	(5%)	1%
Contract revenue	9,494,694	9,716,733	8,686,033	(2%)	12%
Other revenue	5,083,569	2,907,911	3,485,553	75%	(17%)
Total revenues	63,998,244	64,759,112	63,968,918	(1%)	1%
Operating expenses					
Employee salaries, wages and benefits	22,047,755	23,656,280	23,615,027	(7%)	0%
Physician services	18,753,753	19,047,640	17,957,439	(2%)	6%
Medical fees	13,358,587	12,893,740	14,049,728	4%	(8%)
Supplies	8,992,384	10,107,763	10,249,724	(11%)	(1%)
Purchased services, insurance and other	4,471,413	4,601,079	4,282,031	(3%)	7%
Depreciation and amortization	177,565	234,461	333,500	(24%)	(30%)
Total operating expenses	67,801,457	70,540,963	70,487,449	(4%)	0%
Operating loss	(3,803,213)	(5,781,851)	(6,518,531)	(34%)	(11%)
Nonoperating income	1,336,315	148,079	197,604	802%	(25%)
CHANGE IN NET POSITION	(2,466,898)	(5,633,772)	(6,320,927)	(56%)	(11%)
Net position – beginning of year	2,795,542	8,429,314	14,750,241	(67%)	(43%)
Net position – end of year	$ 328,644	$ 2,795,542	$ 8,429,314	(88%)	(67%)

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, 2017 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



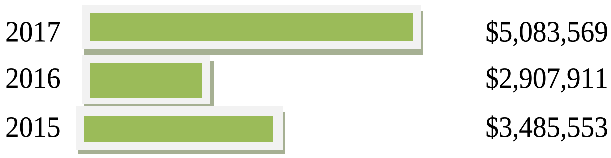
Patient service revenue, net of contract allowance, bad debt and refunds, decreased by $2,714,487, or 5% for the year ended June 30, 2017 to $49,419,981. The decrease was due to MSAN department Internal Medicine being transferred to third party management group Renown. MSAN internal Medicine had ten (10) months included in the patient service revenue before the transfer. Patient service revenue, net of contract allowances, bad debt and refunds, increased by $337,138 or 0.7% for the year ended June 30, 2016 to $52,134,468. 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 decreased by $222,039 or 2% to $9,494,694 for the year ended June 30, 2017. Contract revenue from federal, state, and local governments, as well as private organizations increased by $1,030,700 or 12% to $9,716,733 for the year ended June 30, 2016. 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 SERVICE INC. - RESULTS OF OPERATIONS - Continued

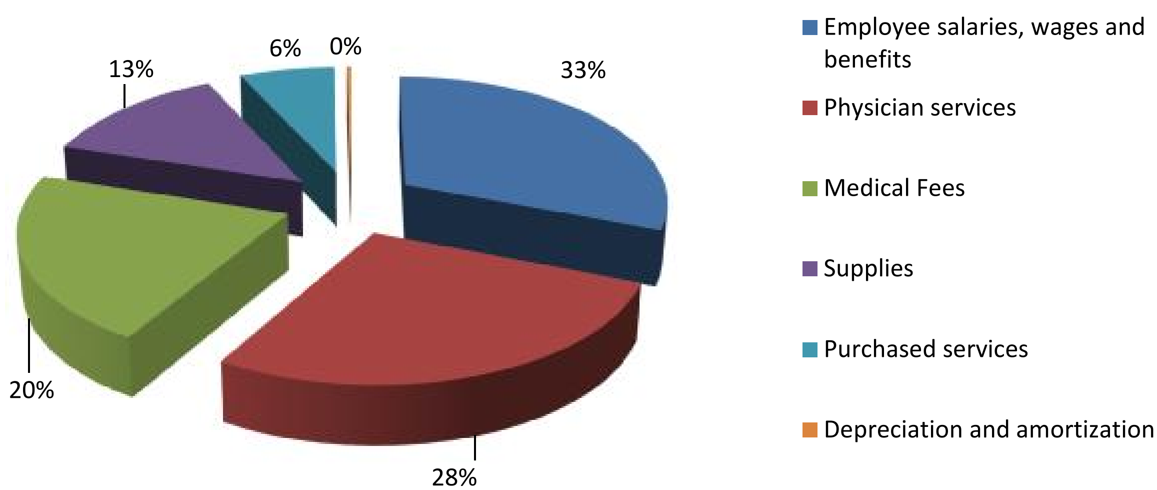
Other revenues



Other revenues for the year ended June 30, 2017 increased $2,175,658 or 75% to $5,083,569. The increase was due to the CMS uplift payments. Other revenues for the year ended June 30, 2016 decreased $577,642 or 17% to $2,907,911. The decrease in 2016 was primarily due to NFPRP 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, 2017 are as follows:

Categories of Expenses

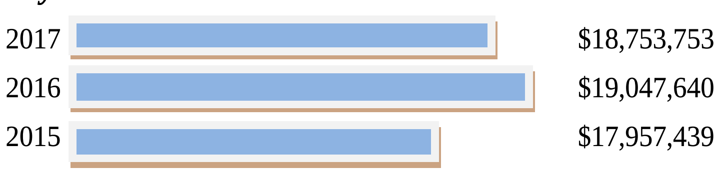


INTEGRATED CLINICAL SERVICE INC. - RESULTS OF OPERATIONS - Continued

Employee salaries, wages and benefits

Employee salaries, wages and benefits of $22,047,755 for the year ended June 30, 2017 decreased by $1,608,525 or 7% from the year ended June 30, 2016, primarily the decrease was related to MSAN departments of Internal Medicine and Pediatrics Being Transferred to Renown in 2016. 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 departments being transferred to Renown and Aurora Diagnostics.

Physician services



Physician services of $18,753,753 for the year ended June 30, 2017 decreased by $293,887 or 2% from the year ended June 30, 2016, primarily due to restructure of the practice plan Internal Medicine and Pediatrics physician's clinical time to Renown. 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.

Medical fees

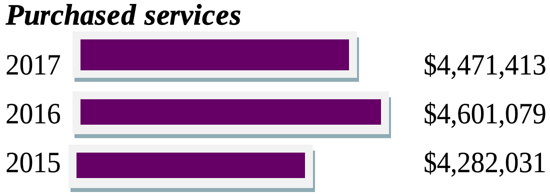
Medical fees of $13,358,587 for the year ended June 30, 2017 increased by $464,847 or 14% from the year ended June 30, 2016. The increase in medical fees was mostly due to management fee reclassification. Medical fees of $12,893,740 for the year ended June 30, 2016 decreased by $1,155,988 or 8% from 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.

INTEGRATED CLINICAL SERVICE INC. - RESULTS OF OPERATIONS - Continued

Supplies

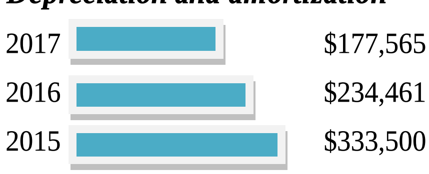
Supplies of $8,992,384 for the year ended June 30, 2017 decreased by $1,115,379 or 11% from the year ended June 30, 2016. The decrease was due to Pharmacy and MSAS drugs purchases. Supplies of $10,107,763 for the year ended June 30, 2016 decreased by $141,961 or 1% from the year ended June 30, 2015. The decrease was due to Pharmacy and MSAS drugs purchases.

Purchased services



Purchased services of $4,471,413 for year ended June 30, 2017 decreased by $129,666 or 3% from the year ended June 30, 2016. The decrease in part was due NFPRP decreasing independent contractors for therapy and MSAN decreasing outside services due to the transfer to Renown. 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.

Depreciation and amortization



Depreciation and amortization of $177,565 for the year ended June 30, 2017 decreased by $56,896 or 24% from the year ended June 30, 2016, reflecting assets being fully depreciated. 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.

INTEGRATED CLINICAL SERVICE INC. - CASH FLOWS

A summary comparison of cash flows for fiscal years 2017 and 2016 is as follows:

	2017	2016	2015
Cash provided by (used in)			
Operating activities	$ 2,285,949	$ (3,867,818)	$ 314,293
Noncapital financing activities	-	-	(117,586)
Capital and related financing activities	(272,950)	370,538	(146,081)
Investing activities	1,471	3,244,743	381,554
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,014,470	(252,537)	432,180
Cash and cash equivalents, beginning of year	4,576,548	4,829,085	4,396,905
Cash and cash equivalents, end of year	$ 6,591,018	$ 4,576,548	$ 4,829,085

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 increased by $2,014,470 in the fiscal year 2017 and decreased by $252,537 in the fiscal year 2016.

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.

In 2015, the Board of Regents of the Nevada system of Higher Education ("NSHE") approved a major expansion in public medical education in Nevada. The focus of this expansion has been on the launch of a new medical school in Las Vegas Affiliated with the University of Nevada., Las Vegas. An equally important, if not more consequential, change is for the former University of Nevada School of Medicine, now the University of Nevada, Reno School of Medicine, to become fully-based in northern Nevada. This change has significant impact to our identity, vision and mission, which we addressed with a robust strategic planning process.

INTEGRATED CLINICAL SERVICE INC. - CASH FLOWS - Continued

Other issues - Continued

The strategic plan outlines the need to expand existing and add new clinical faculty to grow current programs and fellowships and explore opportunities to start new core residency programs and fellowships to enhance the opportunities for training and retaining physician in Nevada, particularly northern Nevada. In order to reach this goal, University of Nevada, Reno School of Medicine ("UNR Med") will strategize with our hospital partners to aid in recruitment, as well as utilizing community faculty to meet our educational growth aspirations. UNR Med has also partially integrated our Reno-based physician practices with Renown, which has impacted our faculty practice plan in several ways. With the integrated Departments, UNR Med is no longer responsible for the management of clinical operations, and is paid a contracted rate by our partners for physicians' services – these contracts take many forms, including reimbursement of effort, and payment on an hourly or resource based relative value scale. The full integration of all of our practices is currently on hold and UNR Med will continue to manage these practices until such a time where they integrate with another partner.

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 UNR School of Medicine Dean, MS 332, Reno, NV 89557.

BASIC FINANCIAL STATEMENTS

Integrated Clinical Services, Inc.

COMBINED STATEMENTS OF NET POSITION

June 30,

ASSETS

	2017	2016
CURRENT ASSETS		
Cash and cash equivalents	$ 6,591,018	$ 4,576,548
Investments	3,595,352	3,191,165
Patient accounts receivable, net of estimated contractual allowances and estimated uncollectibles totaling $10,151,054 and $12,275,498 for 2017 and 2016, respectively	8,290,194	10,661,676
Other receivables	3,167,283	966,328
Inventories	472,777	518,637
Prepaid expenses and other assets	141,138	306,054
Total current assets	22,257,762	20,220,408
NON-CURRENT ASSETS		
Property and equipment, net	633,053	806,194
Total assets	$ 22,890,815	$ 21,026,602

LIABILITIES AND NET POSITION

	2017	2016
CURRENT LIABILITIES		
Current portion of debt and capital lease obligations	$ -	$ 62,853
Accounts payable	3,555,579	3,390,943
Accrued payroll and employee related expenses	1,027,258	1,638,043
Other accrued expenses	2,320,566	1,053,428
Due to affiliates, net	15,658,768	11,949,895
Total current liabilities	22,562,171	18,095,162
DEBT AND CAPITAL LEASE OBLIGATIONS, net of current portion	-	135,898
Total liabilities	22,562,171	18,231,060
COMMITMENTS AND CONTINGENCIES (Note J)	-	-
NET POSITION		
Invested in capital assets, net of related debt	633,053	607,443
Unrestricted	(304,409)	2,188,099
Total net position	328,644	2,795,542
Total liabilities and net asset	$ 22,890,815	$ 21,026,602

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,

	2017	2016
Revenues		
Net patient service revenue	$ 49,419,981	$ 52,134,468
Contract revenue	9,494,694	9,716,733
Other revenue	5,083,569	2,907,911
Total revenues	63,998,244	64,759,112
Operating expenses		
Employee salaries, wages and benefits	22,047,755	23,656,280
Physician services	18,753,753	19,047,640
Medical fees	13,358,587	12,893,740
Supplies	8,992,384	10,107,763
Purchased services, insurance and other	4,471,413	4,601,079
Depreciation and amortization	177,565	234,461
Total operating expenses	67,801,457	70,540,963
Operating loss	(3,803,213)	(5,781,851)
Nonoperating income (expenses)		
Forgiveness of debt	1,000,432	-
Interest expense	(12,861)	(10,723)
Gain on sale of assets	(56,914)	186,687
Investment income (loss), net	405,658	(27,885)
Total nonoperating income	1,336,315	148,079
CHANGE IN NET POSITION	(2,466,898)	(5,633,772)
Net position - beginning of year	2,795,542	8,429,314
Net position - end of year	$ 328,644	$ 2,795,542

The accompanying notes are an integral part of these statements.

Integrated Clinical Services, Inc.

COMBINED STATEMENTS OF CASH FLOWS

Years ended June 30,

	2017	2016
Cash flows from operating activities:		
Receipts from patients and third-party payors	$ 51,791,463	$ 50,704,052
Payments to employees for services and benefits	(22,658,540)	(23,743,488)
Payments to suppliers	(39,224,282)	(43,411,196)
Other receipts	12,377,308	12,582,814
Net cash provided by (used in) operating activities	2,285,949	(3,867,818)
Cash flows from capital and related financing activities:		
Payments on notes payable and capital leases	(198,751)	(64,195)
Payments of interest	(12,861)	(10,723)
Proceeds from sale of equipment	(56,914)	545,683
Purchases of property and equipment	(4,424)	(100,227)
Net cash provided by (used in) capital and related financing activities	(272,950)	370,538
Cash flows from investing activities:		
Interest on investments	1,471	62
Proceeds from sales of investments	-	3,244,681
Net cash provided by investing activities	1,471	3,244,743
NET INCREASE (DECREASE) IN CASH	2,014,470	(252,537)
Cash and cash equivalents - beginning of year	4,576,548	4,829,085
Cash and cash equivalents - end of year	$ 6,591,018	$ 4,576,548
Reconciliation of gain from operations to net cash provided by operating activities:		
Operating income (loss)	$ (3,803,213)	$ (5,781,851)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	177,565	234,461
Changes in operating assets and liabilities:		
Patient accounts receivable	2,371,482	(1,430,416)
Other receivables	(2,200,955)	(41,830)
Inventory	45,860	(8,416)
Due to and from affiliates	5,376,305	3,473,855
Prepaid expenses and other assets	164,916	159,878
Accounts payable	(502,364)	(505,944)
Accrued payroll and employee related expenses	(610,785)	(87,208)
Other accrued expenses	1,267,138	119,653
Net cash provided by (used in) operating activities	$ 2,285,949	$ (3,867,818)
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 12,861	$ 10,723
Supplemental noncash investing and financing activities information:		
Reinvested interest and dividends on investments and unrealized gain on investments	$ 404,187	$ (26,939)
Forgiveness of debt	$ 1,000,432	$ -

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 ("NFPRP") are multi-specialty medical practice groups established and organized for the benefit of the University of Nevada, Reno School of Medicine ("UNR Med") 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.

The practice administration components of the UNR Med 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 NFPRP operate to serve the School of Medicine within the boundaries of their vision and mission. Pharmacy, MSAN, MSAS, and NFPRP 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 NFPRP, 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, 2017 and 2016, 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, NFPRP and Pharmacy 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 $55,470,957 and $52,422,174 were incurred during the years ended June 30, 2017 and 2016, 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 $6,381,076 and $7,043,544 was incurred during the years ended June 30, 2017 and 2016, 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 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 did not impact the Organization.

13. Reclassification

The financial statements reflect certain reclassifications to prior year amounts in order to conform with current year presentation. The reclassifications had no effect on previously reported changes to net assets.

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, 2017 and 2016 are as follows:

	2017	2016
Medicare	15%	14%
Medicaid	50%	42%
Commercial insurance	23%	24%
Other third-party payors	2%	5%
Patients	10%	15%
	100%	100%

NOTE D - CASH, CASH EQUIVALENTS AND INVESTMENTS

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

	2017	2016
Cash on deposit	$ 6,591,018	$ 4,576,548

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

	2017	2016
Pooled equity index fund	$ 2,419,823	$ 2,034,216
Pooled bond index fund	1,175,529	1,156,949
	$ 3,595,352	$ 3,191,165

NOTE D - CASH, CASH EQUIVALENTS AND INVESTMENTS - Continued

At June 30, 2017, 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	$ 2,419,823	$ 2,419,823	$ -	$ -
Pooled bond index fund	1,175,529	1,175,529	-	-
	$ 3,595,352	$ 3,595,352	$ -	$ -

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, 2017 and 2016, the Organization earned $59,363 and $80,424 from interest and dividends and $358,735 and $(92,782) from unrealized gains (losses) in investment fair value. Investment expenses of $12,440 and $14,580 were netted against earnings.

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, 2017 and 2016, the Organization had $9,657,157 and $7,664,243, 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 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, 2017, 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:

	NAV	
	2017	2016
Pooled equity index fund	$ 2,419,823	$ 2,034,216
Pooled bond index fund	1,175,529	1,156,949
	$ 3,595,352	$ 3,191,165

NOTE F - PROPERTY AND EQUIPMENT

The property and equipment activity for the year ended June 30, 2017 is as follows:

	June 30, 2016	Additions	Disposals	June 30, 2017
Medical equipment	$ 2,754,399	$ 4,424	$ -	$ 2,758,823
Computer equipment	1,485,452	-	(246,865)	1,238,587
Furniture, fixtures and office equipment	1,687,928	-	(25,155)	1,662,773
Buildings	226,604	-	-	226,604
Vehicles	106,449	-	-	106,449
Leasehold improvements	2,077,717	-	797	2,078,514
Property and equipment, at cost	8,338,549	4,424	(271,223)	8,071,750
Less: Accumulated depreciation	(7,532,355)	(177,565)	271,223	(7,438,697)
Property and equipment, net	$ 806,194	$ (173,141)	$ -	$ 633,053

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

At June 30, 2016, property and equipment included capital leased assets of $340,695, net of accumulated depreciation of $365,567, 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

	2017	2016
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
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.	-	194,336
	-	198,751
Less: Current portion	-	(62,853)
	$ -	$ 135,898

The activity with respect to current and noncurrent portion of debt for the years ended June 30, 2017 and 2016 is as follows:

	Current	Noncurrent
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
New obligations	-	-
Principal payments	(62,853)	(135,898)
Reclassification	-	-
Balance as of June 30, 2017	$ -	$ -

Interest expense of $12,861 and $10,723 were incurred during the years ended June 30, 2017 and 2016, respectively.

NOTE H - TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES

UNR Med pays the salaries for all its faculty physician members. The Organization reimburses UNR Med for any amounts not covered by state appropriations, grant contract income, or other sources that are administered by UNR Med. During the years ended June 30, 2017 and 2016, the Organization paid approximately $19,194,000 and $19,048,000, respectively, to UNR Med for physician salaries. At June 30, 2017 and 2016, the Organization owed UNR Med a total of approximately $12,400,000 and $9,270,000, 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 UNR Med Dean 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 UNR Med 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, 2017 and 2016, the Organization recognized expense of approximately $2,275,049 and $2,115,000, 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, 2017 and 2016, the Organization owed to UNR Med a total of approximately $3,242,000 and $2,013,000, respectively, for Dean's tax and is included in the net due to affiliates in the accompanying combined statements of net position. Back Dean's taxes owed by MSAN to UNR Med of approximately $1,000,000 were forgiven by the Dean related to the years ended June 30, 2010, 2011 and 2012.

The Organization is covered under a professional liability insurance policy for medical malpractice claims that is purchased by UNR Med 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. UNR Med presently intends to renew claims-made coverage annually and expects to be able to obtain such coverage. During fiscal years 2017 and 2016, the Organization did not reimburse UNR Med for any portion of the professional liability insurance premiums.

UNR Med sub-leases clinical space from MSAS at the Patient Care Center on a month-to month basis. During the year ended June 30, 2017, UNR Med paid MSAS a total of $49,983 for rents and related expenses.

UNR Med also collects payments from Medicaid on behalf of certain NFPRP programs. At June 30, 2017 and 2016, the Organization was owed a total of $533,094 and $29,963, respectively, and is included in the net patient accounts receivable in the accompanying combined statements of net position.

UNR Med 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 UNR Med'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. Eligibility to participate for purpose of salary deferrals are that the employee must complete 166.66 hours of service within their first two months of employment and attain age 21. Entry date for purpose of salary deferrals will be the first day of the plan year quarter coinciding with or next following the date the employee satisfies the eligibility requirement.

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, 2017 and 2016, 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 $284,900 and $295,500, 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 $3,974,333 and $4,920,065 in fiscal years 2017 and 2016, 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, 2017 are as follows:

Combined Operating Leases	
Years ending June 30,	
2018	$ 605,252
2019	451,333
2020	111,139
2021	28,786
2022	28,786
Thereafter	57,572
	$1,282,868

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

NOTE J - COMMITMENTS AND CONTINGENCIES - Continued

Malpractice Insurance - Continued

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 all of its Southern Nevada clinical operations. This would include the likely long term elimination of the MSAS Corporation along with the Southern Campus of NFPRP and Pharmacy. 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.

In August 2017, the ICS board voted to cease Northern Operations of NFPRP; this was confirmed in October by the state to officially close Northern Operations December 31, 2017 as operations of NFPRP are not core to the teaching mission of UNR Med.

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 M - BLENDED COMPONENT UNITS

Combining Statement of Net Position
June 30, 2017

ASSETS	MSAN	MSAS	NFPRP	Pharmacy	Eliminations	Combined
CURRENT ASSETS						
Cash and cash equivalents	$ 1,594,803	$ 1,426,567	$ 1,139,452	$ 2,430,196	$ -	$ 6,591,018
Investments	-	414,514	831,944	2,348,894	-	3,595,352
Patient accounts receivable, net	775,915	5,414,976	1,742,859	356,444	-	8,290,194
Other receivables	824,167	1,999,103	344,013	-	-	3,167,283
Inventory	8,246	-	-	464,531	-	472,777
Due from affiliates, net	-	-	-	-	-	-
Prepaid expenses and other assets	101,857	-	39,281	-	-	141,138
Total current assets	3,304,988	9,255,160	4,097,549	5,600,065	-	22,257,762
PROPERTY AND EQUIPMENT, NET	39,759	409,543	6,874	176,877	-	633,053
Total assets	$ 3,344,747	$ 9,664,703	$ 4,104,423	$ 5,776,942	$ -	$ 22,890,815
LIABILITIES AND NET POSITION						
CURRENT LIABILITIES						
Accounts payable	$ 794,249	$ 2,267,684	$ 249,564	$ 244,082	$ -	$ 3,555,579
Accrued payroll and employee related expenses	253,858	418,928	345,457	9,015	-	1,027,258
Other accrued expenses	1,825,091	495,475	-	-	-	2,320,566
Due to affiliates, net	8,906,695	5,891,231	825,176	35,666	-	15,658,768
Total current liabilities	11,779,893	9,073,318	1,420,197	288,763	-	22,562,171
NET POSITION (DEFICIT)						
Invested in capital assets, net of related debt	39,759	409,543	6,874	176,877	-	633,053
Unrestricted	(8,474,905)	181,842	2,677,352	5,311,302	-	(304,409)
Total net position (deficit)	(8,435,146)	591,385	2,684,226	5,488,179	-	328,644
Total liabilities and net position	$ 3,344,747	$ 9,664,703	$ 4,104,423	$ 5,776,942	$ -	$ 22,890,815

NOTE M - BLENDED COMPONENT UNITS - Continued

Combining Statement of Revenues, Expenses and Changes in Net Position
Year ended June 30, 2017

	MSAN	MSAS	NFPRP	Pharmacy	Eliminations	Combined
Revenues						
Net patient service revenue	$ 5,424,312	$ 28,308,004	$ 8,254,446	$ 7,433,219	$ -	$ 49,419,981
Contract revenue	1,283,475	8,211,219	-	-	-	9,494,694
Other revenue	389,586	2,965,641	1,728,048	294	-	5,083,569
Total revenues	7,097,373	39,484,864	9,982,494	7,433,513	-	63,998,244
Operating expenses						
Employee salaries, wages and benefits	2,879,937	11,830,354	7,014,610	322,854	-	22,047,755
Physician services	2,092,018	15,629,867	633,959	397,909	-	18,753,753
Medical fees	1,401,887	7,930,632	3,679,093	346,975	-	13,358,587
Supplies	734,666	2,107,637	59,795	6,090,286	-	8,992,384
Purchased services, insurance and other	146,340	3,561,248	723,805	40,020	-	4,471,413
Depreciation and amortization	7,723	138,673	13,059	18,110	-	177,565
Total operating expenses	7,262,571	41,198,411	12,124,321	7,216,154	-	67,801,457
Operating income (loss)	(165,198)	(1,713,547)	(2,141,827)	217,359	-	(3,803,213)
Nonoperating income (expense)						
Forgiveness of debt	3,122,043	(2,917,553)	3,040,483	(2,244,541)	-	1,000,432
Interest expense	-	(12,861)	-	-	-	(12,861)
Loss on sale of asset	(56,914)	-	-	-	-	(56,914)
Investment income, net	-	48,072	93,526	264,060	-	405,658
Total nonoperating income (expense)	3,065,129	(2,882,342)	3,134,009	(1,980,481)	-	1,336,315
CHANGE IN NET POSITION	2,899,931	(4,595,889)	992,182	(1,763,122)	-	(2,466,898)
Net position (deficit) - beginning of year	(11,335,077)	5,187,274	1,692,044	7,251,301	-	2,795,542
Net position (deficit) - end of year	$ (8,435,146)	$ 591,385	$ 2,684,226	$ 5,488,179	$ -	$ 328,644

NOTE M - BLENDED COMPONENT UNITS - Continued

Combining Statement of Net Position
June 30, 2016

ASSETS	MSAN	MSAS	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
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	2,199,994	252,938	318,850	(3,776)	3,390,943
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	2,516,920	(108,290)	22,294	-	11,949,895
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

NOTE M - BLENDED COMPONENT UNITS - Continued

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

	MSAN	MSAS	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 income (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 (expense)	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

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, 2017, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements, and have issued our report thereon dated October 31, 2017.

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 finding 2017-001 that we consider to be a significant deficiency in the Organization's internal control.

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
October 31, 2017

Integrated Clinical Services, Inc.

SCHEDULE OF FINDINGS AND RESPONSES

Year ended June 30, 2017

FINDING 2017-001 - Significant Deficiency - Untimely and Incomplete Year End Close

Criteria
Internal control environments which are operating optimally, provide for a staffing complement or alternative solution to ensure the appropriate level of skills and capacity are on hand to maintain the financial records of an organization. The COSO internal control framework, chapter 5 notes "management evaluate competence across the organization and in outsourced service providers in relation to established policies and practices, and act as necessary to address shortcomings".

Condition
The close of the books for the year ended June 30, 2017 for ICS was delayed and had not been completed by the time the annual audit commenced on August 1, 2017. During audit fieldwork, management recorded 31 post-closing journal entries which resulted in a decrease to total assets of $3,931,307, a decrease in total liabilities of $2,465,765 and an increase in change in net position of $1,465,542. Typically, all closing journal entries are recorded as part of a timely close and well before the annual audit commences so this level of late activity was unusual.

Context
Staffing issues contributed to the untimely and incomplete close.

Effect

- Subsequent to receiving the trial balance, management provided 31 post-close entries.
- The last of the requested audit documentation was not received until 11 weeks after the audit commenced.
- The delays in providing audit support resulted in untimely filing of ICS financial statements with the Nevada System of Higher Education.

Cause

- The cessation of activities in Southern Nevada resulted in a reduction in work force in the accounting and billing departments that maintained the books and records subject to the FY17 audit.
- Key finance personnel were on personal leave during critical portions of the year-end close and audit and an alternative solution had not been arranged.

Recommendation
We recommend management react to changes in personnel levels and leave arrangements to provide alternative solutions which will facilitate a timely year-end close and ensure accurate financial statements are provided to NSHE in a timely manner.

Views of Responsible Officials
Management concurs.

University of Nevada, Reno
School of Medicine

Thomas L. Schwenk, M.D.
Professor, Family and Community Medicine
Dean, School of Medicine
Vice President, Health Sciences

Management's response
University of Nevada Reno, School of Medicine/ICS is continuing to address the staffing needs and restructuring of UNRSOM / ICS after the transition of the Southern Campus to UNLV, which includes hiring additional staff in the Accounting Finance Department. This revamping of staff will ensure the appropriate level of staffing skills, right sizing and adequate back up to provide accurate and timely financial statements.