Interim Unaudited Consolidated Financial Statements and Other Information

For The Period Ended March 31, 2021

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

Contents

Unaudited Consolidated Balance Sheets

($ in thousands)

	March 31 2021	December 31 2020
Assets		
Current assets:		
Cash and cash equivalents	$ 925,057	$ 1,045,393
Patient receivables	1,308,290	1,255,681
Investments for current use	54,721	177,389
Other current assets	638,841	546,722
Total current assets	2,926,909	3,025,185
Investments:		
Long-term investments	10,731,701	10,353,877
Funds held by trustees	86,154	110,307
Assets held for self-insurance	158,107	179,300
Donor restricted assets	1,044,919	1,013,430
	12,020,881	11,656,914
Property, plant, and equipment, net	5,888,407	5,866,974
Other assets:		
Pledges receivable, net	124,063	125,641
Trusts and interests in foundations	114,707	112,425
Operating lease right-of-use assets	373,095	360,841
Other noncurrent assets	677,041	644,570
	1,288,906	1,243,477
Total assets	$ 22,125,103	$ 21,792,550

Unaudited Consolidated Balance Sheets (continued)

($ in thousands)

	March 31 2021	December 31 2020
Liabilities and net assets		
Current liabilities:		
Accounts payable	$ 453,563	$ 528,794
Compensation and amounts withheld from payroll	538,570	464,249
Short-term borrowings	26,500	-
Current portion of long-term debt	104,140	101,006
Variable rate debt classified as current	589,891	589,891
Other current liabilities	718,089	738,323
Total current liabilities	2,430,753	2,422,263
Long-term debt	4,527,488	4,582,994
Other liabilities:		
Professional and general insurance liability reserves	227,953	216,100
Accrued retirement benefits	283,663	297,741
Operating lease liabilities	332,309	323,682
Other noncurrent liabilities	700,326	707,915
	1,544,251	1,545,438
Total liabilities	8,502,492	8,550,695
Net assets:		
Without donor restrictions	12,274,210	11,921,757
With donor restrictions	1,348,401	1,320,098
Total net assets	13,622,611	13,241,855
Total liabilities and net assets	$ 22,125,103	$ 21,792,550

See notes to unaudited consolidated financial statements.

Unaudited Consolidated Statements of Operations and Changes in Net Assets

($ in thousands)

Operations

	Three Months Ended March 31	
	2021	2020
Unrestricted revenues		
Net patient service revenue	$ 2,533,962	$ 2,332,056
Other	273,662	252,646
Total unrestricted revenues	2,807,624	2,584,702
Expenses		
Salaries, wages, and benefits	1,579,094	1,487,953
Supplies	297,519	269,764
Pharmaceuticals	328,104	330,131
Purchased services and other fees	195,149	177,258
Administrative services	42,101	49,758
Facilities	92,204	90,938
Insurance	24,369	22,681
	2,558,540	2,428,483
Operating income before interest, depreciation, amortization, and special charges	249,084	156,219
Interest	37,273	41,023
Depreciation and amortization	150,101	155,118
Operating income (loss)	61,710	(39,922)
Nonoperating gains and losses		
Investment return	243,200	(722,520)
Derivative gains (losses)	30,087	(77,519)
Other, net	15,267	9,354
Net nonoperating gains and losses	288,554	(790,685)
Excess (deficiency) of revenues over expenses	350,264	(830,607)

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

($ in thousands)

Changes in Net Assets

	Three Months Ended March 31	
	2021	2020
Changes in net assets without donor restrictions:		
Excess (deficiency) of revenues over expenses	$ 350,264	$ (830,607)
Donated capital	45	18
Net assets released from restriction for capital purposes	2,167	3,073
Retirement benefits adjustment	(715)	(715)
Foreign currency translation	1,446	3,579
Other	(754)	1,411
Increase (decrease) in net assets without donor restrictions	352,453	(823,241)
Changes in net assets with donor restrictions:		
Gifts and bequests	30,897	29,229
Net investment income (loss)	4,829	(56,706)
Net assets released from restrictions used for operations included in other unrestricted revenues	(9,795)	(12,529)
Net assets released from restriction for capital purposes	(2,167)	(3,073)
Change in interests in foundations	342	(2,158)
Change in value of perpetual trusts	1,812	63
Member substitution contribution	2,384	-
Other	1	1,391
Increase (decrease) in net assets with donor restrictions	28,303	(43,783)
Increase (decrease) in net assets	380,756	(867,024)
Net assets at beginning of year	13,241,855	11,759,135
Net assets at end of period	$ 13,622,611	$ 10,892,111

See notes to unaudited consolidated financial statements.

Unaudited Consolidated Statements of Cash Flows

($ in thousands)

	Three Months Ended March 31	
	2021	2020
Operating activities and net nonoperating gains and losses		
Increase (decrease) in net assets	$ 380,756	$ (867,024)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities and net nonoperating gains and losses:		
Gain on extinguishment of debt	(4,252)	-
Retirement benefits adjustment	715	715
Net realized and unrealized (gains) losses on investments	(236,401)	793,855
Depreciation and amortization	150,104	155,090
Foreign currency translation gain	(1,446)	(3,579)
Donated capital	(45)	(18)
Restricted gifts, bequests, investment income, and other	(37,880)	29,572
Accreted interest and amortization of bond premiums	(1,396)	(1,497)
Net (gain) loss in value of derivatives	(35,391)	73,069
Member substitution contribution	(2,384)	-
Changes in operating assets and liabilities:		
Patient receivables	(14,572)	24,639
Other current assets	(84,411)	(44,982)
Other noncurrent assets	(28,301)	7,261
Accounts payable and other current liabilities	(48,985)	(57,235)
Other liabilities	20,939	(16,854)
Net cash provided by operating activities and net nonoperating gains and losses	57,050	93,012
Financing activities		
Proceeds from short-term borrowings	26,500	-
Principal payments on long-term debt	(100,185)	(70,661)
Change in pledges receivables, trusts and interests in foundations	3,851	9,846
Restricted gifts, bequests, investment income, and other	37,880	(29,572)
Net cash used in financing activities	(31,954)	(90,387)
Investing activities		
Expenditures for property, plant and equipment	(102,698)	(174,734)
Proceeds from sale of property, plant and equipment	10,267	1,887
Net change in cash equivalents reported in long-term investments	(71,324)	127,502
Purchases of investments	(1,321,731)	(1,860,722)
Sales of investments	1,268,085	1,887,543
Payments for business acquisition, less cash assumed	(55,166)	-
Net cash used in investing activities	(272,567)	(18,524)
Effect of exchange rate changes on cash	4,007	(16,068)
Decrease in cash, cash equivalents and restricted cash	(243,464)	(31,967)
Cash, cash equivalents and restricted cash at beginning of year	1,173,135	637,286
Cash, cash equivalents and restricted cash at end of period	$ 929,671	$ 605,319

See notes to unaudited consolidated financial statements

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal and recurring nature. For further information, refer to the audited financial statements and notes thereto for the year ended December 31, 2020.

1. Organization and Consolidation

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

The System is the leading provider of healthcare services in northeast Ohio. As of March 31, 2021, the System operates 19 hospitals with approximately 5,200 staffed beds. Fourteen of the hospitals are operated in the northeast Ohio area, anchored by the Clinic. The System operates 21 outpatient Family Health Centers, and 11 ambulatory surgery centers, as well as numerous physician offices, which are located throughout northeast Ohio, and specialized cancer centers in Sandusky and Mansfield, Ohio. In Florida, the System operates five hospitals and a clinic located throughout southeast Florida, outpatient family health centers in West Palm Beach and Port St. Lucie, an outpatient family health and ambulatory surgery center in Coral Springs, and numerous physician offices located throughout southeast Florida. In addition, the System operates a health and wellness center and a sports medicine clinic in Toronto, Canada, and a specialized neurological clinical center in Las Vegas, Nevada. Pursuant to agreements, the System also provides management services for Ashtabula County Medical Center, located in Ashtabula, Ohio, with approximately 180 staffed beds, and Cleveland Clinic Abu Dhabi, a multispecialty hospital offering critical and acute care services that is part of Mubadala Development Company's network of healthcare facilities located in Abu Dhabi, United Arab Emirates, with 364 staffed beds.

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

2. Business Combinations

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

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

2. Business Combinations (continued)

The results of operations for Mercy are included in the consolidated statements of operations and changes in net assets beginning on February 1, 2021. For the two months ended March 31, 2021, Mercy had total unrestricted revenues of $59.1 million, operating loss of $1.3 million and a deficiency of revenues over expenses of $1.3 million. The operations of Mercy did not have a material impact on changes in net assets with donor restrictions.

3. Accounting Policies

Recent Accounting Pronouncements

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

In August 2018, the FASB issued ASU 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. This ASU aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The ASU is effective for the System for annual reporting periods beginning after December 15, 2020, and interim periods beginning after December 15, 2021, with early adoption permitted. The System is currently assessing the impact that ASU 2018-15 will have on its consolidated financial statements and will adopt the provisions upon the effective date.

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

4. Use of Estimates

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

5. Net Patient Service Revenue and Patient Receivables

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

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

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

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

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

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

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

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

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

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

Settlements with third-party payors for retroactive adjustments due to reviews and audits are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care in the period the related services are provided. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the System's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known or as years are settled or are no longer subject to such reviews and audits. Adjustments arising from a change in estimated settlements were not significant in the first three months of 2021 or 2020.

As part of integration efforts involving Akron General Health System (Akron General) and through review of contractual relationships between Akron General and some of its independent physician practice groups, the System identified possible violations to the Federal Anti-Kickback Statute and Limitations on Certain Physician Referrals regulation (commonly referred to as the "Stark Law"), which may have resulted in false claims to federal and/or state healthcare programs and may result in liability under the Federal Anti-Kickback Statute, Stark Law, False Claims Act and/or other laws and regulations. Akron General is cooperating with the appropriate government authorities on such possible violations. The resolution of this matter is not expected to be material to the System's consolidated financial statements.

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

Net patient service revenue by major payor source, net of price concessions, for the three months ended March 31, 2021 and 2020, is as follows (in thousands):

	Three Months Ended March 31, 2021		**Three Months Ended March 31, 2020**	
Medicare	**$ 1,016,216**	**40%**	$ 912,943	39%
Medicaid	**269,279**	**11**	236,743	10
Managed care and commercial	**1,239,292**	**48**	1,171,595	50
Self-pay	**9,175**	**1**	10,775	1
Net patient service revenue	**$ 2,533,962**	**100%**	$ 2,332,056	100%

6. Cash and Cash Equivalents

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

The reconciliation of cash, cash equivalents, and restricted cash within the consolidated balance sheets that comprise the amount reported on the consolidated statements of cash flows at March 31, 2021 and December 31, 2020 is as follows (in thousands):

	March 31 2021	December 31 2020
Cash and cash equivalents	**$ 925,057**	$ 1,045,393
Investments for current use	**–**	122,669
Restricted cash in investments	**4,614**	5,073
Total cash, cash equivalents, and restricted cash	**$ 929,671**	$ 1,173,135

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

7. Fair Value Measurements

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

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

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

- Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

7. Fair Value Measurements (continued)

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

March 31, 2021

	Level 1	Level 2	Level 3	Total
Assets				
Cash and investments:				
Cash and cash equivalents	$ 929,671	$ –	$ –	$ 929,671
Money market funds	741,095	–	–	741,095
Fixed income securities:				
U.S. treasuries	1,229,176	–	–	1,229,176
U.S. government agencies	–	47,590	–	47,590
U.S. corporate	–	493,303	–	493,303
U.S. government agencies asset-backed securities	–	319,655	–	319,655
Corporate asset-backed securities	–	221,994	–	221,994
Foreign	–	261,048	–	261,048
Fixed income mutual funds	291,826	–	–	291,826
Common and preferred stocks:				
U.S.	291,348	1,469	–	292,817
Foreign	271,245	14,148	–	285,393
Equity mutual funds	92,897	–	–	92,897
Total cash and investments	3,847,258	1,359,207	–	5,206,465
Foreign exchange contracts	–	866	–	866
Perpetual and charitable trusts	–	86,834	–	86,834
Total assets at fair value	$ 3,847,258	$ 1,446,907	$ –	$ 5,294,165
Liabilities				
Interest rate swaps	$ –	$ 124,371	$ –	$ 124,371
Total liabilities at fair value	$ –	$ 124,371	$ –	$ 124,371

7. Fair Value Measurements (continued)

December 31, 2020

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

7. Fair Value Measurements (continued)

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

	March 31 2021	December 31 2020
Cash, cash equivalents, and investments measured at fair value	**$ 5,206,465**	$ 5,292,943
Commingled funds measured at net asset value	**2,242,770**	2,190,419
Alternative investments measured at net asset value	**5,551,424**	5,396,334
Total cash, cash equivalents, and investments	**$13,000,659**	$12,879,696
Perpetual and charitable trusts measured at fair value	**$ 86,834**	$ 84,894
Interests in foundations	**27,873**	27,531
Trusts and interests in foundations	**$ 114,707**	$ 112,425

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

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

Investments classified as Level 2 are primarily determined using techniques that are consistent with the market approach. Valuations are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs, which include broker/dealer quotes, reported/comparable trades, and benchmark yields, are obtained from various sources, including market participants, dealers, and brokers.

7. Fair Value Measurements (continued)

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

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

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

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

8. Derivative Instruments

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

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

8. Derivative Instruments (continued)

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

Swap Type	Expiration Date	System Pays	System Receives	Notional Amount at March 31 2021	Notional Amount at December 31 2020
Fixed	2021	3.21%	68% of LIBOR	**$ –**	$ 26,865
Fixed	2024	3.42%	68% of LIBOR	**22,750**	24,250
Fixed	2024	3.45%	67% of LIBOR	**5,040**	5,040
Fixed	2027	3.56%	68% of LIBOR	**106,519**	111,226
Fixed	2028	5.12%	100% of LIBOR	**32,900**	34,195
Fixed	2028	3.51%	68% of LIBOR	**25,315**	26,405
Fixed	2030	5.07%	100% of LIBOR	**54,300**	54,300
Fixed	2030	5.06%	100% of LIBOR	**54,275**	54,275
Fixed	2031	3.04%	68% of LIBOR	**37,725**	40,925
Fixed	2032	4.32%	79% of LIBOR	**1,959**	1,986
Fixed	2032	4.33%	70% of LIBOR	**3,918**	3,973
Fixed	2032	3.78%	70% of LIBOR	**1,959**	1,986
Fixed	2032	3.58%	67% of LIBOR	**9,415**	9,415
Fixed	2036	4.90%	100% of LIBOR	**48,325**	48,325
Fixed	2036	4.90%	100% of LIBOR	**75,125**	75,125
Fixed	2037	4.62%	100% of SIFMA	**54,760**	54,760
Fixed	2039	4.62%	68% of LIBOR	**20,885**	20,885
				$ 555,170	$ 593,936

8. Derivative Instruments (continued)

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

The System has foreign currency forward contracts, maturing at various dates through April 2021, with a total outstanding notional amount of $68.1 million at both March 31, 2021 and December 31, 2020.

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

	Derivative Assets and Liabilities			
	March 31, 2021		December 31, 2020	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives not designated as hedging instruments				
Interest rate swap agreements	Other noncurrent liabilities	**$ 124,371**	Other noncurrent liabilities	$ 159,762
Foreign currency contracts	Other current assets	**$ 866**	Other current assets	$ 366

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

	Location of Loss Recognized	Quarter Ended March 31 2021	2020
Derivatives not designated as hedging instruments			
Interest rate swap agreements	Derivative gains (losses)	**$ 29,587**	$ (55,524)
Foreign currency contracts	Derivative gains (losses)	**$ 500**	$ (21,995)

8. Derivative Instruments (continued)

The System has used various derivative contracts in connection with certain prior obligations and investments. Although minimum credit ratings are required for counterparties, this does not eliminate the risk that a counterparty may fail to honor its obligations. Derivative contracts are subject to periodic "mark-to-market" valuations. A derivative contract may, at any time, have a positive or negative value to the System. In the event that the negative value reaches certain thresholds established in the derivative contracts, the System is required to post collateral, which could adversely affect its liquidity. At March 31, 2021 and December 31, 2020, the System posted $79.9 million and $102.4 million, respectively, of collateral with counterparties that is included in funds held by trustees in the consolidated balance sheets. In addition, if the System were to choose to terminate a derivative contract or if a derivative contract were terminated pursuant to an event of default or a termination event as described in the derivative contract, the System could be required to pay a termination payment to the counterparty.

9. Pensions and Other Postretirement Benefits

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

9. Pensions and Other Postretirement Benefits (continued)

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

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

	Quarter Ended March 31	
	2021	**2020**
Amounts related to defined benefit pension plans:		
Service credit	$ (1,261)	$ (1,179)
Interest cost	12,897	15,951
Expected return on assets	(25,278)	(26,654)
Net amortization and deferral	(636)	(636)
Total defined benefit pension plans	(14,278)	(12,518)
Defined contribution plans	81,216	77,157
Total	**$ 66,938**	**$ 64,639**

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

Contributions to the defined benefit pension plans were not significant for the first quarter of 2021. Total contributions to the defined benefit pension plans for the full year of 2021 are expected to be $8.8 million.

10. COVID-19

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

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

11. Subsequent Events

The System evaluated events and transactions occurring subsequent to March 31, 2021 through May 28 , 2021, the date the consolidated financial statements were issued. During this period, there were no subsequent events requiring recognition in the consolidated financial statements, and there were no nonrecognized subsequent events requiring disclosure, except for the receipt of an additional PRF payments described in Note 10 above and the following update to six operating lines of credit totaling $650 million that existed at March 31, 2021. In April and May 2021, four of the lines of credit existing at March 31, 2021 totaling $425 million expired or were terminated. One of the remaining existing lines was increased to $150 million and extended for three years, and the other remaining line was increased to $150 million and extended for two years. As of May 28, 2021, the System has two operating lines of credit totaling $300 million with $26.5 million drawn and $273.5 million in available capacity.

Unaudited Consolidating Balance Sheets

($ in thousands)

	March 31, 2021				December 31, 2020			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated
Assets								
Current assets:								
Cash and cash equivalents	$ 580,048	$ 345,009	$ -	$ 925,057	$ 792,399	$ 252,994	$ -	$ 1,045,393
Patient receivables, net	1,075,053	256,659	(23,422)	1,308,290	1,074,672	209,326	(28,317)	1,255,681
Due from affiliates	14,318	75,016	(89,334)	-	31,074	56	(31,130)	-
Investments for current use	-	54,721	-	54,721	122,668	54,721	-	177,389
Other current assets	593,952	131,875	(86,986)	638,841	540,135	79,167	(72,580)	546,722
Total current assets	2,263,371	863,280	(199,742)	2,926,909	2,560,948	596,264	(132,027)	3,025,185
Investments:								
Long-term investments	9,662,543	1,069,158	-	10,731,701	9,178,758	1,175,119	-	10,353,877
Funds held by trustees	85,730	424	-	86,154	110,307	0	-	110,307
Assets held for self-insurance	-	158,107	-	158,107	-	179,300	-	179,300
Donor restricted assets	972,995	71,924	-	1,044,919	946,735	66,695	-	1,013,430
	10,721,268	1,299,613	-	12,020,881	10,235,800	1,421,114	-	11,656,914
Property, plant, and equipment, net	4,365,724	1,522,683	-	5,888,407	4,462,295	1,404,679	-	5,866,974
Other assets:								
Pledges receivable, net	117,524	6,539	-	124,063	117,987	7,654	-	125,641
Trusts and beneficial interests in foundations	65,443	49,264	-	114,707	63,956	48,469	-	112,425
Operating lease right-of-use assets	139,764	233,331	-	373,095	136,712	224,129	-	360,841
Other noncurrent assets	781,980	153,024	(257,963)	677,041	736,665	139,281	(231,376)	644,570
	1,104,711	442,158	(257,963)	1,288,906	1,055,320	419,533	(231,376)	1,243,477
Total assets	$ 18,455,074	$ 4,127,734	$ (457,705)	$ 22,125,103	$ 18,314,363	$ 3,841,590	$ (363,403)	$ 21,792,550

	March 31, 2021				December 31, 2020			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated
Liabilities and net assets								
Current liabilities:								
Accounts payable	$ 352,102	$ 101,938	$ (477)	$ 453,563	$ 440,176	$ 89,094	$ (476)	$ 528,794
Compensation and amounts withheld from payroll	456,492	82,078	-	538,570	417,175	47,074	-	464,249
Short-term borrowings	26,500	-	-	26,500	-	-	-	-
Current portion of long-term debt	97,078	7,062	-	104,140	94,264	6,742	-	101,006
Variable rate debt classified as current	537,644	52,247	-	589,891	537,644	52,247	-	589,891
Due to affiliates	18,706	14,493	(33,199)	-	55	31,280	(31,335)	-
Other current liabilities	619,595	207,019	(108,525)	718,089	650,108	191,624	(103,409)	738,323
Total current liabilities	2,108,117	464,837	(142,201)	2,430,753	2,139,422	418,061	(135,220)	2,422,263
Long-term debt	3,587,181	1,192,849	(252,542)	4,527,488	3,664,878	1,144,179	(226,063)	4,582,994
Other liabilities:								
Professional and general insurance liability reserves	66,936	161,017	-	227,953	65,703	150,397	-	216,100
Accrued retirement benefits	282,172	1,491	-	283,663	296,218	1,523	-	297,741
Operating lease liabilities	103,914	228,395	-	332,309	102,196	221,486	-	323,682
Other noncurrent liabilities	641,777	119,391	(60,842)	700,326	652,509	55,406	-	707,915
	1,094,799	510,294	(60,842)	1,544,251	1,116,626	428,812	-	1,545,438
Total liabilities	6,790,097	2,167,980	(455,585)	8,502,492	6,920,926	1,991,052	(361,283)	8,550,695
Net assets:								
Without donor restrictions	10,445,573	1,830,757	(2,120)	12,274,210	10,195,011	1,728,866	(2,120)	11,921,757
With donor restrictions	1,219,404	128,997	-	1,348,401	1,198,426	121,672	-	1,320,098
Total net assets	11,664,977	1,959,754	(2,120)	13,622,611	11,393,437	1,850,538	(2,120)	13,241,855
Total liabilities and net assets	$ 18,455,074	$ 4,127,734	$ (457,705)	$ 22,125,103	$ 18,314,363	$ 3,841,590	$ (363,403)	$ 21,792,550

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

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

Operations

	Three Months Ended March 31, 2021				Three Months Ended March 31, 2020			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated
Unrestricted revenues								
Net patient service revenue	$ 2,150,548	$ 456,423	$ (73,009)	$ 2,533,962	$ 2,029,517	$ 367,301	$ (64,762)	$ 2,332,056
Other	240,113	78,854	(45,305)	273,662	210,432	87,774	(45,560)	252,646
Total unrestricted revenues	2,390,661	535,277	(118,314)	2,807,624	2,239,949	455,075	(110,322)	2,584,702
Expenses								
Salaries, wages, and benefits	1,350,661	314,164	(85,731)	1,579,094	1,297,350	268,715	(78,112)	1,487,953
Supplies	246,129	51,693	(303)	297,519	223,450	46,406	(92)	269,764
Pharmaceuticals	289,872	38,232	-	328,104	299,113	31,018	-	330,131
Purchased services and other fees	159,865	41,715	(6,431)	195,149	148,100	35,864	(6,706)	177,258
Administrative services	11,486	36,713	(6,098)	42,101	20,212	35,240	(5,694)	49,758
Facilities	68,705	23,980	(481)	92,204	70,219	21,219	(500)	90,938
Insurance	20,054	23,560	(19,245)	24,369	18,270	23,604	(19,193)	22,681
	2,146,772	530,057	(118,289)	2,558,540	2,076,714	462,066	(110,297)	2,428,483
Operating income (loss) before interest, depreciation, and amortization expenses	243,889	5,220	(25)	249,084	163,235	(6,991)	(25)	156,219
Interest	29,255	8,018	-	37,273	32,670	8,353	-	41,023
Depreciation and amortization	128,266	21,860	(25)	150,101	134,257	20,886	(25)	155,118
Operating income (loss)	86,368	(24,658)	-	61,710	(3,692)	(36,230)	-	(39,922)
Nonoperating gains and losses								
Investment return	212,356	30,844	-	243,200	(648,013)	(74,507)	-	(722,520)
Derivative losses	30,713	(626)	-	30,087	(77,091)	(428)	-	(77,519)
Other, net	13,857	1,410	-	15,267	8,185	1,169	-	9,354
Net nonoperating gains and losses	256,926	31,628	-	288,554	(716,919)	(73,766)	-	(790,685)
Excess (deficiency) of revenues over expenses	343,294	6,970	-	350,264	(720,611)	(109,996)	-	(830,607)

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

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

($ in thousands)

Changes in Net Assets

	Three Months Ended March 31, 2021				Three Months Ended March 31, 2020			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated
Changes in net assets without donor restrictions:								
Excess (deficiency) of revenues over expenses	$ 343,294	$ 6,970	$ -	$ 350,264	$ (720,611)	$ (109,996)	$ -	$ (830,607)
Donated capital	45	-	-	45	18	-	-	18
Net assets released from restriction for capital purposes	1,667	500	-	2,167	2,832	241	-	3,073
Retirement benefits adjustment	(658)	(57)	-	(715)	(658)	(57)	-	(715)
Foreign currency translation	-	1,446	-	1,446	-	3,579	-	3,579
Other	(93,786)	93,032	-	(754)	(27,182)	31,773	(3,180)	1,411
Increase (decrease) in net assets without donor restrictions	250,562	101,891	-	352,453	(745,601)	(74,460)	(3,180)	(823,241)
Changes in net assets with donor restrictions:								
Gifts and bequests	27,099	3,798	-	30,897	25,197	4,032	-	29,229
Net investment income (loss)	2,585	2,244	-	4,829	(54,793)	(1,913)	-	(56,706)
Net assets released from restrictions used for operations included in other unrestricted revenues	(9,192)	(603)	-	(9,795)	(11,502)	(1,027)	-	(12,529)
Net assets released from restriction for capital purposes	(1,667)	(500)	-	(2,167)	(2,832)	(241)	-	(3,073)
Change in interests in foundations	342	-	-	342	(2,158)	-	-	(2,158)
Change in value of perpetual trusts	1,018	794	-	1,812	(55)	118	-	63
Member substitution contribution	-	2,384	-	2,384	-	-	-	-
Other	793	(792)	-	1	1,390	1	-	1,391
Increase (decrease) in net assets with donor restrictions	20,978	7,325	-	28,303	(44,753)	970	-	(43,783)
Increase (decrease) in net assets	271,540	109,216	-	380,756	(790,354)	(73,490)	(3,180)	(867,024)
Net assets at beginning of year	11,393,437	1,850,538	(2,120)	13,241,855	10,211,508	1,549,747	(2,120)	11,759,135
Net assets at end of period	$ 11,664,977	$ 1,959,754	$ (2,120)	$ 13,622,611	$ 9,421,154	$ 1,476,257	$ (5,300)	$ 10,892,111

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

Unaudited Consolidating Statements of Cash Flows

($ in thousands)

	Three Months Ended March 31, 2021				Three Months Ended March 31, 2020			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated
Operating activities and net nonoperating gains and losses								
Increase (decrease) in total net assets	$ 271,540	$ 109,216	$ -	$ 380,756	$ (790,354)	$ (73,490)	$ (3,180)	$ (867,024)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities and net nonoperating gains and losses:								
Gain on extinguishment of debt	(4,252)	-	-	(4,252)	-	-	-	-
Retirement benefits adjustment	658	57	-	715	658	57	-	715
Net realized and unrealized (gains) losses on investments	(206,542)	(29,859)	-	(236,401)	716,265	77,590	-	793,855
Depreciation and amortization	128,266	21,863	(25)	150,104	134,257	20,858	(25)	155,090
Foreign currency translation gain	-	(1,446)	-	(1,446)	-	(3,579)	-	(3,579)
Donated capital	(45)	-	-	(45)	(18)	-	-	(18)
Restricted gifts, bequests, investment income, and other	(31,044)	(6,836)	-	(37,880)	31,809	(2,237)	-	29,572
Transfers to (from) affiliates	88,590	(88,590)	-	-	25,791	(25,791)	-	-
Accreted interest and amortization of bond premiums	(1,444)	48	-	(1,396)	(1,541)	44	-	(1,497)
Net (gain) loss in value of derivatives	(35,391)	-	-	(35,391)	73,069	-	-	73,069
Member substitution	-	(2,384)	-	(2,384)	-	-	-	-
Changes in operating assets and liabilities:								
Patient receivables	(381)	(9,296)	(4,895)	(14,572)	38,673	(7,084)	(6,950)	24,639
Other current assets	(41,497)	(115,524)	72,610	(84,411)	(2,165)	(107,859)	65,042	(44,982)
Other noncurrent assets	(48,483)	(6,430)	26,612	(28,301)	873	3,157	3,231	7,261
Accounts payable and other current liabilities	(57,344)	15,340	(6,981)	(48,985)	(41,469)	(17,603)	1,837	(57,235)
Other liabilities	12,906	68,875	(60,842)	20,939	(12,153)	55,091	(59,792)	(16,854)
Net cash provided by (used in) operating activities and net nonoperating gains and losses	75,537	(44,966)	26,479	57,050	173,695	(80,846)	163	93,012
Financing activities								
Proceeds from short-term borrowings	26,500	-	-	26,500	-	-	-	-
Proceeds from long-term borrowings	-	26,479	(26,479)	-	-	163	(163)	-
Principal payments on long-term debt	(72,659)	(27,526)	-	(100,185)	(69,608)	(1,053)	-	(70,661)
Change in pledges receivable, trusts and interests in foundations	3,412	439	-	3,851	10,802	(956)	-	9,846
Restricted gifts, bequests, investment income, and other	31,044	6,836	-	37,880	(31,809)	2,237	-	(29,572)
Net cash (used in) provided by financing activities	(11,703)	6,228	(26,479)	(31,954)	(90,615)	391	(163)	(90,387)
Investing activities								
Expenditures for property, plant and equipment	(41,604)	(61,094)	-	(102,698)	(108,716)	(66,018)	-	(174,734)
Proceeds from sale of property, plant and equipment	10,267	-		10,267	1,887	-		1,887
Payments for business acquisition, less cash assumed	-	(55,166)	-	(55,166)	-	-	-	-
Net change in cash equivalents reported in long-term investments	(203,845)	132,521	-	(71,324)	(26,782)	154,284	-	127,502
Purchases of investments	(1,194,162)	(127,569)	-	(1,321,731)	(1,593,249)	(267,473)	-	(1,860,722)
Sales of investments	1,117,394	150,691	-	1,268,085	1,588,354	299,189	-	1,887,543
Transfers (to) from affiliates	(88,590)	88,590	-	-	(25,791)	25,791	-	-
Net cash (used in) provided by investing activities	(400,540)	127,973	-	(272,567)	(164,297)	145,773	-	(18,524)
Effect of exchange rate changes on cash	-	4,007		4,007	-	(16,068)		(16,068)
(Decrease) Increase in cash, cash equivalents and restricted cash	(336,706)	93,242	-	(243,464)	(81,217)	49,250	-	(31,967)
Cash, cash equivalents and restricted cash at beginning of year	917,591	255,544	-	1,173,135	422,598	214,688	-	637,286
Cash, cash equivalents and restricted cash at end of period	$ 580,885	$ 348,786	$ -	$ 929,671	$ 341,381	$ 263,938	$ -	$ 605,319

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

Utilization

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

	Year Ended December 31			YTD March 31	
	2018	2019	2020	2020	2021
Total Staffed Beds[(1)]	4,143	4,900	4,812	4,904	5,161
Percent Occupancy[(1)]	69.5%	68.1%	70.4%	67.8%	74.2%
Inpatient Admissions[(1)]					
Acute	175,025	226,558	211,766	55,819	56,443
Post-acute	10,631	11,327	10,728	2,791	2,706
Total	185,656	237,885	222,494	58,610	59,149
Patient Days[(1)]					
Acute	904,854	1,098,807	1,044,310	273,125	291,053
Post-acute	79,999	84,522	82,224	21,420	20,475
Total	984,853	1,183,329	1,126,534	294,545	311,528
Average Length of Stay					
Acute	5.18	4.86	4.92	4.88	5.21
Post-acute	7.53	7.44	7.66	7.61	7.70
Surgical Facility Cases					
Inpatient	62,672	74,607	64,234	16,933	16,963
Outpatient	157,912	181,721	152,632	41,395	45,179
Total	220,584	256,328	216,866	58,328	62,142
Emergency Department Visits	675,817	889,489	756,416	217,404	196,530
Outpatient Observations	62,901	82,143	61,476	17,794	15,634
Outpatient Evaluation and Management Visits	5,196,809	6,161,693	5,665,140	1,518,108	1,592,380
Acute Medicare Case Mix Index - Health System	1.96	1.91	2.00	1.91	2.06
Acute Medicare Case Mix Index - Cleveland Clinic	2.70	2.74	2.87	2.79	2.96
Total Acute Patient Case Mix Index - Health System	1.89	1.83	1.91	1.85	1.97
Total Acute Patient Case Mix Index - Cleveland Clinic	2.63	2.65	2.76	2.67	2.83

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

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

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

Utilization (continued)

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

	Year Ended December 31			YTD March 31	
	2018	2019	2020	2020	2021
Total Staffed Beds[1]	3,477	3,987	3,966	3,991	3,970
Percent Occupancy[1]	71.3%	70.0%	70.8%	69.3%	75.4%
Inpatient Admissions[1]					
Acute	149,433	186,133	173,601	45,688	44,608
Post-acute	8,452	7,122	6,595	1,716	1,559
Total	157,885	193,255	180,196	47,404	46,167
Patient Days[1]					
Acute	788,442	928,486	875,540	229,293	235,713
Post-acute	62,913	54,515	53,439	14,461	12,104
Total	851,355	983,001	928,979	243,754	247,817
Surgical Facility Cases					
Inpatient	56,162	63,677	54,654	14,444	14,142
Outpatient	138,151	153,886	127,817	34,629	37,051
Total	194,313	217,563	182,471	49,073	51,193
Emergency Department Visits	531,812	666,313	574,625	164,919	143,767
Outpatient Observations	53,110	64,359	47,987	13,847	12,044
Outpatient Evaluation and Management Visits	4,676,817	5,315,503	4,842,622	1,303,573	1,314,784
Acute Medicare Case Mix Index	2.00	1.94	2.04	1.95	2.10
Total Acute Patient Case Mix Index	1.95	1.88	1.95	1.89	2.02

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

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

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

Payor Mix

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

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

OBLIGATED GROUP
Based on Gross Patient Service Revenue

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

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

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

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

Research Support

($ in thousands)

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

	Year Ended December 31			YTD March 31	
	2018	**2019**	**2020**	**2020**	**2021**
External Grants Earned					
Federal Sources	$117,786	$120,858	$117,931	$29,668	$32,158
Non-Federal Sources	105,093	104,760	94,173	24,397	24,649
Total	222,879	225,618	212,104	54,065	56,807
Internal Support	63,327	72,637	92,305	22,313	20,835
Total Sources of Support	$286,206	$298,255	$304,409	$76,378	$77,642

Key Ratios

The following table provides selected key ratios:

	Year Ended December 31			YTD March 31	
	2018	**2019**	**2020**	**2020**	**2021**
Liquidity ratios					
Days of cash on hand	355	373	424	337	415
Days of revenue in accounts receivable	49	49	45	50	46
Coverage ratios					
Cash to debt (%)	191.9	183.7	216.1	172.0	221.6
Maximum annual debt service coverage (x)	5.3	6.2	5.7	6.4	6.1
Interest expense coverage (x)	8.2	10.5	8.5	10.4	9.2
Debt to cash flow (x)	4.2	3.5	4.5	3.4	4.2
Leverage ratio					
Debt to capitalization (%)	32.9	33.6	30.7	34.9	30.0
Profitability ratios					
Operating margin (%)	3.0	3.7	2.2	(1.5)	2.2
Operating cash flow margin (%)	10.1	10.9	9.2	6.0	8.9
Excess margin (%)	1.2	16.6	11.3	(46.3)	11.3
Return on assets (%)	0.6	10.1	6.1	(17.5)	6.3

NOTES:

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

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

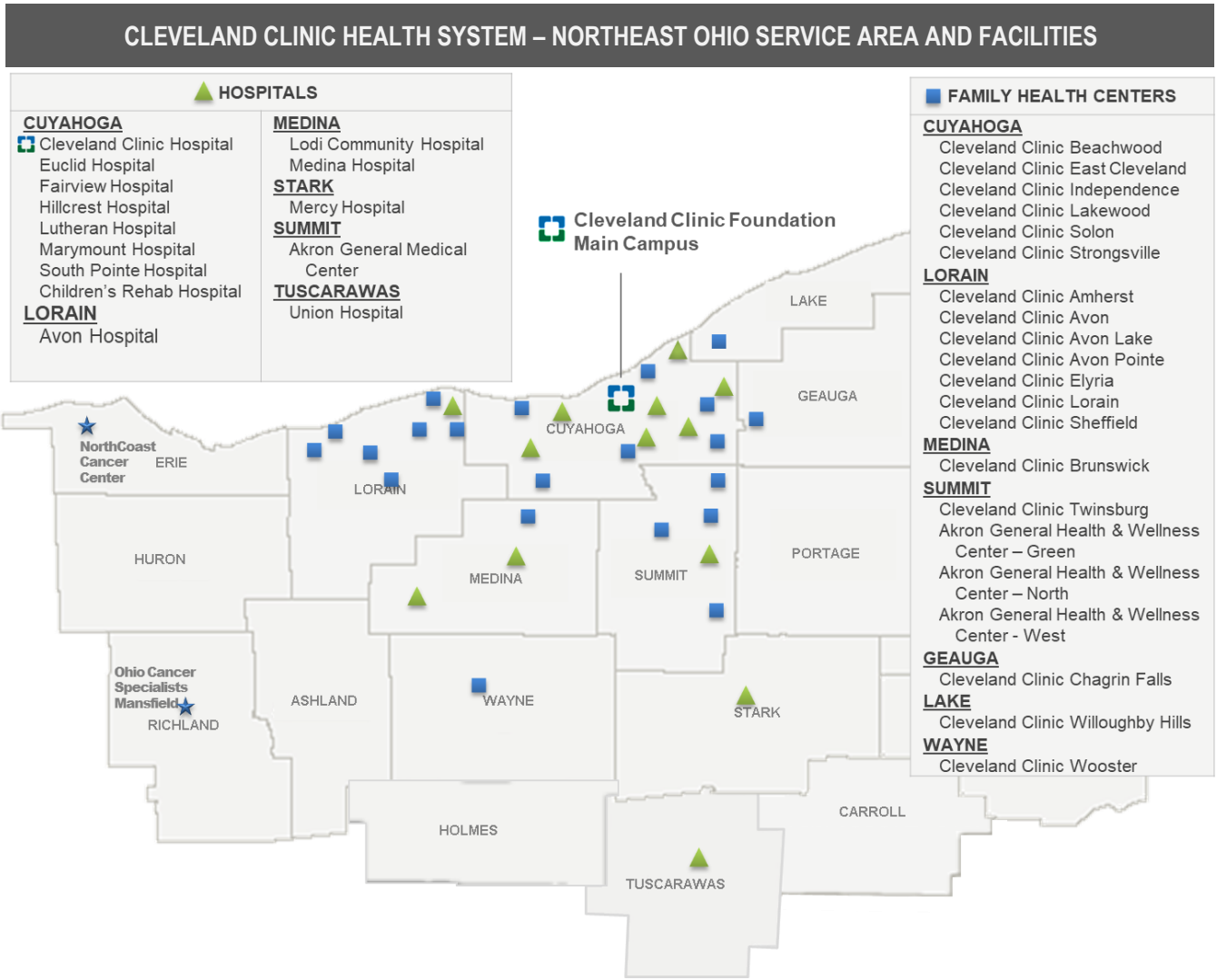
OVERVIEW

The Cleveland Clinic Health System (System) is a world-renowned provider of healthcare services that attracted patients from across the United States and from 109 other countries in 2020. As of March 31, 2021, the System operates 19 hospitals with approximately 5,200 staffed beds and is the leading provider of healthcare services in Northeast Ohio. Fourteen of the hospitals are operated in the Northeast Ohio area, anchored by The Cleveland Clinic Foundation (Clinic). The System operates 21 outpatient family health centers, 11 ambulatory surgery centers, as well as numerous physician offices, which are located throughout Northeast Ohio, and specialized cancer centers in Sandusky and Mansfield, Ohio. In Florida, the System operates five hospitals and a clinic located throughout Southeast Florida, outpatient family health centers in Port St. Lucie, Stuart and West Palm Beach, an outpatient family health and ambulatory surgery center in Coral Springs and numerous physician offices located throughout Southeast Florida. In addition, the System operates a health and wellness center and a sports medicine clinic in Toronto, Canada and a specialized neurological clinical center in Las Vegas, Nevada. Pursuant to agreements, the System also provides management services for Ashtabula County Medical Center, located in Ashtabula, Ohio, with approximately 180 staffed beds, and Cleveland Clinic Abu Dhabi, a multispecialty hospital offering critical and acute care services that is part of Mubadala Development Company's network of healthcare facilities located in Abu Dhabi, United Arab Emirates with approximately 364 staffed beds.

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

Taussig Cancer Center
Cleveland, Ohio

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

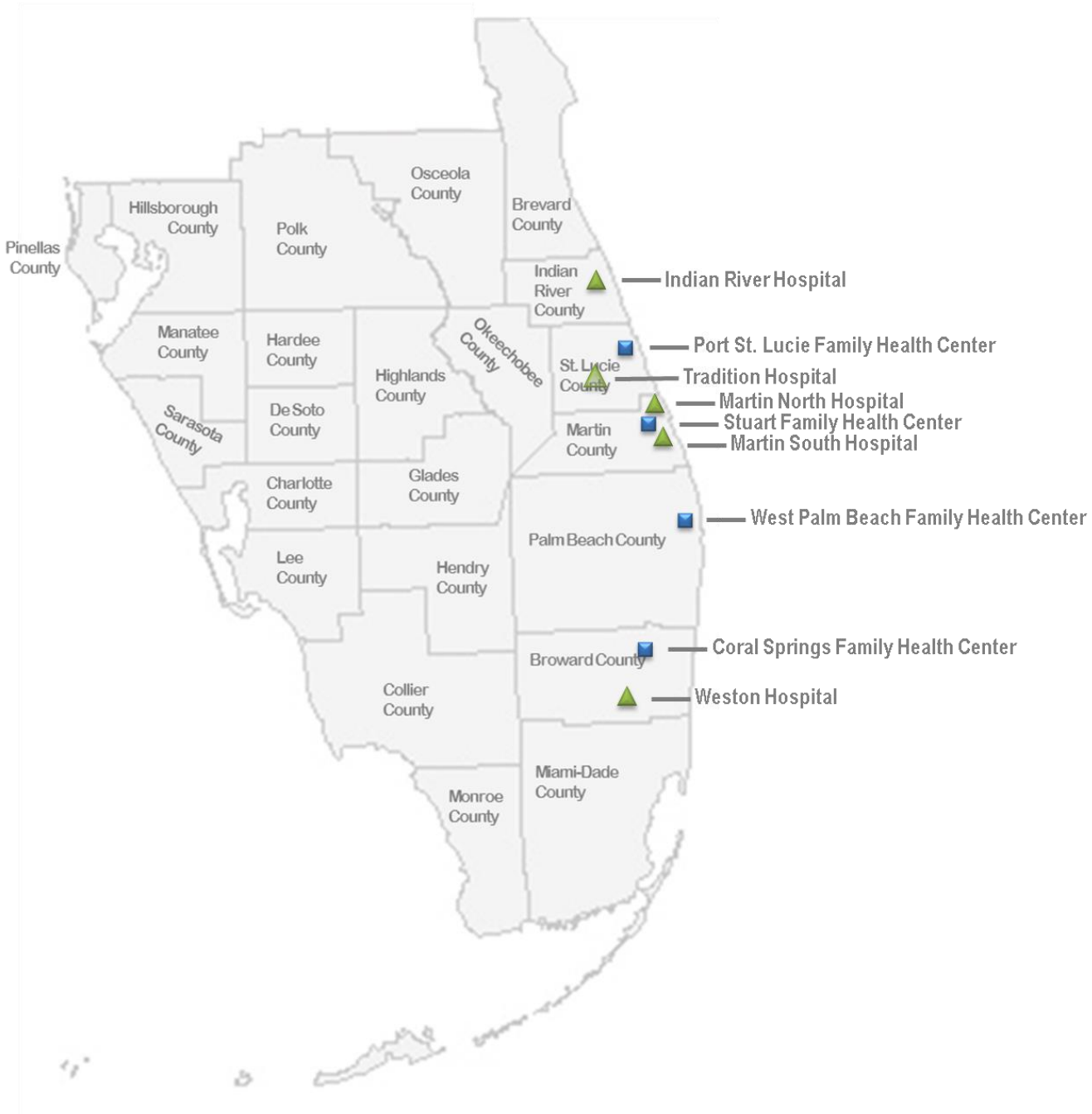


Cleveland Clinic

Every life deserves world class care.

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

CLEVELAND CLINIC HEALTH SYSTEM – SOUTHEAST FLORIDA FACILITIES



The following table sets forth the hospitals operated by the obligated issuers and their affiliates, together with each hospital's staffed bed count as of March 31, 2021:

	Staffed Beds
OBLIGATED	
Cleveland Clinic	1,298
Avon Hospital	126
Euclid Hospital	166
Fairview Hospital	465
Hillcrest Hospital	439
Lutheran Hospital	192
Martin Hospital North	241
Martin Hospital South	100
Marymount Hospital	216
Medina Hospital	148
South Pointe Hospital	172
Tradition Hospital	177
Weston Hospital	230
	3,970
NON-OBLIGATED	
Akron General Medical Center	463
Children's Rehabilitation Hospital	25
Indian River Hospital	250
Lodi Hospital	20
Mercy Hospital	337
Union Hospital	96
	1,191
HEALTH SYSTEM	5,161

CORONAVIRUS DISEASE (COVID-19)

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

In November and December 2020, the System experienced a significant increase in the number of hospitalized patients with COVID-19 at its Ohio facilities. In mid-November, in order to continue to provide access to care needed by the community, the System decided to temporarily postpone non-essential surgeries that required a hospital bed at many Ohio hospitals to preserve hospital beds for COVID-19 patients as well as allow for the temporary reassignment of caregiver resources. After experiencing a peak in daily admissions for COVID-19 patients in December, the System decided to resume non-essential surgeries that had previously been postponed beginning January 4, 2021. Although non-essential services have resumed, patient levels across the System have not returned to budgeted levels. The System is concerned that routine care has been avoided or delayed by patients during the pandemic, which can lead to worsening or other emerging health issues. As a result, various initiatives focused on the recovery of patients served have been implemented across the System.

Since the beginning of the pandemic, the System has provided care to more than 18,300 COVID-19 patients admitted to its Ohio and Florida facilities. In Ohio, the System has cared for approximately 25% of all patients hospitalized with COVID-19. During the early phase of the pandemic, the System established testing sites in its communities to help slow the spread of COVID-19. The System was one of the first health systems to offer COVID-19 testing when the pandemic began and has performed more than 834,000 tests in its laboratories in Ohio and Florida. Additionally, the System is partnering with Breath Tech Corporation, an Astrotech Corporation subsidiary, to develop a COVID-19 breath test to rapidly screen for COVID-19 or related indicators.

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

encourage wearing masks to prevent the spread of COVID-19.

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

Vaccinations of caregivers and patients are being provided in accordance with state and federal guidelines. The System has administered more than 275,000 vaccinations at various vaccination sites in Ohio and Florida and has provided storage, transportation and pharmacy oversight for a mass vaccination site at Cleveland State University. Additionally, in April it was announced that the System and the Mayo Clinic are leading a nationwide campaign, "Get the Vaccine to Save Lives," to encourage adults to get vaccinated against COVID-19. In total, 60 top hospitals and healthcare institutions have joined in support of the campaign.

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

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

AWARDS & RECOGNITION

The Clinic was ranked as the second best hospital in the United States by *U.S. News and World Report* in its 2020-2021 edition of "America's Best Hospitals." For the past 22 years, the Clinic has been ranked among the top five hospitals in the United States. The Clinic's Heart and Vascular Institute, located on the Clinic's main campus, was recognized as the best cardiology and heart surgery program in the United States, an honor the Clinic has received annually for 26 consecutive years. The Clinic was nationally ranked in 14 specialties, including 13 in the top ten nationwide, and is one of just 20 hospitals to earn a place on the *U.S. News'* 2020-2021 Honor Roll. The following table summarizes the Clinic's national rankings by medical specialty:

Cleveland Clinic Children's Hospital located on the Clinic's main campus ranked as one of the top pediatric hospitals in the country. The Children's Hospital earned national recognition in ten out of ten medical specialties ranked by *U.S. News and World Report* in its 2020-2021 edition of "Best Children's Hospitals." The following table summarizes the Clinic's national rankings by pediatric specialty:

The publication also evaluated hospitals by state and metropolitan area with a methodology similar to that used to determine the national rankings. The Clinic was ranked as the best hospital in both the State of Ohio and the Cleveland metropolitan area, which includes the City of Cleveland and its surrounding counties. The report also ranked two additional System hospitals in the top hospitals in the Cleveland metropolitan area and Ohio: Hillcrest Hospital ranked third in the Cleveland metropolitan area and fourth in Ohio; and Fairview Hospital ranked fourth in the Cleveland metropolitan area and fifth in Ohio. Akron General Medical Center, located in Summit County, was ranked first in the Akron metropolitan area and seventh in the State of Ohio. In Florida, Cleveland Clinic Weston was ranked first (tie) in the Miami-Fort Lauderdale metro area and fifth (tie) in the State of Florida; Indian River Hospital ranked 19th (tie) in the State of Florida; and Martin Health System ranked 28th (tie) in the State of Florida.

In March 2021, the Clinic was again named the second best hospital in the world by *Newsweek* as part of its "World's Best Hospitals 2021" list. *Newsweek* partnered with global research data company Statista Inc. to rank the leading hospitals in 25 countries. According to *Newsweek,* its rankings are based on three broad categories including recommendations from more than 74,000 medical experts, doctors, hospital managers, and healthcare professionals; key hospital performance indicators, including mortality rates, patient safety, readmission rates, staffing levels, efficient use of medical imaging and effectiveness and timeliness of care; and patient satisfaction data, including general satisfaction with a hospital, recommendation of a hospital, satisfaction with medical care and satisfaction with service and organizations. Fairview Hospital was ranked in

the top 200 hospitals internationally and the System had five other hospitals listed among the best hospitals nationwide.

The Clinic was recognized in the second edition of *Newsweek's* "World's Best Specialized Hospitals 2021." Since 2019 *Newsweek* has partnered with Statista Inc. to rank the world's best hospitals. For 2021 they expanded their rankings to recognize the best hospitals for six specialties. The Clinic's rankings for each recognized specialty were: Cardiology – No. 1, Endocrinology – No. 2, Gastroenterology – No. 5, Neurology – No. 7, Oncology – No. 17 and Orthopedics – No. 21. *Newsweek* and Statista invited more than 40,000 medical experts to participate in surveys to recommend and assess various hospitals within their respective specializations. Survey results were validated by a global board of medical experts.

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

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

In February 2021, it was announced that the System was recognized by *Forbes* and market researcher, Statista, as one of "America's Best Large Employers of 2021." The System was ranked 78 in a list of top 500 employers. The selection was based on an independent survey of 50,000 employees in 25 different industries working for companies with at least 1,000 people employed in their U.S. locations. Also in February 2021, the System was recognized by Top Workplaces USA 2021. This award celebrates nationally recognized companies that make the world a better place to work together by prioritizing a people-centered culture and giving employees a voice. Award winners are based on opinions provided by employees in a confidential questionnaire on the workplace experience.

FINANCING DEVELOPMENTS

In the second quarter of 2020, the System obtained operating lines of credit with six financial institutions totaling $650 million to further enhance its liquidity position. Each of the lines matured within one year and bore interest at LIBOR plus an applicable spread. In February 2021, the System drew $26.5 million on one line of credit to refinance debt that was assumed in the Mercy member substitution transaction. As of March 31, 2021, the System had $26.5 million drawn and $623.5 million of available capacity. In April and May 2021, four of the lines totaling $425 million expired or were terminated. Also in April and May 2021, one of the remaining existing lines was increased to $150 million and extended for three years, and the other was increased to $150 million and extended for two years. As of May 28, 2021, the System has two operating lines of credit totaling $300 million with $26.5 million drawn and $273.5 million in available capacity.

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

In January 2021, Standard & Poor's (S&P) affirmed its AA rating on the obligated group's outstanding debt and maintained its stable outlook. S&P cited various reasons to support the rating, including a unique and very strong enterprise profile, growing and diversifying operations in three states and internationally, healthy unrestricted reserves, a commitment and focus on leveraging technology for clinical and operating improvement and an effective leadership team that has consistently executed its strategic plans. S&P also noted that the System has strong research and philanthropy capabilities as well as a national and international reputation for quality and innovative services. Challenges to the current rating include Northeast Ohio's unfavorable demographic trends, the System's robust capital spending program and a highly competitive service area in Ohio and Florida.

In April 2021, Moody's Investors Service (Moody's) affirmed its Aa2 rating on the obligated group's outstanding debt and maintained its stable outlook. Moody's cited various factors to support this rating and outlook, including a national and international clinical reputation, a leading local market position, high degree of integration and centralization, strong liquidity with sustained good operating cashflow margins and exceptional fundraising abilities. In its report, Moody's indicated that these strengths compensate for challenges such as the impact of the pandemic, moderately high debt levels, execution risks of multiple strategies that require elevated capital spending in Florida and London, competition in the local market and Florida and constrained revenue growth in northeast Ohio due to weak demographic trends.

CORPORATE GOVERNANCE

The Board of Directors of the Clinic is responsible for all of its operations and affairs and controls its property. The Board of Directors is also responsible for ensuring that the Clinic is organized, and at all times operated, consistent with its charitable mission and its

status as an Ohio nonprofit corporation and tax-exempt charitable organization. The Board of Directors generally meets five times per year, including an annual meeting during which the Clinic's officers are elected and standing committees are appointed. The size of the Board of Directors can range between 15 to 30 Directors (currently there are 29 Directors). The Board of Trustees serves as an advisor to the Board of Directors. Trustees actively serve on the committees of the Board of Directors. At present, there are 83 active Trustees, nine Professional Staff Trustees and 12 Emeritus Trustees. Directors and Trustees each serve four-year terms and are selected on the basis of their expertise and experience in a variety of areas beneficial to the Clinic. Directors and Trustees are not compensated for their service.

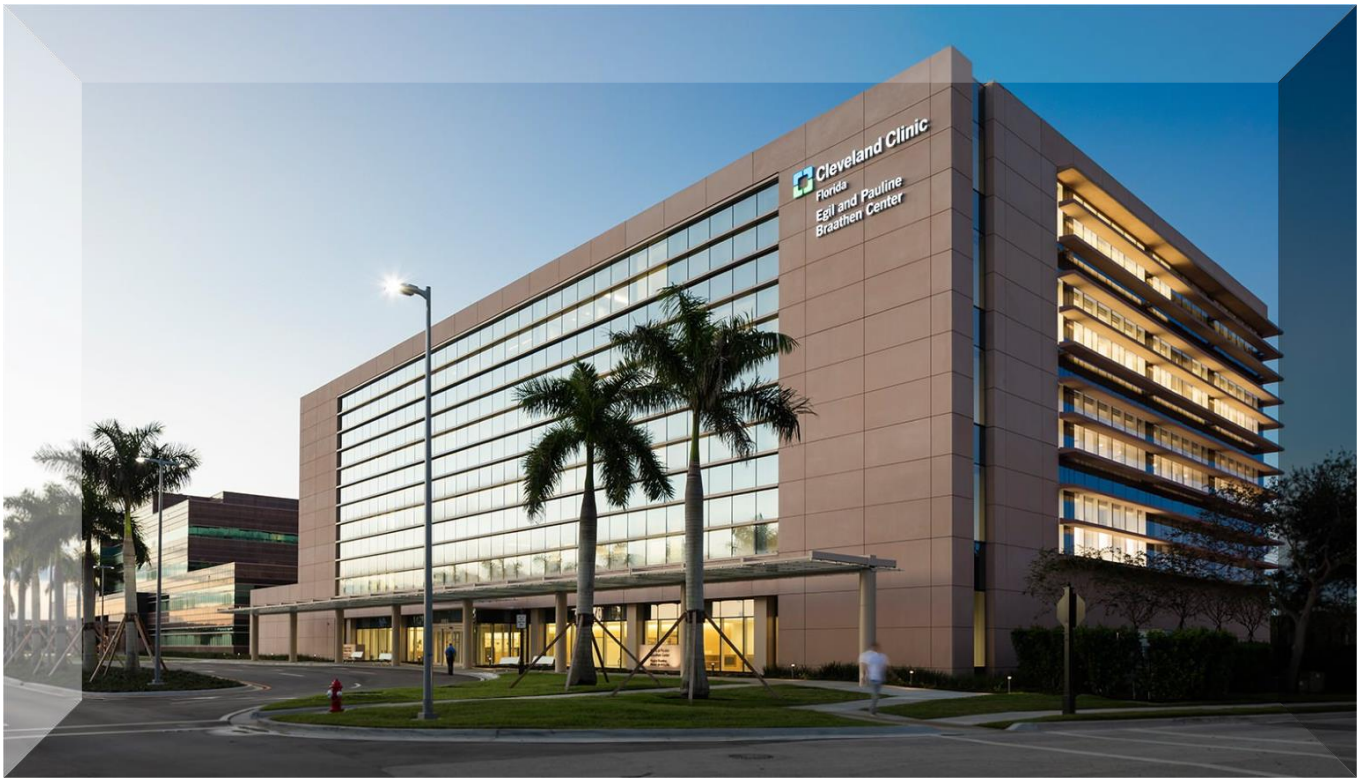
The Board of Directors annually appoints certain committees to perform duties that it delegates to them from time to time, subject to ratification of such action by the Board of Directors. The current committees are as follows:

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

The System maintains a governance model for the Ohio regional hospitals that provides for regional hospital representation on the Clinic's Board of Directors while also maintaining

separate boards of trustees for each hospital. The Ohio regional hospital boards meet quarterly and, among other topics, provide local input on quality and patient safety and community health needs. Each Ohio regional hospital has a president, all of whom report to the President of the Ohio Hospitals and Family Health Centers.

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



Egil and Pauline Braathen Center
Weston, Florida

APPOINTMENTS

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

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

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

EXPANSION AND IMPROVEMENT PROJECTS

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

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

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

Neurological Institute Building – In July 2019, the Clinic announced plans to build a new Neurological Institute building on its main campus to accommodate the expansion of patient care, research and education. The new facility for the Neurological Institute is a proposed 400,000-square-foot building that will centralize all outpatient neurological care on the main campus, bringing together services currently delivered in eight locations. Services are expected to include digitized patient evaluations, imaging, neuro-simulation training, infusion therapy, neurodiagnostics and brain-mapping suites. The facility will also include research space dedicated to investigating new therapies and will serve as the nucleus for neurology-related distance healthcare and digitized data processing and management. The System is re-evaluating the scope and timeline for this project due to the COVID-19 pandemic. A portion of the construction costs are expected to be raised through fundraising efforts and donations.

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

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

Mentor Hospital – In February 2019, the Clinic announced plans to build a small hospital on 47 acres of vacant land in Lake County, Ohio. The hospital will offer both inpatient and outpatient services and is expected to have an emergency department. The System has started the planning and design phase of the project, but the size of the hospital and scope of services are still being determined. In 2020, the Mentor Hospital project was paused due to effects of COVID-19 and the need to preserve resources for our patients, caregivers and community. However, the project has recently resumed with construction expected to begin in 2021 and a hospital opening in 2023.

PHILANTHROPY CAMPAIGN

The Clinic is currently in the final year of "The Power of Every One" philanthropic campaign. The campaign was publicly launched in 2014 with a goal of raising $2 billion by the Clinic's 100th anniversary in 2021. The campaign, which concludes at the end of 2021, will enable the Clinic to transform patient care, promote health, advance research and innovation, train caregivers and revitalize facilities through new construction and renovation of existing buildings. As of March 31, 2021, the Clinic has received pledges, cash and other assets of approximately $2.2 billion for the campaign.

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

OFFICE OF BUSINESS DEVELOPMENT

Innovation at Cleveland Clinic (ICC) encompasses Innovations, Ventures and Partnerships – groups that fulfill the System's responsibility to educate, engage, and enact movement to deliver influential, effective solutions to the market. ICC moves the System toward its vision of being the best place to receive and partner for care through its focus on the success of novel solutions. As one of the System's six core values, innovation allows the System to welcome change, encourage invention and continually seek better, more efficient ways to achieve healthcare goals. Through Innovations, Ventures, and Partnerships, innovation remains an enterprise priority that contributes to the entrepreneurial culture while never losing sight of patient needs.

Innovations focuses on domain portfolios – life science, medical device, health information technology, and delivery solutions – and leverages the passion of the System's 70,000+ caregivers for medical advancement to drive patient-centered solutions to market via a unique approach that assesses, protects, builds, tests and markets the most promising ideas. Since its inception in 2000, Innovations has transacted more than 735 technology licenses, has nearly 2,000 issued patents, and has contributed to a number of the System's historical advancements.

Ventures places strategic investment into companies that address organizational priorities and healthcare white space opportunities for the resolution of large medical problems. Ventures grows the strategic licensed and patented solutions out of the System into investible, standalone companies. In 2020, Ventures guided the formation of three new spin-off companies while overseeing the investment of over $18.4 million across seven companies. Together, Innovations and Ventures have formed a total of 95 spin-off companies, 42 of which are currently operational with 23 monetized.

Recognizing that meaningful change and impact come with collaboration, the complement of strengths within Innovations and Ventures was rounded out with the formation of Partnerships. By combining brand strength and internal capabilities with those of strategic external stakeholders, Partnerships accelerates the deployment of patient-benefitting technologies through opportunities in co-development, co-investment and shared risk and returns while creating diversification in the System's revenue stream. In 2019, the System launched its digital transformation strategy as a cornerstone to doubling the number of patients served. The first initiative, a joint venture with the prominent telehealth company American Well, exemplifies how the System and its partners will transform the business of healthcare. Now operating as a formal company – The Clinic by Cleveland Clinic – the venture has taken its next steps toward growth.

ICC's annual Medical Innovation Summit (Summit) for industry leaders, investors, and entrepreneurs looking to expand their understanding of the healthcare market, the future of medical innovation, and business and collaboration opportunities with the System went virtual in October 2020. Tackling digital healthcare and data privacy, investment trends and precision medicine predictions with a clear patient focus, the Summit held conversations crucial to keep healthcare moving forward through turbulent times. The Summit reflects the combined strategies of Innovations, Ventures, and Partnerships, while showcasing how their collaborative work embraces and drives forward the System's mission of caring for life, researching for health and educating those who serve.

In conjunction with the Summit, ICC released its annual Top 10 Medical Innovations for 2021, which highlights the potential for medical breakthroughs in the coming year. The "Top 10" has been led by ICC since its debut in 2007. Each year, ICC interviews over 75 System experts to elicit more than 150 nominations, which are presented, debated and ranked in a series by two separate committees of clinical experts that vote on the combined lists to establish the Top 10 Medical Innovations.

ICC operates the 50,000-square-foot Cleveland Clinic Incubator on the Clinic's main campus, which is home to the operations of Innovations, Ventures and Partnerships, as well as an incubator facility for approximately 30 health tech companies.

AFFILIATIONS AND PARTNERSHIPS

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

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

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

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

AKRON GENERAL HEALTH SYSTEM

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

Corrective actions have been taken by Akron General related to all of the physician arrangements at issue, and the Clinic has implemented its compliance programs at Akron General. Discussions with the DOJ and related government authorities about the physician arrangements are ongoing, though a timeframe for completion of the inquiry by the government authorities that may arise under the Federal Anti-Kickback Statute, Stark Law, False Claims Act and/or other related laws and regulations cannot be estimated at this time. The outcome of the ongoing dialogue with the DOJ is not expected to be material to the System or negatively impact the operations and/or financial condition of Akron General and/or the System.

CLEVELAND CLINIC MERCY HOSPITAL

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

Becoming a full member of the System is expected to result in many benefits, including expanding high-quality services, improving technology, providing support and investment to address additional needs in the community, building opportunities for physician collaboration and increasing access to highly specialized services for patients in Stark County and surrounding communities. All services at Mercy, including COVID-19 response, will proceed without interruption during the transition period.

INTERNATIONAL GROWTH

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

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

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

In 2017, the Clinic established Cleveland Clinic Connected, a global affiliation program that aims to improve patient care delivery around the world by enabling international healthcare providers to access the Clinic's best practices. The Clinic entered into its first Cleveland Clinic Connected relationship with Luye Medical Group to collaborate on the development of Shanghai Luye Lilan Hospital in the Shanghai New Hong Qiao International Medical Center currently under construction in Shanghai, China. The hospital, which will be owned and operated by Luye Medical Group, is expected to open in 2025. Patients will experience the Clinic model of care through the Clinic's collaboration and guidance in the areas of quality, patient safety and best practices for patient care and engagement. Patients at the facilities have the option of receiving distance health and second opinions from the Clinic, and physicians at the facilities have access to clinical and executive education opportunities aimed at improving healthcare delivery. The Clinic will also support continuous improvement through the provision of advisory services across a spectrum of clinical and non-clinical areas.

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

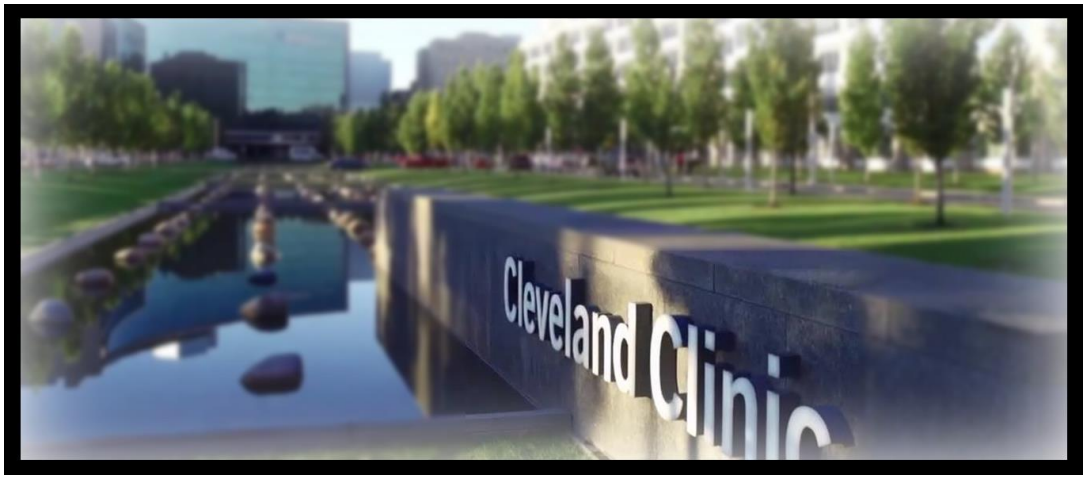
STRATEGY

In January 2021, as the Clinic celebrates its centennial year, CEO and President, Tomislav Mihaljevic, M.D., unveiled a new mission statement - "Caring for life, researching for health and educating those who serve." During the annual State of the Clinic address, Dr. Mihaljevic explained the new mission statement stays true to the past, encompasses the present and outlines the future of the organization. The Clinic's previous mission statements was "To provide better care for the sick, investigation into their problems and further education of those who serve."

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

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

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



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

In 2018, the organization developed a five-year strategy to respond to emerging industry trends. In 2020, the strategy was reassessed through the lens of industry disruption from COVID-19. It was determined that the organization's ambition is unchanged and the strategy remains directionally correct. COVID-19 prompted the organization to re-evaluate priorities, timelines and metrics.

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

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

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

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

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

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

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

In parallel with efforts to transform the care model, the System is redefining its relationships with payors and the payment system to match the broader industry trend toward value-based contracting. The System continues to explore increased forms of risk-taking in payor contracts including pay-for-performance, bundled payments, global risk contracts and narrow network arrangements with payor partners. The System has implemented various risk contracting initiatives, including the co-branded insurance products with payor partners launched in 2018 that focus on specific product and consumer segments.

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

Over the past several years, the System has pursued digitalization of care through virtual visit and telemedicine programs. Telehealth medicine has become increasingly important during the COVID-19 pandemic to ensure the safety of patients that do not need to travel to System facilities and to prevent the spread of COVID-19. These programs are being used to deploy distance health capabilities to more systematically connect physicians, patients and health systems to extend patient access, improve experience, increase efficiency and explore new care delivery models. Patient access initiatives are focused on providing lower cost, efficient care alternatives for lower acuity medical conditions to System patients. In 2019, the System provided over 58,000 virtual visits. Due to suspension of non-essential procedures and appointments and the shift in patient appointments from in-person to telehealth as a result of COVID-19, the System had over 200,000 virtual visits in April 2020 and more than 1,100,000 virtual visits in 2020.

The System continues to identify and pursue ways to improve on every dimension of the organization's performance: relentless pursuit of quality and safety; organization and delivery of

care; effectuation of research and education; and the clearly conveyed message of the System's value to the patient and community. Through these uncertain times, the System is committed to a path to respond to changes in the environment, to lead the field with novel approaches that preserve excellence in care and to offer sustainable models.

COMMUNITY BENEFIT AND ECONOMIC IMPACT

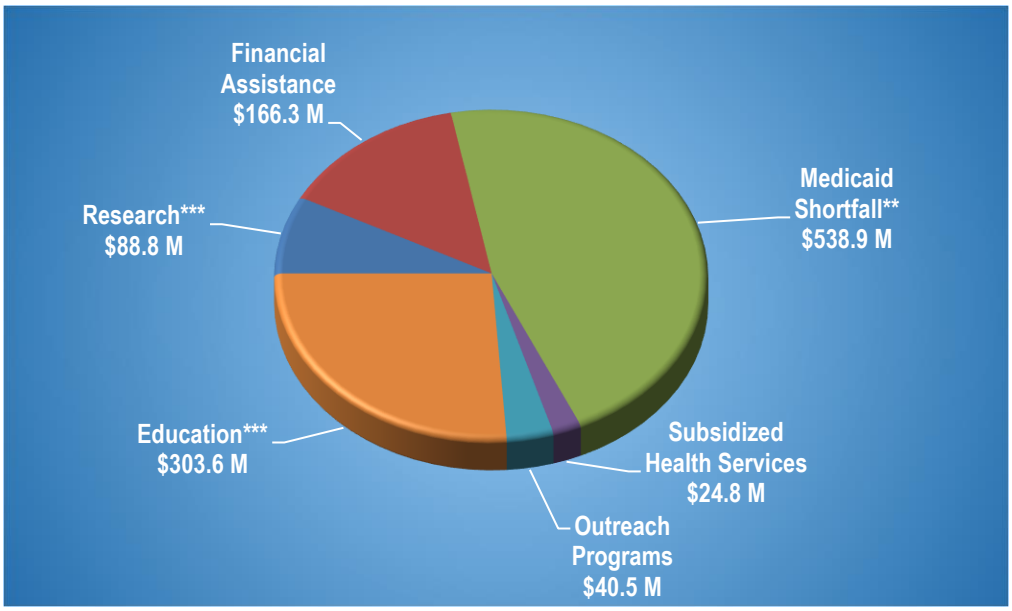
Community Benefit

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

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

In 2019, the System provided $1.16 billion in benefits to the communities it serves. Community benefit information for 2020 was not available at the time of issuance of this Management Discussion and Analysis. The following chart summarizes community benefits for the System:

Cleveland Clinic Health System*
Breakdown of Community Benefit (2019)
$1.16 Billion



* Includes all System operations in Ohio, Nevada and Florida
** Includes net Hospital Care Assurance Program benefit of $5.1 million
*** Research and Education are reported net of externally sponsored funding of $174.5 million.

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

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

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

Outreach Programs: The System is actively engaged in numerous community outreach programs, including initiatives designed to address issues of health equity and social determinants of health, as well as serve vulnerable and at-risk populations in the community. Outreach programs typically fall into three categories: community health services; cash and in-kind donations; and community building. The System's outreach programs include chronic disease prevention and management, clinical services, workforce development and enrollment assistance for government funded health programs. A few of the System's community outreach initiatives are highlighted below:

- The System provided no-cost clinical care to under- and uninsured families at community sites. For example, the Langston Hughes Health and Education Center, a Fairfax neighborhood site, provided multigenerational wellness classes, cancer screening and chronic disease management services.
- Health fairs provided thousands of people with free screenings for diabetes, heart disease, cancer and other health conditions. The Cleveland Clinic Minority Men's Health Fair, Celebrating Sisterhood, Tu Familia and dozens of other community health fairs educated community members on the benefits of preventive healthcare and finding a medical home.
- Education classes were provided to schools, faith-based organizations and community centers in the areas of prevention, chronic disease management and behavioral change, including tobacco cessation, weight management, teen parenting, intimate partner violence and neighborhood safety.
- Collaborative initiatives with community nonprofit organizations and local governments addressed critical population issues. Taskforce strategies focused on decreasing opioid prescription use and overdose deaths. Hospitals and counties provided methods to decrease infant mortality including proactive centering programs.
- Workforce development programs were provided to middle school and high school students to enhance graduation rates, pursue secondary education and obtain employment.

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

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

COVID-19 Community Response

In response to the COVID-19 pandemic, the System is providing COVID-19 related programs including:

- Supporting K-12 education and emotional needs of students with virtual tools; virtual community advisory council meetings; virtual community forums; secured high-speed internet access to the Fairfax/Hough community to help residents access virtual visits and community forums; and community monitoring programs for patients with confirmed or suspected COVID-19, older adults, and those with chronic conditions.
- To help address health disparities, the System partnered with Federally Qualified Health Centers to administer testing in underserved areas and hosted testing events for communities with minority populations and large numbers of residents aged 60 years or older.
- In March 2021, the Clinic opened a community-based vaccination clinic at the Langston Hughes Health and Education Center in Cleveland, open to all Ohio residents who meet the Ohio Department of Health criteria.

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

Community Health Needs Assessment

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

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

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

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

Key CHNA needs identified throughout the System include:

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

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

Economic Impact

The System is the largest private employer in the State of Ohio. The System's most recent Economic and Fiscal Impact Report was released in 2018 and was based on 2016 data, the most current data available at that time. In 2016 the System generated $17.8 billion of the total economic activity in Ohio and has directly and indirectly supported more than 119,000 jobs generating approximately $7.5 billion in wages and earnings. The System's economic activity was accountable for $2.25 billion in federal income taxes paid by employees and vendors and $987 million in total state and local taxes. System-supported households spent $5 billion on goods and services. The System has purchased almost $1.8 billion of goods and services from Ohio businesses. Between 2014 and 2016, the System's construction projects have invested almost $808 million in real property improvements, including renovating existing structures, building new facilities, and improving properties in Ohio. The System continues to contribute significant economic and fiscal value to the State of Ohio and support businesses and professional services across the state. In addition to Ohio, the System contributed $1.2 billion in total economic output in the State of Florida and $47 million of total economic output in the State of Nevada.

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

SUSTAINABILITY

The System supports healthy environments for healthy communities, recognizes the link between environmental and human health and strives to responsibly address and mitigate its environmental impacts. As a national leader in healthcare, the System is in a position to lead by example in the adoption of environmental best practices.

The System's Sustainability team acknowledges its obligation and opportunity to minimize the health impacts of climate change. The System is working to enhance the resilience of its facilities and communities, engaging its stakeholders to personalize climate action and embedding sustainability into its healthcare delivery model.

As a leader in the healthcare industry, the System has publicly committed to compiling an annual sustainability report for its patients, caregivers, communities and global stakeholders through two leading international frameworks:

The United Nations Global Compact and the Global Reporting Initiative. The compilation, titled "Serving Our Present, Caring for Our Future," includes performance metrics and stories, highlights accomplishments and communicates challenges as the System strives to reach its goals. The complete report is available on the Clinic's website (www.clevelandclinic.org/ungc).

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

The System's energy program is designed to enhance patient outcomes and the patient experience while reducing operating expenses. As the model of healthcare evolves, the System is committed to reducing environmental, economic and human impact by reducing energy intensity. The System's commitments to both affordable care and external partnerships with ENERGY STAR and the Better Buildings Challenge have created goals of becoming 20% more energy efficient by 2020 from a 2010 baseline on more than 20 million square feet of facilities. Initiatives include a combination of critical energy efficiency projects and broad occupant education and engagement campaigns. From the December 2010 baseline, the System has realized a 22% reduction in weather normalized source energy use intensity for in-scope and reportable facilities. The System is the third healthcare system to achieve this level of energy reduction.

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

A central component of the Systems' ongoing commitment to responsible energy management is to construct buildings that conform to the U.S. Green Building Council's Leadership in Energy and Environmental Design (LEED). LEED is a third-party certification program and the nationally accepted benchmark for design, construction and operation of environmentally responsible and energy-efficient buildings. All new major construction projects for the System follow LEED standards, with a goal of achieving gold certification. Construction projects also emphasize recycling of debris, with current diversion rates of up to 98% in recent years.

The System currently has 17 LEED-certified buildings, with one additional building pending certification. The System has five buildings that are certified LEED-Gold, including the Cleveland

Clinic Incubator, Marymount Hospital Surgical Expansion, Twinsburg Family Health and Surgery Center, the Tomsich Pathology Laboratories building and the Sheila and Eric Samson Pavilion at Health Education Campus.

DIVERSITY & INCLUSION

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

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

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

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

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

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

CONFLICT OF INTEREST

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

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

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

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

ENTERPRISE RISK MANAGEMENT

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

In the ERM process, risk identification is conducted resulting in a System risk profile that categorizes individual risks based on their impact upon the System's ability to meet its strategic objectives. During this process, certain risks are identified as top risks and then further separated into sub-risks and individual risk components. Extensive risk assessments and mitigation analyses have been prepared during this process whereby risk components are evaluated according to their likelihood of occurring and potential impact should they occur. Risk mitigation activities, including risk response effectiveness, are examined, reviewed and updated as part of this evaluation. The most recent comprehensive evaluation of top risks was concluded in the second quarter of 2019. ERM is an on-going program, with regular reporting to senior management, including the Audit Committee of the Board of Directors, the body with oversight responsibility for ERM.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The System regularly evaluates its internal control environment over the System's financial reporting processes through an initiative based upon concepts established in the Sarbanes-Oxley Act of 2002. The goals of the initiative are to ensure the integrity and reliability of financial information, strengthen internal control in the reporting process, reduce the risk

of fraud and improve efficiencies in the financial reporting process. The initiative reviews all aspects of the financial reporting process, identifies potential risks and ensures that they have been mitigated utilizing a management self-assessment process. As a result of this initiative, management of the System issued a report on the effectiveness of its internal control over financial reporting as part of the issuance of its consolidated financial results for 2020, which is the twelfth year the management report was completed. As part of the internal control evaluation process for 2020, certifications were completed by 134 members of System management, including top leadership. The System is one of the first nonprofit hospitals to issue a management report on the effectiveness of internal control over financial reporting, a step that further increases the transparency of the organization. There were no changes in internal controls over financial reporting during the three months ended March 31, 2021 that have materially affected, or are likely to materially affect, the internal controls over financial reporting for the System.

INDUSTRY OUTLOOK

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

Stephanie Tubbs Jones Family Health Center
East Cleveland, Ohio

In March 2020, S&P changed its outlook for the U.S not-for-profit healthcare sector from stable to negative due to the increasing threat of the COVID-19 pandemic. In January 2021, S&P maintained its negative outlook based on its belief that many providers may still experience pandemic-related volume and operating challenges that could yield cash flow and margin compression throughout 2021. S&P also stated that effective leadership and balance sheet strength could provide a foundation for a post pandemic return to stability.

PATIENTS SERVED

The following table summarizes patient utilization statistics for the System:

Utilization Statistics

	For the quarter ended March 31			
	2021	2020	Variance	%
Inpatient admissions[1]				
Acute admissions	56,443	55,819	624	1.1%
Post-acute admissions	2,706	2,791	-85	-3.0%
	59,149	58,610	539	0.9%
Patient days[1]				
Acute patient days	291,053	273,125	17,928	6.6%
Post-acute patient days	20,475	21,420	-945	-4.4%
	311,528	294,545	16,983	5.8%
Surgical cases				
Inpatient	16,963	16,933	30	0.2%
Outpatient	45,179	41,395	3,784	9.1%
	62,142	58,328	3,814	6.5%
Emergency department visits	196,530	217,404	-20,874	-9.6%
Observations	15,634	17,794	-2,160	-12.1%
Clinic outpatient evaluation and management visits	1,592,380	1,518,108	74,272	4.9%

[1] Excludes newborns

Patients served for the System in 2021 has continued to be impacted by the COVID-19 pandemic. Patients served in the first quarter of 2020 were negatively impacted by the suspension of non-essential procedures in mid-March based on government orders that lasted through early May. The reactivation of clinical services throughout 2020 resulted in steadily increasing patient levels until the fourth quarter when the System experienced an increase in COVID-19 patients and made the decision to postpone non-essential procedures requiring a hospital bed. Although non-essential services resumed January 4, 2021, patient levels across the System have not returned to budgeted levels. The System is concerned that routine care has been avoided or delayed by patients during the pandemic, which can lead to worsening or other emerging health issues. As a result, various initiatives focused on the recovery of patients served have been implemented across the System.

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

Inpatient acute admissions for the System increased 1.1% in the first quarter of 2021 compared to the same period in 2020. Excluding Mercy, acute admissions in the first quarter of

2021 compared to the same period in 2020 decreased 2.5%, including a 3.1% decrease in Ohio and a 0.7% decrease in Florida.

Total surgical cases for the System increased 6.5% in the first quarter of 2021 compared to the same period in 2020. Excluding Mercy, total surgical cases in the first quarter of 2021 compared to the same period in 2020 increased 3.6%, including a 3.0% increase in Ohio and a 5.7% increase in Florida.

Evaluation and management visits for the System increased 4.9% in the first quarter of 2021 compared to the same period in 2020. Excluding Mercy, evaluation and management visits in the first quarter of 2021 compared to the same period in 2020 increased 2.2%, including a 0.7% increase in Ohio and a 7.9% increase in Florida.

LIQUIDITY

Cash and Investments

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

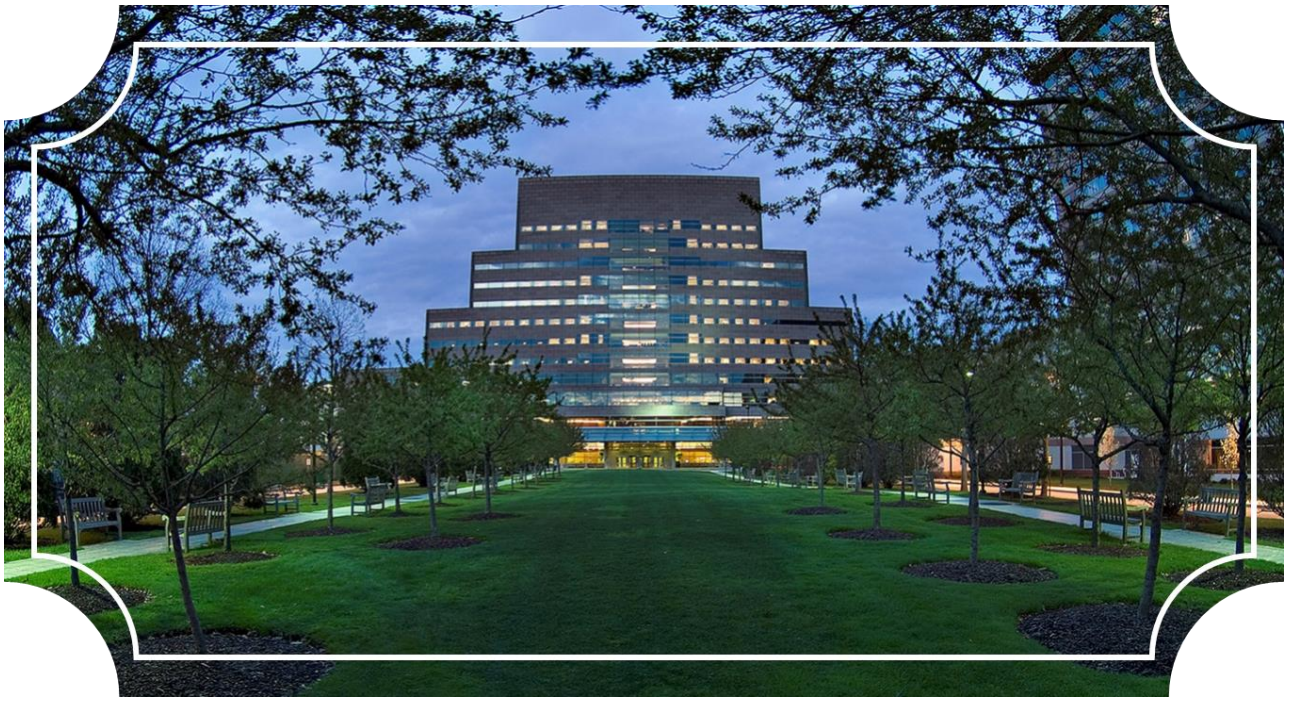
Investments are primarily maintained in a master trust fund administered using a bank as custodian. The Cleveland Clinic Investment Office (CCIO) is charged with the day-to-day management of the System's investments and their strategic direction. These portfolios include the System's general short-term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

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

Cash and Investments
(Dollars in thousands)

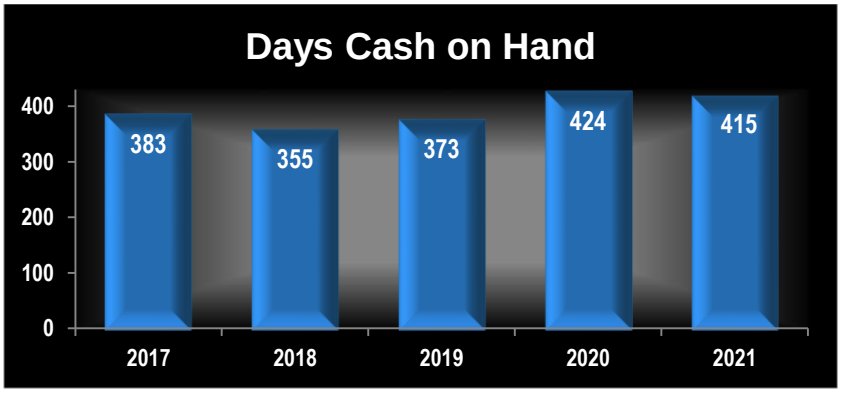
	March 31, 2021		December 31, 2020	
Cash and cash equivalents	$ 1,670,766	13%	$ 1,848,795	14%
Fixed income securities*	2,990,761	23%	2,927,732	23%
Marketable equity securities*	2,787,708	21%	2,706,835	21%
Alternative investments	5,551,424	43%	5,396,334	42%
Total cash and investments	$ 13,000,659	100%	$ 12,879,696	100%
Less restricted investments**	(1,343,901)		(1,480,426)	
Unrestricted cash and investments	$ 11,656,758		$ 11,399,270	
Days cash on hand	415		424	

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



Crile Building
Cleveland Ohio

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



At March 31, 2021, total cash and investments for the System (including restricted investments) were $13.0 billion, an increase of approximately $121 million from $12.9 billion at December 31, 2020. Cash inflows consist of cash provided by operating activities and unrestricted investment income of $293.5 million, net increases in restricted gifts and income of $41.7 million, proceeds from short-term borrowings of $26.5 million and foreign exchanges gains on cash and cash equivalents of $4.0 million. Cash inflows were offset by expenditures for property, plant and equipment of $102.7 million and principal payments on debt of $100.2 million, which includes $26.3 million of payments on debt assumed in the Mercy acquisition. Days cash on hand for the System in the first quarter of 2021 benefited from positive investment returns but was diluted as a result of the acquisition of Mercy. The days cash on hand ratio also excludes $26.5 million of drawn funds on the System's operating lines of credit.

Included in the System's cash and investments are investments held for self-insurance. These investments totaled $212.8 million at March 31, 2021, with an asset mix of 4% cash and short-term investments, 34% fixed-income securities, 31% equity investments and 31% alternative investments. The asset mix reflects the need for liquidity and the objective to maintain stable returns utilizing a lower tolerance for risk and volatility consistent with insurance regulatory requirements.

Also included in the System's cash and investments at March 31, 2021 are $86.2 million of funds held by trustees. Funds held by trustees include $85.7 million of posted collateral. Collateral is primarily comprised of $5.0 million related to a futures and options program within the System's investment portfolio and $79.9 million related to the System's interest rate swap contracts. The swap contracts require that collateral be posted when the market value of a contract in a liability position exceeds a certain threshold. The collateral is returned as the liability is reduced. Investment objectives of funds held by the trustees are designed to preserve principal by investing in highly liquid cash or fixed-income investments. At March 31, 2021, the asset mix of funds held by trustees was 7% cash and short-term investments and 93% fixed-income securities.

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

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

Alternative Investments
(Dollars in thousands)

	March 31, 2021		December 31, 2020	
Hedge funds	$ 3,435,197	62%	$ 3,335,262	62%
Private equity/venture capital	2,116,227	38%	2,061,072	38%
Total alternative investments	$ 5,551,424	100%	$ 5,396,334	100%

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

Investment Return

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

The System's long term investment portfolio, which excludes assets held for self-insurance, reported investment gains of approximately 1.6% for the first quarter of 2021 compared to losses of 8.7% in the first quarter of 2020.

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

Investment Return
(Dollars in thousands)

	For the quarter ended March 31	
	2021	2020
Other unrestricted revenue:		
Interest income and dividends	$ 338	$ 394
Nonoperating gains and losses, net:		
Interest income and dividends	16,715	19,333
Net realized gains on sales of investments	105,345	118,822
Net change in unrealized losses on investments	(11,900)	(715,536)
Income (loss) on alternative investments	139,697	(138,590)
Investment management fees	(6,657)	(6,549)
	243,200	(722,520)
Other changes in net assets:		
Investment income (losses) on restricted investments	4,829	(56,706)
Total investment return	$248,367	($778,832)

Operating Lines of Credit

In the second quarter of 2020, the System obtained lines of credit with six financial institutions totaling $650 million. Each of the lines matured within one year and bore interest at LIBOR plus an applicable spread. The lines of credit were obtained to provide additional liquidity for the System. In February 2021, the System drew $26.5 million on one line of credit to refinance debt that was assumed in the Mercy Hospital member substitution transaction. As of March 31, 2021, the System had $26.5 million drawn and $623.5 million of available capacity. In April and May 2021, four of the lines totaling $425 million expired or were terminated. Also in April and May 2021, one of the remaining existing lines was increased to $150 million and extended for three years, and the other was increased to $150 million and extended for two years. As of May 28, 2021, the System has two operating lines of credit totaling $300 million with $26.5 million drawn and $273.5 million in available capacity.

Long-term Debt

At March 31, 2021, outstanding current and long-term debt for the System, excluding $115.4 million of net unamortized premium/debt issuance costs, totaled $5.1 billion, comprised of $5.0 billion in bonds and notes and $119.4 million in finance leases. Bonds and notes are structured with approximately 77% fixed-rate debt and 23% variable-rate debt. The System utilizes various interest rate swap derivative contracts to manage the risk of increased debt service resulting from rising market interest rates on variable-rate bonds. The total notional amount on the System's interest rate swap contracts at March 31, 2021 was $555.2 million. Using an

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

As of March 31, 2021, approximately $605 million of variable-rate debt are bonds secured by irrevocable direct pay letters of credit or standby bond purchase agreements, and another $66 million are bonds directly placed with a financial institution. Debt supported by letters of credit or standby bond purchase agreements that expire within one year, require repayment of a remarketing draw within one year, or contain a subjective clause that would allow the lender to declare an event of default and cause immediate repayment of such bonds are classified as current liabilities

The remaining $490 million of variable-rate debt includes $89 million of floating rate notes and $401 million of variable-rate bonds supported by the System's self-liquidity program. Debt supported by self-liquidity includes the Series 2014A CP Notes and certain variable-rate bonds that are remarketed in commercial paper or weekly mode. Debt supported by self-liquidity are classified as current liabilities. The System has sufficient liquidity within its investment portfolio to support the self-liquidity program. The System also maintains a $400 million revolving credit facility that can be drawn upon in the case of a failed remarketing of self-liquidity debt. The revolving credit facility expires in May 2022 and bears interest at a variable rate based on various interest rate benchmarks and spreads. There were no amounts outstanding under the revolving credit facility at March 31, 2021.

The System maintains the Cleveland Clinic Health System Obligated Group Commercial Paper Program (CP Program), which provides for the issuance of the Series 2014A CP Notes. The CP Program was established in November 2014 and will terminate no later than January 2044. The Series 2014A CP Notes may be issued from time to time in a maximum outstanding face amount of $100 million and are supported by the System's self-liquidity program. At March 31, 2021, the System did not have any outstanding Series 2014A CP Notes.

The System is subject to certain restricted covenants associated with its debt, including provisions related to certain debt ratios, days cash on hand, and other matters. The System was in compliance with these covenants at March 31, 2021.

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

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

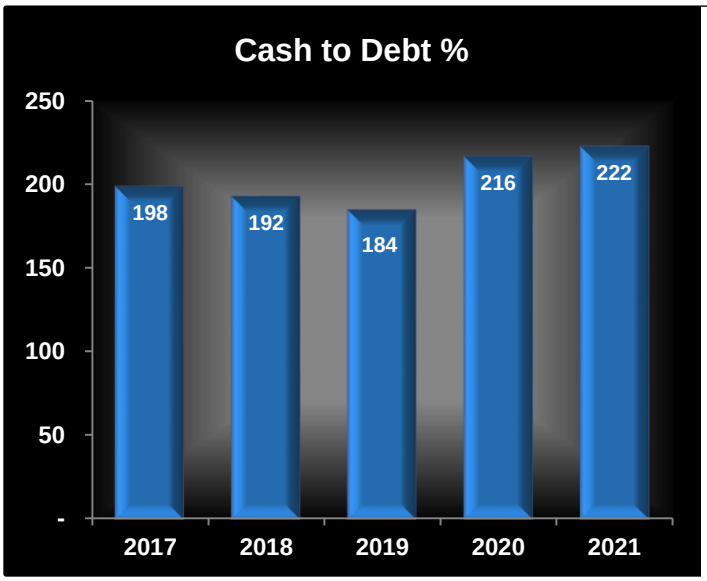
Hospital Revenue Bonds and Notes
(Dollars in thousands)

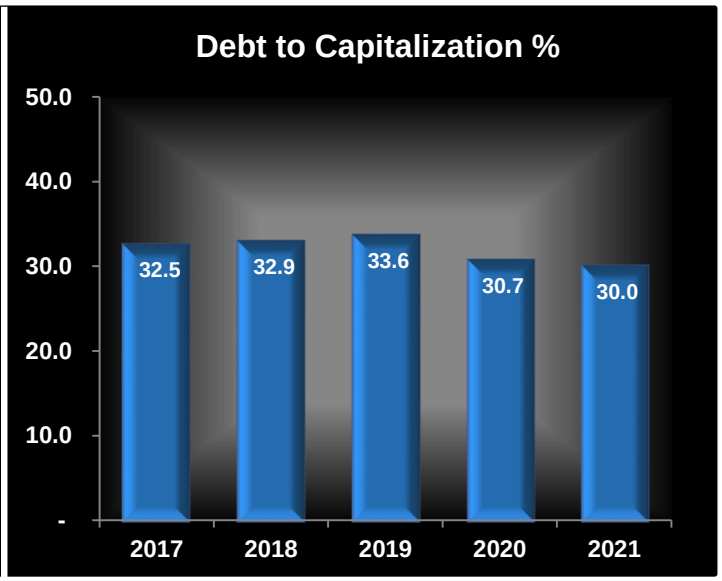
Series	Type	Final Maturity	March 31 2021	December 31 2020
2021 Term Loan	Fixed	2025	$ 64,650	-
2020 Term Loan	Fixed	2025	12,660	$ 12,660
2019A Revenue Bonds	Fixed	2046	247,045	247,045
2019B Revenue Bonds	Fixed	2046	250,320	250,320
2019C Revenue Bonds	Floating	2052	89,000	89,000
2019D Revenue Bonds	Variable	2052	119,340	119,340
2019E Revenue Bonds	Variable	2052	130,405	130,405
2019F Revenue Bonds	Variable	2052	130,405	130,405
2019G Revenue Bonds	Fixed	2042	241,835	241,835
2018 Sterling Notes[1]	Fixed	2068	914,260	902,952
2018 Term Loan, Martin	Variable	2023	36,818	36,818
2017A Revenue Bonds	Fixed	2043	770,025	792,350
2017B Revenue Bonds	Fixed	2043	164,775	166,290
2017C Revenue Bonds	Fixed	2032	7,680	8,135
2016 Private Placement	Fixed	2046	325,000	325,000
2016 Term Loan	Variable	2026	15,170	15,170
2014 Taxable Bonds	Fixed	2114	400,000	400,000
2013A Revenue Bonds	Fixed	2042	34,955	34,955
2013B Revenue Bonds	Variable	2039	201,160	201,160
2013 Keep Memory Alive Bonds	Variable	2037	54,760	54,760
2013 Bonds, Martin	Variable	2032	14,455	14,455
2012A Revenue Bonds	Fixed	2039	255,780	266,060
2011A Revenue Bonds	Fixed	2025	-	79,285
2011B Revenue Bonds	Fixed	2031	21,710	23,345
2011C Revenue Bonds	Fixed	2032	112,025	127,740
2008B Revenue Bonds	Variable	2042	327,575	327,575
2003C Revenue Bonds	Variable	2035	41,905	41,905
Notes Payable	Varies	Varies	2,746	2,901
Finance leases	Varies	Varies	119,380	110,621
			$ 5,105,839	$ 5,152,487

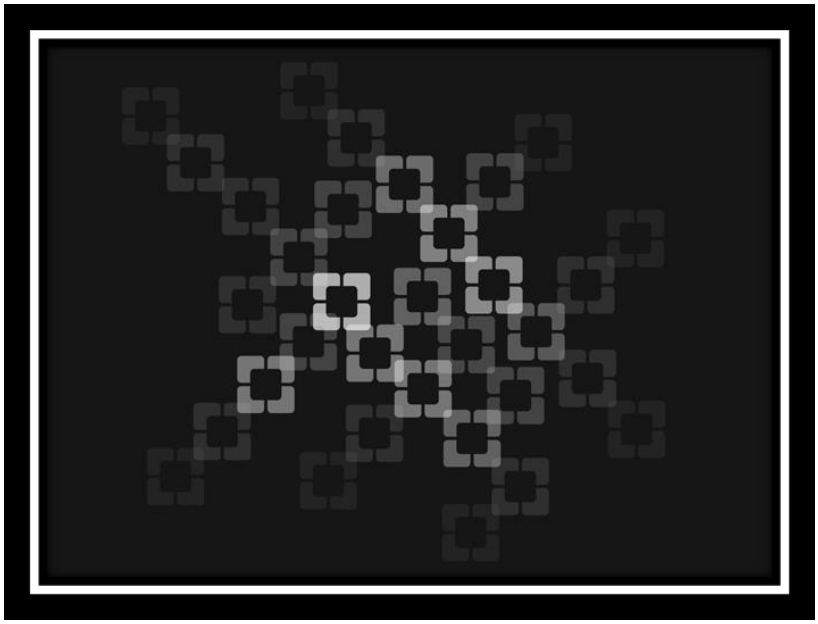
[1]Converted to U.S. dollars using foreign exchange rates at the period end date

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

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







BOND RATINGS

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

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

Bond Ratings

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

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

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

CONSOLIDATED RESULTS OF OPERATIONS

For the Quarters Ended March 31, 2021 and 2020

The following narrative describes the consolidated results of operations for the System for the quarters ended March 31, 2021 and 2020. The consolidated results of operations for 2021 includes the financial operations of Mercy, which became a consolidated entity of the System February 1, 2021. For comparative purposes, certain financial activity in the narrative below is presented on a same facility basis, which excludes the financial operations of Mercy for the quarter ended March 31, 2021. For the two months ended March 31, 2021, Mercy had total unrestricted revenues of $59.1 million, operating loss of $1.3 million and a deficiency of revenues over expenses of $1.3 million.

Operating income for the System in the first quarter of 2021 was $61.7 million, resulting in an operating margin of 2.2%, as compared to an operating loss of $39.9 million and an operating

margin of -1.5% in the first quarter of 2020. On a same facility basis (excluding Mercy's operating loss of $1.3 million), operating income for the System was $63.0 million, resulting in an operating margin of 2.3%. The higher operating income on a same facility basis resulted from a 6.3% increase in total unrestricted revenues that outpaced total unrestricted expense growth of 2.3% in the same period. Nonoperating gains for the System were $288.6 million in the first quarter of 2021 compared to nonoperating losses of $790.7 million in the first quarter of 2020. The increase from the prior year was primarily due to favorable investment returns in the first quarter of 2021 compared to the same period in 2020. Overall, the System reported an excess of revenues over expenses of $350.3 million in the first quarter of 2021 compared to a deficiency of revenues over expenses of $830.6 million in the first quarter of 2020.

The System's net patient service revenue increased $201.9 million (8.7%) in the first quarter of 2021 compared to the same period in 2020. On a same facility basis, net patient service revenue increased $144.5 million (6.2%). Patients served for the System in 2021 has continued to be impacted by the COVID-19 pandemic. Patients served in the first quarter of 2020 were negatively impacted by the suspension of non-essential procedures in mid-March based on government orders that lasted through early May. For a description of the impact and actions taken by the System as a result of the COVID-19 pandemic, see "CORONAVIRUS DISEASE (COVID-19)." On a same facility basis, acute admissions decreased 2.5%, total surgical cases increased 3.6% and outpatient evaluation and management visits increased 2.2% in the first quarter of 2021 compared to the same period in 2020. In addition, the System continued to experience a strong case mix with higher acuity patients in the first quarter of 2021 compared to the same period in 2020. Net patient revenue has also benefited from rate increases on the System's managed care contracts that became effective in 2021. Over the last few years, the System has initiated national, regional and local revenue management projects designed to improve patient care access throughout the System while striving to ensure the safety of patients, visitors and caregivers.

Other unrestricted revenues increased $21.0 million (8.3%) in the first quarter of 2021 compared to the same period in 2020. On a same facility basis, other unrestricted revenues increased $19.3 million (7.6%). The increase in same facility other unrestricted revenues was primarily due to a $28.9 million increase in outpatient pharmacy revenue primarily due to higher utilization of outpatient and specialty drugs and implementation of a contract pharmacy program, a $2.1 million increase in earnings from joint ventures recorded under the equity method of accounting, and a $2.1 million increase in grants earned. The increases were offset by a $12.2 million decrease in gifts and assets released from restriction primarily due to the shift in the timing of an annual philanthropy event from the first quarter of 2020 to the fourth quarter of 2021 and a $1.7 million decrease in revenues related to parking, food service and hotels primarily due to lower patient activity and visitation restrictions the were implemented at the start of the pandemic.

Total operating expenses increased $121.3 million (4.6%) in the first quarter of 2021 compared to the same period in 2020. On as same facility basis, total operating expenses increased $60.9 million (2.3%). During the first quarter of 2021, the System continued to incur incremental supply costs and other expenditures related to COVID-19 in an effort to provide safe and effective patient care. In order to offset the impact of the COVID-19 pandemic, the System has taken measures to reduce costs and expenditures, including restricting travel,

reducing purchased/administrative service expenses and other controllable costs, suspending annual pay increases for caregivers in 2020 and postponing non-critical capital expenditures. Additionally, the System has implemented Care Resource Optimization initiatives over the last several years to address the growth in expenses caused by inflationary pressures in many expense categories such as salaries, benefits and specialized pharmaceuticals. Care Resource Optimization initiatives are designed to transform patient care and business models in an effort to provide quality, affordable patient care. The System identifies, quantifies and implements these initiatives through an extensive analysis of the cost structure. The System continues to develop and implement cost management and containment plans designed to make a more affordable care model for patients and to enable investments in key strategic initiatives.

Salaries, wages and benefits increased $91.1 million (6.1%) in the first quarter of 2021 compared to the same period in 2020. On a same facility basis salaries, wages and benefits increased $56.6 million (3.8%). Same facilities salaries, excluding benefits, increased $35.7 million (2.8%) due primarily to a 1.6% increase in average full-time equivalent employees in the first quarter of 2021 compared to the same period in 2020. Same facility benefit costs increased $20.9 million (9.3%) during the same period. The System experienced a $6.2 million increase in maternity and parental leave (an enhanced benefit to caregivers that became effective in the second quarter of 2020), a $3.1 million increase in FICA expenses, a $3.1 million increase in employee healthcare costs, a $3.0 million increase in defined contribution pension plan expenses and a $2.7 million increase in unemployment and workers compensation expenses.

Supplies expense increased $27.8 million (10.3%) in the first quarter of 2021 compared to the same period in 2020. On a same facility basis, supplies expense increased $18.6 million (6.9%). The increase in same facility supplies was comprised of a $28.5 million increase in medical supplies and implantables offset by a $9.9 million decrease in non-medical supplies. The increase is medical supplies and implantables is partially due to the increase in surgical cases. The System has also incurred incremental supply costs for personal protective equipment and other supplies to protect caregivers in the organization and provide safe and effective patient care at its facilities. The decrease in non-medical supplies was driven primarily by a decrease in catering, minor equipment and software costs as part of the System's initiatives to reduce controllable costs.

Purchased services and other fees increased $17.9 million (10.1%) in the first quarter of 2021 compared to the same period in 2020. On a same facility basis, purchased services and other fees increased $11.1 million (6.2%). The increase in same facility purchased services and other fees was primarily related to a $14.8 million increase in state franchise fee expenses, a $6.6 million increase in software and hardware technology costs related to maintenance agreements and software subscriptions and a $2.1 million increase in purchased medical services including lab costs. The increases were partially offset by a reduction in various costs related to certain System projects and initiatives that are part of the System's initiatives to reduce expenses.

Administrative services decreased by $7.7 million (15.4%) in the first quarter of 2021 compared to the same period in 2020. On a same facility basis, administrative services decreased $8.7 million (17.5%). The decrease in same facility administrative services was primarily due to a $6.7 million decrease in travel and meeting costs that are part of the System's initiatives to

reduce expenses. The System also had a $1.4 million decrease in professional and consulting fees and a $1.2 million decrease in research services.

Facilities expense increased $1.3 million (1.4%) in the first quarter of 2021 compared to the same period in 2020. On a same facility basis, facilities expenses decreased $1.4 million (1.5%). The decrease in same facility expenses was primarily due to a $1.5 million decrease in repair and maintenance costs, as well as decreases in several other facility supplies and services expenses. The decreases were partially offset by a $1.3 million increase in utilities expense.

Insurance expense increased $1.7 million (7.4%) in the first quarter of 2021 compared to the same period in 2020. On a same facility basis insurance expense increased $1.3 million (5.9%). The increase in same facility insurance expense is primarily due to the reduction of loss accruals recorded in the first quarter of 2020.

Interest expense decreased $3.8 million (9.1%) in the first quarter of 2021 compared to the same period in 2020. On a same facility basis, interest expense decreased by $4.1 million (9.9%). The decrease in same facility interest expense is primarily due to regularly scheduled principal payments in 2021 and lower interest rates attributable to the System's outstanding variable-rate debt. The System also refunded $64.7 million of fixed-rate debt in January 2021 at a lower interest rate.

Depreciation and amortization expenses decreased $5.0 million (3.2%) in the first quarter of 2021 compared to the same period in 2020. On a same facility basis depreciation and amortization expenses decreased $7.3 million (4.7%). Changes in same facility depreciation include property, plant and equipment that was fully depreciated in 2020, offset by depreciation for property, plant and equipment that was acquired and placed into service after the first quarter of 2020.

Gains and losses from nonoperating activities are recorded below operating income in the statement of operations. These items resulted in net gains to the System of $288.6 million in the first quarter of 2021 compared to net losses of $790.7 million in the first quarter of 2020, resulting in a favorable variance of $1,079 million. Investment returns were favorable by $965.7 million in the first quarter of 2021 compared to the same period in 2020. The System's long-term investment portfolio reported investment gains of 1.6% for the first quarter of 2021 compared to losses of 8.7% in the first quarter of 2020. Derivative gains and losses were favorable by $107.6 million in the first quarter of 2021 compared to the same period in 2020. Derivative gains and losses result from changes in currency exchange rates associated with the System's foreign exchange forward currency contracts and changes in interest rate benchmarks associated with the System's interest rate swap agreements, including net interest paid or received under the swap agreements. Other nonoperating gains and losses were favorable by $5.9 million in the first quarter of 2021 compared to the same period in 2020.

BALANCE SHEET – MARCH 31, 2021 COMPARED TO DECEMBER 31, 2020

The following narrative describes the consolidated balance sheets for the System as of March 31, 2021 and December 31, 2020. The consolidated balance sheets at March 31, 2021 includes Mercy, which became a consolidated entity of the System February 1,

2021. For comparative purposes, certain financial activity in the narrative below is presented on a same facility basis, which excludes balance sheet information for Mercy as of March 31, 2021.

Cash and cash equivalents decreased $120.3 million (11.5%) from December 31, 2020 to March 31, 2021. On a same facility basis, cash and cash equivalents decreased $165.5 million (15.8%). The majority of the System's cash and cash equivalents are held in operating bank accounts and money market accounts for general expenditures. The decrease in same facility cash equivalents relates to the timing of operating cash flows and transfers to or from the investment portfolio.

Patient accounts receivable increased $52.6 million (4.2%) from December 31, 2020 to March 31, 2021. On a same facility basis, patient accounts receivable increased $17.5 million (1.4%) The increase in same facility patient receivables is primarily attributable to the increase in patients served in the first quarter of 2021 compared to the same period in 2020 and rate increases on the System's managed care contracts that became effective in January 2021. Patient accounts receivable also tend to be seasonally higher in the first quarter as many insurance plans have annual deductible requirements. These balances are generally more difficult to collect than traditional insurance payors. The System has various initiatives to enhance cash collection efforts and create efficiencies in the revenue cycle process. Days revenue outstanding for the System, which is calculated based on average daily revenue for the most recent quarter, increased from 45 days at December 31, 2020 to 46 days at March 31, 2021.

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

Other current assets increased $92.1 million (16.8%) from December 31, 2020 to March 31, 2021. On a same facility basis, other current assets increased $78.4 million (14.3%). The increase in same facility other current assets was primarily due to a $39.5 million increase in receivables related to Medicaid programs, a $33.6 million increase in prepaid expenses driven by annual information technology contracts and a 20.1 million increase in management fee receivables. The increases in same facility other current assets were partially offset by a $11.6 million decrease in inventories, a $4.6 million decrease in pledges receivable and a $3.5 million decrease in receivables related to research projects.

Unrestricted long-term investments increased by $377.8 million (3.6%) from December 31, 2020 to March 31, 2021. On a same facility basis, unrestricted long-term investments increased by $377.8 million (3.6%). The increase in same facility long-term investments was primarily due to $243.2 million of unrestricted investment income experienced in the System's investment portfolio that experienced gains of $1.6% in the first quarter of 2021. Unrestricted investments also increased as a result of the payment of a $25.0 million dividend form the System's captive

insurance subsidiary. Other changes in the unrestricted investments include transfers to or from operating cash based on the liquidity needs of the System.

Funds held by trustees decreased $24.2 million (21.9%) from December 31, 2020 to March 31, 2021. On a same facility basis, funds held by trustees decreased $24.6 million (22.3%). The decrease in same facility funds held by trustees is due to a $24.6 million decrease in collateral posted with the counterparties on the System's derivative contracts.

Assets held for self-insurance decreased by $21.2 million (11.8%) from December 31, 2020 to March 31, 2021. On a same facility basis, assets held for self-insurance decreased by 21.2 million (11.8%). The decrease in same facility self-insurance assets is primarily due to the payment of a $25.0 million dividend from the System's captive insurance subsidiary to the Clinic off set by positive investment returns in the System's captive insurance investment portfolio experienced in the first quarter of 2021.

Donor restricted assets increased $31.5 million (3.1%) from December 31, 2020 to March 31, 2021. On a same facility basis, donor restricted assets increased $28.9 million (2.9%). The increase in same facility donor restricted assets was primarily from the receipt of donor restricted gifts and investment income on restricted investments in excess of expenditures from restricted funds.

Net property, plant and equipment increased $21.4 million (0.4%) from December 31, 2020 to March 31, 2021. On a same facility basis, net property, plant and equipment decreased $62.6 million (1.1%). The System had same facility net expenditures for property, plant and equipment of $102.1 million, offset by depreciation expense of $147.9 million. The System also had proceeds from the sale of property, plant and equipment of $10.3 million and foreign currency translation gains of $9.0 million. Capital expenditures in 2020 include amounts paid on retainage liabilities recorded at December 31, 2020 and exclude assets acquired through finance leases and other financing arrangements. Retainage liabilities decreased $19.2 million, and new finance leases totaled $3.5 million. Expenditures for property, plant and equipment were incurred at numerous facilities across the System and include expenditures for strategic construction, expansion and technological investment as well as replacement of existing facilities and equipment. Beginning in 2020 and continuing into the first quarter of 2021, the System has re-evaluated the scope and timeline for certain capital projects to preserve liquidity during the COVID-19 pandemic. For a description of a few of the System's current projects, refer to "EXPANSION AND IMPROVEMENT PROJECTS."

Operating lease right-of-use assets increased $12.3 million (3.4%) from December 31, 2020 to March 31, 2021. On a same facility basis, operating lease right-of-use assets increased $2.6 million (0.7%). The increase in same facility operating lease right-of-use assets was due to the addition of new operating leases recorded during the first quarter of 2021 offset by the reduction in the value of future lease payments through the recognition of operating lease expenses.

Other noncurrent assets increased $32.5 million (5.0%) from December 31, 2020 to March 31, 2021. On a same facility basis, other noncurrent assets increased $28.2 million (4.4%). The increase in same facility other noncurrent assets was primarily due to a $16.6 million increase in deferred compensation plan assets, a $5.0 million increase in goodwill primarily due to a physician practice acquisition and a $4.1 million increase in investments in affiliates, primarily related to joint venture rehabilitation hospitals.

Accounts payable decreased $75.2 million (14.2%) from December 31, 2020 to March 31, 2021. On a same facility basis accounts payable decreased $93.5 million (17.7%). The decrease in same facility accounts payable was primarily attributable to the timing of payment processing for trade payables, a $19.2 million decrease in retainage liabilities for current construction projects offset by a $27.5 million increase in outstanding checks.

Compensation and amounts withheld from payroll increased $74.3 million (16.0%) from December 31, 2020 to March 31, 2021. On a same facility basis compensation and amounts withheld from payroll increased $60.5 million (13.0%). The increase in same facility compensation and amounts withheld from payroll was primarily attributable to the timing of payroll and the growth in employee benefit accruals.

Short-term borrowings increased $26.5 million (100%) from December 31, 2020 to March 31, 2021. On a same facility basis short-term borrowings increased $26.5 million (100%). The increase in same facility short-term borrowings was due to drawing $26.5 million from one of the System's lines of credit to pay debt assumed in the Mercy acquisition.

Current portion of long-term debt increased $3.1 million (3.1%) from December 31, 2020 to March 31, 2021. On a same facility basis current portion of long-term debt increased $2.8 million (2.8%). Changes in the current portion of long-term debt include the reclassification of regularly scheduled principal payments from long-term to current that are due within one year, offset by principal payments made in 2021.

Variable-rate debt classified as current was flat from December 31, 2020 to March 31, 2021. Long-term debt classified as current consists of variable-rate bonds supported by the System's self-liquidity program and bonds with letters of credit or standby bond purchase agreements that expire within one year, require repayment of a remarketing draw within one year or contain a subjective clause that would allow the lender to declare an event of default and cause immediate repayment of such bonds.

Other current liabilities decreased $20.2 million (2.7%) from December 31, 2020 to March 31, 2021. On a same facility basis other current liabilities decreased $35.3 million (4.8%). The decrease in same facility other current liabilities is primarily due to a $36.7 million decrease in accrued interest payable related to debt that pays interest semi-annually in January and July of each year and $15.6 million decrease in state franchise fee liabilities primarily related to the timing of payments to the State of Ohio. These increases were partially offset by a $9.8 million increase in accrued employee healthcare benefits, a $6.5 million increase in deferred revenue related to international management contracts and a $1.9 million increase in operating lease liabilities.

Long-term debt decreased $55.5 million (1.2%) from December 31, 2020 to March 31, 2021. On a same facility basis long term debt decreased $93.9 million (2.0%). The decrease in same facility long-term debt is primarily due to the reclassification of regularly scheduled principal payments from long-term to current for debt payments due within one year. These decreases were offset by $11.3 million of foreign currency translation losses on the 2018 Sterling Notes.

Professional and general insurance liability reserves increased $11.9 million (5.5%) from December 31, 2020 to March 31, 2021. On a same facility basis professional and general liability reserves increased $11.9 million ($5.5%). The increase in same facility insurance liability reserves is due to expenses recorded for the accrual of current and prior year claims estimates in excess of claim liability payments.

Accrued retirement benefits decreased $14.1 million (4.7%) from December 31, 2020 to March 31, 2021. On a same facility basis accrued retirement benefits decreased $14.1 million (4.7%). The decrease in same facility accrued retirement benefits is comprised of a $13.5 million decrease in the System's defined benefit pension plan liabilities and a $0.6 million decrease in other postretirement benefit liabilities. The decrease in defined benefit plan liabilities was due to a net periodic benefit, which resulted from the expected return on plan assets in excess of interest cost incurred on plan obligations.

Operating lease liabilities increased $8.6 million (2.7%) from December 31, 2020 to March 31, 2021. On a same facility basis operating lease liabilities increased $1.5 million (0.5%). The increase in same facility operating lease liabilities was due to the addition of new operating leases recorded during 2021 partially offset by the reclassification of operating lease payments from long-term to current.

Other noncurrent liabilities decreased $7.6 million (1.1%) from December 31, 2020 to March 31, 2021. Same facility other noncurrent liabilities decreased $10.3 million (1.5%). The decrease in same facility other noncurrent liabilities is primarily due to a $35.4 million decrease in liabilities related to the System's derivative agreements. The decrease was partially offset by a $17.6 million increase in deferred compensation plan liabilities and a $4.0 million increase in noncurrent third party liabilities.

Total net assets increased $380.8 million (2.9%) from December 31, 2020 to March 31, 2021. Net assets without donor restrictions increased $352.5 million (3.0%) primarily due to excess of revenues over expenses of $350.3 million and net assets released from restriction for capital purposes of $2.2 million. Net assets with donor restrictions increased $28.3 million (2.1%), primarily due to gifts of $30.9 million and investment income of $4.8 million offset by assets released from restrictions of $12.0 million.

Union Hospital
Dover, Ohio

FORWARD-LOOKING STATEMENTS

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

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

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

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