Sullivan County Adult Care Center

(An Enterprise Fund of the County of Sullivan, New York)
Basic Financial Statements and Required
Supplementary Information for the Years Ended
December 31, 2017 and 2016, and
Independent Auditors' Report

Sullivan County Adult Care Center
(An Enterprise Fund of the County of Sullivan, New York)
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Years Ended December 31, 2017 and 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 years ended December 31, 2017 and 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 audits. We conducted our audits 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.

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, 2017 and 2016, and respective changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, during the year ended December 31, 2017 the Center implemented Governmental Accounting Standards Board ("GASB") Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* Our opinion is not modified with respect to this matter.

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 Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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 Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2018 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 15, 2018

BASIC FINANCIAL STATEMENTS

SULLIVAN COUNTY ADULT CARE CENTER
(AN ENTERPRISE FUND OF THE COUNTY OF SULLIVAN, NEW YORK)
Statement of Net Position
December 31, 2017 and 2016

	2017	2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,911,338	3,442,993
Restricted cash and cash equivalents	203,094	202,712
Resident trust cash	127,644	123,820
Receivables, net of allowance of $180,803	2,001,981	1,844,717
Intergovernmental receivables	979,200	4,928,094
Inventories	68,296	64,811
Prepaid items	31,230	20,457
Total current assets	5,322,783	10,627,604
Noncurrent assets:		
Capital assets, not being depreciated	44,800	44,800
Capital assets, being depreciated (net of accumulated depreciation)	2,179,172	2,544,989
Total noncurrent assets	2,223,972	2,589,789
Total assets	7,546,755	13,217,393
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows—relating to pensions	2,057,986	4,330,785
Total deferred outflows of resources	2,057,986	4,330,785
LIABILITIES		
Current liabilities:		
Accounts payable	464,738	285,534
Due to third party payors	-	145,893
Due to County General Fund	1,547,432	8,622,095
Accrued compensation and related costs	924,446	887,775
Bond anticipation note payable	-	562,500
Resident trust funds	127,633	123,820
Current portion of retirement incentives	120,039	116,880
Current portions of long-term debt	-	16,139
Total current liabilities	3,184,288	10,760,636
Noncurrent liabilities		
Accrued retirement incentives	712,311	831,680
Accrued other postemployment benefits liability, as restated	17,000,050	16,228,506
Accrued net pension liability	2,417,622	4,193,799
Total noncurrent liabilities	20,129,983	21,253,985
Total liabilities	23,314,271	32,014,621
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows—relating to pensions	608,711	701,454
Deferred inflows—relating to OPEB	383,147	-
Total deferred inflows of resources	991,858	701,454
NET POSITION		
Net investment in capital assets	2,223,972	2,011,150
Restricted for grants	203,094	202,712
Unrestricted	(17,128,454)	(17,381,759)
Total net position, as restated	$ (14,701,388)	$ (15,167,897)

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, 2017 and 2016

	2017	2016
OPERATING REVENUES		
Net patient revenue	$ 10,910,115	10,131,253
Intergovernmental transfer revenue	6,732,269	10,691,466
Other revenue	704,614	613,761
Total operating revenues	18,346,998	21,436,480
OPERATING EXPENSES		
Professional care of residents	6,554,279	6,152,389
Administrative and general services	5,188,008	5,164,166
Employee benefits, as restated	5,721,133	9,445,664
New York State cash assessment	600,578	620,947
Depreciation	380,832	320,603
Bad debt	-	284,348
Total operating expenses	18,444,830	21,988,117
Operating (loss)	(97,832)	(551,637)
NONOPERATING REVENUES (EXPENSES)		
Interest income	2,244	2,869
Interest expense	(11,653)	(22,194)
Other non-operating revenue	-	14,026
Contributions from County General Fund	573,750	-
Total nonoperating revenues (expenses)	564,341	(5,299)
Change in net position, as restated	466,509	(556,936)
Total net position—beginning, as restated	(15,167,897)	(14,610,961)
Total net position—ending	$ (14,701,388)	$ (15,167,897)

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
Years Ended December 31, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts for patient care services	$ 10,606,958	$ 10,341,090
Receipts for intergovernmental transfer	10,681,163	$ 5,763,372
Payments to suppliers for goods and services	(4,951,427)	(4,802,103)
Payments to employees for services	(11,468,605)	(11,480,237)
Other operating revenue	704,614	627,787
Net cash provided by operating activities	5,572,703	449,909
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
(Payments to) advances from County	(7,074,663)	2,376,464
Receipts from interest income	2,244	2,869
Net cash provided by (used for) noncapital financing activities	(7,072,419)	2,379,333
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital expenditures, net	(15,015)	(181,618)
Contribution from County General Fund	573,750	-
Interest paid	(11,653)	(22,194)
Principal payments on short-term and long-term debt	(578,639)	(203,959)
Net cash (used for) capital and related financial activities	(31,557)	(407,771)
Net change in cash	(1,531,273)	2,421,471
Cash and cash equivalents—beginning (includes restricted amounts)	3,645,705	1,224,234
Cash and cash equivalents—ending (includes restricted amounts)	$ 2,114,432	$ 3,645,705

(continued)

SULLIVAN COUNTY ADULT CARE CENTER
(AN ENTERPRISE FUND OF THE COUNTY OF SULLIVAN, NEW YORK)
Statement of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
RECONCILIATION OF OPERATING (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
Operating (loss)	$ (97,832)	$ (551,637)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	380,832	320,603
Decrease (increase) in intergovernmental transfer receivable	3,948,894	(4,928,094)
(Increase) in patient accounts receivable, net	(157,264)	171,211
(Increase) decrease in due from third party payors	(145,893)	337,000
(Increase) decrease in inventories	(3,485)	6,986
(Increase) in prepaid items	(10,773)	(600)
Decrease (increase) in deferred outflows of resources	2,272,799	(3,442,587)
Increase (decrease) in accounts payable	179,193	(94,017)
Increase in accrued compensation and related costs	36,671	123,030
(Decrease) in accrued retirement incentives	(116,210)	(158,366)
(Decrease) increase in accrued net pension liability	(1,776,177)	3,308,112
Increase in other postemployment benefits liability	771,544	4,797,894
(Decrease) increase in deferred inflows of resources	290,404	560,374
Total adjustments	5,670,535	1,001,546
Net cash provided by operating activities	$ 5,572,703	$ 449,909

(concluded)

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

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 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

Cash and cash equivalents—Cash and cash equivalents include highly liquid investments with original maturities of three months or less. The Center's cash and cash equivalents include money market accounts and are recorded at original cost. All deposits of the Center, including certificates of deposit and special time deposits, are insured under the provisions of the Federal Deposit Insurance Act. Excess deposits are collateralized with securities held by the pledging financial institution, or its trust department or agent. The Center has not experienced any losses in such accounts.

The County's Treasurer has the responsibility for investing idle funds. Cash, certificates of deposit, and money market accounts are maintained with commercial banks doing business in the County.

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. When determining the collectability of resident accounts receivable, the Center analyzes various factors including but not limited to historical experience. The allowance for uncollectible accounts is established based on the portion of those resident accounts receivables which are deemed to be potentially uncollectible. The Center reviews the allowance for uncollectible accounts regularly and adjustments are made as determined necessary based on current available information and related management estimates.

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.

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, 2017 and 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, 2017 and 2016, the Center reports two items on the statement of net position related to pensions and OPEB, respectively. The first 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. The second item represents the effects of the change in the Center's proportion of the collective net OPEB liability and difference during the measurement period between certain of the employer's contributions and its proportionate share of the total of certain contributions from employers included in the collective net OPEB liability.

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 2016.

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

Concentrations—Net patient revenue from Medicaid and Medicare residents amounted to approximately 86.9 percent and 88.7 percent of total net patient revenue in 2017 and 2016, respectively.

Operating Revenues and Expenses—The Center's statement of revenues, expenses, and changes in net position distinguish between operating and non-operating revenues and expenses. Operating revenues and expenses generally result from providing services in connection with the Center's principal ongoing operations. Operating expenses include the cost of services provided, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

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.

Statement of Cash Flows—For purposes of the statement 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, 2017 and 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, 2017, the Center implemented GASB Statements 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. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans;* No. 75 *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pensions*; 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 ended December 31, 2017. GASB Statement No. 73 improves the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. GASB Statement No. 74 improves the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. GASB Statement No. 75 improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). GASB Statement No. 80 improves financial reporting by clarifying the financial statement presentation requirements for certain component units. GASB Statement No. 81 improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. GASB Statement No. 82 addresses certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and 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*. GASB Statements No. 73, 74, 80, 81, and 82 did not have a material impact on the Center's financial position or results from operations. GASB Statement No. 75 implementation resulted in a restatement of net position, see Note 2.

Future Impacts of Accounting Pronouncements—The Center has not completed the process of evaluating the impact that will result from adopting GASB Statements No. 85, *Omnibus 2017;* and No. 86, *Certain Debt Extinguishment Issues*, effective for the year ending December 31, 2018, No. 83, *Certain Asset Retirement Obligations*; No. 84, *Fiduciary Activities*; and No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placemets*, effective for the year ending December 31, 2019, and No. 87, *Leases*, effective for the year ending December 31, 2020. The Center is, therefore, unable to disclose the impact that adopting GASB Statements No. 83, 84, 85, 86, 87 and 88 will have on its financial position and results of operations.

2. RESTATEMENT OF NET POSITION

The Center early implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* for the fiscal year ended December 31, 2017. The implementation of GASB Statement No. 75 requires the Center's net OPEB liability to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position. As a result, the OPEB liability was restated from $13,231,029 to $16,228,506 at December 31, 2016. Net position of the Center at December 31, 2016 has been restated.

The Center's net position as of December 31, 2016 has been restated as follows:

Net position—December 31, 2016, as previously stated	$ 12,170,420
GASB Statement No. 75 implementation:	
OPEB liability adjustment	2,997,477
Net position—December 31, 2016, as restated	$ 15,167,897

3. CASH AND CASH EQUIVALENTS, AND RESTRICTED CASH

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

Cash and cash equivalents totaling $1,911,338 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 $203,094 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 $127,644 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, 2017 and 2016, the Center's deposits were entirely covered by FDIC insurance. The petty cash and patient petty cash funds are insured and collateralized through a patient fund trust bond.

4. 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, 2017 and 2016 is presented below.

	December 31,	
	2017	2016
Medicaid	47.2%	48.5%
Self-pay	38.4%	43.7%
Medicare	11.5%	5.1%
Other	2.9%	2.7%

For the years ended December 31, 2017 and 2016 the Center recorded net receivables totaling $2,001,981 and $1,844,717, respectively with a provision for uncollectable accounts of $180,803 and $284,348, respectively.

Intergovernmental transfer receivables consist of IGT funding of $979,200 and $4,928,094 as of December 31, 2017 and 2016, respectively. Refer to Note 12 for additional information.

5. CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2017 and 2016 was as follows:

	Balance 1/1/2017	Increases	Decreases	Balance 12/31/2017
Capital assets, not being depreciated:				
Land	$ 44,800	$ -	$ -	$ 44,800
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	44,800	-	-	44,800
Capital assets, being depreciated:				
Buildings and improvements	12,249,367	-	-	12,249,367
Land improvements	87,600	-	-	87,600
Machinery and equipment	815,511	15,015	-	830,526
Total capital assets, being depreciated:	13,152,478	15,015	-	13,167,493
Less accumulated depreciation for:				
Buildings and improvements	(10,047,078)	(328,585)	-	(10,375,663)
Land improvements	(87,600)	-	-	(87,600)
Machinery and equipment	(472,811)	(52,247)	-	(525,058)
Total accumulated depreciation	(10,607,489)	(380,832)	-	(10,988,321)
Total capital assets, being depreciated, net	2,544,989	(365,817)	-	2,179,172
Capital assets, net	$ 2,589,789	$ (365,817)	$ -	$ 2,223,972

	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	122,900	-	(78,100)	44,800
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:	12,892,760	259,718	-	13,152,478
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	(10,286,886)	(320,603)	-	(10,607,489)
Total capital assets, being depreciated, net	2,605,874	(60,885)	-	2,544,989
Capital assets, net	$ 2,728,774	$ (60,885)	$ (78,100)	$ 2,589,789

Depreciation expense for the years ended December 31, 2017 and 2016 was $380,832 and $320,603, respectively.

6. 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 on the following page.

	Original Amount Amortized	Balance 1/1/2017	Increases/ Adjustments	Decreases/ Adjustments	Balance 12/31/2017	Due Within One Year
2013 ERS	$ 424,568	$ 267,600	$ -	$ 40,470	$ 227,130	$ 41,684
2014 ERS	463,238	338,773	-	42,106	296,667	43,652
2015 ERS	217,739	178,071	-	19,456	158,615	20,070
2016 ERS	164,116	164,116	-	14,178	149,938	14,633
Total	$ 1,269,661	$ 948,560	$ -	$ 116,210	$ 832,350	$ 120,039

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 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, 2017, 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, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of April 1, 2016, 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 System 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.

	ERS
Measurement date	March 31, 2017
Net pension liability	$ 2,417,622
Center's portion of the Plan's total net pension liability	0.0257297%

For the year ended December 31, 2017, the Center recognized ERS pension expense of $1,303,007 for ERS. At December 31, 2017 the Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	ERS	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experiences	$ 60,583	$ 367,130
Changes in assumptions	825,948	-
Net difference between projected and actual earnings on pension plan investments	482,897	241,581
Changes in proportion and differences between the Center's contributions and proportionate share of contributions	8,333	-
Center contributions subsequent to measurement date	680,225	-
Total	$ 2,057,986	$ 608,711

Center contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2018. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as presented below:

Year Ending December 31,	ERS
2018	$ 192,263
2019	192,263
2020	192,263
2021	192,261

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, 2017
Actuarial valuation date	April 1, 2016
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, 2016 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, 2017	
Asset class:		
Domestic equities	36.0 %	4.6 %
International equities	14.0	6.4
Private equity	10.0	7.8
Real estate	10.0	5.8
Absolute return strategies	2.0	4.0
Opportunistic portfolio	3.0	5.9
Real assets	3.0	5.5
Bonds and mortgages	17.0	1.3
Cash	1.0	(0.3)
Inflation-indexed bonds	4.0	1.5
Total	100.0 %	

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	$ 7,721,405	$ 2,417,622	$ (2,066,717)

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)
	ERS
Valuation date	March 31, 2017
Employers' total pension liability	$ 177,400,586
Plan fiduciary net position	168,004,363
Employers' net pension liability	$ 9,396,223
System fiduciary net position as a percentage of total pension liability	94.70%

7. OTHER POSTEMPLOYMENT 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.

Employees Covered by Benefit Terms—At January 1, 2017, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	3
Active employees	113
Total	116

Under GASB Statement No. 75, the total OPEB liability represents the sum of expected future benefit payments which may be attributed to past service (or "earned"), discounted to the end of the fiscal year using the current discount rate. The total OPEB liability is analogous to the Unfunded Actuarial Accrued Liability ("UAAL") under GASB Statement No. 45.

Total OPEB Liability

The Center's total OPEB liability of $17,000,050 was measured as of December 31, 2017, and was determined by an actuarial valuation as of January 1, 2017.

Actuarial Methods and Assumptions—Calculations are based on the types of benefits provided under the terms of the substantive plan (the plan as understood by the employer and the plan members) at the time of the valuation and on the pattern of cost sharing between the employee and plan members. Calculations reflect a long-term perspective, so methods and assumptions used include techniques that are designed to reduce short-term volatility.

In the January 1, 2017 actuarial valuation, the entry age normal method, over a level percent of pay was used. The single discount rate is 3.16% effective December 31, 2017. In order to estimate the change in the cost of healthcare, the actuaries initial healthcare cost trend rate used is 8.0%, while the ultimate healthcare cost trend rate is 5.0%.

The actuarial assumptions used in the valuation were based on the results of an actuarial experience study for the period January 1, 2017 thru December 31, 2017.

Changes in the Total OPEB Liability—The following table presents the changes to the total OPEB liability during the fiscal year, by source as shown below.

	Total OPEB Liability
Balance at December 31, 2016, as restated:	$ 16,228,506
Changes for the year:	
Service cost	940,216
Interest	512,821
Differences between expected and actual experience	(383,147)
Benefit payments	(298,346)
Net changes	771,544
Balance at December 31, 2017	$ 17,000,050

Sensitivity of the Total OPEB Liability to the Change in the Discount Rate and Healthcare Cost Trend Rate—The discount rate assumption can have an impact on the net OPEB liability. The following table presents the effect of a 1% change in the discount rate assumption would have on the net OPEB liability:

	1% Decrease (2.16%)	Current Discount Rate (3.16%)	1% Increase (4.16%)
Net OPEB liability	$ 19,559,959	$ 17,000,050	$ 14,184,928

Additionally, healthcare costs can be subject to considerable volatility over time. The following table presents the effect on the net OPEB liability of a 1% change in the initial (8.0%) and ultimate (5.0%) healthcare cost trend rates.

	1% Decrease (7.0% / 4.0%)	Healthcare Cost Trend Rates (8.0% / 5.0%)	1% Increase (9.0% / 6.0%)
Net OPEB liability	$ 14,007,491	$ 17,000,050	$ 20,590,911

Funding Policy—Authorization for the Center to pay a portion of retiree health insurance premiums was enacted through various union contracts, which were ratified by the County's Board of Directors. The Center recognizes the cost of providing these benefits by expensing the annual insurance premiums when invoiced by the health insurance provider. For the year ended December 31, 2017, the Center recognized OPEB expense of $4,450,514.

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB—The Center reports deferred outflows of resources and deferred inflows of resources due to differences during the measurement period between certain of the employer's contributions and its proportionate share of the total of certain contributions from employers included in the collective net OPEB liability are required to be determined. The table on the following page presents the Center's deferred outflows and inflows of resources at December 31, 2017.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 383,147
Changes of assumptions	-	-
Total	$ -	$ 383,147

The amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending December 31,	
2018	$ (42,522)
2019	(42,522)
2020	(42,522)
2021	(42,522)
2022	(42,522)
Thereafter	(170,537)

8. 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 reported an unemployment expense of $11,889 and $0 for the years ended December 31, 2017 and 2016, respectively.

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 $218,000 and $375,000 for the years ended December 31, 2017 and 2016, respectively.

9. SHORT-TERM DEBT

The following is a summary of the Center's short-term debt for the year ended December 31, 2017:

Description	Interest Rate	Beginning Balance 1/1/2017	Increases	Decreases	Ending Balance 12/31/2017
Bond anticipation notes:					
2014 ACC Construction 2nd Renewal	2.00%	$ 562,500	$ -	$ 562,500	$ -

10. LONG-TERM DEBT

A summary of long-term debt for the year ended December 31, 2017 follows:

	Balance 1/1/2017	Additions	Reductions	Balance 12/31/2017
Bonds payable	$ 16,139	$ -	$ 16,139	$ -

11. RELATED PARTIES

The total amount due to the County was $1,547,432 and $8,622,095 for the years ended December 31, 2017 and 2016, respectively. The Center records such costs within its accompanying statements of revenue and expenses and changes in net position. The County provides certain financial and operating services to various County operating units including the Center. The Center was the beneficiary of services value at approximately $540,000 and $523,000 for the years ended December 31, 2017 and 2016, respectively.

12. 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 extended Intergovernmental Transfer funding for public homes for an additional three years through March 31, 2017, and increased the annual statewide IGT payment cap from $300 million to $500 million. The 2017-2018 New York State final budget extended the payment cap of $500 million for an additional three years through March 31, 2020. 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, 2017, the Center received $3,794,669 in IGT payment for the period April 1, 2016 to March 31, 2017. Additionally, in December 2017 and March 2018 the Center received IGT funding of $2,937,600 related to the state fiscal year April 1, 2017 to March 31, 2018, of which $979,200 was accrued as a receivable and revenue at December 31, 2017. 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.

13. UNIVERSAL SETTLEMENT

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

As a result of the Universal Settlement, the State agreed to pay the Center a total of $842,450. During the year ended December 31, 2017, the Center recognized $169,168, which is included in other revenue in the statement of revenues, expenses and changes in net position.

14. 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, 2017, 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, 2017 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.

15. 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 on the following page:

Capital assets, net of accumulated depreciation	$ 2,223,972
Less:	
Related debt	-
Net investment in capital assets	$ 2,223,972

- ***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 restricted for capital improvements was $203,094 and $202,712 for the years ended December 31, 2017 and 2016, respectively.

- ***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 $14,701,388 at December 31, 2017 and $15,167,897 at December 31, 2016, as restated. 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 implementation of GASB 75. During the year ended December 31, 2017, the County recognized an increase in non-operating revenues and a decrease in operating expenses which reduced the total net position deficit to $14,701,388.

16. SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 15, 2018, 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.

* * * * *

REQUIRED SUPPLEMENTARY INFORMATION

SULLIVAN COUNTY ADULT CARE CENTER
(AN ENTERPRISE FUND OF THE COUNTY OF SULLIVAN, NEW YORK)
Schedule of Changes in the Center's Total OPEB Liability and Related Ratios
Year Ended December 31, 2017

Total OPEB Liability	
Service cost	$ 940,216
Interest	512,821
Differences between expected and actual experience	(383,147)
Benefit payments	(298,346)
Net changes in total OPEB liability	771,544
Total OPEB liability—beginning, as restated	16,228,506
Total OPEB liability—ending	$ 17,000,050
Covered-employee payroll	$ 3,223,306
Center's net OPEB liability as a percentage of covered-employee payroll	527.41%

*Information prior to the year ended December 31, 2017 is not available.

The notes to the required supplementary information are an integral part of this schedule.

SULLIVAN COUNTY ADULT CARE CENTER

Schedule of the Center's Proportionate Share of the Net Pension Liability—Employees' Retirement System
Last Three Fiscal Years*

	Year Ended December 31,		
	2017	**2016**	**2015**
Measurement date	March 31, 2017	March 31, 2016	March 31, 2015
Center's proportion of the net pension liability (asset)	0.0257297%	0.0261291%	0.0262174%
Center's proportionate share of the net pension liability (asset)	$ 2,417,622	$ 4,193,799	$ 885,687
Center's covered-employee payroll	$ 6,676,520	$ 8,063,774	$ 7,844,031
Center's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	36.2%	52.0%	11.3%
Plan fiduciary net position as a percentage of the total pension liability	94.7%	90.7%	97.9%

*Information prior to the year ended December 31, 2015 is not available.

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

	Year Ended December 31,		
	2017	2016	2015
Contractually required contribution	$ 927,197	$ 1,009,798	$ 1,106,428
Contributions in relation to the contractually required contribution	(927,197)	(1,009,798)	(1,106,428)
Contribution deficiency (excess)	$ -	$ -	$ -
Center's covered-employee payroll	$ 6,829,079	$ 6,683,257	$ 6,772,279
Contributions as a percentage of covered-employee payroll	13.6%	15.1%	16.3%

*Information prior to the year ended December 31, 2015 is not available.

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1. OPEB LIABILITY

Changes of Assumptions—Changes of assumptions reflect the effects of changes in the long-term bond rate, the mortality rate, and the healthcare cost trend rate. The long-term bond rate is based on the S&P Municipal Bond 20-year High Grade Rate Index, which was 3.13% as of December 31, 2017. Mortality rates were updated to rates based on the RP 2014 mortality table with MP 2014 projections. Finally, the healthcare cost trend rate was 8.00% as of December 31, 2017.

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Drescher & Malecki

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, 2017, 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 15, 2018.

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 15, 2018