Erie County Medical Center Corporation

(A Component Unit of the County of Erie)

Financial Report
December 31, 2019

Contents

Independent Auditor's Report

To the Board of Directors
Erie County Medical Center Corporation

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, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Corporation’s basic financial statements as listed in the table of contents.

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

Auditor’s Responsibility
Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of ECMC Foundation, Inc., the Grider Initiative, Inc., and Research for Health in Erie County, Inc. were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 opinion.

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, 2019 and 2018, 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 the management's discussion and analysis on pages 3-11 as well as the required supplementary information data on pages 50-52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2020 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

RSM US LLP

March 17, 2020

Management's Discussion and Analysis

The Corporation is considered a discrete component unit of the County of Erie, New York with its mission to provide every patient the highest quality of care delivered with compassion. The Corporation fully embraces and is proud to serve as the safety net provider for greater western region of New York State, supporting persons in need who lack the ability to pay.

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, 2019. 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 discretely presented 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

During 2019 the Corporation continued our second century journey of providing high quality, compassionate care to the tens of thousands of Western New Yorkers who depend on us, serving as our region's community hospital, helping patients from the most influential to the most vulnerable. The Corporation continued progress on multiple construction projects with some nearing completion such as the future Level 1 Trauma Center and Emergency Department, the recently opened Russell J. Salvatore Atrium and improvements at our Comprehensive Psychiatric Emergency Program (CPEP). Our landscape is physically transforming in front of us. The exciting future of our health campus and our strong continuing collaboration with our partners in the community is producing quantifiably strong, efficient outcomes that will benefit the entire community and, of course, our patients. In this context, we are proud to present the following discussion and analysis.

Operations Analysis

The Corporation completed calendar year 2019 providing another year of record levels of combined inpatient and outpatient services to Western New York residents and, given its unique services, to many others beyond this region. Significant volumes of patient encounters (not expressed in thousands) are as follows:

	2014	2015	2016	2017	2018	2019	% Increase 2014 - 2019
Inpatients	17,789	18,378	18,839	19,260	20,555	19,996	12.4%
Surgeries	13,360	14,364	14,552	14,818	15,315	15,606	16.8%
Emergency	66,418	67,296	69,290	68,862	70,110	69,391	4.5%
Outpatients	295,676	305,737	316,691	314,927	321,661	322,625	9.1%
Dialysis	22,224	24,617	27,291	24,772	25,063	27,549	24.0%

The favorable trend reflects the trust that the Western New York community, our physicians and our employees placed in ECMCC and has translated into favorable financial results despite financial challenges in the industry. Notable achievements in 2019 include:

- The American College of Radiology's Commission on Quality and Safety designated ECMCC a Diagnostic Imaging Center of Excellence.
- ECMCC received the American Heart Association/American Stroke Association's Get With The Guidelines®-Stroke Gold Plus Quality Achievement Award.
- The Centers for Medicare and Medicaid Services (CMS), part of the Department of Health and Human Services (HHS), has determined that ECMCC's Terrace View Long-Term Care Facility has earned a Five-Star Rating for Overall Quality, marking the first time in its history that Terrace View received the highest CMS rating.
- NYS Division of Minority and Women's Business Development MWBE Program Performance Report graded ECMCC's participation as an 'A' for Fiscal Year 2018-19, achieving 33.3% participation.
- The Leapfrog Group, an independent, national not-for-profit organization founded more than a decade ago by the nation's leading employers and private health care experts, rated ECMCC's overall patient safety score at 'B'.
- The Joint Commission granted ECMCC three-year Comprehensive Accreditation.
- ECMCC Family Health Center received a Certificate of Recognition from the National Committee for Quality Assurance for "systematic use of patient-centered, coordinated care management processes."
- YOU Center for Wellness at Erie County Medical Center receives NYS Department of Health Commissioner's Special Recognition Award for World AIDS Day.
- ECMCC designated as a Blue Distinction Center for Knee and Hip Replacement 2019 BlueCross/BlueShield of Western New York.
- Conducted 20 different staff training programs with a total of 4,526 participants.
- Recruitment of 74 new physicians to the Medical Staff across 16 disciplines.

In addition to the favorable financial results 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 continued growth with total contributions, including pledges reaching $14,931 at December 31, 2019. ECMC Foundation, Inc., the Corporation's principal fundraising entity completed another 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 has increased vastly since 2011 and reached 43% in 2019.

(Dollars in Thousands)

Operations Analysis (Continued)

Adoption of GASB 83 – Asset Retirement Obligations

The Corporation adopted Governmental Accounting Standards Board (GASB) Statement No. 83 – *Asset Retirement Obligations*. The pronouncement required the cumulative effect of the change on all prior periods to be recognized as a charge against beginning net position, which amounted to $1,991. Further information related to this matter is discussed in Note 7 to the financial statements.

Financial Metric Analysis

The Corporation's total net position increased in 2019 because of favorable results from operations as further discussed below, favorable investment performance and additional capital contributions received as part of the capital campaign.

Comparative financial ratios for the Corporation to the 2018 (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
	2019	2018	2017	2018
Operating margin	0.04%	0.6%	0.5%	-4.5%
Operating cash flow margin	4.8%	6.0%	6.2%	0.9%
Debt service coverage	3.8	3.1	4.1	1.0
Days cash on hand	119.0	112.1	101.5	57.5
Days in accounts receivable	58.2	61.5	69.1	39.0
Average age of plant	14.7	14.1	12.8	19.8

The financial ratios reflect favorable results of operations and generally favorable performance compared to NYS Public Benefit Corporation Hospitals. Days cash on hand increased as a result of favorable operating performance, Care Restructuring Enhancement Pilot (CREPS) Program grant proceeds and the collection of current year and prior year disproportionate share revenue (DSH). Days in accounts receivable decreased by 3.3 days (5.4%) due to additional collections and settlements or additional reserves on aging balances, primarily related to the April 2017 malware attack. Average age of plant increased by 0.6 years as a result of depreciation in excess of routine asset replacements due to a major focus on the construction projects noted above and those projects not yet placed in service in 2019.

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:

			2019-2018	
	2019	2018	$ Change	% Change
Assets				
Current assets, excluding assets whose use is limited	$ 189,310	$ 218,540	$ (29,230)	(13.4)
Assets whose use is limited	277,229	258,102	19,127	7.4
Capital assets, net	319,358	265,542	53,816	20.3
Other assets	27,074	26,854	220	0.8
Total assets	812,971	769,038	43,933	5.7
Deferred outflows of resources	116,898	107,080	9,818	9.2
Total assets and deferred outflows	$ 929,869	$ 876,118	$ 53,751	6.1
Liabilities				
Current liabilities	$ 246,645	$ 203,267	$ 43,378	21.3
Noncurrent liabilities	733,866	694,606	39,260	5.7
Total liabilities	980,511	897,873	82,638	9.2
Deferred inflows of resources	98,402	140,237	(41,835)	(29.8)
Net Position				
Net investment in capital assets	112,081	95,282	16,799	17.6
Restricted	142,045	62,017	80,028	129.0
Unrestricted	(403,170)	(319,291)	(83,879)	26.3
Total net position	(149,044)	(161,992)	12,948	(8.0)
Total liabilities, deferred inflows and net position	$ 929,869	$ 876,118	$ 53,751	6.1

Statements of Net Position (Continued)

Overall, total assets and deferred outflows of resources increased $53,751 from 2018 to 2019.

The following variances in total assets are noteworthy:

Total current assets, excluding the current portion of assets whose use is limited, decreased by $29,230 due to the following:

- Cash, cash equivalents and investments decreased by $27,980.
- Patient accounts receivable, net, decreased by $2,715 as a result of collection efforts offset by current year increase in net patient service revenue. Overall increases in volume noted earlier in combination with contracted rated increases to a 2.6% growth in average daily revenue.
- Other receivables, decreased by $927 which is due to a $12,009 decrease in Medicaid DSH and UPL program receivables offset by a $4,384 increase of the CREPS Program grant receivable, $3,198 decrease in receivables from joint ventures, and a $9,048 increase in due from third party payors. In addition, there was an $849 increase in health insurance rebates and other receivables.

- Assets whose use is limited, including current portion, increased by a net of $19,127, which is due to an increase of $67,706 due to receipt of DSRIP grant funds offset by a $47,917 decrease from the use of proceeds from the 2017 financing for various construction and renovation projects and capitalized interest during construction, $2,382 due to increased reserve account funding for actuarial liabilities, and $3,641 decrease in collateral held for workers compensation claims.
- Capital assets, net, increased by $53,816 due to investments in new capital assets being greater than depreciation expense. Significant investments in capital assets are summarized in a following section.

Overall, total liabilities and deferred inflows increased $40,803 and net position increased $12,948 from 2018.

The following variances in total liabilities are noteworthy:

Total current liabilities increased by $43,378 due to the following:

- Accounts payable and accrued salaries and benefits increased by $45,841 due to timing of payments, $19,591 of which was related to capital asset acquisitions.
- Accrued other liabilities decreased by $1,950 largely as a result of an increase in short term self-insured obligations and post-retirement health obligations of $2,196 and offset by a decrease in payables to affiliated organizations of $3,198.
- Unearned revenue increased by $3,487 due to recognition of revenue related to CREPs grant funds and receipt of DSRIP grant funds exceeding DSRIP grant expenses during the year.
- Estimated net third party liabilities decreased by $3,964 as a result of changes in management estimates.

- An increase in the net pension liability was recognized during 2019 in the amount of $32,563 due to changes in actuarial assumptions and investment performance of the New York State and Local Retirement System (NYSLRS) further described in Note 9.
- The long-term portion of self-insured obligations decreased by $6,589 due to favorable claim activity and claims management along with changes in actuarial estimates for self-insured retentions for malpractice and workers' compensation claims greater than payments made on those claims. The current portion of these self-insured obligations increased by $1,965.

(Dollars in Thousands)

Statements of Net Position (Continued)

- The liability for OPEB increased by $22,829 primarily as a result of the decrease in the discount rate as disclosed in Note 10, coupled with the repeal of the Cadillac tax.
- Net position increased by $12,928 due to capital contributions.

Statements of Revenues, Expenses, and Changes in Net Position

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

			2019-2018	
	2019	2018	$ Change	% Change
Net patient service revenue	$ 543,370	$ 529,548	$ 13,822	2.6
Disproportionate share revenue (DSH)	89,802	72,071	17,731	24.6
DSRIP grants	80,880	22,339	58,541	262.1
Other operating revenue	36,799	37,074	(275)	(0.7)
Total operating revenues	750,851	661,032	89,819	13.6
Operating expenses:				
Payroll and employee benefits	365,993	331,069	34,924	10.5
Professional fees	92,777	89,801	2,976	3.3
Purchased services	69,434	59,088	10,346	17.5
Supplies	97,065	96,230	835	0.9
Other operating expenses	25,155	24,152	1,003	4.2
DSRIP grant expenses	64,319	21,192	43,127	203.5
Depreciation and amortization	28,659	27,930	729	2.6
Total operating expenses	743,402	649,462	93,940	14.5
Operating income	7,449	11,570	(4,121)	(35.6)
Non-operating expenses:				
Investment gain (loss)	5,895	(4,567)	10,462	229.1
Interest expense	(7,135)	(7,733)	598	(7.7)
Income (loss) before capital contributions	6,209	(730)	6,939	950.5
Capital contributions	6,739	1,750	4,989	285.1
Total change in net position	12,948	1,020	11,928	1,169.4
Net position – beginning of year, as restated (Note 7)	(161,992)	(163,012)	1,020	0.6
Net position - end of year	$ (149,044)	$ (161,992)	$ 12,948	8.0

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

Overall, operating revenues increased by $89,819 or 13.6% in 2019 with increases attributable to the following:

- Net patient service revenue increased $13,822, or 2.6% in 2019. Volumes increased across multiple lines of business, as presented in the table in the section entitled "Operations Analysis".
- DSH increased by $17,731 or 24.6%, in 2019 as a result of an increase in uncompensated care cost for services provided.
- DSRIP grant revenue increased by $58,541 primarily due to receipt of $44,340 in high performance fund program receipts. The remaining increase of $14,201 is attributed to other DSRIP program awards and proceeds. Total DSRIP revenue earned by the corporation related to the program increased $15,414 of which $14,641 relates to the high performance fund program noted awards received for meeting specific milestones within the DSRIP program.
- Other operating revenue decreased by $275, or 0.7%, in 2019, principally as the result of a decrease of $2,675 in CREPs and other grant revenue offset by an increase in revenue from discretely presented component units of $1,079 and $1,321 in other operations revenue.

Operating expenses increased $93,940 or 14.5%, in 2019. Expense increases are attributable to the following:

- Payroll and employee benefit expenses have increased by $34,924 or 10.5% as the net result of increases in staffing levels in order to accommodate additional overall volume of services provided, staffing level increases and wage increases associated with collective bargaining agreements, increased active employee and retiree health insurance expense, increases in post-retirement health obligations and increases in workers' compensation expenses. Salaries and employee benefit expense increased by 4.8% of net patient service revenue, from 62.5% in 2018 to 67.4% of net patient service revenue in 2019.
- Purchased services expense increased by $10,346 or 17.5% as a result of operational investments in information systems technology, dietary operations and revenue cycle operations throughout 2019.
- Supply expenses as a percentage of net patient service revenue improved slightly from 18.2% in 2018 to 17.9% in 2019.
- DSRIP grant expenses increased by $43,127 as a result of the participation high performance fund program award expenses accrued in 2019.

Capital Assets, Net

At December 31, 2019, the Corporation had capital assets, net of accumulated depreciation, of $319,358 compared to $265,542 at December 31, 2018, representing an increase of $53,816 or 20.3%.

During 2019, the Corporation invested $82,525 in various capital projects. Noteworthy investments include, additional investments in the development of a new Level 1 Adult Trauma Center and Emergency Department, including its enabling projects ($31,038) and the main lobby project ($10,867). Construction of these projects began in 2017 and are scheduled to be completed in 2020. In addition, the Corporation continued investment into various mechanical, electrical, plumbing and building envelope improvements ($14,054), parking lot expansion and land improvements ($5,827), CPEP renovations ($1,032) and began implementing a new ambulatory electronic medical records system ($4,118) along with various other facility infrastructure projects. Other additions to capital assets included other medical and non-medical equipment, software and furniture and fixtures.

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. Corporation employees of the Civil Service Employee Association (CSEA) are covered by a contract negotiated in concert with Erie County, New York, which contains a sub-bargaining unit representing only Corporation employees. The agreement began in 2018 and runs through December 31, 2022. Registered Nurses (RNs) are covered under an agreement with the New York State Nurses Association (NYSNA). This agreement expired on December 31, 2018 and a new agreement was negotiated during 2019, which is in effect through December 31, 2022. The Corporation's agreement with the American Federation of State, County and Municipal Employees (AFSCME), a contract negotiated in concert with the County of Erie, New York, and ratified with AFSCME employees in 2017 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, however the individual insurance mandate, a central tenant to the Health Reform Law was repealed as part of the Tax Reform Bill and 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. This grant period ends on March 31, 2020 and has not been extended beyond that date.

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 years 1 through 3 and substantially all of the goals from year 4 of the program and has recognized related revenue in the amount of $22,500 and $25,750, in the 2019 and 2018 financial statements, respectively.

Medicare and Medicaid Reimbursement

The future state of both reimbursement levels and reimbursement methods related to the Medicare and Medicaid programs remains uncertain. Budget proposals related to both of these programs for the upcoming year may significantly alter reimbursements or methodologies, thus changing the environment in which we conduct business as the Corporation relies heavily on these programs for reimbursement for services. The impact of these state and federal budget proposals are unknown at this time but could materially impact the Corporation.

COVID-19

A pandemic, epidemic or outbreak of an infectious disease could adversely impact our business. The infectious disease known as COVID-19, or other public health crisis, could diminish the public trust in healthcare facilities, especially facilities with patients affected by infectious diseases. If any of our facilities were involved, or perceived as being involved, in treating such patients, other patients might fail to seek care at our facilities, or our reputation may be negatively affected. Further, a pandemic, epidemic or outbreak might adversely impact our business by causing a temporary shutdown or diversion of patients, by disrupting or delaying production or delivery of pharmaceuticals or other medical supplies or by causing staffing shortages in our facilities. Although we have disaster plans in place and operate pursuant to infectious disease protocols, the potential impact of a pandemic, epidemic or outbreak of an infectious disease is difficult to predict and could adversely impact our business, financial condition or results of operations.

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, 2019 and 2018
(Dollars in Thousands)

	2019	2018
Assets and Deferred Outflows		
Current assets:		
Cash and cash equivalents	$ 13,771	$ 19,076
Investments	10,125	32,800
Assets whose use is limited	195,804	173,089
Patient accounts receivable, net	86,572	89,287
Other receivables	64,685	65,612
Supplies, prepaids and other	14,157	11,765
Total current assets	385,114	391,629
Assets whose use is limited	81,425	85,013
Capital assets, net	319,358	265,542
Other assets, net	27,074	26,854
	427,857	377,409
Total assets	812,971	769,038
Deferred outflows of resources:		
Pension	55,673	88,634
Other post employment benefits	44,691	892
Other	16,534	17,554
Total deferred outflows of resources	116,898	107,080
Total assets and deferred outflows of resources	$ 929,869	$ 876,118
Liabilities, Deferred Inflows and Net Position		
Current liabilities:		
Current portion of long-term debt	$ 11,090	$ 11,126
Accounts payable	102,856	59,502
Accrued salaries, wages and employee benefits	24,048	21,561
Accrued other liabilities	48,619	50,569
Unearned revenue	58,614	55,127
Estimated third-party payor settlements	1,418	5,382
Total current liabilities	246,645	203,267
Long-term debt, net	236,779	246,199
Net pension liability	57,240	24,677
Self-insured obligations	36,064	42,654
Other post employment benefits	399,980	377,151
Other	3,803	3,925
Total liabilities	980,511	897,873
Deferred inflows of resources:		
Pension	28,011	87,326
Other post employment benefits	70,391	52,911
Total deferred inflows of resources	98,402	140,237
Net Position:		
Net investment in capital assets	112,081	95,282
Restricted:		
Nonexpendable	-	-
Expendable	142,045	62,017
Unrestricted	(403,170)	(319,291)
Total net position	(149,044)	(161,992)
Total liabilities, deferred inflows and net position	$ 929,869	$ 876,118

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, 2019 and 2018
(Dollars in Thousands)

	2019	2018
Operating revenues:		
Net patient service revenue, net of provision for bad debts of $19,591 and $14,321 for 2019 and 2018, respectively	**$ 543,370**	$ 529,548
Disproportionate share revenue (DSH)	**89,802**	72,071
DSRIP grants	**80,880**	22,339
Other operating revenue	**36,799**	37,074
Total operating revenues	**750,851**	661,032
Operating expenses:		
Payroll and employee benefits	**365,993**	331,069
Professional fees	**92,777**	89,801
Purchased services	**69,434**	59,088
Supplies	**97,065**	96,230
Other operating expenses	**25,155**	24,152
DSRIP grant expenses	**64,319**	21,192
Depreciation and amortization	**28,659**	27,930
Total operating expenses	**743,402**	649,462
Operating income	**7,449**	11,570
Non-operating expenses:		
Investment gain (loss)	**5,895**	(4,567)
Interest expense	**(7,135)**	(7,733)
Total non-operating expenses	**(1,240)**	(12,300)
Income (loss) before capital contributions	**6,209**	(730)
Capital contributions	**6,739**	1,750
Total change in net position	**12,948**	1,020
Net position – beginning of year, as restated (Note 7)	**(161,992)**	(163,012)
Net position – end of year	**$ (149,044)**	$ (161,992)

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, 2019 and 2018
(Dollars in Thousands)

		2019		2018
Cash flows from operating activities:				
Receipts from patients and third party payors	**$**	**533,230**	$	496,956
Payments to employees for salaries and benefits		**(356,538)**		(319,931)
Payments to vendors for supplies and other		**(308,875)**		(256,226)
Other receipts		**210,968**		144,992
Net cash provided by operating activities		**78,785**		65,791
Cash flows from capital and related financing activities:				
Purchases of capital assets		**(83,681)**		(40,229)
Borrowings on long-term debt		**1,805**		2,453
Payments on long term debt		**(11,261)**		(17,634)
Interest paid on long term debt		**(7,135)**		(7,733)
Net cash used in capital and related financing activities		**(100,272)**		(63,143)
Cash flows from investing activities:				
Purchases of assets whose use is limited, net		**(19,127)**		(1,875)
Investment gain (loss)		**5,895**		(4,567)
Sales (purchases) of investments, net		**22,675**		(2,785)
Capital contributions		**6,739**		1,750
Net cash provided by (used in) investing activities		**16,182**		(7,477)
Net change in cash and cash equivalents		**(5,305)**		(4,829)
Cash and cash equivalents:				
Beginning		**19,076**		23,905
Ending	**$**	**13,771**	$	19,076

Noncash capital and related financing activities:
Included in accounts payable at December 31, 2019 and 2018 was $19,591 and $10,493, respectively, of invoices related to capital asset acquisitions.

(Continued)

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

Statements of Cash Flows (Continued)
Years Ended December 31, 2019 and 2018
(Dollars in Thousands)

	2019	2018
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	**$ 7,449**	$ 11,570
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	**28,659**	27,930
Provision for bad debts	**19,591**	14,321
Changes in assets, deferred outflows, liabilities and deferred inflows:		
Patient accounts receivable	**(16,876)**	(7,634)
Other receivables	**2,637**	(3,851)
Supplies, prepaids and other	**(2,612)**	13,168
Deferred outflows of resources	**(9,818)**	(19,999)
Accounts payable	**43,354**	11,498
Accrued liabilities	**1,620**	12,934
Unearned revenue	**3,487**	13,508
Estimated third-party payor settlements	**(5,674)**	(15,429)
Self-insured obligations	**(6,589)**	(7,860)
Net pension liability	**32,563**	(46,867)
OPEB	**22,829**	(58,118)
Deferred inflows of resources	**(41,835)**	120,620
Net cash provided by operating activities	**$ 78,785**	$ 65,791

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, 2019 and 2018
(Dollars in Thousands)

	2019				2018			
	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	$ 1,681	$ 273	$ 4	$ 1,958	$ 860	$ 273	$ 6	$ 1,139
Investments	-	-	1,020	1,020	-	-	996	996
Other receivables	3,016	-	-	3,016	2,744	-	-	2,744
Supplies, prepaids and other	125	-	-	125	135	-	-	135
Total current assets	4,822	273	1,024	6,119	3,739	273	1,002	5,014
Other receivables	2,489	-	-	2,489	3,120	-	-	3,120
Endowment and other investments	6,080	10,407	-	16,487	5,714	10,668	-	16,382
Equipment and vehicles, net	50	-	-	50	123	-	-	123
	8,619	10,407	-	19,026	8,957	10,668	-	19,625
Total assets	$ 13,441	$ 10,680	$ 1,024	$ 25,145	$ 12,696	$ 10,941	$ 1,002	$ 24,639
Liabilities and Net Position								
Current liabilities:								
Accounts payable	$ 392	$ -	$ -	$ 392	$ 283	$ -	$ -	$ 283
Funds held in custody for others	640	-	-	640	462	-	-	462
Total current liabilities	1,032	-	-	1,032	745	-	-	745
Related party	5,431	550	-	5,981	1,449	-	-	1,449
Total liabilities	6,463	550	-	7,013	2,194	-	-	2,194
Net Position								
Restricted:								
Nonexpendable	50	10,000	-	10,050	50	10,000	-	10,050
Expendable	4,400	130	-	4,530	8,617	941	-	9,558
Unrestricted	2,528	-	1,024	3,552	1,835	-	1,002	2,837
Total net position	6,978	10,130	1,024	18,132	10,502	10,941	1,002	22,445
Total liabilities and net position	$ 13,441	$ 10,680	$ 1,024	$ 25,145	$ 12,696	$ 10,941	$ 1,002	$ 24,639

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, 2019 and 2018
(Dollars in Thousands)

	2019				2018			
	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	**$ 6,661**	**$ -**	**$ -**	**$ 6,661**	$ 6,106	$ -	$ -	$ 6,106
Total operating revenues	**6,661**	**-**	**-**	**6,661**	6,106	-	-	6,106
Operating expenses:								
Program services and grants	**8,487**	**-**	**21**	**8,508**	3,062	-	31	3,093
Fundraising	**1,502**	**-**	**-**	**1,502**	1,440	-	-	1,440
Other operating expenses	**196**	**1,079**	**1**	**1,276**	204	1	1	206
Total operating expenses	**10,185**	**1,079**	**22**	**11,286**	4,706	1	32	4,739
Operating income (loss)	**(3,524)**	**(1,079)**	**(22)**	**(4,625)**	1,400	(1)	(32)	1,367
Non-operating revenue:								
Investment income (loss)	**-**	**268**	**44**	**312**	-	(127)	15	(112)
Change in net position	**(3,524)**	**(811)**	**22**	**(4,313)**	1,400	(128)	(17)	1,255
Net position – beginning of year	**10,502**	**10,941**	**1,002**	**22,445**	9,102	11,069	1,019	21,190
Net position – end of year	**$ 6,978**	**$ 10,130**	**$ 1,024**	**$ 18,132**	$ 10,502	$ 10,941	$ 1,002	$ 22,445

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 573 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.

Note 1. Organization (Continued)

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”).

Great Lakes Health Integrated Network: The Corporation, together with Kaleida Health has formed Great Lakes Health Integrated Network (GLIN) with each maintaining a 50% ownership interest. As of December 31, 2019 and 2018 capital contributions due to GLIN totaled $1,250 and $4,448, respectively. Contributions are used to pay for physician incentives under a physician incentive program and routine operating expenses.

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 Medical School by providing the clinical settings for the Medical School’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 175 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.

Note 1. Organization (Continued)

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.

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.

1827 Fillmore, LLC: This entity is controlled by the Corporation and was formed for the purchase and development of property immediately adjacent to the Corporation's Grider Street campus.

Note 2. Summary of Significant Accounting Policies

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

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

Use of estimates: The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. The reserve for uncollectible accounts, contractual allowances, amounts payable to third-party payors, workers compensation reserves, malpractice reserves, pension obligations, other post-employment benefits, 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.

Note 2. Summary of Significant Accounting Policies (Continued)

Included in net patient service revenue are adjustments to prior year estimated third-party payor settlements, and their related estimated receivables and payables that were originally recorded in the period the related services were rendered, as well as adjustments to the net realization rate for collections on patient accounts receivable. These adjustments are made in the normal course of operations and amounts reported are consistent with the 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 a decrease of $6,457 and an increase of $3,119 in total operating revenue for the years ended December 31, 2019 and 2018, respectively.

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 (FDIC) 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 adjustments 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, 2019 and 2018 was approximately $43,700 and $31,266, respectively.

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

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.

(Dollars in Thousands)

Note 2. Summary of Significant Accounting Policies (Continued)

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

	2019	2018
Medicaid Disproportionate Share (DSH) and Upper Payment Limit (UPL) (Note 4)	$ 42,839	$ 54,848
Due from affiliated organizations and joint ventures	2,284	5,482
Due from third party payors	11,255	2,207
Care Restructuring Enhancement Pilot (CREPS) Program Grant (Note 12)	4,384	-
Health insurance rebates	1,257	1,411
Other	2,666	1,664
	$ 64,685	$ 65,612

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 $11,309 and $6,234 for the years ended December 31, 2019 and 2018, respectively.

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 and retiree health expense related to the net pension liability and post-employment benefit obligations, and items related to the 2017 financing transaction as described below.

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, 2019 and 2018 is $13,557 and $15,076, respectively. 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, 2019 and 2018 is $1,464 and $1,701, respectively.

Note 2. Summary of Significant Accounting Policies (Continued)

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 and other post-employment benefits.

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, 2019 and 2018, the Corporation's share of the net assets of Collaborative Care amounted to $694 and $692, respectively.

Great Lakes Integrated Network (GLIN) was formed in 2018 by ECMCC and Kaleida Health System. GLIN was formed to support, manage and negotiate value based contracts and/or risk based contracts with third party payors for the purpose of managing population health and anticipated payment reform. GLIN is a development stage enterprise with the Corporation's share of contributed capital supporting organizational development. The Corporation's share of GLIN's profit or loss is recognized as a non-operating expense. At December 31, 2019 and 2018, the Corporation's share of the net assets of GLIN amounted to $(774) and $134, respectively.

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, 2019 and 2018, within the caption accrued salaries, wages and employee benefits in the amount of $13,580 and $12,851, 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.

Note 2. Summary of Significant Accounting Policies (Continued)

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 $13,852 and $12,426 for the years ended December 31, 2019 and 2018, respectively. Additionally, the Corporation provided approximately $1,818 and $3,721 in discounts to self-pay patients for the years ended December 31, 2019 and 2018, respectively.

Contributions: The Foundation reports gifts of cash or promises to give as restricted contributions when they are received with donor stipulations that limit the use of the donated assets. When the intent of the donor is that the assets are to remain in perpetuity and the Foundation does not have the right to invade the original principal, the assets are reported as with donor restrictions. 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 1.6% 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 adjustments 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.

Note 2. Summary of Significant Accounting Policies (Continued)

Contributed services: RHEC receives contributions from the Corporation consisting primarily of donated space, equipment, and personnel support. During 2019 and 2018, 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 contribution revenue. The Foundation generally pays for services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Foundation in meeting its goals and objectives. Such services are not recognized in the Foundation financial statements.

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

Recent and pending accounting pronouncements: The Corporation adopted GASB Statement No. 83, *Certain 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 impact of the adoption of this statement was not material, this Statement is applied retroactively by restating net position of prior year financial statements in order to conform to the 2019 presentation as presented in Note 7.

Effective January 1, 2019, the Corporation adopted GASB 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. There was no significant impact on the Corporation's financial statements due to the adoption of Statement No. 84.

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.

Effective January 1, 2019, the Corporation adopted GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The objective of this Statement is to improve the information that is disclosed in notes to governmental financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. There was no significant impact on the Corporation's financial statements due to the adoption of Statement No. 88.

Note 2. Summary of Significant Accounting Policies (Continued)

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simply accounting for interest cost incurred before the end of a construction period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019 and should be applied prospectively. The Corporation has not yet determined the impact this Statement will have on the financial statements, however, expects the impact to be material.

Effective January 1, 2019, the Corporation adopted GASB Statement No. 90, *Majority Equity Interests*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. There was no significant impact on the Corporation's financial statements due to the adoption of Statement No. 90.

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities. Payments from third-party obligors are intended to cover and coincide with debt service payments. During those arrangements, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements.

This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. The Corporation has not yet determined the impact this statement will have on the financial statements.

Reclassifications: Certain prior-year amounts have been reclassified to conform to the current-year presentation. Such reclassifications had no effect on previously reported operating income or changes in net position.

Subsequent events: The Corporation has evaluated subsequent events for potential recognition and/or disclosure through March 17, 2020, the date the financial statements were issued.

(Dollars in Thousands)

Note 3. Net Patient Service Revenue and Patient Accounts Receivable

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.

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:

	2019	2018
Gross charges	$ 1,191,460	$ 1,094,720
Less:		
Discounts and allowances	628,499	550,851
Provision for bad debts	19,591	14,321
	$ 543,370	$ 529,548

(Dollars in Thousands)

Note 3. Net Patient Service Revenue and Patient Accounts Receivable (Continued)

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

	2019		2018	
		%		%
Medicare*	$ 186,281	34.3%	$ 187,390	35.4%
Medicaid*	160,960	29.6%	164,080	31.0%
Commercial and other third party payors	165,434	30.4%	149,335	28.2%
No-fault	24,777	4.6%	25,045	4.7%
Self-pay	5,918	1.1%	3,698	0.7%
	$ 543,370	100.0%	$ 529,548	100.0%

* Medicare and Medicaid include Managed Care plans.

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

Patient accounts receivable consist of the following at December 31:

	2019	2018
Gross accounts receivable	$ 205,428	$ 180,658
Less:		
Discounts and allowances	75,156	60,105
Allowance for bad debts	43,700	31,266
	$ 86,572	$ 89,287

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:

	2019	2018
Medicare*	26.8%	28.5%
Medicaid*	24.9%	28.4%
Commercial and other third party payors	32.6%	30.0%
No-fault	12.2%	9.9%
Self-pay	3.5%	3.2%
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 2019 and 2018, DSH funding recorded by the Corporation totaled $89,802 and $72,071, 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 $74,407 and $55,656 was recognized in 2019 and 2018, respectively. In addition, during 2019 and 2018 the Corporation recognized $15,395 and $16,415, respectively, of UPL revenue for Terrace View. The UPL for New York State fiscal year 2019-2020, 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 2017 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:

	2019	2018
Cash and cash equivalents	$ 13,771	$ 19,076
Investments	10,125	32,800
Assets whose use is limited – current	195,804	173,089
Assets whose use is limited – non-current	81,425	85,013
	$ 301,125	$ 309,978
Current portion of assets whose use is limited:		
Patient and residents trust cash	$ 347	$ 299
Restricted for debt service [a]	2,291	6,356
Restricted for capital projects [d]	40,850	84,628
Designated for self-insurance obligations [b]	8,544	6,672
Designated for retiree health obligations [b]	12,903	12,252
Designated for DSRIP program [b]	130,091	62,385
NYS voluntary defined contribution plan escrow	237	93
Medical and dental staff funds	541	404
Total current portion of assets whose use is limited	$ 195,804	$ 173,089
Noncurrent portion of assets whose use is limited:		
Restricted for debt service [a]	$ 9,664	$ 9,469
Designated for long-term investment [b]	18,595	18,595
Designated for retiree health obligations [b]	11,928	12,579
Designated for self-insurance obligations [b]	29,462	28,953
Restricted – insured workers compensation collateral [c]	11,776	15,417
Total noncurrent portion of assets whose use is limited	$ 81,425	$ 85,013

[a] Funds restricted by operation of indenture agreement
[b] Funds internally designated by operation of Board authority
[c] Funds restricted – insured workers compensation collateral agreement
[d] 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, 2019 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, 2019 and 2018, totaled $71,815 and $52,051, of which $863 and $897 of the deposits were insured at December 31, 2019 and 2018, 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, as well as the relevant provisions of the ECMCC Act. 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.

(Dollars in Thousands)

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

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) or Federal Home Loan Mortgage Corporation (Freddie Mac) issues at December 31, 2019 and 2018.

Fair value of financial instruments: Fair value is defined in the accounting standards as the amount 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.

	2019			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 13,771	$ -	$ -	$ 13,771
Investments and assets whose use is limited:				
Cash and cash equivalents	229,201	-	-	229,201
Marketable equity securities:				
Small/Mid-cap equities	3,716	-	-	3,716
Growth equities	1,513	-	-	1,513
Core equities	8,700	-	-	8,700
International equities	8,990	-	-	8,990
US fixed income	29,900	-	-	29,900
International fixed income	-	5,334	-	5,334
Total investments and assets whose use is limited	282,020	5,334	-	287,354
Total	$ 295,791	$ 5,334	$ -	$ 301,125

(Dollars in Thousands)

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

	2018			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 19,076	$ -	$ -	$ 19,076
Investments and assets whose use is limited:				
Cash and cash equivalents	159,533	-	-	159,533
Marketable equity securities:				
Small/Mid-cap equities	3,584	-	-	3,584
Value equities	1,887	-	-	1,887
Growth equities	11,313	-	-	11,313
International equities	3,665	-	-	3,665
US fixed income	-	38,538	-	38,538
International fixed income	-	7,711	-	7,711
Government bonds	-	64,671	-	64,671
Total investments and assets whose use is limited	179,982	110,920	-	290,902
Total	$ 199,058	$ 110,920	$ -	$ 309,978

Note 6. Capital Assets, Net

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

	2019			
	Beginning Balance	Additions	Disposals/ Transfers	Ending Balance
Capital assets – being depreciated				
Land and land improvements	$ 23,646	$ 5,085	$ -	$ 28,731
Buildings and improvements	424,954	10,547	-	435,501
Fixed/major moveable equipment	177,380	7,678	(2,278)	182,780
Total capital assets – being depreciated	625,980	23,310	(2,278)	647,012
Less accumulated depreciation	(393,287)	(28,610)	2,179	(419,718)
Total capital assets – being depreciated, net	232,693	(5,300)	(99)	227,294
Capital assets – not being depreciated				
Construction in progress	32,849	68,891	(9,676)	92,064
Total capital assets, net	$ 265,542	$ 63,591	$ (9,775)	$ 319,358

(Dollars in Thousands)

Note 6. Capital Assets, Net (Continued)

	2018			
	Beginning Balance	Additions	Disposals/ Transfers	Ending Balance
Capital assets – being depreciated				
Land and land improvements	$ 20,526	$ 3,120	$ -	$ 23,646
Buildings and improvements	422,295	2,718	(59)	424,954
Fixed/major moveable equipment	162,296	15,588	(504)	177,380
Total capital assets – being depreciated	605,117	21,426	(563)	625,980
Less accumulated depreciation	(365,579)	(27,873)	165	(393,287)
Total capital assets – being depreciated, net	239,538	(6,447)	(398)	232,693
Capital assets – not being depreciated				
Construction in progress	8,467	31,447	(7,065)	32,849
Total capital assets, net	$ 248,005	$ 25,000	$ (7,463)	$ 265,542

Construction in progress at December 31, 2019 and 2018 includes costs associated with the planning, design, and construction of the Level 1 Adult Trauma Center and emergency department expansion project, as well as construction and planning costs for various other facility projects. $100,000 of the project is funded through loans from Erie County (see Note 8).

Depreciation expense amounted to $28,610 and $27,873 for the years ended December 31, 2019 and 2018, respectively.

Note 7. Accrued Other Liabilities

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

	2019	2018
Due to Erie County	$ 15,329	$ 14,571
Other post-employment benefits (OPEB)	12,903	12,579
Other	10,592	11,599
Workers compensation claims	6,642	5,000
Medical malpractice claims	1,903	1,672
Due to joint venture	1,250	4,448
Due to discretely presented component units	-	700
Total	$ 48,619	$ 50,569

(Dollars in Thousands)

Note 7. Accrued Other Liabilities (Continued)

GASB Statement No. 83, *Certain Asset Retirement Obligations,* establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations (ARO's). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. In accordance with this Statement, the Corporation completed an analysis of assets meeting the criteria of an ARO for specific types of medical equipment such as medical imaging equipment (e.g., MRIs, CT scanners, and PET scanners), X-Rays, and ultrasounds as well as computers containing information protected by HIPAA laws, and certain types of laboratory equipment. In addition, the Corporation evaluated the requirement for disposal of underground fuel and lab acid tanks. The Corporation determined, based on industry standards for disposition of similar assets, the total asset retirement obligation totaled $2,185 at December 31, 2019 and is reflected in accrued other liabilities in the statements of net position. The assets have a remaining useful life ranging from 0 to 30 years. This obligation is discounted using a rate of 4.0% and an inflation factor of 3.0% at December 31, 2019. As a result of implementing this Statement, the Corporation was required to retroactively apply the Statement with a restatement of net position to the first day of the earliest period presented (January 1, 2018), which resulted in a decrease of net position of $1,991.

Note 8. Indebtedness

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

	2019				
	Beginning Balance	Additions	Payments	Ending Balance	Due Within One Year
Erie County - Guaranteed Senior Revenue Bonds, Series 2004	$ 75,725	$ -	$ (3,360)	$ 72,365	$ 3,545
Erie County – 2017 loan payable	98,799	-	(1,369)	97,430	1,914
Erie County – 2017 loan payable	68,804	-	(3,729)	65,075	3,842
Erie County – 2017 capitalized interest assumption obligation	8,224	-	(114)	8,110	159
Capital lease obligations	5,773	1,805	(2,689)	4,889	1,630
Total debt	$ 257,325	$ 1,805	$ (11,261)	$ 247,869	$ 11,090

	2018				
	Beginning Balance	Additions	Payments	Ending Balance	Due Within One Year
Erie County - Guaranteed Senior Revenue Bonds, Series 2004	$ 78,910	$ -	$ (3,185)	$ 75,725	$ 3,360
Erie County – 2017 loan payable	99,261	-	(462)	98,799	1,369
Erie County – 2017 loan payable	72,398	-	(3,594)	68,804	3,729
Erie County – 2017 capitalized interest assumption obligation	8,262	-	(38)	8,224	114
Key Bank loan	8,033	-	(8,033)	-	-
Capital lease obligations	5,642	2,453	(2,322)	5,773	2,554
Total debt	$ 272,506	$ 2,453	$ (17,634)	$ 257,325	$ 11,126

(Dollars in Thousands)

Note 8. Indebtedness (Continued)

Future annual principal payments applicable to long term debt for the years subsequent to December 31, 2019 are as follows:

2020	$	11,090
2021		11,046
2022		11,442
2023		11,860
2024		12,290
2025 - 2029		66,937
2030 - 2034		72,667
2035 - 2039		50,537
Total	$	247,869

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 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. 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.

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.

During 2018, the Corporation entered into a capital lease agreement in the amount of $2,044, the proceeds of which were used to purchase various equipment. The agreement requires principal and interest payments (cost of capital is estimated at 5.5%) of $29 and matures September 2025.

Note 8. Indebtedness (Continued)

During 2018, the Corporation entered into a capital lease agreement in the amount of $409, the proceeds of which were used to purchase various suite improvements. The agreement requires principal and interest payments (cost of capital is estimated at 3.8%) of $4 and matures October 2028.

During 2019, the Corporation entered into a capital lease agreement in the amount of $1,805, the proceeds of which were used to finance various cafeteria improvements. The agreement requires principal and interest payments (cost of capital ranges from 0 – 9.0%) of $17 and matures March 2029.

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 481,000 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, 2019 and 2018, the Corporation reported a liability of $57,240 and $24,677, 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 2019 and 2018, which was 0.8079% and 0.7646%, respectively.

(a) Actuarial Assumptions

The total pension liability for the March 31, 2019 measurement date was determined using an actuarial valuation as of April 1, 2018, with update procedures used to roll-forward the total pension liability to March 31, 2019. The actuarial valuations used the following actuarial assumptions:

Inflation	2.5%
Salary increases	4.2%, 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, 2018 measurement date was determined using an actuarial valuation as of April 1, 2017, with update procedures used to roll-forward the total pension liability to March 31, 2018. 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:

	2019	
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%	7.5%
Real estate	10.0%	5.6%
Absolute return strategies	2.0%	3.8%
Bonds and mortgages	17.0%	1.3%
Inflation-indexed bonds	4.0%	1.3%
Opportunistic portfolio	3.0%	5.7%
Real assets	3.0%	5.3%
Cash	1.0%	-0.3%
	100.0%	

	2018	
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%	7.5%
Real estate	10.0%	5.6%
Absolute return strategies	2.0%	3.8%
Bonds and mortgages	17.0%	1.3%
Inflation-indexed bonds	4.0%	1.3%
Opportunistic portfolio	3.0%	5.7%
Real assets	3.0%	5.3%
Cash	1.0%	-0.3%
	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, 2019 and 2018 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, 2019 and 2018, 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:

	2019		
	1% Decrease (6.0%)	Discount Rate (7.0%)	1% Increase (8.0%)
Corporation's proportionate share of the net pension liability	$ 250,264	$ 57,240	$ (104,913)

	2018		
	1% Decrease (6.0%)	Discount Rate (7.0%)	1% Increase (8.0%)
Corporation's proportionate share of the net pension liability	$ 186,713	$ 24,677	$ (112,399)

(Dollars in Thousands)

Note 9. Pension Plan (Continued)

(d) Deferred Outflows and Inflows of Resources

At December 31, 2019 and 2018, the Corporation reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2019	2018
Deferred outflows of resources:		
Differences between expected and actual actuarial experience	$ 11,272	$ 8,802
Difference between projected and actual earnings on pension plan investments	-	35,841
Changes in assumptions	14,388	16,363
Corporation contributions subsequent to the measurement date	27,343	26,447
Other	2,670	1,181
Total	$ 55,673	$ 88,634
Deferred inflows of resources:		
Differences between expected and actual actuarial experience	$ 3,842	$ 7,273
Difference between projected and actual earnings on pension plan investments	14,691	70,747
Changes in proportion and differences between Corporation contributions and proportionate share of contributions	9,478	9,306
Total	$ 28,011	$ 87,326

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 year ending 2019 and 2018, which includes contributions toward the actuarially determined accrued liability and the amortization of deferred outflows and inflows of resources, was approximately $33,553 and $26,421, respectively.

(Dollars in Thousands)

Note 10. Other Post-Employment Benefits (OPEB)

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

Funding the plan: Currently, there is no New York State statute that expressly authorizes local governments to create a trust for OPEB purposes. Additionally, New York State's General Municipal Law does not allow for a reserve fund to accumulate funds for OPEB obligations. The Corporation's Board of Directors and management believe it is prudent to reserve funds for the Plan and have therefore internally designated $24,831 in 2019 and 2018, 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 total OPEB liability measured at December 31, 2019 and 2018 of $412,883 and $389,730 was determined by an actuarial valuation as of January 1, 2019 and 2018, respectively. The measurement date of the obligation is December 31, 2019 and 2018.

(a) Actuarial Assumptions

The total OPEB liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.3%
Salary increases	3.3% per annum
Pre-Medicare Plans	6.8% for 2019, 3.8% ultimate trend rate in 2075
Medicare Plans	4.5% for 2019, 3.8% ultimate trend rate in 2075
Prescription Plan	7.0% for 2019, 3.8% ultimate trend rate in 2075
Mortality	Society of Actuaries Scale MP-2019

(Dollars in Thousands)

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

The total OPEB liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.3%
Salary increases	3.3% per annum
Pre-Medicare Plans	7.0% for 2018, 3.8% ultimate trend rate in 2075
Medicare Plans	5.0% for 2018, 3.8% ultimate trend rate in 2075
Prescription Plan	9.5% for 2018, 3.8% ultimate trend rate in 2075
Mortality	Society of Actuaries Scale MP-2014

(b) Changes in the OPEB Liability

	2019	2018
Changes in the OPEB obligation		
Projected OPEB obligation at the beginning of year	$ 389,730	$ 446,045
Service cost	4,034	5,838
Interest cost	14,724	15,322
Change of benefit terms	-	(532)
Difference between expected and actual experience	(38,435)	1,097
Change in assumptions	57,042	(65,103)
Actual benefit payments	(14,212)	(12,937)
Projected OPEB obligation at the end of year	$ 412,883	$ 389,730

(c) Discount Rate

The discount rate used to measure the total OPEB liability as of December 31, 2019 and January 1, 2019 was 2.7% and 4.1%, respectively, based on the Bond Buyer 20-year Bond GO index rate.

The following presents the Corporation's total OPEB liability calculated using the discount rate of 2.7% as well as what the Corporation's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (1.7%) or 1 percentage point higher (3.7%) than the current rate.

	2019		
	1% Decrease (1.7%)	Discount Rate (2.7%)	1% Increase (3.7%)
The Corporation's total OPEB liability	$ 485,311	$ 412,883	$ 355,225

(Dollars in Thousands)

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

The discount rate used to measure the total OPEB liability as of December 31, 2018 and January 1, 2018 was 4.1% and 3.4%, respectively, based on the Bond Buyer 20-year Bond GO index rate.

The following presents the Corporation's total OPEB liability calculated using the discount rate of 4.1% as well as what the Corporation's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (3.1%) or 1 percentage point higher (5.1%) than the current rate.

	2018		
	1% Decrease (3.1%)	Discount Rate (4.1%)	1% Increase (5.1%)
The Corporation's total OPEB liability	$ 455,710	$ 389,730	$ 336,955

The following presents the Corporation's total OPEB liability calculated using healthcare cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current healthcare cost trend rates.

	2019		
	1% Decrease	Healthcare Cost Trend Rates	1% Increase
The Corporation's total OPEB liability	$ 353,653	$ 412,883	$ 487,571

	2018		
	1% Decrease	Healthcare Cost Trend Rates	1% Increase
The Corporation's total OPEB liability	$ 328,469	$ 389,730	$ 469,718

(Dollars in Thousands)

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

(d) Deferred Outflows and Inflows of Resources

The following are components of deferred outflows and inflows at December 31, 2019 and 2018:

	2019	
	Deferred Outflows	Deferred Inflows
Differences between expected and actual actuarial experience	$ 687	$ 29,673
Changes in assumptions	44,004	40,718
Total	$ 44,691	$ 70,391

	2018	
	Deferred Outflows	Deferred Inflows
Differences between expected and actual actuarial experience	$ 892	$ -
Changes in assumptions	-	52,911
Total	$ 892	$ 52,911

The net deferred outflows and inflows of resources at December 31, 2019 will be recognized as follows:

	Amount
2020	$ (7,712)
2021	(7,712)
2022	(6,536)
2023	(3,740)
	$ (25,700)

(e) Annual OPEB Expense

The Corporation's annual OPEB expenses for the years ended December 31, 2019 and 2018 was $11,046 and $8,641, respectively.

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 2019 and 2018, net DSRIP payments received by the Corporation totaled $83,978 and $47,581, respectively. In addition, $80,880 and $22,339 was recorded as grant revenue for the years ended December 31, 2019 and 2018 based on meeting the eligibility requirements and $64,319 and $21,192 of related grant program expenses were incurred during 2019 and 2018, 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 years 1 through 3 and believes it has achieved substantially all of the goals for year 4 of the program and has recognized related revenue in the amount of $22,500 and $25,750 for 2019 and 2018, respectively.

Note 13. Transactions With the County of Erie

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, 2019 and 2018 are as follows:

The Corporation earned revenue totaling $3,250 and $3,184 for the years ended December 31, 2019 and 2018, 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 net amount due from the County of approximately $5,523 and $7,904 at December 31, 2019 and 2018, 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 assets in the statements 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. Additionally, the Corporation began purchasing excess stop loss insurance on a claims made basis for medical malpractice effective November 2008. The current policy provides $35,000 of coverage in excess of $4,000 of individual claims or $12,000 in aggregate claims effective November 18, 2013. Previously the policy provided $35,000 of coverage in excess of $3,000 of individual claims or $10,000 in aggregate claims.

(Dollars in Thousands)

Note 14. Self-Insured Obligations (Continued)

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, 2019 and 2018, $11,776 and $15,417, 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 $19,238 and $23,743 at December 31, 2019 and 2018, respectively, for medical malpractice related exposures. Such amounts have been discounted at 2.0% for 2019 and 2018 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 $25,397 and $25,610 at December 31, 2019 and 2018, respectively, for workers compensation related exposures. Such amounts have been discounted at 1.75% and 1.25% for 2019 and 2018, respectively 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 $8,654 and $4,827 in 2019 and 2018, respectively, and are included within the payroll, employee benefits and contract labor caption of the accompanying statements of revenues, expenses and changes in net position.

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

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

	2019				
	Beginning Balance	Actuarial estimate of claims incurred	Claims Paid	Ending Balance	Due Within One Year
Medical malpractice	$ 23,743	$ (391)	$ (4,140)	$ 19,212	$ 1,903
Workers compensation	25,610	8,132	(8,345)	25,397	6,642
	$ 49,353	$ 7,741	$ (12,485)	$ 44,609	$ 8,545

	2018				
	Beginning Balance	Actuarial estimate of claims incurred	Claims Paid	Ending Balance	Due Within One Year
Medical malpractice	$ 28,767	$ 142	$ (5,166)	$ 23,743	$ 1,699
Workers compensation	28,747	4,044	(7,181)	25,610	5,000
	$ 57,514	$ 4,186	$ (12,347)	$ 49,353	$ 6,699

(Dollars in Thousands)

Note 14. Self-Insured Obligations (Continued)

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

Note 15. Commitments and Contingencies

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

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, 2019 and 2018, 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 December 2029. Certain leases include optional extensions that are not included in the amounts below. Total rental expense for all operating leases was approximately $5,256 and $3,300 in 2019 and 2018, 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, 2019 and 2018, $10,000 and $9,747, respectively, of this lease facility has been disbursed.

The following is a schedule by year of future minimum lease payments under operating leases as of December 31, 2019 that have initial or remaining lease terms in excess of one year:

2020	$	4,542
2021		4,213
2022		4,155
2023		3,774
2024		2,033
2025-2029		7,051
	$	25,768

The Corporation formed 1827 Fillmore, LLC (1827) for the purpose of acquiring and developing land immediately adjacent to its Grider Street campus. A condition of the acquisition was that 1827 demolish a building on the site with known asbestos abatement requirements. This condition was met in 2018. The Corporation has started a community planning process to determine the future use(s) of the site. The site requires the environmental remediation expenditures, however the amount of such expenditures is dependent on the ultimate use of the site and requirements from regulators. Through December 31, 2019, approximately $4,400 has been spent on remediating and improving the land.

Required Supplementary Information

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

Required Supplementary Information
Schedule of Corporation's Contributions
NYSLRS Pension Plan
December 31, 2019
(Dollars in Thousands)

	2019	2018	2017	2016	2015	2014	2013
Contractually required contribution	$ 26,447	$ 25,803	$ 25,235	$ 26,722	$ 29,771	$ 29,835	$ 27,164
Contributions in relation to the contractually required contribution	26,447	25,803	25,235	26,722	29,771	29,835	27,164
Contribution deficiency	$ -	$ -	$ -	$ -	$ -	$ -	$ -
ECMCC covered-employee payroll	$ 235,284	$ 216,044	$ 183,540	$ 166,691	$ 175,409	$ 163,395	$ 151,906
Contributions as a percentage of covered-employee payroll	11.2%	11.9%	13.7%	16.0%	17.0%	18.3%	17.9%

Note: During December 2019, the Corporation prepaid its 2020 contribution to the plan in the amount of $27,343 to take advantage of a prepayment discount in the amount of $232.

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)

Required Supplementary Information
Schedule of Corporation's Proportionate Share of Net Pension Liability
NYSLRS Pension Plan
December 31, 2019
(Dollars in Thousands)

	2019	2018	2017	2016	2015
ECMCC proportion of the net pension liability	0.8079%	0.7646%	0.7614%	0.7228%	0.7137%
ECMCC proportionate share of the net pension liability	$ 57,240	$ 24,677	$ 71,544	$ 116,006	$ 24,112
ECMCC covered-employee payroll	235,284	216,044	183,540	166,691	175,409
ECMCC proportionate share of the net pension liability as a percentage of it's covered-employee payroll	24.3%	11.4%	39.0%	69.6%	13.7%
Plan fiduciary net position as a percentage of the total pension liability	96.3%	98.2%	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 wil present information for those year for which information is available.

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

Required Supplementary Information
Schedule of Corporation's Changes in Total OPEB Liability and Related Ratios
December 31, 2019 and 2018
(Dollars in Thousands)

	2019	2018
Total OPEB liability		
Service cost	4,034	5,838
Interest cost	14,724	15,322
Change in benefit terms	-	(532)
Differences between expected and actual experience	(38,435)	1,097
Changes of assumptions	57,042	(65,103)
Benefit payments	(14,212)	(12,937)
Net change in total OPEB liability	23,153	(56,315)
Total OPEB liability - beginning	389,730	446,045
Total OPEB liability - ending	$ 412,883	$ 389,730
Covered employee payroll	$ 95,417	$ 100,112
Total OPEB liability as a percentage of covered employee payroll	432.71%	389.29%
Discount rate	2.70%	4.10%

Erie County Medical Center Corporation

(A Component Unit of the County of Erie)

Uniform Guidance Audit Requirements

December 31, 2019

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

Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2019

Federal Grantor/Pass-Through/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of Health and Human Services Health Resources and Services Administration				
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	N/A	$ -	$ 785,893
Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153	N/A	-	383,863
Primary Care Medicine and Dentistry Clinician Educator Career Development Awards Program	93.976	N/A	-	133,325
Ryan White HIV/AIDS Dental Reimbursement and Community Based Dental Partnership Grants	93.924	N/A	-	12,500
Grants to Increase Organ Donations	93.134	N/A	-	408,519
Total U.S. Department of Health and Human Services Health Resources and Services Administration Direct Programs			-	1,724,100
U.S. Department of Health and Human Services pass through program from Health Research Inc.				
Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities	93.817	6U3REP1505200102	-	97,315
National Bioterrorism Hospital Preparedness Program	93.889	NU90TP000515	-	20,500
Total U.S. Department of Health and Human Services Pass Through Programs			-	117,815
U.S. Department of Justice pass through program from New York State Office of Victim Crime Services				
Victims of Crime	16.575	OVS01-C10952GG-1080200	-	3,525
Total U.S. Department of Justice Pass Through Program			-	3,525
Total Expenditures of Federal Awards			$ -	$ 1,845,440

See notes to the schedule of expenditures of federal awards.

Note to Schedule of Expenditures of Federal Awards
Year Ended December 31, 2019

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Erie County Medical Center Corporation (the Corporation) under programs of the federal government for the year ended December 31, 2019. The information on this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

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

Note 2. Summary of Significant Accounting Policies

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

Note 3. Other Federal Awards

There were no federal awards expended for noncash assistance, insurance, or any loans, loan guarantees, or interest subsidies outstanding at December 31, 2019.

Note 4. Subrecipients

The Corporation did not provide federal awards to any subrecipients during the year ended December 31, 2019.

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Independent Auditor's Report

To the Board of Directors
Erie County Medical Center Corporation

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the discretely presented component units of Erie County Medical Center Corporation (the "Corporation") as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated March 17, 2020. The financial statements of ECMC Foundation, Inc., the Grider Initiative, Inc. and Research for Health in Erie County, Inc. were not audited in accordance with *Government Auditing Standards,* and accordingly, this report does not include reporting on internal controls over financial reporting or instances of reportable noncompliance associated with ECMC Foundation, Inc., the Grider Initiative, Inc. and Research for Health in Erie County, Inc.

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

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

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

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

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

RSM US LLP

March 17, 2020

RSM US LLP

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

Independent Auditor's Report

To the Board of Directors
Erie County Medical Center Corporation

Report on Compliance for the Major Federal Program
We have audited Erie County Medical Center Corporation's (the "Corporation") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Corporation's major federal program for the year ended December 31, 2019. The Corporation's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

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

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

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

Opinion on the Major Federal Program
In our opinion, the Corporation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended December 31, 2019.

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

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

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

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

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance
We have audited the financial statements of the Corporation as of and for the year ended December 31, 2019 and have issued our report thereon dated March 17, 2020, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

RSM US LLP

March 17, 2020

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

Schedule of Findings and Questioned Costs
Year Ended December 31, 2019

Section I - Summary of Auditor's Results

Financial Statements

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

Federal Awards

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

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
93.134	Grants to Increase Organ Donations

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

Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2019

Section II - Financial Statement Findings

No findings noted.

Section III - Findings and Questioned Costs for Federal Awards

No findings noted.

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

Summary Schedule of Prior Year Findings and Questioned Costs
Year Ended December 31, 2019

Section II – Financial Statement Findings

No findings noted.

Section III - Findings and Questioned Costs for Federal Awards

No findings noted.