# Mayo Clinic

Consolidated Financial Report
December 31, 2013

McGladrey

Assurance ▪ Tax ▪ Consulting

## Contents

McGladrey

## Independent Auditor's Report

Board of Trustees
Mayo Clinic

**Report on the Consolidated Financial Statements**
We have audited the accompanying consolidated financial statements of Mayo Clinic and its subsidiaries (the Clinic), which comprise the consolidated statements of financial position as of December 31, 2013 and 2012; the related consolidated statements of activities and cash flows for 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 accounting principles generally accepted in the United States of America; 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.

**Auditor's 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 auditor's 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 Mayo Clinic and its subsidiaries as of December 31, 2013 and 2012, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

McGladrey LLP

Minneapolis, Minnesota
February 26, 2014

**Mayo Clinic**

**Consolidated Statements of Financial Position**
**December 31, 2013 and 2012 (In Millions)**

| **Assets** | **2013** | 2012 |
|---|---|---|
| Current Assets | | |
| Cash and cash equivalents | **$ 47.2** | $ 59.6 |
| Accounts receivable for medical services, less allowances for uncollectible accounts of $372.1 in 2013 and $389.7 in 2012 (Note 2) | **1,414.4** | 1,327.6 |
| Securities lending collateral (Note 5) | **78.7** | 94.8 |
| Other receivables (Notes 10 and 15) | **252.4** | 251.3 |
| Other current assets (Note 15) | **146.3** | 150.3 |
| **Total current assets** | **1,939.0** | 1,883.6 |
| Investments (Note 4) | **6,304.1** | 5,168.5 |
| Investments Under Securities Lending Agreement (Note 5) | **78.9** | 92.2 |
| Other Long-Term Assets (Notes 10, 13 and 15) | **907.7** | 397.7 |
| Property, Plant and Equipment, net (Note 6) | **3,978.2** | 3,773.6 |
| **Total assets** | **$ 13,207.9** | $ 11,315.6 |

**Liabilities and Net Assets**

| | | |
|---|---|---|
| Current Liabilities | | |
| Accounts payable | **$ 400.4** | $ 327.8 |
| Accrued payroll | **511.9** | 479.2 |
| Deferred revenue | **44.1** | 44.1 |
| Long-term variable-rate debt (Note 8) | **240.0** | 240.0 |
| Securities lending payable (Note 5) | **78.7** | 94.8 |
| Other current liabilities (Notes 14 and 15) | **412.7** | 398.9 |
| **Total current liabilities** | **1,687.8** | 1,584.8 |
| Long-Term Debt (Note 8) | **2,321.2** | 2,102.0 |
| Accrued Pension and Postretirement Benefits, net of current (Note 13) | **739.9** | 2,218.4 |
| Other Long-Term Liabilities (Notes 9, 14 and 15) | **805.5** | 724.1 |
| **Total liabilities** | **5,554.4** | 6,629.3 |
| Net Assets (Notes 10 and 11) | | |
| Unrestricted | **5,414.6** | 2,826.5 |
| Temporarily restricted | **1,250.0** | 1,013.3 |
| Permanently restricted | **988.9** | 846.5 |
| **Total net assets** | **7,653.5** | 4,686.3 |
| **Total liabilities and net assets** | **$ 13,207.9** | $ 11,315.6 |

See Notes to Consolidated Financial Statements.

**Mayo Clinic**

## Consolidated Statements of Activities
## Years Ended December 31, 2013 and 2012 (In Millions)

| | 2013 | | | | 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Revenue, gains and other support: | | | | | | | | |
| Net medical service revenue (Note 2) | $ 7,902.1 | $ - | $ - | $ 7,902.1 | $ 7,484.7 | $ - | $ - | $ 7,484.7 |
| Grants and contracts | 371.5 | - | - | 371.5 | 384.7 | - | - | 384.7 |
| Investment return allocated to current activities (Note 4) | 149.2 | 20.7 | - | 169.9 | 134.7 | 20.0 | - | 154.7 |
| Contributions available for current activities | 49.2 | 182.3 | - | 231.5 | 37.6 | 120.4 | - | 158.0 |
| Premium revenue | 115.3 | - | - | 115.3 | 113.0 | - | - | 113.0 |
| Other (Notes 3 and 16) | 630.5 | - | - | 630.5 | 548.8 | - | - | 548.8 |
| Net assets released from restrictions (Note 10) | 166.1 | (166.1) | - | - | 150.2 | (150.2) | - | - |
| **Total revenue, gains and other support** | 9,383.9 | 36.9 | - | 9,420.8 | 8,853.7 | (9.8) | - | 8,843.9 |
| Expenses: | | | | | | | | |
| Salaries and benefits | 5,930.2 | - | - | 5,930.2 | 5,608.6 | - | - | 5,608.6 |
| Supplies and services | 2,138.8 | - | - | 2,138.8 | 2,127.3 | - | - | 2,127.3 |
| Facilities | 649.6 | - | - | 649.6 | 650.0 | - | - | 650.0 |
| Finance and investment | 90.1 | - | - | 90.1 | 62.6 | - | - | 62.6 |
| **Total expenses** (Note 12) | 8,808.7 | - | - | 8,808.7 | 8,448.5 | - | - | 8,448.5 |
| **Income (loss) from current activities** | 575.2 | 36.9 | - | 612.1 | 405.2 | (9.8) | - | 395.4 |
| Noncurrent and other items: | | | | | | | | |
| Contributions not available for current activities, net | (15.4) | 25.6 | 142.4 | 152.6 | (9.2) | 26.1 | 55.8 | 72.7 |
| Unallocated investment return, net (Note 4) | 258.9 | 174.2 | - | 433.1 | 177.5 | 133.1 | - | 310.6 |
| Income tax expense (Note 7) | (22.1) | - | - | (22.1) | (19.6) | - | - | (19.6) |
| Contribution received from affiliation (Note 18) | - | - | - | - | 104.8 | - | - | 104.8 |
| Miscellaneous | 9.2 | - | - | 9.2 | (4.5) | - | - | (4.5) |
| **Total noncurrent and other items** | 230.6 | 199.8 | 142.4 | 572.8 | 249.0 | 159.2 | 55.8 | 464.0 |
| **Increase in net assets before other changes in net assets** | 805.8 | 236.7 | 142.4 | 1,184.9 | 654.2 | 149.4 | 55.8 | 859.4 |
| Pension and other postretirement benefit adjustments (Note 13) | 1,782.3 | - | - | 1,782.3 | (902.5) | - | - | (902.5) |
| **Increase (decrease) in net assets** | 2,588.1 | 236.7 | 142.4 | 2,967.2 | (248.3) | 149.4 | 55.8 | (43.1) |
| Net assets at beginning of year | 2,826.5 | 1,013.3 | 846.5 | 4,686.3 | 3,074.8 | 863.9 | 790.7 | 4,729.4 |
| Net assets at end of year | $ 5,414.6 | $ 1,250.0 | $ 988.9 | $ 7,653.5 | $ 2,826.5 | $ 1,013.3 | $ 846.5 | $ 4,686.3 |

See Notes to Consolidated Financial Statements.

**Mayo Clinic**

**Consolidated Statements of Cash Flows**
**Years Ended December 31, 2013 and 2012 (In Millions)**

| | 2013 | 2012 |
|---|---|---|
| Cash Flows From Current Activities | | |
| Increase (decrease) in net assets | **$ 2,967.2** | $ (43.1) |
| Adjustments to reconcile changes in net assets to net cash provided by current activities: | | |
| Depreciation and amortization | **423.2** | 415.7 |
| Provision for uncollectible accounts | **189.1** | 180.4 |
| Net realized and unrealized gain on investments | **(508.2)** | (370.9) |
| Restricted gifts, bequests and other | **(142.4)** | (55.8) |
| Contribution received from affiliations | **-** | (104.8) |
| Net change in accounts receivable and other current assets and liabilities, net of effects from affiliation | **(152.3)** | 79.7 |
| Pension and other postretirement benefits adjustments | **(1,822.8)** | 551.3 |
| Net change in other long-term assets and liabilities | **(21.5)** | (8.4) |
| **Net cash provided by current activities** | **932.3** | 644.1 |
| Cash Flows From Investing Activities | | |
| Purchase of property, plant and equipment | **(627.8)** | (579.8) |
| Purchases of investments | **(1,270.3)** | (1,167.1) |
| Sales and maturities of investments | **656.2** | 565.2 |
| Payment for affiliation, net of cash and cash equivalents acquired | **-** | (43.1) |
| **Net cash used in investing activities** | **(1,241.9)** | (1,224.8) |
| Cash Flows From Financing Activities | | |
| Restricted gifts, bequests and other | **80.2** | 59.7 |
| Borrowings on long-term debt | **300.0** | 500.0 |
| Payment of long-term debt | **(83.0)** | (60.7) |
| **Net cash provided by financing activities** | **297.2** | 499.0 |
| **Net decrease in cash and cash equivalents** | **(12.4)** | (81.7) |
| Cash and Cash Equivalents at Beginning of Year | **59.6** | 141.3 |
| Cash and Cash Equivalents at End of Year | **$ 47.2** | $ 59.6 |

See Notes to Consolidated Financial Statements.

## Note 1. Organization and Summary of Significant Accounting Policies

**Organization:** Mayo Clinic (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 and most of its subsidiaries have 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.

**Basis of presentation:** Included in the Clinic's consolidated financial statements are all of its wholly owned or wholly controlled subsidiaries. All significant intercompany transactions have been eliminated in consolidation. In addition, these statements follow generally accepted accounting principles applicable to the not-for-profit industry as described in the Financial Accounting Standards Board's *FASB Accounting Standards Codification* (ASC) Topic 958.

**Use of estimates:** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the 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. Actual results could differ from those estimates.

**Cash and cash equivalents:** Cash and cash equivalents include currency on hand, demand deposits with banks or other financial institutions, and short-term investments with maturities of three months or less from the date of purchase, which are not managed by the Clinic's investment managers.

**Accounts receivable for medical services:** Accounts receivable for medical services are stated at net realizable value. The Clinic estimates the allowances for uncollectible accounts based on historic write-offs and the aging of the accounts. Accounts are written off when collection efforts have been exhausted.

**Inventories:** Inventories, consisting primarily of medical supplies and pharmaceuticals, are stated at the lower of cost or market, determined using the first-in, first-out method.

**Investments:** Investments in equity and debt securities, including alternative investments, are recorded at fair value (Note 4). 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 generally limited to the investment's carrying value.

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 reported in the consolidated statements of activities in two categories. The investment return allocated to current activities is determined by a formula, which involves allocating five 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 1. Organization and Summary of Significant Accounting Policies (Continued)

**Property, plant and equipment:** Property, plant and equipment are carried at cost if purchased or at fair value on the date received through affiliation or donation, less accumulated depreciation. Plant and equipment are depreciated over estimated useful lives ranging from three to fifty years using the straight-line method. Depreciation expense is reflected in facilities expense and was $423.2 and $415.7 in 2013 and 2012, respectively, and includes amortization of assets recorded under capital leases.

Costs associated with the development and installation of internal-use software are accounted for in accordance with the Intangibles—Goodwill and Other, Internal Use Software subtopic of the FASB ASC. Accordingly, internal-use software costs are expensed or capitalized according to the provisions of the accounting standard.

**Asset retirement obligations:** The Clinic accounts for the estimated cost of legal obligations associated with long-lived asset retirements in accordance with the Asset Retirement and Environmental Obligations topic of the FASB ASC. The asset retirement liability, recorded in other long-term liabilities, is accreted to the present value of the estimated future costs of these obligations at the end of each period.

**Net assets:** Resources are classified for reporting purposes into three net asset categories (unrestricted, temporarily restricted and permanently restricted) according to the absence or existence of donor-imposed restrictions. Temporarily restricted net assets are those assets, including contributions and accumulated investment returns, whose use has been limited by donors to specific purposes or time periods. Permanently restricted net assets are those for which donors require the principal of the gifts to be maintained in perpetuity and provide a permanent source of income.

**Net medical service revenue:** Net medical service revenue is recognized when services are provided. The Clinic has agreements with third-party payors that provide for payments to the Clinic at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem rates. Net medical service revenue is reported at the estimated net amounts due from patients and third-party payors for 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 less an allowance for uncollectible accounts (or on the basis of discounted rates, if negotiated or provided by policy). Based on historical experience, a portion of the Clinic’s uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Clinic records a provision for uncollectible accounts related to uninsured patients in the period the services are provided.

**Grants and contracts:** Reciprocal grants and contracts revenue is recognized when the expenses have been incurred for the purpose specified by the grantor or in accordance with the terms of the agreement. Payments received in advance are reported as deferred revenue. Grant and contract amounts due to the Clinic are included in other receivables.

**Premium revenue:** Premium revenue represents capitated health premiums received by a managed care subsidiary from third parties and is recognized as revenue in the period in which enrollees are entitled to health care services.

## Note 1. Organization and Summary of Significant Accounting Policies (Continued)

**Charity and uncompensated care:** The Clinic provides health care services to patients who meet certain criteria under its Charity Care Policy without charge or at amounts less than established rates. Since the Clinic does not pursue collection of these amounts, they are not reported as revenue. The estimated cost of providing these services was $84.4 and $83.4 in 2013 and 2012, respectively, calculated by multiplying the ratio of cost to gross charges for the Clinic by the gross uncompensated charges associated with providing care to charity patients. In addition to the charges related to the direct patient care provided under the Clinic's Charity Care Policy, the Clinic has programs offered to benefit the broader community and other governmental reimbursement programs. The Clinic also participates in various state Medicaid programs for indigent patients. The estimated unreimbursable cost of providing services related to Medicaid programs totaled $353.2 and $321.7 in 2013 and 2012, respectively.

**Contributions:** The Clinic classifies unrestricted contributions and temporarily restricted contributions that are available for current activities as revenue, based on the lack of specific donor restriction or the presence of donor restrictions and the ability of the Clinic to meet those restrictions within the fiscal year. Permanently restricted contributions and temporarily restricted contributions that are not available for current activities are classified in noncurrent and other items in the consolidated statements of activities. Development expenses of $36.8 and $39.6 are allocated between current ($21.4 and $25.6) and noncurrent activities ($15.4 and $14.0) in 2013 and 2012, respectively. The current portion is recorded in expenses, and the noncurrent portion is netted against unrestricted contributions not available for current activities in the consolidated statements of activities. Unconditional promises to give and contributions are reported at fair value at the time of the gift. An allowance for uncollectible pledges receivable is estimated based on a combination of historical experience and specific identification. Conditional promises to give are recognized at fair value when the conditions on which they depend are substantially met or the probability that the condition will not be met is remote.

The Clinic does not imply a time restriction that expires over the useful life for gifts of long-lived assets.

The Clinic periodically receives works of art from various benefactors. These items are unique in nature and are held on display for the benefit and enjoyment of the Clinic's patients. It is the Clinic's policy to neither capitalize contributed works of art nor record the related contribution revenue.

**Income from current activities:** The Clinic's policy is to include in income from current activities all net medical service and other revenue, grants and contracts, investment return allocated to current activities, contributions available for current activities, premium revenue, net assets released from restrictions, and substantially all expenses. Contributions not available for current activities, unallocated investment return, and those items not expected to recur on a regular basis are included in noncurrent and other items in the consolidated statements of activities.

**Subsequent events:** The Clinic evaluated events and transactions occurring subsequent to December 31, 2013, through February 26, 2014, the date of issuance of the consolidated financial statements.

## Note 2. Net Medical Service Revenue, Contractual Arrangements With Third-Party Payors, and Allowance for Doubtful Accounts

The Clinic provides care to patients under the Medicare program and contractual arrangements with other third-party payors. The Medicare program pays for inpatient and most outpatient services at predetermined rates. Certain hospital services are reimbursed based on allowable costs as reported in cost reports, which are subject to retroactive audit and adjustment.

Adjustments arising from reimbursement arrangements with third-party payors are accrued on an estimated basis in the period in which the services are rendered. Estimates for recognized cost report settlements can differ from actual reimbursement based on the results of subsequent reviews and cost report audits. The impact to net medical service revenue of such items was not significant in 2013 and 2012.

In April 2012, the United States Department of Health and Human Services, and the Centers for Medicare & Medicaid Services (CMS) reached a settlement agreement that corrects the calculations of Medicare reimbursements that were provided to certain hospitals, including certain hospitals of the Clinic, under the Medicare program's inpatient prospective payment system for federal fiscal years 2007 through 2011. As a result of the settlement, the Clinic's adjustments to revenue related to prior years increased net medical service revenue by $25.3 during the year ended December 31, 2012.

Future changes in the Medicare program and reduction of funding levels could have an adverse effect on the Clinic. Net medical service revenue under the Medicare program represented approximately 25 percent of total net medical service revenue for 2013 and 2012. At December 31, 2013 and 2012, approximately 17 percent and 15 percent, respectively, of accounts receivable for medical services was due from the Medicare program.

As a service to the patient, the Clinic bills third-party payers directly and bills the patient when the patient's liability is determined. Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectibility 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 doubtful 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 doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Clinic analyzes contractually due amounts and provides contractual allowances based on these amounts. Additionally, an allowance for doubtful accounts and a provision for uncollectible accounts is provided for expected uncollectible deductibles and copayments on accounts for which the patient is responsible. For receivables associated with self-pay patients, the Clinic records a significant provision for uncollectible accounts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The Clinic's allowance for doubtful accounts was 20.8 percent and 22.7 percent of accounts receivable at December 31, 2013 and 2012, respectively. The decrease in the allowance for doubtful accounts was the result of positive trends experienced in the collection of patient accounts. In addition, the Clinic's write-offs were $209.7 and $128.6 for the years ended December 31, 2013 and 2012, respectively. The Clinic has not significantly changed its charity care policies.

**Notes to Consolidated Financial Statements (In Millions)**

### Note 2. Net Medical Service Revenue, Contractual Arrangements With Third-Party Payors, and Allowance for Doubtful Accounts (Continued)

Net medical service revenue for the years ended December 31 consisted of the following:

| | 2013 | 2012 |
|---|---|---|
| Medical service revenue (net of contractual allowances and discounts) | $ 8,094.2 | $ 7,662.2 |
| Provision for uncollectible accounts | (192.1) | (177.5) |
| Net medical service revenue | $ 7,902.1 | $ 7,484.7 |

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. Medical service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized in the years ended December 31 from these major payor sources, is as follows:

| | 2013 | 2012 |
|---|---|---|
| Third-party payors | $ 7,676.1 | $ 7,239.2 |
| Self-pay | 418.1 | 423.0 |
| Total all payors | $ 8,094.2 | $ 7,662.2 |

### Note 3. Incentive Revenue

The Health Information Technology for Economic and Clinic Health (HITECH) portion of the American Recovery and Reinvestment Act of 2009 included $27.0 billion in incentives through Medicare and Medicaid reimbursement systems to foster electronic health record (EHR) adoption. In order to be eligible for EHR incentive funding, eligible hospitals and professionals must use a certified EHR, report quality measures, and achieve “meaningful use,” as defined by HITECH. The Clinic is entitled to receive Medicare and Medicaid incentive payments for the adoption of certified EHR technology for its eligible hospitals and employed physicians, as the Clinic believes it has satisfied the statutory and regulatory requirements. The Clinic applies the gain contingency model for recognizing incentive revenue. As a result, incentives earned totaled $54.7 and $44.7 for the years ended December 31, 2013 and 2012, respectively, and are included in other revenue. Income from incentive payments are subject to retrospective adjustments as the incentive payments are calculated using Medicare cost report data that is subject to audit. Additionally, the Clinic’s compliance with the meaningful use criteria is subject to audit by the federal government.

## Note 4. Fair Value Measurements, Investments and Other Financial Instruments

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 FASB 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.

**Notes to Consolidated Financial Statements (In Millions)**

## Note 4. Fair Value Measurements, Investments and Other Financial Instruments (Continued)

The following tables present the financial instruments carried at fair value as of December 31, 2013 and 2012, by caption on the consolidated statements of financial position by the valuation hierarchy defined above:

| | December 31, 2013 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total Fair Value |
| Assets: | | | | |
| Securities lending collateral | $ 78.7 | $ - | $ - | $ 78.7 |
| Investments: | | | | |
| 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 |

**Notes to Consolidated Financial Statements (In Millions)**

## Note 4. Fair Value Measurements, Investments and Other Financial Instruments (Continued)

| | December 31, 2012 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total Fair Value |
| Assets: | | | | |
| Securities lending collateral | $ 94.8 | $ - | $ - | $ 94.8 |
| Investments: | | | | |
| Cash equivalents | 598.4 | - | - | 598.4 |
| Fixed-income securities: | | | | |
| U.S. government | - | 27.8 | - | 27.8 |
| U.S. government agencies | - | 395.7 | - | 395.7 |
| U.S. corporate | - | 359.1 | 13.0 | 372.1 |
| Foreign | - | 9.4 | - | 9.4 |
| Common and preferred stocks: | | | | |
| U.S. | 361.6 | - | - | 361.6 |
| Foreign | 242.1 | - | - | 242.1 |
| Funds: | | | | |
| Fixed-income | 244.5 | - | - | 244.5 |
| Equities | 360.8 | 83.0 | - | 443.8 |
| Alternative investments: | | | | |
| Absolute return and hedge funds | - | - | 1,577.0 | 1,577.0 |
| Private equity, real estate and natural resources funds | - | - | 986.1 | 986.1 |
| Other investments | 2.2 | - | - | 2.2 |
| Less securities under lending agreement | (92.2) | - | - | (92.2) |
| Total investments | 1,717.4 | 875.0 | 2,576.1 | 5,168.5 |
| Investments under securities lending agreement | 92.2 | - | - | 92.2 |
| Other long-term assets: | | | | |
| Trust receivables | 73.4 | 28.9 | 61.7 | 164.0 |
| Technology-based ventures | - | - | 6.4 | 6.4 |
| Total other long-term assets | 73.4 | 28.9 | 68.1 | 170.4 |
| Total assets at fair value | $ 1,977.8 | $ 903.9 | $ 2,644.2 | $ 5,525.9 |
| Liabilities: | | | | |
| Securities lending payable | $ 94.8 | $ - | $ - | $ 94.8 |
| Total liabilities at fair value | $ 94.8 | $ - | $ - | $ 94.8 |

During the year ended December 31, 2012, the Clinic transferred $70.1 of equity funds from Level 1 to Level 2 due to a change in custodian resulting in different observable inputs. There were no significant transfers in 2013.

## Note 4. Fair Value Measurements, Investments and Other Financial Instruments (Continued)

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 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 as of December 31.

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.

**Notes to Consolidated Financial Statements (In Millions)**

### Note 4. Fair Value Measurements, Investments and Other Financial Instruments (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, 2013 | $ 1,577.0 | $ 986.1 | $ 81.1 | $ 2,644.2 |
| Realized and unrealized gain (loss) | 339.3 | 86.7 | (16.3) | 409.7 |
| Purchases | 352.1 | 256.4 | 35.3 | 643.8 |
| Issuances and settlements | (224.5) | (204.2) | - | (428.7) |
| Fair value December 31, 2013 | $ 2,043.9 | $ 1,125.0 | $ 100.1 | $ 3,269.0 |
| Amount of unrealized gain related to financial instruments held at December 31, 2013, and included in statement of activities | $ 777.4 | $ 33.2 | $ 4.3 | $ 814.9 |

| | Absolute Return Investments | Private Equity Investments | Other | Total |
|---|---|---|---|---|
| Fair value January 1, 2012 | $ 1,303.0 | $ 895.2 | $ 69.5 | $ 2,267.7 |
| Realized and unrealized gain (loss) | 173.3 | 55.4 | (2.0) | 226.7 |
| Purchases | 385.6 | 220.1 | 13.6 | 619.3 |
| Issuances and settlements | (284.9) | (184.6) | - | (469.5) |
| Fair value December 31, 2012 | $ 1,577.0 | $ 986.1 | $ 81.1 | $ 2,644.2 |
| Amount of unrealized gain related to financial instruments held at December 31, 2012, and included in statement of activities | $ 168.7 | $ 6.2 | $ 1.2 | $ 176.1 |

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 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 | | |

**Notes to Consolidated Financial Statements (In Millions)**

### Note 4. Fair Value Measurements, Investments and Other Financial Instruments (Continued)

At December 31, 2012, 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) | $ 1,577.0 | $ - | Monthly to annually | 30–90 days |
| Private partnerships (b) | 986.1 | 633.0 | | |
| | $ 2,563.1 | $ 633.0 | | |

(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 "lockup" restrictions that do not allow investors to seek redemption in the first year after acquisition. Following the initial lockup 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.

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 in the investment returns. These contracts are used in the Clinic's investment management program to minimize certain investment risks. At December 31, 2013 and 2012, the Clinic did not hold any significant derivative contracts.

The carrying values of cash, cash equivalents, short-term investments, accounts receivable, accounts payable, and accrued expenses are reasonable estimates of their fair values due to the short-term nature of these financial instruments. The estimated fair value of long-term debt (Note 8), based on quoted market prices for the same or similar issues (Level 2), was approximately $86.4 less than its carrying value at December 31, 2013, and $164.8 more than its carrying value at December 31, 2012.

The Clinic uses various external investment managers to diversify the investments in alternative assets. The largest allocation to any alternative investment strategy manager as of December 31, 2013 and 2012 is $278.8 (8.8 percent) and $233.1 (9.3 percent), respectively.

The Clinic is required to maintain funds held by trustees under bond indentures and other arrangements. The trustee-held investments, which primarily consist of mutual funds, were $354.2 and $343.1, respectively, at December 31, 2013 and 2012, which includes segregated investments for deferred compensation plans of $348.6 and $274.6 at December 31, 2013 and 2012, respectively.

**Notes to Consolidated Financial Statements (In Millions)**

### Note 4. Fair Value Measurements, Investments and Other Financial Instruments (Continued)

At December 31, 2013 and 2012, cash and mutual funds included segregated investments owned by Mayo Foundation for Medical Education and Research, a wholly owned subsidiary of Mayo Clinic, for gift annuity reserves of $104.2 and $95.2, respectively.

The Clinic has internally designated investment balances of $1,441.2 and $1,219.6 at December 31, 2013 and 2012, respectively, for research, education, and capital replacement and expansion.

Investment return consisted of the following for the years ended December 31:

| | 2013 | 2012 |
|---|---|---|
| Dividends and interest | $ 94.8 | $ 94.4 |
| Net realized gains | 172.1 | 100.7 |
| Net change in unrealized gains | 336.1 | 270.2 |
| | $ 603.0 | $ 465.3 |

Investment return (Note 1) is reported in the consolidated statements of activities as follows for the years ended December 31:

| | 2013 | 2012 |
|---|---|---|
| Investment return allocated to current activities | $ 169.9 | $ 154.7 |
| Unallocated investment return, net | 433.1 | 310.6 |
| | $ 603.0 | $ 465.3 |

### Note 5. 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 cash collateral. The cash collateral is shown as both an asset and a liability on the consolidated statements of financial position.

At December 31, 2013 and 2012, the aggregate market value of securities on loan under securities lending agreements totaled $78.9 and $92.2, respectively, and the total value of the collateral supporting the securities is $80.7 and $94.8, respectively, which represents 102 percent and 103 percent of the value of the securities on loan at December 31, 2013 and 2012, respectively. The cash portion of the collateral supporting the securities as of December 31, 2013 and 2012, is $78.7 and $94.8, respectively. Noncash collateral provided to the Clinic is not recorded in the consolidated statements 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.

**Notes to Consolidated Financial Statements (In Millions)**

## Note 6. Property, Plant and Equipment, Net

Property, plant and equipment, net at December 31 consisted of the following:

| | 2013 | 2012 |
|---|---|---|
| Land | $ 256.6 | $ 226.0 |
| Buildings and improvements | 4,659.8 | 4,526.1 |
| Furniture and equipment | 2,931.2 | 2,926.2 |
| | 7,847.6 | 7,678.3 |
| Accumulated depreciation | (4,342.8) | (4,115.5) |
| | 3,504.8 | 3,562.8 |
| Construction in progress | 473.4 | 210.8 |
| | $ 3,978.2 | $ 3,773.6 |

The above costs and accumulated depreciation include costs for capitalized software, including costs capitalized in accordance with the Intangibles—Goodwill and Other, Internal Use Software subtopic of the FASB ASC. The total cost for capitalized software was $474.3 and $499.4, and the total accumulated amortization was $369.4 and $370.9 at December 31, 2013 and 2012, respectively. Amortization expense for capitalized software was $49.8 and $52.6 for 2013 and 2012, respectively.

The Hospital Authority of Ware County, Georgia (Authority) owns the property, plant and equipment of the Clinic's affiliate located in Waycross, Georgia, which it leases to the affiliate. The lease agreement also includes any assets acquired by the Authority and any debt issued or refinanced by the Authority for the benefit of the affiliate. The lease is for a term of 40 years in return for paying the currently maturing installments of principal and interest on any revenue anticipation certificates issued for the benefit of the affiliate by the Authority. The net book value of these assets at December 31, 2013 and 2012, was $60.0 and $62.6, respectively. In November 2013, the Clinic paid off the 2001 Hospital Authority of Ware County, Georgia Revenue Anticipation Certificates.

## Note 7. Income Taxes

Most of the income received by the Clinic and its subsidiaries is exempt from taxation under Section 501(a) of the Internal Revenue Code. Some of its subsidiaries are taxable entities, and some of the income received by otherwise exempt entities is subject to taxation as unrelated business income (UBI). The Clinic or its subsidiaries file income tax returns in the U.S. federal, various state, and foreign jurisdictions. The statutes of limitations for tax years 2010 through 2012 remain open in the major U.S. taxing jurisdictions in which the Clinic and subsidiaries are subject to taxation. In addition, for all tax years prior to 2010 generating or utilizing a net operating loss (NOL), tax authorities can adjust the amount of NOL carryforward to subsequent years.

The Internal Revenue Service (IRS) performed an examination of the tax and information returns of the Clinic and two subsidiaries for 2005 and 2006. As a result of the audit by the IRS, one remaining entity has extended the statutes of limitations for tax years 2005 through 2009 until June 30, 2014. As of December 31, 2013, one audit remains open, and the IRS has proposed one adjustment that management has taken into consideration during its determination of unrecognized tax benefits, since the proposed issue has not been settled and will be litigated if assessed.

**Notes to Consolidated Financial Statements (In Millions)**

### Note 7. Income Taxes (Continued)

The Clinic's practice is to recognize interest and/or penalties related to income tax matters in income tax expense. The components of tax expense are as follows:

| | December 31 | |
|---|---|---|
| | 2013 | 2012 |
| Current—Federal | $ 19.2 | $ 17.4 |
| Current—State | 3.1 | 3.6 |
| | 22.3 | 21.0 |
| Deferred—Federal | 15.9 | (6.1) |
| Deferred—State | (1.9) | (0.2) |
| Change in valuation allowance | (14.2) | 4.9 |
| | (0.2) | (1.4) |
| Total | $ 22.1 | $ 19.6 |

Cash payments for income taxes were $19.6 and $24.9 for the years ended December 31, 2013 and 2012, respectively.

The Clinic records deferred income taxes due to temporary differences between financial reporting and tax reporting for certain assets and liabilities of its taxable activities. Following is a summary of the components of deferred taxes as of December 31:

| | 2013 | 2012 |
|---|---|---|
| Depreciation | $ 1.4 | $ 2.9 |
| Bad-debt reserve | 0.2 | 0.9 |
| Postretirement benefits | 4.1 | 8.8 |
| Deferred compensation | 20.6 | 17.2 |
| Net operating loss carryforwards | - | 14.6 |
| Pension | 6.0 | 18.3 |
| Paid time off | 1.2 | 1.2 |
| Other | 2.0 | 1.7 |
| Total deferred tax asset | 35.5 | 65.6 |
| Valuation allowance, net of effects from affiliation | (1.4) | (15.6) |
| Net deferred tax asset | $ 34.1 | $ 50.0 |
| Current | $ 2.4 | $ 3.0 |
| Noncurrent | 31.7 | 47.0 |
| | $ 34.1 | $ 50.0 |

As of December 31, 2013, the Clinic has no significant federal NOLs, as a result of a taxable subsidiary merging into a tax-exempt subsidiary, and no future utilization of NOLs are anticipated. This also resulted in a reduction of the corresponding valuation allowance.

**Notes to Consolidated Financial Statements (In Millions)**

## Note 8. Financing

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

| | 2013 | 2012 |
|---|---|---|
| City of Rochester, Minnesota Revenue Bonds issued in various series, subject to variable interest rates to a maximum rate of 15.00% (the average rate was 0.11% in 2013 and 0.16% in 2012), principal due in varying amounts from 2019 through 2038 | $ 690.0 | $ 690.0 |
| City of Rochester, Minnesota Revenue Bonds issued in various series with fixed rates of interest ranging from 4.00% to 5.00%, principal due in varying amounts from 2028 through 2041 | 690.0 | 690.0 |
| Industrial Development Authority of the County of Maricopa Hospital Revenue Bonds issued in various series, interest rate at 5.00%, principal due in varying amounts from 2031 through 2036 | 50.0 | 50.0 |
| Jacksonville Economic Development Commission Health Care Facilities Revenue Bonds issued in various series, interest rate at 5.00%, principal due in varying amounts from 2031 to 2036 | 125.0 | 125.0 |
| Wisconsin Health and Educational Facilities Authority Revenue Bonds, Series 2008, issued in various series, with fixed interest rates ranging from 4.00% to 5.75%, principal due in varying amounts through 2030 | 81.0 | 84.1 |
| Mayo Clinic Taxable Bonds issued with fixed interest ranging from 3.774% to 4.0%, principal due in varying amounts from 2039 to 2047 | 600.0 | 300.0 |
| Fixed-rate notes, payable to banks, interest rate at 2.01%, principal due in varying amounts through 2016 | 135.0 | 180.0 |
| Fixed-rate notes, payable to an insurance company, interest rate at 4.71%, principal due in equal amounts from 2042 through 2046 | 215.0 | 215.0 |
| Other notes payable | 19.3 | 54.0 |
| Unamortized discounts and premiums, net | 5.4 | 5.7 |
| | 2,610.7 | 2,393.8 |
| Long-term variable-rate debt classified as current | (240.0) | (240.0) |
| Current maturities included in other current liabilities | (49.5) | (51.8) |
| | $ 2,321.2 | $ 2,102.0 |

The Clinic's outstanding revenue bond issues are limited obligations of various issuing authorities payable solely by the Clinic pursuant to loan agreements between the borrowing entities and the issuing authorities. Under various financing agreements, the Clinic must meet certain operating and financial performance covenants.

**Notes to Consolidated Financial Statements (In Millions)**

### Note 8. Financing (Continued)

At December 31, 2013, the $690.0 of City of Rochester, Minnesota, variable-rate bonds consist of variable-rate demand revenue bonds. In conjunction with the issuance of the variable-rate demand revenue bonds, the Clinic has entered into various bank standby purchase and credit agreements in the amount of $450.0 that expire at various dates commencing January 2015. Under the terms of these agreements, the bank will make liquidity loans to the Clinic in the amount necessary to purchase a portion of the variable-rate demand revenue bonds if not remarketed. The liquidity loans would be payable over a three- to five-year period, with the first payment due after December 31, 2014. The Clinic has provided self-liquidity for the remaining $240.0 of variable-rate demand revenue bonds, which have been classified as current in the accompanying consolidated statements of financial position.

In March 2013, the Clinic issued taxable bonds in the aggregate principal amount of $300.0 for general corporate purposes due November 15, 2047, with a 4.00 percent fixed rate of interest. The bonds are redeemable prior to maturity at a price based on U.S. Treasury rates at the time of redemption.

All fixed-rate interest revenue bonds are callable from 2014 to 2046 at the option of the Clinic, at redemption prices ranging from 100 percent to 101 percent of the principal amount or at a price based on U.S. Treasury rates at the time of redemption.

The following are scheduled maturities of long-term debt for each of the next five years, assuming the variable-rate demand revenue bonds are remarketed and the stand-by purchase agreements renewed. As described above, if such bonds are not remarketed, $240.0 may be due in 2014 and $450.0 may be due in years from 2015 to 2019.

| Years Ending December 31, | | |
|---|---|---|
| 2014 | $ | 49.5 |
| 2015 | | 49.6 |
| 2016 | | 49.2 |
| 2017 | | 4.4 |
| 2018 | | 4.6 |

Interest payments on long-term debt, net of amounts capitalized for 2013 and 2012, totaled $79.8 and $56.3, respectively. The amount of interest capitalized, net of related interest income was $10.1 and $4.9 during 2013 and 2012, respectively. Interest expense totaled $80.2 and $58.6 for 2013 and 2012, respectively.

At December 31, 2013 and 2012, the Clinic had unsecured lines of credit available with banks totaling $325.0, with varying renewable terms and interest up to 0.25 percent over various published rates. There were no amounts drawn at December 31, 2013 and 2012.

**Notes to Consolidated Financial Statements (In Millions)**

## Note 9. Lease Commitments

Certain leases are classified as capital leases. The leased assets are included as part of property, plant and equipment (Note 6), and the capital lease obligations of $28.2 and $36.7 as of December 31, 2013 and 2012, respectively, are recorded in other current and long-term liabilities. Other leases are classified as operating and are not capitalized. The payments on such leases are recorded as expense.

Details of the capitalized lease assets, excluding the Waycross, Georgia, lease, are as follows at December 31:

| | 2013 | 2012 |
|---|---|---|
| Buildings and equipment | $ 35.1 | $ 34.9 |
| Furniture and equipment | 3.9 | 2.8 |
| | 39.0 | 37.7 |
| Accumulated amortization | (7.7) | (8.6) |
| | $ 31.3 | $ 29.1 |

Rental expense incurred for operating leases was $27.4 and $33.4 for the years ended December 31, 2013 and 2012, respectively.

At December 31, 2013, the estimated future minimum lease payments under noncancelable operating leases and capital leases, excluding the Waycross, Georgia, lease, were as follows:

| Years Ending December 31, | Operating | Capital |
|---|---|---|
| 2014 | $ 21.3 | $ 3.7 |
| 2015 | 17.7 | 3.2 |
| 2016 | 14.7 | 2.5 |
| 2017 | 12.7 | 2.5 |
| 2018 | 8.2 | 2.1 |
| Thereafter | 35.0 | 23.3 |
| Minimum lease payments | $ 109.6 | 37.3 |
| Less amount representing interest | | (9.1) |
| Net minimum lease payments under capital leases | | $ 28.2 |

**Notes to Consolidated Financial Statements (In Millions)**

## Note 10. Contributions and Restricted Expenditures

The Clinic receives unrestricted, temporarily restricted, and permanently restricted contributions in support of research, education and clinical activities.

Temporarily restricted net assets were available for the following purposes or periods at December 31:

| | 2013 | 2012 |
|---|---|---|
| Research | $ 508.2 | $ 404.9 |
| Education | 258.2 | 216.7 |
| Buildings and equipment | 21.9 | 27.1 |
| Charity care | 45.7 | 37.2 |
| Clinical | 83.6 | 70.2 |
| Other | 33.2 | 27.2 |
| Pledges and trusts | 299.2 | 230.0 |
| | $ 1,250.0 | $ 1,013.3 |

Permanently restricted net assets at December 31 are summarized below, the income from which is expendable to support the following purposes:

| | 2013 | 2012 |
|---|---|---|
| Research | $ 541.9 | $ 489.3 |
| Education | 168.6 | 145.8 |
| Charity care | 9.8 | 8.9 |
| Clinical | 43.3 | 41.9 |
| Other | 33.0 | 30.5 |
| Pledges and trusts | 192.3 | 130.1 |
| | $ 988.9 | $ 846.5 |

Net assets were released from donor restrictions as expenditures were made, which satisfied the following restricted purposes for the years ended December 31:

| | 2013 | 2012 |
|---|---|---|
| Research | $ 113.1 | $ 91.1 |
| Education | 20.8 | 22.0 |
| Buildings and equipment | 16.9 | 21.0 |
| Other | 15.3 | 16.1 |
| | $ 166.1 | $ 150.2 |

**Notes to Consolidated Financial Statements (In Millions)**

### Note 10. Contributions and Restricted Expenditures (Continued)

At December 31, outstanding pledges from various corporations, foundations and individuals, included in other receivables and other long-term assets, were as follows:

| | 2013 | 2012 |
|---|---|---|
| Pledges due: | | |
| In less than one year | $ 108.3 | $ 109.9 |
| In one to five years | 198.0 | 107.4 |
| In more than five years | 22.4 | 19.5 |
| | 328.7 | 236.8 |
| Allowance for uncollectible pledges and discounts | (14.3) | (31.2) |
| | $ 314.4 | $ 205.6 |

Estimated cash flows from pledge receivables due after one year are discounted using a risk-adjusted rate, ranging from 0.92 percent to 6.52 percent, that is commensurate with the pledges' due dates and established in the year the pledge is received.

The Clinic has received interests in various split-interest, perpetual, and charitable remainder trusts from donors, which are included in other long-term assets. The trusts, which 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, were $180.2 and $164.0 at December 31, 2013 and 2012, respectively.

### Note 11. Endowment

The Clinic's endowment consists of approximately 1,000 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments (board-designated funds). Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The Board of Trustees retains the right to re-designate board-designated funds.

The Board of Trustees of the Clinic has interpreted the Minnesota State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value 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, the Clinic classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by SPMIFA.

**Notes to Consolidated Financial Statements (In Millions)**

### Note 11. Endowment (Continued)

In accordance with SPMIFA, the Clinic considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

1. The duration and preservation of the fund
2. The purposes of the Clinic and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Clinic
7. The investment policies of the Clinic

The Clinic has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Clinic must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce a real return, net of inflation and investment management costs, of at least five percent over the long term. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the Clinic relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Clinic targets a diversified asset allocation that places a greater emphasis on equity-based and alternative investments to achieve its long-term objective within prudent risk constraints.

The Clinic has a policy of appropriating for distribution each year five percent of its endowment fund's moving average fair value over the prior 36 months as of September 30 of the preceding fiscal year in which the distribution is planned. In establishing this policy, the Clinic considered the long-term expected return on its endowment. Accordingly, over the long term, the Clinic expects the current spending policy to allow its endowment to grow at an average of the long-term rate of inflation. This is consistent with the Clinic's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specific term as well as to provide additional real growth through new gifts and investment return.

At December 31, 2013, the endowment net asset composition by type of fund consisted of the following:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Donor-restricted funds | $ - | $ 642.3 | $ 988.9 | $ 1,631.2 |
| Board-designated funds | 1,156.3 | - | - | 1,156.3 |
| Total funds | $ 1,156.3 | $ 642.3 | $ 988.9 | $ 2,787.5 |

**Notes to Consolidated Financial Statements (In Millions)**

### Note 11. Endowment (Continued)

Changes in endowment net assets for the fiscal year ended December 31, 2013, consisted of the following:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment net assets, beginning of year | $ 958.3 | $ 496.8 | $ 846.5 | $ 2,301.6 |
| Investment return: | | | | |
| Investment income | 15.0 | 18.4 | - | 33.4 |
| Net appreciation (realized and unrealized) | 143.6 | 177.3 | - | 320.9 |
| Total investment return | 158.6 | 195.7 | - | 354.3 |
| Contributions | - | - | 142.4 | 142.4 |
| Appropriation of endowment assets for expenditure | (41.6) | (50.2) | - | (91.8) |
| Other changes: | | | | |
| Transfers to create board-designated endowment funds | 81.0 | - | - | 81.0 |
| Endowment net assets, end of year | $ 1,156.3 | $ 642.3 | $ 988.9 | $ 2,787.5 |

At December 31, 2012, the endowment net asset composition by type of fund consisted of the following:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Donor-restricted funds | $ - | $ 496.8 | $ 846.5 | $ 1,343.3 |
| Board-designated funds | 958.3 | - | - | 958.3 |
| Total funds | $ 958.3 | $ 496.8 | $ 846.5 | $ 2,301.6 |

**Notes to Consolidated Financial Statements (In Millions)**

## Note 11. Endowment (Continued)

Changes in endowment net assets for the fiscal year ended December 31, 2012, consisted of the following:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment net assets, beginning of year | $ 820.2 | $ 392.8 | $ 790.7 | $ 2,003.7 |
| Investment return: | | | | |
| Investment income | 15.2 | 19.0 | - | 34.2 |
| Net appreciation (realized and unrealized) | 101.7 | 128.1 | - | 229.8 |
| Total investment return | 116.9 | 147.1 | - | 264.0 |
| Contributions | - | - | 55.8 | 55.8 |
| Appropriation of endowment assets for expenditure | (42.1) | (43.1) | - | (85.2) |
| Other changes: | | | | |
| Transfers to create board-designated endowment funds | 63.3 | - | - | 63.3 |
| Endowment net assets, end of year | $ 958.3 | $ 496.8 | $ 846.5 | $ 2,301.6 |

## Note 12. Functional Expenses

The expenses reported in the consolidated statements of activities were incurred for the following:

| | 2013 | 2012 |
|---|---|---|
| Patient care | $ 6,840.0 | $ 6,644.1 |
| Lab and technology ventures | 754.0 | 675.8 |
| Research | 645.5 | 631.2 |
| Graduate and other education | 266.1 | 251.8 |
| General and administrative | 89.9 | 81.2 |
| Development expenses | 21.4 | 25.6 |
| Other activities | 191.8 | 138.8 |
| | $ 8,808.7 | $ 8,448.5 |

**Notes to Consolidated Financial Statements (In Millions)**

## Note 13. Employee Benefit Programs

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

Included in other changes in unrestricted net assets at December 31, 2013 and 2012, are the following amounts, respectively, that have not yet been recognized in net periodic cost: unrecognized actuarial losses of $1,457.4 and $3,050.9 and unrecognized prior service benefit of $866.8 and $661.9. Actuarial losses are amortized as a component of net periodic pension cost, only if the losses exceed ten percent of the greater of the projected benefit obligation or the fair value of plan assets. Unrecognized prior service benefits are amortized on a straight-line basis over the estimated life of plan participants. The unrecognized actuarial losses and prior service benefit included in net assets are expected to be recognized in net periodic pension cost during the year ending December 31, 2014, in the amount of $84.8 and $119.1, respectively.

Changes in plan assets and benefit obligations recognized in unrestricted net assets during 2013 and 2012 included the following:

| | 2013 | 2012 |
|---|---|---|
| Current-year actuarial gain (loss) | $ 1,405.8 | $ (917.5) |
| Amortization of actuarial loss | 174.4 | 100.7 |
| Current-year prior service cost | 287.1 | - |
| Amortization of prior service credit | (85.0) | (85.7) |
| Pension and other postretirement benefit adjustments | $ 1,782.3 | $ (902.5) |

**Notes to Consolidated Financial Statements (In Millions)**

## Note 13. Employee Benefit Programs (Continued)

**Pension plans:**

***Obligations and funded status:*** Following is a summary of the changes in the benefit obligation and plan assets, the resulting funded status of the qualified and nonqualified pension plans, and accumulated benefit obligation as of and for the years ended December 31:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Qualified | Nonqualified | Qualified | Nonqualified |
| Change in projected benefit obligation: | | | | |
| Benefit obligation, beginning of year | $ 6,527.9 | $ 2.6 | $ 5,289.5 | $ 2.6 |
| Service cost | 258.1 | - | 204.0 | - |
| Interest cost | 273.5 | 0.1 | 271.8 | 0.1 |
| Actuarial loss (gain) | (883.8) | (0.1) | 988.5 | 0.2 |
| Benefits paid | (336.1) | (0.2) | (225.9) | (0.3) |
| Estimated benefit obligation at end of year | $ 5,839.6 | $ 2.4 | $ 6,527.9 | $ 2.6 |
| Change in plan assets: | | | | |
| Fair value of plan assets, beginning of year | $ 5,486.3 | $ - | $ 4,652.8 | $ - |
| Actual return on plan assets | 770.9 | - | 575.6 | - |
| Employer contributions | 260.2 | 0.3 | 483.8 | 0.3 |
| Benefits paid | (336.1) | (0.3) | (225.9) | (0.3) |
| Fair value of plan assets at end of year | $ 6,181.3 | $ - | $ 5,486.3 | $ - |
| Funded status of the plan | $ 341.7 | $ (2.4) | $ (1,041.6) | $ (2.6) |
| Accumulated benefit obligation | $ 5,677.1 | $ 2.4 | $ 6,222.2 | $ 2.6 |

Amounts recognized in the consolidated statements of financial position consist of the following at December 31:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Qualified | Nonqualified | Qualified | Nonqualified |
| Noncurrent asset | $ 344.3 | $ - | $ - | $ - |
| Current liabilities | - | (0.3) | - | (0.3) |
| Noncurrent liabilities | (2.6) | (2.1) | (1,041.6) | (2.3) |
| Net amount recognized | $ 341.7 | $ (2.4) | $ (1,041.6) | $ (2.6) |

**Notes to Consolidated Financial Statements (In Millions)**

**Note 13. Employee Benefit Programs (Continued)**

Components of net periodic benefit cost are as follows at December 31:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Qualified | Nonqualified | Qualified | Nonqualified |
| Service cost | $ 258.1 | $ 0.1 | $ 204.0 | $ - |
| Interest cost | 273.5 | 0.1 | 271.8 | 0.1 |
| Expected return on plan assets | (427.6) | - | (387.0) | - |
| Amortization of unrecognized: | | | | |
| Prior service benefit | (60.3) | - | (60.3) | - |
| Net actuarial loss | 162.5 | - | 97.5 | - |
| Settlement | - | - | - | - |
| Net periodic benefit cost | $ 206.2 | $ 0.2 | $ 126.0 | $ 0.1 |

**Plan assets*:*** The largest of the pension funds is the Mayo Clinic Master Retirement Trust Plan, which holds $6,072.6 of the $6,181.3 in combined plan assets at December 31, 2013. The investment policies described below apply to the Mayo Clinic Master Retirement Trust Plan (the Plan).

The Plan employs a global, multi-asset approach in managing its retirement plan assets. This approach is designed to maximize risk-adjusted returns over a long-term investment horizon, consistent with the nature of the pension liabilities being funded. The plan asset portfolio’s target allocation for total return investment strategies, which include public equities, private equities, absolute return, and real assets, is 80.0 percent. The portfolio’s target fixed-income exposure is 20.0 percent. The fixed-income exposure may include the use of long-term interest rate swap contracts structured to increase the portfolio’s interest rate sensitivity and thereby provide a hedge of the plan liabilities resulting from falling long-term interest rates. Investments in private equities, real assets, and absolute return strategies are held to improve diversification and thereby enhance long-term, risk-adjusted returns. However, recognizing that these investments are not as liquid as publicly traded stocks and bonds, portfolio investment policies limit overall exposure to these assets. The portfolio’s allocation to private equities and real assets is limited to a maximum of 25.0 percent (with a target allocation of 20.0 percent), and exposure to absolute return strategies is limited to a maximum of 35.0 percent (with a target of 27.5 percent). The Clinic reviews performance, asset allocation, and risk management reports for plan asset portfolios on a monthly basis.

**Notes to Consolidated Financial Statements (In Millions)**

## Note 13. Employee Benefit Programs (Continued)

The fair values of the Plan's assets at December 31, 2013, by asset category are as follows:

| Assets | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
|---|---|---|---|---|
| Cash and cash equivalents | $ 232.2 | $ 23.1 | $ - | $ 255.3 |
| Fixed-income securities: | | | | |
| U.S. government | - | 113.3 | - | 113.3 |
| U.S. government agencies | 14.3 | 133.6 | 1.9 | 149.8 |
| U.S. corporate | 3.0 | 274.8 | 3.3 | 281.1 |
| Foreign | 4.0 | 32.7 | 27.7 | 64.4 |
| Common and preferred stocks: | | | | |
| U.S. | 513.1 | 0.2 | 37.6 | 550.9 |
| Foreign | 408.6 | - | - | 408.6 |
| Funds: | | | | |
| Fixed-income | 211.8 | - | - | 211.8 |
| Equities | 135.6 | 198.8 | - | 334.4 |
| Alternative investments: | | | | |
| Absolute return and hedge funds | - | - | 2,378.8 | 2,378.8 |
| Private equity, real estate and natural resources funds | - | - | 1,324.2 | 1,324.2 |
| Total investments | $ 1,522.6 | $ 776.5 | $ 3,773.5 | $ 6,072.6 |

**Notes to Consolidated Financial Statements (In Millions)**

### Note 13. Employee Benefit Programs (Continued)

The fair values of the Plan's assets at December 31, 2012, by asset category are as follows:

| Assets | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
|---|---|---|---|---|
| Cash and cash equivalents | $ 267.1 | $ 16.6 | $ - | $ 283.7 |
| Fixed-income securities: | | | | |
| U.S. government | - | 97.1 | - | 97.1 |
| U.S. government agencies | - | 147.3 | - | 147.3 |
| U.S. corporate | - | 274.3 | 0.2 | 274.5 |
| Foreign | - | 43.2 | - | 43.2 |
| Common and preferred stocks: | | | | |
| U.S. | 511.8 | 1.9 | 17.4 | 531.1 |
| Foreign | 378.8 | - | - | 378.8 |
| Funds: | | | | |
| Fixed-income | 149.5 | - | - | 149.5 |
| Equities | 111.5 | 154.6 | - | 266.1 |
| Alternative investments: | | | | |
| Absolute return and hedge funds | - | - | 2,097.1 | 2,097.1 |
| Private equity, real estate and natural resources funds | - | - | 1,121.1 | 1,121.1 |
| Other investments | 1.6 | 1.8 | - | 3.4 |
| Total investments | $ 1,420.3 | $ 736.8 | $ 3,235.8 | $ 5,392.9 |

The following tables are a rollforward of the pension plan assets classified by the Plan within Level 3 of the valuation hierarchy:

| | Absolute Return Investments | Private Equity Investments | Other | Total |
|---|---|---|---|---|
| Fair value January 1, 2013 | $ 2,097.1 | $ 1,121.1 | $ 17.6 | $ 3,235.8 |
| Actual return on plan assets held | 171.1 | 116.4 | 14.9 | 302.4 |
| Actual return on plan assets sold during the year | 77.3 | 52.3 | 1.0 | 130.6 |
| Purchases | 190.7 | 299.4 | 50.9 | 541.0 |
| Issuances and settlements | (157.4) | (265.0) | (13.9) | (436.3) |
| Fair value December 31, 2013 | $ 2,378.8 | $ 1,324.2 | $ 70.5 | $ 3,773.5 |

**Notes to Consolidated Financial Statements (In Millions)**

**Note 13. Employee Benefit Programs (Continued)**

| | Absolute Return Investments | Private Equity Investments | Other | Total |
|---|---|---|---|---|
| Fair value January 1, 2012 | $ 1,712.8 | $ 994.8 | $ 1.2 | $ 2,708.8 |
| Actual return on plan assets held | 28.5 | 75.9 | - | 104.4 |
| Actual return on plan assets sold during the year | 192.5 | 50.5 | - | 243.0 |
| Purchases | 191.2 | 195.8 | 17.7 | 404.7 |
| Issuances and settlements | (27.9) | (195.9) | (1.3) | (225.1) |
| Fair value December 31, 2012 | $ 2,097.1 | $ 1,121.1 | $ 17.6 | $ 3,235.8 |

Following is a description of the Plan'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 resources funds), represents the Plan'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 Plan were to sell all or a portion of its alternative investment, the transaction value could be significantly different than the fair value reported as of December 31.

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 Plan 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.

**Notes to Consolidated Financial Statements (In Millions)**

### Note 13. Employee Benefit Programs (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) | $ 2,378.8 | $ - | Monthly to annually | 30–90 days |
| Private partnerships (b) | 1,324.2 | 889.0 | | |
| | $ 3,703.0 | $ 889.0 | | |

At December 31, 2012, 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) | $ 2,097.1 | $ - | Monthly to annually | 30–90 days |
| Private partnerships (b) | 1,121.1 | 742.7 | | |
| | $ 3,218.2 | $ 742.7 | | |

(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 “lockup” restrictions that do not allow investors to seek redemption in the first year after acquisition. Following the initial lockup 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 Plan’s ownership interest in partners’ capital. These investments cannot be redeemed with the funds. 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.

No plan assets are expected to be returned to the employer during 2014.

**Notes to Consolidated Financial Statements (In Millions)**

## Note 13. Employee Benefit Programs (Continued)

**Other postretirement benefits:** In 2013, the Clinic approved a plan amendment to the Retiree Medical Plan and subsequent to December 31, 2013, announced the following:

Eligible employees who retire on or after January 1, 2015, will not participate in the Clinic self-insured group retiree medical benefits. Instead, the Clinic will provide an employer subsidy through contributions to a Health Reimbursement Account (HRA) that the participant can use to purchase individual medical and/or prescription drug coverage. The effects of this plan amendment were reflected in the December 31, 2013, benefit obligation.

***Obligations and funded status:*** A summary of the changes in the benefit obligation and plan assets and the resulting funded status of the other postretirement plans is as follows as of and for the years ended December 31:

| | 2013 | 2012 |
|---|---|---|
| Change in projected benefit obligation: | | |
| Benefit obligation at beginning of year | $ 1,204.6 | $ 1,028.0 |
| Service cost | 31.4 | 30.1 |
| Interest cost | 50.8 | 53.6 |
| Plan participants' contributions | 11.2 | 9.6 |
| Plan change | (289.8) | - |
| Medicare subsidy | 2.4 | 2.6 |
| Actuarial loss | (191.8) | 123.6 |
| Benefits paid | (50.8) | (42.9) |
| Estimated benefit obligation at end of year | $ 768.0 | $ 1,204.6 |
| | | |
| Change in plan assets: | | |
| Fair value of plan assets at beginning of year | $ - | $ - |
| Employer contributions | 37.2 | 30.7 |
| Plan participants' contributions | 11.2 | 9.6 |
| Medicare subsidy | 2.4 | 2.6 |
| Benefits paid | (50.8) | (42.9) |
| Fair value of plan assets at end of year | $ - | $ - |
| | | |
| Funded status of the plan | $ (768.0) | $ (1,204.6) |

Amounts recognized in the consolidated statements of financial position for postretirement benefits consist of the following at December 31:

| | 2013 | 2012 |
|---|---|---|
| Current liabilities | $ (32.8) | $ (30.1) |
| Noncurrent liabilities | (735.2) | (1,174.5) |
| Net amount recognized | $ (768.0) | $ (1,204.6) |

**Notes to Consolidated Financial Statements (In Millions)**

**Note 13. Employee Benefit Programs (Continued)**

Components of net periodic benefit cost for other postretirement benefits are as follows for the years ended December 31:

| | 2013 | 2012 |
|---|---|---|
| Service cost | $ 31.4 | $ 30.1 |
| Interest cost | 50.8 | 53.6 |
| Amortization of: | | |
| Unrecognized prior service benefit | (24.7) | (25.3) |
| Unrecognized net actuarial loss | 11.9 | 3.1 |
| Net periodic benefit cost for other postretirement benefits | $ 69.4 | $ 61.5 |

The Clinic has concluded that the prescription drug benefits under its defined benefit postretirement plan are actuarially equivalent to Medicare Part D under the Medicare Modernization Act (the Act) and that the Clinic will receive the subsidy available under the Act.

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 |

A one-percentage-point change in the assumed health care cost trend rate would have the following effects:

| | One-Percentage-Point Increase | One-Percentage-Point Decrease |
|---|---|---|
| Effect on total service and interest cost components in 2013 | $ 16.3 | $ (12.6) |
| Effect on postretirement benefit obligation at December 31, 2013 | 26.8 | (23.4) |

**Pension and postretirement benefits:**

***Assumptions:*** Weighted-average assumptions used to determine pension and postretirement benefit obligations at the measurement date are as follows:

| | Pension Benefits | | Postretirement Benefits | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Discount rate | 5.17% | 4.27% | 5.13% | 4.27% |
| Rate of compensation increase | 3.52% | 3.53% | N/A | N/A |

**Notes to Consolidated Financial Statements (In Millions)**

### Note 13. Employee Benefit Programs (Continued)

Weighted-average assumptions used to determine net periodic pension and postretirement benefit cost are as follows:

| | Pension Benefits | | Postretirement Benefits | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Discount rate | 4.27% | 5.24% | 4.27% | 5.30% |
| Expected long-term return on plan assets | 8.00% | 8.00% | N/A | N/A |
| Rate of compensation increase | 3.53% | 4.37% | N/A | N/A |

The Clinic utilizes a building block approach in determining the expected long-term rate of return for its plan assets. First, historical data on individual asset class returns are studied. Next, the historical correlation among and between asset class returns is studied under both normal conditions and in times of market turbulence. Then, various mixes of asset classes are considered under multiple long-term investment scenarios. Finally, after considering liquidity concerns related to the use of certain alternative asset classes, the plan sponsor selects the portfolio blend that it believes will produce the highest expected long-term return on a risk-adjusted basis.

**Cash flows:**

***Contributions:*** The Clinic expects to contribute $220.9 to its pension plans in 2014.

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

| | Pension Benefits | | Postretirement |
|---|---|---|---|
| Years Ending December 31, | Qualified | Nonqualified | Benefits |
| 2014 | $ 252.8 | $ 0.3 | $ 29.6 |
| 2015 | 278.0 | 0.3 | 32.8 |
| 2016 | 299.1 | 0.2 | 33.3 |
| 2017 | 326.8 | 0.3 | 35.0 |
| 2018 | 351.1 | 0.3 | 37.3 |
| 2019–2023 | 2,056.1 | 0.9 | 220.6 |

In addition to the defined benefit plans, the Clinic sponsors various defined contribution benefit plans. Expense recognized by the Clinic for those plans was $42.3 and $39.5 for 2013 and 2012, respectively.

### Note 14. General and Professional Liability Insurance

The Clinic insures substantially all general and professional liability risks through a combination of a wholly owned captive insurance company and self-insurance. The insurance program combines various levels of self-insured retention with excess commercial insurance coverage. Actuarial consultants have been retained to assist in the estimation of outstanding general and professional liability loss.

**Notes to Consolidated Financial Statements (In Millions)**

### Note 14. General and Professional Liability Insurance (Continued)

The Clinic's general and professional liability as reported in the accompanying consolidated statements of financial position was $112.6 and $122.7 at December 31, 2013 and 2012, respectively. Provisions for the general and professional liability risks are based on an actuarial estimate of losses using the Clinic's actual loss data adjusted for industry trends and current conditions and considering an evaluation of claims by the Clinic's legal counsel. The provision includes estimates of ultimate costs for both reported claims and claims incurred but not reported.

Activity in the liability is summarized as follows for the years ended December 31:

| | 2013 | 2012 |
|---|---|---|
| Balance, beginning of year | $ 122.7 | $ 111.1 |
| Incurred related to captive insurance company liability: | | |
| Current year | 25.3 | 26.1 |
| Prior years | (14.1) | (9.7) |
| Total incurred | 11.2 | 16.4 |
| Paid related to captive insurance company liability: | | |
| Current year | - | (0.2) |
| Prior years | (14.8) | (15.8) |
| Total paid | (14.8) | (16.0) |
| Net change in self-insurance liability | (6.5) | 11.2 |
| Balance, end of year | $ 112.6 | $ 122.7 |

### Note 15. Other Receivables, Other Current and Long-Term Assets, and Other Current and Long-Term Liabilities

At December 31, other receivables consisted of the following:

| | 2013 | 2012 |
|---|---|---|
| Pledges receivable | $ 108.3 | $ 109.9 |
| Grants receivable | 51.1 | 54.6 |
| Other | 93.0 | 86.8 |
| | $ 252.4 | $ 251.3 |

At December 31, other current assets consisted of the following:

| | 2013 | 2012 |
|---|---|---|
| Inventories | $ 100.3 | $ 97.9 |
| Prepaid expenses | 43.6 | 49.4 |
| Current portion of deferred tax asset | 2.4 | 3.0 |
| | $ 146.3 | $ 150.3 |

**Notes to Consolidated Financial Statements (In Millions)**

### Note 15. Other Receivables, Other Current and Long-Term Assets, and Other Current and Long-Term Liabilities (Continued)

At December 31, other long-term assets consisted of the following:

| | 2013 | 2012 |
|---|---|---|
| Noncurrent pension asset | $ 344.3 | $ - |
| Pledges receivable | 206.1 | 95.7 |
| Trust receivables | 180.2 | 164.0 |
| Long-term portion of deferred tax asset | 31.7 | 47.0 |
| Oil and gas interests | 24.8 | - |
| Technology-based ventures | 19.6 | 6.4 |
| Other | 101.0 | 84.6 |
| | $ 907.7 | $ 397.7 |

At December 31, other current liabilities consisted of the following:

| | 2013 | 2012 |
|---|---|---|
| Accrued employee benefits | $ 95.6 | $ 98.2 |
| Other taxes | 29.2 | 31.8 |
| Real estate tax accrual | 20.0 | 17.4 |
| Short-term disability | 19.4 | 20.4 |
| Current maturities of long-term debt | 49.5 | 51.8 |
| Current pension and postretirement benefit | 33.1 | 30.4 |
| Current portion of professional and general liability | 26.3 | 31.7 |
| Current portion of long-term disability | 20.4 | 16.7 |
| Current portion of workers’ compensation liability | 14.2 | 10.2 |
| Other | 105.0 | 90.3 |
| | $ 412.7 | $ 398.9 |

At December 31, other long-term liabilities consisted of the following:

| | 2013 | 2012 |
|---|---|---|
| Deferred compensation | $ 348.6 | $ 274.6 |
| Long-term disability | 104.0 | 94.5 |
| Professional and general liability | 86.3 | 91.0 |
| Gift annuities | 47.2 | 48.3 |
| Trust obligations | 41.2 | 38.6 |
| Retirement community obligations | 35.7 | 34.6 |
| Lease agreement liability | 26.9 | 33.8 |
| Workers’ compensation liability | 24.8 | 16.6 |
| Asset retirement obligation | 23.2 | 23.0 |
| Contract deposit | 22.0 | 22.0 |
| Other | 45.6 | 47.1 |
| | $ 805.5 | $ 724.1 |

**Notes to Consolidated Financial Statements (In Millions)**

## Note 16. Other Revenue

For the years ended December 31, other revenue consisted of the following:

| | 2013 | 2012 |
|---|---|---|
| Retail pharmacy sales | $ 164.2 | $ 149.3 |
| Graduate medical and other education revenue | 66.4 | 48.0 |
| Incentive revenue | 54.7 | 44.7 |
| Technology commercialization, health information, and medical products | 45.8 | 34.1 |
| Cafeteria revenue | 38.0 | 31.8 |
| Royalties | 38.4 | 28.8 |
| Retail stores | 24.8 | 16.7 |
| Third-party administrative revenue | 13.7 | 22.6 |
| Other | 184.5 | 172.8 |
| | $ 630.5 | $ 548.8 |

## Note 17. 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.

While the Clinic is self-insured for a substantial portion of its general and workers' compensation liabilities, the Clinic maintains commercial insurance coverage against catastrophic loss. Additionally, the Clinic maintains a self-insurance program for its long-term disability coverage. The provision for estimated self-insured claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

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.

## Note 17. Commitments and Contingencies (Continued)

The Centers for Medicare & Medicaid Services (CMS) implemented a project using recovery auditors as part of CMS' further efforts to assure accurate payments. The project uses the recovery auditors to search for potentially inaccurate Medicare payments that may have been made to health care providers and that were not detected through existing CMS program integrity efforts. Once a recovery auditor identifies a claim believed to be inaccurate, the recovery auditor makes a deduction from or addition to the provider's Medicare reimbursement in an amount estimated to equal the overpayment or underpayment. The Clinic will deduct from revenue amounts assessed under the Recovery Audit Program (RAP) audits at the time a notice is received until such time that estimates of net amounts due can be reasonably estimated. RAP assessments against the Clinic are anticipated; however, the outcome of such assessments is unknown and cannot be reasonably estimated.

In March 2010, President Obama signed the Patient Protection and Affordable Care Act (PPACA) into law. PPACA will result in sweeping changes across the health care industry, including how care is provided and paid. A primary goal of this comprehensive reform legislation is to extend health coverage to approximately 32 million uninsured legal U.S. residents through a combination of public program expansion and private sector health insurance reforms. To fund the expansion of insurance coverage, the legislation contains measures designed to promote quality and cost efficiency in health care delivery and to generate budgetary savings in the Medicare and Medicaid programs. Given that the final regulations and interpretive guidelines are still being published, the Clinic is unable to fully predict the impact of PPACA on its operations and financial results. The Clinic's management expects that in the coming years, patients that were previously uninsured and unable to pay for care will have basic insurance coverage, and amounts for reimbursement for services from both public and private payors will be reduced and made conditional on various quality measures. Management of the Clinic is studying and evaluating the anticipated impacts and developing strategies needed to prepare for implementation, and is preparing to work cooperatively with other constituents to optimize available reimbursement.

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.

## Note 18. Affiliations

On March 1, 2012, Mayo Clinic Florida, a wholly owned subsidiary of the Clinic, affiliated with Satilla Health Services, Inc. (Satilla), a Georgia not-for-profit corporation located in Waycross, Georgia. The affiliation was effective on March 1, 2012, with Mayo Clinic Florida being the sole member of Satilla with no transfer of consideration. Satilla was established in 1987 and operates a 231-bed acute care hospital, primary and specialty clinics, and two nursing homes with a patient base of 155,000 at the time of affiliation. The hospital and affiliated clinics were renamed Mayo Clinic Health System—Waycross.

On June 30, 2012, the Clinic affiliated with Fairview Red Wing Health Services (FRW), with the Clinic being the sole member of FRW with a transfer of $64.0 in consideration. FRW is a Minnesota not-for-profit corporation with an integrated health care system providing primary and specialty care in Red Wing, Minnesota, with outreach clinics in Zumbrota, Minnesota, and Ellsworth, Wisconsin. The medical center and outreach clinics became part of the Mayo Clinic Health System and was renamed Mayo Clinic Health System—Red Wing.

**Notes to Consolidated Financial Statements (In Millions)**

### Note 18. Affiliations (Continued)

The affiliations further the Clinic's strategy to build a network of affiliated providers and expand the availability of health care resources within the regions. Assets and liabilities were assumed and a contribution was received at the time of affiliation as follows:

| | | |
|---|---|---|
| Fair value of assets | $ | 237.2 |
| Liabilities assumed | | (68.4) |
| Transfer of consideration | | (64.0) |
| Contribution received from affiliations | $ | 104.8 |

The fair values of assets and liabilities reported in the consolidated statement of financial position at the time of affiliation were as follows:

| | | |
|---|---|---|
| Cash | $ | 20.9 |
| Accounts receivable | | 38.6 |
| Investments | | 50.5 |
| Other assets | | 16.7 |
| Property, plant and equipment | | 110.5 |
| Liabilities | | (68.4) |

The consolidated statement of activities includes the operating results from the date of affiliation. Revenue and change in net assets attributable to affiliations for the year ended December 31, 2012, are as follows:

| | | |
|---|---|---|
| Revenue, gains and other support | $ | 164.7 |
| Change in unrestricted net assets | | (6.2) |

# Supplemental Information

McGladrey

**Independent Auditor's Report on the Supplemental Information**

Board of Trustees
Mayo Clinic

We have audited the consolidated financial statements of Mayo Clinic and its subsidiaries (the Clinic) as of and for the years ended December 31, 2013 and 2012, and have issued our report thereon, dated February 26, 2014, which contained an unmodified opinion on those consolidated financial statements. Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole.

The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements, or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

McGladrey LLP

Minneapolis, Minnesota
February 26, 2014

**Mayo Clinic**

**Mayo Clinic Florida**
**Statements of Financial Position**
**December 31, 2013 and 2012 (In Millions)**

| **Assets** | **2013** | 2012 |
|---|---|---|
| Current Assets | | |
| Accounts receivable for medical services, less allowances for uncollectible accounts of $35.1 in 2013 and $36.7 in 2012 | **$ 100.9** | $ 85.9 |
| Inventories and other current assets | **7.7** | 6.7 |
| Due from affiliates | **139.0** | 109.8 |
| **Total current assets** | **247.6** | 202.4 |
| Property, Plant and Equipment, net and other long-term assets | **251.2** | 208.8 |
| **Total assets** | **$ 498.8** | $ 411.2 |
| **Liabilities and Net Assets** | | |
| Current Liabilities | | |
| Accrued expenses | **$ 21.1** | $ 17.0 |
| Due to affiliates | **47.4** | 40.5 |
| **Total current liabilities** | **68.5** | 57.5 |
| Long-Term Debt | **126.9** | 126.9 |
| Other Long-Term Liabilities | **3.2** | 2.8 |
| **Total liabilities** | **198.6** | 187.2 |
| Net Assets | | |
| Unrestricted | **300.0** | 223.8 |
| Temporarily restricted | **0.1** | 0.1 |
| Permanently restricted | **0.1** | 0.1 |
| **Total net assets** | **300.2** | 224.0 |
| **Total liabilities and net assets** | **$ 498.8** | $ 411.2 |

**Mayo Clinic**

**Mayo Clinic Florida**
**Statements of Activities**
**Years Ended December 31, 2013 and 2012 (In Millions)**

| | 2013 | | | | 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Unrestricted** | **Temporarily Restricted** | **Permanently Restricted** | **Total** | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Revenue, gains and other support: | | | | | | | | |
| Net medical service revenue | **$ 432.9** | **$ -** | **$ -** | **$ 432.9** | $ 395.3 | $ - | $ - | $ 395.3 |
| Other | **10.9** | **-** | **-** | **10.9** | 10.4 | - | - | 10.4 |
| Net assets released from restrictions | **-** | **-** | **-** | **-** | 0.2 | (0.2) | - | - |
| **Total revenue, gains and other support** | **443.8** | **-** | **-** | **443.8** | 405.9 | (0.2) | - | 405.7 |
| Expenses: | | | | | | | | |
| Salaries and benefits | **106.8** | **-** | **-** | **106.8** | 101.1 | - | - | 101.1 |
| Supplies and services | **228.7** | **-** | **-** | **228.7** | 226.0 | - | - | 226.0 |
| Facilities | **27.0** | **-** | **-** | **27.0** | 26.9 | - | - | 26.9 |
| Finance and investment | **5.1** | **-** | **-** | **5.1** | 6.0 | - | - | 6.0 |
| **Total expenses** | **367.6** | **-** | **-** | **367.6** | 360.0 | - | - | 360.0 |
| **Income (loss) from current activities** | **76.2** | **-** | **-** | **76.2** | 45.9 | (0.2) | - | 45.7 |
| Inter-affiliate transfers | **-** | **-** | **-** | **-** | - | - | - | - |
| **Increase (decrease) in net assets** | **76.2** | **-** | **-** | **76.2** | 45.9 | (0.2) | - | 45.7 |
| Net assets at beginning of year | **223.8** | **0.1** | **0.1** | **224.0** | 177.9 | 0.3 | 0.1 | 178.3 |
| Net assets at end of year | **$ 300.0** | **$ 0.1** | **$ 0.1** | **$ 300.2** | $ 223.8 | $ 0.1 | $ 0.1 | $ 224.0 |