KALEIDA HEALTH

Reporting Required by the Uniform Guidance

Year ended December 31, 2019

(With Independent Auditors' Reports Thereon)

KALEIDA HEALTH

Auditors' Reports Required by the Uniform Guidance

Year ended December 31, 2019

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KPMG LLP
500 Seneca Street, Suite 600
Buffalo, NY 14204

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

The Board of Directors
Kaleida Health:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Kaleida Health (Kaleida), which comprise the consolidated balance sheet as of December 31, 2019, and the related consolidated statements of operations and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated April 29, 2020.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

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firm of the KPMG network of independent member firms affiliated with
KPMG International Cooperative ("KPMG International"), a Swiss entity.

Purpose of this Report

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

KPMG LLP

April 29, 2020

Independent Auditors' Report on Compliance for the Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

The Board of Directors
Kaleida Health:

Report on Compliance for Major Federal Program

We have audited Kaleida Health's (Kaleida) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Kaleida's major federal program for the year ended December 31, 2019. Kaleida's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Major Federal Program

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

Report on Internal Control over Compliance

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

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

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

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

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the consolidated financial statements of Kaleida as of and for the year ended December 31, 2019, and have issued our report thereon dated April 29, 2020, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

September 30, 2020

KALEIDA HEALTH

Schedule of Expenditures of Federal Awards

Year ended December 31, 2019

Federal grantor/pass-through grantor/program title	CFDA number	Agency or Pass-through number	Federal expenditures
U.S. Department of Housing and Urban Development:			
Mortgage Insurance – Hospitals (Section 241/242)	14.128	(see note 3)	$ 338,425,224
U.S. Department of Health and Human Services:			
Passed through the State of New York			
Department of Health:			
Child and Adult Food Care Program	10.558	(see note 3)	53,913
Family Planning Services	93.217	(see note 3)	34,047
Children's Health Insurance Program	93.767	(see note 3)	8,423
Maternal and Child Health Services Block Grant to States (MCH Block Grant)	93.994	(see note 3)	412,026
State Planning and Establishment Grants for the Medical Assistance Program	93.778	(see note 3)	58,179
Passed through Health Research, Inc.:			
HHP Ebola Preparedness and Response	93.817	(see note 3)	117,169
National Bioterrorism Hospital Preparedness Program	93.074	(see note 3)	109,951
Total federal expenditures			$ 339,218,932

See accompanying notes to schedule of expenditures of federal awards.

KALEIDA HEALTH

Notes to Schedule of Expenditures of Federal Awards

Year ended December 31, 2019

(1) Organization

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 (consisting of Buffalo General Medical Center, John R. Oishei Children's Hospital, the Millard Fillmore Suburban Hospital, DeGraff Memorial Hospital, and two hospital based nursing facilities), Visiting Nursing Association of WNY, Inc., VNA Home Care Services, Inc., General Physician, P.C. and its subsidiaries (General Physicians), Great Lakes Physicians, P.C. (Great Lakes), several other subsidiaries, and two charitable foundations that raise funds for Kaleida.

(2) Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (Schedule) presents the activity of federal award programs administered by Kaleida is in accordance with the requirements of Title 2 U.S. Code of Federal Regulation: Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a select portion of the operations of the Kaleida, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Kaleida. The Schedule is presented on the accrual basis of accounting.

The amounts reported as federal expenditures were obtained from Kaleida's general ledger which is the source of Kaleida's consolidated financial statements. The general ledger is reconciled to the appropriate federal financial reports for the applicable program and periods. The amounts reported in these federal financial reports are prepared from records maintained for each program.

Kalieda has elected not to charge the 10% *de minimis* indirect cost rate.

(3) Federal Award Programs

(a) Loans Outstanding (CFDA No. 14.128)

Kaleida has the following obligations outstanding that are insured or coinsured by the U.S. Department of Housing and Urban Development, with a summary of loan activity in 2019.

Contract number	CFDA number	Original loan amount	Loan balance at December 31, 2018	Payments	Borrowings	Loan balance at December 31, 2019
014-13007	14.128	$ 189,588,800	28,833,596	5,905,558	—	22,928,038
014-13022	14.128	89,152,000	4,914,326	3,665,489	—	1,248,837
014-10039	14.128	57,540,000	42,013,510	2,106,651	—	39,906,859
014-10039	14.128	18,290,000	12,247,052	723,653	—	11,523,399
014-10047	14.128	100,253,000	81,798,777	3,055,498	—	78,743,279
014-10050	14.128	51,864,100	44,052,824	1,420,841	—	42,631,983
014-10065	14.128	128,042,400	124,565,139	3,118,084	—	121,447,055
		$ 634,730,300	338,425,224	19,995,774	—	318,429,450

Loan balances outstanding at the beginning of the year plus current year borrowings are included in the federal expenditures presented in the Schedule.

(b) Child and Adult Food Care Program (CFDA No. 10.558)

The Visiting Nursing Association of Western New York, Inc. and VNA Home Care Services, Inc. administers programs to provide food service for eligible children and adults in nonresidential day care settings.

Awards under these programs for the year ended December 31, 2019 are as follows:

Contract number	Program	Total expenditures	Federal share	Federal expenditures
1,953	Child and Adult Food Program	53,913	100 %	53,913
		$ 53,913		53,913

(c) Family Planning Services (CFDA No. 93.217)

Kaleida administers a program to provide quality birth control services to both men and women and medical and counseling services in the areas of sexually transmitted infections and human sexuality.

The award under this program for the year ended December 31, 2019 is as follows:

Contract number	Program	Total expenditures	Federal share	Federal expenditures
C-027026	Family Planning	$ 680,941	5%	34,047
		$ 680,941		34,047

(d) Children's Health Insurance Program (CFDA No. 93.767)

Kaleida has a grant from the New York State Department of Health (NYSDOH) for the Facilitated Enrollment Program.

Awards under this program for the year ended December 31, 2019 are as follows:

Contract number	Program		Total expenditures	Federal share	Federal expenditures
C-028920	Consumer Assistance for the NYHBE; In Person Assistors and Navigators	$	162,603	5.18%	8,423
		$	162,603		8,423

(e) Maternal and Child Health Services Block Grant (CFDA No. 93.994)

Kaleida operates numerous programs designed to provide health services to pregnant women, mothers, infants, and children. Funding is provided from federal and various other sources.

The federal portion of the award under these programs for the year ended December 31, 2019, is as follows:

Contract number	Program		Total expenditures	Federal share	Federal expenditures
C-027026	Family Planning	$	680,941	10.00 %	68,094
C-028941	Regional Perinatal Center Grant		293,224	100.00 %	293,224
C32397GG	School Based Health Program-Core Grant		156,599	17.30 %	27,092
C32397GG	School Based Health Program-Core Grant		135,723	17.40 %	23,616
		$	1,266,487		412,026

(f) Medical Assistance Program (CFDA 93.778)

Kaleida has received a grant from the New York State Department of Health (DOH) to provide financial assistance for payments of medical assistance on behalf of cash assistance recipients, children, pregnant women, and the aged who meet income and resource requirements.

Awards under these programs for the year ended December 31, 2019 are as follows:

Contract number	Program	Total expenditures	Federal share	Federal expenditures
C-028920	Consumer Assistance for the NYHBE: In Person Assistors and Navigators	$ 162,603	35.78%	58,179
		$ 162,603		58,179

(g) HHP Ebola Preparedness and Response (CFDA No. 93.817)

Kaleida has received a federally funded grant from Health Research Inc. (HRI) to support Ebola Preparedness and Response.

The award under this program for the year ended December 31, 2019 is as follows:

Contract number	Program	Total expenditures	Federal share	Federal expenditures
15-0805-01	Ebola Preparedness & Response	$ 117,169	100 %	117,169
		$ 117,169		117,169

(h) National Bioterrorism Hospital Preparedness Program (CFDA No. 93.074)

Kaleida has received a federally funded grant from Health Research Inc. (HRI) to initiate a bioterrorism hospital preparedness program.

Awards under these programs for the year ended December 31, 2019 are as follows:

Contract number	Program	Total expenditures	Federal share	Federal expenditures
15-0689-06	Bioterrorism	$ 109,951	100 %	109,951
		$ 109,951		109,951

KALEIDA HEALTH

Schedule of Findings and Questioned Costs

Year ended December 31, 2019

(1) Summary of Auditor's Results

(a) Type of report issued on whether the financial statements were prepared in accordance with generally accepted accounting principles: **Unmodified**

(b) Internal control deficiencies over financial reporting disclosed by the audit of the financial statements:

- Material weakness: **No**
- Significant deficiency: **None reported**

(c) Noncompliance material to the financial statements: **No**

(d) Internal control deficiencies over major programs disclosed by the audit:

- Material weakness: **No**
- Significant deficiencies: **None Reported**

(e) Type of report issued on compliance for major programs: **Unmodified**

(f) Audit findings that are required to be reported in accordance with 2 CFR 200.516(a): **No**

(g) Major program:

- Mortgage Insurance – Hospitals (Section 241/242) – CFDA 14.128

(h) Dollar threshold used to distinguish between Type A and Type B programs: $750,000

(i) Auditee qualified as a low-risk auditee: **Yes**

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

None.

(3) Findings and Questioned Costs Relating to Federal Awards

None.

KALEIDA HEALTH

Consolidated Financial Statements

December 31, 2019 and 2018

(With Independent Auditors' Report Thereon)

KALEIDA HEALTH

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KPMG LLP
500 Seneca Street, Suite 600
Buffalo, NY 14204

Independent Auditors' Report

The Board of Directors
Kaleida Health:

We have audited the accompanying consolidated financial statements of Kaleida Health, which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of operations and changes in net assets, and cash flows for each of the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

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, 2019 and 2018, and the results of its operations and changes in net assets and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

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firm of the KPMG network of independent member firms affiliated with
KPMG International Cooperative ("KPMG International"), a Swiss entity.

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Emphasis of Matters

As discussed in note 2(t) to the consolidated financial statements, during the year ended December 31, 2019, Kaleida Health adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-18, *Restricted Cash*, ASU No. 2014-*09, Revenue from Contracts with Customers (Topic 606)*, and ASU 2018-08, *Clarifying the Scope and Audit Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to these matters.

Other Reporting Required by the Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2020 on our consideration of Kaleida's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contract, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Kaleida's internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Kaleida's internal control over financial reporting and compliance.

KPMG LLP

April 29, 2020

KALEIDA HEALTH

Consolidated Balance Sheets

December 31, 2019 and 2018

(Dollars in thousands)

Assets		**2019**	**2018**
Current assets:			
Cash and cash equivalents	$	32,891	61,731
Investments (notes 6 and 7)		158,868	168,709
Accounts receivable (note 4):			
Patient, less estimated allowance for doubtful accounts of $0 in 2019 and $35,852 in 2018		277,870	298,229
Other (note 10)		48,632	44,635
Grants receivable		2,279	13,287
Estimated third-party payor receivables (note 4)		33,145	19,934
Inventories		51,803	46,219
Prepaid expenses and other current assets		25,056	17,989
Total current assets		630,544	670,733
Assets limited as to use (notes 5, 6, 7, and 10):			
Designated under debt agreements		40,207	39,830
Designated under self-insurance programs		84,353	89,862
Board designated and donor restricted		112,769	123,322
Other		1,945	2,568
		239,274	255,582
Property and equipment, less accumulated depreciation and amortization (note 9)		777,319	767,635
Other (note 10)		51,086	54,472
Total assets	$	1,698,223	1,748,422

(Continued)

KALEIDA HEALTH

Consolidated Balance Sheets

December 31, 2019 and 2018

(Dollars in thousands)

Liabilities and Net Assets		**2019**	**2018**
Current liabilities:			
Accounts payable and other accrued expenses	$	188,017	175,665
Accrued payroll and related expenses		73,587	70,292
Estimated third-party payor settlements (note 4)		20,190	22,203
Current portion of long-term debt (note 11)		48,040	41,210
Line of credit (note 11)		49,054	42,054
Other current liabilities		9,245	9,744
Total current liabilities		388,133	361,168
Long-term debt, less current portion (note 11)		390,788	399,827
Estimated self-insurance reserves (note 5)		151,905	158,293
Asset retirement obligations (note 14)		8,446	8,066
Pension and postretirement obligations (note 13)		363,224	319,436
Other long-term liabilities (note 4)		12,966	5,025
		927,329	890,647
Total liabilities		1,315,462	1,251,815
Commitments (notes 9 and 12)			
Net assets:			
Without donor restrictions:			
Available for operations		667,657	724,825
Provision for future benefit costs (note 13)		(421,383)	(355,337)
Total without donor restrictions		246,274	369,488
Total with donor restrictions		136,487	127,119
Total net assets		382,761	496,607
Total liabilities and net assets	$	1,698,223	1,748,422

See accompanying notes to consolidated financial statements.

KALEIDA HEALTH

Consolidated Statements of Operations and Changes in Net Assets

Years ended December 31, 2019 and 2018

(Dollars in thousands)

	2019	2018
Operating revenue:		
Patient service revenue, net of contractual allowances and discounts (notes 3 and 4)	$ 1,796,424	1,782,352
Less provision for bad debts	—	23,316
Net patient service revenue	1,796,424	1,759,036
Other operating revenue (notes 6 and 15)	48,229	61,405
Net assets released from donor restrictions for operations	18,243	12,811
Total operating revenue	1,862,896	1,833,252
Operating expenses:		
Salaries and benefits	1,044,172	995,598
Purchased services and other	402,790	381,196
Medical and nonmedical supplies	362,717	350,612
Depreciation and amortization	78,697	77,088
Interest	20,014	18,681
Total operating expenses	1,908,390	1,823,175
(Loss) income from operations	(45,494)	10,077
Other income (loss):		
Investment income (loss) (note 6)	14,640	(18,057)
Net realized (losses) on sales of investments (note 6)	(2,539)	(5,650)
Net change in unrealized gains (losses) on investments (note 6)	9,402	(6,824)
Total other income (losses), net	21,503	(30,531)
Deficiency of revenue over expenses	(23,991)	(20,454)

(Continued)

KALEIDA HEALTH

Consolidated Statements of Operations and Changes in Net Assets

Years ended December 31, 2019 and 2018

(Dollars in thousands)

		2019	2018
Changes in net assets without donor restrictions:			
Deficiency of revenue over expenses	$	(23,991)	(20,454)
Pension and postretirement related changes other than net periodic cost (note 13)		(66,046)	26,508
Transfers to net assets with donor restrictions		(5,863)	(145)
Net assets released from restrictions for capital expenditures		2,545	6,397
Other, net		(141)	(1,398)
(Decrease) increase in net assets without donor restrictions		(93,496)	10,908
Changes in net assets with donor restrictions:			
Contributions, bequests, and grants		8,338	8,892
Restricted investment income		4,653	6,284
Net change in unrealized gains (losses) on investments		6,264	(15,362)
Transfers from net assets without donor restrictions		5,863	—
Net assets released from restrictions for operations		(13,205)	(12,811)
Net assets released from restrictions for capital expenditures		(2,545)	(6,397)
Increase (decrease) in net assets with donor restrictions		9,368	(19,394)
Cumulative effect on change in accounting principle (note 1(t))		(29,718)	—
Change in net assets		(113,846)	(8,486)
Net assets, beginning of year		496,607	505,093
Net assets, end of year	$	382,761	496,607

See accompanying notes to consolidated financial statements.

KALEIDA HEALTH

Consolidated Statements of Cash Flows

Years ended December 31, 2019 and 2018

(Dollars in thousands)

		2019	2018
Operating activities:			
Change in net assets	$	(113,846)	(8,486)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:			
Depreciation and amortization		78,697	77,088
Accretion expense		380	540
Restricted contributions and bequests		(1,385)	(1,639)
Restricted grants		(239)	(8,236)
Change in interests in other investments		(13,544)	19,772
Net change in unrealized (gains) losses on investments		(15,666)	19,598
Net realized gains and losses on investments		(2,114)	(634)
Provision for bad debts		—	23,316
Pension and postretirement related changes other than net periodic cost		66,046	(26,508)
Change in operating assets and liabilities:			
Patient accounts receivable		20,359	(69,568)
Estimated third party payor receivables		(13,211)	(5,814)
Other receivables, inventories, and prepaid expenses		(16,648)	(3,966)
Accounts payable, accrued expenses, accrued payroll, and construction costs payable		12,143	25,805
Estimated third party payor settlements		(2,013)	(395)
Other assets		9,283	5,377
Other liabilities		(21,203)	(12,965)
Net cash (used in) provided by operating activities		(12,961)	33,285
Investing activities:			
Additions to property and equipment, net of change in capital acquisitions included in accounts payable		(73,057)	(64,832)
Purchases of investments		(431,127)	(346,291)
Proceeds from sales of investments		485,257	398,826
Capital contributions to joint venture		(5,897)	(4,626)
Net cash used in investing activities		(24,824)	(16,923)
Financing activities:			
Principal payments on debt and capital lease obligations		(37,424)	(36,131)
Proceeds from restricted contributions and bequests		1,385	1,639
Proceeds from line of credit		7,000	32,054
Proceeds from restricted grants		11,247	11,192
Proceeds from capital lease program		23,400	—
Payments for deferred financing fees		—	(97)
Net cash provided by financing activities		5,608	8,657
Net (decrease) increase in cash and cash equivalents		(32,177)	25,019
Cash and cash equivalents and restricted cash and cash equivalents, beginning of year		69,893	44,874
Cash and cash equivalents and restricted cash and cash equivalents, end of year	$	37,716	69,893
Supplemental disclosures on cash flow activities:			
Restricted cash and cash equivalents	$	4,825	8,162
Capital lease obligations		11,815	33,333
Interest paid		19,823	19,909
Capital acquisitions included in accounts payable		7,854	4,350

See accompanying notes to consolidated financial statements.

KALEIDA HEALTH

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(1) Organization

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 (consisting of Buffalo General Medical Center, John R. Oishei Children’s Hospital, the Millard Fillmore Suburban Hospital, DeGraff Memorial Hospital, and two hospital based nursing facilities), Visiting Nursing Association of WNY, Inc., VNA Home Care Services, Inc., Upper Allegheny Health System (UAHS), General Physician, P.C. and its subsidiaries (General Physicians), Great Lakes Physicians, P.C. (Great Lakes), several other subsidiaries, and two charitable foundations that raise funds for Kaleida.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying consolidated financial statements of Kaleida are presented consistent with the Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) 954, *Health Care Entities*, (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. This is accomplished by classification of fund balances into two net classes of net assets: without donor restrictions and with donor restrictions. Descriptions of the two net asset categories and the types of transactions affective each category follow:

- Without donor restriction – Net assets that are not subject to donor stipulations restricting their use but may be designated for specific purposes by the Kaleida or may be limited by contractual agreements with outside parties.
- With donor restrictions – Net assets subject to donor stipulations that expire with the passage of time, can be fulfilled by actions pursuant to the stipulations, or which may be perpetual. Laws may also extend donor imposed restrictions, including the New York Prudent Management of Institutional Funds Act (NYPMIFA). Donors include contributors, including the maker of certain grants.

The consolidated financial statements include the accounts of Kaleida and its wholly owned subsidiaries and those financial statements where Kaleida controls professional corporations in accordance with Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) 810, *Consolidation*. All significant intercompany transactions between Kaleida and its subsidiaries have been eliminated in consolidation.

(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 consolidated financial statements and accompanying notes. The significant areas which are affected by the use of estimates include, the determination of net realizable value of patient accounts receivable, estimated third-party payor settlements, self-insurance reserves, certain equity investments held, and pension and postretirement obligations. Actual results could differ from those estimates, and the differences in estimates from actual results could be significant.

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(c) Cash and Cash Equivalents

Cash equivalents include amounts deposited in short-term interest-bearing accounts. For purposes of the consolidated statements of cash flows, cash and cash equivalents that are maintained with respect to debt agreements and under self insurance programs are reported as restricted cash and cash equivalents, which totaled $4.8 million and $8.2 million as of December 31, 2019 and 2018, respectively (note 6). In addition, for the 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, other than such amounts restricted in accordance with debt agreements and under self insurance programs.

Kaleida invests cash in money market securities and maintains cash balances in financial institutions in excess of federal deposit insurance limits. As discussed in note 2(m), cash equivalents available for operating purposes are stated at fair value and are considered a Level 1 financial asset.

(d) Charity Care

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.

(e) Net Patient Service Revenue

Effective January 1, 2019, net patient service revenue is reported at the amount that reflects the consideration to which Kaleida expects to be entitled in exchange for providing patient care in accordance with FASB ASC Topic 606, *Revenue from Contracts with Customers* (ASC 606). Generally, Kaleida bills the patients and third-party payors several days after the services are performed or shortly after discharge. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by Kaleida. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. Kaleida believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in our Health System receiving inpatient acute care services. Kaleida measures the performance obligation from admission into Kaleida to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided and Kaleida does not believe it is required to provide additional goods or services to the patient.

Because all of its performance obligations relate to contracts with a duration of less than one year, Kaleida has elected to apply the optional exemption provided in ASC 606-10-50-14 (a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

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Kaleida utilizes the portfolio approach practical expedient in ASC 606 for contracts related to net patient service revenue. Kaleida accounts for contracts within each portfolio as a collective group, rather than individual contracts with patients, based on the payment pattern expected in each portfolio category and the similar nature and characteristics of the patients within each portfolio. As a result, Kaleida has concluded that revenue for a given portfolio would not be materially different than if accounting for revenue on a contract by contract basis.

Generally, patients who are covered by third-party payors are responsible for patient responsibility balances, including deductibles and coinsurance, which vary in amount. See footnote 4 regarding third-party reimbursement agreements.

Kaleida estimates the transaction price for patients with deductibles and coinsurance based on historical experience and current market conditions. Kaleida grants credit without collateral to patients, most of whom are local residents and are insured by commercial and government insurance plans. Patient accounts receivable is reported at net realizable value. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual amounts, discounts, and implicit price concessions (routine uncollectible amounts). Subsequent changes to the estimate of the transaction price, and net realizable value of patient accounts receivable, are generally recorded as adjustments to patient service revenue in the period of the change. Adjustments arising from a change in transaction price were not significant in 2019.

Prior to the adoption of ASC 606, Kaleida accounted for amounts due from patients but unpaid as bad debts, which were reported separately from net patient service revenue (see note 4).

Throughout the year, after all reasonable collection efforts have been exhausted, Kaleida will write-off the difference between the amount billed to the patient (and third party payors if applicable) and the amount actually collected against reserves established. Management monitors collection patterns to determine the appropriateness of the underlying assumptions used in estimating is patient service revenue and related reserves.

(f) Investments and Investment Income

Investments are reported at fair value, unless measured at net asset value (NAV). Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between willing participants at the measurement date. See notes 2(m) and 7 for a discussion of fair value measurements.

Participation units in pooled investment funds held within net assets without donor restrictions and net assets with donor restrictions 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.

Investment income or loss (including interest, dividends, realized gains and losses on investments, change in interest in other investments, and change in unrealized gains and losses) is included in excess 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, and funds generated by and used to support operations are recorded as a component of operating revenue.

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(g) Inventories

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

(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 recorded 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 based on the fair value of the asset, less costs to sell, or discounted cash flows compared to book value.

Depreciation is generally computed under the straight line method using date of service for buildings, fixtures and improvements, and the half-year convention for moveable equipment 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 50 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.

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

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

Kaleida is also self-insured for employee health and pharmaceutical coverage. Kaleida has recorded a provision for estimated claims which is based on Kaleida's own experience and includes the estimated ultimate cost of reported claims and claims incurred but not yet reported.

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(k) Donor Contributions

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Such gifts, grants, and contributions are reported as a net asset with donor restrictions 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, a net asset with donor restrictions is reclassified to net assets without donor restrictions and reported as net assets released from donor restrictions and included as a component of total operating revenue, if for operations, or as an addition to net assets without donor restriction, if for capital asset 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 net assets without donor restrictions. Donor restricted funds for capital assets are released when such assets are placed into service.

(l) Endowment Funds

Kaleida's net assets with donor restrictions consist of individual endowment funds established by donors to support a variety of purposes.

The New York Prudent Management of Institutional Funds Act (NYPMIFA or Act) provides standards of fund management for those charged with governance of institutional or endowment funds. Among its various provisions, it requires that those responsible for managing institutional funds adopt a written investment policy; requires diversification of investments; and provides institutions with a process by which donor restrictions can be lifted. The Act allows an institution to determine the appropriate level of endowment expenditure, subject to donor-imposed restrictions expressed in the gift instrument. However, it establishes a rebuttable presumption of imprudence if such expenditure in any year is greater than 7% of the five year average fair market value of an endowment fund.

Kaleida classifies as net assets with donor restrictions (a) the original value of gifts donated to an endowment fund, (b) the original value of subsequent gifts to that fund, and (c) accumulations to the fund made in accordance with the direction, if any, of the applicable donor gift instrument at the time the accumulation is added to the fund. Expendable portions of endowment gifts restricted by donors to specific purposes and any retained income and appreciation thereon is included as a component of net assets with donor restrictions. When the restrictions on these assets have been met, the assets are reclassified to net assets without donor restrictions pursuant to Kaleida's spending policy.

(m) Fair Value Measurement of Financial Instruments

Kaleida estimates fair value based on a valuation framework that uses a fair value hierarchy that prioritizes the inputs to valuation techniques used 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 as defined by ASC 820, *Fair Value Measurements and Disclosures*, are described below:

Level 1: Quoted prices in active markets that are accessible at the measurement date for identical assets and liabilities or investment vehicles that otherwise have a readily determinable fair value.

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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.

Level 3: Unobservable inputs that are supported by little or no market activity and require significant management judgment or estimation in the determination of fair value.

Kaleida also estimates the fair value of investments in certain investment companies 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. Such investments are not reported within the three categories of fair value of hierarchy referred to above.

(n) Goodwill

Goodwill is an asset representing the future economic benefit arising from assets acquired in a business combination that are not separately identified and recognized. Kaleida applies the provisions of ASC Topic 350, *Intangibles – Goodwill and Other*, including the private company alternatives for goodwill and certain identifiable intangible assets. Accordingly, management assesses and measures impairment only if a triggering event occurs. If there is a triggering event, a qualitative assessment to determine whether it is more-likely than-not that the fair value of the entity is less than its carrying amount is considered prior to performing a quantitatively based goodwill impairment test. If considered necessary, an impairment loss is recognized for any excess of the carrying amount of the goodwill over the implied fair value of that goodwill, as determined by using a discounted cash flow analysis.

Kaleida qualitatively assessed various factors in 2019 and 2018 and determined that there was no impairment in 2019 or 2018.

(o) Debt Issuance Costs

Kaleida has capitalized various costs associated with obtaining long-term financing. Debt issuance costs and original issue discounts are recorded as a component of debt outstanding and are amortized over the period the related obligation is outstanding, generally using the interest method.

(p) 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. Kaleida recognizes income tax positions when it is more-likely than-not that the position will be sustainable based on the merits of the position. Management has concluded that there are no material uncertain tax positions that need to be recorded.

(q) 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, the (deficiency) of revenue over expenses. Changes in net assets without donor restrictions which are excluded from the deficiency of revenue over expenses, consistent with generally accepted accounting principles, include 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 contributions without donor restrictions and interest and dividends from various funds, are reported as operating revenue and expenses in the determination of Kaleida's operating results. Investment trading activities and peripheral transactions (i.e., nonrecurring restructuring charges and gains and losses related to the disposal or impairment of fixed assets) are reported as other income or losses.

(r) 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, equity securities, other alternative investments funds, and fixed income mutual funds, 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 commercial insurance plans. Kaleida has not historically incurred any significant concentrated credit losses in the normal course of business.

(s) Reclassifications

Certain amounts in the 2018 consolidated financial statements have been reclassified to conform to 2019 presentation. See footnote 2(t).

(t) Recently Adopted Accounting Pronouncements

(i) During 2019, Kaleida adopted ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance, and requires significantly expanded disclosures about revenue recognition. The core principle of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance in ASU No. 2014-09, including subsequent amendments, was effective for Kaleida as of January 1, 2019.

Kaleida adopted ASU No. 2014-09 on January 1, 2019 using the modified retrospective method of transition. Kaleida's process for implementation began with a preliminary evaluation of ASU 2014-09 and considered subsequent interpretations by the FASB Transition Resource Group for Revenue Recognition and the America Institute of Certified Public Accountants. Kaleida performed an analysis of revenue streams and transactions under ASU 2014-09. For net patient service revenue, Kaleida performed an analysis related to the application of the portfolio approach as a practical expedient to group patient contracts with similar characteristics, such that revenue for a given portfolio would not be materially different than if it were evaluated on a contract-by-contract basis. Upon adoption, the majority of what was currently classified as provision for uncollectible

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accounts and presented as a reduction to net patient service revenue on the consolidated statements of operations and changes in net assets is treated as a price concession that reduces the transaction price, which is reported as net patient service revenue. Upon adoption, Kaleida enhanced its methodology to recognize revenue to conform to the standard therefore recognized a cumulative negative adjustment to nets assets of approximately $29.7 million.

The new standard also requires enhanced disclosures related to the disaggregation of revenue and significant judgments made in measurement and recognition.

(ii) Restricted Cash

In November 2016, FASB issued ASU 2016-18, *Restricted Cash*, which requires that a statement of cash flows explain the changes during the period in total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Kaleida adopted ASU 2016-12 retrospectively as of January 1, 2019 to include restricted cash amounts within the statement of cash flows.

(iii) Contributions Made and Contributions Received

In June 2018, FASB issued ASU 2018-08, *Clarifying the Scope and Audit Guidance for Contributions Received and Contributions Made*, which clarifies existing guidance in order to address diversity in practice in classifying grants (including governmental grants) and contracts received by not-for-profits. The standard also clarifies the guidance on how entities determine when a contribution is conditional. Kaleida adopted ASU 2018-08 effective January 1, 2019, which did not have a material impact to the consolidated financial statements.

(3) Uncompensated Care

(a) Charity 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.

To enhance and accelerate the charity care qualification process, Kaleida utilizes a presumptive charity scoring system in order to determine charity care eligibility. The system uses demographic and public financial information to qualify patient accounts for charity care. In addition, Kaleida makes and receives payments to and from a statewide pool to support the delivery of charity care to patients throughout New York. These net payments are reported as a component of patient service revenue in the consolidated financial statements.

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Kaleida's net cost of charity care, including payments to and receipts from the statewide pool was approximately $11.5 million in 2019 and $12.8 million in 2018 as follows:

		Year ended December 31	
		2019	2018
		(Dollars in thousands)	
Charity care at cost	$	7,722	8,383
Payments to statewide pool		7,333	8,191
Receipts from statewide pool		(3,539)	(3,769)
Cost of charity care, net	$	11,516	12,805

The cost of charity care provided was determined based on the application of the ratio of Kaleida's overall cost to patient charges.

(b) Community Benefit

Kaleida Health offers numerous programs and services in various community-based settings as well as its main campuses and facilities in response to the needs of the communities it serves, including a special emphasis on the medically underserved populations. Programs and services include community health fairs, health screenings, health education programs for community groups and the general public, school health education programs, consumer health information, facilitated (insurance plan) enrollment services, patient financial assistance, clinical services including school-based health centers, outpatient clinics, adult and pediatric long-term care services, neonatal intensive care services, pediatric behavioral health services, and care coordination services including a Medicaid health home for children.

Staff members of Kaleida Health also participate in volunteer activities and community leadership efforts by donating significant hours of service to other not-for-profit organizations. Kaleida Health supports graduate medical education and offers health professions education support for community members through continuing education programs and scholarships.

In addition, Kaleida Health serves a very large Medicaid and indigent patient population in Western New York whose healthcare services are only partially reimbursed by Federal or State government payment programs. Kaleida Health provides service to Medicaid patients at reimbursement levels that are below the cost of care provided.

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(4) Patient Service Revenue and Third-Party Reimbursement Agreements

The composition of net patient service revenue by primary payor for the years ended December 31 are as follows:

	2019		2018	
Medicare	$ 314,901	18 %	$ 318,141	18 %
Medicaid	39,961	2	44,630	3
Medicare and Medicaid Managed Care	735,403	41	699,172	40
No fault and worker's compensation	25,583	1	29,054	2
Commercial carriers	655,565	36	646,138	37
Self pay and other	25,011	1	21,901	1
	$ 1,796,424	100 %	$ 1,759,036	100 %

Revenue from patient's deductibles and coinsurance are included in the preceding categories based on the primary payor.

Kaleida's primary geographic areas are generally consistent with its hospital settings. The composition of patient care service revenue based on each hospital's lines of business and method of reimbursement for the years ended December 31, 2019 and 2018 are as follows:

	2019				
	Kaleida	UAHS	Home Care	Other	Total
Service lines:					
Hospital – inpatient	$ 935,691	78,600	—	—	1,014,291
Hospital – outpatient	379,903	90,131	—	—	470,034
Physician services	—	16,517	—	174,892	191,409
Home care	—	—	120,690	—	120,690
	$ 1,315,594	185,248	120,690	174,892	1,796,424
Method of reimbursement:					
Fee for service	$ 1,274,488	185,248	120,690	174,892	1,755,318
Capitation and risk sharing	41,106	—	—	—	41,106
	$ 1,315,594	185,248	120,690	174,892	1,796,424

Healthcare services are generally recognized as the services are transferred over time. In addition to the above, other operating revenues and gains includes revenue recognized for various other System activities, including pharmacy rebates (340B Program) of $5.0 million, which is recognized as cash rebates are received.

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	2018				
	Kaleida	UAHS	Home Care	Other	Total
Service lines:					
Hospital – inpatient	$ 941,312	77,376	—	—	1,018,688
Hospital – outpatient	367,697	88,263	—	—	455,960
Physician services	—	16,893	—	152,058	168,951
Home care	—	—	115,437	—	115,437
	$ 1,309,009	182,532	115,437	152,058	1,759,036
Method of reimbursement:					
Fee for service	$ 1,278,309	182,532	115,437	152,058	1,728,336
Capitation and risk sharing	30,700	—	—	—	30,700
	$ 1,309,009	182,532	115,437	152,058	1,759,036

In addition to the above, other operating revenues and gains includes revenue recognized for various other System activities, including pharmacy rebates (340B Program) of $5.9 million, which is recognized as cash rebates are received.

For the year ended December 31, 2018, prior to the adoption of ASC 606, patient accounts receivable were reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable for the determination of an allowance for doubtful accounts, Kaleida analyzed past collection history and trends to estimate the appropriate allowance for doubtful accounts and provision for bad debts.

Accounts receivable, prior to reserves established, is summarized as follows at December 31, 2019 and 2018:

	2019	2018
	(In thousands)	
Patient	$ 53,442	46,669
Commercial payors	365,073	338,891
Governmental	108,144	117,850
Total	526,659	503,410
Reserve for contractual allowance	(175,344)	(172,946)
Allowance for doubtful accounts	(73,445)	(32,235)
Patient accounts receivable, net	$ 277,870	298,229

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

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negotiated or otherwise pre-determined amounts under the provisions of the New York State All Patient Defined Diagnosis Related Groups (APR-DRGs) for Medicaid and other NonMedicare 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 New York State Public Health Law, all NonMedicare 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).

Kaleida has entered into an agreement with the Center for Medicare and Medicaid Services under the Bundled Payments for Care Improvement initiative. This initiative is comprised of four broadly defined models of care, which link payments for multiple services beneficiaries receive during an episode of care. Under the initiative, organizations enter into payment arrangements that include financial and performance accountability for episodes of care. Kaleida participates in Model 2, which involves a retrospective bundled payment arrangement where actual expenditures are reconciled against a target price for an episode of care. Under this payment model, Medicare continues to make fee-for-service (FFS) payments to providers and suppliers furnishing services to beneficiaries in Model 2 episodes. Bundled payments for Care Improvement Model 2 ended with discharges through June 30, 2018, and Kaleida began participation in Bundle Payments for Care Improvement Advance (BPCIA), effective for discharges October 1, 2018 and after. The total expenditures for a beneficiary's episode is later reconciled against a bundled payment amount (the target price) determined by CMS. A payment or recoupment amount is then made by Medicare reflecting the aggregate performance compared to the target price. In Model 2, the episode of care includes a Medicare beneficiary's inpatient stay in the acute care hospital, post-acute care and all related services during the episode of care, which for Kaleida ends 90 days after hospital discharge. Of the available 48 different clinical episodes to participate in under model 2, Kaleida Health has selected 6 episodes. Under BPCIA, Kaleida has remained in 5 episodes.

(b) Skilled Nursing and Home Health Care Services

Net patient service revenue for skilled nursing services under the Medicaid program is based on a statewide pricing system using the Resource Utilization Group (RUGs) patient classification system. DOH calculates direct and indirect portions of Kaleida's rate by blending equally a statewide and a peer group component determined by DOH using 2007 filed cost report data as the base year for allowable costs. Capital and noncomparable costs are based on facility specific costs. Also, the direct portion of Kaleida's rate is adjusted twice annually for changes in the intensity of services provided to the nursing home residents. With respect to long-term care, New York providers negotiate long-term care agreements with managed-care plans to provide services to people who need long-term care services and support. In 2014, New York State also began enrolling individuals in Managed long-term care program. This program focused on the chronically ill or disabled and began with Medicare/Medicaid

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dual-eligible beneficiaries. This program was expanded to a voluntary program for certain qualifying individuals.

Home health care services for Medicare are reimbursed under a prospective payment system (PPS) basis, 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. Local Medicare Advantage plans utilize a modified version of the PPS reimbursement methodology. Medicaid reimburses for certified home health care visits on a per episode basis similar to Medicare. For all other payors, the basis of payment includes prospectively determined per visit rates and fees, discount on charges, and fee schedules.

Under the terms of the aforementioned contractual agreements, certain elements of reimbursement are subject to negotiation, audit and/or final determination by third-party payors. The accompanying consolidated financial statements include certain estimates of final settlements. In accordance with ASC 606, Kaleida considers compensation that will be subject to negotiation or ultimately determined at a later date as variable consideration and therefore recognizes as revenue only amounts to which it is entitled and to the extent it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Third-party settlement receivables or liabilities are created when there are amounts Kaleida believes may be received later or subject to pay back in the future. Variances between estimated and final settlements are included in net patient service revenue on the statement of operations in the year in which the settlement or change in estimate occurs.

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 2019 and 2018, Kaleida recorded adjustments for estimated settlements with third-party payors, which resulted in increases to net patient service revenue of approximately $21.2 million and $18.5 million, respectively.

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 substantial 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,

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related expenses, and the costs of administering the trust. The estimated liability for self-insured workers' compensation is also discounted at 3.00% at December 31, 2019 and 3.26% at December 31, 2018. Estimated self-insurance reserves are approximately $151.9 million and $158.3 million at December 31, 2019 and 2018, respectively. As of December 31, 2019 and 2018, there are no material amounts recoverable from Kaleida's excess liability policies.

At December 31, 2019 and 2018, Kaleida has irrevocable secured letters of credit supporting the medical malpractice and workers compensation self-insurance programs totaling approximately $4.4 million at December 31, 2019 and 2018. The annual fee for the letters of credit ranges between 85 and 125 basis points and they renew automatically unless the issuer notifies both parties in writing sixty days in advance. In addition, Kaleida has established additional security through collateral trust agreements on self-insured investments in the amount of $39.4 million and $37.6 million at December 31, 2019 and 2018, respectively.

At December 31, 2019 and 2018, there were various actions filed against Kaleida by former patients and others seeking compensatory and punitive damages.

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.

(6) Investments and Assets Limited as to Use

The components of investments and assets limited as to use, stated at fair value, at December 31 are summarized as follows:

		2019	2018
		(Dollars in thousands)	
Current investments:			
Cash and cash equivalents	$	3,395	15,446
Equity and fixed income mutual funds		34,542	18,007
Equity securities		34,897	51,450
Other investments		86,034	83,806
		158,868	168,709
Assets limited as to use:			
Designated under debt agreements:			
Cash and cash equivalents		2,594	2,593
U.S. government obligations		37,613	37,237
		40,207	39,830

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		2019	2018
		(Dollars in thousands)	
Designated under self-insurance programs:			
Cash and cash equivalents	$	2,231	5,569
Equity and fixed income mutual funds		42,432	48,536
Equity securities		13,669	13,014
Other investments		26,021	22,743
		84,353	89,862
Board designated and donor restricted:			
Cash and cash equivalents		3,217	12,809
U.S. government obligations		259	259
Equity and fixed income mutual funds		5,679	5,270
Equity securities		60,580	63,074
Other investments		43,034	41,910
		112,769	123,322
Other:			
Cash and cash equivalents		1,945	2,568
		239,274	255,582
Total investments and assets limited as to use	$	398,142	424,291

The components of investment return without donor restrictions include the following for the years ended December 31:

		2019	2018
		(Dollars in thousands)	
Other operating revenue:			
Interest and dividends	$	5,220	7,201
Other income:			
Investment income:			
Interest and dividends	$	1,096	1,715
Change in interests in other investments		13,544	(19,772)
	$	14,640	(18,057)
Net realized losses on sales of investments	$	(2,539)	(5,650)
Net change in unrealized gains and (losses) on investments		9,402	(6,824)

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(7) Fair Value Measurements

The following is a description of the valuation methodologies used by Kaleida for its assets measured at fair value on a recurring basis:

Cash equivalents: Cash equivalents are valued at the NAV reported by the financial institution.

Equity and fixed income securities: Kaleida's equity and fixed income portfolios consist of direct investment in individual equity and fixed income securities that are valued based on quoted market prices (Level 1 measurements). If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments or, if necessary, matrix pricing from a third party pricing vendor to determine fair value (Level 2 measurements). 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 a designated security.

In addition, Kaleida's equity and fixed income portfolios include investments in actively traded mutual funds valued at the closing price on the active market in which the individual funds are traded (Level 1 measurements) and pooled/commingled investment funds where Kaleida owns shares, units, or interests of pooled funds rather than the underlying securities in the fund. The pooled/commingled funds are measured at fair value based on the nature of the underlying investments, timing of the pricing of the fund's NAV and liquidity restrictions for the funds (Level 1 or 2 measurements).

Other investments: Other investments consist of private, domestic and global equities, real assets, fixed income, and hedge funds. Other investments are typically redeemable with the fund at NAV under the original terms of the partnership agreement and/or subscription agreements. The estimation of fair value of other investments for which the underlying securities do not have a readily determinable value is made using the NAV per share or its equivalent as a practical expedient and reported separately from investments categorized in the hierarchy table. The inputs or 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 following tables set forth Kaleida's consolidated financial assets that were accounted for at fair value on a recurring basis and those in which NAV issued as a practical expedient as of December 31, 2019 and December 31, 2018. Investments are classified in their entirety based on the lowest level of input that is

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significant to the fair value measurement and include related strategy, liquidity, and funding commitments (dollars in thousands):

	2019					
	NAV or equivalent	Level 1	Level 2	Total	Redemption period frequency	Days notice
Investments:						
Cash and cash equivalents	$ —	13,382	—	13,382	Daily	Same day
U.S. government obligations	—	—	37,872	37,872	Daily	Same day
Equity securities	—	109,146	—	109,146	Daily	Same day
Equity and fixed income mutual funds	—	82,653	—	82,653	Daily	Same day
Other investments:						
Hedge funds	56,473	—	—	56,473	Monthly – see (a) below	10 days – See (a) below
Private equity	36,136	—	—	36,136	Quarterly – see (a) below	45 days – See (a) below
Global equity	27,115	—	—	27,115	Monthly – quarterly	1 – 90 days
Real assets	7,113	—	—	7,113	See (a) below	See (a) below
Fixed income	28,252	—	—	28,252	See (a) below	See (a) below
	$ 155,089	205,181	37,872	398,142		

	2018					
	NAV or equivalent	Level 1	Level 2	Total	Redemption period frequency	Days notice
Investments:						
Cash and cash equivalents	$ —	38,985	—	38,985	Daily	Same day
U.S. government obligations	—	—	37,496	37,496	Daily	Same day
Equity securities:						
Large-cap securities	—	121,817	—	121,817	Daily	Same day
International securities	—	5,721	—	5,721	Daily	5 days
Equity and fixed income mutual funds	—	71,813	—	71,813	Daily	Same day
Other investments:						
Hedge funds	43,334	—	—	43,334	Monthly – see (a) below	10 days – See (a) below
Private equity	41,926	—	—	41,926	Quarterly – see (a) below	45 days – See (a) below
Global equity	24,485	—	—	24,485	Monthly – quarterly	1 – 90 days
Domestic equity	10,345	—	—	10,345	Annually	60 days
Fixed income	28,369	—	—	28,369	See (a) below	See (a) below
	$ 148,459	238,336	37,496	424,291		

(a) Certain investments include noncontrolling shares or interests in funds where the controlling general partner serves as the investment manager. Such shares are typically not eligible for redemption from the fund or general partner, but are typically sold to third party buyers in private transactions that

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typically can be completed in approximately 90 days. It is the intent of Kaleida to hold these investments until the fund has fully distributed all proceeds to the limited partners and the term of the partnership agreements expire.

Under the terms of certain agreements, Kaleida has committed to contribute a specified level of capital over a defined period of time. Through December 31, 2019, Kaleida has committed to contribute approximately $71.8 million to such investments, of which Kaleida has contributed approximately $45.5 million and has outstanding commitments of $26.3 million.

There were no significant transfers into or out of Level 1 and Level 2 fair value measurements during the years ended December 31, 2019 and 2018.

(8) Financial Assets and Liquidity Resources

Financial assets and liquidity resources available within one year for general expenditures, including operating expenses, scheduled principal payments on debt, capital construction that is not financed by debt and other operating obligations, on an aggregated basis for are as follows as of December 31:

		2019	2018
		(Dollars in thousands)	
Financial assets, at year-end	$	761,514	842,173
Less those financial assets not available for general expenditure within one year due to:			
Contractual or donor restrictions		(111,611)	(146,385)
Donor restricted endowment		(129,597)	(122,139)
Pledges receivable		(2,334)	(3,265)
Board designated funds		(14,466)	(13,018)
Financial assets available to meet cash needs for general expenditures within one year	$	503,506	557,366

Kaleida’s working capital and cash flows are typically not exposed to significant seasonal variations during a year. In addition, the board designated funds above can be made available for general expenditure with the approval of the Kaleida board or, if applicable, a respective affiliate board’s approval. Kaleida and its affiliates also have access to lines of credit during 2019 totaling $6.0 million that may be used for general expenditures.

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(9) Property and Equipment

A summary of property and equipment at December 31 follows:

	2019	2018
	(Dollars in thousands)	
Land and land improvements	$ 33,573	33,911
Buildings, fixtures, and improvements	1,109,589	1,087,423
Movable equipment	1,000,471	977,666
	2,143,633	2,099,000
Less accumulated depreciation and amortization	1,439,839	1,367,260
	703,794	731,740
Construction in progress	73,525	35,895
	$ 777,319	767,635

During 2019, Kaleida completed the Windsong Infusion project and the Millard Fillmore Suburban Hospital Mother Baby Unit project. Total estimated costs for these projects were $9.8 million.

During 2018, Kaleida completed the Flint Road Laboratory consolidation project and the DeGraff Memorial Hospital Emergency Room renovation. Total estimated costs for these projects were $22.3 million.

Commitments outstanding at December 31, 2019, for routine capital projects totaled approximately $31.9 million. Net property and equipment includes approximately $13.6 million and $12.1 million applicable to capital leases at December 31, 2019 and 2018. During 2019 and 2018 Kaleida capitalized net interest expense of approximately $275,000 and $925,000, respectively.

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(10) Other Accounts Receivable and Other Assets

(a) Other Accounts Receivable

Other accounts receivable in the accompanying consolidated balance sheets is comprised of the following at December 31:

		2019	2018
		(Dollars in thousands)	
Grants and related contracts	$	12,069	4,764
Receivables from non-consolidated affiliates		10,181	6,792
Medical supply rebate receivable		3,750	2,845
Current portion of pledges receivable		2,334	3,265
Rent receivables		2,084	1,826
Pharmaceutical discount program receivables		1,929	1,566
Contributions receivable		880	120
Other		15,405	23,454
	$	48,632	44,632

(b) Other assets

Other assets in the accompanying consolidated balance sheets is comprised of the following at December 31:

		2019	2018
		(Dollars in thousands)	
Long term pledges receivable, net (1)	$	3,579	5,427
Equity investments in joint ventures (2)		8,905	12,772
Goodwill (3)		33,668	28,034
Other		4,934	8,239
	$	51,086	54,472

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(1) Long term pledges receivable include donor contributions that are not expected to be collected within one year. These amounts are reported at their present value and consisted of the following at December 31:

	2019	2018
	(Dollars in thousands)	
Gross pledges receivable	$ 3,878	5,762
Less discount and reserve	(299)	(335)
	$ 3,579	5,427

Total pledges receivable, which includes $3.9 million and $4.4 million of current pledges receivable included within other receivables on the consolidated balance sheets at December 31, 2019 and 2018, respectively, are expected to be realized in the following periods:

	2019	2018
	(Dollars in thousands)	
Less than one year	$ 2,959	4,350
One year to five years	1,756	4,136
More than five years	—	200
	$ 4,715	8,686

(2) Investments in partnerships and joint ventures in which Kaleida owns more than 20% but less than 80% or has significant influence on operations are accounted for using the equity method of accounting. Kaleida recognizes its proportionate share of income or loss from their partnership and joint venture investments in the current period and records this income or loss as an increase or decrease in the related investment.

In November 2018, Collaborative Care Ventures, LLC, a joint venture that Kaleida Health owns 60% of, sold its' purchased assets of MedFirst Urgent Care, PLLC, and acquired an interest in WNY UC Support, LLC (the purchaser).

(3) In recent years, General Physicians and Great Lakes Physicians have purchased the assets of several primary care and specialty physician practices. During 2019, such practices were acquired for consideration totaling $5.3 million, which resulted in the recognition of goodwill of approximately $5.1 million. There were no acquisitions during 2018.

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(11) Long-Term Debt

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

		2019	2018
		(Dollars in thousands)	
Mortgage notes payable for GVI in monthly installments of $539,000, including interest at 4.24%, through February 1, 2037. (a)	$	78,743	81,799
Mortgage notes payable for HighPointe SNF in monthly installments of $325,000, including interest at 5.73%, through February 1, 2037. (a)		42,632	44,053
Mortgage notes payable for BGMC in monthly installments of $545,000, including interest at 2.44% through August 1, 2023. (a)		22,928	28,834
Mortgage notes payable for MFH in monthly installments of $514,000, including interest at 3.29% through November 1, 2017 and $314,000, including interest at 3.29% through April 1, 2020.		1,249	4,914
Mortgage notes payable for MFS in monthly installments of $338,000, including interest at 4.00%, through October 1, 2033. (a)		39,907	42,013
Mortgage notes payable for BGMC Cath Lab in monthly installments of $107,000, including interest at 3.95%, through February 1, 2032. (a)		11,523	12,247
Mortgage notes payable for John R. Oishei Children's Hospital with interest only payments at 4.18% through October 2017. Thereafter, monthly installments of $645,000, including interest at 4.18% through October 1, 2042. (a)		121,447	124,565
Term note payable, varying amounts of principal and interest due monthly at 4.62% through 2025. (b)		10,231	10,377
Bank held revenue bonds, varying annual payments of principal plus interest at 2.5% through October 2030, secured by related property and equipment and Hospital gross receipts. (b)		7,925	9,125

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		2019	2018
		(Dollars in thousands)	
Capital lease obligations, less imputed interest of $6,319,028 and $5,157,171 at December 31, 2019 and 2018, respectively.(c)	$	19,364	22,302
Equipment notes payable (d)		88,523	65,553
Other		3,046	4,922
		447,518	450,704
Debt issuance costs		8,690	9,667
		438,828	441,037
Less current maturities		48,040	41,210
	$	390,788	399,827

(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 Hospital Corporation (consisting of Buffalo General Medical Center, John R. Oishei Children's Hospital, the Millard Fillmore Suburban Hospital, DeGraff Memorial Hospital, Kaleida Laboratories, Community Health Services and two hospital based nursing facilities) and Visiting Nursing Association of WNY (collectively, the borrowing entities).

On December 9, 2014, Kaleida secured a loan commitment of approximately $120.0 million by entering into a new mortgage note and building loan agreement. In October 2017, HUD increased the amount of the approved mortgage note by approximately $7.5 million. The proceeds from the loan commitment were used to finance the cost of the construction of the John R. Oishei Children's Hospital adjacent to the Buffalo General Medical Center. The mortgage note has a 25 year term, fixed monthly payments and an annual interest rate of 4.18%.

On December 7, 2010, Kaleida secured a loan commitment of approximately $51.9 million by entering into a new mortgage note and building loan agreement. The proceeds from the loan commitment were used to finance the cost of constructing and equipping Highpointe SNF. The mortgage note has a 25 year term, fixed monthly payments and an annual interest rate of 5.73%.

On September 19, 2012, Kaleida refinanced the existing mortgage of $62.2 million maturing in August 2023 related to improvements made to the Buffalo General Medical Center. Although the principal amount refinanced and mortgage term remained the same, the interest rate and monthly payment were modified. This refinancing was not determined to be a significant modification for financial reporting purposes.

On July 22, 2015, Kaleida refinanced the existing mortgage of $48.2 million maturing in October 2033 related to improvements made to the Millard Fillmore Suburban Hospital and the existing mortgage of $14.5 million maturing in February 2032 related to cardiac catheterization laboratory equipment. Although the principal amount refinanced and mortgage term remained the same, the interest rate and

(Continued)

monthly payment were modified. This refinancing was not determined to be a significant modification for financial reporting purposes.

On October 28, 2016, Kaleida refinanced the existing mortgage of $87.8 million maturing in February 2037 related to the construction and equipping of the Gates Vascular Institute (GVI). Although the principal amount refinanced and mortgage term remained the same, the interest rate and monthly payment were modified. This refinancing was not determined to be a significant modification for financial reporting purposes.

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, December 4, 2009, December 7, 2010, September 19, 2012, December 9, 2014, July 22, 2015, October 28, 2016, and September 19, 2017. As required under the Mortgage Reserve Fund Agreement, 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. For the year ended December 31, 2019, Kaleida was not compliant with the enhanced days cash on hand requirement and is working with HUD as required by the Regulatory Agreements. This instance of non-compliance is not an event of default.

Under the terms of the borrowing agreements, Kaleida established certain bank trustee accounts which include the Mortgage Reserve Fund. Included in the accompanying consolidated balance sheets, classified as assets limited as to use, is Kaleida’s balance in this fund at December 31 as follows:

		2019	2018
		(Dollars in thousands)	
Mortgage reserve fund	$	40,207	39,830

(b) *Upper Allegheny Health System*

Effective January 2018, BRMC defeased and replaced McKean County Hospital Authority Revenue Refunding Bonds, Series 2005 in part with a $10.5 million bank term note payable in varying monthly amounts of principal plus interest at 4.62% through January 2025, at which point a balloon payment of $8.2 million is due. The bank held revenue bonds and bank term loan agreements contain various covenants, certain of which pertain to the maintenance of financial ratios, and potential limitations on indebtedness.

(c) *Capital Leases*

The capital lease obligations represent arrangements entered into with banks 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) as well as by private financing institutions.

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(d) Equipment Notes Payable

In March 2016, Kaleida Health entered into an equipment financing agreement with EB-5 Childrens, LLC and PPNP Investors, LLC. The maximum aggregate principal amount of credit that can be extended under the agreement is $50.0 million. There was approximately $43.4 million and $44.5 million of borrowings on the financing agreement at December 31, 2019 and 2018, respectively, which represents a 7 year note which bears interest at approximately 2.0% payable monthly through August 2023. Kaleida has entered into several equipment financing agreements with private financing institutions. These notes range from 5-7 years and bear interest at 2.65% - 3.92% payable monthly through August 2024. There was approximately $45.1 million and $21.0 million of borrowings on the financing agreements at December 31, 2019 and 2018, respectively.

(e) Lines of Credit

In February 2018, Kaleida entered into a Revolving Credit Loan Agreement (Loan Agreement) with a financial institution. The Loan Agreement requires Kaleida to pay off the outstanding balance annually for a period of twenty calendar days. The maximum aggregate principal amount of credit that can be extended under the Loan Agreement is $50.0 million. Interest is payable monthly and is calculated using the lender's prime rate. Kaleida also pays monthly an unused facility fee equal to 10 basis points per year on the average unused daily balance. HUD agreed to subordinate its security interest in the first $60.0 million worth of patient accounts receivable to the bank as collateral for borrowings on the Loan Agreement. Total borrowings outstanding were $45.0 million and $40.0 at December 31, 2019 and 2018. In connection with the Loan Agreement, Kaleida is required to maintain certain financial ratios, file certain financial information, and achieve a minimum pay down period. For the year ended December 31, 2019, Kaleida did not meet certain requirements of this borrowing and is working with the financial institution to modify the terms of the borrowing or refinance the Loan Agreement. The Loan Agreement is classified as a current liability as of December 31, 2019.

UAHS also has available a $5.0 million bank demand line of credit for working capital with interest payable at LIBOR plus 2.15%, secured by bank deposits. Total borrowings outstanding were $4.0 million and $2.0 at December 31, 2019 and 2018.

Future annual principal payments of long-term debt and capital leases for the next five years as of December 31, 2019 are as follows (dollars in thousands):

2020	$	48,040
2021		46,694
2022		44,317
2023		38,806
2024		24,697

(12) 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 was approximately $55.6 million and $51.0 million in 2019 and 2018, respectively. Future minimum payments under noncancelable operating

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leases as of December 31, 2019 having lease terms in excess of one year are as follows (dollars in thousands):

2020	$	36,192
2021		31,531
2022		29,337
2023		28,155
2024		24,485

(13) Pension and Other Postretirement Benefits

(a) Kaleida Pension Plans

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 (ERISA). 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:

		2019	2018
		(Dollars in thousands)	
Change in projected benefit obligation:			
Benefit obligation at beginning of year	$	895,578	953,007
Service cost		24,371	28,422
Interest cost		36,458	32,361
Plan amendments		2,560	—
Actuarial losses (gains)		134,919	(86,999)
Benefits paid		(33,215)	(31,213)
Benefit obligation at end of year	$	1,060,671	895,578
Change in plan assets:			
Fair value of plan assets at beginning of year	$	611,085	635,550
Actual return on plan assets		120,300	(35,752)
Employer contributions		40,500	42,500
Benefits paid		(33,215)	(31,213)
Fair value of assets at end of year	$	738,670	611,085

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

		2019	2018
		(Dollars in thousands)	
Funded status at end of year:			
Fair value of plan assets	$	738,670	611,085
Projected benefit obligation		1,060,671	895,579
Pension obligation recognized in the consolidated balance sheets at end of year	$	(322,001)	(284,494)
Amount recorded in net assets without donor restrictions at end of year for future pension cost:			
Net actuarial loss	$	(375,582)	(320,646)
Prior service costs		(2,477)	94
	$	(378,059)	(320,552)

The estimated prior service credit and net actuarial loss that will be amortized from net assets without donor restrictions in 2019 as a component of net periodic pension cost are approximately $11,000 and $14.4 million, respectively.

The accumulated benefit obligations at the Plan’s measurement date for 2019 and 2018 was approximately $984.0 million and $835.0 million, respectively.

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

		2019	2018
		(Dollars in thousands)	
Service cost	$	24,370	28,423
Interest cost		36,458	32,361
Expected return on plan assets		(54,707)	(51,699)
Amortization of net prior service (credit) cost		(11)	(11)
Amortization of actuarial loss		14,390	23,173
Net periodic pension cost	$	20,500	32,247

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

	2019	2018
Discount rate for benefit obligations	3.44 %	4.44 %
Discount rate for net pension cost	4.44	3.76
Rate of compensation increase for benefit obligations	3.00	3.00
Rate of compensation increase for net pension cost	3.00	3.00
Expected long-term rate of return on plan assets	8.00	8.00

The investment policy specifies the type of investment vehicles appropriate for the plan, asset allocation guidelines, criteria for selection of investment managers, procedures to maintain overall investment performance, as well as investment manager performance. 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 evaluated based on current capital market assumptions and investment allocations.

The range of target investment allocation percentages at December 31, 2019 are listed below:

Asset class	Min	Target	Max
Public equities		39 %	
Hedge funds long bias		6	
Private equity		15	
Total growth assets	42 %	60 %	78 %
Liquid fixed income		10 %	
Hedge funds – absolute return		5	
Growth fixed income		10	
Total risk reduction assets	18 %	25 %	33 %
Liquid real assets		3 %	
Private real assets		12	
Total inflation protection assets	11 %	15 %	20 %

The following tables present Kaleida's defined benefit pension plan's assets at December 31, 2019 and 2018 that are measured at fair value on a recurring basis. The hierarchy and inputs to valuation

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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):

	2019					
	NAV or equivalent	Level 1	Level 2	Total	Redemption period frequency	Days notice
Investments:						
Cash and cash equivalents	$ —	7,286	—	7,286	Daily	Same day
Insurance contract	—	—	1,534	1,534	Daily	Same day
Equity securities:						
Large-cap securities	—	128,526	—	128,526	Daily – monthly	Same day – 9 days
International securities	—	41,783	—	41,783	Daily – monthly	2 – 30 days
Equity and fixed income mutual funds	—	188,557	—	188,557	Daily	Same day
Other investments:						
Hedge funds	141,332	—	—	141,332	Monthly – See note 7(a)	20 days – See note 7(a)
Private equity	155,640	—	—	155,640	Quarterly – See note 7(a)	60 days – See note 7(a)
Global equity	60,846	—	—	60,846	Monthly	3 – 15 days
Real assets	2,572	—	—	2,572	See note 7(a)	See note 7(a)
Fixed income	10,594	—	—	10,594	Annually	180 days
	$ 370,984	366,152	1,534	738,670		

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	2018					
	NAV or equivalent	Level 1	Level 2	Total	Redemption period frequency	Days notice
Investments:						
Cash and cash equivalents	$ —	12,785	—	12,785	Daily	Same day
Insurance contract	—	—	1,706	1,706	Daily	Same day
Equity securities:						
Large-cap securities	—	58,865	—	58,865	Daily – monthly	Same day – 9 days
International securities	—	43,106	—	43,106	Daily – monthly	2 – 30 days
Equity and fixed income mutual funds	—	185,484	—	185,484	Daily	Same day
Other investments:						
Hedge funds	104,176	—	—	104,176	Monthly – See note 7(a)	20 days – See note 7(a)
Private equity	139,559	—	—	139,559	Quarterly – See note 7(a)	60 days – See note 7(a)
Global equity	34,644	—	—	34,644	Monthly	3 – 15 days
Domestic equity	11,580	—	—	11,580	Monthly – annually	30 – 60 days
Real assets	2,104	—	—	2,104	See note 7(a)	See note 7(a)
Fixed income	17,076	—	—	17,076	Annually	180 days
	$ 309,139	300,240	1,706	611,085		

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

Under the terms of certain agreements, Kaleida has committed to contribute a specified level of capital over a defined period of time. Through December 31, 2019, Kaleida has committed to contribute approximately $324.7 million to such investments, of which Kaleida has contributed approximately $226.8 million and has outstanding commitments of $97.9 million.

Contributions – For the calendar year ended December 31, 2019, Kaleida has contributed $40.5 million. Expected contributions for the plan year ending December 31, 2019 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):

2020	$ 38,222
2021	41,044
2022	43,965
2023	47,272
2024	50,108
2025–2029	288,124

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The expected benefits are based on the same assumptions used to measure Kaleida's benefit obligations at December 31, 2019 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 $5.5 million and $4.7 million for 2019 and 2018, respectively.

(b) Upper Allegheny Health System

Olean sponsors a noncontributory defined benefit pension plan covering substantially all employees. The Hospital's policy is to contribute on an annual basis an amount equal to the minimum funding standards of the Employee Retirement Income Security Act of 1974. In addition, BRMC sponsors a noncontributory defined benefit pension plan covering substantially all employees active through March 31, 2011. BRMC's policy is to contribute on an annual basis an amount equal to the minimum funding standards of the Employee Retirement Income Security Act of 1974.

Olean partially froze the defined benefit pension plan effective April 1, 2011 by freezing all nonunion participant benefits as of that date. An enhanced defined contribution Section 403(b) savings incentive plan replaced the pension benefits for nonunion employees. BRMC froze the defined benefit pension plan effective April 1, 2011 by freezing all participant benefits as of that date. An enhanced defined contribution Section 403(b) savings incentive plan replaced the pension benefits.

The following table provides the changes in the projected benefit obligation and plan assets for the year ending December 31, 2019:

		Olean	BRMC	Total
			(Dollars in thousands)	
Change in projected benefit obligation:				
Benefit obligation at beginning of year	$	34,732	31,730	66,462
Service cost		739	82	821
Interest cost		1,332	1,307	2,639
Actuarial losses		6,336	4,818	11,154
Benefits paid		(2,277)	(1,192)	(3,469)
Benefit obligation at end of year	$	40,862	36,745	77,607
Change in plan assets:				
Fair value of plan assets at beginning of the year	$	18,574	18,704	37,278
Actual return on plan assets		2,823	3,005	5,828
Employer contributions		2,818	856	3,674
Benefits paid		(2,404)	(1,192)	(3,596)
Fair value of assets at end of year	$	21,811	21,373	43,184

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The following table provides the changes in the projected benefit obligation and plan assets for the year ending December 31, 2018:

		Olean	BRMC	Total
			(Dollars in thousands)	
Change in projected benefit obligation:				
Benefit obligation at beginning of year	$	37,764	35,167	72,931
Service cost		908	162	1,070
Interest cost		1,217	1,211	2,428
Actuarial losses		(2,695)	(3,687)	(6,382)
Benefits paid		(2,462)	(1,123)	(3,585)
Benefit obligation at end of year	$	34,732	31,730	66,462

		Olean	BRMC	Total
			(Dollars in thousands)	
Change in plan assets:				
Fair value of plan assets at beginning of the year	$	20,221	19,829	40,050
Actual return on plan assets		(959)	(1,227)	(2,186)
Employer contributions		1,961	1,225	3,186
Benefits paid		(2,649)	(1,123)	(3,772)
Fair value of assets at end of year	$	18,574	18,704	37,278

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The funded status of the plan and amounts recognized in the consolidated balance sheets at December 31, 2019 are as follows:

		Olean	BRMC	Total
			(Dollars in thousands)	
Funded status at end of year:				
Fair value of plan assets	$	21,811	21,373	43,184
Projected benefit obligation		(40,862)	(36,745)	(77,607)
Pension obligation recognized in the consolidated balance sheets at end of year	$	(19,051)	(15,372)	(34,423)
Amount recorded in net assets without donor restrictions at end of year for future pension cost:				
Net actuarial loss	$	(23,056)	(20,268)	(43,324)
	$	(23,056)	(20,268)	(43,324)

The funded status of the plan and amounts recognized in the consolidated balance sheets at December 31, 2018 are as follows:

		Olean	BRMC	Total
			(Dollars in thousands)	
Funded status at end of year:				
Fair value of plan assets	$	18,574	18,704	37,278
Projected benefit obligation		(34,732)	(31,730)	(66,462)
Pension obligation recognized in the consolidated balance sheets at end of year	$	(16,158)	(13,026)	(29,184)
Amount recorded in net assets without donor restrictions at end of year for future pension cost:				
Net actuarial loss	$	(17,195)	(17,590)	(34,785)
	$	(17,195)	(17,590)	(34,785)

The net periodic pension expense recognized for Olean and BRMC was approximately $1,018,000 and $524,000, respectively, for the year ended December 31, 2019. The net periodic pension expense recognized for Olean and BRMC was approximately $1,179,000 and $367,000, respectively for the year ended December 31, 2018.

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The weighted average assumptions used to determine pension cost for both Olean and Bradford included (a) discount rate of 4.05% - 4.20%; and (b) expected return on plan assets of 7.25%. The weighted average assumptions used to determine the projected plan obligation for both Olean and Bradford included: (a) discount rate of 2.95% – 3.10%; and (b) compensation increase between 0%–3.09%.

The Hospital's pension plan target allocation, by asset category, are as follows:

	Olean target allocation	BRMC target allocation
Asset category:		
Equity securities	25%–80%	40 %
Debt securities	15%–40%	25
Cash and equivalents	0%–10%	—
Other (partnership and common collective trust)	0%–30%	Not applicable
Inflation hedging	Not applicable	15
Flexible capital	Not applicable	20

The following tables present Olean and BRMC's defined benefit pension plan assets at December 31, 2019 and December 31, 2018, respectively, 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):

	Olean		BRMC		
	NAV or equivalent	Level 1	NAV or equivalent	Level 1	Total
Cash equivalents	$ —	237	—	667	904
Equity securities	—	10,364	—	9,663	20,027
Debt securities	—	5,265	—	4,373	9,638
Flexible capital	2,351	—	2,553	—	4,904
Inflation hedging	3,594	—	4,117	—	7,711
	$ 5,945	15,866	6,670	14,703	43,184

	Olean		BRMC		
	NAV or equivalent	Level 1	NAV or equivalent	Level 1	Total
Cash equivalents	$ —	2,773	—	683	3,456
Equity securities	—	6,737	—	7,987	14,724
Debt securities	—	3,810	—	4,140	7,950
Flexible capital	2,072	—	2,249	—	4,321
Inflation hedging	3,182	—	3,645	—	6,827
	$ 5,254	13,320	5,894	12,810	37,278

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Level 1 investments may be redeemed daily with a day's notice. Investments valued at NAV represent limited partnerships interests (may only be redeemed annually with notice of 65–90 days) and a common collective trust that may be redeemed daily.

Olean expects to contribute $2,137,636 to its pension plan during the annual period ending December 31, 2020. The following benefit payments, which reflect expected future service costs, are expected to be paid:

2020	$	2,359
2021		2,700
2022		2,359
2023		2,460
2024		2,338
Thereafter through 2029		9,906
	$	22,122

BRMC expects to contribute $1,927,090 to its pension plan during the annual period ending December 31, 2020. The following benefit payments are expected to be paid:

2020	$	1,322
2021		1,419
2022		1,495
2023		1,596
2024		1,665
Thereafter through 2029		9,313
	$	16,810

(c) 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:

		2019	2018
		(Dollars in thousands)	
Accumulated postretirement obligation at end of year	$	(5,274)	(5,758)
Fair value of plan assets at end of year		—	—
Postretirement obligation recognized at of year included as a component of pension and postretirement obligations	$	(5,274)	(5,758)

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Net postretirement benefit cost was approximately $343,000 and $612,000 for the years ended December 31, 2019 and 2018, respectively. The weighted average assumptions used to determine postretirement benefit cost and obligations at the Plan's measurement date (December 31):

	2019	2018
Discount rate for benefit obligations	3.12 %	4.23 %
Discount rate for net postretirement cost	4.23	3.53

For measurement purposes, 2019 increases in the per capita cost of covered health care benefits were assumed for medical and prescription drugs at 6.0%. The rate is assumed to decrease gradually on an annual basis. A one-percentage point change in assumed healthcare cost trend rates would not have a material impact on the future cost or benefit obligation.

(d) Collective Bargaining Agreements

A significant portion of Kaleida employees work under collective bargaining agreements which were renegotiated in 2019. The agreements have a duration of three years and will expire in May 2022.

(14) Asset Retirement Obligations

Kaleida has asset retirement obligations (AROs) 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:

		2019	2018
		(Dollars in thousands)	
Balance at beginning of year	$	8,066	11,185
Net obligations settled in current period		—	(3,659)
Accretion expense		380	540
Balance at end of year	$	8,446	8,066

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(15) Other Operating Revenue

Components of other operating revenue for the years ended December 31 are as follows:

		2019	2018
		(Dollars in thousands)	
Grant revenue	$	6,016	13,243
Unrestricted contributions		2,641	2,477
Rental revenue		3,318	2,447
Rebate and other miscellaneous revenue		31,220	37,344
Pharmaceutical discount program revenue		5,034	5,894
	$	48,229	61,405

(16) 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, 2019 and 2018:

		Health care services					Support services		
		Acute	Ambulatory	Physician	Post acute	Other	MG&A	Fundraising	Total
Salaries and benefits	$	664,269	33,890	117,299	121,869	5,640	99,601	1,604	1,044,172
Purchased services and other		246,084	4,458	59,560	22,786	4,884	58,699	6,319	402,790
Medical and nonmedical supplies		272,381	15,806	12,514	12,211	17,597	32,140	68	362,717
Depreciation and amortization		61,640	1,633	2,752	4,593	553	7,515	11	78,697
Interest		15,991	136	53	2,481	81	1,272	—	20,014
2019 Total	$	1,260,365	55,923	192,178	163,940	28,755	199,227	8,002	1,908,390

		Health care services					Support services		
		Acute	Ambulatory	Physician	Post acute	Other	MG&A	Fundraising	Total
Salaries and benefits	$	651,992	37,132	102,509	118,307	5,463	78,985	1,210	995,598
Purchased services and other		250,923	(5,704)	48,880	14,380	4,588	63,270	4,859	381,196
Medical and nonmedical supplies		294,899	16,404	11,911	13,058	14,405	(91)	26	350,612
Depreciation and amortization		46,915	1,806	2,882	4,655	866	19,953	10	77,088
Interest		13,730	180	257	2,563	105	1,845	—	18,681
2018 Total	$	1,258,459	49,818	166,439	152,963	25,427	163,962	6,105	1,823,175

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(17) Donor Restricted Net Assets

Net assets with donor restrictions, which are recorded in assets limited to use on the balance sheet, are composed of the following at December 31:

		2019	2018
		(In thousands)	
Capital expansion and improvements	$	13,517	11,130
Advancement of medical education and research and healthcare services		122,970	115,989
Total	$	136,487	127,119

Donor restricted endowment funds, which have been included in the chart above, represent donor restricted investments, a portion of which is the original gift (to be held in perpetuity) and the accumulated earnings thereon (which represents the unexpended income generated from the permanent endowment net assets).

Changes in donor restricted endowment net assets for the year ended December 31, 2019 and 2018 are as follows:

		2019	2018
Endowment net assets, beginning of year	$	45,496	44,963
Investment return		(644)	1,098
Contributions		794	533
Appropriation of endowment assets for expenditure		(2,588)	(1,314)
Other		349	216
Endowment net assets, end of year	$	43,407	45,496

The total value of the original donor restricted gift was $19.7 million as of December 31, 2019 and 2018.

Kaleida has interpreted the NYPMIFA as requiring the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Kaleida classifies as donor restricted net assets the original value of gifts donated to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified permanently endowed is classified remains as donor restricted net assets until those amounts are appropriated for expenditure by Kaleida in a manner consistent with the standard of prudence prescribed by NYPMIFA. In accordance with NYPMIFA, Kaleida considers certain factors in making a determination to appropriate or accumulate endowment funds. The factors include the duration and preservation of the fund, the purpose of the organization and the donor-restricted endowment fund, general economic conditions,

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the possible effect of inflation and deflation, the expected total return from income and the appreciation of investments, other resources of the organization and the investment policies of the organization. Kaleida estimates approximately $3.6 million to be spent from the donor restricted endowment funds for the year ended December 31, 2020.

(18) Subsequent Event

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 available to be issued on April 29, 2020 and subsequent events have been evaluated through that date.

Subsequent to year end, the broader U.S. economy and local Buffalo region that Kaleida serves was affected by COVID-19. The impact on the Kaleida's operations, if any, cannot yet be determined. The U.S. financial markets have also suffered as a result of COVID-19 and therefore negative changes in the value of financial investments held as of December 31, 2019 that are reported in the accompany consolidated balance sheet may have occurred, which may be material.