Consolidated Financial Statements and Supplementary Information

The Cleveland Clinic Foundation
d.b.a. Cleveland Clinic Health System
Years Ended December 31, 2023 and 2022
With Reports of Independent Auditors

Ernst & Young LLP

Building a better
working world

Cleveland Clinic Health System

Consolidated Financial Statements and Supplementary Information

Years Ended December 31, 2023 and 2022

Contents

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Report of Independent Auditors

The Board of Directors
The Cleveland Clinic Foundation

Opinion

We have audited the consolidated financial statements of The Cleveland Clinic Foundation and controlled affiliates, d.b.a. Cleveland Clinic Health System (the System), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the System at December 31, 2023 and 2022, and the results of its operations, changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the System and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor’s Responsibilities for the Audit of the Financial Statement

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System’s internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the System’s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Ernst & Young LLP

March 12, 2024

Cleveland Clinic Health System

Consolidated Balance Sheets
(In Thousands)

	December 31	
	2023	**2022**
Assets		
Current assets:		
Cash and cash equivalents	**$ 698,965**	$ 858,372
Patient receivables	**1,859,557**	1,706,167
Investments for current use	**74,703**	63,991
Other current assets	**923,019**	874,568
Total current assets	**3,556,244**	3,503,098
Investments:		
Long-term investments	**11,312,499**	10,671,739
Funds held by trustees	**8,724**	5,689
Assets held for self-insurance	**208,650**	175,064
Donor-restricted assets	**1,432,245**	1,298,527
	12,962,118	12,151,019
Property, plant, and equipment, net	**6,282,016**	5,971,764
Other assets:		
Pledges receivable, net	**170,592**	214,648
Trusts and interests in foundations	**92,493**	102,208
Operating lease right-of-use assets	**369,310**	336,398
Other noncurrent assets	**1,011,972**	858,860
	1,644,367	1,512,114
Total assets	**$ 24,444,745**	$ 23,137,995

	December 31 2023	December 31 2022
Liabilities and net assets		
Current liabilities:		
Accounts payable	**$ 697,264**	$ 761,923
Compensation and amounts withheld from payroll	**650,318**	595,089
Current portion of long-term debt	**106,357**	107,757
Variable rate debt classified as current	**842,354**	686,329
Other current liabilities	**715,193**	778,807
Total current liabilities	**3,011,486**	2,929,905
Long-term debt	**4,311,487**	4,246,037
Other liabilities:		
Professional and general liability insurance reserves	**251,941**	216,544
Accrued retirement benefits	**224,991**	226,440
Operating lease liabilities	**321,609**	306,485
Other noncurrent liabilities	**650,971**	554,488
	1,449,512	1,303,957
Total liabilities	**8,772,485**	8,479,899
Net assets:		
Without donor restrictions	**13,860,396**	12,918,776
With donor restrictions	**1,811,864**	1,739,320
Total net assets	**15,672,260**	14,658,096
Total liabilities and net assets	**$ 24,444,745**	$ 23,137,995

See accompanying notes.

Cleveland Clinic Health System

Consolidated Statements of Operations
and Changes in Net Assets
(In Thousands)

Operations

	Year Ended December 31	
	2023	**2022**
Unrestricted revenues		
Net patient service revenue	**$ 12,654,257**	$ 11,570,678
Other	**1,828,420**	1,432,103
Total unrestricted revenues	**14,482,677**	13,002,781
Expenses		
Salaries, wages, and benefits	**8,368,886**	7,674,417
Supplies	**1,490,119**	1,364,133
Pharmaceuticals	**1,906,477**	1,588,439
Purchased services and other fees	**1,033,287**	975,650
Administrative services	**252,475**	271,481
Facilities	**460,537**	446,437
Insurance	**170,693**	126,960
	13,682,474	12,447,517
Operating income before interest, depreciation, and amortization	**800,203**	555,264
Interest	**175,947**	150,915
Depreciation and amortization	**559,983**	615,687
Operating income (loss)	**64,273**	(211,338)
Nonoperating gains and losses		
Investment return	**889,081**	(1,019,425)
Derivative gains	**1,669**	68,376
Other, net	**(43,812)**	(86,114)
Net nonoperating gains (losses)	**846,938**	(1,037,163)
Excess (deficiency) of revenues over expenses	**911,211**	(1,248,501)

(continued on next page)

Changes in Net Assets

	Year Ended December 31	
	2023	**2022**
Changes in net assets without donor restrictions		
Excess (deficiency) of revenues over expenses	**$ 911,211**	$ (1,248,501)
Donated capital	**1,569**	2
Net assets released from restrictions for capital purposes	**14,242**	21,711
Retirement benefits adjustment	**9,264**	62,184
Foreign currency translation	**6,339**	(25,114)
Other	**(1,005)**	1,052
Increase (decrease) in net assets without donor restrictions	**941,620**	(1,188,666)
Changes in net assets with donor restrictions		
Gifts and bequests	**141,517**	350,852
Net investment income (loss)	**86,890**	(45,520)
Net assets released from restrictions used for operations included in other unrestricted revenues	**(143,593)**	(88,189)
Net assets released from restrictions for capital purposes	**(14,242)**	(21,711)
Change in interests in foundations	**(263)**	(1,176)
Change in value of perpetual trusts	**1,235**	(8,262)
Other	**1,000**	(1,814)
Increase in net assets with donor restrictions	**72,544**	184,180
Increase (decrease) in net assets	**1,014,164**	(1,004,486)
Net assets at beginning of year	**14,658,096**	15,662,582
Net assets at end of year	**$ 15,672,260**	$ 14,658,096

See accompanying notes.

Cleveland Clinic Health System

Consolidated Statements of Cash Flows
(In Thousands)

	Year Ended December 31 2023	2022
Operating activities and net nonoperating gains and losses		
Increase (decrease) in net assets	**$ 1,014,164**	$ (1,004,486)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities and net nonoperating gains and losses:		
Retirement benefits adjustment	**(9,264)**	(62,184)
Net realized and unrealized (gains) losses on investments	**(953,837)**	1,142,583
Depreciation and amortization	**555,078**	613,024
Foreign currency translation (gain) loss	**(6,339)**	25,114
Donated capital	**(1,569)**	(2)
Restricted gifts, bequests, investment income, and other	**(229,379)**	(295,894)
Amortization of bond premiums and debt issuance costs	**(7,410)**	(7,419)
Net gain in value of derivatives	**(1,815)**	(84,335)
Pension funding	**(35,613)**	(31,773)
Changes in operating assets and liabilities:		
Patient receivables	**(151,517)**	(174,589)
Other current assets	**(80,052)**	(196,176)
Other noncurrent assets	**(158,521)**	(54,292)
Accounts payable and other current liabilities	**(96,022)**	239,012
Other liabilities	**164,383**	28,748
Net cash provided by operating activities and net nonoperating gains and losses	**2,287**	137,331
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	**(132,724)**	(110,013)
Debt issuance costs	**(587)**	–
Change in pledges receivable, trusts, and interests in foundations	**62,447**	(101,846)
Restricted gifts, bequests, investment income, and other	**229,379**	295,894
Net cash provided by financing activities	**458,515**	84,035
Investing activities		
Expenditures for property, plant, and equipment	**(768,990)**	(796,199)
Proceeds from sale of property, plant, and equipment	**12,390**	20,318
Net change in cash equivalents reported in long-term investments	**(174,866)**	269,966
Purchases of investments	**(4,406,938)**	(4,147,478)
Sales of investments	**4,708,608**	4,543,677
Net cash used in investing activities	**(629,796)**	(109,716)
Effect of exchange rate changes on cash and cash equivalents	**4,365**	(25,736)
(Decrease) increase in cash, cash equivalents, and restricted cash	**(164,629)**	85,914
Cash, cash equivalents, and restricted cash at beginning of year	**868,345**	782,431
Cash, cash equivalents, and restricted cash at end of year	**$ 703,716**	$ 868,345
Supplemental disclosure of noncash activity		
Assets acquired through finance leases and other financing agreements	**$ 16,444**	$ 26,284
Accounts payable accruals for property, plant, and equipment	**$ 51,490**	$ 31,216

See accompanying notes.

1. Organization and Consolidation

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

The System is the leading provider of healthcare services in northeast Ohio. As of December 31, 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 the United Kingdom, the System operates a hospital and two outpatient facilities in the central London area. 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 M42 Health's network of healthcare facilities located in Abu Dhabi, United Arab Emirates, with 364 staffed beds.

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

2. Accounting Policies

Recent Accounting Pronouncement

Adopted

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.* This ASU requires entities to report "expected" credit losses on financial instruments and other commitments to extend credit rather than the current "incurred loss" model. These expected credit losses for financial assets held at the reporting date

2. Accounting Policies (continued)

are to be based on historical experience, current conditions and reasonable and supportable forecasts. This ASU also requires enhanced disclosures relating to significant estimates and judgments used in estimating credit losses, as well as the credit quality. This ASU was effective for the System beginning January 1, 2023. The adoption of ASU 2016-13 did not have a material impact to the consolidated financial statements.

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.

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.

2. Accounting Policies (continued)

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.

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

2. Accounting Policies (continued)

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 service revenue by $49.8 million and $76.0 million in 2023 and 2022, respectively.

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.

Settlements with third-party payors for retroactive adjustments due to reviews and audits are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care in the period the related services are provided. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the System's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known or as years are settled or are no longer subject to such reviews and audits. Adjustments arising from a change in estimated settlements increased net patient service revenue by $52.2 million in 2022. Adjustments arising from a change in estimated settlements were not significant in 2023.

2. Accounting Policies (continued)

Charity Care

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. The cost of charity care provided in 2023 and 2022 approximated $259 million and $200 million, respectively. The System estimated these costs by calculating a ratio of cost to gross charges and then multiplying that ratio by the gross uncompensated charges associated with providing care to charity patients.

The System participates in the Hospital Care Assurance Program (HCAP). Ohio created HCAP to financially support those hospitals that serve a disproportionate share of low-income patients unable to pay for care. HCAP funds basic, medically necessary hospital services for patients whose family income is at or below the federal poverty level, which includes Medicaid patients and patients without health insurance. The System recorded HCAP expenses of $7.2 million and revenue of $6.7 million for the years ended December 31, 2023 and 2022, respectively, which are reported in net patient service revenue.

Management Service Agreements

The System has management service agreements with regional, national and international organizations to provide advisory services for various healthcare ventures. The scope of these services ranges from managing current healthcare operations that are designed to improve clinical quality, innovation, patient care, medical education and research at other healthcare organizations and educational institutions to managing the construction, training, organizational infrastructure, and operational management of healthcare entities. The System recognizes revenues related to management service agreements on a pro rata basis over the term of the agreements as services are provided. Payments received in advance are recorded as deferred revenue until the services have been provided. Revenue related to management service agreements for 2023 and 2022 was $146.9 million and $130.7 million, respectively, and is included in other unrestricted revenues.

2. Accounting Policies (continued)

Cash and Cash Equivalents

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

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

	2023	2022
Cash and cash equivalents	**$ 698,965**	$ 858,372
Restricted cash in investments	**4,751**	9,973
Total cash, cash equivalents, and restricted cash	**$ 703,716**	$ 868,345

Restricted cash in investments includes amounts held by the System's captive insurance subsidiaries and restricted cash for various programs.

Inventories

Inventories (primarily supplies and pharmaceuticals) are stated at an average cost or the lower of cost (first-in, first-out method) or market and are recorded in other current assets.

Property, Plant, and Equipment

Property, plant, and equipment purchased by the System are recorded at cost. Expenditures that substantially increase the useful lives of existing assets are capitalized. Routine maintenance and repairs are expensed as incurred. Depreciation, including amortization of finance leased assets, is computed by the straight-line method using the estimated useful lives of individual assets. Buildings and building components are assigned useful lives ranging from five years to eighty years. Equipment is assigned a useful life ranging from three to twenty years. Interest cost incurred on borrowed funds during the period of construction of capital assets and interest income on

2. Accounting Policies (continued)

unexpended project funds are capitalized as a component of the cost of acquiring those assets. The System records costs and legal obligations associated with long-lived asset retirements. Assets acquired though finance lease arrangements are excluded from the consolidated statements of cash flows.

In 2023, the System completed a review of the estimated useful lives of its property, plant, and equipment, which indicated that the actual lives of certain assets were longer than the estimated useful lives used for depreciation purposes. As a result, effective January 1, 2023, the System changed its estimated useful lives of certain assets to better reflect the estimated periods during which the assets will remain in service. The effect of this change in estimate was to reduce 2023 depreciation expense by $109.6 million and increase excess (deficiency) of revenues over expenses by the same amount.

Cloud Computing Arrangements

The System has entered into hosting arrangements that are service contracts for various cloud computing arrangements. The System capitalizes implementation costs associated with these arrangements and amortizes the asset on a straight-line basis over the term of the hosting arrangement, including expected renewal periods. The System had $80.4 million and $82.2 million at December 31, 2023 and 2022, respectively, of unamortized capitalized implementation costs recorded in other noncurrent assets in the consolidated balance sheets. For the years ended December 31, 2023 and 2022, the System recorded $16.2 million and $8.5 million, respectively, of amortization expense in purchased services and other fees in the consolidated statements of operations and changes in net assets.

Impairment of Long-Lived Assets

The System evaluates the recoverability of long-lived assets and the related estimated remaining lives when indicators of impairment are present. For purposes of impairment analysis, assets are grouped with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. The System records an impairment charge or changes the useful life if events or changes in circumstances indicate that the carrying amount may not be recoverable or the useful life has changed.

2. Accounting Policies (continued)

Leases

The System determines if an arrangement is a lease at the inception of a contract. Leases with an initial term of twelve months or less are not recorded on the consolidated balance sheets. The System has lease agreements that require payments for lease and non-lease components and has elected to account for these as a single lease component.

Right-of-use assets represent the System's right to use an underlying asset during the lease term, and lease liabilities represent the System's obligation to make lease payments arising from the lease. Right-of-use assets and liabilities are recognized at the commencement date, based on the net present value of fixed-lease payments over the lease term. The System's lease terms include options to extend or terminate the lease when it is reasonably certain that the options will be exercised.

The System determines the present value of future lease payments using the rate implicit in the lease or, if that rate cannot be readily determined, its incremental borrowing rate at the lease commencement date. As most of the System's operating leases do not provide an implicit rate, the System generally uses its incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. The System considers recent debt issuances, as well as publicly available data for instruments with similar characteristics, when calculating its incremental borrowing rate.

Operating fixed-lease expense and finance lease depreciation expense are recognized on a straight-line basis over the lease term. Variable lease costs consist primarily of common area maintenance and are not significant to total lease expense.

Investments and Investment Income

Investments in equity securities with readily determinable fair values and all investments in debt securities are recorded at fair value in the consolidated balance sheets. Investments, excluding alternative investments, are primarily classified as trading. Investment transactions are recorded on a settlement date basis. Realized gains and losses are determined using the average cost method.

Commingled investment funds are valued using, as a practical expedient, the net asset value as provided by the respective investment companies and partnerships. There are no significant redemption restrictions on the commingled investment funds.

2. Accounting Policies (continued)

Investments in alternative investments, which include hedge funds and private equity funds, are primarily limited partnerships that invest in marketable securities, privately held securities, private credit, real estate, venture capital and derivative products and are reported based on the net asset value of the investment. Investments held by the partnerships consist of marketable securities, as well as securities that do not have readily determinable values. The values of the securities held by the limited partnerships that do not have readily determinable values are determined by the general partner and are based on historical cost, appraisals, or other valuation estimates that require varying degrees of judgment. There is inherent uncertainty in such valuations, and the estimated fair values may differ from the values that would have been used had a ready market for the securities existed. Generally, the investment balance of the System's holdings in alternative investments reflects net contributions to the partnerships and the System's share of realized and unrealized investment income and expenses. The investments may individually expose the System to securities lending, short sales, and trading in futures and forward contract options and other derivative products. The System's risk is limited to its carrying value. The financial statements of the limited partnerships are audited annually.

Alternative investments can be divested only at specified times in accordance with the terms of the partnership agreements. Hedge fund redemptions typically contain restrictions that allow for a portion of the withdrawal proceeds to be held back from distribution, while the underlying investments are liquidated. These redemptions are subject to lock-up provisions that are generally imposed upon initial investment in the fund. Private equity funds are generally closed-end funds and have significant redemption restrictions that prohibit redemptions during the fund's life.

Investment return, including income on alternative investments, is reported as nonoperating gains and losses, except for interest and dividends earned on assets held for self-insurance and amounts designated for current operations from board-designated endowment funds, which are included in other unrestricted revenues. Investment return greater or less than amounts designated for current operations from board-designated funds is recorded in nonoperating gains and losses in the consolidated statements of operations and changes in net assets. Donor-restricted investment return on restricted investments is included in net assets with donor restrictions.

Certain of the System's assets and liabilities are exposed to various risks, such as interest rate, market, and credit risks.

2. Accounting Policies (continued)

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.

Goodwill and Other Intangibles

Goodwill has resulted from business combinations, primarily physician practice acquisitions, and is based on the purchase price in excess of the fair values of assets acquired and liabilities assumed at the acquisition date. Annually, or when indicators of impairment exist, the System evaluates goodwill for impairment to determine whether there are events or circumstances that indicate it is more likely than not that the fair value of a reporting unit is less than its carrying amount.

2. Accounting Policies (continued)

Intangible assets other than goodwill are recorded at fair value in the period of acquisition. Intangible assets with finite lives, which consist primarily of patient medical records and non-compete agreements, are amortized over their estimated useful lives, ranging from three to five years, with a weighted average amortization period of approximately three years.

Derivative Instruments

The System's derivative financial instruments consist of interest rate swaps and foreign currency forward contracts, which are recognized as assets or liabilities in the consolidated balance sheets at fair value.

The System accounts for changes in the fair value of derivative instruments depending on whether they are designated and qualified as part of a hedging relationship and, further, on the type of hedging relationship. The System has not designated any derivative instruments as hedges. Accordingly, the changes in fair value of derivative instruments and the related cash payments are recorded in derivative gains in the consolidated statements of operations and changes in net assets.

Foreign Currency Translation

The statements of operations of foreign subsidiaries whose functional currencies are other than the U.S. dollar are translated into U.S. dollars using average exchange rates for the period. The assets and liabilities of foreign subsidiaries whose functional currencies are other than the U.S. dollar are translated into U.S. dollars using exchange rates as of the consolidated balance sheet date. The U.S. dollar effects that arise from translating the net assets of these subsidiaries at changing rates are recorded as foreign currency translation gains and losses in the consolidated statements of operations and changes in net assets. Cumulative foreign currency translation losses included in net assets without donor restrictions were $79.0 million and $85.3 million at December 31, 2023 and 2022, respectively.

Debt Issuance Costs

Debt issuance costs are amortized over the period the obligation is outstanding using the straight-line method, which approximates the interest method.

2. Accounting Policies (continued)

Contributions

Unconditional donor pledges to give cash, marketable securities, and other assets are reported at fair value at the date the pledge is made to the extent estimated to be collectible by the System. Conditional donor promises to give and indications of intentions to give are not recognized until the condition is satisfied. Pledges received with donor restrictions that limit the use of the donated assets are reported as donor-restricted support. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are transferred to net assets without donor restrictions and reported in the consolidated statements of operations and changes in net assets as other unrestricted revenues if the purpose relates to operations or reported as a change in net assets without donor restrictions if the purpose relates to capital.

Donated capital is recorded at fair value at the date of donation based on appraised value from a third-party or quoted prices for similar or identical assets. Contributions of donated capital generally include artwork and donated equipment that is placed into service and utilized to support various programs of the System.

No amounts have been reflected in the consolidated financial statements for donated services. The System pays for most services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the System with various programs.

Grants

Grant revenue is recognized in the period it is earned based on when the applicable project expenses are incurred and project milestones are achieved. The System records research grants as exchange transactions or conditional contributions based on an evaluation of whether the resource provider is receiving commensurate value in return for the resources transferred to the System. Conditional contributions contain barriers that must be overcome by the System before research grant revenue is recorded. Grant payments received in advance of related project expenses and the achievement of project milestones are recorded as deferred revenue and included in other current liabilities. The System recorded research grant revenue, included in other unrestricted revenues, of $286.4 million and $289.5 million in 2023 and 2022, respectively.

2. Accounting Policies (continued)

Net Assets Without Donor Restrictions

Net assets without donor restrictions represent resources that are available for the general support of the System and are not subject to donor restrictions. The Board of Directors may designate a portion of net assets without donor restrictions for specific purposes.

Net Assets With Donor Restrictions

Net assets with donor restrictions are used to differentiate resources, the use of which is restricted by donors or grantors to a specific time period or purpose, from resources on which no restrictions have been placed or that arise from the general operations of the System. Donor-restricted gifts and bequests are recorded as an addition to net assets with donor restrictions in the period received, Donor-restricted gifts include amounts held in perpetuity or for terms designated by donors, including the fair value of several charitable and perpetual trusts for which the System is an income or remainder beneficiary. Earnings on donor-restricted gifts are recorded as investment income in net assets with donor restrictions and subsequently used in accordance with the donor's designation. Net assets with donor restrictions are primarily restricted for research, education, and strategic capital projects.

Related-Party Transactions

The System has a policy regarding the identification and disclosure of any transactions with related parties. During the years ended December 31, 2023 and 2022, the System had no material related-party transactions.

Excess (Deficiency) of Revenues Over Expenses

The consolidated statements of operations and changes in net assets include excess (deficiency) of revenues over expenses. Changes in net assets without donor restrictions, which are excluded from excess (deficiency) of revenues over expenses, consistent with industry practice, include retirement benefits adjustments, foreign currency translation gains and losses and contributions of long-lived assets (including assets acquired using grants or contributions that by donor restriction were to be used for the purpose of acquiring such assets).

3. Net Patient Service Revenue and Patient Receivables

Net patient service revenue by major payor source, for the years ended December 31, 2023 and 2022 is as follows (in thousands):

	2023		2022	
Medicare	**$ 4,736,122**	**38%**	$ 4,478,819	39%
Medicaid	**1,192,339**	**9**	1,140,122	10
Managed care and commercial	**6,559,007**	**52**	5,824,600	50
Self-pay	**166,789**	**1**	127,137	1
Net patient service revenue	**$ 12,654,257**	**100%**	$ 11,570,678	100%

The System's concentration of credit risk relating to patient receivables is limited due to the diversity of patients and payors. Patient receivables consist of amounts due from government programs, commercial insurance companies, other group insurance programs, and private pay patients. Patient receivables due from Medicare and one commercial payor account for approximately 28% and 14% at December 31, 2023 and 26% and 14% at December 31, 2022, respectively, of the System's total patient receivables. Revenues from the Medicare and Medicaid programs and two different commercial payors account for approximately 38%, 9%, 18% and 11% for 2023 and 39%, 10%, 16% and 11% for 2022, respectively, of the System's net patient service revenue. Excluding these payors, no one payor represents more than 10% of the System's patient receivables or net patient service revenue.

4. Cash, Cash Equivalents, and Investments

The composition of cash, cash equivalents, and investments at December 31, 2023 and 2022 is as follows (in thousands):

	2023	2022
Cash, cash equivalents and restricted cash	**$ 703,716**	$ 868,345
Money market funds	**456,797**	271,914
Fixed-income securities:		
U.S. treasuries	**1,365,960**	1,161,381
U.S. government agencies	**51,597**	42,379
U.S. corporate	**546,984**	533,581
U.S. government agencies asset-backed securities	**507,778**	394,270
Corporate asset-backed securities	**295,247**	207,955
Foreign	**216,533**	243,748
Fixed-income mutual funds	**76,717**	40,821
Commingled fixed-income funds	**17,286**	844
Common and preferred stocks:		
U.S.	**182,261**	161,314
Foreign	**549,202**	469,250
Equity mutual funds	**72,904**	73,892
Commingled equity funds	**1,330,340**	1,353,126
Commingled commodity funds	**574,985**	668,481
Alternative investments:		
Hedge funds	**3,498,957**	3,537,479
Private equity funds	**3,288,522**	3,044,602
Total cash, cash equivalents, and investments	**$ 13,735,786**	$ 13,073,382

Investments are primarily maintained in a master trust fund administered using a bank as the custodian. The management of the majority of the System’s investments is conducted by numerous external investment management organizations that are selected and monitored by the System. The alternative investments have separate administrators and custodian arrangements.

4. Cash, Cash Equivalents, and Investments (continued)

Total investment return is comprised of the following for the years ended December 31, 2023 and 2022 (in thousands):

	2023	2022
Other unrestricted revenues:		
Interest income and dividends	**$ 4,358**	$ 2,422
Investment return designated for current operations *(Note 18)*	**87,500**	–
	91,858	2,422
Nonoperating gains and losses, net:		
Interest income and dividends	**127,173**	103,087
Net realized gains (losses) on sales of investments	**51,801**	(13,808)
Net change in unrealized gains (losses) on investments	**390,728**	(799,430)
Investment gain (loss) on alternative investments	**438,192**	(274,649)
Investment management fees	**(31,313)**	(34,625)
Investment return designated for current operations *(Note 18)*	**(87,500)**	–
	889,081	(1,019,425)
Other changes in net assets:		
Investment income (loss) on restricted investments	**86,890**	(45,520)
Total investment return	**$ 1,067,829**	$ (1,062,523)

5. Liquidity and Availability

Financial assets available for general expenditure within one year of the consolidated balance sheet date include the following at December 31, 2023 and 2022 (in thousands):

	2023	2022
Cash and cash equivalents	**$ 698,965**	$ 858,372
Patient receivables	**1,859,557**	1,706,167
Long-term investments	**6,020,042**	5,438,609
	$ 8,578,564	$ 8,003,148

The System has assets limited to use held by trustees, set aside for the System's captive insurance subsidiaries and held for donor-restricted purposes. These investments are not reflected in the amounts above.

5. Liquidity and Availability (continued)

The System invests in alternative investments to increase the investment portfolio's diversification. 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 System's long-term investment objectives at an appropriate level of risk, while maintaining a level of liquidity to meet the needs of ongoing portfolio management. Hedge funds generally have lock-up periods imposed upon initial investment in the fund and have varying degrees of liquidity that may restrict portions of fund redemptions to be received within one year. Private equity funds generally prohibit redemptions during the life of the fund. The nature of alternative investments generally restricts the liquidity and availability of these investments to be available for the general expenditures of the System within one year of the date of the consolidated balance sheets. As such, these investments have been excluded from the amounts above.

As part of the System's liquidity management plan, cash in excess of daily requirements for general expenditures is invested in long-term investments. The System's investment portfolios contain money market funds and other liquid investments that can be drawn upon, if necessary, to meet the liquidity needs of the System.

The System maintains three lines of credit totaling $600 million as discussed in Note 11. As of December 31, 2023, $600 million was available under the credit facilities.

6. Other Current Assets and Liabilities and Other Noncurrent Assets and Liabilities

Other current and noncurrent assets at December 31, 2023 and 2022 consist of the following (in thousands):

	2023	2022
Current:		
Inventories	**$ 335,659**	$ 306,395
Estimated amounts due from third-party payors	**209,047**	204,675
Prepaid expenses	**133,169**	140,995
Pledges receivable, current *(Note 10)*	**99,477**	108,155
Research and grants receivables	**32,518**	37,114
Other	**113,149**	77,234
Total other current assets	**$ 923,019**	$ 874,568

	2023	2022
Noncurrent:		
Deferred compensation plan assets	**$ 456,341**	$ 360,477
Investments in affiliates	**169,991**	149,570
Goodwill and other intangible assets *(Note 7)*	**130,926**	130,731
Cloud computing capitalized implementation costs	**80,360**	82,179
Prepaid pension cost *(Note 15)*	**49,099**	22,716
Estimated amounts due from third-party payors	**44,192**	50,584
Other	**81,063**	62,603
Total other noncurrent assets	**$ 1,011,972**	$ 858,860

6. Other Current Assets and Liabilities and Other Noncurrent Assets and Liabilities (continued)

Other current and noncurrent liabilities at December 31, 2023 and 2022 consist of the following (in thousands):

	2023	2022
Current:		
Current portion of professional and general liability insurance reserves *(Note 14)*	**$ 74,703**	$ 63,991
Interest payable	**71,601**	69,902
Management contracts and other deferred revenue	**70,002**	123,602
Operating lease liabilities *(Note 13)*	**59,826**	40,037
Estimated amounts due to third-party payors	**58,965**	42,097
Employee benefit related liabilities	**57,166**	62,920
Research deferred revenue	**21,540**	24,734
Ohio hospital franchise fee liabilities	**–**	96,202
Other	**301,390**	255,322
Total other current liabilities	**$ 715,193**	$ 778,807

	2023	2022
Noncurrent:		
Employee benefit related liabilities	**$ 495,373**	$ 408,370
Pledge liabilities	**38,158**	49,524
Derivative liabilities *(Note 12)*	**30,851**	32,666
Estimated amounts due to third-party payors	**27,974**	15,569
Gift annuity liabilities	**18,539**	13,333
Other	**40,076**	35,026
Total other noncurrent liabilities	**$ 650,971**	$ 554,488

7. Goodwill and Other Intangible Assets

Goodwill is recorded in other noncurrent assets in the consolidated balance sheets. The changes in the carrying amount of goodwill for the years ended December 31, 2023 and 2022 are as follows (in thousands):

	2023	2022
Balance, beginning of year	**$ 80,192**	$ 79,322
Goodwill acquired	**228**	1,374
Foreign currency translation	**184**	(504)
Balance, end of year	**$ 80,604**	$ 80,192

The System acquired other intangible assets of $0.4 million and $0.4 million in 2023 and 2022, respectively, related to the acquisitions of various physician practices. Other intangible assets are recorded in other noncurrent assets in the consolidated balance sheets.

Other intangible assets at December 31, 2023 and 2022 consist of the following (in thousands):

	2023		2022	
	Historical Cost	Accumulated Amortization	Historical Cost	Accumulated Amortization
Trade name	**$ 49,800**	**$ –**	$ 49,800	$ –
Finite-lived intangible assets	**9,317**	**8,795**	8,963	8,224
Total	**$ 59,117**	**$ 8,795**	$ 58,763	$ 8,224

Amortization related to finite-lived intangible assets was $0.6 million and $0.5 million in 2023 and 2022, respectively, and is included in depreciation and amortization in the consolidated statements of operations and changes in net assets. Future amortization is as follows (in thousands): 2024 – $270, 2025 – $206, and 2026 – $46.

8. Fair Value Measurements

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

December 31, 2023

	Level 1	Level 2	Level 3	Total
Assets				
Cash and investments:				
Cash and cash equivalents	$ 703,716	$ –	$ –	$ 703,716
Money market funds	456,797	–	–	456,797
Fixed-income securities:				
U.S. treasuries	1,365,960	–	–	1,365,960
U.S. government agencies	–	51,597	–	51,597
U.S. corporate	–	546,984	–	546,984
U.S. government agencies asset-backed securities	–	507,778	–	507,778
Corporate asset-backed securities	–	295,247	–	295,247
Foreign	–	216,533	–	216,533
Fixed-income mutual funds	76,717	–	–	76,717
Common and preferred stocks:				
U.S.	182,155	106	–	182,261
Foreign	498,282	50,920	–	549,202
Equity mutual funds	72,904	–	–	72,904
Total cash and investments	3,356,531	1,669,165	–	5,025,696
Perpetual and charitable trusts	–	64,628	–	64,628
Total assets at fair value	$ 3,356,531	$ 1,733,793	$ –	$ 5,090,324
Liabilities				
Interest rate swaps	$ –	$ 30,851	$ –	$ 30,851
Total liabilities at fair value	$ –	$ 30,851	$ –	$ 30,851

8. 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

8. Fair Value Measurements (continued)

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

	2023	2022
Cash, cash equivalents, and investments measured at fair value	**$ 5,025,696**	$ 4,468,850
Commingled funds measured at net asset value	**1,922,611**	2,022,451
Alternative investments measured at net asset value	**6,787,479**	6,582,081
Total cash, cash equivalents, and investments	**$ 13,735,786**	$ 13,073,382
Perpetual and charitable trusts measured at fair value	**$ 64,628**	$ 74,080
Interests in foundations	**27,865**	28,128
Trusts and interests in foundations	**$ 92,493**	$ 102,208

Interest rate swaps (Note 12) 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 3.9% 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.

8. Fair Value Measurements (continued)

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.

9. Property, Plant, and Equipment

Property, plant, and equipment at December 31, 2023 and 2022 consist of the following (in thousands):

	2023	2022
Land and improvements	**$ 590,544**	$ 562,179
Buildings	**8,194,996**	7,823,860
Leasehold improvements	**49,471**	47,317
Equipment	**2,323,473**	2,243,664
Computer hardware and software	**1,196,658**	1,111,143
Construction-in-progress	**395,234**	306,786
Leased facilities and equipment	**223,510**	234,932
	12,973,886	12,329,881
Accumulated depreciation and amortization	**(6,691,870)**	(6,358,117)
	$ 6,282,016	$ 5,971,764

Included in the preceding table is unamortized computer software of $224.9 million and $217.5 million at December 31, 2023 and 2022, respectively. Amortization of computer software totaled $55.0 million and $52.2 million in 2023 and 2022, respectively. Amortization of computer software for the five years subsequent to December 31, 2023, is as follows (in millions): 2024 – $59.9, 2025 – $53.3, 2026 – $30.7, 2027 – $19.7, and 2028 – $16.7.

9. Property, Plant, and Equipment (continued)

Accumulated amortization of leased facilities and equipment was $125.5 million and $125.2 million at December 31, 2023 and 2022, respectively.

10. Pledges Receivable

Outstanding pledges receivable from various corporations, foundations, and individuals at December 31, 2023 and 2022 are as follows (in thousands):

	2023	2022
Pledges due:		
In less than one year	**$ 118,483**	$ 130,828
In one to five years	**133,497**	174,202
In more than five years	**75,036**	84,005
	327,016	389,035
Allowance for uncollectible pledges and discounting	**(56,947)**	(66,232)
Current portion (net of allowance for uncollectible pledges of $19.0 million and $22.7 million in 2023 and 2022, respectively)	**(99,477)**	(108,155)
	$ 170,592	$ 214,648

11. Long-Term Debt

Long-term debt at December 31, 2023 and 2022 consists of the following (in thousands):

	Interest Rate(s)	Final Maturity	Amount Outstanding at December 31 2023	2022
Series 2023 Bonds	Variable rate	2054	**$ 300,000**	$ –
Series 2021A Bonds	2.31%	2049	**83,810**	83,810
Series 2021B Bonds	0.29% to 1.41%	2039	**189,185**	198,240
Series 2021 Term Loan	0.67%	2025	**33,285**	49,350
Series 2020 Term Loan	0.84%	2025	**2,290**	5,920
Series 2019A Bonds	3.39%	2046	**247,045**	247,045
Series 2019B Bonds	3.22% to 3.55%	2046	**250,320**	250,320
Series 2019C Bonds	2.75%	2052	**89,000**	89,000
Series 2019D Bonds	Variable rate	2052	**119,340**	119,340
Series 2019E Bonds	Variable rate	2052	**130,405**	130,405
Series 2019F Bonds	Variable rate	2052	**130,405**	130,405
Series 2019G Bonds	2.70% to 3.28%	2042	**241,835**	241,835
Series 2018 Sterling Notes	2.90% to 3.08%	2068	**846,635**	801,984
Series 2017A Bonds	1.62% to 3.48%	2043	**721,850**	746,325
Series 2017B Bonds	2.63% to 3.70%	2043	**161,655**	163,235
Series 2017C Bonds	2.72%	2032	**6,660**	7,190
Series 2016 Private Placement	3.35%	2046	**325,000**	325,000
Series 2016 Term Loan	Variable rate	2026	**–**	15,170
Series 2014 Bonds	4.86%	2114	**400,000**	400,000
Series 2013A Bonds	4.04%	2042	**34,955**	34,955
Series 2013B Bonds	Variable rate	2039	**201,160**	201,160
Series 2013 Keep Memory Alive	Variable rate	2037	**47,555**	50,050
Series 2013 Bonds	Variable rate	2032	**–**	10,755
Series 2011B Bonds	1.43%	2031	**18,190**	19,995
Series 2011C Bonds	4.15% to 4.72%	2032	**78,870**	95,750
Series 2008B Bonds	Variable rate	2042	**327,575**	327,575
Series 2003C Bonds	Variable rate	2035	**41,905**	41,905
Notes payable	Varies	Varies	**1,187**	1,620
Finance leases	Varies	Varies	**104,236**	117,643
			5,134,353	4,905,982
Net unamortized premium			**155,482**	164,163
Unamortized debt issuance costs			**(29,637)**	(30,022)
Current portion			**(106,357)**	(107,757)
Long-term variable rate debt classified as current			**(842,354)**	(686,329)
			$ 4,311,487	$ 4,246,037

11. Long-Term Debt (continued)

The majority of the System's outstanding bonds are limited obligations of various issuing authorities payable solely by the System pursuant to agreements between the borrowing entities and the issuing authorities. The Series 2021 Term Loan, Series 2020 Term Loan, Series 2018 Sterling Notes, Series 2016 Private Placement, Series 2016 Term Loan, Series 2014 Bonds, and Series 2013 Keep Memory Alive Bonds are issued directly by the Clinic or its subsidiaries. Under various financing agreements, the System must meet certain operating and financial performance covenants.

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 variable-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 variable 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. The System did not have any outstanding Series 2014A CP Notes at December 31, 2023 or 2022.

Certain of the System's current outstanding bonds bear interest at a variable rate. During 2023 and 2022, the rates for the System's variable rate long-term debt series ranged from 1.00% to 5.83% (average rate 3.38%) and 0.01% to 4.92% (average rate 1.20%), respectively.

Certain variable rate bonds are secured by irrevocable direct pay letters of credit and standby bond purchase agreements, totaling $604.2 million at December 31, 2023. Long-term variable rate debt is classified as current in the consolidated balance sheets if it is 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, if declared by the lender, could cause immediate repayment of the bonds.

11. Long-Term Debt (continued)

The System provides self-liquidity on the Series 2003C Bonds, certain subseries of the Series 2008B Bonds, the Series 2014A CP Notes and the Series 2019D Bonds. These bonds are classified as current liabilities in the consolidated balance sheets.

As of December 31, 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 in 2025 and $450 million expiring in 2026.

During the term of agreements with the issuing authorities, the System is required to make specified deposits with trustees to fund principal and interest payments when due. Also, unexpended bond proceeds are held by the trustee and released to the System for approved requisition requests for capital projects. There were no unexpended bond proceeds at December 31, 2023 or 2022. There was no current portion of funds held by trustees at December 31, 2023 and 2022.

The System is subject to certain restrictive covenants, including provisions relating to certain debt ratios, days cash on hand, and other matters. The System was in compliance with these covenants at December 31, 2023 and 2022.

Combined current aggregate scheduled maturities of long-term debt, excluding finance leases and assuming the remarketing of the variable rate demand bonds, for the five years subsequent to December 31, 2023, are as follows (in thousands): 2024 – $77,746, 2025 – $81,508, 2026 – $69,117, 2027 – $86,249, and 2028 – $90,514.

Total interest paid approximated $178.1 million and $151.4 million in 2023 and 2022, respectively. Capitalized interest cost approximated $3.8 million and $3.6 million in 2023 and 2022, respectively.

12. Derivative Instruments

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

The System's objective with respect to interest rate risk is to manage the risk of rising interest rates on the System's variable rate debt. Consistent with its interest rate risk management objective, the System has entered into various interest rate swap agreements with a total notional amount of $499.5 million and $523.2 million at December 31 2023 and 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 based on the London Interbank Offered Rate (LIBOR) or the Securities Industry and Financial Markets Association index. 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 incorporates interest rate fallback language in the respective interest rate swap agreements. The fallback provisions provide a process that uses the Secured Overnight Financing Rate (SOFR) plus a spread to determine a replacement rate for LIBOR upon the cessation of its availability. This change did not have a material impact on the consolidated financial 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 December 31, 2023 or 2022.

12. Derivative Instruments (continued)

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

	Derivative Assets and Liabilities			
	December 31, 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	**$ 30,851**	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	**Year Ended December 31 2023**	**2022**
Derivatives not designated as hedging instruments			
Interest rate swap agreements	Derivative gains	**$ 1,669**	$ 69,342
Foreign currency contracts	Derivative losses	**–**	(966)

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

13. Leases

The System has operating and finance leases for real estate, personal property and equipment.

Operating and finance lease right-of-use assets and lease liabilities as of December 31, 2023 and 2022 were as follows (in thousands):

Operating leases	**2023**	**2022**
Right-of-use assets:		
Operating lease assets	**$ 369,310**	$ 336,398
Lease liabilities:		
Other current liabilities	**$ 59,826**	$ 40,037
Noncurrent operating lease liabilities	**321,609**	306,485
Total operating lease liabilities	**$ 381,435**	$ 346,522
Finance leases		
Right-of-use assets:		
Property, plant, and equipment, net	**$ 97,979**	$ 109,764
Lease liabilities:		
Current portion of long-term debt	**$ 28,611**	$ 28,634
Long-term debt	**75,625**	89,009
Total finance lease liabilities	**$ 104,236**	$ 117,643

Operating expenses for the leasing activity of the System as lessee for the years ended December 31, 2023 and 2022 are as follows (in thousands):

Lease Type	**Classification**	**2023**	**2022**
Operating lease costs*	Facilities expense	**$ 62,485**	$ 60,924
Short-term lease costs	Facilities expense	**27,926**	25,761
Financing lease interest	Interest expense	**4,829**	4,999
Financing lease amortization	Depreciation and amortization	**32,453**	32,161
Total lease cost		**$ 127,693**	$ 123,845

* Includes fixed and variable lease costs.

13. Leases (continued)

Cash paid for amounts included in the measurement of lease liabilities for the years ended December 31, 2023 and 2022 was as follows (in thousands):

	2023	2022
Operating cash flows from operating leases	**$ 61,488**	$ 58,894
Operating cash flows from finance leases	**4,829**	4,999
Financing cash flows from finance leases	**29,980**	30,348
Total	**$ 96,297**	$ 94,241

Right-of-use assets obtained in exchange for new lease obligations for the years ended December 31, 2023 and 2022 are as follows (in thousands):

	2023	2022
Operating leases	**$ 27,323**	$ 24,891
Finance leases	**16,444**	26,284
Total	**$ 43,767**	$ 51,175

The aggregate future lease payments for operating and finance leases as of December 31, 2023 were as follows (in thousands):

	Operating	Finance
2024	$ 50,114	$ 32,805
2025	43,265	25,841
2026	36,566	17,210
2027	27,161	7,852
2028	21,504	5,833
Thereafter	1,288,695	63,008
Total lease payments	1,467,305	152,549
Less interest	(1,085,870)	(48,313)
Present value of lease liabilities	$ 381,435	$ 104,236

13. Leases (continued)

Average lease terms and discount rates at December 31, 2023 and 2022 were as follows:

	2023	**2022**
Weighted average remaining lease term (years):		
Operating leases	**48.7**	49.7
Finance leases	**8.2**	8.3
Weighted average discount rate:		
Operating leases	**2.6%**	2.5%
Finance leases	**4.3**	4.1

Included in the tables above is a long-term leasehold interest in a building in London, England that expires in June 2139. The System converted the building into an advanced healthcare facility with 184 inpatient beds that opened in March 2022. Rental expense is fixed at increasing annual rates until December 2027, after which rental expense will be adjusted annually by a variable index that is subject to minimum and maximum thresholds through the end of the lease term. Excluding this lease, the weighted average remaining lease term for the System's operating leases is 7.7 years and 7.6 years at December 31, 2023 and 2022, respectively.

14. Professional and General Liability Insurance

The System manages its professional and general liability insurance program through captive insurance arrangements. The captive insurance subsidiaries maintain reinsurance contracts with commercial carriers for coverages in excess of certain limits.

In the ordinary course of business, professional and general liability claims have been asserted against the System by various claimants. These claims are in various stages of processing or, in certain instances, are in litigation. In addition, there are known incidents, and there also may be unknown incidents, which may result in the assertion of additional claims. The System has accrued its best estimate of both asserted and unasserted claims based on actuarially determined amounts. These estimates are subject to the effects of trends in loss severity and frequency, and ultimate settlement of professional and general liability claims may vary significantly from the estimated amounts.

14. Professional and General Liability Insurance (continued)

The System's professional and general liability insurance reserves of $326.6 million and $280.5 million at December 31, 2023 and 2022, respectively, are recorded as current and noncurrent liabilities and include discounted estimates of the ultimate costs for both asserted claims and unasserted claims. Asserted claims for the System's reserves were discounted at 5.00% and 5.25% at December 31, 2023 and 2022, respectively. Unasserted claims were discounted at 4.75% and 5.25% at December 31, 2023 and 2022, respectively. Through the captive insurance subsidiaries, the System has set aside investments of $283.4 million ($74.7 million included in investments for current use) and $239.1 million ($64.0 million included in investments for current use) at December 31, 2023 and 2022, respectively, of which $35.3 million and $48.3 million at December 31, 2023 and 2022, respectively, is restricted in accordance with reinsurance trust agreements related to coverage of the Florida operations and other reinsurance programs provided by the captive insurance subsidiaries.

Activity in the professional and general liability insurance reserves is summarized as follows (in thousands):

	2023	**2022**
Balance at beginning of year	**$ 280,535**	$ 294,634
Incurred related to:		
Current period	**117,034**	106,920
Prior period	**20,332**	5,827
Total incurred	**137,366**	112,747
Paid related to:		
Current period	**23,884**	22,966
Prior period	**90,757**	98,435
Total paid	**114,641**	121,401
Total incurred less total paid	**22,725**	(8,654)
Increase (decrease) in unasserted claims	**6,088**	(5,445)
Increase in reinsurance recoverable	**17,296**	–
Balance at end of year	**$ 326,644**	$ 280,535

14. Professional and General Liability Insurance (continued)

The foregoing reconciliation shows $20.3 million and $5.8 million of unfavorable development in 2023 and 2022, respectively, primarily due to changes in actuarial estimates of outstanding claims influenced by the impact of both regular and social inflation that has created an upward national trend of jury verdicts and settlement amounts, as well as a few larger than normal claim settlement payments over the last few years. The System utilizes a combination of actual and industry statistics to estimate loss and loss adjustment expense reserves.

15. 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.

15. Pensions and Other Postretirement Benefits (continued)

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.

The System provides healthcare benefits upon retirement for substantially all of its employees who meet certain minimum age and years of service provisions at retirement, except those employed by Mercy Hospital, Union Hospital or Indian River Hospital. The System's healthcare plans generally provide for cost sharing, in the form of retiree contributions, deductibles, and coinsurance. The System's policy is to fund the annual cost of healthcare benefits from the general assets of the System. The estimated cost of these postretirement benefits is actuarially determined and accrued over the employees' service periods.

The mortality tables used to calculate the defined benefit obligation for the System's defined benefit and postretirement health benefit plans are based on the Pri-2012 "Employees," "Healthy Retiree" and "Contingent Annuitant" tables, fully generational for employees reflecting the IRS adjusted MP-2021 projection scale from the 2012 base year for defined benefit obligations at December 31, 2023 and the MP-2021 projection scale from the 2012 base year for defined benefit obligations at December 31, 2022. The IRS adjusted MP-2021 projection scale removes mortality improvements during 2020-2023 and caps ongoing mortality improvements at 0.78% per year. Mortality tables used to calculate the defined benefit obligation for the System's qualified defined benefit plans also include adjustments for annuitant tables based on application of a geospatial mortality model. The System believes that the updated mortality rates are the best estimate of future experience.

15. Pensions and Other Postretirement Benefits (continued)

The System expects to make contributions of $21.9 million to the defined benefit pension plans in 2024. Pension benefit payments over the next ten years are estimated as follows: 2024 – $190.8 million, 2025 – $121.2 million, 2026 – $122.1 million, 2027 – $120.8 million, 2028 – $119.3 million, and in the aggregate for the five years thereafter – $534.3 million.

The System expects to make contributions of $2.9 million to other postretirement benefit plans in 2024. Other postretirement benefit payments over the next ten years are estimated as follows: 2024 – $2.9 million, 2025 – $2.8 million, 2026 – $2.5 million, 2027 – $2.3 million, 2028 – $2.2 million, and in the aggregate for the five years thereafter – $10.1 million.

The System is required to recognize the funded status, which is the difference between the fair value of plan assets and the projected benefit obligations, of its pension and other postretirement benefit plans in the consolidated balance sheets, with a corresponding adjustment to net assets without donor restrictions. Amounts recorded in net assets without donor restrictions consist of actuarial gains and losses and prior service credits and costs. Actuarial gains and losses recorded in net assets outside of the corridor, which is 10% of the greater of the projected benefit obligation or the fair value of the plan assets, are recognized as a component of net periodic benefit cost immediately in the current period. Prior service credits and costs are amortized on a straight-line basis over the estimated life of the plan participants.

Included in net assets without donor restrictions at December 31, 2023 and 2022 are the following amounts that have not yet been recognized in net periodic benefit cost (in thousands):

	Defined Benefit Pension Plans		Other Postretirement Benefits	
	2023	**2022**	**2023**	**2022**
Unrecognized actuarial losses	**$ 97,110**	$ 114,102	**$ 8,329**	$ 3,768
Unrecognized prior service credit	**(5,598)**	(7,414)	**(6,618)**	(7,969)
Total	**$ 91,512**	$ 106,688	**$ 1,711**	$ (4,201)

Unrecognized actuarial losses included in net assets without donor restrictions represent amounts within the corridor that do not require recognition in net periodic benefit cost for each respective year.

15. Pensions and Other Postretirement Benefits (continued)

Changes in plan assets and benefit obligations recognized in net assets without donor restrictions for the years ended December 31, 2023 and 2022 are as follows (in thousands):

	Defined Benefit Pension Plans		Other Postretirement Benefits	
	2023	**2022**	**2023**	**2022**
Current year actuarial gain (loss)	**$ 12,912**	$ (6,352)	**$ (6,627)**	$ 3,129
Recognition of actuarial loss (gain) in excess of corridor	**4,080**	65,078	**2,066**	(186)
Current year prior service (cost) credit	**–**	(1,293)	**–**	4,738
Amortization of prior service credit	**(1,816)**	(1,977)	**(1,351)**	(953)
Total	**$ 15,176**	$ 55,456	**$ (5,912)**	$ 6,728

15. Pensions and Other Postretirement Benefits (continued)

The following table sets forth the funded status of the System's pensions and other postretirement benefit plans and the amounts recognized in the System's December 31, 2023 and 2022, consolidated balance sheets (in thousands):

	Defined Benefit Pension Plans		Other Postretirement Benefits	
	2023	**2022**	**2023**	**2022**
Change in projected benefit obligation:				
Projected benefit obligation at beginning of year	**$ 1,440,454**	$ 1,910,218	**$ 79,344**	$ 87,487
Service (credit) cost	**(2,433)**	(3,774)	**760**	1,696
Interest cost	**76,618**	54,346	**4,283**	2,796
Actuarial loss (gain)	**27,633**	(386,399)	**6,627**	(3,129)
Participant contributions	**–**	–	**27,680**	26,018
Plan amendments	**–**	1,293	**–**	(4,738)
Settlement payments	**(58,568)**	(69,503)	**–**	–
Benefits paid	**(63,995)**	(65,727)	**(35,402)**	(30,786)
Projected benefit obligation at end of year	**1,419,709**	1,440,454	**83,292**	79,344
Change in plan assets:				
Fair value of plan assets at beginning of year	**1,301,399**	1,714,947	**–**	–
Actual return on plan assets	**105,628**	(305,323)	**–**	–
Participant contributions	**–**	–	**27,680**	26,018
System contributions	**27,891**	27,005	**7,722**	4,768
Benefits paid	**(122,563)**	(135,230)	**(35,402)**	(30,786)
Fair value of plan assets at end of year	**1,312,355**	1,301,399	**–**	–
Accrued retirement benefits	**$ (107,354)**	$ (139,055)	**$ (83,292)**	$ (79,344)
Noncurrent assets	**$ 49,099**	$ 22,716	**$ –**	$ –
Current liabilities	**(11,863)**	(11,233)	**(2,891)**	(3,442)
Noncurrent liabilities	**(144,590)**	(150,538)	**(80,401)**	(75,902)
Net liability recognized in consolidated balance sheets	**$ (107,354)**	$ (139,055)	**$ (83,292)**	$ (79,344)

15. Pensions and Other Postretirement Benefits (continued)

The accumulated benefit obligation for all defined benefit pension plans was $1.4 billion at December 31, 2023 and 2022. At December 31, 2023, defined benefit pension plans that had projected benefit obligations in excess of the fair value of plan assets had total accumulated benefit obligations of $146.6 million, projected benefit obligations of $156.5 million and no plan assets. At December 31, 2023, defined benefit pension plans that had fair value of plan assets in excess of projected benefit obligations had total accumulated benefit obligations and projected benefit obligations of $1.3 billion and fair value of plan assets of $1.3 billion. At December 31, 2022, defined benefit pension plans that had projected benefit obligations in excess of the fair value of plan assets had total accumulated benefit obligations of $147.1 million, projected benefit obligations of $161.8 million and no plan assets. At December 31, 2022, defined benefit pension plans that had fair value of plan assets in excess of projected benefit obligations had total accumulated benefit obligations and projected benefit obligations of $1.3 billion and fair value of plan assets of $1.3 billion.

Actuarial gains and losses related to changes in the benefit obligation of defined benefit pension plans were $27.6 million of losses and $386.4 million of gains in 2023 and 2022, respectively. Significant components of gains and losses impacting defined benefit pension plans include changes in the discount rate, demographic experience changes and updates to the mortality assumption. Actuarial gains and losses related to changes in the benefit obligation of other postretirement benefit plans were $6.6 million of losses and $3.1 million of gains in 2023 and 2022, respectively. Significant components of gains and losses impacting other postretirement benefit plans include changes in the discount rate, updates to healthcare claim costs and updates to the mortality assumption.

The CCHS Retirement Plan paid $58.6 million and $69.5 million in lump-sum payments in accordance with plan terms in 2023 and 2022, respectively, which exceeded the sum of the service cost and interest cost components of net periodic benefit cost for each year. As a result, the System recorded a settlement charge of $5.4 million and $10.3 million for the years ended December 31, 2023 and 2022, respectively.

15. Pensions and Other Postretirement Benefits (continued)

The components of net periodic benefit cost are as follows (in thousands):

	Defined Benefit Pension Plans		Other Postretirement Benefits	
	2023	**2022**	**2023**	**2022**
Components of net periodic benefit cost:				
Service (credit) cost	**$ (2,433)**	$ (3,774)	**$ 760**	$ 1,696
Interest cost	**76,618**	54,346	**4,283**	2,796
Expected return on plan assets	**(65,083)**	(87,428)	**–**	–
Recognition of actuarial (gain) loss in excess of corridor	**(1,320)**	54,753	**2,066**	(186)
Settlement charge	**5,400**	10,325	**–**	–
Amortization of prior service credit	**(1,816)**	(1,977)	**(1,351)**	(953)
Net periodic benefit cost	**11,366**	26,245	**5,758**	3,353
Defined contribution plans	**385,439**	345,357	–	–
Total	**$ 396,805**	$ 371,602	**$ 5,758**	$ 3,353

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

15. Pensions and Other Postretirement Benefits (continued)

Weighted average assumptions used to determine pension and postretirement benefit obligations and net periodic benefit cost are as follows:

	Defined Benefit Pension Plans		Other Postretirement Benefits	
	2023	**2022**	**2023**	**2022**
Weighted average assumptions:				
Discount rates:				
Used for benefit obligations	**5.40%**	5.69%	**5.18%**	5.46%
Used for net periodic benefit cost	**5.69**	2.99	**5.46**	3.14
Expected rate of return on plan assets	**5.35**	5.35	**–**	–
Rate of compensation increase:				
Used for benefit obligations	**3.00**	3.00	**–**	–
Used for net periodic benefit cost	**3.00**	2.25	**–**	–
Crediting interest rate on cash balance plans	**5.92**	5.93	**–**	–

The System uses a direct cost approach to estimate its postretirement benefit obligation for healthcare services provided by the System (internally provided services). Healthcare services provided by non-System entities (externally provided services) are based on the System's historical cost experience.

15. Pensions and Other Postretirement Benefits (continued)

The annual assumed healthcare cost trend rates for the next year and the assumed trend thereafter are as follows:

	2023	2022
Internally provided services:		
Initial rate	**5.75%**	6.00%
Ultimate rate	**4.25**	4.25
Year ultimate rate reached	**2030**	2030
Externally provided services:		
Initial rate	**6.75%**	7.00%
Ultimate rate	**5.25**	5.25
Year ultimate rate reached	**2030**	2030

The System's weighted average asset allocation of pension plan assets at December 31, 2023 and 2022, by asset category, is as follows:

	Percentage of Plan Assets		
	2023	2022	Target Allocation
Asset category			
Interest-bearing cash	**5.4%**	4.4%	1%–5%
Fixed-income securities	**70.6**	71.0	60%–90%
Common and preferred stocks	**8.2**	7.8	3%–25%
Alternative investments	**15.8**	16.8	0%–19%
Total	**100%**	100%	

The System's investment strategy for its pension assets balances the liquidity needs of the pension plans with the long-term return goals necessary to satisfy future pension obligations. Interest-bearing cash includes amount held by various investment management organizations that can fluctuate based on the timing of investment activity and expected cash flows. The target allocation ranges of the investment pool to various asset classes are designed to diversify the portfolio in a way that achieves an efficient trade-off between long-term return and risk, while providing adequate liquidity to meet near-term expenses and obligations.

15. Pensions and Other Postretirement Benefits (continued)

The System's weighted average pension portfolio return assumption of 5.35% in 2023 and 2022 is based on the targeted assumed rate of return through its asset mix at the beginning of each year, which is designed to mitigate short-term return volatility and achieve an efficient trade-off between return and risk. Expected returns and risk for each asset class are formed using a global capital asset pricing model framework in which the expected return is the compensation earned from taking risk. Forward-looking adjustments are made to expected return, volatility, and correlation estimates as well. Additionally, constraints such as permissible asset classes, portfolio guidelines, and liquidity considerations are included in the model.

The System has implemented and utilized a liability-driven investment strategy for its defined benefit pension plans over the last several years that has reduced the asset allocation for common and preferred stocks with a corresponding increase in fixed-income securities. The investment strategy has been implemented in phases based on the increased funded status of the pension plans and the anticipation that such changes in investment strategy will result in lower volatility of future changes in funded status. Additional revisions in asset allocations and expected rate of return on plan assets may occur based on future changes in the funded status of the pension plans. It is anticipated that the duration of the fixed-income investment assets will be similar to the duration of the liabilities of the pension plan over time.

15. Pensions and Other Postretirement Benefits (continued)

The following tables present the financial instruments in the System's defined benefit pension plans measured at fair value on a recurring basis as of December 31, 2023 and 2022, based on the valuation hierarchy (in thousands):

December 31, 2023

	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Cash and investments:				
Cash and cash equivalents	**$ 70,817**	**$ 35**	**$ –**	**$ 70,852**
Fixed-income securities:				
U.S. treasuries	**240,093**	**–**	**–**	**240,093**
U.S. government agencies	**–**	**15,774**	**–**	**15,774**
U.S. corporate	**–**	**423,856**	**–**	**423,856**
Foreign	**–**	**74,850**	**–**	**74,850**
Total assets at fair value	**$ 310,910**	**$ 514,515**	**$ –**	**$ 825,425**

December 31, 2022

	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Cash and investments:				
Cash and cash equivalents	$ 57,284	$ 34	$ –	$ 57,318
Fixed-income securities:				
U.S. treasuries	251,454	–	–	251,454
U.S. government agencies	–	16,048	–	16,048
U.S. corporate	–	407,834	–	407,834
Foreign	–	72,217	–	72,217
Common and preferred stocks:				
U.S.	901	–	–	901
Foreign	–	1	–	1
Total assets at fair value	$ 309,639	$ 496,134	$ –	$ 805,773

15. Pensions and Other Postretirement Benefits (continued)

Total plan assets in the System's defined benefit pension plans at December 31, 2023 and 2022 are comprised of the following (in thousands):

	2023	2022
Plan assets measured at fair value	**$ 825,425**	$ 805,773
Commingled funds measured at net asset value	**279,097**	277,198
Alternative investments measured at net asset value	**207,833**	218,428
Total fair value of plan assets at end of year	**$ 1,312,355**	$ 1,301,399

Fair value methodologies for Level 1 and Level 2 are consistent with the inputs described in Note 8.

Fixed-income securities include debt obligations of the U.S. government and various agencies, U.S. corporations, and other fixed-income instruments such as mortgage-backed and asset-backed securities. Additionally, investments may include mutual funds and commingled fixed-income funds that invest opportunistically in non-U.S. and high-yield debt instruments. Commingled fixed-income funds are valued using net asset value as a practical expedient.

Common and preferred stocks include investments of publicly traded common stocks of primarily U.S. corporations, the majority of which represent actively traded and liquid securities that are traded on many of the world's major exchanges and include large-, mid-, and small-capitalization securities. The composition of these securities represents an expected return and risk profile that is commensurate with broadly defined equity indexes such as the Morgan Stanley Capital International U.S. Index and the Morgan Stanley Capital International All Country World ex-U.S. Index. Investments also include equity mutual funds and commingled equity funds whose underlying assets may include publicly traded equity securities. Commingled equity funds are valued using net asset value as a practical expedient.

15. Pensions and Other Postretirement Benefits (continued)

Alternative investments include hedge funds and private equity funds that are valued using net asset value as a practical expedient. Hedge funds are meant to provide returns between those expected from stocks and fixed-income investments with commensurate levels of risk and lower correlation relative to traditional investments. Included in this category are investments that are well diversified across various strategies and may consist of absolute return funds, long/short funds, and other opportunistic/multi-strategy funds. The underlying investments in such funds may include publicly traded and privately held equity and debt instruments issued by U.S. and international corporations, as well as various derivatives based on these securities. Hedge fund redemptions typically contain restrictions that allow for a portion of the withdrawal proceeds to be held back from distribution while the underlying investments are liquidated. Private equity funds generally consist of limited partnerships formed to invest in equity and private credit investments in operating companies that are not publicly traded. Investment strategies in this category may include buyouts, distressed debt, direct lending, special situations and other credit strategies. Private equity funds are closed-end funds and have significant redemption restrictions that prohibit redemptions during the fund's life.

16. Income Taxes

The Clinic and most of its controlled affiliates are tax-exempt organizations, as described in Section 501(c)(3) of the Internal Revenue Code. These organizations are subject to income tax on any income from unrelated business activities. The System also owns or controls certain domestic and international taxable affiliates.

The System files income tax returns in the U.S. federal jurisdiction and in various state and foreign jurisdictions. Generally, the System is no longer subject to U.S. federal, state, local and non-U.S. tax examinations by tax authorities for years before 2020.

Uncertain income tax positions were not significant to the consolidated financial statements at December 31, 2023 and 2022. The System does not expect a significant increase or decrease in unrecognized tax benefits within the next 12 months. The System recognizes accrued interest and penalties related to the liability for unrecognized tax benefits in the consolidated statements of operations and changes in net assets.

16. Income Taxes (continued)

The System has temporary differences of $1.3 billion and $993.4 million at December 31, 2023 and 2022, respectively. The temporary differences primarily relate to net operating losses available for income tax purposes. The majority of these losses expire in varying amounts through 2037. A deferred tax asset of $313.0 million and $229.3 million has been recorded at December 31, 2023 and 2022, respectively. A valuation allowance of $313.0 million and $229.3 million has been recorded at December 31, 2023 and 2022, respectively, against the deferred tax assets due to the uncertainty regarding their use.

17. Commitments and Contingent Liabilities

At December 31, 2023, the System has commitments for construction and other related capital contracts of $508.0 million and letters of credit of $6.9 million. Guarantees of mortgage loans made by banks to certain staff members are $21.4 million at December 31, 2023. In addition, the System has remaining commitments to invest approximately $1.5 billion in alternative investments at December 31, 2023. The largest commitment at December 31, 2023 to any one alternative strategy manager is $70.0 million. These investments are generally expected to occur within the next five years. No amounts have been recorded in the consolidated balance sheets for these commitments and guarantees.

Pledge liabilities to various foundations and other entities at December 31, 2023 are as follows (in thousands): 2024 – $23,480, 2025 – $12,130, 2026 – $16,230, 2027 – $9,380, 2028 – $600, and thereafter – $2,500. The unamortized discount on pledge liabilities at December 31, 2023 was $2.7 million. Pledge liabilities are recorded in other current liabilities and other noncurrent liabilities in the consolidated balance sheets.

18. Endowment

The System's endowment consists of 398 individual donor-restricted funds established for a variety of purposes and one board-designated endowment fund that supports research and education activities of the System. See Note 19 for a summary of research and education expenses of the System for the years ended December 31, 2023 and 2022. Endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions as net assets without donor restrictions or net assets with donor restrictions. The board-designated endowment fund was established in July 2023 with a $3.5 billion contribution of net assets without donor restrictions, the income of which will be used to provide for ongoing operating support of a portion of the System's research and education expenses.

18. Endowment (continued)

Interpretation of Relevant Law

The System has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the System classifies as net assets with donor restrictions (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in the permanent endowment is available for appropriation for expenditure by the System in a manner consistent with the standard for expenditure prescribed by UPMIFA. In accordance with UPMIFA, the System considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the System and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the System
7. The investment policies of the System

18. Endowment (continued)

Funds With Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the original and subsequent donor gift amounts. As of December 31, 2023, the System had deficiencies of this nature in nine donor-restricted endowment funds, which together have an original gift value of $13.5 million, a current fair value of $13.4 million and a deficiency of $0.1 million. As of December 31, 2022, the System had deficiencies of this nature in 19 donor-restricted endowment funds, which together have an original gift value of $19.6 million, a current fair value of $18.4 million and a deficiency of $1.2 million. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new contributions for donor-restricted endowment funds and continued appropriations for certain programs that were deemed prudent by the System. The System maintains policies that permit spending from underwater endowment funds, depending on the degree to which the fund is underwater, unless otherwise precluded by donor intent or relevant laws and regulations.

Return Objectives and Risk Parameters

The System has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment, while seeking to maintain the purchasing power of the endowment assets. Endowment assets include board-designated endowment funds and donor-restricted endowment funds, including those assets of donor-restricted funds that the System must hold in perpetuity. Under this policy, the endowment assets are invested in a highly diversified portfolio of U.S. and non-U.S. publicly traded equities, alternative investments, and fixed-income securities structured to achieve an optimal balance between return and risk. The System expects its endowment funds, over time, to meet or exceed the investment policy benchmark as represented by a policy asset allocation, although actual returns in any given year may vary.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the System relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The System targets a diversified asset allocation to achieve its long-term return objective within prudent risk constraints.

18. Endowment (continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy

The System has a policy of appropriating for distribution each year up to 5% of its endowment fund's average fair value over the prior three years through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the System considered the long-term expected return on its endowment. Accordingly, over the long term, the System expects the current spending policy to allow its endowment to grow. This is consistent with the System's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

Changes in Endowment Net Assets

The following table summarizes the changes in endowment net assets for the years ended December 31, 2023 and 2022 (in thousands):

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, January 1, 2022	$ –	$ 622,609	$ 622,609
Investment return	–	3,746	3,746
Net depreciation	–	(44,411)	(44,411)
Contributions	–	33,458	33,458
Appropriation of endowment assets for expenditure	–	(16,189)	(16,189)
Endowment net assets, December 31, 2022	–	599,213	599,213
Investment return	**9,950**	**5,342**	**15,292**
Net appreciation	**135,821**	**35,493**	**171,314**
Contributions	**3,500,000**	**22,850**	**3,522,850**
Appropriation of endowment assets for expenditure	**(87,500)**	**(15,157)**	**(102,657)**
Endowment net assets, December 31, 2023	**$ 3,558,271**	**$ 647,741**	**$ 4,206,012**

19. Functional Expenses

The following tables present expenses by both their nature and their function for the years ended December 31, 2023 and 2022 (in thousands):

	2023					
	Healthcare Services	Research	Education	General and Administrative	Non-Healthcare Services	Total
Salaries, wages, and benefits	**$ 6,547,754**	**$ 248,844**	**$ 555,863**	**$ 920,634**	**$ 95,791**	**$ 8,368,886**
Supplies	**1,421,209**	**29,268**	**12,718**	**13,261**	**13,663**	**1,490,119**
Pharmaceuticals	**1,902,310**	**357**	**12**	**3,795**	**3**	**1,906,477**
Purchased services and other fees	**616,710**	**17,064**	**13,425**	**372,639**	**13,449**	**1,033,287**
Administrative services	**77,907**	**70,785**	**24,164**	**38,282**	**41,337**	**252,475**
Facilities	**408,970**	**7,069**	**2,436**	**25,277**	**16,785**	**460,537**
Insurance	**166,415**	**–**	**169**	**3,525**	**584**	**170,693**
Interest	**157,473**	**1,958**	**–**	**1,108**	**15,408**	**175,947**
Depreciation and amortization	**391,993**	**8,333**	**748**	**134,552**	**24,357**	**559,983**
	$ 11,690,741	**$ 383,678**	**$ 609,535**	**$ 1,513,073**	**$ 221,377**	**$ 14,418,404**

	2022					
	Healthcare Services	Research	Education	General and Administrative	Non-Healthcare Services	Total
Salaries, wages, and benefits	$ 6,063,165	$ 226,510	$ 461,197	$ 833,926	$ 89,619	$ 7,674,417
Supplies	1,288,288	30,460	9,885	25,774	9,726	1,364,133
Pharmaceuticals	1,586,480	225	4	1,725	5	1,588,439
Purchased services and other fees	587,453	18,814	16,938	341,505	10,940	975,650
Administrative services	97,864	60,938	20,256	62,349	30,074	271,481
Facilities	394,446	5,540	2,130	26,794	17,527	446,437
Insurance	123,329	–	229	2,865	537	126,960
Interest	140,392	1,637	–	590	8,296	150,915
Depreciation and amortization	440,095	12,199	515	140,638	22,240	615,687
	$ 10,721,512	$ 356,323	$ 511,154	$ 1,436,166	$ 188,964	$ 13,214,119

The consolidated financial statements report certain categories of expenses that are attributable to more than one function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries, wages, and benefits, which include allocations on the basis of estimates of time and effort.

20. Subsequent Events

The System evaluated events and transactions occurring subsequent to December 31, 2023 through March 12, 2024, the date the consolidated financial statements were issued. During this period, there were no subsequent events requiring recognition in the consolidated financial statements, and there were no nonrecognized subsequent events requiring disclosure.

Supplementary Information

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Building a better working world

Report of Independent Auditors on Supplementary Information

The Board of Directors
The Cleveland Clinic Foundation

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying consolidating balance sheets, consolidating statements of operations and changes in net assets, and consolidating statements of cash flows are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Ernst & Young LLP

March 12, 2024

Cleveland Clinic Health System

Consolidating Balance Sheet

December 31, 2023
(In Thousands)

	Obligated Group	Non-Obligated Group	Consolidating Adjustments and Eliminations	Consolidated
Assets				
Current assets:				
Cash and cash equivalents	$ 655,095	$ 43,870	$ –	$ 698,965
Patient receivables	1,506,099	393,097	(39,639)	1,859,557
Due from affiliates	14,625	3,227	(17,852)	–
Investments for current use	–	74,703	–	74,703
Other current assets	729,532	203,265	(9,778)	923,019
Total current assets	2,905,351	718,162	(67,269)	3,556,244
Investments:				
Long-term investments	10,063,164	1,249,335	–	11,312,499
Funds held by trustees	8,724	–	–	8,724
Assets held for self-insurance	–	208,650	–	208,650
Donor-restricted assets	1,318,471	113,774	–	1,432,245
	11,390,359	1,571,759	–	12,962,118
Property, plant, and equipment, net	4,687,206	1,594,810	–	6,282,016
Other assets:				
Pledges receivable, net	151,304	19,288	–	170,592
Trusts and interests in foundations	63,819	28,674	–	92,493
Operating lease right-of-use assets	121,611	247,699	–	369,310
Other noncurrent assets	1,171,247	180,783	(340,058)	1,011,972
	1,507,981	476,444	(340,058)	1,644,367
Total assets	$ 20,490,897	$ 4,361,175	$ (407,327)	$ 24,444,745

	Obligated Group	Non-Obligated Group	Consolidating Adjustments and Eliminations	Consolidated
Liabilities and net assets				
Current liabilities:				
Accounts payable	**$ 538,310**	**$ 159,257**	**$ (303)**	**$ 697,264**
Compensation and amounts withheld from payroll	**569,560**	**80,758**	**–**	**650,318**
Current portion of long-term debt	**98,474**	**7,883**	**–**	**106,357**
Variable rate debt classified as current	**797,560**	**44,794**	**–**	**842,354**
Due to affiliates	**2,650**	**15,202**	**(17,852)**	**–**
Other current liabilities	**553,461**	**201,632**	**(39,900)**	**715,193**
Total current liabilities	**2,560,015**	**509,526**	**(58,055)**	**3,011,486**
Long-term debt	**3,488,071**	**1,110,794**	**(287,378)**	**4,311,487**
Other liabilities:				
Professional and general liability insurance reserves	**73,745**	**178,196**	**–**	**251,941**
Accrued retirement benefits	**223,907**	**1,084**	**–**	**224,991**
Operating lease liabilities	**83,910**	**237,699**	**–**	**321,609**
Other noncurrent liabilities	**590,460**	**69,725**	**(9,214)**	**650,971**
	972,022	**486,704**	**(9,214)**	**1,449,512**
Total liabilities	**7,020,108**	**2,107,024**	**(354,647)**	**8,772,485**
Net assets:				
Without donor restrictions	**11,845,711**	**2,067,365**	**(52,680)**	**13,860,396**
With donor restrictions	**1,625,078**	**186,786**	**–**	**1,811,864**
Total net assets	**13,470,789**	**2,254,151**	**(52,680)**	**15,672,260**
Total liabilities and net assets	**$ 20,490,897**	**$ 4,361,175**	**$ (407,327)**	**$ 24,444,745**

See accompanying note.

Cleveland Clinic Health System

Consolidating Balance Sheet

December 31, 2022
(In Thousands)

	Obligated Group	Non-Obligated Group	Consolidating Adjustments and Eliminations	Consolidated
Assets				
Current assets:				
Cash and cash equivalents	$ 551,714	$ 306,658	$ –	$ 858,372
Patient receivables	1,392,179	348,632	(34,644)	1,706,167
Due from affiliates	14,066	45	(14,111)	–
Investments for current use	–	63,991	–	63,991
Other current assets	967,896	148,640	(241,968)	874,568
Total current assets	2,925,855	867,966	(290,723)	3,503,098
Investments:				
Long-term investments	9,604,363	1,067,376	–	10,671,739
Funds held by trustees	5,689	–	–	5,689
Assets held for self-insurance	–	175,064	–	175,064
Donor-restricted assets	1,201,698	96,829	–	1,298,527
	10,811,750	1,339,269	–	12,151,019
Property, plant, and equipment, net	4,411,720	1,560,044	–	5,971,764
Other assets:				
Pledges receivable, net	190,567	24,081	–	214,648
Trusts and interests in foundations	63,882	38,326	–	102,208
Operating lease right-of-use assets	111,452	224,946	–	336,398
Other noncurrent assets	1,020,774	149,854	(311,768)	858,860
	1,386,675	437,207	(311,768)	1,512,114
Total assets	$ 19,536,000	$ 4,204,486	$ (602,491)	$ 23,137,995

	Obligated Group	Non-Obligated Group	Consolidating Adjustments and Eliminations	Consolidated
Liabilities and net assets				
Current liabilities:				
Accounts payable	$ 591,220	$ 170,812	$ (109)	$ 761,923
Compensation and amounts withheld from payroll	518,372	76,717	–	595,089
Current portion of long-term debt	100,393	7,364	–	107,757
Variable rate debt classified as current	638,952	47,377	–	686,329
Due to affiliates	41	14,070	(14,111)	–
Other current liabilities	730,938	320,161	(272,292)	778,807
Total current liabilities	2,579,916	636,501	(286,512)	2,929,905
Long-term debt	3,462,400	1,070,725	(287,088)	4,246,037
Other liabilities:				
Professional and general liability insurance reserves	67,657	148,887	–	216,544
Accrued retirement benefits	225,303	1,137	–	226,440
Operating lease liabilities	87,717	218,768	–	306,485
Other noncurrent liabilities	506,249	52,450	(4,211)	554,488
	886,926	421,242	(4,211)	1,303,957
Total liabilities	6,929,242	2,128,468	(577,811)	8,479,899
Net assets:				
Without donor restrictions	11,045,547	1,897,909	(24,680)	12,918,776
With donor restrictions	1,561,211	178,109	–	1,739,320
Total net assets	12,606,758	2,076,018	(24,680)	14,658,096
Total liabilities and net assets	$ 19,536,000	$ 4,204,486	$ (602,491)	$ 23,137,995

See accompanying note.

Cleveland Clinic Health System

Consolidating Statements of Operations and Changes in Net Assets

Year Ended December 31, 2023
(In Thousands)

Operations	**Obligated Group**	**Non-Obligated Group**	**Consolidating Adjustments and Eliminations**	**Consolidated**
Unrestricted revenues				
Net patient service revenue	**$ 10,670,907**	**$ 2,402,576**	**$ (419,226)**	**$ 12,654,257**
Other	**1,600,447**	**489,142**	**(261,169)**	**1,828,420**
Total unrestricted revenues	**12,271,354**	**2,891,718**	**(680,395)**	**14,482,677**
Expenses				
Salaries, wages, and benefits	**7,066,068**	**1,766,406**	**(463,588)**	**8,368,886**
Supplies	**1,170,907**	**319,747**	**(535)**	**1,490,119**
Pharmaceuticals	**1,722,537**	**183,940**	**–**	**1,906,477**
Purchased services and other fees	**868,394**	**247,679**	**(82,786)**	**1,033,287**
Administrative services	**46,211**	**235,534**	**(29,270)**	**252,475**
Facilities	**329,621**	**132,542**	**(1,626)**	**460,537**
Insurance	**109,852**	**163,331**	**(102,490)**	**170,693**
	11,313,590	**3,049,179**	**(680,295)**	**13,682,474**
Operating income (loss) before interest, depreciation and amortization	**957,764**	**(157,461)**	**(100)**	**800,203**
Interest	**141,594**	**34,353**	**–**	**175,947**
Depreciation and amortization	**427,522**	**132,561**	**(100)**	**559,983**
Operating income (loss)	**388,648**	**(324,375)**	**–**	**64,273**
Nonoperating gains and losses				
Investment return	**779,140**	**109,941**	**–**	**889,081**
Derivative gains (losses)	**2,304**	**(635)**	**–**	**1,669**
Other, net	**(42,727)**	**(1,085)**	**–**	**(43,812)**
Net nonoperating gains	**738,717**	**108,221**	**–**	**846,938**
Excess (deficiency) of revenues over expenses	**1,127,365**	**(216,154)**	**–**	**911,211**

(continued on next page)

Changes in Net Assets	**Obligated Group**	**Non-Obligated Group**	**Consolidating Adjustments and Eliminations**	**Consolidated**
Changes in net assets without donor restrictions				
Excess (deficiency) of revenues over expenses	**$ 1,127,365**	**$ (216,154)**	**$ –**	**$ 911,211**
Donated capital	**1,553**	**16**	**–**	**1,569**
Net assets released from restrictions for capital purposes	**12,066**	**2,176**	**–**	**14,242**
Retirement benefits adjustment	**2,180**	**7,084**	**–**	**9,264**
Foreign currency translation	**–**	**6,339**	**–**	**6,339**
Transfers (to) from affiliates	**(343,001)**	**343,001**	**–**	**–**
Other	**1**	**26,994**	**(28,000)**	**(1,005)**
Increase in net assets without donor restrictions	**800,164**	**169,456**	**(28,000)**	**941,620**
Changes in net assets with donor restrictions				
Gifts and bequests	**109,156**	**32,361**	**–**	**141,517**
Net investment income	**82,519**	**4,371**	**–**	**86,890**
Net assets released from restrictions used for operations included in other unrestricted revenues	**(115,565)**	**(28,028)**	**–**	**(143,593)**
Net assets released from restrictions for capital purposes	**(12,066)**	**(2,176)**	**–**	**(14,242)**
Change in interests in foundations	**(263)**	**–**	**–**	**(263)**
Change in value of perpetual trusts	**(784)**	**2,019**	**–**	**1,235**
Other	**870**	**130**	**–**	**1,000**
Increase in net assets with donor restrictions	**63,867**	**8,677**	**–**	**72,544**
Increase in net assets	**864,031**	**178,133**	**(28,000)**	**1,014,164**
Net assets at beginning of year	**12,606,758**	**2,076,018**	**(24,680)**	**14,658,096**
Net assets at end of year	**$ 13,470,789**	**$ 2,254,151**	**$ (52,680)**	**$ 15,672,260**

See accompanying note.

Cleveland Clinic Health System

Consolidating Statements of Operations and Changes in Net Assets

Year Ended December 31, 2022
(In Thousands)

Operations	**Obligated Group**	**Non-Obligated Group**	**Consolidating Adjustments and Eliminations**	**Consolidated**
Unrestricted revenues				
Net patient service revenue	$ 9,762,743	$ 2,171,072	$ (363,137)	$ 11,570,678
Other	1,255,815	414,951	(238,663)	1,432,103
Total unrestricted revenues	11,018,558	2,586,023	(601,800)	13,002,781
Expenses				
Salaries, wages, and benefits	6,406,265	1,679,898	(411,746)	7,674,417
Supplies	1,084,608	279,905	(380)	1,364,133
Pharmaceuticals	1,418,822	169,617	–	1,588,439
Purchased services and other fees	787,284	246,018	(57,652)	975,650
Administrative services	131,762	167,829	(28,110)	271,481
Facilities	320,218	128,133	(1,914)	446,437
Insurance	93,049	135,809	(101,898)	126,960
	10,242,008	2,807,209	(601,700)	12,447,517
Operating income (loss) before interest, depreciation and amortization	776,550	(221,186)	(100)	555,264
Interest	117,860	33,055	–	150,915
Depreciation and amortization	495,787	120,000	(100)	615,687
Operating income (loss)	162,903	(374,241)	–	(211,338)
Nonoperating gains and losses				
Investment return	(904,887)	(114,538)	–	(1,019,425)
Derivative gains (losses)	70,132	(1,756)	–	68,376
Other, net	(88,891)	2,777	–	(86,114)
Net nonoperating losses	(923,646)	(113,517)	–	(1,037,163)
Deficiency of revenues over expenses	(760,743)	(487,758)	–	(1,248,501)

(continued on next page)

Changes in Net Assets	Obligated Group	Non-Obligated Group	Consolidating Adjustments and Eliminations	Consolidated
Changes in net assets without donor restrictions				
Deficiency of revenues over expenses	$ (760,743)	$ (487,758)	$ –	$ (1,248,501)
Donated capital	2	–	–	2
Net assets released from restrictions for capital purposes	19,124	2,587	–	21,711
Retirement benefits adjustment	62,085	99	–	62,184
Foreign currency translation	–	(25,114)	–	(25,114)
Transfers (to) from affiliates	(155,600)	155,600	–	–
Other	(4)	23,056	(22,000)	1,052
Decrease in net assets without donor restrictions	(835,136)	(331,530)	(22,000)	(1,188,666)
Changes in net assets with donor restrictions				
Gifts and bequests	302,089	48,763	–	350,852
Net investment loss	(41,946)	(3,574)	–	(45,520)
Net assets released from restrictions used for operations included in other unrestricted revenues	(77,111)	(11,078)	–	(88,189)
Net assets released from restrictions for capital purposes	(19,124)	(2,587)	–	(21,711)
Change in interests in foundations	(1,176)	–	–	(1,176)
Change in value of perpetual trusts	(3,739)	(4,523)	–	(8,262)
Other	(15,707)	13,893	–	(1,814)
Increase in net assets with donor restrictions	143,286	40,894	–	184,180
Decrease in net assets	(691,850)	(290,636)	(22,000)	(1,004,486)
Net assets at beginning of year	13,298,608	2,366,654	(2,680)	15,662,582
Net assets at end of year	$ 12,606,758	$ 2,076,018	$ (24,680)	$ 14,658,096

See accompanying note.

Cleveland Clinic Health System

Consolidating Statement of Cash Flows

Year Ended December 31, 2023

(In Thousands)

	Obligated Group	Non-Obligated Group	Consolidating Adjustments and Eliminations	Consolidated
Operating activities and net nonoperating gains and losses				
Increase in net assets	**$ 864,031**	**$ 178,133**	**$ (28,000)**	**$ 1,014,164**
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities and net nonoperating gains and losses:				
Retirement benefits adjustment	**(2,180)**	**(7,084)**	**–**	**(9,264)**
Net realized and unrealized gains on investments	**(851,602)**	**(102,235)**	**–**	**(953,837)**
Depreciation and amortization	**427,522**	**127,656**	**(100)**	**555,078**
Foreign currency translation gain	**–**	**(6,339)**	**–**	**(6,339)**
Donated capital	**(1,553)**	**(16)**	**–**	**(1,569)**
Restricted gifts, bequests, investment loss, and other	**(190,628)**	**(38,751)**	**–**	**(229,379)**
Transfers to (from) affiliates	**343,001**	**(343,001)**	**–**	**–**
Amortization of bond premiums and debt issuance costs	**(7,581)**	**171**	**–**	**(7,410)**
Net gain in value of derivatives	**(1,815)**	**–**	**–**	**(1,815)**
Pension funding	**(34,441)**	**(1,172)**	**–**	**(35,613)**
Changes in operating assets and liabilities:				
Patient receivables	**(113,920)**	**(42,592)**	**4,995**	**(151,517)**
Other current assets	**203,135**	**(54,738)**	**(228,449)**	**(80,052)**
Other noncurrent assets	**(144,966)**	**(41,945)**	**28,390**	**(158,521)**
Accounts payable and other current liabilities	**(196,057)**	**(128,422)**	**228,457**	**(96,022)**
Other liabilities	**107,532**	**61,854**	**(5,003)**	**164,383**
Net cash provided by (used in) operating activities and net nonoperating gains and losses	**400,478**	**(398,481)**	**290**	**2,287**
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**	**290**	**(290)**	**300,000**
Principal payments on long-term debt	**(125,644)**	**(7,080)**	**–**	**(132,724)**
Debt issuance costs	**(587)**	**–**	**–**	**(587)**
Change in pledges receivables, trusts and interests in foundations	**49,596**	**12,851**	**–**	**62,447**
Restricted gifts, bequests, investment loss, and other	**190,628**	**38,751**	**–**	**229,379**
Net cash provided by financing activities	**413,993**	**44,812**	**(290)**	**458,515**
Investing activities				
Expenditures for property, plant, and equipment	**(653,472)**	**(115,518)**	**–**	**(768,990)**
Proceeds from sale of property, plant, and equipment	**12,390**	**–**	**–**	**12,390**
Net change in cash equivalents reported in long-term investments	**12,045**	**(186,911)**	**–**	**(174,866)**
Purchases of investments	**(3,771,737)**	**(635,201)**	**–**	**(4,406,938)**
Sales of investments	**4,035,204**	**673,404**	**–**	**4,708,608**
Transfers (to) from affiliates	**(343,001)**	**343,001**	**–**	**–**
Net cash (used in) provided by investing activities	**(708,571)**	**78,775**	**–**	**(629,796)**
Effect of exchange rate changes on cash and cash equivalents	**–**	**4,365**	**–**	**4,365**
Increase (decrease) in cash, cash equivalents and restricted cash	**105,900**	**(270,529)**	**–**	**(164,629)**
Cash, cash equivalents and restricted cash at beginning of year	**552,573**	**315,772**	**–**	**868,345**
Cash, cash equivalents and restricted cash at end of year	**$ 658,473**	**$ 45,243**	**$ –**	**$ 703,716**

See accompanying note.

Cleveland Clinic Health System

Consolidating Statement of Cash Flows

Year Ended December 31, 2022
(In Thousands)

	Obligated Group	Non-Obligated Group	Consolidating Adjustments and Eliminations	Consolidated
Operating activities and net nonoperating gains and losses				
Decrease in net assets	$ (691,850)	$ (290,636)	$ (22,000)	$ (1,004,486)
Adjustments to reconcile decrease in net assets to net cash provided by (used in) operating activities and net nonoperating gains and losses:				
Retirement benefits adjustment	(62,085)	(99)	–	(62,184)
Net realized and unrealized losses on investments	1,015,409	127,174	–	1,142,583
Depreciation and amortization	495,787	117,337	(100)	613,024
Foreign currency translation loss	–	25,114	–	25,114
Donated capital	(2)	–	–	(2)
Restricted gifts, bequests, investment loss, and other	(255,228)	(40,666)	–	(295,894)
Transfers to (from) affiliates	155,600	(155,600)	–	–
Amortization of bond premiums and debt issuance costs	(7,591)	172	–	(7,419)
Net gain in value of derivatives	(84,335)	–	–	(84,335)
Pension funding	(31,601)	(172)	–	(31,773)
Changes in operating assets and liabilities:				
Patient receivables	(117,939)	(60,417)	3,767	(174,589)
Other current assets	(258,222)	(33,443)	95,489	(196,176)
Other noncurrent assets	(51,228)	(22,692)	19,628	(54,292)
Accounts payable and other current liabilities	269,423	69,829	(100,240)	239,012
Other liabilities	8,049	19,715	984	28,748
Net cash provided by (used in) operating activities and net nonoperating gains and losses	384,187	(244,384)	(2,472)	137,331
Financing activities				
Principal payments on long-term debt	(102,981)	(9,504)	2,472	(110,013)
Change in pledges receivables, trusts and interests in foundations	(85,249)	(16,597)	–	(101,846)
Restricted gifts, bequests, investment loss, and other	255,228	40,666	–	295,894
Net cash provided by financing activities	66,998	14,565	2,472	84,035
Investing activities				
Expenditures for property, plant, and equipment	(639,744)	(156,455)	–	(796,199)
Proceeds from sale of property, plant, and equipment	20,318	–	–	20,318
Net change in cash equivalents reported in long-term investments	103,891	166,075	–	269,966
Purchases of investments	(3,714,903)	(432,575)	–	(4,147,478)
Sales of investments	4,077,919	465,758	–	4,543,677
Transfers (to) from affiliates	(155,600)	155,600	–	–
Net cash (used in) provided by investing activities	(308,119)	198,403	–	(109,716)
Effect of exchange rate changes on cash and cash equivalents	–	(25,736)	–	(25,736)
Increase (decrease) in cash, cash equivalents and restricted cash	143,066	(57,152)	–	85,914
Cash, cash equivalents and restricted cash at beginning of year	409,507	372,924	–	782,431
Cash, cash equivalents and restricted cash at end of year	$ 552,573	$ 315,772	$ –	$ 868,345

See accompanying note.

Cleveland Clinic Health System

Note to Consolidating Financial Statements

December 31, 2023 and 2022

1. Presentation of Consolidating Financial Statements

The accompanying financial statement information presents consolidating financial statement information for the Obligated Group (as defined herein) and certain controlled affiliates of The Cleveland Clinic Foundation (collectively referred to as the Non-Obligated Group), which have no liability under the Master Trust Indenture, amended and restated as of August 1, 2017 (as supplemented, the Indenture), between The Cleveland Clinic Foundation and The Huntington National Bank, as successor Master Trustee. The Cleveland Clinic Foundation, Cleveland Clinic Avon Hospital, Cleveland Clinic Health System – East Region, Fairview Hospital, Lutheran Hospital, Marymount Hospital, Inc., Medina Hospital, Cleveland Clinic Florida (a nonprofit corporation), Cleveland Clinic Weston Hospital Nonprofit Corporation and Martin Memorial Medical Center, Inc. are the sole members of the Obligated Group under the Indenture.

With respect to the Obligated Group, certain properties and interests are considered to be Excluded Property under the Indenture. In addition, the provisions of the Indenture provide that additional property may be categorized as Excluded Property upon satisfaction of various financial tests. As such, these properties and interests are not subject to the restrictions contained in the Indenture and, under the Indenture, are not subject to the restriction on liens and other encumbrances that may be placed on property of the Obligated Group. Furthermore, the revenues derived from the Excluded Property are not subject to the restrictions contained in the Indenture until they are received and commingled with other revenues of the Obligated Group. The accompanying financial statement information is presented by legal entity, and no adjustment has been made for the Excluded Property.

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