Erie County Medical Center Corporation

(A Component Unit of the County of Erie)

Financial Report
December 31, 2017

Contents

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Independent Auditor's Report

RSM US LLP

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component units of Erie County Medical Center Corporation (the “Corporation”), a component unit of the County of Erie, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Corporation’s basic financial statements as listed in the table of contents.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 Corporation’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 Corporation’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component units of Erie County Medical Center Corporation as of December 31, 2017 and 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3-11 as well as the required supplementary information on pages 48-50 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

RSM US LLP

March 20, 2018

Management's Discussion and Analysis

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

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

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

Management has prepared this Discussion and Analysis providing an overview of the financial position and results of activities of Erie County Medical Center Corporation (the Corporation or ECMCC) as of and for the year ended December 31, 2017. The purpose of the Discussion and Analysis is to provide the reader with objective data to evaluate the Corporation. This narrative and the financial statements and footnotes, are the responsibility of the Corporation's management.

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

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

Introduction

The culture and family of dedicated caregivers, support staff, leadership and a dedicated Board of Directors responded to great challenges in 2017 and rising to the occasion every time made 2017 a year of great successes. These challenges and successes, which will be discussed later in this narrative, include; withstanding the largest cyber-attack to a hospital on US soil, experiencing the highest volumes in our history, improving almost every quality score, completing a financing transaction to provide capital for a new Level 1 Adult Trauma Center and other key projects on our campus. In this context, we are proud to present the following Discussion and Analysis.

Operations Analysis

The Corporation completed calendar year 2017 providing a record level of services to Western New York residents and, given its unique services, to many others beyond this region. This growth is attributable to an ongoing focus on continuously improving the quality of the care and patient experience that ECMCC delivers. In addition, the collaborative culture at ECMCC has significantly influenced its success and includes working with staff, physicians, Kaleida Health and Delivery System Reform Incentive Payment (DSRIP) participating providers. The Corporation is executing its strategic plan and making investments in sustaining its role of being the provider of choice for patients, physicians and its own staff. Significant volumes of patient encounters (not expressed in thousands) are as follows:

	2012	2013	2014	2015	2016	2017	% Increase 2012 - 2017
Inpatients	16,091	16,316	17,789	18,378	18,839	19,260	19.7%
Surgeries	12,712	12,714	13,360	14,364	14,552	14,818	16.6%
Emergency	63,930	64,698	66,418	67,296	69,290	68,862	7.7%
Outpatients	252,524	253,781	295,676	305,737	316,691	314,927	24.7%
Dialysis	19,926	21,350	22,224	24,617	27,291	24,772	24.3%

The favorable growth reflects the trust that the Western New York community, our physicians and our employees placed in ECMCC and has translated into favorable financial results. Notable achievements in 2017 include:

- Achieved National Committee for Quality Assurance (NCQA) Patient Centered Medical Home, Level 3, status.
- Centers for Medicare & Medicaid Services (CMS) 4-star designation for Terrace View.
- Commission on Accreditation of Rehabilitation Facilities (CARF) and American Association of Blood Banks (AABB) certifications/accreditation for rehabilitation and blood banks, respectively.
- An A rating by Leapfrog.
- Greater than 250 Nursing Daisy Award nominations, including 3 national nominations.
- Many community outreach activities including: mobile mammography coach, Let's Not Meet by Accident Program, and Opiate Addiction collaborative.
- Minority and Women Owned business participation rate of 32.5%.
- Consistent with ECMCC's goals of a high reliability organization and zero harm improvements were realized in fall prevention rates, hospital acquired infection rates, surgical site infection rates and re-admission rates.
- Conducted 12 different staff training programs with a total of 5,736 participants.

In addition to the favorable financial and health care quality of the Corporation, the first-ever capital campaign to raise funds for a new Level 1 Adult Trauma Center and Emergency Department, saw pledges exceeding $7 million in its initial phase. ECMC Foundation, Inc., the Corporation's principal fundraising entity completed the year with record levels of attendance at signature events including: The Springfest Gala, October breast cancer awareness month, its annual golf tournament and other events. Of particular note, employee participation in annual fundraising more than tripled from 2015 to 2017.

(Dollars in Thousands)

Operations Analysis (Continued)

On April 9, 2017, ECMCC undertook a voluntary shutdown of its entire information technology network as a result of a malware attack, implementing its emergency preparedness plan and downtime procedures. Downtime procedures remained largely in effect through May 12, 2017 while ECMCC rebuilt operating systems in a new clean and separate environment. Data from back-up systems was used to restore clinical, financial and other data. Detailed internal and independent forensic analysis has concluded that there was no data access, modification or exfiltration. Direct expenses incurred as a result of this incident, and included in the results of operations for 2017, amount to $6,574 with additional losses in revenue realization amounting to $10,596 for total losses in the amount of $17,170. ECMCC maintains insurance coverage with a deductible of $250 and $10,000 in insured limits to cover such losses. As of the date of this report, the insurance claims have been finalized and the policy limit paid to ECMCC.

Financial Metric Analysis

The Corporation's total net position increased $5,044 in 2017 and decreased $1,387 in 2016 as a result of key operating activities discussed above leading to favorable results from operations as further discussed below.

Comparative financial ratios for the Corporation to the 2016 (most recent publicly available audited data) average of NYS Public Benefit Corporation (PBC) hospitals are presented in the following table. The financial statements used for the calculation of the following ratios, where appropriate, have been reclassified to conform to the presentation used in the development of the benchmarks, consistent with GAAP for entities not subject to GASB standards.

	ECMCC			PBC Average
	2017	2016	2015	2016
Operating margin	0.5%	0.3%	0.1%	-3.8%
Operating cash flow margin	6.2%	6.3%	6.7%	2.2%
Debt to total capitalization	100.5%	97.0%	112.5%	390.6%
Debt service coverage	4.1	2.1	2.5	1.0
Days cash on hand	101.5	67.8	70.8	49.1
Days in accounts receivable	69.1	50.3	53.0	38.5
Average age of plant	12.8	11.8	12.8	16.9

The financial ratios reflect improved results of operations and generally favorable performance compared to NYS Public Benefit Corporation Hospitals. The debt to total capitalization ratio increased as a result of a financing transaction completed in 2017. Days cash on hand increased as a result of favorable operating performance and the collection of Medicaid Disproportionate Share (DSH) and Upper Payment Limit (UPL) settlements from prior years. Days in A/R increased as a result of the April 2017 malware attack which delayed claims submission for 90 days.

Summary Financial Statements with Analysis

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

(Dollars in Thousands)

Statements of Net Position

Net position is categorized as follows:

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

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

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

Condensed Statements of Net Position are as follows:

			2017-2016	
	2017	2016	$ Change	% Change
Assets				
Current assets, excluding assets whose use is limited	$ 245,064	$ 187,569	$ 57,495	30.7
Assets whose use is limited	244,174	106,297	137,877	129.7
Capital assets, net	248,005	259,577	(11,572)	(4.5)
Other assets	32,141	34,891	(2,750)	(7.9)
Total assets	769,384	588,334	181,050	30.8
Deferred outflows of resources	87,081	126,808	(39,727)	(31.3)
Total assets and deferred outflows	$ 856,465	$ 715,142	$ 141,323	19.8
Liabilities				
Current liabilities	$ 174,922	$ 111,243	$ 63,679	57.2
Noncurrent liabilities	538,379	464,793	73,586	15.8
Total liabilities	713,301	576,036	137,265	23.8
Deferred inflows of resources	19,617	20,603	(986)	(4.8)
Net Position				
Net investment in capital assets	89,103	94,747	(5,644)	(6.0)
Restricted	35,746	18,411	17,335	94.2
Unrestricted	(1,302)	5,345	(6,647)	(124.4)
Total net position	123,547	118,503	5,044	4.3
Total liabilities, deferred inflows and net position	$ 856,465	$ 715,142	$ 141,323	19.8

Statements of Net Position (Continued)

Overall, total assets and deferred outflows of resources increased $141,323 from 2016 to 2017.

The following variances in total assets are noteworthy:

Total current assets, excluding the current portion of assets whose use is limited, increased by $57,495 due to the following:

- Cash, cash equivalents and investments increased by $30,770 of which $21,741 is due to collection of receivables for prior years Medicaid DSH and UPL payments.
- Patient accounts receivable, net, increased by $28,600 as a result of an April 2017 malware attack resulting in a 90 day delay in billing as further discussed later in this document. Increases in volumes noted earlier contributed to a 5.1% growth in average daily revenue and accounts receivable. Revenue cycle yield (net patient service revenue as a percent of gross charges) increased to 49.1% in 2017 compared to 48.4% in 2016, also contributing to the increase in accounts receivable.
- Other current assets decreased by $5,511 which is due to a $16,872 decrease in Medicaid DSH and UPL program receivables and a $3,636 decrease of the Care Restructuring Enhancement Pilot (CREPS) Program grant receivable that has been offset by increases of: $9,086 due to a receivable from the cyber insurance claim noted above and a $7,236 increase in inventory, prepaid expenses, and health insurance rebates.

- Assets whose use is limited, including current portion, increased by $137,877, $107,322 of which is due to the proceeds from the 2017 financing to be used for various construction and renovation projects and capitalized interest during construction, $12,612 is due to increased reserve account funding for actuarial liabilities and $19,353 is due to receipt of DSRIP grant funds.
- Capital assets, net, decreased by $11,572 due to acquisitions of new capital assets being less than depreciation expense. Significant investments in capital assets are summarized in a following section.
- Other assets decreased by $2,750 largely as a result of transactions with Erie County.

Overall, total liabilities increased $137,265 from 2016 to 2017. Net position increased $5,044 (4.3%) in 2017 from 2016.

The following variances in total liabilities are noteworthy:

Total current liabilities increased by $63,679 due to the following:

- Accounts payable and accrued salaries and benefits increased by $10,265 due to timing of payments on these liabilities.
- Other accrued liabilities increased by $7,989 largely as a result of an increase in the current portion of actuarial determined liabilities.
- Estimated net third party liabilities increased by $17,397 as a result of settlements on prior year receivables.

- A decrease in the net pension liability was recognized in 2017 in the amount of $44,462 due to changes in actuarial assumptions made by and investment performance of the New York State and Local Retirement System (NYSLRS) further described in Note 9.
- Current and long-term portions of self-insured obligations increased by $14,705 due to changes in actuarial estimates for post-employment health insurance and obligations for self-insured retentions for malpractice and workers' compensation claims greater than payments made on those claims.

(Dollars in Thousands)

Statements of Revenues, Expenses, and Changes in Net Position

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

	2017	2016	2017-2016 $ Change	2017-2016 % Change
Net patient service revenue	$ 506,842	$ 489,931	$ 16,911	3.5
Disproportionate share revenue (DSH)	67,411	71,500	(4,089)	(5.7)
Delivery System Reform Incentive Payment (DSRIP) grants	27,286	23,966	3,320	13.9
Other operating revenue	45,834	31,149	14,685	47.1
Total operating revenues	647,373	616,546	30,827	5.0
Operating expenses:				
Payroll and employee benefits	344,784	334,801	9,983	3.0
Professional fees	76,552	74,380	2,172	2.9
Purchased services	53,352	42,680	10,672	25.0
Supplies	83,616	78,363	5,253	6.7
Other operating expenses	22,942	24,430	(1,488)	(6.1)
Delivery System Reform Incentive Payment (DSRIP) grant expenses	26,044	23,062	2,982	12.9
Depreciation and amortization	28,740	28,673	67	0.2
Total operating expenses	636,030	606,389	29,641	4.9
Operating income before interest expense	11,343	10,157	1,186	11.7
Interest expense	8,159	8,006	153	1.9
Operating income	3,184	2,151	1,033	48.0
Total net non-operating revenue (expenses)	1,860	(182)	2,042	1,122.0
Net income	5,044	1,969	3,075	156.2
Transfer to Erie County	-	(3,356)	3,356	(100.0)
Change in net position	5,044	(1,387)	6,431	463.7
Net position - beginning of year	118,503	119,890	(1,387)	(1.2)
Net position - end of year	$ 123,547	$ 118,503	$ 5,044	4.3

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

Overall, operating revenues increased by $30,827 or 5.0% in 2017 with increases attributable to the following:

- Net patient service revenue increased $16,911, or 3.5% in 2017. Volumes increased for the inpatient line of business. Total inpatient discharges increased 2.2% from 18,839 to 19,260. Total surgeries, including ancillary procedures, increased 1.8% from 14,552 to 14,818. Outpatient visits decreased 0.6% from 316,691 to 314,927. ER visits decreased 0.6% from 69,290 to 68,862.
- DSH decreased by $4,089, or 5.7%, in 2017 principally as the net result of an increase in uncompensated care provided and a decrease in UPL funding associated with Terrace View.
- Other operating revenue increased by $14,685, or 47.1%, in 2017. DSRIP grant revenue increased by $3,320. During 2016, the Corporation was awarded a four year grant for the CREPS Program discussed in a subsequent section. The grant resulted in $23,330 and $20,060 of grant revenue in 2017 and 2016, respectively. The Corporation was insured for certain losses incurred with the malware attack noted earlier. As a result, other operating revenues includes $9,750 of payments received and accrued associated with the insurance policy.

Operating expenses increased $29,641 or 4.9%, in 2017. Expense increases are attributable to the following:

- Payroll and employee benefit expenses have increased by $9,983 or 3.0% as the net result of increases in staffing levels due to the aforementioned volume increases, increased payroll and other taxes as a result of that growth, wage increases associated with collective bargaining agreements, increased active employee and retiree health insurance expense offset by productivity improvements. The April 2017 malware attack resulted in an $1,403 increase in salary and benefits expense, primarily related to overtime, which have been offset by other operating revenues noted above. Salaries and employee benefit expense decreased by 1.0% of total operating revenue, from 54.3% in 2016 to 53.3% of total operating revenue in 2017.
- Purchased services increased by $10,672 or 25.0% which was principally the result of the malware event and financing transaction expenses.
- Supply expenses have increased from 16.0% of net patient revenue to 16.5% of net patient revenue due to increases in pharmaceuticals and an increase in surgical volumes.
- Other operating expenses decreased by 6.1% as a result of favorable experience in self-insured risk retentions.

As previously noted, a financing transaction was completed in 2017. Transaction costs totaling $1,177 were recognized in 2017 and included in purchased services.

Capital Assets, Net, and Long-Term Debt

At December 31, 2017, the Corporation had capital assets, net of accumulated depreciation, of $248,005 compared to $259,577 at December 31, 2016, representing a decrease of $11,572 or 4.5%.

The Corporation invested $6,362 in the development of a new Level 1 Adult Trauma Center, and Emergency Department, including its enabling projects. Construction of this project began in 2017 and is scheduled to be completed in 2019. In addition, the Corporation invested $1,695 in a new patient monitoring system and $1,198 in various facility infrastructure projects. Other improvements included other medical and non-medical equipment, software and furniture and fixtures.

Capital Assets, Net, and Long-Term Debt (Continued)

At December 31, 2017, the Corporation had $272,506 of long-term debt financing related to its capital assets compared to $173,983 at December 31, 2016. The financing transaction provided $99,429 in new debt proceeds to support various capital projects, $8,281 to fund capital interest during construction and refinanced the debt associated with the Terrace View Long-Term Care facility. The refinancing of the Terrace View debt resulted in net present value savings of $953 or 1.4% of total debt service.

Forward Looking Factors

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

Collective Bargaining Agreements

The Corporation operates under three collective bargaining agreements that cover substantially all employees. In January 2018, Corporation employees of the Civil Service Employee Association (CSEA) approved a new 5-year contract. Negotiation of this new agreement, negotiated in concert with Erie County, New York, continues a sub-bargaining unit which represents only Corporation employees. The agreement runs through December 31, 2022. Registered Nurses (RNs) are covered under an agreement with the New York State Nurses Association (NYSNA). The current agreement was executed in September 2014 and expires on December 31, 2018. The Corporation's agreement with the American Federation of State, County and Municipal Employees (AFSCME) was in effect through December 31, 2015. During 2017, a contract was negotiated in concert with the County of Erie, New York, and ratified with AFSCME employees which runs through December 31, 2022.

Transactions with the County of Erie

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

Health Reform Law

The status of Health Reform including the Health Reform Law continues to be debated through the date of this report. The proposal to repeal and replace what President Obama signed into law known as the Patient Protection and Affordable Care Act (ACA) and the Health Care and Education Reconciliation Bill (the Reconciliation Act), which modifies the ACA in many respects which includes sweeping changes to how health care is provided, and paid for, in the United States has not come to fruition as of the date of this report, however the individual insurance mandate, a central tenant to the Health Reform Law was repealed as part of the Tax Reform Bill which President Trump signed into law in December 2017. The health care industry will continue to be subject to significant new statutory and regulatory requirements, and consequently, structural and operational challenges. In 2012, the U.S. Supreme Court altered certain aspects of the law. Certain other aspects of the law have been delayed through Executive Orders issued by the President of the United States.

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

Delivery System Reform Incentive Payment (DSRIP)

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

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

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

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

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

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

Care Restructuring Enhancement Pilot (CREPS) Program Grant

The Corporation was awarded a grant under the CREPS Program administered by the New York State Department of Health. The total award amount is approximately $97,260 over the period April 1, 2016 to March 31, 2020 in state fiscal year annual distribution amounts of $43,930, $30,010, $13,320, and $10,000, respectively. The Corporation is responsible for achieving certain goals of the CREPS Program in each year in order to qualify for the funding. The Corporation believes it has achieved all of the goals for year 1 and substantially all of the goals from year 2 of the program and has recognized related revenue in the amount of $23,330 and $20,060, in the 2017 and 2016 financial statements, respectively.

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, 2017 and 2016
(Dollars in Thousands)

	2017	2016
Assets and Deferred Outflows		
Current assets:		
Cash and cash equivalents	$ 23,905	$ 15,389
Investments	42,068	19,814
Assets whose use is limited	53,441	23,849
Patient accounts receivable, net	95,974	67,374
Other receivables	63,471	68,982
Supplies, prepaids and other	19,646	16,010
Total current assets	298,505	211,418
Assets whose use is limited	190,733	82,448
Capital assets, net	248,005	259,577
Other assets, net	32,141	34,891
	470,879	376,916
Total assets	769,384	588,334
Deferred outflows of resources:		
Pensions	67,731	125,771
Other	19,350	1,037
Total deferred outflows of resources	87,081	126,808
Total assets and deferred outflows of resources	$ 856,465	$ 715,142
Liabilities, Deferred Inflows and Net Position		
Current liabilities:		
Current portion of long-term debt	$ 10,307	$ 18,811
Accounts payable	42,766	32,001
Accrued salaries, wages and employee benefits	19,517	20,017
Accrued other liabilities	38,192	30,203
Unearned revenue	41,619	5,087
Estimated third-party payor settlements	22,521	5,124
Total current liabilities	174,922	111,243
Long-term debt, net	262,199	155,172
Net pension liability	71,544	116,006
Self-insured obligations	201,240	190,141
Other	3,396	3,474
Total liabilities	713,301	576,036
Deferred inflows of resources - pensions	19,617	20,603
Net Position		
Net investment in capital assets	89,103	94,747
Restricted:		
Nonexpendable	-	-
Expendable	35,746	18,411
Unrestricted	(1,302)	5,345
Total net position	123,547	118,503
Total liabilities, deferred inflows and net position	$ 856,465	$ 715,142

See notes to the financial statements.

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

Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2017 and 2016
(Dollars in Thousands)

	2017	2016
Operating revenues:		
Net patient service revenue, net of provision for bad debts of $18,822 and $10,590 for 2017 and 2016, respectively	$ 506,842	$ 489,931
Disproportionate share revenue	67,411	71,500
Delivery System Reform Incentive Payment (DSRIP) grants	27,286	23,966
Other operating revenue	45,834	31,149
Total operating revenues	647,373	616,546
Operating expenses:		
Payroll and employee benefits	$ 344,784	334,801
Professional fees	76,552	74,380
Purchased services	53,352	42,680
Supplies	83,616	78,363
Other operating expenses	22,942	24,430
Delivery System Reform Incentive Payment (DSRIP) grant expenses	26,044	23,062
Depreciation and amortization	28,740	28,673
Total operating expenses	636,030	606,389
Operating income	11,343	10,157
Non-operating revenue (expenses):		
Investment income	1,860	773
Contributions to component unit	-	(955)
Interest expense	(8,159)	(8,006)
Total net non-operating expenses	(6,299)	(8,188)
Net income	5,044	1,969
Transfer to Erie County	-	(3,356)
Total change in net position	5,044	(1,387)
Net position – beginning of year	118,503	119,890
Net position – end of year	$ 123,547	$ 118,503

See notes to the financial statements.

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

Statements of Cash Flows
Years Ended December 31, 2017 and 2016
(Dollars in Thousands)

	2017	2016
Cash flows from operating activities:		
Receipts from patients and third party payors	**$ 500,936**	$ 480,657
Payments to employees for salaries and benefits	**(321,572)**	(328,140)
Payments to vendors for supplies and other	**(251,034)**	(263,781)
Other receipts	**177,063**	118,011
Net cash provided by operating activities	**105,393**	6,747
Cash flows from non-capital financing activities:		
Settlements with Erie County	**-**	(9,258)
Payments from Erie County	**-**	2,000
Transfer to Erie County	**-**	(3,356)
Transfers to component unit	**-**	(955)
Net cash used in non-capital financing activities	**-**	(11,569)
Cash flows from capital and related financing activities:		
Purchases of capital assets	**(11,930)**	(9,861)
Borrowings on long-term debt	**107,773**	8,100
Payments on long term debt	**(9,250)**	(10,619)
Payment on points associated with the 2017 financing transaction	**(17,040)**	-
Interest paid on long term debt	**(8,159)**	(8,006)
Net cash provided by (used in) capital and related financing activities	**61,394**	(20,386)
Cash flows from investing activities:		
(Purchases) sales of assets whose use is limited, net	**(137,877)**	18,625
Investment income	**1,860**	773
Purchases of investments, net	**(22,254)**	(8,483)
Net cash (used in) provided by investing activities	**(158,271)**	10,915
Net change in cash and cash equivalents	**8,516**	(14,293)
Cash and cash equivalents:		
Beginning	**15,389**	29,682
Ending	**$ 23,905**	$ 15,389

Noncash capital and related financing activities:
Included in accounts payable at December 31, 2017 and 2016 was $5,238 and $1,423, respectively, of invoices related to capital asset acquisitions

During the year ended December 31, 2017, the Corporation advance refunded long-term debt related to its nursing home. As a result, $74,367 of the borrowings were deposited into an escrow account.

(Continued)

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

Statements of Cash Flows (Continued)
Years Ended December 31, 2017 and 2016
(Dollars in Thousands)

	2017	2016
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	**$ 11,343**	$ 10,157
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	**28,740**	28,673
Provision for bad debt	**18,822**	10,590
Patient accounts receivable	**(47,422)**	(10,129)
Other receivables	**5,511**	(12,082)
Supplies, prepaids and other	**(911)**	(7,159)
Deferred outflows of resources	**56,767**	(120,624)
Accounts payable	**5,527**	(11,227)
Accrued liabilities	**7,436**	(1,023)
Unearned revenue	**36,532**	(8,604)
Estimated third-party payor settlements	**17,397**	2,347
Self-insured obligations	**11,099**	17,453
Net pension liability	**(44,462)**	91,894
Deferred inflows of pension resources	**(986)**	16,481
Net cash provided by operating activities	**$ 105,393**	$ 6,747

See notes to the financial statements.

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

Statements of Net Position - Discretely Presented Component Units
December 31, 2017 and 2016
(Dollars in Thousands)

	2017				2016			
	ECMC Foundation, Inc.	The Grider Initiative, Inc.	Research for Health in Erie County, Inc.	**Total (memorandum only)**	ECMC Foundation, Inc.	The Grider Initiative, Inc.	Research for Health in Erie County, Inc.	Total (memorandum only)
Assets								
Current assets:								
Cash and cash equivalents	$ 1,198	$ 274	$ 38	**$ 1,510**	$ 925	$ 275	$ 67	$ 1,267
Investments	645	-	1,016	**1,661**	644	-	985	1,629
Assets whose use is limited	1,613	-	-	**1,613**	1,096	-	-	1,096
Other receivables	1,813	-	-	**1,813**	1,446	955	-	2,401
Supplies, prepaids and other	71	-	-	**71**	23	-	-	23
Total current assets	5,340	274	1,054	**6,668**	4,134	1,230	1,052	6,416
Other receivables	4,604	-	-	**4,604**	700	-	-	700
Endowment and other investments	59	10,795	-	**10,854**	58	10,635	-	10,693
Equipment and vehicles, net	197	-	-	**197**	269	-	-	269
	4,860	10,795	-	**15,655**	1,027	10,635	-	11,662
Total assets	$ 10,200	$ 11,069	$ 1,054	**$ 22,323**	$ 5,161	$ 11,865	$ 1,052	$ 18,078
Liabilities and Net Position								
Current liabilities:								
Accounts payable	$ 12	$ -	$ 35	**$ 47**	$ 109	$ -	$ 3	$ 112
Funds held in custody for others	402	-	-	**402**	322	-	-	322
Total current liabilities	414	-	35	**449**	431	-	3	434
Related party	650	-	-	**650**	650	955	-	1,605
Interest payable	34	-	-	**34**	28	-	-	28
	684	-	-	**684**	678	955	-	1,633
Total liabilities	1,098	-	35	**1,133**	1,109	955	3	2,067
Net Position								
Restricted:								
Nonexpendable	50	10,000	-	**10,050**	50	10,000	-	10,050
Expendable	7,389	-	-	**7,389**	2,601	-	-	2,601
Unrestricted	1,663	1,069	1,019	**3,751**	1,401	910	1,049	3,360
Total net position	9,102	11,069	1,019	**21,190**	4,052	10,910	1,049	16,011
Total liabilities and net position	$ 10,200	$ 11,069	$ 1,054	**$ 22,323**	$ 5,161	$ 11,865	$ 1,052	$ 18,078

See notes to the financial statements.

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

Statements of Revenues, Expenses and Changes in Net Position - Discretely Presented Component Units
Years Ended December 31, 2017 and 2016
(Dollars in Thousands)

	2017				2016			
	ECMC Foundation, Inc.	The Grider Initiative, Inc.	Research for Health in Erie County, Inc.	**Total (memorandum only)**	ECMC Foundation, Inc.	The Grider Initiative, Inc.	Research for Health in Erie County, Inc.	Total (memorandum only)
Operating revenues:								
Grants, contributions and special events	$ 8,176	$ -	$ -	**$ 8,176**	$ 3,296	$ -	$ -	$ 3,296
Other operating revenue, net	15	-	-	**15**	9	-	-	9
Total operating revenues	8,191	-	-	**8,191**	3,305	-	-	3,305
Operating expenses:								
Program services and grants	1,345	-	57	**1,402**	1,163	955	28	2,146
Fundraising	642	-	-	**642**	633	-	-	633
Other operating expenses	1,238	1	4	**1,243**	1,216	-	5	1,221
Total operating expenses	3,225	1	61	**3,287**	3,012	955	33	4,000
Operating income (loss)	4,966	(1)	(61)	**4,904**	293	(955)	(33)	(695)
Non-operating revenue:								
Contributions from related party	-	-	-	**-**	-	955	-	955
Investment income	84	160	31	**275**	39	68	43	150
Change in net position	5,050	159	(30)	**5,179**	332	68	10	410
Net position – beginning of year	4,052	10,910	1,049	**16,011**	3,720	10,842	1,039	15,601
Net position – end of year	$ 9,102	$ 11,069	$ 1,019	**$ 21,190**	$ 4,052	$ 10,910	$ 1,049	$ 16,011

See notes to the financial statements.

Note 1. Organization

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

The Corporation's "Health Care Facilities" consist of the Medical Center, a 583 bed acute tertiary care facility providing inpatient, emergency, outpatient, primary care and specialty clinic services (Medical Center), a 390-bed residential health care facility (Terrace View) both located on Grider Street in the City of Buffalo and three chemical dependency and alcohol rehabilitation clinics located throughout the County. The Corporation serves as the region's only Level 1 Adult Trauma Center, burn center, comprehensive traumatic brain injury and spinal cord injury rehabilitative center, Comprehensive Psychiatric Emergency Program provider for acute psychiatric emergencies, Regional Center of Excellence for Transplantation and Kidney Care, and is the primary provider of HIV inpatient and outpatient specialty care.

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

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

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

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

Note 1. Organization (Continued)

Medical School Collaboration: The Corporation serves as a primary teaching hospital for the Jacobs School of Medicine and Biomedical Sciences of the State University of New York at Buffalo (the "Medical School"). An agreement governs the relationship between the Corporation and the Medical School. The Corporation serves as an integral part of the education and research mission of the University by providing the clinical settings for the University's public mission to educate and train physicians, nurses and other healthcare professionals, conduct clinical research programs and deliver healthcare services to patients. There are currently 178 full-time equivalent medical residents assigned to the Corporation in various Academic College of Graduate Medical Education accredited residency programs.

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

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

ECMC Foundation, Inc.: The ECMC Foundation, Inc. (the "Foundation"), formerly the ECMC Lifeline Foundation, Inc., is a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). The Foundation was formed for the purpose of supporting Corporation programs. The financial statements of the Foundation have been prepared on an accrual basis. The annual financial report can be obtained by writing to: Executive Director, ECMC Foundation, Inc., 462 Grider Street, Buffalo, NY 14215.

The Grider Initiative, Inc.: The Grider Initiative, Inc. (the "Physician Endowment") is a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the IRC. The Physician Endowment was funded in 2010, for the purpose of recruiting physicians who shall practice on the Grider Street campus of the Corporation. The entity was funded with an initial transfer of $10,000 from the Corporation. Earnings from the investment of the initial transfer may be used only for physician recruitment and retention and necessary expenses of the entity. The financial statements of The Grider Initiative, Inc. have been prepared on an accrual basis. The annual financial report can be obtained by writing to: Chair, The Grider Initiative, Inc. 462 Grider Street, Buffalo, NY 14215.

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

Note 1. Organization (Continued)

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

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

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

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

As further discussed in Note 15, the Corporation incurred a malware event impacting its operations and systems.

Note 2. Summary of Significant Accounting Policies

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

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

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

Included in net patient service revenue are adjustments to prior year estimated third-party payor settlements, and estimated receivables and payables that were originally recorded in the period the related services were rendered. These adjustments are made in the normal course of operations and amounts reported are consistent with approach in prior years. The adjustments to prior year estimates and other third-party reimbursement or recoveries that relate to prior years also impact Disproportionate Share revenues as discussed in Note 4. The combined effect of changes related to prior years estimates resulted in an increase of $1,226 and $1,827 in total operating revenue for the years ended December 31, 2017 and 2016, respectively.

(Dollars in Thousands)

Note 2. Summary of Significant Accounting Policies (Continued)

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

Patient accounts receivable: Patient accounts receivable are reported net of both an estimated allowance for contractual adjustments and an estimated allowance for uncollectible accounts. The contractual allowance represents the difference between established billing rates and estimated reimbursement from Medicare, Medicaid and other third party payor programs. Current operations are charged with an estimated provision for bad debts estimated based on the age of the account, prior experience and any other circumstances which affect collectability. The Corporation's policy does not require collateral or other security for patient accounts receivable and the Corporation routinely accepts assignment of, or is otherwise entitled to receive, patient benefits payable under health insurance programs, plans or policies. The allowance for estimated doubtful accounts at December 31, 2017 and 2016 was approximately $21,902 and $18,962, respectively. Patient accounts receivable were impacted by the malware event as described in Note 15. The estimated impact of this event on the realization of patient accounts receivable has been reflected in the allowance for contractual adjustments and allowance for doubtful accounts referenced above.

Investments and assets whose use is limited: The Corporation generally records its investments at fair value. Such assets are comprised of cash and cash equivalents, including money market funds, fixed income securities, commercial paper and equity funds. Assets classified as investments are unrestricted. Assets classified as limited as to use are restricted under Board designation or terms of agreements with third parties and include debt service funds, funds for self-insured workers compensation costs and medical malpractice costs, collateral for insured workers compensation programs, patient and resident monies, funding for future retiree health costs, and funds limited as to use for the acquisition of property, plant and equipment.

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

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

	2017	2016
Medicaid Disproportionate Share (DSH) and Upper Payment Limit (UPL) (Note 4)	$ 25,289	$ 42,160
Care Restructuring Enhancement Pilot (CREPS) Program Grant (Note 12)	16,640	20,040
Health insurance rebates	5,949	1,799
Malware insurance claim (Note 15)	9,087	-
Other	6,506	4,983
	$ 63,471	$ 68,982

(Dollars in Thousands)

Note 2. Summary of Significant Accounting Policies (Continued)

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

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

When assets are retired, or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected for the period. Amortization of capital leases is computed using the straight-line method over the lease term or the estimated useful life of the asset, whichever is shorter. Maintenance and repairs are charged to expense as incurred with significant renewals and betterments being capitalized. During periods of construction, the Corporation capitalizes interest incurred with borrowings for construction. Capitalized interest was $1,274 at December 31, 2017.

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

Deferred outflows of resources: Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and therefore will not be recognized as an outflow of resources (expense) until that time. Deferred outflows of resources consist primarily of unrecognized items not yet charged to pension expense related to the net pension liability and items related to the 2017 financing transaction.

The 2017 financing transaction included the payment of points, in the amount of $17,040 to Erie County associated with the differential in interest rate on the 2017 financing using the credit rating of Erie County and the rate that the Corporation was projected to pay independent of a relationship with Erie County. The points are being amortized on the interest method over the term of the 2017 financing. The unamortized amount of points at December 31, 2017 is $16,548. The 2017 financing transaction also included the advance refunding of the 2011 financing, the proceeds of which were used to finance the construction of the Terrace View Nursing Home on the Corporation's campus. The deposit required to the advance refunding escrow was greater than the balance outstanding on the 2011 financing in the amount of $2,038 and is being amortized on the interest method over the life of the advance refunding component of the transaction. The unamortized portion of this advance refunding at December 31, 2017 is $1,952.

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

Other assets: Amounts due from the County, as noted in Note 13 as well as ownership interests in various business enterprises are included in other assets.

Collaborative Care Ventures, LLC (Collaborative Care) was formed in 2014 by ECMCC and Kaleida Health System (KHS). Collaborative Care was created as a vehicle for ECMCC and KHS to participate in various investments in the future consistent with their missions. At December 31, 2017 and 2016, the Corporation's share of the net assets of Collaborative Care amounted to $3,866 and $7,047, respectively.

Note 2. Summary of Significant Accounting Policies (Continued)

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

Compensated absences: The Corporation has accrued liabilities for certain compensated absences earned by its employees, to include vacation, sick, and compensatory time. The Corporation's employees are permitted to accumulate unused vacation and sick leave time up to certain maximum limits. The Corporation accrues the estimated obligation related to vacation pay based on pay rates currently in effect. Sick leave credits, if accumulated above certain prescribed levels, may be the basis of a supplemental payment to employees upon retirement. The Corporation accrues an estimated liability for these estimated terminal payments. These amounts have been included in the statements of net position at December 31, 2017 and 2016, within the caption accrued salaries, wages and employee benefits in the amount of $11,506 and $11,004, respectively.

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

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

Restricted: The restricted expendable component of net position consists of constraints placed on net position through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. The restricted nonexpendable component of net position is permanently unavailable for use. The earnings on the nonexpendable net position are classified as restricted expendable.

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

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

Charity care: The Corporation provides care to patients who meet certain criteria under its charity care policy, without charge or at amounts less than established rates. Because the Corporation does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue in the accompanying statements of revenues, expenses, and changes in net position. The estimated costs of caring for charity care patients were $12,239 and $10,244 for the years ended December 31, 2017 and 2016, respectively. Additionally, the Corporation provided approximately $4,268 and $3,476 in discounts to self-pay patients for the years ended December 31, 2017 and 2016, respectively.

Note 2. Summary of Significant Accounting Policies (Continued)

Contributions: The Foundation reports gifts of cash or promises to give as restricted contributions when they are received with donor stipulations that limit the use of the donated assets. When the intent of the donor is that the assets are to remain in perpetuity and the Foundation does not have the right to invade the original principal, the assets are reported as permanently restricted. When a donor restriction expires, restricted - expendable net positions are released to unrestricted net position. The Foundation is conducting a capital campaign to raise funds to support the construction of a new Level 1 Adult Trauma Center, Emergency Department and other capital needs in support of the mission of the Corporation. Receivables for pledges associated with this campaign are recorded net of a reserve for uncollectible pledges and are discounted to present value using a 2.5% discount rate, over the expected collection period of the pledges.

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

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

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

Contributed services: RHEC receives contributions from the Corporation consisting primarily of donated space, equipment, and personnel support. During 2017 and 2016, the value of contributed services meeting the requirements for recognition in the financial statements was not material and has not been recorded.

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

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

Note 2. Summary of Significant Accounting Policies (Continued)

Recent and pending accounting pronouncements: In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). This Statement is effective for years beginning after June 15, 2017. The Corporation has estimated the impact this Statement will have on the financial statements, with such impact described in Note 10.

In March 2016, GASB issued Statement No. 82, *Pension Issues, an amendment of GASB Statements No. 67, 68 and 73*. The objective of this Statement is to address issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The Corporation adopted this Statement during the year ended December 31, 2017 and the disclosure requirements are reflected in Note 9.

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

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

In March 2017, GASB issued Statement No. 85, *Omnibus*. The objective of this Statement is to address a variety of topics including issues related to blending component units, goodwill, fair value measurement and post-employment benefits. The requirements of this Statement are effective for financial reporting periods beginning after June 15, 2017. The Corporation has not yet determined the impact this Statement will have on the financial statements.

Note 2. Summary of Significant Accounting Policies (Continued)

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases. Under this Statement, a lessee is required to recognize a lease liability and a right to use asset as a single model for lease accounting based on the principle that leases are financing instruments. The requirements of this Statement are effective for financial reporting periods beginning after December 15, 2019. The Corporation has not yet determined the impact this Statement will have on the financial statements.

Reclassification: Certain amounts included in the 2016 financial statements have been reclassified to conform to the 2017 presentation. These reclassifications had no impact on total net position or changes in net position.

Subsequent events: The Corporation has evaluated subsequent events for potential recognition and/or disclosure through March 20, 2018, the date the financial statements were issued.

Note 3. Net Patient Service Revenue

The Corporation has agreements with third-party payors that provide for payment to the Corporation at amounts different from its established rates. A summary of the payment arrangements for hospital services 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 and per patient day depending on the service. Acute care rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Certain inpatient and outpatient services, as well as defined organ acquisition, capital and medical education costs related to Medicare beneficiaries are paid based on regulatory proscribed formulae. The Corporation is reimbursed for such items at a tentative rate with final settlement determined after submission of annual cost reports by the Corporation and audits thereof by the Medicare fiscal intermediary. The Corporation's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Corporation. Most outpatient reimbursements are based on an Ambulatory Payment Classification weighting by acuity system, although some outpatient cost reimbursement still exists.
>
> **Medicaid:** Inpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates in accordance with Part 86 of the New York Codes, Rules and Regulations and New York State Law which are promulgated by the New York State Department of Health (DOH). Outpatient services are similarly paid at either prospective rates or fee schedule amounts.

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.

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

(Dollars in Thousands)

Note 3. Net Patient Service Revenue (Continued)

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

	2017		
	ECMC	Terrace View	Total
Gross charges	$ 940,956	$ 91,246	$ 1,032,202
Less:			
Discounts and allowances	464,904	41,634	506,538
Provision for bad debts	17,262	1,560	18,822
	$ 458,790	$ 48,052	$ 506,842

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

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

	2017			
	ECMC	Terrace View	Total	%
Medicare*	$ 149,374	$ 8,282	$ 157,656	31.1%
Medicaid*	135,208	38,432	173,640	34.2%
Commercial insurance and HMO's	30,235	631	30,866	6.1%
No-fault	24,981	271	25,252	5.0%
Other third party payors	111,285	178	111,463	22.0%
Self-pay	7,707	258	7,965	1.6%
	$ 458,790	$ 48,052	$ 506,842	100.0%

	2016			
	ECMC	Terrace View	Total	%
Medicare*	$ 152,104	$ 7,063	$ 159,167	32.5%
Medicaid*	127,780	37,262	165,042	33.7%
Commercial insurance and HMO's	32,163	554	32,717	6.7%
No-fault	21,838	325	22,163	4.5%
Other third party payors	102,920	385	103,305	21.1%
Self-pay	5,030	2,507	7,537	1.5%
	$ 441,835	$ 48,096	$ 489,931	100.0%

* Medicare and Medicaid include Managed Care plans

(Dollars in Thousands)

Note 3. Net Patient Service Revenue (Continued)

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.

Patient accounts receivable consist of the following at December 31:

	2017		
	ECMC	Terrace View	Total
Gross accounts receivable	$ 173,649	$ 17,906	$ 191,555
Less:			
Discounts and allowances	71,170	2,509	73,679
Provision for bad debts	16,235	5,667	21,902
	$ 86,244	$ 9,730	$ 95,974

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

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

	2017	2016
Medicare*	29.2%	25.8%
Medicaid*	29.5%	28.1%
Commercial insurance and HMO's	20.1%	24.3%
No-fault	9.4%	9.3%
Self-pay	5.3%	5.9%
Other	6.5%	6.6%
Total	100.0%	100.0%

* Medicare and Medicaid include Managed Care plans

Note 4. Disproportionate Share Revenue

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

In 2017 and 2016, DSH funding recorded by the Corporation totaled $67,411 and $71,500, 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 $55,909 and $50,327 was recognized in 2017 and 2016, respectively. In addition during 2017 and 2016, the Corporation recognized $11,502 and $21,173, respectively, of UPL revenue for Terrace View and the existing hospital-based skilled nursing unit which was assimilated into Terrace View. The UPL for New York State fiscal years 2016-2017 and 2017-2018, for public nursing homes has not yet been finalized. As a result, UPL revenue for the long term care units are estimates based on historical experience.

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

(Dollars in Thousands)

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

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

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

	2017	2016
Cash and cash equivalents	$ 23,905	$ 15,389
Investments	42,068	19,814
Assets whose use is limited – current	53,441	23,849
Assets whose use is limited – non-current	190,733	82,448
	$ 310,147	$ 141,500
Current portion of assets whose use is limited:		
Patient and residents trust cash	$ 334	$ 360
Restricted for debt service [a]	10,447	2,811
Equipment funds [b]	-	1,261
Designated for self-insurance obligations [c]	6,974	4,408
Designated for retiree health obligations [c]	10,777	9,737
Designated for DSRIP program [c]	24,440	5,087
NYS voluntary defined contribution plan escrow	129	185
Medical and dental staff funds	340	-
Total current portion of assets whose use is limited	$ 53,441	$ 23,849
Noncurrent portion of assets whose use is limited:		
Restricted for debt service [a]	$ 9,341	$ 9,253
Restricted for capital projects [e]	99,041	-
Designated for long-term investment [c]	18,595	18,594
Designated for retiree health obligations [c]	14,054	15,094
Designated for self-insurance obligations [c]	30,355	20,309
Restricted – insured workers compensation collateral [d]	19,347	19,198
Total noncurrent portion of assets whose use is limited	$ 190,733	$ 82,448

[a] Funds restricted by operation of indenture agreement
[b] Unspent loan proceeds for equipment
[c] Funds internally designated by operation of Board authority
[d] Funds restricted – insured workers compensation collateral agreement
[e] Unspent proceeds from borrowings, which are to be used for construction projects

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

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

Deposits

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

Custodial credit risk: Custodial credit risk is the risk that, in the event of bank failure, the Corporation's deposits might not be recovered. FDIC insurance through December 31, 2017 for funds held in interest bearing accounts is $250 per depositor per category of legal ownership. New York law requires that deposits in excess of FDIC insured amounts are collateralized. The Corporation's bank deposits at December 31, 2017 and 2016, totaled $42,971 and $25,749, respectively, of which $671 and $941 of the deposits were insured at December 31, 2017 and 2016, respectively. Amounts over FDIC insured limits were fully collateralized with securities held by the pledging financial institution.

Investments

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

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

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

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

Concentration of credit risk: Concentration of credit risk is the risk of loss attributable to the magnitude of investments in any single issuer. The Corporation's investment policy indicates the combined holdings of securities from one issuer shall not constitute more than 5.0% of the fund except for issues guaranteed directly or indirectly by the U.S. Government. The Corporation had no holdings in Federal National Mortgage Association (Fannie Mae) issues in 2017 or 2016. At December 31, 2017, there were no holdings in Federal Home Loan Mortgage Corporation (Freddie Mac) issues (6.3% in 2016).

(Dollars in Thousands)

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

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

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

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

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

	2017			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 23,905	$ -	$ -	$ 23,905
Investments and assets whose use is limited:				
Cash and cash equivalents	162,865	-	-	162,865
Marketable equity securities:				
Mid-cap value equities	3,984	-	-	3,984
Value equities	1,993	-	-	1,993
Growth equities	11,649	-	-	11,649
Global core equities	3,942	-	-	3,942
Short-term fixed income	-	16,910	-	16,910
Corporate bonds	-	33,151	-	33,151
Government bonds	-	51,748	-	51,748
Total investments and assets whose use is limited	184,433	101,809	-	286,242
Total	$ 208,338	$ 101,809	$ -	$ 310,147

(Dollars in Thousands)

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

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

Note 6. Capital Assets

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

	2017			
	Beginning Balance	Additions	Disposals/ Transfers	Ending Balance
Capital assets – being depreciated				
Land and land improvements	$ 20,289	$ 237	$ -	$ 20,526
Buildings and improvements	420,679	1,687	(71)	422,295
Fixed/major moveable equipment	152,190	10,361	(255)	162,296
Total capital assets – being depreciated	593,158	12,285	(326)	605,117
Less accumulated depreciation	(337,210)	(28,605)	236	(365,579)
Total capital assets – being depreciated, net	255,948	(16,320)	(90)	239,538
Capital assets – not being depreciated				
Construction in progress	3,629	8,086	(3,248)	8,467
Total capital assets, net	$ 259,577	$ (8,234)	$ (3,338)	$ 248,005

(Dollars in Thousands)

Note 6. Capital Assets (Continued)

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

Construction in progress at December 31, 2017 and 2016 includes costs associated with the planning and design of the Level 1 Adult Trauma Center and emergency department expansion project, as well as construction and planning costs for various other facility projects. The total amount of the project is expected be approximately $120,000 with $100,000 funded through loans from Erie County (Note 8).

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

Depreciation expense amounted to $28,605 and $28,468 for the years ended December 31, 2017 and 2016, respectively.

Note 7. Accrued Other Liabilities

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

	2017	2016
Due to Erie County	$ 10,934	$ 7,912
Workers compensation claims	5,780	3,247
Due to discretely presented component units	136	2,121
Medical malpractice claims	1,194	1,161
Other post-employment benefits (OPEB)	10,777	9,737
Interest costs	2,051	809
Other	7,320	5,216
Total	$ 38,192	$ 30,203

(Dollars in Thousands)

Note 8. Indebtedness

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

	2017				
	Beginning Balance	Additions	Payments	Ending Balance	Due Within One Year
Erie County - Guaranteed Senior Revenue Bonds, Series 2004	$ 81,930	$ -	$ (3,020)	$ 78,910	$ 3,185
Erie County – 2011 loan payable	75,811	-	(75,811)	-	-
Erie County – 2017 loan payable	-	99,492	(231)	99,261	462
Erie County – 2017 loan payable	-	74,367	(1,969)	72,398	3,595
Erie County – 2017 capitalized interest assumption obligation	-	8,281	(19)	8,262	38
Key Bank loan	8,100	-	(67)	8,033	810
Capital lease obligation - 2014	334	-	(334)	-	-
Capital lease obligation - 2015	7,808	-	(2,166)	5,642	2,217
Total debt	$ 173,983	$ 182,140	$ (83,617)	$ 272,506	$ 10,307

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

(Dollars in Thousands)

Note 8. Indebtedness (Continued)

Future annual principal payments applicable to long term debt for the years subsequent to December 31, 2017 are as follows:

2018	$	10,307
2019		18,064
2020		10,615
2021		10,556
2022		10,935
2023-2027		61,038
2028-2032		73,719
2033-2037		59,595
2038-2039		17,677
Total	$	272,506

The Series 2004 Bonds are secured by a pledge of the gross receipts of the Corporation and amounts on deposit in certain debt service reserve funds. Interest rates on the bonds range from 5.5% to 5.7%, with principal payments ranging from $3,185 to $7,220 due annually on November 1 with interest payments due semi-annually on May 1 and November 1.

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 2011 loan agreement with the County includes sinking fund requirements if certain covenants are not met by the Corporation. The Corporation met these requirements as of December 31, 2016 and, accordingly, no sinking funds have been established. The loan payable was refinanced as a component of the 2017 financing.

In 2017, the Corporation entered into a loan agreement and a capitalized interest liability assumption agreement with the County of Erie, with the assistance of the Erie County Fiscal Stability Authority. The proceeds of the loan were used to finance the construction of a new Level 1 Adult Trauma Center and Emergency Department, fund various other capital projects on the Corporation’s campus as well as refinance the 2011 loan referenced above. The loan has an interest rate of 3.377% with monthly principal and interest payments ranging from $38 to $930 during the term of the loan. In addition to the loan, the Corporation assumed the liability related to funds borrowed to pay capitalized interest during construction on the various projects noted above. The capitalized interest liability assumption has an interest rate of 3.377% with monthly principal and interest payments ranging from $3 to $77 during the term of the loan. The new money portion of the loan and the capitalized interest assumption agreement is fully amortized and matures in 2039. The refinancing component of the loan has an interest rate of 2.649% with monthly principal and interest payments ranging from $300 to $460 during the term of the loan and is fully amortized and maturing in 2034.

Note 8. Indebtedness (Continued)

During 2016, the Corporation signed a business loan agreement with Key Bank. Interest is payable monthly at the 1-month LIBOR rate, plus 2.25% (3.625% at December 31, 2017). Principal is being repaid at $67 per month through 2019 when the loan matures and the unpaid principal balance is due.

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

During 2015, the Corporation entered into a capital lease agreement in the amount of $10,000, the proceeds of which were used to purchase various equipment. The agreement requires principal and interest payments (cost of capital is estimated at 2.3%) of $194 and matures June 2020. At December 31, 2017 and 2016, $0 and $1,261, respectively, of the proceeds remained unspent and are held in escrow.

Note 9. Pension Plan

Retirement plan: The Corporation participates in the New York State and Local Retirement System ("NYSLRS" or the "System"), which is a cost-sharing, multiple-employer public employees' retirement system. There are more than 450,000 pensioners and beneficiaries in the System with nearly 1.1 billion participants.

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

Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (RSSL). As set forth in the RSSL, the Comptroller of the State of New York (the "Comptroller") serves as sole trustee and administrative head of the System. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the System and for custody and control of its funds. The System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, NY 12244.

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

(Dollars in Thousands)

Note 9. Pension Plan (Continued)

At December 31, 2017 and 2016, the Corporation reported a liability of $71,544 and $116,006, respectively, for its proportionate share of the NYSLRS net pension liability. The total pension liability used to calculate the net pension liability is determined by an actuarial valuation as of April 1st each year and rolled forward to March 31st. The Corporation's proportion for the net pension liability for each fiscal year was based on the Corporation's indexed present value of future compensation to NYSLRS of all participating employers for 2017 and 2016, which was 0.7614% and 0.7228%, respectively.

(a) Actuarial Assumptions

The total pension liability for the March 31, 2017 measurement date was determined using an actuarial valuation as of April 1, 2016, with update procedures used to roll-forward the total pension liability to March 31, 2017. The actuarial valuations used the following actuarial assumptions:

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

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

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

(Dollars in Thousands)

Note 9. Pension Plan (Continued)

(b) Expected Rate of Return on Investments

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

	2017	
Asset class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Domestic equity	36.0%	4.6%
International equity	14.0%	6.4%
Private equity	10.0%	7.8%
Real estate	10.0%	5.8%
Absolute return strategies	2.0%	4.0%
Bonds and mortgages	17.0%	1.3%
Inflation-indexed bonds	4.0%	1.5%
Opportunistic portfolio	3.0%	5.9%
Real assets	3.0%	5.5%
Cash	1.0%	-0.3%
	100.0%	

	2016	
Asset class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Domestic equity	38.0%	7.3%
International equity	13.0%	8.6%
Private equity	10.0%	11.0%
Real estate	8.0%	8.3%
Absolute return strategies	3.0%	6.8%
Bonds and mortgages	18.0%	4.0%
Other	8.0%	21.1%
Cash	2.0%	2.3%
	100.0%	

(Dollars in Thousands)

Note 9. Pension Plan (Continued)

(c) Discount Rate

The discount rate used to measure the total pension liability as of December 31, 2017 and 2016 was 7.0% The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the NYSLRS fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on NYSLRS investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

	2017		
	1% Decrease (6.0%)	Discount Rate (7.0%)	1% Increase (8.0%)
Corporation's proportionate share of the net pension liability	$ 228,497	$ 71,544	$ (61,160)

	2016		
	1% Decrease (6.0%)	Discount Rate (7.0%)	1% Increase (8.0%)
Corporation's proportionate share of the net pension liability	$ 261,584	$ 116,006	$ (7,002)

(d) Deferred Outflows and Inflows of Resources

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

	2017	2016
Deferred outflows of resources:		
Differences between expected and actual actuarial experience	$ 1,793	$ 586
Net difference between projected and actual earnings on pension plan investments	14,290	68,821
Changes in assumptions	24,442	30,935
Corporation contributions subsequent to the measurement date	25,803	25,235
Other	1,403	194
Total	$ 67,731	$ 125,771
Deferred inflows of resources:		
Differences between expected and actual actuarial experience	$ 10,864	$ 13,751
Changes in proportion and differences between Corporation contributions and proportionate share of contributions	8,753	6,852
Total	$ 19,617	$ 20,603

Note 9. Pension Plan (Continued)

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

(e) Annual Pension Expense

The Corporation's annual pension expense for calendar years ending 2017 and 2016, which includes contributions toward the actuarially determined accrued liability and the amortization of deferred inflows of resources, was approximately $38,400 and $39,500, respectively.

Note 10. Other Post-Employment Benefits (OPEB)

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

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

Funding the plan: Currently, there is no New York State statute that expressly authorizes local governments to create a trust for OPEB purposes. Additionally, New York State’s General Municipal Law does not allow for a reserve fund to accumulate funds for OPEB obligations. The Corporation’s Board of Directors and management believe it is prudent to reserve funds for the Plan and have therefore internally designated $24,831 in 2017 and 2016 for purposes of funding future post-employment benefits. These internally designated funds are included within assets whose use is limited. In addition to the funding for future post-employment benefits, the Corporation continues to finance current benefits on a pay-as-you-go basis.

Annual OPEB cost and net OPEB obligation: The Corporation’s annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of U.S. GAAP. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

(Dollars in Thousands)

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

The following table shows the components of the Corporation's annual OPEB cost, which is reflected in self-insured obligations in the statements of net position, for the years 2017, 2016 and 2015, the amount actually contributed to the plan, and changes in the net OPEB obligation:

	2017	2016	2015
Annual OPEB Cost and Net OPEB Obligation			
Annual required contribution	$ 29,232	$ 29,003	$ 21,205
Interest on net OPEB obligation	7,044	6,286	5,693
Adjustment to annual required contribution	(9,374)	(8,365)	(5,119)
Annual OPEB cost	26,902	26,924	21,779
Contributions made	(13,719)	(10,961)	(9,307)
Increase in net OPEB obligations	13,183	15,963	12,472
Net OPEB obligation – beginning of year	148,294	132,331	119,859
Net OPEB obligation – end of year	$ 161,477	$ 148,294	$ 132,331

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:

	2017	2016	2015
Annual OPEB cost	$ 26,902	$ 26,924	$ 21,779
Percentage of annual OPEB cost contributed	51.0%	40.7%	42.7%
Net OPEB obligation at end of year	$ 161,477	$ 148,294	$ 132,331

Actuarial method and assumptions: Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of the valuation and on the pattern of cost sharing between the employer and plan members. Calculations reflect a long-term perspective, so methods and assumptions used include techniques that are designed to reduce short-term volatility.

In the January 1, 2017 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4.75% investment rate of return, which is the projected long-term earning rate of the assets expected to be available to pay benefits. Since the Corporation does not currently segregate funding for these benefits, the appropriate rate is the expected return on the Corporation's general assets. Actuarial assumptions included an annual healthcare cost trend rate of 7.0% initially, reduced by decrements to an ultimate rate of 3.9% for the pre-65 plan and an initial rate of 5.0%, reduced by decrements to an ultimate rate of 3.9% for the post-65 plan over a long-term period. An assumed initial rate of 10.0%, reduced by decrements to an ultimate rate of 3.9% was used for the prescription drug plan over the same time frame. All rates included a 2.25% inflation assumption. The Unfunded Actuarial Accrued Liability (UAAL) is being amortized using the level dollar amortization period. The amortization period is 30 years.

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

The Corporation has estimated the impact of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* which is effective for the Corporation's year ending December 31, 2018. In accordance with implementation guidance provided by GASB, the cumulative effect of this change will result in a charge against unrestricted net position. Based on preliminary calculations it is expected that adoption will increase the net OPEB obligation and decrease unrestricted net position by greater than $324,000. The actual amount of the change is sensitive to actuarial assumptions and other factors which are not known as of the date of the financial statements.

The discount rate used to estimate the net OPEB obligation was 3.29%, while the rate of compensation increases was 3.25% and inflation rate of 2.25%. These estimates are based on certain actuarial assumptions that could change prior to adoption. Changes to these and other assumptions may have a material impact to the net OPEB obligation.

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

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

In June 2015, the New York State Department of Health (NYSDOH) announced DSRIP valuation awards, which represent the total potential amount that each Performing Provider System (PPS) is eligible to earn in performance payments over the five years of the DSRIP program. The Corporation-led PPS received a valuation award of $243,020.

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

During 2017, net DSRIP payments received by the Corporation totaled $46,876 ($15,355 in 2016). In addition, $27,286 and $23,966 was recorded as grant revenue for the years ended December 31, 2017 and 2016, respectively, based on meeting the eligibility requirements. Finally, $26,044 and $23,062, of related grant program expenses were incurred during 2017 and 2016, respectively.

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

During 2016, the federal government approved a NYS Medicaid waiver request establishing the CREPS Program. The Corporation was awarded a grant under the CREPS Program administered by the New York State Department of Health. The total award amount is approximately $97,260 over the period April 1, 2016 to March 31, 2020 in state fiscal year annual distribution amounts of $43,930, $30,010, $13,320, and $10,000, respectively. The Corporation is responsible for achieving certain goals of the CREPS Program in each year in order to qualify for the funding. The Corporation has achieved all of the goals for year 1 and believes it has achieved substantially all of the goals for year 2 of the program and has recognized related revenue in the amount of $23,330 and $20,060 for 2017 and 2016, respectively.

Note 13. Transactions With the County of Erie

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

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

In 2017, the Corporation entered into a loan agreement and a capitalized interest liability assumption agreement with the County of Erie. A component of the loan agreement included the payment of points by the Corporation to the County of Erie in the amount of $17,040 as further described in Note 2 and Note 8.

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, 2017 and 2016, are as follows:

> The Corporation earned revenue totaling $2,960 and $2,953 for the years ended December 31, 2017 and 2016, 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 $27 and $9 for the years ended December 31, 2017 and 2016, respectively. Expenses incurred include services for laboratory fees.
>
> The net amount due from the County of approximately $16,100 and $18,800 at December 31, 2017 and 2016, respectively, is non-interest bearing and reflect the Corporation's net amount owed from the County as a result of various transactions and services between parties. This balance is reported as a component of other receivables in the statement of net position.

Note 14. Self-Insured Obligations

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

Effective April 1, 2016, the Corporation became self-insured for workers compensation claims through a combination of self-insurance and a high-deductible plan for certain periods as follows: The Corporation maintains a stop-loss insurance policy for the claims in excess of $750. Effective January 1, 2012, the Corporation insured a portion of its Workers' Compensation exposure through a claims made high-deductible plan. The Corporation remains responsible for the first $750 of an individual claim payment after December 31, 2011. The Corporation is required to pledge certain assets under this arrangement. As of December 31, 2017 and 2016, $19,347 and $19,198, respectively, has been designated to service workers compensation claims and included as part of assets whose use is limited. The Corporation remains self-insured for Workers' Compensation claims prior to January 1, 2012. The County has assumed a portion of liabilities for all occurrences originating prior to 2004.

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

The Corporation has accrued $28,767 and $27,310 at 2017 and 2016, respectively, for medical malpractice related exposures. Such amounts have been discounted at 2.0% for 2017 and 2016 and the accrued liabilities are included within the accrued other liabilities and self-insured obligations caption of the accompanying statement of net position. Charges to expense for medical malpractice costs are included within the other operating expenses caption of the accompanying statements of revenues, expenses and changes in net position.

The Corporation has accrued $28,747 and $28,682 at 2017 and 2016, respectively, for workers compensation related exposures. Such amounts have been discounted at 1.25% and the liabilities are included within the accrued other liabilities and self-insured obligations captions of the accompanying statement of net position. Charges to expense for workers compensation costs approximated $6,436 and $6,177 in 2017 and 2016, respectively, and are included within the payroll, employee benefits and contract labor caption of the accompanying statements of revenues, expenses and changes in net position.

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

(Dollars in Thousands)

Note 14. Self-Insured Obligations (Continued)

The composition of self-insured obligations as of December 31, 2017 and 2016 is as follows:

	2017				
	Beginning Balance	Actuarial estimate of claims incurred	Claims Paid	Ending Balance	Due Within One Year
Other post-employment benefits	$ 148,294	$ 26,902	$ (13,719)	$ 161,477	$ 10,777
Medical malpractice	27,310	2,767	(1,310)	28,767	1,194
Workers compensation	28,682	5,324	(5,259)	28,747	5,780
	$ 204,286	$ 34,993	$ (20,288)	$ 218,991	$ 17,751

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

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

Note 15. Malware IT Systems Event

On April 9, 2017, ECMCC undertook a voluntary shutdown of its entire information technology network as a result of a malware attack and implemented its emergency preparedness plan and downtime procedures. Downtime procedures remained largely in effect through May 12, 2017 during which time ECMCC rebuilt all operating systems in a new clean and separate environment. Data from back-up systems was used to restore clinical, financial and other data. Detailed internal and independent forensic analysis has concluded that there was no data access, modification or exfiltration. Direct expenses incurred as a result of this incident, and included in the results of operations for 2017, amount to $6,574 with additional losses in revenue realization amounting to $10,596 for total losses in the amount of $17,170. ECMCC maintains insurance coverage with a deductible of $250 and $10,000 in insured limits to cover such losses. As of the date of this report, the insurance claims have been finalized and the policy limit paid to ECMCC.

Note 16. Commitments and Contingencies

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

(Dollars in Thousands)

Note 16. Commitments and Contingencies (Continued)

Loss contingency liabilities are recorded in accordance with U.S. GAAP, which requires recognition of a loss when it is deemed probable that an asset has been impaired or a liability has been incurred, and the amount of the loss can be reasonably estimated. As of December 31, 2017 and 2016, the Corporation has recorded no loss contingencies except as disclosed in Note 14.

The Corporation leases various equipment and facilities under operating leases expiring at various dates through May 2026. Total rental expense for all operating leases was approximately $3,300 and $3,600 in 2017 and 2016, respectively. During 2017, the Corporation entered into a $10,000 revolving operating lease facility to support various equipment in information technology infrastructure. As of December 31, 2017, $1,019 of this lease facility has been disbursed with $8,981 remaining.

The following is a schedule by year of future minimum lease payments under operating leases as of December 31, 2017 that have initial or remaining lease terms in excess of one year:

2018	$ 1,624
2019	1,278
2020	1,112
2021	747
2022	718
2023-2027	1,925
	$ 7,404

Supplementary Information

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

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

Actuarial Valuation Date	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
January 1, 2017	$ 345,609	$ 345,609	$ 107,166	322.5%
January 1, 2016	$ 335,639	$ 335,639	$ 112,351	298.7%
January 1, 2015	$ 300,728	$ 300,728	$ 115,349	260.7%
January 1, 2014	$ 249,469	$ 249,469	$ 116,986	213.3%

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

Schedule of Corporation's Contributions
NYSLRS Pension Plan
December 31, 2017
(Dollars in Thousands)

	2017	2016	2015	2014	2013
Contractually required contribution	$ 25,235	$ 26,722	$ 29,771	$ 29,835	$ 27,164
Contributions in relation to the contractually required contribution	25,235	26,722	29,771	29,835	27,164
Contribution deficiency	$ -	$ -	$ -	$ -	$ -
ECMCC covered-employee payroll	$ 183,540	$ 166,691	$ 175,409	$ 163,395	$ 151,906
Contributions as a percentage of covered-employee payroll	13.7%	16.0%	17.0%	18.3%	17.9%

Note: During December 2017, the Corporation prepaid its 2018 contribution to the plan in the amount of $25,803 to take advantage of a prepayment discount in the amount of $219.

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

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

Schedule of Corporation's Proportionate Share of Net Pension Liability
NYSLRS Pension Plan
December 31, 2017
(Dollars in Thousands)

	2017	2016	2015
ECMCC proportionate of the net pension liability	0.7614%	0.7228%	0.7137%
ECMCC proportionate share of the net pension liability	$ 71,544	$ 116,006	$ 24,112
ECMCC covered-employee payroll	183,540	166,691	175,409
ECMCC proportionate share of the net pension liability as a percentage of it's covered-employee payroll	39.0%	69.6%	13.7%
Plan fiduciary net position as a percentage of the total pension liability	94.7%	90.7%	97.9%

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