

**Otsego Manor  
(An Enterprise Fund of  
Otsego County, New York)**

**Financial Statements  
Year Ended December 31, 2012**



**BRYANS & GRAMUGLIA**  
CPAs, LLC

**Otsego Manor**  
**(An Enterprise Fund of**  
**Otsego County, New York)**  
**December 31, 2012**

**Contents**

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<b>Independent Auditors' Report</b>	1 - 2
<b>Financial Statements</b>	
Statements of net position	3 - 4
Statements of revenues, expenses and changes in net position (deficit)	5
Statements of cash flows	6 - 7
Notes to financial statements	8 - 20
<b>Supplemental Information</b>	
Schedule of funding progress	21
<b>Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i></b>	22 - 23

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**BRYANS & GRAMUGLIA**  
CPAs, LLC

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**Independent Auditors' Report**

To the Board of Representatives  
of Otsego County, New York  
Cooperstown, New York

We have audited the accompanying financial statements of Otsego Manor (An Enterprise Fund of Otsego County, New York referred to as "the Facility") as of and for the years ended December 31, 2012 and 2011, and the related notes to the 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 audits 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 Facility'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 Facility'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.

***Basis for Adverse Opinion***

As discussed in Note 2, the financial statements present only Otsego Manor (An Enterprise Fund of Otsego County, New York). Accounting principles generally accepted in the United States of America require that the County of Otsego, New York's financial statements present the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Otsego County, New York.

### ***Adverse Opinion***

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion" paragraph, the financial statements referred to above do not present fairly the financial position of the County of Otsego, New York as of December 31, 2012 and 2011, or the changes in financial position or cash flows thereof for the years then ended.

### ***Unmodified Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Otsego Manor (An Enterprise Fund of Otsego County, New York) of Otsego County, New York as of December 31, 2012 and 2011, 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.

### **Other Matters**

#### ***Required Supplemental Information – Management's Discussion and Analysis***

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

#### ***Other Required Supplemental Information – Schedule of Funding Progress***

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information on page 21 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

#### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated August 14, 2013, on our consideration of the Facility'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 *Governmental Auditing Standards* in considering the Facility's internal control over financial reporting and compliance.

***Bryans & Gramuglia CPAs, LLC***

Albany, New York  
August 14, 2013

**Otsego Manor**  
**(An Enterprise Fund of Otsego County, New York)**  
**Statements of Net Position**  
**December 31, 2012 and 2011**

**ASSETS**

	<u>2012</u>	<u>2011</u>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 311,973	\$ 167,037
Restricted assets:		
Cash and cash equivalents	1,006,927	1,357,443
Accounts receivable, net	3,315,005	2,655,029
Due from third party payors	4,200,597	1,950,000
Supplies inventory	44,680	51,533
Prepaid expenses	343,107	289,760
<b>Total Current Assets</b>	<b>9,222,289</b>	<b>6,470,802</b>
<b>Noncurrent Assets</b>		
Patients' funds	80,810	81,243
Capital assets:		
Land, land improvements and building	28,731,286	28,731,286
Major moveable equipment	1,958,121	1,927,556
Fixed equipment	139,344	126,134
Less accumulated depreciation	(10,959,519)	(9,676,408)
<b>Total Noncurrent Assets</b>	<b>19,950,042</b>	<b>21,189,811</b>
<b>TOTAL ASSETS</b>	<b>\$ 29,172,331</b>	<b>\$ 27,660,613</b>

**Otsego Manor**  
**(An Enterprise Fund of Otsego County, New York)**  
**Statements of Net Position**  
**December 31, 2012 and 2011**

**LIABILITIES AND NET POSITION (DEFICIT)**

	<u>2012</u>	<u>2011</u>
<b>Current Liabilities</b>		
Accounts payable - trade	\$ 297,051	\$ 452,002
Due to third party payors	256,683	403,749
Current portion of bonds payable and net refunding bonds	1,199,412	1,209,412
Current maturities of capital lease obligations	8,953	8,530
Accrued expenses	1,359,232	1,640,793
Due to County	4,970,972	-
<b>Total Current Liabilities</b>	<u>8,092,303</u>	<u>3,714,486</u>
<b>Noncurrent Liabilities</b>		
Patients' funds	80,810	81,243
Accrued workers' compensation	847,185	1,010,543
Bonds and net refunding bonds payable, excluding current portion	16,746,764	17,946,176
Capital lease obligations, net of current maturities	-	8,953
Accrued other post-employment benefits	16,818,029	11,143,029
<b>Total Noncurrent Liabilities</b>	<u>34,492,788</u>	<u>30,189,944</u>
<b>Total Liabilities</b>	<u>42,585,091</u>	<u>33,904,430</u>
<b>Net Position (Deficit)</b>		
Net investment in capital assets	2,921,030	3,292,940
Unrestricted	(16,333,790)	(9,536,757)
<b>Total Net Position (Deficit)</b>	<u>(13,412,760)</u>	<u>(6,243,817)</u>
<b>TOTAL LIABILITIES AND NET POSITION (DEFICIT)</b>	<u>\$ 29,172,331</u>	<u>\$ 27,660,613</u>

**Otsego Manor**  
**(An Enterprise Fund of Otsego County, New York)**  
**Statements of Revenues, Expenses and Changes in Net Position (Deficit)**  
**For the Years Ended December 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>Operating Revenues</b>		
Private	\$ 2,290,839	\$ 1,675,010
Medicaid	10,919,403	11,403,302
Medicare	1,698,307	1,954,215
Hospice	1,528,176	1,605,822
Veteran	224,049	204,536
Net Patient Service Revenues	<u>16,660,774</u>	<u>16,842,885</u>
Other revenues	103,527	108,809
<b>Total Operating Revenues</b>	<u>16,764,301</u>	<u>16,951,694</u>
<b>Operating Expenses</b>		
Salaries	8,480,823	8,642,437
Payroll taxes and employee benefits	4,907,423	5,239,391
Other post-employment benefits	5,675,000	4,089,943
Supplies and other expenses	4,694,117	4,788,283
Health facility assessment	872,410	941,327
Depreciation	1,300,042	1,313,128
Bad debt expense	261,755	268,283
<b>Total Operating Expenses</b>	<u>26,191,570</u>	<u>25,282,792</u>
<b>Operating Income (Loss)</b>	<u>(9,427,269)</u>	<u>(8,331,098)</u>
<b>Nonoperating Revenues (Expenses)</b>		
Interest income	3,126	7,273
Interest expense	(724,002)	(745,258)
Contribution from County	2,979,202	8,197,451
<b>Total Nonoperating Revenues (Expenses)</b>	<u>2,258,326</u>	<u>7,459,466</u>
<b>Changes in Net Position</b>	(7,168,943)	(871,632)
Total Net Position (Deficit), Beginning of Year	<u>(6,243,817)</u>	<u>(5,372,185)</u>
<b>Total Net Position (Deficit), End of Year</b>	<u>\$ (13,412,760)</u>	<u>\$ (6,243,817)</u>

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

**Otsego Manor**  
**(An Enterprise Fund of Otsego County, New York)**  
**Statements of Cash Flows**  
**For the Years Ended December 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>Cash Flows From Operating Activities</b>		
Cash received from residents and third party payors	\$ 13,341,380	\$ 19,686,462
Cash received from others	103,527	108,809
Cash paid to employees and suppliers	(19,601,137)	(19,257,981)
Net Cash Provided (Used) by Operating Activities	<u>(6,156,230)</u>	<u>537,290</u>
<b>Cash Flows From Noncapital Financing Activities</b>		
Change in Due to County	4,970,972	(1,212,214)
Contribution from County	2,979,202	2,076,522
Net Cash Provided by Noncapital Financing Activities	<u>7,950,174</u>	<u>864,308</u>
<b>Cash Flows From Capital and Related Financing Activities</b>		
Expenditures for capital assets	(60,706)	(68,304)
Interest paid on capital debt	(748,414)	(769,670)
Repayment of bonds payable	(1,185,000)	(1,215,000)
Repayment of capital lease obligation	(8,530)	(8,126)
Net Cash Used by Capital and Related Financing Activities	<u>(2,002,650)</u>	<u>(2,061,100)</u>
<b>Cash Flows From Investing Activities</b>		
Interest Income	<u>3,126</u>	<u>7,273</u>
<b>Net Decrease in Cash and Cash Equivalents</b>	<u>(205,580)</u>	<u>(652,229)</u>
Cash and Cash Equivalents, Beginning of Year	<u>1,524,480</u>	<u>2,176,709</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 1,318,900</u>	<u>\$ 1,524,480</u>



**Otsego Manor**  
**(An Enterprise Fund of Otsego County, New York)**  
**Statements of Cash Flows**  
**For the Years Ended December 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>Reconciliation of Loss From Operations to Net Cash Provided (Used) by Operating Activities</b>		
Loss from operations	\$ (9,427,269)	\$ (8,331,098)
Adjustments to reconcile net loss from operations to net cash provided (used) by operating activities		
Depreciation	1,300,042	1,313,128
Bad debt expense	261,755	268,283
(Increase) decrease in assets		
Accounts receivable	(921,731)	314,222
Due from third party payors	(2,250,597)	2,671,546
Supplies inventory	6,853	6,709
Prepaid expenses	(53,347)	(43,368)
Increase (decrease) in liabilities		
Accounts payable - trade	(154,951)	49,275
Due to third party payors	(147,066)	(142,191)
Accrued expenses and workers compensation	(444,919)	621,841
Accrued other post-employment benefits	5,675,000	3,808,943
Net Cash Provided (Used) by Operating Activities	<u>\$ (6,156,230)</u>	<u>\$ 537,290</u>

**Supplemental Disclosure of Non-Cash Transactions:**

Contribution from County	<u>\$ -</u>	<u>\$ 6,120,929</u>
Bond premium/amortization	<u>\$ (92,484)</u>	<u>\$ (92,484)</u>
Bond issuance costs/amortization	<u>\$ 9,493</u>	<u>\$ 9,493</u>
Deferred amount of refunding bond payable/amortization	<u>\$ 58,579</u>	<u>\$ 58,579</u>

**Otsego Manor**  
**(An Enterprise Fund of Otsego County, New York)**  
**Notes to Financial Statements**  
**December 31, 2012 and 2011**

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**1. NATURE OF OPERATIONS**

The County of Otsego, New York (the County) completed construction in November 2004 on a new, state licensed 176-bed Residential Health Care Facility (the Facility) to care for the elderly. Revenue for services at the Facility is provided by Medicaid, Medicare, Hospice, Veteran and from private fees. A majority of the Facility's revenues were funded by the Medicaid program.

The operations related to the County's Long Term Home Health Care Program are also accounted for in the Enterprise Fund and are being managed by Otsego Manor.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Basis of Presentation - Fund Accounting***

The accounts of the County are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net position, revenues, and expenses.

Otsego Manor is an enterprise fund of the County, and is accounted for separately by the County Treasurer. Otsego Manor's operations are accounted for in a manner similar to a private business enterprise, in that costs (expenses including depreciation) of providing services are financed primarily through user charges.

***Cash and Cash Equivalents and Investments***

The County's investment policies are governed by state statutes. In addition, the County has its own written investment policy. County monies must be deposited in FDIC-insured commercial banks or trust companies located within New York State. The County Treasurer is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury and U.S. Agencies, repurchase agreements, and obligations of New York State or its localities.

Collateral (security) is required for demand and time deposits and certificates of deposit 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.

Custodial credit risk is the risk that in the event of bank failure, the County's deposits may not be returned to it. While the County does not have a specific policy for custodial credit risk, New York State statutes govern the Counties investment policies. Governmental Accounting Standards Board Statement No. 40 directs that deposits be disclosed as exposed to custodial credit risk if they are not covered by depository insurance, and the deposits are either uncollateralized or collateralized with securities held by the pledging financial institution's trust department or agent, but not in the County's name.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Cash and Cash Equivalents and Investments***

Otsego Manor's cash balances at December 31, 2012 were insured by federal depository insurance or collateralized with securities held by the County's agent in the County's name.

For financial statement purposes, Otsego Manor considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

***Restricted Assets – Cash and Cash Equivalents***

Restricted cash and cash equivalents represents funds, principally unspent debt proceeds, held for the repayment of principal and interest related to the financing of the skilled nursing facility.

***Accounts Receivable, Net***

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status on individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. The allowance for doubtful accounts was \$225,844 and \$396,599 at December 31, 2012 and 2011, respectively. Bad debt expense for the years ended December 31, 2012 and 2011 was \$261,755 and \$268,283, respectively.

***Due To/From Third Party Payors***

Due to/from third party payors represents amounts due to/from Medicaid relating to supplemental Medicaid upper payment limits (Note 7), third party audits and other variables that determine third party payor rates such as patient days, case mixes and operating costs.

***Supplies Inventory***

Supplies inventory is stated at the lower of cost or market, principally on the first-in, first-out basis, and consists of medical and dietary supplies.

***Capital Assets***

The Facility capitalizes individual property, plant and equipment items greater than \$500 with a useful life of two years or more. Lesser amounts are expensed. Capital assets are stated at cost less accumulated depreciation. Expenditures for additions, renewals and betterments are capitalized; expenditures for maintenance and repairs are charged to expenses as incurred. Upon retirement or disposal of assets, the cost and accumulated depreciation or amortization is eliminated from the accounts and the resulting gain or loss is included in income.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Capital Assets***

Depreciation is computed using the straight-line method over the estimated useful lives of the assets stated below:

	<u>Years</u>
Building	25
Major moveable equipment	5-20
Fixed equipment	5-20

***Compensated Absences***

A total of 40 days vacation and 165 days sick leave may be accumulated by each employee depending on length of employment. At the employee's discretion, they can be reimbursed one-half of their annual sick leave if seven sick days are not used in the calendar year.

Otsego Manor has accrued a liability for vacation pay and reimbursable sick leave, which has been earned, but not taken by the employees. The liability for compensated absences is calculated at rates in effect as of the statements of net position dates. The liability at December 31, 2012 and 2011 was \$482,898 and \$461,156, respectively, and is recorded on the accrued expenses line of the statements of net position.

***Due to County***

Due to County represents advances not reimbursed by the Facility in the amount of \$4,970,972 and \$-0- for the years ended December 31, 2012 and 2011, respectively. The County forgave the Due to County liability during the year ended December 31, 2011 in the amount of \$6,120,929. Total contributions from the County including the forgiveness were \$2,979,202 and \$8,197,451 for the years ended December 31, 2012 and 2011, respectively.

***Net Position (Deficit)***

Net position (deficit) is classified into two components:

- Net investment in capital assets – consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of any bonds and capital leases or other borrowings that are attributable to the acquisitions, construction or improvements of those assets. Furthermore, it is increased by the restricted cash and cash equivalents which is held by the Facility for the repayment of principal and interest relating to financing.
- Unrestricted net position – all other net positions that do not meet the definition of net investment in capital assets.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Net Patient Service Revenues*

Patient service revenues are initially recorded at standard rates established by the Facility. Because certain payers are billed at reduced rates under various contractual arrangements, such reductions are recorded as contractual adjustments and are included in net patient service revenue in the financial statements. All revenues and allowances are recorded on the accrual basis of accounting.

Approximately 70 percent of net patient service revenue is received under the Medicaid program. Payments to the Facility under the Medicaid system are made utilizing the Resource Utilization Groups (RUGS) methodology. Under RUGS, Medicaid payments are made at defined rates based upon, among other considerations, the intensity of services rendered to patients. The defined rate is adjusted periodically.

Revenue from other residents is based upon standard rates established by the Facility or through reimbursement of actual cost by the Medicare program.

Revenues recorded by the Facility are subject to audit and adjustment by the third party payors. Any such adjustments are recorded in the year of settlement and are included in the financial statements as an adjustment to net patient service revenues.

*Intra-County Charges*

The cost of supporting services from central service cost centers has been allocated to Otsego Manor based on a countywide Central Services Cost Allocation Plan.

*Employee Benefits*

Benefits to County employees include:

- a) Pension - The cost is based on salaries paid in the respective years. The amount of contribution per employee depends upon their employment date.
- b) Medical insurance.
- c) Social security taxes.
- d) Unemployment insurance.
- e) Other post-employment benefits (Note 9)

*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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Otsego Manor**  
**(An Enterprise Fund of Otsego County, New York)**  
**Notes to Financial Statements**  
**December 31, 2012 and 2011**

**3. ACCOUNTS RECEIVABLE, NET**

Otsego Manor grants credit without collateral to its patients, most of whom are local residents and are insured under third-party agreements. The significant concentration of accounts receivable for services to patients included the following at December 31:

	<u>2012</u>	<u>2011</u>
Patient Care Receivables:		
Private	\$ 444,032	\$ 226,576
Medicaid	1,902,345	1,485,589
Medicare	958,779	988,174
Hospice	207,139	305,857
Veterans	<u>28,554</u>	<u>45,432</u>
Total	3,540,849	3,051,628
Less allowance for doubtful accounts	<u>225,844</u>	<u>396,599</u>
Net Accounts Receivable	<u>\$ 3,315,005</u>	<u>\$ 2,655,029</u>

**4. PATIENTS' FUNDS**

The Facility, as trustee, holds patients' funds in an escrow account. These funds are expended at the direction of the patients for personal items.

**5. BONDS PAYABLE**

The County of Otsego, New York originally issued Public Improvement Serial Bonds for the construction and equipment of the new skilled nursing facility. The bonds were issued October 15, 2002 and were set to mature on November 15, 2003-2027. Interest on the bonds was payable semi-annually, on November 15 and May 15 of each year until maturity. Interest on the bonds ranged from 3.5% to 4.5%.

In November 2010, the County of Otsego, New York negotiated the private sale of \$19,980,000 Public Improvement Refunding Serial Bonds to provide the Facility with sufficient proceeds to refinance the outstanding \$20,395,000 principal amount of its original Public Improvement Serial Bonds.

**Otsego Manor**  
**(An Enterprise Fund of Otsego County, New York)**  
**Notes to Financial Statements**  
**December 31, 2012 and 2011**

**5. BONDS PAYABLE**

The Public Improvement Refunding Serial Bonds are detailed as follows as of December 31:

<u>2012</u>				
<u>Description</u>	<u>Date Issued</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Bond Amount</u>
Public Improvement Refunding Serial Bonds	Nov. 2010	2-5%	Nov. 2027	\$ 17,580,000
Add unamortized premium				1,387,261
Less unamortized deferred amount on refunding				(878,687)
Less unamortized bond issue costs				<u>(142,398)</u>
Net Refunding Bonds				17,946,176
Less current portion of bonds payable and net refunding bonds				<u>1,199,412</u>
Long-term Portion of Bonds Payable and Net Refunding Bonds				<u>\$ 16,746,764</u>

<u>2011</u>				
<u>Description</u>	<u>Date Issued</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Bond Amount</u>
Public Improvement Refunding Serial Bonds	Nov. 2010	2-5%	Nov. 2027	\$ 18,765,000
Add unamortized premium				1,479,745
Less unamortized deferred amount on refunding				(937,266)
Less unamortized bond issue costs				<u>(151,891)</u>
Net Refunding Bonds				19,155,588
Less current portion of bonds payable and net refunding bonds				<u>1,209,412</u>
Long-term Portion of Bonds Payable and Net Refunding Bonds				<u>\$ 17,946,176</u>

The County has calculated the aggregate present value of the debt service savings to be \$830,570 as a result of the refunding.

A summary of bonds payable at December 31 is as follows:

	<u>2012</u>	<u>2011</u>
Total Bonds payable	\$ 17,580,000	\$ 18,765,000
Less: Current portion	<u>1,175,000</u>	<u>1,185,000</u>
Bonds Payable, excluding current portion	<u>\$ 16,405,000</u>	<u>\$ 17,580,000</u>

**Otsego Manor**  
**(An Enterprise Fund of Otsego County, New York)**  
**Notes to Financial Statements**  
**December 31, 2012 and 2011**

**5. BONDS PAYABLE**

The bonds principal and interest requirements are as follows:

	<u>Principal</u>	<u>Interest</u>
2013	\$ 1,175,000	\$ 716,438
2014	1,165,000	681,188
2015	1,170,000	634,588
2016	1,170,000	587,788
2017	1,170,000	540,988
2018-2022	5,935,000	1,879,837
2023-2027	<u>5,795,000</u>	<u>692,200</u>
	<u>\$ 17,580,000</u>	<u>\$ 5,733,027</u>

Amortization of the bond premium, deferred amount on refunding and bond issue costs in the amount of \$24,412 are recorded as a reduction of interest expense for the years ended December 31, 2012 and 2011.

**6. CAPITAL LEASES**

The following is a schedule, by year, of future minimum lease payments under leases, which are classified as capital leases, together with the present value of the net minimum lease payments as of December 31, 2012.

2013	<u>\$ 9,399</u>
Total minimum lease payments	9,399
Less amounts representing interest	<u>446</u>
Present Value of Net Minimum Lease Payments	8,953
Current maturities of capital lease obligations	<u>8,953</u>
Capital Lease Obligations, Net of Current Maturities	<u>-</u>

Leased property capitalized at December 31, 2012 is summarized as follows:

Equipment	\$ 46,995
Less accumulated depreciation	<u>28,980</u>
Net Leased Property	<u>\$ 18,015</u>

**7. SUPPLEMENTAL MEDICAID UPPER PAYMENT LIMIT**

The 2012/2013 state fiscal year budget approved the supplemental Medicaid Upper Payment limits to non-state operated public nursing facilities, however, a dollar threshold has yet to be determined. As a result, the Facility estimated the amount to be collected based on prior year actual costs and Medicaid days. The Facility recorded a receivable of \$1,409,261 which is included on the due from third party payor line in the statement of net position as of December 31, 2012. \$704,630 of this receivable was recorded as a contribution from the County.



**Otsego Manor**  
**(An Enterprise Fund of Otsego County, New York)**  
**Notes to Financial Statements**  
**December 31, 2012 and 2011**

**7. SUPPLEMENTAL MEDICAID UPPER PAYMENT LIMIT**

As of December 31, 2011, the 2011/2012 state fiscal year budget approved the supplemental Medicaid Upper Payment limits to non-state operated public nursing facilities, however, a dollar threshold had yet to be determined. In December 2012, the 2011/2012 supplemental Medicaid Upper Payment approved was \$172.5 million of which \$2,348,768 was due to the Facility. At December 31, 2012 and 2011, a receivable was recorded in the amount of \$1,950,000 which is included on the due from third party payor line in the statements of net position. \$975,000 of this receivable was recorded as a contribution from the County at December 31, 2011. At December 31, 2012, the Facility recorded the remaining \$398,768 as a receivable and is included on the due from third party payor line in the statement of net position. \$199,384 of this receivable was recorded as a contribution from the County.

**8. PENSION**

Otsego Manor participates in the New York State and Local Employees' Retirement System (the System). This is a cost-sharing multiple employer retirement system which provides retirement 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 system. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the System and for the custody and control of 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 Retirement Systems, 110 State Street, Albany, NY 12244.

The System is noncontributory except for employees who joined the New York State and Local Employees' Retirement System after July 27, 1976 and have less than ten years of credited service. These members contribute 3% of their salary. Prior to October 2000, all Otsego Manor employees who joined after July 27, 1976 were required to contribute 3%, but the laws were modified to forgive the 3% contribution for those with 10 or more years of service time. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of the payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund.

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

2012	\$ 1,269,712
2011	1,077,472
2010	861,178

**8. PENSION**

The Facility's contributions made to the System were equal to 100% of the contributions required for each of the years. The System's pension relief legislation (New York State Chapter 620, Laws of 2004) was enacted to provide employers with relief in payment of their annual ERS cost. This legislation provides several options to employers, including delaying their payments from December 15 to February 6 of the ensuing year, payment of a portion of their cost over an amortized period, and the means to issue serial bonds to provide funding for the employer's liability. In addition, the employer was given the option of making full payment on December 15 at a discounted amount. The Facility exercised its option of making payment on December 15, 2012 and 2011, equal to 100% of the contributions required for the years.

The New York State Legislature has authorized local governments to make available retirement incentive programs. Otsego Manor participates in early retirement programs when they are offered and has elected to pay the related cost over a five year amortization period, which includes interest at rates ranging from 8% to 8.5%. There is no remaining liability for these incentive programs at December 31, 2012 and 2011.

**9. OTHER POST-EMPLOYMENT BENEFITS**

In 2008, Otsego Manor adopted Government Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. In the past, the County reported the cost of retiree health care on a "pay-as-you-go-basis".

The County of Otsego Healthcare Plan (the Plan) is a single-employer defined benefit healthcare plan administered by the County of Otsego. The Plan provides medical, vision and reimbursement of Medicare Part B benefits to eligible retirees and their spouses. Otsego Manor assigns the authority to establish and amend benefit provisions to the County Legislature. The Plan does not issue a stand alone financial report.

The contribution requirements of Plan members and Otsego Manor are established and may be amended by the County Legislature. The County Legislature has negotiated several collective bargaining agreements, which include obligations of Plan members and Otsego Manor. The required contribution is based on the projected pay-as-you-go financing requirements. For the years ended December 31, 2012 and 2011, the Facility and its retired members contributed \$1,021,000 and \$791,057, respectively, to the Plan for current premiums. Plan members receiving benefits may be required to contribute to the Plan depending on their collective bargaining unit.

Otsego Manor's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (UAAL) over a period not to exceed thirty years.

**Otsego Manor**  
**(An Enterprise Fund of Otsego County, New York)**  
**Notes to Financial Statements**  
**December 31, 2012 and 2011**

**9. OTHER POST-EMPLOYMENT BENEFIT**

The following table shows the components of Otsego Manor's annual OPEB cost for the year, the amount actually contributed to the plan and changes in Otsego Manor's net OPEB obligation to the County Healthcare Plan.

	<u>2012</u>	<u>2011</u>
Normal Cost	\$ 2,921,000	\$ 2,075,000
Amortization of UAAL	3,517,000	2,327,000
Total Annual Required Contribution	<u>6,438,000</u>	<u>4,402,000</u>
Interest on Net OPEB obligation	258,000	198,000
Annual OPEB Cost (Expense)	<u>6,696,000</u>	<u>4,600,000</u>
Contributions Made	<u>(1,021,000)</u>	<u>(791,057)</u>
Increase in Net OPEB Obligation	5,675,000	3,808,943
Net OPEB Obligation – Beginning of Year	<u>11,143,029</u>	<u>7,334,086</u>
Net OPEB Obligation – End of Year	<u>\$ 16,818,029</u>	<u>\$ 11,143,029</u>

Otsego Manor's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan and the net OPEB obligation for December 31, 2012 and 2011 are as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	Percentage of Annual	
		<u>OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
12/31/2012	6,696,000	15.25%	16,818,029
12/31/2011	4,600,000	17.20%	11,143,029

The increase in net OPEB obligation of \$5,675,000 and \$3,808,943 for the years ended December 31, 2012 and 2011, respectively, has been recorded as an expense in the statements of revenues, expenses and changes in net position (deficit). The Net OPEB obligations of \$16,818,029 and \$11,143,029 have been reported as accrued expenses on the statements of net position as of December 31, 2012 and 2011, respectively.

As of December 31, 2012 and 2011, the Plan was not funded. The actuarial accrued liability for benefits was \$38,639,000 and \$29,790,000 for the years ended December 31, 2012 and 2011; there are no assets legally segregated for the Plan. The covered payroll (annual payroll of active employees covered by the Plan) was \$5,046,226 and \$5,171,399 and the ratio of Unfunded Actuarial Accrued Liability (UAAL) to the covered payroll was 766% and 576% for the years ended December 31, 2012 and 2011, respectively.

The actuarial valuation of an ongoing plan involves 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.

**9. OTHER POST-EMPLOYMENT BENEFIT**

The schedule of funding progress, presented as required supplementary information on page 21 of the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs 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 the short-term volatility in actuarial accrued liabilities and the actual value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2012 and 2011 actuarial valuations, the projected unit credit (PUC) actuarial cost method was used. Under the PUC method, the projected benefit for each individual is treated as if it is earned ratably over that individual's period of employment prior to becoming eligible to retire with the maximum possible benefit earned (ie., from the date of hire to the date of full eligibility). For the years ended December 31, 2012 and 2011, the actuarial assumptions included an initial annual healthcare cost trend rate of 8% and 7.67%, respectively, reduced by 0.33% annually thereafter to an ultimate rate of 5%. The assumptions include a discount rate and rate of return on assets of 4% and 4.5% as of December 31, 2012 and 2011, respectively. Also, the assumptions include a 5% rate for the Medicare Part B trend.

**10. RISK MANAGEMENT**

**Business and Liability Insurances**

Otsego Manor is exposed to various risks of loss related to torts; theft of, damages to and destruction of assets; errors and omissions; injuries to employees and natural disasters. Otsego Manor either directly or through the County has purchased commercial insurance for all risk above deductible amounts except for certain health benefits insurance and workers' compensation insurance. Settled claims have not exceeded the commercial coverages by any material amounts during the years ended December 31, 2012 and 2011.

**Self-insured Medical Claim Program**

Otsego Manor is self-insured through the County for certain medical benefits on a cost-reimbursement basis. Under the program, Otsego Manor is responsible for the cost of claims. All known claims and an estimate of incurred, but unreported, claims at December 31, 2012 and 2011 have been recorded as accrued expenses in the statements of net position.

**10. RISK MANAGEMENT**

**Self-Insurance Plan for Workers' Compensation**

The County uses the Otsego County Mutual Self-Insurance Plan (Plan), an internal service fund, to account for the accumulation of resources for payment of compensation, assessments and other obligations under the Workers' Compensation Law, Article 5, as assessed by the State of New York Workers' Compensation Board. The Plan was organized to provide a program of workers' compensation benefits coverage for its member organizations. The general objectives of the program are to formulate, develop and administer, on behalf of the members, a program of insurance; to obtain lower costs for that coverage; and to develop a comprehensive loss control program.

Annual assessments are established based on an estimate of the value of claims to be paid in the year. If the assets of the Plan were to be exhausted, members would be responsible for the Plan's liabilities. The Plan establishes claims liabilities based on the present value of the estimated ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported.

The length of time for which such costs must be estimated varies depending on the coverage involved. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claims frequency, and other economic and social factors.

Otsego Manor participates in the Plan and is billed an assessment for its share of the Plan's estimated costs for the year. Otsego Manor's share of the liability to settle all unpaid claims and claim adjustment expenses, net of the reserves of the Plan, is accounted for on the statements of net position as accrued workers' compensation and is reflected as an expense of the current period in the statements of revenues, expenses and changes in net position (deficit).

**11. COMMITMENTS AND CONTINGENCIES**

Otsego Manor has been named as a defendant in certain claims filed by patients. Otsego Manor has filed complete responses to the claims and will continue to vigorously defend its positions in connection with the allegations. At this time, the outcome of these claims cannot be predicted although the files are considered closed by counsel.

**Otsego Manor**  
**(An Enterprise Fund of Otsego County, New York)**  
**Notes to Financial Statements**  
**December 31, 2012 and 2011**

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**12. RELATED PARTY TRANSACTIONS**

A summary of Otsego Manor's transactions with the County for the years ended December 31, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Expenses Incurred:		
Intra-County charges	<u>\$ 517,676</u>	<u>\$ 438,542</u>
Plant and operating maintenance charges	<u>\$ 563,355</u>	<u>\$ 578,891</u>
Contributions from County	<u>\$ 2,979,202</u>	<u>\$ 8,197,451</u>
Due to County	<u>\$ 4,970,972</u>	<u>\$ -</u>

**Otsego Manor**  
**(An Enterprise Fund of Otsego County, New York)**  
**Supplemental Information**  
**Schedule of Funding Progress**  
**For the Year Ended December 31, 2012**

Actuarial Valuation Date	Fiscal Year End	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
01/01/2008	12/31/2008	\$ -	\$ 23,625,000	\$ 23,625,000	0%	\$ 5,136,357	460%
01/01/2008	12/31/2009	\$ -	\$ 23,625,000	\$ 23,625,000	0%	\$ 6,163,552	383%
01/01/2010	12/31/2010	\$ -	\$ 29,790,000	\$ 29,790,000	0%	\$ 5,634,858	529%
01/01/2010	12/31/2011	\$ -	\$ 29,790,000	\$ 29,790,000	0%	\$ 5,171,399	576%
01/01/2012	12/31/2012	\$ -	\$ 38,639,000	\$ 38,639,000	0%	\$ 5,046,226	766%



**BRYANS & GRAMUGLIA**  
CPAs, LLC

**Independent Auditor's 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***

To the Board of Representatives  
of Otsego County, 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 financial statements of Otsego Manor (an Enterprise Fund of Otsego County, New York), which comprise the statement of net position as of December 31, 2012, and the related statements of revenues, expenses and changes in net position (deficit), and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 14, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Otsego Manor'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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of Otsego Manor's internal control. Accordingly, we do not express an opinion on the effectiveness of the Facility'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 Facility'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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control 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 Otsego Manor's financial statements are free from 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 Otsego Manor's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Otsego Manor's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Bryans & Gramuglia CPAs, LLC*

Albany, New York

August 14, 2013