State University of New York

Report to the Audit Committee of the Board of Trustees

October 28, 2010

PricewaterhouseCoopers

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October 25, 2010

Members of the Audit Committee of the
Board of Trustees of the State University of New York

Dear Members of the Audit Committee:

We are pleased to have the opportunity to meet with you on October 28, 2010 to present the results of our 2010 audit of the State University of New York (the "University"). Our report to the Audit Committee includes an executive summary in which we have highlighted matters of significance in the following areas:

- The results of our audit
- Significant accounts and accounting estimates
- Assessment of unadjusted differences
- Key required communications covered in this report

We look forward to meeting with you to present this report, address your questions and discuss any other matters of interest to the Audit Committee.

Please feel free to contact Steve Jacques at (973) 236-5359 with any questions you may have.

Very truly yours,

PricewaterhouseCoopers LLP

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Appendix A:

Management Representation Letter

Executive Summary

This document outlines the results of our audit which includes the audit of the financial statements of the business-type activities and the aggregate discretely presented component units of the University based on an audit performed in accordance with Government Auditing Standards as of and for the year ended June 30, 2010.

The following topics are discussed in the accompanying report:

- We have completed our audit and plan to issue an unqualified opinion.
- Based on the results of our audit procedures to date, we are not aware of any material modifications that should be made to the University’s financial statements.
- No material weaknesses were noted in internal control over financial reporting.
- Required communications.
- Significant accounts and accounting estimates.
- Fraud procedures performed.

Summary of SUNY Component Units

Component Unit	Auditor	Summary of Audit Comfort:
SUNY University Campuses	PwC	PwC performs testing at selected university centers based on risk and materiality and also performs audit procedures centrally to obtain a high level of coverage over assets, liabilities, revenues, and expenses. PwC also performed testing at one comprehensive college for unpredictability.
SUNY Health Science Centers	PwC	PwC performs audit procedures at the health science centers and also performs audit procedures centrally to obtain a high level of coverage over assets, liabilities, revenues, and expenses. Additionally, the health science centers are audited by PwC as of December 31 for statutory purposes.
SUNY Research Foundation	KPMG	PwC receives audited financial statements, confirms independence / objectivity with auditor, reviews firm's peer review, and makes additional inquires over high risk areas if necessary.
Alfred Ceramics	KPMG	PwC receives audited financial statements, confirms independence / objectivity with auditor, reviews firm's peer review, and makes additional inquires over high risk areas if necessary.
Cornell (Statutory College)	PwC	PwC receives audited financial statements and makes additional inquires over high risk areas if necessary with other PwC team.
Construction Fund	KPMG	PwC receives audited financial statements, confirms independence / objectivity with auditor, reviews firm's peer review, and makes additional inquires over high risk areas if necessary. PwC's testing of capital expenditures also covers the Construction Fund.
Auxiliary Service Corporations	Various	PwC receives audited financial statements, confirms independence / objectivity with auditor, reviews firm's peer review, and makes additional inquires over high risk areas if necessary.

Discretely Presented

All other SUNY Foundations (except for the Research Foundation which is included above in the basic FS and not discretely presented)	Various	PwC receives audited financial statements, confirms independence / objectivity with auditor, reviews firm's peer review, and makes additional inquires over high risk areas if necessary.

Excluded from SUNY

Community Colleges	Various / N/A	As State community colleges are not included from SUNY's reporting unit, no procedures are performed by PwC.

Significant Accounts and Accounting Estimates

Investments ($871.8 million and $879.9 million at June 30, 2010 and 2009, respectively)

Investments with readily determinable market values are recorded at quoted market values.

Alternative Investments including equity partnerships and hedge funds ($384.9 million or 44% of overall portfolio at June 30, 2010) which are separately audited at Cornell and the Research Foundation:

- Are recorded at estimated fair value
- We are required to perform audit procedures for the existence and valuation assertions for non readily marketable securities such as:
  - Focus on risk assessment as it relates to valuation and transparency, complexity and liquidity
  - Expanded internal control testing and management's documentation to evidence operating effectiveness of internal controls
  - Expanded review of management's assessment of valuation techniques

Significant Accounts and Accounting Estimates (continued)

Procedures to audit the remaining University endowment transfer :

- Audited the transfer of the remaining $12 million to the discretely presented Foundations
- Reviewed the appropriateness of the accounting for the funds transferred, which resulted in a reduction of restricted cash and deposits held in custody for others

Virtually all other investments are held at Cornell, the Research Foundation, Alfred Ceramics, the Construction Fund and certain auxiliary service corporations whose financial statements are audited by separate PwC teams or other firms.

Capital Assets, net ($7.1 billion and $6.2 billion at June 30, 2010 and 2009, respectively)

Testing was performed over new additions, disposals, and substantive analytics were performed over depreciation expense.

Significant Accounts and Accounting Estimates (continued)

Capital Borrowing Program

There were several new debt issuances and refunding in the current year as noted below. PwC confirmed all debt, reviewed agreements, and performed substantive procedures over interest expense.

Educational Facilities – Personal Income Tax Bonds 2009D, 2009E & 2009F ($31.4 million, $23.0 million, and $522.0 million respectively) and the refunding Series 2009A ($351.0 million and $17.1 million)

Residential Facilities – Lease Revenue Bonds 2009A ($100.1 million)

Student Related Receivables and Reserves, net ($50.2 million and $30.2 million at June 30, 2010 and 2009, respectively)

Allowance for doubtful accounts of $10.4 million and $9.4 million based upon reserving for aged receivables at June 30, 2010 and 2009, respectively.

Student Loan Receivables, net ($135.3 million and $139.8 million at June 30, 2010 and 2009, respectively)

Processing is performed at the Student Loan Service Center. PwC performed an on-site visit to test controls and loan existence for a sample of students.

Allowance of $23.4 million $22.4 million is based upon historical default rates as of June 30, 2010 and 2009, respectively.

Patient Receivables, net ($394.2 million and $437.0 million at June 30, 2010 and 2009, respectively)

Audited at Stony Brook, Brooklyn and Syracuse Health Science Centers ("HSCs") at June 30 (full scope audit of all HSC's performed at December 31).

Audited Disproportionate Share (DSH) receivable at June 30.

Significant Accounts and Accounting Estimates (continued)

Other Receivables, net ($153.7 and $176.2 million at June 30, 2010 and 2009, respectively)

Substantially comprised of separately audited component units, including the Construction Fund, the Research Foundation, and Auxiliary Service Corporations as well as Statutory Colleges at Cornell and Alfred Ceramics ($137.8 million and $109.2 million at June 30, 2010 and 2009, respectively)

Grants Receivable ($234.0 million and $179.8 million at June 30, 2010 and 2009, respectively)

Based upon Research Foundation and Cornell audited financial statements.

Appropriations Receivable ($723.0 million and $553.6 million at June 30, 2010 and 2009, respectively)

Based upon management’s analysis which was audited.

Consisted of accrued interest on long term debt ($114.6 million), litigation accruals ($383.3 million), fringe benefit accrual ($47.6 million), and other reimbursable accounts payable ($150.2 million) at June 30, 2010.

Litigation Accrual ($383.8 million and $204.6 million at June 30, 2010 and 2009, respectively)

Primarily related to HSC accruals of $381.7 and $202.2 at June 30, 2010 and 2009, respectively.

Increase is a result of refining the analysis to utilize actuarial assumptions and consider incurred but not reported claims (IBNR).

Deposits with Trustees ($583.7 million and $803.3 million at June 30, 2010 and 2009, respectively)

PwC independently confirmed all balances.

Significant Accounts and Accounting Estimates (continued)

Accrual for Post Employment and Post Retirement Benefits ($2.1 billion and $1.7 billion at June 30, 2010 and 2009, respectively)

In 2007, SUNY adopted GASB 45, "*Accounting and Financial Reporting by Employers for Post-employment benefits other than Pensions*."

GASB 45 requires that a valuation only be performed biannually. Assumptions have remained relatively consistent with the prior year.

Reviewed the valuation prepared by Buck Consultants as well as the accounting treatment, disclosures, and assumptions with the help of our actuaries.

We have audited the roll-forward of the liability from June 30, 2009 to 2010.

Accounts Payable and Accrued Liabilities ($771.6 million and $602.1 million at June 30, 2010 and 2009, respectively)

Reviewed policy related to accruals, performed cutoff testing, and tested underlying support.

- Payroll and fringe accruals ($249.9 million and $226.2 million at June 30, 2010 and 2009, respectively)
- Accruals at separately audited component units including the Construction Fund, the Research Foundation, and Auxiliary Service Corporations as well as Statutory Colleges at Cornell and Alfred Ceramics ($288.7million and $208.8 million at June 30, 2010 and 2009, respectively)
- Accounts payable & other accruals ($233.0 million and $167.1 million at June 30, 2010 and 2009, respectively)

Significant Accounts and Accounting Estimates (continued)

Statement of Revenues, Expenses, and Changes in Net Assets

Performed analytics on various revenue categories.

Performed tests of details for payroll and other expense transactions.

Reviewed detailed analytics for expense categories.

General Computer Controls

PwC has not placed reliance over general computer controls and has substantively tested each material account and key report used in testing.

Assessment of Unadjusted Differences

Unadjusted Differences

Consistent with prior periods, management has elected to use the “rollover method” in assessing the unadjusted differences encountered in the audit. This means that the effect of prior year unadjusted differences, to the extent that they are recurring, are netted to evaluate the current year impact.

Recurring unadjusted differences included the following (in thousands) - Debit (Credit):

	Assets	Liabilities	Change in Net Assets
1. To increase interest accrual	$ -	$ (13,287)	$ 13,287
2. Recognize 2010 summer revenue earned	-	33,946	(33,946)
Net impact	-	20,659	(20,659)
Rollover Effect	-	-	23,249
Final Net impact	-	-	2,590
Financial statement amounts	$11,866,691	$11,148,446	$(178,958)
Percent of total	**-%**	**-%**	**1.4%**

1. Residential facility obligation, including additions, payments and interest expense, accruals and deposits with bond trustees are recorded through March 31, 2010, rather than through June 30, 2010. As such, the interest expense and interest accrual are understated by three months. The total impact in the current year was $13.3 million. However, the impact on the income statement was offset by $8.6 million in the prior year resulting in a difference using the rollover method of $4.7 million.
2. All of the summer tuition is deferred in the current year. However, the period runs from May to August meaning a portion of the revenue should be recognized in 2010. This policy has been consistently applied. The understatement of revenue in the current year summer revenue was $33.9 million compared to $31.8 million in the prior year. Therefore the difference factoring in the rollover method is $2.1 million.

SUNY and Health Science Center Materiality

Materiality

We consider both quantitative and qualitative factors in our assessment of materiality. We also assess the metrics used by the users of the financial statements in determining the appropriate base for calculating materiality. We identify and assess the risk of material misstatement at:

- The overall financial statement level (for SUNY and each Health Science Center), and
- In relation to classes of transactions, account balances and disclosures.

Materiality in government/not for profit organizations is unique as compared to for profit organizations. From a purely quantitative perspective, we believe a 1 – 2% of total revenues is an appropriate measure of materiality.

Our overall materiality measure for SUNY for the year ended June 30, 2010 was approximately $78.8 million and for the Health Science Centers for the year ended December 31, 2009 were approximately $4.5 million, $5.0 million, and $7.4 million for the Health Science Centers of Brooklyn, Upstate and Stony Brook. However, materiality in a government/not for profit environment, in most cases, cannot be measured only quantitatively due to the expected "small base" of the number one measures the error against. Qualitative aspects must also be considered.

Audits of the Health Science Centers:
Significant Accounts and Accounting Estimates

Patient Accounts Receivable and Related Allowances

The table below presents summarized comparative financial information of patient accounts receivable at December 31, 2009 and 2008:

(dollars in millions)	Brooklyn		Upstate		Stony Brook		Total Health Science Centers	
	2009	2008	2009	2008	2009	2008	2009	2008
Accounts receivable, net of contractual allowances	$ 183.4	$ 154.5	$ 230.5	$ 205.3	$ 256.0	$ 296.5	$ 669.9	$ 656.3
Allowance for doubtful accounts	(114.3)	(96.4)	(145.3)	(124.6)	(110.1)	(123.4)	(369.7)	(344.4)
Net patient accounts receivable	$ 69.1	$ 58.1	$ 85.2	$ 80.7	$ 145.9	$ 173.1	$ 300.2	$ 311.9

■ Met with management to understand each of the Health Science Center's systems, methodology and other factors impacting patient receivables and related reserves.

■ Obtained management's reserve model and performed the following:

– Compared current year model to prior year model and inquired about changes;

– Compared valuation model to general ledger;

– Obtained explanations for significant fluctuations; and

– Ensured mathematical accuracy.

■ Analytically reviewed the appropriateness of management's estimates and compared to our independent expectations.

■ Reviewed management's look-back analysis to substantiate reasonableness of prior year estimates and determine appropriateness of current year model.

■ Validated accuracy of aging of receivables by agreeing aging detail to patient files.

■ Based on the results of our procedures performed, we agree with management that the reserves for contractual allowances and bad debts were within a reasonable range at December 31, 2009.

Audits of the Health Science Centers: Significant Accounts and Accounting Estimates (continued)

Estimated Third Party Payer Settlements

Certain agreements with various third party payers have provisions for retroactive settlements and dispute resolution related to issues such as allowable costs, utilization and charge structure. Provisions have been made in the financial statements for prior and current years' estimated settlements with the various third party payers. The difference between the amount provided and the actual final or revised settlement is recorded as an adjustment to income from operations in the year the revised or final settlement is determined.

Utilizing our Healthcare Reimbursement Specialist, we:

Obtained management's analysis of estimated third party settlements.

- Met with reimbursement consultants retained by management to assist finance in preparing the necessary analyses.
- Mathematically recomputed the analysis and agreed amounts to the December 31, 2009 trial balance without exception.
- For estimated settlement amounts recorded at December 31, 2008, we reviewed subsequent transactions and events and their impact on management's December 31, 2009 estimates, including evaluating the accounting and reporting of any changes in estimates.
- Obtained supporting documentation for all significant estimates

Management has recorded reserves for third party settlements, with supporting documentation, as noted below:

(dollars in millions)	Brooklyn		Upstate		Stony Brook		Total Health Science Centers	
	2009	2008	2009	2008	2009	2008	2009	2008
Estimated (Liability)/Receivable by Payer:								
Medicare	$ (32.5)	$ (18.9)	$ (3.6)	$ (1.8)	$ (3.9)	$ (3.9)	$ (40.0)	$ (24.6)
Medicaid	(5.7)	(4.4)	(12.2)	(11.3)	(26.5)	(31.5)	(44.4)	(47.2)
Other	9.6	0.8	(17.4)	1.9	3.0	4.9	(4.8)	7.6
DSH	55.6	116.4	56.9	67.1	21.0	65.1	133.5	248.6
Total estimated third party settlements	$ 27.0	$ 93.9	$ 23.7	$ 55.9	$ (6.4)	$ 34.6	$ 44.3	$ 184.4

Audits of the Health Science Centers:
Significant Accounts and Accounting Estimates (continued)

Receivable for Disproportionate Share Hospital (DSH) Payments

Consistent with the prior year, the Health Science Centers have recorded a receivable for expected payments to be made to New York State hospitals for the Medicaid DSH program. As of December 31, 2009 and 2008, the DSH receivable was as follows:

(dollars in millions)	Brooklyn		Upstate		Stony Brook		Total Health Science Centers	
	2009	2008	2009	2008	2009	2008	2009	2008
Receivable recorded at December 31	$ 55.6	$ 116.0	$ 56.9	$ 67.0	$ 21.0	$ 65.0	$ 133.5	$ 248.0
Subsequent payments received in fiscal year 2010	$ -	$ 106.0	$ -	$ 58.0	$ -	$ 61.3	$ -	$ 225.3

As noted in the above chart, of the amount expected to be received by the Health Science Centers of approximately $133.5 million at December 31, 2009.

In accordance with governmental accounting standards, such amounts must be approved in the annual New York State budget. In that regard, 100% of the 2009 calendar year initial payment has been recognized, as this has been approved in the NYS 2009-10 budget. Although this amount is pending approval of the federal government, the Health Science Centers have taken the position that since the initial (base) amount meets the eligibility requirements and the program and funding has been approved by the State, revenue recognition is appropriate. Additionally, the Health Science Centers have not recognized 75% of the estimated 2008 settlement due for DSH payments in the 2009 financial statements since uncertainty remains as to whether the Health Science Centers will be able to realize all amounts due. DSH amounts due could potentially be reduced based on various Federal and State budgetary issues and/or regulatory interpretations. We have reviewed the methodology for the recognition of the DSH receivable and noted that the receivable is fairly stated.

Required Communications

Matter to be Communicated	Auditor Response
Auditor's responsibility under Generally Accepted Auditing Standards	The auditor is responsible for forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of those charged with governance are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The auditor is responsible for conducting the audit in accordance with generally accepted auditing standards and *Government Auditing Standards*. Those standards require that the auditor obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Accordingly, a material misstatement may remain undetected. Also, an audit is not designed to detect error or fraud that is immaterial to the financial statements. An audit includes obtaining an understanding of internal control sufficient to plan the audit and to determine the nature, timing, and extent of audit procedures to be performed. Our audit is not designed to provide an expression of opinion on the University's internal control over financial reporting or to identify material weaknesses. The auditor is responsible for communicating significant matters related to the financial statement audit that are, in the auditor's professional judgment, relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. We consider the University's internal control over financial reporting as a basis for designing our audit procedures for the limited purpose described above; our procedures may identify significant deficiencies or material weaknesses which we will report to you. Generally accepted auditing standards do not require the auditor to design procedures for the purpose of identifying other matters to communicate with those charged with governance. Additionally, when applicable, the auditor is also responsible for communicating particular matters required by laws or regulations, by agreement with the entity or by additional requirements applicable to the engagement. **These matters have been communicated to management in our engagement letter.**

Required Communications (continued)

Matter to be Communicated	Auditor Response
Significant accounting policies, alternative treatments within generally accepted accounting principles, and the auditor's judgment about the quality of accounting policies	We are responsible for providing our views about qualitative aspects of the University's significant accounting practices, including accounting policies, accounting estimates and financial statement disclosures. Generally accepted accounting principles provide for the University to make accounting estimates and judgments about accounting policies and financial statement disclosures. We will inform you about the appropriateness of the accounting policies to the particular circumstances of the entity, considering the costs and benefits of providing such information. When acceptable alternative accounting policies exist, we will identify the financial statement items that are affected by the choice of significant policies as well as information on accounting policies used by similar entities. We will inform you of the initial selection of, and changes in, significant accounting policies, including the application of new accounting pronouncements. This communication may include a discussion of the effect of the timing and method of adoption of a change in accounting policy on the current and future earnings of the entity; and the timing of a change in accounting policies in relation to expected new accounting pronouncements. We will communicate the effect of the timing of transactions in relation to the period in which they are recorded. Additionally, we will communicate the effect of significant accounting policies in controversial or emerging areas or those unique to an industry, particularly when there is a lack of authoritative guidance or consensus. We will explain when we consider such significant accounting practices not to be appropriate and, when considered necessary, request changes. **In 2010, the University adopted GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* and GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments.* However, the impact of either authoritative pronouncement was not material to the financial statements.**

Required Communications (continued)

Matter to be Communicated	**Auditor Response**
Management judgments and accounting estimates	We will discuss with the Audit Committee the process used by management to form sensitive accounting estimates and the basis for our conclusion regarding the reasonableness of those estimates. The most significant estimates relate to receivables allowances, the accrual for post employment and post retirement benefits and other judgmental accruals such as for litigation. **Refer to slides 5 - 10 for further discussion of significant accounts and accounting estimates.**
Audit adjustments	PwC has not proposed any audit adjustments that were booked by management. There were two unadjusted differences which are summarized on page 11 of this report.
Potential effect on the financial statements of any significant risks and exposures	The University discloses all significant risks and uncertainties that were noted in the current year in the annual financial statements. We are not aware of any additional significant risks or exposures that could materially affect the financial statements.
Material uncertainties related to events and conditions that may cast doubt on the ability to continue as a going concern	We are not aware of any material uncertainties that cast doubt on the University's ability to continue as a going concern.

Required Communications (continued)

Matter to be Communicated	Auditor Response
Control deficiencies	There were no material weaknesses noted in the current year.
Disagreements with management	There were no disagreements with management.
Consultation with other accountants	Management has advised us that they have not relied on consultations with other accounting firms regarding any significant accounting matters.
Significant issues discussed, or subject to correspondence, with management prior to retention	No such significant issues were discussed with management.
Significant difficulties encountered during the audit	No significant difficulties were encountered while performing our audit.
Fraud and illegal acts	No irregularities, fraud, or illegal acts involving senior management that would cause a material misstatement to the financial statements, came to our attention as a result of our audit procedures. Refer to slides 20-21 for fraud procedures performed.
Other material written communications	■ Management representation letter ■ Engagement letter ■ Legal letter received from the Attorney General
Auditor's independence	There are no relationships between PwC and the University that would potentially impair our independence.

Fraud Procedures Performed

We have a responsibility to plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. In order to fulfill that responsibility, we performed the following procedures to address the risk of fraud:

- Conducted interviews with management and other employees regarding the entity's fraud risks and their knowledge of any fraudulent activity.
- Considered the fraud risk factors present for the board, senior management, management and employees to commit fraud, including key incentives, pressures and opportunities.
- Evaluated whether the University's programs and controls that address identified risks of misstatement due to fraud have been suitably designed and placed in operation.
- Incorporated unpredictability in the selection of the nature, timing and extent of audit procedures performed.
- Considered the following fraud risk areas and performed the following procedures to address identified risks:

Fraud Procedures Performed (continued)

Fraud Risk Area	Procedures Performed
Revenue recognition	In order to address the risk of material misstatement due to fraud related to revenue recognition, we performed the following procedures: ■ Disaggregated substantive analytical procedures on revenue. ■ Detail tested certain accounts receivable balances. ■ Tested certain controls over the revenue and receivables process.
Journal entries and other adjustments	In order to address the risk of management override of controls, we examined journal entries and other adjustments for evidence of possible material misstatement due to fraud. Specifically, we performed the following procedures: ■ We tested the completeness of the general ledger journal entry population using our Data Management Group (PwC specialist); ■ We selected journal entries for testing and reviewed for appropriateness.
Accounting estimates	We reviewed supporting evidence for accounting estimates recorded by management, including: receivable reserves and accruals and also performed a retrospective review of these estimates, considering whether there was any indication of possible bias on the part of management.
Significant unusual transactions	Ensured proper accounting treatment for all significant transactions. No unusual transactions were noted in the current year.
Suspense and intercompany accounts	Ensured that the financial statements were properly consolidated and that inter-entity accounts were properly accounted for.
Additional campus visit	Performed audit procedures and inquires at the Cobleskill campus to incorporate unpredictability into our audit strategy.