MAYO CLINIC

Mayo Clinic

Unaudited Condensed Consolidated Financial Reports
March 31, 2022

Mayo Clinic

Contents

Unaudited Consolidated Financial Reports

MAYO CLINIC

Condensed Consolidated Statements of Financial Position
Unaudited (In Millions)

	March 31, 2022 Unaudited	December 31, 2021
Assets		
Current assets:		
Cash and cash equivalents	$ 57	$ 46
Accounts receivable for medical services	1,914	1,826
Other receivables	662	648
Other current assets	374	317
Total current assets	3,007	2,837
Investments	17,545	18,021
Other long-term assets	1,411	1,407
Property, plant, and equipment, net	5,483	5,410
Total assets	$ 27,446	$ 27,675
Liabilities and net assets		
Current liabilities:		
Accounts payable	$ 615	$ 768
Accrued payroll	914	818
Accrued employee benefits	171	168
Deferred revenue	64	62
Long-term variable-rate debt	760	620
Other current liabilities	577	509
Total current liabilities	3,101	2,945
Long-term debt, net of current portion	3,411	3,552
Accrued pension and postretirement benefits, net of current portion	1,344	1,378
Other long-term liabilities	2,100	2,133
Total liabilities	9,956	10,008
Net assets:		
Without donor restrictions	12,298	12,431
With donor restrictions	5,192	5,236
Total net assets	17,490	17,667
Total liabilities and net assets	$ 27,446	$ 27,675

See notes to condensed consolidated financial statements.

MAYO CLINIC

Condensed Consolidated Statements of Activities
Unaudited (in Millions)

	Three Months Ended March 31, 2022			Three Months Ended March 31, 2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, gains, and other support:						
Medical service revenue	$ 3,346	$ —	$ 3,346	$ 3,149	$ —	$ 3,149
Grants and contracts	154	—	154	141	—	141
Investment return allocated to current activities	64	8	72	58	8	66
Contributions available for current activities	17	61	78	9	29	38
Other	277	—	277	277	—	277
Net assets released from restrictions	44	(44)	—	48	(48)	—
Total revenue, gains, and other support	3,902	25	3,927	3,682	(11)	3,671
Expenses:						
Salaries and benefits	2,261	—	2,261	2,106	—	2,106
Supplies and services	1,254	—	1,254	1,066	—	1,066
Depreciation and amortization	154	—	154	151	—	151
Facilities	80	—	80	72	—	72
Finance and investment	36	—	36	33	—	33
Total expenses	3,785	—	3,785	3,428	—	3,428
Income (loss) from current activities	117	25	142	254	(11)	243
Noncurrent and other items:						
Contributions not available for current activities, net	(4)	23	19	(9)	125	116
Unallocated investment return, net	(382)	(92)	(474)	209	245	454
Income tax expense	(12)	—	(12)	(14)	—	(14)
Benefit credit	44	—	44	15	—	15
Other	54	—	54	(32)	—	(32)
Total noncurrent and other items	(300)	(69)	(369)	169	370	539
Increase (decrease) in net assets before other changes in net assets	(183)	(44)	(227)	423	359	782
Pension and other postretirement benefit adjustments	50	—	50	72	—	72
Increase (decrease) in net assets	(133)	(44)	(177)	495	359	854
Net assets at beginning of period	12,431	5,236	17,667	8,016	4,349	12,365
Net assets at end of period	$ 12,298	$ 5,192	$ 17,490	$ 8,511	$ 4,708	$ 13,219

See notes to condensed consolidated financial statements.

MAYO CLINIC

Condensed Consolidated Statements of Cash Flows
Unaudited (In Millions)

	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021
Cash flows from operating activities:		
Cash from medical services	**$ 3,038**	**$ 2,837**
Cash from external lab services	**220**	**249**
Cash from grants and contracts	**158**	**130**
Cash from benefactors	**100**	**70**
Cash from other activities	**219**	**252**
Cash for salaries and benefits	**(2,098)**	**(1,941)**
Cash for supplies, services, and facilities	**(1,395)**	**(1,202)**
Interest and dividends received	**40**	**53**
Interest paid	**(5)**	**(5)**
Income taxes paid	**(1)**	**(1)**
Net cash provided by operating activities	**276**	**442**
Cash flows from investing activities:		
Purchase of property, plant, and equipment	**(337)**	**(175)**
Purchases of investments	**(1,637)**	**(1,917)**
Sales and maturities from investments	**1,683**	**1,593**
Net cash used in investing activities	**(291)**	**(499)**
Cash flows from financing activities:		
Restricted gifts, bequests, and other	**28**	**42**
Payment on leases	**(2)**	**(2)**
Net cash provided by financing activities	**26**	**40**
Net increase (decrease) in cash and cash equivalents	**11**	**(17)**
Cash and cash equivalents at beginning of period	**46**	**72**
Cash and cash equivalents at end of period	**$ 57**	**$ 55**

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 months ended March 31, 2022 are not necessarily indicative of the results to be expected for the year ending December 31, 2022. For further information, refer to the audited consolidated financial statements and notes thereto for the year ended December 31, 2021.

Certain reclassifications have been made to the 2021 condensed consolidated financial statements to conform with classifications used in 2022. The reclassifications had no significant effect on total assets, total liabilities, total revenue, or total change in net assets previously reported.

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, 2022, the Clinic adopted FASB Accounting Standards Update (ASU) No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets (Topic 958)*. This ASU required presentation of contributed nonfinancial assets as a separate line in the consolidated statement of activities, apart from contributions of cash or other financial assets. The adoption of this ASU did not materially impact the condensed consolidated financial statements.

March 31, 2022 (in Millions)

Note 3. Liquidity and Availability

Financial assets available for general expenditure within one year of the balance sheet date, are composed of the following at March 31, 2022 and December 31, 2021:

	March 31, 2022	December 31, 2021
Cash and cash equivalents	$ 57	$ 46
Accounts receivable	1,914	1,826
Promises to give	285	294
Grants receivable	131	134
Other receivables	246	220
Investments	10,684	11,234
Total financial assets available within one year	$ 13,317	$ 13,754

Note 4. 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 prices, 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 the Clinic's hospital 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.

Note 4. Medical Service Revenue (Continued)

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.

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 that 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 three months ended March 31, 2022 and 2021, 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 patients ability to pay are recorded as bad debt expense. Bad debt expense for the three months ended March 31, 2022 and 2021 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 for the three months ended March 31, 2022 and 2021.

March 31, 2022 (in Millions)

Note 4. Medical Service Revenue (Continued)

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

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

	March 31, 2022			
	Midwest	Southeast	Southwest	Total
Hospital	$ 1,266	$ 265	$ 295	$ 1,826
Clinic	832	210	232	1,274
Senior Care and Nursing Home	4	—	—	4
Other	15	—	—	15
Total patient care service revenue	2,117	475	527	3,119
External lab	227	—	—	227
Total medical service revenue	$ 2,344	$ 475	$ 527	$ 3,346
Timing of revenue and recognition:				
At time services are rendered	$ 1,074	$ 210	$ 232	$ 1,516
Services transferred over time	1,270	265	295	1,830
Total	$ 2,344	$ 475	$ 527	$ 3,346

	March 31, 2021			
	Midwest	Southeast	Southwest	Total
Hospital	$ 1,182	$ 236	$ 273	$ 1,691
Clinic	795	193	222	1,210
Senior Care and Nursing Home	4	—	—	4
Other	12	—	—	12
Total patient care service revenue	1,993	429	495	2,917
External lab	232	—	—	232
Total medical service revenue	$ 2,225	$ 429	$ 495	$ 3,149
Timing of revenue and recognition:				
At time services are rendered	$ 1,039	$ 193	$ 222	$ 1,454
Services transferred over time	1,186	236	273	1,695
Total	$ 2,225	$ 429	$ 495	$ 3,149

March 31, 2022 (in Millions)

Note 4. Medical Service Revenue (Continued)

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 health care needs.

The Clinic's practice is to record certain radiology, pathology, and other hospital related services in the Midwest region as clinic revenue which amounted to $248 and $228, respectively, for the three months ended March 31, 2022 and 2021. Examples of revenue at time services are rendered include 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 three months ended March 31 is as follows:

	2022	2021
Medicare	$ 879	$ 787
Medicaid	126	110
Contract	1,924	1,831
Other, including self-pay	417	421
Total	$ 3,346	$ 3,149

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

Financing component:
The Clinic has elected the practical expedient allowed under FASB ASU 2014-09, *Revenue from Contracts with Customers (Topic 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 5. Investments

Investments in equity, debt securities, and alternative investments are recorded at fair value. Realized gains and losses are calculated based on the average cost method. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) are included in the 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 three months ended March 31, 2022 and 2021, the realized and unrealized gain/loss from derivative contracts was not significant.

It is the Clinic's intent to maintain a long-term investment portfolio to support research, education and other activities. Accordingly, the total investment return is reported in the condensed 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 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 condensed consolidated statements of activities, represents the difference between the total investment return and the amount allocated to current activities, net of investment costs.

Note 6. 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 Measurement (Topic 820)* 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 within Levels for the three months ended March 31, 2022 and 2021.

March 31, 2022 (in Millions)

Note 6. Fair Value Measurements (Continued)

The following tables present the financial instruments carried at fair value as of March 31, 2022 and December 31, 2021, by caption on the condensed consolidated statements of financial position categorized by the valuation hierarchy and NAV:

	March 31, 2022				
	Level 1	Level 2	Level 3	NAV	Total Fair Value
Assets:					
Securities lending collateral	$ 16	$ —	$ —	$ —	$ 16
Investments:					
Cash and cash equivalents	2,366	245	—	—	2,611
Fixed income securities:					
U.S. government	—	526	—	—	526
U.S. government agencies	—	555	—	—	555
U.S. corporate	—	848	—	—	848
Foreign	—	64	—	—	64
Common and preferred stocks:					
U.S.	1,017	—	—	—	1,017
Foreign	632	—	18	—	650
Funds:					
Fixed income	422	—	—	—	422
Equities	952	681	—	—	1,633
Other investments	—	—	—	—	—
Less securities under lending agreement	(90)	—	—	—	(90)
Investments at NAV	—	—	—	9,219	9,219
Total investments	5,299	2,919	18	9,219	17,455
Investments under securities lending agreement	90	—	—	—	90
Other long-term assets:					
Trust receivables	77	30	94	—	201
Technology-based ventures	—	—	152	—	152
Total other long-term assets	77	30	246	—	353
Total assets at fair value	$ 5,482	$ 2,949	$ 264	$ 9,219	$ 17,914
Liabilities:					
Securities lending payable	$ 16	$ —	$ —	$ —	16
Total liabilities at fair value	$ 16	$ —	$ —	$ —	$ 16

March 31, 2022 (in Millions)

Note 6. Fair Value Measurements (Continued)

	December 31, 2021				
	Level 1	Level 2	Level 3	NAV	Total Fair Value
Assets:					
Securities lending collateral	$ 6	$ —	$ —	$ —	$ 6
Investments:					
Cash and cash equivalents	2,593	238	—	—	2,831
Fixed income securities:					
U.S. government	—	566	—	—	566
U.S. government agencies	—	551	—	—	551
U.S. corporate	—	832	—	—	832
Foreign	—	74	—	—	74
Common and preferred stocks:					
U.S.	1,077	—	—	—	1,077
Foreign	658	—	24	—	682
Funds:					
Fixed income	448	—	—	—	448
Equities	1,021	702	—	—	1,723
Other investments	—	—	—	—	—
Less securities under lending agreement	(95)	—	—	—	(95)
Investments at NAV	—	—	—	9,237	9,237
Total investments	5,702	2,963	24	9,237	17,926
Investments under securities lending agreement	95	—	—	—	95
Other long-term assets:					
Trust receivables	82	32	93	—	207
Technology-based ventures	—	—	138	—	138
Total other long-term assets	82	32	231	—	345
Total assets at fair value	$ 5,885	$ 2,995	$ 255	$ 9,237	$ 18,372
Liabilities:					
Securities lending payable	$ 6	$ —	$ —	$ —	6
Total liabilities at fair value	$ 6	$ —	$ —	$ —	$ 6

March 31, 2022 (in Millions)

Note 6. Fair Value Measurements (Continued)

The 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 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. In addition, technology-based ventures, composed primarily of shares in start-up companies, are recorded at fair value based on inputs relying on factors such as the financial performance of the company, sales performance, financial projections, sales projections, management representation, industry developments, market analysis, and any other pertinent factors that would affect the fair value or based on the quoted price of an otherwise identical unrestricted security of the same issuer, adjusted for the effect of the restriction.

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, short-term investments, accounts receivable, other current assets, and accounts payable 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 $69 and $502 more than its carrying value at March 31, 2022 and December 31, 2021, 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 Measurement (Topic 820)* of the FASB ASC.

At March 31, 2022, 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)	$ 3,950	$ 286	Monthly to annually	30–90 days
Private partnerships (b)	5,269	1,632		
Total alternative investments	$ 9,219	$ 1,918		

March 31, 2022 (in Millions)

Note 6. Fair Value Measurements (Continued)

At December 31, 2021, 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)	$ 4,167	$ 151	Monthly to annually	30–90 days
Private partnerships (b)	5,070	1,635		
Total alternative investments	$ 9,237	$ 1,786		

(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 7. 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 March 31, 2022 and December 31, 2021, the aggregate market value of securities on loan under securities lending agreements totaled $90 and $95, respectively, and the total value of the collateral supporting the securities is $96 and $98, respectively, which represents 106 percent and 103 percent of the value of the securities on loan at March 31, 2022 and December 31, 2021. The cash portion of the collateral supporting the securities as of March 31, 2022 and December 31, 2021, is $16 and $6 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.

March 31, 2022 (in Millions)

Note 8. Board-Designated Funds

Board-designated funds are included in net assets without donor restrictions and are subject to expenditure for the following purposes for the periods ended:

	March 31, 2022	December 31, 2021
Research	$ 1,459	$ 1,545
Education	337	358
Buildings and equipment	3	4
Charity care	13	14
Clinical	179	190
Other	1,226	1,281
Total designation for specified purpose	$ 3,217	$ 3,392

Board designated funds were classified as follows for the periods ended:

	March 31, 2022	December 31, 2021
Quasi endowments	$ 3,025	$ 3,218
Professional liability reserve	145	141
Other reserves	47	33
Total	$ 3,217	$ 3,392

March 31, 2022 (in Millions)

Note 9. Net Assets with Donor Restrictions

The Clinic receives contributions in support of research, education, and clinical activities. Net assets with donor restrictions were available for the following purposes:

	March 31, 2022	December 31, 2021
Subject to expenditure for specified purposes:		
Research	$ 602	$ 497
Education	67	46
Buildings and equipment	190	174
Charity care	32	30
Clinical	77	65
Other	56	53
Total expenditure for specified purposes	1,024	865
Subject to passage of time:		
Pledges and trusts	624	649
Endowments:		
Perpetual in nature:		
Research	1,157	1,140
Education	271	270
Charity care	14	14
Clinical	216	215
Other	35	33
Pledges and trusts	280	274
Total perpetual in nature	1,973	1,946
Subject to endowment spending policy:		
Research	897	1,028
Education	392	433
Charity care	55	59
Clinical	182	206
Other	45	50
Total subject to endowment spending policy	1,571	1,776
Total endowments	3,544	3,722
Total net assets with donor restrictions	$ 5,192	$ 5,236

Note 9. Net Assets with Donor Restrictions (Continued)

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

	2022	2021
Research	$ 32	$ 34
Education	6	5
Buildings and equipment	1	1
Other	5	8
Total net assets released from donor restrictions	$ 44	$ 48

March 31, 2022 (in Millions)

Note 10. Functional Expenses

The condensed consolidated financial statements present certain expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Benefits and payroll taxes are allocated based on factors of either salary expense or hours worked. Overhead costs that include professional services, office expenses, information technology, interest, insurance, and other similar expenses are allocated based on on a variety of factors including revenues, hours worked, and salary expense. Costs related to space including occupancy, depreciation and amortization, and property taxes are allocated on a square footage basis.

The expenses reported in the condensed consolidated statements of activities for the three months ended March 31, 2022 and 2021, supported the following programs and functions:

	2022							
	Patient care	Lab and technology ventures	Research	Graduate and other education	General and administrative	Development expenses	Other activities	Total expenses
Salaries and benefits	$ 1,900	$ 47	$ 171	$ 82	$ 45	$ 6	$ 10	$ 2,261
Supplies and services	889	257	67	15	6	2	18	1,254
Depreciation and amortization	126	2	17	3	5	—	1	154
Facilities	63	1	4	3	9	—	—	80
Finance & investment	38	1	5	—	—	—	(8)	36
Total	$ 3,016	$ 308	$ 264	$ 103	$ 65	$ 8	$ 21	$ 3,785

	2021							
	Patient care	Lab and technology ventures	Research	Graduate and other education	General and administrative	Development expenses	Other activities	Total expenses
Salaries and benefits	$ 1,786	$ 46	$ 160	$ 80	$ 22	$ 2	$ 10	$ 2,106
Supplies and services	726	255	57	12	2	—	14	1,066
Depreciation and amortization	125	2	16	3	4	—	1	151
Facilities	60	1	4	2	5	—	—	72
Finance & investment	38	—	5	—	—	—	(10)	33
Total	$ 2,735	$ 304	$ 242	$ 97	$ 33	$ 2	$ 15	$ 3,428

March 31, 2022 (in Millions)

Note 11. 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 three months ended March 31 are as follows for the defined-benefit pension plans:

	Qualified	
	2022	2021
Service cost	$ 172	$ 173
Interest cost	93	87
Expected return on plan assets	(195)	(183)
Amortization of unrecognized:		
Prior service benefit	(13)	(13)
Net actuarial loss	57	77
Net periodic benefit cost	$ 114	$ 141

Components of net periodic benefit cost for the three months ended March 31 are as follows for the other postretirement benefits:

	Postretirement Benefits	
	2022	2021
Service cost	$ 2	$ 2
Interest cost	8	8
Amortization of unrecognized:		
Prior service benefit	1	—
Net actuarial loss	5	8
Net periodic cost	$ 16	$ 18

Note 12. 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 March 31, 2022, approximated $1,525, all of which is expected to be expended over the next three to five years.

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 statements of financial position or statements of activities.

Note 13. COVID-19

In March 2020, the World Health Organization declared the novel coronavirus disease (COVID-19) a pandemic. The Center for Disease Control confirmed its spread to the United States and declared a national public health emergency. The Clinic was well-prepared and continues to treat patients with COVID-19 across the organization, especially those with serious or complex medical conditions. However, COVID-19 could still negatively affect the operating margins and financial results of the Clinic, as the duration of the pandemic is unknown.

Note 14. Subsequent Events

The Clinic evaluated events and transactions occurring subsequent to March 31, 2022, through May 12, 2022, 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 subsequent events requiring disclosure except on April 12, 2022, the Clinic issued bonds in the amount of $605 ($204 current debt refund and $401 new debt issuance) at various coupon rates yielding 3.76 percent to maturity. The bonds are due in 2057 and will be used for construction projects. On May 5, 2022, the Clinic entered into a private placement debt agreement with an insurance company for $200 at 3.26 percent maturing in November, 2058. The funds will be used for general corporate purposes.

MAYO CLINIC

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2022

May 2022

MAYO CLINIC: WHEN IT'S TIME TO FIND ANSWERS

A GLOBAL DESTINATION FOR HOPE AND HEALING

Every year, more than 1.3 million people from every U.S. state and more than 130 countries, come to Mayo Clinic for care. Every day, Mayo Clinic staff prove their dedication and commitment to patient-centered values that have made Mayo a global destination for health and healing for more than 150 years.

PATIENT-CENTERED VALUES GUIDE WORLD-CLASS CARE

Mayo Clinic's mission is to inspire hope and contribute to health and well-being by providing the best care to every patient through integrated clinical practice, education and research. Our primary value is, "The needs of the patient come first." Successful treatment of serious or complex medical issues starts with an accurate diagnosis, and Mayo Clinic specialists collaborate to evaluate the patient's condition from every angle to correctly diagnose the most complex issues and develop a treatment plan. At Mayo Clinic, every aspect of patient care is coordinated by teams of specialists who work together to provide the most compassionate and effective care possible.

UNPARALLELED EXPERTISE

Mayo Clinic is one of the world's premier health care institutions, and Mayo staff are among the best in the world. In the *U.S. News & World Report* rankings of "Best Hospitals" for 2021-22, Mayo Clinic was ranked No. 1 in the nation for the sixth consecutive year, just one measure of Mayo's consistently high ratings for quality.

ABOUT MAYO CLINIC

With $15 billion in annual revenues and more than 73,000 employees, Mayo Clinic provides comprehensive medical care, education in clinical medicine and the medical sciences, and extensive programs in medical research. Mayo Clinic has destination campuses in Rochester, Minnesota; Phoenix and Scottsdale, Arizona; and Jacksonville, Florida. Mayo Clinic Health System has dozens of locations in Minnesota, Wisconsin, and Iowa.

Mayo Clinic dates its history from 1864 when Dr. William Worrall Mayo set up a medical practice in Rochester. The pioneer town had been founded only a decade earlier, and Minnesota had only been a state since 1858. Dr. Mayo's practice grew quickly through the closing months of the Civil War and during Minnesota's rapid growth in the years immediately after.

When a tornado devastated the city of just over 5,000 residents in 1883, killing at least 37 people and injuring 300, Dr. Mayo and his sons, Will and Charlie, joined the Sisters of Saint Francis in caring for the injured. Their response paved the way for a new way to practice medicine that is foundational to Mayo Clinic's practice today: teams of specialists working collaboratively to put the needs of patients first. The Franciscan Sisters and Dr. Mayo worked together to build and staff Saint Marys Hospital in 1889, and after completing their medical training, Dr. Will Mayo and Dr. Charlie Mayo advanced the original vision by partnering with many others to develop the integrated group practice, education and research model that is core to Mayo Clinic's mission.

2022: CONTINUING EXCELLENCE

Recognition and Awards

Mayo Clinic again recognized as the world's best hospital by Newsweek
Mayo Clinic was again ranked No. 1 in the world by Newsweek in its annual report on the "World's Best Hospitals." Mayo Clinic in Rochester was ranked No. 1. Mayo Clinic in Arizona was ranked No. 12 and Mayo Clinic in Florida was ranked No. 20 on the companion list of "Best Hospitals in the U.S." Mayo Clinic Health System in Eau Claire, Wisconsin, Mayo Clinic Health System in Albert Lea and Austin, Minnesota, and Mayo Clinic Health System in La Crosse, Wisconsin, also were listed among the nation's best hospitals.

The Newsweek rankings, published in March, are based on patient survey results, hospital recommendations from peers gathered through an international survey of more than 80,000 health care professionals, and key performance metrics such as patient safety, hygiene measures and quality of care.

Mayo Clinic hospitals recognized for excellence in patient safety by The Leapfrog Group
Nine Mayo Clinic hospitals across Mayo Clinic scored high marks for safety, earning an "A" grade from The Leapfrog Group, an independent national nonprofit organization that provides safety ratings. The ratings are intended to help patients choose their preferred health care destinations.

Mayo Clinic hospitals that received an "A" grade are:

- Mayo Clinic Hospital in Arizona
- Mayo Clinic Hospital in Florida
- Mayo Clinic Hospital – Rochester
- Mayo Clinic Health Systems in Albert Lea and Austin; Fairmont; Mankato and Red Wing, Minnesota
- Mayo Clinic Health System in Eau Claire and LaCrosse, Wisconsin

Mayo Clinic Alix School of Medicine highly ranked by U.S. News
Mayo Clinic Alix School of Medicine has been ranked among the top 10% of "Best Graduate Schools" for the sixth consecutive year by U.S. News & World Report. The school is ranked as one of the best medical schools for research and overall.

The rankings, published in March, are based on faculty resources, academic achievement of incoming students, and qualitative assessments by schools and residency directors. In addition, 40% of the weighted rankings focus on research funding.

Mayo Clinic is revolutionizing health care from within by educating the next generation of physician leaders who will improve patient lives through compassionate care, research and leadership. Students at Mayo Clinic Alix School of Medicine benefit from a personalized curriculum, early hands-on clinical experience, and the ability to train at multiple campuses.

The student body includes a diverse mix of students from groups typically underrepresented in medicine. In addition, the school has a student-to-faculty ratio of 2.1 to 1, providing individualized attention and mentoring. This personalized teaching model has resulted in more than 80% of students publishing a paper before graduation.

Mayo Clinic earns highest score on LGBTQ Healthcare Equality Index Survey
Mayo Clinic in Arizona, Florida and Rochester earned 100 —the highest score possible—on the Human Rights Campaign Foundation's 2022 Healthcare Equality Index Survey. The survey evaluates more than 2,200 health care facilities nationwide for their policies and practices related to equity and inclusion of LGBTQ+ patients, visitors and employees. A record 906 facilities actively participated in the survey. Mayo Clinic Health System did not participate in the survey because it has locations in three different states.

The Human Rights Campaign Foundation works to achieve equality for LGBTQ people. In the 2022 survey, 496 health care facilities achieved the top score of 100 and earned the "LGBTQ+ Healthcare Equality Leader" designation. The foundation uses the biennial survey for organizations to benchmark policies and practices, nondiscrimination training, patient services and support, staff benefits, and patient and community engagement.

Noteworthy

Mayo Clinic in Florida and Carnegie Mellon University announce research agreement
Mayo Clinic in Florida and Carnegie Mellon University in February announced a research agreement that aims to transform organ transplantation. The institutions will bioengineer innovative approaches to address barriers in organ transplantation.

As part of the collaboration, Mayo Clinic biomedical researchers and Carnegie Mellon University faculty will focus on four core areas:

- Bio-fabrication.
- Organ repair.
- Organ monitoring using sensor systems.
- Artificial intelligence to optimize transplant processes

Both institutions also will participate in ongoing seminars focused on the challenges facing organ transplantation and the development of new technologies to address them.

Mayo Clinic also is committed to transplantation research and innovation. Its goals include:

- Restoring donated organs by optimizing them for best outcomes and decreasing discard rates.
- Preventing graft failure in patients who have received organ transplants.
- Preventing organ failure and the need for a transplant through early diagnosis of organ dysfunction.

- Engineering new organs, subsequently eliminating the uncertainty of organ donation and long waits.

Mayo Clinic's Transplant Center, with locations in Arizona, Florida, and Minnesota, has performed more than 27,000 organ transplants since 1963. More than 100,000 patients nationwide are awaiting organ transplants.

Nonprofit co-founded by Mayo Clinic announces plan to produce affordable insulin
Civica Rx, a nonprofit generic drug company, announced in March plans to manufacture and distribute affordable insulin. Mayo Clinic is part of a coalition of seven hospitals that launched Civica Rx in 2018 to help patients by addressing supply shortages and high prices for medications.

Making affordable insulin available will benefit people with diabetes, especially those who are uninsured and underinsured, who struggle to afford the life-sustaining medications.

Civica plans to set a recommended price to the consumer of no more than $30 per vial and no more than $55 for a box of five pen cartridges. This is a significant discount to the prices those who are uninsured pay today.

"Mayo Clinic chose to be a founding member of this innovative venture because our leadership understood the positive impact its success would have on the health of patients and its potential to help solve some of the nation's biggest health care challenges," says Dennis Dahlen, Mayo Clinic's Chief Financial Officer and a member of Civica's Board of Directors. "Civica's announcement regarding generic insulin is a significant step toward ensuring patients with diabetes have access to this vital medication."

DISCUSSION OF 2022 RESULTS

For the three months ended March 31, 2022, Mayo Clinic generated net operating income of $142 million on $3.9 billion in revenue, a 3.6% operating margin. Excess revenue over expenses (net loss) for the period was $(227) million, a (5.8)% margin.

($ In Millions):	Three Months Ended March 31, 2021	Three Months Ended March 31, 2022	Change From 2021	
Revenue	$3,671	$3,927	$256	7.0%
Expenses	3,428	3,785	357	10.4%
Net Operating Income	**$243**	**$142**	**$(101)**	**-41.6%**
Noncurrent & other items	539	(369)	(908)	-168.5%
Revenue over expenses	**$782**	**($227)**	**$(1,009)**	**-129.0%**
Postretirement Adj.	72	50	(22)	-30.6%
Increase (decrease) in net assets	**$854**	**($177)**	**($1,031)**	**-120.7%**

REVENUE

As of March 31, 2022, year to date net medical service revenue of $3.35 billion was 85.2% of total revenue and represented an 6.3% increase from prior year. Mayo Clinic's operating revenue for the period was $3.9 billion, reflecting a 7.0% increase over 2021.

($ in Millions):	Three Months Ended March 31, 2021	2022	Change From 2021	
Revenue				
Net medical service revenue	$3,149	$3,346	$197	6.3%
Grants and contracts	141	154	13	9.2%
Contributions	38	78	40	105.3%
Investments	66	72	6	9.1%
Other	277	277	0	0.0%
Total revenue	**$3,671**	**$3,927**	**$256**	**7.0%**

VOLUME METRICS

Year to date clinical volumes are shown in the table below. Outpatient visits, surgeries and patient days were higher than both 2021 and 2020. Admissions were lower than 2021 and 2020.

	3/31/2020	3/31/2021	3/31/2022
Outpatient visits	1,134,583	1,156,158	1,196,234
Surgical cases	31,165	32,689	33,552
Admissions	30,645	29,226	29,117
Patient days	162,339	161,150	177,641

EXPENSES

Operating expenses were $3.8 billion for the three month period ending March 31, 2022, which represented year-over-year growth of 10.4%. At $2.3 billion, salaries and benefits increased 7.4% over the prior period and comprised 59.7% of total expenses. The increase in salaries and benefits and supplies and services is due to contracted labor and temporary pay practice premiums.

($ in Millions):	Three Months Ended March 31, 2021	2022	Change From 2021	
Expenses:				
Salaries and benefits	$2,106	$2,261	$155	7.4%
Supplies and services	1,066	1,254	188	17.6%
Facilities	223	234	11	4.9%
Finance and investment	33	36	3	9.1%
Total expenses	**$3,428**	**$3,785**	**$357**	**10.4%**

CASH, INVESTMENTS AND BALANCE SHEET STRENGTH

Cash and investments totaled $17.60 billion on March 31, 2022, a decrease of $465 million since the end of 2021, drive largely by investment losses. Of the $17.60 billion total, $3.23 billion is held in working capital and short-term funds for liquidity.

As of March 31, 2022, Mayo's cash and investment position included $13.36 billion in long-term investments that are held in its primary investment vehicle, the Long-Term Fund (LTF). The LTF is composed of $6.29 billion of endowed funds (both donor and board-restricted) and $7.07 billion of unrestricted reserves. Investment earnings on Mayo's endowed funds are a key source of support for its research and education programs.

As of March 31, 2022, the LTF generated a (2.3)% return year to date. On a three-year, five-year, and 10-year basis, the LTF’s investments returns continue to meet investment objectives and exceed benchmark performance, with 15.8%, 13.0% and 10.7% returns, respectively, over those time periods.

	12/31/2020	12/31/2021	3/31/2022
Days Revenue Outstanding	50.8	48.9	51.3
Days Cash on Hand	352	403	382
Debt Service Coverage Ratio	6.6x	11.1x	10.3x
Cash to Debt	311%	368%	357%
Debt to Capitalization	32%	25%	25%

SUMMARY

The year 2022 begins with new challenges that follow nearly two years of pandemic operations. Workforce shortages and corresponding labor cost inflation, persistent supply chain disruptions and shortages, a higher interest rate environment, and capital market volatility have all taken center stage for management attention. First quarter performance results reflect these new considerations which also serve to reinforce long term plans for revenue diversification, digitization of health care when appropriate, using platform models to accelerate innovation, and investing in the treatments of complex and serious clinical care. It is through this work that Mayo Clinic continues to prove its resilience to meet the challenges that lie ahead, remaining true to its patient-centered values while advancing its transformative goals to make health care more responsive, accessible, and advanced for the benefit of patients worldwide.