Mayo Clinic

Unaudited Condensed Consolidated Financial Statements
Quarter Ended September 30, 2018

Mayo Clinic

Contents

MAYO CLINIC

Condensed Consolidated Statements of Financial Position
(In Millions)

	September 30, 2018 Unaudited	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	**$ 61**	$ 66
Accounts receivable for medical services	**1,916**	1,791
Securities lending collateral	**8**	5
Other receivables	**380**	348
Other current assets	**205**	228
Total current assets	**2,570**	2,438
Investments	**9,071**	8,760
Investments under securities lending agreement	**57**	42
Other long-term assets	**658**	578
Property, plant and equipment, net	**4,676**	4,489
Total assets	**$ 17,032**	$ 16,307
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	**$ 434**	$ 443
Accrued payroll	**648**	722
Accrued employee benefits	**147**	153
Deferred revenue	**66**	63
Mandatory tender debt	**150**	150
Long-term variable-rate debt	**470**	470
Securities lending payable	**8**	5
Other current liabilities	**383**	340
Total current liabilities	**2,306**	2,346
Long-term debt, net of current portion	**2,409**	2,413
Accrued pension and postretirement benefits, net of current portion	**2,162**	2,324
Other long-term liabilities	**1,354**	1,201
Total liabilities	**8,231**	8,284
Net assets:		
Unrestricted	**5,540**	5,018
Temporarily restricted	**1,774**	1,629
Permanently restricted	**1,487**	1,376
Total net assets	**8,801**	8,023
Total liabilities and net assets	**$ 17,032**	$ 16,307

See notes to condensed consolidated financial statements.

MAYO CLINIC

Condensed Consolidated Statements of Activities
Unaudited (In Millions)

	Nine Months Ended September 30, 2018				Nine Months Ended September 30, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, gains and other support:								
Medical service revenue	$ 7,904	$ —	$ —	$ 7,904	$ 7,368	$ —	$ —	$ 7,368
Grants and contracts	366	—	—	366	326	—	—	326
Investment return allocated to current activities	267	57	—	324	219	40	—	259
Contributions available for current activities	60	101	—	161	31	114	—	145
Other	695	—	—	695	740	—	—	740
Net assets released from restrictions	99	(99)	—	—	147	(147)	—	—
Total revenue, gains and other support	9,391	59	—	9,450	8,831	7	—	8,838
Expenses:								
Salaries and benefits	5,806	—	—	5,806	5,492	—	—	5,492
Supplies and services	2,343	—	—	2,343	2,235	—	—	2,235
Facilities	609	—	—	609	572	—	—	572
Finance and investment	91	—	—	91	84	—	—	84
Total expenses	8,849	—	—	8,849	8,383	—	—	8,383
Income from current activities	542	59	—	601	448	7	—	455
Noncurrent and other items:								
Contributions not available for current activities, net	(13)	25	111	123	(15)	36	77	98
Unallocated investment return, net	(52)	61	—	9	222	148	—	370
Income tax expense	(24)	—	—	(24)	(31)	—	—	(31)
Loss from disposal of affiliates, net	—	—	—	—	(13)	—	—	(13)
Other	(1)	—	—	(1)	—	—	—	—
Total noncurrent and other items	(90)	86	111	107	163	184	77	424
Increase in net assets before other changes in net assets	452	145	111	708	611	191	77	879
Pension and other postretirement benefit adjustments	107	—	—	107	55	—	—	55
Release of third party from affiliation	(37)	—	—	(37)	—	—	—	—
Increase in net assets	522	145	111	778	666	191	77	934
Net assets at beginning of year	5,018	1,629	1,376	8,023	4,542	1,357	1,268	7,167
Net assets at end of period	$ 5,540	$ 1,774	$ 1,487	$ 8,801	$ 5,208	$ 1,548	$ 1,345	$ 8,101

See notes to condensed consolidated financial statements.

MAYO CLINIC

Condensed Consolidated Statements of Cash Flows
Unaudited (In Millions)

	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Cash flows from operating activities:		
Change in net assets	$ 778	$ 934
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	416	383
Provision for uncollectible accounts	12	5
Net realized and unrealized gain on investments	(225)	(539)
Restricted gifts, bequests and other	(136)	(112)
Net change in accounts receivable and other current assets and liabilities	(189)	(304)
Pension and other postretirement benefits adjustments	(162)	(272)
Net change in other long-term assets and liabilities	177	278
Net cash provided by operating activities	671	373
Cash flows from investing activities:		
Purchase of property, plant and equipment	(603)	(510)
Purchases of investments	(1,671)	(1,544)
Sales and maturities of investments	1,570	1,561
Proceeds from disposal of affiliates	—	28
Net cash used in investing activities	(704)	(465)
Cash flows from financing activities:		
Restricted gifts, bequests and other	32	95
Payment of long-term debt	(4)	(3)
Net cash provided by financing activities	28	92
Net decrease in cash and cash equivalents	(5)	—
Cash and cash equivalents at beginning of period	66	57
Cash and cash equivalents at end of period	$ 61	$ 57

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 nine months ended September 30, 2018, are not necessarily indicative of the results to be expected for the year ending December 31, 2018. For further information, refer to the audited consolidated financial statements and notes thereto for the year ended December 31, 2017.

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 Standards

Effective January 1, 2018, the Clinic adopted Financial Accounting Standards Board (FASB) Accounting Standard Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)* using the full retrospective method of transition. This 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 adoption of this ASU did not materially impact the condensed consolidated financial statements.

New Accounting Standards Not Yet Adopted:

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 statements of financial position. 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 primary effect of adopting the new standard will be to record right-of-use assets and obligations for current operating leases.

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958).* This ASU changes certain financial statement requirements for not-for-profit entities in an effort to make the information more meaningful to users and reduce reporting complexity. This ASU is effective for year-end December 31, 2018 and will be applied using a retrospective approach.

Note 2. New Accounting Standards (Continued)

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 consolidated statement of activities. The ASU is effective January 1, 2019 and will be applied using a retrospective approach.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities - Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*. This ASU provides a more robust framework to determine when a transaction should be accounted for as a contribution or as an exchange transaction and provides additional guidance about how to determine whether a contribution is conditional. This ASU is effective January 1, 2019 and will be applied on a modified prospective basis.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820).* This ASU improves the effectiveness of the notes to financial statements through changes in the disclosure requirements for fair value measurement. The ASU is effective January 1, 2020 and will be applied using a retrospective approach.

In August 2018, the FASB issued ASU No. 2018-14, *Compensation - Retirement Benefits - Defined Benefit Plans (Topic 715).* This ASU modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The ASU is effective January 1, 2021 and will be applied using a retrospective approach.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles - Goodwill and Other, Internal-Use Software (Subtopic 350-40), Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract.* This ASU aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software.The ASU is effective January 1, 2021 and will be applied using a prospective approach.

The Clinic is currently assessing the impact of the preceding ASUs on its condensed consolidated financial statements.

Note 3. Medical Service Revenue

Medical service revenue is reported at the amount that reflects the consideration to which the Clinic expects to be entitled in exchange for providing patient care. These amounts, representing transaction price, are due from patients, third-party payors (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Clinic bills the patients and third-party payors several days after the services are performed and/or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

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

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

The Clinic determines the transaction price based on standard charges for goods and services provided to patients, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Clinic’s policy, and/or implicit price concessions based on historical collection experience.

Agreements with third-party payors typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payors follows:

- **Medicare:** Certain inpatient acute care services are paid at prospectively determined rates per discharge based on clinical, diagnostic and other factors. Certain services are paid based on cost-reimbursement methodologies subject to certain limits. Physician services are paid based upon established fee schedules. Outpatient services are paid using prospectively determined rates.
- **Medicaid:** Reimbursements for Medicaid services are generally paid at prospectively determined rates per discharge, per occasion of service, or per covered member.
- **Other:** Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Note 3. Medical Service Revenue (Continued)

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of 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. 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. In addition, the contracts the Clinic has with commercial payors also provide for retroactive audit and review of claims.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Clinic also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The Clinic estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to medical service revenue in the period of the change. For the nine months ended September 30, 2018 and 2017, revenue recognized due to changes in its estimates of transaction price concessions for performance obligations satisfied in prior years was not significant. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense. Bad debt expense for the nine months ended September 30, 2018 and September 30, 2017 was not significant.

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the Clinic's historical settlement activity, including an assessment to ensure it is probable a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from a change in the transaction price were not significant in 2018 or 2017.

Patients who meet the Clinic's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue.

September 30, 2018 (in Millions)

Note 3. Medical Service Revenue (Continued)

The composition of medical service revenue based on the regions of the country the Clinic operates in, its lines of business, and timing of revenue recognition for the nine months ended September 30, 2018 and 2017 are as follows:

	September 30, 2018			
	Midwest	Southeast	Southwest	Total
Hospital	$ 2,990	$ 494	$ 664	$ 4,148
Clinic	2,285	455	451	3,191
Senior Care & Nursing Home	14	—	—	14
Other	35	—	—	35
Total patient care service revenue	5,324	949	1,115	7,388
External lab	516	—	—	516
Total medical service revenue	$ 5,840	$ 949	$ 1,115	$ 7,904
Timing of revenue and recognition:				
At time services are rendered	$ 2,836	$ 455	$ 451	$ 3,742
Services transferred over time	3,004	494	664	4,162
Total	$ 5,840	$ 949	$ 1,115	$ 7,904

	September 30, 2017			
	Midwest	Southeast	Southwest	Total
Hospital	$ 2,885	$ 473	$ 585	$ 3,943
Clinic	2,066	413	415	2,894
Senior Care & Nursing Home	16	4	—	20
Other	33	—	—	33
Total patient care service revenue	5,000	890	1,000	6,890
External lab	478	—	—	478
Total medical service revenue	$ 5,478	$ 890	$ 1,000	$ 7,368
Timing of revenue and recognition:				
At time services are rendered	$ 2,577	$ 413	$ 415	$ 3,405
Services transferred over time	2,901	477	585	3,963
Total	$ 5,478	$ 890	$ 1,000	$ 7,368

Hospital revenue includes a variety of services mainly covering inpatient procedures requiring overnight stays or outpatient operations that require anesthesia or use of complex diagnostic and surgical equipment as well as emergency care for traumas and other critical conditions. Clinic revenue includes services primarily focused on the care of outpatients covering primary and specialty healthcare needs. The Clinic's practice is to record certain radiology, pathology and other hospital related services in the Midwest region as clinic revenue in the amount of $719 and $647 for the nine months ended September 30, 2018 and 2017, respectively. Examples of revenue at time services are rendered include

September 30, 2018 (in Millions)

Note 3. Medical Service Revenue (Continued)

clinical services, lab and transport; and services transferred over time include hospital and senior care revenue.

The composition of medical service revenue by payor for the nine months ended September 30, is as follows:

	2018	2017
Medicare	$ 1,888	$ 1,770
Medicaid	239	219
Contract	4,632	4,177
Other, including self-pay	1,145	1,202
Total	$ 7,904	$ 7,368

The Clinic's practice is to assign a patient to the primary payor and not reflect other uninsured balances (for example, copays and deductibles) as self-pay. Therefore the payors listed above contain patient responsibility components such as co-pays and deductibles.

Financing component:
The Clinic has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the Clinic's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less. However, the Clinic does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

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 condensed 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 ended September 30, 2018 and September 30, 2017, the realized and unrealized loss from derivative contracts totaled $21 and $36, 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 condensed consolidated statements of activities in two segments. 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, the matching of financing costs for the assets required for operations and additional expenses covered by investment returns. 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 condensed 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 FASB ASC 820 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 levels for the nine months ended September 30, 2018 and 2017.

September 30, 2018 (in Millions)

Note 5. Fair Value Measurements (Continued)

The following tables present the financial instruments carried at fair value as of September 30, 2018 and December 31, 2017, by caption on the condensed consolidated statements of financial position categorized by the valuation hierarchy and NAV:

	September 30, 2018				
	Level 1	Level 2	Level 3	NAV	Total Fair Value
Assets:					
Securities lending collateral	$ 8	$ —	$ —	$ —	$ 8
Investments:					
Cash and equivalents	1,055	—	—	—	1,055
Fixed-income securities:					
U.S. government	—	162	—	—	162
U.S. government agencies	—	309	—	—	309
U.S. corporate	—	304	—	—	304
Foreign	—	25	—	—	25
Common and preferred stocks:					
U.S.	570	—	—	—	570
Foreign	350	—	—	—	350
Funds:					
Fixed-income	419	—	—	—	419
Equities	597	470	—	—	1,067
Other investments	5	—	—	—	5
Less securities under lending agreement	(57)	—	—	—	(57)
Investments at NAV	—	—	—	4,862	4,862
Total investments	2,939	1,270	—	4,862	9,071
Investments under securities lending agreement	57	—	—	—	57
Other long-term assets:					
Trust receivables	69	28	59	—	156
Technology-based ventures	—	—	32	—	32
Total other long-term assets	69	28	91	—	188
Total assets at fair value	$ 3,073	$ 1,298	$ 91	$ 4,862	$ 9,324
Liabilities:					
Securities lending payable	$ 8	$ —	$ —	$ —	$ 8
Total liabilities at fair value	$ 8	$ —	$ —	$ —	$ 8

September 30, 2018 (in Millions)

Note 5. Fair Value Measurements (Continued)

	December 31, 2017				
	Level 1	Level 2	Level 3	NAV	Total Fair Value
Assets:					
Securities lending collateral	$ 5	$ —	$ —	$ —	$ 5
Investments:					
Cash and equivalents	1,093	—	—	—	1,093
Fixed-income securities:					
U.S. government	—	204	—	—	204
U.S. government agencies	—	318	—	—	318
U.S. corporate	—	297	3	—	300
Foreign	—	17	—	—	17
Common and preferred stocks:					
U.S.	529	—	—	—	529
Foreign	350	—	—	—	350
Funds:					
Fixed-income	420	—	—	—	420
Equities	607	476	—	—	1,083
Other investments	(22)	—	—	—	(22)
Less securities under lending agreement	(42)	—	—	—	(42)
Investments at NAV	—	—	—	4,510	4,510
Total investments	2,935	1,312	3	4,510	8,760
Investments under securities lending agreement	42	—	—	—	42
Other long-term assets:					
Trust receivables	75	29	58	—	162
Technology-based ventures	—	—	19	—	19
Total other long-term assets	75	29	77	—	181
Total assets at fair value	$ 3,057	$ 1,341	$ 80	$ 4,510	$ 8,988
Liabilities:					
Securities lending payable	$ 5	$ —	$ —	$ —	$ 5
Total liabilities at fair value	$ 5	$ —	$ —	$ —	$ 5

September 30, 2018 (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 and those recorded at NAV 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 $72 and $170 more than its carrying value at September 30, 2018 and December 31, 2017, 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 820.

At September 30, 2018, 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)	$ 2,382	$ —	Monthly to annually	30–90 days
Private partnerships (b)	2,480	1,060		
Total alternative investments	$ 4,862	$ 1,060		

At December 31, 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)	$ 2,354	—	Monthly to annually	30–90 days
Private partnerships (b)	2,156	1,053		
Total alternative investments	$ 4,510	$ 1,053		

Note 5. Fair Value Measurements (Continued)

(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 NAV 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 NAV 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 ten-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 condensed consolidated statements of financial position.

At September 30, 2018 and December 31, 2017, the aggregate market value of securities on loan under securities lending agreements totaled $57 and $42, respectively, and the total value of the collateral supporting the securities is $60 and $44, respectively, which represents 105 and 104 percent of the value of the securities on loan at September 30, 2018 and December 31, 2017, respectively. The cash portion of the collateral supporting the securities as of September 30, 2018 and December 31, 2017, is $8 and $5, respectively. Noncash collateral provided to the Clinic is not recorded in the condensed consolidated statements of financial position, as the collateral may not be sold or repledged. 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 a loss.

Note 7. 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, 2018, approximated $908, all of which is expected to be expended over the next three to five years. In addition, the Clinic has a project in progress to replace the electronic medical record with estimated costs committed to complete approximating $217, anticipated to be completed in 2018 and an expansion project in Arizona with estimated costs committed to complete approximating $648, anticipated to be completed over the next three to five years.

The Clinic has entered into an agreement to issue taxable bonds through a private placement transaction with an insurance company in the amount of $200 for general corporate purposes. The transaction will close in November 2018, pursuant to the agreement.

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.

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 condensed consolidated statement of financial position or statement of activities.

September 30, 2018 (in Millions)

Note 8. 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	
	2018	2017
Service cost	$ 382	$ 319
Interest cost	264	263
Expected return on plan assets	(468)	(430)
Amortization of unrecognized:		
Prior service benefit	(38)	(38)
Net actuarial loss	156	118
Net periodic benefit cost	$ 296	$ 232

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

	Postretirement Benefits	
	2018	2017
Service cost	$ 9	$ 9
Interest cost	30	31
Amortization of unrecognized:		
Prior service benefit	(26)	(35)
Net actuarial loss	15	9
Net periodic cost (benefit)	$ 28	$ 14

Note 9. Disposal of Affiliates

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 condensed consolidated statements of activities.

On September 30, 2018, the Clinic released a third party from the affiliation with a consolidated affiliate. The Clinic recorded a $37 liability, $15 current and $22 long-term, in the condensed consolidated statements of financial position. This relates to a previously disclosed contingency regarding the involvement of a third party in the operations of the consolidated affiliate.

Note 10. Subsequent Events

The Clinic evaluated events and transactions occurring subsequent to September 30, 2018 through November 8, 2018, the date of issuance of the condensed consolidated financial statements. During this period, there were no subsequent events requiring recognition in the condensed consolidated financial statements. Additionally, there were no nonrecognized events requiring disclosure except on October 16, 2018, the Clinic issued $200 in tax exempt, 4.0 percent fixed-rate bonds, principal due in varying amounts from 2044 through 2048.