Interim Unaudited Consolidated Financial Statements and Other Information

For The Period Ended September 30, 2021

The Cleveland Clinic Foundation
d.b.a. Cleveland Clinic Health System

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Unaudited Consolidated Balance Sheets

($ in thousands)

	September 30 2021	December 31 2020
Assets		
Current assets:		
Cash and cash equivalents	$ 1,032,280	$ 1,045,393
Patient receivables	1,438,350	1,255,681
Investments for current use	54,721	177,389
Other current assets	583,943	546,722
Total current assets	3,109,294	3,025,185
Investments:		
Long-term investments	12,015,743	10,353,877
Funds held by trustees	80,957	110,307
Assets held for self-insurance	192,851	179,300
Donor restricted assets	1,116,986	1,013,430
	13,406,537	11,656,914
Property, plant, and equipment, net	5,879,552	5,866,974
Other assets:		
Pledges receivable, net	146,525	125,641
Trusts and interests in foundations	120,121	112,425
Operating lease right-of-use assets	370,840	360,841
Other noncurrent assets	727,063	644,570
	1,364,549	1,243,477
Total assets	$ 23,759,932	$ 21,792,550

Unaudited Consolidated Balance Sheets (continued)

($ in thousands)

	September 30 2021	December 31 2020
Liabilities and net assets		
Current liabilities:		
Accounts payable	$ 551,056	$ 528,794
Compensation and amounts withheld from payroll	594,758	464,249
Current portion of long-term debt	103,340	101,006
Variable rate debt classified as current	499,506	589,891
Other current liabilities	757,018	738,323
Total current liabilities	2,505,678	2,422,263
Long-term debt	4,634,868	4,582,994
Other liabilities:		
Professional and general insurance liability reserves	246,440	216,100
Accrued retirement benefits	270,005	297,741
Operating lease liabilities	328,146	323,682
Other noncurrent liabilities	729,223	707,915
	1,573,814	1,545,438
Total liabilities	8,714,360	8,550,695
Net assets:		
Without donor restrictions	13,602,505	11,921,757
With donor restrictions	1,443,067	1,320,098
Total net assets	15,045,572	13,241,855
Total liabilities and net assets	$ 23,759,932	$ 21,792,550

See notes to unaudited consolidated financial statements.

Unaudited Consolidated Statements of Operations and Changes in Net Assets

($ in thousands)

Operations

	Three Months Ended September 30	
	2021	2020
Unrestricted revenues		
Net patient service revenue	$2,751,829	$2,388,611
Other	316,450	331,554
Total unrestricted revenues	3,068,279	2,720,165
Expenses		
Salaries, wages, and benefits	1,675,633	1,467,008
Supplies	315,973	289,851
Pharmaceuticals	355,254	316,993
Purchased services and other fees	217,200	182,464
Administrative services	45,661	40,455
Facilities	101,575	88,325
Insurance	17,869	17,346
	2,729,165	2,402,442
Operating income before interest, depreciation, and amortization expenses	339,114	317,723
Interest	37,220	38,277
Depreciation and amortization	153,678	145,579
Operating income	148,216	133,867
Nonoperating gains and losses		
Investment return	264,220	447,144
Derivative gains	2,439	13,006
Other, net	7,329	9,763
Net nonoperating gains and losses	273,988	469,913
Excess of revenues over expenses	422,204	603,780

Unaudited Consolidated Statements of Operations and Changes in Net Assets (continued)
($ in thousands)

Changes in Net Assets

	Three Months Ended September 30	
	2021	2020
Changes in net assets without donor restrictions:		
Excess of revenues over expenses	$ 422,204	$603,780
Donated capital	1,815	1,792
Net assets released from restriction for capital purposes	967	13,149
Retirement benefits adjustment	(715)	(715)
Foreign currency translation	(4,114)	(2,448)
Other	(2,022)	(1,072)
Increase in net assets without donor restrictions	418,135	614,486
Changes in net assets with donor restrictions:		
Gifts and bequests	44,387	24,594
Net investment income	11,250	25,394
Net assets released from restrictions used for operations included in other unrestricted revenues	(13,785)	(14,784)
Net assets released from restriction for capital purposes	(967)	(13,149)
Change in interests in foundations	(326)	666
Change in value of perpetual trusts	1,249	(114)
Member substitution contribution	(2,384)	-
Other	2,383	173
Increase in net assets with donor restrictions	41,807	22,780
Increase in net assets	459,942	637,266
Net assets at beginning of period	14,585,630	11,235,655
Net assets at end of period	$ 15,045,572	$ 11,872,921

See notes to unaudited consolidated financial statements.

Unaudited Consolidated Statements of Operations and Changes in Net Assets

($ in thousands)

Operations

	Nine Months Ended September 30	
	2021	2020
Unrestricted revenues		
Net patient service revenue	$ 8,038,738	$ 6,549,325
Other	1,055,684	1,097,900
Total unrestricted revenues	9,094,422	7,647,225
Expenses		
Salaries, wages, and benefits	4,915,936	4,424,264
Supplies	927,402	820,727
Pharmaceuticals	1,026,858	946,653
Purchased services and other fees	617,031	532,214
Administrative services	131,620	135,996
Facilities	288,066	262,531
Insurance	72,572	63,703
	7,979,485	7,186,088
Operating income before interest, depreciation, amortization, and special charges	1,114,937	461,137
Interest	112,075	119,047
Depreciation and amortization	453,416	449,946
Operating income (loss)	549,446	(107,856)
Nonoperating gains and losses		
Investment return	1,073,214	202,119
Derivative gains (losses)	19,321	(73,558)
Other, net	34,931	28,602
Net nonoperating gains and losses	1,127,466	157,163
Excess of revenues over expenses	1,676,912	49,307

Unaudited Consolidated Statements of Operations and Changes in Net Assets (continued)

($ in thousands)

Changes in Net Assets

	Nine Months Ended September 30	
	2021	2020
Changes in net assets without donor restrictions:		
Excess of revenues over expenses	$ 1,676,912	$ 49,307
Donated capital	1,860	9,702
Net assets released from restriction for capital purposes	9,337	21,386
Retirement benefits adjustment	(2,147)	(2,147)
Foreign currency translation	(2,409)	2,588
Other	(2,805)	467
Increase in net assets without donor restrictions	1,680,748	81,303
Changes in net assets with donor restrictions:		
Gifts and bequests	109,011	83,932
Net investment income	47,079	12,358
Net assets released from restrictions used for operations included in other unrestricted revenues	(32,605)	(43,749)
Net assets released from restriction for capital purposes	(9,337)	(21,386)
Change in interests in foundations	924	472
Change in value of perpetual trusts	5,513	(602)
Other	2,384	1,458
Increase in net assets with donor restrictions	122,969	32,483
Increase in net assets	1,803,717	113,786
Net assets at beginning of year	13,241,855	11,759,135
Net assets at end of period	$ 15,045,572	$ 11,872,921

See notes to unaudited consolidated financial statements.

Unaudited Consolidated Statements of Cash Flows

($ in thousands)

	Nine Months Ended September 30	
	2021	2020
Operating activities and net nonoperating gains and losses		
Increase in net assets	$ 1,803,717	$ 113,786
Adjustments to reconcile increase in net assets to net cash provided by operating activities and net nonoperating gains and losses:		
Gain on extinguishment of debt	(4,252)	-
Retirement benefits adjustment	2,147	2,147
Net realized and unrealized gains on investments	(1,071,802)	(174,790)
Depreciation and amortization	453,424	449,940
Foreign currency translation loss (gain)	2,409	(2,588)
Donated capital	(1,860)	(9,702)
Restricted gifts, bequests, investment income, and other	(162,527)	(96,160)
Accreted interest and amortization of bond premiums	(4,179)	(4,492)
Net (gain) loss in value of derivatives	(35,478)	43,801
Member substitution contribution	-	-
Changes in operating assets and liabilities:		
Patient receivables	(144,632)	103,410
Other current assets	(31,939)	(26,341)
Other noncurrent assets	(85,490)	(35,262)
Accounts payable and other current liabilities	138,981	290,302
Other liabilities	54,450	108,845
Net cash provided by operating activities and net nonoperating gains and losses	912,969	762,896
Financing activities		
Proceeds from short-term borrowings, net	-	100,000
Proceeds from long-term borrowings	82,792	1,431
Principal payments on long-term debt	(154,291)	(87,095)
Debt issuance costs	(892)	-
Change in pledges receivables, trusts and interests in foundations	(22,706)	21,251
Restricted gifts, bequests, investment income, and other	162,527	96,160
Net cash provided by financing activities	67,430	131,747
Investing activities		
Expenditures for property, plant and equipment	(399,433)	(458,978)
Proceeds from sale of property, plant and equipment	12,254	12,952
Net change in cash equivalents reported in long-term investments	277,444	316,089
Purchases of investments	(4,363,195)	(4,877,136)
Sales of investments	3,411,584	4,622,187
Payment for business acquisition, less cash assumed	(54,197)	-
Net cash used in investing activities	(1,115,543)	(384,886)
Effect of exchange rate changes on cash	(39)	(6,612)
(Decrease) increase in cash and cash equivalents	(135,183)	503,145
Cash, cash equivalents and restricted cash at beginning of year	1,173,135	637,286
Cash, cash equivalents and restricted cash at end of period	$ 1,037,952	$ 1,140,431

See notes to unaudited consolidated financial statements

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles (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. For further information, refer to the audited financial statements and notes thereto for the year ended December 31, 2020.

1. Organization and Consolidation

The Cleveland Clinic Foundation (Clinic) is a nonprofit, tax-exempt, Ohio corporation organized and operated to provide medical and hospital care, medical research, and education. The accompanying consolidated financial statements include the accounts of the Clinic and its controlled affiliates, d.b.a. Cleveland Clinic Health System (System).

The System is the leading provider of healthcare services in northeast Ohio. As of September 30, 2021, the System operates 19 hospitals with approximately 5,200 staffed beds. Fourteen of the hospitals are operated in the northeast Ohio area, anchored by the Clinic. The System operates 21 outpatient Family Health Centers, and 11 ambulatory surgery centers, as well as numerous physician offices, which are located throughout northeast Ohio, and specialized cancer centers in Sandusky and Mansfield, Ohio. In Florida, the System operates five hospitals and a clinic located throughout southeast Florida, outpatient family health centers in West Palm Beach and Port St. Lucie, an outpatient family health and ambulatory surgery center in Coral Springs, and numerous physician offices located throughout southeast Florida. In addition, the System operates a health and wellness center and a sports medicine clinic in Toronto, Canada, and a specialized neurological clinical center in Las Vegas, Nevada. Pursuant to agreements, the System also provides management services for Ashtabula County Medical Center, located in Ashtabula, Ohio, with approximately 120 staffed beds, and Cleveland Clinic Abu Dhabi, a multispecialty hospital offering critical and acute care services that is part of Mubadala Development Company’s network of healthcare facilities located in Abu Dhabi, United Arab Emirates, with 364 staffed beds.

All significant intercompany balances and transactions have been eliminated in consolidation.

2. Business Combinations

Effective February 1, 2021, the Clinic became the sole member of Mercy Medical Center (Mercy) pursuant to the terms of a member substitution agreement with The Sisters of Charity of St. Augustine Health System, the prior sole member of Mercy. Mercy is a 337-staffed bed hospital serving Stark, Carroll, Wayne, Holmes and Tuscarawas counties and parts of southeastern Ohio.

The business combination was recorded under the acquisition method of accounting. The System recorded the fair value of the assets acquired and the liabilities assumed as of February 1, 2021. The accounting for the business combination represents estimated fair values based on preliminary information and is subject to changes as the System completes the valuation analysis. The valuation is expected to be completed in the fourth quarter 2021 financial statements.

2. Business Combinations (continued)

The results of operations for Mercy are included in the consolidated statements of operations and changes in net assets beginning on February 1, 2021. For the eight months ended September 30, 2021, Mercy had total unrestricted revenues of $251.9 million, operating loss of $1.5 million and a deficiency of revenues over expenses of $1.2 million. The operations of Mercy did not have a material impact on changes in net assets with donor restrictions.

3. Accounting Policies

Recent Accounting Pronouncements

In August 2018, the FASB issued ASU 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20): Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans*. This ASU intends to improve the effectiveness of disclosures in the notes to financial statements by modifying disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The ASU is effective for the System for annual reporting periods ending after December 15, 2021, with early adoption permitted. The System is currently assessing the impact that ASU 2018-14 will have on its consolidated financial statements and will adopt the provisions upon the effective date.

In August 2018, the FASB issued ASU 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 for the System for annual reporting periods beginning after December 15, 2020, and interim periods beginning after December 15, 2021, with early adoption permitted. The System is currently assessing the impact that ASU 2018-15 will have on its consolidated financial statements and will adopt the provisions upon the effective date.

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This ASU changes the presentation and disclosure requirements for not-for-profit entities to increase transparency about contributed nonfinancial assets. The ASU is effective for annual periods beginning after June 15, 2021, and interim periods within annual periods beginning after June 15, 2022, with early adoption permitted. The System is currently assessing the impact that ASU 2020-07 will have on its consolidated financial statements and will adopt the provisions upon the effective date.

4. Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

5. Net Patient Service Revenue and Patient Receivables

Net patient service revenue is reported at the amount that reflects the consideration to which the System expects to be entitled for providing patient care. These amounts are due from patients, third-party payors, and others and include variable consideration for retroactive revenue adjustments due to settlement of reviews and audits. Generally, the System bills the patients and third-party payors several days after the services are performed or shortly after discharge. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the System. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected or actual charges. The System believes that this method provides a reasonable 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 receiving inpatient acute care services. The System 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. These services are considered to be a single performance obligation. Revenue for performance obligations satisfied at a point in time is recognized when services are provided and the System does not believe it is required to provide additional services to the patient.

Because all of its performance obligations relate to contracts with a duration of less than one year, the System has elected to apply the optional exemption provided in FASB Accounting Standards Codification (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 System is utilizing the portfolio approach practical expedient in ASC 606 for contracts related to net patient service revenue. The System accounts for the contracts within each portfolio as a collective group, rather than individual contracts, based on the payment pattern expected in each portfolio category and the similar nature and characteristics of the patients within each portfolio. The portfolios consist of major payor classes for inpatient revenue and outpatient revenue. Based on historical collection trends and other analyses, the System has concluded that revenue for a given portfolio would not be materially different from accounting for revenue on a contract-by-contract basis.

5. Net Patient Service Revenue and Patient Receivables (continued)

The System has agreements with third-party payors that generally provide for payments to the System at amounts different from its established rates. For uninsured patients who do not qualify for charity care, the System recognizes revenue based on established rates, subject to certain discounts and implicit price concessions as determined by the System. The System determines the transaction price based on standard charges for services provided, reduced by explicit price concessions provided to third-party payors, discounts provided to uninsured patients in accordance with the System's policy, and implicit price concessions provided to uninsured patients. Explicit price concessions are based on contractual agreements, discount policies and historical experience. Implicit price concessions represent differences between amounts billed and the estimated consideration the System expects to receive from patients, which are determined based on historical collection experience, current market conditions and other factors.

Generally, patients who are covered by third-party payors are responsible for patient responsibility balances, including deductibles and coinsurance, which vary in amount. The System estimates the transaction price for patients with deductibles and coinsurance based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any explicit price concessions, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Adjustments arising from a change in the transaction price were not significant in the first nine months of 2021 or 2020.

The System is paid a prospectively determined rate for the majority of inpatient acute care and outpatient, skilled nursing, and rehabilitation services provided (principally Medicare, Medicaid, and certain insurers). These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Payments for capital are received on a prospective basis for Medicare and on a cost reimbursement methodology for Medicaid. Payments are received on a prospective basis for the System's medical education costs, subject to certain limits. The System is paid for cost reimbursable items at a tentative rate, with final settlement determined after submission of annual cost reports by the System and audits thereof by the Medicare Administrative Contractor.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation as well as significant regulatory action, and, in the normal course of business, the System is subject to contractual reviews and audits, including audits initiated by the Medicare Recovery Audit Contractor program. As a result, there is at least a reasonable possibility that recorded estimates will change in the near term. The System believes it is in compliance with applicable laws and regulations governing the Medicare and Medicaid programs and that adequate provisions have been made for any adjustments that may result from final settlements.

5. Net Patient Service Revenue and Patient Receivables (continued)

Settlements with third-party payors for retroactive adjustments due to reviews and audits are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care in the period the related services are provided. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the System's historical settlement activity, including an assessment to ensure that it is probable that 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 or as years are settled or are no longer subject to such reviews and audits. Adjustments arising from a change in estimated settlements increased net patient service revenue by $4.3 million and $1.1 million in the first nine months of 2021 and 2020, respectively.

The System provides care to patients who do not have the ability to pay and who qualify for charity care pursuant to established policies of the System. Charity care is defined as services for which patients have the obligation to pay but do not have the ability to do so. The System does not report charity care as net patient service revenue.

Net patient service revenue by major payor source, net of price concessions, for the nine months ended September 30, 2021 and 2020, is as follows (in thousands):

	Nine Months Ended September 30, 2021		**Nine Months Ended September 30, 2020**	
Medicare	**$ 3,166,967**	**39%**	$ 2,598,299	39%
Medicaid	**834,443**	**10**	644,330	10
Managed care and commercial	**4,006,367**	**50**	3,280,409	50
Self-pay	**30,961**	**1**	26,287	1
Net patient service revenue	**$ 8,038,738**	**100%**	$ 6,549,325	100%

6. Cash and Cash Equivalents

The System considers all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents. Cash equivalents are recorded at fair value in the consolidated balance sheets and exclude amounts held for long-term investment purposes and amounts included in long-term investment portfolios as those amounts are commingled with long-term investments.

The reconciliation of cash, cash equivalents, and restricted cash within the consolidated balance sheets that comprise the amount reported on the consolidated statements of cash flows is as follows (in thousands):

	September 30 2021	**December 31 2020**
Cash and cash equivalents	**$ 1,032,280**	$ 1,045,393
Investments for current use	**–**	122,669
Restricted cash in investments	**5,672**	5,073
Total cash, cash equivalents, and restricted cash	**$ 1,037,952**	$ 1,173,135

Investments for current use include restricted cash deposits with the trustee to fund current principal and interest payments on debt. Restricted cash in investments includes amounts held by the System's captive insurance subsidiary and restricted cash for various programs.

7. Fair Value Measurements

Fair value measurements are defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Authoritative guidance provides an option to elect fair value as an alternative measurement for selected financial assets and liabilities not previously recorded at fair value. The System did not elect fair value accounting for any assets or liabilities that are not currently required to be measured at fair value.

The framework for measuring fair value is comprised of a three-level hierarchy 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 full 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.

7. Fair Value Measurements (continued)

The following tables present the financial instruments measured at fair value on a recurring basis as of September 30, 2021 and December 31 2020, based on the valuation hierarchy (in thousands):

September 30, 2021

	Level 1	Level 2	Level 3	Total
Assets				
Cash and investments:				
Cash and cash equivalents	$ 1,037,952	$ –	$ –	$ 1,037,952
Money market funds	416,833	–	–	416,833
Fixed income securities:				
U.S. treasuries	1,652,080	–	–	1,652,080
U.S. government agencies	–	52,724	–	52,724
U.S. corporate	–	513,510	–	513,510
U.S. government agencies asset-backed securities	–	314,068	–	314,068
Corporate asset-backed securities	–	198,672	–	198,672
Foreign	–	266,580	–	266,580
Fixed income mutual funds	140,030	–	–	140,030
Common and preferred stocks:				
U.S.	365,565	25	–	365,590
Foreign	321,629	16,130	–	337,759
Equity mutual funds	98,144	–	–	98,144
Total cash and investments	4,032,233	1,361,709	–	5,393,942
Perpetual and charitable trusts	–	91,667	–	91,667
Total assets at fair value	$ 4,032,233	$ 1,453,376	$ –	$ 5,485,609
Liabilities				
Interest rate swaps	$ –	$ 124,284	$ –	$ 124,284
Total liabilities at fair value	$ –	$ 124,284	$ –	$ 124,284

7. Fair Value Measurements (continued)

December 31, 2020

	Level 1	Level 2	Level 3	Total
Assets				
Cash and investments:				
Cash and cash equivalents	$ 1,173,135	$ –	$ –	$ 1,173,135
Money market funds	675,660	–	–	675,660
Fixed income securities:				
U.S. treasuries	1,197,397	–	–	1,197,397
U.S. government agencies	–	57,404	–	57,404
U.S. corporate	–	522,576	–	522,576
U.S. government agencies asset-backed securities	–	319,847	–	319,847
Corporate asset-backed securities	–	221,751	–	221,751
Foreign	–	252,380	–	252,380
Fixed income mutual funds	230,158	–	–	230,158
Common and preferred stocks:				
U.S.	285,260	–	–	285,260
Foreign	252,873	15,263	–	268,136
Equity mutual funds	89,239	–	–	89,239
Total cash and investments	3,903,722	1,389,221	–	5,292,943
Foreign exchange contracts	–	366	–	366
Perpetual and charitable trusts	–	84,894	–	84,894
Total assets at fair value	$ 3,903,722	$ 1,474,481	$ –	$ 5,378,203
Liabilities				
Interest rate swaps	$ –	$ 159,762	$ –	$ 159,762
Total liabilities at fair value	$ –	$ 159,762	$ –	$ 159,762

7. Fair Value Measurements (continued)

Financial instruments at September 30, 2021 and December 31, 2020 are reflected in the consolidated balance sheets as follows (in thousands):

	September 30 2021	December 31 2020
Cash, cash equivalents, and investments measured at fair value	**$ 5,393,942**	$ 5,292,943
Commingled funds measured at net asset value	**2,736,625**	2,190,419
Alternative investments measured at net asset value	**6,362,971**	5,396,334
Total cash, cash equivalents, and investments	**$ 14,493,538**	$ 12,879,696
Perpetual and charitable trusts measured at fair value	**$ 91,667**	$ 84,894
Interests in foundations	**28,454**	27,531
Trusts and interests in foundations	**$ 120,121**	$ 112,425

Interest rate swaps and forward currency forward contracts (Note 8) are reported in other current assets and other noncurrent liabilities in the consolidated balance sheets.

The following is a description of the System'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 determined as follows:

Investments classified as Level 2 are primarily determined using techniques that are consistent with the market approach. Valuations are 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, which include broker/dealer quotes, reported/comparable trades, and benchmark yields, are obtained from various sources, including market participants, dealers, and brokers.

7. Fair Value Measurements (continued)

The fair value of perpetual and charitable trusts in which the System receives periodic payments from the trust is determined based on the present value of expected cash flows to be received from the trust using discount rates ranging from 0.4% to 5.0%, which are based on Treasury yield curve interest rates or the assumed yield of the trust assets. The fair value of charitable trusts in which the System is a remainder beneficiary is based on the System's beneficial interest in the investments held in the trust, which are measured at fair value.

The fair value of interest rate swaps is determined based on the present value of expected future cash flows using discount rates appropriate with the risks involved. The valuations include a credit spread adjustment to market interest rate curves to appropriately reflect nonperformance risk. The credit spread adjustment is derived from other comparably rated healthcare entities' bonds. The System manages credit risk based on the net portfolio exposure with each counterparty.

The fair value of foreign currency forward contracts is based on the difference between the contracted exchange rate and current market foreign currency exchange rates adjusted for forward points, which are differences in prevailing deposit interest rates between each currency through the remaining term of the contract.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the System 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.

8. Derivative Instruments

The System has entered into various derivative financial instruments to manage interest rate risk and foreign currency exposures.

The System's objective with respect to interest rate risk is to manage the risk of rising interest rates on the System's variable rate debt. Consistent with its interest rate risk management objective, the System has entered into various interest rate swap agreements. During the term of these transactions, the System pays interest at a fixed rate and receives interest at a variable rate based on LIBOR or the Securities Industry and Financial Markets Association Index (SIFMA). The swap agreements are not designated as hedging instruments. Net interest paid or received under the swap agreements is included in derivative gains (losses) in the consolidated statements of operations and changes in net assets.

8. Derivative Instruments (continued)

The following table summarizes the System's interest rate swap agreements (in thousands):

Swap Type	Expiration Date	System Pays	System Receives	Notional Amount at September 30 2021	Notional Amount at December 31 2020
Fixed	2021	3.21%	68% of LIBOR	**$ –**	$ 26,865
Fixed	2024	3.42%	68% of LIBOR	**22,750**	24,250
Fixed	2024	3.45%	67% of LIBOR	**5,040**	5,040
Fixed	2027	3.56%	68% of LIBOR	**106,519**	111,226
Fixed	2028	5.12%	100% of LIBOR	**32,900**	34,195
Fixed	2028	3.51%	68% of LIBOR	**25,315**	26,405
Fixed	2030	5.07%	100% of LIBOR	**54,300**	54,300
Fixed	2030	5.06%	100% of LIBOR	**54,275**	54,275
Fixed	2031	3.04%	68% of LIBOR	**37,725**	40,925
Fixed	2032	4.32%	79% of LIBOR	**1,901**	1,986
Fixed	2032	4.33%	70% of LIBOR	**3,803**	3,973
Fixed	2032	3.78%	70% of LIBOR	**1,901**	1,986
Fixed	2032	3.58%	67% of LIBOR	**9,415**	9,415
Fixed	2036	4.90%	100% of LIBOR	**48,325**	48,325
Fixed	2036	4.90%	100% of LIBOR	**75,125**	75,125
Fixed	2037	4.62%	100% of SIFMA	**52,450**	54,760
Fixed	2039	4.62%	68% of LIBOR	**20,885**	20,885
				$ 552,629	$ 593,936

8. Derivative Instruments (continued)

The System is exposed to fluctuations in various foreign currencies against its functional currency, the U.S. dollar (USD). The System uses foreign currency forward contracts to manage its exposure to fluctuations in the USD – British Pound (GBP) exchange rate. Currency forward contracts involve fixing the USD – GBP exchange rate for delivery of a specified amount of foreign currency on a specified date. The currency forward contracts are typically cash settled in USD for their fair value at or close to their settlement date.

The System had foreign currency forward contracts, maturing at various dates through April 2021, with no amounts outstanding at September 30, 2021 and a total outstanding notional amount of $68.1 million at December 31, 2020.

The following table summarizes the location and fair value for the System's derivative instruments (in thousands):

	Derivative Assets and Liabilities			
	September 30, 2021		December 31, 2020	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives not designated as hedging instruments				
Interest rate swap agreements	Other noncurrent liabilities	**$ 124,284**	Other noncurrent liabilities	$ 159,762
Foreign currency contracts	Other current assets	**$ –**	Other current assets	$ 366

The following table summarizes the location and amounts of derivative gains (losses) on the System's interest rate swap agreements (in thousands):

Derivatives not designated as hedging instruments	Location of Gain(Loss) Recognized	Quarter Ended September 30		Nine Months Ended September 30	
		2021	2020	2021	2020
Interest rate swap agreements	Derivative gains (losses)	**$ 2,439**	$ 2,349	**$ 17,996**	$ (59,542)
Foreign currency contracts	Derivative gains (losses)	**–**	10,657	**1,325**	(14,016)

8. Derivative Instruments (continued)

The System has used various derivative contracts in connection with certain prior obligations and investments. Although minimum credit ratings are required for counterparties, this does not eliminate the risk that a counterparty may fail to honor its obligations. Derivative contracts are subject to periodic "mark-to-market" valuations. A derivative contract may, at any time, have a positive or negative value to the System. In the event that the negative value reaches certain thresholds established in the derivative contracts, the System is required to post collateral, which could adversely affect its liquidity. At September 30, 2021 and December 31, 2020, the System posted $74.2 million and $102.4 million, respectively, of collateral with counterparties that is included in funds held by trustees in the consolidated balance sheets. In addition, if the System were to choose to terminate a derivative contract or if a derivative contract were terminated pursuant to an event of default or a termination event as described in the derivative contract, the System could be required to pay a termination payment to the counterparty.

9. Pensions and Other Postretirement Benefits

The System maintains five defined benefit pension plans, including three tax-qualified funded plans and two unfunded plans. The CCHS Retirement Plan is a tax-qualified defined benefit pension plan that provides benefits to substantially all employees of the System, except those employed by Akron General, Mercy Hospital, Union Hospital or Indian River Hospital. All benefit accruals under the CCHS Retirement Plan ceased as of December 31, 2012. Martin Health System had a tax-qualified defined benefit plan covering substantially all of its employees who were hired before October 1, 2005, and met certain eligibility requirements. All benefit accruals under the Martin Health System defined benefit plan ceased as of January 1, 2013. On June 30, 2019, the Martin Health System defined benefit pension plan merged with the CCHS Retirement Plan, with the CCHS Retirement Plan being a single continuing pension plan. Akron General has a tax-qualified defined benefit plan covering substantially all of its employees who were hired before 2004 and meet certain eligibility requirements. All benefit accruals under the Akron General defined benefit plan ceased as of December 31, 2017. Indian River Hospital has a tax-qualified defined benefit plan covering substantially all of its employees who were hired before December 31, 2002 and meet certain eligibility requirements. All benefit accruals under the Indian River Hospital defined benefit plan ceased as of December 31, 2002. The benefits for the System's tax-qualified defined benefit pension plans are provided based on age, years of service, and compensation. The System's policy for its tax-qualified defined benefit pension plans is to fund at least the minimum amounts required by the Employee Retirement Income Security Act. The System maintains two unfunded, nonqualified defined benefit supplemental retirement plans, which cover certain professional staff and administrative employees.

9. Pensions and Other Postretirement Benefits (continued)

The System sponsors two noncontributory, defined contribution plans, and ten contributory, defined contribution plans covering System employees. The Cleveland Clinic Investment Pension Plan (IPP) is a noncontributory, defined contribution plan, which covers substantially all of the System's employees, except employees covered by the Cleveland Clinic Cash Balance Plan and those employed by Akron General, Mercy Hospital, Union Hospital, Martin Health System or Indian River Hospital. The System's contribution to the IPP for participants is based upon a percentage of employee compensation and years of service. The Cleveland Clinic Cash Balance Plan (CBP) is a noncontributory, defined contribution plan that covers certain professional and administrative employees not covered by the IPP. The System's contribution to the CBP is a percentage of employee compensation that is determined according to age. The System sponsors ten tax-qualified contributory, defined contribution plans that cover substantially all employees, including two plans for Akron General, three plans for Union Hospital, two plans for Martin Health System, a plan for Indian River Hospital and a plan for Mercy Hospital. The plans generally permit employees to make pretax employee deferrals and to become entitled to certain employer matching contributions that are based on employee contributions.

The components of net periodic benefit (credit) cost for defined benefit pension plans are as follows (in thousands):

	Quarter Ended September 30		Nine Months Ended September 30	
	2021	**2020**	**2021**	**2020**
Amounts related to defined benefit pension plans:				
Service cost	$ (1,261)	$ (1,179)	$ (3,784)	$ (3,536)
Interest cost	12,897	15,951	38,690	47,852
Expected return on assets	(25,278)	(26,654)	(75,833)	(79,962)
Net amortization and deferral	(636)	(636)	(1,907)	(1,907)
Total defined benefit pension plans	(14,278)	(12,518)	(42,834)	(37,553)
Defined contribution plans	74,397	66,010	236,183	219,819
	$ 60,119	**$ 53,492**	**$ 193,349**	**$ 182,266**

The service credit component of net periodic benefit (credit) cost and the defined contribution plan expense are included in salaries, wages, and benefits in the consolidated statements of operations and changes in net assets. The components of net periodic benefit (credit) cost other than the service credit component are included in other nonoperating gains and losses in the consolidated statements of operations and changes in net assets.

As of September 30, 2021, the System has made contribution of $6.5 million to the defined benefit pension plans. Total contributions to the defined benefit pension plans for the full year of 2021 are expected to be $8.6 million.

10. COVID-19

On March 11, 2020, the World Health Organization declared the novel coronavirus disease (COVID-19) outbreak a global pandemic. The governors of Ohio and Florida declared a state of emergency for their respective states related to the COVID-19 outbreak on March 9, 2020, and a national state of emergency in the U.S. was declared on March 13, 2020. The System is working with public health partners at all levels to maintain the health and safety of patients, visitors and caregivers to prevent the spread of COVID-19. The System is also providing extensive education to patients on the precautions that have been implemented to keep patients and caregivers safe during their appointments and procedures. Throughout the pandemic the System has remained focused on creating a safe environment for patients and caregivers to ensure the availability of care for early identification of diseases and helping patients in managing chronic diseases. The System has taken, and continues to take, actions to mitigate the effect of the pandemic on its financial condition and results of operations; however, the outcome and ultimate effect of the pandemic on the System's consolidated financial statements cannot be determined at this time.

The System has received support under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, including Provider Relief Funds (PRF). The System accounted for the PRF payments as contributions that are recognized as revenue when any related conditions have been substantially met. The PRF provides funding from the U.S. Department of Health and Human Services (HHS) to healthcare providers to support healthcare-related expenses or lost revenue attributable to COVID-19. Funds received from the PRF represent payments to providers and do not need to be repaid as long as the System complies with certain terms and conditions imposed by HHS, including reporting and compliance requirements. In April 2021, the System received $162 million of PRF payments and recognized the payments in other unrestricted revenues based on the applicable terms and conditions.

11. Subsequent Events

The System evaluated events and transactions occurring subsequent to September 30, 2021 through November 23, 2021, the date the consolidated financial statements were issued. During this period, there were no subsequent events requiring recognition in the consolidated financial statements, and there were no nonrecognized subsequent events requiring disclosure, except that on October 5, 2021, pursuant to certain agreements between the System and the State of Ohio (State) acting by and through the Ohio Higher Educational Facility Commission, the State issued $198.3 million of fixed-rate State of Ohio Hospital Revenue Refunding Bonds (Series 2021B Bonds) for the benefit of the System. The Series 2021B Bonds were issued pursuant to a Forward Delivery Contract of Purchase that was effective in July 2021. Proceeds from the issuance of the Series 2021B Bonds were used to refund a portion of the Series 2012A Bonds and pay the cost of issuance.

Unaudited Consolidating Balance Sheets

($ in thousands)

	September 30, 2021				December 31, 2020			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated
Assets								
Current assets:								
Cash and cash equivalents	$ 467,859	$ 564,421	$ -	$ 1,032,280	$ 792,399	$ 252,994	$ -	$ 1,045,393
Patient receivables, net	1,182,623	269,788	(14,061)	1,438,350	1,074,672	209,326	(28,317)	1,255,681
Due from affiliates	16,457	47,864	(64,321)	-	31,287	56	(31,343)	-
Investments for current use	-	54,721	-	54,721	122,668	54,721	-	177,389
Other current assets	566,062	100,194	(82,313)	583,943	539,922	79,167	(72,367)	546,722
Total current assets	2,233,001	1,036,988	(160,695)	3,109,294	2,560,948	596,264	(132,027)	3,025,185
Investments:								
Long-term investments	10,872,797	1,142,946	-	12,015,743	9,178,758	1,175,119	-	10,353,877
Funds held by trustees	80,957	-	-	80,957	110,307	0	-	110,307
Assets held for self-insurance	-	192,851	-	192,851	-	179,300	-	179,300
Donor restricted assets	1,040,123	76,863	-	1,116,986	946,735	66,695	-	1,013,430
	11,993,877	1,412,660	-	13,406,537	10,235,800	1,421,114	-	11,656,914
Property, plant, and equipment, net	4,310,832	1,568,720	-	5,879,552	4,462,295	1,404,679	-	5,866,974
Other assets:								
Pledges receivable, net	141,082	5,443	-	146,525	117,987	7,654	-	125,641
Trusts and beneficial interests in foundations	68,556	51,565	-	120,121	63,956	48,469	-	112,425
Operating lease right-of-use assets	128,001	242,839	-	370,840	136,712	224,129	-	360,841
Other noncurrent assets	865,349	153,325	(291,611)	727,063	736,665	139,281	(231,376)	644,570
	1,202,988	453,172	(291,611)	1,364,549	1,055,320	419,533	(231,376)	1,243,477
Total assets	$ 19,740,698	$ 4,471,540	$ (452,306)	$ 23,759,932	$ 18,314,363	$ 3,841,590	$ (363,403)	$ 21,792,550

	September 30, 2021				December 31, 2020			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated
Liabilities and net assets								
Current liabilities:								
Accounts payable	$ 430,777	$ 120,757	$ (478)	$ 551,056	$ 440,176	$ 89,094	$ (476)	$ 528,794
Compensation and amounts withheld from payroll	503,402	91,356	-	594,758	417,175	47,074	-	464,249
Short-term borrowings	-	-	-	-	-	-	-	-
Current portion of long-term debt	96,141	7,199	-	103,340	94,264	6,742	-	101,006
Variable rate debt classified as current	449,659	49,847	-	499,506	537,644	52,247	-	589,891
Due to affiliates	22,238	16,989	(39,227)	-	56	31,287	(31,343)	-
Other current liabilities	652,103	198,929	(94,014)	757,018	650,107	191,617	(103,401)	738,323
Total current liabilities	2,154,320	485,077	(133,719)	2,505,678	2,139,422	418,061	(135,220)	2,422,263
Long-term debt	3,751,699	1,172,660	(289,491)	4,634,868	3,664,878	1,144,179	(226,063)	4,582,994
Other liabilities:								
Professional and general insurance liability reserves	73,090	173,350	-	246,440	65,703	150,397	-	216,100
Accrued retirement benefits	268,579	1,426	-	270,005	296,218	1,523	-	297,741
Operating lease liabilities	92,871	235,275	-	328,146	102,196	221,486	-	323,682
Other noncurrent liabilities	671,460	84,739	(26,976)	729,223	652,509	55,406	-	707,915
	1,106,000	494,790	(26,976)	1,573,814	1,116,626	428,812	-	1,545,438
Total liabilities	7,012,019	2,152,527	(450,186)	8,714,360	6,920,926	1,991,052	(361,283)	8,550,695
Net assets:								
Without donor restrictions	11,420,691	2,183,934	(2,120)	13,602,505	10,195,011	1,728,866	(2,120)	11,921,757
With donor restrictions	1,307,988	135,079	-	1,443,067	1,198,426	121,672	-	1,320,098
Total net assets	12,728,679	2,319,013	(2,120)	15,045,572	11,393,437	1,850,538	(2,120)	13,241,855
Total liabilities and net assets	$ 19,740,698	$ 4,471,540	$ (452,306)	$ 23,759,932	$ 18,314,363	$ 3,841,590	$ (363,403)	$ 21,792,550

Please refer to Management's Discussion and Analysis for a listing of the hospitals in the Obligated Group.

Unaudited Consolidating Statements of Operations and Changes in Net Assets
($ in thousands)

Operations

	Three Months Ended September 30, 2021				Three Months Ended September 30, 2020			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated
Unrestricted revenues								
Net patient service revenue	$ 2,325,315	$ 516,108	$ (89,594)	$ 2,751,829	$ 2,090,493	$ 368,705	$ (70,587)	$ 2,388,611
Other	282,000	86,850	(52,400)	316,450	294,583	82,807	(45,836)	331,554
Total unrestricted revenues	2,607,315	602,958	(141,994)	3,068,279	2,385,076	451,512	(116,423)	2,720,165
Expenses								
Salaries, wages, and benefits	1,419,661	356,156	(100,184)	1,675,633	1,284,853	265,093	(82,938)	1,467,008
Supplies	258,101	57,890	(18)	315,973	248,600	41,251	-	289,851
Pharmaceuticals	309,866	45,388	-	355,254	283,797	33,196	-	316,993
Purchased services and other fees	169,647	61,161	(13,608)	217,200	154,168	35,745	(7,449)	182,464
Administrative services	14,386	37,007	(5,732)	45,661	14,056	32,715	(6,316)	40,455
Facilities	75,687	26,413	(525)	101,575	68,007	20,820	(502)	88,325
Insurance	25,331	14,440	(21,902)	17,869	17,761	18,778	(19,193)	17,346
	2,272,679	598,455	(141,969)	2,729,165	2,071,242	447,598	(116,398)	2,402,442
Operating income before interest, depreciation, and amortization expenses	334,636	4,503	(25)	339,114	313,834	3,914	(25)	317,723
Interest	29,034	8,186	-	37,220	30,895	7,382	-	38,277
Depreciation and amortization	131,269	22,434	(25)	153,678	126,167	19,437	(25)	145,579
Operating income (loss)	174,333	(26,117)	-	148,216	156,772	(22,905)	-	133,867
Nonoperating gains and losses								
Investment return	238,081	26,139	-	264,220	392,693	54,451	-	447,144
Derivative losses	3,042	(603)	-	2,439	13,621	(615)	-	13,006
Other, net	7,192	137	-	7,329	8,326	1,437	-	9,763
Net nonoperating gains and losses	248,315	25,673	-	273,988	414,640	55,273	-	469,913
Excess (deficiency) of revenues over expenses	422,648	(444)	-	422,204	571,412	32,368	-	603,780

Please refer to Management's Discussion and Analysis for a listing of the hospitals in the Obligated Group.

Unaudited Consolidating Statements of Operations and Changes in Net Assets (continued)

($ in thousands)

Changes in Net Assets

	Three Months Ended September 30, 2021				Three Months Ended September 30, 2020			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated
Changes in net assets without donor restrictions:								
Excess of revenues over expenses	$ 422,648	$ (444)	$ -	$ 422,204	$ 571,412	$ 32,368	$ -	$ 603,780
Donated capital	1,815	-	-	1,815	1,792	-	-	1,792
Net assets released from restriction for capital purposes	(5)	972	-	967	7,881	5,268	-	13,149
Retirement benefits adjustment	(658)	(57)	-	(715)	(658)	(57)	-	(715)
Foreign currency translation	-	(4,114)	-	(4,114)	-	(2,448)	-	(2,448)
Other	(208,202)	206,180	-	(2,022)	(120,250)	115,999	3,179	(1,072)
Increase in net assets without donor restrictions	215,598	202,537	-	418,135	460,177	151,130	3,179	614,486
Changes in net assets with donor restrictions:								
Gifts and bequests	43,450	937	-	44,387	21,890	2,704	-	24,594
Net investment income	9,506	1,744	-	11,250	21,975	3,419	-	25,394
Net assets released from restrictions used for operations included in other unrestricted revenues	(13,047)	(738)	-	(13,785)	(13,949)	(835)	-	(14,784)
Net assets released from restriction for capital purposes	5	(972)	-	(967)	(7,881)	(5,268)	-	(13,149)
Change in interests in foundations	(326)	-	-	(326)	666	-	-	666
Change in value of perpetual trusts	1,080	169	-	1,249	93	(207)	-	(114)
Member substitution contribution	-	(2,384)	-	(2,384)	-	-	-	-
Other	1,543	840	-	2,383	117	56	-	173
Increase (decrease) in net assets with donor restrictions	42,211	(404)	-	41,807	22,911	(131)	-	22,780
Increase in net assets	257,809	202,133	-	459,942	483,088	150,999	3,179	637,266
Net assets at beginning of period	12,470,870	2,116,880	(2,120)	14,585,630	9,617,815	1,623,139	(5,299)	11,235,655
Net assets at end of period	$ 12,728,679	$ 2,319,013	$ (2,120)	$ 15,045,572	$ 10,100,903	$ 1,774,138	$ (2,120)	$ 11,872,921

Please refer to Management's Discussion and Analysis for a listing of the hospitals in the Obligated Group.

Unaudited Consolidating Statements of Operations and Changes in Net Assets

($ in thousands)

Operations

	Nine Months Ended September 30, 2021				Nine Months Ended September 30, 2020			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated
Unrestricted revenues								
Net patient service revenue	$ 6,791,734	$ 1,482,351	$ (235,347)	$ 8,038,738	$ 5,707,551	$ 1,030,669	$ (188,895)	$ 6,549,325
Other	922,368	279,144	(145,828)	1,055,684	942,867	290,607	(135,574)	1,097,900
Total unrestricted revenues	7,714,102	1,761,495	(381,175)	9,094,422	6,650,418	1,321,276	(324,469)	7,647,225
Expenses								
Salaries, wages, and benefits	4,173,316	1,015,328	(272,708)	4,915,936	3,860,859	792,108	(228,703)	4,424,264
Supplies	757,781	169,967	(346)	927,402	699,727	121,092	(92)	820,727
Pharmaceuticals	900,861	125,997	-	1,026,858	853,083	93,570	-	946,653
Purchased services and other fees	492,601	151,813	(27,383)	617,031	446,526	104,407	(18,719)	532,214
Administrative services	36,843	112,532	(17,755)	131,620	52,191	101,603	(17,798)	135,996
Facilities	212,887	76,657	(1,478)	288,066	201,659	62,375	(1,503)	262,531
Insurance	70,642	63,360	(61,430)	72,572	55,581	65,701	(57,579)	63,703
	6,644,931	1,715,654	(381,100)	7,979,485	6,169,626	1,340,856	(324,394)	7,186,088
Operating income (loss) before interest, depreciation, and amortization expenses	1,069,171	45,841	(75)	1,114,937	480,792	(19,580)	(75)	461,137
Interest	87,601	24,474	-	112,075	96,061	22,986	-	119,047
Depreciation and amortization	386,672	66,819	(75)	453,416	389,696	60,325	(75)	449,946
Operating income (loss)	594,898	(45,452)	-	549,446	(4,965)	(102,891)	-	(107,856)
Nonoperating gains and losses								
Investment return	956,735	116,479	-	1,073,214	170,340	31,779	-	202,119
Derivative gains (losses)	21,175	(1,854)	-	19,321	(71,913)	(1,645)	-	(73,558)
Other, net	31,538	3,393	-	34,931	25,216	3,386	-	28,602
Net nonoperating gains and losses	1,009,448	118,018	-	1,127,466	123,643	33,520	-	157,163
Excess (deficiency) of revenues over expenses	1,604,346	72,566	-	1,676,912	118,678	(69,371)	-	49,307

Please refer to Management's Discussion and Analysis for a listing of the hospitals in the Obligated Group.

Unaudited Consolidating Statements of Operations and Changes in Net Assets (continued)

($ in thousands)

Changes in Net Assets

	Nine Months Ended September 30, 2021				Nine Months Ended September 30, 2020			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated
Changes in net assets without donor restrictions:								
Excess (deficiency) of revenues over expenses	$ 1,604,346	$ 72,566	$ -	$ 1,676,912	$ 118,678	$ (69,371)	$ -	$ 49,307
Donated capital	1,860	-	-	1,860	9,702	-	-	9,702
Net assets released from restriction for capital purposes	7,327	2,010	-	9,337	15,713	5,673	-	21,386
Retirement benefits adjustment	(1,975)	(172)	-	(2,147)	(1,975)	(172)	-	(2,147)
Foreign currency translation	-	(2,409)	-	(2,409)	-	2,588	-	2,588
Other	(385,878)	383,073	-	(2,805)	(282,841)	283,308	-	467
Increase (decrease) in net assets without donor restrictions	1,225,680	455,068	-	1,680,748	(140,723)	222,026	-	81,303
Changes in net assets with donor restrictions:								
Gifts and bequests	99,813	9,198	-	109,011	75,814	8,118	-	83,932
Net investment income	40,653	6,426	-	47,079	9,616	2,742	-	12,358
Net assets released from restrictions used for operations included in other unrestricted revenues	(30,521)	(2,084)	-	(32,605)	(41,216)	(2,533)	-	(43,749)
Net assets released from restriction for capital purposes	(7,305)	(2,032)	-	(9,337)	(15,713)	(5,673)	-	(21,386)
Change in interests in foundations	924	-	-	924	472	-	-	472
Change in value of perpetual trusts	3,485	2,028	-	5,513	(255)	(347)	-	(602)
Member substitution contribution	-	-	-	-	-	-	-	-
Other	2,513	(129)	-	2,384	1,400	58	-	1,458
Increase in net assets with donor restrictions	109,562	13,407	-	122,969	30,118	2,365	-	32,483
Increase (decrease) in net assets	1,335,242	468,475	-	1,803,717	(110,605)	224,391	-	113,786
Net assets at beginning of year	11,393,437	1,850,538	(2,120)	13,241,855	10,211,508	1,549,747	(2,120)	11,759,135
Net assets at end of period	$ 12,728,679	$ 2,319,013	$ (2,120)	$ 15,045,572	$ 10,100,903	$ 1,774,138	$ (2,120)	$ 11,872,921

Please refer to Management's Discussion and Analysis for a listing of the hospitals in the Obligated Group.

Unaudited Consolidating Statements of Cash Flows
($ in thousands)

	Nine Months Ended September 30, 2021				Nine Months Ended September 30, 2020			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated
Operating activities and net nonoperating gains and losses								
Increase (decrease) in total net assets	$ 1,335,242	$ 468,475	$ -	$ 1,803,717	$ (110,605)	$ 224,391	$ -	$ 113,786
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities and net nonoperating gains and losses:								
Gain on extinguishment of debt	(4,252)	-	-	(4,252)	-	-	-	-
Retirement benefits adjustment	1,975	172	-	2,147	1,975	172	-	2,147
Net realized and unrealized (gains) losses on investments	(955,418)	(116,384)	-	(1,071,802)	(144,164)	(30,626)	-	(174,790)
Depreciation and amortization	386,672	66,827	(75)	453,424	389,696	60,319	(75)	449,940
Foreign currency translation gain	-	2,409	-	2,409	-	(2,588)	-	(2,588)
Donated capital	(1,860)	-	-	(1,860)	(9,702)	-	-	(9,702)
Restricted gifts, bequests, investment income, and other	(144,875)	(17,652)	-	(162,527)	(85,647)	(10,513)	-	(96,160)
Transfers to (from) affiliates	385,868	(385,868)	-	-	23,527	(23,527)	-	-
Accreted interest and amortization of bond premiums	(4,321)	142	-	(4,179)	(4,623)	131	-	(4,492)
Net (gain) loss in value of derivatives	(35,478)	-	-	(35,478)	43,801	-	-	43,801
Member substitution	-	-	-	-	-	-	-	-
Changes in operating assets and liabilities:								
Patient receivables	(107,951)	(22,425)	(14,256)	(144,632)	98,365	(4,339)	9,384	103,410
Other current assets	(17,237)	(57,626)	42,924	(31,939)	(24,038)	(36,537)	34,234	(26,341)
Other noncurrent assets	(120,293)	(25,507)	60,310	(85,490)	(33,663)	(3,919)	2,320	(35,262)
Accounts payable and other current liabilities	98,830	38,650	1,501	138,981	264,334	49,857	(23,889)	290,302
Other liabilities	22,877	58,549	(26,976)	54,450	90,986	37,740	(19,881)	108,845
Net cash provided by (used in) operating activities and net nonoperating gains and losses	839,779	9,762	63,428	912,969	500,242	260,561	2,093	762,896
Financing activities								
Proceeds from short-term borrowings, net	-	-	-	-	100,000	-	-	100,000
Proceeds from long-term borrowings	119,610	26,610	(63,428)	82,792	1,431	2,093	(2,093)	1,431
Principal payments on long-term debt	(121,899)	(32,392)	-	(154,291)	(81,683)	(5,412)	-	(87,095)
Debt issuance costs	(892)	-	-	(892)	-	-	-	-
Change in pledges receivable, trusts and interests in foundations	(21,768)	(938)	-	(22,706)	21,308	(57)	-	21,251
Restricted gifts, bequests, investment income, and other	144,875	17,652	-	162,527	85,647	10,513	-	96,160
Net cash provided by financing activities	119,926	10,932	(63,428)	67,430	126,703	7,137	(2,093)	131,747
Investing activities								
Expenditures for property, plant and equipment	(230,640)	(168,793)	-	(399,433)	(277,670)	(181,308)	-	(458,978)
Proceeds from sale of property, plant and equipment	12,254	-		12,254	12,952	-		12,952
Payment for business acquisition, less cash assumed	-	(54,197)	-	(54,197)	-	-	-	-
Net change in cash equivalents reported in long-term investments	36,175	241,269	-	277,444	274,125	41,964	-	316,089
Purchases of investments	(3,909,660)	(453,535)	-	(4,363,195)	(4,296,615)	(580,521)	-	(4,877,136)
Sales of investments	3,069,162	342,422	-	3,411,584	4,003,563	618,624	-	4,622,187
Transfers (to) from affiliates	(385,868)	385,868	-	-	(23,527)	23,527	-	-
Net cash (used in) provided by investing activities	(1,408,577)	293,034	-	(1,115,543)	(307,172)	(77,714)	-	(384,886)
Effect of exchange rate changes on cash	-	(39)		(39)	-	(6,612)		(6,612)
(Decrease) increase in cash and cash equivalents	(448,872)	313,689	-	(135,183)	319,773	183,372	-	503,145
Cash, cash equivalents and restricted cash at beginning of year	917,591	255,544	-	1,173,135	422,598	214,688	-	637,286
Cash, cash equivalents and restricted cash at end of period	$ 468,719	$ 569,233	$ -	$ 1,037,952	$ 742,371	$ 398,060	$ -	$ 1,140,431

Please refer to Management's Discussion and Analysis for a listing of the hospitals in the Obligated Group.

Utilization

The following table provides selected utilization statistics for the Cleveland Clinic Health System:

	Year Ended December 31			YTD September 30	
	2018	2019	2020	2020	2021
Total Staffed Beds[1]	4,143	4,900	4,812	4,909	5,212
Percent Occupancy[1]	69.5%	68.1%	70.4%	63.2%	75.5%
Inpatient Admissions[1]					
Acute	175,025	226,558	211,766	156,317	177,531
Post-acute	10,631	11,327	10,728	8,017	8,384
Total	185,656	237,885	222,494	164,334	185,915
Patient Days[1]					
Acute	904,854	1,098,807	1,044,310	760,658	910,217
Post-acute	79,999	84,522	82,224	61,116	65,892
Total	984,853	1,183,329	1,126,534	821,774	976,109
Average Length of Stay					
Acute	5.18	4.86	4.92	4.86	5.15
Post-acute	7.53	7.44	7.66	7.61	7.84
Surgical Facility Cases					
Inpatient	62,672	74,607	64,234	48,218	52,032
Outpatient	157,912	181,721	152,632	108,907	143,296
Total	220,584	256,328	216,866	157,125	195,328
Emergency Department Visits	675,817	889,489	756,416	562,578	663,735
Outpatient Observations	62,901	82,143	61,476	46,243	51,687
Outpatient Evaluation and Management Visits	5,196,809	6,161,693	5,665,140	4,187,039	5,031,386
Acute Medicare Case Mix Index - Health System	1.96	1.91	2.00	1.98	2.01
Acute Medicare Case Mix Index - Cleveland Clinic	2.70	2.74	2.87	2.84	2.90
Total Acute Patient Case Mix Index - Health System	1.89	1.83	1.91	1.89	1.93
Total Acute Patient Case Mix Index - Cleveland Clinic	2.63	2.65	2.76	2.73	2.79

(1) Acute and post-acute, including rehabilitative and psychiatric services within post-acute, but excluding newborns and bassinets.

Utilization statistics for Martin Health System and Indian River Hospital are included beginning January 1, 2019, which is the date both entities joined the System.

Utilization statistics for Mercy Hospital are included beginning February 1, 2021, which is the date Mercy Hospital joined the System.

Utilization (continued)

The following table provides selected utilization statistics for the Obligated Group:

	Year Ended December 31			YTD September 30	
	2018	2019	2020	2020	2021
Total Staffed Beds[(1)]	3,477	3,987	3,966	3,996	4,026
Percent Occupancy[(1)]	71.3%	70.0%	70.8%	64.5%	76.6%
Inpatient Admissions[(1)]					
Acute	149,433	186,133	173,601	128,174	138,167
Post-acute	8,452	7,122	6,595	4,928	4,945
Total	157,885	193,255	180,196	133,102	143,112
Patient Days[(1)]					
Acute	788,442	928,486	875,540	637,834	722,398
Post-acute	62,913	54,515	53,439	40,062	40,703
Total	851,355	983,001	928,979	677,896	763,101
Surgical Facility Cases					
Inpatient	56,162	63,677	54,654	40,976	42,788
Outpatient	138,151	153,886	127,817	90,830	117,292
Total	194,313	217,563	182,471	131,806	160,080
Emergency Department Visits	531,812	666,313	574,625	426,461	481,855
Outpatient Observations	53,110	64,359	47,987	35,964	39,617
Outpatient Evaluation and Management Visits	4,676,817	5,315,503	4,842,622	3,573,013	4,151,583
Acute Medicare Case Mix Index	2.00	1.94	2.04	2.02	2.05
Total Acute Patient Case Mix Index	1.95	1.88	1.95	1.94	1.98

(1) Acute and post-acute, including rehabilitative and psychiatric services within post-acute, but excluding newborns and bassinets.

Please refer to Management's Discussion and Analysis for a listing of the hospitals in the Obligated Group.

Martin Memorial Medical Center, a subsidiary of Martin Health System, became a member of the Obligated Group in May 2019. The utilization statistics of Martin Memorial Medical Center are reported in the Obligated Group beginning January 1, 2019, which is the date it joined the System.

Payor Mix

The following table shows payor mix as a percentage of gross patient service revenue for the Health System and Obligated Group as a whole:

	Year Ended December 31			YTD September 30	
	2018	2019	2020	2020	2021
Payor					
Managed Care and Commercial	37%	34%	34%	34%	34%
Medicare	47%	50%	51%	51%	50%
Medicaid	14%	13%	13%	13%	14%
Self-Pay & Other	2%	3%	2%	2%	2%
Total	100%	100%	100%	100%	100%

OBLIGATED GROUP
Based on Gross Patient Service Revenue

	Year Ended December 31			YTD September 30	
	2018	2019	2020	2020	2021
Payor					
Managed Care and Commercial	38%	36%	36%	35%	35%
Medicare	47%	49%	49%	50%	49%
Medicaid	13%	13%	13%	13%	14%
Self-Pay & Other	2%	2%	2%	2%	2%
Total	100%	100%	100%	100%	100%

Please refer to Management's Discussion and Analysis for a listing of the hospitals in the Obligated Group.

Payor mix for Martin Health System and Indian River Hospital are included beginning January 1, 2019, which is the date both entities joined the System.

Payor mix for Mercy Hospital is included beginning February 1, 2021, which is the date Mercy Hospital joined the System.

Research Support
($ in thousands)

The Clinic funds the annual cost of research from external sources, such as federal grants and contracts and contributions restricted for research, and internal sources, such as contributions, endowment earnings and revenue from operations. The following table summarizes the sources of research support for the Clinic:

	Year Ended December 31			YTD September 30	
	2018	2019	2020	2020	2021
External Grants Earned					
Federal Sources	$117,786	$120,858	$117,931	$88,218	$81,401
Non-Federal Sources	105,093	104,760	94,173	70,330	88,197
Total	222,879	225,618	212,104	158,548	169,598
Internal Support	63,327	72,637	92,305	68,039	64,478
Total Sources of Support	$286,206	$298,255	$304,409	$226,587	$234,076

Key Ratios

The following table provides selected key ratios:

	Year Ended December 31			YTD September 30	
	2018	**2019**	**2020**	**2020**	**2021**
Liquidity ratios					
Days of cash on hand	355	373	424	392	445
Days of revenue in accounts receivable	49	49	45	46	48
Coverage ratios					
Cash to debt (%)	191.9	183.7	216.1	198.6	249.1
Maximum annual debt service coverage (x)	5.3	6.2	5.7	4.7	8.6
Interest expense coverage (x)	8.2	10.5	8.5	8.2	13.3
Debt to cash flow (x)	4.2	3.5	4.5	4.6	2.8
Leverage ratio					
Debt to capitalization (%)	32.9	33.6	30.7	33.4	27.8
Profitability ratios					
Operating margin (%)	3.0	3.7	2.2	(1.4)	6.0
Operating cash flow margin (%)	10.1	10.9	9.2	6.0	12.3
Excess margin (%)	1.2	16.6	11.3	0.6	16.4
Return on assets (%)	0.6	10.1	6.1	0.3	9.4

NOTES:

Coverage and liquidity ratios are calculated using a 12-month rolling income statement.

Maximum annual debt service coverage is based on the Obligated Group in accordance with the master trust indenture.

OVERVIEW

The Cleveland Clinic Health System (System) is a world-renowned provider of healthcare services that attracted patients from across the United States and from 109 other countries in 2020. As of September 30, 2021, the System operates 19 hospitals with approximately 5,200 staffed beds and is the leading provider of healthcare services in Northeast Ohio. Fourteen of the hospitals are operated in the Northeast Ohio area, anchored by The Cleveland Clinic Foundation (Clinic). The System operates 21 outpatient family health centers, 11 ambulatory surgery centers, as well as numerous physician offices, which are located throughout Northeast Ohio, and specialized cancer centers in Sandusky and Mansfield, Ohio. In Florida, the System operates five hospitals and a clinic located throughout Southeast Florida, outpatient family health centers in Port St. Lucie, Stuart and West Palm Beach, an outpatient family health and ambulatory surgery center in Coral Springs and numerous physician offices located throughout Southeast Florida. In addition, the System operates a health and wellness center and a sports medicine clinic in Toronto, Canada and a specialized neurological clinical center in Las Vegas, Nevada. Pursuant to agreements, the System also provides management services for Ashtabula County Medical Center, located in Ashtabula, Ohio, with approximately 120 staffed beds, and Cleveland Clinic Abu Dhabi, a multispecialty hospital offering critical and acute care services that is part of Mubadala Development Company's network of healthcare facilities located in Abu Dhabi, United Arab Emirates with approximately 364 staffed beds.

In February 2021, the Clinic became the sole member of Mercy Medical Center (Mercy), which was renamed Cleveland Clinic Mercy Hospital. Mercy operates a 337-staffed bed hospital serving Stark, Carroll, Wayne, Holmes and Tuscarawas counties and parts of southeastern Ohio. For a description of Mercy, refer to "CLEVELAND CLINIC MERCY HOSPITAL."

Stephanie Tubbs Jones Health Center
East Cleveland, Ohio

The location of the System's hospitals, its family health centers and its specialized cancer centers in the Northeast Ohio area, including Mercy, which joined the System in February 2021, are identified on the following map:

CLEVELAND CLINIC HEALTH SYSTEM – NORTHEAST OHIO SERVICE AREA AND FACILITIES

HOSPITALS

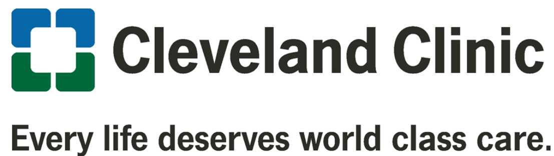
CUYAHOGA
Cleveland Clinic Hospital
Euclid Hospital
Fairview Hospital
Hillcrest Hospital
Lutheran Hospital
Marymount Hospital
South Pointe Hospital
Children's Rehab Hospital
LORAIN
Avon Hospital
MEDINA
Lodi Community Hospital
Medina Hospital
STARK
Mercy Hospital
SUMMIT
Akron General Medical Center
TUSCARAWAS
Union Hospital

Cleveland Clinic Foundation Main Campus

FAMILY HEALTH CENTERS

CUYAHOGA
Cleveland Clinic Beachwood
Cleveland Clinic East Cleveland
Cleveland Clinic Independence
Cleveland Clinic Lakewood
Cleveland Clinic Solon
Cleveland Clinic Strongsville
LORAIN
Cleveland Clinic Amherst
Cleveland Clinic Avon
Cleveland Clinic Avon Lake
Cleveland Clinic Avon Pointe
Cleveland Clinic Elyria
Cleveland Clinic Lorain
Cleveland Clinic Sheffield
MEDINA
Cleveland Clinic Brunswick
SUMMIT
Cleveland Clinic Twinsburg
Akron General Health & Wellness Center – Green
Akron General Health & Wellness Center – North
Akron General Health & Wellness Center - West
GEAUGA
Cleveland Clinic Chagrin Falls
LAKE
Cleveland Clinic Willoughby Hills
WAYNE
Cleveland Clinic Wooster

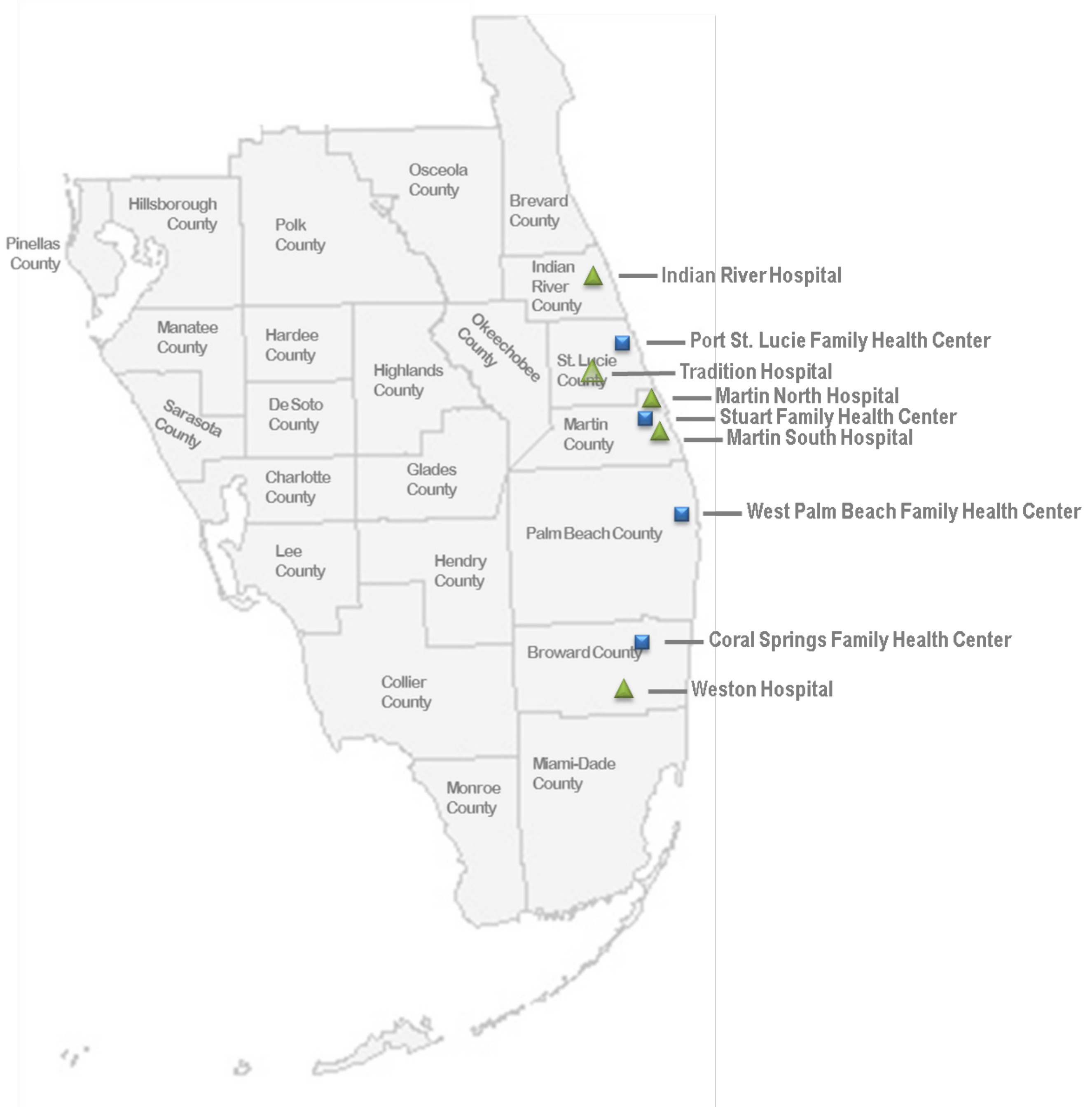
NorthCoast Cancer Center
ERIE
LAKE
GEAUGA
CUYAHOGA
LORAIN
HURON
MEDINA
SUMMIT
PORTAGE
Ohio Cancer Specialists Mansfield
RICHLAND
ASHLAND
WAYNE
STARK
HOLMES
CARROLL
TUSCARAWAS



Every life deserves world class care.

The location of the System's hospitals and family health centers in the Southeast Florida area are identified on the following map:

CLEVELAND CLINIC HEALTH SYSTEM – SOUTHEAST FLORIDA FACILITIES



The following table sets forth the hospitals operated by the obligated issuers and their affiliates, together with each hospital's staffed bed count as of September 30, 2021:

	Staffed Beds
OBLIGATED	
Cleveland Clinic	1,298
Avon Hospital	126
Euclid Hospital	126
Fairview Hospital	498
Hillcrest Hospital	462
Lutheran Hospital	192
Martin North Hospital	244
Martin South Hospital	100
Marymount Hospital	234
Medina Hospital	148
South Pointe Hospital	172
Tradition Hospital	177
Weston Hospital	249
	4,026
NON-OBLIGATED	
Akron General Medical Center	477
Children's Rehabilitation Hospital	25
Indian River Hospital	250
Lodi Hospital	20
Mercy Hospital	337
Union Hospital	77
	1,186
HEALTH SYSTEM	5,212

CORONAVIRUS DISEASE (COVID-19)

On March 11, 2020, the World Health Organization declared the novel coronavirus disease (COVID-19) outbreak a global pandemic. The governors of Ohio and Florida declared a state of emergency for their respective states related to the COVID-19 outbreak on March 9, 2020, and a national state of emergency in the U.S. was declared on March 13, 2020. The System is working with public health partners at all levels to maintain the health and safety of patients, visitors and caregivers to prevent the spread of COVID-19. The System is also providing extensive education to patients on the precautions that have been implemented to keep patients and caregivers safe during their appointments and procedures. Throughout the pandemic the System has remained focused on creating a safe environment for patients and caregivers to ensure the availability of care for early identification of diseases and helping patients in managing chronic diseases.

In November and December 2020, the System experienced a significant increase in the number of hospitalized patients with COVID-19 at its Ohio facilities. In mid-November, in order to continue to provide access to care needed by the community, the System decided to temporarily postpone non-essential surgeries that required a hospital bed at many Ohio hospitals to preserve hospital beds for COVID-19 patients as well as allow for the temporary reassignment of caregiver resources. After experiencing a peak in daily admissions for COVID-19 patients in December, the System decided to resume non-essential surgeries that had previously been postponed beginning January 4, 2021. Although non-essential services resumed, patient levels across the System have not returned to budgeted levels. As a result, the System has implemented initiatives with a focus on improving access to care.

In July and August 2021, the Florida region experienced a surge in COVID-19 patients. Hospitalizations of COVID-19 patients in the State of Florida were higher than at any point during the pandemic. The surge prompted the System to postpone nonemergent procedures that required an overnight stay at Indian River Hospital effective late July and acute-care hospitals of Martin Health effective early August. Weston Hospital evaluated nonemergent care on a case-by-case basis. Indian River Hospital also reduced certain outpatient care services, excluding primary care and cancer treatments, to allow caregivers to support inpatient care during the surge. In early September, the System began lifting the suspension of nonemergent procedures and outpatient care while maintaining certain restrictions to allow for adequate staffing and sufficient bed capacity for COVID-19 and non-COVID-19 patients. The System will continue to monitor bed capacity and caregiver support and will take proactive steps to ensure the safety of patients and caregivers.

Since the beginning of the pandemic, the System has provided care to more than 20,000 COVID-19 patients admitted to its Ohio and Florida facilities. In Ohio, the System has cared for approximately 25% of all patients hospitalized with COVID-19. During the early phase of the pandemic, the System established testing sites in its communities to help slow the spread of COVID-19. The System was one of the first health systems to offer COVID-19 testing when the pandemic began and has performed more than one million tests in its laboratories in Ohio and Florida. Additionally, the System is partnering with Breath Tech Corporation, an Astrotech Corporation subsidiary, to develop a

COVID-19 breath test to rapidly screen for COVID-19 or related indicators.

Throughout the pandemic, the System has been a guiding partner in the safe reopening of businesses and is collaborating with more than 150 organizations, from airlines to hospitality, to share safe practices. The System created the "AtWork" program offering resources to companies and organizations on safely returning to work with expertise in infection prevention, appropriate cleaning and disinfection, managing employee screening and symptoms, keeping employees and customers safe, and maintaining emotional well-being in the workplace. In collaboration with The Clorox Company, the System provided resources on health and safety measures to limit the spread of the virus in everyday life and in the workplace. The System also coordinated a media campaign with more than 100 top hospitals across the U.S. to encourage wearing masks to prevent the spread of COVID-19.

The System has collaborated with other organizations to assist in the treatment of COVID-19 patients. The System partnered with Epic, its electronic health record vendor, to develop and implement a COVID-19 home monitoring program that is available for use by other healthcare organizations across the country. The program is designed to help patients diagnosed with COVID-19 recover in their homes and reduce the risk of a hospital admission through virtual care and daily assessment of symptoms. The System has enrolled more than 45,000 patients since the home monitoring program launched in March 2020. The System is also collaborating with the American Lung Association to disseminate free, comprehensive resources on COVID-19 care for healthcare providers globally. The resources inform best practices to care for critically ill patients in a variety of clinical settings during the COVID-19 pandemic and is hosted in the Clinic's Respiratory and Education Institutes' Comprehensive COVID Care Platform.

Vaccinations of caregivers and patients are being provided in accordance with state and federal guidelines. The System has administered more than 325,000 vaccinations at various vaccination sites in Ohio and Florida and provided storage, transportation and pharmacy oversight for a mass vaccination site at Cleveland State University. Additionally, in April it was announced that the System and the Mayo Clinic are leading a nationwide campaign, "Get the Vaccine to Save Lives," to encourage adults to get vaccinated against COVID-19. In total, 60 top hospitals and healthcare institutions have joined in support of the campaign.

The System has received support under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, including Provider Relief Funds (PRF). The System accounts for PRF payments as contributions that are recognized as revenue when any related conditions have been substantially met. The PRF provides funding from the U.S. Department of Health and Human Services (HHS) to healthcare providers to support healthcare-related expenses or lost revenue attributable to COVID-19. Funds received from the PRF represent payments to providers and do not need to be repaid as long as the System complies with certain terms and conditions imposed by HHS, including reporting and compliance requirements. In April 2021, the System received $162.4 million of PRF payments and recognized the payments in other unrestricted revenues based on the applicable terms and conditions in the second quarter of 2021. The System received $423.3 million in PRF payments in 2020. Additionally, the System submitted claims to the Federal Emergency Management Association (FEMA) to reimburse costs related to the System's response to the COVID-19 pandemic. The System has recognized $5.6 million of FEMA grant revenue

in other unrestricted revenues in the first nine months of 2021. The System recognized $67.2 million of FEMA grant revenue in 2020.

In response to the continued spread of COVID-19, President Biden announced a COVID-19 Action Plan in September 2021 that, among other things, would require employers with one hundred or more employees to require their employees to get the COVID-19 vaccine or undergo weekly testing pursuant to a new Emergency Temporary Standard ("ETS") of the Occupational Safety and Health Administration and also require vaccination for federal workers and contractors, as well as health care workers in hospitals, nursing facilities, and other institutions that receive Medicare and Medicaid reimbursement. On November 5, 2021, the Centers for Medicare & Medicaid Services (CMS) and the Occupational Safety and Health Administration (OSHA) released federal mandates related to the President's plan. The CMS rules include federal preemption language and provide that its rules supersede other federal vaccination related rules/requirements, including the OSHA vaccine ETS. The System announced on November 12, 2021 its plan to comply with the CMS rules, including a policy describing its vaccine mandate for all employed caregivers, students, volunteers, contractors, vendors and independent licensed practitioners (collectively, "caregivers"). The policy requires documentation of receipt of at least a single dose of the COVID-19 vaccine or first dose of a multi-dose COVID-19 vaccine series by December 6, 2021, and that all caregivers be fully vaccinated by January 4, 2022. The System has also implemented a process by which to consider exemptions and reasonable accommodations for those caregivers who are unable to receive the COVID-19 vaccine due to medical contraindications or firmly held religious beliefs, observances or practices. The System also has established a recordkeeping process to track the vaccine status of all caregivers and any approved exemptions and accommodations, including how any accommodations will mitigate against the transmission and spread of COVID-19. CMS will monitor compliance through its established survey and enforcement processes. It is anticipated that, if a covered entity does not meet the CMS requirements, it will first be cited as noncompliant and have an opportunity to comply before more onerous action is taken, which could include financial penalties or the termination of the Medicare/Medicaid provider agreement. There is currently a legal challenge to the CMS rule pending in the Eastern District of Missouri.

The COVID-19 pandemic has presented financial challenges for the System. The System continues to incur incremental supply costs and other expenditures for COVID-19 preparedness in an effort to provide safe and effective patient care. Where appropriate, the System has taken measures to reduce costs and expenditures, including restricting travel, reducing purchased/administrative service expenses and other controllable costs and postponing certain capital expenditures. The System is continually monitoring its forecasted operating performance and liquidity position and is assessing the financial impact of COVID-19 on its operations using various scenarios and assumptions to ensure that there is sufficient liquidity during the pandemic. The System has taken, and continues to take, actions to mitigate the effect of the pandemic on its financial condition and results of operations; however, the outcome and ultimate effect of the pandemic on the System's consolidated financial statements cannot be determined at this time.

AWARDS & RECOGNITION

The Clinic was ranked as the second best hospital in the United States by *U.S. News and World Report* in its 2021-2022 edition of "America's Best Hospitals." For the past 23 years, the Clinic has been ranked among the top five hospitals in the United States. The Clinic's Heart and Vascular Institute, located on the Clinic's main campus, was recognized as the best cardiology and heart surgery program in the United States, an honor the Clinic has received annually for 27 consecutive years. The Clinic was nationally ranked in 13 specialties, including 11 in the top ten nationwide, and is one of just 20 hospitals to earn a place on the *U.S. News'* 2021-2022 Honor Roll. The following table summarizes the Clinic's national rankings by medical specialty:

2021-22 U.S. NEWS & WORLD REPORT RANKINGS

BEST HOSPITALS
U.S.News & WORLD REPORT
HONOR ROLL
2021-22

In the "HONOR ROLL"	
Cleveland Clinic	2nd
Ranked No. 1	
Cardiology & Heart Surgery	1st
In America's Top 10	
Geriatrics	2nd
Rheumatology	2nd
Urology	2nd
Gastroenterology & GI Surgery	3rd
Gynecology	3rd
Cancer	5th
Pulmonology & Lung Surgery	5th
Neurology & Neurosurgery	7th
Orthopedics	7th
Ophthalmology	10th
In America's Top 25	
Diabetes & Endocrinology	13th
Ear, Nose & Throat	22nd

Other System hospitals also received national recognition from *U.S. News and World Report*. Hospitals that received national rankings included the following: Fairview Hospital ranked 31st (tie) in orthopedics and 40th in neurology and neurosurgery; Hillcrest Hospital ranked 41st in cardiology and heart surgery, 43rd in gastroenterology and GI surgery and 43rd (tie) in neurology and neurosurgery; and Weston Hospital ranked 33rd in gastroenterology and GI surgery.

Cleveland Clinic Children's Hospital located on the Clinic's main campus ranked as one of the top pediatric hospitals in the country. The Children's Hospital earned national recognition in ten out of ten medical specialties ranked by *U.S. News and World Report* in its 2021-2022 edition of "Best Children's Hospitals." The following table summarizes the Clinic's national rankings by pediatric specialty:

2021-22 U.S. NEWS & WORLD REPORT RANKINGS

Pediatric Ranking by Specialty

Specialty	Rank
Gastroenterology & GI Surgery	13th
Neonatology	14th
Cardiology & Heart Surgery	16th
Cancer	18th
Urology	22nd
Neurology & Neurosurgery	27th
Orthopedics	29th
Nephrology	33rd
Pulmonology	35th
Diabetes & Endocrinology	43rd

The publication also evaluated hospitals by state and metropolitan area with a methodology similar to that used to determine the national rankings. The Clinic was ranked as the best hospital in both the State of Ohio and the Cleveland metropolitan area, which includes the City of Cleveland and its surrounding counties. The report also ranked two additional System hospitals in the top hospitals in the Cleveland metropolitan area and Ohio: Hillcrest Hospital ranked third in the Cleveland metropolitan area and fourth (tie) in Ohio; and Fairview Hospital ranked fourth in the Cleveland metropolitan area and sixth in Ohio. Akron General Medical Center, located in Summit County, was ranked first in the Akron metropolitan area and seventh in the State of Ohio. In Florida, Weston Hospital was ranked first in the Miami-Fort Lauderdale metro area and fifth in the State of Florida; Martin Health ranked 25th (tie) in the State of Florida; and Indian River Hospital ranked 31st (tie) in the State of Florida.

In March 2021, the Clinic was again named the second best hospital in the world by *Newsweek* as part of its "World's Best Hospitals 2021" list. *Newsweek* partnered with global research data company Statista Inc. to rank the leading hospitals in 25 countries. According to *Newsweek,* its rankings are based on three broad categories including recommendations

from more than 74,000 medical experts, doctors, hospital managers, and healthcare professionals; key hospital performance indicators, including mortality rates, patient safety, readmission rates, staffing levels, efficient use of medical imaging and effectiveness and timeliness of care; and patient satisfaction data, including general satisfaction with a hospital, recommendation of a hospital, satisfaction with medical care and satisfaction with service and organizations. Fairview Hospital was ranked in the top 200 hospitals internationally, and the System had five other hospitals listed among the best hospitals nationwide.

In September 2021, the Clinic was recognized as the number two hospital in the world for specialized care and the number one hospital in the world for cardiac surgery in *Newsweek's* "World's Best Specialized Hospitals of 2022." Since 2019 *Newsweek* has partnered with Statista Inc. to rank the world's best hospitals. The Clinic ranked among the world's best in all ten categories including cardiac surgery, cardiology, endocrinology, gastroenterology, neurology, neurosurgery, oncology, orthopedics, pediatrics and pulmonology. In addition to the Clinic's main campus, Cleveland Clinic Florida and Cleveland Clinic Fairview Hospital also were recognized among the world's best specialized hospitals. *Newsweek* and Statista invited more than 40,000 medical experts to participate in surveys to recommend and assess various hospitals within their respective specializations. Survey results were validated by a global board of medical experts.

In June 2021, the System was recognized as the number three hospital in the world on *Newsweek's* "World's Best Smart Hospitals" 2021 list. *Newsweek* partnered with data firm Statista to develop a list of 250 hospitals worldwide that best use some of the most advanced technologies. The list features hospitals that lead in their use of artificial intelligence, robotic surgery, digital imaging, telemedicine, smart buildings, information technology infrastructure and electronic medical records. Hospitals were ranked using feedback from more than 13,000 international hospital managers and healthcare professionals with backgrounds in healthcare technology as well as research conducted by Statista.

For the ninth consecutive year, the Clinic has been recognized as one of the World's Most Ethical Companies. The Clinic is one of just seven healthcare providers worldwide on the 2021 list by the Ethisphere Institute, which describes itself as "advancing the standards of ethical business practices that fuel corporate character, marketplace trust and business success." The 2021 list of the World's Most Ethical Companies includes 135 organizations from 22 countries and 47 industries. The Clinic, which earned its first Ethisphere ranking in 2009, has established itself as an industry leader through its strong ethics and compliance program and a variety of innovative initiatives that demonstrate its commitment to patients, caregivers and the community. Ethisphere develops its list of most ethical companies based on culture, diversity, governance, environmental and social practices, as well as ethics and compliance activities.

In February 2021, the American College of Emergency Physicians (ACEP) awarded the Clinic's main campus Emergency Department a Level 1 Geriatric Emergency Department Accreditation (GEDA). The Clinic is one of only three hospitals in the State of Ohio to achieve Level 1 accreditation. Only 13 U.S. hospitals have achieved this gold-level status. Launched in 2014, the GEDA program aims to improve and standardize emergency care of older, high-risk adults and is acknowledged by three levels of accreditation. To achieve Level 1 status, hospitals must meet more than two dozen requirements and best practices related to

providing quality care for geriatric patients, including enhanced staffing and education, geriatric-focused policies and procedures, continuous quality improvement, outcome measures and ensuring continuity of care. Additionally, in July Avon Hospital's Geriatric Emergency Department was awarded Level 2 GEDA. With this most recent addition, the System now has 13 locations awarded with GEDA.

In June 2021, Marymount Hospital received Magnet recognition from the American Nurses Credentialing Center (ANCC), which is the highest honor an organization can receive for professional nursing practice. In October 2021, Lutheran Hospital also received Magnet recognition. With these achievements, Marymount and Lutheran Hospitals join a select group of more than 500 healthcare institutions worldwide that have been recognized with this credential, with only about 40 located in Ohio. Marymount was recognized with nine exemplars for outstanding work in the following areas: satisfaction and engagement rates; nursing quality outperformance inpatient setting; nursing quality outperformance ambulatory setting; patient satisfaction ambulatory; innovation; and technology involvement. Lutheran was recognized with seven exemplars for outstanding work in the following areas: nursing quality outperformance inpatient setting; quality outperformance ambulatory setting; and patient satisfaction ambulatory. To achieve Magnet recognition, organizations go through an extensive review and systematic evaluation of their nursing practices by the ANCC against numerous quantitative and qualitative standards that represent excellence in nursing services, clinical outcomes and patient care delivery. With the recognition of Marymount and Lutheran Hospitals, the System now has seven hospitals that have earned Magnet designation.

For a second consecutive term, the System was awarded "Accreditation with Excellence" in July 2021 for its medical travel services by Global Healthcare Accreditation (GHA). GHA has developed international standards and professional norms for medical travel in consultation with leading global experts in the industries it represents, including health providers, insurers, and employers. The GHA accreditation seal helps build trust by demonstrating to patients and international payors that the organization has implemented procedures and policies designed to mitigate risks to medical travel patients and enhance the patient experience.

In February 2021, it was announced that the System was recognized by *Forbes* and market researcher Statista as one of "America's Best Large Employers of 2021." The System was ranked 78 in a list of top 500 employers. The selection was based on an independent survey of 50,000 employees in 25 different industries working for companies with at least 1,000 people employed in their U.S. locations. In August, *Forbes* named the System a top Ohio employer in its annual list of America's Best Employers by State. Results were based on surveys of 80,000 U.S. employees working for businesses with at least 500 employees. Participants were asked to reflect on aspects of their work experience such as diversity, salary, working conditions and potential for growth.

In February 2021, the System was recognized by Top Workplaces USA 2021. This award celebrates nationally recognized companies that make the world a better place to work together by prioritizing a people-centered culture and giving employees a voice. Award winners are based on opinions provided by employees in a confidential questionnaire on the workplace experience.

The System was recognized by *The Plain Dealer* newspaper as one of Northeast Ohio's top workplaces for 2021, ranking sixteenth in the category for large local employers. This list is based on employee feedback gathered through an anonymous survey administered by a third-party research partner. This is the System's ninth time on this list.

The Clinic was recognized by ERC, a regional human resources organization, as a recipient of the NorthCoast99 Award for the 16th time. The award recognizes organizations for attracting, developing and retaining top talent based on the results of an anonymous survey sent to randomly selected caregivers earlier this year.

FINANCING DEVELOPMENTS

In July 2021, pursuant to certain agreements between the System and the State of Ohio (State) acting by and through the Ohio Higher Educational Facility Commission, the State issued $83.8 million of fixed-rate State of Ohio Hospital Revenue Bonds (Series 2021A Bonds) for the benefit of the System. At the same time, the State also entered into a Forward Delivery Contract of Purchase related to $198.3 million of fixed-rate State of Ohio Hospital Revenue Refunding Bonds (Series 2021B Bonds) for the benefit of the System. The Series 2021B bonds were settled and delivered on October 5, 2021. Proceeds from the issuance of the Series 2021A Bonds were used for the purpose of financing a portion of the costs of the System's acquisition of the sole membership interest in Cleveland Clinic Mercy Hospital and pay the cost of issuance. Proceeds from the issuance of the Series 2021B Bonds were used to refund a portion of the Series 2012A Bonds and pay the cost of issuance. The long-term rating assigned to both series of bonds by Moody's Investors Service (Moody's) and Standard and Poor's (S&P) were Aa2 and AA, respectively.

In the second quarter of 2020, the System obtained operating lines of credit with six financial institutions totaling $650 million to further enhance its liquidity position. Each of the lines matured within one year and bore interest at LIBOR plus an applicable spread. In February 2021, the System drew $26.5 million on one line of credit to refinance debt that was assumed in the Mercy member substitution transaction. In the second quarter of 2021, four of the lines totaling $425 million expired or were terminated. Also in the second quarter of 2021, one of the remaining existing lines was increased to $150 million and extended for three years, and the other line was increased to $150 million and extended for two years. The System paid the full amount drawn on the line of credit in July 2021. As of September 30, 2021, the System has two operating lines of credit totaling $300 million with no amounts drawn and $300 million in available capacity.

In January 2021, the System entered into a taxable term loan agreement with a financial institution for $64.7 million. The proceeds of the taxable term loan were used to refund all of the remaining outstanding Series 2011A Bonds.

In July 2021, S&P affirmed its AA rating on the obligated group's outstanding debt and maintained its stable outlook. S&P cited various reasons to support the rating, including a unique and very strong enterprise profile, growing and diversifying operations in three states and internationally, healthy unrestricted reserves, a commitment and focus on leveraging technology for clinical and operating improvement and an effective leadership team that has consistently

executed its strategic plans. S&P also noted that the System has strong research and philanthropy capabilities as well as a national and international reputation for quality and innovative services. Challenges to the current rating include Northeast Ohio's unfavorable demographic trends, the System's robust capital spending program and a highly competitive service area in Ohio and Florida.

In July 2021, Moody's affirmed its Aa2 rating on the obligated group's outstanding debt and maintained its stable outlook. Moody's cited various factors to support this rating and outlook, including an international brand, a centralized and integrated governance structure, strong liquidity with sustained good operating cashflow margins and exceptional fundraising abilities. In its report, Moody's indicated that these strengths compensate for challenges such as the impact of the pandemic on patient volumes, moderately high debt levels, execution risks of multiple strategies related to the London expansion and ongoing integration of Florida acquisitions and competition in the constrained northeast Ohio market and in Florida.

CORPORATE GOVERNANCE

The Board of Directors of the Clinic is responsible for all of its operations and affairs and controls its property. The Board of Directors is also responsible for ensuring that the Clinic is organized, and at all times operated, consistent with its charitable mission and its status as an Ohio nonprofit corporation and tax-exempt charitable organization. The Board of Directors generally meets five times per year, including an annual meeting during which the Clinic's officers are elected and standing committees are appointed. The size of the Board of Directors can range between 15 to 30 Directors (currently there are 29 Directors). The Board of Trustees serves as an advisor to the Board of Directors. Trustees actively serve on the committees of the Board of Directors. At present, there are 74 active Trustees, eight Professional Staff Trustees and 12 Emeritus Trustees. Directors and Trustees each serve four-year terms and are selected on the basis of their expertise and experience in a variety of areas beneficial to the Clinic. Directors and Trustees are not compensated for their service.

Beachwood Family Health and Surgery Center
Beachwood, Ohio

The Board of Directors annually appoints certain committees to perform duties that it delegates to them from time to time, subject to ratification of such action by the Board of Directors. The current committees are as follows:

Members of the Committees are chosen based on the interests and skills of individual Board members and the needs of the particular Committee. Most Committees meet three or four times per year, though a few (such as the Audit Committee) meet five or six times per year. Board members also have the opportunity to participate in regular discussions on Safety, Quality and Patient Experience, Research and Education, Community Relations and Government Relations. The Governance Committee is authorized to function as an Executive Committee and has met on a regular basis during the COVID-19 pandemic. The Clinic is engaging in an ongoing review of its governance practices, as well as those of other top academic medical centers, to ensure the Clinic's governance structures function at a high level.

The System maintains a governance model for the Ohio regional hospitals that provides for regional hospital representation on the Clinic's Board of Directors while also maintaining separate boards of trustees for each hospital. The Ohio regional hospital boards meet quarterly and, among other topics, provide local input on quality and patient safety and community health needs. Each Ohio regional hospital has a president, all of whom report to the President of the Ohio Hospitals and Family Health Centers.

Concurrently with Martin Memorial Health Systems, Inc. (Martin Health) and Indian River Memorial Hospital (Indian River Hospital) joining the System in 2019, the System established a separate Board of Directors to oversee the Florida hospitals. This Board of Directors has representatives from the Clinic Board of Directors and each of the Florida hospitals. Boards have also been maintained at Martin Health and Indian River Hospital to provide local input on quality and patient safety and community health needs. A new board of trustees has been created for Weston Hospital to provide local input on quality and patient safety and community health needs.

APPOINTMENTS

Beri Ridgeway, MD, was appointed Chief of Staff effective January 1, 2021. She succeeded Herbert Wiedemann, MD, who served as Chief of Staff since 2018. Dr. Ridgeway joined the Clinic in 2009 as a staff physician in the Department of Obstetrics and Gynecology. She led the Women's Health Institute for more than two years and was named Associate Chief of Staff in 2019.

Timothy Crone, MD was appointed President of Cleveland Clinic Mercy Hospital effective February 2021. Dr. Crone most recently served as Chief Medical Officer at Cleveland Clinic Hillcrest Hospital. He has been a staff hospitalist at the Clinic since 2010 and is an Assistant Professor of Medicine at Cleveland Clinic Lerner College of Medicine. He will continue as a practicing clinician and educator in his new role.

Timothy Barnett, MD was appointed President of Cleveland Clinic Lutheran Hospital effective in February 2021. Dr. Barnett most recently served as Chief Medical Officer at Cleveland Clinic Fairview Hospital. He held several other leadership roles during his tenure at Fairview Hospital, including Chair of the Department of Surgery, Trauma Medical Director, and Medical Director of Fairview Hospital Ambulatory Surgery Center. Dr. Barnett is also an assistant professor of surgery at the Cleveland Clinic Lerner College of Medicine.

Jim Cotelingam was appointed Chief Strategy Officer effective August 2021. Mr. Cotelingam will lead the enterprise Strategy Office team that is responsible for setting growth plans for the System. Mr. Cotelingam joined the System in 2019 as the Executive Director of Strategy and has served as interim Chief Strategy Officer since February 2021.Prior to joining the System, he was the Senior Vice President of Strategy at Trinity Health.

Madhu Sasidhar, MD was appointed President of Cleveland Clinic Tradition Hospital effective September 2021. Dr. Sasidhar most recently served as Chief Medical Officer, Cleveland Clinic Abu Dhabi (CCAD). During his tenure, CCAD experienced growing outpatient and surgical volume as well as increasing hospital transfers to CCAD. He also chaired the hospital's COVID-19 Task Force. Prior to joining CCAD, he served as Section Head, Enterprise Respiratory Care, Respiratory Institute at the Cleveland Clinic main campus. Dr. Sasidhar has been a member of the Clinic's professional staff as a practicing pulmonologist since 2008.

Rishi Singh, MD was appointed President of Cleveland Clinic Martin North and South Hospitals effective January 1, 2022. Dr. Singh most recently served as a staff physician at the Cole Eye Institute and Professor of Ophthalmology at the Cleveland Clinic Lerner College of Medicine. He currently serves on the Board of Governors for Cleveland Clinic and is the executive physician champion for documentation excellence for Ohio.

EXPANSION AND IMPROVEMENT PROJECTS

Due to the anticipated long-term growth in the demand for services and the desire to continually upgrade medical facilities, the System is investing in buildings, equipment and technology to better serve its patients.

The System has the following expansion and improvement projects currently in progress:

Cleveland Clinic London Hospital – In 2017, the Clinic began converting a building in London, England from office space into an eight-story, 324,000 square-foot advanced healthcare facility with approximately 184 beds and eight operating theatres that will bring the Clinic's model of care to the United Kingdom. In October 2019, the building's final external construction piece was put into place. Construction on the facility slowed due to COVID-19 and social distancing restrictions imposed by the UK government. However, construction is nearing completion and the hospital is expected to open in January 2022. A separate outpatient clinic located near the hospital opened in September 2021. For a description of the London Hospital initiative, refer to "INTERNATIONAL GROWTH." The System through a UK subsidiary entered into a private placement agreement in August 2018 to repay a term loan that was used to finance the acquisition costs and to fund a portion of the construction and conversion costs of the facility.

Neurological Institute Building – In July 2019, the Clinic announced plans to build a new Neurological Institute building on its main campus to accommodate the expansion of patient care, research and education. The new facility for the Neurological Institute is a proposed building that will centralize all neurological care on the main campus, bringing together services currently delivered in eight locations. Services are expected to include digitized patient evaluations, imaging, neuro-simulation training, infusion therapy, neurodiagnostics and brain-mapping suites. The facility will also include research space dedicated to investigating new therapies and will serve as the nucleus for neurology-related distance healthcare and digitized data processing and management. The System is re-evaluating the scope and timeline for this project due to the COVID-19 pandemic. A portion of the construction costs are expected to be raised through fundraising efforts and donations.

Cole Eye Institute Expansion – In July 2019, the Clinic announced plans to expand the Cole Eye Institute on its main campus to accommodate the expansion of patient care, research and education. The expansion of the Cole Eye Institute, which has grown significantly over the last ten years, includes adding more than 100,000 square feet to the existing building to accommodate growing patient eye care and research needs. The new addition will feature an ophthalmic surgical center with operating rooms and new exam rooms, a new Center of Excellence in Ophthalmic Imaging, an expanded simulation center for education and training of residents and fellows and an ophthalmic research center to promote eye research, as well as consolidation of multiple ophthalmology research labs currently housed at different locations. The System is re-evaluating the

scope and timeline for this project due to the COVID-19 pandemic. A portion of the construction costs are expected to be raised through fundraising efforts and donations.

Mentor Hospital – In February 2019, the Clinic announced plans to build a small hospital on 47 acres of vacant land in Lake County, Ohio. The hospital is expected to offer both inpatient and outpatient services including 34 inpatient beds, an emergency department, outpatient exam and procedure rooms, lab and imaging services. In 2020, the Mentor Hospital project was paused due to the COVID-19 pandemic and the need to preserve resources for patients, caregivers and the community. However, the project has recently resumed with construction beginning in September 2021, and the hospital expected to open in 2023.

Hillcrest Hospital Cancer Center Expansion – In August 2021, construction began on a new 10,600 square foot addition to the hospital's existing cancer center that will be called the Lozick Cancer Pavilion in recognition of a significant donation form the Lozick Family Foundation. The new pavilion will incorporate a home-like healing environment centered on the patient experience, similar to the Taussig Cancer Center on the Clinic's main campus. Design features include abundant natural light, views of green space, natural elements and specially selected artwork. Construction is expected to be completed in the summer of 2023, and all hospital and cancer center services will continue to be provided during construction.

PHILANTHROPY CAMPAIGN

The Clinic is currently in the final year of "The Power of Every One" philanthropic campaign. The campaign was publicly launched in 2014 with a goal of raising $2 billion by the Clinic's 100th anniversary in 2021. The campaign, which concludes at the end of 2021, will enable the Clinic to transform patient care, promote health, advance research and innovation, train caregivers and revitalize facilities through new construction and renovation of existing buildings. As of September 30, 2021, the Clinic has received pledges, cash and other assets of approximately $2.4 billion for the campaign.

The campaign is divided into four categories: promoting health ($800 million), advancing discovery ($700 million), training caregivers ($400 million) and transforming care ($100 million). Promoting health will focus on improving patient experience and supporting construction and renovation projects, renovation of vacated space, new facilities in Florida and other building projects at its Northeast Ohio hospitals and family health centers. Training caregivers will support scholarships, training programs and the construction of the health education campus in collaboration with CWRU. Advancing discovery will support translational, basic science and clinical research as well as endowed chairs. Transforming care will support the development of new care delivery models, personalized therapies and information technology.

CLEVELAND CLINIC INNOVATIONS

Cleveland Clinic Innovations (CCI) encompasses all commercial innovation, start-up company investments, licensing and medical technology partnership opportunities for the System. CCI moves the System toward its vision of being the best place to receive and partner for care through its focus on novel solutions. As one of the System's six core values, innovation allows the System to seek better and more efficient ways to achieve healthcare goals.

CCI identifies, assesses and commercializes transformative solutions via an innovative operating model. It focuses on three domain portfolios—life science, medical device and health information technology— and employs a unique approach to assess, protect, build, test and market the most promising ideas of System caregivers. Since its inception in 2000, CCI has transacted more than 750 technology licenses, issued nearly 2,250 patents and has contributed to a number of the System's historical advancements.

A dedicated team in CCI invests in companies that address organizational priorities and healthcare white space opportunities to resolve pressing medical problems. The team grows strategic licensed and patented solutions out of the System into investible, standalone companies. Through the first half of 2021, the team guided the formation of two new spin-off companies, while overseeing over $11.6 million in investments across five companies. Since 2000, CCI has formed a total of 100 spin-off companies, 35 of which are currently operational, with an additional 23 monetized.

CCI's sales and partnerships team combines the strength of the Clinic's brand recognition with the expertise of internal and external stakeholders to accelerate technology deployment. Partnerships are formed through opportunities in co-development, co-investment and shared risk and returns while creating diversification in the System's revenue stream.

CCI operates the 50,000-square-foot Cleveland Clinic Incubator on the Clinic's main campus, which is home to the department and approximately 30 health technology companies.

AFFILIATIONS AND PARTNERSHIPS

The Clinic has entered into various affiliations with national and regional partners that are seeking to improve clinical quality, patient care, medical education and research. The goal of clinical affiliations is to provide value-added, high-quality clinical care to patients through the support, expansion and development of Institute-driven integrated care strategies. In addition, the Clinic has partnered with educational institutions with the goal of improving medical education and research.

In January, the Clinic, the State of Ohio, JobsOhio and the Ohio Development Services Agency announced a partnership to support the Clinic's Global Center for Pathogen Research and Human Health (Center). The Center allows the Clinic to significantly expand its global commitment to infectious disease research and translational programs and brings together a research team focused on broadening the understanding of viral pathogens, virus-induced cancers, genomics, immunology and immunotherapies. The State of

Ohio and JobsOhio will invest $200 million to help launch the Center, and the Clinic plans an additional $300 million as a co-investment to fuel discoveries in its research facilities. The Center will be designed to create new start-up technology companies, attract world-leading corporations to Ohio and generate an estimated 1,000 new jobs at the Clinic by 2029. The Clinic has already filled 300 new jobs as part of this initiative.

This support for the Center is part of the creation of the Cleveland Innovation District (District), which will include the Clinic, University Hospitals Health System, The MetroHealth System, Case Western Reserve University and Cleveland State University. The purpose of the District is to be a center of excellence to act as a catalyst for ongoing investment in Northeast Ohio, including the attraction of businesses and talent.

In March 2021, the Clinic and IBM announced a planned 10-year partnership to establish the Discovery Accelerator, a joint Cleveland Clinic – IBM center with the mission of fundamentally advancing the pace of discovery in healthcare and life sciences through the use of high performance computing on the hybrid cloud, artificial intelligence and quantum computing technologies. The collaboration is anticipated to build a robust research and clinical infrastructure to empower big data medical research in ethical, privacy preserving ways, discoveries for patient care and novel approaches to public health threats such as the COVID-19 pandemic. Through the Discovery Accelerator, the Clinic and IBM researchers will use advanced computational technology to create and analyze data that supports the System's Global Center for Pathogen Research and Human Health in areas such as genomics, single cell transcriptomics, population health, clinical applications and chemical and drug discovery. As part of the collaboration, IBM plans to install its first private sector, on-premises IBM Quantum System One in the United States, to be located on the Clinic's main campus. IBM also plans to install the first of its next-generation 1,000+ qubit quantum systems at a client facility, also to be located on the Clinic's main campus, in the coming years. This quantum program will be designed to actively engage with universities, government, industry, startups and other relevant organizations. It will leverage the Clinic's global enterprise to serve as the foundation of a new quantum ecosystem for life sciences, focused on advancing quantum skills and the mission of the center. A significant pillar of the program plans to focus on educating the workforce of the future and creating jobs to grow the economy. The 10-year collaboration plans to include education and workforce development opportunities related to quantum computing.

In August 2021, the Clinic and the Alice L. Walton Foundation announced a joint initiative to identify ways of providing access to the Clinic's specialty care services to residents in Northwest Arkansas. The organizations will assess specialty care needs in the region and develop recommendations for healthcare solutions to best meet those needs.

COMMERCIAL INSURANCE ARRANGEMENTS

In 2021 the System notified United Healthcare of its intent to renegotiate and consolidate various contracts between the organizations that were originally scheduled to expire during 2021. In the event that negotiations did not come to a successful resolution, certain System contracts with United Healthcare would have terminated and the System would not have

been an in-network provider under the impacted agreements for those United Healthcare members. In October, the System and United Healthcare reached an agreement that allows patients to continue to receive in-network coverage with United Healthcare's Medicare Advantage, Medicaid and employer-sponsored plans in Ohio, Florida and Nevada. United Healthcare accounted for approximately 11% of net patient service revenue of the Health System for the year ended December 31, 2020.

AKRON GENERAL HEALTH SYSTEM

The Clinic became the sole member of Akron General Health System (Akron General) in November 2015. During the operational integration process in early 2016, a compliance review conducted by the System of contractual relationships between Akron General and its independent physician practice groups identified a few physician contracts that were potentially non-compliant with the Federal Anti-Kickback Statute and the Limitations on Certain Physician Referrals regulation (commonly referred to as the Stark Law). Any noncompliance may have resulted in false claims to federal and/or state healthcare programs beginning in 2010 and could have resulted in liability of Akron General under the Federal Anti-Kickback Statute, Stark Law, False Claims Act and/or other laws and regulations. The System voluntarily disclosed its concerns about these physician arrangements to the U.S. Department of Justice (DOJ) in May 2016. Akron General and the System produced information to, engaged in discussions with, and cooperated with the DOJ and related government authorities in connection with this matter.

Corrective actions have been taken by Akron General related to all of the physician arrangements at issue, and the Clinic has implemented its compliance programs at Akron General. Discussions with the DOJ and related government authorities about the physician arrangements resulted in a settlement agreement pursuant to which Akron General agreed to pay a total settlement of approximately $22 million, which was within existing reserves established for the matter.

CLEVELAND CLINIC MERCY HOSPITAL

On February 1, 2021, the Clinic became the sole member of Mercy pursuant to the terms of a member substitution agreement with The Sisters of Charity of St. Augustine Health System, the prior sole member of Mercy. Mercy is a 337-staffed bed hospital serving Stark, Carroll, Wayne, Holmes and Tuscarawas counties and parts of southeastern Ohio. It has approximately 2,800 caregivers and 620 members on its medical staff. Mercy will maintain its Catholic identity through sponsorship by the Sisters of Charity of St. Augustine.

Becoming a full member of the System is expected to result in many benefits, including expanding high-quality services, improving technology, providing support and investment to address additional needs in the community, building opportunities for physician collaboration and increasing access to highly specialized

services for patients in Stark County and surrounding communities. All services at Mercy, including COVID-19 response, will proceed without interruption during the transition period.

INTERNATIONAL GROWTH

In October 2015, the Clinic through a subsidiary acquired all of the share capital of 33 Grosvenor Place Limited (Grosvenor Place). Grosvenor Place is a limited liability company existing under Luxembourg law and a private company incorporated under Jersey law that has a long-term leasehold interest in a building in London, England. In January 2017, regulatory approvals were received to convert the building from office space into an approximately 184-bed hospital that will bring the Clinic's model of care to the United Kingdom. For a description of the London hospital project, refer to "EXPANSION AND IMPROVEMENT PROJECTS." A Chief Executive Officer for Cleveland Clinic London was appointed in 2018, and senior leadership positions have been filled. The local leadership team is in the process of connecting with local physicians and third-party payors, recruiting additional staff and finalizing operational strategies in preparation for the hospital opening. In September 2021, Cleveland Clinic London opened an outpatient facility located near the hospital.

In addition to the London project, the System operates a health and wellness center and a sports medicine clinic in Toronto, Canada, and provides management services to Cleveland Clinic Abu Dhabi, a multispecialty 364-staffed bed hospital offering critical and acute care services that opened in March 2015.

In April 2019, Cleveland Clinic Abu Dhabi broke ground on a new six-story cancer treatment center that will be constructed adjacent to the existing hospital tower. The center will be modeled after the Clinic's Taussig Cancer Center and will expand the range of cancer treatments available with centralized oncology services providing dedicated clinical practice areas for advanced imaging, infusion, radiation, and chemotherapy, as well as a connection to the hospital's surgical areas.

In 2017, the Clinic established Cleveland Clinic Connected, a global affiliation program that aims to improve patient care delivery around the world by enabling international healthcare providers to access the Clinic's best practices. The Clinic entered into its first Cleveland Clinic Connected relationship with Luye Medical Group to collaborate on the development of Shanghai Luye Lilan Hospital in the Shanghai New Hong Qiao International Medical Center currently under construction in Shanghai, China. The hospital, which will be owned and operated by Luye Medical Group, is expected to open in 2026. Patients will experience the Clinic model of care through the Clinic's collaboration and guidance in the areas of quality, patient safety and best practices for patient care and engagement. Patients at the facilities have the option of receiving distance health and second opinions from the Clinic, and physicians at the facilities have access to clinical and executive education opportunities aimed at improving healthcare delivery. The Clinic will also support continuous improvement through the provision of advisory services across a spectrum of clinical and non-clinical areas.

These international activities have increased the diversity of the System's healthcare operations while promoting the Clinic's clinical expertise in new markets.

STRATEGY

In January 2021, as the Clinic celebrates its centennial year, CEO and President, Tomislav Mihaljevic, M.D., unveiled a new mission statement:

Caring for life
Researching for health
Educating those who serve

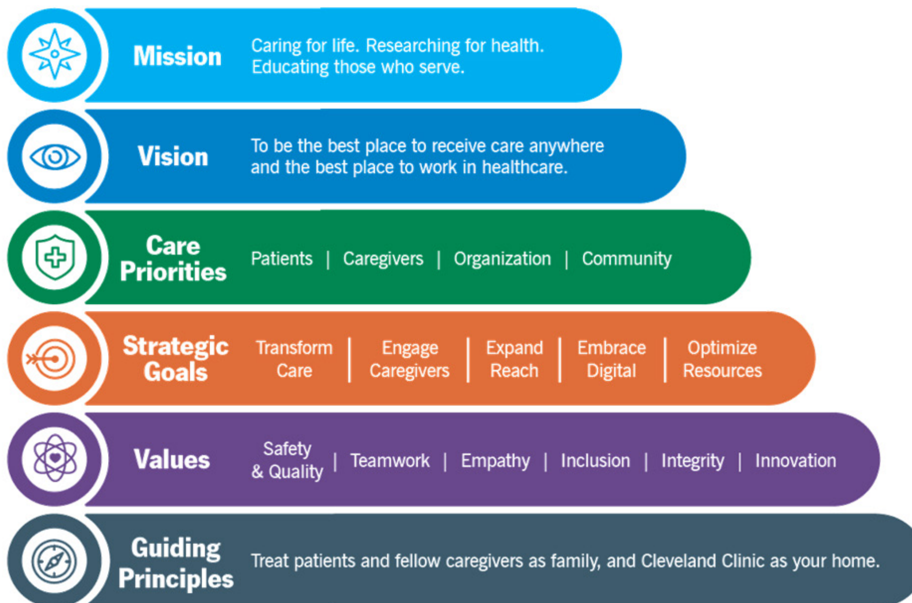
During the annual State of the Clinic address, Dr. Mihaljevic explained the new mission statement stays true to the past, encompasses the present and outlines the future of the organization. The Clinic's previous mission statement was "To provide better care for the sick, investigation into their problems and further education of those who serve."

The COVID-19 pandemic has been an evolving situation that has significantly affected the global economy and the healthcare industry. The System continues to monitor the situation and remains committed to providing exceptional patient care while ensuring the safety of its patients, visitors and caregivers. Refer to "CORONAVIRUS DISEASE (COVID-19)" for information on the System's current efforts and strategies related to COVID-19.

The healthcare industry sits at the intersection of economic pressure, insurance reform, technological breakthroughs and demographic shifts. COVID-19 has caused further industry disruption by affecting the economy, payor environment, care delivery, health policy and the workforce. The following are anticipated changes as a result of COVID-19:

- There will be significant cost pressure in the payor environment due to decreased commercial insurance and increased reliance on government programs. Payors will rely on narrow or high-performance networks and/or cost-shifting to consumers.
- In many cases, patient volumes will be suppressed. More services may be delivered through lower cost settings, such as virtual or in-home care.
- Health systems will see greater competition for physicians from payors wanting to build their own networks and from private equity. Stronger health systems will expand regionally in an effort to serve more patients and spread costs.
- Workforce attrition will arise at some health systems as a result of low patient volumes. Remote work rates will remain high.

Despite these changes, the System's strategy enables the organization to focus, innovate and lead during an uncertain and transitioning healthcare environment.



In 2019, the organization announced a five-year strategy to respond to emerging industry trends. In 2020, the strategy was reassessed through the lens of industry disruption from COVID-19. The events of the past year revealed the resilience of the System's model of care. Teamwork and preparedness enabled the System to meet the needs of its patients while keeping its communities safe. The System launched new research programs in infectious disease and increased the pace of medical innovation. Consequently, it was determined that the organization's ambition is unchanged and the strategy remains directionally correct. COVID-19 prompted the organization to re-evaluate priorities, timelines and metrics.

The System's vision is to be the best place to receive care anywhere and the best place to work in healthcare. The five-year strategy charts the course to achieve the mission and vision of the organization, while navigating an industry undergoing dramatic change. The COVID-19 pandemic has accelerated shifts in the healthcare landscape and underscored the role of health systems in caring for patients and communities. The organization's inclusive and transparent strategic planning process prioritizes work, focuses resources appropriately, and monitors performance that positions the organization to fulfill this vision.

The System has set forth a strategy that embraces these fundamental shifts and positions the organization for continued leadership and success in advancing its mission and meeting its goals in an uncertain and vastly changing healthcare environment. Anchoring the strategy is the System's belief that modern nonprofit healthcare organizations must tend to four care priorities: care for patients; care for caregivers; care for the organization; and care for the community.

The strategic framework provides the System with the ability to prioritize activities and to focus on advancing the System's mission, vision, and values. In addition, the strategic framework addresses structural questions, including the formation of teams, governance of the System, allocation of resources and metrics to measure performance. All of the work conducted under the strategic framework must meet at least one of the following five strategic goals:

- **Transform Care:** be a lifelong partner to patients, delivering great health and exceptional experiences
- **Engage Caregivers:** make the System the best place to work and grow in healthcare
- **Expand Reach:** drive sustainable, transformative growth by doubling the number of patients served from 2019 to 2024
- **Embrace Digital:** improve access to care and enhance patient and caregiver experience
- **Optimize Resources:** drive value that enables the System to sustain margin, grow and invest in the mission

There are 12 cross-functional teams, each detailed below, to align and integrate efforts. Each team's workplans, governance, funding and metrics enable implementation of the strategy. The strategy consists of the following interrelated workstreams:

- **Care Model:** provide the highest quality individualized care over a lifetime
- **Care Resource Optimization:** drive value that enables the System to sustain margin, growth, and invest in the mission
- **Caregiver Experience:** make the System the best place to work and grow in healthcare
- **Community Health:** partner in communities to attain the highest levels of health, well-being and health equity
- **Differentiated Lifetime Care:** build and maintain lifelong relationships powered by collaboration, data, technology and innovation
- **Research & Education:** enhance Research and Education as core foundations to deliver on the clinical mission, drive innovation, foster collaboration and coordination of programs across the System
- **Growth:** drive sustainable, transformative growth by serving double the number of unique patients from 2019 to 2024
- **Patient Experience:** provide empathic care through a seamless and individualized approach in which the System is a trusted lifelong partner in the health and wellness patients
- **Payor and Risk Strategy:** create payor agreements and capabilities to enhance the System's ability to sustainably adopt and deliver on value-based care
- **Physician Growth & Alignment:** become the best place for physicians to practice medicine under any model
- **Technology:** enable modern platforms to serve patients and caregivers while integrating technology pursuant to growth, transforming electronic health records and modernizing infrastructure
- **Virtual Health:** leverage digital health technology to expand access to care thereby improving patient experience, caregiver experience and operational efficiency

As a major element of delivering value, an important thread through all of the priority initiatives of the clinical enterprise is Care Resource Optimization – developing a sustainable cost position given factors such as economic pressure and insurance reform impacting the healthcare industry. In 2013, the System performed an enterprise-wide cost structure analysis and proposed recommendations for transformational cost and efficiency opportunities. The System is structured to continually monitor its use of resources in all clinical, operational and administrative areas. Since the inception of the program in 2014, management estimates that Care Resource Optimization initiatives and other localized efforts enabled more than $1 billion of improvements in the cost structure. The System continues to develop and implement cost management and containment plans for a more affordable care model and to enable investments in key strategic initiatives. This work is expected to be an ongoing effort.

In parallel with efforts to transform the care model, the System is redefining its relationships with payors and the payment system to match the broader industry trend toward value-based contracting. The System continues to explore increased forms of risk-taking in payor contracts including pay-for-performance, bundled payments, global risk contracts and narrow network arrangements with payor partners. The System has implemented various risk contracting initiatives, including the co-branded insurance products with payor partners launched in 2017 that focus on specific product and consumer segments.

Leadership also is executing a focused growth strategy, domestically and internationally. A major emphasis of the domestic agenda is focused on developing and maintaining relationships with selected physician groups and hospitals throughout Northeast Ohio and partnering with community physicians in aligned, yet different, models. In Florida, the System has begun implementation of a multi-year growth plan that includes expansion of services at current facilities, new ambulatory facilities in surrounding communities and acquisition of healthcare facilities in Southeast Florida. The System and Lee Memorial Health System have established a strategic alliance to enhance and improve care in Southwest Florida. Collectively, the two organizations will explore opportunities for service line affiliations and strategic initiatives that can improve quality and efficiency of care through clinical and operational enhancements. The System will focus and prioritize initiatives to better prepare the Florida facilities for value-based care, while enhancing its position as the regional referral center for complex care. Internationally, the System is focusing on building strong relationships with physicians and medical centers around the world through outreach offices, research/education efforts and an expanded global footprint.

Over the past several years, the System has pursued digitalization of care through virtual visit and telemedicine programs. Telehealth medicine has become increasingly important during the COVID-19 pandemic to ensure the safety of patients that do not need to travel to System facilities and to prevent the spread of COVID-19. These programs are being used to deploy distance health capabilities to more systematically connect physicians, patients and health systems to extend patient access, improve experience, increase efficiency and explore new care delivery models. Patient access initiatives are focused on providing lower cost, efficient care alternatives for lower acuity medical conditions to System patients. In 2019, the System provided over 46,000 virtual visits. Due to suspension of non-essential procedures and appointments and the shift in patient appointments from in-person to telehealth as a

result of COVID-19, the System had approximately 1.2 million virtual visits in 2020.

The System continues to identify and pursue ways to improve on every dimension of the organization's performance: relentless pursuit of quality and safety; organization and delivery of care; effectuation of research and education; and the clearly conveyed message of the System's value to the patient and community. Through these uncertain times, the System is committed to a path to respond to changes in the environment, to lead the field with novel approaches that preserve excellence in care and to offer sustainable models.

COMMUNITY BENEFIT AND ECONOMIC IMPACT

Community Benefit

The Clinic and its hospital affiliates within the System are comprised of charitable, tax-exempt healthcare organizations. The System's mission includes addressing health service needs and providing benefits to the communities it serves. The tax-exempt members of the System must satisfy a community benefit standard to maintain their tax-exempt status. Community benefit reporting for the System conforms to Internal Revenue Service (IRS) requirements and is reported on the IRS Form 990, the information return required to be filed annually with the IRS by exempt organizations.

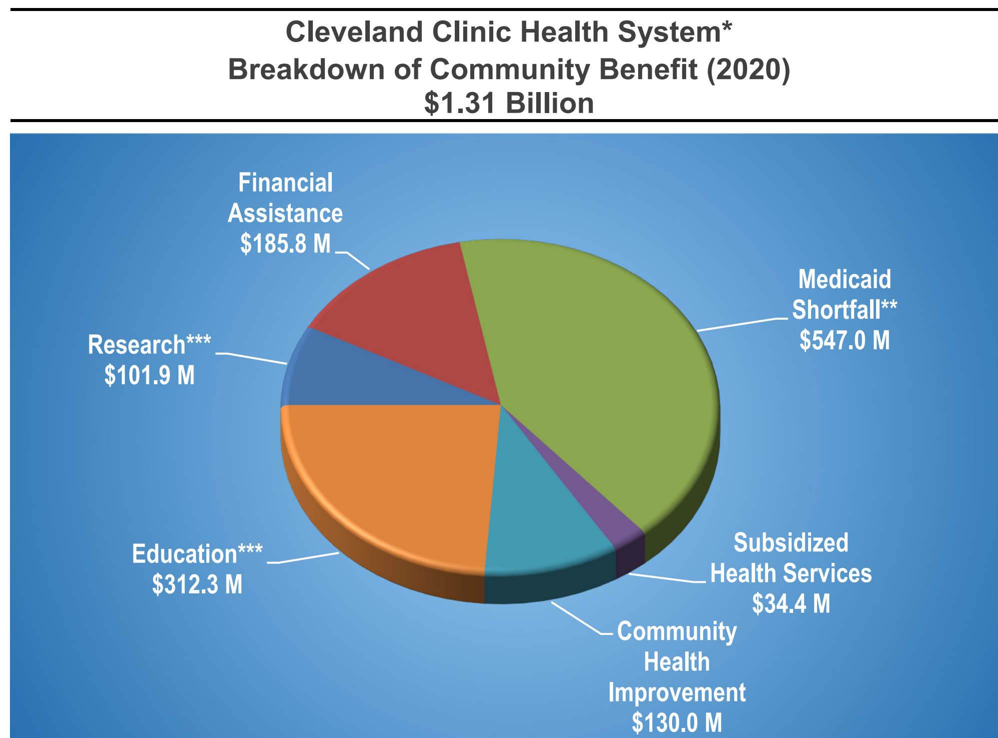
Community benefit includes activities or programs that improve access to health services, enhance public health, advance generalizable knowledge and relieve government burden. The primary categories for assessing community benefit include financial assistance, Medicaid shortfall, subsidized health services, community health improvement programs, research and education.

In 2020, the System provided $1.31 billion in benefits to the communities it serves.

Community Benefit in 2020 includes certain COVID-19 expenses incurred by the System in support of its initial and on-going response to the COVID-19 pandemic. Specifically, community-based clinical services were provided consisting of: COVID-19 clinics and screenings; public education related to COVID-19; and various COVID-19 public assistance programs. Additionally, the System invested in capital and equipment to prepare for the anticipated surge of patients requiring treatment and hospitalization. The System submitted claims to the Federal Emergency Management Association (FEMA) to reimburse costs related to the System's response to the COVID-19 pandemic. To the extent the COVID-19 costs reported as community benefit expense were reimbursed by FEMA, the reimbursement is reflected as direct offsetting revenue.

The following chart summarizes community benefits for the System:

Cleveland Clinic Health System*
Breakdown of Community Benefit (2020)
$1.31 Billion



* Includes all System operations in Ohio, Nevada and Florida

** Includes net Hospital Care Assurance Program benefit of $14.3 million

*** Research and Education are reported net of externally sponsored funding of $161.8 million.

Financial Assistance: Financial Assistance represents the cost of providing free or discounted medically necessary care to patients unable to pay some or all of their medical bills. The System's financial assistance policy provides free or discounted care to uninsured patients with incomes up to 400 percent of the federal poverty level and who meet certain other eligibility criteria by state. This policy covers both hospital care and services provided by the System's employed physicians.

Medicaid Shortfall: The System is a leading provider of Medicaid services in Ohio. The Medicaid program provides healthcare coverage for low-income families and individuals and is funded by both state and federal governments. Medicaid shortfall represents the difference between the costs of providing care to Medicaid beneficiaries and the reimbursement received by the System.

Subsidized Health Services: Subsidized health services yield low or negative margins, but these programs are needed in the community. Subsidized health services provided in the System include pediatric programs, psychiatric/behavioral health programs, obstetrical services, chronic disease management and outpatient clinics.

Community Health Improvement: The System is actively engaged in numerous community health improvement programs, including initiatives designed to address issues of health equity and social determinants of health, as well as serve vulnerable and at-risk populations in the community. Community health improvement programs typically fall into three categories: community health services; cash and in-

kind donations; and community building. The System's community health improvement initiatives for 2020 include costs associated with the System's response to the COVID-19 pandemic as well as traditional community programs in chronic disease prevention and management, clinical services, workforce development and enrollment assistance for government funded health programs.

A few of the System's community health improvement initiatives are highlighted below:

- COVID-19 community health improvement services:
  - The System provided community health education and clinical services for community residents regarding virus impact, testing and vaccine distribution in local neighborhoods.
  - Faith based forums for key community leaders on COVID-19 education and access.
  - Wellness initiatives to residents, schools and community based organizations in the areas of disease prevention, including COVID-19 protocol, personal safety, behavioral health, stress management, nutrition improvement and exercise.
  - The System provided high-speed internet access to local community in efforts to increase residents' ability to attend virtual visits, schools and community forums.
  - Donations of personal protective equipment to community based organizations supported safety issues.
  - To help address health disparities, the System partnered with Federally Qualified Health Centers to administer testing in underserved areas and hosted testing events for communities with minority populations and large numbers of residents aged 60 years or older.

  For an additional description of the impact and actions taken by the System as a result of the pandemic, see "CORONAVIRUS DISEASE (COVID-19)."

- Traditional on-going community health improvement initiatives:
  - Community farmers markets, urban gardens, food donations and a mobile food pantry provided access to fresh local products and supplemental food programs to address food insecurity issues.
  - The System provided no-cost clinical care to under- and uninsured families at community sites. For example, the Langston Hughes Health and Education Center, a Fairfax neighborhood site, provided community education, cancer screening and chronic disease management services. Langston Hughes also served as a community-based vaccination clinic, open to all Ohio residents who meet the Ohio Department of Health criteria.
  - Collaborative initiatives with community nonprofit organizations and local governments addressed critical population issues. Taskforce strategies focused on decreasing opioid prescription use and overdose deaths. Hospitals and counties provided methods to decrease infant mortality including proactive centering programs.
  - Workforce development programs were provided to middle school and high school students to enhance graduation rates, pursue secondary education and obtain employment.

Research: From a community benefit perspective, medical research includes basic, clinical and community health research, as well as studies on healthcare delivery. Community benefits include research activities supported by government and foundation sources; corporate and other grants are excluded from community benefits. The System uses internal funding to cover shortfalls in outside resources for research.

Education: The System provides a wide range of high-quality medical education, including accredited training programs for residents, physicians, nurses and other allied health professionals. The System maintains one of the largest graduate medical education programs in the nation. At the postgraduate level, the System's Center of Continuing Education has developed one of the largest and most diverse continuing medical education programs in the world. The System also operates the tuition-free Cleveland Clinic Lerner College of Medicine of Case Western Reserve University, dedicated to the teaching of physician-scientists.

Supply Chain

The System invests in the community by developing partnerships to buy local. It also has increased procurement and construction purchasing from minority-owned and women-owned businesses. In 2021, the System joined 11 other U.S health systems in signing the Healthcare Anchor Network's "Impact Purchasing Commitment" to build, healthy, equitable and climate-resilient local economies. Designed in partnership with Health Care Without Harm and Practice Greenhealth, the network's commitments include:

- Increasing spending with Minority and Women Owned Business Enterprises, as well as local and employee-owned, cooperatively owned and/or nonprofit owned enterprises, by at least $1 billion over five years;
- Agreeing to work with at least two large existing vendors to create hiring pipelines in disinvested communities; and
- Adopting procurement goals, which helps purchase goods and services that minimize damage to health and the environment.

Medina Hospital
Medina, Ohio

Community Health Needs Assessment

The System completes comprehensive community health needs assessments (CHNA) once every three years for each hospital. Internal Revenue Code Section 501(r)(3) requires nonprofit hospital organizations to conduct a CHNA every three years and adopt an implementation strategy to identify the community health needs that each hospital will address.

To obtain an in-depth understanding of the community risk indicators, population trends and healthcare needs, the System has gathered and will gather various data, including:

- demographic and health statistical data;
- information on socio-economic barriers to care, including income, culture, language, education, insurance, housing and health equity;
- national, state and local disease prevalence;
- health behavior; and
- medical research and health professional education.

Information is also gathered from persons representing the broad interests of the community, including those with special knowledge or expertise in public health.

Key CHNA needs identified throughout the System include:

- COVID-19 and pandemic implications;
- access to affordable healthcare;
- addiction and mental health;
- chronic disease prevention and management (heart disease, cancer, diabetes, asthma, obesity);
- infant mortality;
- medical research;
- education (physician shortage); and
- socioeconomic and health equity concerns

Hospital implementation strategies that address the health needs identified in the assessments have been developed by individual hospital leadership teams and have been added to the Clinic's website in compliance with the regulatory requirements. The current CHNA reports and implementation strategies for the System hospitals are available on the Clinic's website (www.clevelandclinic.org/CHNAReports).

Economic Impact

The System is the largest private employer in the State of Ohio. The System's most recent Economic and Fiscal Impact Report was released in 2021 and was based on 2019 data. In 2019 the System generated $21.6 billion of the total economic activity in Ohio and has directly and indirectly supported more than 133,000 jobs generating approximately $8.8 billion in wages and earnings. The System's economic activity was accountable for $2.3 billion in federal income taxes and $1.3 billion in total state and local taxes paid by employees and vendors. System-

supported households spent $7.8 billion on goods and services, and the System purchased $2.3 billion of goods and services from Ohio businesses. In addition to Ohio, the System contributed $4.1 billion in total economic output and supported more than 25,000 jobs in the State of Florida.

The System's Economic and Fiscal Impact Report is the result of an economic analysis completed by the Silverlode Consulting Corp. The report was completed in part using the IMPLAN® economic impact model, which is used by more than 1,000 universities and government agencies to estimate economic and fiscal impacts. Additional information regarding the System's economic impact is available on the Clinic's website.

SUSTAINABILITY

The System supports healthy environments for healthy communities, recognizes the link between environmental and human health and strives to responsibly address and mitigate its environmental impacts. The System has sustainability goals related to energy efficiency, climate resilience, diverting waste to landfill, water stewardship, local and sustainable purchasing, toxicity reduction, green building, tree planting and education. As a national leader in healthcare, the System is in a position to lead by example in the adoption of environmental best practices.

The System acknowledges its obligation and opportunity to reduce its carbon footprint, make its facilities climate resilient and minimize the health impacts of climate change. The System is also embedding climate change into the curriculum at Cleveland Clinic Lerner College of Medicine and integrating sustainability in its healthcare delivery model to equip the next generation of physicians to care for communities impacted by climate change.

As a leader in the healthcare industry, the System has publicly committed to compiling an annual sustainability report for its patients, caregivers, communities and global stakeholders through two leading international frameworks: The United Nations Global Compact and the Global Reporting Initiative. The compilation, titled "Serving Our Present, Caring for Our Future," includes performance metrics and stories, highlights accomplishments and communicates challenges as the System strives to reach its goals. The complete report is available on the Clinic's website (www.clevelandclinic.org/ungc).

The Clinic is a member of Practice Greenhealth, the nation's leading healthcare community that empowers its members to increase their efficiencies and environmental stewardship while improving patient safety and care through tools, best practices and knowledge. In 2020, the Clinic won the Top 25 Environmental Excellence Award for the sixth straight year. This award recognizes healthcare facilities that exemplify environmental excellence and are setting the highest standards for environmental practices in healthcare. Award winners are chosen from hospitals that have the highest scores using Practice Greenhealth's thorough scoring and evaluation system. The Clinic was also recognized for being in the top ten in the nation in four Circles of Excellence: Climate; Environmentally Preferred Purchasing; Green Building; and Greening the OR. Other System entities and facilities were honored in 2020 with additional Practice Greenhealth

Environmental Excellence Awards for outstanding performance in healthcare sustainability.

The System's energy program is designed to enhance patient outcomes and the patient experience while reducing operating expenses. As the model of healthcare evolves, the System is committed to reducing environmental, economic and human impact by reducing energy intensity. The System's commitments to both affordable care and external partnerships with ENERGY STAR and the Better Buildings Challenge have created goals of becoming 20% more energy efficient by 2020 from a 2010 baseline on more than 20 million square feet of facilities. Initiatives include a combination of critical energy efficiency projects and broad occupant education and engagement campaigns. From the December 2010 baseline, the System has realized a 25% reduction in weather normalized source energy use intensity for in-scope and reportable facilities. The System is the third healthcare system to achieve this level of energy reduction. In 2021, the Clinic set a new goal to make its facilities 40% more efficient by 2030.

In December 2019, the Clinic was awarded the Ohio Environmental Protection Agency (EPA) platinum level environmental stewardship award, which is the highest recognition available for environmental excellence. The Clinic earned this award for its emphasis on recycling, energy demand reduction, green infrastructure and work to create environmental improvements throughout the community. To earn the platinum award, a business or organization must expand their environmental program beyond their facilities and demonstrate how their environmental stewardship efforts benefit the local community, region or larger geographic area.

A central component of the Systems' ongoing commitment to responsible energy management is to construct buildings that conform to the U.S. Green Building Council's Leadership in Energy and Environmental Design (LEED). LEED is a third-party certification program and the nationally accepted benchmark for design, construction and operation of environmentally responsible and energy-efficient buildings. All new major construction projects for the System follow LEED standards.

The System currently has 18 LEED-certified buildings that encompass more than six million square feet. The System has five buildings that are certified LEED-Gold, including the Cleveland Clinic Incubator, Marymount Hospital Surgical Expansion, Twinsburg Family Health and Surgery Center, the Tomsich Pathology Laboratories building and the Sheila and Eric Samson Pavilion at Health Education Campus.

The Clinic supports sustainable transportation initiatives that improve air quality for healthier communities. To improve Ohioans' access to electric vehicle (EV) charging infrastructure, the Ohio EPA awarded $3.25 million in grants to support the installation of EV charging stations in April 2021. Through the competitive grant application process, the Clinic received 15% of the available grant funds to support the installation of 124 charging spaces—20% of the total supported through the grant—at 22 Clinic locations. Upon installation in 2022, the System will be a leading provider of public accessible EV charging stations in Northeast Ohio and in the healthcare industry.

The System's tree planting programs are designed to promote equity and resilience in surrounding communities. Since 2016, the Clinic has planted 4,049 trees at its facilities and in local neighborhoods and has created nine parks. In addition to community plantings, the System provides hundreds of free trees to caregivers each year to plant at their residences through its Caregiver Tree Giveaway Program. The Arbor

Day Foundation recognized the System with its Tree Campus Healthcare designation the past two years for its impact on community wellness through tree education, investment and community engagement.

DIVERSITY & INCLUSION

The System provides healthcare services to patients and families from a global community. The Office of Diversity and Inclusion (ODI), created in 2006, makes diversity, equity, inclusion and cultural competence a critical part of the System's mission with a goal of creating a culture where caregivers integrate diversity, equity and inclusion throughout the enterprise.

In 2020, the convergence of a global pandemic, civil and social unrest and a call for social justice resulted in the publication of the Cleveland Clinic's statement of support for the City of Cleveland's resolution declaring racism a public health crisis and acknowledging the need to address structural racism. ODI developed initiatives to meet the needs of the System and community, while maintaining a strategic direction to hear and respond to caregivers, patients and the community. "Lift Every Voice" listening sessions and "Becoming an Anti-racist Ally: the Journey to End Racism" learning sessions were initiated in 2020 with the objective of increasing awareness, cultural competence, cultivating conversation across differences and learning from each other. These sessions were conducted virtually and continued the goals of building an inclusive organization; promoting safety, quality, innovation, and health equity; developing and identifying overlooked talent; and supporting a diverse population of caregivers and patients.

In December 2020, the Clinic announced that it has partnered with OneTen, a coalition of 37 large U.S. employers, to train, hire and promote one million Black Americans into family-sustaining jobs with opportunities for advancement. The coalition will achieve this goal over the next 10 years. OneTen is working with the Clinic and other partner employers to improve workplace inclusivity practices and connect talent providers to partner employers. OneTen's focus will be on reducing exclusionary hiring practices, identifying robust and new talent sources and ensuring that adequate and equitable career pathways for advancement exist.

In January 2021, the Cleveland Clinic established the Diversity, Inclusion and Racial Equity Executive Council, which is a diverse Cleveland Clinic leadership advisory team from across the enterprise that will help drive transformational change central to achieving the Clinic's aspiration of building a culture of diversity, equity and inclusion that is free from racism, bias and health disparities that adversely impact caregivers, patients and communities. This council will be in alignment with the Clinic's pledge to be part of the solution in supporting of the City of Cleveland's resolution declaring racism as a public health crisis.

For the fourth year in a row, *Forbes* named the Clinic among America's Best Employers for Diversity for 2021. In order to determine the rankings, *Forbes* partnered with market research company Statista to survey 50,000 Americans working for businesses with at least 1,000 employees. Participants were asked to share their opinions and rate their organizations on age, gender, ethnicity, disability, sexual orientation, equality, general diversity and other

criteria. The results ranked 500 employers based on the employers that received the most recommendations while also considering employers that have diverse boards and executive teams as well as proactive diversity and inclusion initiatives.

For the 12th consecutive year, DiversityInc named the Clinic to its 2021 list of Top Hospitals and Health Systems in the country for diversity, equity and inclusion. This year the Clinic ranked fifth on the list. The Clinic has made the rankings each year since the list for healthcare organization began in 2010. The ranking are empirically driven and assess performance based on a number of factors including leadership accountability, human capital diversity metrics, talent programs, workforce practices, supplier diversity and philanthropy.

In third quarter 2021, the Greater Cleveland Partnership Equity & Inclusion, a program whose focus includes creating positive, measurable outcomes in board, senior management, workforce and supplier diversity within the Northeast Ohio employer community, named the Clinic among the members that are included in the Commission 20. These members may participate in an annual benchmark survey and can be recognized annually for progress in creating, enhancing and sustaining their diversity and inclusion strategies. The Clinic has been recognized as Best in Class in Workforce Diversity multiple times since 2007 and in 2021 was inducted into the Best in Class Hall of Fame.

CONFLICT OF INTEREST

The System maintains policies that require internal reporting of outside financial and fiduciary interests to ensure that potential conflicts of interests do not inappropriately influence research, patient care, education, business or professional decision making. In connection with these policies, the System developed the Innovation Management and Conflict of Interest Program, which is designed to promote innovation while at the same time reducing, eliminating or managing real or perceived bias either due to System personnel consulting with pharmaceutical, medical device and diagnostic companies (industry) or the commercialization efforts undertaken by the System to develop discoveries and make them accessible to patients. The program works with physicians, managers and other employees who interact with industry to manage any conflicts. Provisions related to whether or not "compelling circumstances" are required to justify conducting research in the presence of related financial interests have been modified in policies that went into effect in 2013, consistent with the value the System places on beneficial relationships with industry. The System is committed to a process that maintains integrity in innovation and places the interests of its patients first. The Innovation Management and Conflict of Interest Program reviews situations in which a physician or other clinician prescribes or uses products of a company in their practice and has a financial relationship with that company. When appropriate, the program will put management in place to address any conflict (for example, by disclosure). The goal of this policy is not to interfere with the practice of medicine.

An initiative to bring transparency to the System's relationships with industry has been in place since 2008 in which the specific types of interactions that individual physicians and scientists have with industry were disclosed on publicly-accessible web pages on the System's

internet site. Information can be accessed by patients that describes the training, type of practice and accomplishments of a specific doctor or scientist, as well as the names of companies with which the doctor has financial or fiduciary relations as an inventor, consultant, speaker or board member. These disclosures are updated regularly. The System was the first academic medical center in the country to have made these interactions public. Many other academic medical centers have followed the System's lead by providing similar disclosures. The System maintains a Conflict of Interest in Education Policy to reflect its values and represent its and its employees' best interests. This policy is responsive to guidelines from the Association of American Medical Colleges, the Institute of Medicine and other organizations. It places restrictions on outside speaking activities that are not Accreditation Council for Continuing Medical Education approved and are generally considered marketing. Speakers must present content that is data-driven and balanced; speakers must create their own slides or use only unbranded slides created by industry. This policy puts the System in step with other top academic medical centers that have already banned speaker's bureaus. In addition, the policy requires instructors to disclose relevant financial interests with companies to trainees.

The Innovation Management and Conflict of Interest Committee of the System has also established processes with cross-membership and seamless interactions and communications with the Board of Directors' Conflict of Interest and Managing Innovations Committee.

Board members of the Clinic and the regional hospitals in the System are required to complete annual disclosure questionnaires. These questionnaires are designed to identify possible conflicts of interest that may exist and ensure that any such conflicts do not inappropriately influence the operations of the System. The information obtained from these questionnaires is used to respond to the related-party transactions and other disclosures required by the IRS on Form 990. The Forms 990 for the Clinic and for the System are available on the Clinic's website, as well as additional information regarding the Clinic's Board of Directors and any business relationships the Directors may have with the System.

ENTERPRISE RISK MANAGEMENT

The System maintains a multi-phase enterprise risk management (ERM) process to develop a formal and systematic approach to the identification, assessment, prioritization and reporting of risks. The process is closely linked with the System's strategic and annual planning. The ultimate objective is to create an enterprise-wide risk management model that contains sustainable reporting and monitoring processes and embeds risk management into the System's culture to more effectively mitigate risks. The System established an ERM Steering Committee and engaged a consulting firm to support this process.

In the ERM process, risk identification is conducted resulting in a System risk profile that categorizes individual risks based on their impact upon the System's ability to meet its strategic objectives. During this process, certain risks are identified as top risks and then further separated into sub-risks and individual risk components. Extensive risk assessments and mitigation analyses have been prepared during this process whereby risk components are evaluated

according to their likelihood of occurring and potential impact should they occur. Risk mitigation activities, including risk response effectiveness, are examined, reviewed and updated as part of this evaluation. The most recent comprehensive evaluation of top risks was concluded in the second quarter of 2021. ERM is an on-going program, with regular reporting to senior management, including the Audit Committee of the Board of Directors, the body with oversight responsibility for ERM.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The System regularly evaluates its internal control environment over the System's financial reporting processes through an initiative based upon concepts established in the Sarbanes-Oxley Act of 2002. The goals of the initiative are to ensure the integrity and reliability of financial information, strengthen internal control in the reporting process, reduce the risk of fraud and improve efficiencies in the financial reporting process. The initiative reviews all aspects of the financial reporting process, identifies potential risks and ensures that they have been mitigated utilizing a management self-assessment process. As a result of this initiative, management of the System issued a report on the effectiveness of its internal control over financial reporting as part of the issuance of its consolidated financial results for 2020, which is the twelfth year the management report was completed. As part of the internal control evaluation process for 2020, certifications were completed by 134 members of System management, including top leadership. The System is one of the first nonprofit hospitals to issue a management report on the effectiveness of internal control over financial reporting, a step that further increases the transparency of the organization. There were no changes in internal controls over financial reporting during the nine months ended September 30, 2021 that have materially affected, or are likely to materially affect, the internal controls over financial reporting for the System.

INDUSTRY OUTLOOK

In March 2020, Moody's changed its outlook for not-for-profit hospitals from stable to negative primarily due to how the COVID-19 outbreak is expected to affect cash flows and the widespread uncertainty associated with the pandemic. In December 2020, Moody's announced that the 2021 outlook would remain negative on constrained revenue and rising costs. Moody's estimates median operating cash flow will drop 10-15% in 2021 from Moody's annualized third quarter 2020 estimate and softer demand for certain services due to coronavirus fears will continue until the pandemic ends.

In June 2021, S&P revised its outlook for the U.S not-for-profit healthcare sector to stable as the sector recovers from the COVID-19 pandemic. S&P stated that the revision reflects a trend of revenue recovery, ongoing balance sheet strength, and proactive focus on maintaining financial stability. S&P had previously changed its outlook for the U.S not-for-profit healthcare sector from stable to negative in March 2020 due to the increasing threat of the COVID-19 pandemic.

PATIENTS SERVED

The following table summarizes patient utilization statistics for the System:

Utilization Statistics

	For the quarter ended September 30				For the nine months ended September 30			
	2021	2020	Variance	%	2021	2020	Variance	%
Inpatient admissions[1]								
Acute admissions	60,528	54,341	6,187	11.4%	177,531	156,317	21,214	13.6%
Post-acute admissions	2,755	2,757	-2	-0.1%	8,384	8,017	367	4.6%
	63,283	57,098	6,185	10.8%	185,915	164,334	21,581	13.1%
Patient days[1]								
Acute patient days	317,308	267,499	49,809	18.6%	910,217	760,658	149,559	19.7%
Post-acute patient days	22,636	21,061	1,575	7.5%	65,892	61,116	4,776	7.8%
	339,944	288,560	51,384	17.8%	976,109	821,774	154,335	18.8%
Surgical cases								
Inpatient	17,024	17,388	-364	-2.1%	52,032	48,218	3,814	7.9%
Outpatient	47,881	42,004	5,877	14.0%	143,296	108,907	34,389	31.6%
	64,905	59,392	5,513	9.3%	195,328	157,125	38,203	24.3%
Emergency department visits	241,160	191,411	49,749	26.0%	663,735	562,578	101,157	18.0%
Observations	17,705	15,727	1,978	12.6%	51,687	46,243	5,444	11.8%
Clinic outpatient evaluation and management visits	1,728,076	1,475,686	252,390	17.1%	5,031,386	4,187,039	844,347	20.2%

[1] Excludes newborns

Patients served in the first nine months of 2020 were negatively impacted by the suspension of non-essential procedures in mid-March based on government orders that lasted through early May. The reactivation of clinical services throughout 2020 resulted in steadily increasing patient levels until the fourth quarter when the System experienced an increase in COVID-19 patients and made the decision to postpone non-essential procedures requiring a hospital bed. Although non-essential services resumed January 4, 2021, patient levels across the System have not returned to budgeted levels. A surge of COVID-19 patients in the Florida region in the third quarter of 2021 prompted the System to postpone nonemergent procedures that require an overnight stay at Indian River Hospital effective late July and Martin Health hospitals effective early August. Indian River Hospital also reduced certain outpatient care services, excluding primary care and cancer treatments, to allow caregivers to support inpatient care during the surge. In early September, the Health System began lifting the suspension of nonemergent procedures and outpatient care while maintaining certain restrictions to allow for adequate staffing and sufficient bed capacity for COVID-19 and non-COVID-19 patients. The

System will continue to monitor bed capacity and caregiver support and will take proactive steps to ensure the safety of patients and caregivers. The System has implemented initiatives with a focus on improving access to care.

Patients served in 2021 have increased as a result of the acquisition of Mercy. Patient activity for Mercy is included in the System totals beginning February 1, 2021.

Inpatient acute admissions for the System increased 11.4 % in the third quarter of 2021 and 13.6% in the first nine months 2021 compared to the same period in 2020. Excluding Mercy, acute admissions in the first nine months of 2021 compared to the same period in 2020 increased 7.7%, including a 6.8% increase in Ohio and a 10.8% increase in Florida.

Total surgical cases for the System increased 9.3% in the third quarter of 2021 and 24.3% in the first nine months of 2021 compared to the same period in 2020. Excluding Mercy, total surgical cases in the first nine months of 2021 compared to the same period in 2020 increased 19.7%, including a 19.6% increase in Ohio and a 19.8% increase in Florida.

Evaluation and management visits for the System increased 17.1% in the third quarter of 2021 and 20.2% in the first nine months of 2021 compared to the same period in 2020. Excluding Mercy, evaluation and management visits in the first nine months of 2021 compared to the same period in 2020 increased 15.9%, including a 16.0% increase in Ohio and a 15.4% increase in Florida.

The System also compared patients served in 2021 to the same periods in 2019 to determine the variance compared to pre-pandemic levels. For comparative purposes, Mercy Hospital patient activity was excluded from the comparison to 2019. Acute admissions decreased 0.4%, total surgical cases decreased 2.5% and outpatient evaluation and management visits increased 8.4% in the third quarter of 2021 compared to the same period in 2019. On a year-to-date basis, acute admissions decreased 0.2%, total surgical cases decreased 1.6% and outpatient evaluation and management visits increased 5.2% in the first nine months of 2021 compared to the same period in 2019.

Cole Eye Institute
Cleveland, Ohio

The following table summarizes patient utilization statistics for the System for the first nine months of 2021 compared to the same period in 2019:

Utilization Statistics

	For the nine months ended September 30			
	2021[1]	2019	Variance	%
Inpatient admissions[2]				
Acute admissions	168,398	168,812	-414	-0.2%
Post-acute admissions	8,140	8,520	-380	-4.5%
	176,538	177,332	-794	-0.4%
Patient days[2]				
Acute patient days	865,653	822,006	43,647	5.3%
Post-acute patient days	62,895	63,484	-589	-0.9%
	928,548	885,490	43,058	4.9%
Surgical cases				
Inpatient	49,999	55,609	-5,610	-10.1%
Outpatient	138,053	135,515	2,538	1.9%
	188,052	191,124	-3,072	-1.6%
Emergency department visits	629,868	665,080	-35,212	-5.3%
Observations	49,976	62,759	-12,783	-20.4%
Clinic outpatient evaluation and management visits	4,852,403	4,612,720	239,683	5.2%

[1] Excludes Mercy for comparative purposes
[2] Excludes newborns

LIQUIDITY

Cash and Investments

The System's objectives for its investment portfolio are to target returns over the long-term that exceed the System's capital costs so as to optimize its asset/liability mix and preserve and enhance its strong financial structure. The asset allocation of the portfolio is broadly diversified across global equity and global fixed income asset classes and alternative investment strategies and is designed to maximize the probability of achieving the long-term investment objectives at an appropriate level of risk while maintaining a level of liquidity to meet the needs of ongoing portfolio management. This allocation is formalized into a strategic policy benchmark that guides the management of the portfolio and provides a standard to use in evaluating the portfolio's performance.

Investments are primarily maintained in a master trust fund administered using a bank as custodian. The Cleveland Clinic Investment

Office (CCIO) is charged with the day-to-day management of the System's investments and their strategic direction. These portfolios include the System's general short-term and long-term investment portfolios, its defined benefit pension fund and the captive insurance fund. The System has established formal investment policies that support the System's investment objectives and provide an appropriate balance between return and risk.

The following table sets forth the allocation of the System's cash and investments in its general investment portfolios and captive insurance fund at September 30, 2021 and December 31, 2020:

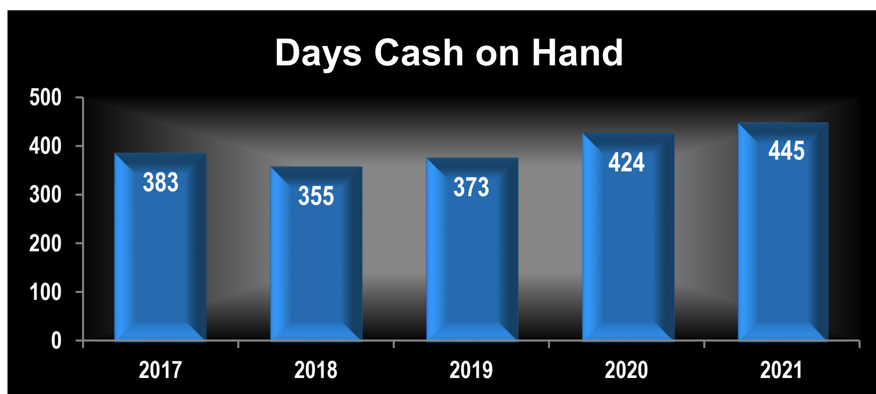
Cash and Investments
(Dollars in thousands)

	September 30, 2021		December 31, 2020	
Cash and cash equivalents	$ 1,454,785	10%	$ 1,848,795	14%
Fixed income securities*	3,179,349	22%	2,927,732	23%
Marketable equity securities*	3,496,433	24%	2,706,835	21%
Alternative investments	6,362,971	44%	5,396,334	42%
Total cash and investments	$ 14,493,538	100%	$ 12,879,696	100%
Less restricted investments**	(1,445,515)		(1,480,426)	
Unrestricted cash and investments	$ 13,048,023		$ 11,399,270	
Days cash on hand	445		424	

* Fixed income securities and marketable equity securities include mutual funds and commingled investment funds within each investment allocation category.
** Restricted investments include funds held by trustees, assets held for self-insurance and donor restricted assets.

Cleveland Clinic Lou Ruvo Center for Brain Health
Las Vegas, Nevada

The following chart summarizes days cash on hand for the System at December 31 for the last four years and September 30, 2021:



At September 30, 2021, total cash and investments for the System (including restricted investments) were $14.5 billion, an increase of approximately $1.6 billion from $12.9 billion at December 31, 2020. Cash inflows consist of cash provided by operating activities and unrestricted investment income of $1,984.8 million and net increases in restricted gifts and income of $139.8 million. Cash inflows were offset by expenditures for property, plant and equipment of $399.4 million and principal payments on debt of $154.3 million, which includes $26.3 million of payments on debt assumed in the Mercy acquisition and a $36.8 million payment on debt related to Martin Hospital that was originally scheduled to mature in 2023. Days cash on hand for the System in the first nine months of 2021 benefited from positive investment returns but was diluted as a result of the acquisition of Mercy.

Included in the System's cash and investments are investments held for self-insurance. These investments totaled $247.6 million at September 30, 2021, with an asset mix of 4% cash and short-term investments, 35% fixed-income securities, 31% equity investments and 30% alternative investments. The asset mix reflects the need for liquidity and the objective to maintain stable returns utilizing a lower tolerance for risk and volatility consistent with insurance regulatory requirements.

Also included in the System's cash and investments at September 30, 2021 are $81.0 million of funds held by trustees. Funds held by trustees include $80.4 million of posted collateral. Collateral is primarily comprised of $5.4 million related to a futures and options program within the System's investment portfolio and $74.2 million related to the System's interest rate swap contracts. The swap contracts require that collateral be posted when the market value of a contract in a liability position exceeds a certain threshold. The collateral is returned as the liability is reduced. Investment objectives of funds held by the trustees are designed to preserve principal by investing in highly liquid cash or fixed-income investments. At September 30, 2021, the asset mix of funds held by trustees was 7% cash and short-term investments and 93% fixed-income securities.

The System invests in alternative investments to increase the portfolio's diversification. Alternative investments are primarily limited partnerships that invest in marketable securities, privately held securities, real estate, and derivative products and are reported based on the net asset value of the investment.

Alternative investments at September 30, 2021 and December 31, 2020 consist of the following:

Alternative Investments
(Dollars in thousands)

	September 30, 2021			December 31, 2020		
Hedge funds	$	3,806,770	60%	$	3,335,262	62%
Private equity/venture capital		2,556,201	40%		2,061,072	38%
Total alternative investments	$	6,362,971	100%	$	5,396,334	100%

Alternative investments have varying degrees of liquidity and are generally less liquid than the traditional equity and fixed income classes of investments. Over time, investors may earn a premium return in exchange for this lack of liquidity. Hedge funds typically contain redeemable interests and offer the most liquidity of the alternative investment classes. These investment funds permit holders periodic opportunities to redeem interests at frequencies that can range from daily to annually, subject to lock-up provisions that are generally imposed upon initial investment in the fund. It is common, however, that a small portion (5-10%) of withdrawal proceeds are held back from distribution pending the fund's annual audit, which can be up to a year away. Private equity/venture capital funds typically have non-redeemable partnership interests. Due to the inherent illiquidity of the underlying investments, the funds generally contain lock-up provisions that prohibit redemptions during the fund's life. Distributions from the funds are received as the underlying investments in the fund are liquidated. These investments have an initial subscription period, under which commitments are made to contribute a specified amount of capital as called for by the general partner of the fund. The System periodically reviews unfunded commitments to ensure adequate liquidity exists to fulfill anticipated contributions to alternative investments.

Investment Return

Return on investments, including income on alternative investments, is reported as nonoperating gains and losses except for interest and dividends earned on assets held by the captive insurance subsidiary, which are included in other unrestricted revenues. Donor restricted investment return on restricted investments is included in net assets with donor restrictions.

The System's long term investment portfolio, which excludes assets held for self-insurance, reported investment gains of approximately 9.5% for the first nine months of 2021 compared to gains of 2.4% in the same period of 2020.

Indian River Hospital
Vero Beach, Florida

Total investment return for the System is comprised of the following:

Investment Return
(Dollars in thousands)

	For the quarter ended September 30		For the nine months ended September 30	
	2021	2020	2021	2020
Other unrestricted revenue:				
Interest income and dividends	$ 534	$ 386	$ 1,343	$ 1,038
Nonoperating gains and losses, net:				
Interest income and dividends	23,926	18,279	64,534	52,678
Net realized gains on sales of investments	74,481	53,853	216,184	226,350
Net change in unrealized (losses) gains on investments	(66,988)	162,259	146,395	(194,599)
Equity method income on alternative investments	240,523	218,487	668,203	136,043
Investment management fees	(7,722)	(5,734)	(22,102)	(18,353)
	264,220	447,144	1,073,214	202,119
Other changes in net assets:				
Investment income on restricted investments and other	11,250	25,394	47,079	12,358
Total investment return (loss)	$276,004	$472,924	$ 1,121,636	$ 215,515

Operating Lines of Credit

In the second quarter of 2020, the System obtained lines of credit with six financial institutions totaling $650 million. Each of the lines matured within one year and bore interest at LIBOR plus an applicable spread. The lines of credit were obtained to provide additional liquidity for the System. In February 2021, the System drew $26.5 million on one line of credit to refinance debt that was assumed in the Mercy member substitution transaction. In the second quarter of 2021, four of the lines totaling $425 million expired or were terminated. Also in the second quarter of 2021, one of the remaining existing lines was increased to $150 million and extended for three years, and the other line was increased to $150 million and extended for two years. The System paid the full amount drawn on the line of credit in July 2021. As of September 30, 2021, the System has two operating lines of credit totaling $300 million with no amounts drawn and $300 million in available capacity.

Long-term Debt

At September 30, 2021, outstanding current and long-term debt for the System, excluding $110.9 million of net unamortized premium/debt issuance costs, totaled $5.1 billion, comprised of $5.0 billion in bonds and notes and $113.6 million in finance leases. Bonds and notes are structured with approximately 78% fixed-rate debt and 22% variable-rate debt. The System utilizes various interest rate swap derivative contracts to manage the risk of increased debt service resulting from rising market interest rates on variable-rate bonds. The total notional amount

on the System's interest rate swap contracts at September 30, 2021 was $552.6 million. Using an interest rate benchmark, these contracts convert variable-rate debt to a fixed-rate, which further reduces the System's exposure to variable interest rates. The interest rate swap contracts can be unwound by the System at any time, whereas the counterparty has the option to unwind the contracts only upon an event of default as defined in the contracts.

As of September 30, 2021, approximately $602 million of variable-rate debt are bonds secured by irrevocable direct pay letters of credit or standby bond purchase agreements, and another $30 million are bonds directly placed with a financial institution. Debt supported by letters of credit or standby bond purchase agreements that expire within one year, require repayment of a remarketing draw within one year, or contain a subjective clause that would allow the lender to declare an event of default and cause immediate repayment of such bonds are classified as current liabilities.

The remaining $490 million of variable-rate debt includes $89 million of floating rate notes and the System's self-liquidity program. Debt supported by self-liquidity includes the Series 2014A CP Notes and certain variable-rate bonds that are remarketed in commercial paper or weekly mode. Debt supported by self-liquidity are classified as current liabilities. The System has sufficient liquidity within its investment portfolio to support the self-liquidity program.

The System maintains the Cleveland Clinic Health System Obligated Group Commercial Paper Program (CP Program), which provides for the issuance of the Series 2014A CP Notes. The CP Program was established in November 2014 and will terminate no later than January 2044. The Series 2014A CP Notes may be issued from time to time in a maximum outstanding face amount of $100 million and are supported by the System's self-liquidity program. At September 30, 2021, the System did not have any outstanding Series 2014A CP Notes.

The System is subject to certain restricted covenants associated with its debt, including provisions related to certain debt ratios, days cash on hand, and other matters. The System was in compliance with these covenants at September 30, 2021.

In August 2018, the System through a UK subsidiary entered into a private placement agreement to issue the 2018 Sterling Notes totaling £665 million. The subsidiary received proceeds of £300 million, £100 million and £265 million in August 2018, November 2018 and August 2019, respectively. The outstanding 2018 Sterling Notes have been converted to U.S. dollars in the consolidated balance sheet using exchange rates of $1.35 and $1.36 at September 30, 2021 and December 31, 2020, respectively.

Akron General Hospital
Akron, Ohio

Outstanding long-term debt (including current portion) for the System as of September 30, 2021 and December 31, 2020 consist of the following:

Hospital Revenue Bonds and Notes
(Dollars in thousands)

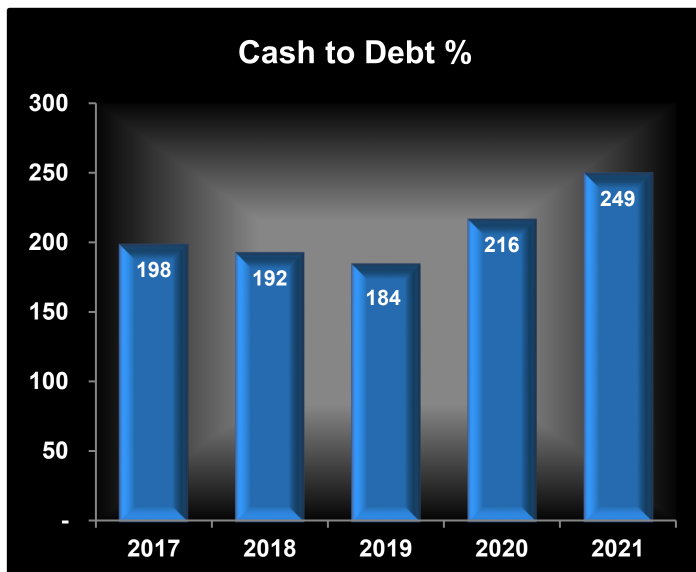
Series	Type	Final Maturity	September 30 2021	December 31 2020
2021A Revenue Bonds	Fixed	2049	$ 83,810	$ -
2021 Term Loan	Fixed	2025	64,650	-
2020 Term Loan	Fixed	2025	12,660	12,660
2019A Revenue Bonds	Fixed	2046	247,045	247,045
2019B Revenue Bonds	Fixed	2046	250,320	250,320
2019C Revenue Bonds	Floating	2052	89,000	89,000
2019D Revenue Bonds	Variable	2052	119,340	119,340
2019E Revenue Bonds	Variable	2052	130,405	130,405
2019F Revenue Bonds	Variable	2052	130,405	130,405
2019G Revenue Bonds	Fixed	2042	241,835	241,835
2018 Sterling Notes[1]	Fixed	2068	896,612	902,952
2018 Term Loan, Martin	Variable	2023	-	36,818
2017A Revenue Bonds	Fixed	2043	770,025	792,350
2017B Revenue Bonds	Fixed	2043	164,775	166,290
2017C Revenue Bonds	Fixed	2032	7,680	8,135
2016 Private Placement	Fixed	2046	325,000	325,000
2016 Term Loan	Variable	2026	15,170	15,170
2014 Taxable Bonds	Fixed	2114	400,000	400,000
2013A Revenue Bonds	Fixed	2042	34,955	34,955
2013B Revenue Bonds	Variable	2039	201,160	201,160
2013 Keep Memory Alive Bonds	Variable	2037	52,450	54,760
2013 Bonds, Martin	Variable	2032	14,455	14,455
2012A Revenue Bonds	Fixed	2039	255,780	266,060
2011A Revenue Bonds	Fixed	2025	-	79,285
2011B Revenue Bonds	Fixed	2031	21,710	23,345
2011C Revenue Bonds	Fixed	2032	112,025	127,740
2008B Revenue Bonds	Variable	2042	327,575	327,575
2003C Revenue Bonds	Variable	2035	41,905	41,905
Notes Payable	Varies	Varies	2,433	2,901
Finance leases	Varies	Varies	113,649	110,621
			$ 5,126,829	$ 5,152,487

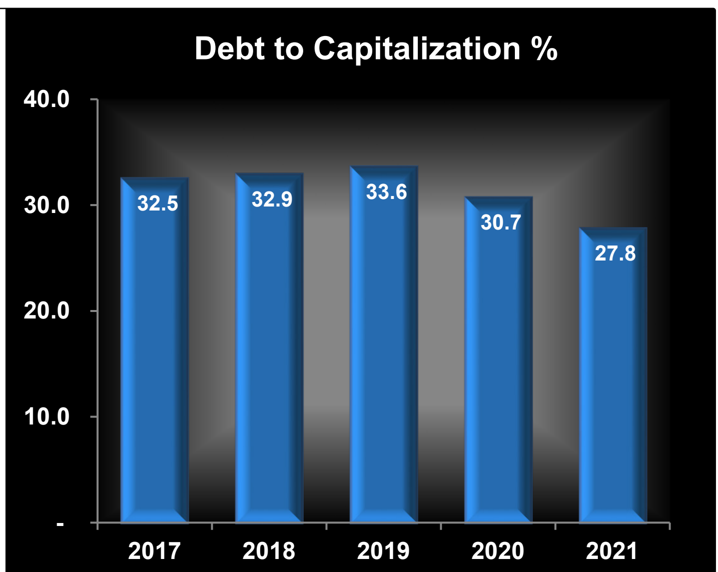
[1]Converted to U.S. dollars using foreign exchange rates at the period end date

In January 2021, the System entered into a taxable term loan agreement with a financial institution for $64.7 million. The proceeds of the taxable term loan were used to refund all of the remaining outstanding Series 2011A Bonds.

In July 2021, pursuant to certain agreements between the System and the State acting by and through the Ohio Higher Educational Facility Commission, the State issued the Series 2021A Bonds totaling $83.8 for the benefit of the System. At the same time, the State also entered into a Forward Delivery Contract of Purchase related to the Series 2021B Bonds totaling $198.3 million for the benefit of the System. The Series 2021B bonds were settled and delivered on October 5, 2021. Proceeds from the issuance of the Series 2021A Bonds were used for the purpose of financing a portion of the costs of the System's acquisition of the sole membership interest in Cleveland Clinic Mercy Hospital and pay the cost of issuance. Proceeds from the issuance of the Series 2021B Bonds were used to refund a portion of the Series 2012A Bonds and pay the cost of issuance. For a description of the bonds issued in 2021, refer to "FINANCING DEVELOPMENTS."

The following charts summarize cash-to-debt and debt-to-capitalization ratios for the System at December 31 for the last four years and at September 30, 2021.





BOND RATINGS

The obligated group's outstanding bonds have been assigned ratings of Aa2 (stable outlook) and AA (stable outlook) by Moody's and S&P, respectively. In July 2021, S&P and Moody's affirmed their respective rating and outlook. According to reports issued by Moody's and S&P, the ratings reflect a unique and strong enterprise profile, a strong leadership team and a national and international clinical reputation.

The following table lists the various bond rating categories for Moody's and S&P:

Bond Ratings

	Rating category		
	Moody's	S&P	Definition
Strongest	Aaa	AAA	Prime
↑	Aa	AA	High grade/high quality
	A	A	Upper medium grade
	Baa	BBB	Lower medium grade
	Ba	BB	Non-investment grade/speculative
	B	B	Highly speculative
↓	Caa/Ca	CCC	Extremely speculative
Weakest	C	D	Default or bankruptcy
Cleveland Clinic	Aa2	AA	

Within each rating category are the following modifiers
Moody's ratings: 1 indicates higher end, 2 indicates mid-range, 3 indicates lower end
S&P ratings: + indicates higher end, - indicates lower end

Based on recent ratings summary reports obtained from Moody's and S&P, no healthcare organizations were rated in the prime category.

CONSOLIDATED RESULTS OF OPERATIONS

For the Quarters Ended September 30, 2021 and 2020

The following narrative describes the consolidated results of operations for the System for the quarters ended September 30, 2021 and 2020. The consolidated results of operations for 2021 include the financial operations of Mercy, which became a consolidated entity of the System on February 1, 2021. For comparative purposes, certain financial activity in the narrative below is presented on a same facility basis, which excludes the financial operations of Mercy for the quarter ended September 30, 2021. For the three months ended September 30, 2021, Mercy had total unrestricted revenues of $96.6 million, an operating loss of $1.5 million and a deficiency of revenues over expenses of $1.2 million.

Operating income for the System in the third quarter of 2021 was $148.2 million, resulting in an operating margin of 4.8%, as compared to

operating income of $133.9 million and an operating margin of 4.9% in the third quarter of 2020. On a same facility basis (excluding Mercy's operating loss of $1.5 million), operating income for the System was $149.7 million, resulting in an operating margin of 5.0%. On a same facility basis, total unrestricted revenues increased 9.2% and total expenses increased 9.1% in the third quarter of 2021 compared to the same period in 2020. Patient activity was higher in the third quarter of 2021. The lower patient activity in the third quarter of 2020 was partially offset by the recognition of CARES Act Provider Relief Fund payments. Nonoperating gains for the System were $274.0 million in the third quarter of 2021 compared to nonoperating gains of $469.9 million in the third quarter of 2020. The decrease from the prior year was primarily due to lower investment returns in the third quarter of 2021 compared to the same period in 2020. Overall, the System reported an excess of revenues over expenses of $422.2 million in the third quarter of 2021 compared to an excess of revenues over expenses of $603.8 million in the third quarter of 2020.

The System's net patient service revenue increased $363.2 million (15.2%) in the third quarter of 2021 compared to the same period in 2020. On a same facility basis, net patient service revenue increased $269.1 million (11.3%). Patients served in the third quarter of 2020 were negatively impacted by the pandemic. On a same facility basis, acute admissions increased 5.0%, total surgical cases increased 4.8% and outpatient evaluation and management visits increased 12.4% in the third quarter of 2021 compared to the same period in 2020. The System also compared patients served in the third quarter of 2021 to the same period in 2019 to determine the variance compared to pre-pandemic levels. On a same facility basis, acute admissions decreased 0.4%, total surgical cases decreased 2.5% and outpatient evaluation and management visits increased 8.4% in the third quarter of 2021 compared to the same period in 2019. Net patient revenue has also benefited from rate increases on the System's managed care contracts that became effective in 2021. Over the last few years, the System has initiated national, regional and local revenue management projects designed to improve patient access throughout the System while striving to ensure the safety of patients, visitors and caregivers.

Other unrestricted revenues decreased $15.1 million (4.6%) in the third quarter of 2021 compared to the same period in 2020. On a same facility basis, other unrestricted revenues decreased $17.6 million (5.3%). The decrease in same facility other unrestricted revenues was primarily due to a decrease of $85.7 million in CARES Act Provider Relief Fund payments and Employee Retention Credits being recognized in the third quarter of 2021 compared to the same period of 2020, a $4.1 million decrease in gifts and assets released from restriction and a $2.2 million decrease in earnings from equity investments. Partially offsetting the decreases was a $54.0 million increase in outpatient pharmacy revenue primarily due to higher utilization of outpatient and specialty drugs and implementation of a contract pharmacy program, a $22.5 million increase in grants earned, which includes $5.1 million related to FEMA grants, and a $3.2 million increase in revenues related to parking, food service and hotels primarily due to higher patient activity and changes to the visitation restrictions that have become less restrictive throughout the pandemic.

Total operating expenses increased $333.8 million (12.9%) in the third quarter of 2021 compared to the same period in 2020. On a same facility basis, total operating expenses increased $235.6 million (9.1%). The growth in expenses is primarily due to the increase in patients served. In order to offset the impact of the COVID-19 pandemic, the System has taken measures to

reduce costs and expenditures, including restricting travel, reducing purchased/administrative service expenses and other controllable costs and postponing certain non-critical capital expenditures. Additionally, the System has implemented Care Resource Optimization initiatives over the last several years to address the growth in expenses caused by inflationary pressures in many expense categories such as salaries, benefits and specialized pharmaceuticals. Care Resource Optimization initiatives are designed to transform patient care and business models in an effort to provide high-quality, affordable patient care. The System identifies, quantifies and implements these initiatives through an extensive analysis of the cost structure. The System continues to develop and implement cost management and containment plans designed to make a more affordable care model for patients and to enable investments in key strategic initiatives.

Salaries, wages and benefits increased $208.6 million (14.2%) in the third quarter of 2021 compared to the same period in 2020. On a same facility basis, salaries, wages and benefits increased $151.0 million (10.3%). Same facilities salaries, excluding benefits, increased $123.1 million (9.7%) due primarily to a 3.6% increase in average full-time equivalent employees in the third quarter of 2021 compared to the same period in 2020, annual salary adjustments averaging 2% across the System that were awarded in the second quarter of 2021 and an increase in agency and other temporary personnel primarily related to the outsourcing of nursing services to provide adequate staffing at System hospitals. Same facility benefit costs increased $28.0 million (13.7%) during the same period primarily due to the growth in the FTEs and salaries. The System experienced an $11.7 million increase in employee healthcare costs, a $6.5 million increase in defined contribution plan expenses, a $6.3 million increase in FICA expenses and a $0.9 million increase in maternity and parental leave (an enhanced benefit to caregivers that became effective in the second quarter of 2020). These increases were partially offset by a $1.9 million decrease in disability expenses.

Supplies expense increased $26.1 million (9.0%) in the third quarter of 2021 compared to the same period in 2020. On a same facility basis, supplies expense increased $12.9 million (4.5%). The increase in same facility supplies was comprised of a $3.3 million increase in medical supplies and implantables and a $9.7 million increase in non-medical supplies. The increase is medical supplies and implantables is primarily due to the increase in surgical cases. The increase in non-medical supplies was driven primarily by an increase in minor equipment and office supplies.

Pharmaceutical costs increased $38.3 million (12.1%) in the third quarter of 2021 compared to the same period in 2020. On a same facility basis, pharmaceutical costs increased $30.3 million (9.5%). The increase in pharmaceuticals is primarily due to the increase in patients served in the third quarter of 2021 compared to the same period in 2020.

Purchased services and other fees increased $34.7 million (19.0%) in the third quarter of 2021 compared to the same period in 2020. On a same facility basis, purchased services and other fees increased $24.7 million (13.6%). The increase in same facility purchased services and other fees was primarily related to a $16.2 million increase in state franchise fee expenses, a $4.9 million increase in software and hardware technology costs related to maintenance agreements and software subscriptions and a $1.8 million increase in recruitment costs.

Administrative services increased by $5.2 million (12.9%) in the third quarter of 2021 compared to the same period in 2020. On a same facility basis, administrative services increased $3.9

million (9.6%). The increase in same facility administrative services was primarily due to a $4.0 million increase in travel and meeting costs that were significantly restricted in 2020 as part of the System's initiatives to reduce expenses and a $1.7 million increase in research services. The increases were partially offset by a $2.1 million decrease in professional and consulting fees.

Facilities expense increased $13.3 million (15.0%) in the third quarter of 2021 compared to the same period in 2020. On a same facility basis, facilities expenses increased $9.3 million (10.5%). The increase in same facility expenses was primarily due to a $4.7 million increase in utilities expense, a $2.6 million increase in maintenance and supplies and a $2.3 million increase in building and equipment lease expense.

Insurance expense increased $0.5 million (3.0%) in the third quarter of 2021 compared to the same period in 2020. On a same facility basis insurance expenses were flat in the third quarter of 2021 compared to the same period in 2020.

Interest expense decreased $1.1 million (2.8%) in the third quarter of 2021 compared to the same period in 2020. On a same facility basis, interest expense decreased by $1.5 million (4.0%). The decrease in same facility interest expense is primarily due to regularly scheduled principal payments in 2021 and lower interest rates attributable to the System's outstanding variable-rate debt. The System also refunded $64.7 million of fixed-rate debt in January 2021 at a lower interest rate.

Depreciation and amortization expenses increased $8.1 million (5.6%) in the third quarter of 2021 compared to the same period in 2020. On a same facility basis depreciation and amortization expenses increased $5.1 million (3.5%). Changes in same facility depreciation include property, plant and equipment that was fully depreciated in 2020, offset by depreciation for property, plant and equipment that was acquired and placed into service after the third quarter of 2020.

Gains and losses from nonoperating activities are recorded below operating income in the statement of operations. These items resulted in net gains to the System of $274.0 million in the third quarter of 2021 compared to net gains of $469.9 million in the third quarter of 2020, resulting in an unfavorable variance of $195.9 million. Investment returns were unfavorable by $182.9 million in the third quarter of 2021 compared to the same period in 2020. Derivative gains and losses were unfavorable by $10.6 million in the third quarter of 2021 compared to the same period in 2020. Derivative gains and losses result from changes in currency exchange rates associated with the System's foreign exchange forward currency contracts and changes in interest rate benchmarks associated with the System's interest rate swap agreements, including net interest paid or received under the swap agreements. Other nonoperating gains and losses were unfavorable by $2.4 million in the third quarter of 2021 compared to the same period in 2020.

For the Nine Months Ended September 30, 2021 and 2020

The following narrative describes the consolidated results of operations for the System for the first nine months of 2021 and 2020. The consolidated results of operations for 2021 include the financial operations of Mercy, which became a consolidated entity of the System on February 1, 2021. For comparative purposes, certain financial activity in the narrative below is presented on a same facility basis, which excludes the financial operations of Mercy for the nine months ended September 30, 2021. For the eight months ended September 30, 2021, Mercy had total unrestricted revenues of $251.9 million, operating loss of $1.5 million and a deficiency of revenues over expenses of $1.2 million.

Operating income for the System in the first nine months of 2021 was $549.4 million, resulting in an operating margin of 6.0%, as compared to an operating loss of $107.9 million and an operating margin of -1.4% in the first nine months of 2020. The operations of the System in the first nine months of 2020 were significantly impacted by the pandemic and the actions taken by the System to suspend non-essential procedures and appointments between mid-March and early May. On a same facility basis, total unrestricted revenues increased 15.6% and total expenses increased 6.9% in the first nine months of 2021 compared to the same period in 2020. Patient activity was higher in 2021. The lower patient activity in 2020 was partially offset by the recognition of CARES Act Provider Relief Fund payments. The System recognized $162.4 million in CARES Act Provider Relief Fund payments in the first nine months of 2021 compared to $351.6 million recognized in the first nine months of 2020. Nonoperating gains for the System were $1,127.5 million in the first nine months of 2021 compared to nonoperating gains of $157.2 million in the first nine months of 2020. The increase from the prior year was primarily due to higher investment returns in the first nine months of 2021 compared to the same period in 2020. Overall, the System reported an excess of revenues over expenses of $1,676.9 million in the first nine months of 2021 compared to an excess of revenues over expenses of $49.3 million in the first nine months of 2020.

The System's net patient service revenue increased $1,489.4 million (22.7%) in the first nine months of 2021 compared to the same period in 2020. On a same facility basis, net patient service revenue increased $1,244.6 million (19.0%). Patients served in the first nine months of 2020 were negatively impacted by the suspension of non-essential procedures in mid-March based on government orders that lasted through early May. On a same facility basis, acute admissions increased 7.7%, total surgical cases increased 19.7% and outpatient evaluation and management visits increased 15.9% in the first nine months of 2021 compared to the same period in 2020. The System also compared patients served in the first nine months of 2021 to the same period in 2019 to determine the variance compared to pre-pandemic levels. On a same facility basis, acute admissions decreased 0.2%, total surgical cases decreased 1.6% and outpatient evaluation and management visits increased 5.2% in the first nine months of 2021 compared to the same period in 2019. Net patient revenue has also benefited from rate increases on the System's managed care contracts that became effective in 2021. Over the last few years, the System has initiated national, regional and local revenue management projects designed to improve patient access throughout the System while striving to ensure the safety of patients, visitors and caregivers.

Other unrestricted revenues decreased $42.2 million (3.8%) in the first nine months of 2021 compared to the same period in 2020. On a same

facility basis, other unrestricted revenues decreased $49.4 million (4.5%). The decrease in same facility other unrestricted revenues was primarily due to a decrease of $197.9 million in CARES Act Provider Relief Fund payments and Employee Retention Credits recognized in the first nine months of 2021 compared to the same period of 2020. Partially offsetting the decrease in Provider Relief Fund payments was a $131.9 million increase in outpatient pharmacy revenue primarily due to higher utilization of outpatient and specialty drugs and implementation of a contract pharmacy program, a $9.4 million increase in revenues related to parking, food service and hotels primarily due to higher patient activity and changes to visitation restrictions that have become less restrictive throughout the pandemic and a $5.0 million insurance settlement associated with losses due to the COVID-19 pandemic.

Total operating expenses increased $789.9 million (10.2%) in the first nine months of 2021 compared to the same period in 2020. On a same facility basis, total operating expenses increased $536.4 million (6.9%). The growth in expenses is primarily due to the increase in patients served. In order to offset the impact of the COVID-19 pandemic, the System has taken measures to reduce costs and expenditures, including restricting travel, reducing purchased/administrative service expenses and other controllable costs and postponing certain non-critical capital expenditures. Additionally, the System has implemented Care Resource Optimization initiatives over the last several years to address the growth in expenses caused by inflationary pressures in many expense categories such as salaries, benefits and specialized pharmaceuticals. Care Resource Optimization initiatives are designed to transform patient care and business models in an effort to provide high-quality, affordable patient care. The System identifies, quantifies and implements these initiatives through an extensive analysis of the cost structure. The System continues to develop and implement cost management and containment plans designed to make a more affordable care model for patients and to enable investments in key strategic initiatives.

Salaries, wages and benefits increased $491.7 million (11.1%) in the first nine months of 2021 compared to the same period in 2020. On a same facility basis, salaries, wages and benefits increased $345.0 million (7.8%). Same facilities salaries, excluding benefits, increased $272.1 million (7.2%) due primarily to a 2.9% increase in average full-time equivalent employees in the first nine months of 2021 compared to the same period in 2020, annual salary adjustments averaging 2% across the System that were awarded in the second quarter of 2021 and an increase in agency and other temporary personnel primarily related to the outsourcing of nursing services to provide adequate staffing at System hospitals. Salaries also increased due to a gratitude gesture from the System in the form of a one-time monetary payment of $500 to all caregivers in April 2021. The gratitude gesture was provided to honor the commitment, hard work and selflessness of caregivers across the System. Same facility benefit costs increased $72.8 million (11.3%) during the same period primarily due to the growth in the FTEs and salaries. The System experienced a $27.0 million increase in employee healthcare costs, a $16.4 million increase in FICA expenses, an $11.5 million increase in defined contribution pension plan expenses, a $10.5 million increase in maternity and parental leave (an enhanced benefit to caregivers that became effective in the second quarter of 2020) and a $1.9 million increase in workers compensation expenses.

Supplies expense increased $106.7 million (13.0%) in the first nine months of 2021 compared to the same period in 2020. On a same facility basis, supplies expense increased $69.7 million (8.5%). The increase in same facility

supplies was comprised of a $73.4 million increase in medical supplies and implantables offset by a $3.7 million decrease in non-medical supplies. The increase in medical supplies and implantables is primarily due to the increase in surgical cases. The decrease in non-medical supplies was driven primarily by a decrease in minor equipment and software costs as part of the System's initiatives to reduce controllable costs.

Pharmaceutical costs increased $80.2 million (8.5%) in the first nine months of 2021 compared to the same period in 2020. On a same facility basis, pharmaceutical costs increased $62.5 million (6.6%). The increase in pharmaceuticals is primarily due to the increase in patients served in the first nine months of 2021 compared to the same period in 2020.

Purchased services and other fees increased $84.8 million (15.9%) in the first nine months of 2021 compared to the same period in 2020. On a same facility basis, purchased services and other fees increased $58.4 million (11.0%). The increase in same facility purchased services and other fees was primarily related to a $45.6 million increase in state franchise fee expenses, a $19.8 million increase in software and hardware technology costs related to maintenance agreements and software subscriptions and a $4.6 million increase in purchased medical services including lab costs. The increases were partially offset by a reduction in various costs related to certain System projects and initiatives that are part of the System's initiatives to reduce expenses.

Administrative services decreased by $4.4 million (3.2%) in the first nine months of 2021 compared to the same period in 2020. On a same facility basis, administrative services decreased $8.0 million (5.9%). The decrease in same facility administrative services was primarily due to an $8.2 million decrease in professional and consulting fees as well as other administrative services that are part of the System's initiatives to reduce expenses.

Facilities expense increased $25.5 million (9.7%) in the first nine months of 2021 compared to the same period in 2020. On a same facility basis, facilities expenses increased $15.0 million (5.7%). The increase in same facility expenses was primarily due to an $11.8 million increase in utilities expense and a $4.4 million increase in building and equipment lease expense offset by a $3.7 million decrease in repair and maintenance expenses.

Insurance expense increased $8.9 million (13.9%) in the first nine months of 2021 compared to the same period in 2020. On a same facility basis insurance expense increased $7.3 million (11.5%). The increase in same facility insurance expense is primarily due to added coverages written by the System's captive insurance subsidiary and premium payments on other insurance policies.

Interest expense decreased $7.0 million (5.9%) in the first nine months of 2021 compared to the same period in 2020. On a same facility basis, interest expense decreased by $8.1 million (6.8%). The decrease in same facility interest expense is primarily due to regularly scheduled principal payments in 2021 and lower interest rates attributable to the System's outstanding variable-rate debt. The System also refunded $64.7 million of fixed-rate debt in January 2021 at a lower interest rate.

Depreciation and amortization expenses increased $3.5 million (0.8%) in the first nine months of 2021 compared to the same period in 2020. On a same facility basis depreciation and amortization expenses decreased $5.1 million (1.1%). Changes in same facility depreciation include property, plant and equipment that was fully depreciated in 2020, offset by depreciation

for property, plant and equipment that was acquired and placed into service after the third quarter of 2020.

Gains and losses from nonoperating activities are recorded below operating income in the statement of operations. These items resulted in net gains to the System of $1,127.5 million in the first nine months of 2021 compared to gains of $157.2 million in the first nine months of 2020, resulting in a favorable variance of $970.3 million. Investment returns were favorable by $871.1 million in the first nine months of 2021 compared to the same period in 2020. The System's long-term investment portfolio reported investment gains of 9.5% for the first nine months of 2021 compared gains of 2.4% in the first nine months of 2020. Derivative gains and losses were favorable by $92.9 million in the first nine months of 2021 compared to the same period in 2020. Derivative gains and losses result from changes in currency exchange rates associated with the System's foreign exchange forward currency contracts and changes in interest rate benchmarks associated with the System's interest rate swap agreements, including net interest paid or received under the swap agreements. Other nonoperating gains and losses were favorable by $6.3 million in the first nine months of 2021 compared to the same period in 2020 primarily due to a $4.3 million gain on retirement of debt related to the refunding of the Series 2011A Bonds in the first quarter of 2021.

BALANCE SHEET – SEPTEMBER 30, 2021 COMPARED TO DECEMBER 31, 2020

The following narrative describes the consolidated balance sheets for the System as of September 30, 2021 and December 31, 2020. The consolidated balance sheet at September 30, 2021 includes Mercy, which became a consolidated entity of the System February 1, 2021. For comparative purposes, certain financial activity in the narrative below is presented on a same facility basis, which excludes balance sheet information for Mercy as of September 30, 2021.

Cash and cash equivalents decreased $13.1 million (1.3%) from December 31, 2020 to September 30, 2021. On a same facility basis, cash and cash equivalents decreased $42.5 million (4.1%). The majority of the System's cash and cash equivalents are held in operating bank accounts and money market accounts for general expenditures. The decrease in same facility cash equivalents relates to the timing of operating cash flows and transfers to or from the investment portfolio.

Patient accounts receivable increased $182.7 million (14.5%) from December 31, 2020 to September 30, 2021. On a same facility basis, patient accounts receivable increased $139.5 million (11.1%) The increase in same facility patient receivables is primarily attributable to the increase in patients served in the first nine months of 2021 compared to the same period in 2020 and rate increases on the System's managed care contracts that became effective in January 2021. The System has various initiatives to enhance cash collection efforts and create efficiencies in the revenue cycle process. Days revenue outstanding for the System, which is calculated based on average daily revenue for the most recent quarter, increased from 45 days at December 31, 2020 to 48 days at September 30, 2021.

Investments for current use decreased $122.7 million (69.2%) from December 31, 2020 to September 30, 2021. On a same facility basis, investments for current use decreased $122.7

million (69.2%). Investments for current use includes funds held by the bond trustee that are used to pay current debt service payments. The System paid $122.7 million to the bond trustee in 2020 to fund debt service payments that occurred in the first quarter of 2021. There were no funds held by the bond trustee reported in investments for current use as of September 30, 2021. Investments for current use also includes assets held for self-insurance that will be used to pay the current portion of estimated claim liabilities. There were no changes in these investments from December 31, 2020 to September 30, 2021.

Other current assets increased $37.2 million (6.8%) from December 31, 2020 to September 30, 2021. On a same facility basis, other current assets increased $25.8 million (4.7%). The increase in same facility other current assets was primarily due to a $33.3 million increase in prepaid expenses driven by annual information technology contracts, a 19.0 million increase in receivables related to international management fees and other programs and a $13.3 million increase in receivables related to Medicaid and other government programs. The increases in same facility other current assets were partially offset by a $35.1 million decrease in receivables related to research projects and a $5.9 million decrease in pledges receivable.

Unrestricted long-term investments increased by $1,661.9 million (16.1%) from December 31, 2020 to September 30, 2021. On a same facility basis, unrestricted long-term investments increased by $1,646.6 million (15.9%). The increase in same facility long-term investments was primarily due to $1,073.2 million of unrestricted investment income experienced in the System's investment portfolio that experienced gains of 9.5% in the first nine months of 2021. Unrestricted investments also increased as a result of the payment of a $25.0 million dividend form the System's captive insurance subsidiary. Other changes in the unrestricted investments include transfers to or from operating cash based on the liquidity needs of the System.

Funds held by trustees decreased $29.4 million (26.6%) from December 31, 2020 to September 30, 2021. On a same facility basis, funds held by trustees decreased $29.4 million (26.6%). The decrease in same facility funds held by trustees is primarily due to a $28.2 million decrease in collateral posted with the counterparties on the System's derivative contracts.

Assets held for self-insurance increased by $13.6 million (7.6%) from December 31, 2020 to September 30, 2021. On a same facility basis, assets held for self-insurance increased by $13.6 million (7.6%). The increase in same facility self-insurance assets is primarily due to premiums received by the captive insurance subsidiary in excess of claims paid and positive investment returns in the System's captive insurance portfolio. These increases were offset by a $25.0 million dividend declared by the System's captive insurance subsidiary in 2020 that was paid to the System in the first quarter of 2021.

Donor restricted assets increased $103.6 million (10.2%) from December 31, 2020 to September 30, 2021. On a same facility basis, donor restricted assets increased $101.0 million (10.0%). The increase in same facility donor restricted assets was primarily from the receipt of donor restricted gifts and investment income on restricted investments in excess of expenditures from restricted funds.

Net property, plant and equipment increased $12.6 million (0.2%) from December 31, 2020 to September 30, 2021. On a same facility basis, net property, plant and equipment decreased $65.3 million (1.1%). The System had same facility net expenditures for property, plant and equipment of $397.9 million, offset by depreciation expense of $444.8 million. The

System also had proceeds from the sale of property, plant and equipment of $12.3 million and foreign currency translation losses of $8.6 million. Capital expenditures in 2021 include amounts paid on retainage liabilities recorded at December 31, 2020 and exclude assets acquired through finance leases and other financing arrangements. Retainage liabilities decreased $12.4 million, and new finance leases totaled $12.5 million. Expenditures for property, plant and equipment were incurred at numerous facilities across the System and include expenditures for strategic construction, expansion and technological investment as well as replacement of existing facilities and equipment. Beginning in 2020 and continuing into 2021, the System is re-evaluating the scope and timeline for certain capital projects to preserve liquidity during the COVID-19 pandemic. For a description of a few of the System's current projects, refer to "EXPANSION AND IMPROVEMENT PROJECTS."

Pledges receivable increased $20.9 million (16.6%) from December 31, 2020 to September 30, 2021. On a same facility basis, pledges receivable increased $20.9 million (16.6%). The increase in same facility pledges receivable was due to new pledges received in 2021 offset by the reclassification of regularly scheduled principal payments from long-term to current that are due within one year.

Trusts and interests in foundations increased $7.7 million (6.8%) from December 31, 2020 to September 30, 2021. On a same facility basis trusts and interests in foundations increased $7.7 million (6.8%). The increase in same facility trusts and interests in foundations is comprised of a $6.8 million increase in perpetual and charitable trusts and a $0.9 million increase in interest in community foundations.

Operating lease right-of-use assets increased $10.0 million (2.8%) from December 31, 2020 to September 30, 2021. On a same facility basis, operating lease right-of-use assets increased $1.7 million (0.5%). The increase in same facility operating lease right-of-use assets was due to the reduction in the value of future lease payments through the recognition of operating lease expenses offset by the addition of new operating leases recorded during the first nine months of 2021.

Other noncurrent assets increased $82.5 million (12.8%) from December 31, 2020 to September 30, 2021. On a same facility basis, other noncurrent assets increased $81.8 million (12.7%). The increase in same facility other noncurrent assets was primarily due to a $46.8 million increase in deferred compensation plan assets, a $22.5 million increase in prepaid pension assets, a $13.0 million increase in investments in affiliates primarily related to joint venture rehabilitation hospitals, and a $4.9 million increase in goodwill primarily due to a physician practice acquisition.

Accounts payable increased $22.3 million (4.2%) from December 31, 2020 to September 30, 2021. On a same facility basis accounts payable increased $5.9 million (1.1%). The increase in same facility accounts payable was primarily attributable to the timing of payment processing for trade payables offset by a $12.4 million decrease in retainage liabilities for current construction projects.

Compensation and amounts withheld from payroll increased $130.5 million (28.1%) from December 31, 2020 to September 30, 2021. On a same facility basis compensation and amounts withheld from payroll increased $115.1 million (24.8%). The increase in same facility compensation and amounts withheld from payroll was primarily attributable to the timing of payroll and the growth in employee benefit accruals.

Current portion of long-term debt increased $2.3 million (2.3%) from December 31, 2020 to September 30, 2021. On a same facility basis current portion of long-term debt increased $2.0 million (2.0%). Changes in the current portion of long-term debt include the reclassification of regularly scheduled principal payments from long-term to current that are due within one year, offset by principal payments made in 2021.

Variable rate debt classified as current decreased $90.4 million (15.3%) from December 31, 2020 to September 30, 2021. On a same facility basis variable rate debt classified as current decreased $90.4 million (15.3%). Long-term debt classified as current consists of variable-rate bonds supported by the System's self-liquidity program and bonds with letters of credit or standby bond purchase agreements that expire within one year, require repayment of a remarketing draw within one year or contain a subjective clause that would allow the lender to declare an event of default and cause immediate repayment of such bonds. The decrease in variable rate debt classified as current was primarily due to the reclassification of $88.0 million from current to long-term for bonds supported by a standby bond purchase agreement that was scheduled to expire in 2021. The System entered into a new agreement that allows the bonds to be classified as long-term at September 30, 2021.

Other current liabilities increased $18.7 million (2.5%) from December 31, 2020 to September 30, 2021. On a same facility basis other current liabilities increased $4.3 million (0.6%). The increase in same facility other current liabilities is primarily due to a $19.6 million increase in deferred revenue related to the timing of revenue recognition for management fees and other program services, a $17.6 million increase in statement franchise fee liabilities primarily related to the timing of payments to the State of Ohio, a $13.6 million increase in deferred research revenue, a $5.9 million increase in accrued employee health care benefits, a $5.3 million increase in short term operating lease liabilities and a $3.5 million increase in the current pledges payable. These increases were offset by a $36.4 million decrease in accrued interest payable and a $22.2 million decrease related to payments the Akron General settlement agreement with the DOJ. Refer to "AKRON GENERAL HEALTH SYSTEM" for additional description of the settlement agreement.

Long-term debt increased $51.9 million (1.1%) from December 31, 2020 to September 30, 2021. On a same facility basis long term debt increased $13.8 million (0.3%). The increase in same facility long-term debt is partially due to the issuance of the Series 2021A Bonds. For a description of the bonds issued in 2021, refer to "FINANCING DEVELOPMENTS." Also contributing to the increase was $88.0 million transferred from variable rate debt classified as current to long-term debt. The increases were offset by the reclassification of regularly scheduled principal payments from long-term to current for debt payments due within one year and $6.3 million of foreign currency translation gains on the 2018 Sterling Notes.

Professional and general insurance liability reserves increased $30.3 million (14.0%) from December 31, 2020 to September 30, 2021. On a same facility basis professional and general liability reserves increased $30.4 million (14.0%). The increase in same facility insurance liability reserves is due to expenses recorded for the accrual of current and prior year claims estimates in excess of claim liability payments.

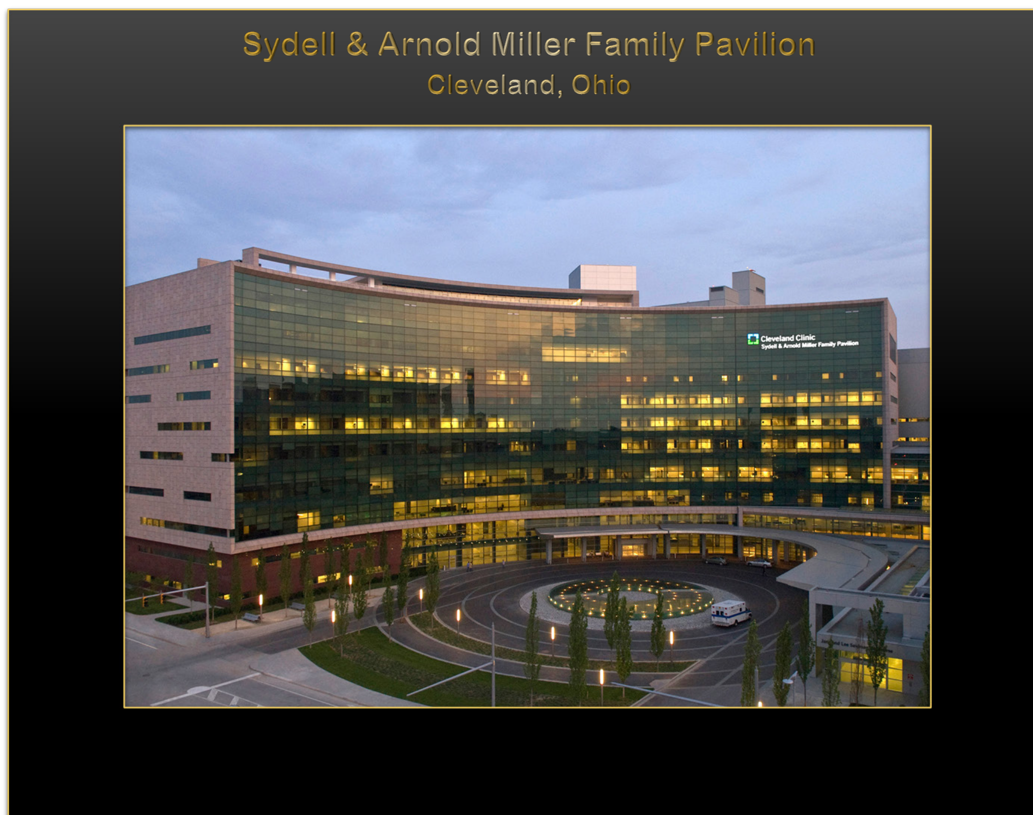
Accrued retirement benefits decreased $27.7 million (9.3%) from December 31, 2020 to September 30, 2021. On a same facility basis accrued retirement benefits decreased $27.7 million (9.3%). The decrease in same facility

accrued retirement benefits is comprised of a $22.9 million decrease in the System's defined benefit pension plan liabilities and a $4.9 million decrease in other postretirement benefit liabilities. The decrease in defined benefit plan liabilities was due to a net periodic benefit, which resulted from the expected return on plan assets in excess of interest cost incurred on plan obligations.

Operating lease liabilities increased $4.5 million (1.4%) from December 31, 2020 to September 30, 2021. On a same facility basis operating lease liabilities decreased $1.5 million (0.5%). The decrease in same facility operating lease liabilities was due to the reclassification of operating lease payments from long-term to short-term partially offset by the addition of new operating leases recorded during 2021.

Other noncurrent liabilities increased $21.3 million (3.0%) from December 31, 2020 to September 30, 2021. Same facility other noncurrent liabilities increased $18.5 million (2.6%). The increase in same facility other noncurrent liabilities is primarily due to a $47.2 million increase in deferred compensation plan liabilities, a $4.3 million increase in third party reserves and a $4.1 million increase in liabilities for disability benefits. These increases were offset by a $35.5 million decrease in liabilities related to the System's derivative agreements.

Total net assets increased $1,803.7 million (13.6%) from December 31, 2020 to September 30, 2021. Net assets without donor restrictions increased $1,680.7 million (14.1%) primarily due to excess of revenues over expenses of $1,676.9 million and net assets released from restriction for capital purposes of $9.3 million. Net assets with donor restrictions increased $123.0 million (9.3%), primarily due to gifts of $109.0 million and investment income of $47.1 million offset by assets released from restrictions of $41.9 million.



FORWARD-LOOKING STATEMENTS

Forward-looking statements contained in this report and other written reports and oral statements are made based on known events and circumstances at the time of release, and as such, are subject in the future to unforeseen uncertainties and risks. All statements regarding future performance, events or developments are forward-looking statements. It is possible that the System's future performance may differ materially from current expectations depending on economic conditions within the healthcare industry and other factors. Among other factors that might affect future performance are:

- The impact of a pandemic, epidemic or outbreak of an infectious disease such as the novel coronavirus disease (COVID-19), including but not limited to (1) a quarantine, temporary shutdown, overburdening of facilities or diversion of patients, (2) bed, staffing or supply shortages, (3) reduced patient volumes and operating revenues, (4) the loss of employment and health insurance for a significant portion of the population, or (5) staffing reductions resulting from vaccination mandates of employees;
- Changes to the Medicare and Medicaid reimbursement systems resulting in reductions in payments and/or changes in eligibility of patients to qualify for Medicare and Medicaid;
- Legislative reforms or actions that reduce the payment for, and/or utilization of, healthcare services, such as the Patient Protection and Affordable Care Act and/or draft legislation to address reimbursement cuts related to the Sustainable Growth Rate Formulas;
- Possible repeal and/or replacement of the Patient Protection and Affordable Care Act, and repeal of the individual mandate;
- Adjustments resulting from Medicare and Medicaid reimbursement audits, including audits initiated by the Medicare Recovery Audit Contractor program;
- Future contract negotiations between public and private insurers, employers and participating hospitals, including the System's hospitals, and other efforts by these insurers and employers to limit hospitalization costs and coverage;
- Increased competition in the areas served by the System and limited options to respond to the same in part due to uncertainty in the enforcement of antitrust laws;
- The ability of the System to integrate the hospitals in Florida into a regional health system;
- The ability of the System to access capital for the funding of capital projects;
- Availability of malpractice, cyber or other insurance at reasonable rates, if at all;
- The System's ability to recruit and retain professionals;
- The ability of the Clinic to develop the London Hospital and establish relationships with payors in that market;
- General economic and business conditions, internationally, nationally and regionally, including the impact of interest rates, foreign currencies, financial market conditions and volatility and increases in the number of self-pay patients;
- The increasing number and severity of cyber threats and the costs of preventing them and protecting patient and other data;
- The declining population in the Greater Cleveland area;

- Impact of federal and state laws on tax-exempt organizations relating to exemption from income taxes, sales taxes, real estate taxes, excise taxes and bond financing;
- Management, utilization and increases in the cost of medical drugs and devices as technological advancement progresses without concurrent increases in federal reimbursement;
- Ability of the System to adjust its cost structure and reduce operating expenses; and
- Changes in accounting standards or practices.

The System undertakes no obligation to update or publicly revise these forward-looking statements to reflect events or circumstances that arise after the date of this report.