Interim Unaudited Consolidated Financial Statements and Other Information

For The Period Ended September 30, 2018

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

Contents

Unaudited Consolidated Balance Sheets

($ in thousands)

	September 30 2018	December 31 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 256,855	$ 241,227
Patient receivables, net	1,132,497	1,012,903
Investments for current use	51,051	154,971
Other current assets	430,968	374,726
Total current assets	1,871,371	1,783,827
Investments:		
Long-term investments	7,834,162	7,729,697
Funds held by trustees	40,114	69,234
Assets held for self-insurance	112,723	159,802
Donor restricted assets	752,163	717,410
	8,739,162	8,676,143
Property, plant, and equipment, net	4,921,427	4,699,697
Other assets:		
Pledges receivable, net	157,430	151,019
Trusts and interests in foundations	94,320	80,643
Other noncurrent assets	443,860	475,010
	695,610	706,672
Total assets	$ 16,227,570	$ 15,866,339

Unaudited Consolidated Balance Sheets (continued)

($ in thousands)

	September 30 2018	December 31 2017
Liabilities and net assets		
Current liabilities:		
Accounts payable	$ 443,876	$ 503,691
Compensation and amounts withheld from payroll	410,725	345,446
Current portion of long-term debt	189,291	457,813
Variable rate debt classified as current	495,685	573,270
Other current liabilities	462,632	438,662
Total current liabilities	2,002,209	2,318,882
Long-term debt:		
Hospital revenue bonds	3,254,952	2,861,438
Notes payable and capital leases	97,230	134,840
	3,352,182	2,996,278
Other liabilities:		
Professional and general insurance liability reserves	148,878	147,327
Accrued retirement benefits	478,705	492,833
Other noncurrent liabilities	521,341	567,566
	1,148,924	1,207,726
Total liabilities	6,503,315	6,522,886
Net assets:		
Unrestricted	8,677,723	8,346,649
Temporarily restricted	686,307	662,189
Permanently restricted	360,225	334,615
Total net assets	9,724,255	9,343,453
Total liabilities and net assets	$ 16,227,570	$ 15,866,339

See notes to unaudited consolidated financial statements.

Unaudited Consolidated Statements of Operations and Changes in Net Assets

($ in thousands)

Operations

	Three Months Ended September 30	
	2018	2017
Unrestricted revenues		
Net patient service revenue before provision for uncollectible accounts		$1,916,818
Provision for uncollectible accounts		(71,546)
Net patient service revenue	2,025,319	1,845,272
Other	211,935	203,490
Total unrestricted revenues	2,237,254	2,048,762
Expenses		
Salaries, wages, and benefits	1,221,888	1,131,857
Supplies	213,744	192,609
Pharmaceuticals	271,289	251,243
Purchased services and other fees	133,655	132,570
Administrative services	61,877	43,800
Facilities	90,047	88,928
Insurance	15,989	6,676
	2,008,489	1,847,683
Operating income before interest, depreciation, and amortization expenses	228,765	201,079
Interest	34,832	35,950
Depreciation and amortization	123,737	124,411
Operating income before special charges	70,196	40,718
Special charges	390	1,035
Operating income	69,806	39,683
Nonoperating gains and losses		
Investment return	83,932	231,629
Derivative gains (losses)	6,682	(2,339)
Other, net	363	(41,358)
Net nonoperating gains and losses	90,977	187,932
Excess of revenues over expenses	160,783	227,615

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

($ in thousands)

Changes in Net Assets

	Net Assets			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Total net assets at July 1, 2017	$ 7,784,092	$ 612,900	$ 317,062	$ 8,714,054
Excess of revenues over expenses	227,615	-	-	227,615
Donated capital and assets released from restrictions for capital purposes	3,301	(3,301)	-	-
Gifts and bequests	-	20,825	8,441	29,266
Transfer of net assets	15	(15)	-	-
Net investment income	-	13,622	-	13,622
Net assets released from restrictions used for operations included in other unrestricted revenues	-	(9,801)	-	(9,801)
Retirement benefits adjustment	(658)	-	-	(658)
Change in interests in foundations	-	474	-	474
Change in value of perpetual trusts	-	-	462	462
Foreign currrency translation	10,559	-	-	10,559
Net change in unrealized losses on nontrading investments	(75)	-	-	(75)
Other	1	-	-	1
Increase in net assets	240,758	21,804	8,903	271,465
Total net assets at September 30, 2017	$ 8,024,850	$ 634,704	$ 325,965	$ 8,985,519
Total net assets at July 1, 2018	$ 8,523,251	$ 677,235	$ 355,830	$ 9,556,316
Excess of revenues over expenses	160,783	-	-	160,783
Donated capital and assets released from restrictions for capital purposes	5,679	(5,614)	-	65
Gifts and bequests	-	17,751	4,176	21,927
Transfer of net assets	(147)	147	-	-
Net investment income	-	8,710	-	8,710
Net assets released from restrictions used for operations included in other unrestricted revenues	-	(12,014)	-	(12,014)
Retirement benefits adjustment	(715)	-	-	(715)
Change in interests in foundations	-	92	-	92
Change in value of perpetual trusts	-	-	219	219
Foreign currrency translation	(12,662)	-	-	(12,662)
Other	1,534	-	-	1,534
Increase in net assets	154,472	9,072	4,395	167,939
Total net assets at September 30, 2018	$ 8,677,723	$ 686,307	$ 360,225	$ 9,724,255

See notes to unaudited consolidated financial statements.

Unaudited Consolidated Statements of Operations and Changes in Net Assets

($ in thousands)

Operations

	Nine Months Ended September 30	
	2018	2017
Unrestricted revenues		
Net patient service revenue before provision for uncollectible accounts		$ 5,838,471
Provision for uncollectible accounts		(243,357)
Net patient service revenue	$ 5,922,299	5,595,114
Other	645,648	687,008
Total unrestricted revenues	6,567,947	6,282,122
Expenses		
Salaries, wages, and benefits	3,630,603	3,447,398
Supplies	630,785	585,658
Pharmaceuticals	797,858	709,319
Purchased services and other fees	404,408	392,269
Administrative services	157,906	136,594
Facilities	264,600	251,492
Insurance	58,310	47,500
	5,944,470	5,570,230
Operating income before interest, depreciation, and amortization expenses	623,477	711,892
Interest	102,322	107,834
Depreciation and amortization	376,494	368,785
Operating income before special charges	144,661	235,273
Special charges	2,178	4,419
Operating income	142,483	230,854
Nonoperating gains and losses		
Investment return	120,205	647,764
Derivative gains (losses)	27,789	(6,522)
Other, net	57,489	(32,639)
Net nonoperating gains and losses	205,483	608,603
Excess of revenues over expenses	347,966	839,457

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

($ in thousands)

Changes in Net Assets

	Net Assets			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balances at January 1, 2017	$7,088,209	$ 627,426	$ 310,164	$ 8,025,799
Excess of revenues over expenses	839,457	-	-	839,457
Donated capital and assets released from restrictions for capital purposes	72,007	(72,007)	-	-
Gifts and bequests	-	64,158	14,295	78,453
Transfer of net assets	266	(266)	-	-
Net investment income	-	38,219	-	38,219
Net assets released from restrictions used for operations included in other unrestricted revenues	-	(26,462)	-	(26,462)
Retirement benefits adjustment	(1,975)	-	-	(1,975)
Change in interests in foundations	-	3,636	-	3,636
Change in value of perpetual trusts	-	-	1,506	1,506
Foreign currency translation	27,112	-	-	27,112
Net change in unrealized losses on nontrading investments	(505)	-	-	(505)
Other	279	-	-	279
Increase in net assets	936,641	7,278	15,801	959,720
Balances at September 30, 2017	$8,024,850	$ 634,704	$ 325,965	$ 8,985,519
Balances at January 1, 2018	$8,346,649	$ 662,189	$ 334,615	$ 9,343,453
Excess of revenues over expenses	347,966	-	-	347,966
Donated capital and assets released from restrictions for capital purposes	7,205	(6,680)	-	525
Gifts and bequests	-	56,752	11,597	68,349
Transfer of net assets	(219)	219	-	-
Net investment income	-	8,911	-	8,911
Net assets released from restrictions used for operations included in other unrestricted revenues	-	(35,406)	-	(35,406)
Retirement benefits adjustment	(2,147)	-	-	(2,147)
Change in interests in foundations	-	38	-	38
Change in value of perpetual trusts	-	-	1,117	1,117
Foreign currency translation	(22,508)	-	-	(22,508)
Member substitution contribution	-	284	12,896	13,180
Other	777	-	-	777
Increase in net assets	331,074	24,118	25,610	380,802
Balances at September 30, 2018	$8,677,723	$ 686,307	$ 360,225	$ 9,724,255

See notes to unaudited consolidated financial statements.

Unaudited Consolidated Statements of Cash Flows

($ in thousands)

	Nine Months Ended September 30	
	2018	2017
Operating activities and net nonoperating gains and losses		
Increase in net assets	$ 380,802	$ 959,720
Adjustments to reconcile increase in net assets to net cash provided by operating activities and net nonoperating gains and losses:		
Loss on extinguishment of debt	-	46,159
Retirement benefits adjustment	2,147	1,975
Net realized and unrealized gains on investments	(94,299)	(647,545)
Depreciation and amortization	378,089	371,428
Provision for uncollectible accounts	228,458	243,357
Foreign currency translation loss (gain)	22,508	(27,112)
Donated capital	(525)	-
Restricted gifts, bequests, investment income, and other	(78,415)	(121,814)
Accreted interest and amortization of bond premiums	(4,524)	(1,455)
Net gain in value of derivatives	(40,128)	(17,443)
Member substitution contribution	(65,442)	-
Changes in operating assets and liabilities:		
Patient receivables	(327,145)	(135,490)
Other current assets	(59,253)	(42,480)
Other noncurrent assets	34,310	30,333
Accounts payable and other current liabilities	25,745	(32,049)
Other liabilities	(11,770)	(36,182)
Net cash provided by operating activities and net nonoperating gains and losses	390,558	591,402
Financing activities		
Proceeds from long-term borrowings	427,658	1,108,832
Payments for redemption of long-term debt	(420,030)	(1,100,815)
Principal payments on long-term debt	(81,285)	(78,210)
Debt issuance costs	(6,382)	(8,017)
Change in pledges receivables, trusts and interests in foundations	(71)	(1,671)
Restricted gifts, bequests, investment income, and other	78,415	121,814
Net cash (used in) provided by financing activities	(1,695)	41,933
Investing activities		
Expenditures for property and equipment, net	(546,917)	(413,584)
Net change in cash equivalents reported in long-term investments	202,835	(527,734)
Purchases of investments	(2,831,658)	(1,783,490)
Sales of investments	2,802,567	1,857,526
Member substitution cash contribution	1,515	-
Net cash used in investing activities	(371,658)	(867,282)
Effect of exchange rate changes on cash	(1,577)	1,162
Increase (decrease) in cash and cash equivalents	15,628	(232,785)
Cash and cash equivalents at beginning of year	241,227	520,628
Cash and cash equivalents at end of period	$ 256,855	$ 287,843

See notes to unaudited consolidated financial statements.

1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal and recurring nature. Operating results for the three and nine months ended September 30, 2018 are not necessarily indicative of the results to be expected for the year ending December 31, 2018. For further information, refer to the audited financial statements and notes thereto for the year ended December 31, 2017.

2. Organization and Consolidation

The Cleveland Clinic Foundation (Clinic) is a tax-exempt Ohio nonprofit 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. The System operates 14 hospitals with approximately 4,100 staffed beds. Thirteen of the hospitals are operated in the Northeast Ohio area, anchored by the Clinic. The System operates 21 outpatient family health centers, 10 ambulatory surgery centers, as well as numerous physician offices located throughout northeast Ohio, and specialized cancer centers in Sandusky and Mansfield, Ohio. In Florida, the System operates a hospital and a clinic in Weston, an outpatient family health and surgery center in Coral Springs, an outpatient family health center in West Palm Beach 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.

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

3. Business Combinations

Effective April 1, 2018, the Clinic though a subsidiary became the sole member of The Union Hospital Association (Union Hospital) through a non-cash business combination transaction. 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 April 1, 2018. The fair value of net assets of $65.4 million was recognized in the consolidated statement of operations and changes in net assets for the nine months ended September 30, 2018 as a nonoperating member substitution contribution of $52.2 million, contributions of temporarily restricted net assets of $0.3 million and contributions of permanently restricted net assets of $12.9 million. There was no goodwill or identifiable intangible assets recorded as a result of the member substitution.

3. Business Combinations (continued)

The results of operations for Union Hospital are included in the consolidated statements of operations and changes in net assets beginning on April 1, 2018. For the six months ended September 30, 2018, Union Hospital had total unrestricted revenues of $61.9 million, operating loss of $7.2 million and a deficiency of revenues over expenses of $6.8 million. Union Hospital comprised approximately 0.9% of total consolidated operating revenues and 1.1% of total consolidated operating expenses in the first nine months of 2018. The operations of Union Hospital did not have a material impact on temporarily and permanently restricted net assets.

Pro forma combined results of operations and changes in net assets of the System and Union Hospital for the nine months ended September 30, 2018 and 2017, as though the business combination transactions had occurred on January 1, 2017, are not material and accordingly, are not provided.

4. Accounting Policies

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance, and requires significantly expanded disclosures about revenue recognition. The core principle of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance in ASU 2014-09, including subsequent amendments, was effective for the System as of January 1, 2018.

The System adopted ASU 2014-09 on January 1, 2018 using the modified retrospective method of transition. The System's process for implementation began with a preliminary evaluation of ASU 2014-09 and considered subsequent interpretations by the FASB Transition Resource Group for Revenue Recognition and the American Institute of Certified Public Accountants. The System performed an analysis of revenue streams and transactions under ASU 2014-09. In particular, for net patient service revenue, the System performed an analysis into the application of the portfolio approach as a practical expedient to group patient contracts with similar characteristics, such that revenue for a given portfolio would not be materially different than if it were evaluated on a contract-by-contract basis. Upon adoption, the majority of what is currently classified as provision for uncollectible accounts and presented as a reduction to net patient service revenue on the consolidated statements of operations and changes in net assets is treated as a price concession that reduces the transaction price, which is reported as net patient service revenue. The new standard also requires enhanced disclosures related to the disaggregation of revenue and significant judgments made in measurement and recognition. The impact of adopting ASU 2014-09 is not material to total unrestricted revenues, excess of revenues over expenses or unrestricted net assets.

4. Accounting Policies (continued)

In February 2016, the FASB issued ASU 2016-02, *Leases*. This ASU requires lessees to recognize assets and liabilities on the balance sheet for leases with lease terms greater than twelve months. The recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. This amends current guidance that requires only capital leases to be recognized on the lessee balance sheet. ASU 2016-02 will also require additional disclosures on the amount, timing and uncertainty of cash flows arising from leases. The guidance is effective for the System for reporting periods beginning after December 15, 2018 with early adoption permitted. The System is currently evaluating the impact that ASU 2016-02 will have on its consolidated financial statements and will adopt the provisions upon the effective date.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. This standard intends to make certain improvements to the current reporting requirements for not-for-profit entities. This standard sets forth changes to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance and cash flows. ASU 2016-14 is effective for the System for annual reporting periods beginning after December 15, 2017, and interim periods beginning after December 15, 2018. The System is currently evaluating the impact that ASU 2016-14 will have on its consolidated financial statements and will adopt the provisions upon the effective date.

In August 2018, the FASB issued ASU 2018-14, *Compensation - Retirement Benefits - Defined Benefit Plans - General*. This standard intends to make minor changes to the disclosure requirements for employers that sponsor defined benefit pension and other postretirement benefit plans. The amendments in this standard remove disclosures that no longer are considered cost beneficial, clarify the specific requirements of disclosures, and add disclosure requirements identified as relevant. ASU 2018-14 is effective for the System for annual reporting periods beginning after December 15, 2021 with early adoption permitted. Upon adoption, the System is required to apply the new standard retrospectively to all periods presented in the consolidated financial statements. The System is currently evaluating the impact that ASU 2018-14 will have on its consolidated financial statements and will adopt the provisions on or before the effective date.

5. 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.

6. Net Patient Service Revenue

Net patient service revenue is reported at the amount that reflects the consideration to which the System expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors, and others and includes 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.

6. Net Patient Service Revenue (continued)

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 charges. The System believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients 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 and have a duration of less than one year. 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 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. As a result, the System has concluded that revenue for a given portfolio would not be materially different than if accounting for revenue on a contract by contract basis.

The System has agreements with third-party payors that generally provide for payments to the System at amounts different from its established rates. For uninsured patients who do not qualify for charity care, the System recognizes revenue based on established rates, subject to certain discounts and implicit price concessions as determined by the System. The System determines the transaction price based on standard charges for services provided, reduced by contractual adjustments 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. 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. The System determines its estimates of contractual adjustments and discounts based on contractual agreements, discount policies, and historical experience.

6. Net Patient Service Revenue (continued)

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 contractual adjustments, 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 nine months of 2018 or 2017.

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.

Settlements with third-party payors for retroactive adjustments due to reviews and audits are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care in the period the related services are provided. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the System's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known or as years are settled or are no longer subject to such reviews and audits. Adjustments arising from a change in estimated settlements increased patient service revenue by $17.8 million and $7.0 million in the first nine months of 2018 and 2017, respectively.

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 and willingness to pay but do not have the ability to do so. The System does not report charity care as net patient service revenue.

6. Net Patient Service Revenue (continued)

Net patient service revenue by major payor source for the nine months ended September 30, 2018 and 2017, are as follows (in thousands):

	2018		2017	
Medicare	**$ 2,156,252**	**36%**	$ 1,938,536	35%
Medicaid	**500,939**	**9**	515,679	9
Managed care and commercial	**3,242,091**	**55**	3,119,671	56
Self-pay	**23,017**	**–**	21,228	–
	$ 5,922,299	**100%**	$ 5,595,114	100%

As a result of certain changes required by ASU 2014-09, the majority of the System's provision for uncollectible accounts are recorded as a direct reduction to net patient service revenue instead of being presented as a separate line item on the consolidated statements of operations and changes in net assets. The adoption of ASU 2014-09 has no impact on the System's accounts receivable as it was historically recorded net of allowance for uncollectible accounts and contractual adjustments on the consolidated balance sheets. The impact of adopting ASU 2014-09 on the consolidated statements of operations and changes in net assets for the nine months ended September 30, 2018 was as follows (in thousands):

	Nine months ended September 30, 2018	
	As Reported	Prior to adopting ASU 2014-09
Net patient service revenue before provision for uncollectible accounts		$ 6,150,757
Provision for uncollectible accounts		(228,458)
Net patient service revenue	$ 5,922,299	$ 5,922,299

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.

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.

7. Fair Value Measurements (continued)

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

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

The carrying values of accounts receivable and accounts payable are reasonable estimates of fair value due to the short-term nature of these financial instruments. Investments, other than alternative investments, are recorded at their fair value. Other current and noncurrent assets and liabilities have carrying values that approximate fair value.

The following tables present the financial instruments measured at fair value on a recurring basis as of September 30, 2018 and December 31, 2017, based on the valuation hierarchy (in thousands):

September 30, 2018	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Cash and investments:				
Cash and cash equivalents	**$ 589,642**	**$ –**	**$ –**	**$ 589,642**
Fixed income securities:				
U.S. treasuries	**1,338,186**	**–**	**–**	**1,338,186**
U.S. government agencies	**–**	**19,253**	**–**	**19,253**
U.S. corporate	**–**	**21,461**	**–**	**21,461**
U.S. government agencies asset-backed securities	**–**	**23,920**	**–**	**23,920**
Corporate asset-backed securities	**–**	**7,173**	**–**	**7,173**
Foreign	**–**	**7,739**	**–**	**7,739**
Fixed income mutual funds	**387,649**	**–**	**–**	**387,649**
Common and preferred stocks:				
U.S.	**518,395**	**–**	**–**	**518,395**
Foreign	**320,848**	**2,870**	**–**	**323,718**
Equity mutual funds	**94,647**	**–**	**–**	**94,647**
Total cash and investments	**3,249,367**	**82,416**	**–**	**3,331,783**
Perpetual and charitable trusts	**–**	**67,367**	**–**	**67,367**
Total assets at fair value	**$ 3,249,367**	**$ 149,783**	**$ –**	**$ 3,399,150**
Liabilities				
Interest rate swaps	**$ –**	**$ 86,436**	**$ –**	**$ 86,436**
Total liabilities at fair value	**$ –**	**$ 86,436**	**$ –**	**$ 86,436**

7. Fair Value Measurements (continued)

December 31, 2017	Level 1	Level 2	Level 3	Total
Assets				
Cash and investments:				
Cash and cash equivalents	$ 770,609	$ 45	$ –	$ 770,654
Fixed income securities:				
U.S. treasuries	1,075,486	–	–	1,075,486
U.S. government agencies	–	18,964	–	18,964
U.S. corporate	–	83,383	–	83,383
U.S. government agencies asset-backed securities	–	25,139	–	25,139
Corporate asset-backed securities	–	4,895	–	4,895
Foreign	–	21,267	–	21,267
Fixed income mutual funds	391,971	–	–	391,971
Common and preferred stocks:				
U.S.	473,420	1,721	–	475,141
Foreign	296,025	1,548	–	297,573
Equity mutual funds	262,991	–	–	262,991
Total cash and investments	3,270,502	156,962	–	3,427,464
Perpetual and charitable trusts	–	53,728	–	53,728
Total assets at fair value	$ 3,270,502	$ 210,690	$ –	$ 3,481,192
Liabilities				
Interest rate swaps	$ –	$ 123,989	$ –	$ 123,989
Total liabilities at fair value	$ –	$ 123,989	$ –	$ 123,989

7. Fair Value Measurements (continued)

Financial instruments at September 30, 2018 and December 31, 2017 are reflected in the consolidated balance sheets as follows (in thousands):

	September 30 2018	December 31 2017
Cash, cash equivalents, and investments measured at fair value	**$ 3,331,783**	$ 3,427,464
Commingled funds measured at net asset value	**2,996,665**	2,948,317
Alternative investments accounted for under the equity method	**2,718,620**	2,481,560
Pending purchases of investments	**-**	215,000
Total cash, cash equivalents, and investments	**$ 9,047,068**	$ 9,072,341
Perpetual and charitable trusts measured at fair value	**$ 67,367**	$ 53,728
Interests in foundations	**26,953**	26,915
Trusts and interests in foundations	**$ 94,320**	$ 80,643

Interest rate swaps (Note 8) are reported in other noncurrent liabilities in the consolidated balance sheets.

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

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

The fair value of perpetual and charitable trusts in which the System receives periodic payments from the trust is determined based on the present value of expected cash flows to be received from the trust using discount rates ranging from 2.5% 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.

7. Fair Value Measurements (continued)

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

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

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 and certain variable rate operating lease payments. Consistent with its interest rate risk management objective, the System entered into various interest rate swap agreements with a total outstanding notional amount of $622.7 million and $615.0 million at September 30, 2018 and December 31, 2017, respectively. During the term of these transactions, the System pays interest at a fixed rate and receives interest at a variable rate based on the London Interbank Offered Rate (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 gains (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 September 30 2018	Notional Amount at December 31 2017
Fixed	2021	3.21%	68% of LIBOR	**$ 30,145**	$ 31,725
Fixed	2024	3.42%	68% of LIBOR	**26,500**	27,200
Fixed	2027	3.56%	68% of LIBOR	**120,113**	124,303
Fixed	2028	5.12%	100% of LIBOR	**36,605**	37,730
Fixed	2028	3.51%	68% of LIBOR	**28,285**	29,125
Fixed	2030	5.07%	100% of LIBOR	**59,075**	59,075
Fixed	2030	5.06%	100% of LIBOR	**59,050**	59,050
Fixed	2031	3.04%	68% of LIBOR	**46,975**	49,850
Fixed	2032	4.32%	79% of LIBOR	**2,213**	2,279
Fixed	2032	4.33%	70% of LIBOR	**4,425**	4,557
Fixed	2032	3.78%	70% of LIBOR	**2,213**	2,279
Fixed	2036	4.90%	100% of LIBOR	**49,700**	49,700
Fixed	2036	4.90%	100% of LIBOR	**76,950**	76,950
Fixed	2037	4.62%	100% of SIFMA	**59,115**	61,165
Fixed	2039	4.62%	68% of LIBOR	**21,315**	-
				$ 622,679	$ 614,988

The System is exposed to fluctuations in various foreign currencies against its functional currency, the U.S. dollar (USD). The System used foreign currency derivatives including currency forward contracts and currency options 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 also used currency option contracts to manage its foreign currency exchange risk. The foreign currency contracts were not designated as hedging instruments. At September 30, 2018 and December 31, 2017, the System has no outstanding foreign currency forward contracts.

8. Derivative Instruments (continued)

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

	Derivatives Liability			
	September 30, 2018		December 31, 2017	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives not designated as hedging instruments				
Interest rate swap agreements	Other noncurrent liabilities	**$ 86,436**	Other noncurrent liabilities	$ 123,989

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

Derivatives not designated as hedging instruments	**Location of Gain (Loss) Recognized**	**Quarter ended September 30**		**Nine months ended September 30**	
		2018	**2017**	**2018**	**2017**
Interest rate swap agreements	Derivative gains (losses)	**$ 6,682**	$ (2,926)	**$ 27,789**	$ (9,526)
Foreign currency contracts	Derivative gains	**-**	587	**-**	3,004
		$ 6,682	$ (2,339)	**$ 27,789**	$ (6,522)

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 September 30, 2018 and December 31, 2017, the System posted $39.8 million and $69.2 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 four defined benefit pension plans, including two plans related to Akron General. 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 or Union Hospital. All benefit accruals under the CCHS Retirement Plan ceased as of December 31, 2012. Akron General has a tax-qualified defined benefit plan covering substantially all of its employees that were hired before 2004 who meet certain eligibility requirements. In 2009, Akron General ceased benefit accruals for substantially all nonunion employees, with benefit accruals for remaining employees ceasing at various intervals through December 31, 2017. 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 also maintains two unfunded, nonqualified defined benefit supplemental retirement plans, which cover certain professional staff and administrative employees.

The System sponsors two noncontributory, defined contribution plans, and three contributory, defined contribution plans covering System and Akron General employees. The System also assumed three additional defined contribution plans from the Union Hospital member substitution in April 2018. 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 or Union Hospital. The System's contribution to the IPP for participants is based upon a percentage of employee compensation that is based on 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 also sponsors three tax-qualified contributory, defined contribution plans, including two plans related to Akron General, which cover substantially all employees except those employed by Union Hospital. The plans permit employees to make pre-tax employee deferrals and to become entitled to certain employer matching contributions that are based on employee contributions.

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

	Quarter Ended September 30		Nine Months Ended September 30	
	2018	**2017**	**2018**	**2017**
Amounts related to defined benefit pension plans:				
Service cost	$ (378)	$ 49	$ (1,135)	$ 147
Interest cost	16,178	17,836	48,534	53,507
Expected return on assets	(18,697)	(21,167)	(56,090)	(63,502)
Net amortization and deferral	(478)	(420)	(1,433)	(1,261)
Total defined benefit pension plans	(3,375)	(3,702)	(10,124)	(11,109)
Defined contribution plans	57,833	53,836	187,428	176,245
	$ 54,458	**$ 50,134**	**$ 177,304**	**$ 165,136**

9. Pensions and Other Postretirement Benefits (continued)

The service cost component of net periodic benefit cost is included in salaries, wages and benefits in the consolidated statement of operations. The components of net periodic benefit cost other than the service cost component are included in other nonoperating gains and losses in the consolidated statements of operations.

As September 30, 2018, the System has made contributions of $5.6 million to the defined benefit pension plans. The System expects to make additional contributions of $1.9 million to the defined benefit pension plans for the remainder of 2018.

10. Debt

In August 2018, the System through a UK subsidiary entered into a private placement agreement to issue Guaranteed Senior Notes (2018 Sterling Notes) totaling £665 million. The subsidiary received proceeds of £300 million and £100 million in August 2018 and November 2018, respectively, and will receive additional proceeds of £265 million in August 2019. The 2018 Sterling Notes are guaranteed by the Cleveland Clinic obligated group and another UK subsidiary, mature at various dates through 2068 and bear interest at an average fixed rate of 2.99%. The proceeds of the 2018 Sterling Notes have been or will be used to repay a $375.0 million term loan used to acquire a long-term leasehold interest in a building in London, England, and to partially fund the construction and conversion of the building into a healthcare facility.

11. Special Charges

The System incurred and recorded special charges of $2.2 million and $4.4 million in the first nine months of 2018 and 2017, respectively, representing accelerated depreciation expense and other property, plant and equipment costs related to Lakewood Hospital Association (LHA). The Clinic, LHA and the City of Lakewood entered into an agreement in December 2015 that outlines the transition of healthcare services in the City of Lakewood. Participation in the agreement by the City of Lakewood was authorized by an ordinance adopted by Lakewood City Council. Under the terms of the agreement, the Clinic and LHA will make contributions over the next 15 years for the creation of a new health and wellness community foundation to be used to address community health and wellness needs in the City of Lakewood. In addition, the Clinic constructed an approximately 62,000-square-foot family health center that opened in July 2018 that is located adjacent to the site of the former hospital. LHA ceased inpatient operations at the hospital in February 2016, while the current emergency department and several outpatient services at the hospital continued until the opening of the new family health center and emergency department. The cessation of inpatient services at the hospital was not considered a discontinued operation since the System provides inpatient hospital services at the Clinic and its subsidiary hospitals in the Northeast Ohio area.

12. Subsequent Events

The System evaluated events and transactions occurring subsequent to September 30, 2018 through November 29, 2018, 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.

Unaudited Consolidating Balance Sheets

($ in thousands)

	September 30, 2018				December 31, 2017			
	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	$ 148,665	$ 108,190	$ -	$ 256,855	$ 27,644	$ 213,583	$ -	$ 241,227
Patient receivables, net	1,008,347	160,458	(36,308)	1,132,497	904,105	142,450	(33,652)	1,012,903
Due from affiliates	20,136	30,737	(50,873)	-	55,942	50	(55,992)	-
Investments for current use	-	51,051	-	51,051	103,920	51,051	-	154,971
Other current assets	329,592	103,166	(1,790)	430,968	310,960	64,134	(368)	374,726
Total current assets	1,506,740	453,602	(88,971)	1,871,371	1,402,571	471,268	(90,012)	1,783,827
Investments:								
Long-term investments	7,319,549	514,613	-	7,834,162	7,289,000	440,697	-	7,729,697
Funds held by trustees	40,090	24	-	40,114	69,234	0	-	69,234
Assets held for self-insurance	-	112,723	-	112,723	-	159,802	-	159,802
Donor restricted assets	720,341	31,822	-	752,163	685,292	32,118	-	717,410
	8,079,980	659,182	-	8,739,162	8,043,526	632,617	-	8,676,143
Property, plant, and equipment, net	3,993,558	927,869	-	4,921,427	3,819,800	879,897	-	4,699,697
Other assets:								
Pledges receivable, net	156,628	802	-	157,430	150,690	329	-	151,019
Trusts and beneficial interests in foundations	72,831	21,489	-	94,320	71,866	8,777	-	80,643
Other noncurrent assets	577,568	63,821	(197,529)	443,860	566,548	60,388	(151,926)	475,010
	807,027	86,112	(197,529)	695,610	789,104	69,494	(151,926)	706,672
Total assets	$14,387,305	$ 2,126,765	$ (286,500)	$16,227,570	$14,055,001	$ 2,053,276	$ (241,938)	$15,866,339

	September 30, 2018				December 31, 2017			
	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	$ 374,815	$ 69,251	$ (190)	$ 443,876	$ 432,859	$ 71,024	$ (192)	$ 503,691
Compensation and amounts withheld from payroll	365,843	44,882	-	410,725	311,159	34,287	-	345,446
Short-term borrowings	-	-	-	-	0	0	-	-
Current portion of long-term debt	184,114	5,249	(72)	189,291	77,208	380,677	(72)	457,813
Variable rate debt classified as current	438,937	56,748	-	495,685	514,396	58,874	-	573,270
Due to affiliates	14,291	21,275	(35,566)	-	50	55,942	(55,992)	-
Other current liabilities	386,476	115,227	(39,071)	462,632	358,475	116,352	(36,165)	438,662
Total current liabilities	1,764,476	312,632	(74,899)	2,002,209	1,694,147	717,156	(92,421)	2,318,882
Long-term debt:								
Hospital revenue bonds	2,870,448	384,504	-	3,254,952	2,861,438	0	-	2,861,438
Notes payable and capital leases	75,088	215,003	(192,861)	97,230	110,675	171,562	(147,397)	134,840
	2,945,536	599,507	(192,861)	3,352,182	2,972,113	171,562	(147,397)	2,996,278
Other liabilities:								
Professional and general insurance liability reserves	56,220	92,658	-	148,878	55,875	91,452	-	147,327
Accrued retirement benefits	441,273	37,432	-	478,705	453,710	39,123	-	492,833
Other noncurrent liabilities	484,650	53,311	(16,620)	521,341	526,814	40,752	-	567,566
	982,143	183,401	(16,620)	1,148,924	1,036,399	171,327	-	1,207,726
Total liabilities	5,692,155	1,095,540	(284,380)	6,503,315	5,702,659	1,060,045	(239,818)	6,522,886
Net assets:								
Unrestricted	7,704,467	975,376	(2,120)	8,677,723	7,397,798	950,971	(2,120)	8,346,649
Temporarily restricted	661,936	24,371	-	686,307	638,208	23,981	-	662,189
Permanently restricted	328,747	31,478	-	360,225	316,336	18,279	-	334,615
Total net assets	8,695,150	1,031,225	(2,120)	9,724,255	8,352,342	993,231	(2,120)	9,343,453
Total liabilities and net assets	$14,387,305	$ 2,126,765	$ (286,500)	$16,227,570	$14,055,001	$ 2,053,276	$ (241,938)	$15,866,339

See notes to unaudited consolidated financial statements.

Please refer to Management's Discussion and Analysis for a listing of the hospitals in the Obligated Group. Avon Hospital, which became a member of the Obligated Group in August 2017, is reported in the Obligated Group for all periods presented.

Unaudited Consolidating Statements of Operations and Changes in Net Assets

($ in thousands)

Operations

	Three Months Ended September 30, 2018				Three Months Ended Septmeber 30, 2017			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated
Unrestricted revenues								
Net patient service revenue before uncollectible accounts					1,754,830	227,608	(65,620)	1,916,818
Provision for uncollectible accounts					(58,907)	(12,639)	-	(71,546)
Net patient service revenue less provision	1,841,203	253,166	(69,050)	2,025,319	1,695,923	214,969	(65,620)	1,845,272
Other	179,834	73,038	(40,937)	211,935	167,152	75,179	(38,841)	203,490
Total unrestricted revenues	2,021,037	326,204	(109,987)	2,237,254	1,863,075	290,148	(104,461)	2,048,762
Expenses								
Salaries, wages, and benefits	1,125,990	176,036	(80,138)	1,221,888	1,062,871	150,051	(81,065)	1,131,857
Supplies	187,227	26,752	(235)	213,744	166,602	26,394	(387)	192,609
Pharmaceuticals	251,723	19,566	-	271,289	226,713	24,530	-	251,243
Purchased services and other fees	114,422	27,024	(7,791)	133,655	107,980	25,330	(740)	132,570
Administrative services	45,107	21,975	(5,205)	61,877	32,204	16,717	(5,121)	43,800
Facilities	71,986	18,859	(798)	90,047	68,955	20,880	(907)	88,928
Insurance	15,945	15,839	(15,795)	15,989	15,058	7,784	(16,166)	6,676
	1,812,400	306,051	(109,962)	2,008,489	1,680,383	271,686	(104,386)	1,847,683
Operating income before interest, depreciation, and amortization expenses	208,637	20,153	(25)	228,765	182,692	18,462	(75)	201,079
Interest	29,958	4,874	-	34,832	32,774	3,176	-	35,950
Depreciation and amortization	108,129	15,633	(25)	123,737	106,634	17,852	(75)	124,411
Operating income (loss) before special charges	70,550	(354)	-	70,196	43,284	(2,566)	-	40,718
Special charges	-	390	-	390	-	1,035	-	1,035
Operating income (loss)	70,550	(744)	-	69,806	43,284	(3,601)	-	39,683
Nonoperating gains and losses								
Investment return	79,118	4,814	-	83,932	214,874	16,755	-	231,629
Derivative gains (losses)	7,070	(388)	-	6,682	(1,758)	(581)	-	(2,339)
Other, net	1,855	(1,492)	-	363	(43,802)	2,444	-	(41,358)
Net nonoperating gains and losses	88,043	2,934	-	90,977	169,314	18,618	-	187,932
Excess of revenues over expenses	158,593	2,190	-	160,783	212,598	15,017	-	227,615

Please refer to Management's Discussion and Analysis for a listing of the hospitals in the Obligated Group. Avon Hospital, which became a member of the Obligated Group in August 2017, is reported in the Obligated Group for all periods presented.

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

($ in thousands)

Change in Net Assets

	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated
Total net assets at July 1, 2017	$ 7,736,362	$ 981,140	$ (3,448)	$ 8,714,054
Excess of revenues over expenses	212,598	15,017	-	227,615
Restricted gifts and bequests	28,589	677	-	29,266
Restricted net investment income	12,749	873	-	13,622
Net assets released from restrictions used for operations included in other unrestricted revenues	(8,802)	(999)	-	(9,801)
Contributions (to) from affiliates	(32,371)	32,371	-	-
Retirement benefits adjustment	(658)	-	-	(658)
Change in restricted net assets related to interests in foundations	474	-	-	474
Change in restricted net assets related to value of perpetual trusts	361	101	-	462
Foreign currency translation	63	10,496	-	10,559
Net change in unrealized gains on nontrading investments	(75)	-	-	(75)
Other	-	1	-	1
Increase in total net assets	212,928	58,537	-	271,465
Total net assets at September 30, 2017	$ 7,949,290	$ 1,039,677	$ (3,448)	$ 8,985,519
Total net assets at July 1, 2018	$ 8,518,175	$ 1,040,261	$ (2,120)	$ 9,556,316
Excess of revenues over expenses	158,593	2,190	-	160,783
Donated capital, excluding assets released from restrictions for capital purposes	54	11	-	65
Restricted gifts and bequests	21,156	771	-	21,927
Restricted net investment income	8,477	233	-	8,710
Net assets released from restrictions used for operations included in other unrestricted revenues	(11,241)	(773)	-	(12,014)
Transfers from (to) affiliates	323	(323)	-	-
Retirement benefits adjustment	(658)	(57)	-	(715)
Change in restricted net assets related to interests in foundations	92	-	-	92
Change in restricted net assets related to value of perpetual trusts	183	36	-	219
Foreign currency translation	-	(12,662)	-	(12,662)
Other	(4)	1,538	-	1,534
Increase in total net assets	176,975	(9,036)	-	167,939
Total net assets at September 30, 2018	$ 8,695,150	$ 1,031,225	$ (2,120)	$ 9,724,255

See notes to unaudited consolidated financial statements.

Please refer to Management's Discussion and Analysis for a listing of the hospitals in the Obligated Group. Avon Hospital, which became a member of the Obligated Group in August 2017, is reported in the Obligated Group for all periods presented.

Unaudited Consolidating Statements of Operations and Changes in Net Assets

($ in thousands)

Operations

	Nine Months Ended September 30, 2018				Nine Months Ended Septmeber 30, 2017			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated
Unrestricted revenues								
Net patient service revenue before uncollectible accounts					$ 5,336,898	$ 689,147	$ (187,574)	$ 5,838,471
Provision for uncollectible accounts					(199,747)	(43,610)	-	(243,357)
Net patient service revenue	$ 5,418,828	$ 710,488	$ (207,017)	$ 5,922,299	5,137,151	645,537	(187,574)	5,595,114
Other	545,396	216,290	(116,038)	645,648	579,522	227,175	(119,689)	687,008
Total unrestricted revenues	5,964,224	926,778	(323,055)	6,567,947	5,716,673	872,712	(307,263)	6,282,122
Expenses								
Salaries, wages, and benefits	3,371,186	498,594	(239,177)	3,630,603	3,228,052	439,430	(220,084)	3,447,398
Supplies	553,386	78,034	(635)	630,785	509,057	77,450	(849)	585,658
Pharmaceuticals	737,652	60,206	-	797,858	646,303	63,016	-	709,319
Purchased services and other fees	348,498	73,693	(17,783)	404,408	321,490	90,626	(19,847)	392,269
Administrative services	115,220	58,483	(15,797)	157,906	104,451	47,262	(15,119)	136,594
Facilities	211,464	55,543	(2,407)	264,600	200,642	53,642	(2,792)	251,492
Insurance	53,060	52,431	(47,181)	58,310	50,139	45,858	(48,497)	47,500
	5,390,466	876,984	(322,980)	5,944,470	5,060,134	817,284	(307,188)	5,570,230
Operating income before interest, depreciation, and amortization expenses	573,758	49,794	(75)	623,477	656,539	55,428	(75)	711,892
Interest	89,266	13,056	-	102,322	99,302	8,532	-	107,834
Depreciation and amortization	328,502	48,067	(75)	376,494	321,223	47,637	(75)	368,785
Operating income (loss) before special charges	155,990	(11,329)	-	144,661	236,014	(741)	-	235,273
Special charges	-	2,178	-	2,178	-	4,419	-	4,419
Operating income (loss)	155,990	(13,507)	-	142,483	236,014	(5,160)	-	230,854
Nonoperating gains and losses								
Investment return	112,954	7,251	-	120,205	599,482	48,282	-	647,764
Derivative gains (losses)	28,996	(1,207)	-	27,789	(4,721)	(1,801)	-	(6,522)
Other, net	5,046	52,443	-	57,489	(38,601)	5,962	-	(32,639)
Net nonoperating gains and losses	146,996	58,487	-	205,483	556,160	52,443	-	608,603
Excess of revenues over expenses	302,986	44,980	-	347,966	792,174	47,283	-	839,457

Please refer to Management's Discussion and Analysis for a listing of the hospitals in the Obligated Group. Avon Hospital, which became a member of the Obligated Group in August 2017, is reported in the Obligated Group for all periods presented.

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

($ in thousands)

Change in Net Assets

	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated
Total net assets at January 1, 2017	$ 7,143,389	$ 885,858	$ (3,448)	$ 8,025,799
Excess of revenues over expenses	792,174	47,283	-	839,457
Restricted gifts and bequests	76,976	1,477	-	78,453
Restricted net investment income	35,577	2,642	-	38,219
Net assets released from restrictions used for operations included in other unrestricted revenues	(24,137)	(2,325)	-	(26,462)
Contributions (to) from affiliates	(76,952)	76,952	-	-
Retirement benefits adjustment	(1,975)	-	-	(1,975)
Change in restricted net assets related to interest in foundations	3,636	-	-	3,636
Change in restricted net assets related to value of perpetual trusts	1,126	380	-	1,506
Foreign currency translation	-	27,112	-	27,112
Net change in unrealized losses on nontrading investments	(505)	-	-	(505)
Other	(19)	298	-	279
Increase in total net assets	805,901	153,819	-	959,720
Total net assets at September 30, 2017	$ 7,949,290	$ 1,039,677	$ (3,448)	$ 8,985,519
Total net assets at January 1, 2018	$ 8,352,342	$ 993,231	$ (2,120)	$ 9,343,453
Excess of revenues over expenses	302,986	44,980	-	347,966
Donated capital, excluding assets released from restrictions for capital purposes	514	11	-	525
Restricted gifts and bequests	66,430	1,919	-	68,349
Restricted net investment income	7,991	920	-	8,911
Net assets released from restrictions used for operations included in other unrestricted revenues	(33,043)	(2,363)	-	(35,406)
Transfers (to) from affiliates	(233)	233	-	-
Member substitution	-	13,180	-	13,180
Retirement benefits adjustment	(1,975)	(172)	-	(2,147)
Change in restricted net assets related to interests in foundations	38	-	-	38
Change in restricted net assets related to value of perpetual trusts	866	251	-	1,117
Foreign currency translation	-	(22,508)	-	(22,508)
Other	(766)	1,543	-	777
Increase in total net assets	342,808	37,994	-	380,802
Total net assets at September 30, 2018	$ 8,695,150	$ 1,031,225	$ (2,120)	$ 9,724,255

See notes to unaudited consolidated financial statements.

Please refer to Management's Discussion and Analysis for a listing of the hospitals in the Obligated Group. Avon Hospital, which became a member of the Obligated Group in August 2017, is reported in the Obligated Group for all periods presented.

Unaudited Consolidating Statements of Cash Flows

($ in thousands)

	Nine Months Ended September 30, 2018				Nine Months Ended Septmeber 30, 2017			
	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 in total net assets	$ 342,808	$ 37,994	$ -	$ 380,802	$ 805,901	$ 153,819	$ -	$ 959,720
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities and net nonoperating gains and losses:								
Gain on extinguishment of debt	-	-	-	-	46,159	-	-	46,159
Retirement benefits adjustment	1,975	172	-	2,147	1,975	-	-	1,975
Net realized and unrealized gains on investments	(88,928)	(5,371)	-	(94,299)	(598,361)	(49,184)	-	(647,545)
Depreciation and amortization	328,502	49,662	(75)	378,089	321,223	50,280	(75)	371,428
Provision for uncollectible accounts	187,243	41,215	-	228,458	199,747	43,610	-	243,357
Foreign currency translation loss (gain)	-	22,508	-	22,508	-	(27,112)	-	(27,112)
Donated capital	(514)	(11)	-	(525)	-	-	-	-
Restricted gifts, bequests, investment income, and other	(75,325)	(3,090)	-	(78,415)	(117,315)	(4,499)	-	(121,814)
Transfers to (from) affiliates	233	(233)	-	-	76,952	(76,952)	-	-
Accreted interest and amortization of bond premiums	(4,549)	25	-	(4,524)	(1,464)	9	-	(1,455)
Net gain in value of derivatives	(37,553)	(2,575)	-	(40,128)	(17,443)	-	-	(17,443)
Member substitution	-	(65,442)	-	(65,442)	-	-	-	-
Changes in operating assets and liabilities:								
Patient receivables	(291,485)	(38,316)	2,656	(327,145)	(90,781)	(57,566)	12,857	(135,490)
Other current assets	10,098	(65,654)	(3,697)	(59,253)	(33,516)	(43,345)	34,381	(42,480)
Other noncurrent assets	(11,539)	171	45,678	34,310	39,028	(5,660)	(3,035)	30,333
Accounts payable and other current liabilities	43,490	(35,267)	17,522	25,745	(41,218)	41,832	(32,663)	(32,049)
Other liabilities	(6,815)	11,665	(16,620)	(11,770)	(18,471)	(845)	(16,866)	(36,182)
Net cash provided by (used in) operating activities and net nonoperating gains and losses	397,641	(52,547)	45,464	390,558	572,416	24,387	(5,401)	591,402
Financing activities								
Proceeds from long-term borrowings	45,000	428,122	(45,464)	427,658	1,108,832	2,099	(2,099)	1,108,832
Payments for advance refunding of long-term debt	-	(420,030)	-	(420,030)	(1,100,815)	-	-	(1,100,815)
Principal payments on long-term debt	(76,452)	(4,833)	-	(81,285)	(80,644)	(5,066)	7,500	(78,210)
Debt issuance costs	-	(6,382)	-	(6,382)	(8,017)	-	-	(8,017)
Change in pledges receivable, trusts and interests in foundations	173	(244)	-	(71)	(1,668)	(3)	-	(1,671)
Restricted gifts, bequests, investment income, and other	75,325	3,090	-	78,415	117,315	4,499	-	121,814
Net cash provided by (used in) financing activities	44,046	(277)	(45,464)	(1,695)	35,003	1,529	5,401	41,933
Investing activities								
Expenditures for property and equipment	(476,827)	(70,090)	-	(546,917)	(352,088)	(61,496)	-	(413,584)
Member substitution cash contributions	-	1,515	-	1,515	-	-	-	-
Net change in cash equivalents reported in long-term investments	221,328	(18,493)	-	202,835	(576,582)	48,848	-	(527,734)
Purchases of investments	(2,615,737)	(215,921)	-	(2,831,658)	(1,623,799)	(159,691)	-	(1,783,490)
Sales of investments	2,550,803	251,764	-	2,802,567	1,748,511	109,015	-	1,857,526
Transfers (to) from affiliates	(233)	233	-	-	(76,952)	76,952	-	-
Net cash (used in) provided by investing activities	(320,666)	(50,992)	-	(371,658)	(880,910)	13,628	-	(867,282)
Effect of exchange rate changes on cash	-	(1,577)		(1,577)	-	1,162		1,162
Increase (decrease) in cash and cash equivalents	121,021	(105,393)	-	15,628	(273,491)	40,706	-	(232,785)
Cash and cash equivalents at beginning of year	27,644	213,583	-	241,227	303,102	217,526	-	520,628
Cash and cash equivalents at end of period	$ 148,665	$ 108,190	$ -	$ 256,855	$ 29,611	$ 258,232	$ -	$ 287,843

See notes to unaudited consolidated financial statements.

Please refer to Management's Discussion and Analysis for a listing of the hospitals in the Obligated Group. Avon Hospital, which became a member of the Obligated Group in August 2017, is reported in the Obligated Group for all periods presented.

Utilization

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

	Year Ended December 31			YTD September 30	
	2015[2]	2016	2017	2017	2018[3]
Total Staffed Beds[1]	4,034	3,931	3,847	3,912	4,067
Percent Occupancy[1]	67.9%	69.3%	70.7%	69.5%	69.5%
Inpatient Admissions[1]					
Acute	146,990	162,930	169,238	127,640	128,138
Post-acute	11,779	12,424	11,710	8,863	8,167
Total	158,769	175,354	180,948	136,503	136,305
Patient Days[1]					
Acute	782,316	846,170	877,891	656,943	671,077
Post-acute	98,268	103,979	93,961	67,828	60,126
Total	880,584	950,149	971,852	724,771	731,203
Average Length of Stay					
Acute	5.30	5.20	5.16	5.16	5.24
Post-acute	8.30	8.39	8.04	8.24	7.40
Surgical Facility Cases					
Inpatient	56,311	59,802	61,529	46,978	47,069
Outpatient	137,139	147,855	145,825	112,809	115,855
Total	193,450	207,657	207,354	159,787	162,924
Emergency Room Visits	542,768	652,073	644,575	485,065	504,903
Outpatient Observations	49,237	58,384	59,894	45,163	46,921
Outpatient Evaluation and Management Visits	3,742,901	4,235,729	4,403,635	3,319,510	3,426,699
Acute Medicare Case Mix Index - Health System	1.91	1.93	1.91	1.89	1.95
Acute Medicare Case Mix Index - Cleveland Clinic	2.47	2.53	2.59	2.58	2.69
Total Acute Patient Case Mix Index - Health System	1.81	1.84	1.85	1.84	1.89
Total Acute Patient Case Mix Index - Cleveland Clinic	2.36	2.45	2.52	2.51	2.62

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

(2) Includes Akron General statistics for November and December 2015. The Clinic became the sole member of Akron General on November 1, 2015.

(3) Includes Union Hospital statistics beginning April 1, 2018, which is the date the Clinic became the sole member of The Union Hospital Association.

Utilization (continued)

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

	Year Ended December 31			YTD September 30	
	2015	2016	2017	2017	2018
Total Staffed Beds[(1)]	3,352	3,412	3,352	3,382	3,412
Percent Occupancy[(1)]	69.6%	69.6%	70.8%	71.1%	71.0%
Inpatient Admissions[(1)]					
Acute	138,287	139,300	145,479	109,812	109,136
Post-acute	9,740	9,471	8,980	7,338	6,528
Total	148,027	148,771	154,459	117,150	115,664
Patient Days[(1)]					
Acute	747,231	744,296	767,003	577,059	584,194
Post-acute	73,473	76,113	70,567	61,509	47,916
Total	820,704	820,409	837,570	638,568	632,110
Surgical Facility Cases					
Inpatient	53,839	54,072	56,030	42,218	42,253
Outpatient	132,800	135,918	133,893	100,990	101,723
Total	186,639	189,990	189,923	143,208	143,976
Emergency Room Visits	493,930	535,478	530,316	399,017	398,907
Outpatient Observations	45,687	50,671	52,506	39,468	39,734
Outpatient Evaluation and Management Visits	3,742,901	4,232,729	4,399,738	3,316,463	3,423,671
Acute Medicare Case Mix Index	1.92	1.98	1.95	1.94	2.00
Total Acute Patient Case Mix Index	1.83	1.89	1.90	1.89	1.95

(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. Avon Hospital, which became a member of the Obligated Group in August 2017, is reported in the Obligated Group for all periods presented.

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:

CLEVELAND CLINIC HEALTH SYSTEM
Based on Gross Patient Service Revenue

	Year Ended December 31			YTD September 30	
	2015[1]	2016	2017	2017	2018[2]
Payor					
Managed Care and Commercial	42%	39%	38%	38%	37%
Medicare	43%	44%	46%	46%	47%
Medicaid	12%	14%	14%	14%	14%
Self-Pay & Other	3%	3%	2%	2%	2%
Total	100%	100%	100%	100%	100%

OBLIGATED GROUP
Based on Gross Patient Service Revenue

	Year Ended December 31			YTD September 30	
	2015	2016	2017	2017	2018
Payor					
Managed Care and Commercial	42%	40%	39%	39%	38%
Medicare	43%	44%	46%	46%	47%
Medicaid	12%	13%	13%	13%	13%
Self-Pay & Other	3%	3%	2%	2%	2%
Total	100%	100%	100%	100%	100%

(1) Includes Akron General payor mix for November and December 2015. The Clinic became the sole member of Akron General on November 1, 2015.
(2) Includes Union Hospital statistics beginning April 1, 2018, which is the date the Clinic became the sole member of The Union Hospital Association.

Please refer to Management's Discussion and Analysis for a listing of the hospitals in the Obligated Group. Avon Hospital, which became a member of the Obligated Group in August 2017, is reported in the Obligated Group for all periods presented.

Research Support

($ in thousands)

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

	Year Ended December 31			YTD September 30	
	2015	**2016**	**2017**	**2017**	**2018**
External Grants Earned					
Federal Sources	$103,022	$108,253	$114,942	$87,143	$88,609
Non-Federal Sources	81,796	87,883	92,564	69,734	72,802
Total	184,818	196,136	207,506	156,877	161,411
Internal Support	63,240	59,326	59,873	43,749	49,586
Total Sources of Support	$248,058	$255,462	$267,379	$200,626	$210,997

Key Ratios

The following table provides selected key ratios for the System as a whole:

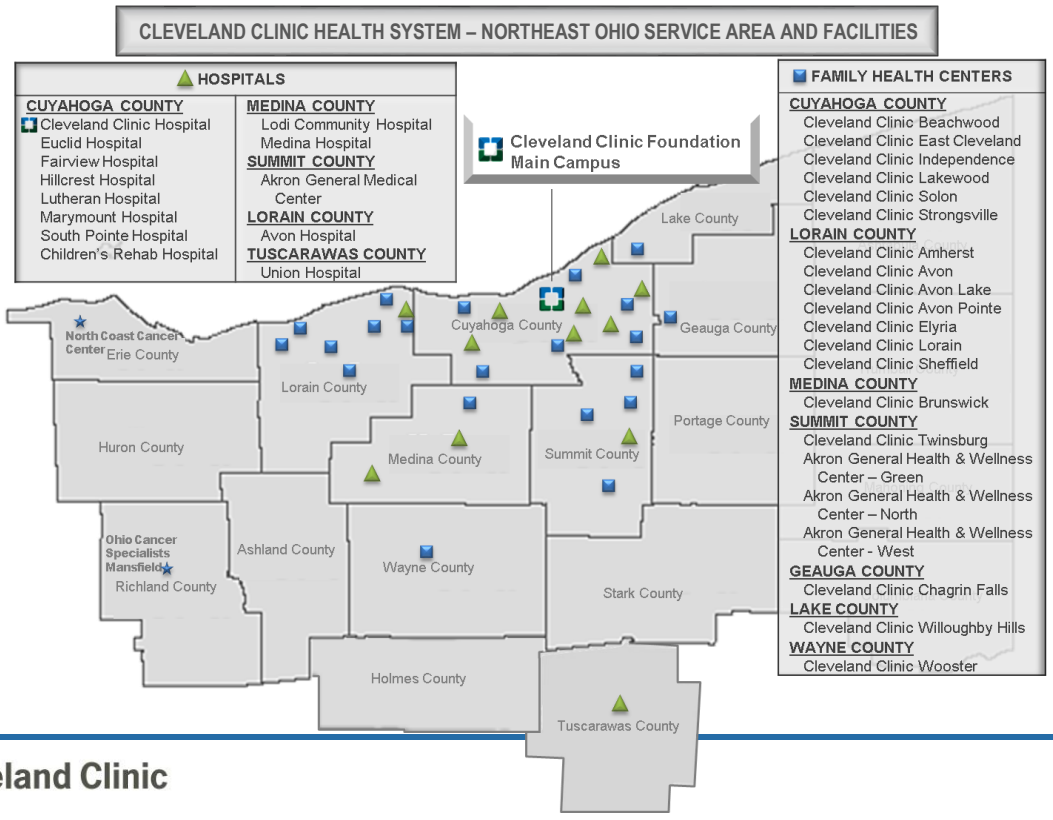
	Year Ended December 31			YTD September 30	
	2015	2016	2017	2017	2018
Liquidity ratios					
Days of cash on hand	347	349	383	377	368
Days of revenue in accounts receivable	47	51	49	47	51
Coverage ratios					
Cash to debt (%)	168.9	172.7	197.9	192.9	200.4
Maximum annual debt service coverage (x)	5.7	3.8	5.3	5.0	4.9
Interest expense coverage (x)	10.1	7.5	9.1	8.5	9.3
Debt to cash flow (x)	3.4	4.6	3.5	3.7	3.6
Leverage ratio					
Debt to capitalization (%)	36.5	36.4	32.5	33.4	31.8
Profitability ratios					
Operating margin (%)	6.7	3.0	3.9	3.7	2.2
Operating cash flow margin (%)	14.7	11.0	11.5	11.3	9.5
Excess margin (%)	8.5	6.2	12.5	12.2	5.1
Return on assets (%)	4.5	3.6	7.3	7.3	2.9

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

OVERVIEW

The Cleveland Clinic Health System (System) is a world-renowned provider of healthcare services and attracted patients from across the United States and from 135 other countries in 2017. The System operates 14 hospitals with approximately 4,100 staffed beds and is the leading provider of healthcare services in northeast Ohio. Thirteen 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 and 10 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 a hospital and a clinic in Weston, an outpatient family health and surgery center in Coral Springs, an outpatient family health center in West Palm Beach 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.

Effective April 1, 2018, the Clinic through a subsidiary became the sole member of The Union Hospital Association (Union Hospital) through a non-cash business combination transaction. Union Hospital operates a hospital and several off-campus satellite services in Tuscarawas County and surrounding counties in Eastern Ohio. For a description of Union Hospital, refer to "UNION HOSPITAL."



The following table sets forth the hospitals operated by the obligated issuers and their affiliates, together with each hospital's staffed bed count as of September 30, 2018:

	Staffed Beds
OBLIGATED	
Cleveland Clinic	1,302
Avon Hospital	126
Euclid Hospital	165
Fairview Hospital	460
Hillcrest Hospital	440
Lutheran Hospital	194
Marymount Hospital	277
Medina Hospital	121
South Pointe Hospital	172
Weston Hospital	155
	3,412
NON-OBLIGATED	
Akron General Medical Center	471
Union Hospital	139
Children's Rehab Hospital	25
Lodi Hospital	20
	655
HEALTH SYSTEM	4,067

AWARDS & RECOGNITION

The Clinic was ranked as the second best hospital in the United States by *U.S. News and World Report* in its 2018-2019 edition of "America's Best Hospitals." For the past 20 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 twenty-four consecutive years. The Clinic has additionally received the honor of being recognized with the best urology program in the United States for the second straight year. The Clinic was nationally ranked in fourteen specialties, including twelve in the top five nationwide, and is one of just twenty hospitals to earn a place on the *U.S. News'* 2018-2019 Honor Roll. The following table summarizes the Clinic's national rankings by medical specialty:

2018-19 U.S. NEWS & WORLD REPORT RANKINGS

BEST HOSPITALS U.S.News & WORLD REPORT HONOR ROLL 2018-19

In the "HONOR ROLL"

Cleveland Clinic	2nd

Ranked No. 1

Cardiology & Heart Surgery	1st
Urology	1st

In America's Top 5

Gastroenterology & GI Surgery	2nd
Nephrology	2nd
Rheumatology	2nd
Orthopedics	3rd
Pulmonology	3rd
Diabetes & Endocrinology	4th
Neurology & Neurosurgery	4th
Cancer	5th
Geriatrics	5th
Gynecology	5th

In America's Top 20

Ophthalmology	9th
Ear, Nose & Throat	11th

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 2018-2019 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 suburbs. The report also ranked three of the System's regional hospitals in the top hospitals in the Cleveland metropolitan area and Ohio: Fairview Hospital ranked third in Cleveland and fifth in Ohio; Hillcrest Hospital ranked fourth in Cleveland and sixth in Ohio; and South Pointe Hospital ranked fifth in Cleveland and thirteenth in Ohio. Akron General Medical Center, located in Summit County, was ranked eleventh in the State of Ohio. Weston Hospital was ranked first in the Miami-Fort Lauderdale metro area and fourth out of more than 250 hospitals in the State of Florida.

In 2018, the Clinic was named one of the World's Most Ethical Companies by the Ethisphere Institute for the sixth consecutive year. Ethisphere Institute is a global leader in defining and advancing the standards of ethical business practices. The award recognizes organizations that promote ethical business standards and practices internally, enable managers and employees to make good choices and shape future industry standards by introducing best practices. Companies were evaluated in five categories: ethics and compliance programs; corporate citizenship and responsibility; culture of ethics; governance; and leadership, innovation and reputation.

The Clinic and Akron General Medical Center achieved re-designation of Magnet status recognition from the American Nurses Credentialing Center in 2018. Magnet status is the highest national credential for nursing excellence and serves as the gold standard for

nursing practice. Organizations that have achieved Magnet status are recognized for quality in patient care, nursing excellence and innovations in professional nursing practice. The credential can be renewed every five years by providing evidence of the expansion of professional knowledge and continued competence in nursing. Five System hospitals have achieved the distinguished Magnet status recognition. The Clinic has been recognized as a Magnet organization since 2003, Fairview Hospital has been recognized as a Magnet organization since 2009 and Akron General Medical Center has been recognized as a Magnet organization since 2013. Hillcrest Hospital achieved Magnet status in 2014 and South Pointe Hospital achieved Magnet status in 2017

In January 2018, three of the System's Heart and Vascular Institute units received the Beacon Award for Excellence at the gold level. The Beacon award was created by the American Association of Critical Care Nurses to recognize hospital units for demonstrating exceptional care through improved outcomes, greater overall satisfaction and a positive and supportive work environment. Units are recognized at the gold, silver or bronze level, and the designation continues for three years. The Orthopedic Nursing Unit at Euclid Hospital was also honored in 2018 at the silver level. Other System units that have received the Beacon award are the main campus Heart Failure Intensive Care Unit and Coronary Intensive Care Unit, both at the gold level in 2015, and the Hillcrest Hospital Coronary Care Unit at the silver level in 2016.

In August 2018, the Parkinson's Foundation named the Clinic a Center of Excellence, a designation that recognizes hospitals and academic medical centers that provide the latest medications, therapies and innovations in Parkinson's disease. Organizations are required to meet various clinical, research, professional education and patient care criteria to be considered for the Center of Excellence designation. The Clinic is one of 45 medical centers in the world and 31 in the U.S. that received the Center of Excellence designation from the Parkinson's Foundation.

In October 2018, Lutheran Hospital received the Vizient Bernard A. Birnbaum, MD, Quality Leadership Award for excellence in delivering safe, patient-centered care that is timely, effective, efficient and equitable. This is the second time Lutheran Hospital has received this award. Award recipients are selected from member organizations based on performance data from a variety of sources, including Vizient's Clinical Data Base, core measures data, the Hospital Consumer Assessment of Healthcare Providers and Systems survey, and the Centers for Disease Control and Prevention's National Healthcare Safety Network.

In October 2018, the Clinic was named to the 2018 HealthCare's Most Wired list by the College of Healthcare Information Management Executives. The "Most Wired" survey assesses hospitals and health systems on their progress of technology adoption and implementation and use of information technology. The survey also evaluates hospitals and health systems on how they leverage and implement information technology to improve clinical and financial performance for value-based healthcare and future care delivery systems.

The Clinic was recognized among twenty Cleveland area employers at the 2018 Smart Culture Conference by *Smart Business* magazine for the second consecutive year. Honorees were noted for having workplace cultures that bolster productivity, enhance job satisfaction and provide a competitive advantage in the marketplace.

The System was recognized by *The Plain Dealer*

newspaper as one of Northeast Ohio's 150 top workplaces for 2018, ranking seventeenth in the category for large local employers. This list was based on the opinions of employees who responded to a survey that measured several aspects of workplace culture, including alignment with the organization, execution of strategies and feelings of connection. This is the System's sixth time on this list.

The Clinic was recognized for having a positive impact on its employees and the region with a NorthCoast 99 award, an annual recognition program that honors ninety-nine great workplaces in Northeast Ohio based on results from employee surveys. The Clinic has received this recognition thirteen times.

The Clinic's CEO and President, Tomislav Mihaljevic, M.D., was named the sixteenth most influential physician executive in the nation by Modern Healthcare in its 2018 list of the fifty most influential physician executives and leaders. The list honors physicians working in the healthcare industry who are recognized by their peers and an expert panel as being influential in terms of demonstrated leadership and impact. Dr. Mihaljevic was recognized for his focus on new initiatives that the organization will pursue in 2018, including improvements in patient safety, caregiver experience and operational efficiency.

FINANCING DEVELOPMENTS

In August 2018 the System through a UK subsidiary entered into a private placement agreement to issue Guaranteed Senior Notes (2018 Sterling Notes) totaling £665 million. The subsidiary received proceeds of £300 million and £100 million in August 2018 and November 2018, respectively, and will receive additional proceeds of £265 million in August 2019. The 2018 Sterling Notes are guaranteed by the Cleveland Clinic obligated group and another UK subsidiary, mature at various dates through 2068 and bear interest at an average fixed rate of 2.99%. The proceeds of the 2018 Sterling Notes have been or will be used to repay a $375.0 million term loan used to acquire a long-term leasehold interest in a building in London, England, and to partially fund the construction and conversion of the building into a healthcare facility. The 2018 Sterling Notes were assigned a rating of AA by Standard & Poor's (S&P).

At the time the 2018 Sterling Notes were rated, S&P affirmed its AA rating on the System's obligated group outstanding debt and maintained its stable outlook. S&P cited various reasons to support the rating, including a unique and very strong enterprise profile, continued widespread brand recognition of tertiary and quaternary services and a stable leadership team that has executed on its strategy and vision. S&P noted the System's robust research program, increasing emphasis on teaching, and strategic focus on growth domestically and internationally. Challenges to the current rating include northeast Ohio's unfavorable demographic trend, the System's robust capital spending program and a highly competitive service area in northeast Ohio.

In July 2018 Moody's Investor Services (Moody's) affirmed its Aa2 rating on the System's obligated group outstanding debt and maintained their 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 relatively high debt levels for the rating category, execution risks of multiple strategies that require elevated capital spending and constrained revenue in the local market due to competition and 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. The Trustees actively serve on the committees of the Board of Directors. At present, there are 72 active Trustees and 14 Emeritus Trustees (not including Directors). 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.

The Clinic and its regional hospitals maintain a governance model for the 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 regional hospital boards meet quarterly and, among other topics, provide local input on quality and patient safety and community health needs. Each regional hospital has a president, and all hospital presidents report to the President of Regional Hospitals and Family Health Centers.

APPOINTMENTS

Tomislav "Tom" Mihaljevic, MD was appointed Chief Executive Officer (CEO) and President of the Clinic effective January 1, 2018. Dr. Mihaljevic replaced Toby Cosgrove, MD, who transitioned out of the CEO role in 2017 and now serves in an advisory role. Dr. Mihaljevic joined the Clinic in 2004 as a cardiothoracic surgeon specializing in minimally invasive and robotically assisted cardiac surgeries. Since 2015, Dr. Mihaljevic had served as CEO of Cleveland Clinic Abu Dhabi, overseeing the hospital's strategy and operations, including directly managing the hospital's patient experience and strategy and business development programs. Dr. Mihaljevic's early experiences include medical studies and training in Croatia and Switzerland, a surgical residency at Boston's Brigham and Women's Hospital, and leadership and teaching roles at Harvard Medical School. He is the author or co-author of more than 145 articles in medical and peer-reviewed scientific journals and is the author of numerous textbook chapters on robotic and minimally invasive mitral valve surgery and heart valve disease.

Brian Donley, MD was appointed Chief Executive Officer of Cleveland Clinic London in February 2018. As CEO of Cleveland Clinic London, Dr. Donley directs strategy and operations, guides recruitment and is leading the opening of the new healthcare facility in London. Dr. Donley had served as Chief of Staff and Chief of Clinical Operations at the Clinic since 2015. He joined the Clinic's Orthopaedic and Rheumatologic Institute in 1996 and served in various leadership roles over the years, including President of the Regional Hospitals and Family Health Centers. He is an orthopaedic surgeon specializing in foot and ankle surgery and has also served as Professor of Surgery at the Lerner College of Medicine of Case Western Reserve University. In 2013, Dr. Donley completed an Advanced Management Program at Harvard Business School.

Rakesh Suri, MD was appointed Chief Executive Officer of Cleveland Clinic Abu Dhabi in January 2018 as Dr. Mihaljevic transitioned into the Clinic CEO role. Dr. Suri joined the Clinic in 2015 and served as Chief of Staff of Cleveland Clinic Abu Dhabi, where he led the recruitment of more than 400 physicians and participated in the opening and initiation of clinical services through the hospital. Dr. Suri's early experiences include medical studies and training in Canada and the United Kingdom.

Herbert Wiedemann, MD was appointed Chief of Staff in March 2018. Dr. Wiedemann joined the Clinic in 1984 and had served as Chairman of the Respiratory Institute since 2007. He also served as a member of the Board of Governors.

Edmund Sabanegh, MD was appointed to the new role of President – Cleveland Clinic Main Campus in March 2018. Dr. Sabanegh joined the Clinic in 2006 and had served as Associate Chief of Staff, Chairman of the Department of Urology and as a member of the Board of Governors. In March 2018, Dr. Sabanegh was also named President of the Regional Hospitals and Family Health Centers.

James Young, MD was appointed Chief Academic Officer in March 2018 to oversee education and research across the System. Dr. Young joined the Clinic in 1995 and had served as Professor of Medicine and Executive Dean of Cleveland Clinic Lerner College of Medicine of Case Western Reserve University. Dr. Young also chairs the Endocrinology and Metabolism Institute.

Adam Myers, MD, FACHE was appointed Chief of Population Health and Director of Cleveland Clinic Community Care in June 2018. Cleveland Clinic Community Care was launched in 2017 to manage populations of patients rather than just addressing individual patients' needs on a visit-by-visit basis with a goal of reducing the cost of healthcare while improving quality initiatives and metrics. Dr. Myers most recently served as Senior Vice President, Chief Medical Officer and Operations Officer of Texas Health Physicians Group/Enterprise and Chair of the Clinical Integration team at Southwestern Health Resources.

Josette M. Beran was appointed Chief Strategy Officer in August 2018. Ms. Beran has served in various leadership roles during her 17-year career at the Clinic, including Executive Administrative Officer at Cleveland Clinic Abu Dhabi from 2011-2014 and Executive Director in the Clinic's Strategy Office since 2014, a position she held until being named Interim Chief Strategy Officer in January 2018. During her roles in the Strategy Office, Ms. Beran led the integration of Akron General and Union Hospital into the System and the development of acquisition opportunities in Florida.

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.

In July 2018, Akron General Medical Center completed and opened a $49 million emergency department. The two-story, 73,000 square foot emergency department triples the size of the former emergency department space. The first floor houses the emergency department, and the second floor contains administrative offices and a clinical decision unit for patients that need short-term observation care. The facility is a Level 1 trauma center and has a total of 60 treatment rooms for patients, including six high-acuity trauma rooms, an area designated for patients seeking treatment for sexual assault, an expanded behavioral health unit, an imaging department, a separate urgent care area, and an area for quarantining and treating highly contagious patients. The second floor houses a clinical decision unit that has capacity for up to 18 short-term observation patient beds and the rooftop has a helipad.

In July 2018, the Clinic completed and opened a new 64,700 square foot, three story family health center in Lakewood, Ohio on a site adjacent to the former Lakewood Hospital. The $34 million facility has an emergency department located on the first floor with 16 treatment rooms. On the second and third floors, the facility has 60 exam rooms. There is also lab and imaging services to support operations at the facility.

In July 2018, Cleveland Clinic Florida completed and opened a family health center and surgery center in Coral Springs, Florida. Coral Springs is approximately twenty miles northeast of the Weston campus. This new 74,000 square foot facility accommodates approximately forty exam rooms, four operating rooms with shell space for two additional operating rooms in the future, two endoscopy rooms and imaging services. The $32 million project was completed through a joint venture with a local Florida developer. A construction loan was obtained by the joint venture for the majority of the construction costs with a guarantee provided by affiliates of the Florida developer. Cleveland Clinic Florida is leasing the building from the joint venture on a triple net basis for an initial term of fifteen years and will provide the clinical operations in the facility.

In September 2018, the Clinic completed and opened the Cleveland Clinic Children's outpatient facility in the former location of the Taussig Cancer Building on the Clinic's main campus. The project consolidated multiple locations and specialties of Cleveland Clinic Children's ambulatory care into the existing building, including primary and specialty outpatient services, a children's retail pharmacy, pediatric lab services and pediatric radiology services with x-ray and ultrasound testing. It also features a family focused education center, sibling drop-off, pediatric nutrition center, an expanded front entrance, and new technologies focused on enhancing the care and experience for patients, families and caregivers. The 120,000 square foot facility has sixty-five exam rooms, twenty infusion rooms, and four procedure rooms. Outpatient services include adolescent medicine, allergy and immunology, behavioral health, cardiology and CT Surgery, dermatology, developmental medicine, endocrinology/diabetes, fetal care center, gastroenterology, general surgery, genetics, gynecology, hematology/oncology, infectious disease, integrative medicine, maternal fetal medicine, nephrology, neurology and

neurosurgery, otolaryngology, physical medicine and rehabilitation, plastic surgery, primary care, psychiatry, pulmonary medicine, sleep disorders and urology. The renovation costs including building infrastructure upgrades were approximately $36 million.

In October 2018, the System completed and opened a new tower to expand Weston Hospital. The new tower hosts a 40-bed emergency department, a 24-bed observation unit, 26 acute care beds and 48 intensive care beds, including 23 relocated from the existing hospital. The new tower also includes a shelled floor for future expansion. To support this growth, significant renovation and backfill is planned to increase the size of existing imaging, laboratory, pharmacy, sterile processing and food services. A new endoscopy suite and three new operating rooms are also included in the renovation and backfill. The project includes a new central utility plant and new surface parking to support the campus expansion. The related backfill construction and renovation will continue through 2020. Overall, the project is expected to cost approximately $230 million.

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

Enterprise Administrative Patient Management - The System is currently in the final stages of a multi-year project to align revenue cycle support services and processes to support patients as they progress through their continuum of care. The Enterprise Administrative Patient Management (EAPM) project consolidates thirteen different technology systems used for scheduling appointments, admissions, electronic medical records, billing and collections into one technology platform with the goal of improving patient experiences. Reducing the number of systems is expected to improve patient service and employee efficiency. Implementation of EAPM began in the first quarter of 2012 at the System facilities in Weston, Florida. The Clinic's main campus and family health centers implemented EAPM in the first quarter of 2016, and the System's community hospitals excluding Union Hospital implemented EAPM at various phases throughout 2017 and 2018. EAPM is expected to require capital costs of approximately $186 million over the entire implementation period, most of which have already been incurred and paid.

Health Education Campus - In 2013, the Clinic and Case Western Reserve University (CWRU) School of Medicine reached an agreement to build a health education campus that will contain CWRU's medical school program and the Cleveland Clinic Lerner College of Medicine. The campus includes a facility that will be located on the Clinic's main campus and will serve as home for the seminar, lecture, and laboratory curriculum taught during the first two years of medical school. Students' clinical training will continue to take place at area hospitals. This initiative is aligned with the future plans of the Clinic's main campus and supports the Clinic's mission and strategic direction. The facility will also house the CWRU Nursing School and School of Dental Medicine. The facility is designed to encourage extensive interaction and collaboration among the professions. Construction of the facility broke ground on October 1, 2015 and is expected to be completed in December 2018, with the first students expected to be enrolled in the summer of 2019. CWRU and the Clinic will share in the construction costs of approximately $449 million and the ongoing operational costs of the facility, with a portion of the construction costs expected to be raised through fundraising efforts and donations.

Plans also include a separate three-story, 126,000 square-foot dental clinic that will be adjacent to the medical school facility and will cost approximately $66 million. The dental clinic will provide a space where students can treat patients under dental faculty supervision. Construction of the dental clinic broke ground in October 2017, and the facility is expected to open at the same time as the medical school.

Cleveland Clinic London Hospital – In 2015, the Clinic acquired a long-term leasehold interest in a six-story 198,000 square foot building in London, England. In January 2017, regulatory approvals were received to convert the building from office space into an approximately 200-bed hospital with eight operating theatres. Construction on the London Hospital is expected to be completed in 2020 and open for patients in early 2021. 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. For a description of the London hospital financing, refer to "FINANCING DEVELOPMENTS."

PHILANTHROPY CAMPAIGN

The Clinic is currently in the midst 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 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 September 30, 2018, the Clinic has received pledges, cash and other assets of approximately $1.4 billion toward the goal.

The $2 billion 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 new 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.

INNOVATIONS AND VENTURES

Cleveland Clinic Innovations promotes scientific, clinical and administrative creativity throughout the System into products that benefit patients around the world. Specifically, it helps to grow the Clinic's innovative capacity, mentors inventors, licenses technology, secures resources, and establishes spin-off companies and strategic collaborations with corporate partners. Since 2000, Cleveland Clinic Innovations has launched 85 companies, transacted more than 564 technology licenses, filed over 4,050 patent applications with over

1,450 issued patents, and acted on approximately 3,600 new inventions. In 2017, the Clinic executed 43 transactions to provide Clinic inventions to external organizations for development and commercialization in various fields, including orthopaedics, telemedicine, cardiovascular, immunology and concussion management.

Cleveland Clinic Ventures operates in tandem with Cleveland Clinic Innovations to turn medical breakthrough inventions into products and companies. The strategy of Cleveland Clinic Ventures is to maximize the success and sustainability of spin-offs and to raise funds that help get ideas to market through funding strategies and business model development.

Cleveland Clinic Innovations manages the Healthcare Innovations Alliance, a collaborative network of healthcare systems, academic institutions and industry partners from around the nation. Alliance partners utilize the Clinic's comprehensive technology and commercialization experience to turn medical ideas into marketable inventions and commercial ventures. The integration of capabilities between organizations is focused on discovery, development and rapid deployment of new technologies with the goal of improving patient care. In October 2017, Cleveland Clinic Innovations announced a partnership between the Clinic, Jumpstart Inc., and Plug & Play, a Silicon Valley-based accelerator. The first cohort of companies completed the three-month Plug & Play Cleveland program in June 2018. The accelerator connects innovative healthcare companies from all over the nation with investors and corporate partners.

In October 2018, Cleveland Clinic Innovations hosted the annual Medical Innovation Summit in downtown Cleveland for industry leaders, investors, and entrepreneurs looking to expand their understanding of the healthcare market and the future of medical innovation. The 2018 Medical Innovation Summit and its affiliated events hosted approximately 2,000 attendees, who discussed the future of healthcare and the latest opportunities and challenges in the healthcare industry with various keynote addresses from authors and business leaders in healthcare. In addition to the keynotes, other highlights included a panel discussion featuring members of the care team that completed the face transplant at the Clinic in 2017 as well as the unveiling of the Top 10 Medical Innovations for 2019, which highlights the potential for medical breakthroughs in the coming year. The "Top 10" has been led by Cleveland Clinic Innovations since its debut in 2007. Each year, Cleveland Clinic Innovations interviews over 75 Clinic 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.

Cleveland Clinic Innovations operates a 50,000-square-foot Global Cardiovascular Innovation Center (GCIC) on the Clinic's main campus, which is home to its operations, as well as an incubator facility for approximately 30 companies. GCIC has supported the development of over 50 technologies and the creation of over 1,000 new jobs.

CLINICAL AFFILIATIONS

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 2018, the Clinic entered into a cardiovascular affiliation agreement with Martin Health System based in Florida. Martin Health System is a regional not-for-profit, community-based healthcare provider with three acute-care hospitals and a network of outpatient services. The Clinic's Sydell and Arnold Miller Family Heart and Vascular Institute and Martin Health System's Frances Langford Heart Center plan to share best practices in cardiology and heart surgery while focusing on providing high quality, safe care and improved outcomes. The Clinic will also provide management services, such as clinical direction, quality assurance and access to technologies and techniques. Subsequent to the affiliation agreement, the two organizations entered into a definitive agreement whereby Martin Health System would become a full member of the System. For a description of the agreement, refer to "FLORIDA GROWTH."

In January 2018, the Clinic entered into a clinical management and professional services agreement with Avita Health System based in Ohio. Avita Health System is a regional not-for-profit, community-based healthcare provider with two critical access hospitals, one acute care hospital and a network of outpatient services. The Clinic's Taussig Cancer Institute and Avita Health System plan to share best practices in medical oncology while focusing on providing high quality, safe care and improved outcomes. The Clinic will also provide certain professional and management services, such as clinical direction, quality assurance and access to technologies and techniques.

In July 2018, the Clinic and CWRU unveiled plans to work together to advance research and education in biomedical engineering. The goal is to create a portfolio of laboratory breakthroughs that improve treatments for patients and to establish a framework for creating more joint efforts between the organizations with increased opportunities for trainees to study with scientists, physicians and engineers. The current alliance includes more than 50 researchers with primary appointments in biomedical engineering and another 80 CWRU researchers appointed in such disciplines as cardiology, ophthalmology, orthopedics and precision medicine.

JOINT VENTURES

Under a joint venture agreement with Select Medical, one of the nation's largest providers of post-acute care services, the Clinic and Select Medical operate three rehabilitation hospitals in Northeast Ohio. The first hospital opened in December 2015 in Avon, Ohio. A second facility opened in Beachwood, Ohio in October 2017 and a third-facility opened in Bath Township, Ohio in November 2017. Each facility has 60 beds and features private rooms and the latest rehabilitation equipment to care for patients with stroke, spinal cord injury, brain injury, and a variety of medical and surgical conditions. These facilities expand inpatient rehabilitation services in Northeast Ohio and improve access for patients with complex rehabilitation needs. The Clinic is a minority member in the joint venture.

The Clinic and Select Medical also operate four existing long-term acute care (LTAC) facilities through a joint venture agreement. The LTAC facilities have a total of 230 beds and are located in northeast Ohio. The joint venture expands the Clinic's relationship with Select Medical and combines the experience of both organizations in the treatment of LTAC patients.

ACCOUNTABLE CARE ORGANIZATION

Cleveland Clinic Medicare ACO, LLC is an Accountable Care Organization (ACO) that includes participation from Clinic physicians and independent Quality Alliance physicians that come together with hospitals and other providers to provide coordinated, high quality care to Medicare patients as part of the Medicare Shared Savings Program. The Shared Savings Program rewards ACOs that lower their growth in healthcare costs while meeting performance standards on quality of care. Initiatives of the Cleveland Clinic Medicare ACO include decreased utilization of inpatient and skilled nursing beds, better blood pressure control, improved management of diabetes and a significant decrease in admissions for asthma/COPD, chronic heart failure and 30-day readmissions. Cleveland Clinic Medicare ACO received more than $36 million in shared savings payments since 2015, which was its first year of operation.

In 2018, Cleveland Clinic Medicare ACO transitioned to a new payment model for its approximately 105,000 beneficiaries that increases its opportunity for performance-based savings, while assuming limited performance based downside risk if it does not reach a specific savings benchmark. The downside risk is a fixed 30% loss-sharing rate, and in exchange the Clinic will be able to share higher savings based on quality performance.

CO-BRANDED INSURANCE

In June 2017, the Clinic entered into a collaboration with Oscar Health, a health insurance technology company based in New York City, to offer co-branded health insurance plans to consumers in five counties across northeast Ohio. The new Cleveland Clinic Oscar individual health plans are available through the Ohio health insurance exchange or directly through Oscar Health. Enrollment in the plans began in the 2018 open enrollment period with coverage beginning on January 1, 2018. More than 11,000 members enrolled during the open enrollment period, which was higher than original expectations and accounted for about 15% of the individual health insurance market in the five-county northeast Ohio area. Plan participants are matched with teams from both organizations that work together across the continuum of care to ensure that participant's health and wellness needs are proactively met. Participants have access to various technology to analyze and manage their health needs, including the option of telehealth virtual visits through Cleveland Clinic Express Care Online and Oscar's Virtual Visits.

In November 2017, Humana Inc., a leading health and well-being company, and the Clinic announced the creation of two new $0 premium Medicare Advantage health plans. The Humana Cleveland Clinic Preferred Medicare Plans will offer patient-centered, affordable access to expert doctors, nurses and facilities for people with Medicare in Cuyahoga County. The

collaboration integrates Humana's Medicare Advantage experience with the Clinic's clinical expertise. The plans offer a $0 monthly premium, $0 primary care physician office visit copay, $0 copay for a 30-day supply of Tier-1 prescription drugs and require no referrals to see in-network specialists. Plan members will have access to the System's physicians, specialties and facilities, as well as independent physicians who are part of the Cleveland Clinic Quality Alliance.

LAKEWOOD HOSPITAL ASSOCIATION

The Lakewood Hospital Association (LHA) is a non-obligated affiliate of the System. The Clinic, LHA and the City of Lakewood entered into an agreement in December 2015 that outlines the transition of healthcare services in the City of Lakewood and how the Clinic can be a leader in meeting those healthcare needs. Participation in the agreement by the City of Lakewood was authorized by an ordinance adopted by Lakewood City Council. Under the terms of the agreement, the Clinic and LHA will make contributions over the next 15 years for the creation of a new health and wellness community foundation to be used to address community health and wellness needs in the City of Lakewood. In addition, the Clinic constructed an approximately 62,000-square-foot family health center that opened in July 2018 that is located adjacent to the site of the former hospital. LHA ceased inpatient operations at the hospital in February 2016, while the emergency department and several outpatient services at the hospital continued until the opening of the new family health center and emergency department.

Prior to the signing of the agreement, a lawsuit was filed against the Clinic, LHA, the City of Lakewood and others (Defendants) by a few Lakewood residents (Plaintiffs) seeking to stop the closure of the hospital and money damages. The trial court dismissed the case on July 10, 2017, but the Plaintiffs appealed the dismissal. On May 10, 2018, the Court of Appeals affirmed the decision of the trial court. The deadline for Plaintiffs to appeal the case to the Ohio Supreme Court has expired, and no appeal was filed.

In November 2015, Lakewood voters defeated a proposed charter amendment that would have required voter approval on any Lakewood City Council ordinance that would have caused the hospital to no longer be a full time and full service hospital. As a result of duly signed petitions, a referendum vote to repeal the ordinance occurred in November 2016. The results upheld the ordinance adopted by Lakewood City Council.

AKRON GENERAL HEALTH SYSTEM

The Clinic became the sole member of Akron General Health System (Akron General) in November 2015. As part of the affiliation agreement, the Clinic and Akron General committed to funding for the capital expenditure needs to support Akron General's capital plan for at least the first five years after the member substitution. Recent initiatives include a new emergency department at Akron General Medical Center that opened in July 2018 and replacement of Akron General's electronic medical records system in the third quarter of 2017.

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.

Although 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, there is a probable liability associated with the matters described above. Preliminary discussions with the DOJ and related government authorities about the physician arrangements are ongoing, and thus neither a timeframe for completion of the inquiry by the government authorities nor the ultimate amount of any fines, penalties and other potential financial liability, if any, that may arise under the Federal Anti-Kickback Statute, Stark Law, False Claims Act and/or other related laws and regulations can be estimated at this time. The outcome of the ongoing dialogue with the DOJ, as well as an adverse outcome in any future proceedings arising from the physician arrangements at issue, could require a material payment from the System and could negatively impact the operations and/or financial condition of Akron General and/or the System.

UNION HOSPITAL

In April 2018, the Clinic through a subsidiary became the sole member of Union Hospital located in Dover, Ohio. Union Hospital operates a hospital and several off-campus satellite services. Union Hospital has more than 100 patient beds, 300 healthcare providers on staff, and 1,100 employees. In addition to Union Hospital, Union Hospital operates Tuscarawas Ambulatory Surgery Center and Union Physician Services, a hospital-owned physician network with several offices and approximately 30 providers.

All services, programs and locations managed and operated by Union Hospital are continuing as the organizations begin the integration process. The integration process will examine the operating processes and procedures at the various entities and look for ways to improve the quality and delivery of care. The Clinic previously maintained an existing relationship for the past several years with Union Hospital through the Telestroke Network, which connects patients to the Clinic's Cerebrovascular Center.

South Pointe Hospital
Warrensville Heights, OH

FLORIDA GROWTH

In January 2018, Indian River Medical Center (IRMC), located in Southeast Florida approximately 130 miles north of Weston, selected the Clinic as its potential acquisition partner. In October 2018, the IRMC board of directors and the Indian River County Hospital District Trustees both voted to approve a series of agreements for IRMC to join the System. Under the terms of the transaction, the Clinic is committing to invest at least $250 million in IRMC over the next decade and will maintain certain clinical services at IRMC for at least ten years. The acquisition is now pending the review of federal and state regulatory agencies. IRMC is a not-for-profit medical center with over 330 patient beds and is focused on providing healthcare to Indian River and surrounding counties in Florida. IRMC will continue to lease the hospital facilities and the land on which they stand under an amended and restated agreement with the Indian River County Hospital District for a term of up to 75 years.

In October 2018, the Clinic and Martin Health System, located in Southeast Florida approximately 100 miles north of Weston, signed a definitive agreement for Martin Health System be become a full member of the System. As part of the agreement, the Clinic plans to commit $500 million into Martin Health System over five years. The funds will support strategic and capital needs, as well as other programs and services. The acquisition is now pending the review of federal and state regulatory agencies. Martin Health System is a regional not-for-profit, community-based healthcare provider comprising three acute-care hospitals with 521 beds, a 150-member employed physician group and a network of outpatient services.

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 six-story 198,000 square-foot building in London, England. The System is converting the building from office space into an advanced healthcare facility that is expected to open in early 2021. For a description of the London hospital project, refer to "EXPANSION AND IMPROVEMENT PROJECTS."

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 2017, the Clinic established Cleveland Clinic Connected, an international program that aims to improve patient care delivery around the world by enabling international health care providers to access the Clinic's best practices. The Clinic entered into its first Cleveland Clinic Connected relationship with Luye Medical Group for the general hospital in the Shanghai New Hong Qiao International Medical Center currently under development in Shanghai, China. Patients will experience the same model of care through the

Clinic's collaboration and guidance in the areas of quality and patient safety, best practices and guidelines for patient care and engagement, distance health and second opinions, clinical and executive education and continuous improvements as well as 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

The U.S. healthcare industry is undergoing unprecedented change with the intersection of economic pressure, insurance reform, technological breakthroughs, and demographic shifts. At the center of this change is an accelerating shift in reimbursement models from volume- to value-based and/or risk-based payment. Contributing to the reformation of healthcare is a new level of consumerism spurred by the continued growth of high-deductible health insurance products and expectations for transparency, customization, and on-demand solutions. As these changes evolve, the combination of consolidation, a blurring of traditional roles, and new entrants with innovative business models and compelling customer value propositions are reordering the healthcare landscape.

The System has set forth a strategy that embraces these fundamental shifts and positions the organization for continued leadership and success in meeting its mission and goals in a vastly changing environment. The strategy focuses on the principle of Patients First and contains the following themes designed to transform value and provide for continued growth:

- Continue to thrive as a national and global referral center for the most complex care
- Master community-based care in a framework of population management
- Innovate medical education to prepare the next generation of caregivers
- Leverage the unique assets and capabilities of the System to grow and extend services to other hospitals and health systems

The organization has been pursuing a roadmap of transformation referred to as the Strategic Agenda. The Strategic Agenda calls for fundamental changes in the System's care, operating and business models over several years. The specific roadmap is guided by the strategy and five overarching goals:

Patients First	– continuously improve quality, safety and patient experience
Caregivers	– make the System the best place to work
Affordability	– steward resources
Growth	– responsibly develop to sustain the Clinic's mission
Impact	– make a difference through research, education, innovation and community health

The centerpiece of the Strategic Agenda is a set of key performance indicators and priority initiatives established by leadership and formalized in a strategic agenda management (SAM) system. The purpose of the SAM is to enable leadership to systematically translate the strategy and goals to the priority work of the enterprise. The goal of the SAM is that every clinical and non-clinical area and every individual caregiver will work to align their respective efforts and initiatives to the System's highest priorities.

Enterprise priorities for 2018 include the following:

- Improve access to care for patients
- Use of digital technologies to change business models and the delivery of care
- Caregiver engagement
- High reliability through consistently high performance in quality, safety and patient experience
- Population health and management of financial risk for populations of patients
- System development and integration and standardization of operating practices and functions

In 2017, the System launched Cleveland Clinic Community Care, a unit created to better enable healthcare providers and teams to take care of patient populations. Cleveland Clinic Community Care is designed to bring primary care providers together under one umbrella — internal medicine, family medicine, hospital medicine, general pediatrics, wellness, home care and Express Care all report to the same unit. Primary care physicians are joined by advanced practice providers and medical assistants, who are supported by nurses, patient service representatives and care coordinators, working together to meet the needs of a specific group, or panel of patients.

As a major element of delivering value, an important thread through all of the priority initiatives of the clinical enterprise is care affordability – reducing the cost structure so that the System can be price competitive and render care more affordable for patients. In 2013, the System commissioned a Care Affordability Task Force to perform an enterprise-wide cost structure analysis and propose recommendations for transformational cost and efficiency opportunities. The System is structured to monitor continually its use of resources in all clinical, operational and administrative areas. Since the inception of the program in 2014, management estimates that Care Affordability initiatives and other localized efforts enabled approximately $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/employers and the payment system to match the broader industry trend toward risk-shifting and redesigned payment. The goal of these efforts is to address the changing demands of payors/employers, while preserving the financial security of the System during the transition. This involves increased forms of risk-taking in payor contracts (from pay-for-value to bundled payment to shared savings) and narrow network arrangements with payor partners. This is evidenced with the recent launching of co-branded insurance products with payor partners in 2018.

Leadership also is executing a focused growth strategy, domestically and internationally. A major emphasis of the domestic agenda is focused on developing relationships with

selected physician groups and hospitals throughout Northeast Ohio and partnering with community physicians in aligned, yet different, models. The Cleveland Clinic Florida leadership team has begun implementation of a multi-year growth plan that includes expansion of services at current facilities, new ambulatory facilities in surrounding communities and development of clinically integrated networks with other hospitals in South Florida, which has resulted in cascading opportunities for clinical expansion. For a description of recent growth activity in Florida, refer to "EXPANSION AND IMPROVEMENT PROJECTS" and "FLORIDA GROWTH." Meanwhile, leadership continues to execute its international strategy to extend its unique model and capabilities more broadly and to meet its organizational goals through the establishment of new facilities and a network of patient outreach offices located in several countries across the world.

Caregivers throughout the System continue 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 organization's value to the market. The System is committed to a path not only to respond to the changes in the environment, but also to lead the field with novel approaches that preserve excellence in care while offering sustainable models for others to adopt.

COMMUNITY BENEFIT AND ECONOMIC IMPACT

Community Benefit

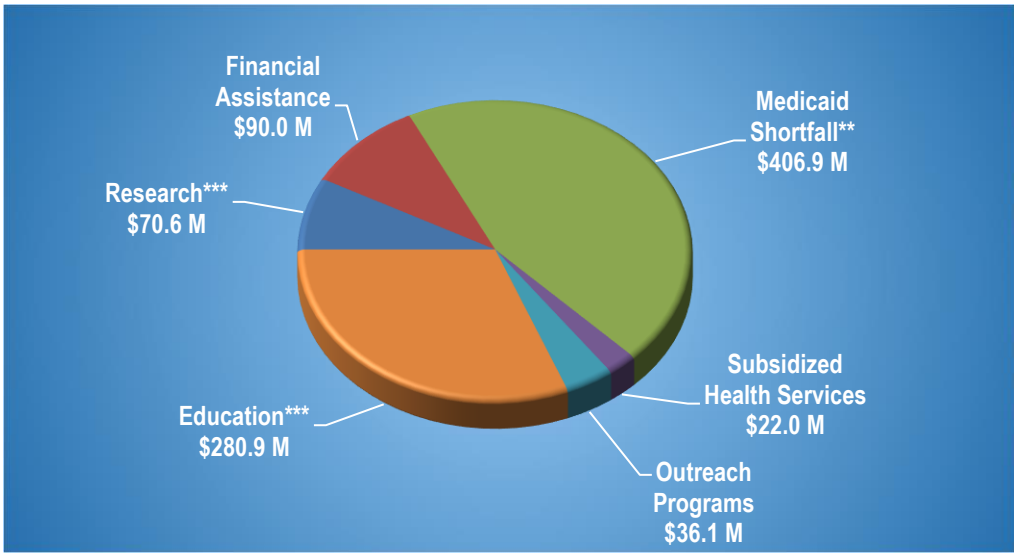
The Clinic and its hospital affiliates within the System are comprised of charitable, tax-exempt healthcare organizations. The System's mission includes addressing health service needs and providing benefits to the communities it serves. The tax-exempt members of the System must satisfy a community benefit 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.

Cleveland Clinic Children's
Cleveland, OH

In 2017, the System provided $906.5 million in benefits to the communities it serves. The following chart summarizes community benefits for the System:

Cleveland Clinic Health System*
Breakdown of Community Benefit (2017)
$906.5 Million



* Includes all System operations in Ohio, Florida and Nevada
** Includes net Hospital Care Assurance Program assessment of $8.3 million
*** Research and Education are reported net of externally sponsored funding of $159.7 million.

Financial Assistance: Financial Assistance represents the cost of providing free or discounted medically necessary care to patients unable to pay some or all 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. As a result of the Affordable Care Act implementation over the last few years, which previously required individuals to obtain healthcare insurance, nonprofit hospitals across the United States saw an increase of individuals covered by Medicaid or health exchange policies.

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 the 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 a broad array of community outreach programs, including numerous initiatives designed to 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 wellness initiatives, chronic disease management, clinical services, free health screenings, 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 prevention and wellness 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.
- Wellness initiatives and community 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, family violence and child safety.
- Collaborative initiatives with community nonprofits and local governments addressed critical population issues, including the opioid epidemic and infant mortality.
- Physical education, training and concussion awareness were provided to high school students by the Clinic's Orthopaedic and Rheumatology Institute. The Pediatric Mobile Unit provided wellness services to local elementary schools.
- The Clinic's Robert J. Tomsich Pathology & Laboratory Medicine Institute donated services to area safety-net providers.

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 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.

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 and housing;
- 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:

- chronic disease (heart disease, cancer, diabetes, asthma, obesity);
- health conditions (mental health, poor birth outcomes, aging, chemical dependency);
- wellness (nutrition, exercise, tobacco cessation, preventative care);
- access to affordable healthcare;
- education (physician shortage); and
- medical research.

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

According to the System's most recent Economic and Fiscal Impact Report, the System is the largest employer in Northeast Ohio and the second largest employer in the State of Ohio. The current 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. With a built environment portfolio of more than 22 million square feet and more than 52,000 caregivers, the impact of the System on the community and ecosystem, both positive and negative, is substantial.

The System's Office for a Healthy Environment 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 publically 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 2017, the Clinic was awarded the prestigious "Greening the OR" environmental achievement award offered by Practice Greenhealth for the second year in a row. This award is given to only one healthcare system in the country for its performance in energy efficiency, materials efficiency and recycling in the operating room. In 2018, the

Clinic won the Top 25 Environmental Excellence Award for the fourth 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: Green Building, Greening the OR, Climate and Leadership. The Leadership Circle represents the high-performing hospitals that have a strong infrastructure supporting a long term commitment to healthier environments through leadership vision, committee structure, reporting, data tracking, communication and education. Other System entities and facilities were honored with additional Practice Greenhealth Environmental Excellence Awards for outstanding performance in healthcare sustainability in 2018.

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 15% reduction in weather normalized source energy use intensity for in-scope and reportable facilities.

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 sixteen LEED-certified buildings, with additional buildings pending certification. The System has four buildings that are certified LEED-Gold, including the Global Cardiovascular Innovations Center, Marymount Hospital Surgical Expansion, Twinsburg Health and Family Surgery Center and the Tomsich Pathology Laboratories building.

In 2018, the Clinic's Center for Functional Medicine suite located on the Clinic's main campus achieved WELL certification, a new building standard that integrates human health into building design and operation. The WELL Certification process involves rigorous testing and a final evaluation carried out by the Green Business Certification Inc., which is the third-party certification body for the WELL Building Standard. WELL certification focuses on seven main concepts: air quality, water quality, healthy foods, light quality, integration of fitness, comfortable and productive workspaces, cognitive and emotional health and support for innovative features that impact the interaction between building and human health. The Center for Functional Medicine is one of the first medical offices to be awarded this certification.

DIVERSITY

The System provides healthcare services to patients and families from a global community. The Office of Diversity and Inclusion (Diversity), created in 2007, makes diversity, inclusion and cultural competence a critical part of the System's mission. Diversity's mission is to provide strategic direction that builds cultural competence, cultivates an inclusive organization, promotes health equity, develops talent, and supports a diverse population of caregivers and patients. Its programs include cultural competence training, diversity councils, employee resource groups, language enrichment, consultation, and internally and externally focused pipeline development programs.

In 2018, the System was ranked number six on the list of the country's top eleven healthcare organizations for diversity management practices by DiversityInc. The System has made this list for the ninth consecutive year. Rankings are empirically driven and assess performance based on a number of factors including CEO commitment, equitable talent development, talent pipeline and supplier diversity. Additionally, the Clinic was recognized as a "2018 Leader in LGBTQ Healthcare Equality," by the Human Rights Campaign for the fourth consecutive year. This distinction was received by meeting criteria for LGBTQ workforce and patient non-discrimination in policy, training, patient care, and access.

The System's Employee Resource Groups (ERG) have received national recognition and rank among the top 25 ERGs in the country. In 2017 ClinicPride (LGBT) ERG ranked 4th and SALUD (Hispanic/Latino) ERG ranked 24th in a national evaluation of the Association of ERGs and Diversity Councils. This annual national award recognizes, honors, and celebrates the outstanding contribution and achievements of ERGs, business groups, and diversity councils. In 2018, the System was named one of the Top 50 STEM Workplaces by the American Indian Science and Engineering Society for the sixth consecutive year and was also recognized in Forbes first ever list of "America's Best Employer's for Diversity," which included 250 employers across various industries.

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 our 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.

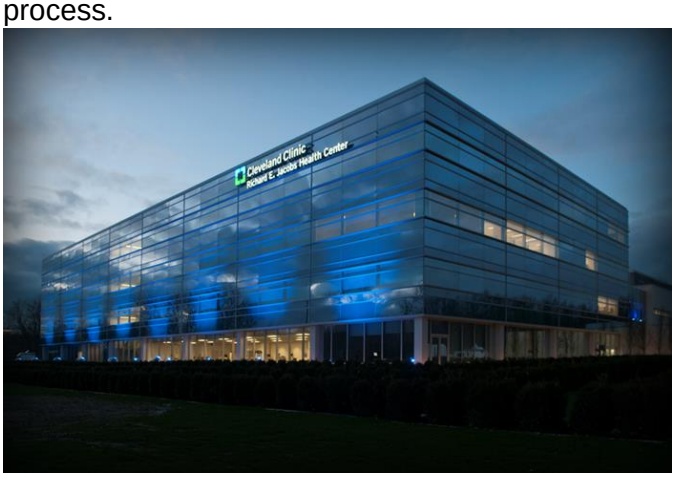
The Innovation Management and Conflict of Interest Committee of the System has also established processes with cross-membership and seamless interactions and communications with the Board of Directors' Conflict of Interest and Managing Innovations Committee.

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 Internal Revenue Service on Form 990. The Form 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, in order to more effectively mitigate risks. The System established an ERM Steering Committee and engaged a consulting firm to support this process.



Richard E. Jacobs Health Center
Avon, OH

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. The most recent comprehensive evaluation of top risks was concluded in the third quarter of 2016. Following this evaluation of top risks, extensive risk assessments and mitigation analyses have been prepared 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 process. 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 2017, which is the ninth year the management report was issued. As part of the internal control evaluation process, certifications are completed by 125 members of System management, including top leadership. The System is one of the first not-for-profit 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. System management updates the certification on a quarterly basis. There were no changes in internal controls over financial reporting during the nine months ended September 30, 2018 that have materially affected, or are likely to materially affect, the internal controls over financial reporting for the System.

INDUSTRY OUTLOOK

Moody's issued a negative outlook for the U.S. not-for-profit healthcare and hospital sector for 2018. Moody's revised its outlook from stable, which it had maintained since August 2015. Moody's expects operating cash flow to contract by 2%-4% over the next 12-18 months. The not-for-profit healthcare sector experienced a larger than expected drop in cash flow in 2017, and there is uncertainty about federal healthcare policy. The negative outlook also reflects Moody's expectation that hospital bad debt will continue to rise. Hospitals are experiencing rising co-pays and high deductibles in health plans, which are increasing bad debt. In February 2018, Moody's stated that it expected not-for-profit hospitals to face a risk of volume declines and margin erosion due to commercial insurers acquiring physician practices. Moody's predicts that insurers will be able to provide preventative, outpatient and post-acute care to their members through these providers at a lower cost than hospitals. Moody's also notes that hospitals are facing pressure from insurers moving to value-based payment options with likely lower rate increases that could result in renegotiation or termination of contracts between insurers and hospitals. Moody's expects that hospital mergers, acquisitions and affiliations will remain prevalent as an attempt for hospitals to regain leverage with insurers. In August 2018, Moody's released medians for the U.S. not-for-profit healthcare and hospital sector that showed operating cash flow decreased to 8.1% for fiscal year 2017, which is the lowest level seen since the 2008/2009 recession.

In January 2018, S&P maintained its stable outlook for the U.S. not-for-profit healthcare sector. S&P based its rating on the strength of the balance sheets in the sector being close to historical highs, combined with the long-term trend of market consolidation, physician integration and expanded ambulatory presence, which has helped improve the business positions and prospects for many healthcare organizations. S&P does acknowledge that operating risks for some organizations will increase due to changes in the municipal bond market that will increase the cost of capital and recent legislation to eliminate the Affordable Care Act individual mandate, which will likely put financial pressure on hospitals and health systems. S&P stated that the number of downgrades of its rated nonprofit hospitals and health systems exceeded the number of upgrades in 2017 for the first time since 2014 and the number of downgrades is expected to grow in 2018 for organizations already under pressure.

The System continues to anticipate, and remains alert to, changes in the healthcare market and is committed to formulating and implementing financial and strategic plans necessary to meet the System's strategic objectives and to enable the System to remain a recognized world leader in healthcare. To that end, System management continually monitors the environment in which it operates and evaluates the ways in which it conducts business.

PATIENT VOLUMES

The following table summarizes patient volumes for the System. The table includes Union Hospital activity beginning April 1, 2018, and includes pro forma information for corresponding periods in 2017 for comparative purposes:

Utilization Statistics

	For the quarter ended September 30				For the nine months ended September 30			
	2018	2017	Variance	%	2018	2017	Variance	%
Inpatient admissions[(1)]								
Acute admissions	43,302	43,131	171	0.4%	128,138	130,004	-1,866	-1.4%
Post-acute admissions	2,723	2,899	-176	-6.1%	8,167	8,932	-765	-8.6%
	46,025	46,030	-5	0.0%	136,305	138,936	-2,631	-1.9%
Patient days[(1)]								
Acute patient days	223,704	221,280	2,424	1.1%	671,077	666,140	4,937	0.7%
Post-acute patient days	20,554	22,238	-1,684	-7.6%	60,126	68,815	-8,689	-12.6%
	244,258	243,518	740	0.3%	731,203	734,955	-3,752	-0.5%
Surgical cases								
Inpatient	15,874	15,556	318	2.0%	47,069	47,385	-316	-0.7%
Outpatient	39,827	37,198	2,629	7.1%	115,855	115,685	170	0.1%
	55,701	52,754	2,947	5.6%	162,924	163,070	-146	-0.1%
Emergency department visits	173,914	172,708	1,206	0.7%	504,903	507,320	-2,417	-0.5%
Observations	16,323	15,184	1,139	7.5%	46,921	46,407	514	1.1%
Clinic outpatient evaluation and management visits	1,142,102	1,074,267	67,835	6.3%	3,426,699	3,319,510	107,189	3.2%

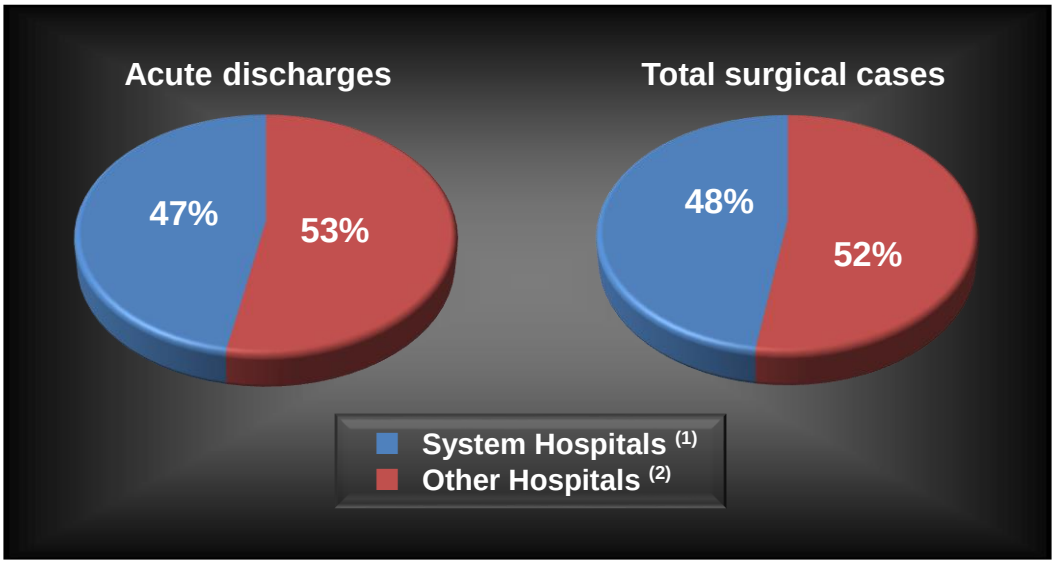
[(1)] Excludes newborns

Inpatient acute admissions for the System increased less than 1% in the third quarter of 2018 and decreased 1% during the first nine months of 2018 compared to the same period in 2017. In the first nine months of 2018, acute admissions for the System in the Cleveland metro area decreased 1%. According to data from the Center for Health Affairs, acute discharges excluding newborns in the Northeast Ohio service area decreased slightly during the first nine months of 2018 compared to the same period in 2017. Akron General and Union Hospital also experienced a decrease in acute admissions in the first nine months of 2018 compared to the same period in 2017, while the Florida facilities experienced a 3% increase in acute admissions over the same period.

Total surgical cases for the System increased 6% in the third quarter of 2018 and were flat during the first nine months of 2018 compared to the same period in 2017. For the first nine months of 2018, total surgical cases for the System in the Cleveland metro area increased

1%. According to data from the Center for Health Affairs, total surgical cases in northeast Ohio increased slightly during the first nine months of 2018 compared to the same period in 2017. Akron General and Union Hospital facilities experienced decreases in total surgical cases over the same period, while the Florida facilities were flat over the same period. The surgical mix of total surgical cases for the System for the first nine months of 2018 was 29% inpatient and 71% outpatient, which represents a slight shift from inpatient to outpatient compared to the surgical mix for the same period in 2017.

The following charts summarize selected statistical information for Northeast Ohio hospitals for the nine months ended September 30, 2018:



Source: The Center for Health Affairs Volume Statistics

(1) "System Hospitals" excludes Florida, Akron General, and Union Hospital facilities and includes Ashtabula County Medical Center.
(2) "Other Hospitals" includes all other hospitals in northeast Ohio reported by the Center for Health Affairs that are not included in System hospitals.

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 trustee. In 2017, the System completed the transition of the management of its investment portfolios from a third-party external advisor to the Cleveland Clinic Investment Office (the "CCIO"). These portfolios include the System's general long-term investment portfolio, its defined benefit pension fund and the captive insurance fund. Investment professionals in the CCIO are charged with the day-to-day management of these investments and their strategic direction. The System has established formal investment policies that support the System's investment objectives and provide an appropriate balance between return and risk.

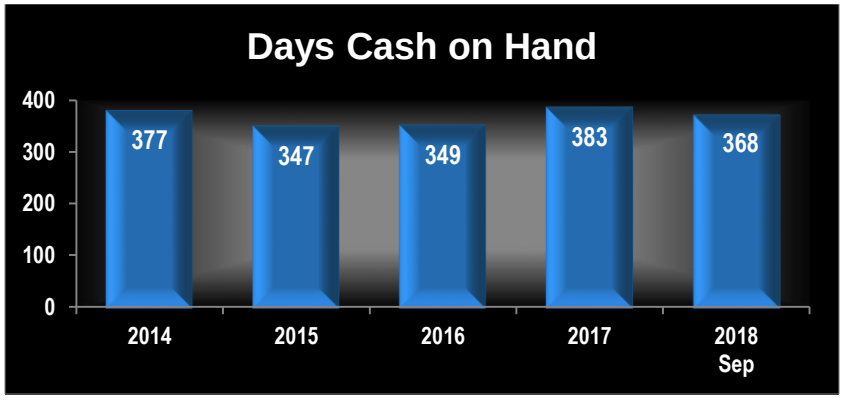
The following table sets forth the allocation of the System's cash and investments at September 30, 2018 and December 31, 2017:

Cash and Investments
(Dollars in thousands)

	September 30, 2018		December 31, 2017	
Cash and cash equivalents	$ 589,642	6%	$ 770,654	8%
Fixed income securities*	2,502,115	28%	2,412,477	27%
Marketable equity securities*	3,236,691	36%	3,192,650	35%
Alternative investments	2,718,620	30%	2,696,560	30%
Total cash and investments	$ 9,047,068	100%	$ 9,072,341	100%
Less restricted investments**	(956,051)		(1,101,417)	
Unrestricted cash and investments	$ 8,091,017		$ 7,970,924	
Days cash on hand	368		383	

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

The following chart summarizes days cash on hand for the System at December 31 for the last four years and at September 30, 2018:



At September 30, 2018, total cash and investments for the System (including restricted investments) were $9.0 billion, a decrease of $25 million from $9.1 billion at December 31, 2017. Cash inflows consist of cash provided by operating activities and related investment income of $485 million, a net increase in restricted gifts and income of $78 million, and $40 million of cash and investments received by the System from the Union Hospital member substitution business combination. Cash inflows were offset by net capital expenditures of $547 million and principal payments on debt of $81 million.

Included in the System's cash and investments are investments held for self-insurance. These investments totaled $163.8 million at September 30, 2018, with an asset mix of 6% cash and short-term investments, 42% fixed-income securities, 31% equity investments and 21% alternative investments. The asset mix reflects the need for liquidity and the objective to maintain stable returns utilizing a lower tolerance for risk and volatility consistent with insurance regulatory requirements.

Also included in the System's cash and investments at September 30, 2018 are $40.1 million of funds held by trustees. Funds held by trustees include $39.8 million of posted collateral 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 September 30, 2018, the asset mix of funds held by trustees was substantially all 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 using the equity method of accounting based on information provided by the respective partnership.

Alternative investments at September 30, 2018 and December 31, 2017 consist of the following:

Alternative Investments
(Dollars in thousands)

	September 30, 2018		December 31, 2017	
Hedge funds	$ 1,337,235	49%	$ 1,357,932	50%
Private equity/venture capital	971,273	36%	854,632	32%
Real estate	410,112	15%	483,996	18%
Total alternative investments	$ 2,718,620	100%	$ 2,696,560	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, and real estate 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

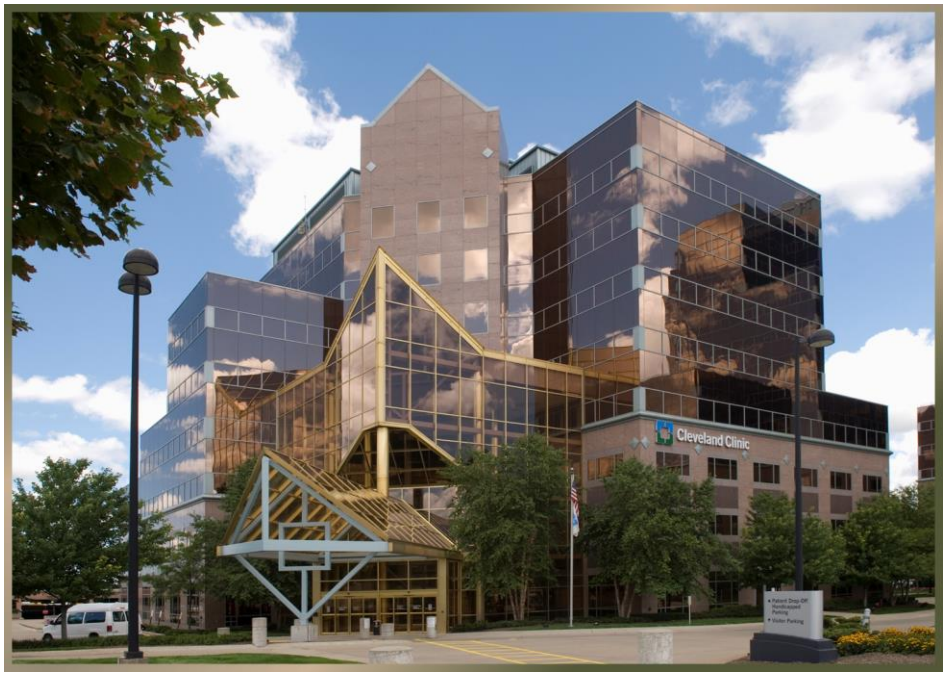
Return on investments, including equity method income on alternative investments, is reported as nonoperating gains and losses except for earnings on funds held by bond trustees and interest and dividends earned on assets held by the captive insurance subsidiary, which are included in other unrestricted revenues. Donor restricted investment return on temporarily and permanently restricted investments is included in temporarily restricted net assets.

The System's long-term investment portfolio, which excludes assets held for self-insurance, reported investment gains of 0.4% for the third quarter of 2018, which is lower than the portfolio's benchmark gains of 0.7% and lower than investment gains of 2.9% experienced in the third quarter of 2017. For the first nine months of 2018, the System experienced investment gains of 1.2%, which is higher than the portfolio's benchmark gains of 1.1% but lower than the investment gains of 9.3% experienced for the first nine months of 2017.

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

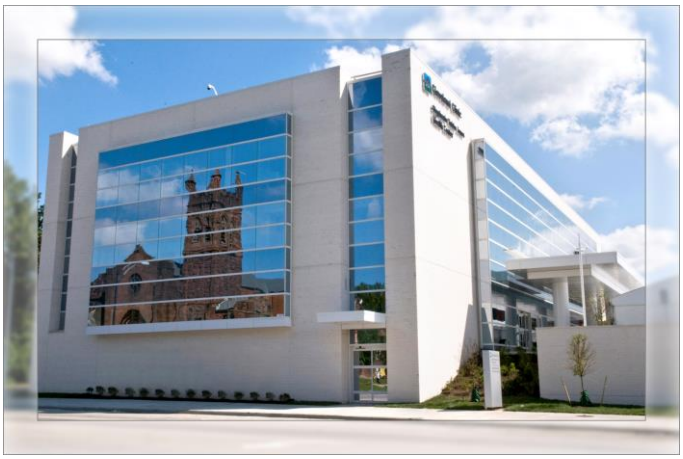
Investment Return
(Dollars in thousands)

	For the quarter ended September 30		For the nine months ended September 30	
	2018	2017	2018	2017
Other unrestricted revenue:				
Interest income and dividends	$ 477	$ 638	$ 1,638	$ 2,111
Nonoperating gains and losses, net:				
Interest income and dividends	15,685	16,862	52,251	51,174
Net realized gains on sales of investments	44,889	50,074	184,166	146,823
Net change in unrealized gains (losses) on investments	(12,087)	127,637	(207,250)	388,158
Equity method income on alternative investments	43,013	41,644	112,795	78,821
Investment management fees	(7,568)	(4,588)	(21,757)	(17,212)
	83,932	231,629	120,205	647,764
Other changes in net assets:				
Investment income on restricted investments and other	8,710	13,547	8,911	37,714
Total investment return	$ 93,119	$245,814	$ 130,754	$687,589



Independence Family Health Center
Independence, OH

Long-term Debt



Stephanie Tubbs Jones Family Health Center
Cleveland, OH

At September 30, 2018, outstanding long-term bonds and notes for the System totaled $3.682 billion, comprised of $2.965 billion (81%) of fixed-rate debt and $717 million (19%) of 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 and certain variable-rate operating lease payments. The total notional amount on the System's interest rate swap contracts at September 30, 2018 was $623 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.

Approximately $348 million of the variable-rate debt is secured by irrevocable direct pay letters of credit or standby bond purchase agreements, and another $16 million is 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 $353 million variable-rate debt is 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 mode. Bonds and notes in the self-liquidity program are structured with various term dates so that no more than $50 million of debt mature within a five-day period. Debt supported by self-liquidity are classified as current liabilities.

The System maintains the Cleveland Clinic Health System Obligated Group Commercial Paper Program (CP Program), which provides for the issuance of the Series 2014A CP Notes. The CP Program was established in November 2014 and will terminate no later than January 2044. The Series 2014A CP Notes may be issued from time to time in a maximum outstanding face amount of $100 million and are supported by the System's self-liquidity program. At September 30, 2018, the System has $71.0 million of outstanding Series 2014A CP Notes.

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 and £100 million in August 2018 and November 2018, respectively, and will receive additional proceeds of £265 million in August 2019. The outstanding 2018 Sterling Notes have been converted to U.S. dollars in the consolidated balance sheet using the exchange rate at September 30, 2018. For a description of the 2018 Sterling Notes, refer to "FINANCING DEVELOPMENTS."

Outstanding hospital revenue bonds and other long-term debt for the System as of September 30, 2018 and December 31, 2017 consist of the following:

Hospital Revenue Bonds and Notes
(Dollars in thousands)

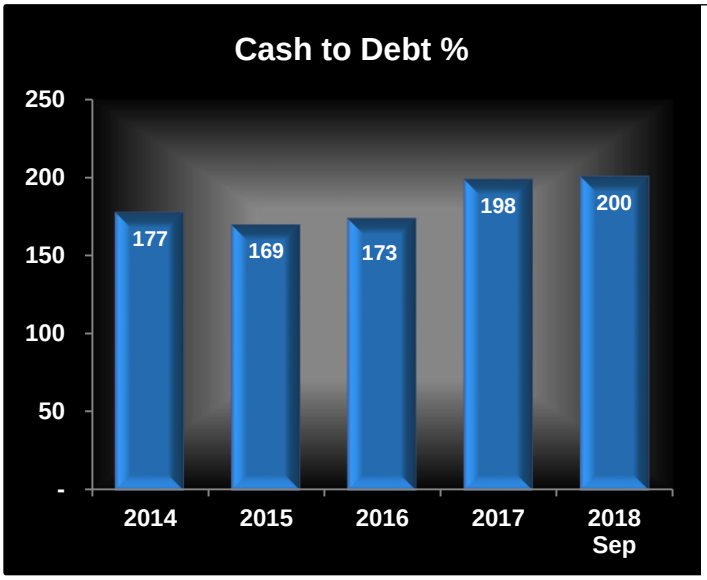
Series	Type	Final Maturity	September 30 2018	December 31 2017
2018 Sterling Notes[1]	Fixed	2068	$ 391,008	$ -
2017A Revenue Bonds	Fixed	2043	818,775	818,775
2017B Revenue Bonds	Fixed	2043	169,255	169,255
2017C Revenue Bonds	Fixed	2032	8,945	9,305
2016 Private Placement	Fixed	2046	325,000	325,000
2016 Term Loan	Variable	2026	16,270	16,270
2014 Taxable Bonds	Fixed	2114	400,000	400,000
2014A CP Notes	CP	2044	70,955	70,955
2013A Revenue Bonds	Fixed	2042	62,650	73,150
2013B Revenue Bonds	Variable	2039	201,160	201,160
2013 Keep Memory Alive Bonds	Variable	2037	59,115	61,165
2012A Revenue Bonds	Fixed	2039	439,925	451,135
2011A Revenue Bonds	Fixed	2032	148,645	160,605
2011B Revenue Bonds	Fixed	2031	26,380	27,785
2011C Revenue Bonds	Fixed	2032	157,945	157,945
2009B Revenue Bonds	Fixed	2039	16,135	31,640
2008A Revenue Bonds	Fixed	2043	-	7,930
2008B Revenue Bonds	Variable	2043	327,575	327,575
2003C Revenue Bonds	Variable	2035	41,905	41,905
			$ 3,861,643	$ 3,351,555

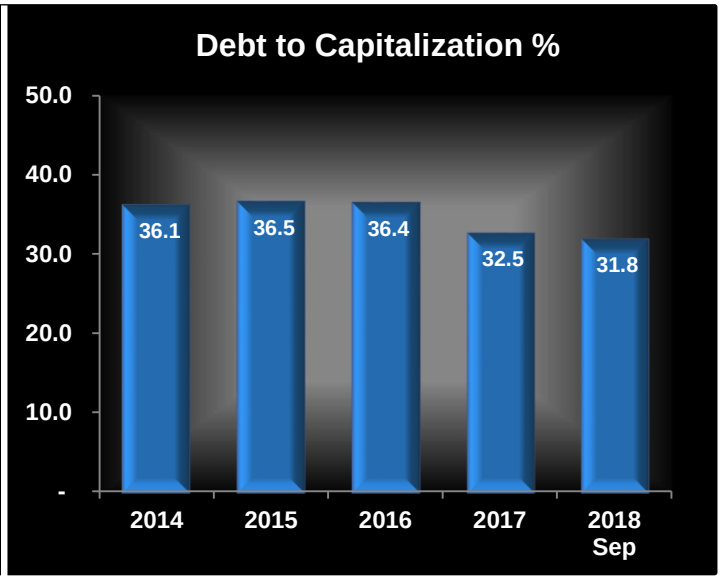
[1]Converted to U.S. dollars using foreign exchange rates at the period end date

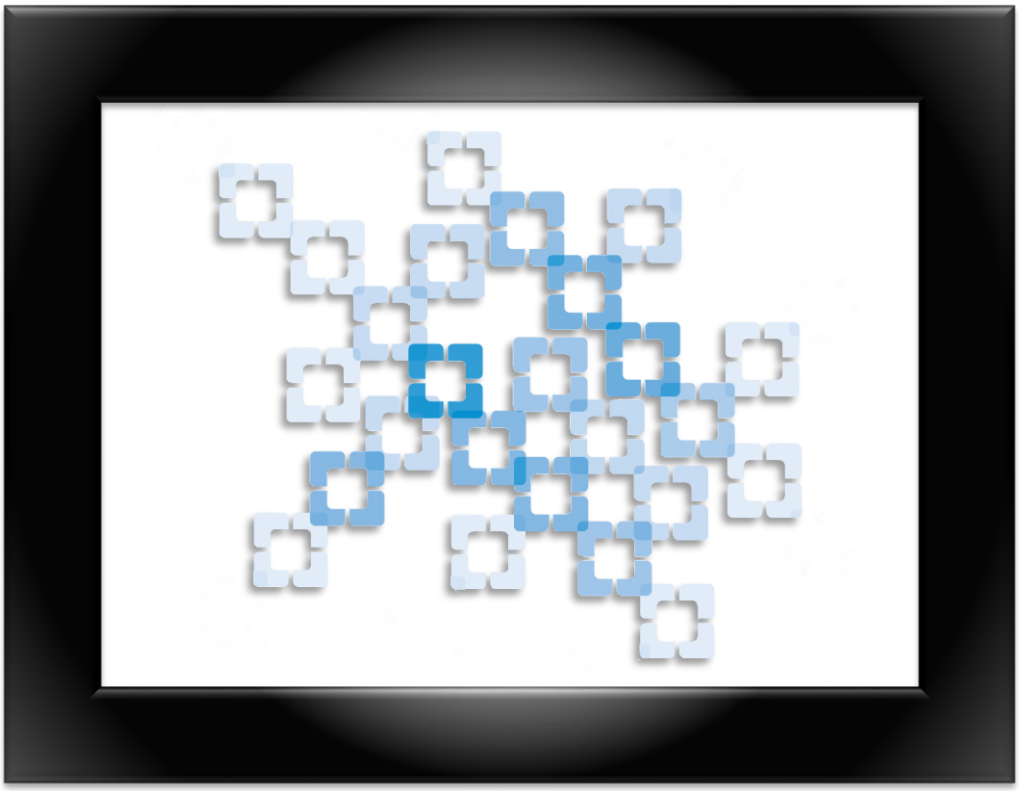
At September 30, 2018, the System has notes payable and capital leases totaling $221.8 million. Notes payable and capital leases are comprised of $0.1 million of notes payable, $105.0 million outstanding on a revolving credit facility and $116.7 million of capital lease liabilities primarily related to property and equipment.

The Clinic has a $300.0 million revolving credit facility with multiple financial institutions. The revolving credit facility expires in 2019 with provisions allowing the Clinic to extend the term annually for a one-year period. The facility allows the Clinic to enter into short-term loans that automatically renew throughout the term of the facility. The revolving credit facility bears interest at a variable rate based on the LIBOR index plus an applicable spread. Amounts outstanding on the revolving credit facility as of September 30, 2018 and December 31, 2017 totaled $105.0 million and $60.0 million, respectively. The Clinic drew $45.0 million in the second quarter of 2018 to extinguish debt that was assumed in the Union Hospital member substitution. The outstanding balance at September 30, 2018 is recorded in current portion of long-term debt based on the expiration of the facility. The outstanding balance at December 31, 2017 was recorded in long-term notes payable.

The following charts summarize cash-to-debt and debt-to-capitalization ratios for the System at December 31 for the last four years and at September 30, 2018:







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 July 2018, Moody's and S&P affirmed their respective ratings and outlooks. 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 September 30, 2018 and 2017

The following narrative describes the consolidated results of operations for the System for the third quarters of 2018 and 2017. The consolidated results of operations for the third quarter of 2018 includes the financial operations of Union Hospital, which became a consolidated entity of the System in April 2018. Union Hospital comprised approximately 1.4% of total consolidated operating revenues and 1.6% of total consolidated operating expenses in the third quarter of 2018. No adjustments have been made in the following narrative to exclude Union Hospital operations except where indicated as same facility basis, which excludes Union Hospital activity in the third quarter of 2018 for comparative purposes.

Operating income for the System in the third quarter of 2018 was $69.8 million, resulting in an operating margin of 3.1%, as compared to

operating income of $39.7 million and an operating margin of 1.9% in the third quarter of 2017. The higher operating income resulted from a 9.2% increase in total unrestricted revenues that outpaced total operating expense growth of 7.9% in the same period. Nonoperating gains for the System were $91.0 million in the third quarter of 2018 compared to nonoperating gains of $187.9 million in the third quarter of 2017. The decrease from the prior year was primarily due to changes in the financial markets. Overall, the System reported an excess of revenues over expenses of $160.8 million in the third quarter of 2018 compared to an excess of revenues over expenses of $227.6 million in the third quarter of 2017.

The System's net patient service revenue increased $180.0 million (9.8%) in the third quarter of 2018 compared to the same period in 2017. The System experienced a 3.1% increase in inpatient acute admissions (1.0% increase on a same facility basis). In addition, patient service revenue was favorably impacted by a strong case mix due to efforts that focused on accurate documentation of patient care and higher acuity patients, which has resulted in more inpatient revenue per patient. Total surgical cases increased 8.8% (same facility increase of 5.9%) in the third quarter of 2018 compared to the third quarter of 2017, and outpatient evaluation and management visits increased 6.3% over the same period. Net patient revenue has also benefited from rate increases on the System's managed care contracts that became effective in 2018. Offsetting the patient volume and rate increases is a shift in the gross revenue payor mix that has negatively impacted the revenue realization of the System. The System has experienced an increase in Medicare revenue primarily as a result of demographic trends in the service area and other industry trends. On a combined basis, governmental and self-pay revenue as a percentage of total gross patient revenue has increased 1.1% in the third quarter of 2018 compared to the same period in 2017. The System has experienced a corresponding decrease in managed care and commercial gross revenues as a percentage of total gross patient revenues. 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.

Other unrestricted revenues increased $8.4 million (4.2%) in the third quarter of 2018 compared to the same period in 2017. The increase in other unrestricted revenues was primarily due to a $6.2 million increase in outpatient pharmacy revenue and a $3.3 million increase in research and education grant revenue. These increases were offset by a $1.6 million decrease in unrestricted gifts and assets released from restriction.

Total operating expenses increased $158.4 million (7.9%) in the third quarter of 2018 compared to the same period in 2017. Excluding Union Hospital expenses in the third quarter of 2018, total operating expenses increased $123.4 million (6.1%) compared to the same period in 2017. Notable increases in expenses were experienced in salaries, wages and benefits, supplies expenses and pharmaceutical costs. The System has implemented Care Affordability initiatives to address the growth in expenses caused by inflationary pressures in many expense categories such as salaries, benefits and specialized pharmaceuticals. Care Affordability 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 $90.0 million (8.0%) in the third quarter of 2018 compared to the same period in 2017. Salaries, excluding benefits, increased $74.3 million (7.5%) due to annual salary adjustments averaging 2-3% across the System that were awarded in the third quarter of 2018 and a 4.4% increase (2.6% same facility increase) in average full-time equivalent employees in the third quarter of 2018 compared to the same period in 2017. Benefit costs increased $15.7 million (10.9%) during the same period. The System experienced a $7.6 million increase in employee healthcare costs primarily due to increased activity in the health plan, a $4.0 million increase in defined contribution expenses and a $3.8 million increase in FICA expenses primarily due to the increase in salaries and full-time equivalent employees.

Supplies expense increased $21.1 million (11.0%) in the third quarter of 2018 compared to the same period in 2017. The System experienced a $20.0 million increase in implantables and other medical supplies primarily due to increased patient volumes and a $1.2 million increase in non-medical supplies primarily due to increased minor equipment purchases.

Pharmaceutical costs increased $20.0 million (8.0%) in the third quarter of 2018 compared to the same period in 2017. The increase is primarily due to higher costs and increased utilization in the oncology departments. In addition, the System operates a specialty pharmacy that is used to treat chronic illnesses and complex conditions. Specialty pharmacy expenses increased $6.5 million in the third quarter of 2018 compared to the same period in 2017. The System has also experienced a corresponding increase in outpatient pharmacy revenues related to specialty pharmaceuticals.

Purchased services and other fees increased $1.1 million (0.8%) in the third quarter of 2018 compared to the same period in 2017. The System experienced a $1.4 million increase in purchased medical services offset by a $0.4 million decrease in purchased non-medical service costs.

Administrative services increased $18.1 million (41.3%) in the third quarter of 2018 compared to the same period in 2017. The increase in administrative services was primarily due to consulting fees and professional services for certain System projects and initiatives.

Facilities expense increased $1.1 million (1.3%) in the third quarter of 2018 compared to the same period in 2017. The increase in facilities expense was primarily due to a $3.2 million increase in utility costs and a $1.4 million increase in rent expenses offset by a $2.0 million decrease in facility costs associated with 33 Grosvenor Place as the building was vacated in 2017.

Insurance expense increased $9.3 million (>100%) in the third quarter of 2018 compared to the same period in 2017. The increase in insurance expense was primarily due to a $9.2 million increase in professional malpractice expense related to the timing of recording favorable developments of outstanding prior year claims based on actuarial estimates of expected loss claims for each period. The System experienced favorable developments in both 2018 and 2017. However, the amount recorded in the third quarter of 2017 was greater than the amount recorded in the third quarter of 2018. The System utilizes an independent actuarial firm to review professional malpractice loss experience and establish estimated funding levels to the System's captive insurance subsidiary. Over the last several years, the System has undertaken numerous initiatives to manage its medical malpractice insurance expense that resulted in reducing the number of claims and lawsuits and associated costs. These initiatives include hiring

additional staff devoted to clinical risk management, promoting patient safety to prevent untoward events, and expanding education programs geared to enhance quality throughout the organization. The System has also taken, where appropriate, a more proactive approach to expedite the settlement of claims, which has reduced claim expenses and has resulted in more favorable settlements.

Interest expense decreased $1.1 million (3.1%) in the third quarter of 2018 compared to the same period in 2017. The decrease is primarily due the issuance of the Series 2017A Bonds and the Series 2017B Bonds in the third quarter of 2017 that refunded $1.1 billion of fixed-rate bonds at a lower interest rate. The System has also made $81.3 million of net principal payments on bonds, notes and capital leases in 2018 that has reduced the amount of outstanding debt. Offsetting these decreases is an increase in interest expense related to the issuance of the 2018 Sterling Notes in the third quarter of 2018. The proceeds of the 2018 Sterling Notes received in the third quarter were used to repay a $375 million term loan.

Depreciation and amortization expenses decreased $0.7 million (0.5%) in the third quarter of 2018 compared to the same period in 2017. Changes in depreciation include property, plant and equipment that was fully depreciated in 2017, offset by depreciation for property, plant and equipment that was acquired and placed into service in 2018.

Special charges decreased $0.6 million (62.3%) in the third quarter of 2018 compared to the same period in 2017. The System incurred and recorded $0.4 million and $1.0 million of special charges in the third quarters of 2018 and 2017, respectively, related to Lakewood Hospital and the agreement between the City of Lakewood, LHA and the Clinic that outlines the transition of healthcare services in the City of Lakewood. For a description of the terms of the agreement, refer to "LAKEWOOD HOSPITAL ASSOCIATION." Special charges incurred and recorded for LHA primarily relate to accelerated depreciation expense and other property, plant and equipment costs on LHA assets. The hospital building was fully depreciated in the second quarter of 2018.

Gains and losses from nonoperating activities are recorded below operating income in the statement of operations. These items resulted in a net gain to the System of $91.0 million in the third quarter of 2018 compared to a net gain of $187.9 million in the third quarter of 2017, resulting in an unfavorable variance of $96.9 million. Investment returns were unfavorable by $147.7 million in the third quarter of 2018 compared to the same period in 2017. The System's long-term investment portfolio reported investment gains of 0.4% for the third quarter of 2018, which is lower than the portfolio's benchmark gain of 0.7% and lower than investment gains of 2.9% experienced in the third quarter of 2017. Derivative gains and losses were favorable by $9.0 million in the third quarter of 2018 compared to the same period in 2017. Derivative gains and losses result from changes in the interest rate benchmark associated with the System's interest rate swap contracts, including net interest paid or received under the swap agreements. The System also had derivative gains and losses resulting from changes in foreign currency exchange rates associated foreign currency derivative contracts that matured in September 2017. Other nonoperating gains and losses were favorable by $41.7 million in the third quarter of 2018 compared to the same period in 2017 primarily due to a $46.2 million loss on extinguishment of

debt recorded in 2017 that related to bonds that were refunded in connection with the issuance of the Series 2017 Bonds offset by a $2.9 million unfavorable variance in foreign currency transaction gains and losses primarily due to the remeasurement of assets and liabilities from the British Pound to the U.S. Dollar.

For the Nine Months Ended September 30, 2018 and 2017

The following narrative describes the consolidated results of operations for the System for the first nine months of 2018 and 2017. The consolidated results of operations for the first nine months of 2018 includes the financial operations of Union Hospital, which became a consolidated entity of the System in April 2018. Union Hospital comprised approximately 0.9% of total consolidated operating revenues and 1.1% of total consolidated operating expenses in the first nine months of 2018. No adjustments have been made in the following narrative to exclude Union Hospital operations except where indicated as same facility basis, which excludes Union Hospital activity in the first nine months of 2018 for comparative purposes.

Operating income for the System in the first nine months of 2018 was $142.5 million, resulting in an operating margin of 2.2%, as compared to operating income of $230.9 million and an operating margin of 3.7% in the first nine months of 2017. The lower operating income resulted from a 6.2% increase in operating expenses that outpaced total unrestricted revenue growth of 4.5% in the same period. Operating income in the first nine months of 2017 benefited from a one-time $70.0 million non-patient payment from a payor. Excluding the one-time payment, total unrestricted revenues increased 5.7%. Nonoperating gains for the System were $205.5 million in the first nine months of 2018 compared to nonoperating gains of $608.6 million in the first nine months of 2017. The decrease from the prior year was primarily due to changes in the financial markets. Overall, the System reported an excess of revenues over expenses of $348.0 million in the first nine months of 2018 compared to an excess of revenues over expenses of $839.5 million in the first nine months of 2017.

The System's net patient service revenue increased $285.8 million (4.5%) in the first nine months of 2018 compared to the same period in 2017. The System experienced a 0.4% increase in inpatient acute admissions (1.2% decrease on a same facility basis). In addition, patient service revenue was favorably impacted by a strong case mix due to efforts that focused on accurate documentation of patient care and higher acuity patients, which has resulted in more inpatient revenue per patient. Total surgical cases increased 2.0% (same facility increase of 0.1%) in the first nine months of 2018 compared to the first nine months of 2017, and outpatient evaluation and management visits increased 3.2% over the same period. Net patient revenue has benefited from rate increases on the System's managed care contracts that became effective in 2018. Offsetting the patient volume and rate increases is a shift in the gross revenue payor mix that has negatively impacted the revenue realization of the System. The System has experienced an increase in Medicare revenue primarily as a result of demographic trends in the service area and other industry trends. On a combined basis, governmental and self-pay revenue as a percentage of total gross patient revenue has increased 1.1% in the first nine months of 2018 compared to the same period in 2017. The System has experienced a corresponding decrease in managed care and commercial gross revenues as a percentage of total gross patient revenues. 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.

Other unrestricted revenues decreased $41.4 million (6.0%) in the first nine months of 2018 compared to the same period in 2017. The decrease in other unrestricted revenues was primarily due to a one-time $70.0 million non-patient payment from a provider received from a payor in the first nine months of 2017. This decrease was offset by a $24.1 million increase in outpatient pharmacy revenue and a $6.8 million increase in research and education grant revenue.

Total operating expenses increased $374.2 million (6.2%) in the first nine months of 2018 compared to the same period in 2017. Excluding Union Hospital expenses in the first nine months of 2018, total operating expenses increased $305.1 million (5.0%) compared to the same period in 2017. Notable increases in expenses were experienced in salaries, wages and benefits, pharmaceutical costs and supplies. The System has implemented Care Affordability initiatives to address the growth in expenses caused by inflationary pressures in many expense categories such as salaries, benefits and specialized pharmaceuticals. Care Affordability 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 $183.2 million (5.3%) in the first nine months of 2018 compared to the same period in 2017. Salaries, excluding benefits, increased $170.7 million (5.8%) due to annual salary adjustments averaging 2-3% across the System that were awarded in the second quarter of 2018 and a 3.7% increase (2.4% same facility increase) in average full-time equivalent employees in the first nine months of 2018 compared to the same period in 2017. Benefit costs increased $12.5 million (2.5%) during the same period. The System experienced an $11.2 million increase in defined contribution expenses and a $10.3 million increase in FICA expenses primarily due to the increase in salaries and full-time equivalent employees.

Supplies expense increased $45.1 million (7.7%) in the first nine months of 2018 compared to the same period in 2017. The System experienced a $38.0 million increase in implantables and other medical supplies primarily due to increased patient volumes and a $7.1 million increase in non-medical supplies primarily due to increased minor equipment purchases and dietary expenses.

Pharmaceutical costs increased $88.5 million (12.5%) in the first nine months of 2018 compared to the same period in 2017. The increase is primarily due to higher costs and increased utilization in the oncology departments. In addition, the System operates a specialty pharmacy that is used to treat chronic illnesses and complex conditions. Specialty pharmacy expenses increased $23.9 million in the first nine months of 2018 compared to the same period in 2017. The System has also experienced a corresponding increase in outpatient pharmacy revenues related to specialty pharmaceuticals.

Purchased services and other fees increased $12.1 million (3.1%) in the first nine months of 2018 compared to the same period in 2017. The System experienced a $16.6 million increase in purchased non-medical service costs primarily related to $13.0 million increase in software and hardware technology costs and other various

costs associated with certain System projects and initiatives. This increase was offset by a $4.4 million decrease in purchased medical services primarily related to lab services that have shifted from external providers to providers that are within the System.

Administrative services increased $21.3 million (15.6%) in the first nine months of 2018 compared to the same period in 2017. The increase in administrative services was primarily due to a $15.4 million increase in consulting fees and professional services for certain System projects and initiatives, a $3.7 million increase in expenses related to research projects that corresponds to the increase in research grant revenue and a $2.3 million increase in travel and education costs primarily related to the System's expanding international strategy.

Facilities expense increased $13.1 million (5.2%) in the first nine months of 2018 compared to the same period in 2017. The increase in facilities expense was primarily due to a $7.9 million increase in utility costs, a $5.1 million increase in repairs and maintenance expenses, and a $3.9 million increase in rent expenses. These increases were offset by a $3.8 million decrease in facility costs at Grosvenor Place related to costs incurred before the building was vacated in early 2017.

Insurance expense increased $10.8 million (22.8%) in the first nine months of 2018 compared to the same period in 2017. The increase in insurance expense was primarily due to a $9.2 million increase in professional malpractice expense related to the timing of recording favorable developments of outstanding prior year claims based on actuarial estimates of expected loss claims for each period. The System experienced favorable developments in both 2018 and 2017. However, the amount recorded in the first nine months of 2017 was greater than the amount recorded in the first nine months of 2018. The System utilizes an independent actuarial firm to review professional malpractice loss experience and establish estimated funding levels to the System's captive insurance subsidiary. Over the last several years, the System has undertaken numerous initiatives to manage its medical malpractice insurance expense that resulted in reducing the number of claims and lawsuits and associated costs. These initiatives include hiring additional staff devoted to clinical risk management, promoting patient safety to prevent untoward events, and expanding education programs geared to enhance quality throughout the organization. The System has also taken, where appropriate, a more proactive approach to expedite the settlement of claims, which has reduced claim expenses and has resulted in more favorable settlements.

Interest expense decreased $5.5 million (5.1%) in the first nine months of 2018 compared to the same period in 2017. The decrease is primarily due the issuance of the Series 2017A Bonds and the Series 2017B Bonds in the third quarter of 2017 that refunded $1.1 billion of fixed-rate bonds at a lower interest rate. The System has also made $81.3 million of net principal payments on bonds, notes and capital leases in 2018 that has reduced the amount of outstanding debt. Offsetting these decreases is an increase in interest expense related to the issuance of the 2018 Sterling Notes in the third quarter of 2018. The proceeds of the 2018 Sterling Notes received in the third quarter were used to repay a $375 million term loan.

Depreciation and amortization expenses increased $7.7 million (2.1%) in the first nine months of 2018 compared to the same period in 2017. Changes in depreciation include property, plant and equipment that was fully depreciated in 2017, offset by depreciation for property, plant and equipment that was acquired and placed into service in 2018.

Special charges decreased $2.2 million (50.7%) in the first nine months of 2018 compared to the same period in 2017. The System incurred and recorded $2.2 million and $4.4 million of special charges in the first nine months of 2018 and 2017, respectively, related to Lakewood Hospital and the agreement between the City of Lakewood, LHA and the Clinic that outlines the transition of healthcare services in the City of Lakewood. For a description of the terms of the agreement, refer to "LAKEWOOD HOSPITAL ASSOCIATION." Special charges incurred and recorded for LHA primarily relate to accelerated depreciation expense and other property, plant and equipment costs on LHA assets. The hospital building was fully depreciated in the second quarter of 2018.

Gains and losses from nonoperating activities are recorded below operating income in the statement of operations. These items resulted in a net gain to the System of $205.5 million in the first nine months of 2018 compared to a net gain of $608.6 million in the first nine months of 2017, resulting in an unfavorable variance of $403.1 million. Investment returns were unfavorable by $527.6 million in the first nine months of 2018 compared to the same period in 2017. The System's long-term investment portfolio reported investment gains of 1.2% for the first nine months of 2018, which is higher than the portfolio's benchmark gain of 1.1% but lower than investment gains of 9.3% experienced in the first nine months of 2017. Derivative gains and losses were favorable by $34.3 million in the first nine months of 2018 compared to the same period in 2017. Derivative gains and losses result from changes in the interest rate benchmark associated with the System's interest rate swap contracts, including net interest paid or received under the swap agreements. The System also had derivative gains and losses resulting from changes in foreign currency exchange rates associated foreign currency derivative contracts that matured in September 2017. Other nonoperating gains and losses were favorable by $90.1 million in the first nine months of 2018 compared to the same period in 2017 primarily due to a $52.3 million Union Hospital member substitution contribution recorded in the second quarter of 2018 and a $46.2 million loss on extinguishment of debt recorded in 2017 that related to bonds that were refunded in connection with the issuance of the Series 2017 Bonds offset by a $6.2 million unfavorable variance in foreign currency transaction gains and losses primarily due to the remeasurement of assets and liabilities from the British Pound to the U.S. Dollar.

BALANCE SHEET – SEPTEMBER 30, 2018 COMPARED TO DECEMBER 31, 2017

Patient accounts receivable increased $119.6 million (11.8%) from December 31, 2017 to September 30, 2018. The increase in patient receivables is partially due to the increase in net patient service revenue resulting from rate increases on the System's managed care contracts that became effective in January 2018. The Union Hospital member substitution transaction added approximately $20.9 million of patient accounts receivable to the balance sheet. The System has various initiatives to enhance cash collection efforts and create efficiencies in the revenue cycle process, including the implementation of EAPM. EAPM was implemented at the Clinic in 2016 and at four other System hospitals in 2017. Five additional System hospitals have implemented or will be implementing EAPM in 2018. Days revenue outstanding for the System increased from 49

days at December 31, 2017 to 51 days at September 30, 2018.

Investments for current use decreased $103.9 million (67.1%) from December 31, 2017 to September 30, 2018. Investments for current use includes funds held by the bond trustee that are used to pay current debt service payments. The System paid $103.9 million in debt service payments in January 2018 that had been funded to the bond trustee in 2017. There were no funds held by the bond trustee reported in investments for current use at September 30, 2018. 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 was no change in these investments in the first nine months of 2018.

Other current assets increased $56.2 million (15.0%) from December 31, 2017 to September 30, 2018. The increase in other current assets was primarily due to a $37.1 million increase in management fee receivables, a $19.9 million increase in inventory balances and a $17.0 million increase in prepaid expenses driven by annual maintenance and insurance contracts. These increases were offset by a $6.9 million decrease in the current portion of pledge receivables and the collection of other various receivables that had been recorded in a prior period.

Unrestricted long-term investments increased $104.5 million (1.4%) from December 31, 2017 to September 30, 2018. The increase was primarily due to a $50.0 million dividend received from the System's captive insurance subsidiary, $37.4 million added to the balance sheet as a result of Union Hospital member substitution transaction and $29.4 million of derivative contract collateral returned to the System. Capital expenditures totaled $546.9 million in the first nine months of 2018, which was partially offset by positive cash provided by operating activities and net nonoperating gains and losses. The System's long-term investment portfolio experienced slightly positive results for the first nine months of 2018.

Funds held by trustees decreased $29.1 million (42.1%) from December 31, 2017 to September 30, 2018. The decrease in funds held by trustees is primarily due to a $29.4 million decrease in collateral posted with the counterparties on the System's derivative contracts.

Assets held for self-insurance decreased $47.1 million (29.5%) from December 31, 2017 to September 30, 2018. The decrease in self-insurance assets is primarily due to the payment of a $50.0 million dividend from the System's captive insurance subsidiary to the Clinic. The dividend was declared in 2017. This decrease was offset by insurance premiums received by the captive insurance subsidiary and slightly positive gains experienced in the System's captive insurance investment portfolio.

Donor restricted assets increased $34.8 million (4.8%) from December 31, 2017 to September 30, 2018. The increase in donor restricted assets was primarily from investment gains on restricted investments and the receipt of donor restricted gifts in excess of expenditures from restricted funds.

Net property, plant and equipment increased $221.7 million (4.7%) from December 31, 2017 to September 30, 2018. The System had net expenditures for property, plant and equipment of $546.9 million, offset by depreciation expense of $377.6 million, which includes $1.6 million of accelerated depreciation expense recorded in special charges. The System also acquired $41.2 million of property, plant and equipment in Union Hospital member substitution transaction and $0.5 million of donated capital. These increases were partially offset by $12.7 million of foreign currency translation losses. Capital

expenditures in 2018 include amounts paid on retainage liabilities recorded at December 31, 2017 and exclude assets acquired through capital leases and other financing arrangements. Retainage liabilities decreased $5.8 million, and new capital leases and other financing arrangements totaled $29.2 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. For a description of many of System's current projects, refer to "EXPANSION AND IMPROVEMENT PROJECTS."

Other noncurrent assets decreased $11.1 million (1.6%) from December 31, 2017 to September 30, 2018. The decrease in noncurrent assets was primarily due to a $36.3 million reduction in receivables related to joint fundraising efforts by the Clinic and CWRU for the health education campus offset by perpetual trusts totaling $12.9 million acquired in the Union Hospital member substitution transaction and a $6.4 million increase in long-term pledge receivables.

Accounts payable decreased $59.8 million (11.9%) from December 31, 2017 to September 30, 2018. The decrease in accounts payable was primarily attributable to the timing of payment processing for trade payables, an $18.8 million decrease in outstanding checks and a $5.8 million decrease in retainage liabilities on current construction projects.

Compensation and amounts withheld from payroll increased $65.3 million (18.9%) from December 31, 2017 to September 30, 2018. The change was primarily attributable to the timing of payroll and the growth in employee benefit accruals.

Current portion of long-term debt decreased $268.5 million (58.7%) from December 31, 2017 to September 30, 2018. The System refinanced a $375.0 million term loan that was due within one year with the proceeds of the 2018 Sterling Notes, which are recorded as long-term debt. The term loan was used to finance the System's international business strategy. Offsetting this decrease was a reclassification of $105.0 million from long-term debt to current related to amounts outstanding on the revolving credit facility. The current portion of bonds payable also increased $3.1 million due to the reclassification of regularly scheduled principal payments from long-term to current that are due within one year, offset by principal payments made in the first nine months of 2018.

Variable rate debt classified as current decreased $77.6 million (13.5%) from December 31, 2017 to September 30, 2018. 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. The decrease in variable rate debt classified as current is primarily due to the reclassification of debt from current to long-term resulting from the renewal of a standby bond purchase agreement supporting the Series 2013B bonds that was previously set to expire in 2018.

Other current liabilities increased $24.0 million (5.5%) from December 31, 2017 to September 30, 2018. The increase in other current liabilities is primarily due to a $20.9 million increase in liabilities associated with a patient loan program, a $19.9 million increase in state franchise fee

liabilities primarily related to the timing of payments to the State of Ohio, a $5.0 million increase in self-insurance general liability accruals and a $3.4 million increase in deferred revenue related to the international management contracts. These increases were offset by a $20.9 million decrease in accrued interest payable related to bonds that pay interest semi-annually in January and July of each year and a $15.0 million reduction in the current portion of pledge liabilities for payments made in 2018.

Hospital revenue bonds increased $393.5 million (13.8%) from December 31, 2017 to September 30, 2018. The increase is primarily due to the issuance of the 2018 Sterling Notes. The 2018 Sterling Notes outstanding at September 30, 2018 were valued at $391.0 million. Other changes in hospital revenue bonds include the reclassification of variable rate debt classified as current to long-term related to the renewal of a standby bond purchase agreement offset by the reclassification of regularly scheduled principal payments from long-term to current for bond payments due within one year.

Notes payable and capital leases decreased $37.6 million (27.9%) from December 31, 2017 to September 30, 2018. In June 2018, the System drew an additional $45.0 million on its revolving credit facility for the purpose of extinguishing Union Hospital bonds that were acquired in the Union Hospital member substitution transaction. The revolving credit facility, which has a balance of $105.0 million as of September 30 2018, was reclassified to current portion of long-term debt based on the expiration of the facility. The System expects the facility to be renewed prior to the expiration date. The System also entered into $41.1 million in new capital leases in the first nine months of 2018 offset by the reclassification regularly scheduled principal payments from long-term to current.

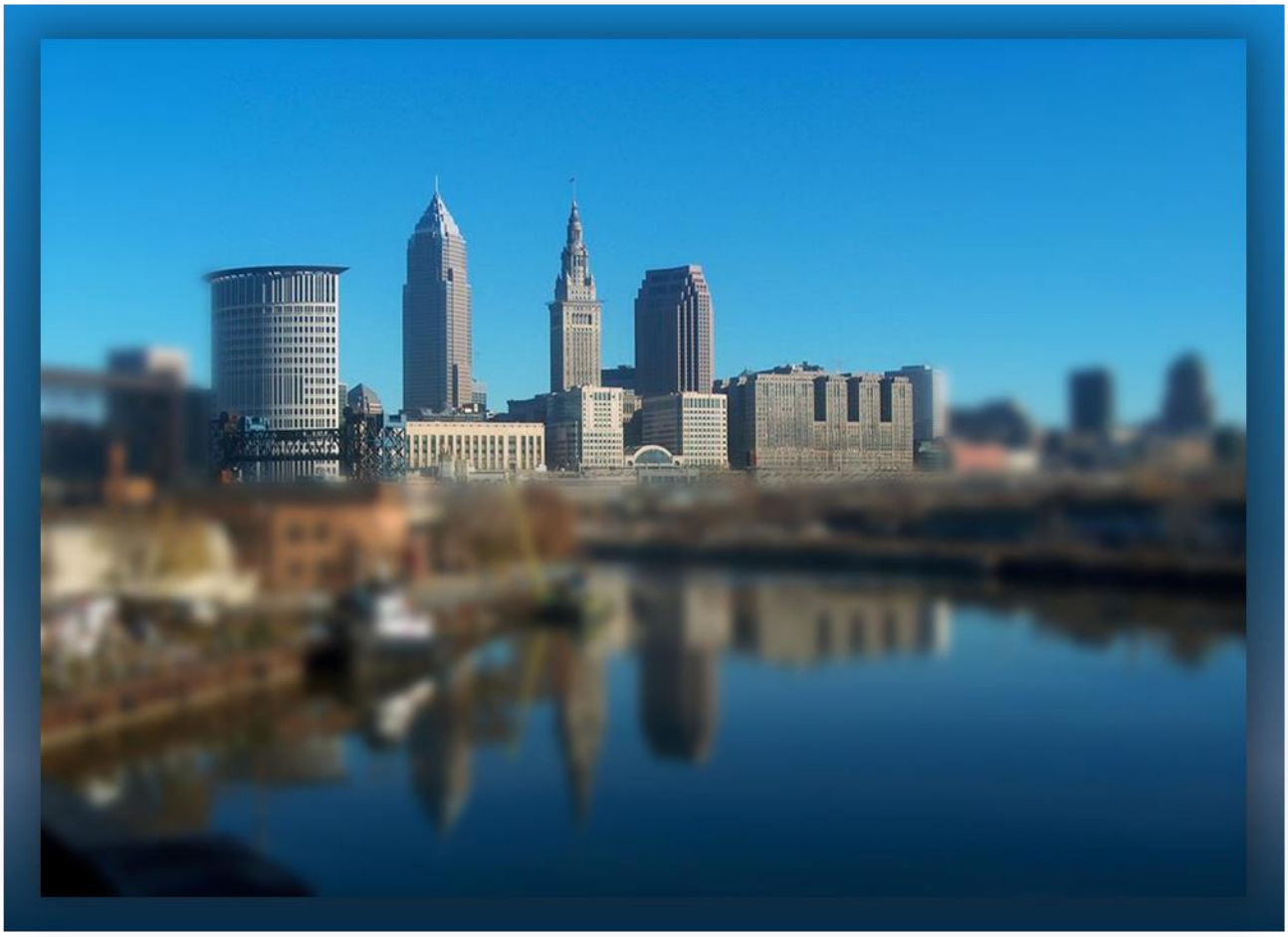
Professional and general insurance liability reserves increased $1.6 million (1.1%) from December 31, 2017 to September 30, 2018. The increase is due to expenses recorded for the accrual of current year claim estimates in excess of claim liability payments.

Accrued retirement benefits decreased $14.1 million (2.9%) from December 31, 2017 to September 30, 2018. The change in accrued retirement benefits is comprised of a $14.4 million decrease in the System's defined benefit pension plan liabilities and a $0.2 million increase in other postretirement benefit liabilities. The decrease in defined benefit pension plan liabilities was primarily due to net periodic benefit that is based on actuarial estimates resulting from the expected return on plan assets in excess of interest cost incurred on plan obligations.

Other noncurrent liabilities decreased $46.2 million (8.1%) from December 31, 2017 to September 30, 2018. The decrease in other noncurrent liabilities is primarily due to a $37.6 million decrease in derivative liabilities associated with changes in the fair value of the System's interest rate swap derivative contracts and an $11.9 million reduction in liabilities related to joint venture construction projects.

Total net assets increased $380.8 million (4.1%) from December 31, 2017 to September 30, 2018. Unrestricted net assets increased $331.1 million (4.0%) primarily due to an excess of revenues over expenses of $348.0 million and donated capital and assets released from restriction for capital purposes of $7.2 million offset by foreign currency translation losses of $22.5 million and retirement benefits adjustment of $2.1 million. Temporarily restricted net assets increased $24.1 million (3.6%), primarily due to $56.8 million in temporarily restricted gifts and $8.9

million in temporarily restricted investment income offset by $42.1 million in assets released from restrictions for operations and capital purposes. Permanently restricted net assets increased $25.6 million (7.7%) primarily due to $11.6 million of permanently restricted gifts and $12.9 million of perpetual trusts acquired in Union Hospital member substitution transaction.



Cleveland, OH Skyline

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:

- 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;
- Assuming the completion of the pending transactions in Florida, the ability of the System to integrate those hospitals into a regional health system in Florida;
- The ability of the System to access capital for the funding of capital projects;
- Availability of malpractice 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, including the Tax Cuts and Jobs Act;
- 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.