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

Financial Report
December 31, 2015

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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 year ended December 31, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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

Emphasis of Matter

As disclosed in Note 9 of the financial statements, the Corporation adopted the reporting and disclosure requirements of GASB Statement No. 68 – *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*. The implementation of those statements results in a restatement of opening net position. Our opinion is not modified with respect to this matter.

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.

RSM US LLP

March 28, 2016

Management's Discussion and Analysis

The Corporation is considered a component unit of the County of Erie with its core operating mission the delivery of quality health care services to all persons in need of its services in Erie County, the Western Region and New York State, including persons in need who lack the ability to pay. The Corporation fully embraces and is proud to serve in its role as the safety net provider for its 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
- Supplemental schedule(s)

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, 2015. The purpose of the Discussion and Analysis is to provide the reader with objective data to evaluate the Corporation. As discussed in Note 9 of the financial statements, net position at January 1, 2015 was restated for the required implementation of Governmental Accounting Standards Board (GASB) Statement No. 68 – *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71*, Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Accordingly, comparative information for fluctuations with prior years has been provided in certain instances where not impacted by this restatement. This narrative and the financial statements and footnotes, are the responsibility of the Corporation's management.

The financial statements (the statement of net position, the statement of revenues, expenses and changes in net position and the statement 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 the execution of its strategic plan and investments made over the past five years, the Corporation completed calendar year 2015 providing a record level of services to the Western New York region. Significant volumes (not expressed in thousands) of patients served are as follows:

	2010	2011	2012	2013	2014	2015
Inpatients	15,007	15,238	16,091	16,316	17,789	18,378
Surgeries	11,944	12,442	12,712	12,714	13,360	14,364
Emergency	58,090	61,418	63,930	64,698	66,418	67,296
Outpatients	255,264	250,707	252,524	253,781	295,676	305,737

(Dollars in Thousands)

Operations Analysis (Continued)

The favorable growth can be attributed to investments in physician recruitment and retention, a focus on quality and patient satisfaction, the investment in the development of employees and investments in physical building and equipment. Notable investments in this regard are:

- Recruitment of physicians to transplant, orthopedics, geriatrics, anesthesiology, primary care and a new hospitalist service.
- Continuation of a four (4) year trend in annual improvements in HCAHPS (Hospital Consumer Assessment of Healthcare Providers and Systems) scores.
- Verification from the American College of Surgeons as a Level 1 Trauma Center with no deficiencies.
- Recognition from CMS (Centers for Medicare and Medicaid Services) and the NYSDOH (New York State Department of Health) for improving infection rates and hospital acquired condition rates.
- Recognition of the quality of nursing in multiple awards including the Nurse of Distinction Award and Western New York Outstanding Staff Nurse Award.
- The opening of the Russell J. Salvatore Orthopedic Unit, new surgical suites, an occupational and environmental health clinic and new state of the art imaging equipment.

In addition to the favorable financial performance of the Corporation, the ECMC Lifeline Foundation, Inc. officially changed its name to the ECMC Foundation, Inc. and established record levels of attendance at signature events including: The Springfest Gala, October breast cancer awareness month, its annual golf tournament and more.

Financial Metric Analysis

The Corporation's total net position before adoption of GASB 68 and 71 increased $859 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 2014 (most recent available) based on the average of published and publicly available data for Urban Hospitals, Teaching Hospitals, Government Hospitals and NYS Public Benefit Corporation Hospitals are as follows:

	ECMCC			Blended Benchmark
	2015	2014	2013	2014
Operating margin	0.1%	0.2%	0.2%	-1.4%
Operating cash flow margin	6.7%	7.5%	6.3%	6.9%
Debt to total capitalization	61.9%	61.8%	63.2%	72.1%
Debt service coverage	2.5	3.0	2.0	3.0
Days cash on hand	70.8	75.0	106.0	78.0
Days in accounts receivable	53.0	44.0	48.0	45.7
Average age of plant	12.8	10.0	13.0	12.3

The financial ratios reflect stable results of operations and favorable performance compared to the blended benchmark as measured by the operating margin. Cash flow generation demonstrated by operating cash flow margin and debt service coverage have improved from 2013 to 2015 and are approaching benchmark levels. Debt levels and financial leverage, measured by debt to total capitalization, has been stable and is favorable compared to the blended benchmark. Days cash on hand has decreased from 2013 to 2015 due to the investment in capital assets noted above and increases in other receivables principally from the Disproportionate Share Hospital (DSH) program. Management notes that the comparisons of actual performance to these data is consistent with ECMCC's status as the region's safety net provider.

(Dollars in Thousands)

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.

Statement 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.

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 operations of the Corporation, and may be used at the discretion of the Board of Directors to meet current expenses for any purpose.

A condensed Statement of Net Position is as follows:

			2015-2014	
	2015	2014	$ Change	% Change
Assets				
Current assets	$ 173,023	$ 137,942	$ 35,081	25.4
Assets whose use is limited	124,922	118,697	6,225	5.2
Capital assets, net	279,812	288,997	(9,185)	(3.2)
Other assets	36,467	31,286	5,181	16.6
Total assets	614,224	576,922	37,302	6.5
Deferred outflows of resources	6,184	-	6,184	100.0
Total assets and deferred outflows	$ 620,408	$ 576,922	$ 43,486	7.5
Liabilities				
Current liabilities	$ 130,424	$ 125,928	$ 4,496	3.6
Noncurrent liabilities	365,972	331,963	34,009	10.2
Total liabilities	496,396	457,891	38,505	8.4
Deferred inflows of resources	4,122	-	4,122	100.0
Net Position				
Net investment in capital assets	107,223	122,492	(15,269)	(12.5)
Restricted	32,258	11,201	21,057	188.0
Unrestricted	(19,591)	(14,662)	(4,929)	33.6
Total net position	119,890	119,031	859	0.7
Total liabilities, deferred inflows and net position	$ 620,408	$ 576,922	$ 43,486	7.5

Overall, total assets and deferred outflows of resources increased $43,486 from 2014 to 2015, $6,184 of which is associated with deferred outflows of resources and the aforementioned implementation of GASB Statement No. 68 and 71.

Statement of Net Position (Continued)

The following variances in total assets are noteworthy:

Total current assets increased by $35,081 due to the following:

- Cash and cash equivalents increased by $23,431 largely as a result of timing of benefit and accounts payable payments.
- Patient accounts receivable, net, increased by $16,344 as a result of increased volumes and resultant net patient services revenues ($4,343), an increase in accounts receivable realization ($8,145) and other factors including the conversion to ICD-10. The increase in accounts receivable realization is due to improvements in revenue cycle performance and the impact of the Affordable Care Act (ACA) with decreases in uninsured patients enrolled in Medicaid and Exchange Plans.
- Other receivables decreased by $10,283, of which $8,014 is associated with the timing of receipts of Medicaid DSH (IGT) payments.
- Supplies and prepaid expenses decreased by $2,472, of which $1,224 is due to reduced deposit requirements associated with a supply distribution agreement.

- Assets whose use is limited increased by $6,225 as a result of changes in funding level associated with self-insurance obligations, increase in the collateral requirements for the workers' compensation insurance program and Delivery System Reform Incentive Payment (DSRIP) grant funds received but not expended.
- Capital assets, net decreased by $9,185 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 increased by $5,181 largely as a result of transactions with Erie County.

Overall, total liabilities increased $38,505 from 2014 to 2015. Net position had an increase of $859 (0.7%) in 2015 from 2014.

The following variances in total liabilities are noteworthy:

Total current liabilities increased by $4,496 due to the following:

- Accounts payable and accrued salaries and benefits increased by $7,489 due to timing of payments as noted above.
- Unearned revenue increased by $7,368 due to receipt of DSRIP grant funds that have not been expended.
- Estimated third-party payer settlements decreased by $17,733 as a result of recording revenue associated with the New York State Nursing Home Universal Settlement, Terrace View construction cost certification with its related reimbursement and prior year Terrace View upper payment limit amounts due.

- A net pension liability was recognized in 2015 in the amount of $24,112 due to the adoption of GASB Statement No. 68 – *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*.
- Current and long-term portions of self-insured obligations increased by $14,575 due to changes in actuarial estimates for post-employment health insurance and obligations for self-insured retentions for malpractice and workers' compensation claims. In addition, $9,109 was re-characterized to current liabilities in 2015 for postretirement health obligations due within one year.

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

Management's Discussion and Analysis
December 31, 2015
(Dollars in Thousands)

Statement of Revenues, Expenses, and Changes in Net Position

A condensed Statement of Revenues, Expenses and Changes in Net Position is as follows:

	2015	2014	2015-2014 $ Change	2015-2014 % Change
Net patient services revenue	$ 467,748	$ 431,724	$ 36,024	8.3
Disproportionate share revenue (DSH)	59,237	65,883	(6,646)	(10.1)
Delivery System Reform Incentive Payment (DSRIP) grants	4,499	-	4,499	100.0
Other operating revenue	21,590	17,082	4,508	26.4
Total operating revenues	553,074	514,689	38,385	7.5
Operating expenses				
Payroll, employee benefits and contract labor	297,397	283,769	13,628	4.8
Professional fees	70,260	65,971	4,289	6.5
Purchased services	43,959	42,104	1,855	4.4
Supplies	74,063	68,933	5,130	7.4
Other operating expenses	26,250	15,452	10,798	69.9
Delivery System Reform Incentive Payment (DSRIP) grant expenses	4,059	-	4,059	100.0
Depreciation and amortization	27,929	29,168	(1,239)	(4.2)
Total operating expenses	543,917	505,397	38,520	7.6
Operating income	9,157	9,292	(135)	(1.5)
Total net non-operating (expenses) revenues	(5,815)	(6,269)	454	(7.2)
Change in net position	3,342	3,023	319	10.6
Net position, beginning of year	119,031	116,008	3,023	2.6
Restatement due to adoption of GASB Statement No. 68 and 71	(2,483)	-	-	-
Net position, beginning of year, as restated	116,548	-	-	-
Net position, end of year	$ 119,890	$ 119,031	$ 859	0.7

Overall, operating revenues increased by $38,385 or 7.5% in 2015.

- Net patient service revenue increased $36,024, or 8.3% in 2015. Volumes increased for both inpatient and outpatient lines of business. Total discharges increased 3.3% from 17,789 to 18,378. Outpatient visits increased 3.4% from 295,676 to 305,737. ER visits increased 1.3% from 66,418 to 67,296.
- DSH decreased by $6,646, or 10.1%, in 2015 principally due to changes in uncompensated care provided in part due to the Affordable Care Act and changes in estimates for Upper Payment Limit (UPL) funding associated with the transition from the Erie County Home to Terrace View and its resultant reduction in nursing home beds.
- Other operating revenue increased by $4,508, or 26.4%, in 2015. The increase from 2014 to 2015 is mainly the result of the recognition of grant revenues associated with the Intermediate Access Assurance Fund and Design Planning Grants associated with the New York State Delivery System Reform Incentive Plan (DSRIP).

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

Operating expenses increased $38,520 or 7.6%, in 2015. Expense increases are attributable primarily to payroll and related costs, professional fees and supplies due to increases in volumes and other expenses.

Employee benefit expenses have decreased by $5,036 (5.0%) as the net result of a $9,054 decrease in pension expense associated with the adoption of GASB 68, and favorable workers' compensation claims experience of $1,349 which have been offset by increased post-employment health insurance expense and general benefit increases associated with increased salaries.

Capital Assets, Net, and Long-Term Debt

At December 31, 2015, the Corporation had capital assets, net of accumulated depreciation of $279,812 compared to $288,997 at December 31, 2014, representing a decrease of $9,185 or 3.2%.

Major investments in capital assets in 2015 include:

- Completion of the Russell J. Salvatore Orthopedic Unit of approximately $8,873.
- Construction and fit out of two new operating rooms of approximately $1,322.
- Radiology equipment and renovations of $1,601.
- Renovation of patient care units including dedicated Ebola rooms of approximately $3,100.
- Construction in progress includes investments in a new Orthopedic Clinic, Emergency room, and other first floor renovations.

At December 31, 2015, the Corporation had $176,502 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) is in effect through December 31, 2015. 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. 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 President signed into law the Patient Protection and ACA which includes sweeping changes to how health care is provided, and paid for, in the United States. The President 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 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 Program (DSRIP).

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. 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 hospital(s) 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 Millennium Collaborative Care (MCC), a d/b/a of the Corporation including nearly 400 health care partners led by the Corporation. In December 2014, MCC submitted its application for DSRIP program funding to begin the process of reform. Through 2015 the Corporation and MCC have worked diligently to achieve the goals established for the first year of the grant which ends on March 31, 2016.

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)

Statement of Net Position
December 31, 2015
(Dollars in Thousands)

Assets and Deferred Outflows		
Current Assets:		
Cash and cash equivalents	$	29,682
Investments		11,331
Assets whose use is limited		37,179
Patient accounts receivable, net		67,835
Other receivables		56,900
Supplies, prepaids and other		7,275
Total current assets		210,202
Assets whose use is limited		87,743
Capital assets, net		279,812
Other assets, net		36,467
		404,022
Total assets		614,224
Deferred Outflows of Resources:		
Pensions		4,960
Other		1,224
Total deferred outflows of resources		6,184
Total assets and deferred outflows of resources	$	620,408
Liabilities, Deferred Inflows and Net Position		
Current Liabilities:		
Current portion of long-term debt	$	10,619
Accounts payable		44,651
Accrued salaries, wages and employee benefits		19,188
Accrued other liabilities		39,498
Unearned revenue		13,691
Estimated third-party payor settlements		2,777
Total current liabilities		130,424
Long-term debt, net		165,883
Net pension liability		24,112
Self-insured obligations		172,688
Other		3,289
Total liabilities		496,396
Deferred Inflows of Resources - Pensions		4,122
Net Position		
Net investment in capital assets		107,223
Restricted:		
Nonexpendable		-
Expendable		32,258
Unrestricted		(19,591)
Total net position		119,890
Total liabilities, deferred inflows and net position	$	620,408

See Notes to the Financial Statements.

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

Statement of Revenues, Expenses and Changes in Net Position
Year Ended December 31, 2015
(Dollars in Thousands)

Operating Revenues:	
Net patient service revenue, net of provision for bad debts of $10,565	$ 467,748
Disproportionate share revenue	59,237
Delivery System Reform Incentive Payment (DSRIP) grants	4,499
Other operating revenue	21,590
Total operating revenues	553,074
Operating Expenses:	
Payroll, employee benefits and contract labor	297,397
Professional fees	70,260
Purchased services	43,959
Supplies	74,063
Other operating expenses	26,250
Delivery System Reform Incentive Payment (DSRIP) grant expenses	4,059
Depreciation and amortization	27,929
Total operating expenses	543,917
Operating income	9,157
Non-Operating (Expenses) Revenues:	
Investment income	2,931
Contributions to component unit	(1,081)
Interest expense	(8,240)
Total net non-operating (expenses) revenues	(6,390)
Income before capital contributions	2,767
Capital contributions	575
Total change in net position	3,342
Net position – beginning of year - as restated (Note 9)	116,548
Net position – end of year	$ 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, 2015
(Dollars in Thousands)

Cash Flows From Operating Activities:	
Receipts from patients and third party payors	$ 443,954
Payments to employees for salaries and benefits	(274,221)
Payments to vendors for supplies and other	(199,252)
Other receipts	92,694
Net cash provided by operating activities	63,175
Cash Flows From Non-Capital Financing Activities:	
Settlements with Erie County	(9,120)
Payments from Erie County	2,000
Transfers to component unit	(1,081)
Net cash used in non-capital financing activities	(8,201)
Cash Flows From Capital and Related Financing Activities:	
Purchases of capital assets	(14,309)
Capital contributions	575
Borrowings on capital lease	10,000
Payments on capital lease	(687)
Principal payments on long term debt	(7,527)
Interest paid on long term debt	(8,240)
Net cash used in capital and related financing activities	(20,188)
Cash Flows From Investing Activities:	
Purchases of assets whose use is limited, net	(6,225)
Investment income	2,931
Purchases of investments, net	(8,061)
Net cash used in investing activities	(11,355)
Net change in cash and cash equivalents	23,431
Cash and cash equivalents	
Beginning	6,251
Ending	$ 29,682

Noncash Capital Activities:

Included in accounts payable at December 31, 2015 is $4,435 of invoices related to capital acquisitions.

(Continued)

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

Statement of Cash Flows (Continued)
Year Ended December 31, 2015
(Dollars in Thousands)

Reconciliation of Operating Income to Net Cash	
Provided by Operating Activities	
Operating income	$ 9,157
Adjustments to reconcile operating income to net cash	
provided by operating activities	
Depreciation and amortization	27,929
Provision for bad debt	10,565
Patient accounts receivable	(26,909)
Other receivables	10,283
Supplies, prepaids and other	(3,680)
Deferred outflows of pension resources	24,557
Accounts payable	6,140
Accrued liabilities	12,213
Unearned revenue	7,368
Estimated third-party payor settlements	(17,733)
Self-insured obligations	7,304
Net pension liability	(8,141)
Deferred inflows of pension resources	4,122
Net cash provided by operating activities	$ 63,175

See Notes to the Financial Statements.

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

Statement of Net Position - Component Units
December 31, 2015
(Dollars in Thousands)

	ECMC Foundation, Inc.	The Grider Initiative, Inc.	Research for Health in Erie County, Inc.	Total
Assets				
Current Assets:				
Cash and cash equivalents	$ 644	$ 283	$ 2	$ 929
Investments	689	-	1,042	1,731
Assets whose use is limited	845	-	-	845
Other receivables	1,251	1,080	-	2,331
Supplies, prepaids and other	43	-	-	43
Total current assets	3,472	1,363	1,044	5,879
Other receivables	1,311	-	-	1,311
Endowment and other investments	58	10,567	-	10,625
Equipment and vehicles, net	270	-	-	270
	1,639	10,567	-	12,206
Total assets	$ 5,111	$ 11,930	$ 1,044	$ 18,085
Liabilities and Net Position				
Current Liabilities:				
Accounts payable	$ 636	$ -	$ 5	$ 641
Funds held in custody for others	354	-	-	354
Total current liabilities	990	-	5	995
Related party	650	1,088	-	1,738
Interest payable	17	-	-	17
	667	1,088	-	1,755
Total liabilities	1,657	1,088	5	2,750
Net Position				
Restricted	2,094	10,000	-	12,094
Unrestricted	1,360	842	1,039	3,241
Total net position	3,454	10,842	1,039	15,335
Total liabilities and net position	$ 5,111	$ 11,930	$ 1,044	$ 18,085

See Notes to the Financial Statements.

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

Statement of Revenues, Expenses and Changes in Net Position - Component Units
Year Ended December 31, 2015
(Dollars in Thousands)

	ECMC Foundation, Inc.	The Grider Initiative, Inc.	Research for Health in Erie County, Inc.	Total
Operating Revenues:				
Grants, contributions and special events	$ 3,063	$ -	$ -	$ 3,063
Other operating revenue, net	13	-	-	13
Total operating revenues	3,076	-	-	3,076
Operating Expenses:				
Program services and grants	624	1,081	19	1,724
Fundraising	1,538	-	-	1,538
Other operating expenses	886	8	3	897
Total operating expenses	3,048	1,089	22	4,159
Operating income (loss)	28	(1,089)	(22)	(1,083)
Non-Operating Revenue:				
Contributions from related party	-	1,081	-	1,081
Investment income	10	(27)	4	(13)
Change in net position	38	(35)	(18)	(15)
Net position – beginning of year	3,416	10,877	1,057	15,350
Net position – end of year	$ 3,454	$ 10,842	$ 1,039	$ 15,335

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"). 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 569-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, a primary care clinic located in the City of Buffalo, and four chemical dependency and alcohol rehabilitation clinics located throughout the County. The Corporation serves as the region's only 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 corporate 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 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 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 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, 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 Affiliation: The Corporation serves as a primary teaching hospital for the State University of New York at Buffalo School of Medicine and Biomedical Sciences (the "Medical School"). An affiliation agreement governs the relationship between the Corporation and the Medical School. As an affiliate of 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 166 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 based on the nature and significance of the Corporation's relationship with these organizations.

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 reasonable 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. 424 Main Street, Suite 2000, Buffalo, NY 14202.

Research for Health in Erie County, Inc.: Research for Health in Erie County, Inc. (RHEC) is a nonprofit organization dedicated to developing and improving the facilities of the public health institutions, agencies, and departments of the County. Additionally, RHEC is committed to provide more extensive conduct of studies and research into the causes, nature, and treatment of diseases, disorders, and defects of particular importance to the public health. 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 functions 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 which was formed for the purpose of purchasing and rehabilitating properties in the proximity of the 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.

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.”

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 and self-insured retiree health benefits, 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 $2,539 in total operating revenue for the year ended December 31, 2015. 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.

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.

Fair value of financial instruments: The Corporation’s financial instruments consist of investments and any short-term and long-term debt. The carrying amounts of these financial instruments approximate their fair value due to the short-term nature of the financial instruments.

(Dollars in Thousands)

Note 2. Summary of Significant Accounting Policies (Continued)

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, 2015 was approximately $17,133.

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 is $23,617 of securities guaranteed by Governmental National Mortgage Association and insured by the U.S. Department of Housing and Urban Development related to an investment in Kaleida Health's Gates Vascular Institute located on the Buffalo Niagara Medical Campus.

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, 2015, is as follows:

DSH	$ 47,675
Other	9,225
	$ 56,900

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.

Note 2. Summary of Significant Accounting Policies (Continued)

Deferred outflows/inflows of resources: Deferred outflows of resources are a consumption of net positions by the Corporation that is applicable to a future reporting period. Deferred inflows of resources are an acquisition of net positions by the Corporation that is applicable to a future reporting period.

Other assets: Amounts owed from the County, as noted in Note 12, 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, 2015 the Corporation's share of the net assets of the LLC amounted to $7,144.

Unearned revenue: Unearned revenue represents funds received by the Corporation for the Delivery System Reform Incentive Payment Program (DSRIP) 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, 2015, within the caption accrued salaries, wages and employee benefits in the amount of approximately $11,545.

Net position: Net assets are 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:** This includes assets in which the Corporation is legally or contractually obligated to spend in accordance with restrictions imposed by third parties.
>
> **Unrestricted:** This represents resources derived from services rendered to patients and other operating revenues. 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.

Note 2. Summary of Significant Accounting Policies (Continued)

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 $12,255 for the year ended December 31, 2015. Additionally, the Corporation provided approximately $2,890 in discounts to self-pay patients.

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, temporarily restricted net position are released to unrestricted net position and reported in the statements of activities as net position released from restrictions.

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 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.

Note 2. Summary of Significant Accounting Policies (Continued)

Recent and pending accounting pronouncements: Effective January 1, 2015, the Corporation adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement resulted from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The adoption of this statement, further detailed in Note 9, required a restatement of prior year net position to conform to the 2015 presentation.

Effective January 1, 2015, the Corporation adopted GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. The objective of this Statement is address contributions made by a state or local government employer or nonemployer contributing entity to a defined benefit plan after the measurement date of the government's beginning net pension liability. The impact of the adoption of Statement No. 71 has been reflected in Note 9.

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 is effective for periods beginning after June 15, 2015, however, was early adopted by the Corporation as 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. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployments benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. 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.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This Statement supersedes GASB Statement No. 55 and reduces the existing hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within the source of authoritative GAAP. The requirements of this Statement are effective for reporting periods beginning after June 15, 2015. The Corporation believes adopting this Statement will not have a significant impact on the financial statements.

Note 2. Summary of Significant Accounting Policies (Continued)

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*. This Statement requires disclosure of tax abatement information about (1) the reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. For financial reporting purposes, tax abatement is defined as resulting from an agreement between a government and an individual or entity in which the government promised to forgo tax revenues and the individual or entity subsequently take specific action to contribute to the economic development or other benefits of the government. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. The Corporation believes adopting this Statement will not have a significant impact on the financial statements.

In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multi-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address practice issues regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions.* The Statement amends the Scope of Statement No. 68 to exclude pensions provided to employees of state of local government employers through a cost-sharing multi-employer defined benefit plan that (1) is not a statement of local government pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. The Corporation believes adopting this Statement will not have a significant impact on the financial statements.

In December 2015, GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. The objective of this Statement is to establish criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in the Statement. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. The Corporation believes adopting this Statement will not have a significant impact on the financial statements.

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units – an Amendment of GASB Statement No. 14*. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units.* 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.

Subsequent events: The Corporation has evaluated subsequent events for potential recognition and/or disclosure through March 28, 2016, the date the financial statements were available to be issued.

(Dollars in Thousands)

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.

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 statement of revenues, expenses and changes in net position is comprised of the following for the year ended December 31, 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 year ended December 31, 2015 is as follows:

	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.

Patient accounts receivable consist of the following at December 31, 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

(Dollars in Thousands)

Note 3. Net Patient Service Revenue (Continued)

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, 2015 is as follows:

Medicare	29.7%
Medicaid	28.5%
Commercial insurance and HMO's	23.3%
No-fault	8.1%
Self-pay	2.4%
Other	8.0%
Total	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 2015, DSH funding recorded by the Corporation totaled approximately $59,237. 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 $42,503 was recognized in 2015. In addition during 2015, the Corporation recognized approximately $16,734 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 2014-2015 and 2015-2016 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 2013 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.

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.

(Dollars in Thousands)

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

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 Statement of Net Position as follows:

Cash and cash equivalents	$	29,682
Investments		11,331
Assets whose use is limited – current		37,179
Assets whose use is limited – non-current		87,743
	$	165,935
Current Portion of Assets Whose use is Limited		
Patient and residents trust cash	$	428
Restricted for debt service [a]		2,807
Equipment funds [b]		6,636
Designated for self-insurance obligations [d]		4,413
Designated for retiree health obligations [d]		9,109
Designated for DSRIP program [d]		13,691
NYS voluntary defined contribution plan escrow		95
Total current portion of assets whose use is limited	$	37,179
Noncurrent Portion of Assets Whose use is Limited		
Restricted for debt service [a]	$	9,123
Designated for long-term investment [c]		23,617
Designated for retiree health obligations [d]		15,722
Designated for self-insurance obligations [d]		20,167
Restricted – insured workers compensation collateral [e]		19,114
Total noncurrent portion of assets whose use is limited	$	87,743

[a] Funds restricted by operation of indenture agreement
[b] Unspent loan proceeds for equipment
[c] Funds restricted by operation of legal agreements
[d] Funds internally designated by operation of board authority
[e] 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, 2015 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, 2015, totaled $36,846. $972 of the deposits were insured at December 31, 2015. 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. The Corporation is not exposed to custodial credit risk as it relates to its investment portfolio.

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 holds 6.0% of its portfolio in Federal National Mortgage Association (Fannie Mae) issues and 5.4% 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: As noted in Note 2, the Corporation early 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 III assets.

	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	79,559	56,694	-	136,253
Total	$ 109,241	$ 56,694	$ -	$ 165,935

(Dollars in Thousands)

Note 6. Capital Assets

Capital asset activity for the year ended December 31, 2015 is as follows:

	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, 2015 includes costs associated with the planning and design of a new emergency room, construction and remodeling of the Orthopedic clinic and cardiac catheterization lab as well as 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. This building has been 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 12).

Depreciation expense amounted to $27,769 for the year ended December 31, 2015.

Note 7. Accrued Other Liabilities

The composition of accrued other liabilities as of December 31, 2015 is as follows:

Due to Erie County	$ 16,550
Workers compensation claims	3,171
Due to Discretely Presented Component Units	2,629
Medical malpractice claims	1,242
Other post-employment benefits (OPEB)	9,109
Interest costs	814
Other	5,983
Total	$ 39,498

(Dollars in Thousands)

Note 8. Indebtedness

Long-term debt consisted of the following at December 31, 2015:

Erie County - Guaranteed Senior Revenue Bonds, Series 2004 (interest rates range from 5.5% to 5.7% at December 31, 2015) principal payments ranging from $2,860 to $7,220 are due annually on November 1 with interest payments due semi-annually on May 1 and November 1.	$	84,790
Erie County – loan payable (interest rate at 3.7% at December 31, 2015) with principal and interest of $662 due monthly.		80,812
Capital lease obligation to rent a speech recognition and transcription system, together with support and maintenance thereon for a three year period. Under terms of the agreement, the cost of capital is estimated at 5.3% per annum with monthly interest and principal payments of $56 due through June 2017.		977
During 2015, the Corporation entered into a capital lease obligation to purchase various equipment (laboratory equipment, radiology equipment, security system). Under terms of the agreement, the cost of capital is estimated at 2.3% per annum with monthly interest and principal payments of $194 due through June 2020.		9,923
		176,502
Less current portion		10,619
	$	165,883

Future annual principal payments applicable to long term debt for the years subsequent to December 31, 2015 are as follows:

2016	$	10,619
2017		10,711
2018		10,791
2019		11,223
2020		10,506
2021-2025		53,396
2026-2030		48,746
2031-2033		20,510
Total	$	176,502

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.

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.

(Dollars in Thousands)

Note 8. Indebtedness (Continued)

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, 2015 and, accordingly, no sinking funds have been established. The loan payable has a final maturity of October 1, 2028.

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 of $194 and matures June 2020. At December 31, 2015, $6,636 of the proceeds remained unspent and are held in escrow.

Note 9. Pension Plan

For the year ended December 31, 2015, the Corporation implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Among other changes, these Statements changed the manner in which governments account for their proportionate share of the net pension liability and deferred outflows of resources relating to contributions made by government employers. As a result of implementing these Statements, the Corporation was required to restate net position to the earliest period presented. The effect of the restatement on net position is as follows:

Net position as previously reported, December 31, 2014	$ 119,031
Adjustment for net pension liability and deferred outflows of resources	(2,483)
Net position as restated, December 31, 2014	$ 116,548

The effect of the restatement of beginning net position includes the beginning deferred outflows of resources for pension contributions made subsequent to the measurement date of the beginning net pension liability.

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 430,000 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. Investments are reported at fair value.

(Dollars in Thousands)

Note 9. Pension Plan

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, 2015, the Corporation reported a liability of $24,112 for its proportionate share of the NYSLRS net pension liability. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of April 1, 2014 and rolled forward to March 31, 2015. 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 2015, which was 0.7137%.

(a) Actuarial Assumptions

The total pension liability in the April 1, 2014 actuarial valuation was determined using 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%

The annuitant mortality rates are based on a April 1, 2010 – March 31, 2015 System experience study, with adjustments for mortality improvements based on the Society of Actuaries' mortality projection scale of 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 in accordance with Actuarial Standard of Practice (ASOP) No. 27, *Selection of Economic Assumptions for Measuring Obligations*. ASOP No. 27 provides guidance on the selection of an appropriate assumed investment rate of return. Consideration was given to expected future real rates of return (expected returns, net of pension plan investment expense and inflation) for equities and fixed income as well as historical investment data and plan performance. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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%	21.3%
Cash	2.0%	2.3%
	100.0%	

(c) Discount Rate

The discount rate used to measure the total pension liability as of December 31, 2015, respectively, was 7.5%. The projection of cash flow used to determine the discount rate assumed that employee contributions will be made at the rates applicable to the current Tier for each member and that employer contributions will be made based on rates determined by the Actuary. Based on those assumptions, the NYSLRS fiduciary net position was projected to be available to make all projected future benefit payments of current active and non-active NYSLRS 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 7.5%, 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 (6.5%) or 1-percentage-point higher (8.5%) than the current rate:

	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)

Note 9. Pension Plan (Continued)

(d) Deferred Outflows/Inflows of Resources

At December 31, 2015, the Corporation reported $4,960 as net deferred outflows of resources mainly from the accumulated net difference between projected and actual earnings on NYSLRS investments and expected and actual experience. The deferred inflows of resources at December 31, 2015 which total $4,122 represent the accumulated net difference between employer contributions and the Corporation's proportionate share of contributions. 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. The first year of amortization expense is recognized as pension expense with the remaining years reported as a deferred inflow of resources.

(e) Annual Pension Expense

The Corporation's annual pension expense for calendar year ending 2015, which includes contributions toward the actuarially determined accrued liability and the amortization of deferred inflows of resources, was approximately $20,800.

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 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.

(Dollars in Thousands)

Note 10. Other Post-Employment Benefits (OPEB)

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 2015, 2014 and 2013, the amount actually contributed to the plan, and changes in the net OPEB obligation:

	2015	2014	2013
Annual OPEB Cost and Net OPEB Obligation			
Annual required contribution	$ 21,205	$ 17,712	$ 17,392
Interest on net OPEB obligation	5,693	5,230	4,742
Adjustment to annual required contribution	(5,119)	(4,702)	(4,263)
Annual OPEB cost	21,779	18,240	17,871
Contributions made	(9,307)	(8,496)	(7,583)
Increase in net OPEB obligations	12,472	9,744	10,288
Net OPEB obligation – beginning of year	119,859	110,115	99,827
Net OPEB obligation – end of year	$ 132,331	$ 119,859	$ 110,115

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:

	2015	2014	2013
Annual OPEB cost	$ 21,779	$ 18,240	$ 17,871
Percentage of annual OPEB cost contributed	42.7%	46.6%	42.4%
Net OPEB obligation at end of year	$ 132,331	$ 119,859	$ 110,115

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.

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

In the January 1, 2014 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 7.75% initially, reduced by decrements to an ultimate rate of 3.9% for the pre-65 plan and an initial rate of 6.0%, 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 11%, 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 as a level percentage of projected payroll. The payroll growth rate is assumed to be 3.25%. 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.

As the DSRIP program requires, the Corporation serves as fiduciary or lead partner 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), a d/b/a of the Corporation. 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.

In May 2015, the Corporation received a net DSRIP payment from NYSDOH in the amount of $18,190 of which $4,499 was recorded as grant revenue for the year ended December 31, 2015 based on meeting the eligibility requirements. In addition, $4,059 of related grant program expenses were incurred during 2015.

Note 12. 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.

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 year ended December 31, 2015, are as follows:

> The Corporation earned revenue totaling $3,979 for the year ended December 31, 2015 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 $3 for the year ended December 31, 2015. Expenses incurred include services for buildings and ground maintenance, personnel, information, legal, and social services.
>
> The net amount due from the County of approximately $11,800 at December 31, 2015 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 13. 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 $747 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 January 1, 2012, the Corporation insures 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, 2015, $19,114 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.

(Dollars in Thousands)

Note 13. Self-Insured Obligations (Continued)

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 $22,675 at 2015 for medical malpractice related exposures. Such amounts have been discounted at 2.0% for 2015 and the accrued liabilities are included within the 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 statement of revenues, expenses and changes in net position.

The Corporation has accrued $31,204 at 2015 for workers compensation related exposures. Such amounts have been discounted at 1.25% and the liabilities are included within the self-insurance obligations caption of the accompanying statement of net position. Charges to expense for workers compensation costs approximated $7,480 in 2015 and are included within the payroll, employee benefits and contract labor caption of the accompanying statement 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, 2015 and 2014 is as follows:

	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

	2014				
	Beginning Balance	Actuarial estimate of claims incurred	Claims Paid	Ending Balance	Due Within One Year
Other post-employment benefits	$ 110,115	$ 18,240	$ (8,496)	$ 119,859	$ 8,162
Medical malpractice	25,683	(4,272)	(2,159)	19,252	1,276
Workers compensation	32,036	6,787	(6,299)	32,524	3,135
	$ 167,834	$ 20,755	$ (16,954)	$ 171,635	$ 12,573

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

(Dollars in Thousands)

Note 14. 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. It is the opinion of management and its counsel that such actions, if any, will not have a material adverse effect on the Corporation's financial statements.

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, 2015, the Corporation has recorded no loss contingencies except as disclosed in Note 13.

The Corporation leases various equipment and facilities under operating leases expiring at various dates through October 2023. Total rental expense for all operating leases was approximately $3,357 in 2015.

The following is a schedule by year of future minimum lease payments under operating leases as of December 31, 2015 that have initial or remaining lease terms in excess of one year:

2016	$	1,358
2017		1,163
2018		747
2019		558
2020		315
2021-2025		823
	$	4,964

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, 2015	$ 300,728	$ 300,728	$ 115,349	260.7%
January 1, 2014	$ 249,469	$ 249,469	$ 116,986	213.3%
January 1, 2013	$ 240,503	$ 240,503	$ 124,649	193.0%

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

Schedule of Corporation's Contributions
NYSLRS Pension Plan
December 31, 2015
(Dollars in Thousands)

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

Note: The Corporation has presented as many years as 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, 2015
(Dollars in Thousands)

ECMCC proportionate of the net pension liability		0.7137%
ECMCC proportionate share of the net pension liability	$	24,112
ECMCC covered-employee payroll		172,851
ECMCC proportionate share of the net pension liability as a percentage of it's covered-employee payroll		13.9%
Plan fiduciary net position as a percentage of the total pension liability		20.1%

Note: The Corporation has presented as many years as information is available.