Erie County Medical Center Corporation
(A Component Unit of the County of Erie)

Financial Report
December 31, 2016

Contents

RSM

RSM US LLP

Independent Auditor's Report

To the Board of Directors
Erie County Medical Center Corporation
Buffalo, New York

Report on the Financial Statements
We have audited the accompanying financial statements of the business-type activities and the discretely presented component units of Erie County Medical Center Corporation (the “Corporation”), a component unit of the County of Erie, as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Corporation’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 opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of ECMC Foundation, Inc., the Grider Initiative, Inc., and Research for Health in Erie County, Inc. were not audited in accordance with *Government Auditing Standards*.

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

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

Opinions
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component units of Erie County Medical Center Corporation as of December 31, 2016 and 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management’s discussion and analysis on pages 3-10 as well as the pension related data on pages 42-44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our reports dated March 22, 2017 and March 28, 2016 on our consideration of the Corporation’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 these reports 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. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation’s internal control over financial reporting and compliance.

RSM US LLP

March 22, 2017

Management's Discussion and Analysis

The Corporation is considered a component unit of the County of Erie, New York with its core operating mission being the delivery of quality health care services to all persons in the greater western region of New York State, including persons in need who lack the ability to pay. The Corporation fully embraces and is proud to serve as the safety net provider for this region.

To assist the reader in understanding the operations of the Corporation, this required annual report has been organized into three parts that should be read together:

- Management's discussion and analysis
- Financial statements and notes to the financial statements and
- Supplemental schedules

Introduction

Management has prepared this Discussion and Analysis providing an overview of the financial position and results of activities of Erie County Medical Center Corporation (the Corporation or ECMCC) as of and for the year ended December 31, 2016. The purpose of the Discussion and Analysis is to provide the reader with objective data to evaluate the Corporation. This narrative and the financial statements and footnotes, are the responsibility of the Corporation's management.

The financial statements (the statements of net position, the statements of revenues, expenses and changes in net position and the statements of cash flows) present financial information in a form similar to that used by other government hospitals and have been prepared in accordance with accounting principles generally accepted in the United States of America.

The accompanying financial statements of the Corporation include financial data of the Corporation's component units (i) ECMC Foundation, Inc. (formerly, ECMC Lifeline Foundation, Inc.) (ii) The Grider Initiative, Inc. and (iii) Research For Health in Erie County, Inc., however, Management's Discussion and Analysis focuses on the Corporation.

Operations Analysis

As a result of a focus on continuously improving the quality of the care ECMCC delivers and each patient's experience, the ongoing collaborative efforts with physicians, the investment in building and maintaining its culture, the execution of its strategic plan and the investments made over the past five years, the Corporation completed calendar year 2016 providing a record level of services to Western New York residents and, given its unique services, to many others beyond this region. The Corporation is sustaining its role of being the provider of choice for patients, physicians and its own staff. Significant volumes of patient encounters (not expressed in thousands) are as follows:

	2011	2012	2013	2014	2015	2016	% increase 2011 - 2016
Inpatients	15,238	16,091	16,316	17,789	18,378	18,839	23.6%
Surgeries	12,442	12,712	12,714	13,360	14,364	14,552	17.0%
Emergency	61,418	63,930	64,698	66,418	67,296	69,290	12.8%
Outpatients	250,707	252,524	253,781	295,676	305,737	316,691	26.3%
Dialysis	12,216	19,926	21,350	22,224	24,617	27,291	123.4%

The favorable growth reflects the trust that the Western New York community, our physicians and our employees placed in ECMCC and has translated into favorable financial results. Notable achievements in 2016 include:

- Recruitment of physicians to bariatric surgery, orthopedic surgery to, cardiology, neurosurgery, and hospitalist medicine.
- Continuation of a five (5) year trend in annual improvements in HCAHPS (Hospital Consumer Assessment of Healthcare Providers and Systems) scores.
- The Joint Commission accreditation through September 2019 as a result of a successful survey.
- National Committee for Quality Assurance (NCQA) recognition for Level 3 patient centered medical home.
- Women's Choice Award as Best Hospital for Patient Safety
- Employee turnover rate reduced by 50% from 12.0% to 6.0%

In addition to the favorable financial performance of the Corporation, the ECMC Foundation, Inc. began a capital campaign to raise funds for a new Level 1 Trauma Center and Emergency Department and established record levels of attendance at signature events including: The Springfest Gala, October breast cancer awareness month, its annual golf tournament and other events. Of particular note is the growth of the Corporation's employees participating in the Foundation's annual fund drive from 336 in 2015 to 1,109 in 2016, a 230% increase in a single year.

(Dollars in Thousands)

Financial Metric Analysis

The Corporation's total net position decreased $1,387 in 2016 and increased $3,342 in 2015 as a result of key operating activities discussed above leading to favorable results from operations and net investment earnings as further discussed below.

Comparative financial ratios for the Corporation as well as blended benchmark median values for 2016 (most recent available) based on the average of published and publicly available data for Urban Hospitals, Teaching Hospitals and Government Hospitals as well as the average of NYS Public Benefit Corporation (PBC) hospitals are presented in the following table. The financial statements used for the calculation of the following ratios, where appropriate, have been reclassified to conform to the presentation used in the development of the benchmarks, consistent with GAAP for entities not subject to GASB standards.

	ECMCC			Blended Benchmark	PBC Average
	2016	2015	2014	2016	2016
Operating margin	0.3%	0.1%	0.2%	2.0%	-5.8%
Operating cash flow margin	6.3%	6.7%	7.5%	10.6%	0.9%
Debt to total capitalization	63.5%	61.9%	61.8%	26.1%	296.8%
Debt service coverage	2.1	2.5	3.0	4.2	0.8
Days cash on hand	74.7	70.8	75.0	120.8	45.4
Days in accounts receivable	50.3	53.0	44.0	46.8	41.5
Average age of plant	11.8	12.8	10.0	11.5	16.0

The financial ratios reflect improved results of operations and generally favorable performance compared to both the blended benchmark and other health care NYS Public Benefit Corporations. The decrease in net position in 2016 is the net result of an increase from operations of $1,969 that was offset by a decrease associated with the transfer of certain assets to Erie County of $3,356.

Summary Financial Statements with Analysis

Management is providing the following summary financial statements and variance analysis for certain financial statement lines where it believes the readers understanding of the financial statements is enhanced.

Statements of Net Position

Net position is categorized as follows:

Net investment in capital assets: Consists of capital assets, net of accumulated depreciation and reduced by outstanding debt and deferred inflows and outflows of resources that are attributable to the acquisition, construction or improvement of those assets.

Restricted: Result when constraints placed on the use of the net position are either externally imposed by creditors, grantors, contributors, or imposed by law through constitutional provisions or enabling legislation.

(Dollars in Thousands)

Statements of Net Position (Continued)

Unrestricted: Represents the resources derived primarily from services rendered to patients and other operating revenues and not meeting the previously listed criteria. These resources are used for transactions related to the general healthcare and academic operations of the Corporation, and may be used at the discretion of the Board of Directors to meet current expenses for any purpose.

Condensed Statements of Net Position are as follows:

	2016	2015	2016-2015 $ Change	2016-2015 % Change
Assets				
Current assets, excluding assets whose use is limited	$ 187,569	$ 173,023	$ 14,546	8.4
Assets whose use is limited	106,297	124,922	(18,625)	(14.9)
Capital assets, net	259,577	279,812	(20,235)	(7.2)
Other assets	34,891	36,467	(1,576)	(4.3)
Total assets	588,334	614,224	(25,890)	(4.2)
Deferred outflows of resources	126,808	6,184	120,624	195.1
Total assets and deferred outflows	$ 715,142	$ 620,408	$ 94,734	15.3
Liabilities				
Current liabilities	$ 111,243	$ 130,424	$ (19,181)	(14.7)
Noncurrent liabilities	464,793	365,972	98,821	27.0
Total liabilities	576,036	496,396	79,640	16.0
Deferred inflows of resources	20,603	4,122	16,481	400.0
Net Position				
Net investment in capital assets	94,747	107,223	(12,476)	(11.6)
Restricted	18,411	32,258	(13,847)	(42.9)
Unrestricted	5,345	(19,591)	24,936	127.3
Total net position	118,503	119,890	(1,387)	(1.2)
Total liabilities, deferred inflows and net position	$ 715,142	$ 620,408	$ 94,734	15.3

Overall, total assets and deferred outflows of resources increased $94,734 from 2015 to 2016, $120,811 of which is associated with deferred outflows of resources relating to the New York State and Local Retirement System (NYSLRS) Pension Plan.

Statements of Net Position (Continued)

The following variances in total assets are noteworthy:

Total current assets, excluding the current portion of assets whose use is limited, increased by $14,546 due to the following:

- Cash, cash equivalents and investments decreased by $5,810 largely due to timing of a $25,000 contribution to the NYSLRS retirement system to take advantage of an early payment discount as well as the timing of accounts payable payments.
- Patient accounts receivable, net, decreased by $461 as a result of improvements in revenue cycle performance. Increases in volumes noted earlier contributed to a 4.7% growth in average daily revenue which was offset by a reduction in days revenue in receivable of 2.7 days or 5.1%.
- Other receivables increased by $12,082, of which $20,040 is associated with the award of the Care Restructuring Enhancement Pilot (CREPS) Program grant offset by decreases in Medicaid DSH (IGT) and Upper Payment Limit (UPL) program receivables.
- Supplies and prepaid expenses increased by $8,735, of which $8,175 is due to a new note receivable from a related party.

- Assets whose use is limited decreased by $18,625, $8,604 of which is due to the timing of Delivery System Reform Incentive Payment (DSRIP) grant funds expended and transfers to operating cash to support the retirement system contribution noted above.
- Capital assets, net, decreased by $20,235 due to acquisitions of new capital assets being less than depreciation expense. Significant investments in capital assets are summarized in a following section.
- Other assets decreased by $1,576 largely as a result of transactions with Erie County.

Overall, total liabilities increased $79,640 from 2015 to 2016. Net position had a decrease of $1,387 (1.2%) in 2016 from 2015.

The following variances in total liabilities are noteworthy:

Total current liabilities decreased by $19,181 due to the following:

- Accounts payable and accrued salaries and benefits decreased by $11,821 due to timing of payments as noted above.
- Other accrued liabilities decreased by $9,295 as a result of a payment made to Erie County of $7,257.
- Unearned revenue decreased by $8,604 due to receipt of DSRIP grant funds expended.
- Estimated third-party payer settlements increased by $2,347 as a result of anticipated cost report settlements.

- An increase in the net pension liability was recognized in 2016 in the amount of $91,894 due to changes in actuarial assumptions made by and investment performance of the NYSLRS further described in Note 9.
- Current and long-term portions of self-insured obligations increased by $18,076 due to changes in actuarial estimates for post-employment health insurance and obligations for self-insured retentions for malpractice and workers' compensation claims greater than payments made on those claims.

(Dollars in Thousands)

Statements of Revenues, Expenses, and Changes in Net Position

Condensed Statements of Revenues, Expenses and Changes in Net Position are as follows:

			2016-2015	
	2016	2015	$ Change	% Change
Net patient services revenue	$ 489,931	$ 467,748	$ 22,183	4.7
Disproportionate share revenue (DSH)	71,500	59,237	12,263	20.7
Delivery System Reform Incentive Payment (DSRIP) grants	23,966	4,499	19,467	432.7
Other operating revenue	31,149	21,590	9,559	44.3
Total operating revenues	616,546	553,074	63,472	11.5
Operating expenses:				
Payroll, employee benefits and contract labor	314,761	297,397	17,364	5.8
Professional fees	74,380	70,260	4,120	5.9
Purchased services	42,680	43,959	(1,279)	(2.9)
Supplies	78,363	74,063	4,300	5.8
Other operating expenses	24,430	26,250	(1,820)	(6.9)
Delivery System Reform Incentive Payment (DSRIP) grant expenses	23,062	4,059	19,003	468.2
Depreciation and amortization	28,673	27,929	744	2.7
Total operating expenses	586,349	543,917	42,432	7.8
Operating income before pension expense, amortization component	30,197	9,157	21,040	229.8
Pension expense, amortization component	20,040	-	20,040	100.0
Operating income	10,157	9,157	1,000	10.9
Total net non-operating expenses	8,188	6,390	1,798	28.1
Net income	1,969	2,767	(798)	(28.8)
Transfer and capital contributions	(3,356)	575	(3,931)	(683.7)
Change in net position	(1,387)	3,342	(4,729)	(141.5)
Net position, beginning of year*	119,890	116,548	3,342	2.9
Net position, end of year	$ 118,503	$ 119,890	$ (1,387)	(1.2)

* - Net position was restated at December 31, 2014 by (2,483)
due to the adoption of GASB Nos. 68 and 71

Statements of Revenues, Expenses, and Changes in Net Position (Continued)

Overall, operating revenues increased by $63,472 or 11.5% in 2016 with increases attributable to the following:

- Net patient service revenue increased $22,183, or 4.7% in 2016. Volumes increased for both inpatient and outpatient lines of business. Total discharges increased 2.5% from 18,378 to 18,839. Outpatient visits increased 3.6% from 305,737 to 316,691. ER visits increased 2.9% from 67,296 to 69,290.
- DSH increased by $12,263, or 20.7%, in 2016 principally due to changes in the amount of uncompensated care provided and changes in estimates for Upper Payment Limit (UPL) funding associated with Terrace View.
- DSRIP grant revenue increased by $19,467 or 432.7% as a result of the maturity of DSRIP program operations and achievement of DSRIP goals.
- Other operating revenue increased by $9,559, or 44.3%, in 2016. During 2016, the Corporation was awarded a four year grant for the CREPS Program discussed in a subsequent section. The grant resulted in $20,000 of grant revenue in 2016. This is offset by a decrease in other grant revenue sources, primarily Interim Access Assurance Fund (IAAF) grants.

Operating expenses increased $42,432 or 7.8%, in 2016. Expense increases are attributable to the following:

- Payroll and employee benefit expenses have increased by $17,364 (5.8%) as the net result of increases in staffing levels due to the aforementioned volume increases, increased payroll and other taxes as a result of that growth, wage increases associated with collective bargaining agreements, increased active employee and retiree health insurance expense offset by productivity improvements and reduction in overtime usage. Salaries and employee benefit expense decreased by 2.7% of total operating revenue, from 52.8% in 2015 to 51.1% of total operating revenue in 2016.

- Supply expenses have increased from 15.8% of net patient revenue to 16.0% of net patient revenue due to increases in pharmaceuticals and an increase in surgical volumes.

- DSRIP grant expenses have increased as a result of the operations noted above.

Capital Assets, Net, and Long-Term Debt

At December 31, 2016, the Corporation had capital assets, net of accumulated depreciation, of $259,577 compared to $279,812 at December 31, 2015, representing a decrease of $20,235 or 7.2%.

The Corporation invested $1,524 in the development of a new Level 1 Trauma Center, and Emergency Department, including its enabling projects. Construction of this project is expected to begin mid-2017. In addition, the Corporation invested $1,661 in a new orthopedics center, $357 in its laboratories and made other routine asset replacements.

At December 31, 2016, the Corporation had $173,983 of long-term debt financing related to its capital assets.

Forward Looking Factors

Management has prepared the following forward looking factors to assist the reader in understanding the financial, economic and market factors impacting the Corporation.

Collective Bargaining Agreements

The Corporation operates under three collective bargaining agreements that cover substantially all employees. In March 2013, Corporation employees of the Civil Service Employee Association (CSEA) approved a new 5-year contract. This new agreement includes the creation of a sub-bargaining unit which represents only Corporation employees. The agreement runs through December 31, 2017. Registered Nurses (RNs) are covered under an agreement with the New York State Nurses Association (NYSNA). The current agreement was executed in September 2014 and expires on December 31, 2018. The Corporation's agreement with the American Federation of State, County and Municipal Employees (AFSCME) was in effect through December 31, 2015. The contract is being negotiated in concert with the County of Erie, New York and as of the date of this report, negotiations are ongoing and an agreement has not yet been reached.

Transactions with the County of Erie

The Corporation is a component unit of the County of Erie, New York. The County has ongoing contractual and legal obligations to the Corporation and the Corporation has ongoing contractual and legal obligations to the County.

Health Reform Law

The status of Health Reform including the Health Reform Law has been a matter of a great debate through the 2016 election cycle and continues through the date of this report. President Trump has proposed to repeal and replace what President Obama signed into law known as the Patient Protection and ACA which includes sweeping changes to how health care is provided, and paid for, in the United States. President Obama subsequently signed the Health Care and Education Reconciliation Bill (the Reconciliation Act), which modifies the Affordable Care Act in many respects. Together, the Affordable Care Act and the Reconciliation Act will be referred to as the "Health Reform Law." The Health Reform Law expands health insurance coverage to millions of individuals. The health care industry will continue to be subject to significant new statutory and regulatory requirements, and consequently, structural and operational challenges. In 2012, the U.S. Supreme Court altered certain aspects of the law. Certain other aspects of the law have been delayed through Executive Orders issued by the President of the United States.

Management of the Corporation is continually analyzing the various proposals being promulgated and the Health Reform Law to better understand its effect on current and projected operations, financial performance and financial condition. The Health Reform Law is complex and comprehensive, and includes a myriad of programs, initiatives and changes to existing programs, practices and laws.

Delivery System Reform Incentive Payment (DSRIP)

On April 14, 2014, Gov. Andrew M. Cuomo announced that New York finalized terms and conditions of an agreement with the U.S. government that will allow New York State to reinvest $8 billion in federal savings generated by Medicaid Redesign Team reforms. This program is known as the Delivery System Reform Incentive Payment (DSRIP) Program.

The Corporation was selected as one of the lead entities and has worked with others to form a Performing Provider System (PPS) to achieve the goals established in the waiver. As a result, the Corporation, and the PPS have been awarded a five (5) year grant which began April 1, 2015. Certain revenues and expenses associated with this effort, and the related receivables and payables, have been recognized in the financial statements.

The DSRIP program is designed to stabilize the state's healthcare safety-net system and to re-align the state's delivery system. The overarching goal of the DSRIP program is to help New York and its health care providers achieve the triple aim of improved population health, improved quality care, and controlled costs.

Reducing avoidable hospital admissions and avoidable emergency room visits by 25 percent over the next five years is the DSRIP program's ultimate objective. Secondarily, the DSRIP program is expected to preserve and transform New York's fragile healthcare safety net, ensuring all Medicaid beneficiaries have access to vital services.

Successful execution of DSRIP-funded projects requires community-focused plans where population health and health care costs are addressed by hospitals working with other healthcare organizations such as Federal Qualified Health Centers (FQHCs), physician practices, Health Homes (HHs), and Skilled Nursing Facilities (SNFs). The expectation is to achieve savings by reducing avoidable hospitalizations and Emergency Department visits, requiring hospitals to "restructure themselves," reducing beds, strengthening outpatient and primary-care, and improving alignment with post-acute care settings.

In Western New York, the first step in this process was to form a group of nearly 400 health care partners led by the Corporation and known as Millennium Collaborative Care (MCC). In December 2014, MCC submitted its application for DSRIP program funding to begin the process of reform. Through 2016 the Corporation and MCC have worked diligently to achieve the goals established for the first and second year of the grant which ends on March 31, 2017.

Care Restructuring Enhancement Pilot (CREPS) Program Grant

The Corporation was awarded a grant under the CREPS Program administered by the New York State Department of Health. The total award amount is approximately $97,260 over the period April 1, 2016 to March 31, 2020 in state fiscal year annual distribution amounts of $43,930, $30,010, $13,320, and $10,000, respectively. The Corporation is responsible for achieving certain goals of the CREPS Program in each year in order to qualify for the funding. The Corporation believes it has achieved substantially all of the goals for year 1 of the program and has recognized related revenue in the amount of $20,040.

Contacting the Corporation's Financial Management

This financial report is designed to provide our community and creditors with a general overview of Erie County Medical Center Corporation's finances and to demonstrate the Corporation's accountability for the resources it receives. If you have any questions about this report or need additional financial information, contact the Chief Financial Officer, Erie County Medical Center Corporation, 462 Grider Street, Buffalo, New York 14215.

Erie County Medical Center Corporation
(A Component Unit of the County of Erie)

Statements of Net Position
December 31, 2016 and 2015
(Dollars in Thousands)

	2016	2015
Assets and Deferred Outflows		
Current assets:		
Cash and cash equivalents	$ 15,389	$ 29,682
Investments	19,814	11,331
Assets whose use is limited	23,849	37,179
Patient accounts receivable, net	67,374	67,835
Other receivables	68,982	56,900
Supplies, prepaids and other	16,010	7,275
Total current assets	211,418	210,202
Assets whose use is limited	82,448	87,743
Capital assets, net	259,577	279,812
Other assets, net	34,891	36,467
	376,916	404,022
Total assets	588,334	614,224
Deferred outflows of resources:		
Pensions	125,771	4,960
Other	1,037	1,224
Total deferred outflows of resources	126,808	6,184
Total assets and deferred outflows of resources	$ 715,142	$ 620,408
Liabilities, Deferred Inflows and Net Position		
Current liabilities:		
Current portion of long-term debt	$ 18,811	$ 10,619
Accounts payable	32,001	44,651
Accrued salaries, wages and employee benefits	20,017	19,188
Accrued other liabilities	30,203	39,498
Unearned revenue	5,087	13,691
Estimated third-party payor settlements	5,124	2,777
Total current liabilities	111,243	130,424
Long-term debt, net	155,172	165,883
Net pension liability	116,006	24,112
Self-insured obligations	190,141	172,688
Other	3,474	3,289
Total liabilities	576,036	496,396
Deferred inflows of resources - pensions	20,603	4,122
Net Position		
Net investment in capital assets	94,747	107,223
Restricted:		
Nonexpendable	-	-
Expendable	18,411	32,258
Unrestricted	5,345	(19,591)
Total net position	118,503	119,890
Total liabilities, deferred inflows and net position	$ 715,142	$ 620,408

See notes to the financial statements.

Erie County Medical Center Corporation
(A Component Unit of the County of Erie)

Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2016 and 2015
(Dollars in Thousands)

	2016	2015
Operating revenues:		
Net patient service revenue, net of provision for		
bad debts of $10,590 and $10,565 at 2016 and 2015, respectively	$ 489,931	$ 467,748
Disproportionate share revenue	71,500	59,237
Delivery System Reform Incentive Payment (DSRIP) grants	23,966	4,499
Other operating revenue	31,149	21,590
Total operating revenues	616,546	553,074
Operating expenses:		
Payroll, employee benefits and contract labor	314,761	297,397
Professional fees	74,380	70,260
Purchased services	42,680	43,959
Supplies	78,363	74,063
Other operating expenses	24,430	26,250
Delivery System Reform Incentive Payment (DSRIP) grant expenses	23,062	4,059
Depreciation and amortization	28,673	27,929
Total operating expenses	586,349	543,917
Operating income before pension amortization component	30,197	9,157
Pension expense, amortization component	20,040	-
Operating income	10,157	9,157
Non-operating revenue (expenses):		
Investment income	773	2,931
Contributions to component unit	(955)	(1,081)
Interest expense	(8,006)	(8,240)
Total net non-operating expenses	(8,188)	(6,390)
Net income	1,969	2,767
Transfer to Erie County	(3,356)	-
Capital contributions	-	575
Total change in net position	(1,387)	3,342
Net position – beginning of year	119,890	116,548
Net position – end of year	$ 118,503	$ 119,890

See notes to the financial statements.

Erie County Medical Center Corporation
(A Component Unit of the County of Erie)

Statements of Cash Flows
Years Ended December 31, 2016 and 2015
(Dollars in Thousands)

	2016	2015
Cash flows from operating activities:		
Receipts from patients and third party payors	**$ 480,657**	$ 443,954
Payments to employees for salaries and benefits	**(328,140)**	(274,221)
Payments to vendors for supplies and other	**(263,781)**	(199,252)
Other receipts	**118,011**	92,694
Net cash provided by operating activities	**6,747**	63,175
Cash flows from non-capital financing activities:		
Settlements with Erie County	**(9,258)**	(9,120)
Payments from Erie County	**2,000**	2,000
Transfer to Erie County	**(3,356)**	-
Transfers to component unit	**(955)**	(1,081)
Net cash used in non-capital financing activities	**(11,569)**	(8,201)
Cash flows from capital and related financing activities:		
Purchases of capital assets	**(9,861)**	(14,309)
Capital contributions	**-**	575
Borrowings on long-term debt	**8,100**	10,000
Payments on long term debt	**(10,619)**	(8,214)
Interest paid on long term debt	**(8,006)**	(8,240)
Net cash used in capital and related financing activities	**(20,386)**	(20,188)
Cash flows from investing activities:		
Sales (purchases) of assets whose use is limited, net	**18,625**	(6,225)
Investment income	**773**	2,931
Purchases of investments, net	**(8,483)**	(8,061)
Net cash provided by (used in) investing activities	**10,915**	(11,355)
Net change in cash and cash equivalents	**(14,293)**	23,431
Cash and cash equivalents:		
Beginning	**29,682**	6,251
Ending	**$ 15,389**	$ 29,682

Noncash capital and related financing activities:
Included in accounts payable at December 31, 2016 and 2015 was $1,423 and $4,435, respectively, of invoices related to capital asset acquisitions

(Continued)

Erie County Medical Center Corporation
(A Component Unit of the County of Erie)

Statements of Cash Flows (Continued)
Years Ended December 31, 2016 and 2015
(Dollars in Thousands)

	2016	2015
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	**$ 10,157**	$ 9,157
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	**28,673**	27,929
Provision for bad debt	**10,590**	10,565
Patient accounts receivable	**(10,129)**	(26,909)
Other receivables	**(12,082)**	10,283
Supplies, prepaids and other	**(7,159)**	(3,680)
Deferred outflows of resources	**(120,624)**	24,557
Accounts payable	**(11,227)**	6,140
Accrued liabilities	**(1,023)**	12,213
Unearned revenue	**(8,604)**	7,368
Estimated third-party payor settlements	**2,347**	(17,733)
Self-insured obligations	**17,453**	7,304
Net pension liability	**91,894**	(8,141)
Deferred inflows of pension resources	**16,481**	4,122
Net cash provided by operating activities	**$ 6,747**	$ 63,175

See notes to the financial statements.

Erie County Medical Center Corporation
(A Component Unit of the County of Erie)

Statements of Net Position - Discretely Presented Component Units
December 31, 2016 and 2015
(Dollars in Thousands)

	2016				2015			
	ECMC Foundation, Inc.	The Grider Initiative, Inc.	Research for Health in Erie County, Inc.	**Total (memorandum only)**	ECMC Foundation, Inc.	The Grider Initiative, Inc.	Research for Health in Erie County, Inc.	Total (memorandum only)
Assets								
Current assets:								
Cash and cash equivalents	$ 602	$ 275	$ 67	**$ 944**	$ 644	$ 283	$ 2	$ 929
Investments	644	-	985	**1,629**	689	-	1,042	1,731
Assets whose use is limited	1,418	-	-	**1,418**	898	-	-	898
Other receivables	1,856	955	-	**2,811**	1,251	1,080	-	2,331
Supplies, prepaids and other	23	-	-	**23**	43	-	-	43
Total current assets	4,543	1,230	1,052	**6,825**	3,525	1,363	1,044	5,932
Other receivables	1,045	-	-	**1,045**	1,311	-	-	1,311
Endowment and other investments	58	10,635	-	**10,693**	58	10,567	-	10,625
Equipment and vehicles, net	269	-	-	**269**	318	-	-	318
	1,372	10,635	-	**12,007**	1,687	10,567	-	12,254
Total assets	$ 5,915	$ 11,865	$ 1,052	**$ 18,832**	$ 5,212	$ 11,930	$ 1,044	$ 18,186
Liabilities and Net Position								
Current liabilities:								
Accounts payable	$ 861	$ -	$ 3	**$ 864**	$ 481	$ -	$ 5	$ 486
Funds held in custody for others	324	-	-	**324**	344	-	-	344
Total current liabilities	1,185	-	3	**1,188**	825	-	5	830
Related party	650	955	-	**1,605**	650	1,088	-	1,738
Interest payable	28	-	-	**28**	17	-	-	17
	678	955	-	**1,633**	667	1,088	-	1,755
Total liabilities	1,863	955	3	**2,821**	1,492	1,088	5	2,585
Net Position								
Restricted:								
Nonexpendable	50	10,000	-	**10,050**	50	10,000	-	10,050
Expendable	3,607	-	-	**3,607**	3,047	-	-	3,047
Unrestricted	395	910	1,049	**2,354**	623	842	1,039	2,504
Total net position	4,052	10,910	1,049	**16,011**	3,720	10,842	1,039	15,601
Total liabilities and net position	$ 5,915	$ 11,865	$ 1,052	**$ 18,832**	$ 5,212	$ 11,930	$ 1,044	$ 18,186

See notes to the financial statements.

Erie County Medical Center Corporation
(A Component Unit of the County of Erie)

Statements of Revenues, Expenses and Changes in Net Position - Discretely Presented Component Units
Years Ended December 31, 2016 and 2015
(Dollars in Thousands)

	2016				2015			
	ECMC Foundation, Inc.	The Grider Initiative, Inc.	Research for Health in Erie County, Inc.	**Total (memorandum only)**	ECMC Foundation, Inc.	The Grider Initiative, Inc.	Research for Health in Erie County, Inc.	Total (memorandum only)
Operating revenues:								
Grants, contributions and special events	$ 3,309	$ -	$ -	**$ 3,309**	$ 2,617	$ -	$ -	$ 2,617
Other operating revenue, net	9	-	-	**9**	13	-	-	13
Total operating revenues	3,318	-	-	**3,318**	2,630	-	-	2,630
Operating expenses:								
Program services and grants	752	955	28	**1,735**	1,221	1,081	19	2,321
Fundraising	1,281	-	-	**1,281**	597	-	-	597
Other operating expenses	992	-	5	**997**	675	8	3	686
Total operating expenses	3,025	955	33	**4,013**	2,493	1,089	22	3,604
Operating income (loss)	293	(955)	(33)	**(695)**	137	(1,089)	(22)	(974)
Non-operating revenue:								
Contributions from related party	-	955	-	**955**	-	1,081	-	1,081
Investment income	39	68	43	**150**	10	(27)	4	(13)
Change in net position	332	68	10	**410**	147	(35)	(18)	94
Net position – beginning of year	3,720	10,842	1,039	**15,601**	3,573	10,877	1,057	15,507
Net position – end of year	$ 4,052	$ 10,910	$ 1,049	**$ 16,011**	$ 3,720	$ 10,842	$ 1,039	$ 15,601

See notes to the financial statements.

Note 1. Organization

The Corporation: Erie County Medical Center Corporation (referred to as the "Corporation" or "ECMCC") is a public benefit corporation created by the Erie County Medical Center Corporation Act, Chapter 143 of the Laws of New York State, 2003 (Title 6 of Article 10-C of the Public Authorities Law) (the "Act") as amended in 2016. The Corporation was created under the Act to secure a form of governance which permits the Corporation to have the legal, financial, and managerial flexibility to operate its health care facilities for the benefit of the residents of New York State (the "State"), the County of Erie (the "County"), and Western New York, including persons in need who lack the ability to pay.

The Corporation's "Health Care Facilities" consist of the Medical Center, a 602-bed acute tertiary care facility providing inpatient, emergency, outpatient, primary care and specialty clinic services (Medical Center), a 390-bed residential health care facility (Terrace View) both located on Grider Street in the City of Buffalo and three chemical dependency and alcohol rehabilitation clinics located throughout the County. The Corporation serves as the region's only Level 1 adult trauma center, burn center, comprehensive traumatic brain injury and spinal cord injury rehabilitative center, Comprehensive Psychiatric Emergency Program provider for acute psychiatric emergencies, Regional Center of Excellence for Transplantation and Kidney Care, and is the primary provider of HIV inpatient and outpatient specialty care.

The Corporation has the power under the Act to acquire, operate, and manage its facilities and to issue bonds and notes to finance the costs of providing such facilities. The Act specifically provides that the Corporation's existence shall continue until terminated by law; provided, however, that no such termination shall take effect so long as the Corporation shall have bonds or other obligations outstanding unless adequate provision has been made for the payment or satisfaction thereof. The Corporation's primary purpose is the operation of the Medical Center and Terrace View, and its powers, duties, and functions are as set forth in the Act, as amended, and other applicable laws.

The Corporation qualifies as a governmental entity and, accordingly, is exempt from federal income tax pursuant to Section 115 of the Internal Revenue Code of 1986.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended, the Corporation's financial statements are included, as a discretely presented component unit, in the County's Comprehensive Annual Financial Report (CAFR). A copy of the CAFR can be obtained from the Erie County Comptroller's Office, 95 Franklin Street, Room 1100, Buffalo, New York, 14202. The Corporation is subject to New York civil service law.

Governance: The Corporation is governed by its Board of Directors (the "Board") consisting of fifteen (15) voting directors, eight (8) of whom are appointed by the Governor of the State of New York and seven (7) of whom are appointed by the Erie County Executive with the advice and consent of the Erie County Legislature. There are four appointed non-voting representatives, as well. The directors and non-voting members serve staggered five (5) year terms and continue to hold office until their successors are appointed. Directors have experience in the fields of health care services, quality and patient safety, human resources, strategic growth, law, and financial management and reflect a broad representation of the community served by the Corporation. Regular meetings of the Board are scheduled eleven (11) times per year. Corporation officers are appointed by the Board.

Great Lakes Heath System: The Corporation is a member of Great Lakes Health System of Western New York (Great Lakes). Great Lakes is a not-for-profit, community-based corporation comprised of unified partners whose objective is to provide the highest quality of healthcare to the residents of Western New York. Great Lakes is comprised of the Corporation, Kaleida Health including four hospitals as well as a long term care facility, ambulatory health and community based clinics, and the State University of New York at Buffalo (the "University").

Note 1. Organization (Continued)

Medical School Collaboration: The Corporation serves as a primary teaching hospital for the University School of Medicine and Biomedical Sciences (the “Medical School”). An agreement governs the relationship between the Corporation and the Medical School. The Corporation serves as an integral part of the education and research mission of the University by providing the clinical settings for the University’s public mission to educate and train physicians, nurses and other healthcare professionals, conduct clinical research programs and deliver healthcare services to patients. There are currently 169 full-time equivalent residents assigned to the Corporation in various Academic College of Graduate Medical Education accredited residency programs.

Component Units: Accounting principles generally accepted in the United States of America (GAAP) require the inclusion within the Corporation’s financial statements of certain organizations as component units. The component units discussed below are included because the nature and significance of their relationship to the Corporation are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete under criteria set forth by the Governmental Accounting Standards Board (GASB).

The component unit information in the accompanying basic financial statements includes the financial data of the Corporation’s three discretely presented component units. These component units are discussed in more detail below:

ECMC Foundation, Inc.: The ECMC Foundation, Inc. (the “Foundation”), formerly the ECMC Lifeline Foundation, Inc., is a nonprofit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). The Foundation was formed for the purpose of supporting Corporation programs. The financial statements of the Foundation have been prepared on an accrual basis. The annual financial report can be obtained by writing to: Executive Director, ECMC Foundation, Inc., 462 Grider Street, Buffalo, NY 14215.

The Grider Initiative, Inc.: The Grider Initiative, Inc. (the “Physician Endowment”) is a nonprofit organization exempt from federal income taxes under Section 501(c)(3) of the IRC. The Physician Endowment was funded in 2010, for the purpose of recruiting physicians who shall practice on the Grider Street campus of the Corporation. The entity was funded with an initial transfer of $10,000 from the Corporation. Earnings from the investment of the initial transfer may be used only for physician recruitment and retention and necessary expenses of the entity. The financial statements of The Grider Initiative, Inc. have been prepared on an accrual basis. The annual financial report can be obtained by writing to: Chair, The Grider Initiative, Inc. 462 Grider Street, Buffalo, NY 14215.

Research for Health in Erie County, Inc.: Research for Health in Erie County, Inc. (RHEC) is a nonprofit organization dedicated to support research activities relating to the causes, nature, and treatment of diseases, disorders, and defects of particular importance to the public health in areas served by the Corporation. RHEC’s revenue comes primarily from investment income. RHEC is exempt from income tax as a not-for-profit corporation under Section 501(c)(3) of the IRC and is incorporated under the laws of the State of New York. The entity has not received funding in recent years. The annual financial report can be obtained by writing to: Grant Administration, Research for Health in Erie County, Inc., 462 Grider Street, Buffalo, NY 14215.

Note 1. Organization (Continued)

In addition, the financial statements of the Corporation include the operations of the following component units, which are blended with the accounts of the Corporation:

PPC Strategic Services LLC (PPC): The Corporation is the sole owner of this enterprise, which was established to enable the Corporation to enter into various other business relationships. The entity was formed as a management support organization (MSO) to provide various support services to the Corporation and Preferred Physician Care, P.C. These services include providing employees, management and administrative services, and facilities management.

Grider Support Services, LLC: The Corporation is the sole owner of this enterprise, which was formed to act as an MSO for oncology and physician services.

Grider Community Gardens, LLC: This entity is wholly-owned and controlled by the Corporation and was formed for the purpose of purchasing and holding properties in proximity to the Corporation's Grider Street Campus.

Note 2. Summary of Significant Accounting Policies

Basis of accounting: The Corporation uses the accrual basis of accounting. Revenue is recognized in the period it is earned and expenses are recognized in the period incurred. Under this basis of accounting, all assets, deferred outflows of resources, liabilities and deferred inflows of resources associated with the operation of the Corporation are included in the statements of net position.

For financial accounting and reporting purposes, the Corporation follows all pronouncements of the GASB. All references to relevant authoritative literature issued by the GASB with which the Corporation must comply are hereinafter referred to generally as "U.S. GAAP." The discretely presented component units, as previously described, report under Financial Accounting Standards Board (FASB) standards. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features.

Use of estimates: The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. The reserve for uncollectible accounts, contractual allowances, amounts payable to third-party payors, workers compensation, malpractice reserves, pension obligations, self-insured obligations, as well as Disproportionate Share (DSH) revenue and certain other accounts, require the significant use of estimates. Actual results could differ from those estimates.

Included in net patient service revenue are adjustments to prior year estimated third-party payor settlements, and estimated receivables and payables that were originally recorded in the period the related services were rendered. These adjustments are made in the normal course of operations and amounts reported are consistent with approach in prior years. The adjustments to prior year estimates and other third-party reimbursement receipts or recoveries that relate to prior years also impact Disproportionate Share revenues as discussed in Note 4. The combined effect of changes related to prior years estimates resulted in an increase of $1,827 and $2,539 in total operating revenue for the years ended December 31, 2016 and 2015, respectively. During 2015, ECMCC recorded the Universal Settlement with New York State of $1,789. A liability of $2,961 was also settled as part of this transaction.

(Dollars in Thousands)

Note 2. Summary of Significant Accounting Policies (Continued)

Cash and cash equivalents: The Corporation's cash and cash equivalents include cash on hand and cash in checking and money market accounts as well as investments with a maturity of three months or less when purchased. Cash and cash equivalents designated for long-term purposes or received with donor-imposed restrictions limiting their use to long-term purposes are not considered cash and cash equivalents for purposes of the statements of cash flows. Monies deposited in Federal Deposit Insurance Corporation insured commercial banks are collateralized with specifically designated securities held by a pledging financial institution, as required by State regulations.

Patient accounts receivable: Patient accounts receivable are reported net of both an estimated allowance for contractual adjustments and an estimated allowance for uncollectible accounts. The contractual allowance represents the difference between established billing rates and estimated reimbursement from Medicare, Medicaid and other third party payor programs. Current operations are charged with an estimated provision for bad debts estimated based on the age of the account, prior experience and any other circumstances which affect collectability. The Corporation's policy does not require collateral or other security for patient accounts receivable and the Corporation routinely accepts assignment of, or is otherwise entitled to receive, patient benefits payable under health insurance programs, plans or policies. The allowance for estimated doubtful accounts at December 31, 2016 and 2015 was approximately $18,962 and $17,133, respectively.

Investments and assets whose use is limited: The Corporation generally records its investments at fair value. Such assets are comprised of cash and cash equivalents, including money market funds, fixed income securities, commercial paper and equity funds. Assets classified as investments are unrestricted. Assets classified as limited as to use are restricted under Board designation or terms of agreements with third parties and include debt service funds, funds for self-insured workers compensation costs and medical malpractice costs, collateral for insured workers compensation programs, patient and resident monies, funding for future retiree health costs, and funds limited as to use for the acquisition of property, plant and equipment. Also included at December 31, 2015 was $23,617 of securities guaranteed by Governmental National Mortgage Association and insured by the U.S. Department of Housing and Urban Development (HUD) related to an investment in Kaleida Health's Gates Vascular Institute located on the Buffalo Niagara Medical Campus. Kaleida Health, HUD and the owners of the securities restructured the transaction during 2016 and the securities held by the Corporation were redeemed. Proceeds from this redemption were $18,595.

Investment securities are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is at least possible that changes in risks in the near term could materially affect the net position of ECMCC.

Other receivables: The composition of other receivables, as of December 31, is as follows:

	2016	2015
Medicaid Disproportionate Share (DSH) and Upper Payment Limit (UPL)	$ 42,160	$ 47,675
Care Restructuring Enhancement Pilot (CREPS) Program Grant	20,040	-
Other	6,782	9,225
	$ 68,982	$ 56,900

(Dollars in Thousands)

Note 2. Summary of Significant Accounting Policies (Continued)

Capital assets: Capital assets are stated at cost. Depreciation is computed under the straight-line method over the estimated useful life of the asset. Estimated useful lives of assets have been established as follows:

Land and land improvements	5 – 25 years
Buildings and improvements	10 – 40 years
Fixed equipment	10 – 20 years
Movable equipment	3 – 20 years

When assets are retired, or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected for the period. Amortization of capital leases is computed using the straight-line method over the lease term or the estimated useful life of the asset, whichever is shorter. Maintenance and repairs are charged to expense as incurred with significant renewals and betterments being capitalized. During periods of construction the Corporation capitalizes interest incurred with borrowings for construction.

Capital assets that are donated (without restriction) are recorded at their fair market values as a direct increase to the component of net investment in capital assets.

Deferred outflows of resources: Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and therefore will not be recognized as an outflow of resources (expense) until that time. Deferred outflows of resources consist primarily of unrecognized items not yet charged to pension expense related to the net pension liability.

Deferred inflows of resources: Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and therefore will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources consist primarily of the unamortized portion of certain items related to the Corporation's pension.

Other assets: Amounts due from the County, as noted in Note 13, as well as ownership interests in various business enterprises are included in other assets. Collaborative Care Ventures, LLC (Collaborative Care) was formed in 2014 by ECMCC and Kaleida Health System (KHS). Collaborative Care was created as a vehicle for ECMCC and KHS to participate in various investments in the future consistent with their missions. At December 31, 2016 and 2015, the Corporation's share of the net assets of Collaborative Care amounted to $7,047 and $7,144, respectively.

Unearned revenue: Unearned revenue represents funds received by the Corporation for the DSRIP Program for expenses not yet incurred.

Compensated absences: The Corporation has accrued liabilities for certain compensated absences earned by its employees, to include vacation, sick, and compensatory time. The Corporation's employees are permitted to accumulate unused vacation and sick leave time up to certain maximum limits. The Corporation accrues the estimated obligation related to vacation pay based on pay rates currently in effect. Sick leave credits, if accumulated above certain prescribed levels, may be the basis of a supplemental payment to employees upon retirement. The Corporation accrues an estimated liability for these estimated terminal payments. These amounts have been included in the statements of net position at December 31, 2016 and 2015, within the caption accrued salaries, wages and employee benefits in the amount of $11,004 and $11,545, respectively.

Note 2. Summary of Significant Accounting Policies (Continued)

Net position: Net position is classified into three categories according to external donor restrictions or availability of assets for satisfaction of the Corporation's obligations. The Corporation's net position is described as follows:

Net investment in capital assets: This represents the Corporation's total investment in capital assets, net of accumulated depreciation and reduced by outstanding debt and deferred inflows and outflows of resources that are attributable to the acquisition, construction or improvement of those assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets.

Restricted: The restricted expendable component of net position consists of constraints placed on net position through external constraints 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. The restricted nonexpendable component of net position is permanently unavailable for use. The earnings on the nonexpendable net position are classified as restricted expendable.

Unrestricted: This component of net position consists of net position that does not meet the definition of other components of net position described above. These resources are used for transactions relating to the general health care operations of the Corporation, and may be used at the discretion of the Board of Directors to meet current expenses for any purpose.

Net patient service revenue: Net patient service revenue is reported as services are rendered at estimated net realizable amounts, including estimated retroactive revenue adjustments under reimbursement agreements with third party payors. Estimated settlements under third party reimbursement agreements are accrued in the period the related services are rendered and adjusted in future periods as final settlements are determined. An estimated provision for bad debts is included in net patient service revenue.

Charity care: The Corporation provides care to patients who meet certain criteria under its charity care policy, without charge or at amounts less than established rates. Because the Corporation does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue in the accompanying Statements of Revenues, Expenses, and Changes in Net Position. The estimated costs of caring for charity care patients were $10,244 and $12,255 for the years ended December 31, 2016 and 2015, respectively. Additionally, the Corporation provided approximately $3,476 and $2,890 in discounts to self-pay patients for the years ended December 31, 2016 and 2015, respectively.

Contributions: The Foundation reports gifts of cash or promises to give as restricted contributions when they are received with donor stipulations that limit the use of the donated assets. When the intent of the donor is that the assets are to remain in perpetuity and the Foundation does not have the right to invade the original principal, the assets are reported as permanently restricted. When a donor restriction expires, restricted - expendable net positions are released to unrestricted net position and reported in the statements of activities as net position released from restrictions.

Note 2. Summary of Significant Accounting Policies (Continued)

Classification of revenues: The Corporation has classified its revenues as either operating or non-operating revenues according to the following criteria:

> **Operating revenues:** Operating revenues include activities that have the characteristics of exchange transactions, such as payments for providing services and payments for goods and services received, for health care services provided to patients, net of contractual allowances and provisions for bad debts.
>
> **Non-operating revenues:** Non-operating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, income from investments and contributions.

Income taxes: The Corporation is a Public Benefit Corporation of the State of New York and is exempt from federal income taxes under Section 115 of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

Contributed services: RHEC receives contributions from the Corporation consisting primarily of donated space, equipment, and personnel support. During 2016 and 2015, the value of contributed services meeting the requirements for recognition in the financial statements was not material and has not been recorded.

Certain immaterial amounts related to contributed rents have been reflected in the Foundation's financial statements as contributed services. The Foundation generally pays for services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Foundation in meeting its goals and objectives. Such services are not recognized in the Foundation financial statements.

No amounts have been reflected in the Physician Endowment financial statements for contributed services, as the value of contributed services meeting the requirements for recognition in the financial statements was not material.

Recent and pending accounting pronouncements: In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements, including but not limited to, proving guidance for determining fair value measurements for financial reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements. This Statement was effective for the year ended December 31, 2016 and the reporting and disclosure requirements are reflected in Note 5.

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The objective of this Statement is to establish requirements for those pension and pension plans that are not administered through a trust meeting specified criteria. This Statement is effective for periods beginning after June 15, 2016. The Corporation has not yet determined the impact this Statement will have on the financial statements.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). This Statement is effective for years beginning after June 15, 2017. The Corporation has not yet determined the impact this Statement will have on the financial statements, however, expects the impact to be material.

Note 2. Summary of Significant Accounting Policies (Continued)

In March 2016, GASB issued Statement No. 82, *Pension Issues, an amendment of GASB Statements No. 67, 68 and 73*. The objective of this Statement is to address issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. The Corporation has not yet determined the impact this statement will have on the financial statements.

In November 2016, GASB issued Statement No. 83, *Capital Asset Retirement Obligations*. The objective of this Statement is to address accounting and financial reporting for certain asset retirement obligations. An asset retirement obligation is defined as a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. The Corporation has not yet determined the impact this statement will have on the financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The Statement establishes criteria for identifying fiduciary activities and the focus of the criteria generally is on (1) whether the government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. The Corporation has not yet determined the impact this statement will have on the financial statements.

Subsequent events: The Corporation has evaluated subsequent events for potential recognition and/or disclosure through March 22, 2017, the date the financial statements were issued.

Note 3. Net Patient Service Revenue

The Corporation has agreements with third-party payors that provide for payment to the Corporation at amounts different from its established rates. A summary of the payment arrangements with major third-party payors is as follows:

Medicare: Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge for acute care services and per patient day for inpatient behavioral health services. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Certain inpatient and outpatient services, as well as defined organ acquisition, capital and medical education costs related to Medicare beneficiaries are paid based on regulatory proscribed formulae. The Corporation is reimbursed for such items at a tentative rate with final settlement determined after submission of annual cost reports by the Corporation and audits thereof by the Medicare fiscal intermediary. The Corporation’s classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Corporation. Most outpatient reimbursements are based on an Ambulatory Payment Classification weighting by acuity system, although some outpatient cost reimbursement still exists.

(Dollars in Thousands)

Note 3. Net Patient Service Revenue (Continued)

Medicaid: Inpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates in accordance with Part 86 of the New York Codes, Rules and Regulations and New York State Law which are promulgated by the New York State Department of Health (DOH). Outpatient services are similarly paid at either prospective rates or fee schedule amounts.

Terrace View provides services to residents under agreements with third-party payors (Medicaid, Medicare and HMO's) under provisions of their respective cost reimbursement formulas or contractually negotiated rates. If amounts received are less than established billing rates, the difference is accounted for as a reduction of revenue. Final determination of the reimbursement rates are subject to review by appropriate third-party payors. Provisions are made in the financial statements for anticipated adjustments that may result from such reviews. Difference between the estimated amounts accrued and final settlements are reported in operations in the year of settlement.

Net patient service revenue, as reported on the statements of revenues, expenses and changes in net position is comprised of the following for the years ended December 31:

	2016		
	ECMC	Terrace View	Total
Gross charges	$ 921,658	$ 89,792	$ 1,011,450
Less			
Discounts and allowances	470,793	40,136	510,929
Provision for bad debts	9,030	1,560	10,590
	$ 441,835	$ 48,096	$ 489,931

	2015		
	ECMC	Terrace View	Total
Gross charges	$ 887,624	$ 89,992	$ 977,616
Less			
Discounts and allowances	461,200	38,103	499,303
Provision for bad debts	9,005	1,560	10,565
	$ 417,419	$ 50,329	$ 467,748

(Dollars in Thousands)

Note 3. Net Patient Service Revenue (Continued)

Net patient service revenue by payor for the years ended December 31 is as follows:

	2016			
	ECMC	Terrace View	Total	%
Medicare*	$ 148,849	$ 7,063	$ 155,912	31.8%
Medicaid*	160,698	37,262	197,960	40.4%
Other third party payors	129,742	1,264	131,006	26.8%
Self-pay	2,546	2,507	5,053	1.0%
	$ 441,835	$ 48,096	$ 489,931	100.0%

	2015			
	ECMC	Terrace View	Total	%
Medicare*	$ 144,954	$ 6,981	$ 151,935	32.5%
Medicaid*	159,709	40,849	200,558	42.9%
Other third party payors	108,931	1,043	109,974	23.5%
Self-pay	3,825	1,456	5,281	1.1%
	$ 417,419	$ 50,329	$ 467,748	100.0%

*Medicare and Medicaid include Managed Care plans

Laws and regulations governing Medicare, Medicaid, and other third-party payor programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates could change by a material amount in future periods. The Corporation believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Under the New York Health Care Reform Act, the Corporation also enters into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Corporation under these agreements includes prospectively determined rates, discounts from charges, and prospectively determined per diem rates. Medicaid, Workers' Compensation and No-fault continue to have reimbursement rates determined based on New York's Prospective Reimbursement Methodology.

(Dollars in Thousands)

Note 3. Net Patient Service Revenue (Continued)

Patient accounts receivable consist of the following at December 31:

	2016		
	ECMC	Terrace View	Total
Gross accounts receivable	$ 121,255	$ 14,275	$ 135,530
Less			
Discounts and allowances	46,685	2,509	49,194
Provision for bad debts	14,976	3,986	18,962
	$ 59,594	$ 7,780	$ 67,374

	2015		
	ECMC	Terrace View	Total
Gross accounts receivable	$ 120,166	$ 12,683	$ 132,849
Less			
Discounts and allowances	45,372	2,509	47,881
Provision for bad debts	13,619	3,514	17,133
	$ 61,175	$ 6,660	$ 67,835

Concentration of credit risk: The Corporation grants credit without collateral to its patients, most of whom are insured under third-party payor arrangements. The mix of net receivables from patients and third-party payors at December 31 is as follows:

	2016	2015
Medicare	25.8%	29.7%
Medicaid	28.1%	28.5%
Commercial insurance and HMO’s	24.3%	23.3%
No-fault	9.3%	8.1%
Self-pay	5.9%	2.4%
Other	6.6%	8.0%
Total	100.0%	100.0%

Note 4. Disproportionate Share Revenue

The Medicaid DSH program is designed to provide Federal funds to certain hospitals to help offset the cost of uncompensated care provided to the uninsured. Each state has a specified Federal DSH allotment. In addition, New York State law authorizes the DOH to make supplemental DSH medical assistance payments to public hospitals located in Erie County, Nassau County, and Westchester County. For long term care facilities, DSH revenue is recognized in accordance with Upper Payment Limit (UPL) regulations promulgated by CMS.

In 2016 and 2015, DSH funding recorded by the Corporation totaled $71,500 and $59,237, respectively. The DSH funding process is complex and includes both tentative and final settlements for various state fiscal years which are subject to the availability of state and federal funding among other factors. As a result, DSH revenue is estimated and final settlements may vary significantly from the initial estimates.

For hospital services, DSH revenue of $50,327 and $42,503 was recognized in 2016 and 2015, respectively. In addition during 2016 and 2015, the Corporation recognized $21,173 and $16,734, respectively, of UPL revenue for Terrace View and the existing hospital-based skilled nursing unit which was assimilated into Terrace View. The UPL for New York State fiscal years 2015-2016 and 2016-2017, for public nursing homes has not yet been finalized. As a result, UPL revenue for the long term care units are estimates based on historical experience.

In addition, the Centers for Medicare and Medicaid Services (CMS) has indicated that cost reports dating back to the 2014 reporting year and the methodology employed to calculate DSH revenue are subject to audit. At this time, the impact of the CMS audit activity on the Corporation’s DSH revenue is not certain. Management has taken what it believes to be reasonable and appropriate steps to assure compliance with the CMS methodology.

(Dollars in Thousands)

Note 5. Cash and Cash Equivalents, Investments, and Assets Whose use is Limited

Cash and cash equivalents and investments: The Corporation's investments are made in accordance with State regulations and its own investment policy. The investment policy is regularly reviewed by an investment committee of the Board which evaluates the performance of investment managers and monitors compliance with the investment policy.

The Corporation's investments are generally reported at fair value, as discussed in Note 2. The carrying amounts of cash and cash equivalents, investments and assets whose use is limited are included in the Corporation's Statements of Net Position as follows:

	2016		2015	
Cash and cash equivalents	$	15,389	$	29,682
Investments		19,814		11,331
Assets whose use is limited – current		23,849		37,179
Assets whose use is limited – non-current		82,448		87,743
	$	141,500	$	165,935
Current Portion of Assets Whose use is Limited				
Patient and residents trust cash	$	360	$	428
Restricted for debt service [(a)]		2,811		2,807
Equipment funds [(b)]		1,261		6,636
Designated for self-insurance obligations [(c)]		4,408		4,413
Designated for retiree health obligations [(c)]		9,737		9,109
Designated for DSRIP program [(c)]		5,087		13,691
NYS voluntary defined contribution plan escrow		185		95
Total current portion of assets whose use is limited	$	23,849	$	37,179
Noncurrent Portion of Assets Whose use is Limited				
Restricted for debt service [(a)]	$	9,253	$	9,123
Designated for long-term investment [(c)]		18,594		23,617
Designated for retiree health obligations [(c)]		15,094		15,722
Designated for self-insurance obligations [(c)]		20,309		20,167
Restricted – insured workers compensation collateral [(d)]		19,198		19,114
Total noncurrent portion of assets whose use is limited	$	82,448	$	87,743

[(a)] Funds restricted by operation of indenture agreement
[(b)] Unspent loan proceeds for equipment
[(c)] Funds internally designated by operation of board authority
[(d)] Funds restricted – insured workers compensation collateral agreement

Note 5. Cash and Cash Equivalents, Investments, and Assets Whose use is Limited (Continued)

The Corporation's cash and cash equivalents as well as investments are exposed to various risks, including credit, custodial credit, interest rate, and market risks, as discussed in more detail below:

Deposits

All monies are deposited with banks or trust companies designated by the Corporation's investment committee of the Board of Directors. Funds not needed for immediate expenditure may be deposited in interest or non-interest bearing accounts or invested in various marketable securities and bonds.

Custodial credit risk: Custodial credit risk is the risk that, in the event of bank failure, the Corporation's deposits might not be recovered. FDIC insurance through December 31, 2016 for funds held in interest bearing accounts is $250 per depositor per category of legal ownership. New York law requires that deposits in excess of FDIC insured amounts are collateralized. The Corporation's bank deposits at December 31, 2016 and 2015, totaled $25,749 and $36,846, respectively. $941 and $972 of the deposits were insured at December 31, 2016 and 2015, respectively. Amounts over FDIC insured limits were fully collateralized with securities held by the pledging financial institution.

Investments

The Corporation's investment policy authorizes the Corporation to invest in accordance with New York State Finance Law Section 8(14), Section 201 and Public Authorities Law Article 9 Section 2800 to 2985. Compliance with the policy is monitored by the Corporation's investment committee and reported on quarterly by the Corporation's investment advisor.

Credit risk: Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligation, causing the Corporation to experience a loss of principal. The Corporation's investment policy limits investments in equity and fixed income securities with ratings only in the highest category. ECMCC's investments in government bonds carry the explicit guarantee of the U.S. government. The corporate bonds, short-term fixed income and government bonds are all rated AA+ or better by the Standards & Poor's rating agency.

Interest rate risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Corporation's cash equivalent securities are limited to maturities of no greater than eighteen months; short-term fixed income securities are limited to maturities of no greater than five years; and long-term fixed income securities are limited to maturities to no more than ten years. Substantially all of the Corporation's investments and assets whose use is limited have stated maturities of less than one year.

Custodial credit risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Corporation will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Corporation's investment policy does not address custodial credit risk.

Concentration of credit risk: Concentration of credit risk is the risk of loss attributable to the magnitude of investments in any single issuer. The Corporation's investment policy indicates the combined holdings of securities from one issuer shall not constitute more than 5.0% of the fund except for issues guaranteed directly or indirectly by the U.S. Government. The Corporation had no holdings in Federal National Mortgage Association (Fannie Mae) issues in 2016 (6.0% in 2015). At December 31, 2016 holdings were 6.3% (5.4% in 2015), in Federal Home Loan Mortgage Corporation (Freddie Mac) issues.

(Dollars in Thousands)

Note 5. Cash and Cash Equivalents, Investments, and Assets Whose use is Limited (Continued)

Fair value of financial instruments: The Corporation has adopted GASB 72, *Fair Value Measurement and Application.* This guidance requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Management utilizes valuation techniques that maximize the use of observable inputs (Levels 1 and 2) and minimize the use of unobservable inputs (Level 3) within the fair value hierarchy established by GASB. Assets and liabilities carried at fair value are required to be classified and disclosed in one of the following three categories:

Level 1: Valuations based on quoted prices in active markets for identical assets that the Corporation has the ability to access.

Level 2: Valuations based on quoted prices in active markets for similar assets, quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly.

Level 3: Valuations based on inputs that are unobservable and significant to the overall fair value measurement. These are generally company generated inputs and are not market-based inputs. The Corporation has no Level 3 assets.

	2016			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 15,389	$ -	$ -	$ 15,389
Investments and assets whose use is limited:				
Cash and cash equivalents	58,095	-	-	58,095
Marketable equity securities:				
Mid-cap core equities	1,728	-	-	1,728
Mid-cap value equities	1,682	-	-	1,682
Value equities	1,838	-	-	1,838
Growth equities	9,235	-	-	9,235
Global core equities	3,450	-	-	3,450
Short-term fixed income	-	33,785	-	33,785
Corporate bonds	-	7,407	-	7,407
Government bonds	-	8,891	-	8,891
Total investments	76,028	50,083	-	126,111
Total	$ 91,417	$ 50,083	$ -	$ 141,500

(Dollars in Thousands)

Note 5. Cash and Cash Equivalents, Investments, and Assets Whose use is Limited (Continued)

	2015			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 29,682	$ -	$ -	$ 29,682
Investments and assets whose use is limited:				
Cash and cash equivalents	39,031	-	-	39,031
Marketable equity securities:				
Mid-cap core equities	1,588	-	-	1,588
Mid-cap value equities	1,455	-	-	1,455
Value equities	1,580	-	-	1,580
Growth equities	8,515	-	-	8,515
Global core equities	3,227	-	-	3,227
Short-term fixed income	-	33,381	-	33,381
Corporate bonds	-	6,948	-	6,948
Government bonds	-	40,528	-	40,528
Total investments	55,396	80,857	-	136,253
Total	$ 85,078	$ 80,857	$ -	$ 165,935

Note 6. Capital Assets

Capital asset activity for the years ended December 31 is as follows:

	2016			
	Beginning Balance	Additions	Disposals/ Transfers	Ending Balance
Capital assets – being depreciated				
Land and land improvements	$ 20,020	$ 269	$ -	$ 20,289
Buildings and improvements	414,180	6,623	(124)	420,679
Fixed/major moveable equipment	146,433	5,762	(5)	152,190
Total capital assets – being depreciated	580,633	12,654	(129)	593,158
Less accumulated depreciation	(308,742)	(28,468)	-	(337,210)
Total capital assets – being depreciated, net	271,891	(15,814)	(129)	255,948
Capital assets – not being depreciated				
Construction in progress	4,565	5,124	(6,060)	3,629
Idle property, net	3,356	-	(3,356)	-
Total capital assets, net	$ 279,812	$ (10,690)	$ (9,545)	$ 259,577

(Dollars in Thousands)

Note 6. Capital Assets (Continued)

	2015			
	Beginning Balance	Additions	Disposals/ Transfers	Ending Balance
Capital assets – being depreciated				
Land and land improvements	$ 16,827	$ 114	$ 3,079	$ 20,020
Buildings and improvements	401,855	15,613	(3,288)	414,180
Fixed/major moveable equipment	136,272	9,952	209	146,433
Total capital assets – being depreciated	554,954	25,679	-	580,633
Less accumulated depreciation	(280,973)	(27,769)	-	(308,742)
Total capital assets – being depreciated, net	273,981	(2,090)	-	271,891
Capital assets – not being depreciated				
Construction in progress	11,660	11,276	(18,371)	4,565
Idle property, net	3,356	-	-	3,356
Total capital assets, net	$ 288,997	$ 9,186	$ (18,371)	$ 279,812

Construction in progress at December 31, 2016 and 2015 includes costs associated with the planning and design of the emergency department expansion project, as well as construction and remodeling costs for the pathology clinic and ground floor renovations.

With the opening of the new long-term care facility in February 2013, the Corporation discontinued depreciation on the building and disposed of equipment for the facility referred to as the Erie County Home. As a result, the building was reclassed to idle property. The Corporation transferred title to these assets effective March 2016 to Erie County as stipulated in the 2009 settlement agreement (Note 13).

Depreciation expense amounted to $28,468 and $27,769 for the years ended December 31, 2016 and 2015, respectively.

Note 7. Accrued Other Liabilities

The composition of accrued other liabilities as of December 31 is as follows:

	2016	2015
Due to Erie County	$ 7,912	$ 16,550
Workers compensation claims	3,247	3,171
Due to discretely presented component units	2,121	2,629
Medical malpractice claims	1,161	1,242
Other post-employment benefits (OPEB)	9,737	9,109
Interest costs	809	814
Other	5,216	5,983
Total	$ 30,203	$ 39,498

(Dollars in Thousands)

Note 8. Indebtedness

Long-term debt consisted of the following at December 31:

	2016				
	Beginning Balance	Additions	Payments	Ending Balance	Due Within One Year
Erie County - Guaranteed Senior Revenue Bonds, Series 2004	$ 84,790	$ -	$ (2,860)	$ 81,930	$ 3,020
Erie County – 2011 loan payable	80,812	-	(5,001)	75,811	5,191
Key Bank loan	-	8,100	-	8,100	8,100
Capital lease obligation - 2014	977	-	(643)	334	334
Capital lease obligation - 2015	9,923	-	(2,115)	7,808	2,166
Total debt	$ 176,502	$ 8,100	$ (10,619)	$ 173,983	$ 18,811

	2015				
	Beginning Balance	Additions	Payments	Ending Balance	Due Within One Year
Erie County - Guaranteed Senior Revenue Bonds, Series 2004	$ 87,500	$ -	$ (2,710)	$ 84,790	$ 2,860
Erie County – 2011 loan payable	85,629	-	(4,817)	80,812	5,001
Capital lease obligation - 2014	1,587	-	(610)	977	643
Capital lease obligation - 2015	-	10,000	(77)	9,923	2,115
Total debt	$ 174,716	$ 10,000	$ (8,214)	$ 176,502	$ 10,619

Future annual principal payments applicable to long term debt for the years subsequent to December 31, 2016 are as follows:

2017	$ 18,811
2018	10,791
2019	11,223
2020	10,506
2021	9,768
2022-2026	55,789
2027-2031	43,045
2032-2034	14,050
Total	$ 173,983

The Series 2004 Bonds are secured by a pledge of the gross receipts of the Corporation and amounts on deposit in certain debt service reserve funds. Interest rates on the bonds range from 5.5% to 5.7% at December 31, 2016 and 2015, respectively, with principal payments ranging from $3,020 to $7,220 due annually on November 1 with interest payments due semi-annually on May 1 and November 1.

Note 8. Indebtedness (Continued)

Pursuant to a Guaranty Agreement, the County has unconditionally guaranteed to the Corporation, the punctual payment of the principal, interest, and redemption premium, if any, on the Series 2004 Bonds, as the same shall become due and payable, and has pledged the faith and credit of the County for the performance of such guaranty. A municipal bond insurance policy has been purchased by the Corporation to guarantee all debt service payments in case of default by the Corporation and the County.

In 2011, the Corporation entered into a loan agreement with the County of Erie, with the assistance of the Erie County Fiscal Stability Authority, to borrow $96,864, the proceeds of which were primarily used to finance construction of a new residential health care facility and related infrastructure on the Grider Street campus. The facility opened in February 2013.

The loan agreement with the County includes sinking fund requirements if certain covenants are not met by the Corporation. The Corporation met these requirements as of December 31, 2016 and 2015 and, accordingly, no sinking funds have been established. The loan payable has a final maturity of October 1, 2028. Principal and interest (rate at 3.7% at December 31, 2016 and 2015) of $662 are due monthly.

During 2016, the Corporation signed a business loan agreement with Key Bank. Interest is payable monthly at the 1-month LIBOR rate, plus 2.25% (3.75% at December 31, 2016). Principal and all accrued interest is due July 2017.

During 2014, the Corporation entered into a capital lease agreement in the amount of $1,698, the proceeds of which were used to rent a speech recognition and transcription system. The agreement requires principal and interest payments (cost of capital is estimated at 5.3%) of $56 and matures June 2017.

During 2015, the Corporation entered into a capital lease agreement in the amount of $10,000, the proceeds of which were used to purchase various equipment. The agreement requires principal and interest payments (cost of capital is estimated at 2.3%) of $194 and matures June 2020. At December 31, 2016 and 2015, $1,261 and $6,636, respectively, of the proceeds remained unspent and are held in escrow.

Note 9. Pension Plan

Retirement plan: The Corporation participates in the New York State and Local Retirement System (“NYSLRS” or the “System”), which is a cost-sharing, multiple-employer public employees' retirement system. There are more than 440,000 pensioners and beneficiaries in the System with nearly 1.1 billion participants.

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the NYSLRS and additions to/deductions from NYSLRS' fiduciary net position have been determined on the same basis as they are reported by NYSLRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The net pension liability is measured as the portion of the present value of projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributed to those employees’ past periods of service (total pension liability), less the amount of the pension plan’s fiduciary net position. The net pension liability should be measured as of a date (measurement date) no earlier than the end of the employer’s prior fiscal year, consistently applied from period to period.

(Dollars in Thousands)

Note 9. Pension Plan (Continued)

Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (RSSL). As set forth in the RSSL, the Comptroller of the State of New York (the "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 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 Retirement System, Gov. Alfred E. Smith State Office Building, Albany, NY 12244.

NYSLRS provides three main types of retirement benefits: service retirements, ordinary disability retirements (non job-related disabilities), and accident disability retirements (job-related disabilities) to members who are in different "Tiers." The members' Tier is determined by the date of membership. Subject to certain conditions, members generally become fully vested as to benefits upon the completion of 5 or 10 years of service depending on their Tier. Employees may be required to contribute a percentage of their salary to the pension plan based on their Tier, determined by their date of membership in the plan. Annual pension benefits can be calculated as a percentage of final average salary times number of years of service and changes with the number of years of membership within the plan.

At December 31, 2016 and 2015, the Corporation reported a liability of $116,006 and $24,112, respectively, for its proportionate share of the NYSLRS net pension liability. The total pension liability used to calculate the net pension liability is determined by an actuarial valuation as of April 1st each year and rolled forward to March 31st. The Corporation's proportion for the net pension liability for each fiscal year was based on the Corporation's indexed present value of future compensation to NYSLRS of all participating employers for 2016 and 2015, which was 0.7228% and 0.7137%, respectively.

(a) Actuarial Assumptions

The total pension liability for the March 31, 2016 measurement date was determined using an actuarial valuation as of April 1, 2015 with update procedures used to roll-forward the total pension liability to March 31, 2016. The actuarial valuations used the following actuarial assumptions:

Inflation	2.5%
Salary increases	3.8%, including inflation
Investment rate of return	7.0%, net of pension plan investment expense
Cost of living adjustments	1.3%
Mortality improvement	Society of Actuaries MP-2014

The total pension liability for the March 31, 2015 measurement date was determined using an actuarial valuation as of April 1, 2014 with update procedures used to roll-forward the total pension liability to March 31, 2015. The actuarial valuations used the following actuarial assumptions:

Inflation	2.7%
Salary increases	4.9%, including inflation
Investment rate of return	7.5%, net of pension plan investment expense
Cost of living adjustments	1.4%
Mortality improvement	Society of Actuaries MP-2014

(Dollars in Thousands)

Note 9. Pension Plan (Continued)

(b) Expected Rate of Return on Investments

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected return, net of investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table at December 31, 2016 and 2015:

Asset class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Domestic equity	38.0%	7.3%
International equity	13.0%	8.6%
Private equity	10.0%	11.0%
Real estate	8.0%	8.3%
Absolute return strategies	3.0%	6.8%
Bonds and mortgages	18.0%	4.0%
Other	8.0%	21.1%
Cash	2.0%	2.3%
	100.0%	

(c) Discount Rate

The discount rate used to measure the total pension liability as of December 31, 2016 and 2015 was 7.0% and 7.5%, respectively. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the NYSLRS fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on NYSLRS investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following presents the Corporation's proportionate share of the net pension liability calculated using the discount rate of 7.0% at December 31, 2016 and 7.5% at December 31, 2015, as well as what the Corporation's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease (6.0%)	Discount Rate (7.0%)	1% Increase (8.0%)
Corporation's proportionate share of the net pension liability	$ 261,584	$ 116,006	$ (7,002)

	2015		
	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
Corporation's proportionate share of the net pension liability	$ 160,718	$ 24,112	$ (91,217)

(Dollars in Thousands)

Note 9. Pension Plan (Continued)

(d) Deferred Outflows and Inflows of Resources

At December 31, the Corporation reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Deferred outflows of resources:				
Differences between expected and actual actuarial experience	$	586	$	772
Net difference between projected and actual earnings on pension plan investments		68,821		4,188
Changes in assumptions		30,935		-
Corporation contributions subsequent to the measurement date		25,235		-
Other		194		-
Total	$	125,771	$	4,960
Deferred inflows of resources:				
Differences between expected and actual actuarial experience	$	13,751	$	-
Changes in proportion and differences between Corporation contributions and proportionate share of contributions		6,852		4,122
Total	$	20,603	$	4,122

The change in employer proportionate share is the difference between the employer proportionate share of net pension liability in the prior year compared to the current year. Changes in these amounts are amortized over a five-year closed period, reflecting the average remaining service life of plan members.

(e) Annual Pension Expense

The Corporation's annual pension expense for calendar years ending 2016 and 2015, which includes contributions toward the actuarially determined accrued liability and the amortization of deferred inflows of resources, was approximately $39,500 and $20,800, respectively. During 2016, the NYSLRS changed (reduced) the discount rate by 0.5% and incurred $68,821 in investment losses compared to actuarial assumed investment returns. This resulted in an increase in the net pension liability of $99,072 that is being amortized over five years. The amortization component of total pension expense has been separately presented on the statements of revenues, expenses and changes in net position.

(Dollars in Thousands)

Note 10. Other Post-Employment Benefits (OPEB)

The Corporation adopted the provisions of accounting for post-employment benefits other than pensions in accordance with U.S. GAAP which establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. These standards provide relevance and usefulness of financial reporting by 1) recognizing the cost of benefits in periods when the related services are received by the employer; 2) providing information about the actuarial accrued liabilities for promised benefits associated with past services and whether and to what extent those benefits have been funded; and 3) providing information useful in assessing potential demands on the employer's future cash flows.

Plan description: The Corporation provides OPEB that include basic medical and hospitalization plan coverage to eligible retirees. Eligible retirees may only be covered under the indemnified plan of the Corporation. To qualify, a retiree must meet various eligibility requirements as agreed to in collective bargaining agreements. The Corporation pays varying amounts based on specific union agreements.

Funding the plan: Currently, there is no New York State statute that expressly authorizes local governments to create a trust for OPEB purposes. Additionally, New York State's General Municipal Law does not allow for a reserve fund to accumulate funds for OPEB obligations. The Corporation's Board of Directors and management believe it is prudent to reserve funds for the Plan and have therefore internally designated $24,831 in 2016 and 2015 for purposes of funding future post-employment benefits. These internally designated funds are included within assets whose use is limited. In addition to the funding for future post-employment benefits, the Corporation continues to finance current benefits on a pay-as-you-go basis.

Annual OPEB cost and net OPEB obligation: The Corporation's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of U.S. GAAP. 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 (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the Corporation's annual OPEB cost for the years 2016, 2015 and 2014, the amount actually contributed to the plan, and changes in the net OPEB obligation:

	2016	2015	2014
Annual OPEB Cost and Net OPEB Obligation			
Annual required contribution	$ 29,003	$ 21,205	$ 17,712
Interest on net OPEB obligation	6,286	5,693	5,230
Adjustment to annual required contribution	(8,365)	(5,119)	(4,702)
Annual OPEB cost	26,924	21,779	18,240
Contributions made	(10,961)	(9,307)	(8,496)
Increase in net OPEB obligations	15,963	12,472	9,744
Net OPEB obligation – beginning of year	132,331	119,859	110,115
Net OPEB obligation – end of year	$ 148,294	$ 132,331	$ 119,859

(Dollars in Thousands)

Note 10. Other Post-Employment Benefits (OPEB) (Continued)

The following table illustrates the Corporation's annual OPEB cost, percentage of annual OPEB cost contributed, and the net OPEB obligation at end of year:

	2016	2015	2014
Annual OPEB cost	$ 26,924	$ 21,779	$ 18,240
Percentage of annual OPEB cost contributed	40.7%	42.7%	46.6%
Net OPEB obligation at end of year	$ 148,294	$ 132,331	$ 119,859

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

In the January 1, 2016 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4.75% investment rate of return, which is the projected long-term earning rate of the assets expected to be available to pay benefits. Since the Corporation does not currently segregate funding for these benefits, the appropriate rate is the expected return on the Corporation's general assets. Actuarial assumptions included an annual healthcare cost trend rate of 7.50% initially, reduced by decrements to an ultimate rate of 3.9% for the pre-65 plan and an initial rate of 5.8%, reduced by decrements to an ultimate rate of 3.9% for the post-65 plan over a long-term period. An assumed initial rate of 10.5%, reduced by decrements to an ultimate rate of 3.9% was used for the prescription drug plan over the same time frame. All rates included a 2.25% inflation assumption. The Unfunded Actuarial Accrued Liability (UAAL) is being amortized using the level dollar amortization period. The amortization period is 30 years.

Note 11. Delivery System Reform Incentive Payment (DSRIP) Program

In April 2014, the federal government approved a New York State Medicaid waiver request to reinvest $8 billion in federal savings to support implementation of transformative reforms to the State's healthcare system. Delivery system reforms will primarily be implemented through $7.4 billion of DSRIP Incentive payments for community-level collaborations to achieve programmatic objectives with a goal of reducing avoidable hospital use by 25% over five years. Additionally, $500 million was awarded through an Interim Access Assurance Fund (IAAF) to ensure the financial viability of critical safety net providers during the period prior to DSRIP implementation.

The IAAF, part of the DSRIP program, is a grant program authorized under the recently approved $8 billion Medicaid 1115 waiver. Its purpose is to assist safety net hospitals in severe financial distress and major public hospital systems to sustain key healthcare services as they participate with other providers to develop proposals for systems of integrated services delivery to be funded and implemented under the DSRIP. The Corporation was awarded a total of $8,484 for IAAF in 2014. The Corporation recorded $5,400 of IAAF grant revenue during the year ended December 31, 2015. In June 2015, the New York State Department of Health (NYSDOH) announced DSRIP valuation awards, which represent the total potential amount that each Performing Provider System (PPS) is eligible to earn in performance payments over the five years of the DSRIP program. The Corporation-led PPS received a valuation award of $243,020.

Note 11. Delivery System Reform Incentive Payment (DSRIP) Program (Continued)

As the DSRIP program requires, the Corporation serves as fiduciary or lead entity for a coalition of Medicaid provider and social services organizations referred to as a Performing Provider System (PPS). The PPS is referred to as Millennium Collaborative Care (MCC). Since April 2014, the Corporation has dedicated significant effort to enterprise-level and PPS-level preparation for participation in the DSRIP program, and in execution of NYSDOH required organizational and project planning essential to implementing and managing DSRIP program efforts. Notable activities include the establishment of PPS governance structures and the operationalization of MCC which is dedicated to DSRIP implementation and management.

During 2016, net DSRIP payments received by the Corporation totaled $15,355 ($18,190 in 2015). In addition, $23,966 and $4,499 was recorded as grant revenue for the years ended December 31, 2016 and 2015, respectively, based on meeting the eligibility requirements. Finally, $23,062 and $4,059, of related grant program expenses were incurred during 2016 and 2015, respectively.

Note 12. Care Restructuring Enhancement Pilot (CREPS) Program Grant

During 2016, the federal government approved a NYS Medicaid waiver request establishing the CREPS Program. The Corporation was awarded a grant under the CREPS Program administered by the New York State Department of Health. The total award amount is approximately $97,260 over the period April 1, 2016 to March 31, 2020 in state fiscal year annual distribution amounts of $43,930, $30,010, $13,320, and $10,000, respectively. The Corporation is responsible for achieving certain goals of the CREPS Program in each year in order to qualify for the funding. The Corporation believes it has achieved substantially all of the goals for year 1 of the program and has recognized related revenue in the amount of $20,040.

Note 13. Transactions With the County of Erie

Settlement agreement: On December 30, 2009, the Corporation and the County entered into a “Settlement Agreement”. The Settlement Agreement resulted in the Corporation and the County entering into a number of transactions to resolve litigation and prepare for implementing the Corporation’s master facility plan.

In October 2012, the Corporation and the County signed an amendment to the 2009 Settlement Agreement (the “Amendment”). The terms of the Amendment provide for the County to be reimbursed from the Corporation for certain workers compensation claims incurred by Corporation employees that were paid by the County. The Amendment also provides for the County to reimburse the Corporation, over time, for post-retirement health expenses that the Corporation incurred for Corporation employees with service time at the County.

Note 13. Transactions With the County of Erie (Continued)

Other transactions: Amounts that are included in operating revenues and expenses in the statements of revenues, expenses, and changes in net position, which represent related-party transactions that occurred between the Corporation and the County during the years ended December 31, 2016 and 2015, are as follows:

The Corporation earned revenue totaling $2,953 and $2,800 for the years ended December 31, 2016 and 2015, respectively, from the County. Revenue earned relates to services provided to School 84, mental health services and various other charges related to County departments located within the Corporation's physical plant. The Corporation's expenses incurred for services provided by the County totaled $9 and $3 for the years ended December 31, 2016 and 2015, respectively. Expenses incurred include services for laboratory fees.

The net amount due from the County of approximately $18,800 and $11,800 at December 31, 2016 and 2015, respectively, is non-interest bearing and reflect the Corporation's net amount owed from the County as a result of various transactions and services between parties. This balance is reported as a component of other receivables in the statement of net position.

Note 14. Self-Insured Obligations

The Corporation is self-insured for all medical malpractice claims for occurrences on or after January 1, 2004, and pursuant to agreement with the County, the County has agreed to provide the Corporation indemnification for malpractice related exposures of up to $1,000 for both 2007 and 2006. Approximately $387 and $732 of indemnification remains available for 2007 and 2006, respectively. Additionally, the Corporation began purchasing excess stop loss insurance on a claims made basis for medical malpractice effective November 2008. The current policy provides $30,000 of coverage in excess of $3,000 of individual claims or $10,000 in aggregate claims effective November 18, 2013. Previously the policy provided $20,000 of coverage in excess of $5,000 of individual claims or $7,000 in aggregate claims.

Effective April 1, 2016, the Corporation became self-insured for workers compensation claims through a combination of self-insurance and a high-deductible plan for certain periods as follows: The Corporation maintains a stop-loss insurance policy for the claims in excess of $750. Effective January 1, 2012, the Corporation insured a portion of its Workers' Compensation exposure through a claims made high-deductible plan. The Corporation remains responsible for the first $750 of an individual claim payment after December 31, 2011. The Corporation is required to pledge certain assets under this arrangement. As of December 31, 2016 and 2015, $19,198 and $19,114, respectively, has been designated to service workers compensation claims and included as part of assets whose use is limited. The Corporation remains self-insured for Workers' Compensation claims prior to January 1, 2012. The County has assumed a portion of liabilities for all occurrences originating prior to 2004.

Losses from asserted and unasserted medical malpractice and workers compensation claims are accrued based on actuarial estimates that incorporate the Corporation's past experience, the nature of each claim or incident, relevant trend factors, and estimated recoveries, if any, on unsettled claims.

The Corporation has accrued $27,310 and $22,675 at 2016 and 2015, respectively, for medical malpractice related exposures. Such amounts have been discounted at 2.0% for 2016 and 2015 and the accrued liabilities are included within the accrued other liabilities and self-insurance obligations caption of the accompanying statement of net position. Charges to expense for medical malpractice costs are included within the other operating expenses caption of the accompanying statements of revenues, expenses and changes in net position.

(Dollars in Thousands)

Note 14. Self-Insured Obligations (Continued)

The Corporation has accrued $28,682 and $31,204 at 2016 and 2015, respectively, for workers compensation related exposures. Such amounts have been discounted at 1.25% and the liabilities are included within the accrued other liabilities and self-insurance obligations captions of the accompanying statement of net position. Charges to expense for workers compensation costs approximated $6,177 and $7,480 in 2016 and 2015, respectively, and are included within the payroll, employee benefits and contract labor caption of the accompanying statements of revenues, expenses and changes in net position.

Eligible retirees are provided basic medical and hospitalization coverage by the Corporation as more fully described in Note 10.

The composition of self-insured obligations as of December 31, 2016 and 2015 is as follows:

	2016				
	Beginning Balance	Actuarial estimate of claims incurred	Claims Paid	Ending Balance	Due Within One Year
Other post-employment benefits	$ 132,331	$ 26,924	$ (10,961)	$ 148,294	$ 9,737
Medical malpractice	22,675	5,372	(737)	27,310	1,161
Workers compensation	31,204	4,361	(6,883)	28,682	3,247
	$ 186,210	$ 36,657	$ (18,581)	$ 204,286	$ 14,145

	2015				
	Beginning Balance	Actuarial estimate of claims incurred	Claims Paid	Ending Balance	Due Within One Year
Other post-employment benefits	$ 119,859	$ 21,779	$ (9,307)	$ 132,331	$ 9,109
Medical malpractice	19,252	4,093	(670)	22,675	1,242
Workers compensation	32,524	4,276	(5,596)	31,204	3,171
	$ 171,635	$ 30,148	$ (15,573)	$ 186,210	$ 13,522

Medical malpractice and workers compensation amounts due within one year are management's estimates based on historical claims.

Note 15. Commitments and Contingencies

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations is subject to future government review and interpretation as well as regulatory actions unknown or unasserted at the time. Government activity, in recent years, has increased with respect to investigations and allegations concerning possible violations by health care providers of fraud and abuse statutes and regulations, which could result in the imposition of significant fines and penalties as well as significant repayments for patient services previously billed. While no regulatory allegations have been made against the Corporation, compliance with such laws and regulations can be subject to future government review and interpretations as well as regulatory actions unknown or unasserted at this time. Management and its counsel are not aware of any such actions that will have a material adverse effect on the Corporation's financial statements.

(Dollars in Thousands)

Note 15. Commitments and Contingencies (Continued)

Loss contingency liabilities are recorded in accordance with U.S. GAAP, which requires recognition of a loss when it is deemed probable that an asset has been impaired or a liability has been incurred, and the amount of the loss can be reasonably estimated. As of December 31, 2016 and 2015, the Corporation has recorded no loss contingencies except as disclosed in Note 14.

The Corporation leases various equipment and facilities under operating leases expiring at various dates through May 2026. Total rental expense for all operating leases was approximately $3,600 and $3,400 in 2016 and 2015, respectively.

The following is a schedule by year of future minimum lease payments under operating leases as of December 31, 2016 that have initial or remaining lease terms in excess of one year:

2017	$	2,524
2018		1,571
2019		1,226
2020		770
2021		747
2022-2026		2,643
	$	9,481

Supplementary Information

Erie County Medical Center Corporation
(A Component Unit of the County of Erie)

Schedule of Funding Progress for the Postemployment Retiree Healthcare Plan
(Dollars in Thousands)

Actuarial Valuation Date	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
January 1, 2016	$ 335,639	$ 335,639	$ 112,351	298.7%
January 1, 2015	$ 300,728	$ 300,728	$ 115,349	260.7%
January 1, 2014	$ 249,469	$ 249,469	$ 116,986	213.3%

Erie County Medical Center Corporation
(A Component Unit of the County of Erie)

Schedule of Corporation's Contributions
NYSLRS Pension Plan
December 31, 2016
(Dollars in Thousands)

	2016	2015	2014	2013
Contractually required contribution	$ 26,722	$ 29,771	$ 29,835	$ 27,164
Contributions in relation to the contractually required contribution	26,722	29,771	29,835	27,164
Contribution deficiency	$ -	$ -	$ -	$ -
ECMCC covered-employee payroll	$ 186,218	$ 172,851	$ 162,961	$ 151,906
Contributions as a percentage of covered-employee payroll	14.3%	17.2%	18.3%	17.9%

Note: During December 2016, the Corporation prepaid its 2017 contribution to the plan in the amount of $25,235 to take advantage of a prepayment discount in the amount of $214.

Note: GASB requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the Corporation wil present information for those year for which information is available.

Erie County Medical Center Corporation
(A Component Unit of the County of Erie)

Schedule of Corporation's Proportionate Share of Net Pension Liability
NYSLRS Pension Plan
December 31, 2016
(Dollars in Thousands)

	2016	2015
ECMCC proportionate of the net pension liability	0.7228%	0.7137%
ECMCC proportionate share of the net pension liability	$ 116,006	$ 24,112
ECMCC covered-employee payroll	186,218	172,851
ECMCC proportionate share of the net pension liability as a percentage of it's covered-employee payroll	62.3%	13.9%
Plan fiduciary net position as a percentage of the total pension liability	90.7%	97.9%

Note: GASB requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the Hospital will present information for those years for which information is available.

Erie County Medical Center Corporation

(A Component Unit of the County of Erie)

Uniform Guidance Audit Requirements

December 31, 2016

Erie County Medical Center Corporation
(A Component Unit of the County of Erie)

Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2016

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Grant Number	Federal Expenditures
U.S. Department of Health and Human Services Health Resources and Services Administration:			
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	N/A	$ 744,981
Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153	H12HA24856	357,244
Ryan White HIV/AIDS Dental Reimbursement and Community Based Dental Partnership Grants	93.924	N/A	23,196
Total U.S. Department of Health and Human Services Health Resources and Services Administration Direct Programs			1,125,421
U.S. Department of Health and Human Services pass through program from:			
Health Research Inc.:			
Hospital Preparedeness Program (HPP) Ebola Preparedness and Response Activities	93.817	6U3REP1505200102	23,428
National Bioterrorism Hospital Preparedness Program	93.889	NU90TP000515	49,000
HIV Care Formula Grants	93.917	X07HA00025	232,358
Research Foundation for Mental Hygiene Inc.:			
Cooperative Agreements to Implement the National Strategy for Suicide Prevention	93.764	1011825	37,500
New York/ New Jersey AIDS Education and Training Center			
AIDS Education and Training Centers	93.145	5 H4A HA 0071-12	29,044
Total U.S. Department of Health and Human Services Pass Through Programs			371,330
Total Expenditures of Federal Awards			$ 1,496,751

Note: There were no funds passed through to subrecipients by Erie County Medical Center Corporation.

See notes to the schedule of expenditures of federal awards.

Note to Schedule of Expenditures of Federal Awards
Year Ended December 31, 2016

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Erie County Medical Center Corporation (the Corporation) under programs of the federal government for the year ended December 31, 2016. The information on this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

For purposes of the Schedule, federal awards include all federal assistance entered into directly between the Corporation and the federal government and sub-awards from nonfederal organizations made under federally sponsored agreements. The Schedule does not include payments received under Medicare and Medicaid reimbursement programs. Because the Schedule presents only a selected portion of the activities of the Corporation, it is not intended to, and does not, present the financial position, changes in net position and cash flows of the Corporation.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-122, *Cost Principles for Non-Profit Organizations,* or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Corporation has elected to not exercise its option to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 3. Other Federal Awards

There were no federal awards expended for noncash assistance, insurance, or any loans, loan guarantees, or interest subsidies outstanding at December 31, 2016.

Note 4. Subrecipients

The Corporation did not provide federal awards to any subrecipients during the year ended December 31, 2016.

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*

Independent Auditor's Report

To the Board of Directors
Erie County Medical Center Corporation
Buffalo, New York

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the discretely presented component units of Erie County Medical Center Corporation (the "Corporation") as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated March 22, 2017. The financial statements of ECMC Foundation, Inc., the Grider Initiative, Inc. and Research for Health in Erie County, Inc. were not audited in accordance with *Government Auditing Standards,* and accordingly, this report does not include reporting on internal controls over financial reporting or instances of reportable noncompliance associated with ECMC Foundation, Inc., the Grider Initiative, Inc. and Research for Health in Erie County, Inc.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements, will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control 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 the Corporation'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 the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

March 22, 2017

Report on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Independent Auditor's Report

To the Board of Directors
Erie County Medical Center Corporation
Buffalo, New York

Report on Compliance for Each Major Federal Program
We have audited Erie County Medical Center Corporation's (the "Corporation") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Corporation's major federal programs for the year ended December 31, 2016. The Corporation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility
Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility
Our responsibility is to express an opinion on compliance for each of the Corporation's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Corporation's compliance.

Opinion on Each Major Federal Program
In our opinion, the Corporation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2016.

Report on Internal Control Over Compliance
Management of the Corporation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Corporation's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance
We have audited the financial statements of December 31, 2016 as of and for the year ended December 31, 2016 and have issued our report thereon dated March 22, 2017, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance 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 schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

RSM US LLP

March 22, 2017

Erie County Medical Center Corporation
(A Component Unit of the County of Erie)

Schedule of Findings and Questioned Costs
Year Ended December 31, 2016

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified			
Internal control over financial reporting:				
Material weakness(es) identified?		yes	X	no
Significant deficiency(ies) identified?		yes	X	none reported
Noncompliance material to financial statements noted?		yes	X	no

Federal Awards

Internal control over major programs:				
• Material weakness(es) identified?		yes	X	no
• Significant deficiency(ies) identified?		yes	X	none reported
Type of auditor's report issued on compliance for major programs:	Unmodified			
Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)?		yes	X	no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
93.153	Coordinated Services and Access to Research for Women, Infants, Children, and Youth
93.917	HIV Care Formula Grants

Dollar threshold used to distinguish between Type A and Type B programs:			$ 750,000	
Auditee qualified as a low risk auditee?	X	yes		no

Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2016

Section II - Financial Statement Findings

No findings noted.

Section III - Findings and Questioned Costs for Federal Awards

No findings noted.

Erie County Medical Center Corporation
(A Component Unit of the County of Erie)

Summary Schedule of Prior Year Findings and Questioned Costs
Year Ended December 31, 2016

Section II – Financial Statement Findings

No findings noted.

Section III - Findings and Questioned Costs for Federal Awards

No findings noted.