FINANCIAL STATEMENTS IN ACCORDANCE WITH OMB CIRCULAR A-133
EIN: 83-0382654

ERIE COUNTY MEDICAL CENTER CORPORATION

(A COMPONENT UNIT OF THE COUNTY OF ERIE)

DECEMBER 31, 2012

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

Report on the Financial Statements

We have audited the accompanying financial statements of Erie County Medical Center Corporation (a component unit of the County of Erie) (the "Corporation") and the aggregate discretely presented component units, which comprise the statements of net positions as of December 31, 2012 and 2011, and the related statements of revenues, expenses and changes in net positions and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective net position of the Corporation and the aggregate discretely presented component units as of December 31, 2012 and 2011, and the respective results of its operations and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2013 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

Freed Maxick CPAs, P.C.

Buffalo, New York
March 26, 2013

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2012
(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, 2012. 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 three parts: management's discussion and analysis, the basic financial statements, and supplemental schedules. The financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) Codification 2200, Comprehensive Annual Financial Report.

The financial statements (the statements of net positions, statements of revenues, expenses and changes in net positions 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 services are provided or obligations incurred, regardless of when cash is exchanged.

The statement of net positions includes all assets and liabilities. Over time, increases and decreases in net positions (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 positions 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 certain transactions with the County of Erie ("Erie County" or "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. The Corporation is considered a component unit of Erie County.

FINANCIAL HIGHLIGHTS:

The Corporation's total net positions increased $11,939 in 2012 and decreased $1,517 in 2011. The increase in net positions is primarily due to investment earnings while transactions with Erie County resulted in the decrease. The current ratio was 1.6 for 2012 and 1.9 for 2011 - a favorable result compared to most New York State hospitals. Total assets decreased $23,937 and increased $164,413 in 2012 and 2011, respectfully. Total liabilities decreased by $35,876 and increased $165,930 in 2012 and 2011, respectfully. Assets and liabilities decreased primarily due to postponed receipt of disproportionate share (DSH) funding to the first quarter of 2013. The increase in 2011 assets and liabilities is primarily due to a 2011 loan agreement with Erie County to finance a new 390-bed long term care replacement facility.

SUMMARY FINANCIAL INFORMATION WITH ANALYSIS:

Statement of Net Positions:

Net positions are categorized as follows:

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

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

Assets	**2012**	**2011**	**Change**	**2010**	**Change**
Current assets	$ 164,944	$ 289,307	$ (124,363)	$ 207,411	$ 81,896
Assets whose use is limited	127,162	113,762	13,400	99,921	13,841
Capital assets, net	247,113	163,015	84,098	95,731	67,284
Other assets	7,402	4,474	2,928	3,082	1,392
Total assets	$ 546,621	$ 570,558	$ (23,937)	$ 406,145	$ 164,413
Liabilities					
Current liabilities	$ 100,002	$ 148,903	$ (48,901)	$ 97,801	$ 51,102
Noncurrent liabilities	336,582	323,557	13,025	208,729	114,828
Total liabilities	436,584	472,460	(35,876)	306,530	165,930
Net Positions					
Invested in capital assets	92,906	67,836	25,070	14,855	52,981
Restricted	11,069	10,850	219	11,304	(454)
Unrestricted	6,062	19,412	(13,550)	73,456	(54,044)
Total net positions	110,037	98,098	11,939	99,615	(1,517)
Total liabilities and net positions	$ 546,621	$ 570,558	$ (23,937)	$ 406,145	$ 164,413

Delayed funding from New York State of DSH amounts lowered cash and total assets in 2012. The Corporation's increase in 2011 assets was the result of investment in capital assets. The Corporation's $200 million master facility plan involved borrowing $96,864 through Erie County to finance a 390-bed long term care replacement facility and various other projects.

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

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

	Statement of Operations and Changes in Net Positions				
	2012	**2011**	**Change**	**2010**	**Change**
Net patient services revenue	$ 370,791	$ 342,283	$ 28,508	$ 340,813	$ 1,470
Disproportionate share revenue (DSH)	57,572	60,572	(3,000)	53,444	7,128
Other revenue	29,162	28,625	537	18,276	10,349
Total operating revenues	457,525	431,480	26,045	412,533	18,947
Total operating expenses	451,025	424,900	26,125	402,729	22,171
Operating income (loss)	6,500	6,580	(80)	9,804	(3,224)
Total non-operating (expenses) revenues	6,748	(8,252)	15,000	(6,886)	(1,366)
Excess (deficiency) of revenue over expenses	13,248	(1,672)	14,920	2,918	(4,590)
Other changes in net positions	(1,309)	155	(1,464)	(9,888)	10,043
Change in net positions	11,939	(1,517)	13,456	(6,970)	5,453
Net positions, beginning of year	98,098	99,615	(1,517)	106,585	(6,970)
Net positions, end of year	$ 110,037	$ 98,098	$ 11,939	$ 99,615	$ (1,517)

Operating Revenues:

Overall, operating revenues increased by $26,045 or 6.0% in 2012 and increased by $18,947 or 4.6% in 2011.

- Net patient service revenue increased 8.3% and 0.4% in 2012 and 2011, respectively based primarily upon increases in patient discharges and case rates in addition to higher utilization in such areas as the emergency department and outpatient surgical services. The planned downsizing of the 572-bed long term care facility impacted net patient services revenue for 2011.
- DSH decreased by $3,000 in 2012 and increased $7,128 in 2011, principally due to changes in uncompensated care provided.
- Other operating revenue increased by 1.9% in 2012 and increased by 56.6% in 2011. The corporation recognized $5,281 million of meaningful use grant funding in 2012. 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.

Operating Expenses:

Operating expenses increased $26,125 in 2012 and increased $22,171 in 2011. Expense increases are attributable primarily to payroll and related costs. Supply costs increased in 2012 primarily due to increases in volume and a new oncology service. The Corporation continues to offer opportunities for registered nurses and implemented a more robust physician employment model to meet community health needs. In addition, New York State pension and workers' compensation payroll benefit expenses are growing at a higher rate than in prior years.

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

- The Corporation recognized a HEAL 21 grant and a NYSERDA grant in 2012.
- In 2011, the Corporation recognized $11,500 due from Erie County after receiving approval from New York State and commencing construction of the new long term care facility on the Grider Street campus; and settled with Erie County for $16,182 for 2011, related to excess capital contributions and forgiveness of certain other operating subsidy payments.
- Investment income increased by $9,087 in 2012 and decreased $5,522 in 2011, due primarily to variation in investment market performance on fixed income obligations and other investments.

Other Changes in Net Positions:

The Corporation continues to fund a component unit for purposes of physician recruitment, support of other health care initiatives totaling $1,309 and $452 in 2012 and 2011, respectively.

FACTORS AFFECTING FUTURE PERIODS:

Construction was completed in December 2012 on a 390-bed long term care replacement facility on the Grider Street campus which opened in February 2013. Work is underway to complete the remaining three floors of the new medical office building currently home to a 36-station dialysis center. The Corporation has received authority from the New York State Department of Health to add two new operating suites and to construct the shells for two additional operating suites to be added in the future on one floor of the medical office building; and the two remaining floors will house physician offices and treatment rooms.

Construction has begun on a new Comprehensive Psychiatric Emergency Program (CPEP) emergency treatment facility in what was once a parking lot adjacent to the current Emergency Department entrance. As that work is completed, the Corporation will receive approximately 45 in-patient psychiatric beds from Kaleida Health, Inc., as part of another effort to consolidate programs to benefit the community.

The Corporation is a component unit of Erie 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 operates under three collective bargaining agreements that cover substantially all employees. In March 2013, employees of the Civil Service Employee Association ("CSEA") approved a new 5-year contract. This new agreement includes the creation of a sub-bargaining unit which represents only Corporation employees. The agreement runs through December 31, 2017. Registered Nurses ("RNs") are covered under an agreement with the New York State Nurses Association ("NYSNA"). The agreement expired on December 31, 2011. RNs are working under provisions of the current agreement. Management has engaged NYSNA in discussions for a new agreement. The Corporation's agreement with the American Federation of State, County and Municipal Employees ("AFSCME") is in effect through December 31, 2015.

New York State operates under a Medicaid spending cap. Reductions in Medicaid reimbursement have occurred and are expected to occur over the near term. The recent economic slowdown has resulted in 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.

Health Reform Law

The President signed into law the Patient Protection and Affordable Care Act (the "Affordable Care Act") which includes sweeping changes to how health care is provided, and paid for, in the United States. The President subsequently signed the Health Care and Education Reconciliation Bill (the "Reconciliation Act"), which modifies the Affordable Care Act in many respects. Together, the Affordable Care Act and the Reconciliation Act will be referred to as the "Health Reform Law". The Health Reform Law expands health insurance coverage to 32 million individuals through 2019. Thus, the health care industry will be subjected to significant new statutory and regulatory requirements, and consequently, structural and operational challenges. In 2012, the U.S. Supreme Court altered certain aspects of the law.

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

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 POSITIONS
December 31,
(000's omitted)

ASSETS	**2012**	**2011**
Current assets:		
Cash and cash equivalents	$ 20,811	$ 38,854
Investments	3,112	46,306
Assets whose use is limited	48,903	107,429
Patient accounts receivable, net	42,548	39,217
Other receivables	42,272	51,681
Supplies, prepaids and other	7,298	5,820
Total current assets	164,944	289,307
Assets whose use is limited	127,162	113,762
Capital assets, net (depreciable)	152,720	94,702
Capital assets (non-depreciable)	94,393	68,313
Other assets, net	7,402	4,474
Total assets	$ 546,621	$ 570,558
LIABILITIES AND NET POSITIONS		
Current liabilities:		
Current portion of long-term debt	$ 6,936	$ 4,249
Accounts payable	29,369	39,139
Accrued salaries, wages and employee benefits	18,662	17,908
Accrued other liabilities	17,384	26,783
Unearned revenue	-	32,613
Estimated third-party payor settlements	27,651	28,211
Total current liabilities	100,002	148,903
Long-term debt, net	180,355	187,290
Self-insured obligations	156,227	136,267
Total liabilities	436,584	472,460
Net positions:		
Net investment in capital assets	92,906	67,836
Restricted:		
For debt service	11,069	10,850
Unrestricted	6,062	19,412
Total net positions	110,037	98,098
Total liabilities and net positions	$ 546,621	$ 570,558

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

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

	2012	2011
Operating revenues:		
Net patient service revenue (net of provision for bad debts of $23,143 in 2012 and $22,213 in 2011)	$ 370,791	$ 342,283
Disproportionate share revenue	57,572	60,572
Other operating revenue	29,162	28,625
Total operating revenues	457,525	431,480
Operating expenses:		
Payroll, employee benefits and contract labor	257,603	251,603
Professional fees	49,263	44,609
Purchased services	33,952	32,010
Supplies	64,803	58,871
Other operating expenses	26,942	22,321
Depreciation and amortization	18,462	15,486
Total operating expenses	451,025	424,900
Operating income	6,500	6,580
Non-operating revenues (expenses):		
Investment income	10,851	1,764
Interest expense	(5,265)	(5,335)
Settlements with Erie County, net	-	(4,682)
Grant revenue and other	1,162	1
Total net non-operating revenue (expense)	6,748	(8,252)
Excess (deficiency) of revenues over expenses	13,248	(1,672)
Contributions and transfers from (to) related parties, net	(1,309)	155
Total change in net positions	11,939	(1,517)
Net positions – beginning of year	98,098	99,615
Net positions – end of year	$ 110,037	$ 98,098

See accompanying notes

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

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

	2012	2011
Cash flows from operating activities:		
Receipts from patients and third party payors	$ 368,740	$ 349,986
Payments to employees for salaries and benefits	(256,850)	(249,409)
Payments to vendors for supplies and other	(161,844)	(123,751)
Other receipts	58,015	102,909
Net cash provided by operating activities	8,061	79,735
Cash flows from non-capital financing activities:		
Settlements with Erie County	(11,548)	7,985
Transfers to component unit	(560)	(378)
Net cash flows provided by (used in) non-capital financing activities	(12,108)	7,607
Cash flows from capital and related financing activities:		
Purchases of capital assets	(101,296)	(82,667)
Capital contributions	-	322
Proceeds from debt issuance	-	96,864
Principal payments on long term debt	(4,249)	(2,475)
Interest paid on long term debt	(6,313)	(6,172)
Net cash provided by (used in) capital and related financing activities	(111,858)	5,872
Cash flows from investing activities:		
Sales (purchases) of assets whose use is limited, net	51,045	(99,903)
Investment in affiliates	(1,309)	(602)
Investment income	4,812	4,396
Sales (purchases) of investments, net	43,314	25,904
Net cash used in investing activities	97,862	(70,205)
Net change in cash and cash equivalents	(18,043)	23,009
Cash and cash equivalents:		
Beginning of year	38,854	15,845
End of year	$ 20,811	$ 38,854
Supplemental disclosure of non-cash activity:		
Change in fair value of assets whose use is limited	$ 5,918	$ (2,761)
Forgiveness of debt from related party	$ -	$ 1,011
Transfer to component unit	$ (243)	$ (548)

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)

	2012	2011
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 6,500	$ 6,580
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	18,462	15,486
Provision for bad debt	23,143	22,213
(Increase) decrease in assets:		
Patient accounts receivable	(26,474)	(20,479)
Other receivables	7,096	388
Supplies, prepaids and other	(1,478)	(869)
Increase (decrease) in liabilities:		
Accounts payable	(9,770)	14,576
Accrued liabilities	3,795	253
Unearned revenue	(32,613)	14,015
Estimated third-party payor settlements	(560)	5,134
Self-insured obligations	19,960	22,438
Net cash provided by operating activities	$ 8,061	$ 79,735

See accompanying notes

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

STATEMENTS OF NET POSITIONS – COMPONENT UNITS
December 31,
(000's omitted)

	2012			2011		
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	$ 275	$ 587	$ 51	$ 817	$ 398	$ -
Investments	-	-	1,074	-	-	1,120
Assets whose use is limited	1,590	-	-	1,033	-	-
Other receivables	1,429	1,243	-	276	436	-
Prepaids and other	43	-	-	6	-	-
Total current assets	3,337	1,830	1,125	2,132	834	1,120
Non-current assets:						
Other receivables	350	-	-	-	-	-
Endowment and other investments	58	10,048	-	58	10,000	-
Equipment and vehicles, net	723	-	-	-	-	-
Total assets	$ 4,468	$ 11,878	$ 1,125	$ 2,190	$ 10,834	$ 1,120
LIABILITIES AND NET POSITIONS						
Current liabilities:						
Accounts payable	$ 674	$ 1,880	$ 2	$ 3	$ 685	$ 2
Accrued salaries, wages and payroll taxes	-	-	-	9	-	-
Funds held in custody for others	373	-	-	445	-	-
Total liabilities	1,047	1,880	2	457	685	2
Net positions:						
Restricted for other purposes	2,742	10,000	72	884	10,000	76
Unrestricted	679	(2)	1,051	849	149	1,042
Total net positions	3,421	9,998	1,123	1,733	10,149	1,118
Total liabilities and net positions	$ 4,468	$ 11,878	$ 1,125	$ 2,190	$ 10,834	$ 1,120

See accompanying notes.

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

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

	2012			2011		
	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	$ 2,633	$ 4	$ -	$ 1,001	$ 20	$ -
Other operating revenue - net	8	-	-	9	-	-
Total operating revenues	2,641	4	-	1,010	20	-
Operating expenses:						
Program services and grants	505	1,200	-	692	588	-
Fundraising	349	-	-	263	-	-
Other operating expenses	453	14	49	266	220	34
Total operating expenses	1,307	1,214	49	1,221	808	34
Operating income (loss)	1,334	(1,210)	(49)	(211)	(788)	(34)
Non-operating revenue:						
Investment income	4	102	54	2	50	4
Change in net positions	1,338	(1,108)	5	(209)	(738)	(30)
Net positions – beginning of year	1,733	10,149	1,118	1,942	10,436	1,148
Transfers from (to) Erie County Medical Center	350	957	-	-	451	-
Net positions – end of year	$ 3,421	$ 9,998	$ 1,123	$ 1,733	$ 10,149	$ 1,118

See accompanying notes.

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

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

	2012			2011		
	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)	$ 1,388	$ (1,210)	$ (49)	$ (322)	$ (788)	$ (34)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation	84	-	-	-	-	-
(Increase) decrease in assets	(1,245)	(807)	-	11	(23)	-
Increase (decrease) in liabilities	140	(5)	-	(78)	5	2
Net cash provided by (used in) operating activities	367	(2,022)	(49)	(389)	(806)	(32)
Cash flows from financing activities:						
Funds borrowed	450	1,200	-	-	650	-
Transfers from Erie County Medical Center	350	957	-	-	451	-
Net cash provided by financing activities	800	2,157	-	-	1,101	-
Cash flows from investing activities:						
(Increase) decrease in assets whose use is limited	(557)	(48)	46	525	-	(34)
Purchases of capital assets	(806)	-	-	-	-	-
Disbursement of note receivable to related party	(350)	-	-	-	-	-
Interest received	4	102	54	2	50	4
Net cash provided by (used in) investing activities	(1,709)	54	100	527	50	(30)
Net change in cash and cash equivalents	(542)	189	51	138	345	(62)
Cash and cash equivalents:						
Beginning of year	817	398	-	679	53	62
End of year	$ 275	$ 587	$ 51	$ 817	$ 398	$ -

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; operational through mid-February 2013; then replaced by new 390-bed residential facility ("Terrace View") located on the Grider Street campus; a primary care clinic located in the City of Buffalo; and two chemical dependency and alcohol rehabilitation clinics located throughout the County. The Corporation serves as the region's only trauma center; burn center; comprehensive traumatic brain injury and spinal cord injury rehabilitative center; Comprehensive Psychiatric Emergency Program provider for acute psychiatric emergencies; operates the Regional Center of Excellence for Transplantation and Kidney Care; and is the primary provider of HIV inpatient and outpatient specialty care.

The Corporation has the power under the Act to acquire, operate, and manage its facilities and to issue bonds and notes to finance the costs of providing such facilities. The Act specifically provides that the Corporation's corporate existence shall continue until terminated by law; provided, however, that no such termination shall take effect so long as the Corporation shall have bonds or other obligations outstanding unless adequate provision has been made for the payment or satisfaction thereof. The Corporation's primary purpose is the operation of the medical center and the residential health care facility, 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 entity has not received funding in recent years. The annual financial report can be obtained by writing to: Grant Administration, Research for Health in Erie County, Inc., 462 Grider Street, Buffalo, NY 14215.

NOTE 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".

Recently Issued Accounting Pronouncements **-** GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* This Statement, which is effective for financial statements for periods beginning after December 15, 2011, supersedes GASB Statement No. 20. The Corporation adopted GASB Statement No. 62 during 2012, and its provisions were applied retroactively for all periods presented. Adoption of GASB Statement No. 62 did not materially affect the Corporation's financial statements.

In June, 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position,* which establishes standards for reporting deferred outflows and deferred inflows of resources and net position. The statement requires reporting of deferred outflows of resources (consumption of net assets applicable to future periods) and deferred inflows of resources (acquisition of net assets applicable to future periods) in separate sections of the balance sheet following assets and liabilities. The difference between assets plus deferred outflows of resources less liabilities plus deferred inflows of resources equals net position and net position should be displayed in three components as: net investment in capital assets, restricted and unrestricted. GASB Statement No. 63 is effective for financial statement periods beginning after December 15, 2011. The Corporation adopted the provisions of the statement in 2012 on a retroactive basis by renaming certain balance sheet elements for all periods presented. The adoption of GASB Statement No. 63 did not materially affect the Corporation's financial statements.

GASB Concepts Statement No. 4, *Elements of Financial Statements*, specifies that recognition of deferred outflows of resources and deferred inflows of resources should be limited to those instances specifically identified in authoritative GASB pronouncements. Consequently, guidance was needed to determine which balances being reported as assets and liabilities should actually be reported as deferred outflows of resources or deferred inflows of resources, according to the definitions in GASB Concepts Statement No. 4. Based on those definitions, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, reclassifies certain items currently being reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. In addition, this statement recognizes certain items currently being reported as assets and liabilities as outflows of resources and inflows of resources. This statement also provides financial reporting guidance related to the impact of the financial statement elements' deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations.

GASB Statement No. 65 is effective for periods beginning after December 15, 2012. Adoption of GASB 65 will result in the Corporation writing off $3,091 of debt financing costs retroactively via an adjustment to beginning net positions.

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NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2012 and 2011 was approximately $21,529 and $22,912, 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 recently constructed and located 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.

Other Receivables **-** The composition of other receivables, as of December 31, 2012 and 2011, respectively, is as follows:

	2012	**2011**
Disproportionate share revenue (DSH)	$ 29,954	$ 42,761
Receivables from Erie County	671	1,664
Capital project receivable from Erie County	-	3,624
FICA tax refund due	3,376	-
Other receivables	8,271	3,632
	$ 42,272	$ 51,681

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NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

***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 $4,510 of capitalized interest at December 31, 2012 ($1,106 - 2011).

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 needs be recognized for applicable capital assets in the years ended December 31, 2012 and 2011.

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 bond financing costs are included in other assets. Bond 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 positions at December 31, 2012 and 2011, within the caption accrued salaries, wages and employee benefits in the amount of approximately $10,341 and $9,006, respectively.

Self-Insured Obligations - Medical Malpractice, Workers' Compensation and Other Post-Employment Benefits (OPEB) - The Corporation is self-insured for all medical malpractice claims for occurrences on or after January 1, 2004, and pursuant to agreement with the County, the County has agreed to provide the Corporation indemnification for malpractice related exposures of up to $1,000 for both 2007 and 2006. Approximately $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.

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NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Corporation, effective January 1, 2012, insures a portion of its Workers' Compensation exposure through a high-deductible plan. The Corporation remains responsible for the first $750,000 of a paid claim after December 31, 2011. This change will impact the manner by which assessments are charged to the Corporation by the NYS Workers Compensation Board as an insured entity. The Corporation is required to pledge certain assets under this arrangement. As of January 1, 2012, $5.2 million has been put aside and included as part of Assets Whose Use is Limited. The Corporation remains self-insured for Workers' Compensation claims prior to January 1, 2012. The County has assumed a portion of liabilities for all occurrences originating prior to 2004.

Eligible retirees are provided basic medical and hospitalization coverage by the Corporation, refer to the updated settlement agreement.

The composition of self insured obligations as of December 31, 2012 and 2011, respectively, is as follows:

	2012	2011
Medical malpractice (Note 12)	$ 31,300	$ 22,900
Workers compensation (Note 12)	32,100	29,300
Other Post-Employment Benefits (Note 10)	99,827	88,566
Other	3,000	3,001
	166,227	143,767
Less current portion	10,000	7,500
	$ 156,227	$ 136,267

Net Positions **-** Net positions 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 positions are classified as follows:

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

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Charity Care **-** The Corporation provides care to patients who meet certain criteria under its charity care policy, without charge or at amounts less than established rates. Because the Corporation does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue in the accompanying Statements of Revenues, Expenses, and Changes in Net Positions. The estimated costs of caring for charity care patients were $15,775 for the year ended December 31, 2012 ($12,485 - 2011) as measured utilizing a calculated ratio of costs to charges.

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 positions are released to unrestricted net positions and reported in the statements of activities as net positions released from restrictions.

Contributions that are restricted by the donor are reported as increases in unrestricted net positions 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.

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

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Corporation recognizes Medicaid EHR incentive payments in its statements of statements of revenues, expenses, and changes in net positions for the first payment year when: (1) CMS approves a state's EHR incentive plan; and (2) the Corporation acquires certified EHR technology (i.e., when AIU criteria are met). Medicaid EHR incentive payments for subsequent payment years are recognized in the period during which the specified meaningful use criteria are met. The Corporation recognizes Medicare EHR incentive payments when: (1) the specified meaningful use criteria are met; and (2) contingencies in estimating the amount of the incentive payments to be received are resolved. During the years ended December 31, 2012, the Corporation satisfied the CMS AIU and/or meaningful use criteria. As a result, the Corporation recognized approximately $2,225 and $3,056 of Medicare and Medicaid EHR incentive payments as other operating revenue for the year ended December 31, 2012.

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 2012 and 2011, 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 2012 and 2011 accounts of the physician endowment are $(243) and $(548) 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 2011 financial statements to conform to the current year financial statement presentation. Such reclassifications did not affect total assets, total liabilities or total net positions.

Subsequent Events **-** These financial statements have not been updated for subsequent events occurring after March 26, 2013 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, 2012 and 2011 is as follows:

	2012		2011	
	Amount	**%**	**Amount**	**%**
Medicare	$ 126,763	34.2%	$ 119,861	35.0%
Medicaid	106,384	28.7	109,140	31.9
Other third party payors	130,426	35.2	105,207	30.7
Self-pay	7,218	1.9	8,075	2.4
	$ 370,791	100.0%	$ 342,283	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. The Medicare program is governed by the Federal Government and makes payments to providers based on an acuity weighted system. The Medicaid program is governed by the New York State Department of Health (DOH). Effective January 1, 2012, legislation required DOH to revise its reimbursement formula for the Medicaid rates paid to skilled nursing facilities. Skilled nursing facilities payment is based upon a statewide pricing model. All skilled nursing facilities are placed into one of two peer groups which is used to compute the operating component of the Medicaid rate. This new statewide pricing methodology is being phased in over five years are varying percentages. Full implementation will be effective January 1, 2017. 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. For nursing facilities, DSH revenue is recognized in accordance with Upper Payment Limit ("UPL") promulgated by CMS.

In 2012 and 2011, DSH funding recorded by the Corporation totaled approximately $57,572 and $60,572, respectively. The DSH funding process is complex and includes both tentative and final settlements for various state fiscal years which are subject to the availability of state and federal funding among other factors. As a result, DSH revenue is estimated and final settlements may vary significantly from the initial estimates.

For hospital services DSH revenue of $45,377 ($55,109 – 2011) was recognized. New York State changed its method of recognizing DSH to conform to CMS regulations. This change reduced the amount of DSH recognized in 2012. In addition, the Corporation recognized approximately $12,195 ($5,463 – 2011) of UPL revenue for the Erie County Home ($10,071) and the hospital-based skilled nursing unit ($2,124). The UPL for New York State fiscal years 2012-2013 for public nursing homes was not established. As a result, UPL revenue for the long term care units are estimates based on historical experience.

(000's OMITTED)

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 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 Positions as follows:

	2012	2011
Cash and cash equivalents	$ 20,811	$ 38,854
Investments	3,112	46,306
Assets whose use is limited – current	48,903	107,429
Assets whose use is limited – non-current	127,162	113,762
	$ 199,988	$ 306,351
Current portion of assets whose use is limited:		
Patient and residents trust cash	$ 397	$ 420
Restricted for debt service (a)	2,113	1,947
Construction funds (b)	21,393	82,562
Designated for self insurance obligations (d)	10,000	7,500
Designated for acquisition of capital assets (d)	15,000	15,000
Total current portion of assets whose use is limited	$ 48,903	$ 107,429
Noncurrent portion of assets whose use is limited:		
Restricted for debt service reserve (a)	$ 8,954	$ 8,903
Designated for long-term investment (c)	25,058	22,934
Designated for retiree health obligations (d)	29,750	27,225
Designated for self insurance obligations (d)	53,400	44,700
Designated for acquisition of capital assets (d)	10,000	10,000
Total noncurrent portion of assets whose use is limited	$ 127,162	$ 113,762

(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:

2012	Unrestricted Assets	Restricted Assets	Total
Interest and dividends	$ 3,557	$ 1,264	$ 4,821
Realized gains/(losses)	(1,143)	-	(1,143)
Unrealized gains (losses)	5,639	1,534	7,173
Investment income	$ 8,053	$ 2,798	$ 10,851

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

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.

	2012		
	Level I	**Level II**	**Total**
Cash and cash equivalents	$ 20,811	$ -	$ 20,811
Investments, assets whose use is limited:			
Cash and cash equivalents	32,432	-	32,432
Commercial paper	4,770	-	4,770
Marketable equity securities:			
Mid-cap core equities	2,372	-	2,372
Mid-cap value equities	2,305	-	2,305
Value equities	4,612	-	4,612
Growth equities	13,536	-	13,536
Global core equities	6,595	-	6,595
	29,420	-	29,420
Short-term fixed income	-	47,800	47,800
Corporate bonds	-	33,161	33,161
Government bonds	31,594	-	31,594
Total investments	98,216	80,961	179,177
Total	$ 119,027	$ 80,961	$ 199,988

(000's OMITTED)

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

	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

Foundation Component Unit **-** Assets who use is limited at December 31, 2012 and 2011 are as follows:

	2012	2011
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 and are Level I investments.	$ 1,648	$ 1,091

Physician Endowment Component Unit - Physician endowment component unit investments at December 31, 2012 and 2011 are as follows: 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. The insurance contract is a Level II investment while the money market account is a Level I investment.

	2012	2011
Money market account	$ 7,600	$ 7,607
Insurance contract	2,448	2,393
	$ 10,048	$ 10,000

RHEC Component Unit – Investments at September 30, 2012 and 2011 are as follows. These assets are carried at fair market value, which approximates cost. Mutual funds and cash and cash equivalents are Level 1 investments.

(000's OMITTED)

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

	2012	2011
Cash and cash equivalents	$ 51	$ -
Mutual funds:		
Bonds	858	-
Growth and income equities	196	-
Money market accounts	20	1,120
Total	$ 1,125	$ 1,120

NOTE 6. CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2012 and 2011 is as follows:

	2012			
	Beginning Balance	Additions	Disposals/ Transfers	Ending Balance
Capital assets – being depreciated:				
Land and land improvements	$ 1,320	$ 8	5,149	6,477
Buildings and improvements	246,025	966	60,135	307,126
Fixed equipment	2,135	-	31	2,166
Major moveable equipment	106,956	2,899	6,028	115,883
Total capital assets – being depreciated	356,436	3,873	71,343	431,652
Less accumulated depreciation	261,734	17,198	-	278,932
Total capital assets – being depreciated – net	94,702	(13,325)	71,343	152,720
Capital assets – not being depreciated – Construction in progress	$ 68,313	$ 97,423	$ (71,343)	$ 94,393
Capital assets – net	$ 163,015	$ 84,098	$ -	$ 247,113

(000's OMITTED)

NOTE 6. CAPITAL ASSETS (CONTINUED)

	2011			
	Beginning Balance	Additions	Disposals/ Transfers	Ending Balance
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 – not being depreciated – Construction in progress	$ 13,184	$ 74,792	$ (19,663)	$ 68,313
Capital assets – net	$ 95,731	$ 67,284	$ -	$ 163,015

Construction in progress in 2012 and 2011 includes costs associated with a new 390-bed long term care replacement facility and other campus improvements.

No capital assets were written off in 2012 and 2011. Depreciation expense amounted to $17,198 and $15,383 for the years ended December 31, 2012 and 2011, respectively.

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, 2012 and 2011 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)

***PPC Strategic Services LLC* -** The Corporation is the sole owner of this enterprise, which was established to enable the Corporation to enter into various other business relationships. The accounts of PPC Strategic Services, LLC are fully consolidated into the accounts of the Corporation as of and for the years ended December 31, 2012 and 2011. The assets of PPC Strategic Services LLC consist substantially of cash of approximately $194 and $612 at December 31, 2012 and 2011, respectively. Net positions of this entity are approximately ($122) and $621 at December 31, 2012 and 2011, respectively. PPC Strategic Services LLC owns Greater Buffalo Niagara SC Venture, LLC. That ownership interest is accounted for by PPC Strategic Services LLC utilizing the equity method of accounting.

***Greater Buffalo Niagara SC Venture, LLC* -** This entity was formed in a previous year by PPC Strategic Services LLC. and outside physicians for the purpose of constructing an ambulatory surgery center in the town of Amherst. This project is no longer being contemplated. This entity has not conducted any substantial business activities in 2012 or 2011, and it is currently inactive.

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

***Grider Community Gardens, LLC* -** This entity is wholly owned and controlled by the Corporation. The Corporation's net investment as of December 31, 2012 and 2011 is approximately $287 and $312, respectively, and is reflected in other non-current assets of the accompanying financial statements.

Debt Issuance Costs – Included in other assets is debt issuance costs of $4,026 for various serial debt 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 $935 and $785 at December 31, 2012 and 2011, respectively.

NOTE 8. ACCRUED OTHER LIABILITIES

The composition of accrued other liabilities as of December 31, 2012 and 2011, respectively, is as follows:

	2012	2011
Workers compensation claims	$ 8,000	$ 6,000
Due to Erie County	3,419	16,599
Medical malpractice claims	2,000	1,500
Interest payable	847	861
Cash receipt assessments payable	534	695
Funds held in custody for others	386	543
Other	2,198	585
Total	$ 17,384	$ 26,783

(000's OMITTED)

NOTE 9. INDEBTEDNESS

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

Long-term debt consisted of the following at December 31, 2012 and 2011, respectively:

	2012	2011
Erie County – Guaranteed Senior Revenue Bonds, Series 2004 (4.1% - 5.7% at December 31, 2012 and 2011, respectively) principal payments ranging from $2,465 to $7,220 are due annually on November 1 with interest payments due semi-annually on May 1 and November 1.	$ 92,550	$ 94,900
Erie County – loan payable (3.7% at December 31, 2012 and 2011) an interest only payment was due November 1, 2011 with monthly principal and interest of $662 due thereafter, commencing December 1, 2011.	94,741	96,639
	187,291	191,539
Less current portion	6,936	4,249
	$ 180,355	$ 187,290

Future annual principal payments applicable to long term debt for the years subsequent to December 31, 2013 are as follows:

2014	$ 7,226
2015	7,527
2016	7,861
2017	8,211
2018-2022	46,848
2023-2027	58,303
2028-2032	37,159
2033	7,220
Total	$ 180,355

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, 2012 and 2011.

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 loan agreement with the County includes sinking fund requirements if certain covenants are not met by the Corporation. The Corporation met these requirements as of December 31, 2012. The loan payable has a final maturity of October 1, 2028.

NOTE 10. RETIREMENT AND POST-EMPLOYMENT BENEFITS

Retirement Plan

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

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

Retirement expense for 2012 and 2011 amounted to approximately $27,000 and $22,000, respectively, based on a percent (which varies by length of service) of the salaries of covered employees.

Other Post-Employment Benefits

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

(000's OMITTED)

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

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 meet various eligibility requirements as agreed to in collective bargaining agreements. The Corporation pays varying amounts based on specific union agreements.

Funding the Plan

Currently, there is no New York State statute that expressly authorizes local governments to create a trust for OPEB purposes. Additionally, New York State's General Municipal Law does not allow for a reserve fund to accumulate 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 $29,750 in 2012 and $27,225 in 2011 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 2012, 2011 and 2010, the amount actually contributed to the plan, and changes in the net OPEB obligation:

	2012	2011	2010
Annual OPEB Cost and Net OPEB Obligation			
Annual Required Contribution	$ 17,693	$ 19,023	$ 20,753
Interest on Net OPEB Obligation	4,207	3,561	2,797
Adjustment to Annual Required Contribution	(3,782)	(3,202)	(2,514)
Annual OPEB Cost	18,118	19,382	21,036
Contributions made	(6,857)	(5,795)	(4,947)
Increase in Net OPEB Obligations	11,261	13,587	16,089
Net OPEB Obligation – beginning of year	88,566	74,979	58,890
Net OPEB Obligation – end of year	$ 99,827	$ 88,566	$ 74,979

(000's OMITTED)

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

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:

	2012	2011	2010
Annual OPEB Cost	$ 18,118	$ 19,382	$ 21,036
Percentage of Annual OPEB Cost contributed	37.9%	29.9%	23.5%
Net OPEB Obligation at end of year	$ 99,827	$ 88,566	$ 74,979

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, 2012 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 5.25%, reduced by decrements to an ultimate rate of 5.0% for the post-65 plan over ten years. An assumed initial rate of 6.50%, 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.

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

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

Other Transactions

Amounts that are included in operating revenues and expenses in the statements of revenues, expenses, and changes in net positions, which represent related-party transactions that occurred between the Corporation and the County during the years ended December 31, 2012 and 2011, are as follows:

The Corporation earned revenue totaling $3,760 and $3,595 for the years ended December 31, 2012 and 2011, 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 $576 and $913 for the years ended December 31, 2012 and 2011, respectively. Expenses incurred include services for buildings and ground maintenance, personnel, information, legal, and social services.

In 2011, capital commitments totaling $1,011 from Erie County, remaining for projects previously completed or ultimately never initiated, recorded in prior periods as 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 in 2011. No additional capital commitments are outstanding from the County to the Corporation at December 31, 2012.

The net amount due from (due to) the County of approximately $(1,886) and $237 at December 31, 2012 and 2011, 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 Excess Operating Support credits due to the County and capital appropriations due from the County.

NOTE 12. SELF INSURED OBLIGATIONS

The Corporation is self-insured for medical malpractice related exposures for incidents occurring in 2004 and thereafter. The Corporation is self-insured for workers compensation claims from 2004 through 2011. Effective January 1, 2012 the Corporation has a high deductible workers' compensation insurance policy. 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 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.

(000's OMITTED)

NOTE 12. SELF INSURED OBLIGATIONS (CONTINUED)

The Corporation has accrued approximately $31,300 and $22,900 at 2012 and 2011, respectively, for medical malpractice related exposures. Such amounts have been discounted at 2.25% for 2012 and 2.75% for 2011, respectively, and the accrued liabilities are included within the self-insurance obligations caption of the accompanying statement of net positions. Charges to expense for medical malpractice costs approximated $10,800 and $4,600 in 2012 and 2011, respectively and are included within the other operating expenses caption of the accompanying statement of revenues, expenses and changes in net positions.

The Corporation has accrued approximately $32,100 and $29,300 at 2012 and 2011, respectively, for workers compensation related exposures. Such amounts have been discounted at 1.25% and 1.75%, respectively and the liabilities are included within the self-insurance obligations caption of the accompanying statement of net positions. Charges to expense for workers compensation costs approximated $10,400 and $11,200 in 2012 and 2011, respectively and are included within the payroll, employee benefits and contract labor caption of the accompanying statement of revenues, expenses and changes in net positions.

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 $103,000 and $92,000 at 2012 and 2011, respectively, for employee and retiree health related costs. Charges to expense for employee and retiree health related costs approximated $47,000 and $50,000 in 2012 and 2011, respectively and are included within the payroll, employee benefits and contract labor caption of the accompanying statement of revenues, expenses and changes in net positions.

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, 2012 and 2011 is as follows:

	2012	2011
Medicaid	27%	33%
Medicare	27	22
Commercial insurance and HMO's	18	23
No-fault	10	9
Self-pay	9	5
Other	9	8
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.

(000's OMITTED)

NOTE 13. CONCENTRATIONS OF CREDIT RISK (CONTINUED)

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.

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, 2012 and 2011 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 2017. Total rental expense for all operating leases was approximately $2,000 and $2,300 respectively in 2012 and 2011.

The following is a schedule by year of future minimum lease payments under operating leases as of December 31, 2012 that have initial or remaining lease terms in excess of one year:

2013	$	731
2014		484
2015		365
2016		104
2017		5
	$	1,689

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2012

Federal Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
U.S. Department of Health and Human Services:			
Direct Federal Awards:			
Outpatient Early Intervention Services with Respect to HIV Disease (Ryan White Capacity)	93.918*		$ 831,116
Ryan White Title IV Women, Infants, Children, Youth & Affected Family Members AIDS Healthcare	93.153		77,755
Federal Awards received as a Sub-Recipient, pass-through from Health Research, Inc.:			
NYS Bioterrorism Hospital Preparedness Program	93.889	IU3REP0800840100	40,000
NYS Bioterrorism Hospital Preparedness Program – Regional	93.889	6USREP0700360102/ 1U3REP0800840100	224,424
HIV Care Formula Grants: Supportive Services Initiative	93.917*	2X07HA0002520	145,231
HIV Prevention Activities: Expanded and Integrated HIV Testing (PILOT)	93.940	5U62PS00076702	148,720
HIV Mini-Residency: HIV Mini-Residency/Clinical Education	93.145	5H4AHA007107	32,375
Total U.S. Department of Health and Human Services			1,499,621
TOTAL FEDERAL FINANCIAL ASSISTANCE			$ 1,499,621

* Denotes major programs

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2012

NOTE 1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Corporation under programs of the federal government for the year ended December 31, 2012 and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Because the schedule presents only a selected portion of the operations of the Corporation, it is not intended to and does not present the net position, changes in net position, or cash flows of the Corporation.

NOTE 2. SUB-RECIPIENTS

As of and for the year ended December 31, 2012, no federal awards were administered to sub-recipients by the Corporation.

FreedMaxick™ CPAs, P.C.

REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

INDEPENDENT AUDITOR'S REPORT

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

We have audited, in accordance with the auditing standards generally accepted in the Unites States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Erie County Medical Center Corporation (a component unit of the County of Erie) (the "Corporation") and the aggregate discretely presented component units as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated March 26, 2013.

Internal Control over Financial Reporting

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

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

Our consideration of internal control 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 that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free 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*.

Purpose of this Report

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

Freed Maxick CPAs, P.C.

Buffalo, New York
March 26, 2013

FreedMaxick CPAs, P.C.

REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 (INCLUDES REPORTING ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS)

INDEPENDENT AUDITOR'S REPORT

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

Report on Compliance for Each Major Federal Program

We have audited Erie County Medical Center Corporation's (a component unit of the County of Erie) (the "Corporation") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Corporation's major federal programs for the year ended December 31, 2012. The Corporation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Corporation's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Corporation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Report on Internal Control over Compliance

Management of the Corporation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Corporation's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the Corporation as of and for the year ended December 31, 2012, and have issued our report thereon dated March 26, 2013, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements taken as a whole.

Freed Maxick CPAs, P.C.

Buffalo, New York
September 24, 2013

FreedMaxick CPAs, P.C.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2012

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of Auditor's Report Issued: Unmodified

Internal control over financial reporting:

• Material weakness(es) identified?	______	Yes	X	No
• Significant deficiency(ies) identified?	______	Yes	X	None Reported

Noncompliance material to financial statements noted?	______	Yes	X	No

Federal Awards

Internal control over major programs:

• Material weakness(es) identified?	_____	Yes	X	No
• Significant deficiency(ies) identified?	_____	Yes	X	None Reported

Type of auditor's report issued on compliance for major programs: Unmodified

• Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	_____	Yes	X	No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
93.918	Outpatient Early Intervention Services with Respect to HIV Disease (Ryan White Capacity)
93.917	HIV Care Formula Grants: Supportive Services Initiative

Dollar threshold used to distinguish between type A and type B programs	$ 300,000

Auditee qualified as low-risk auditee?	X	Yes	______	No

II. FINDINGS – FINANCIAL STATEMENT AUDIT

No matters were reported.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

No matters were reported.

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

SCHEDULE OF PRIOR FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2012

I. FINDINGS – FINANCIAL STATEMENT AUDIT

No matters were reported.

II. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

No matters were reported.