Interim Unaudited Consolidated Financial Statements and Other Information

For The Period Ended September 30, 2023

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

Contents

Unaudited Consolidated Balance Sheets
($ in thousands)

	September 30 2023	December 31 2022
Assets		
Current assets:		
Cash and cash equivalents	$ 441,363	$ 858,372
Patient receivables	1,902,742	1,706,167
Investments for current use	63,991	63,991
Other current assets	946,018	874,568
Total current assets	3,354,114	3,503,098
Investments:		
Long-term investments	10,990,161	10,671,739
Funds held by trustees	8,427	5,689
Assets held for self-insurance	201,145	175,064
Donor restricted assets	1,360,991	1,298,527
	12,560,724	12,151,019
Property, plant, and equipment, net	6,084,093	5,971,764
Other assets:		
Pledges receivable, net	193,202	214,648
Trusts and interests in foundations	88,625	102,208
Operating lease right-of-use assets	365,350	336,398
Other noncurrent assets	927,699	858,860
	1,574,876	1,512,114
Total assets	$ 23,573,807	$ 23,137,995

Unaudited Consolidated Balance Sheets (continued)
($ in thousands)

	September 30 2023	December 31 2022
Liabilities and net assets		
Current liabilities:		
Accounts payable	$ 649,218	$ 761,923
Compensation and amounts withheld from payroll	597,268	595,089
Current portion of long-term debt	108,152	107,757
Variable rate debt classified as current	754,954	686,329
Other current liabilities	701,270	778,807
Total current liabilities	2,810,862	2,929,905
Long-term debt	4,370,253	4,246,037
Other liabilities:		
Professional and general insurance liability reserves	214,393	216,544
Accrued retirement benefits	223,785	226,440
Operating lease liabilities	322,867	306,485
Other noncurrent liabilities	606,458	554,488
	1,367,503	1,303,957
Total liabilities	8,548,618	8,479,899
Net assets:		
Without donor restrictions	13,281,604	12,918,776
With donor restrictions	1,743,585	1,739,320
Total net assets	15,025,189	14,658,096
Total liabilities and net assets	$ 23,573,807	$ 23,137,995

See notes to unaudited consolidated financial statements.

Unaudited Consolidated Statements of Operations and Changes in Net Assets

($ in thousands)

Operations

	Three Months Ended September 30	
	2023	2022
Unrestricted revenues		
Net patient service revenue	$ 3,198,196	$ 2,926,964
Other	439,732	378,569
Total unrestricted revenues	3,637,928	3,305,533
Expenses		
Salaries, wages, and benefits	2,110,713	1,952,560
Supplies	365,784	327,820
Pharmaceuticals	487,892	402,843
Purchased services and other fees	257,426	242,385
Administrative services	64,725	65,143
Facilities	117,905	118,382
Insurance	38,721	29,609
	3,443,166	3,138,742
Operating income before interest, depreciation, and amortization expenses	194,762	166,791
Interest	44,089	37,819
Depreciation and amortization	165,548	157,298
Operating loss	(14,875)	(28,326)
Nonoperating gains and losses		
Investment return	(120,433)	(417,612)
Derivative gains	14,051	18,588
Other, net	(6,181)	(41,884)
Net nonoperating gains and losses	(112,563)	(440,908)
Deficiency of revenues over expenses	(127,438)	(469,234)

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

($ in thousands)

Changes in Net Assets

	Three Months Ended September 30	
	2023	2022
Changes in net assets without donor restrictions:		
Deficiency of revenues over expenses	$ (127,438)	$ (469,234)
Donated capital	-	-
Net assets released from restriction for capital purposes	3,632	3,659
Retirement benefits adjustment	(792)	(574)
Foreign currency translation	(3,417)	(14,997)
Other	(198)	(3,502)
Decrease in net assets without donor restrictions	(128,213)	(484,648)
Changes in net assets with donor restrictions:		
Gifts and bequests	19,009	165,924
Net investment loss	(4,615)	(18,649)
Net assets released from restrictions used for operations included in other unrestricted revenues	(33,432)	(28,598)
Net assets released from restriction for capital purposes	(3,632)	(3,659)
Change in interests in foundations	(1,772)	(970)
Change in value of perpetual trusts	327	(2,920)
Other	200	1,500
(Decrease) increase in net assets with donor restrictions	(23,915)	112,628
Decrease in net assets	(152,128)	(372,020)
Net assets at beginning of period	15,177,317	14,605,582
Net assets at end of period	$ 15,025,189	$ 14,233,562

See notes to unaudited consolidated financial statements.

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

($ in thousands)

Operations

	Nine Months Ended September 30	
	2023	2022
Unrestricted revenues		
Net patient service revenue	$ 9,410,276	$ 8,434,978
Other	1,338,681	1,036,678
Total unrestricted revenues	10,748,957	9,471,656
Expenses		
Salaries, wages, and benefits	6,238,412	5,718,475
Supplies	1,096,581	998,392
Pharmaceuticals	1,412,291	1,151,447
Purchased services and other fees	755,340	733,687
Administrative services	184,321	186,709
Facilities	339,318	332,403
Insurance	104,081	92,396
	10,130,344	9,213,509
Operating income before interest, depreciation, amortization, and special charges	618,613	258,147
Interest	129,921	110,149
Depreciation and amortization	492,678	464,300
Operating loss	(3,986)	(316,302)
Nonoperating gains and losses		
Investment return	351,954	(1,257,604)
Derivative gains	18,498	67,315
Other, net	(13,212)	(32,033)
Net nonoperating gains and losses	357,240	(1,222,322)
Excess (deficiency) of revenues over expenses	353,254	(1,538,624)

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

($ in thousands)

Changes in Net Assets

	Nine Months Ended September 30	
	2023	2022
Changes in net assets without donor restrictions:		
Excess (deficiency) of revenues over expenses	$ 353,254	$ (1,538,624)
Donated capital	65	(3)
Net assets released from restriction for capital purposes	9,325	8,699
Retirement benefits adjustment	(2,375)	(1,723)
Foreign currency translation	2,811	(36,478)
Other	(252)	(2,201)
Increase (decrease) in net assets without donor restrictions	362,828	(1,570,330)
Changes in net assets with donor restrictions:		
Gifts and bequests	82,254	285,633
Net investment income (loss)	41,550	(67,843)
Net assets released from restrictions used for operations included in other unrestricted revenues	(109,362)	(60,324)
Net assets released from restriction for capital purposes	(9,325)	(8,699)
Change in interests in foundations	(1,233)	(3,001)
Change in value of perpetual trusts	81	(5,956)
Other	300	1,500
Increase in net assets with donor restrictions	4,265	141,310
Increase (decrease) in net assets	367,093	(1,429,020)
Net assets at beginning of year	14,658,096	15,662,582
Net assets at end of period	$ 15,025,189	$ 14,233,562

See notes to unaudited consolidated financial statements.

Unaudited Consolidated Statements of Cash Flows

($ in thousands)

	Nine Months Ended September 30	
	2023	2022
Operating activities and net nonoperating gains and losses		
Increase (decrease) increase in net assets	$ 367,093	$ (1,429,020)
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities and net nonoperating gains and losses:		
Retirement benefits adjustment	2,375	1,723
Net realized and unrealized (gains) losses on investments	(358,543)	1,383,368
Depreciation and amortization	488,991	464,979
Foreign currency translation (gain) loss	(2,811)	36,478
Donated capital	(65)	3
Restricted gifts, bequests, investment income, and other	(122,652)	(208,833)
Accreted interest and amortization of bond premiums	(5,452)	(5,557)
Net gain in value of derivatives	(19,022)	(80,487)
Changes in operating assets and liabilities:		
Patient receivables	(196,507)	(119,099)
Other current assets	(115,391)	(134,134)
Other noncurrent assets	(95,902)	5,085
Accounts payable and other current liabilities	(196,364)	(43,660)
Other liabilities	77,865	(6,462)
Net cash used in operating activities and net nonoperating gains and losses	(176,385)	(135,616)
Financing activities		
Proceeds from short-term borrowings	65,170	-
Payments on short-term borrowings	(65,170)	-
Proceeds from long-term borrowings	300,000	-
Principal payments on long-term debt	(121,650)	(96,656)
Debt issuance costs	(279)	-
Change in pledges receivables, trusts and interests in foundations	54,927	(121,756)
Restricted gifts, bequests, investment income, and other	122,652	208,833
Net cash provided by (used in) financing activities	355,650	(9,579)
Investing activities		
Expenditures for property, plant and equipment	(559,061)	(554,925)
Proceeds from sale of property, plant and equipment	11,890	14,111
Net change in cash equivalents reported in long-term investments	(243,315)	261,965
Purchases of investments	(3,197,827)	(2,924,781)
Sales of investments	3,384,441	3,201,523
Net cash used in investing activities	(603,872)	(2,107)
Effect of exchange rate changes on cash	2,059	(29,629)
Decrease in cash and cash equivalents	(422,548)	(176,931)
Cash, cash equivalents and restricted cash at beginning of year	868,345	782,431
Cash, cash equivalents and restricted cash at end of period	$ 445,797	$ 605,500

See notes to unaudited consolidated financial statements.

1. Basis of Presentation

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

2. Organization and Consolidation

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

The System is the leading provider of healthcare services in northeast Ohio. As of September 30, 2023, the System operates 21 hospitals with approximately 5,500 staffed beds. Fifteen of the hospitals are operated in the northeast Ohio area, anchored by the Clinic. The System operates 22 outpatient Family Health Centers and nine ambulatory surgery centers, as well as numerous physician offices, which are located throughout northeast Ohio, and specialized cancer centers in Sandusky and Mansfield, Ohio. In Southeast Florida, the System operates five hospitals, a clinical facility in Weston, outpatient family health centers in Port St. Lucie, Stuart and West Palm Beach, an outpatient family health and ambulatory surgery center in Coral Springs and numerous physician offices located throughout Southeast Florida. In London, the System operates a hospital and an outpatient facility. In addition, the System operates a health and wellness center and a sports medicine clinic in Toronto, Canada and a specialized neurological clinical center in Las Vegas, Nevada. Pursuant to agreements, the System also provides management services for Ashtabula County Medical Center, located in Ashtabula, Ohio, with approximately 120 staffed beds, and Cleveland Clinic Abu Dhabi, a multispecialty hospital offering a range of complex quaternary and general acute care services that is part of Mubadala Health's network of healthcare facilities located in Abu Dhabi, United Arab Emirates with approximately 364 staffed beds.

In July 2023, Cleveland Clinic Mentor Hospital opened for patients. The new hospital is located in Lake County Ohio and has 34 inpatient beds.

In August 2023, Middleburg Heights Family Health Center opened for patients. The new family health center is located in Cuyahoga County, Ohio.

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

3. Use of Estimates

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

4. Net Patient Service Revenue and Patient Receivables

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

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

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

The System is utilizing the portfolio approach practical expedient in ASC 606 for contracts related to net patient service revenue. The System accounts for the contracts within each portfolio as a collective group, rather than individual contracts, based on the payment pattern expected in each portfolio category and the similar nature and characteristics of the patients within each portfolio. The portfolios consist of major payor classes for inpatient revenue and outpatient revenue. Based on historical collection trends and other analyses, the System has concluded that revenue for a given portfolio would not be materially different from accounting for revenue on a contract-by-contract basis.

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

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

Generally, patients who are covered by third-party payors are responsible for patient responsibility balances, including deductibles and coinsurance, which vary in amount. The System estimates the transaction price for patients with deductibles and coinsurance based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any explicit price concessions, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Adjustments arising from a change in the transaction price increased net patient revenue by $61.0 million in the first nine months of 2023. Adjustments arising from a change in the transaction price were not significant in the first nine months of 2022.

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

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

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

Settlements with third-party payors for retroactive adjustments due to reviews and audits are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care in the period the related services are provided. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the System's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known or as years are settled or are no longer subject to such reviews and audits. Adjustments arising from a change in estimated settlements were not significant in the first nine months of 2023. Adjustments arising from a change in estimated settlements increased net patient service revenue by $51.2 million in the first nine months of 2022.

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

Net patient service revenue by major payor source, for the nine months ended September 30, 2023 and 2022 is as follows (in thousands):

	Nine Months Ended September 30, 2023		Nine Months Ended September 30, 2022	
Medicare	**$ 3,657,316**	**39%**	$ 3,354,813	40%
Medicaid	**936,019**	**10**	887,055	10
Managed care and commercial	**4,775,716**	**50**	4,159,110	49
Self-pay	**41,225**	**1**	34,000	1
Net patient service revenue	**$ 9,410,276**	**100%**	$ 8,434,978	100%

5. Cash and Cash Equivalents

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

5. Cash and Cash Equivalents (continued)

The reconciliation of cash, cash equivalents, and restricted cash within the consolidated balance sheets that comprise the amount reported on the consolidated statements of cash flows at September 30, 2023 and December 31, 2022 is as follows (in thousands):

	September 30 2023	December 31 2022
Cash and cash equivalents	**$ 441,363**	$ 858,372
Restricted cash in investments	**4,434**	9,973
Total cash, cash equivalents, and restricted cash	**$ 445,797**	$ 868,345

Restricted cash in investments includes amounts held by the System's captive insurance subsidiary and funds held by trustees.

6. Fair Value Measurements

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

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

The framework for measuring fair value is comprised of a three-level hierarchy based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

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

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

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

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

6. Fair Value Measurements (continued)

The following tables present the financial instruments measured at fair value on a recurring basis as of September 30, 2023 and December 31, 2022, based on the valuation hierarchy (in thousands):

September 30, 2023

	Level 1	Level 2	Level 3	Total
Assets				
Cash and investments:				
Cash and cash equivalents	$ 445,797	$ –	$ –	$ 445,797
Money market funds	494,263	–	–	494,263
Fixed-income securities:				
U.S. treasuries	1,198,268	–	–	1,198,268
U.S. government agencies	–	46,142	–	46,142
U.S. corporate	–	519,419	–	519,419
U.S. government agencies asset-backed securities	–	442,399	–	442,399
Corporate asset-backed securities	–	258,458	–	258,458
Foreign	–	205,415	–	205,415
Fixed-income mutual funds	129,839	–	–	129,839
Common and preferred stocks:				
U.S.	186,045	101	–	186,146
Foreign	444,990	44,407	–	489,397
Equity mutual funds	69,371	–	–	69,371
Total cash and investments	2,968,573	1,516,341	–	4,484,914
Perpetual and charitable trusts	–	61,730	–	61,730
Total assets at fair value	$ 2,968,573	$ 1,578,071	$ –	$ 4,546,644
Liabilities				
Interest rate swaps	$ –	$ 13,644	$ –	$ 13,644
Total liabilities at fair value	$ –	$ 13,644	$ –	$ 13,644

6. Fair Value Measurements (continued)

December 31, 2022

	Level 1	Level 2	Level 3	Total
Assets				
Cash and investments:				
Cash and cash equivalents	$ 868,345	$ –	$ –	$ 868,345
Money market funds	271,914	–	–	271,914
Fixed-income securities:				
U.S. treasuries	1,161,381	–	–	1,161,381
U.S. government agencies	–	42,379	–	42,379
U.S. corporate	–	533,581	–	533,581
U.S. government agencies asset-backed securities	–	394,270	–	394,270
Corporate asset-backed securities	–	207,955	–	207,955
Foreign	–	243,748	–	243,748
Fixed-income mutual funds	40,821	–	–	40,821
Common and preferred stocks:				
U.S.	161,160	154	–	161,314
Foreign	435,047	34,203	–	469,250
Equity mutual funds	73,892	–	–	73,892
Total cash and investments	3,012,560	1,456,290	–	4,468,850
Perpetual and charitable trusts	–	74,080	–	74,080
Total assets at fair value	$ 3,012,560	$ 1,530,370	$ –	$ 4,542,930
Liabilities				
Interest rate swaps	$ –	$ 32,666	$ –	$ 32,666
Total liabilities at fair value	$ –	$ 32,666	$ –	$ 32,666

Financial instruments at September 30, 2023 and December 31, 2022 are reflected in the consolidated balance sheets as follows (in thousands):

	September 30 2023	December 31 2022
Cash, cash equivalents, and investments measured at fair value	**$ 4,484,914**	$ 4,468,850
Commingled funds measured at net asset value	**2,006,745**	2,022,451
Alternative investments measured at net asset value	**6,574,419**	6,582,081
Total cash, cash equivalents, and investments	**$ 13,066,078**	$ 13,073,382
Perpetual and charitable trusts measured at fair value	**$ 61,730**	$ 74,080
Interests in foundations	**26,895**	28,128
Trusts and interests in foundations	**$ 88,625**	$ 102,208

6. Fair Value Measurements (continued)

Interest rate swaps (Note 7) are reported in other noncurrent liabilities in the consolidated balance sheets.

The following is a description of the System's valuation methodologies for assets and liabilities measured at fair value. Fair value for Level 1 is based upon quoted market prices. Fair value for Level 2 is determined as follows:

> Investments classified as Level 2 are primarily determined using techniques that are consistent with the market approach. Valuations are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs, which include broker/dealer quotes, reported/comparable trades, and benchmark yields, are obtained from various sources, including market participants, dealers, and brokers.
>
> The fair value of perpetual and charitable trusts in which the System receives periodic payments from the trust is determined based on the present value of expected cash flows to be received from the trust using discount rates ranging from 3.7% to 5.0%, which are based on Treasury yield curve interest rates or the assumed yield of the trust assets. The fair value of charitable trusts in which the System is a remainder beneficiary is based on the System's beneficial interest in the investments held in the trust, which are measured at fair value.
>
> The fair value of interest rate swaps is determined based on the present value of expected future cash flows using discount rates appropriate with the risks involved. The valuations include a credit spread adjustment to market interest rate curves to appropriately reflect nonperformance risk. The credit spread adjustment is derived from other comparably rated healthcare entities' bonds. The System manages credit risk based on the net portfolio exposure with each counterparty.

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

7. Derivative Instruments

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

7. Derivative Instruments (continued)

The System's objective with respect to interest rate risk is to manage the risk of rising interest rates on the System's variable rate debt. Consistent with its interest rate risk management objective, the System has entered into various interest rate swap agreements with a total notional amount of $507.5 million and $523.2 million at September 30, 2023 and December 31, 2022, respectively. The swap agreements mature in varying years between 2024-2039. During the term of these transactions, the System pays interest at a fixed rate, ranging from 3.04% to 5.12%, and receives interest at a variable rate which was based on the London Interbank Offered Rate (LIBOR) or the Securities Industry and Financial Markets Association Index (SIFMA). On June 9, 2023, the System adhered to the International Swaps and Derivatives Association's IBOR Fallback Protocol, which was effective for the System on July 1, 2023 and provided for automatic substitution of an applicable term adjusted SOFR (Secured Overnight Financing Rate) plus a spread for such tenors of LIBOR upon the cessation of their availability. This change did not have a material impact on the System's financials statements. The swap agreements are not designated as hedging instruments. Net interest paid or received under the swap agreements is included in derivative gains in the consolidated statements of operations and changes in net assets.

The System is exposed to fluctuations in various foreign currencies against its functional currency, the U.S. dollar (USD). The System uses foreign currency forward contracts to manage its exposure to fluctuations in the USD – British pound (GBP) exchange rate. Currency forward contracts involve fixing the USD – GBP exchange rate for delivery of a specified amount of foreign currency on a specified date. The currency forward contracts are typically cash settled in USD for their fair value at or close to their settlement date. The System had no foreign currency forward contracts outstanding at September 30, 2023 or December 31, 2022.

7. Derivative Instruments (continued)

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

	Derivative Assets and Liabilities			
	September 30, 2023		December 31, 2022	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives not designated as hedging instruments				
Interest rate swap agreements	Other noncurrent liabilities	**$ 13,644**	Other noncurrent liabilities	$ 32,666

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

	Location of Gain (Loss) Recognized	Quarter Ended September 30 2023	Quarter Ended September 30 2022	Nine Months Ended September 30 2023	Nine Months Ended September 30 2022
Derivatives not designated as hedging instruments					
Interest rate swap agreements	Derivative gains	**$ 14,051**	$ 22,866	**$ 18,498**	$ 70,562
Foreign currency contracts	Derivative losses	**–**	(4,278)	**–**	(3,247)

The System has used various derivative contracts in connection with certain prior obligations and investments. Although minimum credit ratings are required for counterparties, this does not eliminate the risk that a counterparty may fail to honor its obligations. Derivative contracts are subject to periodic "mark-to-market" valuations. A derivative contract may, at any time, have a positive or negative value to the System. In the event that the negative value reaches certain thresholds established in the derivative contracts, the System is required to post collateral, which could adversely affect its liquidity. The System had no posted collateral at September 30, 2023 and December 31, 2022. In addition, if the System were to choose to terminate a derivative contract or if a derivative contract were terminated pursuant to an event of default or a termination event as described in the derivative contract, the System could be required to pay a termination payment to the counterparty.

8. Pensions and Other Postretirement Benefits

The System maintains five defined benefit pension plans, including three tax-qualified funded plans and two unfunded plans. The CCHS Retirement Plan is a tax-qualified defined benefit pension plan that provides benefits to substantially all employees of the System, except those employed by Akron General, Mercy Hospital, Union Hospital or Indian River Hospital. All benefit accruals under the CCHS Retirement Plan ceased as of December 31, 2012. Martin Health System had a tax-qualified defined benefit plan covering substantially all of its employees who were hired before October 1, 2005, and met certain eligibility requirements. All benefit accruals under the Martin Health System defined benefit plan ceased as of January 1, 2013. On June 30, 2019, the Martin Health System defined benefit pension plan merged with the CCHS Retirement Plan, with the CCHS Retirement Plan being a single continuing pension plan. Akron General has a tax-qualified defined benefit plan covering substantially all of its employees who were hired before 2004 and meet certain eligibility requirements. All benefit accruals under the Akron General defined benefit plan ceased as of December 31, 2017. Indian River Hospital has a tax-qualified defined benefit plan covering substantially all of its employees who were hired before December 31, 2002 and meet certain eligibility requirements. All benefit accruals under the Indian River Hospital defined benefit plan ceased as of December 31, 2002. The benefits for the System's tax-qualified defined benefit pension plans are provided based on age, years of service, and compensation. The System's policy for its tax-qualified defined benefit pension plans is to fund at least the minimum amounts required by the Employee Retirement Income Security Act of 1974. The System maintains two unfunded, nonqualified defined benefit supplemental retirement plans, which cover certain professional staff and administrative employees.

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

As of September 30, 2023, the System had made contributions of $25.0 million to the defined benefit pension plans.

8. Pensions and Other Postretirement Benefits (continued)

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

	Quarter Ended September 30		Nine Months Ended September 30	
	2023	**2022**	**2023**	**2022**
Amounts related to defined benefit pension plans:				
Service credit	$ (608)	$ (944)	$ (1,825)	$ (2,831)
Interest cost	19,155	13,587	57,464	40,760
Expected return on assets	(16,271)	(21,857)	(48,812)	(65,571)
Net amortization and deferral	(454)	(494)	(1,362)	(1,482)
Total defined benefit pension plans	1,822	(9,708)	5,465	(29,124)
Defined contribution plans	94,801	84,649	301,776	270,824
	$ 96,623	**$ 74,941**	**$ 307,241**	**$ 241,700**

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

9. Long-Term Debt

In September 2023, pursuant to certain agreements between the System and the State of Ohio (State) acting by and through the Ohio Higher Educational Facility Commission, the State issued $300 million of floating-rate Hospital Revenue Bonds (Series 2023 Bonds) for the benefit of the System. Proceeds from the Series 2023 Bonds were used to finance certain capital expenditures of the System and to pay the cost of issuance.

10. Endowment

Effective for the third quarter of 2023, the System established a Board designated endowment fund to support various programs related to the mission of the System. The System has designated $43.8 million of investment return for current operations for the three and nine months ended September 30, 2023, which is recorded in other unrestricted revenues in the consolidated statement of operations and changes in net assets. Investment return greater or less than amounts designated for current operations is recorded in nonoperating gains and losses in the consolidated statement of operations and changes in net assets.

11. Subsequent Events

The System evaluated events and transactions occurring subsequent to September 30, 2023 through November 29, 2023, the date the unaudited consolidated financial statements were issued. During this period, there were no subsequent events requiring recognition in the consolidated financial statements, and there were no nonrecognized subsequent events requiring disclosure.

Unaudited Consolidating Balance Sheets

($ in thousands)

	September 30, 2023				December 31, 2022			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated
Assets								
Current assets:								
Cash and cash equivalents	$ 390,326	$ 51,037	$ -	$ 441,363	$ 551,714	$ 306,658	$ -	$ 858,372
Patient receivables, net	1,532,036	398,147	(27,441)	1,902,742	1,392,179	348,632	(34,644)	1,706,167
Due from affiliates	54,203	41,381	(95,584)	-	13,354	45	(13,399)	-
Investments for current use	-	63,991	-	63,991	-	63,991	-	63,991
Other current assets	976,025	228,700	(258,707)	946,018	968,608	148,640	(242,680)	874,568
Total current assets	2,952,590	783,256	(381,732)	3,354,114	2,925,855	867,966	(290,723)	3,503,098
Investments:								
Long-term investments	9,865,541	1,124,620	-	10,990,161	9,604,363	1,067,376	-	10,671,739
Funds held by trustees	8,427	-	-	8,427	5,689	0	-	5,689
Assets held for self-insurance	-	201,145	-	201,145	-	175,064	-	175,064
Donor restricted assets	1,254,898	106,093	-	1,360,991	1,201,698	96,829	-	1,298,527
	11,128,866	1,431,858	-	12,560,724	10,811,750	1,339,269	-	12,151,019
Property, plant, and equipment, net	4,530,900	1,553,193	-	6,084,093	4,411,720	1,560,044	-	5,971,764
Other assets:								
Pledges receivable, net	166,679	26,523	-	193,202	190,567	24,081	-	214,648
Trusts and beneficial interests in foundations	62,107	26,518	-	88,625	63,882	38,326	-	102,208
Operating lease right-of-use assets	124,066	241,284	-	365,350	111,452	224,946	-	336,398
Other noncurrent assets	1,089,888	149,792	(311,981)	927,699	1,020,774	149,854	(311,768)	858,860
	1,442,740	444,117	(311,981)	1,574,876	1,386,675	437,207	(311,768)	1,512,114
Total assets	$ 20,055,096	$ 4,212,424	$ (693,713)	$ 23,573,807	$ 19,536,000	$ 4,204,486	$ (602,491)	$ 23,137,995

	September 30, 2023				December 31, 2022			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated
Liabilities and net assets								
Current liabilities:								
Accounts payable	$ 514,939	$ 134,386	$ (107)	$ 649,218	$ 591,220	$ 170,812	$ (109)	$ 761,923
Compensation and amounts withheld from payroll	523,242	74,026	-	597,268	518,372	76,717	-	595,089
Short-term borrowings	-	-	-	-	-	-	-	-
Current portion of long-term debt	100,410	7,742	-	108,152	100,393	7,364	-	107,757
Variable rate debt classified as current	710,172	44,782	-	754,954	638,952	47,377	-	686,329
Due to affiliates	20,259	55,897	(76,156)	-	41	14,070	(14,111)	-
Other current liabilities	665,623	305,114	(269,467)	701,270	730,938	320,161	(272,292)	778,807
Total current liabilities	2,534,645	621,947	(345,730)	2,810,862	2,579,916	636,501	(286,512)	2,929,905
Long-term debt	3,579,484	1,078,070	(287,301)	4,370,253	3,462,400	1,070,725	(287,088)	4,246,037
Other liabilities:								
Professional and general insurance liability reserves	71,330	143,063	-	214,393	67,657	148,887	-	216,544
Accrued retirement benefits	222,725	1,060	-	223,785	225,303	1,137	-	226,440
Operating lease liabilities	88,494	234,373	-	322,867	87,717	218,768	-	306,485
Other noncurrent liabilities	536,764	105,696	(36,002)	606,458	506,249	52,450	(4,211)	554,488
	919,313	484,192	(36,002)	1,367,503	886,926	421,242	(4,211)	1,303,957
Total liabilities	7,033,442	2,184,209	(669,033)	8,548,618	6,929,242	2,128,468	(577,811)	8,479,899
Net assets:								
Without donor restrictions	11,456,400	1,849,884	(24,680)	13,281,604	11,045,547	1,897,909	(24,680)	12,918,776
With donor restrictions	1,565,254	178,331	-	1,743,585	1,561,211	178,109	-	1,739,320
Total net assets	13,021,654	2,028,215	(24,680)	15,025,189	12,606,758	2,076,018	(24,680)	14,658,096
Total liabilities and net assets	$ 20,055,096	$ 4,212,424	$ (693,713)	$ 23,573,807	$ 19,536,000	$ 4,204,486	$ (602,491)	$ 23,137,995

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

Unaudited Consolidating Statements of Operations and Changes in Net Assets

($ in thousands)

Operations

	Three Months Ended September 30, 2023				Three Months Ended September 30, 2022			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated
Unrestricted revenues								
Net patient service revenue	$ 2,680,642	$ 630,131	$ (112,577)	$ 3,198,196	$ 2,489,278	$ 534,195	$ (96,509)	$ 2,926,964
Other	394,285	110,749	(65,302)	439,732	333,763	105,918	(61,112)	378,569
Total unrestricted revenues	3,074,927	740,880	(177,879)	3,637,928	2,823,041	640,113	(157,621)	3,305,533
Expenses								
Salaries, wages, and benefits	1,777,859	447,713	(114,859)	2,110,713	1,631,720	429,348	(108,508)	1,952,560
Supplies	290,632	75,334	(182)	365,784	259,928	68,008	(116)	327,820
Pharmaceuticals	441,601	46,291	-	487,892	361,255	41,588	-	402,843
Purchased services and other fees	218,837	68,718	(30,129)	257,426	196,549	60,586	(14,750)	242,385
Administrative services	11,160	60,170	(6,605)	64,725	34,024	37,836	(6,717)	65,143
Facilities	84,838	33,494	(427)	117,905	85,054	33,813	(485)	118,382
Insurance	25,915	38,458	(25,652)	38,721	23,275	33,354	(27,020)	29,609
	2,850,842	770,178	(177,854)	3,443,166	2,591,805	704,533	(157,596)	3,138,742
Operating income (loss) before interest, depreciation, and amortization expenses	224,085	(29,298)	(25)	194,762	231,236	(64,420)	(25)	166,791
Interest	35,470	8,619	-	44,089	29,493	8,326	-	37,819
Depreciation and amortization	129,476	36,097	(25)	165,548	124,483	32,840	(25)	157,298
Operating (loss) income	59,139	(74,014)	-	(14,875)	77,260	(105,586)	-	(28,326)
Nonoperating gains and losses								
Investment return	(110,252)	(10,181)	-	(120,433)	(369,047)	(48,565)	-	(417,612)
Derivative gains (losses)	14,186	(135)	-	14,051	18,984	(396)	-	18,588
Other, net	(6,084)	(97)	-	(6,181)	(42,472)	588	-	(41,884)
Net nonoperating gains and losses	(102,150)	(10,413)	-	(112,563)	(392,535)	(48,373)	-	(440,908)
Deficiency of revenues over expenses	(43,011)	(84,427)	-	(127,438)	(315,275)	(153,959)	-	(469,234)

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

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

Changes in Net Assets

	Three Months Ended September 30, 2023				Three Months Ended September 30, 2022			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated
Changes in net assets without donor restrictions:								
Deficiency of revenues over expenses	$ (43,011)	$ (84,427)	$ -	$ (127,438)	$ (315,275)	$ (153,959)	$ -	$ (469,234)
Donated capital	-	-	-	-	-	-	-	-
Net assets released from restriction for capital purposes	2,800	832	-	3,632	(3,503)	7,162	-	3,659
Retirement benefits adjustment	(592)	(200)	-	(792)	(517)	(57)	-	(574)
Foreign currency translation	-	(3,417)	-	(3,417)	-	(14,997)	-	(14,997)
Other	(49,714)	49,516	-	(198)	(46,259)	42,757	-	(3,502)
Decrease in net assets without donor restrictions	(90,517)	(37,696)	-	(128,213)	(365,554)	(119,094)	-	(484,648)
Changes in net assets with donor restrictions:								
Gifts and bequests	13,664	5,345	-	19,009	146,287	19,637	-	165,924
Net investment (loss) income	(5,546)	931	-	(4,615)	(17,419)	(1,230)	-	(18,649)
Net assets released from restrictions used for operations included in other unrestricted revenues	(29,872)	(3,560)	-	(33,432)	(32,631)	4,033	-	(28,598)
Net assets released from restriction for capital purposes	(2,800)	(832)	-	(3,632)	3,503	(7,162)	-	(3,659)
Change in interests in foundations	(1,772)	-	-	(1,772)	760	(1,730)	-	(970)
Change in value of perpetual trusts	172	155	-	327	(1,436)	(1,484)	-	(2,920)
Other	360	(160)	-	200	1,499	1	-	1,500
(Decrease) increase in net assets with donor restrictions	(25,794)	1,879	-	(23,915)	100,563	12,065	-	112,628
Decrease in net assets	(116,311)	(35,817)	-	(152,128)	(264,991)	(107,029)	-	(372,020)
Net assets at beginning of period	13,137,965	2,064,032	(24,680)	15,177,317	12,518,606	2,089,656	(2,680)	14,605,582
Net assets at end of period	$ 13,021,654	$ 2,028,215	$ (24,680)	$ 15,025,189	$ 12,253,615	$ 1,982,627	$ (2,680)	$ 14,233,562

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

Unaudited Consolidating Statements of Operations and Changes in Net Assets

($ in thousands)

Operations

	Nine Months Ended September 30, 2023				Nine Months Ended September 30, 2022			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated
Unrestricted revenues								
Net patient service revenue	$ 7,926,991	$ 1,798,370	$ (315,085)	$ 9,410,276	$ 7,130,413	$ 1,581,209	$ (276,644)	$ 8,434,978
Other	1,179,595	351,664	(192,578)	1,338,681	924,623	293,141	(181,086)	1,036,678
Total unrestricted revenues	9,106,586	2,150,034	(507,663)	10,748,957	8,055,036	1,874,350	(457,730)	9,471,656
Expenses								
Salaries, wages, and benefits	5,269,493	1,311,794	(342,875)	6,238,412	4,773,691	1,253,693	(308,909)	5,718,475
Supplies	862,126	234,846	(391)	1,096,581	802,993	195,675	(276)	998,392
Pharmaceuticals	1,274,251	138,040	-	1,412,291	1,025,825	125,622	-	1,151,447
Purchased services and other fees	634,677	185,508	(64,845)	755,340	596,167	184,885	(47,365)	733,687
Administrative services	28,890	176,739	(21,308)	184,321	90,361	115,565	(19,217)	186,709
Facilities	244,157	96,493	(1,332)	339,318	238,663	95,174	(1,434)	332,403
Insurance	77,660	103,258	(76,837)	104,081	73,200	99,650	(80,454)	92,396
	8,391,254	2,246,678	(507,588)	10,130,344	7,600,900	2,070,264	(457,655)	9,213,509
Operating income (loss) before interest, depreciation, and amortization expenses	715,332	(96,644)	(75)	618,613	454,136	(195,914)	(75)	258,147
Interest	104,069	25,852	-	129,921	85,111	25,038	-	110,149
Depreciation and amortization	384,558	108,195	(75)	492,678	375,313	89,062	(75)	464,300
Operating income (loss)	226,705	(230,691)	-	(3,986)	(6,288)	(310,014)	-	(316,302)
Nonoperating gains and losses								
Investment return	307,723	44,231	-	351,954	(1,111,842)	(145,762)	-	(1,257,604)
Derivative gains (losses)	19,021	(523)	-	18,498	68,812	(1,497)	-	67,315
Other, net	(14,184)	972	-	(13,212)	(34,582)	2,549	-	(32,033)
Net nonoperating gains and losses	312,560	44,680	-	357,240	(1,077,612)	(144,710)	-	(1,222,322)
Excess (deficiency) of revenues over expenses	539,265	(186,011)	-	353,254	(1,083,900)	(454,724)	-	(1,538,624)

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

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

($ in thousands)

Changes in Net Assets

	Nine Months Ended September 30, 2023				Nine Months Ended September 30, 2022			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated
Changes in net assets without donor restrictions:								
Excess (deficiency) of revenues over expenses	$ 539,265	$ (186,011)	$ -	$ 353,254	$ (1,083,900)	$ (454,724)	$ -	$ (1,538,624)
Donated capital	49	16	-	65	(3)	-	-	(3)
Net assets released from restriction for capital purposes	7,819	1,506	-	9,325	659	8,040	-	8,699
Retirement benefits adjustment	(1,776)	(599)	-	(2,375)	(1,551)	(172)	-	(1,723)
Foreign currency translation	-	2,811	-	2,811	-	(36,478)	-	(36,478)
Other	(134,504)	134,252	-	(252)	(83,505)	81,304	-	(2,201)
Increase (decrease) in net assets without donor restrictions	410,853	(48,025)	-	362,828	(1,168,300)	(402,030)	-	(1,570,330)
Changes in net assets with donor restrictions:								
Gifts and bequests	59,028	23,226	-	82,254	247,927	37,706	-	285,633
Net investment income (loss)	38,908	2,642	-	41,550	(64,460)	(3,383)	-	(67,843)
Net assets released from restrictions used for operations included in other unrestricted revenues	(84,496)	(24,866)	-	(109,362)	(57,624)	(2,700)	-	(60,324)
Net assets released from restriction for capital purposes	(7,819)	(1,506)	-	(9,325)	(659)	(8,040)	-	(8,699)
Change in interests in foundations	(1,233)	-	-	(1,233)	(1,271)	(1,730)	-	(3,001)
Change in value of perpetual trusts	(971)	1,052	-	81	(2,231)	(3,725)	-	(5,956)
Other	626	(326)	-	300	1,625	(125)	-	1,500
Increase in net assets with donor restrictions	4,043	222	-	4,265	123,307	18,003	-	141,310
Increase (decrease) in net assets	414,896	(47,803)	-	367,093	(1,044,993)	(384,027)	-	(1,429,020)
Net assets at beginning of year	12,606,758	2,076,018	(24,680)	14,658,096	13,298,608	2,366,654	(2,680)	15,662,582
Net assets at end of period	$ 13,021,654	$ 2,028,215	$ (24,680)	$ 15,025,189	$ 12,253,615	$ 1,982,627	$ (2,680)	$ 14,233,562

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

Unaudited Consolidating Statements of Cash Flows
($ in thousands)

	Nine Months Ended September 30, 2023				Nine Months Ended September 30, 2022			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated
Operating activities and net nonoperating gains and losses								
Increase (decrease) in total net assets	$ 414,896	$ (47,803)	$ -	$ 367,093	$ (1,044,993)	$ (384,027)	$ -	$ (1,429,020)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities and net nonoperating gains and losses:								
Retirement benefits adjustment	1,776	599	-	2,375	1,551	172	-	1,723
Net realized and unrealized (gains) losses on investments	(320,812)	(37,731)	-	(358,543)	1,227,469	155,899	-	1,383,368
Depreciation and amortization	384,558	104,508	(75)	488,991	375,313	89,741	(75)	464,979
Foreign currency translation (gain) loss	-	(2,811)	-	(2,811)	-	36,478	-	36,478
Donated capital	(49)	(16)	-	(65)	3	-	-	3
Restricted gifts, bequests, investment income, and other	(95,732)	(26,920)	-	(122,652)	(179,965)	(28,868)	-	(208,833)
Transfers to (from) affiliates	134,508	(134,508)	-	-	83,504	(83,504)	-	-
Accreted interest and amortization of bond premiums	(5,580)	128	-	(5,452)	(5,687)	130	-	(5,557)
Net gain in value of derivatives	(19,022)	-	-	(19,022)	(80,487)	-	-	(80,487)
Changes in operating assets and liabilities:								
Patient receivables	(139,857)	(49,447)	(7,203)	(196,507)	(79,656)	(68,704)	29,261	(119,099)
Other current assets	(93,708)	(119,895)	98,212	(115,391)	(170,581)	(111,096)	147,543	(134,134)
Other noncurrent assets	(81,984)	(14,206)	288	(95,902)	2,342	2,884	(141)	5,085
Accounts payable and other current liabilities	(124,752)	(12,394)	(59,218)	(196,364)	70,395	36,357	(150,412)	(43,660)
Other liabilities	49,633	60,023	(31,791)	77,865	(20,061)	39,992	(26,393)	(6,462)
Net cash provided by (used in) operating activities and net nonoperating gains and losses	103,875	(280,473)	213	(176,385)	179,147	(314,546)	(217)	(135,616)
Financing activities								
Proceeds from short-term borrowings	65,170	-	-	65,170	-	-	-	-
Payments on short-term borrowings	(65,170)	-	-	(65,170)	-	-	-	-
Proceeds from long-term borrowings	300,000	213	(213)	300,000	-	(217)	217	-
Principal payments on long-term debt	(115,531)	(6,119)	-	(121,650)	(90,619)	(6,037)	-	(96,656)
Debt issuance costs	(279)	-	-	(279)	-	-	-	-
Change in pledges receivable, trusts and interests in foundations	46,705	8,222	-	54,927	(104,545)	(17,211)	-	(121,756)
Restricted gifts, bequests, investment income, and other	95,732	26,920	-	122,652	179,965	28,868	-	208,833
Net cash provided by (used in) financing activities	326,627	29,236	(213)	355,650	(15,199)	5,403	217	(9,579)
Investing activities								
Expenditures for property, plant and equipment	(472,968)	(86,093)	-	(559,061)	(420,919)	(134,006)	-	(554,925)
Proceeds from sale of property, plant and equipment	11,890	-		11,890	14,111	-		14,111
Net change in cash equivalents reported in long-term investments	(126,083)	(117,232)	-	(243,315)	90,930	171,035	-	261,965
Purchases of investments	(2,883,243)	(314,584)	-	(3,197,827)	(2,613,561)	(311,220)	-	(2,924,781)
Sales of investments	3,015,004	369,437	-	3,384,441	2,850,163	351,360	-	3,201,523
Transfers (to) from affiliates	(134,508)	134,508	-	-	(83,504)	83,504	-	-
Net cash (used in) provided by investing activities	(589,908)	(13,964)	-	(603,872)	(162,780)	160,673	-	(2,107)
Effect of exchange rate changes on cash	-	2,059		2,059	-	(29,629)		(29,629)
(Decrease) increase in cash and cash equivalents	(159,406)	(263,142)	-	(422,548)	1,168	(178,099)	-	(176,931)
Cash, cash equivalents and restricted cash at beginning of year	552,573	315,772	-	868,345	409,507	372,924	-	782,431
Cash, cash equivalents and restricted cash at end of period	$ 393,167	$ 52,630	$ -	$ 445,797	$ 410,675	$ 194,825	$ -	$ 605,500

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

Utilization

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

	Year Ended December 31			YTD September 30	
	2020	2021	2022	2022	2023
Total Staffed Beds[1]	4,859	5,128	5,328	5,297	5,433
Percent Occupancy[1]	69.9%	75.2%	73.8%	74.1%	76.6%
Inpatient Admissions[1]					
Acute	211,770	236,273	234,518	173,564	188,881
Post-acute	10,739	10,979	9,832	7,475	7,239
Total	222,509	247,252	244,350	181,039	196,120
Patient Days[1]					
Acute	1,044,240	1,223,899	1,209,026	933,167	969,876
Post-acute	82,334	86,875	78,732	61,759	61,165
Total	1,126,574	1,310,774	1,287,758	994,926	1,031,041
Average Length of Stay					
Acute	4.92	5.20	5.16	5.25	5.02
Post-acute	7.66	7.88	8.02	8.03	8.16
Surgical Facility Cases					
Inpatient	64,318	68,201	70,432	54,103	57,907
Outpatient	152,625	191,573	199,344	154,443	167,569
Total	216,943	259,774	269,776	208,546	225,476
Emergency Department Visits	757,055	902,027	907,039	666,953	705,652
Outpatient Observations	61,460	67,237	68,218	51,430	52,409
Outpatient Evaluation and Management Visits	5,683,571	6,776,857	7,071,400	5,038,515	5,570,449
Acute Medicare Case Mix Index - Health System	2.00	2.01	2.00	2.01	1.98
Acute Medicare Case Mix Index - Cleveland Clinic	2.87	2.89	2.94	2.96	2.97
Total Acute Patient Case Mix Index - Health System	1.91	1.93	1.92	1.93	1.91
Total Acute Patient Case Mix Index - Cleveland Clinic	2.76	2.79	2.84	2.85	2.83

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

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

Utilization statistics for Cleveland Clinic London are excluded from the above table.

Utilization (continued)

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

	Year Ended December 31			YTD September 30	
	2020	2021	2022	2022	2023
Total Staffed Beds[1]	4,018	3,931	4,104	4,084	4,209
Percent Occupancy[1]	70.3%	76.4%	74.9%	75.3%	78.1%
Inpatient Admissions[1]					
Acute	173,614	183,525	181,845	134,466	146,032
Post-acute	6,601	6,489	5,762	4,308	4,477
Total	180,215	190,014	187,607	138,774	150,509
Patient Days[1]					
Acute	875,432	967,101	951,259	734,288	774,591
Post-acute	53,504	52,771	46,895	36,264	39,460
Total	928,936	1,019,872	998,154	770,552	814,051
Surgical Facility Cases					
Inpatient	54,735	56,061	57,468	44,215	46,990
Outpatient	127,810	156,432	163,595	123,130	135,739
Total	182,545	212,493	221,063	167,345	182,729
Emergency Department Visits	574,683	654,701	659,911	484,363	516,377
Outpatient Observations	47,974	51,216	50,891	38,136	40,217
Outpatient Evaluation and Management Visits	4,857,870	5,574,968	5,919,844	4,283,072	4,716,397
Acute Medicare Case Mix Index	2.04	2.05	2.05	2.06	2.04
Total Acute Patient Case Mix Index	1.95	1.98	1.98	1.99	1.96

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

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

Payor Mix

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

	Year Ended December 31			YTD September 30	
	2020	2021	2022	2022	2023
Payor					
Managed Care and Commercial	34%	34%	34%	33%	33%
Medicare	51%	50%	51%	51%	51%
Medicaid	13%	14%	13%	14%	13%
Self-Pay & Other	2%	2%	2%	2%	3%
Total	100%	100%	100%	100%	100%

OBLIGATED GROUP
Based on Gross Patient Service Revenue

	Year Ended December 31			YTD September 30	
	2020	2021	2022	2022	2023
Payor					
Managed Care and Commercial	36%	35%	35%	37%	36%
Medicare	49%	49%	50%	48%	49%
Medicaid	13%	14%	13%	13%	13%
Self-Pay & Other	2%	2%	2%	2%	2%
Total	100%	100%	100%	100%	100%

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

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

Research Support

($ in thousands)

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

	Year Ended December 31			YTD September 30	
	2020	2021	2022	2022	2023
External Grants Earned					
Federal Sources	$ 117,931	$ 116,049	$ 161,270	$ 121,102	$ 120,122
Non-Federal Sources	94,173	129,010	138,925	107,997	89,573
Total	212,104	245,059	300,195	229,099	209,695
Internal Support	92,305	70,384	77,569	51,869	92,270
Total Sources of Support	$ 304,409	$ 315,443	$ 377,764	$ 280,968	$ 301,965

Debt Service Coverage

($ in thousands)

The following table provides the Obligated Group's income available to pay maximum annual debt service on Master Notes of the Obligated group:

	Year Ended December 31			YTD September 30	
	2020	2021	2022	2022	2023
Excess of revenues over expenses	$ 1,313,232	$ 2,124,095	$ (760,743)	$ (564,144)	$ 862,422
Plus depreciation, amortization and interest	636,357	615,018	613,647	601,169	641,850
Plus (less) decrease (increase) in unrealized net losses (gains) on investments and earnings on alternative investments	(642,459)	(975,106)	947,024	895,102	(449,323)
Plus decrease in fair value of derivative instruments	25,878	(42,395)	(84,336)	(87,769)	(22,871)
Actuarial gains and losses related to pension plans, gains and losses resulting from changes in foreign currency exchange rates and other	(11,347)	(25,715)	89,857	41,373	69,859
Plus loss on extinguishment of debt	-	(19,312)	-	(15,060)	-
Funds available for debt service	$ 1,321,661	$ 1,676,585	$ 805,449	$ 870,671	$ 1,101,937
Maximum annual debt service**	$ 230,938	$ 240,096	$ 237,645	$ 248,047	$ 260,066
Maximum annual debt service coverage (x)	5.72	6.98	3.39	3.51	4.24

** Calculated using 12-month rolling income statement*

*** Maximum annual debt service is calculated based on the master trust indenture*

Other Key Ratios

The following table provides selected key ratios for the System:

	Year Ended December 31			YTD September 30	
	2020	**2021**	**2022**	**2022**	**2023**
Liquidity ratios					
Days of cash on hand	424	431	334	333	308
Days of revenue in accounts receivable	45	48	50	52	55
Coverage ratios					
Cash to debt (%)	216.1	251.7	228.8	226.6	218.4
Interest expense coverage (x)	8.5	11.9	3.9	4.8	5.8
Leverage ratios					
Debt to cash flow (x)	3.9	3.0	8.5	7.1	5.3
Debt to capitalization (%)	30.7	27.0	28.1	28.4	28.3
Debt to revenue (%)	49.6	42.0	38.8	38.8	36.6
Profitability ratios					
Operating margin (%)	2.2	6.0	(1.6)	(3.3)	(0.0)
Operating cash flow margin (%)	9.2	11.9	4.3	2.7	5.8
Excess margin (%)	11.3	15.9	(10.4)	(18.7)	3.2
Return on assets (%)	6.1	9.1	(5.4)	(9.2)	2.0

NOTES:
Liquidity, coverage and leverage ratios are calculated using a 12-month rolling income statement.

OVERVIEW

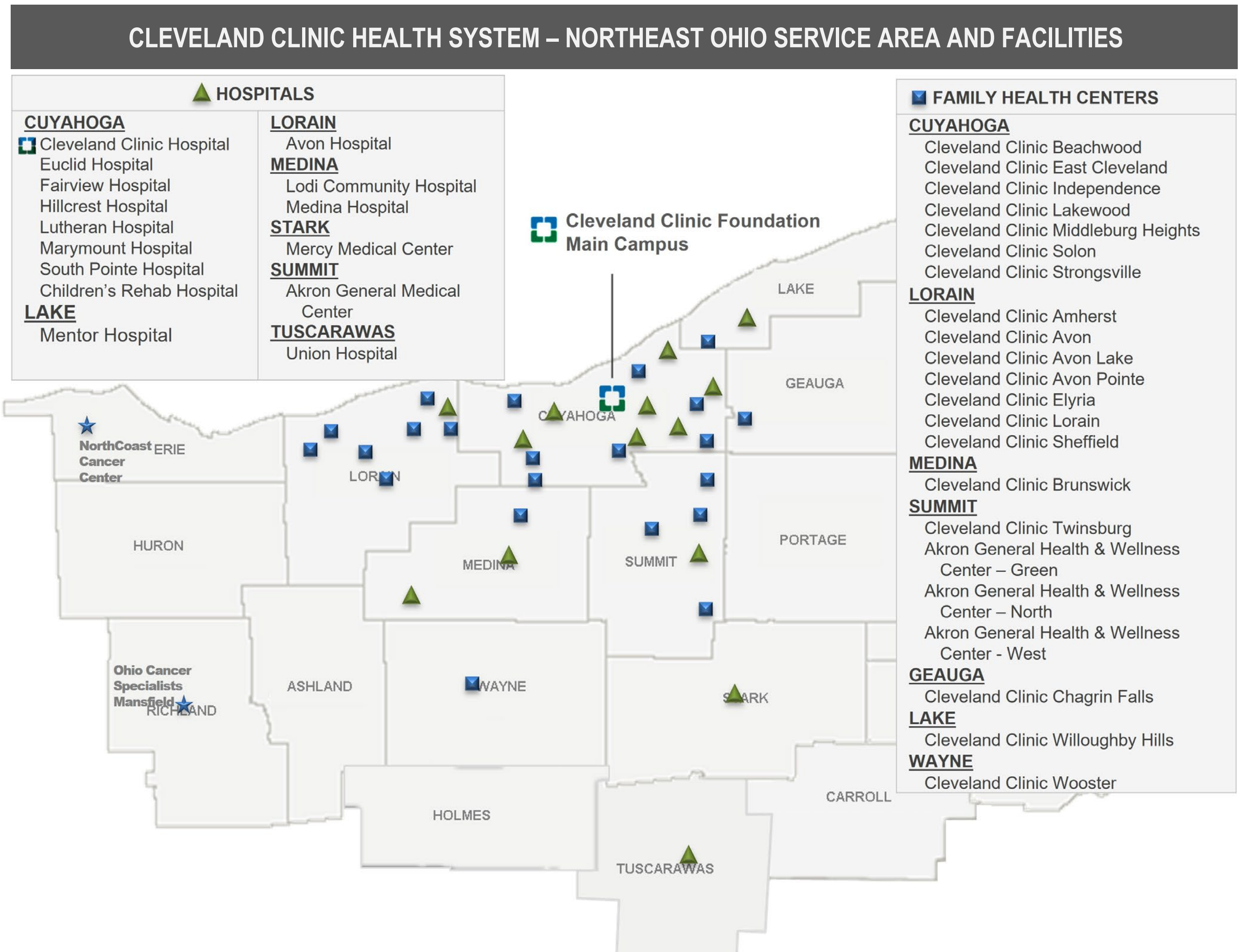
The Cleveland Clinic Health System (System) is a world-renowned provider of healthcare services that attracted patients from across the United States and from 128 other countries in 2022. As of September 30, 2023, the System operates 21 hospitals with approximately 5,500 staffed beds and is the leading provider of healthcare services in Northeast Ohio. Fifteen of the hospitals are operated in the Northeast Ohio area, anchored by The Cleveland Clinic Foundation (Clinic). The System operates 22 outpatient family health centers, nine ambulatory surgery centers, as well as numerous physician offices, which are located throughout Northeast Ohio, and specialized cancer centers in Sandusky and Mansfield, Ohio. In Southeast Florida, the System operates five hospitals, a clinical facility in Weston, outpatient family health centers in Port St. Lucie, Stuart and West Palm Beach, an outpatient family health and ambulatory surgery center in Coral Springs and numerous physician offices located throughout Southeast Florida. In London, the System operates a hospital and an outpatient facility. In addition, the System operates a health and wellness center and a sports medicine clinic in Toronto, Canada and a specialized neurological clinical center in Las Vegas, Nevada. Pursuant to agreements, the System also provides management services for Ashtabula County Medical Center, located in Ashtabula, Ohio, with approximately 120 staffed beds, and Cleveland Clinic Abu Dhabi, a multispecialty hospital offering a range of complex quaternary and general acute care services that is part of Mubadala Health's network of healthcare facilities located in Abu Dhabi, United Arab Emirates with approximately 364 staffed beds.

In July 2023, Cleveland Clinic Mentor Hospital, the System's 21st hospital, opened for patients. The new hospital is located in Lake County, Ohio and has 34 inpatient beds. For a description of Cleveland Clinic Mentor Hospital, refer to "EXPANSION AND IMPROVEMENT PROJECTS."

In August 2023, Middleburg Heights Family Health Center opened for patients. The new 93,000 square-foot facility is located in Cuyahoga County, Ohio. For a description of Middleburg Heights Family Health Center, refer to "EXPANSION AND IMPROVEMENT PROJECTS."

Cleveland Clinic Lorain Family Health and Surgery Center
Lorain, Ohio

The location of the System's hospitals, its family health centers and its specialized cancer centers in the Northeast Ohio area, including Mentor Hospital, which opened for patients in July 2023, and Middleburg Heights Family Health Center, which opened for patients in August 2023, are identified on the following map:

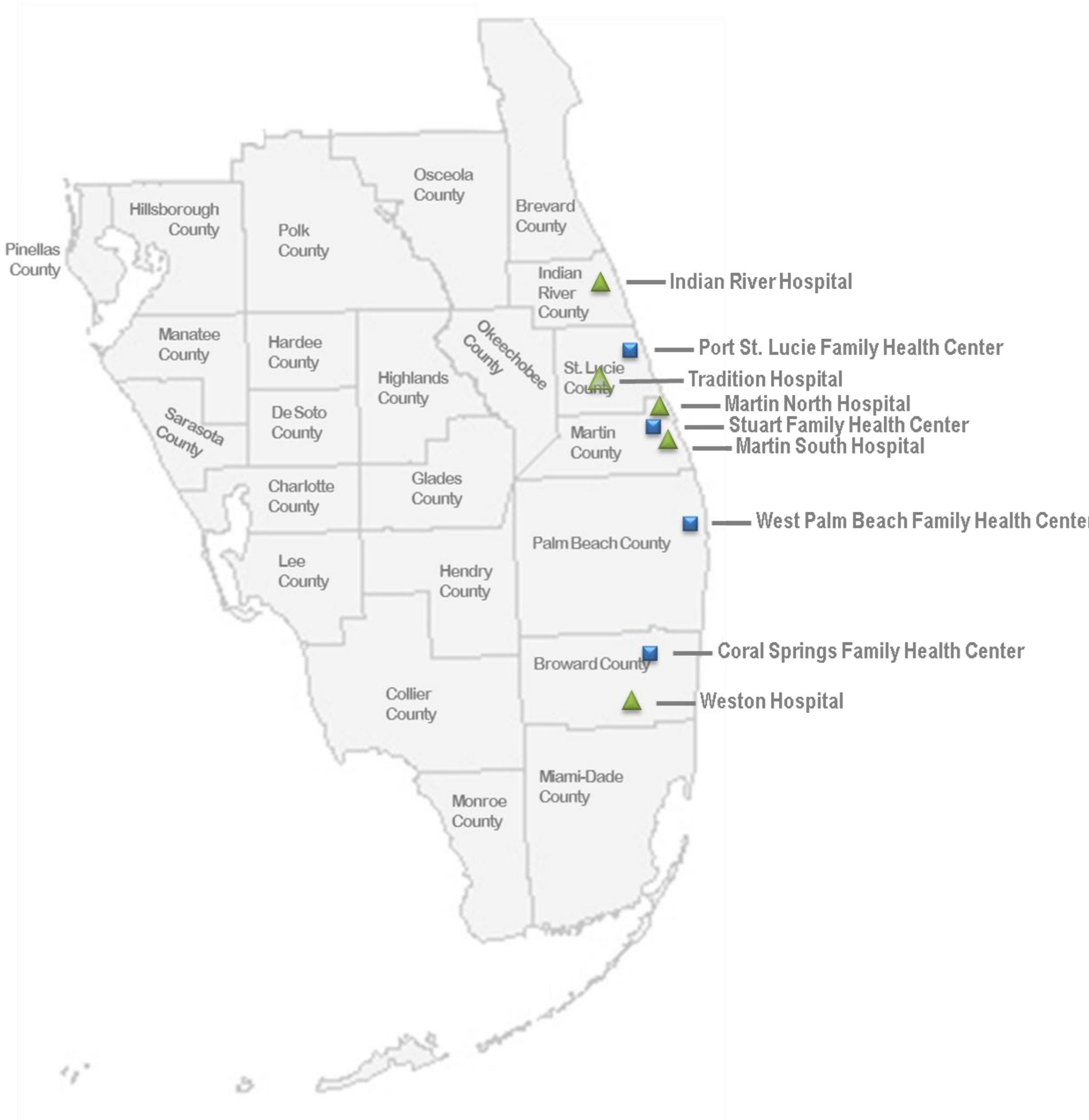


Cleveland Clinic

Every life deserves world class care.

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

CLEVELAND CLINIC HEALTH SYSTEM – SOUTHEAST FLORIDA FACILITIES



The following table sets forth the hospitals operated by the obligated issuers and their affiliates, together with each hospital's staffed bed count as of September 30, 2023:

	Staffed Beds
OBLIGATED	
Cleveland Clinic	1,290
Avon Hospital	126
Euclid Hospital	166
Fairview Hospital	498
Hillcrest Hospital	462
Lutheran Hospital	192
Martin North Hospital	244
Martin South Hospital	100
Marymount Hospital	263
Medina Hospital	148
Mentor Hospital	34
South Pointe Hospital	172
Tradition Hospital	177
Weston Hospital	258
	4,130
NON-OBLIGATED	
Akron General Medical Center	485
Children's Rehabilitation Hospital	25
Indian River Hospital	275
Lodi Hospital	20
London Hospital	184
Mercy Hospital	323
Union Hospital	96
	1,408
HEALTH SYSTEM	5,538

AWARDS & RECOGNITION

The Clinic was named by *U.S. News and World Report* to the Honor Roll in its 2023-2024 edition of "America's Best Hospitals." The Honor Roll recognizes 22 top-performing hospitals based on their rankings in various specialties and procedures. Unlike previous years, *U.S. News* is not ranking Honor Roll hospitals in numerical order this year, instead recognizing the fact that all Honor Roll hospitals meet the highest quality standards of care. The Clinic's Heart and Vascular Institute, located on the Clinic's main campus, was recognized as the best cardiology and heart surgery program in the United States, an honor the Clinic has received annually for 29 consecutive years. The Clinic was nationally ranked in 12 specialties, including seven in the top ten nationwide. The following table summarizes the Clinic's national rankings by medical specialty:

Solon Family Health Center – Solon, Ohio

2023-24 U.S. NEWS & WORLD REPORT RANKINGS

BEST HOSPITALS U.S.News & WORLD REPORT HONOR ROLL 2023-2024

Ranked No. 1

Cardiology & Heart Surgery	1st

In America's Top 10

Urology	2nd
Rheumatology	3rd
Geriatrics	6th
Obstetrics & Gynecology	6th
Gastroenterology & GI Surgery	8th
Cancer	10th

In America's Top 25

Pulmonology & Lung Surgery	13th
Orthopedics	15th
Neurology & Neurosurgery	16th
Diabetes and Endocrinology	24th
Ear, Nose & Throat	25th

Other System hospitals also received national recognition from *U.S. News and World Report*. Hospitals that received national rankings included the following: Weston Hospital ranked 39th in gastroenterology and GI surgery and Hillcrest Hospital ranked 46th in gastroenterology and GI surgery.

The publication also evaluated hospitals by state and metropolitan area with a methodology similar to that used to determine the national rankings. The Clinic was ranked as the best hospital in both the State of Ohio and the Cleveland metropolitan area, which includes the City of Cleveland and its surrounding counties. The report also ranked additional System hospitals in the top hospitals in the Cleveland metropolitan area and Ohio. Hillcrest Hospital ranked third in the Cleveland metropolitan area and sixth in Ohio. Fairview Hospital ranked fourth in the Cleveland metropolitan area and seventh in Ohio. Akron General Medical Center, located in Summit County, was ranked first in the Akron metropolitan area and fifth in the State of Ohio. In Florida, Weston Hospital was ranked second in the Miami-Fort Lauderdale metro area and seventh in the State of Florida; and Indian River Hospital was ranked 20th in the State of Florida.

Cleveland Clinic Children's Hospital located on the Clinic's main campus earned national recognition in ten out of ten pediatric specialties ranked by *U.S. News and World Report* in its 2023-2024 edition of "Best Children's Hospitals." For 15 consecutive years, the Cleveland Clinic Children's Hospital has ranked among the nation's top 50 pediatric hospitals. The following table summarizes the Clinic's national rankings by pediatric specialty:

2023-24 U.S. NEWS & WORLD REPORT RANKINGS

Pediatric Ranking by Specialty

Cardiology & Heart Surgery	10th
Neonatology	18th
Urology	18th
Gastroenterology & GI Surgery	19th
Cancer	23rd
Neurology & Neurosurgery	24th
Nephrology	28th
Orthopedics	29th
Diabetes & Endocrinology	30th
Pulmonology & Lung Surgery	30th

Regionally, Cleveland Clinic Children's Hospital has also been ranked as the third best (tie) pediatric hospital in the Midwest and the third best (tie) in Ohio.

In March 2023, the Clinic was again named the second-best hospital in the world by *Newsweek* as part of its "World's Best Hospitals 2023" list. *Newsweek* partnered with global research data company Statista to rank the leading hospitals in 28 countries. According to *Newsweek,* its rankings are based on four data sources: online surveys of more than 80,000 medical experts from around the world; results from publicly available patient experience surveys; hospital quality metrics; and patient reported outcome measures. Fairview and Weston Hospitals were also ranked in the top 250 hospitals internationally, and the System had three other hospitals listed among the best hospitals nationwide.

In addition to being ranked as the number two hospital in the world, the Clinic was recognized as the number one hospital in the world for cardiac surgery in *Newsweek's* "World's Best Specialized Hospitals of 2023." The Clinic ranked among the world's best in all eleven specialties rated by *Newsweek* including cardiac surgery, cardiology, endocrinology, gastroenterology, neurology, neurosurgery, oncology, orthopedics, pediatrics, pulmonology and urology. In addition to the Clinic's main campus, Weston Hospital, Akron General Medical Center, Fairview Hospital and Hillcrest Hospital were also recognized among the world's best specialized hospitals in at least one specialty. *Newsweek* and Statista invited more than 40,000 medical experts to participate in surveys to recommend and assess various hospitals within their respective specializations. Survey results were validated by a global board of medical experts.

In May 2023, the Clinic, Akron General, Fairview and Hillcrest Hospitals were recognized among the top maternity hospitals in the latest edition of *Newsweek's* list of "America's Best Maternity Hospitals 2023." The rankings are based on recommendations from more than 10,000 medical experts who were invited to participate in an online survey.

In May 2023, eight System hospitals received an "A" in the fall safety grades published by The Leapfrog Group, an independent national nonprofit organization that measures the quality and safety of American healthcare. The Leapfrog Hospital Survey evaluates individual hospitals on safety, quality, and efficacy and assigns letter grades of A, B, C, D or F. Nearly 3,000 hospitals across the nation voluntarily participate in the survey, which looks at more than 30 national performance measures from the Centers for Medicare and Medicaid Services and other data sources. Other System hospitals evaluated by the Leapfrog Group include five hospitals that received a "B" safety grade and four hospitals that received a "C" safety grade.

The Clinic has been recognized as one of the World's Most Ethical Companies for the 13th time. The Clinic is one of just six healthcare providers worldwide on the 2023 list by the Ethisphere Institute, which describes itself as "advancing the standards of ethical business practices that fuel corporate character, marketplace trust and business success." The 2023 list of the World's Most Ethical Companies includes 135 organizations from 19 countries and 46 industries. The Clinic, which earned its first Ethisphere ranking in 2009, has established itself as an industry leader through its strong ethics and compliance program and a variety of innovative initiatives that demonstrate its commitment to patients, caregivers and the community. Ethisphere develops its list of most ethical companies based on five core categories: governance; leadership and reputation; ethics and compliance programs; culture of ethics; and environmental and social impact.

In May 2023, the Clinic announced that it has successfully implanted a dual cardiac device in the first patient in the world, as part of a clinical trial. The clinical trial will evaluate the safety and effectiveness of a device that combines two proven cardiac therapies into one. Cardiac contractility modulation works to improve the contract on the heart, while an implantable cardioverter defibrillator treats life threatening arrythmias that cause sudden cardiac death.

In June 2023, Cleveland Clinic Akron General Medical Center was designated as a Magnet organization by the American Nurses Credentialing Center (ANCC), which is the highest honor an organization can receive for professional nursing practice. Medina Hospital also received Magnet recognition in August 2023. To achieve Magnet recognition, organizations go through an extensive review and systematic evaluations of their nursing practices by the ANCC against numerous quantitative and qualitative standards that represent excellence in nursing services, clinical outcomes and patient care delivery. With the recognition of Akron and Medina Hospitals, the System now has ten hospitals that have earned Magnet designation.

CORPORATE GOVERNANCE

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

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

- Audit Committee
- Board Policy Committee
- Compensation Committee
- Conflict of Interest and Managing Innovations Committee
- Finance Committee
- Governance Committee
- Investment Committee
- Medical Staff Appointment Committee
- Philanthropy Committee
- Technology Committee

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

The System maintains a governance model for the Ohio regional hospitals that provides for regional hospital representation on the Clinic's Board of Directors while also maintaining separate boards of trustees for each hospital. The Ohio regional hospital boards meet quarterly and, among other topics, provide local input on quality and patient safety and community health needs.

Union Hospital – Dover, Ohio

Concurrently with Martin Health and Indian River Hospital joining the System in 2019, the System established a separate Board of Directors to oversee the Florida hospitals. This Board of Directors has representatives from the Clinic Board of Directors and each of the Florida hospitals. Local boards at Martin Health, Indian River Hospital and Weston Hospital provide input on quality and patient safety and community health needs.

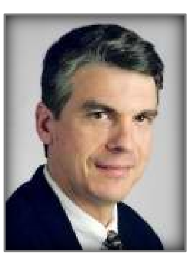
APPOINTMENTS

Dennis Laraway was appointed Chief Financial Officer (CFO) effective March 13, 2023. Since 2017, Mr. Laraway has served as Executive Vice President and CFO at Banner Health, a 32-hospital health system based in Phoenix, Arizona. Throughout his career, he has built experience in mergers and acquisitions, capital formation and financing strategies, and management of insurance products for commercial and government populations. Mr. Laraway previously held CFO positions at various health systems in Arizona, New York and Texas.

Robert Lorenz, MD was appointed President of Cleveland Clinic London effective June 1, 2023. Dr. Lorenz has served the Clinic for over 20 years as both a clinician and an executive. He most recently served as the Executive Medical Director of Market and Network Services since 2020. Prior roles include section head of Head and Neck Surgery, Chief Medical Officer at Cleveland Clinic Abu Dhabi and Medical Director of Specialty Contracting.

Scott Steele, MD, MBA was appointed President, Main Campus effective August 1, 2023. Dr Steele has served as the Chairman of the Department of Colorectal Surgery since 2016. He is a graduate of the United States Military Academy at West Point and served 25 years in the Army, including four combat deployments. He earned his medical degree from the University of Wisconsin-Madison Medical School. Dr. Steele completed his general surgical residency at Madigan Army Medical Center in Tacoma, Washington and his Colon & Rectal Surgery Fellowship at the University of Minnesota.

Brian Harte, MD, was appointed President, South Submarket effective August 1, 2023. Dr. Harte has served as President of Cleveland Clinic Akron General since 2016 and will lead the South submarket and continue to serve as President of Akron General. He previously served as president of both Cleveland Clinic Hillcrest and South Pointe hospitals. Dr. Harte is a practicing hospitalist. He earned his undergraduate degree from Yale University and his medical degree from the University of Pennsylvania. He completed his residency in internal medicine at the University of California.



Richard Parker, MD, was appointed President, East Submarket effective August 1, 2023. Dr. Parker has served as President of Hillcrest Hospital since 2017 and President of Marymount Hospital from 2015 through 2017. He will lead the East submarket and continue to serve as President of Hillcrest and Mentor Hospitals. Dr. Parker has dedicated his clinical practice to the field of sports medicine, sports-related injuries and knee surgery. He joined Cleveland Clinic in 1993, served as Chairman of Orthopaedic Surgery from 2008 until 2015 and was the Head Team Physician for the Cleveland Cavaliers from 2000-2018. Dr. Parker earned his medical degree from The Ohio State University and completed internship and orthopaedic residency training at the former Mt. Sinai Medical Center in Cleveland. He also completed a sports medicine fellowship at the Orthopaedic Specialty Hospital in Salt Lake City.

Neil Smith, DO, was appointed President, West Submarket effective August 1, 2023. Dr. Smith has served as President of Fairview Hospital since 2013 and will lead the West submarket and Fairview Hospital. Previously, Dr. Smith was Vice President of Medical Operations at Fairview Hospital. He has also held roles as the Chief of Staff and Assistant Chief of Staff at Fairview Hospital. Dr. Smith maintains an active private practice in internal medicine. He graduated from Ohio University Heritage College of Osteopathic Medicine in Athens, Ohio and completed a residency at the former Mt. Sinai Medical Center.

Vickie Eaton Johnson was named the System's inaugural Chief Community Officer, effective May 1, 2023. Ms. Johnson has led the System's local efforts in Cleveland since 2014 as Senior Director of Government and Community Relations. In this new role, she will lead strategic community plans nationally and internationally while continuing to cultivate collaboration with local institutions, government agencies, elected leaders and healthcare professionals.

Allison Riffle, PharmD, MS was named interim Chief Pharmacy Officer, effective June 1, 2023. Dr. Riffle has been with the System since 2013 and has most recently served as Associate Chief Pharmacy Officer, supporting main campus inpatient services for the past three years. The System will conduct a national search for a new Chief Pharmacy Officer.

Lisa Yerian, MD was named interim Chief Clinical Transformation Officer, effective July 31, 2023. Dr. Yerian joined the System in Anatomic Pathology in 2004 and currently serves as the System's Chief Improvement Officer. Previously, Dr. Yerian served as the Director of Hepatobiliary Pathology and Section Head of Surgical Pathology. The System will conduct a national search for a new Chief Clinical Transformation Officer.

Sarah Hatchett was named interim Chief Information Officer, effective August 4, 2023. Ms. Hatchett has been with the System for six years and has served as Associate Chief Information Officer for the past two years, overseeing the System's enterprise applications and growth portfolio. She has more than 20 years of experience in information technology and healthcare leadership, having worked at NYC Health + Hospitals, Sutter Health and Epic before joining the System.

Emily Williams was appointed Chief Compliance Officer, effective September 1, 2023. Ms. Williams has over a decade of combined service in the Clinic's Law Department and previously served as the General Counsel for Akron General, Mercy and Union hospitals. Additionally, she served as the Law Department practice group chair for hospital operations, overseeing legal work related to licensure and accreditation surveys for main campus and all Ohio regional hospitals. Ms. Williams succeeds Donald Sinko, Chief Integrity Officer, who retired from the Clinic in October 2023.

Albert Marinez was appointed Chief Analytics Officer, effective August 28, 2023. In this new position, Mr. Marinez is responsible for leading the System's enterprise-wide data analytics and business intelligence efforts and the consistent application and use of analytics across the enterprise to empower data-driven strategies that improve patient care, reduce costs and support growth. Mr. Marinez has worked in healthcare since 2004, leading various analytics and data science functions at large health systems and technology services providers.

EXPANSION AND IMPROVEMENT PROJECTS

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

Cleveland Clinic Mentor Hospital opened for patients on July 11, 2023. The hospital is managed by Hillcrest Hospital and offers both inpatient and outpatient services including 34 inpatient beds, four operating rooms, an emergency department, outpatient exam and procedure rooms, lab and imaging services. The new facility, which has a flexible modular design that will allow it to adapt to changing community needs, will expand the System's services and care to the residents of Lake and Geauga counties.

The Middleburg Heights Family Health Center opened for patients on August 21, 2023. The new 93,000 square-foot family health center, located in a fully renovated building, opened in two phases and was fully operational in October 2023. The System's newest family health center offers a wide range of medical services, including primary and specialty care, urgent care, pediatrics, imaging, laboratory, a drive-through pharmacy and physical and occupational therapy.

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

Neurological Institute Building – In July 2019, the Clinic announced plans to build a new Neurological Institute building on its main campus to accommodate the expansion of patient care, research and education. The new one million square-foot facility for the Neurological Institute will centralize all neurological care on the main campus, bringing together services currently delivered in eight locations. Construction began in 2023, and the new facility is scheduled to open in late 2026. Services are expected to include digitized patient evaluations, imaging, neuro-simulation training, infusion therapy, neurodiagnostics and brain-mapping suites. The facility will also include research space dedicated to investigation and discovery of new therapies and will serve as the nucleus for neurology-related distance healthcare and digitized data processing and management. A portion of the construction costs are expected to be raised through fundraising efforts and donations.

Cole Eye Institute Expansion – In July 2019, the Clinic announced plans to expand the Cole Eye Institute on its main campus to accommodate the expansion of patient care, research and education. The expansion of the Cole Eye Institute began in 2022 and is expected to take about three years to complete. The new addition will add 150,000 square feet to the existing building and will feature an ophthalmic surgical center with operating rooms and new exam rooms, a new Center of Excellence in Ophthalmic Imaging and an expanded simulation center for education and training of residents and fellows. A portion of the construction costs are expected to be raised through fundraising efforts and donations.

Cleveland Innovation District –The Cleveland Innovation District (District) is designed to leverage talent and research across multiple world-class clinical and academic institutions to drive the next generation of health care technology. Included in the District is the Clinic's Sheikha Fatima bint Mubarak Global Center for Pathogen and Human Health Research (Global Pathogen Research Center), which will add or renovate research facilities on the Clinic's main campus. The first phase of the expanded research facilities opened in September 2023. The initial facility includes 45,000 square feet of remodeled space to house leading-edge laboratories for many of the Clinic's fast-growing research programs. The Clinic also announced in September that construction of two new research buildings totaling approximately 296,000 square feet on the Clinic's main campus would begin in 2024. The new buildings, which are expected to be completed in 2025, will be dedicated to scientific investigation and will feature research laboratories, dedicated classroom space and offices. For additional description of the Cleveland Innovation District, associated partnerships and related projects refer to "AFFILIATIONS AND PARTNERSHIPS."

CLEVELAND CLINIC INNOVATIONS

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

CCI identifies, assesses and commercializes transformative solutions via an innovative operating model. It focuses on three domain portfolios — therapeutics and diagnostics, medical devices, and digital health — and employs a unique approach to assess, protect, build, test and market the most promising ideas of System caregivers. Since its inception in 2000, CCI has transacted over 800 technology licenses, issued over 2,500 patents and contributed to several of the System's historical advancements.

A dedicated team in CCI invests in companies that address organizational priorities and healthcare white space opportunities to resolve pressing medical problems. The team transforms strategic licensed and patented solutions out of the System into investible, stand-alone companies. During 2022, the team guided the formation of two new spin-off companies while overseeing over $25 million in investments across 14 unique portfolio companies. In the first nine months of 2023, the System invested $28.9 million into the portfolio, with multiple pipeline investments under review. Since 2000, CCI has formed a total of 103 spin-off companies, 44 of which are currently operational, with 26 spin-offs monetized.

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

CCI operates the 50,000-square-foot Cleveland Clinic Incubator on the Clinic's main campus, home to the department and approximately 25 health technology companies.

AFFILIATIONS AND PARTNERSHIPS

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

In January 2021, the Clinic, the State of Ohio, JobsOhio and the Ohio Development Services Agency announced a partnership to support the Clinic's Global Pathogen Research Center. The Global Pathogen Research Center allows the Clinic to significantly expand its global commitment to infectious disease research and translational programs and brings together a research team focused on broadening the understanding of viral pathogens, virus-induced cancers, genomics, immunology and immunotherapies. The State of Ohio and JobsOhio will invest $200 million towards the initiative, and the Clinic plans an additional $300 million as a co-investment to fuel discoveries in its research facilities. The Global Pathogen Research Center will be designed to create new start-up technology companies, attract world-leading corporations to Ohio and generate an estimated 1,000 new jobs at the Clinic by 2029.

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

In October 2021, the Clinic and Brooks Automation opened a biorepository facility that will increase and centralize the storage capacity for biologic samples at the Clinic, while enhancing researchers' study of human tissue samples to more rapidly translate laboratory discoveries into new treatments for patients. The 22,000 square foot biorepository facility is located near the main campus and is the first building to open in the District.

In December 2021, the grocery store company Meijer, along with the City of Cleveland, the Clinic, Fairfax Renaissance Development Corporation (FRDC) and Fairmount Properties, broke ground on a mixed-use building in the Fairfax neighborhood of Cleveland near the main campus. The building, part of the District, will include a 40,000 square-foot Meijer grocery store and an apartment complex. The project is designed to help revitalize and transform the neighborhood, which has been identified by the U.S. Department of Agriculture as an urban food desert for its lack of accessible supermarkets, by creating a healthier community and supporting economic development in the area. In September 2022, groundbreaking took place for the Aura at Innovation Square, a mixed market-rate apartment development. The Aura, part of the Fairfax neighborhood revitalization effort spearheaded by FRDC, will include 82 one- and two-bedroom apartment units and is located behind the building that will include the Meijer grocery store and additional apartment units.

In March 2021, the Clinic and IBM announced a planned ten-year partnership to establish the Discovery Accelerator, a joint Cleveland Clinic – IBM partnership with the mission of fundamentally advancing the pace of discovery in healthcare and life sciences through the use of high performance computing on the hybrid cloud, artificial intelligence and quantum computing technologies. The collaboration is anticipated to build a robust research and clinical infrastructure to empower big data medical research in ethical, privacy preserving ways, discoveries for patient care and novel approaches to public health threats such as the COVID-19 pandemic. Through the Discovery Accelerator, the Clinic and IBM researchers will use advanced computational technology to create and analyze data that supports the Global Pathogen Research Center in areas such as genomics, single cell transcriptomics, population health, clinical applications and chemical and drug discovery. As part of the collaboration, IBM installed its first private sector, on-premises IBM Quantum System One in the United States, located on the Clinic's main campus. Installation of the Quantum System One began in 2022 and went online in the first quarter of 2023. IBM also plans to install one of its next-generation 1,000+ qubit quantum systems on the Clinic's main campus in the coming years. This quantum program will be designed to actively engage with universities, government, industry, startups and other relevant organizations. It will leverage the Clinic's global enterprise to serve as the foundation of a new quantum ecosystem for life sciences, focused on advancing quantum skills and the mission of the center. A significant pillar of the program plans to focus on educating the workforce of the future and creating jobs to grow the economy. The ten-year collaboration plans to include education and workforce development opportunities related to quantum computing.

In September 2023, the Clinic and the Cleveland Cavaliers, partnering with Bedrock real estate, announced conceptual plans for the Cleveland Clinic Global Peak Performance Center – an innovative sports performance center and training facility. Proposed plans include the development of an interdisciplinary training center, which would be located on the Cuyahoga Riverfront in downtown Cleveland. The Center plans to offer personalized expertise in training, treatment, nutrition, and recovery from the Clinic's professional medical specialists.

INTERNATIONAL GROWTH

Cleveland Clinic London Hospital opened on March 29, 2022. The facility is the second location in the System's expanding global footprint in London, following the opening of an outpatient facility near the hospital in September 2021. Additionally, a second outpatient facility is expected to open in London in December 2023. The facilities are operated by Cleveland Clinic London Ltd, a private company limited by shares that is incorporated and domiciled in England and Wales. The Clinic through a subsidiary is the sole shareholder.

London Hospital has 184 beds, including 29 ICU beds, eight operating theaters and a 42-bed neurological rehabilitation ward. The hospital provides comprehensive medical and surgical services with a special focus on cardiovascular, digestive, neurological and orthopedic care utilizing the latest technology to care for a complex patient population. Alongside its core focus areas, the hospital also offers a full range of medical sub-specialties and comprehensive services for imaging, labs and interventional radiology. The hospital is using the latest medical and surgical technology including pharmacy barcoding and robot-powered medicine administration tracking, laser and robotic surgery capabilities and advanced electronic medical records.

In addition to the London Hospital, the System's international portfolio includes a health and wellness center and a sports medicine clinic in Toronto, Canada, and management services provided to Cleveland Clinic Abu Dhabi, a multispecialty 364-staffed bed hospital offering a range of critical and general acute care services that opened in March 2015.

In November 2022, Cleveland Clinic Abu Dhabi opened a new ten-story cancer treatment center that was constructed adjacent to the existing hospital tower. The center is modeled after the Clinic's Taussig Cancer Center and expands the range of cancer treatments available with centralized oncology services providing dedicated clinical practice areas for advanced imaging, infusion, radiation, and chemotherapy, as well as a connection to the hospital’s surgical areas.

In 2017, the Clinic launched Cleveland Clinic Connected, a global affiliation program that aims to improve patient care delivery around the world by enabling international healthcare providers both in the United States and internationally to access the Clinic's best practices. Facilities affiliated with the Clinic through the Cleveland Clinic Connected program will experience the Clinic model of care through the Clinic’s collaboration and guidance in the areas of quality, patient safety and best practices for patient care and engagement. Patients at the facilities have the option of receiving distance health and second opinions from the Clinic where legally permissible, and physicians at the facilities have access to clinical and executive education opportunities aimed at improving healthcare delivery. The Clinic will also support continuous improvement through the provision of advisory services across a spectrum of clinical and non-clinical areas.

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

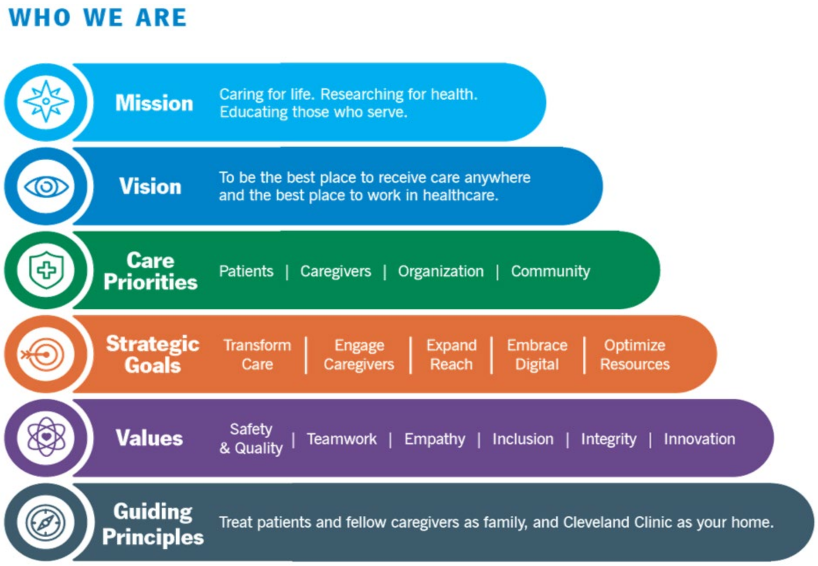
STRATEGY

T Clinic’s mission statement, updated in 2021 as the Clinic celebrated its centennial year, is as follows:

Caring for life
Researching for health
Educating those who serve

The mission statement stays true to the past, encompasses the present and outlines the future of the System.

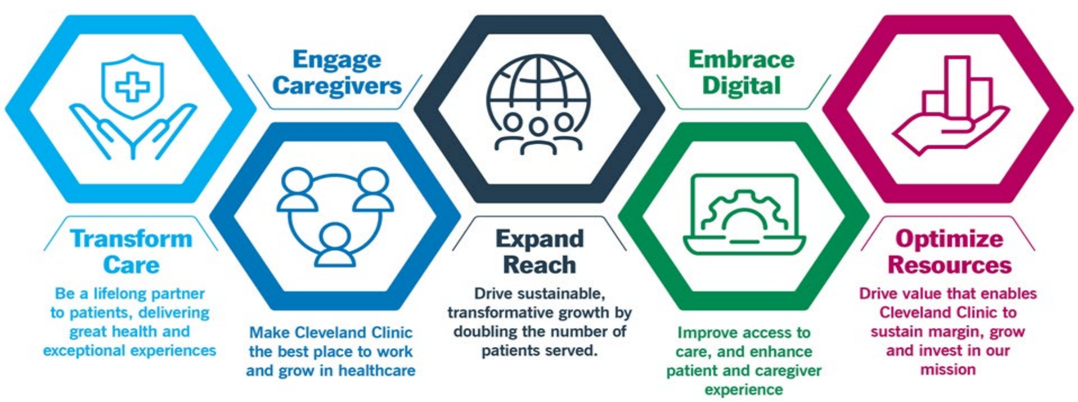
The healthcare industry sits at the intersection of economic pressure, insurance reform, technological breakthroughs and demographic shifts. Patients expect a seamless experience that is enabled by technology. Competition for patients is increasing, and healthcare costs are rising. Providers must demonstrate value to patients, insurers and regulators. Market conditions remain challenging for hospitals and health systems as labor pressures and elevated inflation will continue to compress margins for most providers. Combined with increasing payor pressures and a rapidly evolving competitive landscape, providers must manage rising expenses and execute sound strategic plans in order to continue caring for the communities they serve.



In 2019, the System announced a strategy to position the organization for success while simultaneously responding to the evolving healthcare landscape and emerging industry trends. Since then, this strategy has been examined and reassessed through the lens of industry disruption and shifting trends. The System's ambition is unchanged, and its strategic framework remains in place. This strategy enables the System to focus, innovate and lead in an evolving healthcare environment.

The System's vision is to be the best place to receive care anywhere and the best place to work in healthcare. The strategy charts the course to achieve the mission and vision of the System, while navigating an industry undergoing dramatic change. The System's inclusive and transparent strategic planning process prioritizes work, focuses resources appropriately and monitors performance. Anchoring the strategy is the System's belief that modern nonprofit healthcare organizations must tend to four care priorities: care for patients; care for caregivers; care for the organization; and care for the community.

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



Transform Care: Cleveland Clinic Community Care is the System's platform for transforming primary care and addressing the physical, social and emotional aspects of care. Community Care physicians are part of teams that include advanced practice providers, nurses, medical assistants, behavioral health social workers, pharmacists, care coordinators and navigators. Specialists work with these teams to integrate specialty care into the patient journey. Key initiatives include simplifying the scheduling process, better understanding patient preferences, growing at-home offerings and forming education, research and community partnerships.

Engage Caregivers: Providing quality care requires a workforce that combines exceptional skills with unwavering empathy. The System's future depends on its ability to attract, engage and develop outstanding caregivers. The Caregiver Office and appointment of its first Chief Caregiver Officer demonstrates the System's commitment to fostering peak caregiver engagement, preventing burnout, enhancing culture of working as a team of teams and leveraging diversity as a strength. Key initiatives include building a diverse and inclusive culture, recruiting physicians and nurses, conducting workforce planning and educating caregivers on market trends.

Expand Reach: The System will continue to grow and serve more patients, in more ways, and in more places, while continuing its progress toward the goal of doubling the number of patients served. Increasing its ability to touch more lives requires sufficient resources. This means reinvesting in the patient care, research and education that have been the System's mission since 1921. The System has added new locations, renovated facilities in Ohio and Florida and opened Cleveland Clinic London, and it will continue to explore new and innovative partnership and alignment opportunities.

Embrace Digital: Digital technology will make care smarter, more affordable and more accessible. The System will better understand its patients through enhancing the electronic health record, the use of customer relationship management tools and the increased adoption of augmented intelligence and predictive analytics. The continuing expansion of virtual visits will provide convenience and access for more patients. Key initiatives include increasing virtual offerings in the inpatient, outpatient, primary care and home settings and ensuring transparent pricing for virtual care.

Optimize Resources: The System is finding new value by building a sustainable model of efficient care. This involves establishing metrics for efficiency in all areas. By analyzing buildings and their footprints, the System is making the best use of clinical areas and administrative space. The result is increased reinvestment in the System and its communities. Key initiatives include evaluating the System's facility footprint, ensuring caregivers practice at top of license, integrating technology systems and increasing productivity.

The System continues to identify and pursue ways to improve on every dimension of the enterprise's performance: the relentless pursuit of quality and safety; efficient organization and delivery of care; integration of research and education; and clear messaging of the System's value to the patient. The System is committed to a path that responds to changes in the environment and leads the field with novel approaches that preserve excellence in care, while offering sustainable models.

Operating Model

As the System celebrated its centennial year in 2021, the executive team began to review the strategy needed for the System to remain a leader in healthcare for the next 100 years. After gathering various perspectives from both inside and outside the organization, the System made the decision to evolve its operating model to better support its current footprint and plan for tomorrow's growth. The changes include a comprehensive approach to aligning operations with the mission, vision and values in a way that promotes the following:

- improves the patient experience and helps promote a consistent standard of service,
- makes the System agile in reacting to community and/or market needs,
- allocates resources responsibly and strategically,
- supports the growth strategy and ability to scale, and
- further supports local, regional, national, and international patient care and integration.

The operating model changes aim to better align services and enhance quality, safety and patient experience across all System locations. The implementation of the new operating model involves an integrated group of System leaders. In addition to enabling greater clarity and execution of strategy, it is the intent of the new operating model to create organizational synergies and efficiencies that will be needed in a challenging operating environment.

COMMUNITY BENEFIT AND ECONOMIC IMPACT

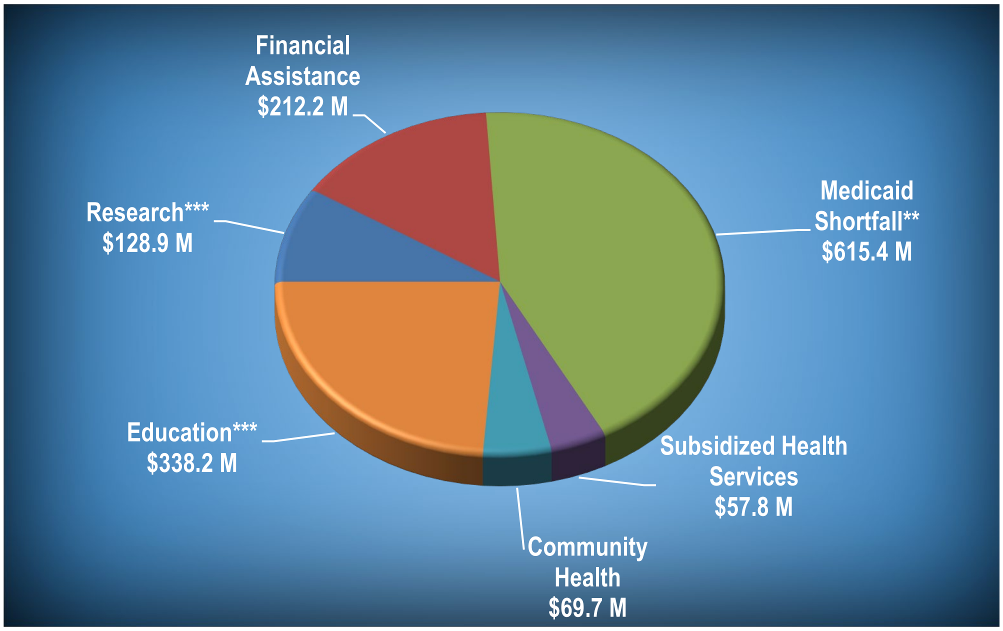
Community Benefit

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

Community benefit includes activities or programs that improve access to health services, enhance public health, advance generalizable knowledge and relieve government burden. The primary categories for assessing community benefit include financial assistance, Medicaid shortfall, subsidized health services, community health improvement programs, research and education. In 2022, the System provided $1.42 billion in community benefits.

The following chart summarizes community benefits for the System:

Cleveland Clinic Health System*
Breakdown of Community Benefit (2022)
$1.42 Billion



* Includes all System operations in Ohio, Nevada and Florida

** Includes net Hospital Care Assurance Program receipts of $6.7 million

*** Research and Education are reported net of externally sponsored funding of $231.7 million.

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

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

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

Community Health Improvement: The System is actively engaged in numerous community health improvement programs, including initiatives designed to address issues of health equity and social determinants of health, as well as serve vulnerable and at-risk populations in the community. Community health improvement programs typically fall into three categories: community health services; cash and in-kind donations; and community building. The System's community health improvement initiatives for 2022 include costs associated with the System's response to the COVID-19 pandemic as well as traditional community programs in chronic disease prevention and management, clinical services, workforce development and enrollment assistance for government funded health programs.

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

- Community health education and clinical services for community residents regarding continued COVID-19 impact in local neighborhoods.
- Wellness initiatives to residents, schools and community-based organizations in the areas of disease prevention, personal safety, behavioral health, stress management, nutrition improvement and exercise.
- Community farmers markets, urban gardens, food donations and mobile food pantries provided access to fresh local products and supplemental food programs to address food insecurity issues.
- High-speed internet access to increase community residents' ability to take part in virtual clinical visits, schools and community forums.
- Professional support and cash donations to address significant community health needs such as lead exposure, substance abuse, pediatric mental health and access to care.
- Community referral platform to ensure continued care among hospitals, community-based organizations and home.
- Collaborative initiatives with community nonprofit organizations and local governments to address critical population issues, including infant mortality and opioid prescription use and overdose deaths.
- Workforce development programs were provided to middle school and high school students to enhance graduation rates, pursue secondary education and obtain employment.

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

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

Community Health Needs Assessment

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

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

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

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

Key CHNA needs identified throughout the System include:

- access to affordable healthcare (available services, internet access);
- behavioral health (substance use disorder and mental health);
- chronic disease prevention and management (heart disease, cancer, diabetes, asthma, obesity);
- maternal and infant mortality;
- socioeconomic issues (food insecurity, affordable and safe housing); and
- additional overarching community themes:
    - health equity
    - medical research and professional health education.

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

Economic Impact

The System is one of the largest private employers in the State of Ohio. The System's most recent Economic and Fiscal Impact Report was released in 2021 and was based on 2019 data. In 2019 the System generated $21.6 billion of the total economic activity in Ohio and has directly and indirectly supported more than 133,000 jobs generating approximately $8.8 billion in wages and earnings. The System's economic activity was accountable for $2.3 billion in federal income taxes and $1.3 billion in total state and local taxes paid by employees and vendors. System-supported households spent $7.8

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

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

SUSTAINABILITY

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

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

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

The Clinic is a member of Practice Greenhealth, the nation's leading sustainable healthcare community, which empowers its members to reduce their environmental impacts through tools, best practices and knowledge to support health, financial and community goals. In 2023, the Clinic, ten regional hospitals and nine family health centers received Practice Greenhealth Environmental Excellence Awards. The Environmental Excellence Awards are the nation's premier recognition program for environmental performance in the health care sector. Launched in 2002, the awards program recognizes health care facilities and health systems for their commitment to environmental stewardship and their sustainability achievements.

The System's energy program is designed to enhance the patient experience while reducing operating expenses. As the model of healthcare evolves, the System is committed to reducing environmental, economic and human impact by reducing energy intensity. The System's commitments to both affordable care and external partnerships with ENERGY STAR and the Better Buildings Challenge included goals of becoming 20% more energy efficient by 2020 from a 2010 baseline on more than 20 million square feet of facilities. The System met this goal and is the third healthcare system to achieve this level of energy reduction. The System set a new goal in 2021 to make its facilities 40% more efficient by 2030 and joined the Department of Energy's Better Climate Challenge in 2022. As a partner in the challenge, the System has committed to reducing enterprise-wide scope 1 and 2 greenhouse gas emissions by at least 50% by 2030 without the use of offsets.

A central component of the Systems' ongoing commitment to responsible energy management is to construct buildings that conform to the U.S. Green Building Council's Leadership in Energy and Environmental Design (LEED). LEED is a third-party certification program and the nationally accepted benchmark for design, construction and operation of environmentally responsible and energy-efficient buildings. The System currently has 18 LEED-certified buildings that encompass more than six million square feet. The System has five buildings that are certified LEED-Gold, including the Cleveland Clinic Incubator, Marymount Hospital Surgical Expansion, Twinsburg Family Health and Surgery Center, the Tomsich Pathology Laboratories building and the Sheila and Eric Samson Pavilion at Health Education Campus. The System is currently pursuing LEED certification for Cleveland Clinic London Hospital and Mentor Hospital. In July 2023, the System completed the installation of a 330KW photovoltaic system at Mentor Hospital, the fourth and largest solar system built by the System to date. The System contracted with a diverse vendor to complete the photovoltaic system, which is forecasted to produce 418,500 kWh of electricity annually.

The Clinic supports sustainable transportation initiatives that improve air quality for healthier communities. To improve Ohioans' access to electric vehicle (EV) charging infrastructure, the Ohio EPA awarded $3.25 million in grants to support the installation of EV charging stations in April 2021. Through the competitive grant application process, the Clinic received 15% of the available grant funds to support the installation of 124 charging spaces—20% of the total supported through the grant—at 22 Clinic locations. Upon installation in 2023, the System will be a leading provider of public accessible EV charging stations in Northeast Ohio and in the healthcare industry.

The System's tree planting programs are designed to promote equity and resilience in surrounding communities. Since 2016, the Clinic has planted more than 4,000 trees at its facilities and in local neighborhoods and has created 12 parks. Community plantings include thousands of free trees provided to caregivers to plant at their residences through its Caregiver Tree Giveaway Program. The Arbor Day Foundation recognized the Clinic and Akron General with its Tree Campus Healthcare designation the past two years for its impact on community wellness through tree education, investment and community engagement.

DIVERSITY & INCLUSION

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

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

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

Forbes named the Clinic among America's Best Employers for Diversity for the sixth year in a row in 2023. In order to determine the rankings, *Forbes* partnered with market research company Statista to survey 50,000 Americans working for businesses with at least 1,000 employees. Participants were asked to share their opinions and rate their organizations on age, gender, ethnicity, disability, sexual orientation, equality, general diversity and other criteria. The results ranked 500 employers based on the employers that received the most recommendations while also considering employers that have diverse boards and executive teams as well as proactive diversity and inclusion initiatives.

For the 14th consecutive year, DiversityInc named the Clinic to its 2023 list of Top Hospitals and Health Systems in the country for diversity, equity and inclusion. The Clinic ranked seventh on the 2023 list. The Clinic has made the rankings each year since the list for healthcare organizations began in 2010. The ranking are empirically driven and assess performance based on a number of factors including leadership accountability, human capital diversity metrics, talent programs, workforce practices, supplier diversity and philanthropy.

In March 2022, the System was recognized by the Human Rights Campaign Healthcare Equality Index for its dedication and commitment to LGBTQ+ inclusion. Ten System hospitals achieved Leader status, the highest overall designation, and were noted for their active participation in embracing and adopting LGBTQ+-inclusive practices. Hospital systems are ranked based on their LGBTQ+-centered policies and practices.

In May 2023, the System signed the "Impact Workforce Commitment," designed by the Healthcare Anchor Network (HAN) in partnership with the National Fund for Workforce Solutions. The commitment supports the System's hiring and workforce development programs designed to identify opportunities to increase hiring, training and promotion of diverse talent. The System, with other northeast Ohio hospital systems, MetroHealth and University Hospitals, are among 17 U.S health system to sign the commitment.

In August 2023, *Forbes* and market research Statista recognized the System as one of "America's Best Employers for Women." The selection was based on a survey of more than 60,000 Americans working for businesses with at least 1,000 employees. According to *Forbes*, about 40,000 women were asked to rate their company's working environment, salary and employee diversity, and whether they would recommend their company to a friend or family member. Their answers were also compared to those of 20,000 men to assess any significant differences in workplace perception. *Forbes* also said women were asked to rate their employer based on factors such as pay equity, parental-leave policies, leadership training programs for women, representation of women in upper management, and employer response to incidents of discrimination. Further research was conducted into each company's presence of women in executive management or board positions. The final list ranks the 400 employers that received the highest scores.

Cleveland Clinic and University Hospitals have selected five local diverse businesses to complete their annual six-month mentorship program called the Diversity Equity Inclusion (DEI) Supplier Accelerator. This program aims to expand the knowledge and impact of local businesses headquartered in Northeast Ohio and owned by traditionally under-represented entrepreneurs, including members of the LGBTQ+ community, minorities, veterans and women. Participating companies receive business coaching, one-on-one access to health system leaders and networking opportunities with Cleveland Clinic and University Hospitals decision makers and suppliers. The DEI Supplier Accelerator program began in 2022 with five participating companies that completed the initial six-month cohort in 2022. The 2023 participants will participate in the mentorship program that will run through November 2023.

CONFLICT OF INTEREST

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

An initiative to bring transparency to the System's relationships with industry has been in place since 2008 in which the specific types of interactions that individual physicians and scientists have with industry were disclosed on publicly-accessible web pages on the System's internet site. Information can be accessed by patients that describes the training, type of practice and accomplishments of a specific doctor or scientist, as well as the names of companies with which the doctor has financial or fiduciary relations as an inventor, consultant, speaker or board member. These disclosures are updated regularly. The System was the first academic medical center in the country to have made these interactions public. Many other academic medical centers have followed the System's lead by providing similar disclosures. The System maintains a Conflict of Interest in Education Policy to reflect its values and represent its and its employees' best interests. This policy is responsive to guidelines from the Association of American Medical Colleges, the Institute of Medicine and other organizations. It places restrictions on outside speaking activities that are not Accreditation Council for Continuing Medical Education approved and are generally considered marketing. Speakers must present content that is data-driven and balanced; speakers must create their own slides or use only unbranded slides created by industry. This policy puts the System in step with other top academic medical centers that have already banned speaker's bureaus. In addition, the policy requires instructors to disclose relevant financial interests with companies to trainees.

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

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

ENTERPRISE RISK MANAGEMENT

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

In the ERM process, risk identification is conducted resulting in a System risk profile that categorizes individual risks based on their impact upon the System's ability to meet its strategic objectives. During this process, certain risks are identified as top risks and then further separated into sub-risks and individual risk components. Extensive risk assessments and mitigation analyses have been prepared during this process whereby risk components are evaluated according to their likelihood of occurring and potential impact should they occur. Risk mitigation activities, including risk response effectiveness, are examined, reviewed and updated as part of this evaluation. Risk identification and evaluation is continuously conducted through biennial risk interviews with senior leaders, monthly interactions with the ERM Steering Committee and the everyday activities of risk owners throughout the System. Management is embarking on a comprehensive quant-model application to overlay estimated values of top risks identified from the enterprise risk register onto the long-range (5-year) financial projections of the System. This activity will include risk simulation of the velocity, probability and scale of the unmitigated risks of the System into a risk-adjusted set of financial projections and key results to be used as part of enterprise-wide strategic and financial planning. ERM is an on-going program, with regular reporting to senior management, including the Audit Committee of the Board of Directors, the body with oversight responsibility for ERM.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The System regularly evaluates its internal control environment over the System's financial reporting processes through an initiative based upon concepts established in the Sarbanes-Oxley Act of 2002. The goals of the initiative are to ensure the integrity and reliability of financial information, strengthen internal control in the reporting process, reduce the risk of fraud and improve efficiencies in the financial reporting process. The initiative reviews all aspects of the financial reporting process, identifies potential risks and ensures that they have been mitigated utilizing a management self-assessment process. As a result of this initiative, management of the System issued a report on the effectiveness of its internal control over financial reporting as part of the issuance of its consolidated financial results for 2022, which is the 14th year the management report was completed. As part of the internal control evaluation process for 2022, certifications were completed by 149 members of System management, including top leadership. The System is one of the first nonprofit hospitals to issue a management report on the effectiveness of internal control over financial reporting, a step that further increases the transparency of the organization. There were no changes in internal controls over financial reporting during the nine months ended September 30, 2023 that have materially affected, or are likely to materially affect, the internal controls over financials reporting for the System.

PATIENTS SERVED

The following table summarizes patient utilization statistics for the System:

	For the quarter ended September 30				For the nine months ended September 30			
	2023	2022	Variance	%	2023	2022	Variance	%
Inpatient admissions[(1)]								
Acute admissions	63,494	59,991	3,503	5.8%	188,881	173,564	15,317	8.8%
Post-acute admissions	2,459	2,558	-99	-3.9%	7,239	7,475	-236	-3.2%
	65,953	62,549	3,404	5.4%	196,120	181,039	15,081	8.3%
Patient days[(1)]								
Acute patient days	322,088	314,224	7,864	2.5%	969,876	933,167	36,709	3.9%
Post-acute patient days	20,585	20,949	-364	-1.7%	61,165	61,759	-594	-1.0%
	342,673	335,173	7,500	2.2%	1,031,041	994,926	36,115	3.6%
Surgical cases								
Inpatient	19,103	18,584	519	2.8%	57,907	54,103	3,804	7.0%
Outpatient	54,222	52,720	1,502	2.8%	167,569	154,443	13,126	8.5%
	73,325	71,304	2,021	2.8%	225,476	208,546	16,930	8.1%
Emergency department visits	239,656	234,994	4,662	2.0%	705,652	666,953	38,699	5.8%
Observations	17,769	17,550	219	1.2%	52,409	51,430	979	1.9%
Clinic outpatient evaluation and management visits	1,812,704	1,747,610	65,094	3.7%	5,570,449	5,038,515	531,934	10.6%

(1) Excludes newborns

Utilization statistics for London Hospital are excluded from the above table for comparative purposes as the hospital opened in 2022 and continues to ramp-up patient services.

Patients served activity in 2022 was negatively impacted by the suspension of non-essential surgeries and procedures during the Omicron surge in the beginning of 2022. Patient activity has shown a strong and steady recovery of core services throughout 2022 and through the first nine months of 2023 as the System continues to have strong patient demand for clinical services. The System continues to implement initiatives to expand access to patient care while striving to ensure the safety of patients, caregivers and visitors.

Inpatient acute admissions for the System increased 5.8% in the third quarter of 2023 and 8.8% in the first nine months of 2023 compared to the same period in 2022. In the first nine months of 2023, acute admissions for the System in Ohio increased 9.0%, while the Florida facilities increased 8.4% compared to the same period in 2022.

Total surgical cases for the System increased 2.8% in the third quarter of 2023 and 8.1% in the first nine months of 2023 compared to the same period in 2022. In the first nine months of 2023, total surgical cases for the System in Ohio increased 7.1%, while the Florida facilities increased 11.2% compared to the same period in 2022.

Evaluation and management visits for the System increased 3.7% in the third quarter of 2023 and 10.6% in the first nine months of 2023 compared to the same period in 2022. In the first nine months of 2023, evaluations and management visits for the System in Ohio increased 11.2%, while the Florida facilities increased 7.5% compared to the same period in 2022.

LIQUIDITY

Cash and Investments

The majority of the System's cash and cash equivalents are held in operating bank accounts for general expenditures. The System is continually monitoring its forecasted operating performance and cash position using various scenarios and assumptions to ensure that there is sufficient liquidity to meet the cash needs of the organization.

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

Investments are primarily maintained in a master trust fund administered using a bank as custodian. The Cleveland Clinic Investment Office (CCIO) is charged with the day-to-day management of the System's investments and their strategic direction. These portfolios include the System's general short-term and long-term investment portfolios, its defined benefit pension fund and the captive insurance fund. The System has established formal investment policies that support the System's investment objectives and provide an appropriate balance between return and risk.

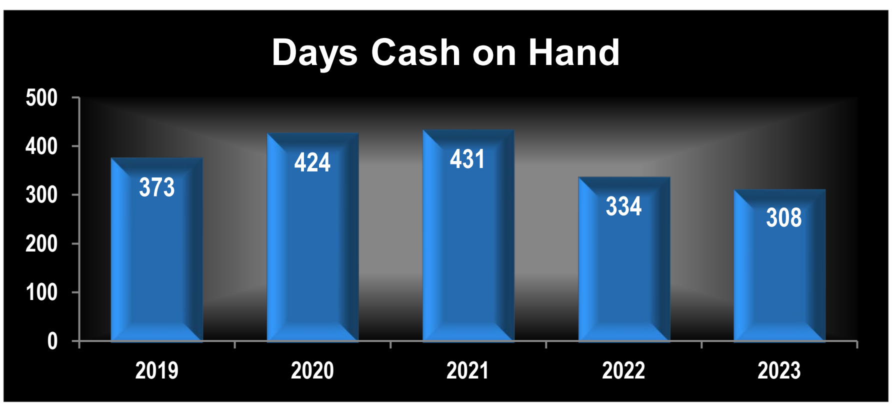
The following table sets forth the allocation of the System's cash and investments in its general investment portfolios and captive insurance fund at September 30, 2023 and December 31, 2022:

Cash and Investments
(Dollars in thousands)

	September 30, 2023		December 31, 2022	
Cash and cash equivalents	$ 940,060	7%	$ 1,140,259	9%
Fixed income securities*	2,830,601	22%	2,624,979	20%
Marketable equity securities*	2,720,998	21%	2,726,063	21%
Alternative investments	6,574,419	50%	6,582,081	50%
Total cash and investments	$ 13,066,078	100%	$ 13,073,382	100%
Less restricted investments**	(1,634,554)		(1,543,271)	
Unrestricted cash and investments	$ 11,431,524		$ 11,530,111	
Days cash on hand	308		334	

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

The following chart summarizes days cash on hand for the System at December 31 for the last four years and at September 30, 2023:



At September 30, 2023, total cash and investments for the System (including restricted investments) were $13.1 billion, a decrease of approximately $7.3 million from $13.1 billion at December 31, 2022. Cash inflows consist of investment gains of $358.5 million, proceeds from the issuance of State of Ohio Hospital Revenue bonds of $300.0 million and net increases in restricted gifts and income of $177.6 million. Cash inflows were offset by net capital expenditures for property, plant and equipment of $547.2 million, cash used in operating activities of $176.4 million and principal payments on debt of $121.7 million.

Included in the System's cash and investments are investments held for self-insurance. These investments totaled $265.1 million at September 30, 2023, with an asset mix of 27% cash and short-term investments, 17% fixed income securities, 30% equity investments and 26% alternative investments. The asset mix reflects the need for liquidity and the objective to maintain stable returns utilizing a lower tolerance for risk and volatility consistent with insurance regulatory requirements.

Also included in the System's cash and investments at September 30, 2023 are $8.4 million of funds held by trustees as posted collateral. Collateral is primarily comprised of $5.6 million related to a futures and options program within the System's investment portfolio. The System maintains various interest rate swap contracts that require collateral be posted when the market value of a contract in a liability position exceeds a certain threshold. The collateral is returned as the liability is reduced. There were no amounts held as collateral related to the System's interest rate swap contracts at September 30, 2023. Investment objectives of funds held by the trustees are designed to preserve principal by investing in highly liquid cash or fixed income investments. At September 30, 2023, the asset mix of funds held by trustees was 89% cash and short-term investments and 11% fixed income securities.

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

Alternative investments at September 30, 2023 and December 31, 2022 consist of the following:

Alternative Investments
(Dollars in thousands)

	September 30, 2023			December 31, 2022		
Hedge funds	$	3,381,746	51%	$	3,537,479	54%
Private equity/venture capital		3,192,673	49%		3,044,602	46%
Total alternative investments	$	6,574,419	100%	$	6,582,081	100%

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

Investment Return

Return on investments, including income on alternative investments, is reported as nonoperating gains and losses except for interest and dividends earned on assets held by the captive insurance subsidiary and investment return designated for current operations by the Board designated endowment fund established and effective for the third quarter of 2023 to support various programs related to the mission of the System, which are included in other unrestricted revenues. Investment return greater or less than amounts designated for current operations is recorded in nonoperating gains and losses. Donor restricted investment return on restricted investments is included in net assets with donor restrictions.

The System's long term investment portfolio, which excludes assets held for self-insurance, reported preliminary investment gains of 3.8% in the first nine months of 2023 compared to losses of 11.1% during the same period in 2022. The preliminary investment returns do not include all of the valuation adjustments of private equity investments that have not yet issued their final earnings reports.

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

Investment Return
(Dollars in thousands)

	For the quarter ended September 30		For the nine months ended September 30	
	2023	2022	2023	2022
Other unrestricted revenue:				
Interest income and dividends	$ 1,027	$ 734	$ 2,841	$ 1,812
Investment return designated for current operations	43,750	–	43,750	–
	44,777	734	46,591	1,812
Nonoperating gains and losses, net:				
Interest income and dividends	31,242	26,896	92,056	76,538
Net realized gains (losses) on sales of investments	42,191	(15,255)	38,122	(5,925)
Net change in unrealized (losses) gains on investments	(174,992)	(287,992)	41,926	(1,034,669)
Equity method income (loss) on alternative investments	32,943	(132,854)	247,056	(267,541)
Investment management fees	(8,067)	(8,407)	(23,456)	(26,007)
Investment return designated for current operations	(43,750)	–	(43,750)	–
	(120,433)	(417,612)	351,954	(1,257,604)
Other changes in net assets:				
Investment (loss) income on restricted investments and other	(4,615)	(18,649)	41,550	(67,843)
Total investment return	$ (80,271)	$ (435,527)	$ 440,095	$ (1,323,635)

Operating Lines of Credit

As of September 30, 2023, the System has three operating lines of credit totaling $600 million with no amounts drawn and $600 million in available capacity. The lines of credit are structured with $150 million expiring on April 4, 2025, $250 million expiring on April 22, 2026 and $200 million expiring on May 29, 2026.

Long-term Debt

At September 30, 2023, outstanding current and long-term debt for the System totaled $5.2 billion, comprised of $5.0 billion in bonds and notes, $105.2 million in finance leases and $157.7 million in unamortized net premium, offset by $29.3 million of unamortized debt issuance costs. Bonds and notes are structured with approximately 74% fixed-rate debt and 26% variable-rate. The System utilizes various interest rate swap derivative contracts to manage the risk of increased debt service resulting from rising market interest rates on variable-rate bonds. The total notional amount on the System's interest rate swap contracts at September 30, 2023 was $507.5 million. Using an interest rate benchmark, these contracts convert variable-rate debt to a fixed-rate, which further reduces the System's exposure to variable interest rates. The interest rate swap contracts can be unwound by the System at any time, whereas the counterparty has the option to unwind the contracts only upon an event of default as defined in the contracts. On June 9, 2023 the System adhered to the International Swaps and Derivatives Association's IBOR Fallback Protocol, which was effective for the System on July 1, 2023 and provides for automatic substitution of an applicable term adjusted SOFR (Secured Overnight Financing Rate) plus a spread for such tenors of LIBOR upon the cessation of their availability. This change did not have a material impact on the System's financials statements.

As of September 30, 2023, approximately $598 million of variable-rate debt are bonds secured by irrevocable direct pay letters of credit or standby bond purchase agreements. Debt supported by letters of credit or standby bond purchase agreements that expire within one year, require repayment of a remarketing draw within one year, or contain a subjective clause that would allow the lender to declare an event of default and cause immediate repayment of such bonds are classified as current liabilities.

The remaining $701 million of variable-rate debt includes $300 million of floating-rate bonds and $401 million of variable-rate bonds supported by the System's self-liquidity program. Debt supported by self-liquidity includes the Series 2014A CP Notes and certain variable-rate bonds that are remarketed in commercial paper or weekly mode. Bonds and notes supported by self-liquidity are classified as current liabilities. The System has sufficient liquidity within its investment portfolio to support the self-liquidity program.

In September 2023, pursuant to certain agreements between the System and the State of Ohio (State) acting by and through the Ohio Higher Educational Facility Commission, the State issued $300 million of floating-rate Hospital Revenue Bonds (Series 2023 Bonds) for the benefit of the System. Proceeds from the Series 2023 Bonds were used to finance certain capital expenditures of the System and to pay the cost of issuance.

On May 1, 2023 the System remarketed the Series 2019C Bonds and converted the interest rate from a floating rate to a fixed rate of 2.75% with a five-year mandatory tender date.

The System maintains the Cleveland Clinic Health System Obligated Group Commercial Paper Program (CP Program), which provides for the issuance of the Series 2014A CP Notes. The CP Program was established in November 2014 and will terminate no later than January 2044. The Series 2014A CP Notes may be issued from time to time in a maximum outstanding face amount of $100 million and are supported by the System's self-liquidity program. At September 30, 2023, the System did not have any outstanding Series 2014A CP Notes.

The System is subject to certain restricted covenants associated with its debt, including provisions related to certain debt ratios, days cash on hand, and other matters. The System was in compliance with these covenants at September 30, 2023.

The System through a United Kingdom subsidiary issued £665 million of sterling notes (2018 Sterling Notes) in 2018 pursuant to a private placement agreement. The proceeds of the 2018 Sterling notes were used to support expansion in London. The outstanding 2018 Sterling Notes have been converted to U.S. dollars in the consolidated balance sheet using exchange rates of $1.22 and $1.21 at September 30, 2023 and December 31, 2022, respectively.

Cleveland Clinic Sydell & Arnold Miller Family Pavilion
Cleveland, Ohio

Outstanding long-term debt (including current portion) for the System as of September 30, 2023 and December 31, 2022 consist of the following:

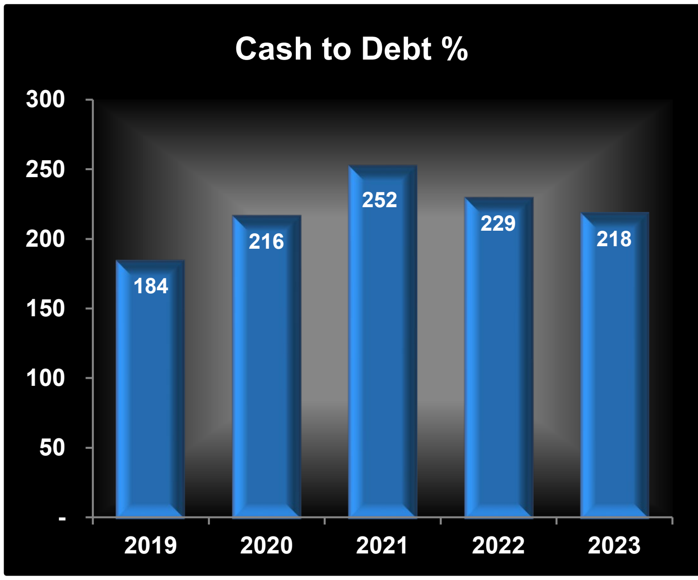
Hospital Revenue Bonds and Notes

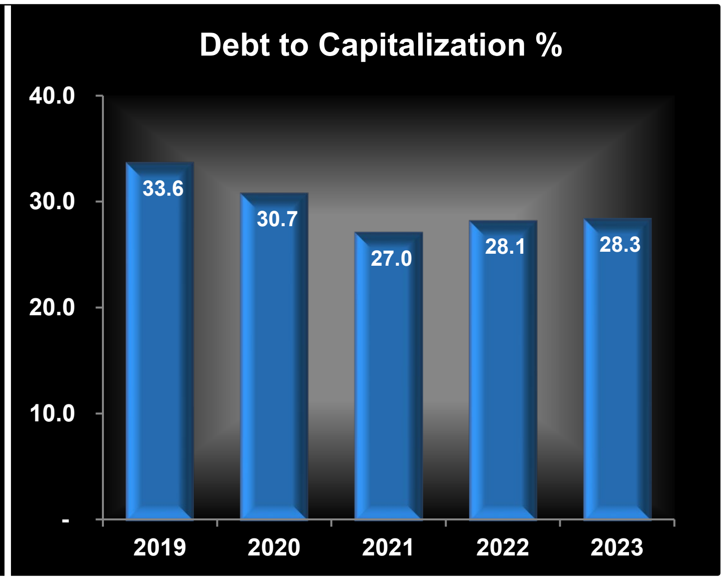
(Dollars in thousands)

Series	Type	Final Maturity	September 30 2023	December 31 2022
2023 Bonds	Floating rate	2054	$ 300,000	$ –
2021A Bonds	Fixed	2049	83,810	83,810
2021B Bonds	Fixed	2039	189,185	198,240
2021 Term Loan	Fixed	2025	33,285	49,350
2020 Term Loan	Fixed	2025	5,920	5,920
2019A Bonds	Fixed	2046	247,045	247,045
2019B Bonds	Fixed	2046	250,320	250,320
2019C Bonds[1]	Fixed	2052	89,000	89,000
2019D Bonds	Variable	2052	119,340	119,340
2019E Bonds	Variable	2052	130,405	130,405
2019F Bonds	Variable	2052	130,405	130,405
2019G Bonds	Fixed	2042	241,835	241,835
2018 Sterling Notes[2]	Fixed	2068	812,693	801,984
2017A Bonds	Fixed	2043	721,850	746,325
2017B Bonds	Fixed	2043	161,655	163,235
2017C Bonds	Fixed	2032	6,660	7,190
2016 Private Placement	Fixed	2046	325,000	325,000
2016 Term Loan	Variable	2026	–	15,170
2014 Taxable Bonds	Fixed	2114	400,000	400,000
2013A Bonds	Fixed	2042	34,955	34,955
2013B Bonds	Variable	2039	201,160	201,160
2013 Keep Memory Alive Bonds	Variable	2037	47,555	50,050
2013 Bonds, Martin	Variable	2032	–	10,755
2011B Bonds	Fixed	2031	18,190	19,995
2011C Bonds	Fixed	2032	78,870	95,750
2008B Bonds	Variable	2042	327,575	327,575
2003C Bonds	Variable	2035	41,905	41,905
Notes Payable	Varies	Varies	1,233	1,620
Finance Leases	Varies	Varies	105,172	117,643
			$ 5,105,023	$ 4,905,982

[1]Converted from floating rate to fixed rate on May 1, 2023
[2]Converted to U.S. dollars using foreign exchange rates at the period end date

The following charts summarize cash-to-debt and debt-to-capitalization ratios for the System at December 31 for the last four years and at September 30, 2023.





Cleveland Clinic

BOND RATINGS

The obligated group's outstanding bonds have been assigned ratings of Aa2 (stable outlook) and AA (stable outlook) by Moody's and S&P, respectively.

In January 2023, S&P affirmed its AA rating on the obligated group's outstanding debt and maintained its stable outlook. S&P cited various reasons to support the rating, including a unique and very strong enterprise profile, growing and diversifying operations in three states and internationally, healthy unrestricted reserves, a growing capacity with continued high demand for services and an effective leadership team that has consistently executed its strategic plans. S&P also noted that the System has strong research and philanthropy capabilities as well as a national and international reputation for quality and innovative services. Challenges to the current rating include weak financial results in 2022, Northeast Ohio's unfavorable demographic trends, the System's robust capital spending program and a highly competitive service area in Ohio and Florida.

In June 2023, Moody's affirmed its Aa2 rating on the obligated group's outstanding debt and maintained its stable outlook. Moody's cited various factors to support this rating and outlook, including a national and international reputation in clinical care, a centralized and integrated governance structure, strong liquidity and exceptional fundraising abilities. In its report, Moody's indicated that these strengths compensate for challenges such as high labor costs, moderately high debt levels, the ongoing integration and improvement strategies in Florida and competition in the constrained northeast Ohio market and in Florida.

CONSOLIDATED RESULTS OF OPERATIONS

For the Quarters Ended September 30, 2023 and 2022

The following narrative describes the consolidated results of operations for the System for the quarters ended September 30, 2023 and 2022.

Operating losses for the System in the third quarter of 2023 were $14.9 million, resulting in an operating margin of -0.4%, as compared to an operating loss of $28.3 million and an operating margin of -0.9% in the third quarter of 2022. The improved operating performance resulted from a 10.1% increase in operating revenues that outpaced a 9.6% increase in operating expenses in the third quarter of 2023 compared to the same period in 2022. Nonoperating losses for the System were $112.6 million in the third quarter of 2023 compared to nonoperating losses $440.9 million in the third quarter of 2022. The favorable variance was primarily due to lower investment losses in the third quarter of 2023 compared the same period in 2022. Overall, the System reported a deficiency of revenues over expenses of $127.4 million in the third quarter of 2023 compared to a deficiency of revenues over expenses of $469.2 million in the third quarter of 2022.

The System's net patient service revenue increased $271.2 million (9.3%) in the third quarter of 2023 compared to the same period in 2022. Patients served were higher than the third quarter of 2022 as the

System continues to have strong demand for services. Acute admissions increased 5.8%, total surgical cases increased 2.8%, and outpatient evaluation and management visits increased 3.7% in the third quarter of 2023 compared to the same period in 2022. Net patient revenue has also benefited from rate increases on the System's managed care contracts that became effective in 2023. Adjustments arising from changes in transaction price or estimated settlements with third-party payors related to prior periods increased net patient revenue by $61.0 million and $51.2 million in the third quarter of 2023 and 2022, respectively. Over the last few years, the System has initiated national, regional and local revenue management projects designed to improve patient access throughout the System while striving to ensure the safety of patients, caregivers and visitors.

Other unrestricted revenues increased $61.2 million (16.2%) in the third quarter of 2023 compared to the same period in 2022. The increase in other unrestricted revenues was primarily due to a $43.8 million increase in investment return designated for current operations due to the establishment of a Board designated endowment fund effective for the third quarter of 2023 to support various programs related to the mission of the System. Other increases included a $8.5 million increase in outpatient pharmacy revenue primarily due to higher utilization of outpatient and specialty drugs and a $7.6 million increase in gifts and assets released from restriction.

Total operating expenses increased $318.9 million (9.6%) in the third quarter of 2023 compared to the same period in 2022. The growth in expenses is primarily due to higher patient volumes and inflationary trends that increased salaries, wages and benefits, supplies expenses and pharmaceutical costs. Nationwide labor shortages have created staffing challenges that have resulted in increased overtime costs and premium pay for employed caregivers as well as an increase in the utilization of agency nurses and other temporary personnel to meet the demand of patient activity. Agency personnel costs have remained elevated in the third quarter of 2023 but are below peak levels experienced during 2022 due to various workforce strategies implemented by the System to reduce its reliance on agency personnel. The System continues to develop and implement cost reduction and containment initiatives designed to make a more affordable care model for patients and to enable investments in key strategic initiatives.

Salaries, wages and benefits increased $158.2 million (8.1%) in the third quarter of 2023 compared to the same period in 2022. Salaries, excluding benefits, increased $130.6 million (7.7%) due primarily to annual salary adjustments averaging 3% across the System that were awarded in the second quarter of 2023, market increases for nurses and other caregivers and a 4.5% increase in full-time equivalent employees (including agency personnel) in the third quarter of 2023 compared to the same period in 2022. The System has implemented various initiatives to recruit and retain caregivers that has resulted in reduced vacancy and turnover rates in 2023 compared to 2022. Benefit costs increased $27.6 million (10.5%) during the same period primarily due to the growth in the full-time equivalent employees and salaries. The System experienced a $10.2 million increase in defined contribution plan expenses, a $9.2 million increase in FICA expenses, a $6.0 million increase in employee health benefits and a $3.6 million increase in parental leave benefits.

Supplies expense increased $38.0 million (11.6%) in the third quarter of 2023 compared to the same period in 2022. The increase in supplies was due to a $39.4 million increase in medical supplies and implantables, offset by a $1.4 million decrease in non-medical supplies. The increase in medical supplies and implantables is primarily due to increases in net patient revenue and recent inflationary trends for many supplies.

Pharmaceutical costs increased $85.0 million (21.1%) in the third quarter of 2023 compared to the same period in 2022. The increase in pharmaceuticals is primarily due to recent inflationary trends and increased utilization in outpatient areas including retail and specialty pharmacy. The System has also experienced a corresponding increase in outpatient pharmacy revenues related to the increased utilization.

Purchased services and other fees increased $15.0 million (6.2%) in the third quarter of 2023 compared to the same period in 2022. The increase in purchased services was primarily related to a $12.3 million increase in software and hardware technology costs related to maintenance agreements and software subscriptions and a $6.1 million increase in purchased medical services to meet the demand of higher patient activity and the opening of the London Hospital.

Administrative services decreased $0.4 million (-0.6%) in the third quarter of 2023 compared to the same period in 2022. The decrease in administrative services was due to a $4.4 million decrease in professional and consulting fees, which was offset by an increase in travel and meeting costs.

Facilities expense decreased $0.5 million (-0.4%) in the third quarter of 2023 compared to the same period in 2022. The decrease in facilities expense is primarily due to a $8.9 million decrease in utilities expense. The decrease was partially offset by a $7.4 million increase in maintenance and repair costs and a $0.4 million increase in lease expense.

Insurance expense increased $9.1 million (30.8%) in the third quarter of 2023 compared to the same period in 2022. The increase in insurance expense is primarily due to added coverages written by the System's captive insurance subsidiary and an increase in malpractice claim amounts over the last few years. The System's medical professional insurance program has been influenced by the impact of both regular and social inflation that has created an upward national trend of jury verdicts and settlement amounts.

Interest expense increased $6.3 million (16.6%) in the third quarter of 2023 compared to the same period in 2022. The increase in interest expense is primarily due to an increase in interest rates on variable-rate debt partially offset by a decrease in interest expense due to the reduction in debt from regularly scheduled principal payments in 2023.

Depreciation and amortization expenses increased $8.3 million (5.2%) in the third quarter of 2023 compared to the same period in 2022. Changes in depreciation include property, plant and equipment that was fully depreciated in 2022, offset by depreciation for property, plant and equipment that was acquired and placed into service in 2022 and 2023.

Gains and losses from nonoperating activities are recorded below operating income in the statement of operations. These items resulted in net losses to the System of $112.6 million in the third quarter of 2023 compared to net losses of $440.9 million in the third quarter of 2022, resulting in a favorable variance of $328.3 million. Investment returns were favorable by $297.2 million in the third quarter of 2023 compared to the same period in 2022 due to changes in financial markets in each period. Derivative gains and losses were unfavorable by $4.5 million in the third quarter of 2023 compared to the same period in 2022. Derivative gains and losses result from changes in interest rate benchmarks associated with the System's interest rate swap agreements, including net interest paid or received under the swap agreements. Other nonoperating gains and losses were favorable by $35.7 million in the third quarter of 2023 compared to the same period in 2022 due primarily to the Clinic's pledge to the Lead Safe Cleveland Coalition made in the third quarter of 2022, offset by an unfavorable variance in the portion of net periodic pension cost recognized in the statement of operations in the third quarter of 2023.

For the Nine Months Ended September 30, 2023 and 2022

The following narrative describes the consolidated results of operations for the System for the nine months ended September 30, 2023 and 2022.

Operating losses for the System in the first nine months of 2023 were $4.0 million, resulting in a break-even operating margin, as compared to an operating loss of $316.3 million and an operating margin of -3.3% in the first nine months of 2022. The improved operating performance resulted from a 13.5% increase in operating revenues that outpaced a 9.9% increase in operating expenses in the first nine months of 2023 compared to the same period in 2022. Nonoperating gains for the System were $357.2 million in the first nine months of 2023 compared to nonoperating losses of $1,222 million in the first nine months of 2022. The increase from the prior year was primarily due to positive investment returns in the first nine months of 2023 compared to investment losses in the same period in 2022. Overall, the System reported an excess of revenues over expenses of $353.3 million in the first nine months of 2023 compared to a deficiency of revenues over expenses of $1,539 million in the first nine months of 2022.

The System's net patient service revenue increased $975.3 million (11.6%) in the first nine months of 2023 compared to the same period in 2022. Patients served were higher than the first nine months of 2022 as the System continues to have strong demand for services. Additionally, the number of patients served in 2022 was impacted by the pandemic, postponement of elective patient services and soft recovery after the Omicron surge in the beginning of 2022. Acute admissions increased 8.8%, total surgical cases increased 8.1%, and outpatient evaluation and management visits increased 10.6% in the first nine months of 2023 compared to the same period in 2022. Net patient revenue has also benefited from rate increases on the System's managed care contracts that became effective in 2023. Adjustments arising from changes in transaction price or estimated settlements with third-party payors related to prior periods increased net patient revenue by $61.0 million and $51.2 million in the first nine months of 2023 and 2022, respectively. Over the last few years, the System has initiated national, regional and local revenue management projects designed to improve patient access throughout the System while striving to ensure the safety of patients, caregivers and visitors.

Other unrestricted revenues increased $302.0 million (29.1%) in the first nine months of 2023 compared to the same period in 2022. The increase in other unrestricted revenues was primarily due to a $100.5 million increase in outpatient pharmacy revenue primarily due to higher utilization of outpatient and specialty drugs, a $62.1 million increase in gifts and assets released from restriction primarily driven by a few large gifts received in 2023 and an annual philanthropy event that was held in the first quarter of 2023 that did not occur in 2022 due to the pandemic, a $50.0 million increase due to the recognition of pandemic relief funds that had previously been deferred and a $43.8 million increase in investment return designated for current operations due to the establishment of a Board designated endowment fund effective for the third quarter of 2023 to support various programs related to the mission of the System.

Total operating expenses increased $965.0 million (9.9%) in the first nine months of 2023 compared to the same period in 2022. The growth in expenses is primarily due to higher patient volumes and inflationary trends that increased salaries, wages and benefits, supplies expenses and pharmaceutical costs. Nationwide labor shortages have created staffing challenges that have resulted in increased overtime costs and premium pay for employed caregivers as well as an increase in the utilization of agency nurses and other temporary personnel to meet the demand of patient activity. Agency personnel costs have remained elevated in the first nine months of 2023 but are below peak levels experienced during 2022 due to various workforce strategies implemented by the System to reduce its reliance on agency personnel. The System continues to develop and implement cost reduction and containment initiatives designed to make a more affordable care model for patients and to enable investments in key strategic initiatives.

Salaries, wages and benefits increased $519.9 million (9.1%) in the first nine months of 2023 compared to the same period in 2022. Salaries, excluding benefits, increased $442.3 million (9.0%) due primarily to annual salary adjustments averaging 3% across the System that were awarded in the second quarter of 2023, market increases for nurses and other caregivers and a 5.6% increase in full-time equivalent employees (including agency personnel) in the first nine months of 2023 compared to the same period in 2022. The System has implemented various initiatives to recruit and retain caregivers that has resulted in reduced vacancy and turnover rates in 2023 compared to 2022. Benefit costs increased $77.6 million (9.5%) during the same period primarily due to the growth in the full-time equivalent employees and salaries. The System experienced a $32.6 million increase in FICA expenses, a $31.0 million increase in defined contribution plan expenses, an $8.9 million increase in parental leave benefits and a $6.5 million increase in health benefits.

Supplies expense increased $98.2 million (9.8%) in the first nine months of 2023 compared to the same period in 2022. The increase in supplies was due to a $94.0 million increase in medical supplies and implantables and a $4.2 million increase in non-medical supplies. The increase in medical supplies and implantables is primarily due to increases in net patient revenue and recent inflationary trends for many supplies.

Pharmaceutical costs increased $260.8 million (22.7%) in the first nine months of 2023 compared to the same period in 2022. The increase in pharmaceuticals is primarily due to recent inflationary trends and increased utilization in outpatient areas including retail and specialty pharmacy. The System has also experienced a corresponding increase in outpatient pharmacy revenues related to the increased utilization.

Purchased services and other fees increased $21.7 million (3.0%) in the first nine months of 2023 compared to the same period in 2022. The increase in purchased services was primarily related to a $24.0 million increase in purchased medical services to meet the demand of higher patient activity and the opening of the London Hospital. These increases were partially offset by a $2.3 million decrease in purchased nonmedical services.

Administrative services decreased $2.4 million (1.3%) in the first nine months of 2023 compared to the same period in 2022. Professional and consulting fees decreased $16.2 million, which was offset by a $10.6 million increase in travel and meeting costs and a $4.3 million increase in research activity expenses.

Facilities expense increased $6.9 million (2.1%) in the first nine months of 2023 compared to the same period in 2022. The increase in facilities expense is primarily due to an $19.1 million increase in maintenance and repair costs and a $3.0 million increase in lease expense. These increases were partially offset by a $15.7 million decrease in utilities expense.

Insurance expense increased $11.7 million (12.6%) in the first nine months of 2023 compared to the same period in 2022. The increase in insurance expense is primarily due to added coverages written by the System's captive insurance subsidiary and an increase in malpractice claim amounts over the last few years. The System's medical professional insurance program has been influenced by the impact of both regular and social inflation that has created an upward national trend of jury verdicts and settlement amounts.

Interest expense increased $19.8 million (18.0%) in the first nine months of 2023 compared to the same period in 2022. The increase in interest expense is primarily due to an increase in interest rates on variable-rate debt partially offset by a decrease in interest expense due to the reduction in debt from regularly scheduled principal payments in 2023.

Depreciation and amortization expenses increased $28.4 million (6.1%) in the first nine months of 2023 compared to the same period in 2022. Changes in depreciation include property, plant and equipment that was fully depreciated in 2022, offset by depreciation for property, plant and equipment that was acquired and placed into service in 2022 and 2023, including depreciation expense for London Hospital that opened at the end of the first quarter in 2022.

Gains and losses from nonoperating activities are recorded below operating income in the statement of operations. These items resulted in net gains to the System of $357.2 million in the first nine months of 2023 compared to net losses of $1,222 million in the first nine months of 2022, resulting in a favorable variance of $1,580 million. Investment returns were favorable by $1,610 million in the first nine months of 2023 compared to the same period in 2022 due to an improvement in the financial markets in the first nine months of 2023. Derivative gains and losses were unfavorable by $48.8 million in the first nine months of 2023 compared to the same period in 2022. Derivative gains and losses result from changes in interest rate benchmarks associated with the System's interest rate swap agreements, including net interest paid or received under the swap agreements. Other nonoperating gains and losses were favorable by $18.8 million in the first nine months of 2023 compared to the same period in 2022 due primarily to the Clinic's pledge to the Lead Safe Cleveland Coalition made in the third quarter of 2022, offset by an unfavorable variance in the portion of net periodic pension cost recognized in the statement of operations in the first nine months of 2023.

BALANCE SHEET – SEPTEMBER 30, 2023 COMPARED TO DECEMBER 31, 2022

The following narrative describes the consolidated balance sheets for the System as of September 30, 2023 and December 31, 2022.

Cash and cash equivalents decreased $417.0 million (48.6%) from December 31, 2022 to September 30, 2023. The majority of the System's cash and cash equivalents are held in operating bank accounts for general expenditures. The decrease in cash equivalents relates to the timing of operating and financing cash flows and transfers to or from the investment portfolio to manage the liquidity needs of the System.

Patient accounts receivable increased $196.6 million (11.5%) from December 31, 2022 to September 30, 2023. The increase in patient receivables is primarily attributable to the increase in net patient revenue in 2023 compared to 2022 and rate increases on the System's managed care contracts that became effective in January 2023. The System has various initiatives to enhance cash collection efforts and create efficiencies in the revenue cycle process. Days revenue outstanding for the System, which is calculated based on average daily revenue for the most recent quarter, increased from 50 days at December 31, 2022 to 55 days at September 30, 2023.

Investments for current use were unchanged from December 31, 2022 to September 30, 2023. Investments for current use includes funds held by the bond trustee that are used to pay current debt service payments. There were no funds held by the bond trustee reported in investments for current use as of September 30, 2023 or December 31, 2022. Investments for current use also includes assets held for self-insurance that will be used to pay the current portion of estimated claim liabilities. Assets held for self-insurance were unchanged from December 31, 2022 to September 30, 2023.

Other current assets increased $71.5 million (8.2%) from December 31, 2022 to September 30, 2023. The increase in other current assets was primarily due to a $63.3 million increase in receivables primarily related to international management fees, a $40.1 million increase in third party receivables, a $20.1 million increase in prepaid expenses, a $15.6 million increase in receivables related to Medicare accountable care organizations and a $13.2 million increase in inventories. The increases in other current assets were offset by a $35.3 million decrease in receivables related to government programs that provide assistance to hospitals due to the timing of payments for the program, a $24.4 million decrease in assets held for sale due to property that was reclassified to property, plant and equipment and a $19.9 million decrease in pledges receivable.

Unrestricted long-term investments increased by $318.4 million (3.0%) from December 31, 2022 to September 30, 2023. The increase in long-term investments was primarily due to $395.7 million of unrestricted investment gains experienced in the System's investment portfolio that reported preliminary investment returns of 3.8% in the first nine months of 2023. Other changes in unrestricted investments include transfers to operating cash based on the liquidity needs of the System.

Funds held by trustees increased $2.7 million (48.1%) from December 31, 2022 to September 30, 2023. The increase in funds held by trustees is primarily due to an increase in collateral posted with the counterparties on the System's futures program.

Assets held for self-insurance increased by $26.1 million (14.9%) from December 31, 2022 to September 30, 2023. The increase in self-insurance assets is primarily due to insurance premiums received by the System's captive insurance company and positive investment returns in its investment portfolio in excess of claim payments reimbursed to the System.

Donor restricted assets increased $62.5 million (4.8%) from December 31, 2022 to September 30, 2023. The increase in restricted assets was primarily from the receipt of donor restricted gifts and investment gains on restricted investments in excess of expenditures from restricted funds.

Net property, plant and equipment increased $112.3 million (1.9%) from December 31, 2022 to September 30, 2023. The System had expenditures for property, plant and equipment of $559.1 million, offset by depreciation expense of $492.7 million. Increases in property, plant and equipment also resulted from the transfer of $24.4 million of assets from assets held for sale to property, plant and equipment and $15.4 million of foreign currency translation gains. Decreases in property, plant and equipment resulted from $11.9 million of proceeds from the sale of property, plant and equipment. Capital expenditures in 2023 include amounts paid on retainage liabilities recorded at December 31, 2022 and exclude assets acquired through finance leases and other financing arrangements. Retainage liabilities increased $7.6 million, and new finance leases totaled $10.0 million in the first nine months of 2023. Expenditures for property, plant and equipment were incurred at numerous facilities across the System and include expenditures for strategic construction, expansion and technological investment as well as replacement of existing facilities and equipment. For a description of a few of the System's current projects, refer to "EXPANSION AND IMPROVEMENT PROJECTS."

Pledges receivable decreased $21.4 million (10.0%) from December 31, 2022 to September 30, 2023. The decrease in pledges receivable was due to the reclassification of regularly scheduled principal payments from long-term to current that are due within one year offset by new pledges received in 2023.

Trusts and interests in foundations decreased $13.6 million (13.3%) from December 31, 2022 to September 30, 2023. The decrease in trusts and interests in foundations is comprised of a $12.3 million decrease in perpetual and charitable trusts primarily due to trust distribution payments to the System and a $1.2 million decrease in interests in community foundations.

Operating lease right-of-use assets increased $29.0 million (8.6%) from December 31, 2022 to September 30, 2023. The increase in operating lease right-of-use assets was primarily due to the addition of new operating leases recorded during 2023 offset by the reduction in value of future lease payments through the recognition of operating lease expenses.

Other noncurrent assets increased $68.8 million (8.0%) from December 31, 2022 to September 30, 2023. The increase in other noncurrent assets was due primarily to a $47.2 million increase in deferred compensation plan assets (and corresponding increase in noncurrent liabilities) primarily due to changes in investment markets, a $20.6 million increase in investments in affiliates including investments in joint venture rehabilitation and long-term acute care hospitals and other affiliates and a $14.9 million increase in prepaid pension costs. These increases in other noncurrent assets were partially offset by an $12.2 million decrease in third-party receivables.

Accounts payable decreased $112.7 million (14.8%) from December 31, 2022 to September 30, 2023. The decrease in accounts payable was primarily attributable to the timing of payment processing for trade payables. These increases were partially offset by a $7.6 million increase in retainage liabilities for current construction projects.

Compensation and amounts withheld from payroll increased $2.2 million (0.4%) from December 31, 2022 to September 30, 2023. The increase in compensation and amounts withheld from payroll was primarily attributable to the timing of payroll and changes in employee benefit accruals.

Current portion of long-term debt increased $0.4 million (0.4%) from December 31, 2022 to September 30, 2023. Changes in the current portion of long-term debt include the reclassification of regularly scheduled principal payments from long-term to current that are due within one year, offset by principal payments made in 2023.

Variable-rate debt classified as current increased $68.6 million (10.0%) from December 31, 2022 to September 30, 2023. Variable-rate debt classified as current consists of long-term variable-rate bonds supported by the System's self-liquidity program and bonds with letters of credit or standby bond purchase agreements that expire within one year, require repayment of a remarketing draw within one year or contain a subjective clause that would allow the lender to declare an event of default and cause immediate repayment of such bonds. The System does not expect to make principal payments on these bonds in the next year but classifies them as current for accounting purposes. The increase in variable rate debt classified as current was primarily due to the reclassification of $311.1 million from long-term to current for bonds supported by standby bond purchase agreements that are scheduled to expire in 2024. The increase was partially offset by the reclassification of $239.9 million from current to long-term for bonds with mandatory tender dates in 2023 or bonds supported by standby bond purchase agreements that were scheduled to expire in 2023. The System entered into new agreements that allow the bonds to be classified as long-term at September 30, 2023.

Other current liabilities decreased $77.5 million (10.0%) from December 31, 2022 to September 30, 2023. The decrease in other current liabilities is primarily due to a $50.0 million decrease in third party reserves due to the recognition of pandemic relief funds received in prior years that had been deferred, a $45.6 million decrease in state franchise fee liabilities due to the timing of payments, and a $31.8 million decrease in accrued interest payable related to the timing of semi-annual interest payments. These decreases were offset by a $19.2 million increase in management contracts and other deferred revenue, a $13.8 million increase in operating lease liabilities and a $12.5 million increase in pledges payable.

Long-term debt increased $124.2 million (2.9%) from December 31, 2022 to September 30, 2023. The increase in long-term debt was due to the issuance of $300 million of floating-rate Hospital Revenue Bonds (Series 2023 Bonds) in September 2023 and the reclassification of $239.9 million transferred from variable rate debt classified as current to long-term debt for bonds with mandatory tender dates in 2023 or bonds supported by standby bond purchase agreements that were scheduled to expire in 2023. The System entered into new agreements that allow the bonds to be classified as long-term at September 30, 2023. The increases were partially offset by the reclassification of $311.1 million from long-term to current for bonds supported by standby bond purchase agreements that are scheduled to expire in 2024 and by the reclassification of regularly scheduled principal payments from long-term to current for debt payments due within one year. For a description of the Series 2023 Bonds, refer to "LIQUIDITY – Long Term Debt."

Professional and general insurance liability reserves decreased $2.2 million (1.0%) from December 31, 2022 to September 30, 2023. The decrease in insurance liability reserves is due to claim liability payments in excess of expenses recorded for the accrual of current and prior year claims estimates.

Accrued retirement benefits decreased $2.7 million (1.2%) from December 31, 2022 to September 30, 2023. The decrease in accrued retirement benefits is comprised of a $3.4 million decrease in certain defined benefit pension plan liabilities offset by a $0.7 million increase in other postretirement benefit liabilities.

Operating lease liabilities increased $16.4 million (5.3%) from December 31, 2022 to September 30, 2023. The increase in operating lease liabilities was primarily due to the addition of new operating leases recorded in 2023 offset by the reclassification of operating lease payments from long-term to short-term.

Other noncurrent liabilities increased $52.0 million (9.4%) from December 31, 2022 to September 30, 2023. The increase in other noncurrent liabilities is primarily due to a $47.8 million increase in deferred compensation plan liabilities (and corresponding increase in noncurrent assets) primarily due to changes in investment markets and a $23.2 million increase in third-party reserves. The increase in other noncurrent liabilities was offset by a $19.0 million decrease in liabilities related to changes in the fair value of the System's derivative agreements and a $12.2 million decrease in pledges payable.

Total net assets increased $367.1 million (2.5%) from December 31, 2022 to September 30, 2023. Net assets without donor restrictions increased $362.8 million (2.8%) primarily due to an excess of revenues over expenses of $353.3 million, net assets released from restriction for capital purposes of $9.3 million and foreign currency translation gains of $2.8 million. Net assets with donor restrictions increased $4.3 million (0.2%), primarily due to gifts of $82.3 million and investment gains of $41.6 million offset by assets released from restrictions of $118.7 million.

Mercy Hospital
Canton, Ohio

FORWARD-LOOKING STATEMENTS

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

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

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

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

Cleveland Clinic

Every life deserves world class care.