AUDITED
FINANCIAL STATEMENTS

ERIE COUNTY MEDICAL CENTER CORPORATION
(A COMPONENT UNIT OF THE COUNTY OF ERIE)

DECEMBER 31, 2014

ERIE COUNTY MEDICAL CENTER CORPORATION
(A COMPONENT UNIT OF THE COUNTY OF ERIE)

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FreedMaxick CPAs, P.C.

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Erie County Medical Center Corporation (a component unit of the County of Erie) (the "Corporation") and the aggregate discretely presented component units, which comprise the statements of net position as of December 31, 2014 and 2013, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective net position of the Corporation and the aggregate discretely presented component units as of December 31, 2014 and 2013, and the respective results of its operations and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 8 and the Schedule of Funding Progress for the Postemployment Retiree Healthcare plan on page 41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2015 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

Freed Maxick CPAs, P.C.

Buffalo, New York
March 31, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014
(000's omitted)

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 composed in three parts:

- Management's discussion and analysis
- Financial statements and footnotes
- 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") at, and for the year ended, December 31, 2014. Comparative information for the years ended December 31, 2013 and 2012, has been provided in certain instances. This narrative and the financial statements and footnotes, are the responsibility of the Corporation's management.

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

The accompanying financial statements of the Corporation include financial data of the Corporation's component units (i) ECMC Lifeline Foundation, Inc. (ii) The Grider Initiative, Inc. (iii) Research For Health in Erie County, Inc. and (iv) Millennium Collaborative Care, LLC.

OPERATIONS ANALYSIS:

During 2014, the Corporation completed such projects as: the Regional Behavioral Health Center of Excellence; our new Ambulatory Center Building and Surgery Center; the Center for Oncology Care Specializing in Head & Neck, Plastic & Reconstructive Surgery, Dental & Medical Oncology, Maxillofacial Prosthetics, and Breast Oncology; the Great Lakes Café; the Remembrance Garden; and The Gift Corner. Bariatric services have recently been added to ECMC service lines and internal and external primary care services including a primary care expansion and operational improvements are in progress. ECMCC ended the year with the creation of Millennium Collaborative Care (as part of the Delivery System Reform Incentive Payment, or DSRIP) through which the Corporation will lead the transformation of the Medicaid delivery system from a fee-for-service payment system to a population health/preventative care system for the eight (8) county WNY region.

In 2015, ECMCC will open: the Russell J. Salvatore Orthopaedic Unit; two additional operating rooms in the Surgery Center; the Center for Occupational and Environmental Medicine; an entirely renovated 6th floor, zone 1; a new CT Scanner; and new medical office space for Nephology, Urology, Endocrinology, and a Behavioral Medicine Clinic on the third floor of the Ambulatory Center.

While ECMC Corporation has accomplished much, the ongoing focus of the Corporation continues to be on quality of care and patient satisfaction. During 2014, ECMCC earned several awards and was recognized by numerous agencies for its efforts in providing quality care including; The New York State Department of Health, The NCQA, The Commission on Accreditation of Rehabilitation Facilities (CARF) and others.

The success of ECMCC is due to the excellence of our workforce. Our teammates, physicians and leadership have led our quality and operational excellence programs, collaborated and effectively responded to the November blizzard, implemented action plans leading to the accreditation of ECMCC as a designated center for the treatment of Ebola patients and made many other contributions to ECMCC's success. During 2014, a new contract was reached with The New York State Nurses Association (NYSNA) which was ratified by 95% of our nurses.

The Lifeline Foundation continued its favorable trend with great success in signature events such as the Spring Fest Gala, its annual golf tournament, October Breast Cancer Awareness Month and other events. The results of the efforts of the Lifeline Foundation lead to over 2,000 breast cancer screenings with its mammography bus, and with a leading donation of $500,000 led to the construction of the Russell J. Salvatore orthopedic unit noted above.

FINANCIAL METRIC ANALYSIS:

The Corporation's total net position increased $3,023 in 2014 and $7,991 in 2013 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 median values for 2013 (most recent available) published by Moody's Investor Services are as follows:

	ECMCC			Moody's Median
	2014	2013	2012	2013
Operating margin	0.2%	0.2%	0.3%	2.0%
Operating cash flow margin	7.5%	6.3%	5.5%	9.0%
Debt to total capitalization	61.8%	63.2%	65.9%	35.4%
Debt service coverage	2.7	2.4	3.0	4.5
Days cash on hand	75.0	105.5	148.0	197.6
Days in accounts receivable	43.5	48.0	41.9	49.8
Average age of plant	9.6	12.5	15.2	10.7

The financial ratios reflect stable results from operations as measured by the operating margin as well as improved cash flow generation demonstrated by increasing operating cash flow margin, debt service coverage and improvements in revenue cycle performance associated with a reduction in days revenue in accounts receivable. The reduction in days cash on hand is commensurate with the improvements (reduction) in the average age of plant which is reflective of the investments that ECMCC has made in its physical assets to serve our community as well as the reduction in long term debt as demonstrated by the debt to total capitalization ratio. Comparative information has been provided to the 2013 Median values for these ratios as published by Moody's Investor Services. Management notes that the comparisons of actual performance to these median data is consistent with ECMCC's status as the region's safety net provider.

SUMMARY FINANCIAL STATEMENT WITH ANALYSIS:

Statement of Net Position:

Net position is categorized as follows:

- *Net Investment in Capital Assets* - Represents the total investment in capital assets, net of outstanding debt obligations related to those capital assets.

- *Restricted* - Includes net position in which the Corporation is legally or contractually obligated to spend resources in accordance with restrictions imposed by third parties.

- *Unrestricted* - Represents the resources derived primarily from services rendered to patients and other operating revenues. 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:

Assets	**2014**	**2013** (000's omitted)	**2012**	**2014-2013** $ Change	**2014-2013** % Change
Current assets	$ 150,471	$ 149,428	$ 164,944	$ 1,043	0.7%
Assets whose use is limited	106,168	110,833	127,162	(4,665)	(4.2)
Capital assets, net	288,997	289,224	247,113	(227)	(0.1)
Other assets	31,286	9,109	5,382	22,177	243.5
Total assets	$ 576,922	$ 558,594	$ 544,601	$ 18,328	3.3%
Liabilities					
Current liabilities	$ 125,928	$ 108,448	$ 100,002	$ 17,480	16.1%
Noncurrent liabilities	331,963	334,138	336,582	(2,175)	(0.6)
Total liabilities	457,891	442,586	436,584	15,305	3.5
Net Position					
Net investment in capital assets	122,492	120,480	92,906	2,012	1.7
Restricted	11,201	11,049	11,069	152	1.4
Unrestricted	(14,662)	(15,521)	4,042	859	5.5
Total net position	119,031	116,008	108,017	3,023	2.6
Total liabilities and net position	$ 576,922	$ 558,594	$ 544,601	$ 18,328	3.3%

Overall, total assets increased $18,328 from 2013 to 2014 and $13,993 from 2012 to 2013. Capital assets include the completion and opening of Terrace View, a 390-bed long term care replacement facility in 2013 and the completion of the Regional Behavioral Health Center of Excellence in 2014. Other assets in 2014 include an investment in a joint venture with Kaleida Health.

Overall, total liabilities increased $15,305 from 2013 to 2014 and $6,002 from 2012 to 2013. Net position had a positive increase of $3,023 (2.6%) in 2014 from 2013 and $7,991 (7.4%) in 2013 from 2012.

Statement of Revenues, Expenses, and Changes in Net Position:

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

	2014	2013	2012	2014-2013	
		(000's omitted)		$ Change	% Change
Net patient services revenue	$ 431,724	$ 379,955	$ 382,112	$ 51,769	13.6%
Disproportionate share revenue ("DSH")	65,883	61,786	57,572	4,097	6.6
Other operating revenue	17,082	26,202	17,841	(9,120)	(34.8)
Total operating revenues	514,689	467,943	457,525	46,746	10.0
Total operating expenses	505,397	458,710	450,917	46,687	10.2
Operating income	9,292	9,233	6,608	59	0.6
Total non-operating (expenses) revenues	(5,166)	(107)	6,748	(5,059)	(4,728)
Excess (deficiency) of revenue over expenses	4,126	9,126	13,356	(5,000)	(54.8)
Other changes in net position	(1,103)	(1,135)	(1,309)	(32)	(2.8)
Change in net position	3,023	7,991	12,047	(4,968)	(62.2)
Net position, beginning of year	116,008	108,017	95,970	7,991	7.4
Net position, end of year	$ 119,031	$ 116,008	$ 108,017	$ 3,023	2.6%

Overall, operating revenues increased by $46,746 or 10.0% in 2014 and by $10,418 or 2.3% in 2013.

- Net patient service revenue increased $51,769, or 13.6% in 2014 and decreased by $2,157, or (0.6%) from 2012 to 2013. In 2014, volumes increased for both inpatient and outpatient lines of business. Total discharges increased 9.7% from 16,216 to 17,796. Corresponding patient days increased 8.9% from 131,821 to 143,503. Outpatient visits were up 8.1% from 347,509 to 375,676. ER visits increased 2.6% from 64,702 to 66,416. A shift in inpatient service mix to behavioral health from acute care lowered net patient service revenue in 2013 as compared to 2012.

- DSH increased by $4,097, or 6.6%, in 2014 and increased $4,214, or 7.3% in 2013, principally due to changes in uncompensated care provided and changes in estimates for UPL funding.

- Other operating revenue decreased by $9,120, or 34.8%, in 2014 but increased by $8,361, or 46.9%, in 2013 from 2012. The increase from 2012 to 2013 is primarily due to a HEAL NY grant received for a behavioral health expansion initiative substantially completed in 2013. The decrease from 2013 to 2014 is the net result of the HEAL NY grant award received in 2013 not carrying forward into 2014 and the recognition of grant revenues associated with the Intermediate Access Assurance Fund associated with the New York State Delivery System Reform Incentive Plan (DSRIP). The Corporation recognized $700 and $1,536 of meaningful use grant funding in 2014 and 2013, respectively.

Operating expenses increased $46,687, or 10.2%, in 2014 and $7,793, or 1.7%, in 2013. Expense increases are attributable primarily to payroll and related costs and professional fees. The Corporation continues to offer opportunities for registered nurses and implemented a more robust physician employment model to meet community health needs. In addition, New York State pension and workers' compensation payroll benefit expenses remain at a higher rate than in prior periods. Depreciation and amortization expenses are increased due to the Terrace View and Behavioral Health buildings being put into service 2013 and 2014.

- Investment income decreased by $5,388 in 2014 and decreased $2,229 in 2013, due primarily to variation in investment market performance on fixed income obligations and other investments and decreasing invested asset levels associated with the capital investments noted above.
- Interest expense increased by $3,072 in 2013 related to opening of the 390-bed Terrace View Long-Term Care Facility in February 2013. Interest expense was stable in 2014 at 2013 levels.

The Corporation continues to fund a component unit for purposes of physician recruitment and support of other health care initiatives totaling $1,103 and $1,135 in 2014 and 2013, respectively.

FORWARD LOOKING FACTORS:

Construction was completed in December 2012 on a 390-bed long term care replacement facility on the Grider Street campus which opened in February 2013. The construction cost certification associated with this project was completed in the first quarter of 2015 and management is currently working to receive the actual capital component of the Medicaid reimbursement rates associated with this certification, compared to the estimate that has been paid to date. While work was substantially completed on the remaining three floors of the new medical office building in 2013 facilitating the addition of two new operating room suites and clinical space supporting the head and neck, oral oncology and maxillofacial prosthetic programs which collectively began operations in January 2014 additional space for clinical services remained. The planning activities associated with the use of this additional space was completed in 2014 and is expected to be put into service in 2015. Management has worked with the New York State Department of Health, and has approved the opening of two additional surgical suites to begin operation in 2015 fully occupying the surgery center space in the medical office building. The remaining floor is constructed to support various physician offices and treatment rooms which are expected to go into service in 2015. The medical office building is expected to be fully occupied in 2015.

A new Comprehensive Psychiatric Emergency Program ("CPEP") emergency treatment facility opened in January 2014 in what was once a parking lot adjacent to the current Emergency Department entrance. During 2013, the Corporation placed into service additional inpatient behavioral health beds transferred from Kaleida Health, Inc. The phase in of both the CPEP program and the beds transferred from Kaleida, which occurred throughout 2014 with the programs running on a fully phased in basis in 2015.

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.

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 Affordable Care Act (the "Affordable Care Act") 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 be subjected 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.

The Delivery System Reform Incentive Payment, or 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 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 health care 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, including nearly 400 health care partners led by the Corporation. In December 2014, Millennium Collaborative Care submitted its application for DSRIP program funding to begin the process of reform.

CONTACTING THE CORPORATION'S FINANCIAL MANAGEMENT:

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

ERIE COUNTY MEDICAL CENTER CORPORATION
(A COMPONENT UNIT OF THE COUNTY OF ERIE)

STATEMENTS OF NET POSITION
December 31, 2014 and 2013
(000's omitted)

ASSETS	2014	2013
Current assets:		
Cash and cash equivalents	$ 6,251	$ 8,235
Investments	3,270	2,394
Assets whose use is limited	12,529	30,387
Patient accounts receivable, net	51,491	50,004
Other receivables	67,183	50,388
Supplies, prepaids and other	9,747	8,020
Total current assets	150,471	149,428
Assets whose use is limited	106,168	110,833
Capital assets, net	288,997	289,224
Other assets, net	31,286	9,109
Total assets	$ 576,922	$ 558,594
LIABILITIES AND NET POSITION		
Current liabilities:		
Current portion of long-term debt	$ 8,137	$ 7,226
Accounts payable	34,076	37,359
Accrued salaries, wages and employee benefits	22,274	19,689
Accrued other liabilities	34,608	22,041
Deferred revenue	6,323	-
Estimated third-party payor settlements	20,510	22,133
Total current liabilities	125,928	108,448
Long-term debt, net	166,579	173,129
Self-insured obligations	165,384	161,009
Total liabilities	457,891	442,586
Net position:		
Net investment in capital assets	122,492	120,480
Restricted:		
For debt service	11,201	11,049
Unrestricted	(14,662)	(15,521)
Total net position	119,031	116,008
Total liabilities and net position	$ 576,922	$ 558,594

ERIE COUNTY MEDICAL CENTER CORPORATION
(A COMPONENT UNIT OF THE COUNTY OF ERIE)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Years Ended December 31, 2014 and 2013
(000's omitted)

	2014	2013
Operating revenues:		
Net patient service revenue (net of provision for bad debts of $25,397 in 2014 and $23,710 in 2013)	$ 431,724	$ 379,955
Disproportionate share revenue	65,883	61,786
Other operating revenue	17,082	26,202
Total operating revenues	514,689	467,943
Operating expenses:		
Payroll, employee benefits and contract labor	283,769	270,515
Professional fees	65,971	54,009
Purchased services	42,104	35,835
Supplies	68,933	64,160
Other operating expenses	15,452	13,972
Depreciation and amortization	29,168	20,219
Total operating expenses	505,397	458,710
Operating income	9,292	9,233
Non-operating revenues (expenses):		
Investment income	3,164	8,552
Interest expense	(8,350)	(8,337)
Grant revenue and other	20	(322)
Total net non-operating (expenses) revenues	(5,166)	(107)
Excess of revenues over expenses	4,126	9,126
Transfers to related parties, net	(1,103)	(1,135)
Total change in net position	3,023	7,991
Net position – beginning of year	116,008	108,017
Net position – end of year	$ 119,031	$ 116,008

See accompanying notes

ERIE COUNTY MEDICAL CENTER CORPORATION
(A COMPONENT UNIT OF THE COUNTY OF ERIE)

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2014 and 2013
(000's omitted)

	2014	2013
Cash flows from operating activities:		
Receipts from patients and third party payors	$ 424,561	$ 369,220
Payments to employees for salaries and benefits	(281,184)	(269,488)
Payments to vendors for supplies and other	(181,962)	(151,269)
Other receipts	77,980	77,633
Net cash provided by operating activities	39,395	26,096
Cash flows from non-capital financing activities:		
Settlements with Erie County	(14,378)	-
Transfers to component unit	(1,103)	(1,135)
Net cash flows used in non-capital financing activities	(15,481)	(1,135)
Cash flows from capital and related financing activities:		
Purchases of capital assets	(29,552)	(63,040)
Capital contributions - grants	18	377
Proceeds from sale of capital assets	-	61
Principal payments on long term debt	(5,639)	(6,936)
Interest paid on long term debt	(8,224)	(8,337)
Net cash used in capital and related financing activities	(43,397)	(77,875)
Cash flows from investing activities:		
Sales of assets whose use is limited, net	22,523	38,804
Investment in affiliates	(7,312)	(3,777)
Investment income	3,164	4,593
(Purchases) sales of investments, net	(876)	718
Net cash provided by investing activities	17,499	40,338
Net change in cash and cash equivalents	(1,984)	(12,576)
Cash and cash equivalents:		
Beginning of year	8,235	20,811
End of year	$ 6,251	$ 8,235
Supplemental disclosure of non-cash activity:		
Change in fair value of assets whose use is limited	$ (3,489)	$ 3,959
Transfer to component unit	$ 1,103	$ 1,135

ERIE COUNTY MEDICAL CENTER CORPORATION
(A COMPONENT UNIT OF THE COUNTY OF ERIE)

STATEMENTS OF CASH FLOWS (CONTINUED)
For the Years Ended December 31, 2014 and 2013
(000's omitted)

	2014	2013
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 9,292	$ 9,233
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	29,168	20,219
Provision for bad debt	25,397	23,711
Increase in assets:		
Patient accounts receivable	(26,884)	(28,978)
Other receivables	(16,795)	(10,305)
Supplies, prepaids and other	(1,727)	(722)
Increase (decrease) in liabilities:		
Accounts payable	(3,283)	7,990
Accrued liabilities	15,152	5,684
Deferred revenue	6,323	-
Estimated third-party payor settlements	(1,623)	(5,518)
Self-insured obligations	4,375	4,782
Net cash provided by operating activities	$ 39,395	$ 26,096

See accompanying notes

ERIE COUNTY MEDICAL CENTER CORPORATION
(A COMPONENT UNIT OF THE COUNTY OF ERIE)

STATEMENTS OF NET POSITION – COMPONENT UNITS
December 31, 2014 and 2013
(000's omitted)

	2014				2013		
ASSETS	**ECMC Lifeline Foundation, Inc.**	**The Grider Initiative, Inc.**	**Research for Health in Erie County, Inc.**	**Millennium Collaborative Care PPS**	**ECMC Lifeline Foundation Inc.**	**The Grider Initiative, Inc.**	**Research for Health in Erie County Inc.**
Current assets:							
Cash and cash equivalents	$ 785	$ 283	$ 19	$ -	$ 795	$ 287	$ 36
Investments	-	-	1,038	-	-	-	1,021
Assets whose use is limited	858	-	-	-	907	-	-
Other receivables	641	1,103	-	-	1,135	-	-
Prepaids and other	54	-	-	-	56	-	-
Total current assets	2,338	1,386	1,057	-	2,893	287	1,057
Non-current assets:							
Other receivables	1,623	-	-	-	726	-	-
Endowment and other investments	58	10,594	-	-	58	10,515	-
Equipment and vehicles, net	428	-	-	-	579	-	-
Total assets	$ 4,447	$ 11,980	$ 1,057	$ -	$ 4,256	$ 10,802	$ 1,057
LIABILITIES AND NET POSITION							
Current liabilities:							
Accounts payable	$ 22	$ 1,103	$ -	$ -	$ 15	$ 242	$ -
Funds held in custody for others	342	-	-	-	345	-	-
Total liabilities	364	1,103	-	-	360	242	-
Long term:							
Related party	650	-	-	-	650	-	-
Interest payable	17	-	-	-	11	-	-
Net position:							
Restricted for other purposes	2,683	10,000	-	-	2,379	10,000	-
Unrestricted	733	877	1,057	-	856	560	1,057
Total net position	3,416	10,877	1,057	-	3,235	10,560	1,057
Total liabilities and net position	$ 4,447	$ 11,980	$ 1,057	$ -	$ 4,256	$ 10,802	$ 1,057

See accompanying notes

ERIE COUNTY MEDICAL CENTER CORPORATION
(A COMPONENT UNIT OF THE COUNTY OF ERIE)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION – COMPONENT UNITS
For the Years Ended December 31, 2014 and 2013
(000's omitted)

	2014				2013		
	ECMC Lifeline Foundation, Inc.	The Grider Initiative, Inc.	Research for Health in Erie County, Inc.	Millennium Collaborative Care PPS	ECMC Lifeline Foundation Inc.	The Grider Initiative, Inc.	Research for Health in Erie County Inc.
Operating revenues:							
Grants, contributions, and special events	$ 2,603	$ -	$ -	-	$ 2,042	$ -	$ -
Other operating revenue - net	11	-	-	-	10	-	-
Total operating revenues	2,614	-	-	-	2,052	-	-
Operating expenses:							
Program services and grants	660	861	39	-	491	740	16
Fundraising	894	-	-	-	783	-	-
Other operating expenses	887	4	3	-	837	5	3
Total operating expenses	2,441	865	42	-	2,111	745	19
Operating income (loss)	173	(865)	(42)	-	(59)	(745)	(19)
Non-operating revenue:							
Investment income	8	79	42	-	21	172	25
Change in net position	181	(786)	-	-	(38)	(573)	6
Net position – beginning of year	3,235	10,560	1,057	-	3,273	9,998	1,123
Transfers from (to) Erie County Medical Center	-	1,103	-	-	-	1,135	(72)
Net position – end of year	$ 3,416	$ 10,877	$ 1,057	$ -	$ 3,235	$ 10,560	$ 1,057

See accompanying notes

ERIE COUNTY MEDICAL CENTER CORPORATION
(A COMPONENT UNIT OF THE COUNTY OF ERIE)

STATEMENTS OF CASH FLOWS – COMPONENT UNITS
For the Years Ended December 31, 2014 and 2013
(000's omitted)

	2014				2013		
	ECMC Lifeline Foundation, Inc.	The Grider Initiative, Inc.	Research for Health in Erie County, Inc.	Millennium Collaborative Care PPS	ECMC Lifeline Foundation Inc.	The Grider Initiative, Inc.	Research for Health in Erie County Inc.
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:							
Operating income (loss)	$ 173	$ (865)	$ (42)	$ -	$ (59)	$ (745)	$ (19)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:							
Depreciation	151	-	-	-	169	-	-
(Increase) decrease in assets	(402)	(1,103)	-	-	272	1,243	-
Increase (decrease) in liabilities	10	861	-	-	(42)	(1,638)	(2)
Net cash provided by (used in) operating activities	(68)	(1,107)	(42)	-	340	(1,140)	(21)
Cash flows from financing activities:							
Transfers (to) from Erie County Medical Center	-	1,103	-	-	-	1,135	(72)
Net cash provided by (used in) financing activities	-	1,103	-	-	-	1,135	(72)
Cash flows from investing activities:							
(Increase) decrease in assets whose use is limited	50	(79)	(17)	-	150	(467)	53
Purchases of capital assets	-	-	-	-	(26)	-	-
Disbursement of note receivable to-related party	-	-	-	-	(500)	-	-
Interest received	8	79	42	-	21	172	25
Net cash provided by (used in) investing activities	58	-	25	-	(355)	(295)	78
Net change in cash and cash equivalents	(10)	(4)	(17)	-	(15)	(300)	(15)
Cash and cash equivalents:							
Beginning of year	795	287	36	-	810	587	51
End of year	$ 785	$ 283	$ 19	$ -	$ 795	$ 287	$ 36

See accompanying notes

NOTE 1. ORGANIZATION

***The Corporation* -** Erie County Medical Center Corporation (referred to as the "Corporation") 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 located on Grider Street in the City of Buffalo providing inpatient, emergency, outpatient, primary care and specialty clinic services, a new (2013) 390-bed residential health care facility ("Terrace View") replacing the Erie County Home (the "Home"), a residential health care facility located in Alden, New York operational through mid-February 2013, 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 is a component unit of the County and accordingly is included in the County's Comprehensive Annual Financial Report. The Corporation is subject to civil service law.

***Governance* -** The Corporation is governed by its Board of Directors (the "Board") consisting of fifteen 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. 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.

Discretely Presented Component Units – U.S. GAAP (as defined in Note 2) requires 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 four discretely presented component units. These units are reported separately to emphasize that they are legally separate from the Corporation.

***ECMC Lifeline Foundation, Inc.* -** The ECMC Lifeline Foundation, Inc. (the "Foundation") is a nonprofit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. 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 Lifeline 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 Internal Revenue Code. 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 Internal Revenue Code and is incorporated under the laws of the State of New York. The financial statements of RHEC have been prepared on an accrual basis. 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.

***Millennium Collaborative Care, LLC* –** Millennium Collaborative Care, LLC ("Millennium") is a LLC formed to function as the Delivery System Reform Incentive Payment (DSRIP) entity for ECMCC. The DSRIP program will promote community-level collaborations and focus on system reform, specifically a goal to achieve a 25% reduction in avoidable hospital use over five years. Safety net providers will be required to collaborate to implement innovative projects focusing on system transformation, clinical improvement and population health improvement. The entity had no substantial operations in 2014. Revenues and expenses were still being borne by ECMCC.

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 Governmental Accounting Standards Board ("GASB"), as well as the pronouncements of the Financial Accounting Standards Board ("FASB"), including those FASB pronouncements issued after November 30, 1989 that do not conflict with or contradict GASB pronouncements.

All references to relevant authoritative literature issued by both the GASB and the FASB 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 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.

Cash and Cash Equivalents **-** The Corporation's cash and cash equivalents include cash on hand and cash in checking and money market accounts. 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 cash, investments, and any short-term debt. The carrying amounts of these financial instruments approximate their fair value due to the short-term nature of the financial instruments.

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, 2014 and 2013 was approximately $21,969 and $21,466, respectively.

Investments and Assets Whose Use is Limited – Such assets are comprised of cash and cash equivalents, including time deposits and 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 unspent proceeds from 2011 bond financing (year end 2013 only), 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 $21,837 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.

(000's OMITTED)

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2014 and 2013, respectively, is as follows:

	2014	2013
Disproportionate share revenue ("DSH")	$ 55,690	$ 42,836
NY State Department of Corrections	4,083	-
Receivables from Erie County	899	1,011
FICA tax refund due receivable	-	1,513
Other	6,511	5,028
	$ 67,183	$ 50,388

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. Interest of $5,075 was capitalized during the year ended December 31, 2014 ($287 - 2013) for the construction period of Terrace View and the Comprehensive Psychiatric Emergency Program building.

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

Other Assets **-** Ownership interests in various business enterprises and prepaid bond insurance premiums are included in other assets. Prepaid bond insurance premiums are being amortized over the term of the related indebtedness using the straight-line method, which is not materially different from the effective interest method.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2014 and 2013, within the caption accrued salaries, wages and employee benefits in the amount of approximately $11,144 and $10,527, respectively.

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 outstanding debt obligations related to 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.

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 (unaudited) of caring for charity care patients were $17,400 and $16,124 for the year ended December 31, 2014 and 2013, respectively.

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions that are restricted by the donor are reported as increases in unrestricted net position if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized.

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.

Electronic Health Record Incentives - Under certain provisions of the American Recovery and Reinvestment Act of 2009 ("ARRA"), federal incentive payments are available to hospitals, physicians and certain other professionals ("Providers") when they adopt, implement or upgrade ("AIU") certified electronic health record ("EHR") technology or become "meaningful users," as defined under ARRA, of EHR technology in ways that demonstrate improved quality, safety and effectiveness of care. Providers can become eligible for annual Medicare incentive payments by demonstrating meaningful use of EHR technology in each period over four periods.

Medicaid providers can receive their initial incentive payment by satisfying AIU criteria, but must demonstrate meaningful use of EHR technology in subsequent years in order to qualify for additional payments. Hospitals may be eligible for both Medicare and Medicaid EHR incentive payments; however, physicians and other professionals may be eligible for either Medicare or Medicaid incentive payments, but not both. Hospitals that are meaningful users under the Medicare EHR incentive payment program are deemed meaningful users under the Medicaid EHR incentive payment program and do not need to meet additional criteria imposed by a state. Medicaid EHR incentive payments to Providers are 100% federally funded and administered by the states. The Centers for Medicare and Medicaid Services ("CMS") established calendar year 2011 as the first year states could offer EHR incentive payments. Before a state may offer EHR incentive payments, the state must submit and CMS must approve the state's incentive plan.

The Corporation recognizes Medicaid EHR incentive payments in its statements of revenues, expenses, and changes in net position for the first payment year when: (1) CMS approves a state's EHR incentive plan; and (2) the Corporation acquires certified EHR technology (i.e., when AIU criteria are met). Medicaid EHR incentive payments for subsequent payment years are recognized in the period during which the specified meaningful use criteria are met. The Corporation recognizes Medicare EHR incentive payments when: (1) the specified meaningful use criteria are met; and (2) contingencies in estimating the amount of the incentive payments to be received are resolved. During the years ended December 31, 2014 and 2013, the Corporation satisfied the CMS AIU and/or meaningful use criteria. As a result, for the year ended December 31, 2014, the Corporation recognized approximately $700 ($1,288 - 2013) and $0 ($248 - 2013) of Medicare and Medicaid EHR incentive payments as other operating revenue.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 2014 and 2013, 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 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.

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.

Foundation Component Unit **-** For purposes of the statements of cash flows, the Foundation considers all highly liquid investments available for use with an initial maturity of three months or less to be cash equivalents. 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.

Physician Endowment Component Unit **-** For purposes of the statement of cash flows, the Physician Endowment considers all highly liquid investments available for current use with an initial maturity of three months of less to be cash equivalents. This includes money market accounts. Cash, cash equivalents and investments received with donor-imposed restrictions and held in trust, are not considered cash and cash equivalents for purposes of the statement of cash flows. Included in the 2014 and 2013 accounts of the physician endowment are equity transfers from the Corporation which were not settled in cash in the amount of $1,103 and $1,135, respectively.

RHEC Component Unit **-** For purposes of the statements of cash flows, RHEC considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. This includes all money market accounts.

Reclassification **-** Certain reclassifications have been made to the 2013 financial statements to conform to the current year financial statement presentation. Such reclassifications did not affect total assets, total liabilities or total net position.

Recently Issued Accounting Pronouncements – The Government Accounting Standards Board ("GASB") issued new pension accounting and reporting standards that will result in significant changes for governmental defined benefit pension plans and the employers participating in them. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, ("GASB 68") establishes new financial reporting requirements for most governments that provide their employees with pension benefits through these types of plans. GASB 68 is effective fiscal years beginning after June 15, 2014, with early application encouraged.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Under GASB 68, employers would be required to recognize in their balance sheets the obligation associated with the pension benefits promised to their employees, regardless of the type of benefit plan arrangement used. Governmental healthcare entities participating in multiemployer cost-sharing plans will be required to report a liability equivalent to their proportionate share of the collective unfunded pension obligation of the plan. Each cost-sharing employer will also be required to recognize its estimated allocated share of the plan's collective pension expense.

GASB 68 will significantly change the accounting and financial reporting of such multi-employer pension plans. Consequently, upon adoption of GASB 68, the Corporation will be required to recognize in its financial statements the difference between the actuarially calculated liability and the funded position of that portion of the plan. As such, the Corporation will recognize a liability if the plan is underfunded or an asset if the plan is overfunded. Currently there is insufficient information available to determine what the effects of adoption of GASB 68.

GASB Statement (No. 69), *Government Combinations and Disposals of Government Operation*, ("GASB 69") provides specific accounting and financial reporting guidance for combinations in the governmental environment. This Statement also improves the decision usefulness of financial reporting by requiring that disclosures be made by governments about combination arrangements in which they engage and for disposals of government operations. The requirements of GASB 69 are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis.

The distinction between a government merger and a government acquisition is based upon whether an exchange of significant consideration is present within the combination transaction. Government mergers include combinations of legally separate entities without the exchange of significant consideration. Conversely, government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. The adoption of GASB 69 did not have a material impact on the Corporation's financial statements.

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* ("GASB 70"). This statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows expected to be incurred as a result of the guarantee. The provisions of GASB 70 are effective for reporting periods beginning after June 15, 2013. Adoption of GASB 70 did not have a material effect on the financial statements.

The Financial Accounting Standards Board ("FASB") issued Accounting Standards Update (ASU) 2013-06, "*Services Received from Personnel of an Affiliate*." Under this guidance, a not-for-profit entity such as the ECMC Lifeline Foundation, that receives services from the personnel of an affiliate that directly benefits that not-for-profit should recognize all of those services provided. A health care organization would be required to record, as an equity transfer, the value of those services received that directly benefit the health care organization for which the affiliate does not charge the health care organization. This update is effective prospectively for periods beginning after June 30, 2014 and early adoption is permitted. The adoption of this ASU is not expected to have a material impact on the Corporation's financial statements.

(000's OMITTED)

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events **-** These financial statements have not been updated for subsequent events occurring after March 31, 2015 which is the date these financial statements were available to be issued.

NOTE 3. NET PATIENT SERVICE REVENUE

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

Medicare **-** Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge for acute care services and per patient day for inpatient behavioral health services. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Certain inpatient and outpatient services, as well as defined capital and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Corporation is reimbursed for cost reimbursable 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 the Home's 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 years ended December 31:

	2014			2013		
	ECMC	Terrace View	Total	ECMC	Terrace View	Total
Gross Charges	$ 842,711	$ 86,560	$ 929,271	$ 779,795	$ 76,132	$ 855,927
Less:						
Discounts and allowances	(427,952)	(44,198)	(472,150)	(413,166)	(39,096)	(452,262)
Provision for bad debts	(23,811)	(1,586)	(25,397)	(22,256)	(1,454)	(23,710)
	$ 390,948	$ 40,776	$ 431,724	$ 344,373	$ 35,582	$ 379,955

(000's OMITTED)

NOTE 3. NET PATIENT SERVICE REVENUE (CONTINUED)

Net patient service revenue by payor for the years ended December 31, 2014 and 2013 is as follows:

	2014				2013			
	ECMC	Terrace View	Total	%	ECMC	Terrace View	Total	%
Medicare*	$ 161,836	$ 6,181	$ 168,017	38.9%	$ 141,329	$ 4,110	$ 145,439	38.3%
Medicaid*	96,295	31,006	127,301	29.5	91,021	29,033	120,054	31.6
Other third party payors	129,453	879	130,332	30.2	106,070	1,088	107,158	28.2
Self-pay	3,364	2,710	6,074	1.4	5,953	1,351	7,304	1.9
	$ 390,948	$ 40,776	$ 431,724	100.0%	$ 344,373	$ 35,582	$ 379,955	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, 2014 and 2013:

	2014			2013		
	ECMC	Terrace View	Total	ECMC	Terrace View	Total
Gross accounts receivable	$ 99,570	$ 15,025	$ 114,595	$ 107,648	$ 12,212	$ 119,860
Less:						
Discounts and allowances	(38,403)	(2,732)	(41,135)	(43,730)	(4,148)	(47,878)
Provision for bad debts	(16,731)	(5,238)	(21,969)	(18,614)	(3,364)	(21,978)
Net accounts receivable	$ 44,436	$ 7,055	$ 51,491	$ 45,304	$ 4,700	$ 50,004

(000's OMITTED)

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, 2014 and 2013 is as follows:

	2014	2013
Medicare	31%	29%
Medicaid	24	22
Commercial insurance and HMO's	21	20
No-fault	10	10
Self-pay	4	5
Other	10	14
Total	100%	100%

NOTE 4. DISPROPORTIONATE SHARE REVENUE

The Medicaid Disproportionate Share ("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 Department of Health 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 2014 and 2013, DSH funding recorded by the Corporation totaled approximately $65,883 and $61,786, respectively. The DSH funding process is complex and includes both tentative and final settlements for various state fiscal years which are subject to the availability of state and federal funding among other factors. As a result, DSH revenue is estimated and final settlements may vary significantly from the initial estimates.

For hospital services, DSH revenue of $52,143 ($42,535 – 2013) was recognized. New York State changed its method of recognizing DSH to conform to CMS regulations effective with the 2011 cost reporting year. This change reduced the amount of DSH recognized in 2013 and 2014. In addition during 2014, the Corporation recognized approximately $13,740 of UPL revenue for Terrace View ($19,251 - 2013) and the existing hospital-based skilled nursing unit which was assimilated into Terrace View. Included in the 2013 amount is approximately $5,600 of revenue relating to 2011 which had previously been reserved. During 2013, management became aware of new facts and information indicating this amount no longer needed to be reserved for, thereby necessitating a change in accounting estimate. The UPL for New York State fiscal years 2012-2013 and 2013-2014 for public nursing homes was not yet established. As a result, UPL revenue for the long term care units are estimates based on historical experience.

In addition, CMS has indicated that cost reports dating back to the 2011 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.

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NOTE 5. CASH AND CASH EQUIVALENTS, INVESTMENTS, AND ASSETS WHOSE USE IS LIMITED

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

The Corporation's investments are generally reported at fair value, as discussed in Note 2. Substantially all of the Corporation's investments and assets whose use is limited have stated maturities of less than one year. 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:

	2014	2013
Cash and cash equivalents	$ 6,251	$ 8,235
Investments	3,270	2,394
Assets whose use is limited – current	12,529	30,387
Assets whose use is limited – non-current	106,168	110,833
	$ 128,218	$ 151,849

	2014	2013
Current portion of assets whose use is limited:		
Patient and residents trust cash	$ 363	$ 301
Restricted for debt service (a)	2,166	2,141
Construction funds (b)	-	2,399
Designated for self insurance obligations (d)	10,000	10,000
Designated for acquisition of capital assets (d)	-	15,546
Total current portion of assets whose use is limited	$ 12,529	$ 30,387
Noncurrent portion of assets whose use is limited:		
Restricted for debt service reserve (a)	$ 9,035	$ 8,909
Designated for long-term investment (c)	21,837	23,183
Designated for retiree health obligations (d)	33,520	31,022
Designated for self insurance obligations (d)	24,722	36,406
Restricted – insured workers compensation collateral (e)	17,054	11,313
Total noncurrent portion of assets whose use is limited	$ 106,168	$ 110,833

(000's OMITTED)

NOTE 5. CASH AND CASH EQUIVALENTS, INVESTMENTS, AND ASSETS WHOSE USE IS LIMITED (CONTINUED)

(a) - funds restricted by operation of indenture agreement
(b) - unspent bond proceeds - construction project
(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

Investment income components, derived from restricted and unrestricted cash and equivalents, investments, and assets whose use is limited, are as follows:

2014	Unrestricted Assets	Restricted Assets	Total
Interest and dividends	$ 3,840	$ 1,103	$ 4,943
Realized gains	1,710	-	1,710
Unrealized losses	(3,475)	(14)	(3,489)
Investment income	$ 2,075	$ 1,089	$ 3,164

2013	Unrestricted Assets	Restricted Assets	Total
Interest and dividends	$ 3,430	$ 1,241	$ 4,671
Realized losses	(78)	-	(78)
Unrealized gains (losses)	5,309	(1,350)	3,959
Investment income	$ 8,661	$ (109)	$ 8,552

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

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.

Custodial Credit Risk - 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 investment or collateral securities that are in possession of an outside party.

Interest Rate Risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

Market Risk - Market risk is the risk of experiencing losses due to factors that affect the overall performance of financial markets.

(000's OMITTED)

NOTE 5. CASH AND CASH EQUIVALENTS, INVESTMENTS, AND ASSETS WHOSE USE IS LIMITED (CONTINUED)

Fair Value of Financial Instruments **-** Fair value under U.S. GAAP 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. U.S. GAAP for fair value applies to all assets and liabilities that are being measured and reported on a fair value basis. U.S. GAAP requires disclosure that establishes a framework for measuring fair value and disclosure about the methods by which fair value measurements are made. This enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. Assets and liabilities carried at fair value are required to be classified and disclosed in one of the following three categories:

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

Level II: 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 III: 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.

	2014		
	Level I	**Level II**	**Total**
Cash and cash equivalents	$ 6,251	$ -	$ 6,251
Investments, assets whose use is limited:			
Cash and cash equivalents	25,169	-	25,169
Marketable equity securities:			
Mid-cap core equities	-	1,665	1,665
Mid-cap value equities	-	1,005	1,005
Value equities	-	1,538	1,538
Growth equities	-	8,013	8,013
Global core equities	-	3,178	3,178
	-	15,399	15,399
Short-term fixed income	-	33,161	33,161
Corporate bonds	-	9,229	9,229
Government bonds	39,009	-	39,009
Total investments	64,178	57,789	121,967
Total	$ 70,429	$ 57,789	$ 128,218

(000's OMITTED)

NOTE 5. CASH AND CASH EQUIVALENTS, INVESTMENTS, AND ASSETS WHOSE USE IS LIMITED (CONTINUED)

	2013		
	Level I	**Level II**	**Total**
Cash and cash equivalents	$ 8,235	$ -	$ 8,235
Investments, assets whose use is limited:			
Cash and cash equivalents	25,474	-	25,474
Marketable equity securities:			
Mid-cap core equities	-	3,183	3,183
Mid-cap value equities	-	3,084	3,084
Value equities	-	5,273	5,273
Growth equities	-	16,689	16,689
Global core equities	-	6,691	6,691
	-	34,920	34,920
Short-term fixed income	-	38,787	38,787
Corporate bonds	-	15,064	15,064
Government bonds	29,369	-	29,369
Total investments	54,843	88,771	143,614
Total	$ 63,078	$ 88,771	$ 151,849

(000's OMITTED)

NOTE 6. CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2014 and 2013 is as follows:

2014	Beginning Balance	Additions	Disposals/ Transfers	Ending Balance
Capital assets – being depreciated:				
Land and land improvements	$ 14,851	$ 1,976	$ -	$ 16,827
Buildings and improvements	358,608	43,247	-	401,855
Fixed/major moveable equipment	120,829	15,732	(289)	136,272
Total capital assets – being depreciated	494,288	60,955	(289)	554,954
Less accumulated depreciation	(251,855)	(29,118)	-	(280,973)
Total capital assets – being depreciated – net	242,433	31,837	(289)	273,981
Capital assets – not being depreciated:				
Construction in progress	$ 43,435	$ 21,720	$ (53,495)	$ 11,660
Idle property, net	3,356	-	-	3,356
Total capital assets – net	$ 289,224	$ 53,557	$ (53,784)	$ 288,997

2013	Beginning Balance	Additions	Disposals/ Transfers	Ending Balance
Capital assets – being depreciated:				
Land and land improvements	$ 6,477	$ -	$ 8,374	$ 14,851
Buildings and improvements	307,126	31	51,451	358,608
Fixed/major moveable equipment	118,049	7,579	(4,799)	120,829
Total capital assets – being depreciated	431,652	7,610	55,026	494,288
Less accumulated depreciation	(278,932)	(20,169)	47,246	(251,855)
Total capital assets – being depreciated – net	152,720	(12,559)	102,272	242,433
Capital assets – not being depreciated:				
Construction in progress	$ 94,393	$ 53,469	$ (104,427)	$ 43,435
Idle property, net	-	-	3,356	3,356
Total capital assets – net	$ 247,113	$ 40,910	$ 1,201	$ 289,224

NOTE 6. CAPITAL ASSETS (CONTINUED)

Construction in progress in 2014 includes costs associated with a new renovations on the 6th floor for Medical/Surgical Inpatient and the Inpatient Orthopedic Unit; for 2013 it included the new behavioral health facility, adolescent psychology renovations, new operating rooms and medical office facilities.

With the opening of the new long-term care facility in February 2013, the Corporation discontinued depreciation on 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 expects to transfer title to these assets to Erie County in 2015 as stipulated in the 2009 settlement agreement. Refer to Note 11. Depreciation expense amounted to $29,118 and $20,169 for the years ended December 31, 2014 and 2013, respectively.

NOTE 7. OTHER ASSETS

The Corporation has an ownership interest in various business enterprises, as follows:

PPC Strategic Services LLC **-** The Corporation is the sole owner of this enterprise, which was established to enable the Corporation to enter into various other business relationships. The accounts of PPC Strategic Services, LLC are fully consolidated into the accounts of the Corporation as of and for the years ended December 31, 2014 and 2013. The assets of PPC Strategic Services LLC consist substantially of cash of approximately $16 and $2 at December 31, 2014 and 2013, respectively. PPC Strategic Services LLC owns 100% of Greater Buffalo Niagara SC Venture, LLC. That ownership interest is accounted for by PPC Strategic Services LLC utilizing the equity method of accounting.

Greater Buffalo Niagara SC Venture, LLC **-** This entity was formed by PPC Strategic Services LLC and outside physicians for the purpose of constructing an ambulatory surgery center in the town of Amherst. This project is no longer being contemplated. This entity has not conducted any substantial business activities in 2014 or 2013, and it is currently inactive.

Grider Support Services, LLC **-** The Corporation formed this entity to act as a management service organization ("MSO") for oncology and physician services. An MSO is an organization that provides administrative services to hospitals and clinics. This entity has no substantial assets or significant operating results.

Grider Community Gardens, LLC **-** This entity is wholly owned and controlled by the Corporation. The Corporation's net investment as of December 31, 2014 and 2013 is approximately $427 and $449, respectively, and is reflected in other non-current assets of the accompanying financial statements.

Collaborative Care Ventures, LLC – This entity was formed in 2014 by ECMC 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.

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NOTE 8. ACCRUED OTHER LIABILITIES

The composition of accrued other liabilities as of December 31, 2014 and 2013, respectively, is as follows:

	2014	2013
Due to Erie County	$ 19,949	$ 8,433
Workers compensation claims	8,000	8,000
Medical malpractice claims	2,000	2,000
Interest costs	920	843
Cash receipt assessments	487	151
Funds held in custody for others	436	375
Other	2,816	2,239
Total	$ 34,608	$ 22,041

NOTE 9. INDEBTEDNESS

Long-term debt consisted of the following at December 31, 2014 and 2013, respectively:

	2014	2013
Erie County – Guaranteed Senior Revenue Bonds, Series 2004 (interest rates range from 4.9% to 5.7% at December 31, 2014) principal payments ranging from $2,465 to $7,220 are due annually on November 1 with interest payments due semi-annually on May 1 and November 1.	$ 87,500	$ 90,085
Erie County – loan payable (3.7% at December 31, 2014 and 2013) with principal and interest of $662 due monthly.	85,629	90,270
During June 2014, the Corporation entered into a 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.	1,587	-
	174,716	180,355
Less current portion	8,137	7,226
	$ 166,579	$ 173,129

(000's OMITTED)

NOTE 9. INDEBTEDNESS (CONTINUED)

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

2016	$ 8,504
2017	8,545
2018	8,574
2019	8,954
2020-2024	51,113
2025-2029	54,269
2030-2033	26,620
Total	$ 166,579

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. The bonds contain certain financial covenants which the Corporation is compliant with as of December 31, 2014 and 2013.

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

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

The loan agreement with the County includes sinking fund requirements if certain covenants are not met by the Corporation. The Corporation met these requirements as of December 31, 2014. The loan payable has a final maturity of October 1, 2028.

NOTE 10. RETIREMENT AND POST-EMPLOYMENT BENEFITS

Retirement Plan

The Corporation participates in the New York State and Local Employees' Retirement System (the "System"). This is a cost-sharing multiple-employer retirement system. The System provides retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law ("NYSRSSL"). As set forth in the NYSRSSL, the Comptroller of the State of New York (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.

NOTE 10. RETIREMENT AND POST-EMPLOYMENT BENEFITS (CONTINUED)

Generally all employees, except certain part-time employees, participate in the System. The System is noncontributory except for employees who joined the System after July 27, 1976; such employees contribute 3% of their salary for the first ten years of service; employees who joined the System after January 1, 2010 and before April 1, 2012 contribute 3% of the salary during their entire employment period; and employees hired after March 31, 2012 contribute between 3% and 6% of their salary for their entire employment period. The Corporation is required to contribute, at an actuarially determined rate, with payment due February 1 each year, for the retirement year ending each subsequent March 31.

Retirement expense for 2014 and 2013 amounted to approximately $30,041 and $29,835, respectively, based on a percent (which varies by length of service) of the salaries of covered employees.

Other Post-Employment Benefits

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 Other Post-employment Benefits ("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. Prior to January 1, 2007, the Corporation recognized and financed these benefits on a pay-as-you-go basis. Effective January 1, 2007, the Corporation adopted GASB 45 *Accounting and Financial Reporting by Employers for Post-Employment Benefits*, which resulted in a change in accounting for OPEB.

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 $33,520 in 2014 and $31,022 in 2013 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.

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NOTE 10. RETIREMENT AND POST-EMPLOYMENT BENEFITS (CONTINUED)

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 2014, 2013 and 2012, the amount actually contributed to the plan, and changes in the net OPEB obligation:

	2014	2013	2012
Annual OPEB Cost and Net OPEB Obligation			
Annual Required Contribution	$ 17,712	$ 17,392	$ 17,693
Interest on Net OPEB Obligation	5,230	4,742	4,207
Adjustment to Annual Required Contribution	(4,702)	(4,263)	(3,782)
Annual OPEB Cost	18,240	17,871	18,118
Contributions made	(8,496)	(7,583)	(6,857)
Increase in Net OPEB Obligations	9,744	10,288	11,261
Net OPEB Obligation – beginning of year	110,115	99,827	88,566
Net OPEB Obligation – end of year	$ 119,859	$ 110,115	$ 99,827

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:

	2014	2013	2012
Annual OPEB Cost	$ 18,240	$ 17,871	$ 18,118
Percentage of Annual OPEB Cost contributed	46.6%	42.4%	37.9%
Net OPEB Obligation at end of year	$119,859	$ 110,115	$ 99,827

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. RETIREMENT AND POST-EMPLOYMENT BENEFITS (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 8.00% initially, reduced by decrements to an ultimate rate of 3.9% for the pre-65 plan and an initial rate of 6.00%, 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 7.50%, 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 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. 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 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 years ended December 31, 2014 and 2013, are as follows:

The Corporation earned revenue totaling $4,067 and $3,763 for the years ended December 31, 2014 and 2013, respectively from the County. Revenue earned relates to services provided to School 84, mental health services and various other charges related to County departments located within the Corporation's physical plant. The Corporation's expenses incurred for services provided by the County totaled $3 and $85 for the years ended December 31, 2014 and 2013, respectively. Expenses incurred include services for buildings and ground maintenance, personnel, information, legal, and social services.

No capital commitments are outstanding from the County to the Corporation at December 31, 2014.

The net amount due to the County of approximately $4,671 and $2,219 at December 31, 2014 and 2013, respectively, are non-interest bearing and reflect the Corporation's net amount owed to the County as a result of various transactions and services between parties.

NOTE 12. 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, 2014, $17,100 has been designated to service workers compensation claims and included as part of Assets Whose Use is Limited ($11,300 - 2013). The Corporation remains self-insured for Workers' Compensation claims prior to January 1, 2012. The County has assumed a portion of liabilities for all occurrences originating prior to 2004.

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

The Corporation has accrued approximately $19,300 and $25,700 at 2014 and 2013, respectively, for medical malpractice related exposures. Such amounts have been discounted at 2.00% for 2014 and 2.50% for 2013, respectively, 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. During 2014 and 2013, the Corporation settled certain malpractice cases for amounts less than previously estimated. These settlements and other factors also favorable impacted the operating years estimation of reserve amounts for cases unsettled, resulting in net $3,400 and $2,400 benefits recognized in 2014 and 2013.

The Corporation has accrued approximately $32,524 and $32,000 at 2014 and 2013, respectively, 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 $8,700 in 2014 and $14,700 in 2013 and are included within the payroll, employee benefits and contract labor caption of the accompanying statement of revenues, expenses and changes in net position.

The Corporation is effectively self-insured for employee and retiree health costs. The Corporation participates in a multi-employer risk sharing arrangement that includes other local government employers. The Corporation has accrued approximately $124,000 and $114,000 at 2014 and 2013, respectively, for employee and retiree health related costs. Charges to expense for employee and retiree health related costs approximated $48,500 and $41,000 in 2014 and 2013, respectively and are included within the payroll, employee benefits and contract labor caption of the accompanying statement of revenues, expenses and changes in net position.

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NOTE 12. SELF INSURED OBLIGATIONS (CONTINUED)

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, 2014 and 2013, respectively, is as follows:

	2014	2013
Other Post-Employment Benefits (Note 10)	$ 119,859	$ 110,115
Medical malpractice (Note 12)	19,252	25,683
Workers compensation (Note 12)	32,524	32,036
Other	3,749	3,175
	175,384	171,009
Less current portion	10,000	10,000
	$ 165,384	$ 161,009

NOTE 13. 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, 2014 and 2013 the Corporation has recorded no loss contingencies except as disclosed in Note 12.

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 $2,900 and $2,500, respectively in 2014 and 2013.

(000's OMITTED)

NOTE 13. COMMITMENTS AND CONTINGENCIES (CONTINUED)

The following is a schedule by year of future minimum lease payments under operating leases as of December 31, 2014 that have initial or remaining lease terms in excess of one year:

2015	$ 1,129
2016	837
2017	701
2018	374
2019	302
2020 - 2024	1,126
	$ 4,469

* * * *

ERIE COUNTY MEDICAL CENTER CORPORATION
(A COMPONENT UNIT OF THE COUNTY OF ERIE)

SCHEDULE OF FUNDING PROGRESS FOR THE POSTEMPLOYMENT RETIREE HEALTHCARE PLAN (000's OMITTED)

Actuarial Valuation Date	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
January 1, 2014	$ 249,469	$ 249,469	$ 116,986	213.3%
January 1, 2013	$ 240,503	$ 240,503	$ 124,649	193.0%
January 1, 2012	$ 225,240	$ 225,240	$ 117,183	192.2%

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORANCE WITH *GOVERNMENT AUDITING STANDARDS*
INDEPENDENT AUDITOR'S REPORT

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements and the aggregate discretely presented component units, of Erie County Medical Center Corporation (a component unit of the County of Erie) (the "Corporation"), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise Corporation's basic financial statements, and have issued our report thereon dated March 31, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Freed Maxick CPAs, P.C.

Buffalo, New York
March 31, 2015

ERIE COUNTY MEDICAL CENTER CORPORATION
(A COMPONENT UNIT OF THE COUNTY OF ERIE)

SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2014

I. SUMMARY OF AUDITOR'S AUDIT RESULTS

Financial Statements

Type of Auditor's Report(s) Issued:	Unmodified			
Internal control over financial reporting:				
Material weakness(es) identified?	_______	Yes	_____X	No
Significant deficiencies identified	_______	Yes	_____X	None Reported

II. FINDINGS – FINANCIAL STATEMENT AUDIT

There were no findings during the financial statement audit.