STONY BROOK UNIVERSITY HOSPITAL, STONY BROOK UNIVERSITY
UNIVERSITY HOSPITAL OF BROOKLYN – STATE UNIVERSITY OF NEW YORK
HEALTH SCIENCE CENTER OF BROOKLYN
UNIVERSITY HOSPITAL OF THE STATE UNIVERSITY OF NEW YORK UPSTATE
MEDICAL CENTER

Report on Results of 2013 Audits

SUNY Board of Trustees

Audit Committee Presentation

October 28, 2014
- Required Communications to those Charged with Governance

- Summary of Significant Developments and Operating Activities Impacting the Audits

- Internal Control Related Matters for Consideration

- Highlights of Audited Financial Statements
REQUIRED COMMUNICATIONS WITH THOSE Charged WITH GOVERNANCE


**Auditor’s Responsibility Under Generally Accepted Auditing Standards**

- Plan and perform an audit of the annual financial statements as of December 31, 2013 to obtain reasonable assurance about whether the financial statements are free of material misstatements, whether caused by error or fraud. An audit in accordance with auditing standards generally accepted in the United States of America does not provide absolute assurance relative to or any guarantee of the accuracy of the financial statements and is subject to the inherent risk that errors or fraud, if they exist, may not be detected.

- Professional standards also require that we obtain a sufficient understanding of the Hospitals’ internal control to plan the audits of the financial statements. However, such understanding is required for the purpose of determining our audit procedures, but not for the purpose of expressing an opinion on the Hospitals’ internal control. Our audit procedures may identify significant deficiencies or material weaknesses in internal control which would be communicated, in writing. As a result of our audit procedures, we did not identify any significant deficiencies or material weaknesses in internal control.

- The auditor is responsible for communicating significant matters related to the financial statement audits that are, in the auditor’s professional judgment, relevant to the responsibilities of those charged with governance in overseeing the financial reporting process.
Qualitative Aspects of Accounting Practices

- Generally accepted accounting principles provide for the Hospitals to make accounting estimates and judgments about the accounting policies and financial statement disclosures.
  - Management is responsible for the selection and use of appropriate accounting policies.
  - As discussed in the notes to the financial statements, the Hospitals adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* in 2013 as of January 1, 2012. The financial statement impact of this adoption reduced the overall net position of SUNY Upstate and SUNY Downstate by approximately $3.6m and $4.0m, respectively.
  - No new accounting policies were adopted in 2013 with the exception of the adoption of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The application of existing policies was not changed during 2013.
  - We noted no transactions entered into by the Hospitals during the year for which there is a lack of authoritative guidance or consensus.
  - All significant transactions have been recognized in the financial statements in the proper period.

The accounting policies used by the Hospitals are described in note 1 to the financial statements for Upstate and note 2 to the financial statements for Stony Brook and Downstate.
Management Judgments and Accounting Estimates

- Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. 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 significantly from those expected.

- The most sensitive estimates affecting the Hospitals’ financial statements were:
  - Allowances for doubtful accounts and allowances for contractual adjustments in order to present patient accounts receivable at the net realizable amount.
  - The Hospitals operate under reimbursement contracts with third parties which provide for various retroactive and prospective adjustments and settlements.
  - The Hospitals maintain insurance coverage for professional and general liability through the NYS self insurance program. A provision is made for estimated medical malpractice claims (including estimates of the ultimate costs for both reported claims and claims incurred but not reported) based on information provided by the Office of NYS Attorney General and estimated actuarial assumptions. The Hospitals record an offsetting receivable for the same amount.
  - SUNY Upstate’s actuarial assumptions used to determine the annual pension cost and net pension obligation for the Retirement Plan for Former Employees of Community General Hospital.
  - SUNY Stony Brook’s reserve on the loan to Stony Brook Business Ventures, LLC.
Management Judgments and Accounting Estimates, Continued

- Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

  **SUNY Downstate**
  - The disclosure of operating consideration matters in note 2b.
  - The disclosure of subsequent events in note 16.
  - The disclosure of transactions with affiliates and related parties in note 3 and note 6.

  **SUNY Stony Brook**
  - The disclosure of continuing negotiations with Southampton Hospital in note 1.
  - The disclosure of transactions with affiliates in note 3.

  **SUNY Upstate**
  - The disclosure of transactions with affiliates in note 2.

_We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole._

_The financial statement disclosures are neutral, consistent and clear._
**Corrected and Uncorrected Misstatements**

- Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

**Corrected Misstatements**

None of the misstatements corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

**Uncorrected Misstatements**

The following discloses the uncorrected misstatements of the financial statements, which are considered to be immaterial, both individually and in the aggregate, to the financial statements taken as whole:

**SUNY Downstate**
- Understatement of the balance sheet of $246k and overstatement of changes in net position of $604k, related accrued payroll and reversal of prior year unadjusted differences.

**SUNY Stony Brook**
- Overstatement of the balance sheet of $53k and understatement of changes in net position of $78k, to interest expense, capitalized interest, other expenses and reversal of prior year unadjusted differences.

**Disagreements with Management**

- Professional standards define a disagreement with management as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor’s report. We are pleased to report that no such disagreements arose during the course of our audits.
Management Representations

- We have requested certain representations from management that are included in the respective Hospitals’ management representation letters.

Management Consultations with Other Independent Accountants

- In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Hospitals’ financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Information in Documents Containing Audited Financial Statements

- With respect to the required supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audits of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Other Audit Findings or Issues

- We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Hospitals’ auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.
SUMMARY OF SIGNIFICANT DEVELOPMENTS AND OPERATING ACTIVITIES IMPACTING THE AUDITS
Summary of Significant Developments and Operating Activities Impacting the Audits

SUNY Downstate

- LICH operating results, closure and pending sale
- Continued cash flow challenges and operating considerations
- $89M HEAL grant

SUNY Stony Brook

- Stony Brook Business Ventures LLC and Affiliates
- Clinical Practice Management Plan transactions
- Continued due diligence with Southampton Hospital

SUNY Upstate

- EPIC System Conversion
INTERNAL CONTROL RELATED MATTERS FOR CONSIDERATION
Internal Control Related Matters for Consideration

**All 3 SUNY Hospitals**
- Patient Accounts Receivable Reserve Methodology

**SUNY Downstate**
- Financial Close Process

**SUNY Stony Brook**
- Credit Balances
### Highlights of the Audited Financial Statements

<table>
<thead>
<tr>
<th></th>
<th>Stony Brook</th>
<th>Upstate</th>
<th>Downstate</th>
<th>Total</th>
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<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>ASSETS</td>
<td>923,945</td>
<td>964,085</td>
<td>696,844</td>
<td>702,010</td>
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<tr>
<td><strong>Liabilities</strong></td>
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<tr>
<td>LIABILITIES</td>
<td>546,668</td>
<td>596,005</td>
<td>621,172</td>
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<tr>
<td><strong>Net Position</strong></td>
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<tr>
<td>NET POSITION</td>
<td>377,277</td>
<td>368,080</td>
<td>75,672</td>
<td>61,571</td>
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<tr>
<td><strong>Operating Revenues</strong></td>
<td></td>
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<tr>
<td>OPERATING REVENUES</td>
<td>983,839</td>
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<td>747,677</td>
<td>719,439</td>
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<td><strong>Operating Expenses</strong></td>
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<td>OPERATING EXPENSES</td>
<td>1,008,105</td>
<td>892,901</td>
<td>772,388</td>
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<td><strong>Other Non-Operating</strong></td>
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<td>REVENUES (EXPENSES)</td>
<td>33,463</td>
<td>(17,632)</td>
<td>38,812</td>
<td>15,764</td>
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<td><strong>Change in Net Position</strong></td>
<td>9,197</td>
<td>12,474</td>
<td>14,101</td>
<td>(12,104)</td>
</tr>
</tbody>
</table>

*(In thousands of $)*