

**SULLIVAN COUNTY ADULT CARE CENTER**

*(An Enterprise Fund of the County of Sullivan, New York)*

*Basic Financial Statements and Required  
Supplementary Information for the Year Ended  
December 31, 2016 and  
Independent Auditors' Report*



**SULLIVAN COUNTY ADULT CARE CENTER**  
**(AN ENTERPRISE FUND OF THE COUNTY OF SULLIVAN, NEW YORK)**  
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**Year Ended December 31, 2016**

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*Certified Public Accountants*

## **INDEPENDENT AUDITORS' REPORT**

Honorable County Legislature  
County of Sullivan, New York:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Sullivan County Adult Care Center (the "Center"), an Enterprise Fund of the County of Sullivan, New York, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

The Center's 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.

### ***Auditor's 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. 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 auditor's 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 opinions.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Center, as of December 31, 2016, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that Required Supplementary Information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Government 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Management has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires 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 Government 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 Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2017 on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

*Drescher & Malecki LLP*

June 26, 2017

# BASIC FINANCIAL STATEMENTS





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**SULLIVAN COUNTY ADULT CARE CENTER**  
**(AN ENTERPRISE FUND OF THE COUNTY OF SULLIVAN, NEW YORK)**  
**Statement of Net Position**  
**December 31, 2016**

	<b>2016</b>
<b>ASSETS</b>	
Current assets:	
Cash	\$ 3,442,993
Restricted cash for capital improvements	202,712
Resident trust cash	123,820
Receivables, net of allowance for estimated uncollectibles	1,844,717
Intergovernmental receivables	4,928,094
Inventories	64,811
Prepaid items	20,457
Total current assets	10,627,604
Noncurrent assets:	
Capital assets, not being depreciated	44,800
Capital assets, being depreciated (net of accumulated depreciation)	2,544,989
Total noncurrent assets	2,589,789
Total assets	13,217,393
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows—relating to pensions	4,330,785
Total deferred outflows of resources	4,330,785
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	285,534
Due to third party payors	145,893
Due to County General Fund	8,622,095
Accrued compensation and related costs	887,775
Current portion of retirement incentives	116,880
Bond anticipation note payable	562,500
Resident trust funds	123,820
Current installments of long-term debt	16,139
Total current liabilities	10,760,636
Noncurrent liabilities	
Accrued retirement incentives	831,680
Accrued other post employment benefits liability	13,231,029
Accrued net pension liability	4,193,799
Total noncurrent liabilities	18,256,508
Total liabilities	29,017,144
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows—relating to pensions	701,454
Total deferred inflows of resources	701,454
<b>NET POSITION</b>	
Net investment in capital assets	2,011,150
Restricted	202,712
Unrestricted	(14,384,282)
Total net position	\$ (12,170,420)

The notes to the financial statements are an integral part of this statement.

**SULLIVAN COUNTY ADULT CARE CENTER**  
**(AN ENTERPRISE FUND OF THE COUNTY OF SULLIVAN, NEW YORK)**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**Year Ended December 31, 2016**

	<b>2016</b>
<b>OPERATING REVENUES</b>	
Net patient revenue	\$ 10,131,253
Intergovernmental transfer revenue	10,691,466
Other revenue	613,761
Total operating revenue	21,436,480
 <b>OPERATING EXPENSES</b>	
Professional care of residents	6,152,389
Administrative and general services	5,164,166
Employee benefits	6,448,187
New York State cash assessment	620,947
Depreciation	320,603
Bad debt	284,348
Total operating expenses	18,990,640
 Operating income	 2,445,840
 <b>NONOPERATING REVENUES (EXPENSES)</b>	
Interest income	2,869
Interest expense	(22,194)
Other non-operating revenue	14,026
Total nonoperating revenue (expense)	(5,299)
 Change in net position	 2,440,541
Total net position—beginning	(14,610,961)
Total net position—ending	\$ (12,170,420)

The notes to the financial statements are an integral part of this statement.

**SULLIVAN COUNTY ADULT CARE CENTER**  
**(AN ENTERPRISE FUND OF THE COUNTY OF SULLIVAN, NEW YORK)**  
**Statement of Cash Flows**  
**Year Ended December 31, 2016**

	<b>2016</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts for patient care services	\$ 10,341,090
Receipts for intergovernmental transfer	5,763,372
Payments to suppliers for goods and services	(4,802,103)
Payments to employees for services	(11,480,237)
Other operating revenue	613,761
Net cash provided by operating activities	435,883
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Advances from County	2,376,464
Receipts from other non-operating activities	16,895
Net cash provided by noncapital financing activities	2,393,359
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Capital expenditures, net	(181,618)
Interest paid	(22,194)
Principal payments on short-term and long-term debt	(203,959)
Net cash (used for) capital and related financial activities	(407,771)
Net change in cash	2,421,471
Cash—beginning (includes restricted cash for capital improvements)	1,224,234
Cash—ending (includes restricted cash for capital improvements)	\$ 3,645,705

(continued)

The notes to the financial statements are an integral part of this statement.

**SULLIVAN COUNTY ADULT CARE CENTER**  
**(AN ENTERPRISE FUND OF THE COUNTY OF SULLIVAN, NEW YORK)**  
**Statement of Cash Flows**  
**Year Ended December 31, 2016**

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	<b>2016</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>	
Operating income	\$ 2,445,840
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	320,603
Increase in intergovernmental transfer receivable	(4,928,094)
Decrease in patient accounts receivable, net	157,185
Decrease in due from third party payors	337,000
Decrease in inventories	6,986
Increase in prepaid items	(600)
Increase in deferred outflows resources	(3,442,587)
Decrease in accounts payable	(94,017)
Increase in accrued compensation and related costs	123,030
Decrease in accrued retirement incentives	(158,366)
Increase in accrued net pension liability	3,308,112
Increase in other post employment benefits liability	1,800,417
Increase in deferred inflows of resources	560,374
Total adjustments	(2,009,957)
Net cash provided by operating activities	\$ 435,883

(concluded)

The notes to the financial statements are an integral part of this statement.

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**SULLIVAN COUNTY ADULT CARE CENTER**  
**(AN ENTERPRISE FUND OF THE COUNTY OF SULLIVAN, NEW YORK)**  
**Notes to Financial Statements**  
**Year Ended December 31, 2016**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Sullivan County Adult Care Center (the “Center”) have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”) applied to governmental units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Center’s accounting policies are described below.

***Reporting Entity***

The accompanying financial statements reflect the financial position and activity of the Center on the accrual basis of accounting. The Center is a 146 bed residential health care facility located in Liberty, New York, that also provides medical model adult daycare program. The Center is an enterprise fund of the County of Sullivan, New York (the “County”), a political subdivision of the State of New York. The Center is operated under provisions of Article 6 of General Municipal Law. The County provides certain administrative support to the Center, and has a proprietary interest in all assets and has ultimate responsibility for all liabilities.

***Basis of Presentation—Enterprise Fund***

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.

***Basis of Accounting***

As an enterprise fund, the Center uses the accrual basis of accounting. Revenues are recognized in the period in which they are earned and expenses are recognized in the period incurred. The Center activities apply all applicable GASB pronouncements as well as guidance from the following sources, unless those pronouncements conflict or contradict GASB pronouncements: Financial Accounting Standards Board Accounting Standards Codification (FASB ASC), Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedure.

***Assets, Liabilities, Deferred Outflows/Inflows of Resources***

***Restricted Cash for Capital Improvements***—Restricted cash for capital improvements is reserved for the use of capital improvements to the Center related to the Health Care Efficiency and Affordability Law (“HEAL”).

***Resident Trust Cash***—Resident trust cash represents deposits held in custody for patients and as such represent fiduciary responsibilities of the Center rather than present or future interest.

***Receivables***—Represents IGT receivable from New York State and gross patient accounts receivable, with an estimated allowance for uncollectable accounts.

**Inventories**—Inventories are recorded at the lower of cost (determined using first-in, first-out method) or market.

**Prepaid Items**—Certain payments reflect costs applicable to future accounting periods and are recorded as prepaid items in the basic financial statements. The cost of prepaid items is recorded as expenses when consumed rather than purchased.

**Capital Assets**—Capital assets, which include buildings and equipment, are recorded at cost. Depreciation is computed under the straight-line method over the following estimated useful lives:

Buildings	10 - 40 years
Land Improvements	10 - 40 years
Major Movable 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. When assets are retired, or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in income for the period. Maintenance and repairs are charged to expense as incurred, significant renewals and betterments are capitalized.

Property and equipment that are donated (without restriction) are recorded at their fair market values as a direct increase to the component of invested in capital assets, net of related debt.

**Due to Third Party Payor**—Represents estimated future payments due to the New York State Department of Health for potential retroactive settlements.

**Deferred outflows/inflows of resources**—In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense) until then. At December 31, 2016 the Center has one item that qualifies for reporting in this category. This item represents the effect of the net change in the Center's proportion of the collective net pension liability, the difference during the measurement period between the Center's contributions and its proportionate share of the total contribution to the pension systems not included in the pension expense, and any contributions to the pension systems made subsequent to the measurement date.

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, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. At December 31, 2016 the Center has one item that qualifies for reporting in this category. This item represents the effect of the net change in the Center's proportion of the collective net pension liability and the difference during the measurement periods between the Center's contributions and its proportionate share of total contributions to the pension system not included in pension expense.

### **Revenues and Expenses**

**Net Patient Revenue**—Patient revenue is recorded at established rates for services rendered to all patients. Payments for services rendered to patients covered by Medicare, Medicaid and certain other prospective rate or cost based third-party payers are generally less than established rates, and



contractual allowances are recorded to reflect these differences. Final determination of amounts due the Center under these cost reimbursement programs are subject to audit or review by the respective administrative agencies, and provision has been made for estimated adjustments that may result. Differences between estimated amounts accrued and final settlements are reported in operations in the year of settlement. The Medicare cost report has been settled through 2015.

***Pensions***—The County is mandated by New York State law to participate in the New York State Local Employees' Retirement System. For purposes of measuring the net pension liability, deferred inflows/outflows of resources related to pensions, and pension expense of the Center, information about the fiduciary net position of the defined benefit pension plan, and changes thereof, have been determined on the same basis as they are reported by the respective defined benefit pension plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. More information regarding pensions is included in Note 5.

***Medical Malpractice***—The Center is insured relative to medical malpractice claims.

***Statements of Cash Flows***—For purposes of the statements of cash flows, the Center considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. There were no cash equivalent instruments at December 31, 2016.

***Estimates***—The preparation of the 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 disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Adoption of New Accounting Pronouncements***—During the year ended December 31, 2016, the Center implemented GASB Statement No. 72, *Fair Value Measurement and Application*, No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and *Amendments to Certain Provisions of GASB Statements 67 and 68*, No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*; No. 77, *Tax Abatement Disclosures*, No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, and No. 79, *Certain External Investment Pools and Pool Participants*. The objective of GASB Statement No. 72 is to enhance comparability of financial statements among governments by requiring measurements of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. The objective of GASB Statement No. 73 establishes a single framework for the presentation of information about pensions, which will enhance the comparability of pension-related information reported by employers and nonemployer contributing entities. The objective of GASB Statement No. 76 is to reduce the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The objective of GASB Statement No. 77 is to improve financial reporting by state and local governments that enter into tax abatement agreements by requiring the disclosure of information about the nature and magnitude of tax abatements and will make these transactions more transparent to financial statement users. The objective of GASB Statement No. 78 is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The objective of GASB Statement No. 79 is to establish criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. GASB Statements No. 72, 73, 76,

77, 78 and 79 did not have a material impact on the Center's financial position or results from operations.

**Future Impacts of Accounting Pronouncements**—The Center has not completed the process of evaluating the impact that will result from adopting GASB Statements No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*; No. 81, *Irrevocable Split-Interest Agreements*; and No. 82, *Pension Issues; an amendment of GASB Statements No. 67, No. 68, and No. 73*, effective for the year ending December 31, 2017, No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pensions*; and No. 85, *Omnibus 2017*, effective for the year ending December 31, 2018, and No. 83, *Certain Asset Retirement Obligations*; and No. 84, *Fiduciary Activities*, effective for the year ending December 31, 2019. The Center is, therefore, unable to disclose the impact that adopting GASB Statements No. 74, 75, 80, 81, 82, 83, 84 and 85 will have on its financial position and results of operations when such statements are adopted.

## 2. CASH AND RESTRICTED CASH

**Cash**—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 totaling \$3,442,993 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. Collateral is required for deposits and certificates of deposit in an amount equal to or greater than the amount of all deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral are outlined in Chapter 623 of the laws of the State of New York.

**Restricted Cash**—Restricted cash of \$202,712 represents amounts restricted for capital improvements related to the Health Care Efficiency and Affordability Law. The primary objective is to improve infrastructure and deliver high quality health care related to nursing facilities.

**Resident Trust Cash**—Resident trust cash of \$125,820 represents deposits held in custody for patients.

**Custodial Credit Risk – Deposits**—In the case of deposits, this is the risk that in the event of a bank failure, the Center's deposits may not be returned to it. As noted above, by State statute all deposits in excess of FDIC insurance coverage must be collateralized. As of December 31, 2016, the Center's deposits were entirely covered by FDIC insurance. The petty cash and patient petty cash funds are uninsured and uncollateralized.

## 3. RECEIVABLES

Receivables 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. The mix of receivables from patients and third-party payers at December 31, 2016 is presented on the following page.

Medicaid	48.5%
Self-pay	43.7%
Medicare	5.1%
Other	2.7%

For the year ended December 31, 2016 the Center recorded net receivables totaling \$1,844,717, with a provision for uncollectable accounts of \$284,348.

Intergovernmental transfer receivables consist of IGT funding of \$4,928,094 related to the state fiscal years April 1, 2015 to March 31, 2016. Refer to Note 11 for additional information.

#### 4. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2016 was as follows:

	Balance 1/1/2016	Increases	Decreases	Balance 12/31/2016
Capital assets, not being depreciated:				
Land	\$ 44,800	\$ -	\$ -	\$ 44,800
Construction in progress	78,100	-	(78,100)	-
Total capital assets, not being depreciated	<u>122,900</u>	<u>-</u>	<u>(78,100)</u>	<u>44,800</u>
Capital assets, being depreciated:				
Buildings and improvements	12,208,558	40,809	-	12,249,367
Land improvements	87,600	-	-	87,600
Machinery and equipment	596,602	218,909	-	815,511
Total capital assets, being depreciated:	<u>12,892,760</u>	<u>259,718</u>	<u>-</u>	<u>13,152,478</u>
Less accumulated depreciation for:				
Buildings and improvements	(9,748,139)	(298,939)	-	(10,047,078)
Land Improvements	(87,600)	-	-	(87,600)
Machinery and equipment	(451,147)	(21,664)	-	(472,811)
Total accumulated depreciation	<u>(10,286,886)</u>	<u>(320,603)</u>	<u>-</u>	<u>(10,607,489)</u>
Total capital assets, being depreciated, net	<u>2,605,874</u>	<u>(60,885)</u>	<u>-</u>	<u>2,544,989</u>
Capital assets, net	<u>\$ 2,728,774</u>	<u>\$ (60,885)</u>	<u>\$ (78,100)</u>	<u>\$ 2,589,789</u>

Depreciation expense for the year ended December 31, 2016 was \$320,603.

#### 5. PENSION PLAN

**Retirement Incentive 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 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 in each of the fiscal years as noted in the table below:

	Original Amount Amortized	Balance 1/1/2016	Increases/ Adjustments	Decreases/ Adjustments	Balance 12/31/2016	Due Within One Year
2010 ERS Incentive	\$ 193,970	\$ 41,486	\$ -	\$ 41,486	\$ -	\$ -
2012 ERS	424,568	312,701	-	45,101	267,600	40,698
2013 ERS	463,238	384,574	-	45,801	338,773	42,395
2014 ERS	217,739	204,049	-	25,978	178,071	19,609
2015 ERS	164,116	164,116	-	-	164,116	14,178
Total	<u>\$ 1,463,631</u>	<u>\$ 1,106,926</u>	<u>\$ -</u>	<u>\$ 158,366</u>	<u>\$ 948,560</u>	<u>\$ 116,880</u>

**Employees' Retirement System ("ERS")**—The Center participates in the New York State and Local Employees' Retirement System (the "System"). The System provides retirement benefits as well as death and disability benefits. The net position of the System is held in the New York State Common Retirement Fund (the "Fund"), which was established to hold all assets and record changes in fiduciary net position allocated to the System. The Comptroller of the State of New York serves as the trustee of the Fund and is the administrative head of the System. System benefits are established under the provisions of the New York State Retirement and Social Security Law ("NYSRSSL"). Once a public employer elects to participate in the System, 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 System is included in the State's financial report as a pension trust fund. That report, including information with regards to benefits provided, may be found at [www.osc.state.ny.us/retire/publications/index.php](http://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 system is noncontributory, except for employees who joined the ERS after July 27, 1976 who contribute three percent (3%) of their salary for the first ten years of membership, and employees who joined on or after January 10, 2010, who generally contribute three percent (3%) to three and one half percent (3.5%) of their salary for their entire length of service. In addition, employee contribution rates under ERS Tier VI vary based on a sliding salary scale. The Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions based on salaries paid during the System's fiscal year ending March 31.

**Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**—At December 31, 2016, the Center reported the following liability for its proportionate share of the net pension liability for ERS. The net pension liability was measured as of March 31, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of April 1, 2015, with update procedures used to roll forward the total pension liability to the measurement date. The Center's proportion of the net pension liability was based on a projection of the Center's long-term share of contributions to the Systems relative to

the projected contributions of all participating members, actuarially determined. This information was provided by the ERS Systems in reports provided to the Center.

	<u>ERS</u>
Measurement date	March 31, 2016
Net pension liability	\$ 4,193,799
Center's portion of the Plan's total net pension liability	0.0261291%

For the year ended December 31, 2016, the Center recognized ERS pension expense of \$1,442,914 for ERS. At December 31, 2016 the Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>ERS</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experiences	\$ 21,192	\$ 497,104
Changes in assumptions	1,118,360	-
Net difference between projected and actual earnings on pension plan investments	2,487,992	204,350
Changes in proportion and differences between the Center's contributions and proportionate share of contributions	10,971	-
Center contributions subsequent to measurement date	<u>692,270</u>	<u>-</u>
Total	<u>\$ 4,330,785</u>	<u>\$ 701,454</u>

Center contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as presented below:

<u>Year Ended December 31,</u>	<u>ERS</u>
2017	\$ 734,265
2018	734,265
2019	734,265
2020	734,266

**Actuarial Assumptions**—The total pension liability as of the measurement date was determined by using actuarial valuations as noted in the table below, with update procedures used to roll forward the total pension liability to the measurement date. The actuarial valuations used the actuarial assumptions presented below:

	<u>ERS</u>
Measurement date	March 31, 2016
Actuarial valuation date	April 1, 2015
Interest rate	7.00%
Salary scale	3.80%
Decrement tables	April 1, 2010- March 31, 2015
Inflation rate	2.5%

Annuitant mortality rates are based on April 1, 2010 – March 31, 2015 System’s experience with adjustments for mortality improvements based on Society of Actuaries’ Scale MP-2014. The actuarial assumptions used in the April 1, 2015 valuation are based on the results of an actuarial experience study for the period April 1, 2010 – March 31, 2015.

The long-term rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long term expected rate of return by weighting the expected future real rates of return by each the target asset allocation percentage and by adding expected inflation. Best estimates of the arithmetic real rates of return for each major asset class included in the target asset allocation are summarized below.

Measurement date	ERS	
	Target Allocation	Long-Term Expected Real Rate of Return
	March 31, 2016	
Asset class:		
Domestic equities	38.0 %	7.3 %
International equities	13.0	8.6
Private equity	10.0	11.0
Real estate	8.0	8.3
Absolute return strategies	3.0	6.8
Opportunistic portfolio	3.0	8.6
Real assets	3.0	8.7
Bonds and mortgages	18.0	4.0
Cash	2.0	2.3
Inflation-indexed bonds	2.0	4.0
Total	<u>100.0 %</u>	

**Discount Rate**—The discount rate used to calculate the total pension liability was 7.0%. 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. Based upon the assumptions, the Systems’ 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.

**Sensitivity of the Proportionate Share of the Net Pension Liability to the Discount Rate Assumption**—The chart below presents the Center’s proportionate share of the net pension liability calculated using the discount rate of 7.0%, 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 one percentage-point lower (6.0%) or one percentage-point higher (8.0%) than the current assumption.

ERS	1% Decrease (6.0%)	Current Assumption (7.0%)	1% Increase (8.0%)
Employer's proportionate share of the net pension liability	\$ 9,456,763	\$ 4,193,799	\$ (253,139)

**Pension Plan Fiduciary Net Position**—The components of the current-year net pension liability of the employers as of the respective valuation dates, were as follows:

	<u>(Dollars in Thousands)</u>
	<u>ERS</u>
Valuation date	March 31, 2016
Employers' total pension liability	\$ 172,303,544
Plan fiduciary net position	<u>156,253,265</u>
Employers' net pension liability	<u>\$ 16,050,279</u>
System fiduciary net position as a percentage of total pension liability	90.68%

## 6. OTHER POST EMPLOYMENT BENEFITS

**Plan Description**—Sullivan County Retiree Medical Program (the “Plan”) is a single-employer defined benefit healthcare plan administered by the New York State Employee Retirement System. The Center, through the County provides certain health care benefits for retired employees. The various collective bargaining agreements stipulate the employees covered and the percentage of contribution.

**Funding Policy**—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 7.5%, and for post-65 medical trend rates is 6.5%, for the first year and decreases to 3.9% for the following years. The projected unit credit method was used to determine the actuarial value of the assets if the Plan, however, the Center currently has no assets set aside for the purpose of paying post employment plans.

The Center’s annual other postemployment benefit (“OPEB”) cost is calculated based on the annual required contribution (“ARC”) of the employer, an amount actuarially determined in accordance with the parameters of GASB. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

The table presented below shows the components of the Center’s annual OPEB costs for the year ended December 31, 2016 and 2015, the amount actually contributed to the plan, and changes in the Center’s net OPEB obligation.

	<u>2016</u>	<u>2015</u>
Annual required contribution	\$ 2,280,411	\$ 2,143,313
Interest on net OPEB obligation	474,942	403,465
Adjustment to annual required contribution	<u>(673,530)</u>	<u>(572,167)</u>
Annual OPEB cost (expense)	2,081,823	1,974,611
Contributions made	<u>(281,406)</u>	<u>(254,358)</u>
Increase in net OPEB obligation	1,800,417	1,720,253
Net OPEB obligation - beginning of year	<u>11,430,612</u>	<u>9,710,359</u>
Net OPEB obligation - end of year	<u>\$ 13,231,029</u>	<u>\$ 11,430,612</u>
Percentage of ARC contributed	12.3%	11.9%

**Funded Status and Funding Progress**—As of December 31, 2016, the most recent actuarial valuation date, the plan was not funded. Since there were no assets, the unfunded actuarial accrued liability for benefits was \$21,751,371.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements presents multiyear information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial liability for benefits.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The Center’s schedule of contributions for the most recent three years is shown below:

Year Ended December 31,	Annual Required Contribution	Contributions Made	Percentage Contributed
2016	\$ 2,280,411	\$ 281,406	12.3%
2015	2,143,313	254,358	11.9%
2014	1,703,792	297,958	17.5%

**Actuarial Methods and Assumptions**—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.

In the January 1, 2015 actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a valuation date of January 1, 2015 and measurement date of December 31, 2015. The RP-2014 Mortality Tables for males and females is used for mortality rates. The valuation uses a discount rate of 4.0%. The rates of decrement due to retirement is based on the experience under the New York State and Local Retirement System as prepared by the Department of Civil Service’s actuarial consultant in the report titled, Development of Recommended Actuarial Assumptions for New York State/SUNY GASB 45 Valuation. The Retiree Health Plan’s unfunded actuarial accrued liability is being amortized as a level percentage of expected payroll over thirty years.

## 7. RISK FINANCING ACTIVITIES

**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 did not report an unemployment expense for the year ended December 31, 2016.

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 internal service 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 \$375,000 for the year ended December 31, 2016.

## 8. SHORT-TERM DEBT

The following is a summary of the Center's short-term debt for the year ended December 31, 2016:

Description	Interest Rate	Beginning Balance 1/1/2016	Increases	Decreases	Ending Balance 12/31/2016
<b>Capital Projects Fund:</b>					
<i>Bond anticipation notes:</i>					
2014 ACC Construction 2nd Renewal	2.00%	\$ 750,000	\$ -	\$ 187,500	\$ 562,500
Total		<u>\$ 750,000</u>	<u>\$ -</u>	<u>\$ 187,500</u>	<u>\$ 562,500</u>

## 9. LONG-TERM DEBT

A summary of long-term debt for the year ended December 31, 2016 follows:

	Balance 1/1/2016	Additions	Reductions	Balance 12/31/2016	Due within one year
Bonds Payable	\$ 32,598	\$ -	\$ 16,459	\$ 16,139	\$ 16,139

## 10. RELATED PARTIES

The total amount due to the County was \$8,622,095 at December 31, 2016. 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 position. The total indirect costs allocated to the Center approximated \$523,000 for the year ended December 31, 2016.

## 11. INTERGOVERNMENTAL TRANSFER

The New York State Association of Counties ("NYSAC") and the State Division of the Budget agreed upon a methodology to bring additional federal revenues to county nursing facilities. This methodology, known as the Intergovernmental Transfer Program ("IGT"), provides for certain Medicaid rate enhancements to non-state operated, publicly sponsored nursing facilities, excluding public nursing facilities operated by a town or city within a county.

Under this methodology known as IGT, counties are required to advance a percentage of the total Intergovernmental Transfer payments, which is determined by the Federal Matching Rate approved by the Centers for Medicare & Medicaid Services ("CMS"). The qualifying nursing homes are entitled to 100% of the share amount which was allocated based upon the ratio of each facility's reported Medicaid days divided by the total reported Medicaid days for all eligible facilities.

The 2014-2015 New York State final budget extends Intergovernmental Transfer funding for public homes for an additional three years through March 31, 2017 and increase the annual statewide IGT payment cap from \$300 to \$500 million. The IGT funding available is based on the upper payment limit calculation so raising the cap may or may not increase the amount of available IGT funding.

During the year ended December 31, 2016, the Center received \$5,763,372 in IGT payment for the period April 1, 2014 to March 31, 2015. Additionally, IGT funding of \$4,927,094 related to the state fiscal year April 1, 2015 to March 31, 2016 was received in March of 2017 and the Center accrued as a receivable and revenue at December 31, 2016. Due to uncertainty in timing and estimates of IGT revenues, the Center has applied a modified accrual basis related to IGT revenues consistent with the County's availability period.

**12. CONTINGENCIES**

The Center participates in a premium based general and professional liability insurance plan. The plan assumes liability for most risks included, but not limited to, personal injury, malpractice, vehicle, and general liability. At December 31, 2016, no claims or outstanding premiums exist that meet the liability criteria.

The health care industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with these laws and regulations is subject to future government review and interpretation as well as regulatory actions unknown or unasserted at the time. Recently, government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of fraud and abuse statutes and regulations, which could result in the imposition of significant fines and penalties as well as significant repayments for patient services previously billed. While no outstanding regulatory actions exist at December 31, 2016 for the Center, compliance with such laws and regulations can be subject to future government review and interpretations as well as regulatory actions unknown or unasserted at this time.

**13. NET POSITION**

The Center's financial statements utilize a net position presentation. Net position is categorized net investment in capital assets, restricted, and unrestricted.

- **Net investment in capital assets**—This category groups all capital assets into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category. A reconciliation of the Center's net investment in capital assets is presented below:

Capital assets, net of accumulated depreciation		\$ 2,589,789
Less:		
Serial bonds	\$ (16,139)	
BAN payable	<u>(562,500)</u>	<u>(578,639)</u>
Net investment in capital assets		<u>\$ 2,011,150</u>

- **Restricted net position**— This category represents external restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. The total restricted component of net position at December 31, 2016 for the Center was \$202,712 restricted for capital improvements.
- **Unrestricted net position**—This category represents net investment in assets of the Center not restricted for any project or other purpose.

*Net position deficit*—The Center had a net position deficit of \$12,170,420 and \$14,610,961 at December 31, 2016 and December 31, 2015, respectively. The major factors contributing to the prior year deficit was the increasing costs of operations, combined with uncertainty in Medicaid and Medicare reimbursement rates and other state/federal funding sources. During the year ended December 31, 2016, the County recognized a significant increase in IGT revenue which reduced the total net position deficit to \$12,170,420.

#### **14. SUBSEQUENT EVENTS**

Management has evaluated subsequent events through June 26, 2017, which is the date the financial statements are available for issuance, and have determined there are no subsequent events that require disclosure under generally accepted accounting principles.

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## REQUIRED SUPPLEMENTARY INFORMATION



**SULLIVAN COUNTY ADULT CARE CENTER**  
**(AN ENTERPRISE FUND OF THE COUNTY OF SULLIVAN, NEW YORK)**  
**Schedule of Funding Progress – Other Post-Employment Benefits Plan**  
**For the Year Ended December 31, 2016**

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<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability ("AAL")</b>	<b>Unfunded AAL ("UAAL")</b>	<b>Funded Ratio</b>	<b>Budgeted Covered Payroll</b>	<b>Ratio of UAAL to Budget Covered Payroll</b>
As of January 1, 2015	\$ -	\$ 19,699,354	19,699,354	-	\$ 5,535,020	356%
As of January 1, 2016	-	21,751,371	21,751,371	-	5,485,581	397%

\*Information prior to January 1, 2015 is not available.

**SULLIVAN COUNTY ADULT CARE CENTER**  
**Schedule of the Center's Proportionate Share of the**  
**Net Pension Liability—Employees' Retirement System**  
**Last Two Fiscal Years\***

	Year Ended December 31,	
	2016	2015
Measurement date	March 31, 2016	March 31, 2015
Center's proportion of the net pension liability	0.0261291%	0.0262174%
Center's proportionate share of the net pension liability	<u>\$ 4,193,799</u>	<u>\$ 885,687</u>
Center's covered-employee payroll	\$ 8,063,774	\$ 7,844,031
Center's proportionate share of the net pension liability as a percentage of its covered-employee payroll	52.0%	11.3%
Plan fiduciary net position as a percentage of the total pension liability	90.7%	97.9%

\*Information prior to December 31, 2015 is not available.



**SULLIVAN COUNTY ADULT CARE CENTER**  
**Schedule of the Center's Contributions—**  
**Employees' Retirement System**  
**Last Two Fiscal Years\***

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	Year Ended December 31,	
	2016	2015
Contractually required contributions	\$ 1,009,798	\$ 1,106,428
Contributions in relation to the contractually required contribution	(1,009,798)	(1,106,428)
Contribution deficiency (excess)	\$ -	\$ -
Center's covered-employee payroll	\$ 6,683,257	\$ 6,772,279
Contributions as a percentage of covered-employee payroll	15.1%	16.3%

\*Information prior to December 31, 2015 is not available.

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Certified Public Accountants

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

The Honorable County Legislature  
County of Sullivan, New York:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the Sullivan County Adult Care Center (the "Center"), an Enterprise Fund of the County of Sullivan, New York, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements, and have issued our report thereon dated June 26, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the basic financial statements, we considered the Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center's 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 a 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 over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Center's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Drescher & Malecki LLP*

June 26, 2017

**SULLIVAN COUNTY ADULT CARE CENTER**  
**(AN ENTERPRISE FUND OF THE COUNTY OF SULLIVAN, NEW YORK)**  
**Notes to Financial Statements**  
**Year Ended December 31, 2016**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Sullivan County Adult Care Center (the “Center”) have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”) applied to governmental units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Center’s accounting policies are described below.

***Reporting Entity***

The accompanying financial statements reflect the financial position and activity of the Center on the accrual basis of accounting. The Center is a 146 bed residential health care facility located in Liberty, New York, that also provides medical model adult daycare program. The Center is an enterprise fund of the County of Sullivan, New York (the “County”), a political subdivision of the State of New York. The Center is operated under provisions of Article 6 of General Municipal Law. The County provides certain administrative support to the Center, and has a proprietary interest in all assets and has ultimate responsibility for all liabilities.

***Basis of Presentation—Enterprise Fund***

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.

***Basis of Accounting***

As an enterprise fund, the Center uses the accrual basis of accounting. Revenues are recognized in the period in which they are earned and expenses are recognized in the period incurred. The Center activities apply all applicable GASB pronouncements as well as guidance from the following sources, unless those pronouncements conflict or contradict GASB pronouncements: Financial Accounting Standards Board Accounting Standards Codification (FASB ASC), Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedure.

***Assets, Liabilities, Deferred Outflows/Inflows of Resources***

***Restricted Cash for Capital Improvements***—Restricted cash for capital improvements is reserved for the use of capital improvements to the Center related to the Health Care Efficiency and Affordability Law (“HEAL”).

***Resident Trust Cash***—Resident trust cash represents deposits held in custody for patients and as such represent fiduciary responsibilities of the Center rather than present or future interest.

***Receivables***—Represents IGT receivable from New York State and gross patient accounts receivable, with an estimated allowance for uncollectable accounts.

**Inventories**—Inventories are recorded at the lower of cost (determined using first-in, first-out method) or market.

**Prepaid Items**—Certain payments reflect costs applicable to future accounting periods and are recorded as prepaid items in the basic financial statements. The cost of prepaid items is recorded as expenses when consumed rather than purchased.

**Capital Assets**—Capital assets, which include buildings and equipment, are recorded at cost. Depreciation is computed under the straight-line method over the following estimated useful lives:

Buildings	10 - 40 years
Land Improvements	10 - 40 years
Major Movable 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. When assets are retired, or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in income for the period. Maintenance and repairs are charged to expense as incurred, significant renewals and betterments are capitalized.

Property and equipment that are donated (without restriction) are recorded at their fair market values as a direct increase to the component of invested in capital assets, net of related debt.

**Due to Third Party Payor**—Represents estimated future payments due to the New York State Department of Health for potential retroactive settlements.

**Deferred outflows/inflows of resources**—In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense) until then. At December 31, 2016 the Center has one item that qualifies for reporting in this category. This item represents the effect of the net change in the Center's proportion of the collective net pension liability, the difference during the measurement period between the Center's contributions and its proportionate share of the total contribution to the pension systems not included in the pension expense, and any contributions to the pension systems made subsequent to the measurement date.

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, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. At December 31, 2016 the Center has one item that qualifies for reporting in this category. This item represents the effect of the net change in the Center's proportion of the collective net pension liability and the difference during the measurement periods between the Center's contributions and its proportionate share of total contributions to the pension system not included in pension expense.

### **Revenues and Expenses**

***Net Patient Revenue***—Patient revenue is recorded at established rates for services rendered to all patients. Payments for services rendered to patients covered by Medicare, Medicaid and certain other prospective rate or cost based third-party payers are generally less than established rates, and contractual allowances are recorded to reflect these differences. Final determination of amounts due the Center under these cost reimbursement programs are subject to audit or review by the respective administrative agencies, and provision has been made for estimated adjustments that may result. Differences between estimated amounts accrued and final settlements are reported in operations in the year of settlement. The Medicare cost report has been settled through 2015.

***Pensions***—The County is mandated by New York State law to participate in the New York State Local Employees' Retirement System. For purposes of measuring the net pension liability, deferred inflows/outflows of resources related to pensions, and pension expense of the Center, information about the fiduciary net position of the defined benefit pension plan, and changes thereof, have been determined on the same basis as they are reported by the respective defined benefit pension plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. More information regarding pensions is included in Note 5.

***Medical Malpractice***—The Center is insured relative to medical malpractice claims.

***Statements of Cash Flows***—For purposes of the statements of cash flows, the Center considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. There were no cash equivalent instruments at December 31, 2016.

***Estimates***—The preparation of the 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 disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Adoption of New Accounting Pronouncements***—During the year ended December 31, 2016, the Center implemented GASB Statement No. 72, *Fair Value Measurement and Application*, No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and *Amendments to Certain Provisions of GASB Statements 67 and 68*, No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*; No. 77, *Tax Abatement Disclosures*, No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, and No. 79, *Certain External Investment Pools and Pool Participants*. The objective of GASB Statement No. 72 is to enhance comparability of financial statements among governments by requiring measurements of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. The objective of GASB Statement No. 73 establishes a single framework for the presentation of information about pensions, which will enhance the comparability of pension-related information reported by employers and nonemployer contributing entities. The objective of GASB Statement No. 76 is to reduce the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The objective of GASB Statement No. 77 is to improve financial reporting by state and local governments that enter into tax abatement agreements by requiring the disclosure of information about the nature and magnitude of tax abatements and will make these transactions more transparent to financial statement users. The objective of GASB Statement No. 78 is to address a practice issue regarding the scope and applicability of Statement No.

68, *Accounting and Financial Reporting for Pensions*. The objective of GASB Statement No. 79 is to establish criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. GASB Statements No. 72, 73, 76, 77, 78 and 79 did not have a material impact on the Center's financial position or results from operations.

***Future Impacts of Accounting Pronouncements***—The Center has not completed the process of evaluating the impact that will result from adopting GASB Statements No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*; No. 81, *Irrevocable Split-Interest Agreements*; and No. 82, *Pension Issues; an amendment of GASB Statements No. 67, No. 68, and No. 73*, effective for the year ending December 31, 2017, No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pensions*; and No. 85, *Omnibus 2017*, effective for the year ending December 31, 2018, and No. 83, *Certain Asset Retirement Obligations*; and No. 84, *Fiduciary Activities*, effective for the year ending December 31, 2019. The Center is, therefore, unable to disclose the impact that adopting GASB Statements No. 74, 75, 80, 81, 82, 83, 84 and 85 will have on its financial position and results of operations when such statements are adopted.

## 2. CASH AND RESTRICTED CASH

***Cash***—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 totaling \$3,442,993 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. Collateral is required for deposits and certificates of deposit in an amount equal to or greater than the amount of all deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral are outlined in Chapter 623 of the laws of the State of New York.

***Restricted Cash***—Restricted cash of \$202,712 represents amounts restricted for capital improvements related to the Health Care Efficiency and Affordability Law. The primary objective is to improve infrastructure and deliver high quality health care related to nursing facilities.

***Resident Trust Cash***—Resident trust cash of \$125,820 represents deposits held in custody for patients.

***Custodial Credit Risk – Deposits***—In the case of deposits, this is the risk that in the event of a bank failure, the Center's deposits may not be returned to it. As noted above, by State statute all deposits in excess of FDIC insurance coverage must be collateralized. As of December 31, 2016, the Center's deposits were entirely covered by FDIC insurance. The petty cash and patient petty cash funds are uninsured and uncollateralized.

## 3. RECEIVABLES

Receivables 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. The mix of receivables from patients and third-party payers at December 31, 2016 is presented on the following page.

Medicaid	48.5%
Self-pay	43.7%
Medicare	5.1%
Other	2.7%

For the year ended December 31, 2016 the Center recorded net receivables totaling \$1,844,717, with a provision for uncollectable accounts of \$284,348.

Intergovernmental transfer receivables consist of IGT funding of \$4,928,094 related to the state fiscal years April 1, 2015 to March 31, 2016. Refer to Note 11 for additional information.

#### 4. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2016 was as follows:

	Balance 1/1/2016	Increases	Decreases	Balance 12/31/2016
Capital assets, not being depreciated:				
Land	\$ 44,800	\$ -	\$ -	\$ 44,800
Construction in progress	78,100	-	(78,100)	-
Total capital assets, not being depreciated	<u>122,900</u>	<u>-</u>	<u>(78,100)</u>	<u>44,800</u>
Capital assets, being depreciated:				
Buildings and improvements	12,208,558	40,809	-	12,249,367
Land improvements	87,600	-	-	87,600
Machinery and equipment	596,602	218,909	-	815,511
Total capital assets, being depreciated:	<u>12,892,760</u>	<u>259,718</u>	<u>-</u>	<u>13,152,478</u>
Less accumulated depreciation for:				
Buildings and improvements	(9,748,139)	(298,939)	-	(10,047,078)
Land Improvements	(87,600)	-	-	(87,600)
Machinery and equipment	(451,147)	(21,664)	-	(472,811)
Total accumulated depreciation	<u>(10,286,886)</u>	<u>(320,603)</u>	<u>-</u>	<u>(10,607,489)</u>
Total capital assets, being depreciated, net	<u>2,605,874</u>	<u>(60,885)</u>	<u>-</u>	<u>2,544,989</u>
Capital assets, net	<u>\$ 2,728,774</u>	<u>\$ (60,885)</u>	<u>\$ (78,100)</u>	<u>\$ 2,589,789</u>

Depreciation expense for the year ended December 31, 2016 was \$320,603.

#### 5. PENSION PLAN

**Retirement Incentive 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 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 in each of the fiscal years as noted in the table below:

	Original Amount Amortized	Balance 1/1/2016	Increases/ Adjustments	Decreases/ Adjustments	Balance 12/31/2016	Due Within One Year
2010 ERS Incentive	\$ 193,970	\$ 41,486	\$ -	\$ 41,486	\$ -	\$ -
2012 ERS	424,568	312,701	-	45,101	267,600	40,698
2013 ERS	463,238	384,574	-	45,801	338,773	42,395
2014 ERS	217,739	204,049	-	25,978	178,071	19,609
2015 ERS	164,116	164,116	-	-	164,116	14,178
Total	<u>\$ 1,463,631</u>	<u>\$ 1,106,926</u>	<u>\$ -</u>	<u>\$ 158,366</u>	<u>\$ 948,560</u>	<u>\$ 116,880</u>

**Employees' Retirement System ("ERS")**—The Center participates in the New York State and Local Employees' Retirement System (the "System"). The System provides retirement benefits as well as death and disability benefits. The net position of the System is held in the New York State Common Retirement Fund (the "Fund"), which was established to hold all assets and record changes in fiduciary net position allocated to the System. The Comptroller of the State of New York serves as the trustee of the Fund and is the administrative head of the System. System benefits are established under the provisions of the New York State Retirement and Social Security Law ("NYSRSSL"). Once a public employer elects to participate in the System, 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 System is included in the State's financial report as a pension trust fund. That report, including information with regards to benefits provided, may be found at [www.osc.state.ny.us/retire/publications/index.php](http://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 system is noncontributory, except for employees who joined the ERS after July 27, 1976 who contribute three percent (3%) of their salary for the first ten years of membership, and employees who joined on or after January 10, 2010, who generally contribute three percent (3%) to three and one half percent (3.5%) of their salary for their entire length of service. In addition, employee contribution rates under ERS Tier VI vary based on a sliding salary scale. The Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions based on salaries paid during the System's fiscal year ending March 31.

**Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**—At December 31, 2016, the Center reported the following liability

for its proportionate share of the net pension liability for ERS. The net pension liability was measured as of March 31, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of April 1, 2015, with update procedures used to roll forward the total pension liability to the measurement date. The Center's proportion of the net pension liability was based on a projection of the Center's long-term share of contributions to the Systems relative to the projected contributions of all participating members, actuarially determined. This information was provided by the ERS Systems in reports provided to the Center.

	<u>ERS</u>
Measurement date	March 31, 2016
Net pension liability	\$ 4,193,799
Center's portion of the Plan's total net pension liability	0.0261291%

For the year ended December 31, 2016, the Center recognized ERS pension expense of \$1,442,914 for ERS. At December 31, 2016 the Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>ERS</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experiences	\$ 21,192	\$ 497,104
Changes in assumptions	1,118,360	-
Net difference between projected and actual earnings on pension plan investments	2,487,992	204,350
Changes in proportion and differences between the Center's contributions and proportionate share of contributions	10,971	-
Center contributions subsequent to measurement date	<u>692,270</u>	<u>-</u>
Total	<u>\$ 4,330,785</u>	<u>\$ 701,454</u>

Center contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as presented below:

<u>Year Ended December 31,</u>	<u>ERS</u>
2017	\$ 734,265
2018	734,265
2019	734,265
2020	734,266

**Actuarial Assumptions**—The total pension liability as of the measurement date was determined by using actuarial valuations as noted in the table below, with update procedures used to roll forward the total pension liability to the measurement date. The actuarial valuations used the actuarial assumptions presented below:

	ERS
Measurement date	March 31, 2016
Actuarial valuation date	April 1, 2015
Interest rate	7.00%
Salary scale	3.80%
Decrement tables	April 1, 2010- March 31, 2015
Inflation rate	2.5%

Annuitant mortality rates are based on April 1, 2010 – March 31, 2015 System’s experience with adjustments for mortality improvements based on Society of Actuaries’ Scale MP-2014. The actuarial assumptions used in the April 1, 2015 valuation are based on the results of an actuarial experience study for the period April 1, 2010 – March 31, 2015.

The long-term rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long term expected rate of return by weighting the expected future real rates of return by each the target asset allocation percentage and by adding expected inflation. Best estimates of the arithmetic real rates of return for each major asset class included in the target asset allocation are summarized below.

	ERS	
	Target Allocation	Long-Term Expected Real Rate of Return
Measurement date	March 31, 2016	
Asset class:		
Domestic equities	38.0 %	7.3 %
International equities	13.0	8.6
Private equity	10.0	11.0
Real estate	8.0	8.3
Absolute return strategies	3.0	6.8
Opportunistic portfolio	3.0	8.6
Real assets	3.0	8.7
Bonds and mortgages	18.0	4.0
Cash	2.0	2.3
Inflation-indexed bonds	2.0	4.0
Total	<u>100.0 %</u>	

**Discount Rate**—The discount rate used to calculate the total pension liability was 7.0%. 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. Based upon the assumptions, the Systems’ 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.

**Sensitivity of the Proportionate Share of the Net Pension Liability to the Discount Rate Assumption**—The chart below presents the Center’s proportionate share of the net pension liability calculated using the discount rate of 7.0%, 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 one percentage-point lower (6.0%) or one percentage-point higher (8.0%) than the current assumption.

ERS	1% Decrease (6.0%)	Current Assumption (7.0%)	1% Increase (8.0%)
Employer's proportionate share of the net pension liability	\$ 9,456,763	\$ 4,193,799	\$ (253,139)

**Pension Plan Fiduciary Net Position**—The components of the current-year net pension liability of the employers as of the respective valuation dates, were as follows:

	(Dollars in Thousands)
	<u>ERS</u>
Valuation date	March 31, 2016
Employers' total pension liability	\$ 172,303,544
Plan fiduciary net position	<u>156,253,265</u>
Employers' net pension liability	<u>\$ 16,050,279</u>
System fiduciary net position as a percentage of total pension liability	90.68%

## 6. OTHER POST EMPLOYMENT BENEFITS

**Plan Description**—Sullivan County Retiree Medical Program (the “Plan”) is a single-employer defined benefit healthcare plan administered by the New York State Employee Retirement System. The Center, through the County provides certain health care benefits for retired employees. The various collective bargaining agreements stipulate the employees covered and the percentage of contribution.

**Funding Policy**—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 7.5%, and for post-65 medical trend rates is 6.5%, for the first year and decreases to 3.9% for the following years. The projected unit credit method was used to determine the actuarial value of the assets if the Plan, however, the Center currently has no assets set aside for the purpose of paying post employment plans.

The Center’s annual other postemployment benefit (“OPEB”) cost is calculated based on the annual required contribution (“ARC”) of the employer, an amount actuarially determined in accordance with the parameters of GASB. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

The table presented below shows the components of the Center’s annual OPEB costs for the year ended December 31, 2016 and 2015, the amount actually contributed to the plan, and changes in the Center’s net OPEB obligation.

	2016	2015
Annual required contribution	\$ 2,280,411	\$ 2,143,313
Interest on net OPEB obligation	474,942	403,465
Adjustment to annual required contribution	<u>(673,530)</u>	<u>(572,167)</u>
Annual OPEB cost (expense)	2,081,823	1,974,611
Contributions made	<u>(281,406)</u>	<u>(254,358)</u>
Increase in net OPEB obligation	1,800,417	1,720,253
Net OPEB obligation - beginning of year	<u>11,430,612</u>	<u>9,710,359</u>
Net OPEB obligation - end of year	<u>\$ 13,231,029</u>	<u>\$ 11,430,612</u>
Percentage of ARC contributed	12.3%	11.9%

**Funded Status and Funding Progress**—As of December 31, 2016, the most recent actuarial valuation date, the plan was not funded. Since there were no assets, the unfunded actuarial accrued liability for benefits was \$21,751,371.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements presents multiyear information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial liability for benefits.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The Center's schedule of contributions for the most recent three years is shown below:

Year Ended December 31,	Annual Required Contribution	Contributions Made	Percentage Contributed
2016	\$ 2,280,411	\$ 281,406	12.3%
2015	2,143,313	254,358	11.9%
2014	1,703,792	297,958	17.5%

**Actuarial Methods and Assumptions**—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.

In the January 1, 2015 actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a valuation date of January 1, 2015 and measurement date of December 31, 2015. The RP-2014 Mortality Tables for males and females is used for mortality rates. The valuation uses a discount rate of 4.0%. The rates of decrement due to retirement is based on the experience under the New York State and Local Retirement System as prepared by the Department of Civil Service's actuarial consultant in the report titled, Development of Recommended Actuarial Assumptions for New York State/SUNY GASB 45 Valuation. The Retiree Health Plan's unfunded actuarial accrued liability is being amortized as a level percentage of expected payroll over thirty years.

**7. RISK FINANCING ACTIVITIES**

*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 did not report an unemployment expense for the year ended December 31, 2016.

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 internal service 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 \$375,000 for the year ended December 31, 2016.

**8. SHORT-TERM DEBT**

The following is a summary of the Center's short-term debt for the year ended December 31, 2016:

Description	Interest Rate	Beginning Balance 1/1/2016	Increases	Decreases	Ending Balance 12/31/2016
<b>Capital Projects Fund:</b>					
<i>Bond anticipation notes:</i>					
2014 ACC Construction 2nd Renewal	2.00%	<u>\$ 750,000</u>	<u>\$ -</u>	<u>\$ 187,500</u>	<u>\$ 562,500</u>

**9. LONG-TERM DEBT**

A summary of long-term debt for the year ended December 31, 2016 follows:

	Balance 1/1/2016	Additions	Reductions	Balance 12/31/2016	Due within one year
Bonds Payable	<u>\$ 32,598</u>	<u>\$ -</u>	<u>\$ 16,459</u>	<u>\$ 16,139</u>	<u>\$ 16,139</u>

**10. RELATED PARTIES**

The total amount due to the County was \$8,622,095 at December 31, 2016. 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 position. The total indirect costs allocated to the Center approximated \$523,000 for the year ended December 31, 2016.

**11. INTERGOVERNMENTAL TRANSFER**

The New York State Association of Counties ("NYSAC") and the State Division of the Budget agreed upon a methodology to bring additional federal revenues to county nursing facilities. This methodology, known as the Intergovernmental Transfer Program ("IGT"), provides for certain

Medicaid rate enhancements to non-state operated, publicly sponsored nursing facilities, excluding public nursing facilities operated by a town or city within a county.

Under this methodology known as IGT, counties are required to advance a percentage of the total Intergovernmental Transfer payments, which is determined by the Federal Matching Rate approved by the Centers for Medicare & Medicaid Services (“CMS”). The qualifying nursing homes are entitled to 100% of the share amount which was allocated based upon the ratio of each facility’s reported Medicaid days divided by the total reported Medicaid days for all eligible facilities.

The 2014-2015 New York State final budget extends Intergovernmental Transfer funding for public homes for an additional three years through March 31, 2017 and increase the annual statewide IGT payment cap from \$300 to \$500 million. The IGT funding available is based on the upper payment limit calculation so raising the cap may or may not increase the amount of available IGT funding.

During the year ended December 31, 2016, the Center received \$5,763,372 in IGT payment for the period April 1, 2014 to March 31, 2015. Additionally, IGT funding of \$4,927,094 related to the state fiscal year April 1, 2015 to March 31, 2016 was received in March of 2017 and the Center accrued as a receivable and revenue at December 31, 2016. Due to uncertainty in timing and estimates of IGT revenues, the Center has applied a modified accrual basis related to IGT revenues consistent with the County’s availability period.

## 12. CONTINGENCIES

The Center participates in a premium based general and professional liability insurance plan. The plan assumes liability for most risks included, but not limited to, personal injury, malpractice, vehicle, and general liability. At December 31, 2016, no claims or outstanding premiums exist that meet the liability criteria.

The health care industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with these laws and regulations is subject to future government review and interpretation as well as regulatory actions unknown or unasserted at the time. Recently, government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of fraud and abuse statutes and regulations, which could result in the imposition of significant fines and penalties as well as significant repayments for patient services previously billed. While no outstanding regulatory actions exist at December 31, 2016 for the Center, compliance with such laws and regulations can be subject to future government review and interpretations as well as regulatory actions unknown or unasserted at this time.

## 13. NET POSITION

The Center’s financial statements utilize a net position presentation. Net position is categorized net investment in capital assets, restricted, and unrestricted.

- ***Net investment in capital assets***—This category groups all capital assets into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category. A reconciliation of the Center’s net investment in capital assets is presented below:



Capital assets, net of accumulated depreciation		\$ 2,589,789
Less:		
Serial bonds	\$ (16,139)	
BAN payable	<u>(562,500)</u>	<u>(578,639)</u>
Net investment in capital assets		<u>\$ 2,011,150</u>

- **Restricted net position**— This category represents external restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. The total restricted component of net position at December 31, 2016 for the Center was \$202,712 restricted for capital improvements.
- **Unrestricted net position**—This category represents net investment in assets of the Center not restricted for any project or other purpose.

**Net position deficit**—The Center had a net position deficit of \$12,170,420 and \$14,610,961 at December 31, 2016 and December 31, 2015, respectively. The major factors contributing to the prior year deficit was the increasing costs of operations, combined with uncertainty in Medicaid and Medicare reimbursement rates and other state/federal funding sources. During the year ended December 31, 2016, the County recognized a significant increase in IGT revenue which reduced the total net position deficit to \$12,170,420.

#### 14. SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 26, 2017, which is the date the financial statements are available for issuance, and have determined there are no subsequent events that require disclosure under generally accepted accounting principles.

\* \* \* \* \*



July 27, 2017

Drescher & Malecki LLP  
3083 William Street, Suite 5  
Cheektowaga, NY 14227

This representation letter is provided in connection with your audit of the financial statements of the Adult Care Center (the "Center"), an Enterprise Fund of the County of Sullivan, New York (the "County"), as of December 31, 2016, which comprise the statement of net position and the related statement of changes in net position and cash flows for the year then ended included as Exhibit A through E, except for lines 041, 042 and 043 of Exhibit E of Part IV of the Center's Annual Report of Residential Health Care Facility ("RCHF-4"), as identified by Declaration Control Number ("DCN") 61641707.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, having made such inquiries as we consider necessary for the purpose of appropriately informing ourselves as of July 27, 2017.

#### **Financial Statements**

- The fair presentation in the basic financial statements of financial position, results of operation and cash flows as of and for the year ended December 31, 2016 in conformity with the format prescribed by the New York State Department of Health.
- The fair presentation of the required statistical and supplementary data in conformity with the applicable instructions relating to the preparation of the RCHF-4 as furnished by the New York State Department of Health.
- We acknowledge our responsibility for 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.
- We acknowledge our responsibility for the fair presentation of the required supplementary information and other information, including Management's Discussion and Analysis and supplementary information.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

- We acknowledge our responsibility for compliance with the laws, regulations, and provisions of contracts and grant agreements.
- We have reviewed, approved, and taken responsibility for the financial statements and related notes.
- We have a process to track the status of audit findings and recommendations.
- We have identified and communicated to you all previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- Related-party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
- All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
- There are no identified material uncorrected misstatements.
- The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
- All component units, as well as joint ventures with an equity interest, are included and other joint ventures and related organizations are properly disclosed.
- All funds and activities are properly classified.
- All components of net position are properly classified and, if applicable, approved.
- Our policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available is appropriately disclosed and net position is properly recognized under the policy.
- All interfund and intra-entity transactions and balances have been properly classified and reported.
- Deposit and investment risks have been properly and fully disclosed.
- Capital assets, including infrastructure assets, are properly capitalized, reported, and if applicable, depreciated.
- All required supplementary information is measured and presented within the prescribed guidelines.

## Information Provided

- We have provided you with:
  - Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements of the Manor, such as records, documentation, meeting minutes, and other matters;
  - Additional information that you have requested from us for the purpose of the audit; and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
  - Management;
  - Employees who have significant roles in internal control; or
  - Others where the fraud could have a material effect on the financial statements.
- We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators, or others.
- We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements
- We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
- There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or the financial reporting practices.
- The Center has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
- We have disclosed to you all guarantees, whether written or oral, under which the Center is contingently liable.
- We have disclosed to you all nonexchange financial guarantees, under which we are obligated and have declared liabilities and disclosed properly in accordance with GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, for those guarantees where it is more likely than not that the entity will make a payment on any guarantee.

- We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed in accordance with GASB Statement No. 62. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.
- We have identified and disclosed to you the laws, regulations, and provisions of contracts and grant agreements that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
- There are no:
  - Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, including applicable budget laws and regulations.
  - Unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance with GASB-62.
  - Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB-62.
- The Center has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets, nor has any asset been pledged as collateral.
- The Center has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
- In preparing the financial statements in conformity with accounting principles generally accepted in the United States of America, management uses estimates. We are responsible for making the accounting estimates. The Center has disclosed in the financial statements all estimates where it is reasonably possible that the estimate will change in the near term and the effect of the change could be material to the financial statements.
- We have no intention of withdrawing from the New York State pension plans, or taking any other action that could result in an effective termination or reportable event for the plans. We are not aware of any occurrences that could result in the termination of our pension plans to which we contribute. We believe that the actuarial assumptions and methods used to measure pension liabilities and costs for financial accounting purposes are appropriate in the circumstances.
- We agree with the work of specialist in evaluating the other post-employment benefits obligation liability and the net pension liability and have adequately considered the qualifications of the specialist in determining amounts and disclosures used in the financial statements and underlying accounting records. We did not give any instructions, nor cause any instructions to be given, to specialist with respect to values or amounts derived in an attempt to bias their work, and we are not aware of any matters that have impacted the independence or objectivity of the specialist.

## Other Specific Representations

- The New York State Association of Counties (NYSAC) and the State Division of the Budget agreed upon a methodology to bring additional federal revenues to county nursing facilities. This methodology, known as the Intergovernmental Transfer Program (IGT), provides for certain Medicaid rate enhancements to non-state operated, publicly sponsored nursing facilities, excluding public nursing facilities operated by a town or city within a county.

Under this methodology known as IGT, counties are required to advance a percentage of the total Intergovernmental Transfer payments, which is determined by the Federal Matching Rate approved by the Centers for Medicare & Medicaid Services (CMS). The qualifying nursing homes are entitled to 100% of the share amount which was allocated based upon the ratio of each facility's reported Medicaid days divided by the total reported Medicaid days for all eligible facilities.

The 2014-2015 New York State final budget extends Intergovernmental Transfer funding for public homes for an additional three years through March 31, 2017 and increase the annual statewide IGT payment cap from \$300 to \$500 million. The IGT funding available is based on the upper payment limit calculation so raising the cap may or may not increase the amount of available IGT funding.

During the year ended December 31, 2016, the Center received \$5,763,372 in IGT payment for the period April 1, 2014 to March 31, 2015. Additionally, IGT funding of \$4,927,094 related to the state fiscal year April 1, 2015 to March 31, 2016 was received in March of 2017 and the Center accrued as a receivable and revenue at December 31, 2016. Due to uncertainty in timing and estimates of IGT revenues, the Center has applied a modified accrual basis related to IGT revenues consistent with the County's availability period.

- Management has evaluated subsequent events through June 26, 2017, which is the date the financial statements are available for issuance, and have determined that there are no subsequent events that require disclosure under generally accepted accounting principles.
- Management has disclosed whether, subsequent to December 31, 2016, any changes in internal control or other factors that might significantly affect internal control, including any corrective action taken by management with regard to reportable conditions (including significant deficiencies and material weaknesses), have occurred. We believe that all expenditures that have been deferred to future periods are recoverable.
- Recently, government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of fraud and abuse statutes and regulations, which could result in the imposition of significant fines and penalties as well as significant repayments for patient services previously billed. We believe that there will not be any material adverse effects on the Center's financial statements.
- The Center had a net position deficit of \$12,170,420 and \$14,610,961 at December 31, 2016 and December 31, 2015, respectively. The major factors contributing to the prior year deficit was the increasing costs of operations, combined with uncertainty in Medicaid and Medicare reimbursement rates and other state/federal funding sources. During the year ended December 31, 2016, the County recognized a significant increase in IGT revenue which reduced the total net position deficit to \$12,170,420.

- In addition to the audit services, based on information in the Center's trial balance, Drescher & Malecki LLP has assisted the Center in compiling the basic financial statements and required supplementary information for the year ending December 31, 2016. In conjunction with the compilation of the financial statements the Center has performed the following functions:
  - Made all management decisions and performed all management functions.
  - Designated Laura Quick, Fiscal Administrative Officer to oversee the above services.
  - Evaluated the adequacy and results of the services performed.
  - Accepted responsibility for the results of these services.
- The Center management understands that Drescher & Malecki LLP has not performed any management functions or made management decisions on behalf of the Center. Any nonattest services were performed in accordance with applicable professional standards issued by the American Institute of Certified Public Accountants.

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Laura Quick, Fiscal Administrative Officer