PETERSON WALKER LLP

CHARTERED ACCOUNTANTS

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August 31, 2011

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GRADUATE STUDENTS ASSOCIATION

The Graduate Students' Association
of the University of Alberta
Room 1-37, Killam Centre for Advanced Studies
Triffo Hall, University of Alberta
EDMONTON AB T6G 2E1

Dear Sirs:

Re: Audit of 2011 Financial Statements

The objective of an audit is to obtain reasonable assurance whether the financial statements are free of material misstatement and it is not designed to identify matters to communicate. Accordingly, our audit would not usually identify all such matters that may be of interest to management in discharging its responsibilities and it is inappropriate to conclude that no such matters exist.

During the course of our audit of the financial statements for the year ended March 31, 2011, we identified certain matters which we have set out below. We did not identify any of the following matters: misstatements, other than trivial errors; fraud; misstatements that may cause future financial statements to be materially misstated; illegal or possibly illegal acts, other than ones considered inconsequential; or significant weaknesses in internal control.

REVIEW OF MATTERS RAISED DURING 2010 AUDIT

Comprehensive Review of Organizational Structure

The Graduate Students' Association (the GSA) is a not-for-profit students' association that was established to represent the interests of graduate students before the University administration and the general public. An elected Council oversees the governance of the GSA; however, the membership of the Council changes as graduate students complete their studies and leave the GSA.

This is typical of not-for-profit organizations where their Board is comprised of volunteers whose tenure with the organization is limited. To this end, not-for-profit organizations that are successful apply the Carver model of board governance. Under the Carver model, the Board provides general direction on matters of policy (governance) and delegates the day-to-day management of operations to an Executive Director/General Manager who provides regular reports back to the Board.

Approximately ten years ago, the GSA had an office manager who was very experienced and knowledgeable with respect to the University's processes and a bookkeeper who was fairly knowledgeable with respect to accounting. Unfortunately, the office manager retired and the bookkeeper left to pursue other interests. Since then, the GSA has not had any continuity within its senior management.

We strongly urged the GSA to:

- review its structure and give serious consideration to the application of the Carver model of board governance so that the Council is working at a macro level; and
- ensure staff and management continuity by benchmarking positions to the market, offering competitive benefits package, and ensuring a clear distinction between management roles and the roles of elected officials. We understand that the GSA has hired a consultant over the summer who recommended these approaches and we are supportive of this effort to ensure the long-term viability of the organization.

2011 update: A comprehensive review has been completed and changes have been made.

Review of Risk Management Processes

As part of their ongoing operations, organizations face the risk of loss as a result of unexpected events such as:

- destruction of assets and records from fire, water damage, electrical failures, human error and/or disgruntled employees or officers who are dismissed or on extended leave;
- disruptions or destruction of records by computer viruses;
- disruptions as a result of unexpected illnesses, sabbaticals or resignations; and
- financial loss as a result of an unexpected lawsuit, e.g. for non-compliance with legislation.

Although it is difficult, if not impossible, to foresee every situation that may result in a loss, organizations need to be proactive. We therefore recommended that a comprehensive review be completed of the GSA's risk management processes. We subsequently learned that the GSA hired a consultant last June who has been leading the Association through a risk management review. We urged that the GSA continue along this pathway and that appropriate resources are assigned to carry out this function.

2011 update: The review has been completed and changes have been made.

Financial Stabilization Fund

The GSA has accumulated a fairly large unrestricted net assets balance to March 31, 2009. For control and planning purposes, the GSA should consider creating a Financial Stabilization Fund as a safeguard against *both* unexpected expenditures *and* future programs in order to modernize, professionalize and stabilize the GSA. Money should be transferred from unrestricted net assets into the Stabilization Fund. As a general rule of thumb, the Stabilization Fund should equate at least three months' operating expenditures. Some not-for-profit organizations maintain a fund equal to nine months or even one year's expenditures.

A transfer of $500,000 was recommended to establish this Financial Stabilization Fund. We suggested that the GSA consider leaving at least $240,000 in this fund as a contingency and then establishing a fund for the remaining $260,000 as a bridging mechanism to begin to modernize its budget (e.g. benchmarking of positions) and to professionalize and stabilize the Association's staffing. Some of this bridge funding will need to be converted to hard dollars over a planned phase-in in order to securely fund initiatives related to stabilizing staffing.

2011 update: A Financial Stabilization Fund has been established.

MATTERS RAISED DURING 2011 AUDIT

Capitalization and Amortization

The Association should review its capitalization and amortization policies. Currently, equipment is being amortized on the declining balance method. More and more not-for-profit organizations are changing to the straight-line method for ease of accounting. As well, the Council should review the Association's capitalization policy and consider at what dollar level expenditures should be capitalized.

The Graduate Students' Association
of the University of Alberta
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Over the past year, the GSA has made significant improvements to internal controls and internal control policies and processes. It should be noted that maintaining internal controls is an on-going process and changes will need to be made as circumstances change.

We shall be pleased to discuss with you further any matters mentioned in this report at your convenience. We would like to express our appreciation for the co-operation and assistance which we received during the course of the audit from Ms. Bernadette Elliott and Ms. Ellen Schoeck.

This communication is prepared solely for the information of management and is not intended for any other purpose. We accept no responsibility to a third party who uses this communication.

Very truly yours,

Peterson Walker LLP

Chartered Accountants

TJG:cm