



Faculty Student Association of Downstate Medical Center, Inc.

**Report to the Board of Directors
May 31, 2017**

Prepared by

Joseph A. Izzo, CPA
Engagement Partner
Not-for-Profit Services
jizzo@pkfod.com

Craig Plutner, CPA
Senior Manager
Not-for-Profit Services
cplutner@pkfod.com

A large, thick teal circle is positioned on the left side of the page, partially overlapping the bottom and left margins. Inside the circle, the text "KNOW GREATER VALUE" is written in a bold, dark blue, sans-serif font, stacked in three lines.

**KNOW
GREATER
VALUE**

October 27, 2017

Board of Directors
Faculty Student Association of Downstate Medical Center, Inc.
Brooklyn, NY

We have completed our audit of the financial statements of Faculty Student Association of Downstate Medical Center, Inc. ("FSA") as of and for the year ended May 31, 2017.

Professional standards require us to communicate with you regarding audit matters that are, in our professional judgment, significant and relevant to those charged with governance ("TCWG") in overseeing the financial reporting process. This communication is intended to provide you with these required communications as well as other findings and information regarding our audit.

We are also pleased to discuss other matters which may be of interest to you and to answer any questions you may have.

This information is intended solely for the information and use of TCWG and management of FSA, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

PKF O'Connor Davies, LLP

PKF O'Connor Davies, LLP

Contents

Status of the Audit and Other Services	3
Required Communications and Other Matters	4
Internal Control Over Financial Reporting	8
On the Horizon	10

Appendices

- 1 – Adjusting Journal Entries
- 2 – About PKF O'Connor Davies, LLP

Status of the Audit and Other Services

Audit of Financial Statements

- Audit fieldwork is complete. The scope of our fieldwork was substantially the same as described in our Audit Planning Communication document dated July 12, 2017.
- The financial statements were reviewed by management, and it is our understanding that TCWG had also reviewed the statements and have approved for issuance, to which we had issued an unmodified opinion.

Other Services

- Completion of IRS Form 990 and New York State CHAR 500 for management and Board review FYE December 31, 2016.

Required Communications and Other Matters

Required Item	Comments
Auditor's responsibility under professional standards and planned scope and timing of the audit	<p>We have communicated such information in our engagement letter to you dated July 12, 2017. Generally, these responsibilities include:</p> <ul style="list-style-type: none"> • Forming and expressing an opinion on the financial statements. • Obtaining reasonable assurance that the financial statements are free of material misstatements, whether caused by error or fraud. • Accumulating and communicating uncorrected misstatements to TCWG. • Maintaining professional skepticism. • Communicating audit related matters that are, in our professional judgment, significant to TCWG.
Other information accompanying the financial statements	<p>Our responsibility as auditors for other information in documents containing the audited financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform any procedures to determine that such other information is properly stated.</p>
Responsibilities of management and TCWG	<p>Management's responsibilities include:</p> <ul style="list-style-type: none"> • The fair presentation of the financial statements, including the selection of appropriate accounting policies. • Establishing and maintaining effective internal control. • Complying with laws, regulations, grants and contracts. • Providing the auditors with all financial records and related information and a signed representation letter. <p>TCWG are responsible for communicating with the auditors and overseeing the financial reporting process.</p> <p>Both management and TCWG are responsible for:</p> <ul style="list-style-type: none"> • Setting the proper tone at the top.

Required Item	Comments
Responsibilities of management and TCWG <i>(Continued)</i>	<ul style="list-style-type: none"> Designing and implementing policies and controls to prevent and detect fraud.
Qualitative aspects of accounting practices - Accounting Policies	<p>The significant accounting policies are described in Note 2 to the financial statements. There have been no changes in significant accounting policies or their application during the reporting period that had a significant impact on the financial statements.</p> <p>These policies are appropriate and comply with Accounting Principles Generally Accepted in the United States of America.</p>
Qualitative aspects of accounting practices – Significant Unusual Transactions	<p>No matters have come to our attention that would require us to inform you about the methods used to account for significant and/or unusual transactions.</p>
Qualitative aspects of accounting practices - Accounting Estimates and Management's Judgment	<p>Accounting estimates made by management are an integral part of the financial statements and are based on management's knowledge and experience about past and current events and assumptions about future events. Actual results could differ from those estimates.</p> <p>Certain accounting estimates are particularly sensitive because of their significance to financial statements and their susceptibility to change. The most sensitive estimates affecting the financial statements are:</p> <p>Allowance for Doubtful Accounts – An allowance for doubtful accounts is established for amounts where there exists doubt as to whether an amount will be fully collectible. The determination of this allowance is an estimate based on management's historical experience, review of account balances and expectations relative to collections.</p> <p>Functional Allocation of Expenses – Management performs a review of expenses and allocates costs across specific programs and administrative areas on a functional basis.</p> <p>Management believes that the estimates used and assumptions made are adequate based on the information currently available. We evaluated the key factors and assumptions used to develop the estimates in determining</p>

Required Item	Comments
Qualitative aspects of accounting practices - Accounting Estimates and Management's Judgment <i>(continued)</i>	<p>that they are reasonable in relation to the financial statements as a whole.</p>
Qualitative aspects of accounting practices - Financial Statement Disclosures	<p>Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements are:</p> <p>Note 5 Investments and Funds Held in Trust</p> <p>Note 8 Temporarily and Permanently Restricted Net Assets</p> <p>Note 9 Endowment Funds</p> <p>Note 13 Insurance Recovery</p> <p>Note 14 Related Party Transactions</p> <p>The financial statement disclosures are consistent and clear.</p>
Difficulties encountered in performing the audit	<p>We encountered no significant difficulties in dealing with management relating to the performance of our audit.</p>
Corrected and uncorrected adjustments	<p>Professional standards require us to accumulate all known and likely adjustments identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management.</p> <p>There were no uncorrected misstatements. In addition, we are required to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. There were two entries proposed by us during the audit process (see Appendix 1).</p>
Disagreements with management	<p>For purposes of this communication, a disagreement with management is a matter, whether or not resolved to our satisfaction, concerning financial accounting, reporting, or auditing, which could be significant to the financial statements or the auditors' report. No such disagreements arose during the course of the audit.</p>

Required Item	Comments
Management representations	We received certain representations from management prior to issuance of the final financial statements.
Management's consultations with other accountants	In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no such consultations with other accountants.
Auditor independence	We affirm that PKF O'Connor Davies, LLP is independent with respect to FSA in accordance with relevant professional standards.
Significant issues discussed with management prior to retention	We generally discuss with management a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting FSA and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed and our responses thereto were a condition to our retention as auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of Faculty Student Association of Downstate Medical Center, Inc. ("FSA") as of and for the year ended May 31, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered FSAs' internal control over financial reporting ("internal control") as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of FSAs' internal control. Accordingly, we do not express an opinion on the effectiveness of FSAs' internal control.

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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or 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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified.

We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

The attached Exhibit A identifies a certain deficiency in internal control we consider to be a significant deficiency.

This communication is intended solely for the information and use of the Board of Directors, management and others within FSA, and is not intended to be and should not be used by anyone other than these specified parties. We will be pleased to discuss these comments in further detail at your convenience, or to assist you in implementing the recommendations.

August 25, 2017

Faculty Student Association of Downstate Medical Center, Inc.

Exhibit A

Significant Deficiency

Temporarily and Permanently Restricted Net Assets (Comment from prior year)

▪ ***Condition***

We noted that historical documentation to support some temporarily and permanently restricted net assets is not readily available. As these restricted contributions were received many years ago, the supporting documents continue to be difficult to obtain. Such documentation is necessary to support the restriction and to properly account for its release. FSA continues to work with FSA's legal counsel to assist in resolving this matter.

All current restricted donations received by FSA have been properly documented and recorded.

Recommendation

We recommend that FSA continue to maintain a historical record on all restricted donations and contributions.

On the Horizon

FASB's Changes for Not-for-Profit Reporting

The FASB recently issued Accounting Standards Update (ASU) [2016-14](#), Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. The new guidance requires improved presentation and disclosures to help not-for-profits (NFPs) provide more relevant information about their resources – and changes in those resources – to donors, grantors, creditors and other users of their financial statements.

NFP Organizations Affected

The NFPs affected include: charities, foundations, colleges and universities, health care providers, religious organizations, trade associations, and cultural institutions, among others.

Requirements of the New Guidance

- Revises the net asset classification scheme to two classes – net assets with donor restrictions and net assets without donor restrictions.
- Enhances disclosures for self-imposed limits on the use of resources without donor-imposed restrictions and the composition of net assets with donor restrictions.
- Updates the accounting and disclosure requirements for underwater endowment funds.
- Requires net presentation of investment expenses against investment return on the statement of activities, and eliminates the requirement to disclose investment expenses that have been netted.
- Requires the presentation of expenses by nature as well as by function, including an analysis of expenses showing the relationship between function and natural classification for all expenses.
- Requires qualitative disclosures on how a not-for-profit manages its available liquid resources.
- Requires quantitative disclosures that communicate the availability of financial assets to meet cash needs for general expenditures within one year of the balance sheet date.
- Allows for a choice between the direct and indirect method of reporting operating cash flows. [Presentation of the indirect reconciliation is no longer required if using the direct method.]

Effective Date

The ASU is effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. [Application to interim financial statements is permitted but not required in the initial year of application.] Early application of the amendments in this ASU is permitted.

On the Horizon *(continued)*

The FASB is currently deliberating on additional proposed changes to NFP financial statements which need more time to resolve or involve consideration of alternatives suggested by stakeholders that FASB did not previously consider or are related to similar issues being addressed in other projects. These proposals include:

- Operating measures: all other elements of the proposal, including: i. whether to require intermediate measure(s); ii. whether and how to define such measure(s) and what items should or should not be included in the measure(s) and; iii. alternative disaggregation approaches suggested by stakeholders.
- Statement of cash flows: realignment of certain line items (operating vs. financing vs investing).

Leases

On February 25, 2016 the FASB issued ASU 2016-02 on leases (the “ASU”). The core principle of the ASU is that a lessee should recognize the assets and liabilities that arise from leases on their statement of financial position. Consequently, all leases that were classified as operating leases under prior lease guidance will now be recognized as assets and liabilities, initially measured at the present value of the lease payments. The lessee will recognize a single lease cost in its statement of activities calculated so that the cost of the lease is allocated over the lease term, typically on a straight-line basis. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election to not recognize such leases as assets and liabilities in their statement of financial position. The accounting applied by a lessor entity is largely unchanged from prior lease guidance.

For nonpublic business entities, the ASU is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early application is permitted for all entities.

While the required implementation date is several years out, entities should consider the potential affect that this ASU may have on debt covenant compliance.

On the Horizon *(continued)*

New Revenue Recognition Standard

The FASB issued a new revenue recognition standard (ASU 2014-09) in May 2014, which as extended does not become effective for most non-public companies, including not-for-profit entities and employee benefit plans until 2019. This ASU may have a significant impact on revenue recognition and disclosure for certain businesses and industries.

The core principle of the ASU is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

- The ASU does not apply to contributions. It does, however, apply to program revenue and other fees generated by not-for-profit organizations
- The most significant implications to not-for-profit organizations are likely to be within the health care sector
- Self-pay patients - The amount of revenue to recognize will likely change, and bad debt is likely to be an operating expense again
- Prepaid health care services – contract acquisition costs can now be capitalized if recoverable

Effective Dates:

- Non-public entities: Annual reporting periods beginning after December 15, 2018 and interim reporting periods within annual reporting periods beginning after December 15, 2019

Appendix 1

Adjusting Journal Entries

APPENDIX 1

10/10/2017
3:08 PM

Faculty Student Association of Downstate Medical Center, Inc.
Adjusting Journal Entries
May 31, 2017

Account	Description	Debit	Credit
Adjusting Journal Entries JE # 1			
To write-off software no longer in use			
10-19003-100-	ACCUM DEPRECIATION F.F.E	215,640.00	
10-19002-100-	FURNITURE FIXTURE EQUIPMENT		215,640.00
Total		215,640.00	215,640.00
Adjusting Journal Entries JE # 2			
To Accrue gift shop income			
10-12000-100-	FSAA ACCOUNT RECEIVABLE	2,130.00	
10-46009-100-	GIFT SHOP COMMISSION		2,130.00
Total		2,130.00	2,130.00

Appendix 2

About PKF O'Connor Davies, LLP

FIRM OVERVIEW

Founded in 1891, PKF O'Connor Davies has evolved from an accounting firm to a corps of high-caliber professionals that delivers to a global and growing client base a complete range of audit, tax and advisory services as well as insights and expertise at the highest level. As our business has grown, our commitment to active value creation has allowed us to connect our clients to sound business advice, key players and resources across diverse industries.

An Acknowledged Global Leader

Not only are we one of the nation's most rapidly growing accounting and advisory firms, we are also the lead North American firm in the growing PKF global network of independent accounting and advisory firms. This enables us to provide clients with preferred access to top-tier experts and firms in 440 cities and 150 countries around the world. It also establishes us as the primary referral point for international businesses with needs in North America, an advantage for our domestic clients seeking connections outside the U.S.

Active Partner Involvement Dedicated Engagement Teams

We have built strong relationships with our clients by being proactive, thorough and efficient. Firm partners are involved in the day-to-day management of engagements, ensuring a high degree of client service and cost effectiveness. Multi-disciplinary teams ensure solutions are customized to address specific needs and integrated for greater efficiency.

A Higher Standard: Beyond Passive Value Calculation to Active Value Creation

Our focus on value has driven our growth, propelling PKF O'Connor Davies to the Top 28 on *Accounting Today's* 2017 "Top 100 Firms" list and gaining us acclaim as one of the country's fastest-growing firms. With unmatched client focus, we unlock genuine value hidden at key connection points in every engagement within regional, national and international arenas. Through these connections, our team of specialists continually drives efficiencies, uncovers opportunities and manages risk – delivering value where others can't.

Industry Recognition

- **Ranked 28 of "2017's Top 100 Firms"**
– *Accounting Today*, 2017
- **Ranked 7 of the "Top Firms in the Mid-Atlantic"**
– *Accounting Today*, 2017
- **Ranked 10 of "New Jersey's Top Accounting Firms"**
– *NJBIZ*, 2016
- **A "Pacesetter in Growth"**
– *Accounting Today*, 2016
- **"Tax Advice Award"**
– *Family Wealth Report Awards*, 2017
- **"Best Private Client Audit Firm"**
– *Private Asset Management Awards*, 2017
- **"Best Reporting Solution Award"**
– *Private Asset Management Awards*, 2016
- **"Best Full-Service Alternative Investment Practice"**
– *Wealth and Finance International*, 2015
- **"Best Places to Work in New Jersey"**
– *NJBIZ*, 2016
- **Ranked 22 of the 50 "Best Accounting Employers to Work for in North America"**
– *Vault*, 2018

Agility, Responsiveness and Recognition

Since our founding, PKF O'Connor Davies has maintained its commitment to gaining a deep understanding of each client's operations and financial history in order to help meet their every challenge and objective. We fulfill this mission by providing resources that match those of larger firms in scope – but with the agility only a mid-sized firm such as ours can demonstrate...and yet, we still rank among them. Our services include:

Accounting and Assurance Services

- Accounting Outsourcing
- Agreed-Upon Procedures (AUPs)
- Audits, Reviews and Compilations
- Employee Benefit Plans
- Government Entity Audits & Compliance
- International Financial Reporting Standards (IFRS)
- IT Audit & Cybersecurity Reviews
- Public Company Accounting Oversight Board (PCAOB)

Tax Compliance and Planning Services

- Employee Benefit Planning & Tax Compliance
- International Tax Services
- IRS Representation & Tax Controversies
- Personal Financial Planning
- Private Foundation Services
- State and Local Tax (SALT)
- Tax Compliance & Reporting
- Tax-Exempt Organizations
- Tax Research and Strategic Planning
- Trust and Estate Planning

Advisory Services

- Bankruptcy & Restructuring
- Management Advisory Services
- Risk Advisory Services
- Specialty Industry Advisory Services
 - Employee Benefit Plan Services
 - Entrepreneurial Business Advisory Solutions
 - Government & Public Sector Advisory Services
 - Healthcare Advisory Services
 - Hospitality Advisory Services
- Transaction & Financial Advisory Services
- Wealth Services

Family Office Services

- Accounting & Reporting
- Advisory
- Charitable Giving
- Investment Monitoring & Oversight
- Lifestyle Support
- Personal Financial Management
- Tax Planning
- Wealth Planning

We offer an exceptional breadth of advisory services across diverse industries and sectors.



PKF O'Connor Davies, LLP is a member firm of the PKF International Limited network of legally independent firms and does not accept any responsibility or liability for the actions or inactions on the part of any other individual member firm or firms.

Bethesda, MD | Cranford, NJ | Harrison, NY | Livingston, NJ | New York, NY | Newburgh, NY
Stamford, CT | Wethersfield, CT | Woodcliff Lake, NJ

www.pkfod.com