AUDITED
FINANCIAL STATEMENTS

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

DECEMBER 31, 2011

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

CONTENTS

FreedMaxick CPAs, P.C.

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Erie County Medical Center Corporation (a component unit of the County of Erie) (the "Corporation") and the aggregate discretely presented component units as of December 31, 2011 and 2010. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Corporation and the aggregate discretely presented component units as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2012 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* and should be considered in assessing the results of our audits.

The Management's Discussion and Analysis on pages 2 through 6 and the schedule of funding progress on page 37 are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Corporation's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Freed Maxick CPAs, P.C.

(Formerly known as Freed Maxick & Battaglia, CPAs, PC)
Buffalo, New York
March 27, 2012

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2011
(000's omitted)

This section of the Erie County Medical Center Corporation's (the Corporation) annual financial report presents management's discussion and analysis of the Corporation's financial performance for the year ended December 31, 2011. This discussion should be read in conjunction with the accompanying financial statements and related footnotes. This narrative, the financial statements and footnotes are the responsibility of the Corporation's management.

Using the Annual Financial Report:

This annual report consists of financial statements prepared in accordance with Governmental Accounting Standards Board (GASB) Codification 2200, Comprehensive Annual Financial Report.

The financial statements prescribed by GASB Codification 2200 (the statements of net assets, statements of revenues, expenses and changes in net assets and the statements of cash flows) present financial information in a form similar to that used by other corporations. They are prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided, and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

The statement of net assets includes all assets and liabilities. Over time, increases and decreases in net assets (the difference between assets and liabilities) are one indicator of the improvement or erosion of the Corporation's financial health. This statement also includes information to help compute the rate of return on investments, evaluate capital structure of the organization and assess the liquidity and financial flexibility of the Corporation.

The statement of revenues, expenses and changes in net assets presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or non-operating. Consistent with generally accepted practice, investment income, interest expense and transactions with the County of Erie (the County) are reported as non-operating.

The statement of cash flows presents information related to cash inflows and outflows summarized by operating, capital and non-capital financial and investing activities.

The accompanying financial statements of the Corporation include financial data of the Corporation's component units, (i) ECMC Lifeline Foundation, Inc., (ii) The Grider Initiative, Inc. and (iii) Research for Health in Erie County, Inc. The information in this section does not take into consideration the component units' operations.

FINANCIAL HIGHLIGHTS:

The Corporation's total net assets decreased $1,517 in 2011 and $6,970 in 2010. This decrease in net assets is primarily due to transactions with the County. The Corporation's liquidity remains strong. The current ratio was 1.9 for 2011 and 2.1 for 2010 - a favorable result compared to most New York State hospitals. The Corporation continues to grow its assets. Total assets increased $164,413 and $29,110 in 2011 and 2010, respectfully. Total liabilities also increased by $165,930 and $36,080, respectfully. The increase is primarily due to a 2011 loan agreement with the County to finance a new 390-bed long term care facility. As a sign of the Corporation's commitment to its customers and the community, a non-profit organization was formed in 2009 to recruit physicians and seeded with a $10,000 endowment by the Corporation in 2010.

SUMMARY FINANCIAL INFORMATION WITH ANALYSIS:

Statement of Net Assets:

Net assets are categorized as follows:

- *Invested in Capital Assets- Net of Related Debt* - Represent the total investment in capital assets, net of outstanding debt obligations related to those capital assets.
- *Restricted* - Includes net assets in which the Corporation is legally or contractually obligated to spend resources in accordance with restrictions imposed by third parties.
- *Unrestricted* - Represent the resources derived primarily from services rendered to patients and other operating revenues. These resources are used for transactions related to the general healthcare operations of the Corporation, and may be used at the discretion of the Board of Directors to meet current expenses for any purpose.

The following table summarizes the Corporation's assets, liabilities and net assets.

Assets	**2011**	**2010**	**Change**	**2009**	**Change**
Current assets	$ 289,307	$ 207,411	$ 81,896	$ 200,848	$ 6,563
Assets limited as to use	113,762	99,921	13,841	95,249	4,672
Capital assets, net	163,015	95,731	67,284	78,007	17,724
Other assets	4,474	3,082	1,392	2,931	151
Total assets	$ 570,558	$ 406,145	$ 164,413	$ 377,035	$ 29,110
Liabilities					
Current liabilities	$ 148,903	$ 97,801	$ 51,102	$ 86,710	$ 11,091
Noncurrent liabilities	323,557	208,729	114,828	183,740	24,989
Total liabilities	472,460	306,530	165,930	270,450	36,080
Net Assets					
Invested in capital assets , net of related debt	58,053	14,855	43,198	(2,869)	17,724
Restricted	20,915	11,304	9,611	11,168	136
Unrestricted	19,130	73,456	(54,326)	98,286	(24,830)
Total net assets	98,098	99,615	(1,517)	106,585	(6,970)
Total liabilities and net assets	$ 570,558	$ 406,145	$ 164,413	$ 377,035	$ 29,110

The Corporation's increase in assets the past two years has been driven by investment in capital assets. This planned growth is part of the Corporation's $161,000 master facility plan. A portion of this expansion has been funded through new debt. In 2011, the Corporation borrowed $96,864 through the County to finance a new 390-bed long term care facility.

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

The following table summarizes the Corporation's revenues, expenses and changes in net assets.

	Statement of Operations and Changes in Net Assets				
	2011	**2010**	**Change**	**2009**	**Change**
Net patient services revenue	$ 342,283	$ 340,813	$ 1,470	$ 335,540	$ 5,273
Disproportionate share revenue	60,572	53,444	7,128	34,378	19,066
Other revenue	28,625	18,276	10,349	20,993	(2,717)
Total operating revenues	431,480	412,533	18,947	390,911	21,622
Total operating expenses	424,900	402,729	22,171	406,891	(4,162)
Operating income (loss)	6,580	9,804	(3,224)	(15,980)	25,784
Total non-operating (expenses) revenues	(8,252)	(6,886)	(1,366)	4,365	(11,251)
(Deficiency) excess of revenue over expenses	(1,672)	2,918	(4,590)	(11,615)	14,533
Other changes in net assets	155	(9,888)	10,043	717	(10,605)
Change in net assets	(1,517)	(6,970)	5,453	(10,898)	3,928
Net assets, beginning of year	99,615	106,585	(6,970)	117,483	(10,898)
Net assets, end of year	$ 98,098	$ 99,615	$ (1,517)	$ 106,585	$ (6,970)

Operating Revenues:

Overall, operating revenues increased by $18,947 or 4.6% in 2011 and increased by $21,622 or 5.5% in 2010.

- Net patient service revenue increased 0.4% and 1.6% in 2011 and 2010, respectively based primarily upon increases in case rates and higher utilization in such areas as the emergency department and outpatient surgical services. A planned downsizing of the current 572-bed long term care facility resulted in $2,300 less net patient services revenue for 2011.
- Disproportionate share revenue (DSH) increased by $7,128 in 2011 and $19,066 in 2010, principally due to increases in uncompensated care provided as well as other factors.
- Other operating revenue increased by 56.6% in 2011 and decreased by 12.9% in 2010. The increase in 2011 is due primarily due to a HEAL NY grant received for the dialysis and transplant program expansion substantially completed in 2011. The decrease in 2010 was primarily due to a reduction in the level of services provided to the County.

Operating Expenses:

Operating expenses increased $22,171 in 2011 and decreased $4,162 in 2010. The increase in expenses for 2011 was attributable primarily to payroll related costs. While the overall number of employees decreased slightly for the Corporation, skill mix changed. The Hospital continues to offer opportunities for registered nurses and implemented a more robust physician employment model to meet patient needs. New York State pension and workers' compensation payroll benefit expenses are growing at a higher rate than in prior years. For 2010, the decrease included lower payroll, employee benefits and labor costs. Professional fees increased as the Corporation continued its physician contracting initiative. Purchased services and supplies dropped slightly, while depreciation and other expenses increased.

Transactions with the County and Non-operating Revenues (Expense):

- The Corporation recognized $11,500 due from the County after receiving approval from New York State and commencing construction of the new long term care facility on the Grider Street campus.
- The Corporation settled with Erie County $16,182 and $8,044 for 2011 and 2010, respectively, related to excess capital contributions and forgiveness of certain other operating subsidy payments.
- Investment income decreased by $5,522 in 2011, due primarily to lower returns on fixed income obligations and other investments.

Other Changes in Net Assets:

In 2010, The Corporation transferred $10,113 to the component unit for physician recruitment purposes. In addition, the Corporation recognized a loss on disposal of assets as a result of a detailed review of capital asset records.

FACTORS AFFECTING FUTURE PERIODS:

The Corporation is pursuing a significant expansion of its health campus. In December, the Corporation opened a Center of Excellence in Transplantation and Kidney Care, the first completed collaboration with Kaleida Health, Inc. The Center is comprised of a 36-station dialysis program (located on the ground floor of a new medical office building) and a newly-renovated solid organ transplant unit (located on the tenth floor of the hospital tower). Work is underway to complete the remaining three floors of the medical office building and the planned renovation of existing physician office space. Construction of a new 390-bed long term care facility on the Grider Street campus is scheduled to open February 2013.

A portion of the cost of the existing construction is being financed through a $96,864 tax-exempt bond issuance to the County of Erie. The Erie County Fiscal Stability Authority participated in the financing, resulting in a effective interest rate of 3.7 percent.

The Corporation is a component unit of the County of Erie (the “County”). The County has significant contractual and legal obligations to the Corporation. The County and the Corporation also have shared bargaining units representing their respective employees.

The Corporation and the County negotiated and signed a settlement agreement (“Agreement”), which became effective January 1, 2010, to resolve many issues that were left unresolved by a Sale, Purchase and Operating Agreement (“SPOA”) effective January 1, 2004. The Agreement addresses certain operating, financial, and real property transactions between the Corporation and the County. In addition, the agreement addresses the future of long term care delivery at the Corporation and memorializes plans and funding sources for the new long term care facility on the Grider Street campus.

In 2009, the Corporation settled labor agreements with the New York State Nurses Association (“NYSNA”) and the American Federation of State, County, and Municipal Employees (“AFSCME”) which included concessions concerning health benefits. These labor agreements have better positioned the Corporation to remain a viable entity. The NYSNA agreement expired on December 31, 2011 and negotiations on a new agreement currently are underway. The Corporation’s other bargaining unit, Civil Service Employees Association (“CSEA”) is currently working with an expired agreement with negotiations ongoing.

The economic slowdown and recent turmoil in the financial markets, which have impacted the entire economy, have had a severe impact on New York State and its budget. Annual reductions in Medicaid reimbursement are expected to occur over the near term. However, due to the dysfunctional climate in the state capital, the financial impact of these reductions is uncertain at this time. The recent economic slowdown is expected to have significant future impacts including increased retirement costs, increased bad debt and charity care, an increased number of Medicaid patients, reduced philanthropic contributions, and reduced elective medical services volume. Changes in laws, regulations and the related interpretations and enforcement actions may significantly alter the environment in which we do business. Our ability to manage regulatory and other operating matters may impact our results.

The Health Reform Law

On March 23, 2010, the President signed into law the Patient Protection and Affordable Care Act (the "Affordable Care Act") which includes sweeping changes to how health care is paid for and provided in the United States. On March 30, 2010, the President signed the Health Care and Education Reconciliation Bill (the "Reconciliation Act"), which modifies the Affordable Care Act in many respects. Together, the Affordable Care Act and the Reconciliation Act will be referred to as the "Health Reform Law". The Health Reform Law expands health insurance coverage to 32 million individuals through 2019. Thus, the health care industry will be subjected to significant new statutory and regulatory requirements, and consequently to structural and operational changes and challenges, for a substantial period of time.

Legislation has been introduced in the House of Representatives to repeal the Health Reform Law and the Attorneys General of several states have filed lawsuits which challenge the constitutionality of various provisions of the Health Reform Law. Success on the challenges has been mixed.

Management of the Corporation is analyzing the Health Reform Law and will continue to do so in order to assess its effect on current and projected operations, financial performance and financial condition. However, management cannot predict with any reasonable degree of certainty or reliability any interim or ultimate effects of the legislation or whether additional health reform legislation will be enacted. The Health Reform Law is complex and comprehensive, and includes a myriad of programs, initiatives and changes to existing programs, practices and laws.

CONTACTING THE CORPORATION'S FINANCIAL MANAGEMENT:

This financial report is designed to provide our customers 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 ASSETS
December 31,
(000's omitted)

ASSETS	**2011**	**2010**
Current assets:		
Cash and cash equivalents	$ 38,854	$ 15,845
Investments	46,306	72,657
Assets whose use is limited	107,429	23,551
Patient accounts receivable, net	39,217	40,951
Other receivables	51,681	49,456
Supplies, prepaids and other	5,820	4,951
Total current assets	289,307	207,411
Assets whose use is limited	113,762	99,921
Capital assets, net (depreciable)	94,702	82,547
Capital assets (non-depreciable)	68,313	13,184
Other assets, net	4,474	3,082
Total assets	$ 570,558	$ 406,145
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of long-term debt	$ 4,249	$ 2,250
Accounts payable	39,139	24,563
Accrued salaries, wages and employee benefits	17,908	15,714
Accrued other liabilities	26,783	13,599
Deferred revenue	32,613	18,598
Estimated third-party payor settlements	28,211	23,077
Total current liabilities	148,903	97,801
Long-term debt, net	187,290	94,900
Self-insured obligations	136,267	113,829
Total liabilities	472,460	306,530
Net assets:		
Invested in capital assets, net of related debt	67,836	14,855
Restricted:		
For debt service	10,850	10,294
Expendable for capital	-	1,010
Unrestricted	19,412	73,456
Total net assets	98,098	99,615
Total liabilities and net assets	$ 570,558	$ 406,145

See accompanying notes

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

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

	2011	2010
Operating revenues:		
Net patient service revenue (net of provision for bad debts of $22,213 in 2011 and $22,294 in 2010)	$ 342,283	$ 340,813
Disproportionate share revenue	60,572	53,444
Other operating revenue	28,625	18,276
Total operating revenues	431,480	412,533
Operating expenses:		
Payroll, employee benefits and contract labor	251,603	233,110
Professional fees	44,609	41,231
Purchased services	32,010	32,929
Supplies	58,871	58,643
Other operating expenses	22,321	22,711
Depreciation and amortization	15,486	14,105
Total operating expenses	424,900	402,729
Operating income	6,580	9,804
Non-operating revenues (expenses):		
Investment income	1,764	7,286
Interest expense	(5,335)	(5,478)
Gain (loss) on disposal of equipment	1	(650)
Settlements with Erie County, net	(4,682)	(8,044)
Total net non-operating revenue (expense)	(8,252)	(6,886)
(Deficiency) excess of revenues over expenses	(1,672)	2,918
Contributions and transfers from (to) related parties, net	155	(9,888)
Total change in net assets	(1,517)	(6,970)
Net assets – beginning of year	99,615	106,585
Net assets – end of year	$ 98,098	$ 99,615

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

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

	2011	2010
Cash flows from operating activities:		
Receipts from patients and third party payors	$ 364,609	$ 340,215
Payments to employees	(249,409)	(234,136)
Payments to vendors for supplies and other	(123,751)	(124,010)
Other receipts	88,286	70,919
Net cash provided by operating activities	79,735	52,988
Cash flows from non-capital financing activities:		
Settlements with Erie County	7,985	(5,744)
Transfers to component unit	(378)	(10,000)
Net cash flows provided by (used in) non-capital financing activities	7,607	(15,744)
Cash flows from capital and related financing activities:		
Purchases of capital assets	(82,667)	(32,441)
Capital contributions	322	502
Proceeds from debt issuance	96,864	-
Principal payments on long term debt	(2,475)	(2,155)
Interest paid on long term debt	(6,172)	(5,381)
Net cash provided by (used in) capital and related financing activities	5,872	(39,475)
Cash flows from investing activities:		
Purchases of assets whose use is limited, net of sales	(99,903)	(1,913)
Investment in affiliates	(602)	(255)
Investment income	4,396	4,141
Sales (purchases) of investments, net	25,904	(30,781)
Net cash used in investing activities	(70,205)	(28,808)
Net change in cash and cash equivalents	23,009	(31,039)
Cash and cash equivalents:		
Beginning of year	15,845	46,884
End of year	$ 38,854	$ 15,845
Supplemental disclosure of non-cash activity:		
Change in fair value of assets whose use is limited	$ (2,761)	$ (5,073)
Forgiveness of debt from related party	$ 1,011	$ 2,300
Transfer to component unit	$ (548)	$ 113

See accompanying notes

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

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

	2011	2010
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 6,580	$ 9,804
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	15,486	14,105
Provision for bad debt	22,213	22,294
(Increase) decrease in assets:		
Patient accounts receivable	(20,479)	(19,729)
Other receivables	388	(8,884)
Supplies, prepaids and other	(869)	(154)
Increase (decrease) in liabilities:		
Accounts payable	14,576	5,067
Accrued liabilities	253	703
Deferred revenue	14,015	515
Estimated third-party payor settlements	5,134	4,328
Self-insured obligations	22,438	24,939
Net cash provided by operating activities	$ 79,735	$ 52,988

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

STATEMENTS OF NET ASSETS – COMPONENT UNITS
(000's omitted)

	2011			2010		
ASSETS	**ECMC Lifeline Foundation, Inc.**	**The Grider Initiative, Inc.**	**Research for Health in Erie County, Inc.**	**ECMC Lifeline Foundation Inc.**	**The Grider Initiative, Inc.**	**Research for Health in Erie County Inc.**
Current assets:						
Cash and cash equivalents	$ 817	$ 398	$ -	$ 679	$ 53	$ 62
Investments	-	-	1,120	-	-	1,086
Assets whose use is limited	1,033	-	-	1,558	-	-
Other receivables	276	436	-	160	263	-
Prepaids and other	6	-	-	22	-	-
Total current assets	2,132	834	1,120	2,419	316	1,148
Non-current assets:						
Other receivables	-	-	-	-	150	-
Endowment and other investments	58	10,000	-	58	10,000	-
Total assets	$ 2,190	$ 10,834	$ 1,120	$ 2,477	$ 10,466	$ 1,148
LIABILITIES AND NET ASSETS						
Current liabilities:						
Accounts payable	$ 3	$ 680	$ 2	$ 5	$ 30	$ -
Accrued salaries, wages and payroll taxes	9	-	-	14	-	-
Funds held in custody for others	445	-	-	516	-	-
Total liabilities	457	680	2	535	30	-
Net assets:						
Restricted for other purposes	884	10,150	76	1,243	10,300	86
Unrestricted	849	4	1,042	699	136	1,062
Total net assets	1,733	10,154	1,118	1,942	10,436	1,148
Total liabilities and net assets	$ 2,190	$ 10,834	$ 1,120	$ 2,477	$ 10,466	$ 1,148

See accompanying notes.

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

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS – COMPONENT UNITS
For the Years Ended
(000's omitted)

	2011			2010		
	ECMC Lifeline Foundation, Inc.	The Grider Initiative, Inc.	Research for Health in Erie County, Inc.	ECMC Lifeline Foundation Inc.	The Grider Initiative, Inc.	Research for Health in Erie County Inc.
Operating revenues:						
Grants, contributions, and special events	$ 1,001	$ 20	$ -	$ 952	$ 300	$ -
Other operating revenue - net	9	-	-	14	-	-
Total operating revenues	1,010	20	-	966	300	-
Operating expenses:						
Program services and grants	692	588	-	156	56	-
Fundraising	263	-	-	203	-	-
Other operating expenses	266	215	34	313	-	23
Total operating expenses	1,221	803	34	672	56	23
Operating income (loss)	(211)	(783)	(34)	293	244	(23)
Non-operating revenue:						
Investment income	2	50	4	4	79	9
Change in net assets	(209)	(733)	(30)	298	323	(14)
Net assets – beginning of year	1,942	10,436	1,148	1,644	-	1,162
Transfers from Erie County Medical Center	-	451	-	-	10,113	-
Net assets – end of year	$ 1,733	$ 10,154	$ 1,118	$ 1,942	$ 10,436	$ 1,148

See accompanying notes.

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

STATEMENTS OF CASH FLOWS – COMPONENT UNITS
For the Years Ended
(000's omitted)

	2011			2010		
	ECMC Lifeline Foundation, Inc.	The Grider Initiative, Inc.	Research for Health in Erie County, Inc.	ECMC Lifeline Foundation Inc.	The Grider Initiative, Inc.	Research for Health in Erie County Inc.
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:						
Operating income (loss)	$ (322)	$ (783)	$ (34)	$ 293	$ 244	$ (23)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
(Increase) decrease in assets	11	(23)	-	(50)	(300)	3
Increase (decrease) in liabilities	(78)	-	2	3	-	-
Net cash provided by (used in) operating activities	(389)	(806)	(32)	246	(56)	(20)
Cash flows from financing activities:						
Funds borrowed	-	650	-	-	30	-
Transfers from Erie County Medical Center	-	451	-	-	10,000	-
Net cash provided by financing activities	-	1,101	-	-	10,030	-
Cash flows from investing activities:						
(Increase) decrease in assets whose use is limited	525	-	(34)	(119)	(10,000)	(6)
Interest received	2	50	4	4	79	9
Net cash provided by (used in) investing activities	527	50	(30)	(115)	(9,921)	3
Net change in cash and cash equivalents	138	345	(62)	131	53	(17)
Cash and cash equivalents:						
Beginning of year	679	53	62	548	-	79
End of year	$ 817	$ 398	$ -	$ 679	$ 53	$ 62

See accompanying notes.

NOTE 1. ORGANIZATION

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

The Corporation's "Health Care Facilities" consist of the Medical Center, a 550-bed acute tertiary care facility located on Grider Street in the City of Buffalo; the Erie County Home (the "Home"), a residential health care facility located in Alden, New York; a primary care clinic located 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 State approved regional trauma center; only burn center; only comprehensive traumatic brain injury and spinal cord injury rehabilitative center; only Comprehensive Psychiatric Emergency Program provider for acute psychiatric emergencies; 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 Health Care Facilities and to issue bonds and notes to finance the costs of providing such facilities. The Act specifically provides that the Corporation's corporate existence shall continue until terminated by law; provided, however, that no such termination shall take effect so long as the Corporation shall have bonds or other obligations outstanding unless adequate provision has been made for the payment or satisfaction thereof. The Corporation's primary purpose is the operation of the Medical Center and the Home, and its powers, duties, and functions are as set forth in the Act and other applicable laws.

The Corporation is a component unit of the County and accordingly is included in the County's Comprehensive Annual Financial Report. The Corporation is subject to civil service law.

Governance **-** The Corporation is governed by its Board of Directors (the "Board") consisting of fifteen voting directors, of whom eight shall be appointed by the governor and seven shall be appointed by the County Executive. There are four non-voting representatives – the Chief Executive Officer, one member selected by the Erie County Executive, one member selected by the majority leader of the Erie County legislature, and one member selected by the minority leader of the Erie County legislature. The Directors and non-voting members, who serve staggered five year terms, shall continue to hold office until their successors are appointed. Directors have experience in the fields of health care services, quality and patient safety, human resources, strategic growth, and financial management and reflect a broad representation of the community served by the Corporation. Regular meetings of the Board are scheduled twelve times per year. Corporation officers are appointed by the Board.

Great Lakes Heath System **-** The Corporation is a member of Great Lakes Health System of Western New York ("Great Lakes"). Great Lakes is a not-for-profit, community-based corporation that oversees unified partners whose objective is to provide the highest quality of healthcare. Great Lakes is comprised of the Corporation, five Kaleida Health hospitals, as well as long term care facilities, ambulatory health and community based clinics.

NOTE 1. ORGANIZATION (CONTINUED)

Medical School Affiliation **-** The Corporation serves as a primary teaching hospital for the State University of New York at Buffalo School of Medicine and School of Dentistry (the "Medical School"). An affiliation agreement governs the relationship between the Corporation and the Medical School. As an affiliate of the Medical School, the Corporation serves as an integral part of the education and research mission of the 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 160 full-time equivalent residents assigned to the Corporation in various Academic College of Graduate Medical Education accredited residency programs.

Discretely Presented Component Units – U.S. GAAP (as defined in Note 2) requires the inclusion within the Corporation's financial statements of certain organizations as component units based on the nature and significance of the Corporation's relationship with these organizations. The component unit information in the accompanying basic financial statements includes the financial data of the Corporation's three discretely presented component units. These units are reported separately to emphasize that they are legally separate from the Corporation.

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

The Grider Initiative, Inc. – The Grider Initiative, Inc. (the "Physician Endowment") is a nonprofit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Physician Endowment was funded in 2010, for the purpose of recruiting physicians who shall practice on the Grider Street campus of the Corporation. The entity was funded with an initial transfer of $10,000 from the Corporation. Earnings from the investment of the initial transfer may be used only for physician recruitment and reasonable and necessary expenses of the entity. The financial statements of The Grider Initiative, Inc. have been prepared on an accrual basis. The annual financial report can be obtained by writing to: Chair, The Grider Initiative, Inc. 424 Main Street, Suite 2000, Buffalo, NY 14202.

Research for Health in Erie County, Inc. **-** Research for Health in Erie County, Inc. ("RHEC") is a nonprofit organization dedicated to developing and improving the facilities of the public health institutions, agencies, and departments of the County. Additionally, RHEC is committed to provide more extensive conduct of studies and research into the causes, nature, and treatment of diseases, disorders, and defects of particular importance to the public health. RHEC's support comes primarily from various grants from federal, state, and other agencies. RHEC is exempt from income tax as a not-for-profit corporation under Section 501(c)(3) of the Internal Revenue Code and is incorporated under the laws of the State of New York. The financial statements of RHEC have been prepared on an accrual basis. The annual financial report can be obtained by writing to: Grant Administration, Research for Health in Erie County, Inc., 462 Grider Street, Buffalo, NY 14215.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting **-** The Corporation uses the accrual basis of accounting. Revenue is recognized in the period it is earned and expenses are recognized in the period incurred.

For financial accounting and reporting purposes, the Corporation follows all pronouncements of the Governmental Accounting Standards Board ("GASB"), as well as the pronouncements of the Financial Accounting Standards Board ("FASB"), including those FASB pronouncements issued after November 30, 1989 that do not conflict with or contradict GASB pronouncements.

All references to relevant authoritative literature issued by both the GASB or the FASB with which the Corporation must comply are hereinafter referred to generally as "U.S. GAAP".

Use of Estimates **-** The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. The reserve for uncollectible accounts, contractual allowances, amounts payable to third-party payors, workers compensation, malpractice reserves and self-insured retiree health benefits, among other accounts, require the significant use of estimates. Actual results could differ from those estimates.

Cash and Cash Equivalents **-** The Corporation's cash and cash equivalents include cash on hand and cash in checking and money market accounts. Monies deposited in Federal Deposit Insurance Corporation insured commercial banks are collateralized with specifically designated securities held by a pledging financial institution, as required by State regulations.

Fair Value of Financial Instruments **-** The Corporation's financial instruments consist of cash, investments, and any short-term debt. The carrying amounts of these financial instruments approximate their fair value due to the short-term nature of the financial instruments.

Patient Accounts Receivable **-** Patient accounts receivable are reported net of both an estimated allowance for contractual adjustments and an estimated allowance for uncollectible accounts. The contractual allowance represents the difference between established billing rates and estimated reimbursement from Medicare, Medicaid and other third party payor programs. Current operations are charged with an estimated provision for bad debts estimated based on the age of the account, prior experience and any other circumstances which affect collectibility. 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, 2011 and 2010 was approximately $22,912 and $23,145, respectively.

Investments and Assets Whose Use is Limited – Such assets are comprised of cash and equivalents, including time deposits and money market funds, fixed income securities, commercial paper, and equity funds. Assets classified as investments are unrestricted. Assets classified as limited as to use are restricted under Board designation or terms of agreements with third parties and include unspent proceeds from 2011 bond financing, debt service funds, funds for self-insured workers compensation costs and medical malpractice costs, patient and resident monies, funding for future retiree health costs, and funds limited as to use for the acquisition of property, plant and equipment. Also included is $20,000, partially held in escrow by a financial institution, designated by resolution of the Board for investment in Kaleida Health's Gates Vascular Institute being constructed and near completion on the Buffalo Niagara Medical Campus. Funds in escrow will be liquidated in concert with the progress of construction, with the Corporation receiving securities guaranteed by Governmental National Mortgage Association and insured by the U.S. Department of Housing and Urban Development.

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NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other Receivables – The composition of other receivables, as of December 31, 2011 and 2010, respectively, is as follows:

	2011	2010
Disproportionate share revenue (DSH)	$ 42,761	$ 43,369
Receivables from Erie County	1,664	1,848
Capital project receivable from Erie County	3,624	-
Other receivables	3,632	4,239
	$ 51,681	$ 49,456

Inventories **-** Inventories are valued using the average cost method.

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, significant renewals and betterments are capitalized. During periods of construction the Corporation capitalizes interest incurred with borrowings for construction. Included within construction in progress is $1,106 of interest at December 31, 2011 ($0 - 2010).

The Corporation regularly assesses all of its capital assets for impairment and recognizes a loss when the carrying value of an asset exceeds its fair value. The Corporation has determined no impairment loss need be recognized for applicable capital assets in the years ended December 31, 2011 and 2010.

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

Other Assets – Ownership interests in various business enterprises and deferred bond financing costs are included in other assets. Deferred financing costs are being amortized over the term of the related indebtedness using the straight-line method, which is not materially different from the effective interest method.

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 assets at December 31, 2011 and 2010, within the caption accrued salaries, wages and employee benefits in the amount of approximately $9,006 and $8,965, respectively.

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NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Self-Insured Obligations - Medical Malpractice, Workers' Compensation and Other Post-Employment Benefits (OPEB) - The Corporation is self-insured for all medical malpractice and workers' compensation claims for occurrences on or after January 1, 2004, and pursuant to agreement with the County, the County has agreed to provide the Corporation indemnification for malpractice related exposures of up to $1,000 for both 2007 and 2006. Approximately $510 and $859 of indemnification remains available for 2007 and 2006, respectively. Additionally, the Corporation purchased excess insurance for medical malpractice effective November 2008. The policy provides $20,000 of coverage in excess of $5,000 of individual claims or $7,000 in aggregate claims. The County has assumed liabilities for all occurrences originating prior to 2004. Eligible retirees are provided basic medical and hospitalization coverage by the Corporation.

The composition of self insured obligations as of December 31, 2011 and 2010, respectively, is as follows:

	2011	2010
Medical malpractice (Note 12)	$ 22,900	$ 18,600
Workers compensation (Note 12)	29,300	23,900
Other Post-Employment Benefits (Note 10)	88,566	74,979
Other	2,999	2,850
	143,767	120,329
Less current portion	7,500	6,500
	$ 136,267	$ 113,829

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

> *Invested in Capital Assets, Net of Related Debt* - This represents the Corporation's total investment in capital assets, net of outstanding debt obligations related to those assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.
>
> *Restricted* - This includes assets in which the Corporation is legally or contractually obligated to spend in accordance with restrictions imposed by third parties.
>
> *Unrestricted* - This represents resources derived from services rendered to patients and other operating revenues. These resources are used for transactions relating to the general health care operations of the Corporation, and may be used at the discretion of the Board of Directors to meet current expenses for any purpose.

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

Charity Care - The Corporation provides care to patients who meet certain criteria under its charity care policy, without charge or at amounts less than established rates. Because the Corporation does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue in the accompanying Statements of Revenues, Expenses, and Changes in Net Assets. The estimated costs of caring for charity care patients were $12,485 for the year ended December 31, 2011 ($11,563 - 2010) as measured utilizing a calculated ratio of costs to charges.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

Operating Revenues - Operating revenues include activities that have the characteristics of exchange transactions, such as payments for providing services and payments for goods and services received, for health care services provided to patients, net of contractual allowances and provisions for bad debts.

Non-operating Revenues – Non-operating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, income from investments and contributions.

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

Contributed Services **-** RHEC receives contributions from the Corporation consisting primarily of donated space, equipment, and personnel support. During 2011 and 2010, the value of contributed services meeting the requirements for recognition in the financial statements was not material and has not been recorded.

Certain immaterial amounts related to contributed rents have been reflected in the Foundation financial statements as contributed services. The Foundation generally pays for services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Foundation in meeting its goals and objectives.

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

Foundation Component Unit **-** For purposes of the statements of cash flows, the Foundation considers all highly liquid investments available for use with an initial maturity of three months or less to be cash equivalents. Cash and cash equivalents designated for long-term purposes or received with donor-imposed restrictions limiting their use to long-term purposes are not considered cash and cash equivalents for purposes of the statements of cash flows.

Physician Endowment Component Unit **-** For purposes of the statement of cash flows, the Physician Endowment considers all highly liquid investments available for current use with an initial maturity of three months of less to be cash equivalents. This includes money market accounts. Cash, cash equivalents and investments received with donor-imposed restrictions and held in trust, are not considered cash and cash equivalents for purposes of the statement of cash flows. Included in the 2011 and 2010 accounts of the physician endowment are $(584) and $113 equity transfers from the Corporation which were not settled in cash.

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NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Reclassifications **-** Certain reclassifications have been made to the 2010 financial statements to conform to the current year financial statement presentation. Such reclassifications did not affect total assets, total liabilities or total net assets.

Subsequent Event **-** These financial statements have not been updated for subsequent events occurring after March 27, 2012 which is the date these financial statements were available to be issued.

NOTE 3. NET PATIENT SERVICE REVENUE

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

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

Medicaid - Inpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates promulgated by the New York State Department of Health (DOH). Outpatient services are paid at fee schedule amounts determined by New York State.

Net patient service revenue for the years ended December 31, 2011 and 2010 is as follows:

	2011		2010	
	Amount	**%**	**Amount**	**%**
Medicare	$ 119,861	35.0%	$ 102,362	30.0%
Medicaid	109,140	31.9	114,947	33.7
Other third party payors	105,207	30.7	112,411	33.0
Self-pay	8,075	2.4	11,093	3.3
	$ 342,283	100.0%	$ 340,813	100.0%

NOTE 3. NET PATIENT SERVICE REVENUE (CONTINUED)

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

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.

The Erie County Home and the hospital-based skilled nursing facility receive payments from the Medicaid and Medicare programs. Effective April 1, 2009, legislation required DOH to revise its reimbursement formula for the Medicaid rates paid to skilled nursing facilities. During the year ended December 31, 2011, DOH paid rates for 2011 and made retroactive payments to providers for the period April 1, 2009 through December 31, 2010 which incorporated the changes to the reimbursement formula. Effective January 1, 2012 a new regional reimbursement formula will take effect. The details of this methodology have not been finalized. Provisions for estimated third-party payor settlements are provided in the period the related services are rendered. Differences between the estimated amounts accrued and final settlements are reported in operations in the year of settlement.

NOTE 4. DISPROPORTIONATE SHARE (DSH) REVENUE

The Medicaid Disproportionate Share (DSH) program is designed to provide Federal funds to certain hospitals to help offset the cost of uncompensated care provided to the uninsured. Each state has a specified Federal DSH allotment. In addition, New York State law authorizes the Department of Health to make supplemental DSH medical assistance payments to public hospitals located in Erie County, Nassau County, and Westchester County.

In 2011 and 2010, DSH funding recorded by the Corporation totaled approximately $60,572 and $53,444, 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 in 2011, $55,109 ($36,602 – 2010) of DSH revenue was recognized. Losses from providing hospital services to Medicaid and indigent care patients grew significantly resulting in higher DSH revenue. In addition, the Corporation recognized approximately $5,463 ($16,842 – 2010) of DSH revenue for the Erie County Home ($5,330) and the hospital-based skilled nursing unit ($133). The Upper Payment Limit ("UPL") for New York State fiscal years 2011-2012 for public nursing homes was not established. As a result, DSH revenue for the long term care units are estimates.

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NOTE 4. DISPROPORTIONATE SHARE (DSH) REVENUE (CONTINUED)

In addition, CMS has indicated that cost reports dating back to the 2009 reporting year and the methodology employed to calculate DSH revenue are subject to audit. It is possible that CMS may change the calculation method for DSH determination. At this time, the impact of the CMS audit activity on the Corporation's DSH revenue is not known. Management has taken what it believes to be reasonable and appropriate steps to assure compliance with the CMS proposed methodology.

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

Unrestricted Cash and Cash Equivalents and Investments - The Corporation's investments are made in accordance with State regulations and its own investment guidelines.

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

The carrying amounts of cash and cash equivalents, investments and assets whose use is limited are included in the Corporation's Statement of Net Assets as follows:

	2011	2010
Cash and cash equivalents	$ 38,854	$ 15,845
Investments	46,306	72,657
Assets whose use is limited – current	107,429	23,551
Assets whose use is limited – non-current	113,762	99,921
	$ 306,351	$ 211,974
Current portion of assets whose use is limited:		
Patient and residents trust cash	$ 420	$ 654
Restricted for debt service (a)	1,947	1,397
Construction funds (b)	82,562	-
Designated for self insurance obligations (d)	7,500	6,500
Designated for acquisition of capital assets (d)	15,000	15,000
Total current portion of assets whose use is limited	$ 107,429	$ 23,551
Noncurrent portion of assets whose use is limited:		
Restricted for debt service reserve (a)	$ 8,903	$ 8,897
Designated for long-term investment (c)	22,934	21,195
Designated for retiree health obligations (d)	27,225	23,829
Designated for self insurance obligations (d)	44,700	36,000
Designated for acquisition of capital assets (d)	10,000	10,000
Total noncurrent portion of assets whose use is limited	$ 113,762	$ 99,921

(000's OMITTED)

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

(a) - funds restricted by operation of indenture agreement
(b) - unspent bond proceeds - construction project
(c) - funds restricted by operation of legal agreements
(d) - funds internally designated by operation of board and management authority

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

2011	Unrestricted Assets	Restricted Assets	Total
Interest and dividends	$ 3,886	$ 510	$ 4,396
Realized gains/(losses)	148	-	148
Unrealized gains (losses)	(2,780)	-	(2,780)
Investment income	$ 1,254	$ 510	$ 1,764

2010	Unrestricted Assets	Restricted Assets	Total
Interest and dividends	$ 3,806	$ 335	$ 4,141
Realized gains/(losses)	2,100	-	2,100
Unrealized gains (losses)	1,045	-	1,045
Investment income	$ 6,951	$ 335	$ 7,286

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

Credit Risk - Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligation, causing the Corporation to experience a loss of principal.

Custodial Credit Risk - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Corporation will not be able to recover the value of its investment or collateral securities that are in possession of an outside party.

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

Fair Value of Financial Instruments - Fair value under US GAAP is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. US GAAP for fair value applies to all assets and liabilities that are being measured and reported on a fair value basis. US GAAP requires disclosure that establishes a framework for measuring fair value and disclosure about the methods by which fair value measurements are made. This enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. Assets and liabilities carried at fair value are required to be classified and disclosed in one of the following three categories:

(000's OMITTED)

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

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

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

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

	2011		
	Level I	**Level II**	**Total**
Cash and cash equivalents	$ 38,854	$ -	$ 38,854
Investments, assets whose use is limited:			
Cash and cash equivalents	70,473	-	70,473
Commercial paper	62,120	-	62,120
Marketable equity securities:			
Mid-Cap core equities	2,001	-	2,001
Mid-Cap value equities	1,945	-	1,945
Value equities	4,057	-	4,057
Growth equities	11,229	-	11,229
Global core equities	5,898	-	5,898
	25,130	-	25,130
Short-term fixed income	-	46,908	46,908
Corporate bonds	-	43,954	43,954
Government bonds	18,912	-	18,912
Total investments	176,635	90,862	267,497
Total	$ 215,489	$ 90,862	$ 306,351

(000's OMITTED)

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

	2010		
	Level I	**Level II**	**Total**
Cash and cash equivalents	$ 15,845	$ -	$ 15,845
Investments, assets whose use is limited:			
Cash and cash equivalents	25,713	-	25,713
Commercial paper	30,899	-	30,899
Marketable equity securities:			
Mid-Cap core equities	2,003	-	2,003
Mid-Cap value equities	2,051	-	2,051
Value equities	3,946	-	3,946
Growth equities	11,806	-	11,806
Global core equities	5,734	-	5,734
	25,540	-	25,540
Long term fixed income	-	11,612	11,612
Short-term fixed income	-	46,059	46,059
Corporate bonds	-	40,085	40,085
Government bonds	16,221	-	16,221
Total investments	98,373	97,756	196,129
Total	$ 114,218	$ 97,756	$ 211,974

Foundation Component Unit - Assets who use is limited at December 31, 2011 and 2010 are as follows:

	2011	**2010**
Limited use assets, including $50 of endowment assets, held in a money market account. These assets are carried at fair market value, which approximates cost.	$ 1,033	$ 1,557

Physician Endowment Component Unit - Physician endowment component unit investments at December 31, 2011 and 2010 are as follows:

	2011	**2010**
Endowment investment, held in a money market account and insurance contract, which is restricted for other purposes. These assets are carried at fair market value, which approximates cost.	$ 10,000	$ 10,000

RHEC Component Unit – Investments at December 31, 2011 and 2010 are as follows. These assets are carried at fair market value, which approximates cost.

(000's OMITTED)

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

	2011	2010
Certificates of deposit	$ -	$ 100
Money market accounts	1,120	986
Total	$ 1,120	$ 1,086

NOTE 6. CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2011 and 2010 is as follows:

	2011			
	Beginning Balance	Additions	Disposals/ Transfers	Ending Balance
Capital assets – not being depreciated – Construction in progress	$ 13,184	$ 74,792	$ (19,663)	$ 68,313
Capital assets – being depreciated:				
Land and land improvements	998	322	-	1,320
Buildings and improvements	226,238	124	19,663	246,025
Fixed equipment	2,109	26	-	2,135
Major moveable equipment	99,553	7,403	-	106,956
Total capital assets – being depreciated	328,898	7,875	19,663	356,436
Less accumulated depreciation	246,351	15,383	-	261,734
Total capital assets – being depreciated – net	82,547	(7,508)	19,663	94,702
Capital assets – net	$ 95,731	$ 67,284	$ -	$ 163,015

(000's OMITTED)

NOTE 6. CAPITAL ASSETS (CONTINUED)

	2010			
	Beginning Balance	Additions	Disposals/ Transfers	Ending Balance
Capital assets – not being depreciated – Construction in progress	$ 1,216	$ 11,968	$ -	$ 13,184
Capital assets – being depreciated:				
Land and land improvements	2,888	-	1,890	998
Buildings and improvements	221,228	10,128	5,118	226,238
Fixed equipment	3,516	5	1,412	2,109
Major moveable equipment	147,949	10,283	58,679	99,553
Total capital assets – being depreciated	375,581	20,416	67,099	328,898
Less accumulated depreciation	298,790	14,010	66,449	246,351
Total capital assets – being depreciated – net	76,791	6,406	650	82,547
Capital assets – net	$ 78,007	$ 18,374	$ 650	$ 95,731

Construction in progress in 2011 and 2010 includes costs associated with site preparation work as part of a campus expansion project. As part of the Campus Expansion Project the Corporation has purchase commitments totaling $103,000 as of December 31, 2011. A portion of this commitment has been paid and is included in construction in progress.

The Corporation reviewed its capital asset subsidiary records in 2010, primarily to verify existence and in-use status of fully depreciated and older capital assets with book value remaining. As a result of the review, approximately $67,100 of capital assets cost and $66,450 of accumulated depreciation were removed from the records, resulting in a loss on disposal of $650. No capital assets were written off in 2011.

NOTE 7. OTHER ASSETS

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

***Univera Community Health, Inc*. -** The Corporation was a partner through September 30, 2010 in this venture which provides prepaid health insurance products to underinsured residents in Erie County, New York. The Corporation has an asset recorded at $250 at December 31, 2011 and 2010 which represents its initial capital contribution to the venture. Return of this capital is pending regulatory approval. As the timing of the repayment is uncertain, management has reflected this amount in other non-current assets in the accompanying financial statements.

(000's OMITTED)

NOTE 7. OTHER ASSETS (CONTINUED)

***ECMCC Strategic Services LLC* -** The Corporation is the sole owner of this enterprise, which was established to enable the Corporation to enter into various other business relationships. The accounts of ECMCC Strategic Services, LLC are fully consolidated into the accounts of the Corporation as of and for the years ended December 31, 2011 and 2010. The assets of ECMCC Strategic Services LLC consist substantially of cash of approximately $612 and $640 at December 31, 2011 and 2010, respectively. Net assets of this entity are approximately $621 and $650 at December 31, 2011 and 2010, respectively. ECMCC Strategic Services LLC owns Greater Buffalo Niagara SC Venture, LLC. That ownership interest is accounted for by ECMCC Strategic Services LLC utilizing the equity method of accounting.

***Greater Buffalo Niagara SC Venture, LLC* -** This entity was formed by ECMCC Strategic Services LLC and outside physicians for the purpose of constructing an ambulatory surgery center in the town of Amherst. This project is no longer being contemplated. This entity has not conducted any substantial business activities in 2011 or 2010, and is currently inactive.

***Grider Community Gardens, LLC* -** This entity is wholly owned and controlled by the Corporation. The Corporation's net investment as of December 31, 2011 and 2010 is approximately $312 and $351, respectively, and is reflected in other non-current assets of the accompanying financial statements.

Deferred Financing Costs – Included in other assets is deferred financing costs of various serial bond issuance fees. These costs are being amortized over the term of the related indebtedness using the straight-line method which is not materially different from the effective interest method. Accumulated amortization approximated $785 and $665 at December 31, 2011 and 2010, respectively. Amortization expense for 2011 through 2015 will approximate $156 annually.

NOTE 8. ACCRUED OTHER LIABILITIES

The composition of accrued other liabilities as of December 31, 2011 and 2010, respectively, is as follows:

	2011	2010
Due to Erie County	$ 16,599	$ 3,526
Workers compensation claims	6,000	5,500
Medical malpractice claims	1,500	1,000
Interest payable	861	908
Cash receipt assessments payable	695	551
Funds held in custody for others	543	1,475
Other	585	639
Total	$ 26,783	$ 13,599

(000's OMITTED)

NOTE 9. INDEBTEDNESS

Long-term Debt **-** During 2011, the Corporation entered into a loan agreement with the County of Erie, with the assistance of the Erie County Fiscal Stability Authority, to borrow $96,864 in August 2011, the proceeds of which are to be used to finance construction of a new residential health care facility and related infrastructure on the Grider campus. The facility is expected to be completed in early 2013.

Long-term debt consisted of the following at December 31, 2011 and 2010, respectively:

	2011	2010
Erie County – Guaranteed Senior Revenue Bonds, Series 2004 (4.1% - 5.7% at December 31, 2011 and 2010, respectively)	$ 94,900	$ 97,150
Erie County – Senior Revenue Bonds, Series 2011 (3.7% at December 31, 2011)	96,639	-
	191,539	97,150
Less current portion	4,249	2,250
	$ 187,290	$ 94,900

For the Series 2004 Bonds, principal payments are due annually on November 1 with interest payments due semi-annually on May 1 and November 1.

For Series 2011 Bonds, an interest only payment was due November 1, 2011 with monthly principal and interest due thereafter, commencing December 1, 2011.

Future annual principal payments applicable to long term debt for the years subsequent to December 31, 2012 are as follows:

2013	$ 6,936
2014	7,226
2015	7,527
2016	7,860
2017-2021	44,857
2022-2026	55,789
2027-2031	43,045
2032-2033	14,050
Total	$ 187,290

The Series 2004 Bonds are secured by a pledge of the gross receipts of the Corporation and amounts on deposit in certain debt service reserve funds. The Bonds contain certain financial covenants which the Corporation is compliant with as of December 31, 2011 and 2010.

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.

NOTE 9. INDEBTEDNESS (CONTINUED)

The 2011 Series Bonds have a final maturity of October 1, 2028. The Bonds are not guaranteed by the County of Erie. The loan agreement with the County includes Reserve Trigger Event terms if certain requirements are not met by the Corporation. The Corporation met these requirements as of December 31, 2011.

NOTE 10. RETIREMENT AND POST-EMPLOYMENT BENEFITS

Retirement Plan

The Corporation participates in the New York State and Local Employees' Retirement System (the "System"). This is a cost-sharing multiple-employer retirement system. The System provides retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law ("NYSRSSL"). As set forth in the NYSRSSL, the Comptroller of the State of New York (the "Comptroller") serves as sole trustee and administrative head of the System. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the System and for custody and control of its funds. The System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement System, Gov. Alfred E. Smith State Office Building, Albany, NY 12244.

The System is noncontributory except for employees who joined the System after July 27, 1976, who contribute 3% of their salary. The Corporation is required to contribute, at an actuarially determined rate, with payment due February 1 each year, for the retirement year ending each subsequent March 31.

Retirement expense for 2011 and 2010 amounted to approximately $22,000 and $16,000, respectively.

Other Post-Employment Benefits

The Corporation adopted the provisions of accounting for post-employment benefits other than pensions in accordance with U.S. GAAP which establishes standards for the measurement, recognition, and display of Other Post-employment Benefits ("OPEB") expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. These standards provide relevance and usefulness of financial reporting by 1) recognizing the cost of benefits in periods when the related services are received by the employer; 2) providing information about the actuarial accrued liabilities for promised benefits associated with past services and whether and to what extent those benefits have been funded; and 3) providing information useful in assessing potential demands on the employer's future cash flows. Prior to January 1, 2007, the Corporation recognized and financed these benefits on a pay-as-you-go basis. Effective January 1, 2007, the Corporation adopted GASB 45 *Accounting and Financial Reporting by Employers for Post-Employment Benefits*, which resulted in a change in accounting for OPEB.

Plan Description

The Corporation provides Other Post-employment Benefits (OPEB) that provides 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 retire with at least five years of service and must be at least age 55, unless approved for disability retirement by the Plan Administrator. The Corporation pays varying amounts based on specific union agreements.

(000's OMITTED)

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

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 moneys 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 $27,225 in 2011 and $23,829 in 2010 for purposes of funding future post-employment benefits. These internally designated funds are included within assets whose use is limited. In addition to the funding for future post-employment benefits, the Corporation continues to finance current benefits on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation

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

The following table shows the components of the Corporation's annual OPEB cost for the year 2011, 2010 and 2009, the amount actually contributed to the plan, and changes in the net OPEB obligation:

	2011	2010	2009
Annual OPEB Cost and Net OPEB Obligation			
Annual Required Contribution	$ 19,023	$ 20,753	$ 13,971
Interest on Net OPEB Obligation	3,561	2,797	1,014
Adjustment to Annual Required Contribution	(3,202)	(2,514)	(1,349)
Annual OPEB Cost	19,382	21,036	13,636
Contributions made	(5,795)	(4,947)	(607)
Increase in Net OPEB Obligations prior to County settlement	13,587	16,089	13,029
Impact of County Settlement Agreement (see Note 11)	-	-	24,518
Net OPEB Obligation – beginning of year	74,979	58,890	21,343
Net OPEB Obligation – end of year	$ 88,566	$ 74,979	$ 58,890

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

	2011	2010	2009
Annual OPEB Cost	$ 19,382	$ 21,036	$ 38,154
Percentage of Annual OPEB Cost contributed	29.9%	23.5%	16.8%
Net OPEB Obligation at end of year	$ 88,566	$ 74,979	$ 58,890

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

Actuarial Method and Assumptions

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

In the January 1, 2011 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4.75% investment rate of return, which is the projected long-term earning rate of the assets expected to be available to pay benefits. Since the Corporation does not currently segregate funding for these benefits, the appropriate rate is the expected return on the Corporation's general assets. Actuarial assumptions included an annual healthcare cost trend rate of 9.0% initially, reduced by decrements to an ultimate rate of 5.0% for the pre-65 plan and an initial rate of 7.5%, reduced by decrements to an ultimate rate of 5.0% for the post-65 plan over ten years. An assumed initial rate of 8.0%, reduced by decrements to an ultimate rate of 5.0% was used for the prescription drug plan over ten years. All rates included a 3.0% inflation assumption. The UAAL is being amortized as a level percentage of projected payroll. The payroll growth rate is assumed to be 3.25%. The amortization period is 30 years.

NOTE 11. TRANSACTIONS WITH THE COUNTY OF ERIE

Settlement Agreement

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

(i) The transfer of land and buildings on the Grider Street Campus;

(ii) A commitment from the County of $11,500 to defray costs of construction of a new 390-bed Erie County Home, which was recognized in 2011;

(iii) The County agreed to provide annual payments to the Corporation in the amount of $16,200, in perpetuity;

(iv) The Corporation agreed to provide the County with a credit for excess operating support provided in 2006 and 2007. The excess support totaled $19,876, (subsequently amended to $20,916). In any calendar year when the County is required to provide Disproportionate Share ("DSH") and/or Upper Payment Limit ("UPL") funding in excess of the $16,200, the County may request that the Corporation reimburse the County, from the excess operating support fund, the difference between the amount paid by the County and $16,200. The Corporation agrees to provide reimbursement to the County only for so long as there remains a credit balance in the excess operating support fund. Once the credit is exhausted, the County will be obligated to provide annual payments in the amount of $16,200, or actual annual, combined County DSH and UPL payments, whichever is greater. In 2011, the DSH payment again exceeded $16,200 and as a result the balance of the credit, $15,172 was due the County at year end 2011, and was paid in early 2012. In 2010, the DSH payments exceeded $16,200 and the Corporation paid the County $5,744 from the excess operating support credit;

NOTE 11. TRANSACTIONS WITH THE COUNTY OF ERIE (CONTINUED)

(v) The Corporation released the County from any obligation the County may have to reimburse the Corporation for the costs or expenses of providing retiree health insurance benefits to County vested Corporation employees. The County remains responsible for retiree health insurance related to all County employees at the Corporation who retired on or before December 31, 2003; and

(vi) The County shall remain guarantor of the Corporation's 2004 Senior Revenue Bonds.

Other Transactions

Amounts that are included in operating revenues and expenses in the statements of revenues, expenses, and changes in net assets, which represent related-party transactions that occurred between the Corporation and the County during the years ended December 31, 2011 and 2010, are as follows:

The Corporation earned revenue totaling $3,595 and $3,167 for the years ended December 31, 2011 and 2010 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 Corporations physical plant. The Corporation expenses incurred for services provided by the county totaled $913 and $841 for the years ended December 31, 2011 and 2010 respectively. Expenses incurred include services for buildings and ground maintenance, personnel, information, legal, and social services.

Capital appropriations due from the County at December 31, 2011 and 2010 included in the Statements of Net Assets are non-interest bearing and reflect capital commitments of approximately $0 and $1,011, respectively, due to the Corporation from the County.

In 2011, capital commitments totaling $1,011 from Erie County, remaining for projects previously completed or ultimately never initiated, recorded in prior periods are receivable were written off as no longer collectible as "settlements with Erie County" in non-operating transactions with related party.

Contributions received by the Corporation from the County for investment in capital assets were $322 and $502 in 2011 and 2010, respectively. Additional capital commitments outstanding from the County to the Corporation total approximately $0 and $2,640 at December 31, 2011 and 2010, respectively. Such commitments shall be recognized in the financial statements when the resources are received by the Corporation.

The net amount due from (due to) the County of approximately $(237) and $1,678 at December 31, 2011 and 2010, respectively, are non-interest bearing and reflect the Corporation's net amount owed to the County as a result of various transactions and services between parties and are exclusive of EOS credits due to the County and capital appropriations due from the County.

The majority of the Corporation's employees are members of the County's collective bargaining units. As of December 31, 2011, the Civil Service Employees Association members are working under the terms of an expired contract. The New York State Nurses Association members ratified a new contract December 2008, which expired in December 2011. The American Federation of State, County, and Municipal Employees members ratified a new contract in October 2009, which expires in December 2015.

NOTE 12. SELF INSURED OBLIGATIONS

The Corporation is self-insured for medical malpractice and workers compensation related exposures for incidents occurring in 2004 and thereafter. The County has assumed malpractice and workers compensation liabilities, both asserted and unasserted, for periods 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.

Pursuant to a Consent Decree, the County has agreed to provide the Corporation indemnification for malpractice related exposures of up to $1,000 for both 2007 and 2006. Such indemnification is limited to claims occurrences, in the aggregate, of up to $1,000, for each of 2007 and 2006. Approximately $510 and $859 of indemnification remains available for 2007 and 2006, respectively.

The Corporation has accrued approximately $22,900 and $18,600 at 2011 and 2010, respectively, for medical malpractice related exposures. Such amounts have been discounted at 2.75% for 2011 and 3.25% for 2010, respectively, and the accrued liabilities are included within the self-insurance obligations caption of the accompanying statement of net assets. Charges to expense for medical malpractice costs approximated $4,600 and $6,400 in 2011 and 2010, respectively and are included within the other operating expenses caption of the accompanying statement of revenues, expenses and changes in net assets.

The Corporation has accrued approximately $29,300 and $23,900 at 2011 and 2010, respectively, for workers compensation related exposures. Such amounts have been discounted at 1.75% and 2.5%, respectively and the liabilities are included within the self-insurance obligations caption of the accompanying statement of net assets. Charges to expense for workers compensation costs approximated $11,200 and $9,100 in 2011 and 2010, respectively and are included within the payroll, employee benefits and contract labor caption of the accompanying statement of revenues, expenses and changes in net assets.

The Corporation is effectively self-insured for employee and retiree health costs. The Corporation participates in a multi-employer risk sharing arrangement that includes other local government employers. The Corporation has accrued approximately $92,000 and $78,000 at 2011 and 2010, respectively, for employee and retiree health related costs. Charges to expense for employee and retiree health related costs approximated $50,000 and $48,000 in 2011 and 2010, respectively and are included within the payroll, employee benefits and contract labor caption of the accompanying statement of revenues, expenses and changes in net assets.

(000's OMITTED)

NOTE 13. CONCENTRATIONS 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, 2011 and 2010 is as follows:

	2011	2010
Medicaid	32%	27%
Medicare	25	28
Commercial insurance and HMO's	24	20
No-fault	1	9
Self-pay	9	4
Other	9	12
Total	100%	100%

***Foundation Component Unit* -** The Foundation maintains cash balances at a financial institution in excess of Federal Deposit Insurance Corporation ("FDIC") insured amounts. Accounts are maintained only with reputable financial institutions, and the Foundation has not experienced any losses of funds in excess of FDIC insured limits.

Physician Endowment Component Unit – The Physician Endowment maintains its endowed funds in a Money Market account in an amount in excess of FDIC insured limits. The Money Market account along with an operating account, are maintained with a reputable regional financial institution. The endowment has not experienced any losses of funds in excess of the FDIC insured limit.

***RHEC Component Unit* -** Investments are not insured by the FDIC. RHEC maintains cash balances at a financial institution, periodically in excess of Federal Deposit Insurance Corporation ("FDIC") insured amounts. Accounts are maintained only with reputable financial institutions. RHEC has not experienced any loss of funds in excess of FDIC insured limits.

NOTE 14. COMMITMENTS AND CONTINGENCIES

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

(000's OMITTED)

NOTE 14. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Loss contingency liabilities are recorded in accordance with U.S. GAAP, which requires recognition of a loss when it is deemed probable that an asset has been impaired or a liability has been incurred, and the amount of the loss can be reasonably estimated. As of December 31, 2011 and 2010 the Corporation has recorded no loss contingencies except as disclosed in Note 12.

The Corporation leases various equipment and facilities under operating leases expiring at various dates through January 2014. Total rental expense for all operating leases was approximately $2,000 in both 2011 and 2010.

The following is a schedule by year of future minimum lease payments under operating leases as of December 31, 2011 that have initial or remaining lease terms in excess of one year:

2012	$	702
2013		676
2014		429
2015		321
2016		95
	$	2,223

* * * *

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

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

Actuarial Valuation Date	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
January 1, 2011	$ 232,782	$ 232,782	$ 115,844	201.0%
January 1, 2010	$ 243,940	$ 243,940	$ 121,264	201.2%
January 1, 2009	$ 249,892	$ 249,892	$ 121,116	206.3%

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

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

We have audited the financial statements of Erie County Medical Center Corporation (a component unit of the County of Erie) (the "Corporation") as of and for the year ended December 31, 2011, and have issued our report thereon dated March 27, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Corporation is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Erie County Medical Center Corporation's financial statements are free of 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*.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, and federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Freed Maxick CPAs, P.C.

Buffalo, New York
March 27, 2012

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

SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2011

I. SUMMARY OF AUDITOR'S AUDIT RESULTS

Financial Statements

Type of Auditor's Report(s) Issued:	Unqualified			
Internal control over financial reporting:				
Material weakness(es) identified?	_______	Yes	_____X	No
Significant deficiencies identified that are not considered to be material weakness(es)	_______	Yes	_____X	None Reported

II. FINDINGS – FINANCIAL STATEMENT AUDIT

There were no findings during the financial statement audit.