

Sullivan County Adult Care Center
(An Enterprise Fund of the
County of Sullivan, New York)

Financial Statements
December 31, 2015

Independent Auditors' Report

The Chairman and Members of the
Board of Legislators of the County of Sullivan, New York
Sullivan County Adult Care Center Liberty, New York

Report on the Financial Statement

We have audited the accompanying financial statements of Sullivan County Adult Care Center, an enterprise fund of the County of Sullivan, New York, as of and for the year ended December 31, 2015, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sullivan County Adult Care Center as of December 31, 2015, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

We draw attention to Note 1 in the notes to financial statements which disclose the effects of the Center's adoption of the provisions of Governmental Accounting Standards Board ("GASB") Statement Nos. 68 "Accounting and Financial Reporting for Pensions" and 71 "Pension Transition for Contributions Made Subsequent to the Measurement Date". Our opinion is not modified with respect to this matter.

Other Matters

Management has omitted the Management's Discussion and Analysis report that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information***Report on Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The 2015 supplementary information on page 15 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Harrison, New York
June 28, 2016

Sullivan County Adult Care Center
(An Enterprise Fund of the County of Sullivan, New York)

Balance Sheet

	December 31,
	2015
ASSETS	
Current Assets	
Cash and cash equivalents	\$ 980,713
Restricted cash - project capital fund	243,521
Restricted cash - patient funds	141,537
Patient accounts receivable, net	2,001,902
Due from third party payor	337,000
Supplies	71,797
Prepaid expenses and other	19,857
Total Current Assets	3,796,327
Capital assets, net	2,728,774
Total Assets	\$ 6,525,101
DEFERRED OUTFLOWS OF RESOURCES	
Total Assets and Deferred Outflows of Resources	\$ 7,413,299
LIABILITIES AND NET POSITION (DEFICIT)	
Current Liabilities	
Current maturities of bonds payable	\$ 16,459
Current portion of bond anticipation notes	750,000
Retirement incentive and other pension obligations	158,366
Accounts payable and accrued expenses	379,551
Accrued compensation and vacation	764,745
Due to County	6,245,631
Due to third party payors - current portion	145,893
Patient funds held in trust	141,537
Total Current Liabilities	8,602,182
Bonds payable, net of current portion	16,139
Retirement incentives and other pension benefits, net of current portion	948,560
Net pension liability	885,687
Other post employment benefit obligations payable,	11,430,612
Total Liabilities	21,883,180
DEFERRED INFLOWS OF RESOURCES	
	141,080
NET POSITION (DEFICIT)	
Net investment in capital assets	2,696,176
Unrestricted	(17,307,137)
Total Net Position (Deficit)	(14,610,961)
Total Liabilities, Deferred Inflows of Resources and Net Position (Deficit)	\$ 7,413,299

See notes to financial statements

Sullivan County Adult Care Center
(An Enterprise Fund of the County of Sullivan, New York)

Statement of Revenues and Expenses and Changes in Net Position (Deficit)

	Year Ended December 31, <u>2015</u>
OPERATING REVENUES	
Net patient service revenue	
Skilled nursing facility	\$ 12,672,660
Adult day care	272,980
Bad debt expense	(264,074)
Total Net Patient Service Revenues	<u>12,681,566</u>
Other revenues	285,429
Total Operating Revenues	<u>12,966,995</u>
OPERATING EXPENSES	
Professional care of residents	6,312,727
General services	3,973,095
Administrative services	1,282,045
Employee benefits	5,551,581
New York State cash assessment	575,706
Depreciation and amortization	218,873
Total Expenses	<u>17,914,027</u>
Loss from Operations	<u>(4,947,032)</u>
NON-OPERATING REVENUES (EXPENSES)	
Interest income	2,402
Interest expense	(21,900)
Other	5,437
County reimbursement	74,405
Total Non-Operating Revenues (Expenses), Net	<u>60,344</u>
Decrease in Net Assets	<u>(4,886,688)</u>
OTHER CHANGE IN NET POSITION	
Cummulative effect of change in accounting principle	<u>(519,105)</u>
NET POSITION (DEFICIT)	
Beginning of year	<u>(9,205,168)</u>
End of year	<u><u>\$ (14,610,961)</u></u>

See notes to financial statements

Sullivan County Adult Care Center
(An Enterprise Fund of the County of Sullivan, New York)

Statement of Cash Flows

	Year Ended December 31, <u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from patient services	\$ 9,746,985
Cash payments to suppliers for goods and services	(3,659,322)
Cash payments to employees for services	(7,034,186)
Other revenues	<u>285,429</u>
Net Cash from Operating Activities	<u>(661,094)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Non-operating activities	<u>82,244</u>
Net Cash from Non-Capital Financing Activities	<u>82,244</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal payments on serial bonds	(16,891)
Interest paid	(9,468)
Purchase of property, plant and equipment	<u>(534,225)</u>
Net Cash from Capital and Related Financing Activities	<u>(560,584)</u>
Net Change in Cash and Cash Equivalents	(1,139,434)
CASH AND CASH EQUIVALENTS	
Beginning of year	<u>2,363,668</u>
End of year	<u><u>\$ 1,224,234</u></u>
RECONCILIATION OF LOSS FROM OPERATIONS TO NET CASH FROM OPERATING ACTIVITIES	
Loss from operations	\$ (4,947,032)
Adjustments to reconcile loss from operations to net cash from operating activities	
Depreciation	218,873
Bad debt expense	264,074
Cumulative effect of change in accounting principle	(519,105)
Changes in assets/liabilities	
Accounts receivable	(843,516)
Supplies	(37)
Prepaid expenses and other current assets	-
Accounts payable and accrued expenses	72,898
Due to third party payors	(2,355,139)
Accrued compensation and vacation	(299,702)
Due to County	5,848,121
Change in deferred outflows and inflows, net	(732,614)
Pension payable	<u>2,632,085</u>
Net Cash from Operating Activities	<u><u>\$ (661,094)</u></u>

See notes to financial statements

Sullivan County Adult Care Center
(An Enterprise Fund of the County of Sullivan, New York)

Notes to Financial Statements
December 31, 2015

Note 1 - Summary of Significant Accounting Policies and Scope of Business

Sullivan County Adult Care Center (the "Center") is a 146 bed residential health care facility located in Liberty, New York, that also provides an on-site medical model adult daycare program. The Center is operated as an enterprise fund of the County of Sullivan, New York (the "County"), and is accounted for separately by the County Treasurer.

An enterprise fund is accounted for as an operation that is financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs or expenses, including depreciation, of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. Indirect costs from other County departments attributable to shared services have been charged to the Center based on allocations from the most recent cost allocation plan for the County.

Basis of Accounting - Beginning in 2012, the Center adopted the provisions of GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. This statement codifies all sources of accounting principles generally accepted in the United States of America into the GASB's authoritative literature. The accounts of the Center are maintained on the accrual basis of accounting. Proprietary funds are used to account for activities that are similar to those often found in the private sector. Enterprise funds are proprietary funds used to report any activity for which a fee is charged to external users for goods or services. The measurement focus is on the determination of operating income, financial position, changes in net position and cash flows. Operating revenues include charges for services. Operating expenses include costs of services as well as, materials, contracts, personnel, and depreciation. The Center is an Enterprise Fund.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results can differ from those estimates.

Basis of Presentation - The accounts of the County are organized on the basis of funds and account groups. A fund is a separate accounting entity with a self-balancing set of accounts.

The Center adopted the provisions of GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, and Statement No. 65, Items Previously Reported as Assets and Liabilities. These statements provide guidance on presenting deferred outflows, deferred inflows and net position. Net position represents assets and deferred outflows of resources less liabilities and deferred inflows of resources. GASB requires the classification of net position into three classifications defined as follows:

Net Investment in Capital Assets

This component of net position consists of net capital assets reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increased by balances of deferred outflows of resources related to those assets.

Sullivan County Adult Care Center
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Notes to Financial Statements (Continued)
December 31, 2015

Note 1 - Summary of Significant Accounting Policies and Scope of Business (Continued)

Restricted Net Position

This component of net position is considered restricted if the use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws. Restricted net position is reduced by liabilities and deferred inflows of resources related to the restricted assets.

Unrestricted Net Position

This component of net position consists of all other net position that does not meet the definition of the above two components and is available for general use by the Center.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

The Center also reports deferred outflows of resources and deferred inflows of resources in relation to its pension obligations. These amounts are detailed in the discussion of the Center's pension plans in Note 7.

Net Pension Liability (Asset)

The net pension liability (asset) represents the Center's proportionate share of the net pension liability (asset) of the New York State and Local Employees' Retirement System and the New York State Teachers' Retirement System. The financial reporting of these amounts are presented in accordance with the provisions of GASB Statement No. 68, "Accounting and Financial Reporting for Pensions" and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date".

Cash and Cash Equivalents - Cash and cash equivalents include time deposits, certificates of deposit, and all highly liquid debt instruments with original maturities of three months or less. These deposits are entirely covered by Federal Deposit Insurance or bank collateral provided by the County's custodial bank or at a bank where investments are held.

Cash and cash equivalents recorded by the Center is combined with cash recorded by the County in determining amounts covered by Federal Depository Insurance or by collateral held by the County's agent in the County's name. The collateral is monitored monthly by the County. As of December 31, 2015, the County reported that its deposits were adequately collateralized.

Sullivan County Adult Care Center
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Notes to Financial Statements (Continued)
December 31, 2015

Note 1 - Summary of Significant Accounting Policies and Scope of Business (Continued)

Restricted Cash - Capital Project Fund - Restricted cash is reserved for the use of capital improvements of the Center related to the HEAL Grant.

Accounts Receivable and Allowance for Doubtful Accounts - Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Center analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to residents who have third-party coverage, the Center analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay residents (which includes both residents without insurance and residents with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Center records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many residents are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The Center's allowance for doubtful accounts was \$435,890 at December 31, 2015. In 2015, total write-offs were \$152,818 and the provision for bad debt expense was \$264,074.

Capital Assets

Capital assets are stated at cost, less accumulated depreciation computed on the straight-line method over estimated useful lives as follows:

Building and improvements	10 - 40 Years
Land improvements	10 - 40 Years
Major moveable equipment	2 - 20 Years

All acquisitions of property and equipment and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets and exceed \$250 are capitalized.

Maintenance and repairs are charged to expense. The cost of property and equipment retired or otherwise disposed of and related accumulated depreciation are removed from the accounts.

Restricted Cash - Patient Funds - Restricted cash - patient funds represents amounts held in trust for residents of the Center. New York State Department of Health regulations require that these funds be reported as an asset and liability on the balance sheet.

Sullivan County Adult Care Center
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Notes to Financial Statements (Continued)
December 31, 2015

Note 1 - Summary of Significant Accounting Policies and Scope of Business (Continued)

Revenue Recognition - Net resident service revenue is reported at estimated net realizable amounts from residents, third party payors, and others for services rendered and includes estimated retroactive revenue adjustments due to changes in case mix indexes and future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. It is not possible to determine the extent of additional liability (or receivable) resulting from governmental audits conducted in subsequent years.

Laws and regulations governing reimbursement are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Cash Receipt Assessment - An assessment was imposed on substantially all nursing home cash receipts effective April 1, 2002 as part of the Health Care Workforce Recruitment Retention Act of 2002. Medicare receipts are excluded from this assessment and Medicaid rates were effectively increased to reimburse nursing homes for their additional portion of the assessment. During the current year ended, the assessment was 6.8%. For the year ended December 31, 2015, the Center billed approximately \$412,000 to recover the Medicaid portion of the assessment which is included in net resident service revenue.

Vacation and Compensatory Time - Employees are granted vacation leave and compensatory time off in varying amounts. In the event of termination or upon retirement, an employee is entitled to payment for accumulated vacation and compensatory time at various rates. Estimated vacation leave, compensatory time off and related benefits have been recognized in the financial statements at the present rates of pay.

Subsequent Events - Management has evaluated subsequent events through the date of the report which is the date the financial statements were available to be issued.

Cumulative Effect of Change in Accounting Principle

For the year ended December 31, 2015, the Center implemented GASB Statement No. 68, "Accounting and Financial Reporting for Pensions" and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date". These statements seek to improve accounting and financial reporting by state and local governments for pensions by establishing standards for measuring and recognizing liabilities, deferred outflows/inflows of resources and expenses/expenditures. These statements also require the identification of the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value and attribute that present value to periods of employee service. As a result of adopting these standards, the Center's financial statements reflect a cumulative effect for the change in accounting principle of \$519,105.

Sullivan County Adult Care Center
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Notes to Financial Statements (Continued)
 December 31, 2015

Note 2 - Accounts Receivable

Accounts receivable consisted of the following at December 31:

	<u>2015</u>
Medicaid	\$ 1,216,585
Medicare	158,047
Self pay	968,717
Private insurers	40,578
Adult day care	<u>53,865</u>
	2,437,792
Allowance for doubtful accounts	<u>(435,890)</u>
	<u>\$ 2,001,902</u>

Note 3 - Capital Assets

Capital assets consisted of the following at December 31:

	<u>2015</u>
Land	\$ 44,800
Land improvements	87,600
Building and improvements	12,208,558
Machinery and equipment	596,602
Construction in process	<u>78,100</u>
	13,015,660
Accumulated depreciation	<u>(10,286,886)</u>
	<u>\$ 2,728,774</u>

Note 4 - Bond Anticipation Notes and Bonds Payable

Bond anticipation notes and bonds payable consisted of the following at December 31, 2015:

2015 Bond Anticipation Note, payable in full on March 14, 2016, plus a fixed rate of interest of 1%. The amount represents the portion allocated to the Center from the 2015 BAN taken by the County amounting to \$11,315,000

\$ 750,000

2007 Public Improvement (Serial) Bonds, due in varying annual installments through March 2017, plus interest ranging from 4.0% to 5.0%, payable semiannually on March 15 and April 15.

32,598

Less, current portion

(766,459)

Long-term portion

\$ 16,139

Sullivan County Adult Care Center
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Notes to Financial Statements (Continued)
 December 31, 2015

Note 4 - Bond Anticipation Notes and Bonds Payable (Continued)

Serial Bonds 1994 and 2007 Serial Bonds

On February 10, 1994, the County issued \$28,170,000 in public improvement serial bonds (1994 Series), with interest rates from 3.0% to 5.2% to advance refund \$24,475,000 of outstanding 1988 and 1995 Series bonds, with interest rates ranging from 6.75% to 7.375%. The net proceeds of approximately \$27,460,000, after payment of underwriting fees, insurance and other issuance costs, were used to purchase U.S. government securities. Those securities were deposited in an irrevocable escrow trust fund with an escrow agent to provide for all future debt service payments on the 1988 and 1995 Series bonds. The portion of the 1994 Series allocated to the Center to refund existing debt was \$2,772,281.

In February 2007, the County issued \$6,900,000 in Refunding (Serial) Bonds (2007) with interest rates ranging from 4.0% to 5.0% to advance certain amounts outstanding on the 1994 Series bonds. The net proceeds, after payment of underwriting fees, insurance and other issuance costs, were used to purchase U.S. government securities. Those securities were deposited in an irrevocable escrow trust fund with an escrow agent to provide for all future debt service payments on the 1994 Series bonds. The portion of the 2007 Series allocated to the Center to refund existing debt was \$615,000.

For the Center, the advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of approximately \$124,000. This difference, reported on the accompanying financial statements as a deferred outflow of resources, is being charged to operations as a component of interest expense on a straight-line basis over the remaining life of the refunded debt. The amount amortized for the year ended December 31, 2015 was \$12,432. The unamortized balance at December 31, 2015 is \$13,440.

Total debt service for the years succeeding December 31, 2014 is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 766,459	\$ 8,718	\$ 791,316
2017	<u>16,139</u>	<u>403</u>	<u>16,542</u>
Total	<u>\$ 782,598</u>	<u>\$ 9,121</u>	<u>\$ 807,858</u>

The Serial Bonds were issued by Sullivan County on the Center's behalf. The County has pledged its full faith and credit against these obligations.

Note 5 - Resident Service Revenue

Resident service revenue, net of contractual allowances and discounts, consisted of the following for the years ended December 31:

	<u>2015</u>
Medicaid	\$ 10,341,408
Medicare	1,665,669
Self pay	<u>938,563</u>
	<u>\$ 12,945,640</u>

Sullivan County Adult Care Center
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Notes to Financial Statements (Continued)
 December 31, 2015

Note 6 - Related Party Transactions

The total amount due to the County was \$6,245,631 at December 31, 2015. Certain County costs that cannot be directly charged to the Center have been charged to the Center based on the County-wide cost allocation, and are included in the accompanying statements of revenue and expenses and changes in net assets. The total indirect costs allocated to the Center approximated \$540,000 for the year ended December 31, 2015.

Note 7 - Retirement Incentives and Other Pension Obligations

The 2010 State-wide Retirement Incentive Program enacted under Chapter 105 of the Laws of 2010 authorized local municipalities to offer employees a retirement incentive. Under Part A of the plan, eligible employees are granted one month of additional service credit for each year of service up to 36 years. Under Part B of the plan, eligible employees can retire without penalty and benefit reduction if they are under the age of 62 and have less than 30 years of credited service. The estimated cost of the program will be approximately 60% of the employee's final average salary. The Center elected to pay this obligation over a five year period, with interest. The original cost to the Center recorded in 2010 approximated \$165,000. This was further adjusted in 2011 to approximately \$194,000. During the current year \$38,592 was included in expense. The unpaid balance to be fully liquidated in 2016 is \$41,486.

The State Legislature enacted Chapter 57 of the Laws of 2010. This Chapter authorized local governments, at their option, to amortize a portion of their respective ERS contributions beginning in 2011. The maximum amortization amount each year going forward will be determined by the difference between each employer's effective contribution rate as compared to the System's overall graded rate. The amortized amounts are to be paid in equal annual installments over a ten year period, although amounts may be prepaid at any time. Interest will be charged at rates which approximate a market rate of return on taxable fixed rate securities of a comparable duration and will be adjusted annually. The Center elected to amortize the maximum allowable ERS contributions for 2015, 2014, 2013 and 2012 as noted in the table below.

	Original Amount Amortized	Current Year Payments	Balance Due	Due Within One Year
2015 ERS	\$ 164,116	\$ -	\$ 164,116	\$ 14,217
2014 ERS	223,402	19,353	204,049	19,963
2013 ERS	464,603	40,735	425,310	42,231
2012 ERS	424,568	39,291	310,096	40,469
	<u>\$ 1,276,689</u>	<u>\$ 99,379</u>	<u>\$ 1,103,571</u>	<u>\$ 116,880</u>

Sullivan County Adult Care Center
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Notes to Financial Statements (Continued)
December 31, 2015

Note 7 - Retirement Incentives and Other Pension Obligations (Continued)

Pension Plans

Employees' Retirement System

The Center participates in the New York State and Local Employees' Retirement System ("ERS"). This is a cost-sharing, multiple-employer defined benefit pension plan. ERS provides retirement benefits as well as death and disability benefits. The net position of the ERS is held in the New York State Common Retirement Fund ("Fund"), which was established to hold all net assets and record changes in plan net position. The Comptroller of the State of New York serves as the trustee of the Fund and is the administrative head of the ERS. The Comptroller is an elected official determined in a direct statewide election and serves a four year term. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law ("NYSRSSL"). Once a public employer elects to participate in the ERS, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. The Center also participates in the Public Employees' Group Life Insurance Plan, which provides death benefits in the form of life insurance. The ERS is included in the State's financial report as a pension trust fund. That report, including information with regard to benefits provided may be found at www.osc.state.ny.us/retire/publications/index.php or obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, NY 12244.

The ERS is noncontributory except for employees who joined after July 27, 1976, who contribute 3% of their salary for the first ten years of membership, and employees who joined on or after January 1, 2010, who generally contribute between 3% and 6% of their salary for their entire length of service. Under the authority of the NYSRSSL, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions based on salaries paid during the ERS's fiscal year ending March 31. Contribution rates for the plan's year ending in 2015 are as follows:

<u>Tier/Plan</u>	<u>Rate</u>
1 75I	25.20%
2 75I	23.2
4 A15	20.4
5 A15	16.7
6 A15	11

At December 31, 2015, the Center reported a liability of \$885,687 for its proportionate share of the net pension liability. The net pension liability was measured as of March 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Center's proportion of the net pension liability was based on a computation of the actuarially determined indexed present value of future compensation by employer relative to the total of all participating members. At December 31, 2015, the Center's proportion was .0262174%. For this first year of implementation, the ERS reported no change in the allocation percentage measured as of March 31, 2014.

Sullivan County Adult Care Center
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Notes to Financial Statements (Continued)
 December 31, 2015

Note 7 - Retirement Incentives and Other Pension Obligations (Continued)

For the year ended December 31, 2015, the Center recognized pension expense of \$739,332. At December 31, 2015, the Center reported deferred outflows of resources and deferred inflows of resources related to the ERS from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 28,352	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	153,833	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	-	141,080
Town contributions subsequent to the measurement date	<u>692,573</u>	<u>-</u>
	<u>\$ 874,758</u>	<u>\$ 141,080</u>

The \$692,573 reported as deferred outflows of resources related to the ERS resulting from the Center's accrued contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended March 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the ERS will be recognized in pension expense as follows:

<u>Year Ended December 31,</u>	
2016	\$ 10,276
2017	10,276
2018	10,276
2019	10,277

The total pension liability at March 31, 2015 measurement date was determined by using an actuarial valuation as of April 1, 2014, with update procedures used to roll forward the total pension liability to March 31, 2015. Significant actuarial assumptions used in the April 1, 2014 valuation were as follows:

Actuarial cost method	Entry age normal
Inflation	2.7%
Salary scale	4.9%, indexed by service
Investment rate of return	7.5% compounded annually, net of investment expenses, including inflation
Cost of living adjustments	1.4% annually

Sullivan County Adult Care Center
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Notes to Financial Statements (Continued)
 December 31, 2015

Note 7 - Retirement Incentives and Other Pension Obligations (Continued)

Annuitant mortality rates are based on the April 1, 2005 - March 31, 2011 ERS's experience with adjustments for mortality improvements based on MP-2014.

The actuarial assumptions used in the April 1, 2014 valuation are based on the results of an actuarial experience study of the period April 1, 2005 - March 31, 2010.

The long-term expected rate of return on pension plan investments was determined in accordance with Actuarial Standard of Practice ("ASOP") No. 27, Selection of Economic Assumptions for Measuring Pension Obligations. ASOP No. 27 provides guidance on the selection of an appropriate assumed investment rate of return. Consideration was given to expected future real rates of return (expected returns, net of pension plan investment expense and inflation) for equities and fixed income as well as historical investment data and plan performance. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of March 31, 2015 and 2014 are summarized below.

<u>Asset Type</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	38 %	7.30 %
International Equity	13	8.55
Private Equity	10	11.00
Real Estate	8	8.25
Absolute Return Strategies	3	6.75
Opportunistic Portfolio	3	8.60
Real Assets	3	8.65
Bonds and Mortgages	18	4.00
Cash	2	2.25
Inflation Indexed Bonds	2	4.00
	<u>100 %</u>	

The discount rate used to calculate the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based upon those assumptions, the ERS's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sullivan County Adult Care Center
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Notes to Financial Statements (Continued)
 December 31, 2015

Note 7 - Retirement Incentives and Other Pension Obligations (Continued)

The following presents the Center's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the Center's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.5%) or 1 percentage point higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Current Assumption (7.5%)	1% Increase (8.5%)
Adult Care Center's proportionate share of the ERS net pension liability	\$ 5,903,484	\$ 885,687	\$ (3,350,579)

The components of the current year net pension liability of the ERS as of March 31, 2015, were as follows:

	ERS
Total pension liability	\$ 164,591,504
Fiduciary net position	161,213,259
Employers' net pension liability	\$ 3,378,245
Fiduciary net position as a percentage of total pension liability	97.9%

Employer contributions to ERS are paid annually and cover the period through the end of ERS's fiscal year, which is March 31st. Accrued retirement contributions as of December 31, 2015 represent the projected employer contribution for the period of April 1, 2015 through December 31, 2015 based on paid ERS wages multiplied by the employers' contribution rate, by tier. Accrued retirement contributions to ERS as of December 31, 2015 were \$692,573.

Note 8 - Post Employment Healthcare Plan

The Center is required to accrue on the financial statements the amounts necessary to finance the plan as actuarially determined, which is equal to the balance not paid by plan members. Funding for the Plan has been established on a pay-as-you-go basis. The assumed increase in postretirement benefits for pre-65 trend rates is 8%, and for post-65 medical trend rates is 7%, for the first year and decreases to 5% for the following years. The projected unit credit method was used to determine the actuarial value of the assets if the OPEB plan, however, the Center currently has no assets set aside for the purpose of paying postemployment plans.

Sullivan County Adult Care Center
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Notes to Financial Statements (Continued)
 December 31, 2015

Note 8 - Post Employment Healthcare Plan (Continued)

The amortization basis is the level percentage of projected payroll method with an open amortization approach with 30 years remaining in the amortization period. The actuarial assumptions included a 4.155% investments rate of return and a 2.25% inflation rate. The actuarial cost method utilized was the projected unit credit method.

The number of participants as of December 31, 2015 was as follows:

Active employees	796
Retirees	<u>457</u>
	<u><u>1,253</u></u>

The following table shows the components of the Center's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Center's net OPEB obligation:

Annual required contribution	\$ 2,143,313
Interest on net OPEB obligation	403,465
Adjustment to annual required contribution	<u>(572,167)</u>
Annual OPEB cost (expense)	1,974,611
Contributions made	<u>(254,358)</u>
Increase in OPEB obligation - net	1,720,253
Net OPEB obligation beginning of year	<u>9,710,359</u>
Net OPEB obligation end of year	<u><u>\$ 11,430,612</u></u>

The Center's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation consisted of the following at December 31:

	<u>2015</u>
Annual OPEB cost	\$ 1,974,611
Percentage of annual OPEB cost contributed	12.88%
Net OPEB obligation at end of year	\$ 11,430,612
Required Supplementary Information	
Actuarial accrued liability (AAL)	\$ 19,699,354
Unfunded AAL	\$ 19,699,354
Funded ratio	-%
Covered payroll	\$ 5,535,020
UAAL as a percentage of covered payroll	355.90%

Sullivan County Adult Care Center
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Notes to Financial Statements (Continued)
December 31, 2015

Note 9 - Commitments and Contingencies

Unemployment Insurance

The Center currently uses reimbursement financing rather than pay contributions under the regular experience-rating provision of the New York State Unemployment Insurance Law. Under this method, the Center is liable to New York State for payments of amounts equal to the benefits paid to its claimants.

The Center's unemployment expense approximated \$16,200 for the year ended December 31, 2015.

Workers' Compensation Insurance

The Center participates in a self-insurance plan sponsored by the County for workers' compensation under Local Law No.3, 1989, pursuant to Article 5 of the Worker's Compensation Law. The plan is open to any eligible municipality or public entity within the geographic boundaries of Sullivan County for participation. The County, which is responsible for the administration of the plan and its reserves, accounts for this plan in a separate special revenue fund which is included in the County's combined financial statements. Participant contributions are financed on an estimated claims basis with excess contributions transferred to a reserve at the end of the fiscal year. The Center's workers' compensation expense approximated \$333,000 for the year ended December 31, 2015.

General and Professional Liability Insurance

The Care Center participates in a premium based general and professional liability insurance plan. The plan assumes liability for most risks including, but not limited to, personal injury, malpractice, vehicle and general liability. At December 31, 2015, no claims or outstanding premiums exist that meet the liability criteria.

Regulatory

The Center is subject to compliance with laws and regulations of various governmental agencies. Recently, governmental review of compliance with laws and regulations had increased, resulting in fines and penalties for noncompliance by individual health care providers. While no outstanding regulatory actions exist at December 31, 2015 for the Center, compliance with these laws and regulations is subject to future government review, interpretation or actions, which are unknown and unasserted at this time.

Universal Settlement

In February 2016, the Center and a majority of other nursing home providers signed an agreement (the "Universal Settlement") with New York State (the "State") that surrendered most of the Center's rights to pursue pending Medicaid rate lawsuits and rate appeals prior to 2012 and certain future rights to challenge Medicaid reimbursement against the State. In March 2016, the State obtained approval for the federal financial participation in the Universal Settlement from the Centers for Medicare and Medicaid Service, subject to compliance with the upper payment limit requirements. The State has agreed to pay the nursing home providers \$850 million over five years, with two years of payments being made in 2016 (the first payment in March 2016 and the second payment in July 2016). In accordance with the Universal Settlement, payments for years three, four and five are contingent upon the Governor's appropriation of such funds in the Executive Budget.

Sullivan County Adult Care Center
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Notes to Financial Statements (Concluded)
December 31, 2015

Note 9 - Commitments and Contingencies (Continued)

As a result of the Universal Settlement, the State agreed to pay the Center a total of \$842,000. The Center recognized a gain for the non-contingent portion of the Universal Settlement that will be received in 2016 of \$337,000, which is included in net patient service revenue in the statement of operations and changes in net assets for the year ended December 31, 2015 and a receivable, which is included in due from third-party payors of \$337,000 in the statement of financial position at December 31, 2015. In addition to the cash award, Universal Settlement resulted in a forgiveness of approximately \$2.4 million in Medicaid overpayments attributable to years prior to 2012. This amount is included in net patient service revenue in the statement of revenues and expenses and changes in net position at December 31, 2015.

Third Party Rate Adjustments

As stated in Note 1, net patient service revenue is reported at estimated net realizable amounts from residents, third-party payors, and others for services rendered and include estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are considered on the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known.

Revenue from the Medicaid and Medicare programs accounted for approximately 90% of the Center's net patient revenue of the years ended December 31, 2015.

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Schedule of Expenses
Year Ended December 31, 2015

	2015		Total
	Salaries	Other	
PROFESSIONAL CARE OF RESIDENTS			
Nursing administration	\$ 167,560	\$ 1,480	\$ 169,040
Skilled nursing facility	4,332,646	202,629	4,535,275
Adult day care	153,948	6,940	160,888
Recreational therapy	189,782	7,734	197,516
Pharmacy	-	202,705	202,705
Dental services	-	31,654	31,654
Physical therapy	5,008	224,221	229,229
Occupational therapy	0	271,317	271,317
Speech therapy	-	38,648	38,648
Social services	155,902	18,312	174,214
Central medical supplies	66,179	210,697	276,876
Medical records	-	1,365	1,365
Medical director and medical staff	-	24,000	24,000
	<u>\$ 5,071,025</u>	<u>\$ 1,241,702</u>	<u>\$ 6,312,727</u>
GENERAL SERVICES			
Patient food services	860,813	777,480	\$ 1,638,293
Maintenance and operations	135,831	683,544	819,375
Housekeeping	-	1,012,993	1,012,993
Laundry and linen	111,217	292,114	403,331
Meals on wheels	97,398	1,705	99,103
	<u>\$ 1,205,259</u>	<u>\$ 2,767,836</u>	<u>\$ 3,973,095</u>
ADMINISTRATIVE SERVICES			
Fiscal services	\$ 178,837	\$ 41,845	\$ 220,682
Administration	279,363	703,742	983,105
Insurance	-	78,258	78,258
	<u>\$ 458,200</u>	<u>\$ 823,845</u>	<u>\$ 1,282,045</u>
NON-DEPARTMENTAL EXPENSES			
Depreciation and amortization	\$ -	\$ 218,873	\$ 218,873
Interest expense	-	21,900	21,900
New York State cash assessment	-	575,706	575,706
Employee benefits	-	5,551,581	5,551,581
	<u>\$ -</u>	<u>\$ 6,368,060</u>	<u>\$ 6,368,060</u>

See independent auditors' report

