



Mayo Clinic

Unaudited Condensed Consolidated Financial Reports
June 30, 2020



Mayo Clinic

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Unaudited Consolidated Financial Reports

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Condensed Consolidated Statements of Financial Position
(In Millions)

	June 30, 2020 Unaudited	December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 36	\$ 48
Accounts receivable for medical services	1,934	2,020
Securities lending collateral	12	1
Other receivables	419	458
Other current assets	240	201
Total current assets	<u>2,641</u>	<u>2,728</u>
Investments	12,671	11,135
Investments under securities lending agreement	33	19
Other long-term assets	1,135	1,023
Property, plant and equipment, net	4,873	4,834
Total assets	<u><u>\$ 21,353</u></u>	<u><u>\$ 19,739</u></u>
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 465	\$ 512
Accrued payroll	790	667
Accrued employee benefits	155	158
Deferred revenue	197	43
Long-term variable-rate debt	760	710
Securities lending payable	12	1
Other current liabilities	1,419	473
Total current liabilities	<u>3,798</u>	<u>2,564</u>
Long-term debt, net of current portion	2,995	2,647
Accrued pension and postretirement benefits, net of current portion	2,627	2,500
Other long-term liabilities	1,656	1,634
Total liabilities	<u>11,076</u>	<u>9,345</u>
Net assets:		
Without donor restrictions	6,489	6,679
With donor restrictions	3,788	3,715
Total net assets	<u>10,277</u>	<u>10,394</u>
Total liabilities and net assets	<u><u>\$ 21,353</u></u>	<u><u>\$ 19,739</u></u>

See notes to condensed consolidated financial statements.



Condensed Consolidated Statements of Activities Unaudited (in Millions)

	Three Months Ended June 30, 2020			Three Months Ended June 30, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, gains and other support:						
Medical service revenue	\$ 2,425	\$ —	\$ 2,425	\$ 2,893	\$ —	\$ 2,893
Grants and contracts	137	—	137	142	—	142
Investment return allocated to current activities	115	9	124	83	6	89
Contributions available for current activities	22	55	77	11	68	79
Other	457	—	457	228	—	228
Net assets released from restrictions	58	(58)	—	46	(46)	—
Total revenue, gains and other support	3,214	6	3,220	3,403	28	3,431
Expenses:						
Salaries and benefits	1,953	—	1,953	1,902	—	1,902
Supplies and services	867	—	867	985	—	985
Depreciation and amortization	151	—	151	144	—	144
Facilities	62	—	62	66	—	66
Finance and investment	33	—	33	34	—	34
Total expenses	3,066	—	3,066	3,131	—	3,131
Income from current activities	148	6	154	272	28	300
Noncurrent and other items:						
Contributions not available for current activities, net	(4)	49	45	(10)	54	44
Unallocated investment return (loss), net	120	74	194	76	52	128
Income tax expense	(8)	—	(8)	(12)	—	(12)
Benefit credit	15	—	15	34	—	34
Other	3	—	3	(1)	—	(1)
Total noncurrent and other items	126	123	249	87	106	193
Increase in net assets before other changes in net assets	274	129	403	359	134	493
Pension and other postretirement benefit adjustments	52	—	52	21	—	21
Increase in net assets	326	129	455	380	134	514
Net assets at beginning of period	6,163	3,659	9,822	6,467	3,345	9,812
Net assets at end of period	\$ 6,489	\$ 3,788	\$ 10,277	\$ 6,847	\$ 3,479	\$ 10,326

See notes to condensed consolidated financial statements.



Condensed Consolidated Statements of Activities Unaudited (in Millions)

	Six Months Ended June 30, 2020			Six Months Ended June 30, 2019		
	Without Donor	With Donor	Total	Without Donor	With Donor	Total
	Restrictions	Restrictions		Restrictions	Restrictions	
Revenue, gains and other support:						
Medical service revenue	\$ 5,235	\$ —	\$ 5,235	\$ 5,682	\$ —	\$ 5,682
Grants and contracts	269	—	269	299	—	299
Investment return allocated to current activities	227	18	245	168	13	181
Contributions available for current activities	33	90	123	42	75	117
Other	568	—	568	499	—	499
Net assets released from restrictions	97	(97)	—	89	(89)	—
Total revenue, gains and other support	6,429	11	6,440	6,779	(1)	6,778
Expenses:						
Salaries and benefits	3,878	—	3,878	3,817	—	3,817
Supplies and services	1,876	—	1,876	1,932	—	1,932
Depreciation and amortization	302	—	302	286	—	286
Facilities	134	—	134	134	—	134
Finance and investment	67	—	67	68	—	68
Total expenses	6,257	—	6,257	6,237	—	6,237
Income (loss) from current activities	172	11	183	542	(1)	541
Noncurrent and other items:						
Contributions not available for current activities, net	(12)	140	128	(11)	118	107
Unallocated investment return (loss), net	(474)	(78)	(552)	291	147	438
Income tax expense	(14)	—	(14)	(20)	—	(20)
Benefit credit	31	—	31	67	—	67
Other	4	—	4	(1)	—	(1)
Total noncurrent and other items	(465)	62	(403)	326	265	591
(Decrease) increase in net assets before other changes in net assets	(293)	73	(220)	868	264	1,132
Pension and other postretirement benefit adjustments	103	—	103	42	—	42
(Decrease) increase in net assets	(190)	73	(117)	910	264	1,174
Net assets at beginning of period	6,679	3,715	10,394	5,937	3,215	9,152
Net assets at end of period	\$ 6,489	\$ 3,788	\$ 10,277	\$ 6,847	\$ 3,479	\$ 10,326

See notes to condensed consolidated financial statements.



Condensed Consolidated Statements of Cash Flows
Unaudited (In Millions)

	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
Cash flows from operating activities:		
Cash from medical services	\$ 4,963	\$ 5,119
Cash from external lab services	358	351
Cash from grants and contracts	281	272
Cash from benefactors	105	86
Cash from other activities	659	407
Cash for salaries and benefits	(3,497)	(3,581)
Cash for supplies, services, and facilities	(2,049)	(2,109)
Interest and dividends received	62	84
Interest paid	(56)	(58)
Income taxes paid	(14)	(20)
Net cash provided by operating activities	812	551
Cash flows from investing activities:		
Purchase of property, plant and equipment	(344)	(356)
Purchases of investments	(4,073)	(1,633)
Sales and maturities from investments	2,160	1,397
Net cash used in investing activities	(2,257)	(592)
Cash flows from financing activities:		
Restricted gifts, bequests and other	128	106
Borrowing on long-term debt	530	—
Payment of long-term debt	(140)	(63)
Medicare advance payments	915	—
Net cash provided by financing activities	1,433	43
Net (decrease) increase in cash and cash equivalents	(12)	2
Cash and cash equivalents at beginning of period	48	29
Cash and cash equivalents at end of period	\$ 36	\$ 31

See notes to condensed consolidated financial statements.



Notes to Unaudited Condensed Consolidated Financial Statements

June 30, 2020 (in Millions)

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 six months ended June 30, 2020 are not necessarily indicative of the results to be expected for the year ending December 31, 2020. For further information, refer to the audited consolidated financial statements and notes thereto for the year ended December 31, 2019.

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, 2020, the Clinic adopted FASB Accounting Standards Update (ASU) No. 2018-13, *Fair Value Measurement (Topic 820)*. This ASU improves the effectiveness of the notes to financial statements through changes in the disclosure requirements for fair value measurement. The adoption of this ASU did not materially impact the condensed consolidated financial statements.

New Accounting Standards Not Yet Adopted:

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

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

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



Notes to Unaudited Condensed Consolidated Financial Statements

June 30, 2020 (in Millions)

Note 3. Liquidity and Availability

Financial assets available for general expenditure within one year of the balance sheet date, are comprised of the following at June 30, 2020 and December 31, 2019:

	June 30, 2020	December 31, 2019
Cash and cash equivalents	\$ 36	\$ 48
Accounts receivable	1,934	2,020
Promises to give	169	185
Grants receivable	111	114
Other receivables	139	159
Investments	8,687	6,997
Total financial assets available within one year	<u>\$ 11,076</u>	<u>\$ 9,523</u>

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 price, are due from patients, third-party payors (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Clinic bills the patients and third-party payors several days after the services are performed and/or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the Clinic. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Clinic believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in 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.



Notes to Unaudited Condensed Consolidated Financial Statements

June 30, 2020 (in Millions)

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 six months ended June 30, 2020 and 2019, revenue recognized due to changes in its estimates of transaction price concessions for performance obligations satisfied in prior years was (\$7) and \$17, respectively. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense. Bad debt expense for the six months ended June 30, 2020 and 2019 was not significant.

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the Clinic's historical settlement activity, including an assessment to ensure it is probable a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from a change in the transaction price were not significant in 2020 or 2019.



Notes to Unaudited Condensed Consolidated Financial Statements

June 30, 2020 (in Millions)

Note 4. Medical Service Revenue (Continued)

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

The composition of medical service revenue based on the regions of the country in which the Clinic operates in, its lines of business, and timing of revenue recognition for the six months ended June 30, 2020 and 2019 are as follows:

	June 30, 2020			
	Midwest	Southeast	Southwest	Total
Hospital	\$ 2,020	\$ 386	\$ 496	\$ 2,902
Clinic	1,306	287	335	1,928
Senior Care and Nursing Home	8	—	—	8
Other	23	—	—	23
Total patient care service revenue	3,357	673	831	4,861
External lab	374	—	—	374
Total medical service revenue	<u>\$ 3,731</u>	<u>\$ 673</u>	<u>\$ 831</u>	<u>\$ 5,235</u>

Timing of revenue and recognition:

At time services are rendered	\$ 1,703	\$ 287	\$ 335	\$ 2,325
Services transferred over time	2,028	386	496	2,910
Total	<u>\$ 3,731</u>	<u>\$ 673</u>	<u>\$ 831</u>	<u>\$ 5,235</u>

	June 30, 2019			
	Midwest	Southeast	Southwest	Total
Hospital	\$ 2,167	\$ 371	\$ 497	\$ 3,035
Clinic	1,589	331	330	2,250
Senior Care and Nursing Home	8	—	—	8
Other	25	—	—	25
Total patient care service revenue	3,789	702	827	5,318
External lab	364	—	—	364
Total medical service revenue	<u>\$ 4,153</u>	<u>\$ 702</u>	<u>\$ 827</u>	<u>\$ 5,682</u>

Timing of revenue and recognition:

At time services are rendered	\$ 1,978	\$ 331	\$ 330	\$ 2,639
Services transferred over time	2,175	371	497	3,043
Total	<u>\$ 4,153</u>	<u>\$ 702</u>	<u>\$ 827</u>	<u>\$ 5,682</u>



Notes to Unaudited Condensed Consolidated Financial Statements

June 30, 2020 (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 \$418 and \$544 for the six months ended June 30, 2020 and 2019, respectively. 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 six months ended June 30 is as follows:

	2020	2019
Medicare	\$ 1,327	\$ 1,376
Medicaid	181	189
Contract	3,115	3,361
Other, including self-pay	612	756
Total	<u>\$ 5,235</u>	<u>\$ 5,682</u>

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

Financing component:

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

Note 5. Investments

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

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

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



Notes to Unaudited Condensed Consolidated Financial Statements

June 30, 2020 (in Millions)

Note 5. Investments (Continued)

ended June 30, 2020 and 2019, the realized and unrealized 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 (loss) is shown in the condensed consolidated statements of activities in two segments. The investment return allocated to current activities is determined by a formula, which involves allocating five percent of a three-year moving average of investments related to endowments, the matching of financing costs for the assets required for operations and additional expenses covered by investment returns. Management believes this return is approximately equal to the real return that the Clinic expects to earn on its investments over the long term. The unallocated investment return (loss), included in noncurrent and other items in the condensed consolidated statements of activities, represents the difference between the total investment return (loss) and the amount allocated to current activities.

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 or activity within Levels for the six months ended June 30, 2020 and 2019.



Notes to Unaudited Condensed Consolidated Financial Statements

June 30, 2020 (in Millions)

Note 6. Fair Value Measurements (Continued)

The following tables present the financial instruments carried at fair value as of June 30, 2020 and December 31, 2019, by caption on the condensed consolidated statements of financial position categorized by the valuation hierarchy and NAV:

	June 30, 2020				
	Level 1	Level 2	Level 3	NAV	Total Fair Value
Assets:					
Securities lending collateral	\$ 12	\$ —	\$ —	\$ —	\$ 12
Investments:					
Cash and cash equivalents	3,275	—	—	—	3,275
Fixed-income securities:					
U.S. government	—	122	—	—	122
U.S. government agencies	—	400	—	—	400
U.S. corporate	—	484	—	—	484
Foreign	—	53	—	—	53
Common and preferred stocks:					
U.S.	677	—	—	—	677
Foreign	439	—	—	—	439
Funds:					
Fixed-income	433	—	—	—	433
Equities	613	524	—	—	1,137
Other investments	—	—	—	—	—
Less securities under lending agreement	(33)	—	—	—	(33)
Investments at NAV	—	—	—	5,684	5,684
Total investments	5,404	1,583	—	5,684	12,671
Investments under securities lending agreement	33	—	—	—	33
Other long-term assets:					
Trust receivables	64	25	76	—	165
Technology-based ventures	—	—	76	—	76
Total other long-term assets	64	25	152	—	241
Total assets at fair value	\$ 5,513	\$ 1,608	\$ 152	\$ 5,684	\$ 12,957
Liabilities:					
Securities lending payable	\$ 12	\$ —	\$ —	\$ —	12
Total liabilities at fair value	\$ 12	\$ —	\$ —	\$ —	\$ 12



Notes to Unaudited Condensed Consolidated Financial Statements
June 30, 2020 (in Millions)

Note 6. Fair Value Measurements (Continued)

	December 31, 2019				
	Level 1	Level 2	Level 3	NAV	Total Fair Value
Assets:					
Securities lending collateral	\$ 1	\$ —	\$ —	\$ —	\$ 1
Investments:					
Cash and cash equivalents	1,304	—	—	—	1,304
Fixed-income securities:					
U.S. government	—	396	—	—	396
U.S. government agencies	—	376	—	—	376
U.S. corporate	—	458	—	—	458
Foreign	—	44	—	—	44
Common and preferred stocks:					
U.S.	686	—	—	—	686
Foreign	459	—	—	—	459
Funds:					
Fixed-income	505	—	—	—	505
Equities	661	605	—	—	1,266
Other investments	—	—	—	—	—
Less securities under lending agreement	(19)	—	—	—	(19)
Investments at NAV	—	—	—	5,660	5,660
Total investments	3,596	1,879	—	5,660	11,135
Investments under securities lending agreement	19	—	—	—	19
Other long-term assets:					
Trust receivables	70	27	82	—	179
Technology-based ventures	—	—	64	—	64
Total other long-term assets	70	27	146	—	243
Total assets at fair value	\$ 3,686	\$ 1,906	\$ 146	\$ 5,660	\$ 11,398
Liabilities:					
Securities lending payable	\$ 1	\$ —	\$ —	\$ —	1
Total liabilities at fair value	\$ 1	\$ —	\$ —	\$ —	\$ 1



Notes to Unaudited Condensed Consolidated Financial Statements

June 30, 2020 (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 primarily consists of trusts recorded at fair value based on the underlying value of the assets in the trust or discounted cash flow of the expected payment streams. The trusts reported as Level 3 are primarily perpetual trusts managed by third parties invested in stocks, mutual funds, and fixed-income securities that are traded in active markets with observable inputs, and since the Clinic will never receive the trust assets, these perpetual trusts are reported as Level 3.

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

The carrying values of cash and cash equivalents, short-term investments, accounts receivable, other current assets, and accounts payable are reasonable estimates of their fair value due to the short-term nature of these financial instruments. The estimated fair value of long-term debt, based on quoted market prices for the same or similar issues (Level 2), was approximately \$498 and \$311 more than its carrying value at June 30, 2020 and December 31, 2019, respectively. Other long-term assets and liabilities have a carrying value that approximates fair value.

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

At June 30, 2020, alternative investments recorded at NAV consisted of the following:

	Fair Value	Unfunded Commitment	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Absolute return/hedge funds (a)	\$ 2,815	\$ —	Monthly to annually	30–90 days
Private partnerships (b)	2,869	1,381		
Total alternative investments	<u>\$ 5,684</u>	<u>\$ 1,381</u>		

At December 31, 2019, alternative investments recorded at NAV consisted of the following:

	Fair Value	Unfunded Commitment	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Absolute return/hedge funds (a)	\$ 2,706	\$ —	Monthly to annually	30–90 days
Private partnerships (b)	2,954	1,266		
Total alternative investments	<u>\$ 5,660</u>	<u>\$ 1,266</u>		



Notes to Unaudited Condensed Consolidated Financial Statements

June 30, 2020 (in Millions)

Note 6. Fair Value Measurements (Continued)

- (a) This category includes investments in absolute return/hedge funds, which are actively managed commingled investment vehicles that derive the majority of their returns from factors other than the directional flow of the markets in which they invest. Representative strategies include high-yield credit, distressed debt, merger arbitrage, relative value, and long-short equity strategies. The fair values of the investments in this category have been estimated using the NAV per share of the investments. Investments in this category generally carry “lockup” restrictions that do not allow investors to seek redemption in the first year after acquisition. Following the initial lockup period, liquidity is generally available monthly, quarterly or annually following a redemption request. Over 90 percent of the investments in this category have at least annual liquidity.
- (b) This category includes limited partnership interests in closed-end funds that focus on venture capital, private equity, real estate and resource-related strategies. The fair values of the investments in this category have been estimated using the NAV of the Clinic's ownership interest in partners' capital. Distributions from each fund will be received as the underlying investments of the funds are liquidated. It is estimated that the underlying assets of most funds will generally be liquidated over a seven- to ten-year period.

Note 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 June 30, 2020 and December 31, 2019, the aggregate market value of securities on loan under securities lending agreements totaled \$33 and \$19, respectively, and the total value of the collateral supporting the securities is \$35 and \$20, respectively, which represents 105 percent of the value of the securities on loan at June 30, 2020 and December 31, 2019, respectively. The cash portion of the collateral supporting the securities as of June 30, 2020 and December 31, 2019, is \$12 and \$1 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.



Notes to Unaudited Condensed Consolidated Financial Statements

June 30, 2020 (in Millions)

Note 8. Financing

In April 2020, the Clinic entered into a five year bank loan agreement for \$100 at 1.8 percent in addition to a \$100 line of credit for general operating purposes.

In May 2020, the Clinic issued bonds in the amount of \$100 with a 1.99 percent fixed rate of interest due in 2027. The proceeds of the bonds will be used for general corporate purposes. In addition, the Clinic refunded \$130 of bonds by entering into a direct bank purchase for 10 years at 1.54 percent. Also in May, the Clinic closed on a private placement transaction with an insurance company in the amount of \$200 for general corporate purposes with a 3.17 percent fixed rate with a final maturity of 2062.



Notes to Unaudited Condensed Consolidated Financial Statements
June 30, 2020 (in Millions)

Note 9. 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:

	June 30, 2020	December 31, 2019
Research	\$ 1,063	\$ 1,095
Education	245	201
Buildings and equipment	2	3
Charity care	9	10
Clinical	141	146
Other	932	976
Total designation for specified purpose	<u>\$ 2,392</u>	<u>\$ 2,431</u>

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

	June 30, 2020	December 31, 2019
Quasi endowments	\$ 2,231	\$ 2,286
Professional liability reserve	101	99
Other reserves	60	46
Total	<u>\$ 2,392</u>	<u>\$ 2,431</u>



Notes to Unaudited Condensed Consolidated Financial Statements
June 30, 2020 (in Millions)

Note 10. 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:

	June 30, 2020	December 31, 2019
Subject to expenditure for specified purposes:		
Research	\$ 452	\$ 366
Education	51	40
Buildings and equipment	223	133
Charity care	38	39
Clinical	62	51
Other	15	15
Total expenditure for specified purposes	841	644
Subject to passage of time:		
Pledges and trusts	376	348
Endowments:		
Perpetual in nature:		
Research	1,030	1,006
Education	216	210
Charity care	14	14
Clinical	186	184
Other	28	29
Pledges and trusts	321	348
Total perpetual in nature	1,795	1,791
Subject to endowment spending policy:		
Research	402	502
Education	236	268
Charity care	24	26
Clinical	85	104
Other	29	32
Total subject to endowment spending policy	776	932
Total endowments	2,571	2,723
Total net assets with donor restrictions	\$ 3,788	\$ 3,715



Notes to Unaudited Condensed Consolidated Financial Statements
June 30, 2020 (in Millions)

Note 10. 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 six months ended June 30:

	2020	2019
Research	\$ 55	\$ 57
Education	11	17
Buildings and equipment	2	8
Other	29	7
Total net assets released from donor restrictions	<u>\$ 97</u>	<u>\$ 89</u>

Note 11. 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 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 six months ended June 30, 2020 and 2019, supported the following programs and functions:

2020									
	Patient care	Lab and technology ventures	Research	Graduate and other education	General and administrative	Development expenses	Other activities	Total expenses	
Salaries and benefits	\$ 3,227	\$ 80	\$ 296	\$ 147	\$ 18	\$ 8	\$ 102	\$	3,878
Supplies and services	1,284	437	102	27	2	2	22		1,876
Depreciation and amortization	255	4	31	6	5	—	1		302
Facilities	113	2	8	5	6	—	—		134
Finance & investment	69	1	9	1	—	—	(13)		67
Total	<u>\$ 4,948</u>	<u>\$ 524</u>	<u>\$ 446</u>	<u>\$ 186</u>	<u>\$ 31</u>	<u>\$ 10</u>	<u>\$ 112</u>	<u>\$</u>	<u>6,257</u>

2019									
	Patient care	Lab and technology ventures	Research	Graduate and other education	General and administrative	Development expenses	Other activities	Total expenses	
Salaries and benefits	\$ 3,147	\$ 90	\$ 276	\$ 137	\$ 18	\$ 4	\$ 145	\$	3,817
Supplies and services	1,330	413	114	34	8	8	25		1,932
Depreciation and amortization	241	4	29	6	5	—	1		286
Facilities	112	2	8	5	6	—	1		134
Finance & investment	64	1	8	1	—	—	(6)		68
Total	<u>\$ 4,894</u>	<u>\$ 510</u>	<u>\$ 435</u>	<u>\$ 183</u>	<u>\$ 37</u>	<u>\$ 12</u>	<u>\$ 166</u>	<u>\$</u>	<u>6,237</u>



Notes to Unaudited Condensed Consolidated Financial Statements
June 30, 2020 (in Millions)

Note 12. 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 six months ended June 30 are as follows for the defined-benefit pension plans:

	Qualified	
	2020	2019
Service cost	\$ 277	\$ 224
Interest cost	185	187
Expected return on plan assets	(339)	(318)
Amortization of unrecognized:		
Prior service benefit	(25)	(25)
Net actuarial loss	122	71
Net periodic benefit cost	<u>\$ 220</u>	<u>\$ 139</u>

Components of net periodic benefit cost for the six months ended June 30 are as follows for the other postretirement benefits:

	Postretirement Benefits	
	2020	2019
Service cost	\$ 4	\$ 4
Interest cost	20	21
Amortization of unrecognized:		
Prior service benefit	(9)	(9)
Net actuarial loss	15	6
Net periodic cost	<u>\$ 30</u>	<u>\$ 22</u>

Note 13. 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 June 30, 2020, approximated \$1,681, 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.



Notes to Unaudited Condensed Consolidated Financial Statements

June 30, 2020 (in Millions)

Note 14. COVID-19

In March 2020, the World Health Organization (WHO) declared the novel coronavirus disease (COVID-19) a pandemic. The Center for Disease Control (CDC) confirmed its spread to the United States and it was declared a national public health emergency, followed by several state emergency declarations, and the Centers for Medicare and Medicaid Services (CMS) issuing guidance regarding elective procedures. Several national and international travel restrictions were put in place and the governors in the states in which the Clinic has operations issued executive orders postponing non-essential or elective surgeries. In response, the Clinic took appropriate measures to respond to the anticipated revenue shortfalls; including, reducing supplemental and contract workforce, halting most construction projects, deferring or delaying most strategic initiatives, and announcing temporary salary and staff reductions.

The Clinic has received approximately \$303 from various provisions in the Coronavirus Aid, Relief and Economic Securities Act (CARES Act) of which approximately \$173 has been recognized as other revenue in the condensed consolidated statement of activities. The remaining amount has been reported as deferred revenue in the condensed consolidated statements of financial position as the Clinic reviews the attestation requirements. Additionally, the Clinic has received approximately \$915 of Medicare advance payments as part of the CMS Accelerated and Advance Payments Program, which has been recorded with a corresponding liability in the condensed consolidated statement of financial position.

The Clinic was well-prepared and ready to treat patients with COVID-19 across the organization, especially those with serious or complex medical conditions. By the end of May 2020, the governors had relaxed restrictions on non-essential or elective surgeries. The Clinic resumed to safely caring for patients facing non-COVID-19 conditions who are in need of the unique and specialized care offered by the Clinic. However, COVID-19 could still negatively affect the operating margins and financial results of the Clinic as the duration of the pandemic is unknown.

Note 15. Joint Venture and Related Party

The Clinic has entered into a joint venture agreement with Abu Dhabi Health Services Company PJSC (SEHA) to operate Sheikh Shakhboub Medical City (SSMC), a 741-bed hospital in the United Arab Emirates. In February 2020, the Clinic funded a 25% equity position in the joint venture (SSMC LLC) with \$50 in cash and other intangibles. The Clinic's equity position is accounted for using the equity method of accounting for investments. In addition to the joint venture agreement, the Clinic has entered into a hospital expertise agreement, brand license agreement, and research contribution agreement with SSMC, all executed November 25, 2019.

The joint venture has an initial commitment period of twenty years and may be extended by ten years. The value of the initial equity of the joint venture is currently being evaluated. Any difference between the value of the Clinic's cash investment and the value of the initial equity in the joint venture is not anticipated to be significant and will create a deferred gain to be recognized over time.

The Clinic has a \$150 conditional pledge from the joint venture. The brand license and hospital expertise agreements are effective January 2021.



Notes to Unaudited Condensed Consolidated Financial Statements

June 30, 2020 (in Millions)

Note 16. Subsequent Events

The Clinic evaluated events and transactions occurring subsequent to June 30, 2020 through August 13, 2020, 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. In addition, there were not any nonrecognized subsequent events requiring disclosure, except on July 16, 2020, the Clinic has returned the approximately \$915 of Medicare advance payments as part of the CMS Accelerated and Advance Payments Program.



MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE SIX-MONTH PERIOD
ENDED JUNE 30, 2020

August 2020

MAYO CLINIC: WHEN IT'S TIME TO FIND ANSWERS

MORE EXPERIENCE

Every year, more than a million people come to Mayo Clinic for care. Our highly specialized experts are more experienced in treating rare and complex conditions.

THE RIGHT ANSWERS

Successful treatment starts with an accurate diagnosis, and our experts take the time to get it right. A team of specialists listen to patients' needs and evaluate their condition from every angle to make the very best, patient-centered plan. At Mayo Clinic, every aspect of care is coordinated and teams of experts work together to provide exactly the care needed. What might take months elsewhere can often be done in days here.

UNPARALLELED EXPERTISE

Mayo Clinic experts are some of the best in the world. In the *U.S. News & World Report* rankings of top hospitals, Mayo Clinic is consistently ranked among the top hospitals in the nation.

ABOUT MAYO CLINIC

Mayo Clinic is one of the largest not-for-profit, academic health systems in the U.S., with \$14 billion in annual revenues and 70,000 employees. We provide comprehensive medical care, education in clinical medicine and the medical sciences, and extensive programs in medical research. Mayo Clinic has major campuses in Rochester, Minnesota; Phoenix, Arizona; and Jacksonville, Florida. The Mayo Clinic Health System has over 70 locations in Minnesota, Wisconsin, and Iowa.

THE NEEDS OF THE PATIENT COME FIRST

When a tornado devastated the community of Rochester, Minn. in 1883, Dr. William Worrall Mayo, a country practitioner from England and his sons, Will and Charlie, joined the Sisters of Saint Francis in caring for wounded survivors. Their response was a new way to practice medicine that is foundational to Mayo Clinic's practice today: teams of specialists who put the needs of patients first. The Franciscan Sisters and Dr. W.W. Mayo worked together to construct Saint Marys Hospital in 1889, and after completing their medical training, Dr. Will Mayo and Dr. Charlie Mayo continued their vision, partnering with many others to develop the integrated group practice, education and research that is inherent to Mayo Clinic's mission: to inspire hope and contribute to health and well-being by providing the best care to every patient, every day.

MAYO CLINIC: BOLDLY LEADING THE WORLD'S PANDEMIC RESPONSE

Exactly one year ago, Mayo Clinic announced a strategy to move boldly forward – to discover new cures for patients, to connect people and data to expand our knowledge and our reach, and to transform health care from within for the benefit of our patients and people across the globe.

We never could have imagined that 12 months later the world would be facing a pandemic – and that Mayo Clinic would lead a response that has saved thousands of lives, while at the same time markedly accelerating our strategic efforts to transform health care from within for the benefit of patients.

CARING FOR PATIENTS

Following the mandatory shutdown of elective and non-elective surgeries in March, Mayo Clinic worked tirelessly to create safe pathways for patients to receive care, including rapid expansion of virtual visits and face-to-face visits. Thanks to the efforts of our dedicated staff, appointments, as well as surgeries and procedures, returned to near normal volumes by the end of the second quarter.

Building on the success of virtual care provided for COVID-19 patients, Mayo Clinic has launched **Advanced Care at Home**, a new care model that delivers innovative, comprehensive and complex care to patients – all from the comfort of home through a new technology platform. Through Advanced Care at Home, patients with conditions previously managed in a hospital will have the option to transition to a home setting and receive compassionate, high-quality virtual and in-person care and recovery services. Enrollment has begun at Mayo Clinic in Jacksonville and in Northwest Wisconsin.

UNION OF FORCES FOR BETTER OUTCOMES

Facing the pandemic head-on, Mayo Clinic stepped up to meet the nation's crisis through its commitment to COVID-19 related biomedical research and education. Mayo Clinic has delivered on the promise of modifying the course of disease through molecular and serology testing; leading the expanded access program for convalescent plasma to provide access to the investigational therapy for hospitalized patients across our nation; engaging in The Fight Is In Us to encourage recovered individuals to donate plasma; participating in 24 clinical trials using experimental monoclonal antibodies and antiviral drugs, developing vaccine candidates, launching online learning to continue to build the nation's health care workforce, ensuring medical school students and PhD candidates graduated on time, among many others.

On a global scale, Mayo Clinic and the Society of Critical Care Medicine launched the VIRUS COVID-19 Registry to collect and share critical care patient data from hospitals and health care providers around the world. The registry contains patient characteristics,

strategies and outcomes to support organizational planning and evaluation of critical care practices to inform intensive care treatments.

TESTING AND PREDICTIVE MODELING

Mayo Clinic has completed over 1,000,000 PCR molecular tests and 150,000 serology tests. Mayo Clinic Laboratories is part of a Minnesota testing collaboration which includes the Minnesota Department of Health, the University of Minnesota and other health systems. Together, we've expanded Minnesota's back-up testing capacity to 20,000 molecular tests per day, established a virtual command center to monitor daily testing needs, continue to respond to outbreaks, and increased public health surveillance and research.

The Advanced Diagnostics lab at One Discovery Square is performing an antibody test developed by Mayo Clinic on specimens collected in the national Expanded Access Program for convalescent plasma.

Mayo Clinic has an extensive predictive modeling process that makes scientifically sound predictions and recommendations for safe care of patients and staff and resource allocation, while reducing community disease transmission. The model predicts with reasonable certainty when each hospital across Mayo Clinic and Mayo Clinic Health System would reach critical junctures, without intervention, and with various interventions implemented in different communities. This gives a 3-4 week prediction for all our campuses.

The data are assembled from a variety of sources into a highly sophisticated Bayesian model that updates predictions for Mayo Clinic every day.

RESEARCH TRANSFORMS COVID-19 RESPONSE

Pandemic urgency has accelerated our work to rapidly discover, translate and apply science directly to patients hospitalized with COVID-19. Our research strategies are inclusive spanning the spectrum of disease: they cover uninfected and exposed at-risk individuals, infected, hospitalized and seriously ill patients in intensive care as well as recovered individuals.

Mayo Clinic serves our nation as the central Institutional Review Board for investigational convalescent plasma which is just one of 155 active studies. **Approximately ninety percent of Mayo Clinic patients hospitalized with COVID-19 participate in a research study.**

Launched April 3, the Expanded Access Program for Convalescent Plasma is a federally-sponsored national study of the safety and potential effectiveness of this investigational therapy. At its inception, the study's goal was to focus on safety and access for 5,000 patients hospitalized with COVID-19. Today, patient enrollment at uscovidplasma.org has topped 79,000 from 12,000 physicians at over 2,600 acute care facilities in every state and territory of our nation. In June, Mayo Clinic *Proceedings* published safety data on the first 20,000 patients in which nearly 40% of study participants were women; 35% Hispanic; 20%

Black; and 5% Asian. The findings show plasma is safe and in some patients who received the plasma, virus levels in the blood were reduced or eliminated.

Mayo Clinic and collaborators are now broadening their focus to study the effectiveness of convalescent plasma. Researchers have observed potential signals of efficacy. Mayo Clinic, as the lead site for the program, shares data daily with the U.S. Food and Drug Administration so its statisticians make independent assessments simultaneously.

Health equity research advances through community engagement

Culturally tailored communications answer questions and dispel harmful myths about COVID-19. Through long-established cooperative relationships, Mayo Clinic researchers collaborate to improve the health of minority communities.

A TRUSTED RESOURCE

Mayo Clinic remains a much needed, trusted source of **timely and accurate information on COVID-19**, and we provide information to external colleagues and patient communities who benefit from Mayo Clinic knowledge. Our Public Affairs team has fielded thousands of interview requests with physicians, leaders and researchers. Our research community has authored over 337 scholarly publications on COVID-19, and a series of one-hour webinars highlights our experts discussing the latest knowledge and information on the pandemic response.

The Mayo Clinic Q&A podcast premiered in January to feature Mayo Clinic physicians, researchers and care teams sharing knowledge about many topics – it pivoted to providing needed COVID-19 information for consumers in March. It plays on multiple platforms, including social media and 251 radio stations across the country. The podcast has aired 44 episodes on COVID with over 120K downloads.

Interviews, webinars and presentations on COVID from Mayo Clinic experts total more than 300.

CONTINUING EXCELLENCE

For the fifth consecutive year, **Mayo Clinic in Rochester has been named the #1 hospital in the nation from *U.S. News & World Report's* Best Hospitals.** Mayo Clinic in Arizona moved up by two in the national rankings to #16 and Florida moved from #43 to #28 nationally.

Among specialties, Mayo Clinic is ranked No. 1 in five specialties:

- Diabetes and Endocrinology
- Ear, Nose and Throat
- Gastroenterology and Gastroenterologic Surgery
- Nephrology
- Urology

In addition, Mayo Clinic in Rochester was ranked No. 2 in six other specialties:

- Cardiology and Heart Surgery
- Geriatrics
- Gynecology
- Neurology and Neurosurgery
- Orthopedics
- Pulmonology and Lung Surgery

Mayo Clinic ranked among “Best Children’s hospitals” by U.S. News & World Report

Mayo Clinic Children’s Center ranked as a top-performing children’s hospital in 8 of 10 pediatric specialties. Ranking in specialties demonstrates broad based excellence and the effectiveness of the team-based approach that is the hallmark of the Mayo Clinic Model of Care. Mayo Clinic’s specialties included in the report were cancer, cardiology and heart surgery, diabetes and endocrinology, neonatology, neurology and neurosurgery, orthopedics, pediatric gastroenterology and GI surgery, and urology. From before birth to the transition to adulthood, the Mayo Clinic Children’s center is committed to providing the best care to every child, every day.

Mayo Clinic will participate in Veteran’s Affairs Community Care Network

Mayo Clinic will be a participating provider in the Department of Veterans Affairs’ (VA) Community Care Network commencing August 1, 2020. This program allows veterans to receive care outside of the VA network using their VA benefits when authorized by the VA. Previous iterations of this program included requirements that made it very difficult for Mayo Clinic to participate as a provider, but additional flexibility granted to the VA as part of the MISSION Act allowed us to formulate an approach that aligns with the Mayo Clinic Model of Care.

Mayo Clinic has a long history of providing care to veterans. This agreement enables us to increase access to both community care within Mayo Clinic Health System, and the unique care for complex health issues only available at our Rochester, Jacksonville, or Phoenix campuses.

Mayo Clinic named among Disability Equality index's "Best Places to Work"

Mayo Clinic received a top score on the Disability Equality Index and was named a "2020 Disability Equality Index Best Place to Work." The Disability Equality Index is a prominent benchmarking tool. This is the fourth year Mayo Clinic has been a top scorer on the annual benchmarking survey. Mayo Clinic noted several best practices in its response to the Disability Equality Index survey. These include efforts related to recruitment, engagement and accommodations.

DISCUSSION OF SECOND QUARTER RESULTS

Mayo Clinic produced a strong financial performance in the quarter ended June 30, generating net operating income of \$154 million on revenue of \$3.22 billion or a 4.8% operating margin. This performance spanned a remarkable period that included the near closure of outpatient clinical practice and a deferral of all elective and non-emergent care in April, the rapid reopening of the practice in May, and stabilization at near normal levels of volume in June. The receipt of provider relief funds as well as expense reductions also played significant roles in the quarter's performance.

Mayo Clinic received federal and state relief funding of \$303 million during the second quarter, recognizing \$173 million of the funds as revenue and deferring recognition of the remainder until the longer-term financial impact of the pandemic and the need for relief is better understood. \$915 million in advance payments was also received from the Center for Medicare and Medicaid Services (CMS) and repaid the advance payments in full in July 2020.

For the six months ending June 30, Mayo Clinic generated net operating income of \$183 million on revenue of \$6.44 billion, a 2.8% operating margin. Total revenue of \$6.44 billion decreased \$338.4 million (5.0%) from the prior year period.

(in Millions):	Three Months Ended June 30,			Six Months Ended June 30,		
	2019	2020	Change From 2019	2019	2020	Change From 2019
Revenue	\$3,431	\$3,220	-6.1%	\$6,778	\$6,440	-5.0%
Expenses:	3,131	3,066	-2.1%	6,237	6,257	0.3%
Net Operating Income	\$300	\$154	-48.7%	\$541	\$183	-66.2%

REVENUE

Year to date, net medical service revenue of \$5.24 billion was 81% of total revenue and represented a 7.9% decline from prior year. For the second quarter, net medical service revenue of \$2.43 billion represented 75% of total revenue and represented a 16.2% decline from the prior year quarter, reflecting the impact of reduced clinical volumes due to the COVID-19 pandemic.

(in Millions):	Three Months Ended June 30,		Change From 2019	Six Months Ended June 30,		Change From 2019
	2019	2020		2019	2020	
Revenue						
Net medical service revenue	\$2,893	\$2,425	-16.2%	\$5,682	\$5,235	-7.9%
Grants and contracts	142	137	-3.5%	299	269	-10.0%
Contributions	79	77	-2.5%	117	123	5.1%
Investments	89	124	39.3%	181	245	35.4%
Other	228	457	100.4%	499	568	13.8%
Total revenue	\$3,431	\$3,220	-6.1%	\$6,778	\$6,440	-5.0%

EXPENSES

Year-to-date total expenses of \$6.26 billion represented year-over-year growth of 0.3%. Total salary and benefit expense of \$3.88 billion represented an increase of 1.6% over the prior year and comprised 62.0% of operating expenses. In April and in response to reduced clinical activity stemming from pandemic preparations, management implemented expense reduction measures which also played a role in the quarter's performance, contributing \$300 million in savings during the months of May and June. The majority of these expense reductions consisted of salary reductions for consulting, executive and administrative staff, suspension of 401k/403b contributions and other benefits, and temporary workforce reductions in the form of temporary furloughs and flexing staff to workload. These measures reduced full time equivalents in May and June by 9,800 and 8,600, respectively, on a workforce of nearly 70,000.

	Three Months Ended June 30,		Change From 2019	Six Months Ended June 30,		Change From 2019
	2019	2020		2019	2020	
Expenses (in Millions):						
Salaries and benefits	\$1,902	\$1,953	2.7%	\$3,817	\$3,878	1.6%
Supplies and services	985	867	-12.0%	1,932	1,876	-2.9%
Facilities	210	213	1.4%	420	436	3.8%
Finance and investment	34	33	-2.9%	68	67	-1.5%
Total expenses	\$3,131	\$3,066	-2.1%	\$6,237	\$6,257	0.3%

CASH, INVESTMENTS, AND BALANCE SHEET STRENGTH

Key balance sheet ratios reflect reduced cash and investment balances resulting from investment losses but are otherwise unchanged and suggest stability when reduced by the Medicare advance payments. In July 2020, Mayo Clinic fully repaid the \$915 million in Medicare advance payments received in April 2020.

	6/30/2020	6/30/2020*	12/31/2019	6/30/2019
Days Revenue Outstanding	72.0	72.0	61.0	63.6
Days Cash on Hand	315	287	270	258
Debt Service Coverage Ratio	6.1x	6.1x	8.4x	7.9x
Cash to Debt	280%	255%	268%	246%
Debt to Capitalization	37%	37%	33%	28%

*Excludes \$915 of Medicare Advance Payments

SUMMARY AND CONCLUSION

Mayo Clinic's stronger than expected second quarter 2020 financial results are due to the efforts of our committed staff, who worked to safely reactivate the Mayo Clinic Practice after a required shut down of elective and non-emergency procedures to deal with the COVID-19 pandemic as well as a focus on reducing expenses. Receiving CARES Act funding allowed us to respond aggressively to COVID – including the acquisition of necessary supplies to protect our staff and patients and making important decisions and investments in test development and research early-on in the pandemic – investments that are now making a difference in the efficacy of the national response. While there are considerable unknowns in the months ahead, if our strong performance persists we may consider returning some portion of the CARES Act funding Mayo Clinic has received. This decision, rooted in our values of integrity, teamwork and stewardship, would allow for these dollars to be directed to other needs in support of the nation's pandemic response.