KPMG

KALEIDA HEALTH

Consolidated Financial Statements

December 31, 2009 and 2008

(With Independent Auditors' Report Thereon)

KALEIDA HEALTH

Consolidated Financial Statements and
Other Financial Information

December 31, 2009 and 2008

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KPMG LLP
515 Broadway
Albany, NY 12207

Independent Auditors' Report

The Board of Directors
Kaleida Health:

We have audited the accompanying consolidated balance sheets of Kaleida Health (Kaleida) as of Decembers 31, 2009 and 2008, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of Kaleida's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Kaleida's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kaleida Health as of December 31, 2009 and 2008, and the results of their operations and changes in net assets, and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

April 26, 2010

KALEIDA HEALTH

Consolidated Balance Sheets

December 31, 2009 and 2008

(Dollars in thousands)

Assets		2009	2008
Current assets:			
Cash and cash equivalents	$	70,050	41,997
Investments (notes 6 and 7)		149,803	124,990
Accounts receivable:			
Patient, less estimated allowance for doubtful accounts of $40,527 in 2009 and $37,577 in 2008		118,869	111,419
Other		7,748	9,783
Inventories		23,364	25,258
Prepaid expenses and other current assets		8,939	9,510
Total current assets		378,773	322,957
Assets limited as to use (notes 5, 6, 7, and 9):			
Designated under debt and lease agreements		50,685	38,546
Designated under self-insurance programs		128,758	107,037
Board designated and donor restricted		81,489	64,984
Other		1,589	1,610
		262,521	212,177
Property and equipment, less accumulated depreciation and amortization (notes 8 and 9)		282,379	283,789
Receivable for insurance recoveries (note 5)		7,678	5,809
Grant receivable (note 2)		54,987	—
Deferred financing costs, net		14,045	11,483
Other		4,955	5,954
Total assets	$	1,005,338	842,169

See accompanying notes to consolidated financial statements.

Liabilities and Net Assets		2009	2008
Current liabilities:			
Accounts payable and other accrued expenses	$	76,718	66,871
Accrued payroll and related expenses		50,079	49,777
Line of credit (note 9)		6,000	—
Estimated third-party payor settlements (note 4)		21,722	1,354
Current portion of long-term debt (note 9)		18,678	22,927
Other current liabilities		5,543	5,497
Total current liabilities		178,740	146,426
Long-term debt, less current portion (note 9)		216,153	219,856
Construction costs payable (note 9)		5,083	1,022
Estimated self-insurance reserves (note 5)		153,821	139,858
Asset retirement obligations (note 12)		10,217	10,049
Other long-term liabilities (note 11)		162,703	184,482
		547,977	555,267
Total liabilities		726,717	701,693
Commitments and contingencies (notes 8, 10, and 15)			
Net assets:			
Unrestricted		143,864	74,690
Temporarily restricted (note 13)		115,208	50,732
Permanently restricted (note 13)		19,549	15,054
Total net assets		278,621	140,476
Total liabilities and net assets	$	1,005,338	842,169

KALEIDA HEALTH

Consolidated Statements of Operations and Changes in Net Assets

Years ended December 31, 2009 and 2008

(Dollars in thousands)

		2009	2008
Operating revenue:			
Net patient service revenue (notes 3 and 4)	$	1,145,164	1,067,103
Other operating revenue (note 6)		19,035	24,026
Net assets released from restrictions for operations (note 13)		9,373	11,119
Total operating revenue		1,173,572	1,102,248
Operating expenses:			
Salaries and benefits		632,609	576,541
Purchased services, supplies, and other		424,644	410,711
Depreciation and amortization		59,717	60,062
Provision for bad debts		29,441	26,335
Interest		12,983	11,369
Total operating expenses		1,159,394	1,085,018
Income from operations		14,178	17,230
Other income:			
Investment income (losses) (note 6)		8,700	(8,816)
Net realized losses on sales of investments (note 6)		(6,870)	(3,231)
Net change in unrealized gains and losses on investments (note 6)		41,312	(44,754)
Loss on impairment and disposal of assets (note 8)		(20,394)	—
Total other income (losses), net		22,748	(56,801)
Excess (deficiency) of revenue over expenses	$	36,926	(39,571)

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KALEIDA HEALTH

Consolidated Statements of Operations and Changes in Net Assets

Years ended December 31, 2009 and 2008

(Dollars in thousands)

		2009	2008
Unrestricted net assets:			
Excess (deficiency) of revenue over expenses	$	36,926	(39,571)
Pension and postretirement related changes other than net periodic cost (note 11)		20,224	(145,742)
Contributions for capital acquisitions		558	438
Net assets released from restrictions for property acquisitions		11,476	1,653
Net cumulative unrealized gains transferred to trading securities (note 6)		—	(5,886)
Other transfers, net		(10)	(4)
Increase (decrease) in unrestricted net assets		69,174	(189,112)
Temporarily restricted net assets:			
Contributions, bequests, and grants (notes 2(j) and 8)		76,697	12,671
Restricted investment losses		(98)	(211)
Net change in unrealized gains and losses on investments		8,989	(12,731)
Net assets released from restrictions for operations		(9,373)	(11,119)
Net assets released from restrictions for property acquisitions		(11,476)	(1,653)
Other transfers, net		(263)	(424)
Increase (decrease) in temporarily restricted net assets		64,476	(13,467)
Permanently restricted net assets:			
Contributions		—	2
Restricted investment losses		(273)	(425)
Net change in unrealized gains and losses on investments		4,495	(6,391)
Other transfers, net		273	428
Increase (decrease) in permanently restricted net assets		4,495	(6,386)
Change in net assets		138,145	(208,965)
Net assets, beginning of year		140,476	349,441
Net assets, end of year	$	278,621	140,476

See accompanying notes to consolidated financial statements.

KALEIDA HEALTH

Consolidated Statements of Cash Flows

Years ended December 31, 2009 and 2008

(Dollars in thousands)

		2009	2008
Operating activities:			
Change in net assets	$	138,145	(208,965)
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization		59,717	60,062
Accretion expense		773	540
Loss on impairment and disposal of assets		20,394	—
Restricted contributions, bequests, and grants		(66,738)	(2,143)
Change in receivable for insurance recoveries		(1,869)	3,651
Change in interests in limited partnerships		(5,395)	13,429
Net change in unrealized gains and losses on investments		(54,796)	69,762
Provision for bad debts		29,441	26,335
Pension and postretirement related changes other than net periodic cost		(20,224)	145,742
Change in operating assets and liabilities:			
Patient accounts receivable		(36,891)	(32,306)
Other receivables, inventories, and prepaid expenses		4,500	(4,495)
Accounts payable, accrued expenses, and accrued payroll		10,149	5,364
Estimated third-party payor settlements		20,368	(12,975)
Other assets		999	(25)
Other liabilities		11,849	(492)
Net cash provided by operating activities		110,422	63,484
Investing activities:			
Additions to property and equipment, net of change in construction costs payable		(72,032)	(67,862)
Net purchases of investments		(14,966)	(6,391)
Net cash used by investing activities		(86,998)	(74,253)
Financing activities:			
Principal payments on debt and capital lease obligations		(21,094)	(20,200)
Proceeds from restricted contributions, bequests, and grants		11,751	2,143
Proceeds from long-term debt		11,647	25,836
Proceeds from line of credit		6,000	—
Increase in deferred financing fees		(3,675)	—
Net cash provided by financing activities		4,629	7,779
Net increase (decrease) in cash and cash equivalents		28,053	(2,990)
Cash and cash equivalents, beginning of year		41,997	44,987
Cash and cash equivalents, end of year	$	70,050	41,997
Supplemental schedules on noncash investing activities:			
Capital lease obligations	$	1,495	3,321
Interest paid		12,950	13,334

See accompanying notes to consolidated financial statements.

(1) Organization and Basis of Consolidation

Kaleida Health (Kaleida) is an integrated healthcare delivery system that provides acute, skilled nursing, rehabilitative, outpatient, and home healthcare services primarily to the residents of Western New York. The entities consolidated within Kaleida are the Hospital Corporation (Buffalo General Hospital, Women and Children's Hospital, the Millard Fillmore Hospitals, DeGraff Memorial Hospital, and three hospital based nursing facilities), Waterfront Health Care Center, Visiting Nursing Association of WNY, Inc., VNA Home Care Services, Inc., several other wholly owned subsidiaries, and two charitable foundations that raise funds for Kaleida.

On November 28, 2006, the Commission on Health Care Facilities in the 21st Century (Berger Commission) created by the Governor and New York State Legislature issued recommendations on health care capacity and resources in New York State. The Berger Commission report discussed, among other things, the context and process under which the recommendations were made, the authority granted to the NYS Department of Health (DOH) to implement the recommendations, and how the implementation of these recommendations may be timed and funded. The Berger Commission's recommendations included consolidation, closures, conversions, and restructuring of hospital and nursing home systems throughout New York State, including at Kaleida.

In connection with the recommendations issued by the Berger Commission, Kaleida has undertaken the development of a global heart vascular institute (GHVI) located adjacent to Buffalo General Hospital, and developed plans to carryout the closure and relocation of services from Millard Fillmore Gates Hospital (Gates) to the Buffalo General Hospital campus within a period of twenty-four months. During 2009, Kaleida received all the necessary approvals and funding to move forward with the GHVI. Notes 8 and 9 provide additional information related to the GHVI construction and financing.

Also, Kaleida and Erie County Medical Center Corporation (ECMCC), pursuant to a recommendation of the Berger Commission, agreed contractually in June 2008 to subordinate certain planning activities and quality improvement programs to Great Lakes Health, a stand-alone not-for-profit 501(c) 3 corporation.

All significant intercompany transactions between Kaleida and its subsidiaries have been eliminated in consolidation.

(2) Summary of Significant Accounting Policies

(a) *Basis of Presentation*

In June 2009, the Financial Accounting Standards Board (FASB) authorized *FASB Accounting Standards Codification* (ASC or Codification) to become the single source of authoritative nongovernmental U.S. generally accepted accounting principles (GAAP). The Codification brings together in one place the authoritative accounting standards that existed in a number of formats including FASB Statements and Interpretations, Emerging Issues Task Force Abstracts, FASB Staff Positions and American Institute of Certified Public Accountants (AICPA) Statements of Positions and Accounting and Auditing Guides. The Codification is effective for financial statements issued for annual periods ending after September 15, 2009. Since the Codification is the accumulation of existing GAAP, it did not have any impact on Kaleida's consolidated financial statements.

The accompanying consolidated financial statements of Kaleida are presented consistent with ASC 954, which addresses the presentation of financial statements for health care entities. In accordance with the provisions of ASC 954, net assets and revenue, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, unrestricted net assets are amounts not subject to donor-imposed stipulations and are available for operations. Temporarily restricted net assets are restricted by donors and are reflected as net assets released from restrictions in unrestricted net assets to the extent utilized during the period. Permanently restricted net assets are subject to the restrictions of gift instruments requiring that the principal be maintained in perpetuity while permitting the income to be utilized for general purposes.

Kaleida considers events or transactions that occur after the consolidated balance sheet date, but before the consolidated financial statements are issued, to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. These consolidated financial statements were issued on April 26, 2010 and subsequent events have been evaluated through that date.

(b) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The most significant areas which are affected by the use of estimates include the allowance for doubtful accounts, estimated third-party payor settlements, self-insurance reserves, valuation of certain alternative investments, and pension obligations. Actual results could differ from those estimates, and the differences in estimates from actual results could be significant.

(c) 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 consolidated statements of cash flows, cash equivalents exclude amounts maintained within investment portfolios and amounts classified as assets limited as to use.

Kaleida invests cash in money market securities at December 31, 2009 and maintains cash balances in financial institutions in excess of federal deposit insurance limits.

(d) Charity Care and Bad Debt Expense

Kaleida provides care to patients who meet certain criteria under its charity care policies without charge or at amounts less than their established rates. Because Kaleida does not anticipate collection of amounts determined to qualify as charity care, they are not reported as revenue.

Kaleida grants credit without collateral to patients, most of whom are local residents and are insured under third-party arrangements. Additions to the estimated allowance for doubtful accounts are made by means of the provision for bad debts. Accounts written off as uncollectible are deducted from the allowance and subsequent recoveries are added. The amount of the provision for bad debts is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in Federal and State governmental healthcare coverage, and other collection indicators.

(e) Net Patient Service Revenue

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 (note 4).

(f) Investments and Investment Income

Investments are reported at fair value pursuant to ASC 820, *Fair Value Measurements and Disclosures* which addresses fair value measurements and disclosures. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between participants at the measurement date. See note 7 for a discussion of fair value measurements.

Participation units in pooled investment funds held within unrestricted, temporarily restricted, and permanently restricted net assets are determined monthly based on the fair value of the underlying investments at the calculation date. Income earned on pooled investments is allocated to participating funds based on their respective unit shares of the pool.

In 2008, Kaleida determined the investment portfolio is more appropriately classified as trading as opposed to available-for-sale based on investment philosophy, strategy and the nature and frequency of investment activity. Accordingly, all unrealized gains and losses on unrestricted investments are reported as a component of excess (deficiency) of revenue over expenses in the accompanying 2009 and 2008 consolidated statements of operations and changes in net assets.

Investment income or loss (including interest, dividends, realized gains and losses on investments, change in interest in limited partnerships, and change in unrealized gains and losses) is included in excess (deficiency) of revenue over expenses, unless the income is restricted by the donor or law. Further, investment income from funds designated for self-insurance programs and debt and lease agreements are recorded as a component of operating revenue.

In December 2008, the FASB issued ASC 715-20-50 and 55, which require additional disclosures for employers' defined benefit pension plan assets. ASC 715-20-50 and 55 requires employers to disclose information about fair value measurements of plan assets similar to the disclosures required under ASC 820. The adoption of ASC 715-20-50 and 55 did not have a material impact on Kaleida's consolidated financial position, results of operations or cash flows since its requirements were limited to additional disclosures (note 11).

(g) Inventories

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

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(h) ***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 held by trustees pursuant to debt agreements. Assets limited as to use also include investments set aside by the board of directors for specific purposes, as well as investments restricted by donors and grantors for a specific time period or purpose.

(i) ***Property and Equipment***

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

Kaleida monitors its long-lived assets for impairment indicators on an ongoing basis. If impairment indicators exist, Kaleida performs the required analysis and records impairment charges. In conducting its analysis, Kaleida compares the undiscounted cash flows expected to be generated from the long-lived assets to the related net book values. If the undiscounted cash flows exceed the net book value, the long-lived assets are considered not to be impaired. If the net book value exceeds the undiscounted cash flows, an impairment loss is measured and recognized (note 8).

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The estimated useful lives of assets generally follow American Hospital Association guidelines: 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 within depreciation and amortization expense.

(j) ***Grant Receivable***

During 2008, Kaleida was awarded a $65 million grant from the New York State Department of Health (DOH), through the Health Care Efficiency and Affordability Law for New Yorkers program (HEAL NY). The grant was awarded in order to fund the implementation of the recommendations made by the Berger Commission. During 2009 the Grant Disbursement Agreement was finalized with DOH and Kaleida incurred expenditures and received funds under the grant during 2009 to support the GHVI project. The grant proceeds will be spent for the GHVI project through December 31, 2011.

(k) ***Deferred Financing Costs***

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

(l) ***Self-Insured Programs***

Certain divisions of Kaleida are partially self-insured for medical malpractice, general liability, and workers' compensation costs, with excess liability policies for exposures in excess of self-insurance retentions. Trusts have been established for the purpose of setting aside assets. Under the trust

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agreements, the trust assets can be used only for payment of losses, related expenses, and the costs of administering the trust.

In 2009, Kaleida became a self insured for employee health coverage. Kaleida has recorded a provision for estimated claims which is based on Kaleida's own experience and includes the estimated cost of reported claims and claims incurred but not yet reported. To reduce its risk for catastrophe claims, Kaleida has purchased stop loss coverage.

(m) Donor Contributions

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations limiting 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 to unrestricted net assets and reported as net assets released from restrictions and included as a component of total operating revenue, if for operations, or as an addition to unrestricted net assets, if for capital purposes. 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.

(n) Financial Instruments

The carrying values of cash and cash equivalents, accounts receivable, accounts payable and line of credit are reasonable estimates of their fair value due to the short-term nature of these financial instruments. Kaleida's long-term debt instruments are carried at cost. Fair values are estimated based on quoted market prices for the same or similar issues. The estimated fair value of Kaleida's long-term debt as of December 31, 2009 and 2008 is approximately $222.4 million and $248.1 million, respectively. The value of debt was estimated by discounted cash flow analysis using current borrowing rates for similar types of arrangements. Judgment is required in certain circumstances to develop the estimates of fair value, and the estimates may not be indicative of the amounts that could be realized in a current market exchange.

(o) Income Taxes

Kaleida and substantially all of its affiliates have been determined by the Internal Revenue Service to be organizations described in Internal Revenue Code (the Code) Section 501(c)(3) and, therefore, are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

(p) Excess (Deficiency) of Revenue over Expenses

Kaleida's primary mission is meeting the healthcare needs of the people in the regions in which it operates. Kaleida is committed to providing a broad range of general and specialized healthcare services, including inpatient acute care, long-term care, home care, outpatient services, and other healthcare related services.

The consolidated statements of operations and changes in net assets include a performance indicator, excess (deficiency) of revenue over expenses. Changes in unrestricted net assets which are excluded from the excess (deficiency) of revenue over expenses consistent with industry practice include

(Continued)

contributions of long-lived assets, and pension and postretirement related changes other than net periodic cost.

For purposes of display, transactions deemed by management to be recurring, major or central to the provision of healthcare services, including unrestricted contributions and interest and dividends from funds designated for self-insurance programs and debt and lease agreements, are reported as operating revenue and expenses in the determination of Kaleida's operating results. Investment trading activities and peripheral transactions (i.e. impairment charges for Berger Commission restructuring and gains and losses related to disposal of fixed assets) are reported as other income or losses.

(q) Reclassifications

Certain amounts in the 2008 consolidated financial statements have been reclassified to conform to 2009 presentation.

(3) Uncompensated Care (Unaudited)

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 the largest Medicaid and indigent patient population in Western New York whose healthcare service is only partially paid for by the Medicaid program. The following table summarizes uncompensated care provided during the years ended December 31:

		2009	2008
		(Dollars in thousands)	
Charity care excluded from revenue, based on established rates for services provided	$	8,390	6,973
Revenue shortfall compared to expenses for services provided to Medicaid and indigent patients		67,099	59,064
	$	75,489	66,037

Kaleida also provided additional uncompensated services of approximately $29.4 million and $26.3 million in 2009 and 2008, respectively, representing uncollectible patient accounts.

(4) Third-Party Reimbursement Agreements

Kaleida has agreements with third-party payors that provide for payments at amounts different from their established rates as follows:

(a) Inpatient Acute Care Services

Inpatient acute care services rendered are paid at prospectively determined rates per discharge in accordance with the Federal Prospective Payment System (PPS) for Medicare and generally at negotiated or otherwise pre-determined amounts under the provisions of the New York Health Care Reform Act (HCRA) for Medicaid and other Non-Medicare payors. Inpatient nonacute services are paid at various rates under different arrangements with third-party payors, commercial insurance carriers, and health maintenance organizations. The basis for payment under these agreements includes prospectively determined per diem and per visit rates and fees, discounts from established charges, fee schedules, and reasonable cost subject to limitations. Medicare outpatient services are paid under a prospective payment system whereby services are reimbursed on a predetermined amount for each outpatient procedure, subject to various mandated modifications.

In addition, under HCRA, all Non-Medicare payors are required to make surcharge payments for the subsidization of indigent care and other health care initiatives. The percentage amounts of the surcharge varies by payor and applies to a broader array of health care services. Also, certain payors are required to fund a pool for graduate medical education expenses through surcharges on payments to hospitals for inpatient services or through voluntary election to pay a covered lives assessment directly to the New York State Department of Health (DOH).

(b) Skilled Nursing and Home Health Care Services

Net patient service revenue for skilled nursing services under the Medicaid program is based on a modified pricing system using the Resource Utilization Group (RUGs) patient classification system. Under this methodology, reimbursement is at a predetermined rate depending on the intensity of the services rendered to residents regardless of the cost of delivering those services. Medicaid's predetermined rate is computed using cost report data from the facility's designated base year and elements from annual cost report filings. Medicare reimbursement for skilled nursing services are determined on a PPS basis. Under skilled nursing PPS, a single per diem rate is paid that covers all routine, ancillary, and capital related costs. The per diem payment is adjusted for each Medicare beneficiary, based on their care needs as measured by a patient assessment form.

Home health care services for Medicare are reimbursed under a prospective payment system (PPS) which is based on a 60 day episode, case mix adjusted into one of the home health resource groups (HHRG). Adjustments exist for low and high utilization of services during a 60-day episode. Medicare will generally make an initial payment of 60% based on the submitted HHRG with the balance of the payment due at the end of the 60 day episode or at discharge, whichever occurs sooner. For all Non-Medicare payors, the basis of payment includes prospectively determined per visit rates and fees, discount on charges, and fee schedules.

Kaleida is required to prepare and file various reports of actual and allowable costs annually. Provisions have been made in the consolidated financial statements for prior and current years' estimated final settlements. The difference between the amount provided and the actual final settlement is recorded as an adjustment to net patient service revenue as adjustments become known or as years are no longer subject to audits, reviews, and investigations. During 2009 and 2008, Kaleida recorded adjustments for estimated settlements with third-party payors, which resulted in changes to net patient service revenue of approximately $(5.7) million and $8.8 million, respectively. Net patient service revenue from Medicare and New York State Medicaid programs accounted for approximately 23% and 11%, respectively, of total net patient service revenue for the year ended December 31, 2009, and 24% and 12%, respectively, of total net patient service revenue for the year ended December 31, 2008. Significant concentrations of patient accounts receivable at December 31, 2009 and 2008 include Medicare 21% and 25%, Medicaid 12% and 12%, and health maintenance organizations 42% and 40%, respectively.

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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 receives regulatory inquiries and reviews in the normal course of business. 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. Kaleida believes it is in substantive compliance with all applicable laws and regulations.

(5) Self-Insurance Trusts and Estimated Self-Insurance Reserves

Kaleida is partially self-insured for medical malpractice, general liability, and workers' compensation costs, and excess liability policies are generally maintained for exposures in excess of self-insurance retentions. Trusts are 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 the costs of administering the trust. The estimated liability for both asserted and unasserted self-insurance claims for medical malpractice, general liability and workers' compensation are discounted at 3.5% at December 31, 2009 and 2008. Estimated self-insurance reserves are approximately $154 million and $140 million at December 31, 2009 and 2008, respectively. As of December 31, 2009 and 2008, $7.7 million and $5.8 million, respectively, is recoverable from Kaleida's excess liability policies. At December 31, 2009, Kaleida has irrevocable secured letters of credit supporting the medical malpractice and workers compensation self-insurance programs totaling approximately $42.8 million. The annual fee for the letters of credit approximates 75 basis points and they renew automatically unless the issuer notifies both parties in writing sixty days in advance.

At December 31, 2009 and 2008, there were various actions filed against Kaleida by former patients and others seeking compensatory and punitive damages. In 2009, Kaleida secured a surety bond in order to preserve its right to appeal certain judgments filed for ongoing claims. The surety bond is collateralized with an irrevocable letter of credit. The letter of credit is secured with assets within the self insurance trust.

Management believes current estimates for known and unknown claims reflected in the self-insurance accrual are adequate. If the ultimate costs differ from the estimates, such additional amounts will be accrued when known. Excess coverage retroactive to the date of Kaleida's formation has been obtained for incidents reported after December 31, 2000.

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(6) Investments

The components of investments at December 31 are summarized as follows:

		2009	2008
		(Dollars in thousands)	
Current investments:			
Cash and cash equivalents	$	12,148	18,696
Fixed income mutual funds		33,342	27,620
Common stocks		23,136	13,301
Common collective funds		57,971	47,173
Limited partnerships		23,206	18,200
	$	149,803	124,990
Assets limited as to use:			
Designated under debt and lease agreements:			
Cash and cash equivalents	$	20,956	6,834
U.S. government securities		29,729	31,712
		50,685	38,546
Designated under self-insurance programs:			
Cash and cash equivalents		43,081	35,852
U.S. government securities		3,488	2,860
Fixed income mutual funds		21,947	18,684
Common stocks		13,810	8,389
Common collective funds		32,066	26,119
Limited partnerships		14,366	15,133
		128,758	107,037
Board designated and donor restricted:			
Cash and cash equivalents		11,414	6,246
U.S. government securities		259	259
Fixed income mutual funds		17,224	15,424
Common stocks		11,598	7,144
Common collective funds		29,275	25,913
Limited partnerships		11,719	9,998
		81,489	64,984
Other:			
Cash and cash equivalents		1,589	1,610
	$	262,521	212,177

(Continued)

Unrestricted investment income includes the following for the years ended December 31:

		2009	2008
		(Dollars in thousands)	
Other operating revenue:			
Interest and dividends	$	3,330	2,788
Other income (losses):			
Investment income (losses):			
Interest and dividends	$	3,305	4,613
Change in interests in limited partnerships		5,395	(13,429)
	$	8,700	(8,816)
Net realized losses on sale of investments	$	(6,870)	(3,231)
Net change in unrealized gains and losses on investments	$	41,312	(44,754)

(7) Fair Value Measurements

Kaleida estimates fair value on a valuation framework that uses a fair value hierarchy that prioritizes the inputs to valuation techniques to measure fair value. The hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy are described below:

(a) ***Level 1***: Quoted prices in active markets that are accessible at the measurement date for identical assets and liabilities.

(b) ***Level 2***: Inputs, other than quoted prices in active markets, that are observable either directly or indirectly and fair value is determined through the use of models or other valuation methodologies.

(c) ***Level 3:*** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Kaleida adopted the provisions of Accounting Standards Update (ASU) 2009-12, *Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalents).* ASU 2009-12 allows for the estimation of the fair value of investments in certain investment companies (i.e., limited partnerships and common collective funds) for which the investment does not have a readily determinable value by using net asset value (NAV) per share or its equivalent as a practical expedient.

Cash equivalents are generally valued at the NAV reported by the financial institution. Fair values for mutual funds, common stocks, and fixed income mutual funds are based on quoted market prices or dealer quotes, where available. When quoted market prices are not available for fixed income securities, fair value is based on quoted market prices of comparable instruments. When necessary, Kaleida utilizes matrix pricing from a third party pricing vendor to determine fair value pricing for fixed income securities.

(Continued)

Matrix prices are based on quoted prices for fixed income securities with similar coupons, ratings, and maturities, rather than on specific bids and offers for the designated security.

The fair value of Kaleida's interest in common collective funds and limited partnerships, for which the funds and limited partnerships do not have a readily determinable value, is made using the NAV per share or its equivalent as a practical expedient. For common collective funds, Kaleida invests in the funds rather than in the securities underlying each fund, therefore, the level in the fair value hierarchy in which each fund is classified is based on the timing of the pricing of the funds and the nature of liquidity restrictions for the funds. For limited partnerships, NAV is determined using current estimates of fair value in the absence of readily determinable public market values, therefore, the level in the fair value hierarchy in which each limited partnership is classified is based primarily on the Kaleida's ability to redeem its interest at or near the date of the consolidated balance sheet.

The inputs and methodology used for valuing or classifying investments for financial reporting purposes are not necessarily an indication of the risk associated with investing in those investments. The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair value. Furthermore, although Kaleida believes its valuation methods are appropriate and consistent with other market participants the use of different methodologies or assumptions to determine the fair value of certain financial investments could result in a different fair value measurement at the reporting date.

The following table presents Kaleida's financial assets at December 31, 2009 and 2008 that are measured at fair value on a recurring basis. The financial assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurements (dollars in thousands):

	2009			
	Total	Level 1	Level 2	Level 3
Investments:				
Cash and cash equivalents	$ 89,188	89,188	—	—
Fixed income mutual funds	72,513	72,513	—	—
Common stocks	48,544	48,544	—	—
Common collective funds	119,312	21,916	97,284	112
U.S. government obligations	33,476	—	33,476	—
Limited partnerships	49,291	—	—	49,291
	$ 412,324	232,161	130,760	49,403

(Continued)

	2008			
	Total	**Level 1**	**Level 2**	**Level 3**
Investments:				
Cash and cash equivalents	$ 69,238	69,238	—	—
Fixed income mutual funds	61,728	61,728	—	—
Common stocks	28,834	28,834	—	—
Common collective funds	99,205	17,266	73,136	8,803
U.S. government obligations	34,831	—	34,831	—
Limited partnerships	43,331	—	—	43,331
	$ 337,167	177,066	107,967	52,134

A summary of activity for all investments with Level 3 fair value measurements for the years ended December 31 follows (dollars in thousands):

	2009	**2008**
Balance, beginning of year	$ 52,134	43,485
Net (sales) purchases	(8,209)	22,471
Net realized (losses) gains	(753)	407
Change in net unrealized gains and losses	6,231	(14,229)
Balance, end of year	$ 49,403	52,134

Redemption of limited partnerships generally requires provision of written notice prior to the redemption date. At the discretion of the fund managers, investments in limited partnerships may be deemed temporarily illiquid, including restrictions suspending normal liquidity terms or lock-ups with definite expiration dates, or restriction until the fund manager liquidates certain fund assets. At December 31, 2009, Kaleida did not have any significant exposure to temporarily illiquid investments due to voluntary lock-up agreements.

(8) Property and Equipment

A summary of property and equipment at December 31 follows:

		2009	2008
		(Dollars in thousands)	
Land and land improvements	$	22,860	21,184
Buildings, fixtures, and improvements		650,591	677,681
Movable equipment		525,991	510,382
		1,199,442	1,209,247
Less accumulated depreciation and amortization		959,330	941,413
		240,112	267,834
Construction in progress		42,267	15,955
	$	282,379	283,789

During 2009, Kaleida began construction of a global heart vascular institute (GHVI) adjacent to Buffalo General Hospital. The GHVI will be a ten story building with an estimated cost of approximately $291 million. The project is a collaboration between the State University of New York at Buffalo (UB) and Kaleida. It is expected that UB will occupy the top four floors of the GHVI and UB will contribute approximately $118 million to cover construction and fit-up costs associated with that space. Kaleida will fund its share of the GHVI with $65 million in HEAL NY grant funding (note 2(j)) and the proceeds from government insured debt of $100 million and a $8 million equity contribution (note 9). Commitments outstanding at December 31, 2009, for the construction of the GHVI totaled $153.8 million.

Further, Kaleida concluded that the developments in 2009 related to DOH's approval and the subsequent financing and initiation of construction of the GHVI, is the triggering event for relocating services and the closure of Gates by the end of 2011. Accordingly, Kaleida recorded a charge of approximately $20.4 million to write down the net book value of Gates and various other projects impacted by the Berger Commission recommendations.

At December 31, amounts included above for property and equipment under capital leases are as follows:

		2009	2008
		(Dollars in thousands)	
Property and equipment	$	82,305	80,448
Less accumulated amortization		55,885	44,536
	$	26,420	35,912

(9) Debt

Debt consists of the following at December 31:

		2009	2008
		(Dollars in thousands)	
Mortgage payable in monthly installments of $625,000, including interest at 5.25% through August 1, 2023. (a)	$	73,057	76,622
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. (a)		49,218	53,012
Mortgage notes payable in monthly installments of $338,000, including interest at 5.05%, through October 1, 2033. (a)		56,078	56,604
Mortgage notes payable in monthly installments of $107,000, including interest at 5.05%, through February 1, 2032. (a)		17,178	17,211
Mortgage payable in monthly installments of $48,000 including interest at 6.25% through July 1, 2024. (a)		5,485	5,708
Mortgage notes payable with interest only payments at 6.35% through February 2012. Once fully drawn, monthly principal and interest will be required through February 1, 2037. (a)		5,885	—
Capital lease obligations, less imputed interest of $1,126,000 and $1,641,000 at December 31, 2009 and 2008, respectively. (b)		16,177	22,790
Industrial development bond payable in monthly fixed principal installments of $25,000, plus interest at 5.57% through January 2011. Thereafter, varying monthly principal and interest installments through January 2026. The bonds are secured by the related assets being financed.		2,541	2,841
Other		9,212	7,995
		234,831	242,783
Less current maturities		18,678	22,927
	$	216,153	219,856

(a) Mortgages Payable

The mortgages payable, which are insured by the U.S. Department of Housing and Urban Development (HUD), are secured by essentially all assets of the respective borrowing entities.

On December 4, 2009, Kaleida secured a loan commitment of approximately $100.3 million by entering into a new mortgage note and building loan agreement. The proceeds from the loan commitment will be used to finance the cost of the development of the GHVI in order to carry out the closure of services and relocation from Gates (see note 1). The mortgage note, when fully drawn, will have a 25 year term, fixed monthly payments and an annual interest rate of 6.35%. The mortgage note is insured by HUD. At December 31, 2009, Kaleida has drawn $5.885 million for costs related to the GHVI project.

Kaleida has entered into Regulatory Agreements with HUD, which set forth certain provisions and requirements. Among these requirements are certain performance indicators, financial ratios, and reporting requirements. Also among these requirements is the funding of a Mortgage Reserve Fund (Mortgage Reserve) as established by the Mortgage Reserve Fund Agreement, dated May 20, 2004, as amended September 21, 2006 and December 4, 2009. As required under the Mortgage Reserve, Kaleida is required to maintain a certain balance either through deposits or investment earnings. Failure to comply with these requirements may result in oversight activities by HUD.

At December 31, 2008, Kaleida was not in compliance with the required debt service coverage ratio as a result of investment market declines. As a result, through 2010 Kaleida will continue to be required to obtain HUD approvals for short-term borrowings, leases or other long-term debt obligations over threshold amounts, and for certain transactions with affiliates. Management believes they are in compliance with all current year requirements.

Under the terms of the borrowing agreements, Kaleida established certain bank trustee accounts which include the Mortgage Reserve Fund and Kaleida's equity contribution for the GVI project. Included in the accompanying consolidated financial statements, classified as assets limited as to use, are Kaleida's balances in these funds at December 31 as follows:

		2009	**2008**
		(Dollars in thousands)	
Mortgage reserve fund	$	42,683	38,546
GVI project equity		8,002	—
	$	50,685	38,546

Construction costs payable at year end will be paid with proceeds advanced from the HUD insured loan commitment secured in December 2009.

(b) Capital Leases

The majority of the capital lease obligations represent arrangements entered into with GE Capital to finance acquisitions of various pieces of equipment. These arrangements are administered by the Dormitory Authority of the State of New York (DASNY) as part of their Tax-Exempt Leasing Program (TELP).

Future annual principal payments of long-term debt for the next five years as of December 31, 2009 follows (dollars in thousands):

2010	$	18,678
2011		17,002
2012		16,944
2013		17,194
2014		15,333

(c) *Line of Credit*

In October 2009, Kaleida entered into a Revolving Credit Loan Agreement (Loan Agreement) with a financial institution. The Loan Agreement, which expires in September 2011, requires Kaleida to payoff the outstanding balance annually for a period of twenty business days. The maximum aggregate principal amount of credit that can be extended under the Loan Agreement is $20 million. Interest is payable monthly and is calculated at the greater of the adjusted LIBOR rate plus a margin of 2.65% or a base rate calculated as the bank's prime rate plus 200 basis points. Kaleida also pays monthly an unused facility fee equal to 20 basis points per year on the average unused daily balance. DASNY and HUD agreed to subordinate their security interest in the first $30 million worth of patient accounts receivable to the bank as collateral for borrowings on the Loan Agreement. At December 31, 2009, $6 million is outstanding on the Loan Agreement which bears interest at 3.5% at year end.

(10) Lease Commitments

Kaleida leases various equipment and facilities under noncancelable operating leases expiring at various dates in the future. Rental expense for all operating leases were approximately $26 million and $23 million in 2009 and 2008, respectively. Future minimum payments under noncancelable operating leases as of December 31, 2009 having lease terms in excess of one year are as follows (dollars in thousands):

2010	$	18,996
2011		16,711
2012		15,315
2013		15,109
2014		14,938

(11) Pension and Other Postretirement Benefits

(a) *Pension Plans*

Defined Benefit Plan – Kaleida sponsors a defined benefit plan (the Plan) covering substantially all of its eligible employees. The Plan provides benefits based upon years of service and the employee's compensation. Kaleida's funding policy is to contribute amounts required by the Employee Retirement Income Security Act. The amount to be funded is subject to annual review by management and Kaleida's consulting actuary.

The following table sets forth the defined benefit pension plan's projected benefit obligation and fair value of plan assets at December 31:

		2009	2008
		(Dollars in thousands)	
Change in projected benefit obligation:			
Benefit obligation at beginning of year	$	434,838	386,939
Service cost		16,637	14,993
Interest cost		26,357	24,958
Plan amendments		194	—
Actuarial losses		13,850	20,585
Benefits paid		(13,537)	(12,637)
Benefit obligation at end of year	$	478,339	434,838
Change in plan assets:			
Fair value of plan assets at beginning of year	$	255,848	349,292
Actual return on plan assets		63,025	(97,607)
Employer contributions		20,700	16,800
Benefits paid		(13,537)	(12,637)
Fair value of assets at end of year	$	326,036	255,848

The funded status of the plan and amounts recognized in the consolidated balance sheets at December 31, are as follows:

		2009	2008
		(Dollars in thousands)	
Funded status at end of year:			
Fair value of plan assets	$	326,036	255,848
Projected benefit obligation		478,339	434,838
Pension liability recognized in the consolidated balance sheets at end of year (included as a component of other long-term liabilities)	$	(152,303)	(178,990)
Amount recorded in unrestricted net assets at end of year:			
Net actuarial loss	$	(136,988)	(158,134)
Prior service costs		(1,047)	(644)
	$	(138,035)	(158,778)

The estimated prior service cost and net actuarial loss that will be amortized from unrestricted net assets in 2010 are approximately $191,000 and $3.8 million, respectively.

The accumulated benefit obligations at the Plan's measurement date for 2009 and 2008 was approximately $417 million and $379 million, respectively.

The components of net periodic pension cost for the years ended December 31 is as follows:

		2009	2008
		(Dollars in thousands)	
Service cost	$	16,637	14,993
Interest cost		26,357	24,958
Expected return on plan assets		(29,870)	(28,466)
Amortization of net prior service credit		(209)	(209)
Amortization of actuarial loss		1,842	—
Net periodic pension cost	$	14,757	11,276

The weighted average assumptions used to determine pension cost and benefit obligations at the Plan's measurement date (December 31):

	2009	2008
Discount rate for benefit obligations	6.00%	6.20%
Discount rate for net pension cost	6.20	6.60
Rate of compensation increase	4.00	4.00
Expected long-term rate of return on plan assets	8.50	8.50

Investment Policy – The Plan's investment policy provides for a diversified portfolio to minimize risk to the extent possible. The expected long-term rate of return on plan assets reflects long-term earnings expectations on existing plan assets and those contributions expected to be received during the current plan year. In estimating that rate, appropriate consideration was given to historical returns earned by plan assets in the fund and the rates of returns expected to be available for reinvestment. Rates of return were adjusted to reflect current capital market assumptions and investment allocations.

The following table presents Kaleida's defined benefit pension plan's assets at December 31, 2009 that are measured at fair value on a recurring basis. The hierarchy and inputs to valuation techniques to measure fair value of the plan's assets are the same as outlined above in note 7 of the consolidated financial statements (dollars in thousands):

	Total	Level 1	Level 2	Level 3
Investments:				
Cash and cash equivalents	$ 25,921	25,921	—	—
Fixed income mutual funds	75,626	75,626	—	—
Common stocks	25,259	25,259	—	—
Common collective funds	113,484	12,901	100,431	152
Limited partnerships	81,415	—	—	81,415
Insurance contract	4,331	—	4,331	—
	$ 326,036	139,707	104,762	81,567

The insurance contract held within Kaleida's defined benefit plan is recorded at contract value which approximates fair value.

A summary of activity for all investments with Level 3 fair value measurements for the year ended December 31, 2009 follows (dollars in thousands):

Balance, beginning of year	$ 63,402
Net purchases	9,626
Net realized losses	(2,795)
Change in net unrealized gains and losses	11,334
Balance, end of year	$ 81,567

Contributions – For the plan year ended December 31, 2009, Kaleida has contributed $20.7 million. Expected contributions for the plan year ending December 31, 2010 will be made at a level recommended by Kaleida's consulting actuary and in accordance with ERISA funding requirements.

Estimated Future Benefit Payments – The following benefit payments, which reflect expected future service, are as follows for the Plan (dollars in thousands):

2010	$ 20,576
2011	20,756
2012	22,364
2013	24,221
2014	25,931
2015 – 2019	165,962

(Continued)

The expected benefits are based on the same assumptions used to measure Kaleida's benefit obligations at December 31, 2009 and include future employee service.

Other Pension Benefit Plans – In addition, Kaleida contributes to a multi-employer defined benefit pension plan as required by union contracts from which benefits are paid to certain union employees. Additionally, Kaleida provides an employer-matched Tax Sheltered Annuity program (403(b) Plan) for nonunion employees. Total expense under these plans was approximately $2.6 million and $2.1 million for 2009 and 2008, respectively.

(b) *Retiree Health and Life Insurance Plan*

Kaleida also maintains a contributory retiree health and life insurance plan covering only certain eligible employees of DeGraff Memorial Hospital (DeGraff). The following table sets forth the funded status and amounts recognized in the consolidated balance sheets at December 31:

		2009	2008
		(Dollars in thousands)	
Accumulated postretirement obligation at end of year	$	5,446	4,390
Fair value of plan assets at end of year		—	—
Postretirement obligation recognized at end of year included as a component of other long-term liabilities	$	(5,446)	(4,390)

Net postretirement benefit cost was approximately $368,000 and $447,000 for the years ended December 31, 2009 and 2008, respectively. The weighted average assumptions used to determine postretirement benefit cost and obligations at the Plan's measurement date (December 31):

	2009	2008
Discount rate for benefit obligations	5.80%	6.30%
Discount rate for net postretirement cost	6.30	6.30

For measurement purposes, 2009 increases in the per capita cost of covered health care benefits were assumed for medical and prescription drugs at 9.0%. The rate is assumed to decrease gradually to 5% by 2015 and remain at that level thereafter for all classifications. An one-percentage point change in assumed healthcare cost trend rates would not have a material impact on the future cost or benefit obligation.

(Continued)

(12) Asset Retirement Obligations

Kaleida has asset retirement obligations (AROs) arising from regulatory requirements to perform certain asset retirement activities in the event they renovate or demolish buildings in the future. The liability was initially measured at fair value and subsequently is adjusted for accretion expense and changes in the amount or timing of the estimated cash flows. The following table presents the activity for the AROs for the years ended December 31:

	2009	2008
	(Dollars in thousands)	
Balance at beginning of year	$ 10,049	9,830
Net obligations settled in current period	(605)	(321)
Accretion expense	773	540
Balance at end of year	$ 10,217	10,049

(13) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets at December 31 are available for the following purposes:

	2009	2008
	(Dollars in thousands)	
Capital expansion and improvements	$ 66,507	10,195
Advancement of medical education and research and healthcare services	48,701	40,537
	$ 115,208	50,732

Permanently restricted net assets at December 31 are restricted as follows:

	2009	2008
	(Dollars in thousands)	
Funds to be held in perpetuity, the income from which is expendable to support healthcare services, including medical research	$ 13,040	9,990
Funds to be held in perpetuity, the income from which is expendable to support pediatric healthcare services	6,509	5,064
	$ 19,549	15,054

In 2009 and 2008, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes of operating expenses of $9.4 million and $11.1 million, respectively, and purchases of equipment of $11.5 million and $1.7 million, respectively.

(Continued)

(14) Functional Expenses

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

		2009	2008
		(Dollars in thousands)	
Healthcare services	$	997,079	922,265
General and administrative		162,315	162,753
	$	1,159,394	1,085,018

(15) Commitments and Contingencies

(a) *Concentration of Credit Risk*

Financial instruments that potentially subject Kaleida to concentrations of credit risk consist primarily of accounts receivable and certain investments. Investments, which include government obligations, marketable equity securities, other alternative investments funds, and fixed income securities, are not concentrated in any corporation or industry.

Kaleida receives a significant portion of its payments for services rendered from a limited number of government and commercial third-party payors, including Medicare, Medicaid, and various health maintenance organizations. Kaleida has not historically incurred any significant concentrated credit losses in the normal course of business.

(b) *Conversion of DeGraff Memorial Hospital*

The Berger Commission had recommended that DeGraff Memorial Hospital be converted to a residential health care facility. Based upon subsequent consideration, the NYS Commissioner of Health (Commissioner) deferred that recommendation until a further market and need based analysis could be completed. The Commissioner will have until the end of 2011 to reevaluate this recommendation.

(c) *Closure of Waterfront Health Care Center*

In November 2009, Kaleida filed a request with DOH to close Waterfront Health Care Center. On January 15, 2010, DOH approved the plan of closure. Kaleida has not initiated the plan of closure.

(d) *Collective Bargaining Agreements*

A significant portion of Kaleida employees work under collective bargaining agreements, the majority of which will expire in May 2011.

EMPLOYEE ABSENCE REPORT - 2009

Name: Matt Wood Dept: Empl #

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31
JULY			H	/	/						/	/			AE			/	/						/	/					
AUG	/	/					6:39	/	/	Shutdown					/	/						/	/			AU			/	/	
SEPT					/	/	H					/	/						/	/						/	/		LE AU	AU	
OCT		*	/	/						/	/						/	/						/	/						/
NOV	/			6:19			/	/						/	/						/	/		6:01	6:08	H	H	/	/		
DEC					/	/						/	/						/	/				H	H	/	/	H	H		H

V	Vacation	LEE	Left early excused	AE	Absence excused	H	Holiday	VW	Verbal warning
P	Personal	LEU	Left early unexcused	AU	Absence unexcused	/	Weekend	WW	Written Warning
L	Late	NWA	No work available	AUR	Absence unreported	OI	Occupational injury	S	Suspension

* Verbal warning 10/2 * Suspension

* written warning 11/6

KALEIDA
HEALTH

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efoster@kaleidahealth.org

April 7, 2011

Ms. Debora Hayes
CWA Staff Representative
821 Elk Street, Suite B
Buffalo, NY 14210

RE: 2011 Contract Negotiations

Dear Ms. Hayes,

This is a response to your request for information regarding Kaleida's Consolidated Financial Statements. We are sending electronic copies of the statements for 2006 – 2009. 2010 Audited financial statements are not yet issued and the drafts have not yet been approved by the Board.

If you should have further questions please contact me at 859-8587.

Sincerely,

Eleanor Foster

Eleanor H. Foster
Director Labor Employee Relations

Attachments