SULLIVAN COUNTY ADULT CARE CENTER
(AN ENTERPRISE FUND OF THE COUNTY OF SULLIVAN, NEW YORK)

FINANCIAL STATEMENTS

DECEMBER 31, 2013

TOSKI & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS
AN EFP ROTENBERG COMPANY

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Sullivan County Adult Care Center, an enterprise fund of the County of Sullivan, New York, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sullivan County Adult Care Center as of December 31, 2013 and 2012, and the changes in financial position and 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 1, the financial statements present only Sullivan County Adult Care Center and do not purport to, and do not, present fairly the financial position of Sullivan County, New York, as of December 31, 2013 and 2012, the changes in its financial positions, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matter

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

Other Information

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The 2013 supplementary information on page 14 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Toski & Co., CPAs, P.C.

Toski & Co. CPAs, P.C.
Williamsville, New York
May 12, 2014

SULLIVAN COUNTY ADULT CARE CENTER
(AN ENTERPRISE FUND OF THE COUNTY OF SULLIVAN, NEW YORK)
Statements of Net Position
December 31, 2013 and 2012

	2013	2012
ASSETS		
Current Assets		
Cash and cash equivalents	$ 1,098,552	$ 3,366,060
Restricted cash - capital project fund	850,579	-
Restricted cash - patient funds	116,841	107,265
Accounts receivable - net	1,049,346	1,929,916
Grant receivable	272,457	-
Supplies	64,432	71,141
Prepaid expenses and other current assets	18,837	18,225
Total current assets	3,471,044	5,492,607
Capital Assets - Net	2,495,679	1,480,424
Total Assets	5,966,723	6,973,031
DEFERRED OUTFLOWS OF RESOURCES		
Deferred bond refunding	39,368	51,800
Total Assets and Deferred Outflows of Resources	$ 6,006,091	$ 7,024,831
LIABILITIES AND NET POSITION		
Current Liabilities		
Bonds payable - current portion	$ 17,484	$ 17,630
Bond anticipation note	1,130,000	-
Accounts payable and accrued expenses	279,328	288,154
Accrued compensation and vacation	967,935	1,117,481
Patient funds held in trust	116,841	107,239
Due to County	4,865,391	5,849,507
Due to third party payors - current portion	2,633,542	2,503,169
Pension and retirement incentive payable - current portion	144,894	65,238
Other post employment benefit obligations payable - current portion	279,874	292,396
Total current liabilities	10,435,289	10,240,814
Long-Term Liabilities		
Bonds payable - net of current portion	49,489	66,973
Pension and retirement incentive payable - net of current portion	742,604	402,561
Other post employment benefit obligations payable - net of current portion	8,171,475	6,964,254
Total long-term liabilities	8,963,568	7,433,788
Total Liabilities	19,398,857	17,674,602
Net Position		
Unrestricted net position	(15,542,051)	(12,063,222)
Restricted net position	850,579	-
Net investment in capital assets	1,298,706	1,413,451
Total net position	(13,392,766)	(10,649,771)
Total Liabilities and Net Position	$ 6,006,091	$ 7,024,831

The accompanying notes are an integral part of these financial statements.

SULLIVAN COUNTY ADULT CARE CENTER
(AN ENTERPRISE FUND OF THE COUNTY OF SULLIVAN, NEW YORK)
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended December 31, 2013 and 2012

	2013	2012
Operating Revenues		
Net resident service revenue		
Skilled nursing facility	$ 8,681,001	$ 11,532,237
Adult day care	322,298	342,408
Bad debt expense	(50,752)	(108,429)
Total revenues - net	8,952,547	11,766,216
Other Operating Revenue	288,572	301,111
Total operating revenues	9,241,119	12,067,327
Operating Expenses		
Professional care of residents	4,930,636	5,891,954
General services	3,806,305	4,021,711
Administrative services	1,075,748	1,045,460
Employee benefits	5,560,953	5,457,396
New York State cash assessment	608,433	705,183
Loss on disposal of equipment	18,389	4,067
Depreciation	148,943	304,779
Total operating expenses	16,149,407	17,430,550
Operating Loss	(6,908,288)	(5,363,223)
Non-Operating Revenues (Expenses)		
Interest expense	(15,679)	(16,563)
Intergovernmental transfer for rate enhancement	2,555,973	2,824,888
Interest income	6,373	8,657
Other revenue	1,618,626	334,554
Total non-operating revenues	4,165,293	3,151,536
Change in Net Position	(2,742,995)	(2,211,687)
Net Position - Beginning	(10,649,771)	(8,438,084)
Net Position - Ending	$ (13,392,766)	$ (10,649,771)

The accompanying notes are an integral part of these financial statements.

SULLIVAN COUNTY ADULT CARE CENTER
(AN ENTERPRISE FUND OF THE COUNTY OF SULLIVAN, NEW YORK)
Statements of Cash Flows
For the Years Ended December 31, 2013 and 2012

	2013	2012
Cash Flows from Operating Activities		
Cash received from patient services	$ 9,560,660	$ 11,931,765
Cash payments to suppliers for goods and services	(10,513,507)	(9,004,446)
Cash payments to employees for services	(4,859,967)	(5,249,269)
Other revenues	288,572	301,111
Net cash flows from operating activities	(5,524,242)	(2,020,839)
Cash Flows from Non-Capital Financing Activities		
Intergovernmental transfers	2,555,973	2,824,888
Cash received from non-operating activities	1,626,026	343,211
Net cash flows from non-capital financing activities	4,181,999	3,168,099
Cash Flows from Capital and Related Financing Activities		
Principal payments on serial bonds	(17,630)	(17,853)
Proceeds from bond issuance	1,130,000	-
Interest paid	(3,468)	(4,354)
Purchase of capital assets	(1,183,588)	(107,133)
Net cash flows from capital and related financing activities	(74,686)	(129,340)
Net Change in Cash and Cash Equivalents	(1,416,929)	1,017,920
Cash and Cash Equivalents - Beginning	3,366,060	2,348,140
Cash and Cash Equivalents - Ending	$ 1,949,131	$ 3,366,060

Reconciliations of Operating Loss to Net Cash Flows from Operating Activities

	2013	2012
Operating loss	$ (6,908,288)	$ (5,363,223)
Adjustments		
Bad debt expense	50,752	108,429
Depreciation	148,943	304,779
Loss on disposal of equipment	18,389	4,067
Changes in assets and liabilities		
Accounts receivable	829,818	57,120
Grant receivable	(272,457)	-
Supplies	6,709	15,130
Prepaid expenses and other current assets	(612)	(1,480)
Accounts payable and accrued expenses	(8,605)	96,759
Accrued compensation and vacation	(149,546)	276,838
Due to County	(984,116)	1,271,727
Due to third party payors	130,373	(158,187)
Pension payable	419,699	273,829
Other post employment benefit obligations payable	1,194,699	1,093,373
Net cash flows from operating activities	$ (5,524,242)	$ (2,020,839)

The accompanying notes are an integral part of these financial statements.

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

Scope of Business - Sullivan County Adult Care Center (the "Center") is a 160 bed residential health care facility located in Liberty, New York, that also provides an on-site medical model adult daycare program. The Center is operated as an enterprise fund of the County of Sullivan, New York (the "County"), and is accounted for separately by the County Treasurer.

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

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

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

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

Beginning in 2012, the Center adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and Statement No. 65, *Items Previously Reported as Assets and Liabilities*. These statements provide guidance on presenting deferred outflows, deferred inflows and net position. Net position represents assets and deferred outflows of resources less liabilities and deferred inflows of resources. GASB requires the classification of net position into three classifications defined as follows:

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

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

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

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

Cash and cash equivalents recorded by the Center is combined with cash recorded by the County in determining amounts covered by Federal Depository Insurance or by collateral held by the County's agent in the County's name. The collateral is monitored monthly by the County. As of December 31, 2013 and 2012, the County reported that its deposits were adequately collateralized.

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

Accounts Receivable and Allowance for Doubtful Accounts - Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Center analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to residents who have third-party coverage, the Center analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay residents (which includes both residents without insurance and residents with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Center records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many residents are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts. There was no material change to the allowance during the year ended December 31, 2013 as compared with 2012.

Grant Receivable - In 2012, the Center was approved to receive funding from an award under the HEAL NY Phase 21 – Health Care Efficiency and Affordability Law for New Yorkers (HEAL NY) Restructing Initiatives in Medicaid Redesign. Funds available under this grant program support capital projects that will assist the Center to implement necessary actions to restructure, in favor of a reconfigured health care system. As part of the agreement, beginning in 2014, the Center will decertify 14 beds.

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

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

All acquisitions of property and equipment and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets and exceed $250 are capitalized. Maintenance and repairs are charged to expense. The cost of property and equipment retired or otherwise disposed of and related accumulated depreciation are removed from the accounts.

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

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

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

Cash Receipt Assessment - An assessment was imposed on substantially all nursing home cash receipts effective April 1, 2002 as part of the Health Care Workforce Recruitment Retention Act of 2002. Medicare receipts are excluded from this assessment and Medicaid rates were effectively increased to reimburse nursing homes for their additional portion of the assessment. During the current year ended, the assessment was 6.8%. For the years ended December 31, 2013 and 2012, the Center billed approximately $390,000 and $452,000, respectively, to recover the Medicaid portion of the assessment which is included in net resident service revenue.

Intergovernmental Transfer - The New York State budget contains a provision for an Intergovernmental Transfer (IGT). This provision results in a statewide rate enhancement to non-state operated public residential health care facilities for services provided. When estimable, IGT revenue is recorded when the Center is entitled to receive it. Otherwise it is recorded on a cash basis.

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

Subsequent Events - In accordance with ASC 855-10, the Home evaluated subsequent events through May 12, 2014, the date these financial statements were available to be issued.

Note 2. Accounts Receivable

Accounts receivable consisted of the following at December 31:

	2013	2012
Medicaid	$ 557,515	$ 1,357,757
Medicare	86,279	130,129
Self-pay	557,190	618,870
Private insurers	29,336	21,458
Adult day care	43,660	26,323
Sub-total	1,273,980	2,154,537
Less, allowance for doubtful accounts	(224,634)	(224,621)
Accounts receivable - net	$ 1,049,346	$ 1,929,916

Note 3. Capital Assets

Capital assets consisted of the following at December 31:

	2013	2012
Building and improvements	$ 10,597,548	$ 10,526,857
Construction in progress	1,104,156	31,433
Machinery and equipment	542,688	522,672
Land improvements	87,600	87,600
Land	44,800	44,800
Sub-total	12,370,792	11,213,362
Less, accumulated depreciation	(9,881,113)	(9,732,938)
Capital assets - net	$ 2,495,679	$ 1,480,424

Note 4. Bond Anticipation Notes and Bonds Payable

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

	2013	2012
2013 Bond Anticipation Note, payable in full on March 7, 2014, plus a fixed rate of interest of 1%. The amount represents the portion allocated to the Center from the 2013 BAN taken by the County amounting to $5,730,000.	$ 1,130,000	$ -
2007 Public Improvement (Serial) Bonds, due in varying annual installments through March 2017, plus interest ranging from 4.0% to 5.0%, payable semiannually on March 15 and April 15.	66,973	84,603
Less, current portion	(1,147,484)	(17,630)
Long-term portion	$ 49,489	$ 66,973

Serial Bonds - 1994 and 2007 Serial Bonds

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

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

For the Center, the advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of approximately $124,000. This difference, reported on the accompanying financial statements as a deferred outflow of resources, is being charged to operations as a component of interest expense on a straight-line basis over the remaining life of the refunded debt. The amount amortized for the years ended December 31, 2013, and 2012 was $12,432.

Total debt service for the years succeeding December 31, 2013 is as follows:

	Principal	Interest	Total
2014	$ 1,147,484	$ 14,125	$ 1,161,609
2015	16,891	1,968	18,859
2016	16,459	1,218	17,677
2017	16,139	403	16,542
Total	$ 1,196,973	$ 17,714	$ 1,214,687

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

Note 4. Resident Service Revenue

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

	2013	2012
Medicaid	$ 7,198,252	$ 8,866,230
Medicare	936,967	1,550,072
Self-pay	545,782	1,115,935
Total net resident service revenue	$ 8,681,001	$ 11,532,237

Note 5. Related Party Transactions

The total amount due to the County was $4,865,391 and $5,849,507 at December 31, 2013 and 2012.

Certain County costs that cannot be directly charged to the Center have been charged to the Center based on the County-wide cost allocation, and are included in the accompanying statements of revenue and expenses and changes in net assets. The total indirect costs allocated to the Center approximated $540,000 and $306,000 for the years ended December 31, 2013 and 2012, respectively.

Note 6. Retirement Benefits

Plan Description - The County (and the Center as a fund of the County) participates in the New York State and Local Employees' Retirement System and the Public Employee's Group Life Insurance Plan (the Systems). These are cost-sharing multiple-employer retirement systems. The Systems provide retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of the Systems. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the Systems and for the custody and control of their funds. The Systems issue a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and local Retirement Systems, 110 State Street, Albany, New York.

Funding Policy - Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the person accumulation fund.

The County is required to contribute at an actuarially determined rate. The required contributions by the Center for the current year and two preceding years were:

2013	$	914,339
2012	$	752,923
2011	$	854,971

Contributions made to the Systems were equal to 100 percent of the contributions required for each year.

During 2013 and 2012, $771,521 and $318,426 of retirement remains unpaid at year end, respectively. Estimated principal payments of $77,152 are expected be paid over the next 10 years at 7.5% interest.

Note 7. Retirement Incentive

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 every year 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 approximate 64% of the employee's final average salary. The County has elected to pay this obligation over a 5 year period. The original cost to the Center recorded in 2010 approximated $165,000. This was further adjusted in 2011 to approximately $194,000. Required payments of principal are payable as follows as of December 31:

2014	$	35,899
2015		38,592
2016		41,486
Total	$	115,977

Note 8. Post Employment Healthcare Plan

The Center is required to accrue on the financial statements the amounts necessary to finance the plan as actuarially determined, which is equal to the balance not paid by plan members. Funding for the Plan has been established on a pay-as-you-go basis. The assumed increase in postretirement benefits for pre-65 trend rates is 8.5%, and for post-65 medical trend rates is 6.75%, for the first year and decreases to 5% for the following years. The projected unit credit method was used to determine the actuarial value of the assets if the OPEB plan, however, the Center currently has no assets set aside for the purpose of paying postemployment plans.

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 2.5% inflation rate. The actuarial cost method utilized was the projected unit credit method.

The number of participants as of December 31, 2013 was as follows:

Active employees	839
Retirees	447
	1,286

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

Annual required contribution	$ 1,600,649
Interest on net OPEB obligation	301,510
Adjustment to annual required contribution	(427,586)
Annual OPEB cost (expense)	1,474,573
Contributions made	(279,874)
Increase in OPEB obligation - net	1,194,699
Net OPEB obligation - beginning of year	7,256,650
Net OPEB obligation - end of year	$ 8,451,349

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

	2013	2012
Annual OPEB cost	$ 1,474,573	$ 1,385,769
Percentage of annual OPEB cost contributed	18.98%	21.10%
Net OPEB obligation at end of year	$ 8,451,349	$ 7,256,650
Required Supplementary Information		
Actuarial value of assets	$ -	$ -
Actuarial accrued liability (AAL)	$ 14,213,859	$ 14,479,415
Unfunded AAL	$ 14,213,859	$ 14,479,415
Funded ratio	-%	-%
Covered payroll	$ 4,894,132	$ 5,395,068
UAAL as a percentage of covered payroll	290.43%	268.38%

Note 9. Commitments and Contingencies

Unemployment Insurance

The Center currently uses reimbursement financing rather than pay contributions under the regular experience-rating provision of the New York State Unemployment Insurance Law. Under this method, the Center is liable to New York State for payments of amounts equal to the benefits paid to its claimants. The Center's unemployment expense approximated $31,204 and $41,679 for the years ended December 31, 2013 and 2012.

Workers' Compensation Insurance

The Center participates in a self-insurance plan sponsored by the County for workers' compensation under Local Law No.3, 1989, pursuant to Article 5 of the Worker's Compensation Law. The plan is open to any eligible municipality or public entity within the geographic boundaries of Sullivan County for participation. The County, which is responsible for the administration of the plan and its reserves, accounts for this plan in a separate special revenue fund which is included in the County's combined financial statements. Participant contributions are financed on an estimated claims basis with excess contributions transferred to a reserve at the end of the fiscal year. The Center's workers' compensation expense approximated $311,000 and $336,000 for the years ended December 31, 2013 and 2012.

General and Professional Liability Insurance

The Care Center participates in a premium based general and professional liability insurance plan. The plan assumes liability for most risks including, but not limited to, personal injury, malpractice, vehicle and general liability. At December 31, 2013 and 2012, no claims or outstanding premiums that meet the liability criteria.

Regulatory

The Center is subject to compliance with laws and regulations of various governmental agencies. Recently, governmental review of compliance with laws and regulations had increased, resulting in fines and penalties for noncompliance by individual health care providers. While no outstanding regulatory actions exist at December 31, 2013 and 2012 for the Center, compliance with these laws and regulations is subject to future government review, interpretation or actions, which are unknown and unasserted at this time.

Third Party Rate Adjustments

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

Revenue from the Medicaid and Medicare programs accounted for approximately 94% and 91% of the Center's net patient revenue of the years ended December 31, 2013 and 2012, respectively.

EFP ROTENBERG LLP Certified Public Accountants | Business Consultants
what counts

May 12, 2014

To the Board of Directors
Sullivan County Adult Care Center

We have audited the financial statements of Sullivan County Adult Care Center for the year ended December 31, 2013, and have issued our report thereon dated May 12, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated January 9, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Sullivan County Adult Care Center are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2013. We noted no transactions entered into by the Company during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

> Management's estimate of the allowance for doubtful accounts is based on its analysis of specific balances, taking into consideration the age of past due accounts, the status of the billing process with third-party payors, the value of remaining assets held by residents, and anticipated collections resulting from legal action.
>
> Management's estimate of the amounts due to/from third party payors is based on submitted billing, contractual terms, and cost report information submitted by the Center.
>
> Management's estimate of the pension and post retirement benefit liabilities is based on actuarial reports. We evaluated the key factors and assumptions used to develop the pension and post retirement liabilities in determining that it is reasonable in relation to the financial statements taken as a whole.

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

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

> The disclosure of other post employment benefits in Note 8 to the financial statements.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Center's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Information in Documents Containing Audited Financial Statements

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

This information is intended solely for the use of the Board of Directors of Sullivan County Adult Care Center and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

EFP Rotenberg, LLP

EFP Rotenberg, LLP
/sab

Sullivan County Adult Care Center
Year End: December 31, 2013
Adjusting Journal Entries
Date: 1/1/2013 To 12/31/2013

Prepared by	Reviewed by	Reviewed by	Reviewed by
JEL 4/4/2014	CSS 4/5/2014		

PJE

Number	Date	Name	Account No	Reference	Annotation	Debit	Credit	Recurrence	Misstatement
PAJE1	12/31/2013	PRIVATE PATIENT	1033-000	3. 1			8,589.00		
PAJE1	12/31/2013	PRIVAT PAY_ROOM & BOARD	3021-000	3. 1		8,589.00			
		Amount excluded from AR Aging (to reconcile to TB due to software system).							
PAJE2	12/31/2013	PRIVATE PATIENT	1033-000	3.1A			55,332.00		
PAJE2	12/31/2013	PRIVAT PAY_ROOM & BOARD	3021-000	3.1A		55,332.00			
		Change in advance billings from PY to CY.							
PAJE3	12/31/2013	INTEREST PAYABLE	2051-000	12. 3			8,475.00		
PAJE3	12/31/2013	ADMINISTRA_BOND INTEREST	8201-560	12. 3		8,475.00			
		Excluded amount of accrued interest related to BAN payable.							
						72,396.00	**72,396.00**		

Net Income (Loss) **(2,814,389.80)**