



KALEIDA
H E A L T H

Consolidated Financial Statements
and Other Financial Information

Kaleida Health

Years ended December 31, 2000 and 1999
with Report of Independent Auditors

Consolidated Financial Statements
and Other Financial Information

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*Years ended December 31, 2000 and 1999
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Kaleida Health

Consolidated Financial Statements and Other Financial Information

Years ended December 31, 2000 and 1999

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Report of Independent Auditors

Board of Directors
Kaleida Health

We have audited the accompanying consolidated balance sheets of Kaleida Health (Kaleida) as of December 31, 2000 and 1999, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of Kaleida's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Kaleida Health at December 31, 2000 and 1999, and the consolidated results of its operations, changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying other financial information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in our audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Ernst & Young LLP

February 26, 2001

Kaleida Health

Consolidated Balance Sheets

	December 31	
	2000	1999
	(in thousands)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 14,354	\$ 20,305
Investments	48,986	50,264
Accounts receivable:		
Patient, less allowance for doubtful accounts of approximately \$24,354 in 2000 and \$22,800 in 1999	141,350	131,543
Other	20,080	15,215
Inventories	19,314	8,757
Prepaid expenses	4,495	2,556
Assets limited as to use	12,200	5,200
Total current assets	260,779	233,840
Assets limited as to use:		
Designated under self-insurance program	61,681	64,243
Designated under debt agreements	32,273	45,616
Board designated and donor restricted assets	66,110	63,860
Other	8,741	8,719
	168,805	182,438
Amounts required to meet current obligations	(12,200)	(5,200)
	156,605	177,238
Property and equipment:		
Land and land improvements	17,427	16,242
Buildings, fixtures and improvements	492,444	478,203
Movable equipment	324,871	295,086
	834,742	789,531
Accumulated depreciation and amortization	568,538	526,349
	266,204	263,182
Construction in progress	6,880	19,093
	273,084	282,275
Deferred financing costs, net	9,991	10,742
Other	10,254	8,607
Total assets	\$ 710,713	\$ 712,702

	December 31	
	2000	1999
	(in thousands)	
Liabilities and net assets		
Current liabilities:		
Accounts payable and other accrued expenses	\$ 58,601	\$ 42,424
Accrued payroll and expenses	38,512	32,296
Due to third-party payors	31,330	41,928
Current portion of long-term debt	12,792	13,592
Current portion of self-insurance claims	12,200	5,200
Other	1,689	790
Total current liabilities	155,124	136,230
Long-term debt, less current portion	217,610	226,220
Estimated liability for self-insurance claims, less current portion	44,527	43,083
Deferred credit	8,477	9,649
Other long-term liabilities	17,365	14,590
	287,979	293,542
Total liabilities	443,103	429,772
Net assets:		
Unrestricted	212,589	228,816
Temporarily restricted	39,067	39,435
Permanently restricted	15,954	14,679
Total net assets	267,610	282,930
Total liabilities and net assets	\$ 710,713	\$ 712,702

See accompanying notes.

Kaleida Health

Consolidated Statements of Operations and Changes in Net Assets

	Year ended December 31	
	2000	1999
	(in thousands)	
Unrestricted revenue, gains and other support		
Net patient service revenue	\$ 650,030	\$ 636,223
Premium revenue	53,842	53,023
Investment income	14,863	15,128
Other operating revenue	46,254	39,406
Total unrestricted revenue, gains and other support	764,989	743,780
Expenses		
Salaries and benefits	387,170	385,177
Purchased services, supplies and other	315,337	288,264
Depreciation and amortization	43,022	43,578
Bad debt expense	19,139	18,444
Interest	16,180	16,298
Total expenses	780,848	751,761
Excess of expenses over revenue, gains and other support	(15,859)	(7,981)

Kaleida Health

Consolidated Statements of Operations and Changes in Net Assets (continued)

	Year ended December 31	
	2000	1999
	(in thousands)	
Unrestricted net assets:		
Excess of expenses over revenue, gains and other support (from page 4)	\$ (15,859)	\$ (7,981)
Net change in unrealized gains on investments	(2,038)	7,876
Net assets released from restrictions for property acquisitions	1,670	2,167
(Decrease) increase in unrestricted net assets	(16,227)	2,062
Temporarily restricted net assets:		
Contributions, bequests and grants	7,802	8,848
Investment income	770	1,294
Net change in unrealized gains on investments	414	3,440
Net assets released from restrictions for operations	(7,684)	(6,307)
Net assets released from restrictions for property acquisitions	(1,670)	(2,167)
(Decrease) increase in temporarily restricted net assets	(368)	5,108
Permanently restricted net assets:		
Contributions	1,476	244
Investment income	222	549
Investment income transfer	(532)	-
Net change in unrealized gains on investments	109	1,115
Increase in permanently restricted net assets	1,275	1,908
(Decrease) increase in net assets	(15,320)	9,078
Net assets at beginning of year	282,930	273,852
Net assets at end of year	\$ 267,610	\$ 282,930

See accompanying notes.

Kaleida Health

Consolidated Statements of Cash Flows

	Year ended December 31	
	2000	1999
	(in thousands)	
Cash flows from operating activities		
Change in net assets	\$ (15,320)	\$ 9,078
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	43,022	43,578
Net assets released from restrictions for property acquisitions	(1,670)	(2,167)
Unrealized (gains)/loss on investments	1,515	(12,431)
Bad debt expense	19,139	18,444
Change in assets and liabilities:		
Patient accounts receivable	(28,946)	(35,904)
Other receivables, inventories and prepaid expenses	(17,361)	(2,311)
Accounts payable and accrued expenses	22,393	(5,328)
Due to third-party payors	(10,598)	21,599
Other liabilities	10,946	3,361
Donor restricted assets, net of unrealized gains	(1,727)	(9,200)
Net cash provided by operating activities	21,393	28,719
Investing activities		
Additions to property and equipment - net ⁽¹⁾	(25,168)	(51,747)
Net sales of investments	15,041	21,631
Increase in other assets	(1,647)	(811)
Net cash used in investing activities	(11,774)	(30,927)
Financing activities		
Proceeds from borrowings	-	7,500
Principal payments on debt and capital lease obligations	(15,570)	(18,387)
Net cash used in financing activities	(15,570)	(10,887)
Net decrease in cash	(5,951)	(13,095)
Cash and cash equivalents at beginning of year	20,305	33,400
Cash and cash equivalents at end of year	\$ 14,354	\$ 20,305

⁽¹⁾Excludes assets obtained through capital leases (see Note 6)

See accompanying notes.

Kaleida Health

Notes to Consolidated Financial Statements

December 31, 2000

1. Basis of Consolidation

Kaleida Health (Kaleida) is an integrated healthcare delivery system which provides acute, skilled nursing, rehabilitative, outpatient and home health care primarily to the residents of Western New York. The entities consolidated within Kaleida are the Hospital Corporation (Buffalo General Hospital, Childrens' Hospital, the Millard Fillmore Hospitals and DeGraff Memorial Hospital), Waterfront Health Care Center, Visiting Nursing Association of WNY, Inc., several other wholly owned subsidiaries and a number of charitable Foundations, which raise funds for Kaleida. All significant intercompany transactions have been eliminated upon consolidation.

2. Summary of Significant Accounting Policies

Cash and Cash Equivalents

Cash equivalents include amounts invested in short-term interest-bearing accounts and highly liquid debt instruments with original maturity dates of three months or less. For purposes of the statement of cash flows, cash equivalents exclude amounts maintained within investment portfolios and amounts recorded as assets limited as to use.

Kaleida invests excess cash in money market securities and commercial paper with high credit quality issuers. At December 31, 2000 and 1999, Kaleida had cash balances in financial institutions that exceed federal deposit insurance limits.

Patient Accounts Receivable and Revenues

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered. Revenue under certain third-party payor agreements is subject to audit and retroactive adjustment. Provision for estimated third-party payor settlements and adjustments are estimated in the period the related services are rendered and adjusted in future periods, as final settlements are determined. Provisions for settlements expected beyond the following year are included in the financial statements among other non-current liabilities. Significant concentrations of patients accounts receivable at December 31, 2000 include Medicare 23%, Medicaid 15% and Health Maintenance Organizations 28%.

Kaleida Health

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Investments and Investment Income

Investments in equity securities with readily determinable fair values and all investments in debt securities are presented in the financial statements at fair value. The average cost of specific securities sold is used to compute realized gains or losses on sales. Investment income includes interest, dividends and realized gains and losses on investments. The net change in unrealized gains on investments is included in other changes in net assets. Donated investments are reported at fair market value at the date of the donation, which is then considered cost.

Inventories

Inventories consist principally of drugs and medical supplies and are stated at the lower of cost or market. Cost is determined in accordance with the first-in, first-out method.

Assets Limited As to Use

Assets limited as to use include investments maintained by a trustee under irrevocable self-insurance agreements and cash and investments deposited with trustees as a debt reserve account. Assets limited as to use also include investments that have been set aside by the Board of Directors for specific purposes or restricted by donors and grantors for a specific time period or purpose.

The current portion of assets limited as to use represents the portion of these assets, which will be used to fund actual settlements and estimated claims under Kaleida's self-insurance programs.

Property and Equipment

Property and equipment is carried at cost, except for donated items, which are recorded at fair market value at the date of donation. Cost includes interest incurred during periods of construction. Routine maintenance and repairs are charged to expense as incurred.

Kaleida Health

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Depreciation is computed by the straight-line method over the estimated useful lives of the assets. The estimated useful lives of assets generally follow American Hospital Association guidelines as follows: land improvements, 10 years; buildings, fixtures and improvements, 10 to 40 years; and movable equipment, 3 to 15 years. Assets recorded as capital leases are amortized over the lease term of the asset or its useful life, if shorter. Lease amortization is included with depreciation and amortization expense.

Deferred Financing Costs

Kaleida has capitalized various financing costs associated with obtaining long-term debt. These costs are being amortized over the term of the related debt obligations.

Deferred credit

As a result of prior years' mortgage debt refinancing and mortgage modifications, Kaleida received funds to be used for various approved facility renovation projects. Kaleida has no obligation to repay these funds provided the mortgage balances are paid and operations continue at certain facilities. Kaleida has recorded the funds received as a deferred credit. The balance is being amortized over the respective mortgage terms. The annual amortization is recorded as a reduction of mortgage interest expense.

Self-Insurance Trusts and Accrued Self-Insurance Liability

Certain divisions of Kaleida are partially self-insured for medical malpractice, general liability and workers' compensation costs and umbrella policies are maintained for liabilities in excess of self-insurance retentions. Trusts have been established for the purpose of setting aside assets based on actuarial funding recommendations. Under the trust agreements, the trust assets can be used only for payment of losses, related expenses and costs of administering the trust. The estimated liability for both asserted and unasserted self-insurance claims at December 31, 2000 and 1999 includes the estimated costs of claim settlements and the related expenses, discounted at an interest rate of 8% for medical malpractice and general liability and 5% for workers' compensation. Estimated accrued self-insurance claims are approximately \$56,000,000 and \$48,000,000 at December 31, 2000 and 1999, respectively.

Kaleida Health

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Uncompensated Care

Kaleida accepts all patients regardless of their ability to pay. A patient's care may be classified as charity care in accordance with certain established policies of Kaleida. Essentially, these policies define charity services as those services for which no payment is anticipated. In addition, Kaleida serves a large Medicaid and indigent patient population whose health care service is only partially paid for by the Medicaid program. The following table summarizes the level of charity care provided:

	Year ended December 31	
	<u>2000</u>	<u>1999</u>
Charity care, based on established rates for services provided	\$ 1,608,000	\$ 1,353,000
Revenue shortfall compared to expenses for services provided to Medicaid and indigent patients	<u>8,960,000</u>	<u>10,293,000</u>
	<u>\$ 10,568,000</u>	<u>\$ 11,646,000</u>

Kaleida also provided additional uncompensated services in the amount of \$19,139,000 and \$18,444,000 in 2000 and 1999, respectively, representing uncollectible patient accounts.

Premium Revenue and Contract Expenses

Kaleida has entered into agreements with a health maintenance organization to provide health care services to subscribing participants. Under the agreements, Kaleida receives monthly capitation payments based upon the number of participants, regardless of services actually performed. In addition, the health maintenance organization makes fee-for-service payments to Kaleida for certain other non-covered services based upon discounted fee schedules. The terms of the agreements and risk corridors protect Kaleida from catastrophic losses under the contracts. Expenses incurred by Kaleida for covered services received by Kaleida's participants at other health care facilities are included as purchased services in the consolidated statement of operations and changes in net assets.

Kaleida Health

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Donor Contributions

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received, which is then treated as cost. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported as net assets released from restrictions. Contributions whose restrictions lapse, expire, or are otherwise met in the same reporting period as the contribution was received are recorded as unrestricted support and included as additions to unrestricted net assets.

Financial Instruments

The carrying values of cash and cash equivalents, accounts receivable and accounts payable are reasonable estimates of their fair value due to the short-term nature of these financial instruments. The fair value of Kaleida's long-term debt, excluding capital leases, at December 31, 2000, as estimated by discounted cash flow analysis using current borrowing rates for similar types of arrangements, was approximately \$240 million. The carrying value of approximately \$211 million is less than the fair value due to higher interest rates currently available for fixed interest long-term debt.

Kaleida has elected not to early adopt FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, at December 31, 2000. The statement is effective for financial statements for all fiscal quarters of fiscal years beginning after June 15, 2000. Any transition adjustments from adoption would not be significant at December 31, 2000.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in financial statements and accompanying notes. Actual results could differ from those estimates and the differences in estimates from actual results could be significant.

Intercompany

All significant intercompany balances and transactions have been eliminated in consolidation.

Kaleida Health

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Income Taxes

Kaleida is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

Operating Indicator

Kaleida's primary mission is meeting the health care needs of the people in the regions in which it operates. Kaleida is committed to providing a broad range of general and specialized health care services including inpatient acute care, home care, outpatient services, and other health care related services. All activities, including unrestricted contributions and investment income, associated with the furtherance of this mission are considered to be operating activities.

3. Arrangements with Third-Party Payors

Revenues from the Medicare and New York State Medicaid programs accounted for approximately 31% and 12%, respectively, of Kaleida's net patient service revenue for the year ended December 31, 2000. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Kaleida believes that it is in compliance with all applicable laws and regulations. While Kaleida has received regulatory inquiries in the normal course of business, Kaleida is not aware of any results of inquiries, which may have a material adverse effect on the financial statements. In addition, 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.

Federal and State regulations provide for certain adjustments to current and prior years' payment rates, based on industry-wide and provider-specific data. Kaleida has estimated the potential impact of such adjustments based on information presently available. Any adjustments between the original estimate and ultimate payment rates are recorded as a change in estimate in the period known.

In the normal course of business, Kaleida also requests revisions to reimbursement amounts received under third-party reimbursement programs. Such amounts are recorded when notification is received that revisions will be granted.

Kaleida Health

Notes to Consolidated Financial Statements (continued)

3. Arrangements with Third-Party Payors (continued)

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

Medicare Payments

Kaleida is reimbursed for inpatient acute care services provided to Medicare program beneficiaries at prospectively determined rates per discharge based upon diagnosis related groups (DRGs). Outpatient and home health care services provided to Medicare beneficiaries are paid on either a cost reimbursement or fee schedule methodology.

Non-Medicare Payments

Medicaid, Workers' Compensation and No-Fault inpatient payments are based upon a DRG payment system established in accordance with the New York Health Care Reform Act (NYHCRA), whereby inpatient acute care services are paid at prospectively determined cost based rates. Non-acute inpatient services are paid at prospectively determined cost based per diem rates and outpatient services are generally paid on either a fee schedule or prospectively determined cost based per visit rate.

All other non-Medicare payors (i.e. indemnity plans, HMO, commercial insurance) pay inpatient and outpatient rates at amounts based on negotiated formulas.

4. Investments

The fair value of investments including amounts classified as assets limited as to use at December 31 are as follows:

	<u>2000</u>	<u>1999</u>
	<u>(in thousands)</u>	
U.S. Treasury Obligations	\$ 28,739	\$ 43,200
Fixed Income Mutual Funds and		
Corporate Bonds	38,439	28,844
Marketable Equity Securities	125,100	129,841
Cash Equivalents	19,030	29,817
Other	6,483	1,000
	<u>\$ 217,791</u>	<u>\$ 232,702</u>

Kaleida Health

Notes to Consolidated Financial Statements (continued)

4. Investments (continued)

Unrestricted investment income includes the following:

	Years ended December 31	
	2000	1999
	(in thousands)	
Interest and dividend income	\$ 9,089	\$ 7,360
Net realized gains on investments	5,774	7,768
	<u>\$ 14,863</u>	<u>\$ 15,128</u>

5. Debt

Debt consists of the following at December 31:

	2000	1999
	(in thousands)	
Mortgage and building loan payable in monthly installments of \$1,191,000 which include interest at 7.76% through February 1, 2013.	\$ 112,271	\$ 117,619
Mortgage payable in monthly installments of \$574,000 including interest at 6.04% through November 1, 2017. Thereafter, monthly principal and interest installments of \$355,000 with the remaining principal balance due April 1, 2020.	76,373	78,579
Mortgage payable in monthly installments of \$59,000, including interest at 8.1% through July 1, 2024.	7,487	7,590
Industrial Development Bond payable in monthly installments of \$48,000 including interest at 7.96% through February 2016.	4,757	4,929
Capital lease obligations less imputed interest of \$1,575,000 and \$746,000 at December 31, 2000 and 1999, respectively.	10,030	7,816
Other	19,484	23,279
	<u>230,402</u>	<u>239,812</u>
Less current maturities	<u>12,792</u>	<u>13,592</u>
	<u>\$ 217,610</u>	<u>\$ 226,220</u>

Kaleida Health

Notes to Consolidated Financial Statements (continued)

5. Debt (continued)

The mortgages and 1991 bonds represent agreements with the Dormitory Authority of the State of New York (DASNY). The mortgages are also insured by the U.S. Department of Housing and Urban Development (HUD).

Kaleida also entered into a Depreciation Reserve Fund Trust Agreement (the Agreement) dated April 3, 1998, replacing all previously existing agreements. The Agreement allows Kaleida to make withdrawals from the Depreciation Reserve Fund (DRF) totaling \$52,603,000 over a three-year period ending March 31, 2001 for various capital expenditures. Beginning in 2001 through 2006, the balance in the DRF is required to increase either through investment earnings or deposits by approximately \$4 million per year.

The HUD insured mortgages contain provisions whereby Kaleida must annually meet certain financial ratios. Failure to meet these financial ratios may result in oversight activities by HUD or their designee agency, The Department of Health and Human Services (HHS). Such oversight activities could include HUD/HHS approvals for capital expenditures (other than replacement capital), lease obligations over threshold amounts and approvals for incremental unsecured borrowing. At December 31, 2000, Kaleida was not in compliance with the profitability covenant.

The maturities of long-term debt for the next five years are as follows (in thousands):

2001	\$ 12,792
2002	12,278
2003	11,697
2004	12,209
2005	13,014

Kaleida has available unsecured lines of credit totaling approximately \$25,000,000 with interest at Kaleida's election of either the prime rate less 1% or the London InterBank Offered Rate (LIBOR) plus 1%. There were no outstanding borrowings under these agreements at December 31, 2000. The lines of credit are subject to renewal during 2001.

Interest paid approximated interest expense at December 31, 2000 and 1999.

Kaleida Health

Notes to Consolidated Financial Statements (continued)

6. Leases

Property and equipment at December 31 includes the following amounts for leases that have been capitalized (in thousands):

	<u>2000</u>	<u>1999</u>
Property and equipment	\$ 53,594	\$ 56,366
Less accumulated amortization	(25,597)	(22,102)
	<u>\$ 27,997</u>	<u>\$ 34,264</u>

Kaleida entered into new capital lease agreements totaling \$6,160,000 and \$732,000 during 2000 and 1999, respectively.

Future minimum payments under noncancelable operating leases having lease terms in excess of one year are as follows:

2001	\$ 5,114
2002	4,335
2003	3,933
2004	2,075
2005	1,597

Rental expense for all operating leases was approximately \$5.9 and \$6.3 million in 2000 and 1999, respectively.

7. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets at December 31 are available for the following purposes (in thousands):

	<u>2000</u>	<u>1999</u>
Capital expansion and improvements	\$ 7,615	\$ 7,687
Advancement of medical education and research, and general health care services	31,452	31,748
	<u>\$ 39,067</u>	<u>\$ 39,435</u>

Kaleida Health

Notes to Consolidated Financial Statements (continued)

7. Temporarily and Permanently Restricted Net Assets (continued)

Permanently restricted net assets at December 31 are restricted to (in thousands):

	<u>2000</u>	<u>1999</u>
Funds to be held in perpetuity, the income from which is expendable to support health care services, including medical research	\$ 12,790	\$ 11,526
Funds to be held in perpetuity, the income from which is expendable to support pediatric health care services	3,164	3,153
	<u>\$ 15,954</u>	<u>\$ 14,679</u>

8. Functional Expenses

Kaleida provides general health care services to residents within its geographic location. Expenses related to these services are as follows for the years ended December 31:

	<u>2000</u>	<u>1999</u>
	(In Thousands)	
Health care services	\$ 757,423	\$ 729,208
General and administrative	23,425	22,553
	<u>\$ 780,848</u>	<u>\$ 751,761</u>

9. Employees' Pension Plans

Kaleida sponsored four defined benefit plans during 1999, covering substantially all of its employees. Effective July 1, 1999, three of the defined benefit plans were merged into the fourth and remaining plan (the Plan). Additionally, as of July 1, 1999, Kaleida created an employer matched Tax Sheltered Annuity program for non-union employees. The Plans provide benefits based upon years of service and the employee's compensation. Kaleida's funding policy is to contribute amounts within the requirements of the Employee Retirement Income Security Act.

Kaleida Health

Notes to Consolidated Financial Statements (continued)

9. Employees' Pension Plans (continued)

The following tables set forth information regarding the Plan(s).

	2000	1999
	(in thousands)	
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 196,012	\$ 207,986
Service cost	10,726	9,727
Interest cost	14,314	13,901
Actuarial gain	(8,690)	(30,218)
Benefits paid	(10,500)	(5,384)
Benefit obligation at end of year	<u>\$ 201,862</u>	<u>\$ 196,012</u>
Change in plan assets		
Fair value of plan assets at beginning of year	\$ 220,218	\$ 190,831
Actual return on plan assets	37,224	31,157
Employer contributions	1,595	3,613
Benefits paid	(10,500)	(5,384)
Fair value of assets at end of year	<u>\$ 248,537</u>	<u>\$ 220,218</u>
Reconciliation of funded status		
Funded status	\$ 46,675	\$ 24,206
Unrecognized transition obligations	(593)	(742)
Unrecognized prior service cost	(5,022)	(5,344)
Unrecognized actuarial gain	(48,195)	(20,420)
Accrued pension cost	<u>\$ (7,135)</u>	<u>\$ (2,300)</u>
Components of net periodic pension cost		
Service cost	\$ 10,726	\$ 9,727
Interest cost	14,314	13,901
Expected return on plan assets	(18,017)	(16,587)
Amortization of transitional amount	(149)	(178)
Amortization of prior service cost	(445)	(23)
Recognized actuarial loss	-	135
Net periodic benefit cost	<u>\$ 6,429</u>	<u>\$ 6,975</u>
Amounts recognized in the balance sheets		
Accrued pension liability	<u>\$ (7,135)</u>	<u>\$ (2,300)</u>
Weighted-average assumptions as of December 31:		
Discount rate	7.8%	7.5%
Rate of compensation increase	4.0%	4.0%
Expected long-term rate of return on plan assets	9.0%	9.0%

Kaleida Health

Notes to Consolidated Financial Statements (continued)

9. Employees' Pension Plans (continued)

The Plan assets are primarily invested in mutual funds, common equity securities and fixed income debt securities at both December 31, 2000 and 1999.

Other employees of Kaleida not covered by the defined benefit plans participate in contributory and non-contributory defined contribution plans. Kaleida also makes contributions to a multi-employer pension plan as required by union contracts from which benefits are paid to certain union employees. Total expense under these plans was approximately \$2,000,000 in 2000 and 1999.

10. Contingencies

At December 31, 2000 and 1999, there were various actions filed against Kaleida by former patients and others seeking compensatory and punitive damages. In the opinion of management, amounts provided in the self-insurance trust are adequate to meet such requirements (see Note 2, Summary of Significant Accounting Policies, Use of Estimates).

Other Financial Information

Kaleida Health

Consolidating Balance Sheet

December 31, 2000

	Hospital, and Amb. Surgery Corporations(1)	Home Care and Waterfront	Foundations	Other Wholly- Owned Subsidiaries	Eliminations	December 31, 2000 Consolidated
Assets						
Current Assets						
Cash and cash equivalents	\$ 10,349	\$ 2,213	\$ 1,090	\$ 702	\$ -	\$ 14,354
Investments	21,114	-	27,872	-	-	48,986
Patient accounts receivable, net	120,678	20,672	-	-	-	141,350
Other receivables	21,805	1,093	6,847	4,009	(13,674)	20,080
Inventories	18,654	642	-	18	-	19,314
Prepaid expenses	4,247	98	20	130	-	4,495
Assets limited as to use	12,200	-	-	-	-	12,200
Total current assets	209,047	24,718	35,829	4,859	(13,674)	260,779
Assets limited as to use:						
Designated under self-insurance program	61,681	-	-	-	-	61,681
Designated under debt agreements	30,226	2,047	-	-	-	32,273
Board designated and donor restricted assets	38,140	-	27,970	-	-	66,110
Other	8,659	82	-	-	-	8,741
	138,706	2,129	27,970	-	-	168,805
	(12,200)	-	-	-	-	(12,200)
Amount required to meet current obligations	126,506	2,129	27,970	-	-	156,605
Property and equipment:						
Land and land improvements	15,026	105	-	2,296	-	17,427
Buildings, fixtures and improvements	470,023	8,090	-	14,331	-	492,444
Moveable equipment	313,608	10,107	376	854	(74)	324,871
	798,657	18,302	376	17,481	(74)	834,742
Accumulated depreciation and amortization	552,781	10,237	326	5,194	-	568,538
	245,876	8,065	50	12,287	(74)	266,204
	6,880	-	-	-	-	6,880
Construction in progress	252,756	8,065	50	12,287	(74)	273,084
Property and equipment, net						
Deferred financing costs, net	9,732	109	-	150	-	9,991
Interest in net assets of Foundations	61,915	-	-	-	(61,915)	-
Other	10,798	169	433	2,954	(4,100)	10,254
Total Assets	\$ 670,754	\$ 35,190	\$ 64,282	\$ 20,250	\$ (79,763)	\$ 710,713

20 (1) - The Hospital Division consists of the four acute care facilities, their attached skilled nursing facilities and the free standing ambulatory surgery center.

	Hospital, and Amb. Surgery Corporations(1)	Home Care and Waterfront	Foundations	Other Wholly- Owned Subsidiaries	Eliminations	December 31, 2000 Consolidated
Liabilities and Net Assets						
Current Liabilities						
Accounts payable	\$ 56,610	\$ 1,534	\$ 1,470	\$ 356	\$ (1,369)	\$ 58,601
Accrued payroll and expenses	31,977	5,263	132	1,706	(566)	38,512
Due to third-party payors	31,759	(429)	-	-	-	31,330
Current portion of long-term debt	11,923	479	-	390	-	12,792
Current portion of self-insurance claims	12,200	-	-	-	-	12,200
Other	1,374	5,773	765	3,724	(9,947)	1,689
Total current liabilities	145,843	12,620	2,367	6,176	(11,882)	155,124
Long-term debt, less current portion	200,638	7,377	-	9,595	-	217,610
Estimated liability for self-insurance claims, less current portion	44,235	292	-	-	-	44,527
Deferred credit	8,477	-	-	-	-	8,477
Other long-term liabilities	15,464	207	-	9,438	(7,744)	17,365
Total liabilities	414,657	20,496	2,367	25,209	(19,626)	443,103
Net assets						
Unrestricted	201,076	14,694	33,894	(4,959)	(32,116)	212,589
Temporarily restricted	39,067	-	22,054	-	(22,054)	39,067
Permanently restricted	15,954	-	5,967	-	(5,967)	15,954
Total net assets	256,097	14,694	61,915	(4,959)	(60,137)	267,610
Total Liabilities and Net Assets	\$ 670,754	\$ 35,190	\$ 64,282	\$ 20,250	\$ (79,763)	\$ 710,713

Kaleida Health

Consolidating Statement of Operations

Year ended December 31, 2000

	Hospital, and Amb. Surgery Corporations(1)	Home Care and Waterfront	Foundations	Other Wholly- Owned Subsidiaries	Eliminations	December 31, 2000 Consolidated
Unrestricted revenues, gains and other support						
Net patient service revenue	\$ 593,935	\$ 56,095	\$ -	\$ -	\$ -	\$ 650,030
Premium revenue	53,842	-	-	-	-	53,842
Investment income	11,917	185	2,761	-	-	14,863
Change in interest in unrestricted net assets of Foundations	7,486	-	-	-	(7,486)	-
Other operating revenue	20,259	479	19,528	6,112	(124)	46,254
Total unrestricted revenue, gains and other support	687,439	56,759	22,289	6,112	(7,610)	764,989
Expenses						
Salaries and benefits	349,094	33,299	1,130	3,660	(13)	387,170
Purchased service, supplies and other	281,951	18,425	12,966	2,358	(363)	315,337
Depreciation and amortization	41,294	1,138	-	590	-	43,022
Bad debt expense	17,963	1,176	-	-	-	19,139
Interest expense	14,090	655	-	1,435	-	16,180
Total expenses	704,392	54,693	14,096	8,043	(376)	780,848
Income from operations excess of revenue, gains and other support (under) over expenses	\$ (16,953)	\$ 2,066	\$ 8,193	\$ (1,931)	\$ (7,234)	\$ (15,859)