MAYO
CLINIC

Mayo Clinic

Unaudited Condensed Consolidated Financial Reports
March 31, 2023

Mayo Clinic

Contents

Unaudited Consolidated Financial Reports

MAYO CLINIC

Condensed Consolidated Statements of Financial Position
Unaudited (In Millions)

	March 31, 2023 Unaudited	December 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	$ 87	$ 64
Accounts receivable for medical services	1,951	1,842
Other receivables	713	759
Other current assets	415	386
Total current assets	3,166	3,051
Investments	17,564	17,256
Other long-term assets	3,684	3,631
Property, plant, and equipment, net	5,973	5,887
Total assets	$ 30,387	$ 29,825
Liabilities and net assets		
Current liabilities:		
Accounts payable	$ 702	$ 752
Accrued payroll	975	849
Accrued employee benefits	169	176
Deferred revenue	74	64
Long-term variable-rate debt	760	620
Other current liabilities	504	470
Total current liabilities	3,184	2,931
Long-term debt, net of current portion	3,980	4,121
Accrued pension and postretirement benefits, net of current portion	812	819
Other long-term liabilities	2,120	2,083
Total liabilities	10,096	9,954
Net assets:		
Without donor restrictions	15,152	14,808
With donor restrictions	5,139	5,063
Total net assets	20,291	19,871
Total liabilities and net assets	$ 30,387	$ 29,825

See notes to condensed consolidated financial statements.

Condensed Consolidated Statements of Activities
Unaudited (in Millions)

	Three Months Ended March 31, 2023			Three Months Ended March 31, 2022		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, gains and other support:						
Medical service revenue	$ 3,645	$ —	$ 3,645	$ 3,346	$ —	$ 3,346
Grants and contracts	**170**	—	170	154	—	154
Investment return allocated to current activities	**119**	**15**	134	64	8	72
Contributions available for current activities	**25**	**$ 24**	49	17	61	78
Other	**275**	—	275	277	—	277
Net assets released from restrictions	**49**	**(49)**	—	44	(44)	—
Total revenue, gains and other support	**4,283**	**(10)**	4,273	3,902	25	3,927
Expenses:						
Salaries and benefits	**2,435**	—	2,435	2,261	—	2,261
Supplies and services	**1,396**	—	1,396	1,254	—	1,254
Depreciation and amortization	**158**	—	158	154	—	154
Facilities	**87**	—	87	80	—	80
Finance and investment	**48**	—	48	36	—	36
Total expenses	**4,124**	—	4,124	3,785	—	3,785
Income (loss) from current activities	**159**	**(10)**	149	117	25	142
Noncurrent and other items:						
Contributions not available for current activities, net	**(2)**	**17**	15	(4)	23	19
Unallocated investment return, net	**168**	**69**	237	(382)	(92)	(474)
Income tax expense	**(7)**	—	(7)	(12)	—	(12)
Benefit credit	**86**	—	86	44	—	44
Other	**(47)**	—	(47)	54	—	54
Total noncurrent and other items	**198**	**86**	284	(300)	(69)	(369)
Increase (decrease) in net assets before other changes in net assets	**357**	**76**	433	(183)	(44)	(227)
Pension and other postretirement benefit adjustments	**(13)**	—	(13)	50	—	50
Increase (decrease) in net assets	**344**	**76**	**420**	**(133)**	**(44)**	**(177)**
Net assets at beginning of period	**14,808**	**5,063**	**19,871**	12,431	5,236	17,667
Net assets at end of period	**$ 15,152**	**$ 5,139**	**$ 20,291**	$ 12,298	$ 5,192	$ 17,490

See notes to condensed consolidated financial statements.

Condensed Consolidated Statements of Cash Flows
Unaudited (In Millions)

	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022
Cash flows from operating activities:		
Cash from medical services	**$ 3,309**	$ 3,038
Cash from external lab services	**227**	220
Cash from grants and contracts	**182**	158
Cash from benefactors	**31**	100
Cash from other activities	**272**	219
Cash for salaries and benefits	**(2,249)**	(2,098)
Cash for supplies, services, and facilities	**(1,567)**	(1,395)
Interest and dividends received	**62**	40
Interest paid	**(9)**	(5)
Income taxes paid	**1**	(1)
Net cash provided by operating activities	**259**	276
Cash flows from investing activities:		
Purchase of property, plant, and equipment	**(251)**	(337)
Purchases of investments	**(2,617)**	(1,637)
Sales and maturities from investments	**2,625**	1,683
Investment in joint ventures	**(2)**	—
Net cash used in investing activities	**(245)**	(291)
Cash flows from financing activities:		
Restricted gifts, bequests, and other	**11**	28
Payment on leases	**(2)**	(2)
Net cash provided by financing activities	**9**	26
Net increase in cash and cash equivalents	**23**	11
Cash and cash equivalents at beginning of period	**64**	46
Cash and cash equivalents at end of period	**$ 87**	$ 57

See notes to condensed consolidated financial statements.

Note 1. Basis of Presentation

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

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal and recurring nature. Operating results for the three months ended March 31, 2023 are not necessarily indicative of the results to be expected for the year ending December 31, 2023. For further information, refer to the audited consolidated financial statements and notes thereto for the year ended December 31, 2022.

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

Note 2. New Accounting Standards

Effective January 1, 2023, the Clinic adopted Financial Accounting Standards Board Accounting Standard Update (ASU) No. 2016-13, Financial Instruments - *Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This ASU provides financial statement users with more decision-useful information about the expected credit losses on financial instruments and other documents to extend credit held by a reporting entity. The adoption of this ASU did not materially impact the condensed consolidated financial statements.

March 31, 2023 (in Millions)

Note 3. Liquidity and Availability

Financial assets available for general expenditure within one year of the balance sheet date, are composed of the following at March 31, 2023 and December 31, 2022:

	March 31, 2023	December 31, 2022
Cash and cash equivalents	$ 87	$ 64
Accounts receivable	1,951	1,842
Promises to give	299	319
Grants receivable	132	145
Other receivables	282	295
Investments	10,957	10,495
Total financial assets available within one year	$ 13,708	$ 13,160

Note 4. Medical Service Revenue

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

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

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

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

Note 4. Medical Service Revenue (Continued)

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

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

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the Clinic's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Clinic. In addition, the contracts that the Clinic has with commercial payors also provide for retroactive audit and review of claims.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Clinic also provides services to uninsured patients and offers those uninsured patients a discount, either by policy or law, from standard charges. The Clinic estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to medical service revenue in the period of the change. For the three months ended March 31, 2023 and 2022, revenue recognized due to changes in its estimates of transaction price concessions for performance obligations satisfied in prior years was not significant. Subsequent changes that are determined to be the result of an adverse change in the patients ability to pay are recorded as bad debt expense. Bad debt expense for the three months ended March 31, 2023 and 2022 was not significant.

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the Clinic's historical settlement activity, including an assessment to ensure it is probable a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available) or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from a change in the transaction price were not significant for the three months ended March 31, 2023 and 2022. Receivables from third-party

March 31, 2023 (in Millions)

Note 4. Medical Service Revenue (Continued)

payors for final settlements were not significant for the three months ended March 31, 2023 and 2022.

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

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

	March 31, 2023			
	Midwest	Southeast	Southwest	Total
Hospital	$ 1,355	$ 301	$ 368	$ 2,024
Clinic	878	231	264	1,373
Senior Care and Nursing Home	4	—	—	4
Other	17	—	—	17
Total patient care service revenue	2,254	532	632	3,418
External lab	227	—	—	227
Total medical service revenue	$ 2,481	$ 532	$ 632	$ 3,645
Timing of revenue and recognition:				
At time services are rendered	$ 1,122	$ 231	$ 264	$ 1,617
Services transferred over time	1,359	301	368	2,028
Total	$ 2,481	$ 532	$ 632	$ 3,645

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

March 31, 2023 (in Millions)

Note 4. Medical Service Revenue (Continued)

Hospital revenue includes a variety of services mainly covering inpatient procedures requiring overnight stays or outpatient operations that require anesthesia or use of complex diagnostic and surgical equipment as well as emergency care for traumas and other critical conditions. Clinic revenue includes services primarily focused on the care of outpatients covering primary and specialty health care needs.

The Clinic's practice is to record certain radiology, pathology, and other hospital related services in the Midwest region as clinic revenue which amounted to $268 and $248, respectively, for the three months ended March 31, 2023 and 2022. Examples of revenue at time services are rendered include clinical services, lab and transport, and services transferred over time include hospital and senior care revenue.

The composition of medical service revenue by payor for the three months ended March 31 is as follows:

	2023	2022
Medicare	$ 977	$ 879
Medicaid	136	126
Contract	2,131	1,924
Other, including self-pay	401	417
Total	$ 3,645	$ 3,346

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

Financing component:
The Clinic has elected the practical expedient allowed under FASB ASU 2014-09, *Revenue from Contracts with Customers (Topic 606-10-32-18)* and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the Clinic’s expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less. However, the Clinic does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

Note 5. Investments

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

Alternative investments (principally limited partnership interests in absolute return, hedge, private equity, real estate and natural resources funds), represents the Clinic’s ownership interest in the net asset value (NAV) of the respective partnership. The investments in alternative investments may individually expose the Clinic to securities lending, short sales, and trading in futures and forward contract options and other derivative products. The Clinic’s risk is limited to the investment’s carrying value.

From time to time, the Clinic invests directly in certain derivative contracts that do not qualify for hedge accounting and are recorded at fair value in investments. Changes in fair value are reported as a component of net unrealized gains or losses in the investment returns. These contracts are used in the

Note 5. Investments (Continued)

Clinic's investment management program to minimize certain investment risks. For the three months ended March 31, 2023 and 2022, the realized and unrealized gain/loss from derivative contracts was not significant.

It is the Clinic's intent to maintain a long-term investment portfolio to support research, education and other activities. Accordingly, the total investment return is reported in the condensed consolidated statements of activities in two categories. The investment return allocated to current activities is determined by formula. Management believes this return is approximately equal to the real return that the Clinic expects to earn on its investments over the long term. The unallocated investment return, included in noncurrent and other items in the condensed consolidated statements of activities, represents the difference between the total investment return and the amount allocated to current activities, net of investment costs.

Note 6. Fair Value Measurements

The Clinic holds certain financial instruments that are required to be measured at fair value on a recurring basis. The valuation techniques used to measure fair value under the *Fair Value Measurement (Topic 820)* of the FASB ASC 820 are based upon observable and unobservable inputs. The standard establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

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

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

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

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The Clinic's policy is to recognize transfers in and transfers out as of the actual date of the event or change in circumstances that caused the transfer. There were no significant transfers within Levels for the three months ended March 31, 2023 and 2022.

March 31, 2023 (in Millions)

Note 6. Fair Value Measurements (Continued)

The following tables present the financial instruments carried at fair value as of March 31, 2023 and December 31, 2022, by caption on the condensed consolidated statements of financial position categorized by the valuation hierarchy and NAV:

	March 31, 2023				
	Level 1	Level 2	Level 3	NAV	Total Fair Value
Assets:					
Securities lending collateral	$ 4	$ —	$ —	$ —	$ 4
Investments:					
Cash and cash equivalents	956	379	—	—	1,335
Fixed income securities:					
U.S. government	—	1,771	—	—	1,771
U.S. government agencies	—	827	—	—	827
U.S. corporate	—	867	—	—	867
Foreign	—	57	—	—	57
Common and preferred stocks:					
U.S.	1,007	—	—	—	1,007
Foreign	705	—	20	—	725
Funds:					
Fixed income	342	—	—	—	342
Equities	1,046	709	—	—	1,755
Other investments	4	—	—	—	4
Less securities under lending agreement	(52)	—	—	—	(52)
Investments at NAV	—	—	—	8,874	8,874
Total investments	4,008	4,610	20	8,874	17,512
Investments under securities lending agreement	52	—	—	—	52
Other long-term assets:					
Trust receivables	62	24	88	—	174
Technology-based ventures	—	—	172	—	172
Total other long-term assets	62	24	260	—	346
Total assets at fair value	$ 4,126	$ 4,634	$ 280	$ 8,874	$ 17,914
Liabilities:					
Securities lending payable	$ 4	$ —	$ —	$ —	4
Total liabilities at fair value	$ 4	$ —	$ —	$ —	$ 4

March 31, 2023 (in Millions)

Note 6. Fair Value Measurements (Continued)

	December 31, 2022				
	Level 1	Level 2	Level 3	NAV	Total Fair Value
Assets:					
Securities lending collateral	$ 3	$ —	$ —	$ —	$ 3
Investments:					
Cash and cash equivalents	1,258	72	—	—	1,330
Fixed income securities:					
U.S. government	—	1,956	—	—	1,956
U.S. government agencies	—	711	—	—	711
U.S. corporate	—	836	—	—	836
Foreign	—	58	—	—	58
Common and preferred stocks:					
U.S.	942	—	—	—	942
Foreign	646	—	20	—	666
Funds:					
Fixed income	327	—	—	—	327
Equities	1,049	662	—	—	1,711
Other investments					
Less securities under lending	(68)	—	—	—	(68)
agreement	—	—	—	8,719	8,719
Investments at NAV	4,154	4,295	20	8,719	17,188
Total investments					
Investments under securities	68	—	—	—	68
lending agreement					
Other long-term assets:	65	27	112	—	204
Trust receivables	—	—	176	—	176
Technology-based ventures	65	27	288	—	380
Total other long-term assets	$ 4,290	$ 4,322	$ 308	$ 8,719	$ 17,639
Total assets at fair value					
Liabilities:	$ 3	$ —	$ —	$ —	3
Securities lending payable	$ 3	$ —	$ —	$ —	$ 3
Total liabilities at fair value	$ 3	$ —	$ —	$ —	$ 3

March 31, 2023 (in Millions)

Note 6. Fair Value Measurements (Continued)

The following is a description of the Clinic's valuation methodologies for assets and liabilities measured at fair value. Fair value for Level 1 is based upon quoted market prices. Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources, including market participants, dealers, and brokers. Level 3 consists of trusts recorded at fair value based on the underlying value of the assets in the trust or discounted cash flow of the expected payment streams.

The trusts reported as Level 3 are primarily perpetual trusts managed by third parties invested in stocks, mutual funds, and fixed-income securities that are traded in active markets with observable inputs, and since the Clinic will never receive the trust assets, these perpetual trusts are reported as Level 3. In addition, technology-based ventures, composed primarily of shares in start-up companies, are recorded at fair value based on inputs relying on factors such as the financial performance of the company, sales performance, financial projections, sales projections, management representation, industry developments, market analysis, and any other pertinent factors that would affect the fair value or based on the quoted price of an otherwise identical unrestricted security of the same issuer, adjusted for the effect of the restriction.

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

The carrying values of cash and cash equivalents, short-term investments, accounts receivable, other current assets, and accounts payable are reasonable estimates of their fair value due to the short-term nature of these financial instruments.

The following information pertains to those alternative investments recorded at NAV in accordance with the *Fair Value Measurement (Topic 820)* of the FASB ASC.

At March 31, 2023, alternative investments recorded at NAV consisted of the following:

	Fair Value	Unfunded Commitment	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Absolute return/hedge funds (a)	$ 3,880	$ 193	Monthly to annually	30–90 days
Private partnerships (b)	4,994	1,850		
Total alternative investments	$ 8,874	$ 2,043		

March 31, 2023 (in Millions)

Note 6. Fair Value Measurements (Continued)

At December 31, 2022, alternative investments recorded at NAV consisted of the following:

	Fair Value	Unfunded Commitment	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Absolute return/hedge funds (a)	$ 3,705	$ 194	Monthly to annually	30–90 days
Private partnerships (b)	5,014	1,744		
Total alternative investments	$ 8,719	$ 1,938		

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

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

Note 7. Securities Lending

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

At March 31, 2023 and December 31, 2022, the aggregate market value of securities on loan under securities lending agreements totaled $52 and $68, respectively, and the total value of the collateral supporting the securities was $55 and $70, respectively, which represents 105 percent and 103 percent of the value of the securities on loan at March 31, 2023 and December 31, 2022. The cash portion of the collateral supporting the securities as of March 31, 2023 and December 31, 2022, is $4 and $3, respectively. Noncash collateral provided to the Clinic is not recorded in the condensed consolidated statements of financial position, as the collateral may not be sold or repledged. The Clinic’s claim on such collateral is limited to the market value of loaned securities. In the event of nonperformance by the other parties to the securities lending agreements, the Clinic could be exposed to a loss.

March 31, 2023 (in Millions)

Note 8. Board-Designated Funds

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

	March 31, 2023	December 31, 2022
Research	$ 1,362	$ 1,365
Education	306	312
Buildings and equipment	3	3
Charity care	12	12
Clinical	160	162
Other	1,142	1,124
Total designation for specified purpose	$ 2,985	$ 2,978

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

	March 31, 2023	December 31, 2022
Quasi endowments	$ 2,789	$ 2,830
Professional liability reserve	150	119
Other reserves	46	29
Total	$ 2,985	$ 2,978

March 31, 2023 (in Millions)

Note 9. Net Assets with Donor Restrictions

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

	March 31, 2023	December 31, 2022
Subject to expenditure for specified purposes:		
Research	$ 687	$ 582
Education	80	59
Buildings and equipment	254	245
Charity care	32	30
Clinical	89	74
Other	36	30
Total expenditure for specified purposes	1,178	1,020
Subject to passage of time:		
Pledges and trusts	616	642
Endowments:		
Perpetual in nature:		
Research	1,236	1,233
Education	305	304
Charity care	14	14
Clinical	222	222
Other	33	31
Pledges and trusts	273	270
Total perpetual in nature	2,083	2,074
Subject to endowment spending policy:		
Research	703	745
Education	330	342
Charity care	47	48
Clinical	144	152
Other	38	40
Total subject to endowment spending policy	1,262	1,327
Total endowments	3,345	3,401
Total net assets with donor restrictions	$ 5,139	$ 5,063

Note 9. Net Assets with Donor Restrictions (Continued)

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

	2023	2022
Research	$ 36	$ 32
Education	7	6
Buildings and equipment	—	1
Other	6	5
Total net assets released from donor restrictions	$ 49	$ 44

March 31, 2023 (in Millions)

Note 10. Functional Expenses

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

The expenses reported in the condensed consolidated statements of activities for the three months ended March 31, 2023 and 2022, supported the following programs and functions:

	2023							
	Patient care	Lab and technology ventures	Research	Graduate and other education	General and administrative	Development expenses	Other activities	Total expenses
Salaries and benefits	$ 2,015	$ 47	$ 187	$ 95	$ 72	$ 9	$ 10	$ 2,435
Supplies and services	983	291	72	22	3	3	22	1,396
Depreciation and amortization	131	2	17	3	4	—	1	158
Facilities	68	1	5	4	9	—	—	87
Finance & investment	44	2	5	—	—	—	(3)	48
Total	$ 3,241	$ 343	$ 286	$ 124	$ 88	$ 12	$ 30	$ 4,124

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

March 31, 2023 (in Millions)

Note 11. Employee Benefit Programs

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

Components of net periodic benefit cost for the three months ended March 31 are as follows for the defined-benefit pension plans:

	Qualified	
	2023	2022
Service cost	$ 96	$ 172
Interest cost	109	93
Expected return on plan assets	(194)	(195)
Amortization of unrecognized:		
Prior service benefit	(13)	(13)
Net actuarial loss	—	57
Net benefit (credit) cost	$ (2)	$ 114

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

	Postretirement Benefits	
	2023	2022
Service cost	$ 1	$ 2
Interest cost	12	8
Amortization of unrecognized:		
Prior service benefit	—	1
Net actuarial loss	—	5
Net periodic cost	$ 13	$ 16

Note 12. Commitments and Contingencies

The Clinic has various construction projects in progress related to patient care, research, and educational facilities. The estimated costs committed to complete the various projects at March 31, 2023, approximated $1,593, all of which is expected to be expended over the next three to five years.

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

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

Note 13. Subsequent Events

The Clinic evaluated events and transactions occurring subsequent to March 31, 2023, through May 11, 2023, the date of issuance of the condensed consolidated financial statements. During this period, there were no subsequent events requiring recognition in the condensed consolidated financial statements. Additionally, there were no nonrecognized subsequent events requiring disclosure.

MAYO CLINIC

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2023

May 2023

MAYO CLINIC: WHEN YOU NEED ANSWERS, YOU KNOW WHERE TO GO

A GLOBAL DESTINATION FOR HOPE AND HEALING

Every year, more than 1 million people from every U.S. state and nearly 130 countries come to Mayo Clinic for care. Every day, Mayo Clinic staff members prove their dedication and commitment to patient-centered values that have made Mayo a global destination for health and healing for more than 150 years.

PATIENT-CENTERED VALUES GUIDE WORLD-CLASS CARE

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

UNPARALLELED EXPERTISE

Mayo Clinic is one of the world's premier health care institutions, and Mayo's staff is among the best in the world. In the U.S. News & World Report's rankings of "Best Hospitals" for 2022-23, Mayo Clinic was ranked No. 1 in the nation for the seventh consecutive year, and Mayo Clinic in Arizona, Florida and Rochester all ranked No. 1 in their states.

ABOUT MAYO CLINIC

With $16 billion in annual revenues and more than 76,000 employees, Mayo Clinic provides comprehensive medical care, education in clinical medicine and the medical sciences, and extensive programs in medical research. Mayo Clinic has destination campuses in Rochester, Minnesota; Phoenix and Scottsdale, Arizona; and Jacksonville, Florida. Mayo Clinic Health System has dozens of locations in Minnesota, Wisconsin, and Iowa.

Mayo Clinic was founded in 1864 when Dr. William Worrall Mayo set up a medical practice in Rochester. Dr. Mayo's practice grew quickly through the closing months of the Civil War and during Minnesota's rapid growth in the years immediately after.

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

2023: CONTINUING EXCELLENCE

Recognition and Awards

Mayo Clinic again recognized as 'World's Best Hospital' in Newsweek rankings
Mayo Clinic in Rochester was again ranked No. 1 in the world by Newsweek in its list of the "World's Best Hospitals", which was released in March. The ranking is a tribute to the work of staff across Mayo Clinic. Mayo Clinic in Florida ranked No. 52 on the list, and Mayo Clinic in Arizona ranked No. 78. On the companion list of "Best Hospitals in the U.S.," Mayo Clinic in Florida was ranked No. 17 and Mayo Clinic in Arizona was ranked No. 19. That list also included Mayo Clinic Health System in Albert Lea and Austin, Minnesota, Mayo Clinic Health System in Eau Claire, Wisconsin and Mayo Clinic Health System in La Crosse, Wisconsin.

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

Mayo Clinic ranked No. 3 on Forbes list of 'America's Best Large Employers'
Mayo Clinic was ranked No. 3 on the Forbes list of "America's Best Large Employers", which was released in February. Mayo was ranked No. 7 on the list in 2022. As in 2022, hospital systems and medical centers featured prominently on the list of best large employers. Eight health care organizations were among the top 25 organizations included in the rankings and made up 20% of the top 100 organizations.

Mayo Clinic hospitals named among America's Best Hospitals by Healthgrades
Mayo Clinic hospitals in Arizona, Florida and Rochester were named among America's 50 Best Hospitals by Healthgrades, an independent health care ratings company. Mayo Clinic Health System in Mankato, Minnesota, was included in the organization's 100 Best Hospitals list, and Mayo Clinic Health System in Eau Claire, Wisconsin, was included in the 250 Best Hospitals list.

Healthgrades rated the performance of nearly 4,500 hospitals in overall clinical excellence across a broad spectrum of conditions and procedures. The ratings are intended to help consumers compare hospital performance and evaluate hospitals for overall clinical excellence.

The top 1% of hospitals make the 50 Best Hospitals list. Hospitals on the 100 Best Hospitals list are among the top 2% in the nation for consistent clinical quality. Those on the 250 Best Hospitals list are among the top 5% of hospitals nationwide.

Noteworthy

Mayo Clinic in Florida transplant program celebrates its 25th anniversary
Twenty-five years ago, the transplant center at Mayo Clinic in Florida performed its first solid organ transplant — a liver transplant. To date, the center has performed nearly 9,000 lifesaving transplants as one of the largest combined solid organ transplant programs in the U.S. The center has provided consistently high-quality patient care before and after organ transplants since its establishment. Along with more than two decades of vast experience in organ transplant, the center's physicians and scientists have an eye toward the future through the program's Transforming Transplant initiative, which seeks to transform the practice through research and innovation by redefining standards of care for patients in organ failure.

"What we do is really a passion," says Burcin Taner, M.D., chair of the transplant center at Mayo Clinic in Florida. "We don't see it as a job. This is a lifestyle. It gives us tremendous happiness to see that we are able to help patients. With the Transforming Transplant initiative, our aim is that, one day, no patient will die waiting for an organ transplant."

As of February 2023, Florida's transplant program has completed:

- 8,533 total solid organ transplants.
- 4,050 total liver transplants.
- 2,886 kidney transplants.
- 789 lung transplants.
- 530 heart transplants.
- 212 kidney/pancreas transplants.
- 55 pancreas transplants.
- 11 heart/lung transplants.

Mayo Clinic's Transplant Center, with locations in Arizona, Florida and Minnesota, has performed nearly 30,000 organ transplants since 1963. More than 100,000 patients nationwide are awaiting organ transplants. Mayo Clinic is the largest integrated transplant center in the country.

Mayo Clinic Laboratories and Helix collaborate to provide comprehensive suite of laboratory services to biopharma customers
Mayo Clinic Laboratories, a leading reference laboratory, and Helix, the nation's leading population genomics and viral surveillance company, announced a new strategic collaboration that will provide biopharma customers access to a comprehensive joint laboratory offering for research and development initiatives across the drug development lifecycle.

The offering will include a full spectrum of testing capabilities that leverages both Helix's suite of next-generation sequencing capabilities and Mayo Clinic Laboratories' portfolio of more than 3,800 tests and pathology services. Together, Mayo Clinic Laboratories and Helix also will provide biopharma customers with full end-to-end laboratory testing support.

"By pairing Helix's innovative Exome+ assay with Mayo's world-class clinical and diagnostic testing knowledge, this collaboration will allow biopharma companies to access molecular and nonmolecular testing services needed across the drug development process," says William Morice II, M.D., Ph.D., President and CEO of Mayo Clinic Laboratories. "In addition to the testing knowledge, our Mayo Clinic physicians and scientists are available for consultation during this process to provide their expertise and guidance."

Mayo Clinic opens Patient Information Offices in India, Indonesia & Uruguay

Mayo Clinic has recently opened patient information offices in Mumbai, India, Jakarta, Indonesia, and Montevideo, Uruguay to assist patients who wish to make appointments at Mayo Clinic locations worldwide. The office staff in Mumbai are fluent in Hindi and English, the Jakarta staff are fluent in Bahasa Indonesia and English, and the Montevideo office staff are fluent in Spanish and English, and will help patients, their families and physicians who refer patients to make appointments at Mayo Clinic in Arizona, Florida and Rochester, and Mayo Clinic Healthcare in London.

The office staff will assist with travel, lodging, billing, and insurance arrangements; provide general orientation to Mayo Clinic; facilitate Mayo review of medical records; and coordinate future appointments. The office does not provide medical attention.

Mayo Clinic also has patient information offices in Canada, Colombia, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Panama, and Peru.
Mayo Clinic accepts appointment requests directly from patients and patient referrals from physicians. Interpreters are available at no cost to assist with communication between health care providers and patients whose primary language is not English.

DISCUSSION OF 2023 RESULTS

For the three months ended March 31, 2023, Mayo Clinic generated net operating income of $149 million on $4.27 billion in revenue, a 3.5% operating margin. For the same period, the increase in net assets before other changes, including noncurrent and other items, was $433 million, a 10.1% margin.

	Three Months Ended March 31,		Change
($in Millions):	2022	2023	From 2022
Revenue	$3,927	$4,273	8.8%
Expenses	3,785	4,124	9.0%
Net operating income	**$142**	**$149**	**4.9%**
Noncurrent & other items	**(369)**	**284**	177.0%
Increase (decrease) in net assets before other changes	**($227)**	**$433**	**290.7%**
Postretirement adj.	**50**	**(13)**	-126.0%
Increase (decrease) in net assets	**($177)**	**$420**	**337.3%**

REVENUE

As of March 31, 2023, year to date net medical service revenue of $3.65 billion, 85.3% of total revenue, represents an 8.9% increase from prior year. Mayo Clinic's total operating revenue for the period was $4.27 billion, reflecting an 8.8% increase over 2022.

	Three Months Ended March 31,		Change
($in Millions):	2022	2023	From 2022
Revenue			
Net medical service revenue	$3,346	$3,645	8.9%
Grants and contracts	154	170	10.4%
Contributions	78	49	-37.2%
Investments	72	134	86.1%
Other	277	275	-0.7%
Total operating revenue	**$3,927**	**$4,273**	**8.8%**

VOLUME METRICS

Year to date clinical volumes are shown in the table below. Outpatient visits, surgeries, admissions and patient days were higher than both 2022 and 2021, reflecting sustained strong demand for services.

	3/31/2021	3/31/2022	3/31/2023
Outpatient visits	1,156,158	1,196,234	1,266,976
Surgical Cases	32,689	33,552	36,876
Admissions	29,226	29,117	29,897
Patient days	161,150	177,641	179,324

EXPENSES

Operating expenses were $4.12 billion for the three month period ending March 31, 2023, which represents an increase of 9.0% over 2022. At $2.44 billion, salaries and benefits increased 7.7% over the prior year and comprised 59.0% of total expenses despite pension and disability expenses $80 million lower than the prior year quarter due to a significant increase in the discount rate.

($in Millions):	Three Months Ended March 31, 2022	2023	Change From 2022
Expenses			
Salaries and benefits	$2,261	$2,435	7.7%
Supplies and services	1,254	1,396	11.3%
Facilities	234	245	4.7%
Finance and investment	36	48	33.3%
Total expenses	**$3,785**	**$4,124**	**9.0%**

CASH, INVESTMENTS, AND BALANCE SHEET STRENGTH

Cash and investments totaled $17.65 billion as of March 31, 2023, an increase of $331 million since the end of 2022, driven largely by investment gains. Of the $17.65 billion total, $3.56 billion is held for liquidity in working capital and short-term funds.

As of March 31, 2023, Mayo's cash and investment position included $13.02 billion in long-term investments that are held in its primary investment vehicle, the Long-Term Fund (LTF). The LTF is composed of $5.86 billion of endowed funds (both donor and board-restricted) and $7.16 billion of unrestricted reserves. Investment earnings on Mayo's endowed funds are a key source of support for its research and education programs.

As of March 31, 2023, the LTF generated a 2.5% return for the quarter. On a three-year, five-year, and 10-year basis, the LTF's investments returns continue to meet investment objectives and exceed benchmark performance, with 13.1%, 9.2% and 9.0% returns, respectively, over those time periods.

Core balance sheet metrics are still strong and within “AA” rating parameters as shown in the table below.

	12/31/2021	12/31/2022	3/31/2023
Days Revenue Outstanding	48.9	46.9	47.0
Days Cash on Hand	403	352	351
Debt Service Coverage Ratio	11.1x	5.9x	5.8x
Cash to Debt	368%	307%	312%
Debt to Capitalization	25%	24%	24%

SUMMARY

Mayo Clinic is pleased with the strong start represented by these first quarter results. Strong volumes, investment gains and favorable expense management all contributed to the quarter’s performance. In parallel, we continue to advance the elements of our Bold. Forward. strategic plan with its vision to Cure, Connect and Transform health care.