

**STEBEN COUNTY HEALTH CARE FACILITY
(An Enterprise Fund of the
County of Steuben, New York)**

**Financial Statements as of
December 31, 2012 and 2011
Together with
Independent Auditor's Report**

Bonadio & Co., LLP
Certified Public Accountants

**STEUBEN COUNTY HEALTH CARE FACILITY
(An Enterprise Fund of the County of Steuben, New York)**

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INDEPENDENT AUDITOR'S REPORT

May 9, 2013

To the Human Services, Health and Education Committee of the
County Legislature of the County of Steuben New York:

We have audited the accompanying financial statements of Steuben County Health Care Facility, (an enterprise fund of the County of Steuben, New York) (the Facility), as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the Facility's basic financial statements, as listed in the table of contents.

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.

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. 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 opinion.

6400 Sheridan Drive, Suite 230
Williamsville, New York 14221
p (716) 633-8885
f (716) 633-9469

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INDEPENDENT AUDITOR'S REPORT

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Facility as of December 31, 2012 and 2011, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Steuben County Health Care Facility enterprise fund and do not purport to, and do not, present fairly the financial position of the county of Steuben, New York, as of December 31, 2012 and 2011, and the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

STEBEN COUNTY HEALTH CARE FACILITY
 (An Enterprise Fund of the County of Steuben, New York)

BALANCE SHEETS
DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
CURRENT ASSETS:		
Resident accounts receivable, net	\$ 3,795,938	\$ 1,968,430
Intergovernmental transfer receivable	1,592,169	-
Other receivables	68,857	81,676
Inventory	35,547	37,044
Prepaid expenses	-	423
	<u>5,492,511</u>	<u>2,087,573</u>
NONCURRENT ASSETS:		
Resident funds held in trust	35,697	44,390
Amounts due from third-party payors, net	754,152	760,941
Capital assets, net	<u>16,070,804</u>	<u>16,905,588</u>
	<u>16,860,653</u>	<u>17,710,919</u>
	<u>\$ 22,353,164</u>	<u>\$ 19,798,492</u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES:		
Cash overdraft - due to county	\$ 6,234,285	\$ 759,329
Current portion of bonds payable	865,700	830,700
Accounts payable and accrued expenses	614,333	513,110
Current portion of accrued compensated absences	471,750	292,187
Accrued workers compensation payable	662,976	481,863
Current portion of accrued postemployment benefit obligation	427,771	666,885
Accrued interest payable	<u>225,610</u>	<u>238,060</u>
	<u>9,502,425</u>	<u>3,782,134</u>
NONCURRENT LIABILITIES:		
Bonds payable, net of current portion	13,738,400	14,604,100
Resident funds held in trust	35,697	44,390
Accrued postemployment benefit obligation, net of current portion	1,384,992	773,903
Estimated arbitrage liability	73,287	73,287
Unearned revenue	150,000	-
Accrued compensated absences, net of current portion	<u>-</u>	<u>226,499</u>
	<u>15,382,376</u>	<u>15,722,179</u>
	<u>24,884,801</u>	<u>19,504,313</u>
NET POSITION:		
Invested in capital assets, net of related debt and interest	1,241,094	1,232,728
Unrestricted	<u>(3,772,731)</u>	<u>(938,549)</u>
	<u>(2,531,637)</u>	<u>294,179</u>
	<u>\$ 22,353,164</u>	<u>\$ 19,798,492</u>

The accompanying notes are an integral part of these statements.

STEBEN COUNTY HEALTH CARE FACILITY
(An Enterprise Fund of the County of Steuben, New York)

STATEMENTS OF REVENUE, EXPENSES AND CHANGE IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
OPERATING REVENUES:		
Net resident service revenue	\$ 9,144,441	\$ 9,219,673
Intergovernmental transfer payments	1,592,169	3,256,728
Outpatient service revenue	54,875	70,495
Adjustment of prior years' revenue, net	189,262	183,996
Other operating revenue	<u>129,656</u>	<u>48,787</u>
Total operating revenues	<u>11,110,403</u>	<u>12,779,679</u>
OPERATING EXPENSES:		
Salaries and wages	5,759,122	5,926,941
Employee benefits	3,622,735	3,793,163
Supplies and other	2,315,680	2,085,516
Depreciation and amortization	848,213	852,279
Indirect county costs	431,280	512,441
Provision for doubtful accounts	653,753	45,305
New York State assessment	<u>360,942</u>	<u>568,250</u>
Total operating expenses	<u>13,991,725</u>	<u>13,783,895</u>
Operating loss	<u>(2,881,322)</u>	<u>(1,004,216)</u>
NONOPERATING REVENUES (EXPENSES):		
Interest expense	(622,375)	(654,700)
Adjustment of prior years' expense, net	246,601	-
Interest income	<u>-</u>	<u>669</u>
Total nonoperating expenses	<u>(375,774)</u>	<u>(654,031)</u>
LOSS BEFORE COUNTY SUBSIDIES	(3,257,096)	(1,658,247)
COUNTY SUBSIDIES OF INDIRECT COSTS	<u>431,280</u>	<u>512,441</u>
CHANGE IN NET POSITION	(2,825,816)	(1,145,806)
NET POSITION - beginning of year	<u>294,179</u>	<u>1,439,985</u>
NET POSITION - end of year	<u>\$ (2,531,637)</u>	<u>\$ 294,179</u>

The accompanying notes are an integral part of these statements.

**STEBEN COUNTY HEALTH CARE FACILITY
(An Enterprise Fund of the County of Steuben, New York)**

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Cash received for services provided	\$ 6,775,217	\$ 12,904,259
Cash received (paid) from (to) suppliers	(2,575,411)	(2,671,480)
Cash paid to or on behalf of employees	<u>(8,873,689)</u>	<u>(8,788,522)</u>
Net cash flow from operating activities	<u>(4,673,883)</u>	<u>1,444,257</u>
CASH FLOW FROM NON-CAPITAL FINANCING ACTIVITIES		
Cash overdraft - due to county	5,474,956	(484,882)
Adjustment of prior years' expense	246,601	-
County subsidies of indirect costs	<u>431,280</u>	<u>512,441</u>
Net cash flow from non-capital financing activities	<u>6,152,837</u>	<u>27,559</u>
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Repayment of bonds payable	(830,700)	(795,700)
Interest paid	(634,825)	(666,625)
Purchases of capital assets	<u>(13,429)</u>	<u>(10,160)</u>
Net cash flow from capital and related financing activities	<u>(1,478,954)</u>	<u>(1,472,485)</u>
CASH FLOW FROM INVESTING ACTIVITIES:		
Interest income	-	<u>669</u>
Net cash flow from investing activities	<u>-</u>	<u>669</u>
CHANGE IN CASH AND CASH EQUIVALENTS	-	-
CASH AND CASH EQUIVALENTS - beginning of year	<u>-</u>	<u>-</u>
CASH AND CASH EQUIVALENTS - end of year	<u>\$ -</u>	<u>\$ -</u>
RECONCILIATION OF LOSS FROM OPERATIONS TO NET CASH FLOW FROM OPERATING ACTIVITIES:		
Loss from operations	\$ (2,881,322)	\$ (1,004,216)
Adjustments to reconcile loss from operations to net cash flow from operating activities:		
Depreciation and amortization	848,213	852,279
Provision for doubtful accounts	653,753	45,305
Changes in:		
Resident accounts receivable	(2,481,261)	(906,031)
Intergovernmental transfer receivable	(1,592,169)	-
Other receivables	12,819	43,694
Inventory	1,497	(2,576)
Due from third-party payors	6,789	1,499,358
Prepaid expenses	423	7,085
Accounts payable and accrued expenses	101,223	18,017
Accrued compensated absences	(46,936)	58,433
Unearned revenue	150,000	-
Accrued workers compensation payable	181,113	253,009
Accrued postemployment benefit obligation	<u>371,975</u>	<u>579,900</u>
Net cash flow from operating activities	<u>\$ (4,673,883)</u>	<u>\$ 1,444,257</u>

The accompanying notes are an integral part of these statements.

**STEBEN COUNTY HEALTH CARE FACILITY
(An Enterprise Fund of the County of Steuben, New York)**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

1. ORGANIZATION

Steuben County Health Care Facility (the Facility) is a public, 105-bed skilled nursing facility. The Facility is owned by, operated as, and presented as an enterprise fund of the County of Steuben, New York (the County), a political sub-division of the State of New York. An enterprise fund is a proprietary type fund that uses the accrual basis of accounting and is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation), of providing goods or services are to be financed or recovered primarily through user charges.

The financial statements present only the Facility and do not purport to, and do not, present fairly the financial position of the County of Steuben, New York, as of December 31, 2012 and 2011, and the changes in its net position, or its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Facility's financial statements are prepared in conformity with accounting principles generally accepted in the United States as set forth by the Governmental Accounting Standards Board (GASB) for proprietary funds.

Basis of Presentation

GASB requires the classification of net position into three components - invested in capital assets, net of related debt, restricted and unrestricted. These classifications are defined as follows:

- Invested in capital assets, net of related debt - This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds. At December 31, 2012 and 2011, the Facility had \$14,829,710 and \$15,672,860, respectively, recorded as a reduction of its net position.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

- Restricted - This component of net position consists of amounts which have external constraints placed on its use imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. At December 31, 2012 and 2011, the Facility had no restricted net position.
- Unrestricted - This component of net position consists of net position that do not meet the definition of "invested in capital assets" or "restricted."

When both restricted and unrestricted resources are available for use for the same purpose, the Facility uses restricted resources first and then unrestricted resources, as needed.

Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, bank demand deposit accounts, money market accounts, and all highly liquid investments with an original maturity of three months or less which, at times, may exceed federally insured limits. The Facility has not experienced any losses in such accounts. As a fund of the County, the Facility's cash balances are covered by depository insurance at year-end or collateralized with securities held by the pledging financial institution, or its trust department or agent. At December 31, 2012 and 2011 the Facility had a cash overdraft of \$6,234,285 and \$759,329, respectively. All cash is held by the County (Note 11) and monies are transferred based on the Facility's need.

Operating Revenues and Expenses

The Facility's statements of revenue, expenses, and change 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 Facility'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.

Resident Accounts Receivable and Revenue

The Facility provides services to residents under agreements with third-party payors (primarily Medicare and Medicaid), whereby it is reimbursed under provisions of their respective reimbursement formulas. Final determination of the amounts earned is subject to review by third-party payors or their agents.

Net resident service revenue is reported at estimated net realizable amounts from residents, Medicaid, Medicare, and other third-party payors for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews and appeals. 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 appeals. It is not possible to determine the extent of additional liabilities (or receivables) resulting from governmental audits conducted in subsequent years.

Resident accounts receivable are stated net of an allowance for doubtful accounts. Accounts for which no payments have been received for several months are considered delinquent. The Facility records an allowance for doubtful accounts in anticipation of future write-offs. The allowance for doubtful accounts is based on the Facility's historical collection experience and a review of outstanding accounts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Resident Accounts Receivable and Revenue (Continued)

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.

Inventory

Inventory consists of dietary, medical, office and maintenance supplies. Inventory is stated at the lower of cost or market, determined on a first-in, first-out (FIFO) basis or market.

Capital Assets

Capital assets are stated at cost if purchased or at fair market value at date of donation. Major renewals and betterments greater than \$500 are capitalized at cost, while replacements and maintenance and repairs which do not improve or extend the lives of the respective assets are expensed. Depreciation and amortization is provided using the straight-line method over the estimated useful lives as established by the American Hospital Association, ranging from five (5) to forty (40) years.

The cost of capital assets retired or otherwise disposed of and their related accumulated depreciation are removed from the accounts.

Resident Funds Held in Trust

The Facility acts as a custodian for resident funds. The funds are expended at the direction of the residents for personal items. Transactions involving receipt and disbursement of resident funds are not included in the operating results of the Facility.

Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage restrictions with respect to the issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of all tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years. The Facility's policy is to record as a liability the estimated amount owed. The Facility has not made a payment on the liability during the years ended December 31, 2012 and 2011. The Facility estimated arbitrage liability was approximately \$73,000 at December 31, 2012 and 2011.

Income Taxes

The Facility is an enterprise fund of the County and is consequently exempt from Federal and state income taxes.

Accrued Compensated Absences

Accruals for compensated absences such as vacation are recorded when vested and earned by the employees and payment is not dependent upon a future event. The accrual is recorded based on employees' rates of pay as of December 31, 2012 and 2011 and include all payroll related liabilities.

County Cost Allocation

The County incurs the costs of certain overhead services for the benefit of the Facility. The value of these services is allocated to the Facility based upon the County's Cost Allocation Plan. These costs are included in operating expenses on the statements of revenue, expenses, and change in net position and are detailed in Note 12.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Risk Management

The Facility is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. The Facility participates in the County's commercial and self-insurance programs as discussed in Note 13. The County's settled claims have not exceeded its commercial coverage in any of the three preceding years.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 revenue and expense during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to the prior year information to conform to the current year presentation.

3. GOING CONCERN

The Facility has losses from operations amounting to \$3,257,096 and \$1,658,247 in 2012 and 2011, respectively that have resulted in unrestricted net deficit of \$2,531,637 at December 31, 2012. These losses and deficits have also resulted in the Facility having significant working capital deficits, and significant negative operating cash flows in 2012 and 2011. At December 31, 2012, the Facility has a cash overdraft of approximately \$6.2 million and \$800,000 at December 31, 2011, as a result of the County paying its obligations. Additionally, the County contributed the matching share of \$768,699 for 2012 and \$1,250,909 in 2011 related to the Upper Payment Limit Intergovernmental Transfer revenue of \$1,592,169 and \$3,256,728 recorded by the Facility for 2012 and 2011 respectively. These conditions have raised substantial doubt about the Facility's ability to continue as a going concern without the on-going support of the County.

The ability of the Facility to continue in existence depends upon whether the County continues to support the Facility through infusion of both operating capital and cash with which to meet the Facility's obligations. The County is currently in negotiations with a potential private buyer for the sale of the Facility.

The financial statements do not include any adjustments related to recoverability and classification of recorded assets nor to the amounts and classifications of liabilities or any other adjustments that might be necessary should the Facility be unable to continue as a going concern.

4. RECENT ACCOUNTING PRONOUNCEMENTS

GASB issued statements No. 63 "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position" and No. 65, "Items Previously Reported as Assets and Liabilities." These statements update and improve existing standards by providing users with information about how past transactions will continue to impact a government's financial statements in the future. The statements require that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities and identifies net position as the residual of all other elements presented. The Facility adopted the provisions of these statements retroactively for the years ended December 31, 2012 and 2011.

The adoption of these pronouncements did not have a material affect on the financial statements.

5. RESIDENT ACCOUNTS RECEIVABLE

Resident accounts receivable consisted of the following at December 31:

	<u>2012</u>	<u>2011</u>
Resident accounts receivable	\$ 5,295,938	\$ 2,841,604
Allowance for doubtful accounts	<u>(1,500,000)</u>	<u>(873,174)</u>
	<u>\$ 3,795,938</u>	<u>\$ 1,968,430</u>

The large increase in the receivable balance at December 31, 2012 as compared to December 31, 2011 resulted from staff turnover at the facility which in turn delayed billing for several months through the end of 2012.

6. NET RESIDENT SERVICE REVENUE

Concentrations

For the year ended December 31, 2012, aggregate revenue from the Medicaid and Medicare programs accounted for approximately 70% and 16%, respectively, of net resident service revenue. For the year ended December 31, 2011, aggregate revenue from the Medicaid and Medicare programs accounted for approximately 71% and 14%, respectively, of net resident service revenue.

For the years ended December 31, 2012, aggregate accounts receivable due from Medicaid and Medicare programs accounted for approximately 37% and 10%, respectively, of gross accounts receivable. For the years ended December 31, 2011, aggregate accounts receivable due from Medicaid and Medicare programs accounted for approximately 39% and 9%, respectively, of gross accounts receivable.

Contractual Allowances

Net resident service revenue is measured at established rates adjusted for third-party contractual allowances as follows at December 31:

	<u>2012</u>	<u>2011</u>
Gross resident service revenue	\$ 10,604,421	\$ 11,490,919
Less: Contractual allowances	<u>(1,459,980)</u>	<u>(2,271,246)</u>
	<u>\$ 9,144,441</u>	<u>\$ 9,219,673</u>

6. NET RESIDENT SERVICE REVENUE (Continued)

Intergovernmental Transfers

County-sponsored nursing homes in New York State receive additional Medicaid reimbursement known as Intergovernmental Transfer payments (IGT). Payments for this program are funded principally with local and federal funds. 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 Facility is entitled to receive it; otherwise, it is recorded on a cash basis. The Facility has recorded IGT revenue for the year ended December 31, 2012 and 2011 of \$1,592,169 and \$3,256,728, respectively.

New York State Cash Receipts Assessment

In April 2002, the State of New York approved a 6% assessment on nursing facilities' cash receipts, with the exception of Medicare cash receipts, to provide funding for workforce recruitment and retention awards authorized pursuant to Chapter 1 and subsequently amended by Chapter 82 of the Laws of 2002. Effective April 2012, the State of New York implemented an assessment decrease on nursing facilities' cash receipts from 7.2% to 7.0% and effective November 2012 this assessment further decreased to 6.8%.

A significant portion of this assessment is reimbursed to the Facility, at varying rates depending on payer, and is included in net resident service revenue. Total assessment expense for the years ended December 31, 2012 and 2011 was approximately \$361,000 and \$568,000, respectively, and is included in the accompanying statements of revenue, expenses and change in net position.

Adjustment of Prior Years' Revenue, Net

Net resident service revenue is reported at estimated net realizable amounts from residents, Medicaid, Medicare, and other third-party payors for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, and appeals. 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 audits, reviews, or appeals. For 2012 and 2011, adjustments to previously recognized Medicaid revenue amounted to approximately \$198,000 and \$184,000, respectively. The prior years' revenue amounts are related to Medicaid reimbursement system overhaul and miscellaneous adjustments.

These amounts are included in adjustment of prior years' revenue, net in the statement of revenue, expenses, and change in net position.

7. GOVERNMENTAL PAYERS

Estimated Third-Party Settlements

The Facility has recorded an estimated net receivable due from third-party payors of \$754,152 and \$760,941 at December 31, 2012 and 2011, respectively, primarily for amounts due from Medicaid for projected increases in the Medicaid reimbursement rates resulting from the filing of a base year cost report, Medicaid reimbursement system overhaul, as well cash receipts assessment reconciliations. It is at least reasonably possible that the amount recorded will differ materially from the actual amount to be paid in the near term.

7. GOVERNMENTAL PAYERS (Continued)

The U.S. healthcare industry has become the subject of increased scrutiny by both federal and state governmental payers with respect to reimbursements providers have received for service provisions. Specific areas for review by the governmental payers and their investigative personnel include appropriate billing practices, reimbursement maximization strategies, technical regulatory compliance, etc. The stated purpose for these reviews is to recover reimbursements which the payers believe may have been inappropriate. While no outstanding regulatory inquiries exist at December 31, 2012 and 2011 for the Facility that in the opinion of management would be material to its financial position or results of operations, compliance with these laws and regulations is subject to future interpretation, or actions.

Medicaid and Medicare reimbursed rates are subject to audit and retroactive rate adjustments by the New York State DOH and CMS. Estimated third-party settlements are included in the financial statements based upon the information available at year end. However, as described above, it is at least reasonably possible that those estimates will change during 2013 and future years as more information becomes available. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near-term.

The Facility is required to prepare and file various reports of actual and allowable costs annually. Provisions have been made in the financial statements for prior and current years' estimated final settlements. The difference between the amount provided and the actual final settlement is recorded as an adjustment of prior years' revenue in the year the final settlement is determined.

Regulatory Environment

The Facility is responsible to report to various third-parties/regulators, including the Center for Medicare and Medicaid Services, the New York State Department of Health (DOH), the New York State Office of Attorney General and the Internal Revenue Service.

Each of these third-parties has the ability to conduct audits, reviews, surveys and/or other investigations related to financial, operating and compliance matters. The Facility is subject to operational and compliance surveys by the DOH on a regular basis.

8. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2012, was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Depreciable capital assets:					
Buildings	\$ 10,130,094	\$ -	\$ -	\$ -	\$ 10,130,094
Fixed equipment	7,103,076	6,621	-	-	7,109,697
Land improvements	1,056,160	4,120	-	-	1,060,280
Moveable equipment	<u>1,855,086</u>	<u>2,688</u>	<u>(12,248)</u>	<u>-</u>	<u>1,845,526</u>
Total depreciable capital assets	<u>20,144,416</u>	<u>13,429</u>	<u>(12,248)</u>	<u>-</u>	<u>20,145,597</u>
Total capital assets	<u>20,144,416</u>	<u>13,429</u>	<u>(12,248)</u>	<u>-</u>	<u>20,145,597</u>
Less: Accumulated depreciation:					
Buildings	889,404	254,250	-	-	1,143,654
Fixed equipment	1,392,156	399,113	-	-	1,791,269
Land improvements	147,944	42,740	-	-	190,684
Moveable equipment	<u>809,324</u>	<u>152,110</u>	<u>(12,248)</u>	<u>-</u>	<u>949,186</u>
	<u>3,238,828</u>	<u>848,213</u>	<u>(12,248)</u>	<u>-</u>	<u>4,074,793</u>
Capital assets, net	<u>\$ 16,905,588</u>	<u>\$ (834,784)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,070,804</u>

Capital asset activity for the year ended December 31, 2011 was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Depreciable capital assets:					
Buildings	\$ 10,130,094	\$ -	\$ -	\$ -	\$ 10,130,094
Fixed equipment	7,098,331	4,745	-	-	7,103,076
Land improvements	1,056,160	-	-	-	1,056,160
Moveable equipment	<u>1,849,671</u>	<u>5,415</u>	<u>-</u>	<u>-</u>	<u>1,855,086</u>
Total depreciable capital assets	<u>20,134,256</u>	<u>10,160</u>	<u>-</u>	<u>-</u>	<u>20,144,416</u>
Total capital assets	<u>20,134,256</u>	<u>10,160</u>	<u>-</u>	<u>-</u>	<u>20,144,416</u>
Less: Accumulated depreciation:					
Buildings	825,185	254,197	-	(189,978)	889,404
Fixed equipment	803,986	398,192	-	189,978	1,392,156
Land improvements	105,616	42,328	-	-	147,944
Moveable equipment	<u>651,762</u>	<u>157,562</u>	<u>-</u>	<u>-</u>	<u>809,324</u>
	<u>2,386,549</u>	<u>852,279</u>	<u>-</u>	<u>-</u>	<u>3,238,828</u>
Capital assets, net	<u>\$ 17,747,707</u>	<u>\$ (842,119)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,905,588</u>

Depreciation expense was \$848,213 and \$852,279 for the years ended December 31, 2012 and 2011, respectively.

9. BONDS PAYABLE

In 2004 the Facility received authorization from the New York State Department of Health to construct a new health care facility. On August 15, 2005, the County, on behalf of the Facility, issued \$19,710,000 public improvement serial bonds to finance the construction of the new facility. The Facility's bonds payable consist of Public Improvement Serial Bonds, payable in annual principal installments through August 15, 2025. Interest is payable in semi-annual installments through August 15, 2025. Interest is charged at 4% through 2019, 4.125% for the year 2020 and 4.250% for the years 2021 through 2025. Bonds payable totaled \$14,604,100 and \$15,434,800 at December 31, 2012 and 2011, respectively.

The bonds are general obligations of the County collateralized by all taxable real property within the County subject to ad valorem taxes to pay the bonds and interest thereon, without limitation as to the rate or amount.

The repayment of these obligations is estimated as follows:

	<u>Principal</u>	<u>Interest</u>
2013	865,700	601,625
2014	900,700	567,025
2015	940,700	531,025
2016	980,700	493,425
2017	1,025,700	454,225
2018 – 2022	5,798,500	1,615,613
2023 – 2025	<u>4,092,100</u>	<u>352,537</u>
	<u>\$ 14,604,100</u>	<u>\$ 4,615,475</u>

10. EMPLOYEE PENSION PLAN

New York State and Local Employees' Retirement System Plan Description

Generally all of the Facility's employees (excluding part-time employees) participate in the New York State and Local Employees' Retirement System (the System). The System is a cost-sharing multiple-employer retirement system. 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 System. The Comptroller shall adopt and may amend rules and regulations for the administration and transactions of the business of the System and for the custody and control of its funds. The System issues 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 Employees' Retirement System, Governor Alfred E. Smith Office Building, Albany, New York, 12244.

10. EMPLOYEE PENSION PLAN (Continued)

Funding Policy

Membership, benefits, and employer and employee obligations to contribute are described in the NYSRSSL using the tier concept. Pension legislation established tier membership by the date a member last joined the Retirement System. They are as follows:

- Tier 1 - Those persons who last became members of the System before July 1, 1973.
- Tier 2 - Those persons who last became members on or after July 1, 1973, but before July 27, 1976.
- Tier 3 - Generally those persons who are State correction officers who last became members on or after July 27, 1976, and all others who last became members on or after July 27, 1976, but before September 1, 1983.
- Tier 4 - Generally, except for correction officers, those persons who last became members on or after September 1, 1983.
- Tier 5 - Those persons who last became members of the System on or after January 1, 2010.
- Tier 6 - Those persons who last became members of the System on or after April 1, 2012.

The Facility's employees are among all of the six Tiers and employees in Tier 3, 4, 5, and 6 are required to contribute at least 3% of their wages to the System. For employees in Tier 3 and 4, the 3% contribution ceases after 10 years of membership or 10 years of credited service.

The System is noncontributory for the employee who joined prior to July 27, 1976. For employees who joined the System after July 27, 1976, and prior to January 1, 2010, employees contribute 3% of their salary, except that employees in the System more than ten years are no longer required to contribute. For employees who joined after January 1, 2010, employees in the System contribute 3% of their salary throughout their active membership. The Comptroller certifies the rates expressed as proportions of members' payroll annually which are used in computing the contributions required to be made by employers to the pension accumulation fund. Employees who join on or after April 1, 2012 will contribute 3% of their reportable salary. Beginning April 1, 2013, the contribution rate for Tier 6 members will vary based on each member's annual compensation varying between 3-6%.

The System cannot be diminished or impaired. Benefits can be reduced for future membership only by an act of the New York State Legislature. The Facility's contributions for the years 2012, 2011 and 2010 were equal to the required contributions for the plan fiscal year as follows:

<u>2012</u>	<u>2011</u>	<u>2010</u>
<u>\$ 942,300</u>	<u>\$ 839,900</u>	<u>\$ 629,200</u>

Effective May 14, 2003, the System requires a minimum employer contribution of 4.5% annually of the System's fund value at April 1 of the previous fiscal year.

11. POST-EMPLOYMENT HEALTHCARE BENEFITS

Funding Policy

In addition to providing pension benefits, the County also provides certain health care benefits for retired employees, their dependents and certain survivors. Substantially all of the County's employees may become eligible for those benefits if they reach normal retirement age while working for the County. The Facility is liable for its allocated share of all health insurance expenses for Facility retirees.

The County (and Facility) currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis, with the possibility of pre-funding additional benefits if so determined and directed by the County. Third-party administrative costs are included in the calculated premium and allocated to the Facility based on enrollment. Internal County costs of administering the Plan are paid by the County.

Plan Description

The County provides continuation of medical insurance coverage to employees who retire under the System at the same time they end their service to the County. The plan is a single employer defined benefit other postemployment benefit (OPEB) plan (the Plan). Based on collective bargaining agreements, the retiree may receive coverage paid in part by the County and the retiree's spouse may retain coverage through the County plan at the spouse's own expense. If elected at the time of retirement, this may be a lifetime benefit for both the retiree and spouse.

Healthcare benefits for non-union employees are similar to those of union employees. The retirees' share of the calculated premium costs ranges from 50% to 100%, depending on the retirement date and length of service. In most instances, actual medical claims paid on behalf of retirees are self-funded by the County. The Plan does not currently issue a stand-alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

Funded Status and Funding Progress

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions and the probability of the occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The plan is currently not funded.

The Facility incurred a net increase in these benefits of approximately \$372,000 and \$580,000 for the years ended December 31, 2012 and 2011, respectively.

Schedule of Funding Progress for the Facility's Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a% of Covered Payroll (b-a)/(c)
1/1/2012	\$ -	\$4,322,368	\$4,322,368	0.0%	\$ 5,823,405	74%
1/1/2011	\$ -	\$5,423,000	\$ 5,423,000	0.0%	\$ 5,880,000	92%
1/1/2009	\$ -	\$3,271,400	\$ 3,271,400	0.0%	\$ 5,513,000	59%

11. POST-EMPLOYMENT HEALTHCARE BENEFITS (Continued)

Annual OPEB Cost and Net OPEB Obligation

The County's annual other postemployment benefit (OPEB) expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of generally accepted accounting principles. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year plus the amortization of the unfunded actuarial accrued liability (or funding excess) over a period not to exceed 30 years.

The following table shows the components of the Facility's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the Facility's net OPEB obligation at December 31:

	<u>2012</u>	<u>2011</u>
Normal cost	\$ 220,078	\$ 450,400
Amortization of UAAL (past service costs)	<u>203,941</u>	<u>184,400</u>
Annual required contribution	424,019	634,800
Interest on OPEB obligation	57,632	34,400
Adjustment to ARC	<u>(55,590)</u>	<u>(29,300)</u>
Annual OPEB cost	<u>\$ 426,061</u>	<u>\$ 639,900</u>

The following table reconciles the Facility's OPEB obligation at December 31:

	<u>2012</u>	<u>2011</u>
Net OPEB obligation at beginning of year	\$ 1,440,788	\$ 860,888
Annual OPEB expense	426,061	639,900
Annual Facility OPEB contributions	<u>(54,086)</u>	<u>(60,000)</u>
Net OPEB obligation at end of year	<u>\$ 1,812,763</u>	<u>\$ 1,440,788</u>

The following table provides trend information for the Plan:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Actual Employer Contribution</u>	<u>Percent Contributed</u>	<u>Net OPEB Cost Obligation</u>
2012	\$ 426,061	\$ 54,086	12.7%	\$ 1,812,763
2011	\$ 639,900	\$ 60,000	9.4%	\$ 1,440,788
2010	\$ 414,500	\$ 53,000	12.8%	\$ 860,888

11. POST-EMPLOYMENT HEALTHCARE BENEFITS (Continued)

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs (if any) between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with long-term perspective of calculations.

In the December 31, 2012 actuarial valuation, the following methods and assumptions were used:

Actuarial cost method	Projected unit credit
Discount rate*	4.0%
Medical care cost trend rate	4.2% initially, based on age of employees and type of plan chosen. The rate is reduced by decrements each year to an ultimate rate of 4.2%.
Dental care cost trend rate	Ultimate rate of 5.0%.
Unfunded actuarial accrued liability:	
Amortization period	30 years
Amortization method	Level percentage of pay
Amortization basis	Open

* As the plan is unfunded, reference to the general assets, which are short-term in nature, was considered in the selection of the 4.0%.

12. RELATED PARTY TRANSACTIONS

The Facility's cash is combined and deposited with the County's and invested in accordance with the provisions of applicable New York State (the State) statutes. The County also has its own written investment policy. The County deposits cash into a number of bank accounts. Monies must be deposited in demand or time accounts or certificates of deposit issued by FDIC insured commercial banks or trust companies located within the State. Permissible investments include obligations of the U.S. Treasury and its agencies, repurchase agreements, and obligations of the State. In accordance with existing policies, repurchase agreements are only entered into with banks or trust companies located within the State or with registered and primary reporting dealers in government securities. Underlying securities for repurchase transactions must be only obligations fully insured and guaranteed by the federal government.

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 obligations of the United States and its agencies and obligations of the State and its municipalities and school districts.

Cash recorded by the Facility 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 County Treasurer is responsible for ensuring the deposits are properly collateralized. As of December 31, 2012 and 2011, the County has reported that its deposits were adequately collateralized.

12. RELATED PARTY TRANSACTIONS (Continued)

The County incurs the cost of certain services for the benefit of the Facility. Accordingly, the amounts are reflected as costs of the Facility with a subsidy from the County to cover the related costs. These costs are as follows for the years ended December 31:

	<u>2012</u>	<u>2011</u>
Clerk of the Board, purchasing, risk management and accounting departments	\$ 97,060	\$ 114,488
Data processing	132,856	171,505
Personnel	74,751	96,417
County Treasurer	81,251	88,314
County Administrator	<u>45,362</u>	<u>41,717</u>
	<u>\$ 431,280</u>	<u>\$ 512,441</u>

The County made no additional cash contributions to the Facility in either 2012 or 2011.

13. COMMITMENTS AND CONTINGENCIES

Self-Insurance

The County has elected to be self-insured for workers' compensation, health insurance and other miscellaneous insurance policies as described below. Expenses and liabilities for claims are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. The County bears responsibility for the liability and it is their policy to charge the Facility for its share of such claims when paid.

Workers Compensation

The County has elected to be self-insured for workers' compensation claims and accounts for this activity in an internal service fund. Other local municipalities, towns and villages within the County, are permitted to participate in the self-insured workers' compensation plan, and are joint and severally liable for their share of the plan's claims. Expenses recognized by the Facility during 2012 and 2011 for claims were \$469,317 and \$500,147, respectively. The County also carries excess claims coverage totaling \$750,000 per occurrence. At December 31, 2012 and 2011, the Facility accrued a liability of \$662,976 and \$481,863, respectively, for workers' compensation claims arising from incidents which had occurred through those dates, but were not yet paid. This liability is included on the accompanying balance sheets.

Health Insurance

Expenses recognized by the Facility during 2012 and 2011 were approximately \$1,333,000 and \$1,349,000, respectively.

The County reviewed its outstanding claims during the year and made adjustments for claims that are no longer outstanding. Included in nonoperating revenues (expenses) on the statements of revenue, expenses and change in net position is approximately \$240,000 of adjustments to prior years' expenses.

Other Insurance

The County has also elected to be self-insured for general liability, malpractice, and automobile insurance. There are no expenses or accruals for claims related to the Facility during 2012 and 2011.