# Mayo Clinic

Unaudited Condensed Consolidated Interim Financial Statements
Quarter Ended September 30, 2017

# Mayo Clinic

## Contents

Financial Statements

Unaudited Condensed Consolidated Statements of Financial Position
(in Millions)

| Assets | September 30, 2017 Unaudited | December 31, 2016 |
|---|---|---|
| Current Assets | | |
| Cash and equivalents | $ 57 | $ 57 |
| Accounts receivable for medical services, less allowances for uncollectible accounts of $657 as of September 30, 2017 and $674 as of December 31, 2016 | 1,746 | 1,635 |
| Securities lending collateral loan | 8 | 30 |
| Other receivables | 325 | 309 |
| Other current assets | 208 | 253 |
| Total current assets | 2,344 | 2,284 |
| Investments | 8,203 | 7,700 |
| Investments Under Securities Lending Agreement | 53 | 55 |
| Other Long-Term Assets | 589 | 574 |
| Property, Plant and Equipment, net | 4,435 | 4,308 |
| Total assets | $ 15,624 | $ 14,921 |
| **Liabilities and Net Assets** | | |
| Current Liabilities | | |
| Accounts payable | $ 412 | $ 403 |
| Accrued payroll | 599 | 678 |
| Accrued employee benefits | 153 | 153 |
| Deferred revenue | 61 | 50 |
| Long-term variable rate debt | 470 | 670 |
| Securities lending payable | 8 | 30 |
| Other current liabilities | 346 | 359 |
| Total current liabilities | 2,049 | 2,343 |
| Long-Term Debt | 2,568 | 2,371 |
| Accrued Pension and Postretirement Benefits, net of current | 1,740 | 2,012 |
| Other Long-Term Liabilities | 1,166 | 1,028 |
| Total liabilities | 7,523 | 7,754 |
| Net Assets | | |
| Unrestricted | 5,208 | 4,542 |
| Temporarily restricted | 1,548 | 1,357 |
| Permanently restricted | 1,345 | 1,268 |
| Total net assets | 8,101 | 7,167 |
| Total liabilities and net assets | $ 15,624 | $ 14,921 |

See Notes to Condensed Consolidated Financial Statements.

MAYO CLINIC

# Unaudited Condensed Consolidated Statements of Activities
(in Millions)

| | Three Months Ended September 30, 2017 | | | | Three Months ended September 30, 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Revenue, gains and other support: | | | | | | | | |
| Net medical service revenue | $ 2,461 | $ - | $ - | $ 2,461 | $ 2,290 | $ - | $ - | $ 2,290 |
| Grants and contracts | 102 | - | - | 102 | 104 | - | - | 104 |
| Investment return allocated to current activities | 76 | 14 | - | 90 | 22 | 52 | - | 74 |
| Contributions available for current activities | 9 | 59 | - | 68 | 7 | 16 | - | 23 |
| Premium revenue | 38 | - | - | 38 | 30 | - | - | 30 |
| Other | 210 | - | - | 210 | 196 | - | - | 196 |
| Net assets released from restrictions | 33 | (33) | - | - | 47 | (47) | - | - |
| Total revenue, gains and other support | 2,929 | 40 | - | 2,969 | 2,696 | 21 | - | 2,717 |
| Expenses: | | | | | | | | |
| Salaries and benefits | 1,813 | - | - | 1,813 | 1,716 | - | - | 1,716 |
| Supplies and services | 748 | - | - | 748 | 703 | - | - | 703 |
| Facilities | 197 | - | - | 197 | 186 | - | - | 186 |
| Finance and investment | 29 | - | - | 29 | 26 | - | - | 26 |
| Total expenses | 2,787 | - | - | 2,787 | 2,631 | - | - | 2,631 |
| Income from current activities | 142 | 40 | - | 182 | 65 | 21 | - | 86 |
| Noncurrent and other items: | | | | | | | | |
| Contributions not available for current activities, net | (10) | 11 | 57 | 58 | (8) | 27 | 22 | 41 |
| Unallocated investment return, net | 58 | 42 | - | 100 | 139 | 7 | - | 146 |
| Income tax expense | (11) | - | - | (11) | (5) | - | - | (5) |
| Loss from disposal of affiliate | - | - | - | - | (1) | - | - | (1) |
| Other | - | - | - | - | - | - | - | - |
| Total noncurrent and other items | 37 | 53 | 57 | 147 | 125 | 34 | 22 | 181 |
| Increase in net assets before other changes in net assets | 179 | 93 | 57 | 329 | 190 | 55 | 22 | 267 |
| Pension and other postretirement benefit adjustments | 19 | - | - | 19 | 4 | - | - | 4 |
| Increase in net assets | 198 | 93 | 57 | 348 | 194 | 55 | 22 | 271 |
| Net assets at beginning of period | 5,010 | 1,455 | 1,288 | 7,753 | 5,288 | 1,289 | 1,198 | 7,775 |
| Net assets at end of period | $ 5,208 | $ 1,548 | $ 1,345 | $ 8,101 | $ 5,482 | $ 1,344 | $ 1,220 | $ 8,046 |

See Notes to Condensed Consolidated Financial Statements.

MAYO CLINIC

## Unaudited Condensed Consolidated Statements of Activities
(in Millions)

| | Nine Months Ended September 30, 2017 | | | | Nine Months Ended September 30, 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Revenue, gains and other support: | | | | | | | | |
| Net medical service revenue | $ 7,368 | $ - | $ - | $ 7,368 | $ 6,871 | $ - | $ - | $ 6,871 |
| Grants and contracts | 326 | - | - | 326 | 326 | - | - | 326 |
| Investment return allocated to current activities | 219 | 40 | - | 259 | 146 | 71 | - | 217 |
| Contributions available for current activities | 31 | 114 | - | 145 | 28 | 51 | - | 79 |
| Premium revenue | 115 | - | - | 115 | 107 | - | - | 107 |
| Other | 625 | - | - | 625 | 553 | - | - | 553 |
| Net assets released from restrictions | 147 | (147 ) | - | - | 129 | (129 ) | - | - |
| Total revenue, gains and other support | 8,831 | 7 | - | 8,838 | 8,160 | (7 ) | - | 8,153 |
| Expenses: | | | | | | | | |
| Salaries and benefits | 5,492 | - | - | 5,492 | 5,093 | - | - | 5,093 |
| Supplies and services | 2,235 | - | - | 2,235 | 2,103 | - | - | 2,103 |
| Facilities | 572 | - | - | 572 | 540 | - | - | 540 |
| Finance and investment | 84 | - | - | 84 | 76 | - | - | 76 |
| Total expenses | 8,383 | - | - | 8,383 | 7,812 | - | - | 7,812 |
| Income (loss) from current activities | 448 | 7 | - | 455 | 348 | (7 ) | - | 341 |
| Noncurrent and other items: | | | | | | | | |
| Contributions not available for current activities, net | (15 ) | 36 | 77 | 98 | (16 ) | 32 | 54 | 70 |
| Unallocated investment return, net | 222 | 148 | - | 370 | (11 ) | - | - | (11 ) |
| Income tax expense | (31 ) | - | - | (31 ) | (13 ) | - | - | (13 ) |
| Loss from disposal of affiliate | (13 ) | - | - | (13 ) | - | - | - | - |
| Other | - | - | - | - | 1 | - | - | 1 |
| Total noncurrent and other items | 163 | 184 | 77 | 424 | (39 ) | 32 | 54 | 47 |
| Increase in net assets before other changes in net assets | 611 | 191 | 77 | 879 | 309 | 25 | 54 | 388 |
| Pension and other postretirement benefit adjustments | 55 | - | - | 55 | 11 | - | - | 11 |
| Increase in net assets | 666 | 191 | 77 | 934 | 320 | 25 | 54 | 399 |
| Net assets at beginning of period | 4,542 | 1,357 | 1,268 | 7,167 | 5,162 | 1,319 | 1,166 | 7,647 |
| Net assets at end of period | $ 5,208 | $ 1,548 | $ 1,345 | $ 8,101 | $ 5,482 | $ 1,344 | $ 1,220 | $ 8,046 |

See Notes to Condensed Consolidated Financial Statements.

MAYO CLINIC

Unaudited Condensed Consolidated Statements of Cash Flows
(in Millions)

| | Nine Months Ended September 30, 2017 | Nine Months Ended September 30, 2016 |
|---|---|---|
| Cash Flows From Operating Activities | | |
| Increase in net assets | $ 934 | $ 399 |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 383 | 362 |
| Provision for uncollectible accounts | 143 | 162 |
| Net realized and unrealized gain on investments | (539 ) | (184 ) |
| Restricted gifts, bequests, and other income | (112 ) | (54 ) |
| Net change in accounts receivable and other current assets and liabilities | (304 ) | (217 ) |
| Pension and other postretirement benefits adjustment | (272 ) | (268 ) |
| Net change in other long-term assets and liabilities | 140 | 79 |
| Net cash provided by operating activities | 373 | 279 |
| Cash Flows From Investing Activities | | |
| Purchase of property, plant, and equipment | (510 ) | (448 ) |
| Purchases of investments | (1,544 ) | (1,629 ) |
| Sales and maturities of investments | 1,561 | 1,460 |
| Proceeds from disposal of affiliate | 28 | - |
| Net cash used for investing activities | (465 ) | (617 ) |
| Cash Flows From Financing Activities | | |
| Restricted gifts, bequests and other income | 95 | 72 |
| Borrowings on long-term debt | - | 547 |
| Payment of long-term debt | (3 ) | (286 ) |
| Net cash provided by financing activities | 92 | 333 |
| Net decrease in cash and equivalents | - | (5 ) |
| Cash and Equivalents at Beginning of Period | 57 | 53 |
| Cash and Equivalents at End of Period | $ 57 | $ 48 |

See Notes to Condensed Consolidated Financial Statements.

## Note 1. Basis of Presentation

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

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal and recurring nature. Operating results for the three and nine months ended September 30, 2017, are not necessarily indicative of the results to be expected for the year ending December 31, 2017. For further information, refer to the audited consolidated financial statements and notes thereto for the year ended December 31, 2016.

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

## Note 2. New Accounting Standard

New Accounting Standards Not Yet Adopted:

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. In August 2015, the FASB amended the guidance to defer the effective date of this standard by one year. The ASU converged and replaced existing revenue recognition guidance, including industry-specific guidance and requires revenue to be recognized in an amount that reflects the consideration the entity expects to be entitled in an exchange of goods or services. The Clinic is currently evaluating the requirements of the new standard to ensure that processes, systems, and internal controls are in place to collect the necessary information to implement the standard, which will be effective for the Clinic beginning January 1, 2018. The Clinic's current intention is to use a full retrospective method of application to adopt the ASU. The evaluation includes identifying revenue streams by like contracts to allow for ease of implementation and the Clinic will use primarily a portfolio approach to apply the new model to classes of customers with similar characteristics. The Clinic anticipates the adoption of the ASU will result in changes to our presentation and disclosure of revenue related to uninsured or underinsured patients. Currently, a significant portion of our provision for uncollectible accounts relates to co-pays and deductibles owed to us by patients with insurance as well as self-pay patients. The adoption of the ASU will impact the presentation on the Clinic's statement of activities for a component of its provision for uncollectible accounts. After adoption of the ASU, the majority of what is currently classified as the provision for

Note 2. New Accounting Standard (continued)

uncollectible accounts will be reflected as an implicit price concession as defined in the standard and therefore an adjustment to medical service revenue.

The Clinic will continue to evaluate certain changes in collectability on its patient accounts receivable resulting from certain credit and collection issues not assessed at the date of service, including bankruptcy, and recognize such amounts in the provision for uncollectible accounts included in operating expenses on the statement of activities. While the adoption of the ASU will have an effect on the amounts presented in certain categories on the consolidated statements of activities, the Clinic does not expect a material impact to the financial position, results from current activities, or cash flows.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842*). This ASU requires the rights and obligations arising from the lease contracts, including existing and new arrangements, to be recognized as assets and liabilities on the balance sheet. The ASU will require disclosures to help financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. The ASU is effective for the Clinic beginning January 1, 2019 and will be applied using a modified retrospective approach. The Clinic is currently evaluating the provisions of the ASU to determine how the financial statements will be affected, and believe the primary effect of adopting the new standard will be to record right-of-use assets and obligations for current operating leases.

In March 2017, the FASB issued ASU No. 2017-07, *Compensation – Retirement Benefits (Topic 715)*. This ASU provides guidance on the presentation of service cost and other components of net periodic benefit cost in the statement of activities. The ASU is effective during interim and annual periods beginning on or after December 15, 2018. The Clinic is currently assessing the impact of this new accounting standard on its consolidated financial statements.

September 30, 2017 (in Millions)

## Note 3. Allowance for Uncollectible Accounts

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

The Clinic's allowance for uncollectible accounts was 27 percent and 29 percent of accounts receivable at September 30, 2017 and December 31, 2016, respectively. In addition, the Clinic's write-offs for uncollectible accounts receivable were $155 and $116 for the nine months ended September 30, 2017 and September 30, 2016, respectively.

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

| | 2017 | 2016 |
|---|---|---|
| Medical service revenue (net of contractual allowances and discounts) | $ 7,506 | $ 7,033 |
| Provision for uncollectible accounts | (138) | (162) |
| Net medical service revenue | $ 7,368 | $ 6,871 |

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

| | 2017 | 2016 |
|---|---|---|
| Third-party payors | $ 7,195 | $ 6,722 |
| Self-pay | 311 | 311 |
| Total all payors | $ 7,506 | $ 7,033 |

## Note 4. Investments

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

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

From time to time, the Clinic invests directly in certain derivative contracts that do not qualify for hedge accounting and are recorded at fair value in investments. Changes in fair value are reported as a component of net unrealized gains or losses in the investment returns. These contracts are used in the Clinic's investment management program to minimize certain investment risks. For the nine months ending September 30, 2017 and September 30, 2016, the realized and unrealized loss from derivative contracts totaled $36 and $42, respectively.

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

## Note 5. Fair Value Measurements

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

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

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

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

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The Clinic's policy is to recognize transfers in and transfers out as of the actual date of the event or change in circumstances that caused the transfer. There were no significant transfers or activity within investment levels for the nine months ended September 30, 2017 and 2016.

September 30, 2017 (in Millions)

## Note 5. Fair Value Measurements (Continued)

The following tables present the financial instruments carried at fair value as of September 30, 2017, and December 31, 2016, by caption on the statements of financial position categorized by the valuation hierarchy and NAV:

| | September 30, 2017 | | | | |
|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | NAV | Total Fair Value |
| Assets: | | | | | |
| Securities lending collateral | $ 8 | $ - | $ - | $ - | $ 8 |
| Investments: | | | | | |
| Cash and equivalents | 989 | - | - | - | 989 |
| Fixed-income securities: | | | | | |
| U.S. government | - | 216 | - | - | 216 |
| U.S. government agencies | - | 280 | - | - | 280 |
| U.S. corporate | - | 292 | - | - | 292 |
| Foreign | - | 11 | - | - | 11 |
| Common and preferred stocks: | | | | | |
| U.S. | 482 | - | 5 | - | 487 |
| Foreign | 354 | - | - | - | 354 |
| Funds: | | | | | |
| Fixed-income | 312 | - | - | - | 312 |
| Equities | 697 | 462 | - | - | 1,159 |
| Other investments | 26 | - | - | - | 26 |
| Less securities under lending agreement | (53) | - | - | - | (53) |
| Investments at NAV | - | - | - | 4,130 | 4,130 |
| Total investments | 2,807 | 1,261 | 5 | 4,130 | 8,203 |
| Investments under securities lending agreement | 53 | - | - | - | 53 |
| Other long-term assets: | | | | | |
| Trust receivables | 70 | 28 | 57 | - | 155 |
| Technology-based ventures | - | - | 19 | - | 19 |
| Total other long-term assets | 70 | 28 | 76 | - | 174 |
| Total assets at fair value | $ 2,938 | $ 1,289 | $ 81 | $ 4,130 | $ 8,438 |
| Liabilities: | | | | | |
| Securities lending payable | $ 8 | $ - | $ - | $ - | $ 8 |
| Total liabilities at fair value | $ 8 | $ - | $ - | $ - | $ 8 |

September 30, 2017 (in Millions)

## Note 5. Fair Value Measurements (Continued)

| | December 31, 2016 | | | | |
|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | NAV | Total Fair Value |
| Assets: | | | | | |
| Securities lending collateral | $ 30 | $ - | $ - | $ - | $ 30 |
| Investments: | | | | | |
| Cash and equivalents | 935 | - | - | - | 935 |
| Fixed-income securities: | | | | | |
| U.S. government | - | 200 | - | - | 200 |
| U.S. government agencies | - | 294 | - | - | 294 |
| U.S. corporate | - | 304 | 10 | - | 314 |
| Foreign | - | 13 | - | - | 13 |
| Common and preferred stocks: | | | | | |
| U.S. | 444 | - | 2 | - | 446 |
| Foreign | 345 | - | - | - | 345 |
| Funds: | | | | | |
| Fixed-income | 415 | - | - | - | 415 |
| Equities | 577 | 289 | - | - | 866 |
| Other investments | 65 | - | - | - | 65 |
| Less securities under lending agreement | (55) | - | - | - | (55) |
| Investments at NAV | - | - | - | 3,862 | 3,862 |
| Total investments | 2,726 | 1,100 | 12 | 3,862 | 7,700 |
| Investments under securities lending agreement | 55 | - | - | - | 55 |
| Other long-term assets: | | | | | |
| Trust receivables | 90 | 30 | 55 | - | 175 |
| Technology-based ventures | - | - | 18 | - | 18 |
| Total other long-term assets | 90 | 30 | 73 | - | 193 |
| Total assets at fair value | $ 2,901 | $ 1,130 | $ 85 | $ 3,862 | $ 7,978 |
| Liabilities: | | | | | |
| Securities lending payable | $ 30 | $ - | $ - | $ - | $ 30 |
| Total liabilities at fair value | $ 30 | $ - | $ - | $ - | $ 30 |

September 30, 2017 (in Millions)

## Note 5. Fair Value Measurements (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, primarily consists of trusts 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, and since the Clinic will never receive the trust assets, these perpetual trusts are reported as Level 3.

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

The carrying values of cash and cash equivalents, and short-term investments, accounts receivable, accounts payable and accrued expenses are reasonable estimates of their fair value due to the short-term nature of these financial instruments. The estimated fair value of long-term debt, based on quoted market prices for the same or similar issues (Level 2), was approximately $171 and $75 more than its carrying value at September 30, 2017 and December 31, 2016, respectively. Other long-term assets and liabilities have a carrying value that approximates fair value.

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

At September 30, 2017, alternative investments recorded at NAV consisted of the following:

| | | Fair Value | Unfunded Commitment | Redemption Frequency (If Currently Eligible) | Redemption Notice Period |
|---|---|---|---|---|---|
| Absolute return/hedge funds | (a) | $ 2,043 | $ - | Monthly to annually | 30-90 days |
| Private partnerships | (b) | 2,087 | 1,047 | | |
| | | $ 4,130 | $ 1,047 | | |

September 30, 2017 (in Millions)

## Note 5. Fair Value Measurements (Continued)

At December 31, 2016, alternative investments recorded at NAV consisted of the following:

| | | Fair Value | Unfunded Commitment | Redemption Frequency (If Currently Eligible) | Redemption Notice Period |
|---|---|---|---|---|---|
| Absolute return/hedge funds | (a) | $ 1,983 | $ - | Monthly to annually | 30-90 days |
| Private partnerships | (b) | 1,879 | 1,015 | | |
| | | $ 3,862 | $ 1,015 | | |

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

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

## Note 6. Securities Lending

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

At September 30, 2017 and December 31, 2016, the aggregate market value of securities on loan under securities lending agreements totaled $53 and $55, respectively, and the total value of the collateral supporting the securities is $55 and $56, respectively, which represents 103 percent of the value of the securities on loan at September 30, 2017 and December 31, 2016. The cash portion of the collateral supporting the securities as of September 30, 2017 and December 31, 2016 is $8 and $30, 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.

## Note 7. Financing

On March 24, 2017, the Clinic's $200 City of Rochester, Minnesota Health Care Facilities Revenue Bonds Series 2002 A,B&C variable rate bonds were acquired by a bank through a direct purchase for 10 years at an initial fixed interest rate of 2.196%. The bond modification was accounted for as an extinguishment of debt. The loss on extinguishment was not significant.

## Note 8. Commitments and Contingencies

The Clinic has various construction projects in progress related to patient care, research, and educational facilities. The estimated costs committed to complete the various projects at September 30, 2017, approximated $1,120, all of which is expected to be expended over the next three to five 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 $87 by the consolidated affiliate to release the third party from the affiliation. Such payment would be subordinate to other debtors of the consolidated affiliated entity. No amount has been accrued in the consolidated financial statements for this contingency.

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

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

September 30, 2017 (in Millions)

## Note 9. Employee Benefit Programs

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

Components of net periodic benefit cost for the nine months ended September 30 are as follows for the defined-benefit pension funds:

| | Qualified | |
|---|---|---|
| | 2017 | 2016 |
| Service cost | $ 319 | $ 275 |
| Interest cost | 263 | 252 |
| Expected return on plan assets | (430 ) | (419 ) |
| Amortization of unrecognized: | | |
| Prior service benefit | (38 ) | (43 ) |
| Net actuarial loss | 118 | 93 |
| Net periodic benefit cost | $ 232 | $ 158 |

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

| | Postretirement Benefits | |
|---|---|---|
| | 2017 | 2016 |
| Service cost | $ 9 | $ 8 |
| Interest cost | 31 | 29 |
| Amortization of unrecognized: | | |
| Prior service benefit | (35 ) | (41 ) |
| Net actuarial loss | 9 | 1 |
| Net periodic cost (benefit) | $ 14 | $ (3 ) |

## Note 10. Disposal of Affiliate

On May 1, 2017, the Clinic withdrew as the sole member of Mayo Clinic Health System – Waycross in a transaction with the Hospital Authority of Ware County and HCA Management Services, L.P. A $13 loss from disposal of affiliate is included in noncurrent and other items of the consolidated statements of activities.

In August 2017, the Clinic entered into an agreement with Medica, a Minnesota-based health services company to sell ownership interest in Mayo Clinic Health Solutions (MMSI). As of September 30, 2017 assets and liabilities held for sale, included in other current assets and other current liabilities relating to MMSI totaled $19 and $3, respectively. The transaction is part of a strategy to improve access to Mayo Clinic for patients with serious and complex medical conditions.

## Note 11. Subsequent Events

The Clinic evaluated events and transactions occurring subsequent to September 30, 2017 through November 9, 2017, the date of issuance of the financial statements. During this period, there were no subsequent events requiring recognition in the consolidated financial statements. Additionally, there were no nonrecognized events requiring disclosure.