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# University of Alaska Audit Results June 30, 2011

December 9, 2011

Daniel J. Rozema

# Agenda

## 1.0 Audit Status

## 2.0 Significant Findings From the Audit

- Areas of Interest
- Corrected and Uncorrected Misstatements
- Omissions and Other Errors in Financial Statement Presentation and Disclosure
- Significant Deficiencies and Material Weaknesses in Internal Control
- Accounting Policies and Practices
- Other Matters

## 3.0 Independence

### Appendix:

- A. Responsibilities
- B. KPMG's Audit Committee Institute

# **1.0**

## **Audit Status**

# Audit Status

## Significant Changes to our Audit Plan

There have been no significant changes to our audit plan

## Pending Matters

- None

**2.0**

## **Significant Findings From the Audit**

# Areas of Interest

Opinion on financial statements	Unqualified opinion on financial statements.
Opinion on Federal A-133 compliance	Unqualified opinion on compliance for each major program.
Federal A-133 audit results	Five major programs audited. No findings or questioned costs

# Corrected Misstatements – Fiscal 2011

\$(Million)

Description of Adjustment	Debit	Credit	Effect of Misstatement on ICFR
None			Not applicable

# Uncorrected Misstatements – Fiscal 2011

\$(Million)

Description of Adjustment	Quantitative Income Statement Effect
Impact of reversal of 2010 uncorrected misstatements	\$5.5
Accrual of accounts payable	1.5
Total	7.0
Increase in net assets	132.8
Percentage	5.3%



# Omissions and Other Errors in Financial Statement Presentation and Disclosure

Description	Corrected/ Uncorrected	Identified Internal Control Deficiency
None noted		

# Significant Deficiencies and Material Weaknesses in Internal Control

## Material Weaknesses

Description	Identified By	Status
None noted		

## Significant Deficiencies

Description	Identified By	Status
None reported		

# Accounting Policies and Practices

Significant Judgments and Estimates	Comments
Self insurance liabilities of \$13.8 million	Pension plan actuarial report review by KPMG actuary, methods and assumptions reasonable
Alternative investments of \$25.2 million	Obtained annual audited financial statements and interim financial statements for majority to test valuation
Depreciation expense of \$57.1 million	Review useful lives assigned to addition and found them to be reasonable
Scholarship allowance of \$16.4 million	Reviewed managements methodology and assumptions and found them to be reasonable

## Other Matters

Other Information in Documents Containing Audited Financial Statements	No matters to report
Significant Difficulties Encountered During the Audit	No matters to report
Disagreements with Management	No matters to report
Management's Consultation with Other Accountants	No matters to report
Significant Issues Discussed, or Subject to Correspondence, with Management	No matters to report
Other Findings or Issues Relevant Regarding Oversight of the Financial Reporting Process	No matters to report
Communications with the Firm's National Office	No matters to report

# **3.0**

## **Independence**

# Independence

Non-audit services or other relationships that may reasonably be brought to bear on independence include:

- Employment tax research and registration assistance in various states
- Routine tax advice related to unrelated business income tax issues

In our professional judgment, we are independent with respect to the University, as that term is defined by the professional standards.

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**Appendix A**

**Responsibilities**

# Responsibilities

Management is responsible for:

- Adopting sound accounting policies
- Fairly presenting the financial statements in conformity with generally accepted accounting principles
- Establishing and maintaining effective ICFR
- Identifying and confirming that the University complies with laws and regulations applicable to its activities
- Making all financial records and related information available to the auditor
- Providing the auditor with a letter confirming certain representations made during the audit that includes, but are not limited to management's:
  - disclosure of all significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the Plans' ability to record, process, summarize, and report financial data; and
  - acknowledgement of their responsibility for the design and implementation of programs and controls to prevent and detect fraud



## Responsibilities (continued)

The Audit Committee is responsible for:

- Oversight of the financial reporting process and ICFR

Management and the Audit Committee are responsible for:

- Establishing and maintaining internal controls to prevent, deter, and detect fraud
- Setting the proper tone and creating and maintaining a culture of honesty and high ethical standards

The audit of the financial statements does not relieve management or the Audit Committee of their responsibilities.

# Responsibilities (continued)

KPMG is responsible for:

- Forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the Audit Committee are presented fairly, in all material respects, in conformity with generally accepted accounting principles
- Planning and performing the audit to obtain reasonable – not absolute – assurance about whether the financial statements are free of material misstatement, whether caused by fraud or error. Because of the nature of audit evidence and the characteristics of fraud, we are able to obtain reasonable, but not absolute, assurance that material misstatements will be detected.
- Evaluating:
  - (a) whether the University's controls sufficiently address identified risks of material misstatement due to fraud; and
  - (b) controls intended to address the risk of management override of other controls
- Communicating to you in writing all significant deficiencies and material weaknesses in internal control identified in the audit and reporting to management all deficiencies noted during our audit that are of sufficient importance to merit management's attention
- Conducting our audit in accordance with professional standards
- Complying with the rules and regulations of the Code of Professional Conduct of the American Institute of Certified Public Accountants, and the ethical standards of relevant CPA societies and relevant state boards of accountancy
- Planning and performing our audit with an attitude of professional skepticism
- Communicating all required information, including significant matters, to management and the Audit Committee

# **Appendix B**

## **KPMG's Audit Committee Institute**

# KPMG's Audit Committee Institute (ACI)

## *Communicating with Audit Committees Since 1999*

### Past Events

- 7<sup>th</sup> Annual Audit Committee Issues Conference
  - East Coast – February 2, 2011 (Miami, FL)
  - West Coast – February 8, 2011 (Scottsdale, AZ)

This conference brings together Audit Committee members from around the country to discuss challenges, practices, and priorities shaping Audit Committees and Board agendas.

- Audit Committee Quarterly Webcast Series – 2011
  - Dates TBA (11:00am-12:15pm EST)

A quarterly webcast providing updates and insights into issues affecting Audit Committee/Board oversight – from key accounting and regulatory changes to developments in risk oversight.

### Recent Publications

- ACI's Ten To-Do's for Audit Committees in 2011 – released December 3, 2010
- Convergence Deserves the Market's Best Thinking – released December 1, 2010

### Resources

- *Audit Committee Insights – U.S. and International editions (biweekly electronic publications):* [www.kpmginsights.com](http://www.kpmginsights.com)
- ACI Website: [www.auditcommitteeinstitute.com](http://www.auditcommitteeinstitute.com)
- ACI mailbox: [auditcommittee@kpmg.com](mailto:auditcommittee@kpmg.com)
- ACI hotline: [1-877-KPMG-ACI](tel:1-877-KPMG-ACI)

**Presented by**

**Daniel J. Rozema, Partner Audit**



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**UNIVERSITY OF ALASKA**

Management Letter

October 19, 2011



KPMG LLP  
Suite 600  
701 West Eighth Avenue  
Anchorage, AK 99501

October 19, 2011

Audit Committee  
Board of Regents  
University of Alaska

Ladies and Gentlemen:

In planning and performing our audit of the financial statements of the University of Alaska (University) as of and for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the University's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University'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 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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control, that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

This communication is intended solely for the information and use of management, and the Board of Regents, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

**KPMG LLP**





**UNIVERSITY OF ALASKA**

Letter to the Board of Regents

October 19, 2011



KPMG LLP  
Suite 600  
701 West Eighth Avenue  
Anchorage, AK 99501

October 19, 2011

Audit Committee  
Board of Regents  
University of Alaska:

Ladies and Gentlemen:

We have audited the financial statements of the University of Alaska (University) as of June 30, 2011, and have issued our report thereon under date of October 19, 2011. Under our professional standards, we are providing you with the accompanying information related to the conduct of our audit.

#### **Our Responsibility Under Professional Standards**

We are responsible for forming and expressing an opinion about whether the financial statements, that have been prepared by management with the oversight of Board of Regents, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. We have a responsibility to perform our audit of the financial statements in accordance with professional standards. In carrying out this responsibility, we planned and performed the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Because of the nature of audit evidence and the characteristics of fraud, we are to obtain reasonable, not absolute, assurance that material misstatements are detected. We have no responsibility to plan and perform the audit to obtain reasonable assurance that misstatements, whether caused by error or fraud, that are not material to the financial statements are detected. Our audit does not relieve management or Board of Regents of their responsibilities.

In addition, in planning and performing our audit of the financial statements, we considered internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

We also have a responsibility to communicate significant matters related to the financial statement audit that are, in our professional judgment, relevant to the responsibilities of the Board of Regents in overseeing the financial reporting process. We are not required to design procedures for the purpose of identifying other matters to communicate to you.



Audit Committee  
Board of Regents  
University of Alaska  
October 19, 2011  
Page 2 of 3

## **Accounting Practices and Alternative Treatments**

### *Significant Accounting Policies*

The significant accounting policies used by the University are described in Note 1 to the financial statements.

### *Qualitative Aspects of Accounting Practices*

We have discussed with the Board of Regents and management our judgments about the quality, not just the acceptability, of the University's accounting principles as applied in its financial reporting. The discussions generally included such matters as the consistency of the University's accounting policies and their application, and the understandability and completeness of the University's financial statements, which include related disclosures.

## **Management Judgments and Accounting Estimates**

The preparation of the financial statements requires management of the University to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period.

Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments. We evaluated the key factors and assumptions used to develop management's judgments and estimates in determining that amounts recorded were reasonable in relation to the financial statements of the University taken as a whole. Significant estimates in the University's financial statements include: alternative investments, self-insurance reserves, depreciation expense and scholarship allowance.

## **Uncorrected and Corrected Misstatements**

In connection with our audit of the University's financial statements, we have discussed with management certain financial statement misstatements that have not been corrected in the University's books and records as of and for the year ended June 30, 2011. We have reported such misstatements to management on the Summary of Uncorrected Misstatements and have received written representations from management that management believes that the effects of the uncorrected financial statement misstatements are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. Attached is a copy of the summary that has been provided to, and discussed with, management.



Audit Committee  
Board of Regents  
University of Alaska  
October 19, 2011  
Page 3 of 3

#### **Disagreements with Management**

There were no disagreements with management on financial accounting, and reporting matters that, if not satisfactorily resolved, would have caused a modification of our auditors' report on the University's financial statements.

#### **Management's Consultation with Other Accountants**

To the best of our knowledge, management has not consulted with or obtained opinions, written or oral, from other independent accountants during the year ended June 30, 2011.

#### **Significant Issues Discussed, or Subject to Correspondence, with Management**

##### *Major Issues Discussed with Management Prior to Retention*

We generally discuss a variety of matters with the Audit Committees and management each year prior to our retention by the Audit Committee as the University's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

##### *Material Written Communications*

Attached to this letter please find copies of the following material written communications between management and us:

1. Engagement contract; and
2. Management representation letter

#### **Significant Difficulties Encountered During the Audit**

We encountered no significant difficulties in dealing with management in performing our audit.

\* \* \* \* \*

This letter to the Audit Committee is intended solely for the information and use of the audit committee and management and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP

103 Administrative Services Center  
3295 College Road, Suite 103



Telephone: (907) 474-7420  
Fax: (907) 474-7720  
E-mail: srschwafel@alaska.edu

Procurement & Contract Services  
PO Box 757940, Fairbanks, Alaska 99775-7940

**MODIFICATION NUMBER FIVE TO CONTRACT UAF 08-0092**

**"Professional Accounting Services – External Auditing Services"**

**CONTRACT NO. UAF 08-0092**

Issued: May 14, 2008

**ISSUED TO:**

**KPMG LLP**

**701 West Eighth Avenue, Suite 600  
Anchorage, Alaska 99501**

**MODIFICATION NO. 5**

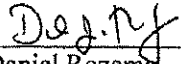
Effective date: May 14, 2011

**ISSUED BY:**

**Procurement & Contract Services  
University of Alaska Fairbanks  
PO Box 757940  
Fairbanks, Alaska 99775-7940**

1. PURSUANT TO UNIVERSITY OF ALASKA FAIRBANKS PROFESSIONAL SERVICES CONTRACT UAF 08-0092, IN ACCORDANCE WITH STANDARD PROVISION 15. RENEWAL, EXTENSION, AND MODIFICATION OF CONTRACT, AND GENERAL PROVISIONS 26. CHANGES, 27. PRICE ADJUSTMENT (a) (1), AND 29. PAYMENTS TO THE CONTRACTOR, THIS MODIFICATION #5 IS ISSUED TO INITIATE OPTION YEAR #3 (CONTRACT YEAR #4) TO THE SUBJECT CONTRACT.
2. THE CONTRACT VALUE IS HEREBY INCREASED BY \$298,204. FOR THE COSTS OF AUDIT SERVICES OF FISCAL YEAR 2011 AS OFFERED FOR OPTION YEAR #3. THIS INCREASE INCREASES THE PRICE OF THE CONTRACT TO \$1,124,048.
3. THE PERIOD OF PERFORMANCE OF THIS MODIFICATION IS MAY 14, 2011 THROUGH MAY 13, 2012. THE OVERALL CONTRACT PERIOD OF PERFORMANCE IS MAY 14, 2008 THROUGH MAY 13, 2012.
4. ALL OTHER TERMS, CONDITIONS, AND SPECIFICATIONS OF UAF 08-0092 REMAIN IN FULL FORCE AND EFFECT.

For:  
**KPMG LLP**

  
\_\_\_\_\_  
Daniel Rozema  
Managing Partner

\_\_\_\_\_  
Type/Print Name & Title (if different)

  
\_\_\_\_\_  
Date

For:  
**UNIVERSITY OF ALASKA FAIRBANKS**

  
\_\_\_\_\_  
Stanley R. Schwafel  
Senior Contracting Officer

  
\_\_\_\_\_  
Date

Patrick Gamble, President  
Phone: (907) 450-8000  
Fax: (907) 450-8012  
email: ua.president@alaska.edu



UNIVERSITY  
*of* ALASKA  
*Many Traditions One Alaska*

202 Butrovich Building  
910 Yukon Drive  
P.O. Box 755000  
Fairbanks, AK 99775-5000

October 19, 2011

KPMG LLP  
701 West Eighth Avenue  
Suite 600  
Anchorage, AK 99501

Ladies and Gentlemen:

We are providing this letter in connection with your audit of the financial statements of the University of Alaska and its discretely presented component unit (University) as of and for the year ended June 30, 2011, for the purpose of expressing an opinion as to whether these financial statements present fairly, in all material respects, the financial position of the University, and the changes in its net assets and its cash flows in conformity with U.S. generally accepted accounting principles. We confirm that we are responsible for the fair presentation in the financial statements of financial position, changes in net assets, and cash flows in conformity with U.S. generally accepted accounting principles. We are also responsible for establishing and maintaining effective internal control over financial reporting.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit:

1. The financial statements referred to above are fairly presented in conformity with U.S. generally accepted accounting principles.
2. We have made available to you:

- a. All financial records and related data.
  - b. All minutes of meetings of the Board of Regents and committees of the Board of Regents, or summaries of actions of recent meetings for which minutes have not yet been prepared.
3. Except as disclosed to you in writing, there have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
4. There are no:
  - a. Violations or possible violations of laws or regulations, whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
  - b. Unasserted claims or assessments that our lawyers have advised us are probable of assertion and must be disclosed in accordance with FASB Accounting Standards Codification (ASC) 450, *Contingencies*.
  - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB ASC 450, *Contingencies*.
  - d. Material transactions that have not been properly recorded in the accounting records underlying the financial statements.
  - e. Events that have occurred subsequent to June 30, 2011, and through the date of this letter that would require adjustment to or disclosure in the financial statements, except for the sale of general revenue bonds on October 5, 2011, which has been disclosed.
5. We believe that the effects of the uncorrected financial statement misstatements summarized in the accompanying schedule are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.
6. We acknowledge our responsibility for the design and implementation of programs and controls to prevent, deter, and detect fraud. We understand that the term "fraud" includes misstatements arising from fraudulent financial reporting and misstatements arising from misappropriation of assets.
7. We have no knowledge of any fraud or suspected fraud affecting the entity involving:

- a. Management
  - b. Employees who have significant roles in internal control over financial reporting, or
  - c. Others where the fraud could have a material effect on the financial statements.
8. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, short sellers, or others.
9. The University has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
10. We have no knowledge of any officer or member of Board of Regents of the University, or any other person acting under the direction thereof, having taken any action to fraudulently influence, coerce, manipulate, or mislead you during your audit.
11. The following have been properly recorded or disclosed in the financial statements:
- a. Related party transactions including sales, purchases, loans, transfers, leasing arrangements, guarantees, ongoing contractual commitments, and amounts receivable from or payable to related parties.
  - b. Guarantees, whether written or oral, under which the University is contingently liable, including guarantee contracts and indemnification agreements pursuant to FASB ASC 460, *Guarantees*.
  - c. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and lines of credit or similar arrangements.
  - d. Agreements to repurchase assets previously sold, including sales with recourse.
  - e. Changes in accounting principle affecting consistency.
  - f. The existence of and transactions with joint ventures and other related organizations.
12. Capital assets, including infrastructure assets, are properly capitalized, reported and, if applicable, depreciated. The University has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets, nor has any asset been pledged as collateral.



13. The University has complied with all aspects of laws, regulations, contracts, grants, and donor restrictions that would have a material effect on the financial statements in the event of noncompliance.
14. Management is responsible for compliance with the laws, regulations, donor restrictions, and provisions of contracts and grant agreements applicable to the University. Management has identified and disclosed to you all laws, regulations, donor restrictions, and provisions of contracts and grant agreements that have a direct and material effect on the determination of financial statement amounts.
15. We have disclosed to you all deficiencies in the design or operation of internal control over financial reporting of which we are aware, which could adversely affect the University's ability to initiate, authorize, record, process, or report financial data. We have separately disclosed to you all such deficiencies that we believe to be significant deficiencies or material weaknesses in internal control over financial reporting, as those terms are defined in Statement on Auditing Standards No. 115, *Communicating Internal Control Related Matters Identified in an Audit*.
16. The University has identified and properly accounted for all non-exchange transactions.
17. Receivables reported in the financial statements represent valid claims against debtors for sales or other charges arising on or before the balance-sheet date and have been appropriately reduced to their estimated net realizable value.
18. The following information about financial instruments with off-balance-sheet risk and financial instruments with concentrations of credit risk has been properly disclosed in the financial statements:
  - a. Extent, nature, and terms of financial instruments with off-balance-sheet risk;
  - b. The amount of credit risk of financial instruments with off-balance-sheet credit risk, and information about the collateral supporting such financial instruments; and
  - c. Significant concentrations of credit risk arising from all financial instruments and information about the collateral supporting such financial instruments.
19. The University is responsible for determining the fair value of certain investments as required by GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The amounts reported represent the University's best estimate of fair value of investments required to be reported under the Statement. The University also has disclosed the methods and significant assumptions

used to estimate the fair value of its investments, and the nature of investments reported at amortized cost.

20. Deposits and investment securities are properly classified and reported.
21. Provision has been made in the financial statements for the University's pollution remediation obligations. We believe that such estimate has been determined in accordance with the provisions of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* and is reasonable based on available information.
22. We believe that the actuarial assumptions and methods used to measure pension liabilities and costs for financial accounting purposes are appropriate in the circumstances.
23. We have received opinions of counsel upon each issuance of tax-exempt bonds that the interest on such bonds is exempt from federal income taxes under section 103 of the Internal Revenue Code of 1986, as amended. There have been no changes in the use of property financed with the proceeds of tax-exempt bonds, or any other occurrences, subsequent to the issuance of such opinions, that would jeopardize the tax-exempt status of the bonds. Provision has been made, where material, for the amount of any required arbitrage rebate.
24. The University has no:
  - a. Commitments for the purchase or sale of services or assets at prices involving material probable loss.
  - b. Material amounts of obsolete, damaged, or unusable items included in the inventories at greater than salvage values.
  - c. Loss to be sustained as a result of other-than-temporary declines in the fair value of investments.
25. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
26. Revenues are appropriately classified in the statement of revenues, expenses and changes in net assets within operating revenues, operating expenses and nonoperating revenue and expenses.

27. The University has identified and properly reported all of its derivative instruments in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, including the requirements related to the determination of hedging derivative instruments and the application of hedge accounting.
28. We have disclosed to you all accounting policies and practices we have adopted that, if applied to significant items or transactions, would not be in accordance with U.S. generally accepted accounting principles (GAAP). We have evaluated the impact of the application of each such policy and practice, both individually and in the aggregate, on the University's current period financial statements, and the expected impact of each such policy and practice on future periods' financial reporting. We believe the effect of these policies and practices on the financial statements is not material. Furthermore, we do not believe the impact of the application of these policies and practices will be material to the financial statements in future periods.
29. The University's reporting entity includes all entities that are component units of the University. Such component units have been properly presented as either blended or discrete. The University has no investments in joint ventures in which it holds an equity interest.
30. In accordance with *Government Auditing Standards*, we have identified to you all previous audits, attestation engagements, and other studies that relate to the objectives of this audit, including whether related recommendations have been implemented.
31. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved.
32. The University has complied with all tax and debt limits and with all debt related covenants.
33. The University has presented all required supplementary information. This information has been measured and prepared within prescribed guidelines.
34. The University has complied with all applicable laws and regulations in adopting, approving and amending budgets.
35. Special and extraordinary items are appropriately classified and reported.
36. Management has taken timely and appropriate steps to remedy fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that we have reported.

37. Management has a process to track the status of audit findings and recommendations.
38. Management has provided views on reported findings, conclusions, and recommendations, as well as management's planned corrective actions, for the report.
39. For those investments for which the investee issues the Form 8886 (or Notice 2006-16 Acknowledgement) for the purpose of economic gain and not with the purpose of investing in listed transactions that are substantially similar to listed transactions, or other transactions the principal purpose of which is the avoidance or evasion of Federal income tax.
40. The University has no actual knowledge that the entity issuing the Form 8886 (or Notice 2006-16 Acknowledgement) to the University entered into a transaction that is described in, or that is substantially similar to a transaction described in IRS Notice 2002-35.
41. The University is responsible for complying, and has complied, with the requirements of OMB Circular A-133.
42. The University has prepared the schedule of expenditures of federal awards (SEFA) in accordance with the requirements of OMB Circular A-133 and has included all expenditures made during the year ended June 30, 2011 for all awards provided by federal agencies in the form of grants, awards under the American Recovery and Reinvestment Act (ARRA), federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance. The University has appropriately identified and separated all ARRA awards, if any, within the SEFA.
43. The University is responsible for complying, and has complied, in all material respects, with the requirements of laws and regulations, and the provisions of contracts and grant agreements related to each of its federal programs. The University has disclosed to you any interpretations of any compliance requirements that have varying interpretations.
44. The University is responsible for establishing and maintaining, and has established and maintained, effective internal control over compliance for federal programs that provides reasonable assurance that federal awards are administered in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on a federal program.
45. We have communicated to you all significant deficiencies and material weaknesses in the design or operation of internal control over compliance that we have identified which could adversely affect the University's ability to administer a major federal program in

accordance with the applicable requirements of laws, regulations, and the provisions of contracts and grant agreements. Under standards established by the American Institute of Certified Public Accountants, a deficiency in internal control over compliance 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 on a timely basis noncompliance with a type of compliance requirement of a federal program. A "material weakness" is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program 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 over compliance with a type of compliance requirement of a federal program that, is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

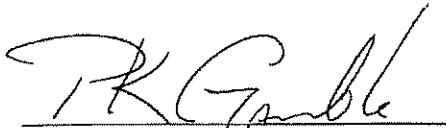
46. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud in the administration of federal programs. We have no knowledge of any fraud or suspected fraud affecting the entity's federal programs involving:
  - a. Management, including management involved in the administration of federal programs
  - b. Employees who have significant roles in internal control over the administration of federal programs
  - c. Others where the fraud could have a material effect on compliance with laws and regulations, and provisions of contract and grant agreements related to its federal programs.
47. The University has identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major federal program.
48. The University has made available all contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities related to major federal programs.
49. The University has identified and disclosed to you all questioned costs and any known noncompliance with the requirements of federal awards, including the results of other audits or program reviews.

50. The University has made available all documentation related to the compliance requirements, including information related to federal financial reports and claims for advances and reimbursements for major federal programs.
51. The University is in compliance with documentation requirements contained in OMB Circular A-21, "Cost Principles for Educational Institutions for all costs charged to federal awards, including both direct costs and indirect costs charged through indirect cost rate proposals. Costs charged to federal awards are considered allowable under the applicable cost principles contained in OMB Circular A-21.
52. Federal financial reports and claims for advances and reimbursements are supported by the accounting records from which the financial statements have been prepared.
53. The copies of federal financial reports provided to you are true copies of the reports submitted, or electronically transmitted, to the federal agency or pass-through entity, as applicable.
54. If applicable, the University has monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of OMB Circular A-133. If applicable, the University has issued management decisions on a timely basis after receipt of subrecipient audit reports that identified non-compliance with laws, regulations, or the provisions of contracts or grant agreements and has ensured that subrecipients have taken appropriate and timely corrective action on such findings.
55. If applicable, the University has considered the results of subrecipient audits and has made any necessary adjustments to its own accounting records.
56. The University is responsible for, and has accurately prepared, the summary schedule of prior audit findings to include all findings required to be included by OMB Circular A-133.
57. If applicable, the University has provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
58. The University has advised you of all contracts or other agreements with service organizations.
59. If applicable, the University has disclosed to you all communications from its service organizations relating to noncompliance at the service organizations.

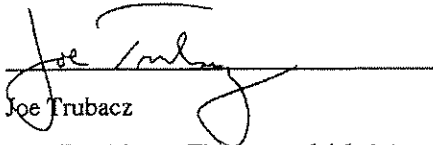
60. The University has disclosed any known noncompliance occurring subsequent to the period for which compliance is audited.
61. The University has disclosed whether any changes in internal control over compliance or other factors that might significantly affect internal control, including any corrective action taken by management with regard to significant deficiencies (including material weaknesses), have occurred subsequent to the date as to which compliance is audited.

Very truly yours,

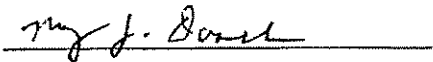
UNIVERSITY OF ALASKA



Patrick K. Gamble  
*President*



Joe Trubacz  
*Vice President – Finance and Administration*



Myron Dosch  
*Controller*

# Uncorrected Misstatements – Fiscal 2011

Description of Adjustment		Quantitative Income Statement Effect	
Impact of reversal of 2010 uncorrected misstatements		\$5.5	
Accrual of accounts payable		1.5	
Total		7.0	
Increase in net assets		132.8	
Percentage		5.3%	

\$(Million)