



KALEIDA HEALTH

Consolidated Financial Statements

December 31, 2020 and 2019

(With Independent Auditors' Report Thereon)

KALEIDA HEALTH

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KPMG LLP
515 Broadway
Albany, NY 12207-2974

Independent Auditors' Report

The Board of Directors
Kaleida Health:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Kaleida Health, which comprise the consolidated balance sheets as of December 31, 2020 and 2019, 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. 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, 2020 and 2019, 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.



Emphasis of Matter

As discussed in note 2(s) to the consolidated financial statements, during the year ended December 31, 2019, Kaleida Health adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Our opinion is not modified with respect to this matter.

KPMG LLP

Albany, New York
April 29, 2021

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Consolidated Balance Sheets

December 31, 2020 and 2019

(Dollars in thousands)

Assets	2020	2019
Current assets:		
Cash and cash equivalents	\$ 125,126	32,891
Investments (notes 6 and 7)	222,467	158,868
Accounts receivable (note 4):		
Patient accounts receivable	221,257	277,870
Other (note 10)	21,001	48,632
Grants receivable	1,804	2,279
Estimated third-party payor receivables (note 4)	23,065	33,145
Inventories	57,225	51,803
Prepaid expenses and other current assets	21,653	25,056
Total current assets	693,598	630,544
Assets limited as to use (notes 5, 6, 7, and 10):		
Designated under debt agreements	35,978	40,207
Designated under self-insurance programs	84,746	84,353
Board designated and donor restricted	82,496	81,256
Other	1,903	1,945
Interest in net assets of UAHS foundations	45,517	31,513
Property and equipment, less accumulated depreciation and amortization (note 9)	737,257	777,319
Other (note 10)	52,461	51,086
Total assets	\$ 1,733,956	1,698,223

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Consolidated Balance Sheets

December 31, 2020 and 2019

(Dollars in thousands)

Liabilities and Net Assets	2020	2019
Current liabilities:		
Accounts payable and other accrued expenses	\$ 165,286	188,017
Accrued payroll and related expenses	116,771	73,587
Estimated third-party payor settlements (notes 4 and 18)	79,784	20,190
Current portion of long-term debt (note 11)	47,676	48,040
Line of credit (note 11)	45,054	49,054
Other current liabilities	17,827	9,245
Total current liabilities	472,398	388,133
Long-term debt, less current portion (note 11)	348,990	390,788
Estimated self-insurance reserves (note 5)	167,057	151,905
Asset retirement obligations (note 14)	8,841	8,446
Pension and postretirement obligations (note 13)	394,427	363,224
Other long-term liabilities (notes 4 and 18)	119,965	12,966
	1,039,280	927,329
Total liabilities	1,511,678	1,315,462
Commitments (notes 9 and 12)		
Net assets:		
Without donor restrictions:		
Available for operations	571,485	667,657
Provision for future benefit costs (note 13)	(492,317)	(421,383)
Total without donor restrictions	79,168	246,274
Total with donor restrictions	143,110	136,487
Total net assets	222,278	382,761
Total liabilities and net assets	\$ 1,733,956	1,698,223

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Operations and Changes in Net Assets

Years ended December 31, 2020 and 2019

(Dollars in thousands)

	<u>2020</u>	<u>2019</u>
Operating revenue:		
Net patient service revenue (notes 3 and 4)	\$ 1,667,034	1,796,424
Other operating revenue (notes 6, 15 and 18)	155,739	48,229
Net assets released from donor restrictions for operations	<u>17,430</u>	<u>18,243</u>
Total operating revenue	<u>1,840,203</u>	<u>1,862,896</u>
Operating expenses:		
Salaries and benefits	1,032,958	1,044,172
Purchased services and other	434,544	402,790
Medical and nonmedical supplies	381,237	362,717
Depreciation and amortization	80,856	78,697
Interest	<u>18,895</u>	<u>20,014</u>
Total operating expenses	<u>1,948,490</u>	<u>1,908,390</u>
Loss from operations	<u>(108,287)</u>	<u>(45,494)</u>
Other income (loss):		
Investment income (note 6)	122	14,640
Net realized gains (losses) on sales of investments (note 6)	9,257	(2,539)
Net change in unrealized gains on investments (note 6)	<u>3,086</u>	<u>9,402</u>
Total other income, net	<u>12,465</u>	<u>21,503</u>
Deficiency of revenue over expenses	<u>(95,822)</u>	<u>(23,991)</u>

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Consolidated Statements of Operations and Changes in Net Assets

Years ended December 31, 2020 and 2019

(Dollars in thousands)

	<u>2020</u>	<u>2019</u>
Changes in net assets without donor restrictions:		
Deficiency of revenue over expenses	\$ (95,822)	(23,991)
Pension and postretirement related changes other than net periodic cost (note 13)	(72,856)	(66,046)
Transfers to net assets with donor restrictions	(188)	(5,863)
Net assets released from restrictions for capital expenditures	1,798	2,545
Other, net	(38)	(141)
	<u>(167,106)</u>	<u>(93,496)</u>
Decrease in net assets without donor restrictions		
Changes in net assets with donor restrictions:		
Contributions, bequests, grants and other	20,788	8,338
Restricted investment income	2,801	4,653
Net change in unrealized gains on investments	2,468	6,264
Transfers from net assets without donor restrictions	(206)	5,863
Net assets released from restrictions for operations	(17,430)	(13,205)
Net assets released from restrictions for capital expenditures	(1,798)	(2,545)
	<u>6,623</u>	<u>9,368</u>
Increase in net assets with donor restrictions		
Cumulative effect on change in accounting principle (note 1(s))	<u>—</u>	<u>(29,718)</u>
Change in net assets	(160,483)	(113,846)
Net assets, beginning of year	<u>382,761</u>	<u>496,607</u>
Net assets, end of year	<u>\$ 222,278</u>	<u>382,761</u>

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Cash Flows

Years ended December 31, 2020 and 2019

(Dollars in thousands)

	2020	2019
Operating activities:		
Change in net assets	\$ (160,483)	(113,846)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	80,856	78,697
Accretion expense	395	380
Restricted grants, contributions and bequests	(1,235)	(1,624)
Change in interests in other investments	(9,276)	(13,544)
Net change in unrealized (gains) losses on investments	(5,554)	(15,666)
Net realized gains and losses on investments	(12,058)	(2,114)
Pension and postretirement related changes other than net periodic cost	72,856	66,046
Change in operating assets and liabilities:		
Patient accounts receivable	56,613	20,359
Estimated third party payor receivables	10,080	(13,211)
Other receivables, inventories, and prepaid expenses	26,087	(16,648)
Accounts payable, accrued expenses, accrued payroll, and construction costs payable	20,453	12,143
Estimated third party payor settlements, current portion	59,594	(2,013)
Other assets	4,339	9,283
Other liabilities	89,080	(21,203)
Net cash provided by (used in) operating activities	231,747	(12,961)
Investing activities:		
Additions to property and equipment, net of change in capital acquisitions included in accounts payable	(39,782)	(73,057)
Purchases of investments	(310,610)	(431,127)
Proceeds from sales of investments	269,427	485,257
Capital contributions to joint venture	(5,714)	(5,897)
Net cash used in investing activities	(86,679)	(24,824)
Financing activities:		
Principal payments on debt and capital lease obligations	(46,529)	(37,424)
Proceeds from restricted contributions and bequests	1,235	1,385
Proceeds from line of credit	(4,000)	7,000
Proceeds from restricted grants	—	11,247
Proceeds from capital lease program	(4,262)	23,400
Net cash (used in) provided by financing activities	(53,556)	5,608
Net increase (decrease) in cash and cash equivalents	91,512	(32,177)
Cash and cash equivalents and restricted cash and cash equivalents, beginning of year	37,716	69,893
Cash and cash equivalents and restricted cash and cash equivalents, end of year	\$ 129,228	37,716
Supplemental disclosures on cash flow activities:		
Restricted cash and cash equivalents	\$ 4,102	4,825
Capital lease obligations	4,262	11,815
Interest paid	18,895	19,823
Capital acquisitions included in accounts payable	4,603	7,854

See accompanying notes to consolidated financial statements.

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Notes to Consolidated Financial Statements

December 31, 2020 and 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., 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 not-for-profit 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 affecting 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 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. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including current economic environment, and adjusts such estimates and assumptions when facts and

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circumstances dictate. Actual results could differ from those estimates, and the differences in estimates from actual results could be significant.

(c) Cash and Cash Equivalents

Cash equivalents include amounts 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 \$4.1 million and \$4.8 million as of December 31, 2020 and 2019, 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

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 care services (including acute and skilled nursing care). 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 or completion of the outpatient services. 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.

Kaleida does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to Kaleida's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less. However, Kaleida does, in certain instances, enter into payment

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agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

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.

Kaleida utilizes the portfolio approach practical expedient per 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 determines patient service revenue by reducing the standard charge to third party payors by any contractual amounts or discounts (explicit concessions) and estimates routine uncollectible amounts associated with the service, including deductibles, co-pays and amounts due from uninsured patients (collectively, implicit price concessions). Kaleida determines its estimates of explicit concessions based on contractual agreements, its discount policies, and historical experience. Kaleida determines its estimate of implicit price concessions based on its historical collection experience. Subsequent changes to the estimate of the transaction price 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 2020 and 2019.

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 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

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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 the determination of deficiency of revenue over expenses, unless the income is restricted by the donor or law. Further, investment income from funds designated for self-insurance programs and debt and lease agreements, and funds generated by and used to support operations are recorded as a component of operating revenue.

(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.

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(j) Self-Insured Programs

The Hospital Corporation and VNA are 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. Upper Allegheny Health System (UHAS), General Physicians, P.C., Great Lakes Physicians, P.C. and other subsidiaries and related entities are covered under commercial insurance policies.

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.

(k) Grants and Contributions

Grants and contributions received, including unconditional promises to give cash and other assets to Kaleida, are recognized as revenue generally in the period received, at fair value. Grants, contributions and promises to give that include conditions, in the form of both a barrier to entitlement and a refund of amounts paid (or a release from an obligation to make future payments), are not recognized until such conditions are satisfied and they become unconditional. Unconditional contributions may be restricted or without restrictions. Contributions, grants and other gifts are classified as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets or are classified as net assets without donor restrictions if no such conditions exist. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, the net assets subject to donor restrictions are reclassified to net assets without restrictions and reported in the consolidated statements of operations as net assets released from restriction. 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

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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.

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 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 2020 and 2019 and determined that there was no impairment in 2020 or 2019.

(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.

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(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.

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(s) 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 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.

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(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.

Kaleida's net cost of charity care, including payments to and receipts from the statewide pool was approximately \$12.2 million in 2020 and \$11.5 million in 2019 as follows:

	Year ended December 31	
	2020	2019
	(Dollars in thousands)	
Charity care at cost	\$ 7,035	7,722
Payments to statewide pool	7,460	7,333
Receipts from statewide pool	(2,247)	(3,539)
Cost of charity care, net	<u>\$ 12,248</u>	<u>11,516</u>

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.

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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.

(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:

	2020		2019	
Medicare	\$ 280,484	17 %	\$ 314,901	18 %
Medicaid	38,580	2	39,961	2
Medicare and Medicaid				
Managed Care	669,786	40	735,403	42
No fault and worker's compensation	19,017	1	25,583	1
Commercial carriers	643,017	39	655,565	36
Self pay and other	16,150	1	25,011	1
	<u>\$ 1,667,034</u>	<u>100 %</u>	<u>\$ 1,796,424</u>	<u>100 %</u>

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, 2020 and 2019 are as follows:

	2020				
	Kaleida	UAHS	Home care	Other	Total
Service lines:					
Hospital – inpatient	\$ 884,170	47,256	—	—	931,426
Hospital – outpatient	325,073	111,712	—	40,288	477,073
Physician services	—	—	—	135,369	135,369
Home care	—	—	123,166	—	123,166
	<u>\$ 1,209,243</u>	<u>158,968</u>	<u>123,166</u>	<u>175,657</u>	<u>1,667,034</u>
Method of reimbursement:					
Fee for service	\$ 1,186,788	158,968	123,166	175,657	1,644,579
Capitation and risk sharing	22,455	—	—	—	22,455
	<u>\$ 1,209,243</u>	<u>158,968</u>	<u>123,166</u>	<u>175,657</u>	<u>1,667,034</u>

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		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
	\$	<u>1,315,594</u>	<u>185,248</u>	<u>120,690</u>	<u>174,892</u>	<u>1,796,424</u>
Method of reimbursement:						
Fee for service	\$	1,293,139	185,248	120,690	174,892	1,773,969
Capitation and risk sharing		<u>22,455</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>22,455</u>
	\$	<u>1,315,594</u>	<u>185,248</u>	<u>120,690</u>	<u>174,892</u>	<u>1,796,424</u>

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 \$10.0 million in 2020 and \$5.0 million in 2019, which is recognized as cash rebates are received.

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. Patient accounts receivable, summarized by payor category, is as follows at December 31, 2020 and 2019:

		2020	2019
		(In thousands)	
Patient	\$	56,998	53,442
Commercial payors		347,263	365,073
Governmental		124,195	108,144
Total		528,456	526,659
Explicit and implicit price concessions		(307,199)	(248,789)
Patient accounts receivable, net	\$	<u>221,257</u>	<u>277,870</u>

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

(a) Inpatient Acute Care Services

Inpatient acute care services rendered are paid at prospectively determined rates per discharge in accordance with the Federal Prospective Payment System (PPS) for Medicare and generally at negotiated or otherwise pre-determined amounts under the provisions of the New York State All Patient Defined Diagnosis Related Groups (APR-DRGs) for Medicaid and other NonMedicare payors. Inpatient

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

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Home health care services for Medicare are also reimbursed on a 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.

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.

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(5) Self-Insurance Trusts, Estimated Self-Insurance Reserves, and Related Commercially Insured Entities

Kaleida is partially self-insured for medical malpractice, general liability, and workers' compensation costs, and commercial excess liability policies are generally maintained for exposures in excess of self-insurance retentions. Trusts are established for the purpose of setting aside assets based on actuarial funding recommendations. Under the trust agreements, the trust assets can be used only for payment of losses, related expenses, and the costs of administering the trust. The estimated liability for self-insured workers' compensation is discounted at 3% at December 31, 2020 and 2019. Estimated self-insurance reserves are approximately \$167.0 million and \$151.9 million at December 31, 2020 and 2019, respectively. As of December 31, 2020 and 2019, there are no material amounts recoverable from Kaleida's excess liability policies.

At December 31, 2020 and 2019, 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, 2020 and 2019. The annual fee for the letters of credit ranges between 85 and 500 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 \$41.2 million and \$39.4 million at December 31, 2020 and 2019, respectively.

At December 31, 2020 and 2019, 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.

UAHS provides for malpractice, general, and workers' compensation losses through claims-made commercial insurance policies. UAHS annually renews and intends to continue to renew its coverage on a claims-made basis and has no reason to believe that it may be prevented from renewing such coverage. All known asserted and potential claims alleging malpractice or general negligence have been communicated to the insurer who is responsible for resolving the claim and the related costs of litigation above and beyond any deductibles. UAHS also purchases an excess layer of malpractice insurance and general liability coverage which is renewed annually through a commercial insurer. Estimated incurred but not yet reported claims and related claims development is estimated annually for UAHS. In addition to UAHS, other Kaleida Health affiliates and subsidiaries also account for potential malpractice, general liability, and workers' compensation losses through claims-made commercial insurance policies, which are renewed annually.

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(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:

	<u>2020</u>	<u>2019</u>
	(Dollars in thousands)	
Current investments:		
Cash and cash equivalents	\$ 38,332	3,395
Equity and fixed income mutual funds	82,824	34,542
Equity securities	11,998	34,897
Other investments	89,313	86,034
	<u>222,467</u>	<u>158,868</u>
Assets limited as to use:		
Designated under debt agreements:		
Cash and cash equivalents	2,290	2,594
U.S. government obligations	33,688	37,613
	<u>35,978</u>	<u>40,207</u>
Designated under self-insurance programs:		
Cash and cash equivalents	1,812	2,231
Equity and fixed income mutual funds	42,408	42,432
Equity securities	13,684	13,669
Other investments	26,842	26,021
	<u>84,746</u>	<u>84,353</u>
Board designated and donor restricted:		
Cash and cash equivalents	2,889	3,217
U.S. government obligations	259	259
Equity and fixed income mutual funds	10,536	5,679
Equity securities	26,904	29,067
Other investments	41,908	43,034
	<u>82,496</u>	<u>81,256</u>
Other:		
Cash and cash equivalents	1,903	1,945
Total investments and assets limited as to use	<u>\$ 427,590</u>	<u>366,629</u>
Interest in net assets of UAHS foundations	\$ 45,517	31,513

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Kaleida has recorded its interests in the net assets of the Olean Hospital Foundation and Bradford Hospital Foundations (the UAHS Foundations), which are financially interrelated organizations of UAHS and Kaleida because their primary purpose is to raise money for UAHS. The financial interest in the UAHS Foundations consist primarily of marketable equity securities that are subject to donor related restrictions.

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

	<u>2020</u>	<u>2019</u>
	(Dollars in thousands)	
Other operating revenue:		
Interest and dividends	\$ 4,331	5,220
Other income:		
Investment income:		
Interest and dividends	\$ 899	1,096
Change in interests in other investments	(777)	13,544
	<u>\$ 122</u>	<u>14,640</u>
Net realized gains (losses) on sales of investments	\$ 9,257	(2,539)
Net change in unrealized gains and (losses) on investments	3,086	9,402

(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).

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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, 2020 and December 31, 2019. Investments are classified in their entirety based on the lowest level of input that is significant to the fair value measurement and include related strategy, liquidity, and funding commitments (dollars in thousands):

2020						
	NAV or equivalent	Level 1	Level 2	Total	Redemption period frequency	Days notice
Investments:						
Cash and cash equivalents	\$ —	47,226	—	47,226	Daily	Same day
U.S. government obligations	—	—	33,947	33,947	Daily	Same day
Equity securities	—	52,586	—	52,586	Daily	Same day
Equity and fixed income mutual funds	—	135,768	—	135,768	Daily	Same day
Other investments:						
Hedge funds	53,093	—	—	53,093	Monthly – see (a) below	10 days – See (a) below
Private equity	43,465	—	—	43,465	Quarterly – see (a) below	45 days – See (a) below
Global equity	16,510	—	—	16,510	Monthly – quarterly	1 – 90 days
Real assets	10,149	—	—	10,149	See (a) below	See (a) below
Fixed income	34,846	—	—	34,846	See (a) below	See (a) below
	<u>\$ 158,063</u>	<u>235,580</u>	<u>33,947</u>	<u>427,590</u>		

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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	—	77,633	—	77,633	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
	<u>\$ 155,089</u>	<u>173,668</u>	<u>37,872</u>	<u>366,629</u>		

- (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 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, 2020, Kaleida has committed to contribute approximately \$74.8 million to such investments, of which Kaleida has contributed approximately \$54.0 million and has outstanding commitments of \$20.9 million.

There were no significant transfers into or out of Level 1 and Level 2 fair value measurements during the years ended December 31, 2020 and 2019.

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(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:

	<u>2020</u>	<u>2019</u>
	(Dollars in thousands)	
Financial assets, at year-end	\$ 829,158	761,514
Less those financial assets not available for general expenditure within one year due to:		
Contractual or donor restrictions	(125,226)	(129,597)
Donor restricted endowment	(111,032)	(111,611)
Pledges receivable	(2,220)	(2,334)
Board designated funds	<u>(11,359)</u>	<u>(14,466)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 579,321</u>	<u>503,506</u>

Kaleida's working capital and cash flows are typically not exposed to significant seasonal variations during a year. As part of the Kaleida's liquidity management, it has policies to structure its financial assets to be available as general expenditures, liabilities, and other obligations become due. 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.

(9) Property and Equipment

A summary of property and equipment at December 31 follows:

	<u>2020</u>	<u>2019</u>
	(Dollars in thousands)	
Land and land improvements	\$ 33,355	33,573
Buildings, fixtures, and improvements	1,121,712	1,109,589
Movable equipment	<u>1,060,330</u>	<u>1,000,471</u>
	2,215,397	2,143,633
Less accumulated depreciation and amortization	<u>1,515,874</u>	<u>1,439,839</u>
	699,523	703,794
Construction in progress	<u>37,734</u>	<u>73,525</u>
	<u>\$ 737,257</u>	<u>777,319</u>

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During 2020, Kaleida completed the Boiler project, Pharmacy projects at Buffalo General Hospital and Millard Fillmore Suburban and a portion of the Cerner Electronic Medical Record project. Total estimated costs for these projects were \$43 million.

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.

Commitments outstanding at December 31, 2020, for routine capital projects totaled approximately \$9.4 million. Net property and equipment includes approximately \$11.7 million and \$13.6 million applicable to capital leases at December 31, 2020 and 2019. During 2019 Kaleida capitalized net interest expense of approximately \$275,000. No interest was capitalized during 2020.

(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:

	2020	2019
	(Dollars in thousands)	
Grants and related contracts	\$ 934	12,069
Receivables from nonconsolidated affiliates	8,076	10,181
Medical supply rebate receivable	1,701	3,750
Current portion of pledges receivable	2,220	2,334
Rent receivables	1,989	2,084
Pharmaceutical discount program receivables	1,288	1,929
Contributions receivable	630	880
Other	4,163	15,405
	<u>\$ 21,001</u>	<u>48,632</u>

(b) Other assets

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

	2020	2019
	(Dollars in thousands)	
Long term pledges receivable, net (1)	\$ 2,622	3,579
Equity investments in joint ventures (2)	13,249	8,905
Goodwill (3)	33,668	33,668
Other	2,922	4,934
	<u>\$ 52,461</u>	<u>51,086</u>

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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:

	<u>2020</u>	<u>2019</u>
	(Dollars in thousands)	
Gross pledges receivable	\$ 2,965	3,878
Less discount and reserve	<u>(343)</u>	<u>(299)</u>
	<u>\$ 2,622</u>	<u>3,579</u>

- (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.
- (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.

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(11) Long-Term Debt

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

	<u>2020</u>	<u>2019</u>
	(Dollars in thousands)	
Mortgage notes payable for GVI in monthly installments of \$539,000, including interest at 4.24%, through February 1, 2037. (a)	\$ 75,556	78,743
Mortgage notes payable for HighPointe SNF in monthly installments of \$325,000, including interest at 5.73%, through February 1, 2037. (a)	41,128	42,632
Mortgage notes payable for BGMC in monthly installments of \$545,000, including interest at 2.44% through August 1, 2023. (a)	16,877	22,928
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
Mortgage notes payable for MFS in monthly installments of \$338,000, including interest at 4.00%, through October 1, 2033. (a)	37,714	39,907
Mortgage notes payable for BGMC Cath Lab in monthly installments of \$107,000, including interest at 3.95%, through February 1, 2032. (a)	10,771	11,523
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)	118,196	121,447

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	<u>2020</u>	<u>2019</u>
	(Dollars in thousands)	
Term note payable, varying amounts of principal and interest due monthly at 4.62% through 2025. (b)	\$ 10,100	10,231
Bank held revenue bonds, varying annual payments of principal plus interest at 2.5% through December 2030, secured by related property and equipment and Hospital gross receipts. (b)	6,725	7,925
Capital lease obligations, less imputed interest of \$3,891,751 and \$6,319,028 at December 31, 2020 and 2019, respectively. (c)	13,331	19,364
Equipment notes payable (d)	72,494	88,523
Other	<u>1,558</u>	<u>3,046</u>
	404,450	447,518
Debt issuance costs	<u>7,784</u>	<u>8,690</u>
	396,666	438,828
Less current maturities	<u>47,676</u>	<u>48,040</u>
	<u>\$ 348,990</u>	<u>390,788</u>

(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 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.

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%.

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

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 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%.

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, 2020, Kaleida was not compliant with certain requirements and is working with HUD as required by the Regulatory Agreements. This instance of non-compliance is not an event of default.

The amounts maintained in the Mortgage Reserve meet the minimum amount required under the HUD Regulatory Agreement. Included in the accompanying consolidated balance sheets, classified as assets limited as to use, is Kaleida's balance in the Mortgage Reserve at December 31 as follows:

	<u>2020</u>	<u>2019</u>
	(Dollars in thousands)	
Mortgage Reserve	\$ 35,978	40,207

(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. Effective October 2020, the bank held revenue bonds became due and were refinanced with the financial institution under generally similar terms and a maturity of December 2030.

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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.

(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 \$34.0 million and \$43.4 million of borrowings on the financing agreement at December 31, 2020 and 2019, respectively, which represents a 7 year note which bears interest at approximately 2% payable monthly through November 2024. Kaleida has entered into several equipment financing agreements with private financing institutions. These notes range from 5-7 years and bear interest at 2.00% – 3.92% payable monthly through August 2024. There was approximately \$38.5 million and \$45.1 million of borrowings on the financing agreements at December 31, 2020 and 2019, 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 at December 31, 2020 and 2019. 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, 2020, 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. Kaleida expects to finalize the terms of its refinancing in the second quarter of 2021. The Loan Agreement is classified as a current liability as of December 31, 2020.

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 \$4.0 million at December 31, 2019. No amount is outstanding at December 31, 2020.

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Future annual principal payments of long-term debt and capital leases for the next five years as of December 31, 2020 are as follows (dollars in thousands):

2021	\$	47,676
2022		45,815
2023		40,678
2024		25,352
2025		15,537

(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 \$58.7 million and \$55.6 million in 2020 and 2019, respectively. Future minimum payments under noncancelable operating leases as of December 31, 2020 having lease terms in excess of one year are as follows (dollars in thousands):

2021	\$	42,470
2022		38,476
2023		36,869
2024		33,466
2025		26,987

(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.

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Notes to Consolidated Financial Statements

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

	<u>2020</u>	<u>2019</u>
	(Dollars in thousands)	
Change in projected benefit obligation:		
Benefit obligation at beginning of year	\$ 1,060,671	895,578
Service cost	29,333	24,371
Interest cost	31,841	36,458
Plan amendments	—	2,560
Actuarial losses	152,433	134,919
Benefits paid	<u>(44,967)</u>	<u>(33,215)</u>
Benefit obligation at end of year	\$ <u>1,229,311</u>	<u>1,060,671</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 738,670	611,085
Actual return on plan assets	118,850	120,300
Employer contributions	67,100	40,500
Benefits paid	<u>(44,967)</u>	<u>(33,215)</u>
Fair value of assets at end of year	\$ <u>879,653</u>	<u>738,670</u>

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

	<u>2020</u>	<u>2019</u>
	(Dollars in thousands)	
Funded status at end of year:		
Fair value of plan assets	\$ 879,653	738,670
Projected benefit obligation	<u>1,229,311</u>	<u>1,060,671</u>
Pension obligation recognized in the consolidated balance sheets at end of year	\$ <u>(349,658)</u>	<u>(322,001)</u>
Amount recorded in net assets without donor restrictions at end of year for future pension cost:		
Net actuarial loss	\$ (442,675)	(375,582)
Prior service costs	<u>(2,251)</u>	<u>(2,477)</u>
	\$ <u>(444,926)</u>	<u>(378,059)</u>

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The estimated prior service credit and net actuarial loss that will be amortized from net assets without donor restrictions in 2020 as a component of net periodic pension cost are approximately \$226,000 and \$26.2 million, respectively.

The accumulated benefit obligations at the Plan's measurement date for 2020 and 2019 was approximately \$1.15 billion and \$984.0 million, respectively.

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

	2020	2019
	(Dollars in thousands)	
Service cost	\$ 29,333	24,370
Interest cost	31,841	36,458
Expected return on plan assets	(59,677)	(54,707)
Amortization of net prior service cost (credit)	226	(11)
Amortization of actuarial loss	26,168	14,390
Net periodic pension cost	<u>\$ 27,891</u>	<u>20,500</u>

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

	2020	2019
Discount rate for benefit obligations	2.55 %	3.44 %
Discount rate for net pension cost	3.44	4.44
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.

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Notes to Consolidated Financial Statements

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The range of target investment allocation percentages at December 31, 2020 are listed below:

Asset class	Min	Target	Max
Public equities		39 %	
Hedge funds long bias		7	
Private equity		14	
Total growth assets	42 %	60 %	78 %
Liquid fixed income		12 %	
Hedge funds – absolute return		5	
Growth fixed income		10	
Total risk reduction assets	19 %	27 %	35 %
Liquid real assets		5 %	
Private real assets		8	
Total inflation protection assets	9 %	13 %	17 %

The following tables present Kaleida's defined benefit pension plan's assets at December 31, 2020 and 2019 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):

2020						
	NAV or equivalent	Level 1	Level 2	Total	Redemption period frequency	Days notice
Investments:						
Cash and cash equivalents	\$ —	57,564	—	57,564	Daily	Same day
Insurance contract			1,373	1,373	Daily	Same day
Equity securities:						
Large-cap securities	—	114,243	—	114,243	Daily – monthly	Same day – 9 days
Equity and fixed income mutual funds	—	184,226	—	184,226	Daily	Same day
Other investments:						
Hedge funds	175,156	—	—	175,156	Monthly – See note 7(a)	20 days – See note 7(a)
Private equity	169,393	—	—	169,393	Quarterly – See note 7(a)	60 days – See note 7(a)
Global equity	146,780	—	—	146,780	Monthly	3 – 15 days
Fixed income	30,918	—	—	30,918	Daily	5 days
	<u>\$ 522,247</u>	<u>356,033</u>	<u>1,373</u>	<u>879,653</u>		

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	2019				Redemption period frequency	Days notice
	NAV or equivalent	Level 1	Level 2	Total		
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
	<u>\$ 370,984</u>	<u>366,152</u>	<u>1,534</u>	<u>738,670</u>		

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, 2020, Kaleida has committed to contribute approximately \$352 million to such investments, of which Kaleida has contributed approximately \$239 million and has outstanding commitments of \$113.1 million.

Contributions – For the calendar year ended December 31, 2020, Kaleida has contributed \$67.1 million. Expected contributions for the plan year ending December 31, 2021 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):

2021	\$ 41,472
2022	44,224
2023	47,343
2024	50,148
2025	52,830
2026–2030	298,216

The expected benefits are based on the same assumptions used to measure Kaleida's benefit obligations at December 31, 2020 and include future employee service.

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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 \$5.9 million and \$5.5 million for 2020 and 2019, 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, 2020:

	<u>Olean</u>	<u>BRMC</u>	<u>Total</u>
	(Dollars in thousands)		
Change in projected benefit obligation:			
Benefit obligation at beginning of year	\$ 40,862	36,745	77,607
Service cost	907	81	988
Interest cost	1,110	1,119	2,229
Actuarial losses	5,682	3,481	9,163
Benefits paid	<u>(3,510)</u>	<u>(1,280)</u>	<u>(4,790)</u>
Benefit obligation at end of year	<u>\$ 45,051</u>	<u>40,146</u>	<u>85,197</u>
Change in plan assets:			
Fair value of plan assets at beginning of the year	\$ 21,811	21,373	43,184
Actual return on plan assets	2,417	2,424	4,841
Employer contributions	2,187	1,835	4,022
Benefits paid	<u>(3,672)</u>	<u>(1,426)</u>	<u>(5,098)</u>
Fair value of assets at end of year	<u>\$ 22,743</u>	<u>24,206</u>	<u>46,949</u>

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

	<u>Olean</u>	<u>BRMC</u>	<u>Total</u>
	(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	<u>(2,277)</u>	<u>(1,192)</u>	<u>(3,469)</u>
Benefit obligation at end of year	<u>\$ 40,862</u>	<u>36,745</u>	<u>77,607</u>
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	<u>(2,404)</u>	<u>(1,192)</u>	<u>(3,596)</u>
Fair value of assets at end of year	<u>\$ 21,811</u>	<u>21,373</u>	<u>43,184</u>

The funded status of the plan and amounts recognized in the consolidated balance sheets at December 31, 2020 are as follows:

	<u>Olean</u>	<u>BRMC</u>	<u>Total</u>
	(Dollars in thousands)		
Funded status at end of year:			
Fair value of plan assets	\$ 22,743	24,206	46,949
Projected benefit obligation	<u>(45,051)</u>	<u>(40,146)</u>	<u>(85,197)</u>
Pension obligation recognized in the consolidated balance sheets at end year	<u>\$ (22,308)</u>	<u>(15,940)</u>	<u>(38,248)</u>
Amount recorded in net assets without donor restrictions at end of year for future pension cost:			
Net actuarial loss	<u>\$ (25,151)</u>	<u>(22,240)</u>	<u>(47,391)</u>
	<u>\$ (25,151)</u>	<u>(22,240)</u>	<u>(47,391)</u>

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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:

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

The net periodic pension expense recognized for Olean and BRMC was approximately \$2,983,000 and \$284,000, respectively, for the year ended December 31, 2020. 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 weighted average assumptions used to determine pension cost for both Olean and Bradford included (a) discount rate of 2.76% – 4.20%; and (b) expected return on plan assets of 7.00% – 7.25%. The weighted average assumptions used to determine the projected plan obligation for both Olean and Bradford included: (a) discount rate of 2.10% – 3.10%; and (b) compensation increase between 0%– 3.46%.

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

	<u>Olean target allocation</u>	<u>BRMC target allocation</u>
Asset category:		
Equity securities	45 %	45 %
Debt securities	25 %	25 %
Cash and equivalents	—	—
Other (partnership and common collective trust)	Not applicable	Not applicable
Inflation hedging	10 %	10 %
Flexible capital	20 %	20 %

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The following tables present Olean and BRMC's defined benefit pension plan assets at December 31, 2020 and December 31, 2019, 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 \$	—	1,160	1,799	1,300	4,259
Equity securities	—	10,254	—	10,397	20,651
Debt securities	—	5,584	—	4,429	10,013
Flexible capital	2,423	—	2,328	—	4,751
Inflation hedging	3,322	—	3,953	—	7,275
\$	<u>5,745</u>	<u>16,998</u>	<u>8,080</u>	<u>16,126</u>	<u>46,949</u>

	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
\$	<u>5,945</u>	<u>15,866</u>	<u>6,670</u>	<u>14,703</u>	<u>43,184</u>

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 \$2.1 million to its pension plan during the annual period ending December 31, 2021. The following benefit payments, which reflect expected future service costs, are expected to be paid:

2021	\$	2,921
2022		3,239
2023		2,981
2024		2,718
2025		2,557
Thereafter through 2030		<u>11,915</u>
	\$	<u>26,331</u>

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BRMC expects to contribute \$1.5 million to its pension plan during the annual period ending December 31, 2021. The following benefit payments are expected to be paid:

2021	\$	1,433
2022		1,506
2023		1,594
2024		1,653
2025		1,743
Thereafter through 2030		9,444
	\$	<u>17,373</u>

(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:

	<u>2020</u>	<u>2019</u>
	(Dollars in thousands)	
Accumulated postretirement obligation at end of year	\$ (4,599)	(5,274)
Fair value of plan assets at end of year	<u>—</u>	<u>—</u>
Postretirement obligation recognized at end of year included as a component of pension and postretirement obligations	\$ <u>(4,599)</u>	<u>(5,274)</u>

Net postretirement benefit cost was approximately \$208,000 and \$343,000 for the years ended December 31, 2020 and 2019, respectively. The weighted average assumptions used to determine postretirement benefit cost and obligations at the Plan's measurement date (December 31):

	<u>2020</u>	<u>2019</u>
Discount rate for benefit obligations	2.21 %	3.12 %
Discount rate for net postretirement cost	3.12	4.23

For measurement purposes, 2020 increases in the per capita cost of covered health care benefits were assumed for medical and prescription drugs at 5.7%. 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.

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(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:

	2020	2019
	(Dollars in thousands)	
Balance at beginning of year	\$ 8,446	8,066
Accretion expense	395	380
Balance at end of year	<u>\$ 8,841</u>	<u>8,446</u>

(15) Other Operating Revenue

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

	2020	2019
	(Dollars in thousands)	
Grant revenue	\$ 2,403	6,016
Unrestricted contributions	19,484	2,641
Rental revenue	2,851	3,318
Stimulus grants revenue (note 18)	105,198	—
Rebate and other miscellaneous revenue	15,814	31,220
Pharmaceutical discount program revenue	9,989	5,034
	<u>\$ 155,739</u>	<u>48,229</u>

(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, 2020 and 2019:

	Health care services					Support services		
	Acute	Ambulatory	Physician	Post acute	Other	MG&A	Fundraising	Total
Salaries and benefits	\$ 660,297	33,517	124,068	116,070	4,559	92,602	1,845	1,032,958
Purchased services and other	249,228	15,144	67,486	24,225	4,662	57,296	16,503	434,544
Medical and nonmedical supplies	289,131	15,489	12,835	13,324	18,911	31,239	308	381,237
Depreciation and amortization	64,135	1,758	3,062	4,362	321	7,208	10	80,856
Interest	15,268	71	81	2,421	56	998	—	18,895
2020 Total	<u>\$ 1,278,059</u>	<u>65,979</u>	<u>207,532</u>	<u>160,402</u>	<u>28,509</u>	<u>189,343</u>	<u>18,666</u>	<u>1,948,490</u>

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	Health care services					Support services		Total
	Acute	Ambulatory	Physician	Post acute	Other	MG&A	Fundraising	
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

(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:

	2020	2019
	(In thousands)	
Capital expansion and improvements	\$ 3,105	13,517
Advancement of medical education and research and healthcare services	140,005	122,970
Total	\$ 143,110	136,487

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, 2020 and 2019 are as follows:

	2020	2019
Endowment net assets, beginning of year	\$ 43,407	45,496
Investment return	3,050	(644)
Contributions	2,755	794
Appropriation of endowment assets for expenditure	(6,593)	(2,588)
Other	515	349
Endowment net assets, end of year	\$ 43,134	43,407

The total value of the original donor restricted gift was \$19.7 million as of December 31, 2020 and 2019.

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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, 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, 2021.

(18) Coronavirus Pandemic

In January 2020, the Secretary of the U.S. Department of Health and Human Services (HHS) declared a national public health emergency due to a novel strain of coronavirus (COVID-19) and in March 2020 the World Health Organization declared the spread of the virus to be a pandemic. In early March 2020, the Governor of New York also declared a state of emergency which provided various orders by the State, Department of Health, and other state agencies to respond to COVID-19. Among such orders, all hospitals were required to cancel non-essential elective procedures and non-urgent procedures effective March 25, 2020 in order to protect patients and the healthcare workforce, conserve resources including personal protective equipment, and increase available beds to service COVID-19 cases.

In coordination with State health authorities, Kaleida Health initiated emergency measures to prevent avoidable transmission of the illness, including canceling non-urgent elective surgeries, procedures, and clinic visits. Kaleida Health also implemented significant new safety measures, expanded critical care bed capacity, acquired personal protective equipment, expanded testing capabilities, and redeployed clinical and nonclinical staff to work in areas where the need was most urgent.

The cancelation of all elective procedures and non-urgent ambulatory visits resulted in a significant reduction in patient volumes. In addition to the lost revenue that accompanied the lower patient volumes Kaleida experienced a significant increase in operating expenses associated with the purchase of personal protective equipment, certain pharmaceuticals, COVID-19 testing supplies, and other overhead and patient specific costs.

In response to COVID-19, the federal government took various actions intended to assist healthcare providers and in March 2020 the Coronavirus Aid, Relief, and Economic Security (CARES) Act became law. The CARES Act included Provider Relief Funds (PRF), which are not subject to repayment if certain terms and conditions provided by HHS are met. Generally, those terms and conditions require PRF payments will only be used to prevent, prepare for, and respond to coronavirus and shall only reimburse the recipients for health care-related expenses or lost revenues that are attributable to coronavirus, so long as such expenses and lost revenues have not been reimbursed by other sources.

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During 2020, Kaleida received \$105.2 million of PRF payments which were recognized in other operating revenue in the 2020 consolidated statement of operations.

The CARES Act also expanded the Medicare Accelerated and Advance Payment Program (the Program) and allowed eligible providers to receive up to six months of advanced Medicare payments. As of December 31, 2020, Kaleida Health received approximately \$153.3 million through the Program and recorded the payments within estimated settlements with third parties on the consolidated balance sheet, of which \$43.8 million is current and the remaining advances are reflected in other long-term liabilities. These advanced payments are interest free with repayments to begin in 2021.

Kaleida's assessment of whether the terms and conditions related to CARES Act funding have been met considers all frequently asked questions and other interpretive guidance issued by HHS through April 29, 2021. However, amounts recognized as revenue could change in the future based on continuing analysis of lost revenues and COVID-related expenses as well as evolving compliance guidance provided by HHS and other agencies.

On December 4, 2020 to help manage a resurgence of the virus, Kaleida discontinued certain elective inpatient procedures that would potentially limit inpatient capacity for COVID positive patients. Ambulatory procedures, outpatient visits and preventive care have continued. The ultimate effect on Kaleida's financial condition will depend on the duration and severity of the pandemic and economic conditions arising from the broad impact of the pandemic.

(19) 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, 2021 and subsequent events have been evaluated through that date.