University of Alaska
Audit Results
June 30, 2012

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December 7, 2012
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

<table>
<thead>
<tr>
<th>Opinion on financial statements</th>
<th>Unqualified opinion on financial statements.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal A-133 audit results</td>
<td>Approximately $329 million in federal awards. Five major programs audited. Two of the five were major programs because of ARRA monies. Unqualified opinion on compliance for each major program. No findings or questioned costs. No material weaknesses in controls over compliance. No significant deficiencies reported over compliance.</td>
</tr>
</tbody>
</table>
## Corrected Misstatements – Fiscal 2012

<table>
<thead>
<tr>
<th>Description of Adjustment</th>
<th>Debit</th>
<th>Credit</th>
<th>Effect of Misstatement on ICFR</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td></td>
<td></td>
<td>Not applicable</td>
</tr>
</tbody>
</table>
## Uncorrected Misstatements – Fiscal 2012

<table>
<thead>
<tr>
<th>Description of Adjustment</th>
<th>Quantitative Income Statement Effect $(Million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impact of reversal of 2011 uncorrected misstatements</td>
<td>$(1.5)</td>
</tr>
<tr>
<td>Accrual of accounts payable</td>
<td>4.8</td>
</tr>
<tr>
<td>Total</td>
<td>3.3</td>
</tr>
<tr>
<td>Increase in net assets</td>
<td>153.7</td>
</tr>
<tr>
<td>Percentage</td>
<td>2.1%</td>
</tr>
</tbody>
</table>
# Omissions and Other Errors in Financial Statement Presentation and Disclosure

<table>
<thead>
<tr>
<th>Description</th>
<th>Corrected/ Uncorrected</th>
<th>Identified Internal Control Deficiency</th>
</tr>
</thead>
<tbody>
<tr>
<td>None noted</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## Significant Deficiencies and Material Weaknesses in Internal Control

### Material Weaknesses

<table>
<thead>
<tr>
<th>Description</th>
<th>Identified By</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>None noted</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Significant Deficiencies

<table>
<thead>
<tr>
<th>Description</th>
<th>Identified By</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>None reported</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## Accounting Policies and Practices

<table>
<thead>
<tr>
<th>Significant Judgments and Estimates</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Self insurance liabilities of $14.3 million</td>
<td>Actuarial report review by KPMG actuary, methods and assumptions reasonable</td>
</tr>
<tr>
<td>Alternative investments of $26.0 million</td>
<td>Obtained annual audited financial statements and interim financial statements for majority to test valuation</td>
</tr>
<tr>
<td>Depreciation expense of $58.4 million Capital additions of $203 million</td>
<td>Reviewed useful lives assigned to additions and found them to be reasonable</td>
</tr>
</tbody>
</table>
## Other Matters

<table>
<thead>
<tr>
<th>Other Information in Documents Containing Audited Financial Statements</th>
<th>No matters to report</th>
</tr>
</thead>
<tbody>
<tr>
<td>Significant Difficulties Encountered During the Audit</td>
<td>No matters to report</td>
</tr>
<tr>
<td>Disagreements with Management</td>
<td>No matters to report</td>
</tr>
<tr>
<td>Management’s Consultation with Other Accountants</td>
<td>No matters to report</td>
</tr>
<tr>
<td>Significant Issues Discussed, or Subject to Correspondence, with Management</td>
<td>No matters to report</td>
</tr>
<tr>
<td>Other Findings or Issues Relevant Regarding Oversight of the Financial Reporting Process</td>
<td>No matters to report</td>
</tr>
<tr>
<td>Communications with the Firm’s National Office</td>
<td>No matters to report</td>
</tr>
</tbody>
</table>
3.0 Independence
Independence

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

- 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.
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 University’s 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

Upcoming Events

- 3rd Annual Audit Committee Issues Conference
  - Anchorage – May 3, 2012
    This conference brings together Audit Committee members from various Alaska Native Corporations to discuss challenges, practices, and priorities shaping Audit Committees and Board agendas. Also included in the agenda will be KPMG’s national partner for government contracting and a transactions services partner. They will be discussing the risks audit committees and board should consider.

- Audit Committee Quarterly Webcast Series – 2012
  - 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 Today’s Top To-Do’s for Higher Education Audit Committees – released August 2012
- ACI’s Ten To-Do’s for Audit Committees in 2012 – released December 2011

Resources

- ACI Website: www.auditcommitteeinstitute.com
- ACI mailbox: auditcommittee@kpmg.com
- ACI hotline: 1-877-KPMG-ACI