

December 19, 2014

Board of Directors
and Management of School for Advanced Research
Santa Fe, New Mexico

In planning and performing our audit of the financial statements of School for Advanced Research (the School) as of and for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the School's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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 School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to fraud or error may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 School's financial statements will not be prevented, or detected and corrected, on a timely basis.

Material weaknesses

We consider the following deficiency in the School's internal control to be a material weakness.

- Yearend cash balances improperly included \$691,698. The amount was not in the bank or in transit at June 30, 2014. This resulted in an overstatement of cash. A material adjustment was made to move the amount from cash to accounts receivable.

Management's Response: The annual contribution from a major donor was received July 8, 2014 rather than by June 30 as in previous years. In the past, SAR has had a policy to only record grants receivable when the funds are billable, based on the terms of the grant. Rather than changing the grant receivable policy, the staff opted to record the revenue in FY14 and treat the July deposit as "in transit". In the future, grants will be recorded on a case by case basis dependent upon the terms of the grant agreement itself. The deposit was reclassified as required.

Significant deficiencies

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. The following significant deficiency was identified and communicated in a prior period; remedial action has not yet been taken:

- There is no review of cash reconciliations after they are prepared by the VP for Finance and Administration. Without a timely review of bank reconciliations, misstatements could occur through intentional or unintentional error. Additionally, management and the Board of Directors could be relying on incorrect information when making decisions.

Management's Response: The management's response to the FY13 finding on this issue stated, "The School's bookkeeper will review the bank reconciliation monthly, before related journal entries are entered." The bookkeeper did review the entries before making the journal entries but, while the entries are stamped as posted, management failed to require that he initial the reconciliation and posting. This will be corrected in the future.

The following significant deficiency was identified as a result of current year audit procedures:

- Results of test work over releases of Net Asset restrictions showed a few small errors related to timing and completeness of releases. Errors included releases in excess of fund balance, expenditures in 2012 that were not released until 2014, and expenditures related to the current year that should have been released from restrictions and were not.

Management's Response: Management will increase efforts to pay closer attention to timing on restrictions.

Management's response

School for Advanced Research's written response to the material weaknesses and significant deficiencies identified in our audit was not subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it. **Other deficiencies in internal control and other matters**

During our audit, we became aware of other deficiencies in internal control and other matters that are opportunities to strengthen your internal control and improve the efficiency of your operations. While the nature and magnitude of the other deficiencies in internal control were not considered important enough to merit the attention of the Board of Directors, they are considered of sufficient importance to merit management's attention and are included herein to provide a single, comprehensive communication for both those charged with governance and management.

- Year end investment balance did not include all investment accounts.

Management's Response: An account was added to the School's portfolio in April 2014. Staff failed to correctly revise the June 2014 investment reconciliation spreadsheet page and the formula did not include this new account in the calculation of the cost basis of the portfolio. The spreadsheet has been corrected.

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We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various entity personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

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

CliftonLarsonAllen LLP

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

Albuquerque, New Mexico
December 19, 2014