Mayo Clinic

Consolidated Interim Financial Statements (Unaudited)
September 30, 2014

Mayo Clinic

Contents

Financial Statements

MAYO CLINIC

Consolidated Statements of Financial Position
September 30, 2014 and December 31, 2013 (Unaudited in Millions)

Assets	September 30, 2014	December 31, 2013
Current Assets		
Cash and equivalents	$ 53.2	$ 47.2
Accounts receivable for medical services, less allowances for uncollectible accounts of $496.1 as of September 30, 2014 and $372.1 as of December 31, 2013	1,447.6	1,414.4
Securities lending collateral loan	93.6	78.7
Other receivables	239.4	252.4
Other current assets	156.5	146.3
Total current assets	1,990.3	1,939.0
Investments	7,026.6	6,304.1
Investments Under Securities Lending Agreement	94.2	78.9
Other Long-Term Assets	1,107.0	907.7
Property, Plant and Equipment, net	4,056.8	3,978.2
Total assets	$ 14,274.9	$ 13,207.9
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 402.6	$ 400.4
Accrued payroll	494.4	511.9
Deferred revenue	41.0	44.1
Long-term variable rate debt	360.0	240.0
Securities lending payable	93.6	78.7
Other current liabilities	458.4	412.7
Total current liabilities	1,850.0	1,687.8
Long-Term Debt	2,465.2	2,321.2
Accrued Pension and Postretirement Benefits, net of current	745.6	739.9
Other Long-Term Liabilities	843.4	805.5
Total liabilities	5,904.2	5,554.4
Net Assets		
Unrestricted	6,004.4	5,414.6
Temporarily restricted	1,311.6	1,250.0
Permanently restricted	1,054.7	988.9
Total net assets	8,370.7	7,653.5
Total liabilities and net assets	$ 14,274.9	$ 13,207.9

See Notes to Consolidated Financial Statements.

Consolidated Statements of Activities

For the Three Months Ended September 30, 2014 and 2013 (Unaudited in Millions)

	2014				2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, gains and other support:								
Net medical service revenue	$ 2,032.2	$ -	$ -	$ 2,032.2	1,977.1	$ -	$ -	$ 1,977.1
Grants and contracts	97.6	-	-	97.6	91.1	-	-	91.1
Investment return allocated to current activities	41.3	3.7	-	45.0	37.3	5.1	-	42.4
Contributions available for current activities	7.4	23.7	-	31.1	11.0	79.8	-	90.8
Premium revenue	33.3	-	-	33.3	28.4	-	-	28.4
Other	163.9	-	-	163.9	145.6	-	-	145.6
Net assets released from restrictions	43.6	(43.6)	-	-	44.3	(44.3)	-	-
Total revenue, gains and other support	2,419.3	(16.2)	-	2,403.1	2,334.8	40.6	-	2,375.4
Expenses:								
Salaries and benefits	1,444.1	-	-	1,444.1	1,475.3	-	-	1,475.3
Supplies and services	564.4	-	-	564.4	521.6	-	-	521.6
Facilities	165.2	-	-	165.2	164.2	-	-	164.2
Finance and investment	24.1	-	-	24.1	23.3	-	-	23.3
Total expenses	2,197.8	-	-	2,197.8	2,184.4	-	-	2,184.4
Income (loss) from current activities	221.5	(16.2)	-	205.3	150.4	40.6	-	191.0
Noncurrent and other items:								
Contributions not available for current activities, net	(4.8)	(1.8)	32.1	25.5	(1.0)	3.7	25.3	28.0
Unallocated investment return, net	(1.8)	17.4	-	15.6	45.8	56.9	-	102.7
Income tax expense	(4.2)	-	-	(4.2)	(12.1)	-	-	(12.1)
Miscellaneous	1.3	-	-	1.3	3.2	-	-	3.2
Total noncurrent and other items	(9.5)	15.6	32.1	38.2	35.9	60.6	25.3	121.8
Increase (decrease) in net assets before other changes in net assets	212.0	(0.6)	32.1	243.5	186.3	101.2	25.3	312.8
Pension and other postretirement benefit adjustments	(8.6)	-	-	(8.6)	22.4	-	-	22.4
Increase (decrease) in net assets	203.4	(0.6)	32.1	234.9	208.7	101.2	25.3	335.2
Net assets at beginning of period	5,801.0	1,312.2	1,022.6	8,135.8	3,106.3	1,080.4	920.6	5,107.3
Net assets at end of period	$ 6,004.4	$ 1,311.6	$ 1,054.7	$ 8,370.7	$ 3,315.0	$ 1,181.6	$ 945.9	$ 5,442.5

See Notes to Consolidated Financial Statements.

MAYO CLINIC

Consolidated Statements of Activities

For the Nine Months Ended September 30, 2014 and 2013 (Unaudited in Millions)

	2014				2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, gains and other support:								
Net medical service revenue	$ 6,040.0	$ -	$ -	$ 6,040.0	$ 5,872.6	$ -	$ -	$ 5,872.6
Grants and contracts	287.4	-	-	287.4	277.9	-	-	277.9
Investment return allocated to current activities	126.8	12.7	-	139.5	112.3	15.6	-	127.9
Contributions available for current activities	24.4	66.5	-	90.9	27.6	120.6	-	148.2
Premium revenue	97.6	-	-	97.6	85.6	-	-	85.6
Other	521.5	-	-	521.5	418.2	-	-	418.2
Net assets released from restrictions	113.9	(113.9)	-	-	109.1	(109.1)	-	-
Total revenue, gains and other support	7,211.6	(34.7)	-	7,176.9	6,903.3	27.1	-	6,930.4
Expenses:								
Salaries and benefits	4,368.3	-	-	4,368.3	4,432.9	-	-	4,432.9
Supplies and services	1,696.2	-	-	1,696.2	1,561.8	-	-	1,561.8
Facilities	489.9	-	-	489.9	478.8	-	-	478.8
Finance and investment	70.2	-	-	70.2	68.5	-	-	68.5
Total expenses	6,624.6	-	-	6,624.6	6,542.0	-	-	6,542.0
Income (loss) from current activities	587.0	(34.7)	-	552.3	361.3	27.1	-	388.4
Noncurrent and other items:								
Contributions not available for current activities, net	(11.3)	(1.7)	65.8	52.8	(11.6)	17.1	99.4	104.9
Unallocated investment return, net	65.7	98.0	-	163.7	90.6	124.1	-	214.7
Income tax expense	(27.2)	-	-	(27.2)	(16.5)	-	-	(16.5)
Miscellaneous	1.3	-	-	1.3	(2.4)	-	-	(2.4)
Total noncurrent and other items	28.5	96.3	65.8	190.6	60.1	141.2	99.4	300.7
Increase in net assets before other changes in net assets	615.5	61.6	65.8	742.9	421.4	168.3	99.4	689.1
Pension and other postretirement benefit adjustments	(25.7)	-	-	(25.7)	67.1	-	-	67.1
Increase in net assets	589.8	61.6	65.8	717.2	488.5	168.3	99.4	756.2
Net assets at beginning of period	5,414.6	1,250.0	988.9	7,653.5	2,826.5	1,013.3	846.5	4,686.3
Net assets at end of period	$ 6,004.4	$ 1,311.6	$ 1,054.7	$ 8,370.7	$ 3,315.0	$ 1,181.6	$ 945.9	$ 5,442.5

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows
For the Nine Months Ended September 30, 2014 and 2013 (Unaudited in Millions)

	2014	2013
Cash Flows From Current Activities		
Increase in net assets	$ 717.2	$ 756.2
Adjustments to reconcile changes in net assets to net cash provided by current activities:		
Depreciation and amortization	321.4	315.8
Provision for uncollectible accounts	155.4	142.6
Net realized and unrealized gain on investments	(303.2)	(342.6)
Restricted gifts, bequests, and other income	(65.8)	(99.4)
Net change in accounts receivable and other current assets and liabilities	(158.3)	(55.3)
Pension and other postretirement benefits adjustment	(175.0)	(145.5)
Net change in other long-term assets and liabilities	30.3	(16.7)
Net cash provided by current activities	522.0	555.1
Cash Flows From Investing Activities		
Purchase of property, plant, and equipment	(400.0)	(465.6)
Purchases of investments	(638.4)	(675.8)
Sales and maturities of investments	203.8	285.2
Net cash used in investing activities	(834.6)	(856.2)
Cash Flows From Financing Activities		
Restricted gifts, bequests and other income	54.6	37.1
Borrowings on long-term debt	300.0	300.0
Payment of long-term debt	(36.0)	(39.2)
Net cash provided by financing activities	318.6	297.9
Net increase (decrease) in cash and cash equivalents	6.0	(3.2)
Cash and Cash Equivalents at Beginning of Period	47.2	59.6
Cash and Cash Equivalents at End of Period	$ 53.2	$ 56.4

See Notes to Consolidated Financial Statements.

Note 1. Basis of Presentation

Mayo Clinic (the Clinic) and its Arizona, Florida, Georgia, Iowa, Minnesota and Wisconsin affiliates provide comprehensive medical care and education in clinical medicine and medical sciences and conduct extensive programs in medical research. The Clinic and its affiliates also provide hospital and outpatient services, and at each major location, the clinical practice is closely integrated with advanced education and research programs. The Clinic has been determined to qualify as a tax-exempt organization under Section 501(c) (3) of the Internal Revenue Code (Code) and as a public charity under Section 509(a) (2) of the Code. Included in the Clinic's consolidated financial statements are all of its wholly owned or wholly controlled subsidiaries, which include both tax-exempt and taxable entities. All significant intercompany transactions have been eliminated in consolidation.

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal and recurring nature. Operating results for the nine months ended September 30, 2014, are not necessarily indicative of the results to be expected for the year ending December 31, 2014. For further information, refer to the audited consolidated financial statements and notes thereto for the year ended December 31, 2013.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Although estimates are considered to be fairly stated at the time the estimates are made, actual results could differ from those estimates.

Note 2. Recent Accounting Pronouncements

On May 28, 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606) which converged and replaced existing revenue recognition guidance, including industry-specific guidance. This ASU requires revenue to be recognized in an amount that reflects the consideration the entity expects to be entitled in an exchange of goods or services. The update is effective January 1, 2017 for the Clinic. The Clinic is currently assessing the impact of ASU 2014-09 on its financial statements.

Note 3. Allowance for Uncollectible Accounts

Accounts receivable are reduced by an allowance for uncollectible accounts and stated at net realizable value. In evaluating the collectability of accounts receivable, the Clinic analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts. For receivables associated with services provided to patients who have third-party coverage, the Clinic analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for bad debts. The difference between the standard rates (or the discounted rates if negotiated or as provided by policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

September 30, 2014 (Unaudited in Millions)

Note 3. Allowance for Uncollectible Accounts (Continued)

The Clinic's allowance for uncollectible accounts was 25.5 percent of accounts receivable at September 30, 2014 compared to 20.8 percent of accounts receivable at December 31, 2013. In addition, the Clinic's write-offs were $52.0 for the nine months ended September 30, 2014 compared to $159.2 for the nine months ended September 30, 2013. The Clinic has not changed its charity care policies.

Net medical service revenue for the nine months ended September 30 consisted of the following:

	2014	2013
Medical service revenue (net of contractual allowances and discounts)	$ 6,195.4	$ 6,015.2
Provision for uncollectible accounts	(155.4)	(142.6)
Net medical service revenue	$ 6,040.0	$ 5,872.6

The Clinic recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Clinic recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a portion of the Clinic's patients will be unable or unwilling to pay for the services provided. Thus, the Clinic records a provision for uncollectible accounts related to patients in the period the services are provided. Medical service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized in the period from these major payor sources, is as follows:

	2014	2013
Third-party payors	$ 5,894.6	$ 5,705.6
Self-pay	300.8	309.6
Total all payors	$ 6,195.4	$ 6,015.2

Note 4. Fair Value Measurements

The Clinic holds certain financial instruments that are required to be measured at fair value on a recurring basis. The valuation techniques used to measure fair value under the Fair Value Measurements and Disclosures topic of the ASC are based upon observable and unobservable inputs. The standard establishes a three level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1: Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the same term of the financial instrument.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The Clinic's policy is to recognize transfers in and transfers out as of the actual date of the event or change in circumstances that caused the transfer.

September 30, 2014 (Unaudited in Millions)

Note 4. Fair Value Measurements (Continued)

The following tables present the financial instruments carried at fair value as of September 30, 2014, and December 31, 2013, by caption on the statement of financial position by the valuation hierarchy defined above:

	September 30, 2014			
	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Securities lending collateral	$ 93.6	$ -	$ -	$ 93.6
Investments:				
Cash and cash equivalents	1,197.6	-	-	1,197.6
Fixed-income securities:				
U.S. government	-	98.9	-	98.9
U.S. government agencies	-	265.1	-	265.1
U.S. corporate	-	413.4	26.9	440.3
Foreign	-	95.5	-	95.5
Common and preferred stocks:				
U.S.	403.6	-	-	403.6
Foreign	315.2	-	-	315.2
Funds:				
Fixed-income	194.0	-	-	194.0
Equities	492.0	-	-	492.0
Alternative investments:				
Absolute return and hedge funds	-	-	2,289.7	2,289.7
Private equity, real estate, and natural resources funds	-	-	1,329.9	1,329.9
Other investments	(1.0)	-	-	(1.0)
Less securities under lending agreement	(94.2)	-	-	(94.2)
Total investments	2,507.2	872.9	3,646.5	7,026.6
Investments under securities lending agreement	94.2	-	-	94.2
Other long-term assets:				
Trust receivables	91.8	34.2	58.2	184.2
Technology-based ventures	-	-	25.4	25.4
Total other long-term assets	91.8	34.2	83.6	209.6
Total assets at fair value	$ 2,786.8	$ 907.1	$ 3,730.1	$ 7,424.0
Liabilities:				
Securities lending payable	$ 93.6	$ -	$ -	$ 93.6
Total liabilities at fair value	$ 93.6	$ -	$ -	$ 93.6

September 30, 2014 (Unaudited in Millions)

Note 4. Fair Value Measurements (Continued)

	December 31, 2013			
	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Securities lending collateral	$ 78.7	$ -	$ -	$ 78.7
Investments:				
Cash and cash equivalents	1,012.8	-	-	1,012.8
Fixed-income securities:				
U.S. government	-	73.7	-	73.7
U.S. government agencies	-	358.0	-	358.0
U.S. corporate	-	139.2	26.6	165.8
Foreign	-	69.6	-	69.6
Common and preferred stocks:				
U.S.	381.6	-	-	381.6
Foreign	294.5	-	-	294.5
Funds:				
Fixed-income	335.4	-	-	335.4
Equities	406.2	116.0	-	522.2
Alternative investments:				
Absolute return and hedge funds	-	-	2,043.9	2,043.9
Private equity, real estate, and natural resources funds	-	-	1,125.0	1,125.0
Other investments	0.5	-	-	0.5
Less securities under lending agreement	(78.9)	-	-	(78.9)
Total investments	2,352.1	756.5	3,195.5	6,304.1
Investments under securities lending agreement	78.9	-	-	78.9
Other long-term assets:				
Trust receivables	93.4	32.9	53.9	180.2
Technology-based ventures	-	-	19.6	19.6
Total other long-term assets	93.4	32.9	73.5	199.8
Total assets at fair value	$ 2,603.1	$ 789.4	$ 3,269.0	$ 6,661.5
Liabilities:				
Securities lending payable	$ 78.7	$ -	$ -	$ 78.7
Total liabilities at fair value	$ 78.7	$ -	$ -	$ 78.7

September 30, 2014 (Unaudited in Millions)

Note 4. Fair Value Measurements (Continued)

The following tables are a rollforward of the consolidated statement of financial position amounts for financial instruments classified by the Clinic within Level 3 of the valuation hierarchy defined above:

	Absolute Return Investments	Private Equity Investments	Other	Total
Fair value January 1, 2014	$ 2,043.9	$ 1,125.0	$ 100.1	$ 3,269.0
Realized and unrealized gain	183.8	44.8	4.6	233.2
Purchases	113.6	255.0	6.5	375.1
Issues and settlements	(51.6)	(94.9)	(0.7)	(147.2)
Fair value September 30, 2014	$ 2,289.7	$ 1,329.9	$ 110.5	$ 3,730.1
Amount of unrealized gain related to financial instruments held at September 30, 2014, and included in statement of activities	$ 147.5	$ 82.8	$ 4.3	$ 234.6

	Absolute Return Investments	Private Equity Investments	Other	Total
Fair value January 1, 2013	$ 1,577.0	$ 986.1	$ 80.5	$ 2,643.6
Realized and unrealized gain (loss)	200.4	3.1	(6.5)	197.0
Purchases	264.7	248.3	-	513.0
Transfers In	0.5	-	13.8	14.3
Issues and settlements	(144.1)	(177.1)	(0.7)	(321.9)
Fair value September 30, 2013	$ 1,898.5	$ 1,060.4	$ 87.1	$ 3,046.0
Amount of unrealized gain (loss) related to financial instruments held at September 30, 2013 and included in statement of activities	$ 117.7	$ (6.5)	$ 3.2	$ 114.4

Following is a description of the Clinic's valuation methodologies for assets and liabilities measured at fair value. Fair value for Level 1 is based upon quoted market prices. Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources, including market participants, dealers and brokers. Level 3, which primarily consists of alternative investments (principally limited partnership interests in absolute return, hedge, private equity, real estate and natural

Note 4. Fair Value Measurements (Continued)

resources funds), represents the Clinic's ownership interest in the net asset value (NAV) of the respective partnership obtained from fund manager statements and audited financial statements. Investments held by the partnerships consist of marketable securities as well as securities that do not have readily determinable fair values. The fair values of the securities held by partnerships that do not have readily determinable fair values are determined by the general partner and are based on historical cost, appraisals, or other estimates that require varying degrees of judgment. If no public market exists for the investment securities, the fair value is determined by the general partner, taking into consideration, among other things, the cost of the securities, prices of recent significant placements of securities of the same issuer, and subsequent developments concerning the companies to which the securities relate. Alternative investments are redeemable with the investee fund at NAV under the original terms of the subscription agreement. Due to the nature of these investments, changes in market conditions and the overall economic environment may significantly impact the NAV of the funds, and therefore the value of the Clinic's interest. It is therefore reasonably possible that, if the Clinic were to sell all or a portion of its alternative investments, the transaction value could be significantly different than the fair value reported.

The trusts are recorded at fair value based on the underlying value of the assets in the trust or discounted cash flow of the expected payment streams. The trusts reported as Level 3 are primarily perpetual trusts managed by third parties invested in stocks, mutual funds, and fixed-income securities that are traded in active markets with observable inputs, which would result in Level 1 and 2 hierarchal reporting. However, since the Clinic will never receive the trust assets, these perpetual trusts are reported as Level 3.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Clinic believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The following information pertains to those alternative investments recorded at net asset value in accordance with the Fair Value Measurements and Disclosures topic of the FASB ASC.

At September 30, 2014, alternative investments recorded at net asset value consisted of the following:

		Fair Value	Unfunded Commitment	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Absolute return/hedge funds	(a)	$ 2,289.7	$ -	Monthly to annually	30-90 days
Private partnerships	(b)	1,329.9	935.9		
		$ 3,619.6	$ 935.9		

September 30, 2014 (Unaudited in Millions)

Note 4. Fair Value Measurements (Continued)

At December 31, 2013, alternative investments recorded at net asset value consisted of the following:

		Fair Value	Unfunded Commitment	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Absolute return/hedge funds	(a)	$ 2,043.9	$ -	Monthly to annually	30-90 days
Private partnerships	(b)	1,125.0	819.0		
		$ 3,168.9	$ 819.0		

(a) This category includes investments in absolute return/hedge funds, which are actively managed commingled investment vehicles that derive the majority of their returns from factors other than the directional flow of the markets in which they invest. Representative strategies include high-yield credit, distressed debt, merger arbitrage, relative value, and long-short equity strategies. The fair values of the investments in this category have been estimated using the net asset value per share of the investments. Investments in this category generally carry "lock-up" restrictions that do not allow investors to seek redemption in the first year after acquisition. Following the initial lock-up period, liquidity is generally available monthly, quarterly, or annually following a redemption request. Over 90 percent of the investments in this category have at least annual liquidity.

(b) This category includes limited partnership interests in closed-end funds that focus on venture capital, private equity, real estate, and resource-related strategies. The fair values of the investments in this category have been estimated using the net asset value of the Clinic's ownership interest in partners' capital. Distributions from each fund will be received as the underlying investments of the funds are liquidated. It is estimated that the underlying assets of most funds will generally be liquidated over a seven to 10-year period.

The carrying values of cash, cash equivalents, and short-term investments, accounts receivable, accounts payable and accrued expenses are reasonable estimates of their fair value due to the short-term nature of these financial instruments. The estimated fair value of long-term debt, based on quoted market prices for the same or similar issues (Level 2), was approximately $101.0 more and $86.4 less than its carrying value at September 30, 2014 and December 31, 2013, respectively. Other long-term assets and liabilities have a carrying value that approximates fair value.

Note 5. Investments

Investments in equity, debt securities, and alternative investments are recorded at fair value. Realized gains and losses are calculated based on the average cost method. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) are included in the consolidated statements of activities.

The investments in alternative investments may individually expose the Clinic to securities lending, short sales, and trading in futures and forward contract options and other derivative products. The Clinic's risk is limited to the investment's carrying value.

From time to time, the Clinic invests directly in certain derivative contracts that do not qualify for hedge accounting and are recorded at fair value in investments. Changes in fair value are reported as a component of net unrealized gains or losses in the investment returns. These contracts are used in the Clinic's investment management program to minimize certain investment risks. At September 30, 2014 and December 31, 2013, the Clinic held derivative contracts consisting of options, swaps and foreign exchange which did not have a significant value. During the nine months ended September 30, 2014 the realized and unrealized loss from derivative contracts totaled $14.4. The realized and unrealized gain (loss) during the year ended December 31, 2013, were not significant.

It is the Clinic's intent to maintain a long-term investment portfolio to support research, education, and other activities. Accordingly, the total investment return is shown in the consolidated statements of activities in two segments. The investment return allocated to current activities is determined by a formula, which involves allocating 5 percent of a three-year moving average of investments related to endowments and additionally entails the matching of financing costs for the assets required for operations. Management believes this return is approximately equal to the real return that the Clinic expects to earn on its investments over the long term. The unallocated investment return, included in noncurrent and other items in the consolidated statements of activities, represents the difference between the total investment return and the amount allocated to current activities.

Note 6. Securities Lending

The Clinic has an arrangement with its investment custodian to lend Clinic securities to approved brokers in exchange for a fee. Among other provisions that limit the Clinic's risk, the securities lending agreement specifies that the custodian is responsible for lending securities and obtaining adequate collateral from the borrower. Collateral is limited to cash, government securities, and irrevocable letters of credit. Investments are loaned to various brokers and are returnable on demand. In exchange, the Clinic receives collateral. The cash collateral is shown as both an asset and a liability on the consolidated statements of financial position.

At September 30, 2014 and December 31, 2013, the aggregate market value of securities on loan under securities lending agreements totaled $94.2 and $78.9, respectively, and the total value of the collateral supporting the securities is $96.4 and $80.7, respectively, which represents 102 percent of the value of the securities on loan at September 30, 2014 and December 31, 2013, respectively. The cash portion of the collateral supporting the securities as of September 30, 2014 and December 31, 2013 is $93.6 and $78.7. Noncash collateral provided to the Clinic is not recorded in the Statement of Financial Position, as the collateral may not be sold or re-pledged. The Clinic's claim on such collateral is limited to the market value of loaned securities. In the event of nonperformance by the other parties to the securities lending agreements, the Clinic could be exposed to some loss.

Note 7. Financing

In May 2014, the Clinic issued tax exempt, variable rate demand revenue bonds in the aggregate amount of $300.0 for various capital projects. In conjunction with the issuance of the bonds, the Clinic has entered into bank standby purchase and credit agreements in the amount of $180.0. The Clinic has provided self-liquidity for the remaining $120.0 of the bonds which has been classified as current in the accompanying consolidated statements of financial position.

Note 8. Commitments and Contingencies

The Clinic has various construction projects in progress related to patient care, research, and educational facilities. The estimated costs committed to complete the various projects at December 31, 2013, approximated $483.9, all of which is expected to be expended over the next three to four years.

One of the Clinic's affiliation agreements limits the involvement of a third party in operations of a consolidated affiliate. A process exists to resolve disputes; however, in the event of an irreconcilable dispute between the parties, the agreement further provides for a one-time payment of approximately $84.2 by the consolidated affiliate to release the third party from the affiliation. Such payment would be subordinate to other debtors of the consolidated affiliated entity. No amount has been accrued in the consolidated financial statements for this contingency.

Laws and regulations concerning government programs, including Medicare, Medicaid, and various research grant programs, are complex and subject to varying interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. As a result of nationwide investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. The Clinic expects that the level of review and audit to which it and other health care providers are subject will increase. There can be no assurance that regulatory authorities will not challenge the Clinic's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Clinic.

The Clinic is a defendant in various lawsuits arising in the ordinary course of business and records an estimated liability for probable claims. Although the outcome of these lawsuits cannot be predicted with certainty, management believes the ultimate disposition of such matters will not have a material effect on the Clinic's consolidated financial position or statement of activities.

September 30, 2014 (Unaudited in Millions)

Note 9. Employee Benefit Programs

The Clinic serves as plan sponsor for several defined-benefit pension funds and other postretirement benefits.

Components of net periodic benefit cost for the periods ended September 30, 2014 and 2013 are as follows for the defined-benefit pension funds:

	Qualified	
	2014	2013
Service cost	$ 165.1	$ 193.5
Interest cost	221.5	205.2
Expected return on plan assets	(349.4)	(320.7)
Amortization of unrecognized:		
Prior service benefit	(45.2)	(45.2)
Net actuarial loss	61.5	121.8
Net periodic benefit cost	$ 53.5	$ 154.6

Components of net periodic benefit cost for the other postretirement benefits are as follows:

	Postretirement Benefits	
	2014	2013
Service cost	$ 8.5	$ 23.5
Interest cost	28.9	38.1
Amortization of unrecognized:		
Prior service benefit	(44.1)	(18.5)
Net actuarial loss	2.1	8.9
Net periodic benefit cost (benefit)	$ (4.6)	$ 52.0

September 30, 2014 (Unaudited in Millions)

Note 9. Employee Benefit Programs (Continued)

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Postretirement Benefits
Years ending December 31:	
2014	$ 29.6
2015	32.8
2016	33.3
2017	35.0
2018	37.3
2019 - 2023	220.6

The following reflects the expected future Medicare Part D subsidy receipts:

Years ending December 31:	
2014	$ 4.0
2015	4.3
2016	4.6
2017	4.8
2018	5.0
2019 - 2023	27.1

Note 10. Subsequent Events

The Clinic evaluated events and transactions occurring subsequent to September 30, 2014 through November 13, 2014, the date of issuance of the financial statements. During this period, there were no subsequent events requiring recognition in the consolidated financial statements. Additionally, there were no nonrecognized events requiring disclosure.