Interim Unaudited Consolidated Financial Statements and Other Information

For The Period Ended December 31, 2020

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

Contents

Cleveland Clinic

March 5, 2021

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of the Cleveland Clinic Foundation (together with its subsidiaries and affiliates that comprise the health system, the "Cleveland Clinic") is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Cleveland Clinic's consolidated financial statements for external purposes in accordance with generally accepted accounting principles. This process contains self-monitoring mechanisms, and actions are taken to correct deficiencies as they are identified.

Internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Cleveland Clinic; (ii) provide reasonable assurance that transactions are recorded as necessary to permit the preparation of the consolidated financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Cleveland Clinic are being made only in accordance with appropriate authorizations of management and directors of the Cleveland Clinic; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Cleveland Clinic's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management conducted an assessment of the Cleveland Clinic's internal control over financial reporting as of December 31, 2020 using the framework specified in *Internal Control – Integrated Framework (2013 framework)*, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, Cleveland Clinic maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on the COSO criteria.

Tomislav Mihaljevic, M.D.
President and Chief Executive Officer

Steven C. Glass
Chief Financial Officer

Timothy Longville
Chief Accounting Officer

The Cleveland Clinic Foundation 9500 Euclid Avenue Cleveland, Ohio 44195

Unaudited Consolidated Balance Sheets

($ in thousands)

	December 31	
	2020	**2019**
Assets		
Current assets:		
Cash and cash equivalents	**$ 1,045,393**	$ 505,729
Patient receivables	**1,255,681**	1,299,256
Investments for current use	**177,389**	178,800
Other current assets	**546,722**	488,668
Total current assets	**3,025,185**	2,472,453
Investments:		
Long-term investments	**10,353,877**	9,272,287
Funds held by trustees	**110,307**	225,207
Assets held for self-insurance	**179,300**	157,972
Donor-restricted assets	**1,013,430**	860,120
	11,656,914	10,515,586
Property, plant, and equipment, net	**5,866,974**	5,865,590
Other assets:		
Pledges receivable, net	**125,641**	154,918
Trusts and interests in foundations	**112,425**	113,437
Operating lease right-of-use assets	**360,841**	325,960
Other noncurrent assets	**644,570**	526,440
	1,243,477	1,120,755
Total assets	**$ 21,792,550**	$ 19,974,384

Unaudited Consolidated Balance Sheets (continued)

($ in thousands)

	December 31	
	2020	**2019**
Liabilities and net assets		
Current liabilities:		
Accounts payable	**$ 528,794**	$ 536,680
Compensation and amounts withheld from payroll	**464,249**	430,921
Current portion of long-term debt	**101,006**	95,405
Variable rate debt classified as current	**589,891**	529,841
Other current liabilities	**738,323**	573,923
Total current liabilities	**2,422,263**	2,166,770
Long-term debt	**4,582,994**	4,698,648
Other liabilities:		
Professional and general liability insurance reserves	**216,100**	164,008
Accrued retirement benefits	**297,741**	347,064
Operating lease liabilities	**323,682**	296,668
Other noncurrent liabilities	**707,915**	542,091
	1,545,438	1,349,831
Total liabilities	**8,550,695**	8,215,249
Net assets:		
Without donor restrictions	**11,921,757**	10,540,856
With donor restrictions	**1,320,098**	1,218,279
Total net assets	**13,241,855**	11,759,135
Total liabilities and net assets	**$ 21,792,550**	$ 19,974,384

See notes to unaudited consolidated financial statements.

Unaudited Consolidated Statements of Operations and Changes in Net Assets

($ in thousands)

Operations

	Three Months Ended December 31	
	2020	**2019**
Unrestricted revenues		
Net patient service revenue	$2,585,360	$2,444,758
Other	395,321	293,226
Total unrestricted revenues	2,980,681	2,737,984
Expenses		
Salaries, wages, and benefits	1,478,258	1,441,337
Supplies	284,983	280,499
Pharmaceuticals	352,432	344,739
Purchased services and other fees	200,090	186,517
Administrative services	43,209	64,060
Facilities	88,372	94,064
Insurance	15,126	17,544
	2,462,470	2,428,760
Operating income before interest, depreciation, and amortization	518,211	309,224
Interest	37,977	41,317
Depreciation and amortization	140,008	145,279
Operating income	340,226	122,628
Nonoperating gains and losses		
Investment return	925,824	596,413
Derivative gains	12,085	36,272
Other, net	(2,198)	(439)
Net nonoperating gains	935,711	632,246
Excess of revenues over expenses	1,275,937	754,874

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

($ in thousands)

Changes in Net Assets

	Three Months Ended December 31	
	2020	**2019**
Changes in net assets without donor restrictions		
Excess of revenues over expenses	**$ 1,275,937**	$ 754,874
Donated capital	**(7,883)**	38
Net assets released from restrictions for capital purposes	**35,128**	17,023
Retirement benefits adjustment	**(5,989)**	(4,400)
Foreign currency translation	**6,416**	(2,747)
Other	**(4,011)**	57
Increase in net assets without donor restrictions	**1,299,598**	764,845
Changes in net assets with donor restrictions		
Gifts and bequests	**48,449**	46,111
Net investment income	**70,495**	25,124
Net assets released from restrictions used for operations included in other unrestricted revenues	**(17,716)**	(18,478)
Net assets released from restrictions for capital purposes	**(35,128)**	(17,023)
Change in interests in foundations	**1,923**	523
Change in value of perpetual trusts	**1,349**	730
Other	**(36)**	12
Increase in net assets with donor restrictions	**69,336**	36,999
Increase in net assets	**1,368,934**	801,844
Net assets at beginning of period	**11,872,921**	10,957,291
Net assets at end of year	**$ 13,241,855**	$ 11,759,135

See notes to unaudited consolidated financial statements.

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

($ in thousands)

Operations

	Year Ended December 31	
	2020	**2019**
Unrestricted revenues		
Net patient service revenue	**$ 9,134,685**	$ 9,516,283
Other	**1,493,221**	1,043,238
Total unrestricted revenues	**10,627,906**	10,559,521
Expenses		
Salaries, wages, and benefits	**5,902,522**	5,697,915
Supplies	**1,105,710**	1,049,256
Pharmaceuticals	**1,299,085**	1,307,519
Purchased services and other fees	**732,304**	674,833
Administrative services	**179,205**	218,961
Facilities	**350,903**	378,489
Insurance	**78,829**	80,252
	9,648,558	9,407,225
Operating income before interest, depreciation, and amortization	**979,348**	1,152,296
Interest	**157,024**	161,272
Depreciation and amortization	**589,954**	600,819
Operating income	**232,370**	390,205
Nonoperating gains and losses		
Investment return	**1,127,943**	1,249,381
Derivative losses	**(61,473)**	(36,194)
Other, net	**26,404**	421,830
Net nonoperating gains	**1,092,874**	1,635,017
Excess of revenues over expenses	**1,325,244**	2,025,222

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

($ in thousands)

Changes in Net Assets

	Year Ended December 31	
	2020	**2019**
Changes in net assets without donor restrictions		
Excess of revenues over expenses	**$ 1,325,244**	$ 2,025,222
Donated capital	**1,819**	38
Net assets released from restrictions for capital purposes	**56,514**	57,843
Retirement benefits adjustment	**(8,136)**	(6,260)
Foreign currency translation	**9,004**	(1,395)
Other	**(3,544)**	(60)
Increase in net assets without donor restrictions	**1,380,901**	2,075,388
Changes in net assets with donor restrictions		
Gifts and bequests	**132,381**	128,500
Net investment income	**82,853**	72,074
Net assets released from restrictions used for operations included in other unrestricted revenues	**(61,465)**	(52,853)
Net assets released from restrictions for capital purposes	**(56,514)**	(57,843)
Change in interests in foundations	**2,395**	1,521
Change in value of perpetual trusts	**747**	611
Member substitution contribution	**–**	71,748
Other	**1,422**	102
Increase in net assets with donor restrictions	**101,819**	163,860
Increase in net assets	**1,482,720**	2,239,248
Net assets at beginning of year	**11,759,135**	9,519,887
Net assets at end of year	**$ 13,241,855**	$ 11,759,135

See notes to unaudited consolidated financial statements.

Unaudited Consolidated Statements of Cash Flows

($ in thousands)

	Year Ended December 31	
	2020	**2019**
Operating activities and net nonoperating gains and losses		
Increase in net assets	**$ 1,482,720**	$ 2,239,248
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	**–**	6,340
Retirement benefits adjustment	**8,136**	6,260
Net realized and unrealized gains on investments	**(1,155,392)**	(1,256,463)
Depreciation and amortization	**589,954**	600,799
Foreign currency translation loss	**(9,004)**	1,395
Donated capital	**(1,819)**	(38)
Restricted gifts, bequests, investment income, and other	**(218,376)**	(202,706)
Amortization of bond premiums and debt issuance costs	**(5,956)**	(6,267)
Net loss in value of derivatives	**25,878**	21,068
Member substitution contribution	**–**	(500,155)
Pension funding	**(31,679)**	(183,093)
Changes in operating assets and liabilities:		
Patient receivables	**43,575**	(72,198)
Other current assets	**(78,886)**	(2,117)
Other noncurrent assets	**(146,175)**	(334,699)
Accounts payable and other current liabilities	**212,147**	82,810
Other liabilities	**184,203**	200,567
Net cash provided by operating activities and net nonoperating gains and losses	**899,326**	600,751
Financing activities		
Proceeds from short-term borrowings	**225,000**	–
Payments on short-term borrowings	**(225,000)**	–
Proceeds from long-term borrowings	**16,408**	1,574,341
Payments for advance refunding and redemption of long-term debt	**(12,660)**	(511,218)
Principal payments on long-term debt	**(98,498)**	(304,161)
Debt issuance costs	**(30)**	(8,931)
Change in pledges receivable, trusts, and interests in foundations	**45,328**	2,137
Restricted gifts, bequests, investment income, and other	**218,376**	202,706
Net cash provided by financing activities	**168,924**	954,874
Investing activities		
Expenditures for property, plant, and equipment	**(577,884)**	(922,242)
Proceeds from sale of property, plant, and equipment	**22,543**	85,348
Cash acquired through member substitution	**–**	16,402
Net change in cash equivalents reported in long-term investments	**441,506**	(481,206)
Purchases of investments	**(6,260,930)**	(5,283,207)
Sales of investments	**5,831,084**	5,195,524
Net cash used in investing activities	**(543,681)**	(1,389,381)
Effect of exchange rate changes on cash	**11,280**	25,921
Increase in cash, cash equivalents, and restricted cash	**535,849**	192,165
Cash, cash equivalents, and restricted cash at beginning of year	**637,286**	445,121
Cash, cash equivalents, and restricted cash at end of year	**$ 1,173,135**	$ 637,286
Supplemental disclosure of noncash activity		
Assets acquired through finance leases and other financing agreements	**$ 20,283**	$ 21,639
Accounts payable accruals for property, plant, and equipment	**$ 36,375**	$ 59,716

See notes to unaudited consolidated financial statements.

Basis of Presentation

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

1. Organization and Consolidation

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

The System is the leading provider of healthcare services in northeast Ohio. As of December 31, 2020, the System operates 18 hospitals with approximately 4,800 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, and 11 ambulatory surgery centers, as well as numerous physician offices, which are located throughout northeast Ohio, and specialized cancer centers in Sandusky and Mansfield, Ohio. In Florida, the System operates five hospitals and a clinic located throughout southeast Florida, outpatient family health centers in West Palm Beach and Port St. Lucie, an outpatient family health and ambulatory surgery center in Coral Springs, and numerous physician offices located throughout southeast Florida. In addition, the System operates a health and wellness center and a sports medicine clinic in Toronto, Canada, and a specialized neurological clinical center in Las Vegas, Nevada. Pursuant to agreements, the System also provides management services for Ashtabula County Medical Center, located in Ashtabula, Ohio, with approximately 180 staffed beds, and Cleveland Clinic Abu Dhabi, a multispecialty hospital offering critical and acute care services that is part of Mubadala Development Company's network of healthcare facilities located in Abu Dhabi, United Arab Emirates, with 364 staffed beds.

In January 2019, the Clinic, through a subsidiary, became the sole member of Martin Memorial Health Systems, Inc. (Martin Health System), located in southeast Florida. Martin Health System is a regional not-for-profit, community-based healthcare provider, consisting of three acute-care hospitals with approximately 513 staffed beds, a 150-member employed physician group and a network of outpatient services.

In January 2019, the Clinic, through a subsidiary, became the sole member of Indian River Memorial Hospital, Inc. (Indian River Hospital), located in southeast Florida. Indian River Hospital is a not-for-profit medical center with approximately 250 staffed patient beds and is focused on providing healthcare to Indian River and surrounding counties in Florida.

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

2. Business Combinations

Effective January 1, 2019, the Clinic, through a subsidiary, became the sole member of Martin Health System 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 of $842.5 million and the liabilities assumed of $497.1 million as of January 1, 2019. The fair value of net assets of $345.4 million was recognized in the consolidated statement of operations and changes in net assets for the year ended December 31, 2019 as a nonoperating member substitution inherent contribution of $293.2 million and inherent contributions of net assets with donor restrictions of $52.2 million.

Effective January 1, 2019, the Clinic, through a subsidiary, became the sole member of Indian River 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 of $264.8 million and the liabilities assumed of $110.0 million as of January 1, 2019. The fair value of net assets of $154.8 million was recognized in the consolidated statement of operations and changes in net assets for the year ended December 31, 2019 as a nonoperating member substitution inherent contribution of $135.2 million and inherent contributions of net assets with donor restrictions of $19.6 million. There was no goodwill or identifiable intangible assets recorded as a result of the member substitution.

3. Accounting Policies

Recent Accounting Pronouncements

Adopted

In August 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. This ASU intends to improve the effectiveness of disclosures in the notes to financial statements by modifying disclosure requirements for fair value measurements. The System adopted ASU 2018-13 on January 1, 2020. The adoption of ASU 2018-13 had no impact on the consolidated financial statements.

3. Accounting Policies (continued)

Not Yet Adopted

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

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

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

3. Accounting Policies (continued)

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.

Net Patient Service Revenue and Patient Receivables

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

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

3. Accounting Policies (continued)

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

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

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

3. Accounting Policies (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 explicit price concessions, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Adjustments arising from a change in the transaction price were not significant in 2020. Adjustments arising from a change in the transaction price increased net patient service revenue by $40.4 million in 2019.

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.

3. Accounting Policies (continued)

Settlements with third-party payors for retroactive adjustments due to reviews and audits are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care in the period the related services are provided. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the System's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known or as years are settled or are no longer subject to such reviews and audits. Adjustments arising from a change in estimated settlements were not significant in 2020. Adjustments arising from a change in estimated settlements increased net patient service revenue by $14.4 million in 2019.

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

Charity Care

The System provides care to patients who do not have the ability to pay and who qualify for charity care pursuant to established policies of the System. Charity care is defined as services for which patients have the obligation to pay but do not have the ability to do so. The System does not report charity care as net patient service revenue. The cost of charity care provided in 2020 and 2019 approximated $173 million and $169 million, respectively. The System estimated these costs by calculating a ratio of cost to gross charges and then multiplying that ratio by the gross uncompensated charges associated with providing care to charity patients.

3. Accounting Policies (continued)

The System participates in the Hospital Care Assurance Program (HCAP). Ohio created HCAP to financially support those hospitals that serve a disproportionate share of low-income patients unable to pay for care. HCAP funds basic, medically necessary hospital services for patients whose family income is at or below the federal poverty level, which includes Medicaid patients and patients without health insurance. The System recorded HCAP revenues of $13.8 million and $3.0 million for the years ended December 31, 2020 and 2019, respectively, which are reported in net patient service revenue.

Management Service Agreements

The System has management service agreements with regional, national and international organizations to provide advisory services for various healthcare ventures. The scope of these services range from managing current healthcare operations that are designed to improve clinical quality, innovation, patient care, medical education and research at other healthcare organizations and educational institutions to managing the construction, training, organizational infrastructure, and operational management of healthcare entities. The System recognizes revenues related to management service agreements on a pro rata basis over the term of the agreements as services are provided. Payments received in advance are recorded as deferred revenue until the services have been provided. The System has recorded deferred revenue related to management service agreements, included in other current liabilities, of $8.9 million and $8.8 million at December 31, 2020 and 2019, respectively. Revenue related to management service agreements for 2020 and 2019 was $116.2 million and $131.5 million, respectively, and is included in other unrestricted revenues.

Cash and Cash Equivalents

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

3. Accounting Policies (continued)

The reconciliation of cash, cash equivalents, and restricted cash within the consolidated balance sheets that comprise the amount reported on the consolidated statements of cash flows at December 31, 2020 and 2019 is as follows (in thousands):

	2020	2019
Cash and cash equivalents	**$ 1,045,393**	$ 505,729
Investments for current use	**122,669**	119,446
Restricted cash in investments	**5,073**	12,111
Total cash, cash equivalents, and restricted cash	**$ 1,173,135**	$ 637,286

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

Inventories

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

Property, Plant, and Equipment

Property, plant, and equipment purchased by the System are recorded at cost. Donated property, plant, and equipment are recorded at fair value at the date of donation. Expenditures that substantially increase the useful lives of existing assets are capitalized. Routine maintenance and repairs are expensed as incurred. Depreciation, including amortization of finance leased assets, is computed by the straight-line method using the estimated useful lives of individual assets. Buildings are assigned useful lives ranging from five years to forty years. Equipment is assigned a useful life ranging from three to twenty years. Interest cost incurred on borrowed funds during the period of construction of capital assets and interest income on unexpended project funds are capitalized as a component of the cost of acquiring those assets. The System records costs and legal obligations associated with long-lived asset retirements. Assets acquired though finance lease arrangements are excluded from the consolidated statements of cash flows.

3. Accounting Policies (continued)

Impairment of Long-Lived Assets

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

Leases

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

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

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

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

3. Accounting Policies (continued)

Investments and Investment Income

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

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

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

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

3. Accounting Policies (continued)

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

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

Fair Value Measurements

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

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

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

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

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

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

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

3. Accounting Policies (continued)

Goodwill and Other Intangibles

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

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

Derivative Instruments

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

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

Foreign Currency Translation

The statements of operations of foreign subsidiaries whose functional currencies are other than the U.S. dollar are translated into U.S. dollars using average exchange rates for the period. The assets and liabilities of foreign subsidiaries whose functional currencies are other than the U.S. dollar are translated into U.S. dollars using exchange rates as of the consolidated balance sheet date. The U.S. dollar effects that arise from translating the net assets of these subsidiaries at changing rates are recorded as foreign currency translation gains and losses in the consolidated statements of operations and changes in net assets. Cumulative foreign currency translation losses included in net assets without donor restrictions were $57.8 million and $66.8 million at December 31, 2020 and 2019, respectively.

3. Accounting Policies (continued)

Debt Issuance Costs

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

Contributions

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

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

Grants

Grant revenue is recognized in the period it is earned based on when the applicable project expenses are incurred and project milestones are achieved. The System records research grants as exchange transactions or conditional contributions based on an evaluation of whether the resource provider is receiving commensurate value in return for the resources transferred to the System. Conditional contributions contain barriers that must be overcome by the System before research grant revenue is recorded. Grant payments received in advance of related project expenses and the achievement of project milestones are recorded as deferred revenue and included in other current liabilities. The System recorded research grant revenue, included in other unrestricted revenues, of $203.7 million and $217.8 million in 2020 and 2019, respectively.

3. Accounting Policies (continued)

Net Assets With Donor Restrictions

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

Excess of Revenues Over Expenses

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

4. Net Patient Service Revenue and Patient Receivables

Net patient service revenue by major payor source, net of price concessions, for the years ended December 31, 2020 and 2019, is as follows (in thousands):

	2020		**2019**	
Medicare	**$ 3,459,418**	**38%**	$ 3,555,679	37%
Medicaid	**886,408**	**10**	817,631	9
Managed care and commercial	**4,709,980**	**51**	5,076,374	53
Self-pay	**78,879**	**1**	66,599	1
Net patient service revenue	**$ 9,134,685**	**100%**	$ 9,516,283	100%

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

The System's concentration of credit risk relating to patient receivables is limited due to the diversity of patients and payors. Patient receivables consist of amounts due from government programs, commercial insurance companies, other group insurance programs, and private pay patients. Patient receivables due from Medicare, Medicaid, and one commercial payor account for approximately 30%, 9%, and 22% at December 31, 2020 and 26%, 7%, and 23% at December 31, 2019, respectively, of the System's total patient receivables. Revenues from the Medicare and Medicaid programs and one commercial payor account for approximately 38%, 10%, and 12% for 2020 and 37%, 9%, and 13% for 2019, respectively, of the System's net patient service revenue. Excluding these payors, no one payor represents more than 10% of the System's patient receivables or net patient service revenue.

5. Cash, Cash Equivalents, and Investments

The composition of cash, cash equivalents, and investments at December 31, 2020 and 2019 is as follows (in thousands):

	2020	2019
Cash, cash equivalents and restricted cash	**$ 1,173,135**	$ 637,286
Money market funds	**675,660**	1,158,515
Fixed income securities:		
U.S. treasuries	**1,197,397**	1,146,082
U.S. government agencies	**57,404**	31,698
U.S. corporate	**522,576**	334,914
U.S. government agencies asset-backed securities	**319,847**	325,341
Corporate asset-backed securities	**221,751**	167,647
Foreign	**252,380**	151,625
Fixed income mutual funds	**230,158**	120,239
Commingled fixed income funds	**126,219**	630,122
Common and preferred stocks:		
U.S.	**285,260**	311,327
Foreign	**268,136**	320,123
Equity mutual funds	**89,239**	142,424
Commingled equity funds	**1,739,575**	1,881,713
Commingled commodity funds	**324,625**	210,265
Alternative investments:		
Hedge funds	**3,335,262**	2,071,318
Private equity/venture funds	**2,061,072**	1,559,476
Total cash, cash equivalents, and investments	**$12,879,696**	$11,200,115

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

Investments are primarily maintained in a master trust fund administered using a bank as the custodian. The management of the majority of the System's investments is conducted by numerous external investment management organizations that are monitored by the System. The alternative investments have separate administrators and custodian arrangements. Alternative investments also include four holdings, valued at $7.1 million at December 31, 2020, in which the System invests directly.

Total investment return is comprised of the following for the years ended December 31, 2020 and 2019 (in thousands):

	2020	2019
Other unrestricted revenues:		
Interest income and dividends	**$ 1,406**	$ 2,284
Nonoperating gains and losses, net:		
Interest income and dividends	**72,412**	84,544
Net realized gains on sales of investments	**341,800**	502,068
Net change in unrealized gains on investments	**76,723**	409,950
Income on alternative investments	**662,254**	281,129
Investment management fees	**(25,246)**	(28,310)
	1,127,943	1,249,381
Other changes in net assets:		
Investment income on restricted investments	**82,853**	72,074
Total investment return	**$ 1,212,202**	$ 1,323,739

6. Liquidity and Availability

Financial assets available for general expenditure within one year of December 31, 2020 and 2019 include the following (in thousands):

	2020	2019
Cash and cash equivalents	**$ 1,045,393**	$ 505,729
Patient receivables	**1,255,681**	1,299,256
Long-term investments	**6,029,764**	6,531,369
	$ 8,330,838	$ 8,336,354

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

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

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

7. Other Current Assets and Liabilities and Other Noncurrent Assets and Liabilities

Other current and noncurrent assets at December 31, 2020 and 2019 consist of the following (in thousands):

	2020	2019
Current:		
Inventories	**$ 246,507**	$ 192,490
Prepaid expenses	**89,026**	89,368
Research and grants receivables	**56,114**	33,017
Pledges receivable, current *(Note 11)*	**44,372**	67,300
Other	**110,703**	106,493
Total other current assets	**$ 546,722**	$ 488,668

	2020	2019
Noncurrent:		
Deferred compensation plan assets	**$ 343,728**	$ 285,792
Goodwill and other intangible assets *(Note 8)*	**125,244**	121,745
Investments in affiliates	**97,844**	85,599
Prepaid pension cost	**10,844**	–
Other	**66,910**	33,304
Total other noncurrent assets	**$ 644,570**	$ 526,440

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

Other current and noncurrent liabilities at December 31, 2020 and 2019 consist of the following (in thousands):

	2020	2019
Current:		
Management contracts and other deferred revenue	**$ 94,680**	$ 28,267
Deferred social security payroll taxes *(Note 21)*	**86,386**	–
Interest payable	**72,641**	71,766
Research deferred revenue	**64,068**	54,929
Current portion of professional and general liability insurance reserves *(Note 15)*	**54,720**	59,354
Operating lease liabilities *(Note 14)*	**43,787**	31,006
Employee benefit related liabilities	**35,260**	34,924
Estimated amounts due to third-party payors	**21,644**	47,870
Other	**265,137**	245,807
Total other current liabilities	**$ 738,323**	$ 573,923

	2020	2019
Noncurrent:		
Employee benefit related liabilities	**$ 395,173**	$ 340,013
Derivative liabilities *(Note 13)*	**159,762**	132,012
Deferred social security payroll taxes *(Note 21)*	**86,386**	–
Pledge liabilities	**16,829**	17,341
Estimated amounts due to third-party payors	**14,883**	15,092
Gift annuity liabilities	**13,903**	15,126
Other	**20,979**	22,507
Total other noncurrent liabilities	**$ 707,915**	$ 542,091

8. Goodwill and Other Intangible Assets

The System recorded goodwill in 2020 and 2019 related to the acquisitions of various physician practices. Goodwill is recorded in other noncurrent assets in the consolidated balance sheets.

The changes in the carrying amount of goodwill for the years ended December 31, 2020 and 2019 are as follows (in thousands):

	2020	2019
Balance, beginning of year	**$ 71,331**	$ 70,420
Goodwill acquired	**2,895**	543
Foreign currency translation	**194**	368
Balance, end of year	**$ 74,420**	$ 71,331

The System acquired other intangible assets of $0.9 million and $18.5 million in 2020 and 2019, respectively, related to the acquisitions of various physician practices and the member substitution of Martin Health System in 2019. Other intangible assets are recorded in other noncurrent assets in the consolidated balance sheets.

Other intangible assets at December 31, 2020 and 2019 consist of the following (in thousands):

	2020		2019	
	Historical Cost	Accumulated Amortization	Historical Cost	Accumulated Amortization
Trade name	**$ 49,800**	**$ –**	$ 49,800	$ –
Finite-lived intangible assets	**8,024**	**7,000**	7,156	6,542
Total	**$ 57,824**	**$ 7,000**	$ 56,956	$ 6,542

Amortization related to finite-lived intangible assets was $0.5 million in both 2020 and 2019 and is included in depreciation and amortization in the consolidated statements of operations and changes in net assets. Future amortization is as follows (in thousands): 2021 – $522, 2022 – $314, and 2023 – $188.

9. Fair Value Measurements

The following tables present the financial instruments measured at fair value on a recurring basis as of December 31, 2020 and 2019, based on the valuation hierarchy (in thousands):

December 31, 2020

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

9. Fair Value Measurements (continued)

December 31, 2019

	Level 1	Level 2	Level 3	Total
Assets				
Cash and investments:				
Cash and cash equivalents	$ 637,286	$ –	$ –	$ 637,286
Money market funds	1,158,348	167	–	1,158,515
Fixed income securities:				
U.S. treasuries	1,146,082	–	–	1,146,082
U.S. government agencies	–	31,698	–	31,698
U.S. corporate	–	334,914	–	334,914
U.S. government agencies asset-backed securities	–	325,341	–	325,341
Corporate asset-backed securities	–	167,647	–	167,647
Foreign	–	151,625	–	151,625
Fixed income mutual funds	120,239	–	–	120,239
Common and preferred stocks:				
U.S.	311,327	–	–	311,327
Foreign	311,283	8,840	–	320,123
Equity mutual funds	142,424	–	–	142,424
Total cash and investments	3,826,989	1,020,232		4,847,221
Perpetual and charitable trusts	–	88,301	–	88,301
Total assets at fair value	$ 3,826,989	$ 1,108,533	$ –	$ 4,935,522
Liabilities				
Interest rate swaps	$ –	$ 131,004	$ –	$ 131,004
Foreign currency forward contracts	–	2,879	–	2,879
Total liabilities at fair value	$ –	$ 133,883	$ –	$ 133,883

9. Fair Value Measurements (continued)

Financial instruments at December 31, 2020 and 2019 are reflected in the consolidated balance sheets as follows (in thousands):

	2020	2019
Cash, cash equivalents, and investments measured at fair value	**$ 5,292,943**	$ 4,847,221
Commingled funds measured at net asset value	**2,190,419**	2,722,100
Alternative investments measured at net asset value	**5,396,334**	3,630,794
Total cash, cash equivalents, and investments	**$ 12,879,696**	$ 11,200,115
Perpetual and charitable trusts measured at fair value	**$ 84,894**	$ 88,301
Interests in foundations	**27,531**	25,136
Trusts and interests in foundations	**$ 112,425**	$ 113,437

Interest rate swaps and forward currency forward contracts (Note 13) are reported in other current assets, other current liabilities and other noncurrent liabilities in the consolidated balance sheets.

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

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

9. Fair Value Measurements (continued)

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

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

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

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

10. Property, Plant, and Equipment

Property, plant, and equipment at December 31, 2020 and 2019 consist of the following (in thousands):

	2020	2019
Land and improvements	**$ 534,519**	$ 530,594
Buildings	**7,303,916**	7,058,399
Leasehold improvements	**35,625**	31,203
Equipment	**1,921,575**	1,918,486
Computer hardware and software	**953,697**	1,017,757
Construction-in-progress	**502,469**	360,635
Leased facilities and equipment	**207,174**	203,927
	11,458,975	11,121,001
Accumulated depreciation and amortization	**(5,592,001)**	(5,255,411)
	$ 5,866,974	$ 5,865,590

Included in the preceding table is unamortized computer software of $265.8 million and $231.3 million at December 31, 2020 and 2019, respectively. Amortization of computer software totaled $44.4 million and $48.1 million in 2020 and 2019, respectively. Amortization of computer software for the five years subsequent to December 31, 2020, is as follows (in millions): 2021 – $44.1, 2022 – $39.4, 2023 – $35.3, 2024 – $33.4, and 2025 – $32.8.

Accumulated amortization of leased facilities and equipment was $104.3 million and $93.5 million at December 31, 2020 and 2019, respectively.

11. Pledges Receivable

Outstanding pledges receivable from various corporations, foundations, and individuals at December 31, 2020 and 2019 are as follows (in thousands):

	2020	2019
Pledges due:		
In less than one year	**$ 57,668**	$ 79,114
In one to five years	**80,491**	110,696
In more than five years	**83,975**	87,664
	222,134	277,474
Allowance for uncollectible pledges and discounting	**(52,121)**	(55,256)
Current portion (net of allowance for uncollectible pledges of $13.3 million and $11.8 million in 2020 and 2019, respectively)	**(44,372)**	(67,300)
	$ 125,641	$ 154,918

12. Long-Term Debt

Long-term debt at December 31, 2020 and 2019, consists of the following (in thousands):

	Interest Rate(s)	Final Maturity	Amount Outstanding at December 31 2020	2019
Series 2020 Term Loan	0.84%	2025	**$ 12,660**	$ –
Series 2019A Bonds	3.39%	2046	**247,045**	247,045
Series 2019B Bonds	3.22% to 3.55%	2046	**250,320**	250,320
Series 2019C Bonds	Floating rate	2052	**89,000**	89,000
Series 2019D Bonds	Variable rate	2052	**119,340**	119,340
Series 2019E Bonds	Variable rate	2052	**130,405**	130,405
Series 2019F Bonds	Variable rate	2052	**130,405**	130,405
Series 2019G Bonds	2.70% to 3.28%	2042	**241,835**	241,835
Series 2018 Sterling Notes	2.90% to 3.08%	2068	**902,952**	872,285
Series 2018 Term Loan	Variable rate	2023	**36,818**	33,070
Series 2017A Bonds	1.08% to 3.48%	2043	**792,350**	811,785
Series 2017B Bonds	2.02% to 3.70%	2043	**166,290**	167,580
Series 2017C Bonds	2.72%	2032	**8,135**	8,555
Series 2016 Private Placement	3.35%	2046	**325,000**	325,000
Series 2016 Term Loan	Variable rate	2026	**15,170**	15,170
Series 2014 Bonds	4.86%	2114	**400,000**	400,000
Series 2013A Bonds	4.04%	2042	**34,955**	34,955
Series 2013B Bonds	Variable rate	2039	**201,160**	201,160
Series 2013 Keep Memory Alive	Variable rate	2037	**54,760**	56,980
Series 2013 Bonds	Variable rate	2032	**14,455**	16,200
Series 2012A Bonds	2.32% to 4.07%	2039	**266,060**	275,765
Series 2011A Bonds	3.62% to 4.21%	2025	**79,285**	94,385
Series 2011B Bonds	2.56%	2031	**23,345**	24,900
Series 2011C Bonds	3.68% to 4.72%	2032	**127,740**	144,035
Series 2010 Bonds	3.04%	2025	**–**	14,995
Series 2008B Bonds	Variable rate	2042	**327,575**	327,575
Series 2003C Bonds	Variable rate	2035	**41,905**	41,905
Notes payable	Varies	Varies	**2,901**	3,584
Finance leases	Varies	Varies	**110,621**	118,053
			5,152,487	5,196,287
Net unamortized premium			**154,012**	161,322
Unamortized debt issuance costs			**(32,608)**	(33,715)
Current portion			**(101,006)**	(95,405)
Long-term variable rate debt classified as current			**(589,891)**	(529,841)
			$4,582,994	$4,698,648

12. Long-Term Debt (continued)

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

In November 2020, the System entered into a taxable term loan with a financial institution for $12.7 million. The loan matures in 2025 and bears interest at a fixed rate of 0.84%. The proceeds of the term loan were used to refund the Series 2010 Bonds that were assumed in the member substitution of Martin Health System.

In May 2019, pursuant to certain agreements between the System and the Martin County Health Facilities Authority, the Martin County Health Facilities Authority issued $247.0 million of fixed-rate Hospital Revenue Refunding Bonds (Series 2019A Bonds) for the benefit of the System. Contemporaneously with the issuance of the Series 2019A Bonds, certain outstanding debt, totaling $249.4 million previously incurred by Martin Health System, was defeased. Also in May 2019, pursuant to certain agreements between the System and the State of Ohio (State) acting by and through the Ohio Higher Educational Facility Commission, the State issued $250.3 million of fixed-rate Hospital Revenue Bonds (Series 2019B Bonds), $89.0 million of adjustable floating-rate Hospital Revenue Bonds (Series 2019C Bonds) and $380.1 million of variable-rate Hospital Revenue Bonds, comprised of separate issues of $119.3 million (Series 2019D Bonds), $130.4 million (Series 2019E Bonds) and $130.4 million (Series 2019F Bonds). Proceeds from the issuance of the Series 2019C Bonds and Series 2019D Bonds were used to acquire facilities previously leased by the System under operating lease agreements and to pay the cost of issuance. Proceeds from the issuance of the Series 2019B Bonds, Series 2019E Bonds and Series 2019F Bonds have been used to finance certain capital expenditures of the System and to pay the cost of issuance. The System recorded a loss on extinguishment of debt of $4.8 million related to these transactions, which is recorded in other nonoperating gains and losses in the 2019 consolidated statements of operations and changes in net assets.

12. Long-Term Debt (continued)

In November 2019, pursuant to certain agreements between the System and the State, acting by and through the Ohio Higher Educational Facility Commission, the State issued $241.8 million of fixed-rate Taxable Hospital Refunding Revenue Bonds (Series 2019G Bonds) for the benefit of the System. Proceeds from the issuance of the Series 2019G Bonds were used to refund a portion of the outstanding Series 2011A, 2012A, and 2013A Bonds and to pay the cost of issuance. The System recorded a loss on extinguishment of debt of $1.5 million related to this transaction, which is recorded in other nonoperating gains and losses in the 2019 consolidated statements of operations and changes in net assets.

The System maintains the Cleveland Clinic Health System Obligated Group Commercial Paper Program (CP Program), which provides for the issuance of the Series 2014A CP Notes. The CP Program was established in November 2014 and will terminate no later than January 2044. The Series 2014A CP Notes may be issued from time to time in a maximum outstanding face amount of $100 million and are supported by the System's self-liquidity program. The System did not have any outstanding Series 2014A CP Notes at December 31, 2020 or 2019.

Certain of the System's current outstanding bonds bear interest at a variable rate. During 2020 and 2019, the rates for the System's variable rate long-term debt series ranged from 0.01% to 9.00% (average rate 0.60%) and 0.80% to 3.32% (average rate 1.61%), respectively.

Certain variable rate bonds are secured by irrevocable direct pay letters of credit and standby bond purchase agreements, totaling $611.5 million at December 31, 2020. Long-term variable rate debt is classified as current in the consolidated balance sheets if it is supported by letters of credit or standby bond purchase agreements that expire within one year, require repayment of a remarketing draw within one year, or contain a subjective clause that, if declared by the lender, could cause immediate repayment of the bonds.

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

In May 2019, the System entered into a $400 million revolving credit facility with multiple financial institutions that can be drawn upon in the case of a failed remarketing of self-liquidity debt. The revolving credit facility expires in May 2022 and bears interest at a variable rate based on various interest rate benchmarks and spreads. There were no amounts outstanding under the revolving credit facility at December 31, 2020.

12. Long-Term Debt (continued)

In 2020, the System obtained lines of credit totaling $650 million with multiple financial institutions. Each of the lines mature in 2021 and bear interest at the London Interbank Offered Rate (LIBOR) plus an applicable spread. The lines of credit were obtained to provide additional liquidity for the System. As of December 31, 2020, the System had no amounts drawn and $650 million in available capacity.

During the term of agreements with the issuing authorities, the System is required to make specified deposits with trustees to fund principal and interest payments when due. Also, unexpended bond proceeds are held by the trustee and released to the System for approved requisition requests for capital projects. There were no unexpended bond proceeds at December 31, 2020. Unexpended bond proceeds at December 31, 2019 were $139.6 million and are included in funds held by trustee. The System has made deposits with the trustee, included in investments for current use, to fund current principal and interest payments of $122.7 million and $119.4 million at December 31, 2020 and 2019, respectively.

The System is subject to certain restrictive covenants, including provisions relating to certain debt ratios, days cash on hand, and other matters. The System was in compliance with these covenants at December 31, 2020 and 2019.

Combined current aggregate scheduled maturities of long-term debt, excluding finance leases and assuming the remarketing of the variable rate demand bonds, for the five years subsequent to December 31, 2020, are as follows (in thousands): 2021 – $74,597, 2022 – $77,818, 2023 – $117,976, 2024 – $82,098, and 2025 – $85,643.

Total interest paid approximated $160.6 million and $158.3 million in 2020 and 2019, respectively. Capitalized interest cost approximated $4.4 million and $4.0 million in 2020 and 2019, respectively.

13. Derivative Instruments

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

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

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

Swap Type	Expiration Date	System Pays	System Receives	Notional Amount at December 31 2020	2019
Fixed	2021	3.21%	68% of LIBOR	**$ 26,865**	$ 28,525
Fixed	2024	3.42%	68% of LIBOR	**24,250**	25,700
Fixed	2024	3.45%	67% of LIBOR	**5,040**	6,185
Fixed	2027	3.56%	68% of LIBOR	**111,226**	115,757
Fixed	2028	5.12%	100% of LIBOR	**34,195**	35,430
Fixed	2028	3.51%	68% of LIBOR	**26,405**	27,395
Fixed	2030	5.07%	100% of LIBOR	**54,300**	56,350
Fixed	2030	5.06%	100% of LIBOR	**54,275**	56,325
Fixed	2031	3.04%	68% of LIBOR	**40,925**	44,000
Fixed	2032	4.32%	79% of LIBOR	**1,986**	2,091
Fixed	2032	4.33%	70% of LIBOR	**3,973**	4,183
Fixed	2032	3.78%	70% of LIBOR	**1,986**	2,091
Fixed	2032	3.58%	67% of LIBOR	**9,415**	10,015
Fixed	2036	4.90%	100% of LIBOR	**48,325**	48,500
Fixed	2036	4.90%	100% of LIBOR	**75,125**	75,250
Fixed	2037	4.62%	100% of SIFMA	**54,760**	56,980
Fixed	2039	4.62%	68% of LIBOR	**20,885**	21,025
				$ 593,936	$ 615,802

13. Derivative Instruments (continued)

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

The System has foreign currency forward contracts, maturing at various dates through April 2021, with a total outstanding notional amount of $68.1 million and $336.2 million at December 31, 2020 and 2019, respectively.

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

	Derivative Assets and Liabilities			
	December 31, 2020		December 31, 2019	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives not designated as hedging instruments				
Interest rate swap agreements	Other noncurrent liabilities	**$ 159,762**	Other noncurrent liabilities	$ 131,004
Foreign currency contracts	Other current assets	**$ 366**	Other current assets	$ –
Foreign currency contracts	Other current liabilities	**$ –**	Other current liabilities	$ 1,871
Foreign currency contracts	Other noncurrent liabilities	**$ –**	Other noncurrent liabilities	$ 1,008

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

	Location of Loss Recognized	Year Ended December 31 2020	2019
Derivatives not designated as hedging instruments			
Interest rate swap agreements	Derivative losses	**$ (51,287)**	$ (42,734)
Foreign currency contracts	Derivative (losses) gains	**$ (10,186)**	$ 6,540

13. Derivative Instruments (continued)

The System has used various derivative contracts in connection with certain prior obligations and investments. Although minimum credit ratings are required for counterparties, this does not eliminate the risk that a counterparty may fail to honor its obligations. Derivative contracts are subject to periodic "mark-to-market" valuations. A derivative contract may, at any time, have a positive or negative value to the System. In the event that the negative value reaches certain thresholds established in the derivative contracts, the System is required to post collateral, which could adversely affect its liquidity. At December 31, 2020 and 2019, the System posted $102.4 million and $82.4 million, respectively, of collateral with counterparties that is included in funds held by trustees in the consolidated balance sheets. In addition, if the System were to choose to terminate a derivative contract or if a derivative contract were terminated pursuant to an event of default or a termination event as described in the derivative contract, the System could be required to pay a termination payment to the counterparty.

14. Leases

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

Operating and finance lease right-of-use assets and lease liabilities as of December 31, 2020 and 2019 were as follows (in thousands):

Operating leases	**2020**	**2019**
Right-of-use assets:		
Operating lease assets	**$ 360,841**	$ 325,960
Lease liabilities:		
Other current liabilities	**$ 43,787**	$ 31,006
Noncurrent operating lease liabilities	**323,682**	296,668
Total operating lease liabilities	**$ 367,469**	$ 327,674
Finance leases		
Right-of-use assets:		
Property, plant, and equipment, net	**$ 102,846**	$ 110,399
Lease liabilities:		
Current portion of long-term debt	**$ 26,409**	$ 24,622
Long-term debt	**84,212**	93,431
Total finance lease liabilities	**$ 110,621**	$ 118,053

14. Leases (continued)

Operating expenses for the leasing activity of the System as lessee for the years ended December 31, 2020 and 2019 are as follows (in thousands):

Lease Type	Classification	2020	2019
Operating lease costs*	Facilities expense	**$ 52,508**	$ 57,493
Short-term lease costs	Facilities expense	**16,895**	17,793
Financing lease interest	Interest expense	**4,776**	5,373
Financing lease amortization	Depreciation and amortization	**29,264**	27,977
Total lease cost		**$ 103,443**	$ 108,636

* Includes fixed and variable lease costs.

Cash paid for amounts included in the measurement of lease liabilities for the years ended December 31, 2020 and 2019 was as follows (in thousands):

	2020	2019
Operating cash flows from operating leases	**$ 48,153**	$ 57,523
Operating cash flows from finance leases	**4,776**	5,373
Financing cash flows from finance leases	**27,715**	25,408
Total	**$ 80,644**	$ 88,304

Right-of-use assets obtained in exchange for new lease obligations for the years ended December 31, 2020 and 2019 are as follows (in thousands):

	2020	2019
Operating leases	**$ 55,786**	$ 84,264
Finance leases	**20,283**	21,639
Total	**$ 76,069**	$ 105,903

14. Leases (continued)

The aggregate future lease payments for operating and finance leases as of December 31, 2020 were as follows (in thousands):

	Operating	Finance
2021	$ 38,340	$ 30,299
2022	36,361	25,350
2023	30,837	18,495
2024	24,245	13,553
2025	17,782	9,273
Thereafter	1,377,050	29,165
Total lease payments	1,524,615	126,135
Less: interest	(1,157,146)	(15,514)
Present value of lease liabilities	$ 367,469	$ 110,621

Average lease terms and discount rates at December 31, 2020 and 2019 were as follows:

	2020	2019
Weighted-average remaining lease term (years):		
Operating leases	**49.6**	54.9
Finance leases	**6.5**	7.2
Weighted-average discount rate:		
Operating leases	**2.6%**	2.8%
Finance leases	**3.9**	4.3

Included in the tables above is a long-term leasehold interest in a building in London, England that expires in June 2139. The System is currently converting the building into an advanced healthcare facility with approximately 185 beds that is expected to open in early 2022. Rental expense is fixed at increasing annual rates until December 2027, after which rental expense will be adjusted annually by a variable index that is subject to minimum and maximum thresholds through the end of the lease term. Excluding this lease, the weighted average remaining lease term for the System's operating leases is 8.1 years and 8.5 years at December 31, 2020 and 2019, respectively.

15. Professional and General Liability Insurance

The System manages its professional and general liability insurance program through a captive insurance arrangement.

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

The System's professional and general liability insurance reserves of $270.8 million and $223.4 million at December 31, 2020 and 2019, respectively, are recorded as current and noncurrent liabilities and include discounted estimates of the ultimate costs for both asserted claims and unasserted claims. Asserted and unasserted claims for the System's reserves were discounted at 0.5% and 2.0% at December 31, 2020 and 2019, respectively. Through the captive insurance subsidiary, the System has set aside investments of $234.0 million ($54.7 million included in investments for current use) and $217.3 million ($59.4 million included in investments for current use) at December 31, 2020 and 2019, respectively, of which $46.7 million and $44.4 million at December 31, 2020 and 2019, respectively, is restricted in accordance with reinsurance trust agreements related to coverage of the Florida operations and other reinsurance programs provided by the captive insurance subsidiary.

15. Professional and General Liability Insurance (continued)

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

	2020	2019
Balance at beginning of year	**$ 223,362**	$ 195,023
Incurred related to:		
Current period	**72,446**	72,975
Prior period	**(1,338)**	(8,274)
Total incurred	**71,108**	64,701
Paid related to:		
Current period	**2,129**	4,615
Prior period	**41,547**	69,582
Total paid	**43,676**	74,197
Total incurred less total paid	**27,432**	(9,496)
Member substitution	**–**	39,324
Increase (decrease) in unasserted claims	**26**	(1,247)
Increase (decrease) in reinsurance recoverable	**20,000**	(242)
Balance at end of year	**$ 270,820**	$ 223,362

The foregoing reconciliation shows $1.3 million and $8.3 million of favorable development in 2020 and 2019, respectively, due to changes in actuarial estimates as a result of lower claim activity, closed claims, and expedited settlement of claims, which has reduced claim expenses and resulted in more favorable settlements. The System utilizes a combination of actual and industry statistics to estimate loss and loss adjustment expense reserves.

16. Pensions and Other Postretirement Benefits

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

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

16. Pensions and Other Postretirement Benefits (continued)

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

The mortality tables used to calculate the defined benefit obligation for the System's defined benefit and postretirement health benefit plans at December 31, 2020 are based on the Pri-2012 "Employees," "Healthy Retiree" and "Contingent Annuitant" tables, fully generational for employees reflecting an unadjusted MP-2020 projection scale from the 2012 base year. The mortality tables used to calculate the defined benefit obligation for the System's defined benefit and postretirement health benefit plans at December 31, 2019 are based on the Pri-2012 "Employees," "Healthy Retiree" and "Contingent Annuitant" tables, fully generational for employees reflecting an unadjusted MP-2019 projection scale from the 2012 base year. The System believes that the updated mortality rates are the best estimate of future experience.

The System expects to make contributions of $8.8 million to the defined benefit pension plans in 2021. Pension benefit payments over the next ten years are estimated as follows: 2021 – $170.3 million, 2022 – $125.1 million, 2023 – $129.5 million, 2024 – $128.5 million, 2025 – $124.2 million, and in the aggregate for the five years thereafter – $595.2 million.

The System expects to make contributions of $3.8 million to other postretirement benefit plans in 2021. Other postretirement benefit payments over the next ten years are estimated as follows: 2021 – $3.8 million, 2022 – $3.4 million, 2023 – $3.1 million, 2024 – $2.8 million, 2025 – $2.5 million, and in the aggregate for the five years thereafter – $8.8 million.

No plan assets are expected to be returned to the employer during 2021.

16. Pensions and Other Postretirement Benefits (continued)

The System is required to recognize the funded status, which is the difference between the fair value of plan assets and the projected benefit obligations, of its pension and other postretirement benefit plans in the consolidated balance sheets, with a corresponding adjustment to net assets without donor restrictions. Amounts recorded in net assets without donor restrictions consist of actuarial gains and losses and prior service credits and costs. Actuarial gains and losses recorded in net assets outside of the corridor, which is 10% of the greater of the projected benefit obligation or the fair value of the plan assets, will be recognized as a component of net periodic benefit cost immediately in the current period. Prior service credits and costs will be amortized over future periods, pursuant to the System's accounting policy.

Unrecognized prior service credits and costs are amortized on a straight-line basis over the estimated life of the plan participants. In 2021, the System is expected to amortize $3.5 million of unrecognized prior service credits in net periodic benefit cost.

Included in net assets without donor restrictions at December 31, 2020 and 2019 are the following amounts that have not yet been recognized in net periodic benefit cost (in thousands):

	Defined Benefit Pension Plans		Other Postretirement Benefits	
	2020	**2019**	**2020**	**2019**
Unrecognized actuarial losses (gains)	**$ 144,563**	$ 151,105	**$ 3,718**	$ (7,466)
Unrecognized prior service credit	**(13,226)**	(15,768)	**(5,137)**	(6,089)
Total	**$ 131,337**	$ 135,337	**$ (1,419)**	$ (13,555)

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

16. Pensions and Other Postretirement Benefits (continued)

Changes in plan assets and benefit obligations recognized in net assets without donor restrictions for the years ended December 31, 2020 and 2019, are as follows (in thousands):

	Defined Benefit Pension Plans		Other Postretirement Benefits	
	2020	**2019**	**2020**	**2019**
Current year actuarial (loss) gain	**$ (5,255)**	$ (14,539)	**$ (8,951)**	$ 4,617
Recognition of actuarial loss (gain) in excess of corridor	**11,797**	7,897	**(2,233)**	(5,340)
Current year prior service credit	**–**	3,966	**–**	–
Amortization of prior service credit	**(2,542)**	(1,909)	**(952)**	(952)
Total	**$ 4,000**	$ (4,585)	**$ (12,136)**	$ (1,675)

16. Pensions and Other Postretirement Benefits (continued)

The following table sets forth the funded status of the System's pensions and other postretirement benefit plans and the amounts recognized in the System's December 31, 2020 and 2019, consolidated balance sheets (in thousands):

	Defined Benefit Pension Plans		Other Postretirement Benefits	
	2020	**2019**	**2020**	**2019**
Change in projected benefit obligation:				
Projected benefit obligation at beginning of year	**$1,959,040**	$1,630,583	**$ 79,525**	$ 81,889
Service (credit) cost	**(4,714)**	(3,421)	**1,160**	1,469
Interest cost	**63,802**	77,571	**2,913**	3,723
Actuarial loss (gain)	**157,445**	163,942	**8,951**	(4,617)
Participant contributions	**–**	–	**18,856**	16,886
Plan amendments	**–**	(3,966)	**–**	–
Member substitution	**–**	215,695	**–**	3,906
Settlement payments	**(76,375)**	(65,088)	**–**	–
Benefits paid	**(59,447)**	(56,276)	**(25,731)**	(23,731)
Projected benefit obligation at end of year	**2,039,751**	1,959,040	**85,674**	79,525
Change in plan assets:				
Fair value of plan assets at beginning of year	**1,678,138**	1,234,419	**–**	–
Actual return on plan assets	**258,805**	235,043	**–**	–
Participant contributions	**–**	–	**18,856**	16,886
System contributions	**24,804**	176,248	**6,875**	6,845
Member substitution	**–**	153,792	**–**	–
Benefits paid	**(135,822)**	(121,364)	**(25,731)**	(23,731)
Fair value of plan assets at end of year	**1,825,925**	1,678,138	**–**	–
Accrued retirement benefits	**$ (213,826)**	$ (280,902)	**$ (85,674)**	$ (79,525)
Noncurrent assets	**$ 10,844**	$ –	**$ –**	$ –
Current liabilities	**(8,835)**	(9,111)	**(3,768)**	(4,252)
Noncurrent liabilities	**(215,835)**	(271,791)	**(81,906)**	(75,273)
Net liability recognized in consolidated balance sheets	**$ (213,826)**	$ (280,902)	**$ (85,674)**	$ (79,525)

16. Pensions and Other Postretirement Benefits (continued)

The accumulated benefit obligation for all defined benefit pension plans was $2.0 billion and $1.9 billion at December 31, 2020 and 2019, respectively. At December 31, 2020, defined benefit pension plans that had projected benefit obligations in excess of the fair value of plan assets had total accumulated benefit obligations of $1.7 billion, projected benefit obligations of $1.7 billion and fair value of plan assets of $1.5 billion. At December 31, 2020, defined benefit pension plans that had fair value of plan assets in excess of projected benefit obligations had total accumulated benefit obligations and projected benefit obligations of $290.1 million and fair value of plan assets of $300.9 million. At December 31, 2019, all of the defined benefit pension plans had projected benefit obligations in excess of the fair value of plan assets.

The CCHS Retirement Plan paid $76.4 million and $65.1 million in lump-sum payments in accordance with plan terms in 2020 and 2019, respectively, which exceeded the sum of the service cost and interest cost components of net periodic benefit cost for each year. As a result, the System recorded a settlement charge of $5.3 million and $4.9 million for the years ended December 31, 2020 and 2019, respectively.

In 2019, the System amended the Indian River Hospital defined benefit pension plan to offer a lump-sum option to current active and terminated vested participants, effective January 1, 2020. As a result of this amendment, the projected benefit obligation decreased by $4.0 million in 2019.

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

	Defined Benefit Pension Plans		Other Postretirement Benefits	
	2020	**2019**	**2020**	**2019**
Components of net periodic benefit cost:				
Service (credit) cost	**$ (4,714)**	$ (3,421)	**$ 1,160**	$ 1,469
Interest cost	**63,802**	77,571	**2,913**	3,723
Expected return on plan assets	**(106,615)**	(85,639)	**–**	–
Recognition of actuarial loss (gain) in excess of corridor	**6,481**	2,954	**(2,233)**	(5,340)
Settlement charge	**5,316**	4,943	**–**	–
Amortization of prior service credit	**(2,542)**	(1,909)	**(952)**	(952)
Net periodic benefit (credit) cost	**(38,272)**	(5,501)	**888**	(1,100)
Defined contribution plans	**276,624**	266,314	**–**	–
Total	**$ 238,352**	$ 260,813	**$ 888**	$ (1,100)

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

16. Pensions and Other Postretirement Benefits (continued)

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

	Defined Benefit Pension Plans		Other Postretirement Benefits	
	2020	**2019**	**2020**	**2019**
Weighted-average assumptions:				
Discount rates:				
Used for benefit obligations	**2.65%**	3.41%	**3.17%**	3.71%
Used for net periodic benefit cost	**3.41**	4.37	**3.71**	4.38
Expected rate of return on plan assets	**6.59**	6.48	**–**	–
Rate of compensation increase:				
Used for benefit obligations	**2.25**	2.25	**–**	–
Used for net periodic benefit cost	**2.25**	2.25	**–**	–

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

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

	2020	**2019**
Internally provided services:		
Initial rate	**5.75%**	5.50%
Ultimate rate	**4.00**	4.00
Year ultimate reached	**2028**	2026
Externally provided services:		
Initial rate	**6.75%**	6.50%
Ultimate rate	**5.00**	5.00
Year ultimate reached	**2028**	2026

16. Pensions and Other Postretirement Benefits (continued)

A one-percentage-point increase or decrease in the healthcare cost trend rate would have increased or decreased service and interest costs in 2020 by $1.6 million and $1.1 million, respectively, and service and interest costs in 2019 by $1.9 million and $1.3 million, respectively.

The System's weighted-average asset allocation of pension plan assets at December 31, 2020 and 2019, by asset category, is as follows:

	Percentage of Plan Assets		
	2020	2019	Target Allocation
Asset category			
Interest-bearing cash	**3.2%**	9.1%	1%–5%
Fixed income securities	**69.5**	56.0	50%–80%
Common and preferred stocks	**8.6**	17.2	5%–30%
Alternative investments	**18.7**	17.7	0%–25%
Total	**100.0%**	100.0%	

The System's investment strategy for its pension assets balances the liquidity needs of the pension plans with the long-term return goals necessary to satisfy future pension obligations. The target allocation ranges of the investment pool to various asset classes are designed to diversify the portfolio in a way that achieves an efficient trade-off between long-term return and risk, while providing adequate liquidity to meet near-term expenses and obligations.

The System's weighted-average pension portfolio return assumption of 6.59% and 6.48% in 2020 and 2019, respectively, is based on the targeted assumed rate of return through its asset mix at the beginning of each year, which is designed to mitigate short-term return volatility and achieve an efficient trade-off between return and risk. Expected returns and risk for each asset class are formed using a global capital asset pricing model framework in which the expected return is the compensation earned from taking risk. Forward-looking adjustments are made to expected return, volatility, and correlation estimates as well. Additionally, constraints such as permissible asset classes, portfolio guidelines, and liquidity considerations are included in the model.

16. Pensions and Other Postretirement Benefits (continued)

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

The following tables present the financial instruments in the System's defined benefit pension plans measured at fair value on a recurring basis as of December 31, 2020 and 2019, based on the valuation hierarchy (in thousands):

December 31, 2020

	Level 1	Level 2	Level 3	Total
Assets				
Cash and investments:				
Cash and cash equivalents	**$ 58,158**	**$ 36**	$ –	**$ 58,194**
Fixed income securities:				
U.S. treasuries	**497,599**	**–**	**–**	**497,599**
U.S. government agencies	**–**	**13,232**	**–**	**13,232**
U.S. corporate	**–**	**247,264**	**–**	**247,264**
Foreign	**–**	**46,954**	**–**	**46,954**
Common and preferred stocks:				
U.S.	**24,440**	**–**	**–**	**24,440**
Foreign	**13,998**	**1,444**	**–**	**15,442**
Equity mutual funds	**7,342**	**–**	**–**	**7,342**
Total assets at fair value	**$ 601,537**	**$ 308,930**	**$ –**	**$ 910,467**

16. Pensions and Other Postretirement Benefits (continued)

December 31, 2019

	Level 1	Level 2	Level 3	Total
Assets				
Cash and investments:				
Cash and cash equivalents	$ 152,445	$ 485	$ –	$ 152,930
Fixed income securities:				
U.S. treasuries	324,075	–	–	324,075
U.S. government agencies	–	9,912	–	9,912
U.S. corporate	–	157,520	–	157,520
Foreign	–	24,406	–	24,406
Common and preferred stocks:				
U.S.	24,489	2	–	24,491
Foreign	11,246	1,214	–	12,460
Equity mutual funds	7,267	–	–	7,267
Total assets at fair value	$ 519,522	$ 193,539	$ –	$ 713,061

Total plan assets in the System's defined benefit pension plans at December 31, 2020 and 2019 are comprised of the following (in thousands):

	2020	2019
Plan assets measured at fair value	**$ 910,467**	$ 713,061
Commingled funds measured at net asset value	**573,951**	668,002
Alternative investments measured at net asset value	**341,507**	297,075
Total fair value of plan assets at end of year	**$ 1,825,925**	$ 1,678,138

Fair value methodologies for Level 1 and Level 2 are consistent with the inputs described in Note 9.

16. Pensions and Other Postretirement Benefits (continued)

Fixed income securities include debt obligations of the U.S. government and various agencies, U.S. corporations, and other fixed income instruments such as mortgage-backed and asset-backed securities. The composition of these securities represents an expected return and risk profile that is commensurate with broadly defined fixed income indexes such as the Barclays Capital U.S. Aggregate Index. Additionally, investments include mutual funds and commingled fixed-income funds that may also invest in opportunistic as well as non-U.S. and high-yield debt instruments. Commingled fixed-income funds are valued using net asset value as a practical expedient.

Common and preferred stocks include investments of publicly traded common stocks of both U.S. and international corporations, the majority of which represent actively traded and liquid securities that are traded on many of the world's major exchanges and include large-, mid-, and small-capitalization securities. The composition of these securities represents an expected return and risk profile that is commensurate with broadly defined equity indexes such as the Russell 3000 Index and the Morgan Stanley Capital International All Country World ex-U.S. Index. Investments also include equity mutual funds and commingled equity funds whose underlying assets may include publicly traded equity securities. Commingled equity funds are valued using net asset value as a practical expedient.

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

17. Income Taxes

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

The System files income tax returns in the U.S. federal jurisdiction and in various state and foreign jurisdictions. With few exceptions, the System is no longer subject to U.S. federal, state, and local or non-U.S. income tax examinations by tax authorities for years before 2015.

At December 31, 2020 and 2019, the liability for uncertainty in income taxes was $1.5 million and $1.0 million, respectively. The System does not expect a significant increase or decrease in unrecognized tax benefits within the next 12 months. The System recognizes interest and penalties accrued related to the liability for unrecognized tax benefits in the consolidated statements of operations and changes in net assets.

The System has temporary differences of $588.9 million and $504.8 million at December 31, 2020 and 2019, respectively. The temporary differences primarily relate to net operating losses available for income tax purposes. The majority of these losses expire in varying amounts from 2021 through 2037. A deferred tax asset of $121.0 million and $101.8 million has been recorded at December 31, 2020 and 2019, respectively. A valuation allowance of $121.0 million and $101.8 million has been recorded at December 31, 2020 and 2019, respectively, against the deferred tax assets due to the uncertainty regarding their use.

18. Commitments and Contingent Liabilities

At December 31, 2020, the System has commitments for construction and other related capital contracts of $275.5 million and letters of credit of $0.7 million. Guarantees of mortgage loans made by banks to certain staff members are $20.4 million at December 31, 2020. In addition, the System has remaining commitments to invest approximately $1,098 million in alternative investments at December 31, 2020. The largest commitment at December 31, 2020 to any one alternative strategy manager is $65 million. These investments are expected to occur over the next three to five years. No amounts have been recorded in the consolidated balance sheets for these commitments and guarantees.

Pledge liabilities to various foundations and other entities at December 31, 2020, are as follows (in thousands): 2021 – $1,725, 2022 – $4,700, 2023 – $600, 2024 – $4,700, 2025 – $600, and thereafter – $8,400. The unamortized discount on pledge liabilities at December 31, 2020 was $2.2 million. Pledge liabilities are recorded in other current liabilities and other noncurrent liabilities in the consolidated balance sheets.

19. Endowment

The System's endowment consists of 367 individual donor-restricted funds established for a variety of purposes. Endowment funds are classified and reported based on donor-imposed restrictions as net assets with donor restrictions.

Interpretation of Relevant Law

In 2009, the Uniform Prudent Management of Institutional Funds Act (UPMIFA) was enacted to update and replace Ohio's previous law, the Uniform Management of Institutional Funds Act. The System has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the System classifies as net assets with donor restrictions (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in the permanent endowment is available for appropriation for expenditure by the System in a manner consistent with the standard for expenditure prescribed by UPMIFA. In accordance with UPMIFA, the System considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

Funds With Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the original and subsequent donor gift amounts. The System had no deficiencies of this nature in donor-restricted endowment funds as of December 31, 2020 or 2019. The System maintains policies that permit spending from underwater endowment funds depending on the degree to which the fund is underwater, unless otherwise precluded by donor intent or relevant laws and regulations.

19. Endowment (continued)

Return Objectives and Risk Parameters

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

Strategies Employed for Achieving Objectives

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

Spending Policy and How the Investment Objectives Relate to Spending Policy

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

Changes in Endowment Net Assets

The following table summarizes the changes in endowment net assets for the years ended December 31, 2020 and 2019 (in thousands):

	2020	2019
Endowment net assets, beginning of year	**$ 467,850**	$ 388,135
Investment income	**2,590**	2,805
Net appreciation	**57,121**	44,066
Contributions	**26,948**	28,805
Appropriation of endowment assets for expenditure	**(16,904)**	(8,087)
Member substitution	**–**	12,126
Endowment net assets, end of year	**$ 537,605**	$ 467,850

20. Functional Expenses

The following table presents expenses by both their nature and their function for the years ended December 31, 2020 and 2019 (in thousands):

	2020					
	Healthcare Services	**Research**	**Medical Education**	**General and Administrative**	**Non-Healthcare Services**	**Total**
Salaries, wages, and benefits	**$ 4,706,614**	**$ 188,644**	**$ 303,283**	**$ 683,552**	**$ 20,429**	**$ 5,902,522**
Supplies	**1,060,253**	**20,790**	**5,316**	**13,726**	**5,625**	**1,105,710**
Pharmaceuticals	**1,296,248**	**94**	**–**	**2,743**	**–**	**1,299,085**
Purchased services and other fees	**428,825**	**6,125**	**9,640**	**286,623**	**1,091**	**732,304**
Administrative services	**56,694**	**41,955**	**29,305**	**40,259**	**10,992**	**179,205**
Facilities	**314,686**	**3,319**	**1,902**	**22,185**	**8,811**	**350,903**
Insurance	**76,565**	**–**	**163**	**1,760**	**341**	**78,829**
Interest	**145,930**	**1,621**	**–**	**2,176**	**7,297**	**157,024**
Depreciation and amortization	**452,785**	**10,617**	**239**	**110,118**	**16,195**	**589,954**
	$ 8,538,600	**$ 273,165**	**$ 349,848**	**$ 1,163,142**	**$ 70,781**	**$10,395,536**

	2019					
	Healthcare Services	**Research**	**Medical Education**	**General and Administrative**	**Non-Healthcare Services**	**Total**
Salaries, wages, and benefits	$ 4,542,440	$ 177,254	$ 285,857	$ 672,274	$ 20,090	$ 5,697,915
Supplies	998,222	20,458	7,867	13,295	9,414	1,049,256
Pharmaceuticals	1,306,420	224	–	875	–	1,307,519
Purchased services and other fees	394,131	6,750	11,552	261,009	1,391	674,833
Administrative services	85,274	43,406	28,588	50,026	11,667	218,961
Facilities	337,309	3,766	2,109	25,608	9,697	378,489
Insurance	78,078	–	163	1,688	323	80,252
Interest	147,402	1,763	–	3,988	8,119	161,272
Depreciation and amortization	473,322	10,531	134	99,105	17,727	600,819
	$ 8,362,598	$ 264,152	$ 336,270	$ 1,127,868	$ 78,428	$10,169,316

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

21. COVID-19

On March 11, 2020, the World Health Organization declared the novel coronavirus disease (COVID-19) outbreak a global pandemic. The governors of Ohio and Florida declared a state of emergency for their respective states related to the COVID-19 outbreak on March 9, 2020, and a national state of emergency in the U.S. was declared on March 13, 2020. In mid-March, non-essential procedures and appointments were suspended based on government orders and to preserve hospital beds, equipment and supplies for COVID-19 patients. In May, the System began reactivation of non-essential procedures and appointments while implementing several precautions to ensure the safety of patients, caregivers and visitors. The System continues to work with public health partners at all levels to maintain the health and safety of patients, caregivers and visitors to prevent the spread of COVID-19. Throughout the pandemic, the System believes it has become better equipped to manage and treat the disease and provide care for patients. The System has taken, and continues to take, actions to mitigate the effect of the pandemic on its financial condition and results of operations; however, the outcome and ultimate effect of the pandemic on the System's consolidated financial statements cannot be determined at this time.

The System has received support under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, including Provider Relief Funds (PRF) and the Employee Retention Credit (ERC). The System accounted for both the PRF payments and ERC as contributions that are recognized as revenue when any related conditions have been substantially met.

The PRF provides funding from the U.S. Department of Health and Human Services (HHS) to healthcare providers to support healthcare-related expenses or lost revenue attributable to COVID-19. Funds received from the PRF represent payments to providers and do not need to be repaid as long as the System complies with certain terms and conditions imposed by HHS, including reporting and compliance requirements. In 2020, the System received $423.3 million of PRF payments. The System recognized $359.2 million of PRF payments in other unrestricted revenues based on the terms and conditions of the payments. The remaining $64.1 million has been recorded in other current liabilities at December 31, 2020.

The ERC was designed to encourage entities to keep employees on their payroll despite experiencing economic hardship due to the COVID-19 pandemic. The ERC allows eligible entities to take a credit against certain employment taxes equal to 50% of up to $10,000 of qualified wages an eligible employer pays to employees between March 13, 2020 and December 31, 2020. In 2020, the System recognized $28.4 million of ERC in other unrestricted revenues.

The CARES Act also permits employers to defer the payment of the employer's portion of social security taxes incurred between March 27, 2020 and December 31, 2020, with half the deferred payments required to be paid by the end of 2021 and the other half to be paid by the end of 2022. At December 31, 2020, the System has deferred payroll tax payments of $172.8 million, which are recorded in other current liabilities and other noncurrent liabilities.

21. COVID-19 (continued)

Additionally, the System submitted claims to the Federal Emergency Management Association (FEMA) to reimburse costs related to expanding capacity; build out of a surge hospital; and the purchase of medical supplies, ventilators, and personal protective equipment. The System records FEMA grants as contributions when the expenses have been incurred and any related conditions have been substantially met. In 2020, the System recognized $67.2 million of FEMA grant revenue in other unrestricted revenues. Receivables related to FEMA grants were $17.2 million at December 31, 2020 and are included in other current assets.

22. Subsequent Events

The System evaluated events and transactions occurring subsequent to December 31, 2020 through March 31, 2021, the date the consolidated financial statements were issued. During this period, there were no subsequent events requiring recognition in the consolidated financial statements, and there were no nonrecognized subsequent events requiring disclosure, except for the following:

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

- On February 1, 2021, the Clinic became the sole member of Mercy Medical Center (Mercy) pursuant to the terms of a member substitution agreement with The Sisters of Charity of St. Augustine Health System, the prior sole member of Mercy. Mercy is a 476 licensed bed hospital serving Stark, Carroll, Wayne, Holmes, and Tuscarawas counties and parts of southeastern Ohio. Effective February 1, 2021, the financial results of Mercy will be included in the System's consolidated financial statements.

Unaudited Consolidating Balance Sheets

($ in thousands)

	December 31, 2020			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments and Eliminations	Consolidated
Assets				
Current assets:				
Cash and cash equivalents	$ 792,399	$ 252,994	$	$ 1,045,393
Patient receivables	1,074,672	209,326	(28,317)	1,255,681
Due from affiliates	31,287	56	(31,343)	–
Investments for current use	122,668	54,721	–	177,389
Other current assets	539,922	79,167	(72,367)	546,722
Total current assets	2,560,948	596,264	(132,027)	3,025,185
Investments:				
Long-term investments	9,178,758	1,175,119	–	10,353,877
Funds held by trustees	110,307	–	–	110,307
Assets held for self-insurance	–	179,300	–	179,300
Donor-restricted assets	946,735	66,695	–	1,013,430
	10,235,800	1,421,114	–	11,656,914
Property, plant, and equipment, net	4,462,295	1,404,679	–	5,866,974
Other assets:				
Pledges receivable, net	117,987	7,654	–	125,641
Trusts and interests in foundations	63,956	48,469	–	112,425
Operating lease right-of-use assets	136,712	224,129	–	360,841
Other noncurrent assets	736,665	139,281	(231,376)	644,570
	1,055,320	419,533	(231,376)	1,243,477
Total assets	$ 18,314,363	$ 3,841,590	$ (363,403)	$ 21,792,550

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

Unaudited Consolidating Balance Sheets (Continued)

($ in thousands)

	December 31, 2020			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments and Eliminations	Consolidated
Liabilities and net assets				
Current liabilities:				
Accounts payable	$ 440,176	$ 89,094	$ (476)	$ 528,794
Compensation and amounts withheld from payroll	417,175	47,074	–	464,249
Current portion of long-term debt	94,264	6,742	–	101,006
Variable rate debt classified as current	537,644	52,247	–	589,891
Due to affiliates	56	31,287	(31,343)	–
Other current liabilities	650,107	191,617	(103,401)	738,323
Total current liabilities	2,139,422	418,061	(135,220)	2,422,263
Long-term debt	3,664,878	1,144,179	(226,063)	4,582,994
Other liabilities:				
Professional and general liability insurance reserves	65,703	150,397	–	216,100
Accrued retirement benefits	296,218	1,523	–	297,741
Operating lease liabilities	102,196	221,486	–	323,682
Other noncurrent liabilities	652,509	55,406	–	707,915
	1,116,626	428,812	–	1,545,438
Total liabilities	6,920,926	1,991,052	(361,283)	8,550,695
Net assets:				
Without donor restrictions	10,195,011	1,728,866	(2,120)	11,921,757
With donor restrictions	1,198,426	121,672	–	1,320,098
Total net assets	11,393,437	1,850,538	(2,120)	13,241,855
Total liabilities and net assets	$ 18,314,363	$ 3,841,590	$ (363,403)	$ 21,792,550

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

Unaudited Consolidating Balance Sheets (Continued)

($ in thousands)

	December 31, 2019			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments and Eliminations	Consolidated
Assets				
Current assets:				
Cash and cash equivalents	$ 302,455	$ 203,274	$ –	$ 505,729
Patient receivables	1,139,314	195,186	(35,244)	1,299,256
Due from affiliates	44,160	10	(44,170)	–
Investments for current use	119,445	59,355	–	178,800
Other current assets	438,946	78,142	(28,420)	488,668
Total current assets	2,044,320	535,967	(107,834)	2,472,453
Investments:				
Long-term investments	8,155,876	1,116,411	–	9,272,287
Funds held by trustees	225,097	110	–	225,207
Assets held for self-insurance	–	157,972	–	157,972
Donor-restricted assets	796,476	63,644	–	860,120
	9,177,449	1,338,137	–	10,515,586
Property, plant, and equipment, net	4,659,169	1,206,421	–	5,865,590
Other assets:				
Pledges receivable, net	143,352	11,566	–	154,918
Trusts and interests in foundations	67,570	45,867	–	113,437
Operating lease right-of-use assets	107,174	218,786	–	325,960
Other noncurrent assets	658,193	97,464	(229,217)	526,440
	976,289	373,683	(229,217)	1,120,755
Total assets	$ 16,857,227	$ 3,454,208	$ (337,051)	$ 19,974,384

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

Unaudited Consolidating Balance Sheets (Continued)

($ in thousands)

	December 31, 2019			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments and Eliminations	Consolidated
Liabilities and net assets				
Current liabilities:				
Accounts payable	$ 431,124	$ 105,616	$ (60)	$ 536,680
Compensation and amounts withheld from payroll	386,325	44,596	–	430,921
Current portion of long-term debt	88,803	6,674	(72)	95,405
Variable rate debt classified as current	475,297	54,544	–	529,841
Due to affiliates	10	44,160	(44,170)	–
Other current liabilities	477,697	162,589	(66,363)	573,923
Total current liabilities	1,859,256	418,179	(110,665)	2,166,770
Long-term debt	3,807,383	1,115,456	(224,191)	4,698,648
Other liabilities:				
Professional and general liability insurance reserves	65,677	98,331	–	164,008
Accrued retirement benefits	329,599	17,465	–	347,064
Operating lease liabilities	83,326	213,342	–	296,668
Other noncurrent liabilities	500,478	41,688	(75)	542,091
	979,080	370,826	(75)	1,349,831
Total liabilities	6,645,719	1,904,461	(334,931)	8,215,249
Net assets:				
Without donor restrictions	9,115,205	1,427,771	(2,120)	10,540,856
With donor restrictions	1,096,303	121,976	–	1,218,279
Total net assets	10,211,508	1,549,747	(2,120)	11,759,135
Total liabilities and net assets	$ 16,857,227	$ 3,454,208	$ (337,051)	$ 19,974,384

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

Unaudited Consolidating Statements of Operations and Changes in Net Assets

($ in thousands)

Operations

	Three Months Ended December 31, 2020			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments and Eliminations	Consolidated
Unrestricted revenues				
Net patient service revenue	$ 2,257,126	$ 396,887	$ (68,653)	$ 2,585,360
Other	384,267	78,839	(67,785)	395,321
Total unrestricted revenues	2,641,393	475,726	(136,438)	2,980,681
Expenses				
Salaries, wages, and benefits	1,296,354	262,989	(81,085)	1,478,258
Supplies	241,891	43,092	–	284,983
Pharmaceuticals	316,274	36,158	–	352,432
Purchased services and other fees	170,143	59,838	(29,891)	200,090
Administrative services	15,425	33,614	(5,830)	43,209
Facilities	67,268	21,518	(414)	88,372
Insurance	19,781	14,538	(19,193)	15,126
	2,127,136	471,747	(136,413)	2,462,470
Operating income (loss) before interest, depreciation and amortization	514,257	3,979	(25)	518,211
Interest	30,508	7,469	–	37,977
Depreciation and amortization	120,092	19,941	(25)	140,008
Operating income (loss)	363,657	(23,431)	–	340,226
Nonoperating gains and losses				
Investment income	818,964	106,860	–	925,824
Derivative losses	12,702	(617)	–	12,085
Other, net	(769)	(1,429)	–	(2,198)
Net nonoperating gains	830,897	104,814	–	935,711
Excess of revenues over expenses	1,194,554	81,383	–	1,275,937

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

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

($ in thousands)

Changes in Net Assets

	Three Months Ended December 31, 2020			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments and Eliminations	Consolidated
Changes in net assets without donor restrictions				
Excess of revenues over expenses	$ 1,194,554	$ 81,383	$	$ 1,275,937
Donated capital	(7,883)	–	–	(7,883)
Net assets released from restriction for capital purposes	27,005	8,123	–	35,128
Retirement benefits adjustment	(7,198)	1,209	–	(5,989)
Foreign currency translation	–	6,416	–	6,416
Other	14,051	(18,062)	–	(4,011)
Increase in net assets without donor restrictions	1,220,529	79,069	–	1,299,598
Changes in net assets with donor restrictions				
Gifts and bequests				
Net investment income	45,940	2,509	–	48,449
Net assets released from restrictions used for operations included in other unrestricted revenues	65,965	4,530	–	70,495
Net assets released from restriction for capital purposes	(14,993)	(2,723)	–	(17,716)
Change in interests in foundations	(27,005)	(8,123)	–	(35,128)
Change in value of perpetual trusts	1,923	–	–	1,923
Other	251	1,098	–	1,349
Increase (decrease) in net assets with donor restrictions	(76)	40	–	(36)
	72,005	(2,669)	–	69,336
Increase in net assets	1,292,534	76,400	–	1,368,934
Net assets at beginning of year	10,100,903	1,774,138	(2,120)	11,872,921
Net assets at end of year	$ 11,393,437	$ 1,850,538	$ (2,120)	$ 13,241,855

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

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

($ in thousands)

Operations

	Three Months Ended December 31, 2019			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments and Eliminations	Consolidated
Unrestricted revenues				
Net patient service revenue	$ 2,151,504	$ 362,792	$ (69,538)	$ 2,444,758
Other	238,608	102,956	(48,338)	293,226
Total unrestricted revenues	2,390,112	465,748	(117,876)	2,737,984
Expenses				
Salaries, wages, and benefits	1,258,633	264,555	(81,851)	1,441,337
Supplies	233,295	47,604	(400)	280,499
Pharmaceuticals	313,521	31,218	–	344,739
Purchased services and other fees	156,788	37,781	(8,052)	186,517
Administrative services	35,590	36,709	(8,239)	64,060
Facilities	72,878	21,873	(687)	94,064
Insurance	17,868	18,298	(18,622)	17,544
	2,088,573	458,038	(117,851)	2,428,760
Operating income before interest, depreciation and amortization	301,539	7,710	(25)	309,224
Interest	32,963	8,354	–	41,317
Depreciation and amortization	126,490	18,814	(25)	145,279
Operating income (loss)	142,086	(19,458)	–	122,628
Nonoperating gains and losses				
Investment income	306,682	289,731	–	596,413
Derivative losses	36,751	(479)	–	36,272
Other, net	(2,752)	2,313	–	(439)
Net nonoperating gains	340,681	291,565	–	632,246
Excess of revenues over expenses	482,767	272,107	–	754,874

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

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

($ in thousands)

Changes in Net Assets

	Three Months Ended December 31, 2019			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments and Eliminations	Consolidated
Changes in net assets without donor restrictions				
Excess of revenues over expenses	$ 482,767	$ 272,107	$ –	$ 754,874
Donated capital	38	–	–	38
Net assets released from restriction for capital purposes	12,830	4,193	–	17,023
Retirement benefits adjustment	(8,768)	4,368	–	(4,400)
Foreign currency translation	–	(2,747)	–	(2,747)
Transfers (to) from affiliates			–	–
Other	14,054	(13,997)	–	57
Increase in net assets without donor restrictions	500,921	263,924	–	764,845
Changes in net assets with donor restrictions				
Gifts and bequests				
Net investment income	42,851	3,260	–	46,111
Net assets released from restrictions used for operations included in other unrestricted revenues	22,326	2,798	–	25,124
Net assets released from restriction for capital purposes	(16,131)	(2,347)	–	(18,478)
Change in interests in foundations	(12,831)	(4,192)	–	(17,023)
Change in value of perpetual trusts	523	–	–	523
Member substitution contribution	259	471	–	730
Other	(781)	793	–	12
Increase in net assets with donor restrictions	36,216	783	–	36,999
Increase in net assets	537,137	264,707	–	801,844
Net assets at beginning of year	9,674,371	1,285,040	(2,120)	10,957,291
Net assets at end of year	$ 10,211,508	$ 1,549,747	$ (2,120)	$ 11,759,135

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

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

($ in thousands)

Operations

	Year Ended December 31, 2020			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments and Eliminations	Consolidated
Unrestricted revenues				
Net patient service revenue	$ 7,964,677	$ 1,427,556	$ (257,548)	$ 9,134,685
Other	1,327,134	369,446	(203,359)	1,493,221
Total unrestricted revenues	9,291,811	1,797,002	(460,907)	10,627,906
Expenses				
Salaries, wages, and benefits	5,157,213	1,055,097	(309,788)	5,902,522
Supplies	941,618	164,184	(92)	1,105,710
Pharmaceuticals	1,169,357	129,728	–	1,299,085
Purchased services and other fees	616,669	164,245	(48,610)	732,304
Administrative services	67,616	135,217	(23,628)	179,205
Facilities	268,927	83,893	(1,917)	350,903
Insurance	75,362	80,239	(76,772)	78,829
	8,296,762	1,812,603	(460,807)	9,648,558
Operating income (loss) before interest, depreciation and amortization	995,049	(15,601)	(100)	979,348
Interest	126,569	30,455	–	157,024
Depreciation and amortization	509,788	80,266	(100)	589,954
Operating income (loss)	358,692	(126,322)	–	232,370
Nonoperating gains and losses				
Investment income	989,304	138,639	–	1,127,943
Derivative losses	(59,211)	(2,262)	–	(61,473)
Other, net	24,447	1,957	–	26,404
Net nonoperating gains	954,540	138,334	–	1,092,874
Excess of revenues over expenses	1,313,232	12,012	–	1,325,244

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

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

($ in thousands)

Changes in Net Assets

	Year Ended December 31, 2020			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments and Eliminations	Consolidated
Changes in net assets without donor restrictions				
Excess of revenues over expenses	$ 1,313,232	$ 12,012	$ –	$ 1,325,244
Donated capital	1,819	–	–	1,819
Net assets released from restriction for capital purposes	42,718	13,796	–	56,514
Retirement benefits adjustment	(9,173)	1,037	–	(8,136)
Foreign currency translation	–	9,004	–	9,004
Transfers (to) from affiliates	(266,974)	266,974	–	–
Other	(1,816)	(1,728)	–	(3,544)
Increase in net assets without donor restrictions	1,079,806	301,095	–	1,380,901
Changes in net assets with donor restrictions				
Gifts and bequests	121,754	10,627	–	132,381
Net investment income	75,581	7,272	–	82,853
Net assets released from restrictions used for operations included in other unrestricted revenues	(56,209)	(5,256)	–	(61,465)
Net assets released from restriction for capital purposes	(42,718)	(13,796)	–	(56,514)
Change in interests in foundations	2,395	–	–	2,395
Change in value of perpetual trusts	(4)	751	–	747
Other	1,324	98	–	1,422
Increase (decrease) in net assets with donor restrictions	102,123	(304)	–	101,819
Increase in net assets	1,181,929	300,791	–	1,482,720
Net assets at beginning of year	10,211,508	1,549,747	(2,120)	11,759,135
Net assets at end of year	$ 11,393,437	$ 1,850,538	$ (2,120)	$ 13,241,855

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

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

($ in thousands)

Operations

	Year Ended December 31, 2019			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments and Eliminations	Consolidated
Unrestricted revenues				
Net patient service revenue	$ 8,389,714	$ 1,423,627	$ (297,058)	$ 9,516,283
Other	864,219	385,065	(206,046)	1,043,238
Total unrestricted revenues	9,253,933	1,808,692	(503,104)	10,559,521
Expenses				
Salaries, wages, and benefits	5,013,136	1,027,930	(343,151)	5,697,915
Supplies	881,337	168,882	(963)	1,049,256
Pharmaceuticals	1,191,156	116,363	–	1,307,519
Purchased services and other fees	565,536	138,291	(28,994)	674,833
Administrative services	122,203	121,549	(24,791)	218,961
Facilities	294,027	87,123	(2,661)	378,489
Insurance	75,787	106,909	(102,444)	80,252
	8,143,182	1,767,047	(503,004)	9,407,225
Operating income before interest, depreciation and amortization	1,110,751	41,645	(100)	1,152,296
Interest	132,230	29,042	–	161,272
Depreciation and amortization	522,825	78,094	(100)	600,819
Operating income (loss)	455,696	(65,491)	–	390,205
Nonoperating gains and losses				
Investment income	904,375	345,006	–	1,249,381
Derivative losses	(34,148)	(2,046)	–	(36,194)
Other, net	228,851	192,979	–	421,830
Net nonoperating gains	1,099,078	535,939	–	1,635,017
Excess of revenues over expenses	1,554,774	470,448	–	2,025,222

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

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

($ in thousands)

Changes in Net Assets

	Year Ended December 31, 2019			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments and Eliminations	Consolidated
Changes in net assets without donor restrictions				
Excess of revenues over expenses	$ 1,554,774	$ 470,448	$ –	$ 2,025,222
Donated capital	38	–	–	38
Net assets released from restriction for capital purposes	55,341	2,502	–	57,843
Retirement benefits adjustment	(10,456)	4,196	–	(6,260)
Foreign currency translation	–	(1,395)	–	(1,395)
Transfers (to) from affiliates	(28,483)	28,483	–	–
Other	(3,822)	3,762	–	(60)
Increase in net assets without donor restrictions	1,567,392	507,996	–	2,075,388
Changes in net assets with donor restrictions				
Gifts and bequests	100,434	28,066	–	128,500
Net investment income	65,932	6,142	–	72,074
Net assets released from restrictions used for operations included in other unrestricted revenues	(47,917)	(4,936)	–	(52,853)
Net assets released from restriction for capital purposes	(55,341)	(2,502)	–	(57,843)
Change in interests in foundations	1,521	–	–	1,521
Change in value of perpetual trusts	(602)	1,213	–	611
Member substitution contribution	31,488	40,260	–	71,748
Other	(993)	1,095	–	102
Increase in net assets with donor restrictions	94,522	69,338	–	163,860
Increase in net assets	1,661,914	577,334	–	2,239,248
Net assets at beginning of year	8,549,594	972,413	(2,120)	9,519,887
Net assets at end of year	$ 10,211,508	$ 1,549,747	$ (2,120)	$ 11,759,135

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

Unaudited Consolidating Statements of Cash Flows

($ in thousands)

	Year Ended December 31, 2020			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments and Eliminations	Consolidated
Operating activities and net nonoperating gains and losses				
Increase in net assets	$ 1,181,929	$ 300,791	$ –	$ 1,482,720
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities and net nonoperating gains and losses:				
Retirement benefits adjustment	9,173	(1,037)	–	8,136
Net realized and unrealized gains on investments	(1,013,514)	(141,878)	–	(1,155,392)
Depreciation and amortization	509,788	80,266	(100)	589,954
Foreign currency translation gain	–	(9,004)	–	(9,004)
Donated capital	(1,819)	–	–	(1,819)
Restricted gifts, bequests, investment income, and other	(199,726)	(18,650)	–	(218,376)
Transfers to (from) affiliates	266,974	(266,974)	–	–
Amortization of bond premiums and debt issuance costs	(6,134)	178	–	(5,956)
Net loss in value of derivatives	25,878	–	–	25,878
Pension funding	(15,076)	(16,603)	–	(31,679)
Changes in operating assets and liabilities:				
Patient receivables	64,642	(14,140)	(6,927)	43,575
Other current assets	(113,155)	3,149	31,120	(78,886)
Other noncurrent assets	(108,375)	(40,059)	2,259	(146,175)
Accounts payable and other current liabilities	241,341	(4,567)	(24,627)	212,147
Other liabilities	115,700	68,428	75	184,203
Net cash provided by (used in) operating activities and net nonoperating gains and losses	957,626	(60,100)	1,800	899,326
Financing activities				
Payments on short-term borrowings, net				
Proceeds from short-term borrowings	225,000	–	–	225,000
Payments on short-term borrowings	(225,000)	–	–	(225,000)
Proceeds from long-term borrowings	16,408	1,872	(1,872)	16,408
Payments for advance refunding and redemption of long-term debt	(12,660)	–	–	(12,660)
Principal payments on long-term debt	(91,903)	(6,667)	72	(98,498)
Debt issuance costs	(30)	–	–	(30)
Change in pledges receivables, trusts and interests in foundations	46,139	(811)	–	45,328
Restricted gifts, bequests, investment income, and other	199,726	18,650	–	218,376
Net cash provided by financing activities	157,680	13,044	(1,800)	168,924
Investing activities				
Expenditures for property, plant, and equipment	(332,871)	(245,013)	–	(577,884)
Proceeds from sale of property, plant, and equipment	22,543	–	–	22,543
Net change in cash equivalents reported in long-term investments	384,447	57,059	–	441,506
Purchases of investments	(5,527,771)	(733,159)	–	(6,260,930)
Sales of investments	5,100,313	730,771	–	5,831,084
Transfers (to) from affiliates	(266,974)	266,974	–	–
Net cash (used in) provided by investing activities	(620,313)	76,632	–	(543,681)
Effect of exchange rate changes on cash	–	11,280	–	11,280
Increase in cash, cash equivalents and restricted cash	494,993	40,856	–	535,849
Cash, cash equivalents and restricted cash at beginning of year	422,598	214,688	–	637,286
Cash, cash equivalents and restricted cash at end of year	$ 917,591	$ 255,544	$ –	$ 1,173,135

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

Unaudited Consolidating Statements of Cash Flows (Continued)

($ in thousands)

	Year Ended December 31, 2019			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments and Eliminations	Consolidated
Operating activities and net nonoperating gains and losses				
Increase in net assets	$ 1,661,914	$ 577,334	$ –	$ 2,239,248
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	6,340	–	–	6,340
Retirement benefits adjustment	10,456	(4,196)	–	6,260
Net realized and unrealized gains on investments	(910,851)	(345,612)	–	(1,256,463)
Depreciation and amortization	522,825	78,074	(100)	600,799
Foreign currency translation loss	–	1,395	–	1,395
Donated capital	(38)	–	–	(38)
Restricted gifts, bequests, investment income, and other	(167,285)	(35,421)	–	(202,706)
Transfers to (from) affiliates	28,483	(28,483)	–	–
Amortization of bond premiums and debt issuance costs	(6,455)	188	–	(6,267)
Net loss (gain) in value of derivatives	21,073	(5)	–	21,068
Member substitution contribution	(266,389)	(233,766)	–	(500,155)
Pension funding	(145,438)	(37,655)	–	(183,093)
Changes in operating assets and liabilities:				
Patient receivables	(71,218)	217	(1,197)	(72,198)
Other current assets	(79,811)	10,727	66,967	(2,117)
Other noncurrent assets	(145,393)	(220,986)	31,680	(334,699)
Accounts payable and other current liabilities	74,200	74,874	(66,264)	82,810
Other liabilities	11,986	188,505	76	200,567
Net cash provided by operating activities and net nonoperating gains and losses	544,399	25,190	31,162	600,751
Financing activities				
Payments on short-term borrowings, net				
Proceeds from long-term borrowings	1,253,000	352,503	(31,162)	1,574,341
Payments for advance refunding and redemption of long-term debt	(511,218)	–	–	(511,218)
Principal payments on long-term debt	(264,007)	(40,154)	–	(304,161)
Debt issuance costs	(8,889)	(42)	–	(8,931)
Change in pledges receivables, trusts and interests in foundations	10,330	(8,193)	–	2,137
Restricted gifts, bequests, investment income, and other	167,285	35,421	–	202,706
Net cash provided by financing activities	646,501	339,535	(31,162)	954,874
Investing activities				
Expenditures for property, plant, and equipment	(741,647)	(180,595)	–	(922,242)
Proceeds from sale of property, plant, and equipment	85,348	–	–	85,348
Cash acquired through member substitution	18	16,384	–	16,402
Net change in cash equivalents reported in long-term investments	(58,431)	(422,775)	–	(481,206)
Purchases of investments	(4,740,908)	(542,299)	–	(5,283,207)
Sales of investments	4,435,621	759,903	–	5,195,524
Transfers (to) from affiliates	(28,483)	28,483	–	–
Net cash used in investing activities	(1,048,482)	(340,899)	–	(1,389,381)
Effect of exchange rate changes on cash	–	25,921	–	25,921
Increase in cash, cash equivalents and restricted cash	142,418	49,747	–	192,165
Cash, cash equivalents and restricted cash at beginning of year	280,180	164,941	–	445,121
Cash, cash equivalents and restricted cash at end of year	$ 422,598	$ 214,688	$ –	$ 637,286

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

Utilization

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

	Year Ended December 31		
	2018	**2019**	**2020**
Total Staffed Beds[(1)]	4,143	4,900	4,812
Percent Occupancy[(1)]	69.5%	68.1%	70.4%
Inpatient Admissions[(1)]			
Acute	175,025	226,558	211,766
Post-acute	10,631	11,327	10,728
Total	185,656	237,885	222,494
Patient Days[(1)]			
Acute	904,854	1,098,807	1,044,310
Post-acute	79,999	84,522	82,224
Total	984,853	1,183,329	1,126,534
Average Length of Stay			
Acute	5.18	4.86	4.92
Post-acute	7.53	7.44	7.66
Surgical Facility Cases			
Inpatient	62,672	74,607	64,234
Outpatient	157,912	181,721	152,632
Total	220,584	256,328	216,866
Emergency Department Visits	675,817	889,489	756,416
Outpatient Observations	62,901	82,143	61,476
Outpatient Evaluation and Management Visits	5,196,809	6,161,693	5,665,140
Acute Medicare Case Mix Index - Health System	1.96	1.91	2.00
Acute Medicare Case Mix Index - Cleveland Clinic	2.70	2.74	2.87
Total Acute Patient Case Mix Index - Health System	1.89	1.83	1.91
Total Acute Patient Case Mix Index - Cleveland Clinic	2.63	2.65	2.76

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

Utilization statistics for Union Hospital are included beginning April 1, 2018, which is the date Union Hospital joined the System.

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

Utilization (continued)

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

	Year Ended December 31		
	2018	**2019**	**2020**
Total Staffed Beds[(1)]	3,477	3,987	3,966
Percent Occupancy[(1)]	71.3%	70.0%	70.8%
Inpatient Admissions[(1)]			
Acute	149,433	186,133	173,601
Post-acute	8,452	7,122	6,595
Total	157,885	193,255	180,196
Patient Days[(1)]			
Acute	788,442	928,486	875,540
Post-acute	62,913	54,515	53,439
Total	851,355	983,001	928,979
Surgical Facility Cases			
Inpatient	56,162	63,677	54,654
Outpatient	138,151	153,886	127,817
Total	194,313	217,563	182,471
Emergency Department Visits	531,812	666,313	574,625
Outpatient Observations	53,110	64,359	47,987
Outpatient Evaluation and Management Visits	4,676,817	5,315,503	4,842,622
Acute Medicare Case Mix Index	2.00	1.94	2.04
Total Acute Patient Case Mix Index	1.95	1.88	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.

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

Payor Mix

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

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

OBLIGATED GROUP
Based on Gross Patient Service Revenue

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

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

Payor mix for Union Hospital are included beginning April 1, 2018, which is the date Union Hospital joined the System.

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

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		
	2018	**2019**	**2020**
External Grants Earned			
Federal Sources	$117,786	$120,858	$117,931
Non-Federal Sources	105,093	104,760	94,173
Total	222,879	225,618	212,104
Internal Support	63,327	72,637	92,305
Total Sources of Support	$286,206	$298,255	$304,409

Key Ratios

The following table provides selected key ratios:

	Year Ended December 31		
	2018	**2019**	**2020**
Liquidity ratios			
Days of cash on hand	355	373	424
Days of revenue in accounts receivable	49	49	45
Coverage ratios			
Cash to debt (%)	191.9	183.7	216.1
Maximum annual debt service coverage (x)	5.3	6.2	5.7
Interest expense coverage (x)	8.2	10.5	8.5
Debt to cash flow (x)	4.2	3.5	4.5
Leverage ratio			
Debt to capitalization (%)	32.9	33.6	30.7
Profitability ratios			
Operating margin (%)	3.0	3.7	2.2
Operating cash flow margin (%)	10.1	10.9	9.2
Excess margin (%)	1.2	16.6	11.3
Return on assets (%)	0.6	10.1	6.1

NOTES:

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

Certain prior period ratios have been restated to conform to the current presentation.

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

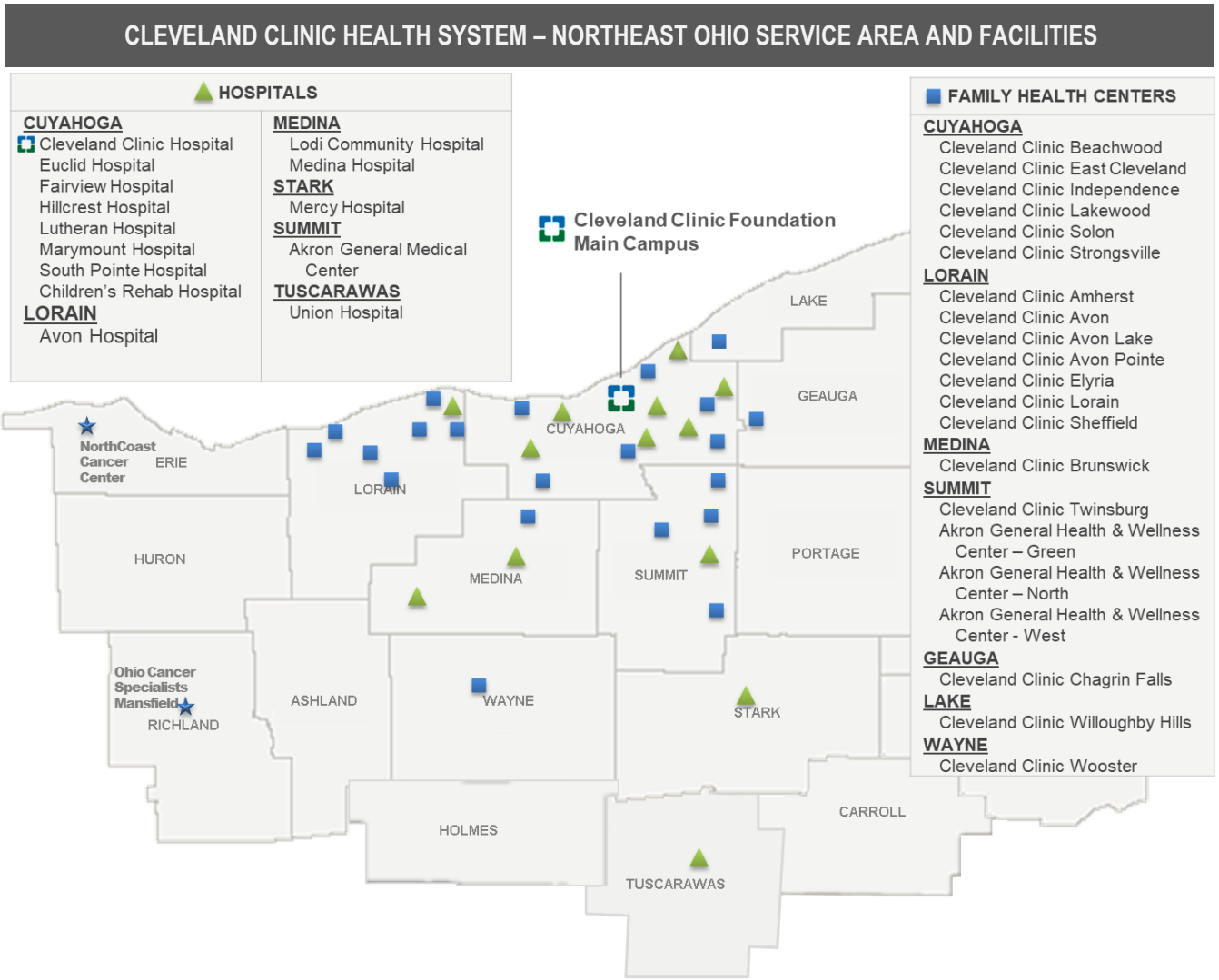
OVERVIEW

The Cleveland Clinic Health System (System) is a world-renowned provider of healthcare services that attracted patients from across the United States and from 109 other countries in 2020. As of December 31, 2020, the System operates 18 hospitals with approximately 4,800 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, 11 ambulatory surgery centers, as well as numerous physician offices, which are located throughout Northeast Ohio, and specialized cancer centers in Sandusky and Mansfield, Ohio. In Florida, the System operates five hospitals and a clinic located throughout Southeast Florida, outpatient family health centers in Port St. Lucie, Stuart and West Palm Beach, an outpatient family health and ambulatory surgery center in Coral Springs and numerous physician offices located throughout Southeast Florida. In addition, the System operates a health and wellness center and a sports medicine clinic in Toronto, Canada and a specialized neurological clinical center in Las Vegas, Nevada. Pursuant to agreements, the System also provides management services for Ashtabula County Medical Center, located in Ashtabula, Ohio, with approximately 180 staffed beds, and Cleveland Clinic Abu Dhabi, a multispecialty hospital offering critical and acute care services that is part of Mubadala Development Company's network of healthcare facilities located in Abu Dhabi, United Arab Emirates with approximately 364 staffed beds.

In February 2021, the Clinic became the sole member of Mercy Medical Center (Mercy), which was renamed Cleveland Clinic Mercy Hospital. Mercy operates a 476 licensed bed hospital serving Stark, Carroll, Wayne, Holmes and Tuscarawas counties and parts of southeastern Ohio. For a description of Mercy, refer to "CLEVELAND CLINIC MERCY HOSPITAL."

Tomsich Pathology Laboratories
Cleveland, Ohio

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

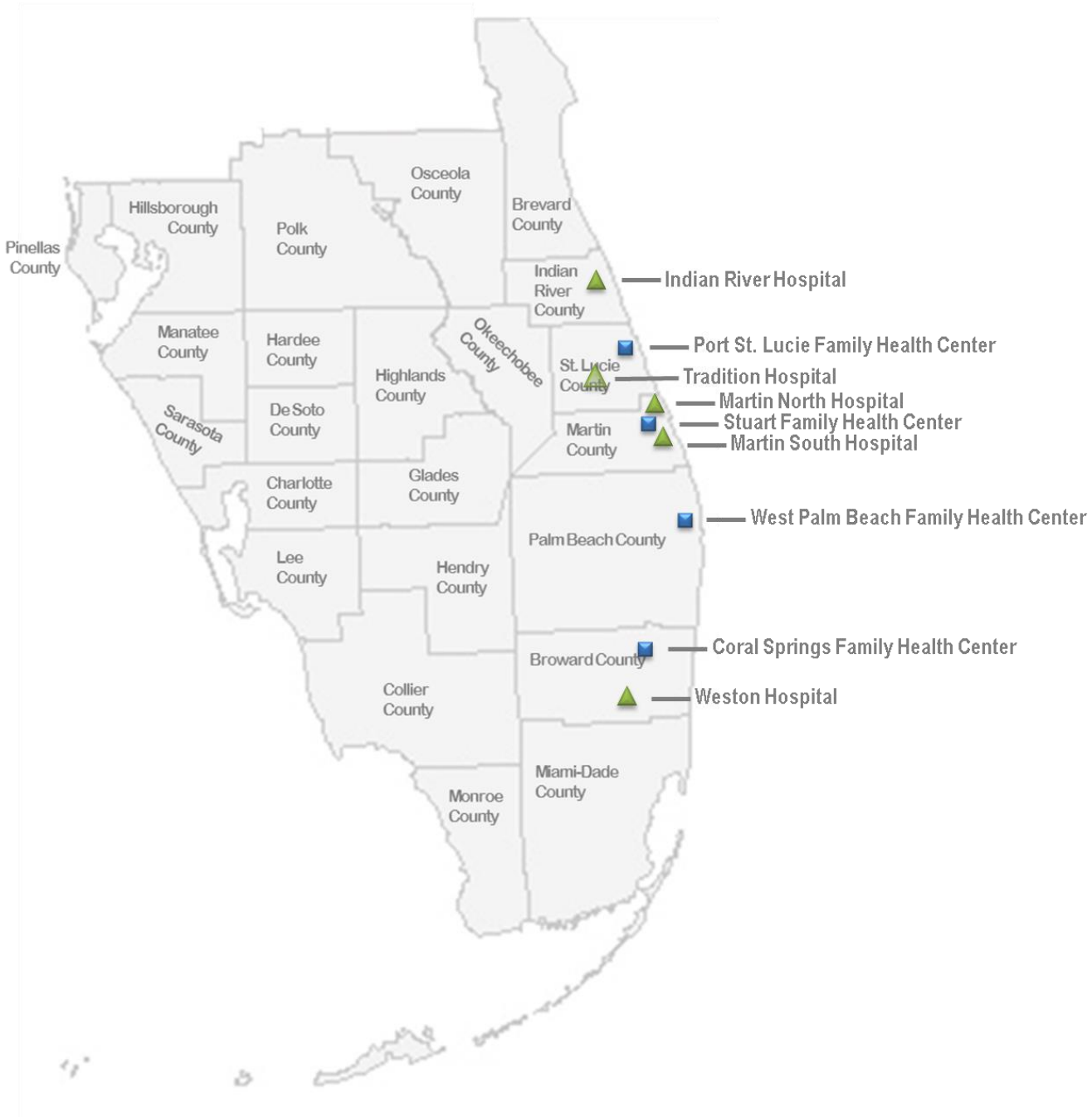


Cleveland Clinic

Every life deserves world class care.

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

CLEVELAND CLINIC HEALTH SYSTEM – SOUTHEAST FLORIDA FACILITIES



The following table sets forth the hospitals operated by the obligated issuers and their affiliates, together with each hospital's staffed bed count as of December 31, 2020:

	Staffed Beds
OBLIGATED	
Cleveland Clinic	1,276
Avon Hospital	126
Euclid Hospital	166
Fairview Hospital	466
Hillcrest Hospital	438
Lutheran Hospital	192
Martin Hospital North	241
Martin Hospital South	100
Marymount Hospital	234
Medina Hospital	148
South Pointe Hospital	172
Tradition Hospital	177
Weston Hospital	230
	3,966
NON-OBLIGATED	
Akron General Medical Center	455
Children's Rehabilitation Hospital	25
Indian River Hospital	250
Lodi Hospital	20
Union Hospital	96
	846
HEALTH SYSTEM	4,812

CORONAVIRUS DISEASE (COVID-19)

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

On March 17, 2020, the Ohio Department of Health, in collaboration with the Ohio Hospital Association, issued an order postponing non-essential procedures for adult and pediatric patients to support statewide efforts to conserve hospital beds, equipment and supplies while protecting healthcare workers in preparation for a potential surge of patients with COVID-19. Non-essential surgeries and procedures in Florida were also suspended based on orders from the Governor of Florida on March 20, 2020. The System suspended non-essential clinical activities and established COVID-19 testing locations near the System's hospitals in Ohio and Florida. While surgeries and procedures were suspended at its facilities, the System maintained communication with federal, state and local health officials and governmental authorities to monitor the situation and to provide insight and ideas on how to safely reactivate clinical services.

In April, the Clinic completed work to temporarily convert the main building of the Health Education Campus of Case Western Reserve University and the Clinic into the Hope Hospital, a surge hospital that could have been activated if there was a surge in COVID-19 patients. Due to aggressive public health measures, the System did not exceed capacity in its existing facilities, and the Hope Hospital was not activated. In June, the System made the decision to revert the Hope Hospital back to the Health Education Campus.

On April 27, 2020, the Governor of Ohio unveiled a plan for reopening the Ohio economy beginning with allowing medical procedures and surgeries not requiring an overnight stay to resume as of May 1, 2020. In Florida, non-essential procedures were permitted on May 4, 2020. With the support of state government authorities, the System began reactivation of outpatient appointments, surgeries and procedures that were suspended due to COVID-19 at its Ohio and Florida locations as of May 4, 2020. The System implemented a prudent, phased approach for reactivating its clinical services. Several precautions were established during this process, including expanded use of telehealth visits for routine appointments when appropriate; COVID-19 testing for all patients three days prior to any surgery or procedure performed in an operating room or ambulatory surgery center; temperature scan and screening of patients, permitted visitors and caregivers; establishing multi-level visitation guidelines for all locations in Ohio and Florida based on data regarding current COVID-19 spread and state/county public health information; physical and social distancing within

the facilities; requesting patients and visitors to sanitize their hands and wear a cloth mask; and continued extensive cleaning of all common areas. The System has implemented Universal Pandemic Precaution protocols, which include ear loop face or surgical masks as well as use of face shields, for all caregivers that enter clinical areas. The System has also revised multiple processes and policies during the pandemic, including requiring non-clinical employees to work from home where possible, curtailing business travel, modifying the sick leave policy, cancelling public events, and encouraging virtual meetings instead of in-person meetings. The reactivation process was focused on maintaining the highest levels of patient care and safety, while also protecting caregivers.

In November and December, the System experienced a significant increase in the number of hospitalized patients with COVID-19 at its Ohio facilities. In mid-November, in order to continue to provide access to care needed by the community, the System decided to temporarily postpone non-essential surgeries that required a hospital bed at many Ohio hospitals to preserve hospital beds for COVID-19 patients as well as allow for the temporary reassignment of caregiver resources. After experiencing a peak in daily admissions for COVID-19 patients in December, the System decided to resume non-essential surgeries that had previously been postponed beginning January 4, 2021. Although non-essential services have resumed, patient levels across the System have not returned to levels experienced prior to the pandemic. The System is concerned that routine care has been avoided or delayed by patients during the pandemic, which can lead to worsening or other emerging health issues. The System believes it is better equipped to manage and treat the disease and provide care for patients than earlier in the pandemic. The System will continue to monitor bed capacity and caregiver support and will take proactive steps to ensure the safety of patients and caregivers.

During the early phase of the pandemic, the System established testing sites in its communities to propel the capability for rapid testing results to help slow the spread of COVID-19. The System was one of the first health systems to offer COVID-19 testing when the pandemic began and has performed more than 570,000 tests in its laboratories in Ohio and Florida. In 2020, the System provided care to more than 11,800 COVID-19 patients admitted to its Ohio and Florida facilities. In Ohio, the System has cared for approximately 20% of all patients hospitalized with COVID-19. More recently, the System has started vaccinations of caregivers and patients in accordance with state and federal guidelines.

Throughout the pandemic, the System has been a guiding partner in the safe reopening of businesses and is collaborating with more than 150 organizations, from airlines to hospitality, to share safe practices. In order to help individuals and families at home, the System has partnered with The Clorox Company to publish a guide that includes cleaning recommendations, practical tips and guidance on well-being and resilience. The guide can be used by anyone to help protect themselves and limit the community spread of COVID-19. The System also partnered with Epic, its electronic health record vendor, to develop and implement a COVID-19 home monitoring program that is available for use by other healthcare organizations across the country. The program is designed to help patients diagnosed with COVID-19 recover in their homes and reduce the risk of a hospital admission through virtual care and daily assessment of symptoms. The System has enrolled more than 36,000 patients since the home monitoring program launched in March 2020. The System is also collaborating with the American Lung Association to disseminate free, comprehensive

resources on COVID-19 care for healthcare providers globally. The resources inform best practices to care for critically ill patients in a variety of clinical settings during the COVID-19 pandemic and is hosted in the Clinic's Respiratory and Education Institute's Comprehensive COVID Care Platform. Additionally, in October the System announced it is partnering with Astrotech Corporation's subsidiary, Breath Tech Corporation, to develop a COVID-19 breath test to rapidly screen for COVID-19 or related indicators.

In June, the System announced that researchers at the Clinic have developed the world's first risk prediction model for healthcare providers to forecast an individual patient's likelihood of testing positive for COVID-19 as well as their outcomes from the disease. According to the study published in *CHEST*, the risk prediction model shows the relevance of age, race, gender, socioeconomic status, vaccination history and current medications in COVID-19 risk. The model was developed using data from nearly 12,000 patients enrolled in the Clinic's COVID-19 registry, which includes COVID-19 positive and negative patients tested at the Clinic. The risk calculator, which has been deployed as a freely available online risk calculator, is a new tool for healthcare providers to aid them in predicting patient risk and tailoring decision-making about patient care. Overall, the Clinic received 24 grants for COVID-19 research totaling more than $7 million and authored more than 570 academic publications on COVID-19 in 2020.

The suspension of non-essential procedures and other scheduled appointments has adversely affected the patient revenues of the System. The System has also incurred incremental supply costs and other expenditures for COVID-19 preparedness in an effort to provide safe and effective patient care. The System experienced operating income of $232 million, or 2.2% operating margin, for 2020, which was $158 million below 2019. In 2020, the System experienced net patient service revenue shortfalls of over $826 million compared to plan and incurred more than $200 million in COVID-19 preparedness and readiness costs. These costs include equipment, labor and supplies to safely treat COVID-19 patients, obtain personal protective equipment for caregivers, establish testing capabilities and set up the Hope Hospital. Where appropriate, the System has taken measures to reduce costs and expenditures, including restricting travel, reducing purchased/administrative service expenses and other controllable costs, suspending annual pay increases for caregivers and postponing non-critical capital expenditures. The System also required caregivers to use a specified amount of paid time off by July 31 and implemented a review process to evaluate open positions in non-clinical areas. Despite the financial challenges of the pandemic, the System remained committed to retain its caregivers by avoiding layoffs, furloughs and pay cuts. The System is continually monitoring its forecasted operating performance and liquidity position and is assessing the financial impact of COVID-19 on its operations using various scenarios and assumptions to ensure that there is sufficient liquidity during the pandemic. The System has taken, and continues to take, actions to mitigate the effect of the pandemic on its financial condition and results of operations; however, the outcome and ultimate effect of the pandemic on the System's consolidated financial statements cannot be determined at this time.

The System has sufficient liquidity in its operating cash accounts and within its investment portfolio to meet its obligations as they become due. As of December 31, 2020, the System has 424 days of cash on hand. In the second quarter of 2020, the System obtained operating lines of credit with multiple financial institutions totaling $650 million to further enhance its liquidity position. Each of the lines mature within one year and bear interest

at LIBOR plus an applicable spread. As of December 31, 2020 the System had no amounts drawn and $650 million in available capacity.

The Coronavirus Aid, Relief, and Economic Security (CARES) Act, among other provisions, provides financial support to hospitals and healthcare providers on the front lines of the COVID-19 response. The System has received support under the CARES Act, including Centers for Medicare and Medicaid Services (CMS) accelerated and advanced payments and distributions from the CARES Act Provider Relief Fund. The CMS accelerated and advanced payment program authorizes CMS to provide advance payments during the period of a public health emergency based on certain eligibility criteria. The System received $849 million of advance payments from CMS in April. The System repaid $648 million of the advanced payments in September, and the remaining $201 million was repaid in October.

The CARES Act Provider Relief Fund (PRF) provides funding from the U.S. Department of Health and Human Services (HHS) to healthcare providers to support healthcare-related expenses or lost revenue attributable to COVID-19 and to ensure uninsured Americans can get testing and treatment for COVID-19. Funds received under the PRF represent payments to healthcare providers and do not need to be repaid as long as the System complies with certain terms and conditions imposed by HHS, including reporting and compliance requirements. In 2020, the System received $423.3 million of PRF payments. The System recognized $359.2 million of PRF payments in other unrestricted revenues based on the terms and conditions of the payments. The remaining $64.1 million has been recorded in other current liabilities at December 31, 2020. The CARES Act also created the Employee Retention Credit (ERC), which was designed to encourage entities to keep employees on their payroll despite experiencing economic hardship due to the COVID-19 pandemic. The ERC allows eligible entities to take a credit against certain employment taxes equal to 50 percent of up to $10,000 of qualified wages an eligible employer pays to employees between March 13, 2020 and December 31, 2020. The System recognized $28.4 million in other unrestricted revenues in 2020 related to the ERC. The CARES Act also permits employers to defer the payment of the employer's portion of social security taxes incurred between March 27, 2020 and December 31, 2020, with half of the deferred payments required to be paid by the end of 2021 and the other half to be paid by the end of 2022. At December 31, 2020 the System has deferred payroll tax payments of $172.8 million.

The System submitted claims to the Federal Emergency Management Association (FEMA) to reimburse costs related to expanding capacity; build out of a surge hospital; and the purchase of medical supplies, ventilators, and personal protective equipment. In 2020, the System recognized $67.2 million of FEMA grant revenue in other unrestricted revenues. Receivables related to FEMA grants were $17.2 million at December 31, 2020. The System will continue to pursue grants and other financial assistance from CMS, HHS, and FEMA and expects to apply for any additional COVID-19 related resources made available through federal, state and local governments. The support received through the CARES Act and FEMA assistance allowed the System to expand its capacity to treat patients with COVID-19, support its caregivers and purchase supplies.

AWARDS & RECOGNITION

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

2020-21 U.S. NEWS & WORLD REPORT RANKINGS

BEST HOSPITALS U.S.News & WORLD REPORT HONOR ROLL 2020-21

In the "HONOR ROLL"

Cleveland Clinic	2nd

Ranked No. 1

Cardiology & Heart Surgery	1st

In America's Top 10

Geriatrics	2nd
Gynecology	2nd
Rheumatology	2nd
Gastroenterology & GI Surgery	3rd
Pulmonology & Lung Surgery	4th
Urology	4th
Cancer	5th
Nephrology	5th
Diabetes & Endocrinology	6th
Neurology & Neurosurgery	9th
Orthopedics	9th
Ophthalmology	10th

In America's Top 20

Ear, Nose & Throat	16th

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

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

In March 2021, the Clinic was again named the second best hospital in the world by *Newsweek* as part of its "World's Best Hospitals 2021" list. *Newsweek* partnered with global research data company Statista Inc. to rank the leading hospitals in 25 countries. According to *Newsweek,* its rankings are based on three broad categories including recommendations from more than 74,000 medical experts, doctors, hospital managers, and healthcare professionals; key hospital performance indicators, including mortality rates, patient safety, readmission rates, staffing levels, efficient use of medical imaging and effectiveness and timeliness of care; and patient satisfaction data, including general satisfaction with a hospital, recommendation of a hospital, satisfaction with medical care and satisfaction with service and organizations. Fairview Hospital was ranked in the top 200 hospitals internationally and the System had 5 other hospitals listed among the best hospitals nationwide.

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

Under a joint venture agreement, the Clinic and Select Medical operate three rehabilitation hospitals in Northeast Ohio. These hospitals were collectively named number one in Ohio by *Newsweek* in its 2020 "Best Physical Rehabilitation Centers" rankings. These rankings highlight the nation's top physical rehabilitation facilities based on quality of care, quality of service, quality of follow-up care and accommodation and amenities relative to in state competition.

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

In December, nine System hospitals received an "A" in the safety grades published by The Leapfrog Group, an independent national nonprofit organization that measures the quality and safety of American healthcare. The safety grade utilizes up to 28 national performance measures of publicly reported patient safety data to assign letter grades of A, B, C, D or F to over 2,600 acute care hospitals twice per year. Five other System hospitals evaluated by The Leapfrog Group received a "B" safety grade and two hospitals received a "C" safety grade.

In May, the Clinic was named the third most innovative hospital in the United States in a survey conducted by Reaction Data of more than 550 healthcare executives, clinicians and IT personnel. These leaders from hospitals and clinics across the country were asked which hospitals and health systems they considered to be leaders in innovation, delivery transformation and quality care at a low cost.

In January 2020, the Clinic announced that the U.S. Food and Drug Administration (FDA) has cleared patient-specific airway stents developed by a Clinic physician. The stents are used to keep open the airways of patients with serious breathing disorders, such as those caused by tumors, inflammation, trauma or other masses. Standard airway stents come in a limited number of sizes and shapes and are generally designed for larger airways. The patient-specific stents are designed using CT scans and proprietary 3D visualization software to allow them to fit a patient's anatomy.

In January 2020, the Clinic and San Francisco-based GYANT, a patient connection and

relationship management company, announced a collaboration to digitally enhance the post-discharge process and communications between a patient and their caregiver. The work started in 2018 to virtualize patient outreach to complement the Clinic's existing post-discharge call program. As part of the expanded partnership, GYANT's platform is now used in ten System hospitals.

In July, the Clinic was recognized for telehealth innovation and clinical care excellence by American Well, a national telehealth leader. Awards were given to organizations that have made exceptional contributions to expanding digital care delivery from access to impact, prior to and during COVID-19. The Clinic was recognized in the clinical impact category for achievement in digital care delivery and demonstrating strong clinical outcomes.

In July, the Clinic completed its 2,000th heart and 2,000th lung transplantations. The Clinic is the third program in the country to reach this milestone. On average, the Clinic performs about 50-60 heart transplants and about 100 lung transplants per year.

In October, the Clinic became the first hospital in the world to use ablation technology to destroy large liver tumors. The minimally invasive procedure uses a single needle connected to a powerful 150-watt microwave generator that can burn a malignant liver tumor as large as 2.4 inches.

In November, the Clinic was recognized for its patient-centered, value-based care. Value-Based Health Care (VBHC) Center Europe has awarded the Clinic the VBHC Cost-effectiveness Award 2020. The organization highlighted Cleveland Clinic Community Care's initiative that integrates patient responses to a standard screening questionnaire into the care of the patient. These questions ask about symptoms of depression, health literacy, food insecurity and other social factors that impact a patient's ability to manage their health. The teams made up of physicians, advance practice providers, nurses, care coordinators, social workers, pharmacists and behavioral health workers use this data to identify patient, family and community-specific resources, with the goal of reducing unnecessary use of healthcare services and improving patient health and functioning.

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

In October, the Clinic was named to the 2020 "Healthcare's Most Wired" list by the College of Healthcare Information Management Executives. The annual survey assesses hospitals and health systems on their progress of technology adoption, implementation and use of information technology. The Clinic was recognized for implementing technologies and utilizing strategies that help analyze its data to achieve meaningful clinical and efficiency outcomes.

In October, the International Institute for Analytics recognized the Clinic with its "ANNY"

award for excellence in analytics. The ANNY award recognizes data and advanced analytics teams who have made profound changes on their organizations by applying advanced analytics to the most pressing and impactful business problems. Applicants were evaluated on five key areas that determine the success of an analytics project: outcomes, ambition, scale, skills and insights.

The System was recognized by *The Plain Dealer* newspaper as one of Northeast Ohio's top workplaces for 2020, ranking fifteenth in the category for large local employers. This list is based on employee feedback gathered through an anonymous survey administered by a third-party research partner. This is the System's eighth time on this list.

In July, it was announced that the Clinic was selected by *Modern Healthcare* as one of the 2020 Best Places to Work in Healthcare. This award program identifies and recognizes outstanding employers in the healthcare industry nationwide. *Modern Healthcare* partners with the Best Companies Group on the assessment process, which includes an extensive employee survey conducted with a random sample of caregivers in June 2020.

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

In December, the Clinic's CEO and President, Tomislav Mihaljevic, M.D., was recognized by *Modern Healthcare* as one of this year's 100 most influential people in healthcare. Dr. Mihaljevic was recognized for achievements in paving the way to better health through executive responsibility, leadership qualities, innovation, community service and achievements inside and outside of the Clinic.

FINANCING DEVELOPMENTS

In the second quarter of 2020, the System obtained operating lines of credit with multiple financial institutions totaling $650 million to further enhance its liquidity position. Each of the lines mature within one year and bear interest at LIBOR plus an applicable spread. As of December 31, 2020, the System had no amounts drawn and $650 million of available capacity. In February 2021, the System drew $26.5 million on one line of credit to refinance debt that was acquired in the Mercy member substitution transaction.

In November 2020, the System entered into a taxable term loan agreement with a financial institution for $12.7 million. The loan matures in 2025 and bears interest at a fixed rate. The proceeds of the term loan were used to refund the Series 2010 Martin Bonds that were assumed in the member substitution of Martin Health System.

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

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

Cleveland Clinic's
Sydell and Arnold Miller Family Heart, Vascular & Thoracic Institute
Cleveland, Ohio

CORPORATE GOVERNANCE

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

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

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

top academic medical centers, to ensure the Clinic's governance structures function at a high level.

The System maintains a governance model for the Ohio regional hospitals that provides for regional hospital representation on the Clinic's Board of Directors while also maintaining separate boards of trustees for each hospital. The Ohio regional hospital boards meet quarterly and, among other topics, provide local input on quality and patient safety and community health needs. Each Ohio regional hospital has a president, all of whom report to the President of the Ohio Hospitals and Family Health Centers.

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

APPOINTMENTS

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

Donald A. Malone Jr., MD, was appointed President of Ohio Hospitals and Family Health Centers in November 2020. In this role, he oversees the Clinic's main campus, all Ohio regional hospitals, family health centers and ambulatory sites. Dr. Malone joined the Clinic in 1989. He previously served as President of Lutheran Hospital, a position he held since 2013. He was also Chair of the Department of Psychiatry and Psychology and is a practicing psychiatrist.

Conor Delaney, MD, PhD, was appointed CEO and President of Cleveland Clinic Florida in October 2020. In this role, Dr. Delaney leads the Florida region. Dr. Delaney joined the Clinic in 1999 as a fellow and most recently served as Chairman of the Digestive Disease and Surgery Institute at main campus since 2015, responsible for the departments of Colorectal Surgery, Gastroenterology and Hepatology, and Surgery throughout the System. Dr. Delaney is a colorectal surgeon and professor of surgery with more than 30 years of experience in healthcare. Joseph Iannotti, MD, PhD, who served as Interim CEO and President for Cleveland Clinic Florida since June 22, 2020, is continuing in his previous roles as Chief of Staff and Chief Academic and Innovation Officer for Cleveland Clinic Florida.

K. Kelly Hancock, DNP, RN, NE-BC, FAAN was appointed Chief Caregiver Officer at the Clinic in June 2020. This is the first position of its kind at the Clinic and was created to align all aspects of caregiver engagement with a focus on enhancing the System's unique team-based culture. In this new role, Dr. Hancock serves as the executive leader for the Nursing Institute and Human Resources. This new approach is designed to enable the future team-based delivery of superior patient care and continue the System's goal to be the best place to work in healthcare. Dr. Hancock has served as the System's executive chief nursing officer and chief nursing officer of its main campus since 2011. Dr. Hancock, who began her career with the Clinic in 1993 as a nurse associate, earned her DNP from Chamberlain College of Nursing in 2015 and her MSN from Breen School of Nursing at Ursuline College. A board-certified Nurse Executive through the American Nurse Credentialing Center, she is also a member of the American Organization of Nurse Executives, the American Associate of Critical Care Nurses and the Honor Society of Nursing-Sigma Theta Tau International.

Serpil Erzurum, MD was appointed Chief Research and Academic Officer in November 2020. In this newly created role, Dr. Erzurum focuses on enterprise-wide clinical, basic and translational research. Dr. Erzurum joined the Clinic in 1993. She serves as a staff physician in the Respiratory Institute and has been the Chair of the Lerner Research Institute since 2016.

Leslie Jurecko, MD, MBA was appointed Chief Safety and Quality Officer in June 2020. Dr. Jurecko oversees enterprise safety and quality initiatives and reports to the Chief Clinical Transformation Officer. She previously served as senior vice president of quality, safety and experience for Spectrum Health. In 2020, *Becker's Hospital Review* named Dr. Jurecko as one of the top 50 patient safety experts. In addition to her leadership role, she will practice as a pediatric hospitalist with Cleveland Clinic Children's.

Matthew Kull was appointed Chief Information Officer (CIO) in March 2020. Mr. Kull has served as the Clinic's interim CIO since November 2019. He leads the Clinic's information technology strategy, working with clinical partners and caregivers across the System to enhance patient care through innovative technologies. Mr. Kull joined the Clinic in 2018 as the Associate Chief Information Officer of the Information Technology Division. Prior to his role at the Clinic, he served as Senior Vice President and Chief Information Officer for Parkland Health & Hospital System in Dallas. Mr. Kull's experience spans over 20 years in a variety of healthcare settings.

Sam Calabrese, RPh, MBA, FASHP was appointed Chief Pharmacy Officer in June 2020. In this role, Mr. Calabrese leads one of the largest pharmacy enterprises in the country with responsibility for over 1,500 full-time pharmacy caregivers. Mr. Calabrese has been Interim Chief Pharmacy Officer since February 2020 and has served in leadership positions at the Clinic for over 20 years. He is an active member of the American Society of Health System Pharmacists where he currently serves as the Chair for the Section of Pharmacy Practice Leaders. Mr. Calabrese has also served on the ASHP Council on Pharmacy Management and has been an ASHP delegate for Ohio.

Meredith Foxx, MBA, MSN, APRN, PCNS-BC, PPCNP-BC, CPON was appointed Executive Chief Nursing Officer (ECNO) in October 2020. As ECNO, she is responsible for nursing clinical practice, operations and outcomes throughout the System. She has worked at the Clinic for 16 years, including in her most recent role as Associate Chief Nursing Officer, Advanced Practice Nursing, Nursing Quality and Practice. In this role, Ms. Foxx provided clinical oversight and supervision of the scope of practice, recruitment, quality, credentialing and privileging of more than 1,500 advanced practice registered nurses.

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

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

EXPANSION AND IMPROVEMENT PROJECTS

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

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

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

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

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

research labs currently housed at different locations. The System is re-evaluating the scope and timeline for this project due to the COVID-19 pandemic. A portion of the construction costs are expected to be raised through fundraising efforts and donations.

Mentor Hospital – In February 2019, the Clinic announced plans to build a small hospital on 47 acres of vacant land in Lake County, Ohio. The hospital will offer both inpatient and outpatient services and is expected to have an emergency department. The System has started the planning and design phase of the project, but the size of the hospital and scope of services are still being determined. The System is re-evaluating the scope and timeline for this project due to the COVID-19 pandemic.

PHILANTHROPY CAMPAIGN

The Clinic is currently in the final year of "The Power of Every One" philanthropic campaign. The campaign was publicly launched in 2014 with a goal of raising $2 billion by the Clinic's 100th anniversary in 2021. The campaign, which concludes at the end of 2021, will enable the Clinic to transform patient care, promote health, advance research and innovation, train caregivers and revitalize facilities through new construction and renovation of existing buildings. As of December 31, 2020, the Clinic has received pledges, cash and other assets of approximately $2.2 billion for the campaign.

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

OFFICE OF BUSINESS DEVELOPMENT

In 2019 the Clinic launched the Office of Business Development to foster and grow the strengths of Innovations and Ventures while welcoming a new function – Partnering. Together, Innovations, Ventures, and Partnering position the Clinic not only towards its goal of being the best place to receive care but also its goal to become the best partner in healthcare.

Cleveland Clinic Innovations (CCI) grew out of the organization's deep-rooted commitment to Patients First. By focusing on domain portfolios – life science, medical device, and health information technology – and leveraging caregiver passion for medical advancement, CCI drives patient-centered solutions to market. Since its inception in 2000, CCI has transacted

more than 700 technology licenses and has over 1,700 issued patents.

In 2017, the Clinic strengthened the impact Innovations makes with the creation of Cleveland Clinic Ventures (CCV). With a focus on organizational priorities as well as healthcare white space opportunities, CCV grows strategic licensed and patented solutions out of CCI into investible, standalone companies. In 2020 CCV guided the formation of three new spin-off companies while overseeing the investment of over $18.4 million across nine companies. Together they have formed a total of 95 spin-off companies, 42 of which are currently operational with 23 monetized.

Recognizing that meaningful change and impact come with collaboration, the complement of strengths within CCI and CCV was rounded out in 2019 with the formation of Partnering. By combining brand strength and internal capabilities with those of strategic external stakeholders, Partnering accelerates the deployment of patient-benefitting technologies through opportunities in co-development, co-investment, and shared risk and returns while creating diversification in the organization's revenue stream. In 2019 the Clinic launched its digital transformation strategy as a cornerstone to doubling the number of patients served. The first initiative, a joint venture established in October 2019 with the prominent telehealth company American Well, exemplifies how the Clinic and its partners will transform the business of healthcare.

The Office of Business Development hosts an annual Medical Innovation Summit (Summit) for industry leaders, investors and entrepreneurs looking to expand their understanding of the healthcare market and the future of medical innovation. The October 2020 Summit, which was held virtually, tackled digital healthcare and data privacy, investment trends and precision medicine predictions in healthcare while keeping the patient at the forefront of the conversation. The Summit reflects the combined strategies of Innovations, Ventures, and Partnering while showcasing how their collaborative work embraces and drives forward the Clinic's mission.

In conjunction with the Summit, the Clinic also released its Top 10 Medical Innovations for 2021, which highlights the potential for medical breakthroughs in the coming year. The "Top 10" has been led by CCI since its debut in 2007. Each year, CCI 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.

The Office of Business Development operates the 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. The GCIC program has supported the development of over 50 technologies and the creation of over 1,000 new jobs.

AFFILIATIONS AND PARTNERSHIPS

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

The System worked with Epic to develop and implement a COVID-19 home monitoring program that is now available for use by other healthcare organizations across the country. Collaboration among clinicians and analysts helped the System and Epic to rapidly design, build and launch the technology in just ten days. The System and Epic used Epic's MyChart Care Companion to monitor patients with chronic conditions and customized it for COVID-19. Patients complete questions about their symptoms daily so primary care teams can monitor their conditions and react quickly if patients worsen.

The tool also allows patients to engage with a member of their care team to manage their progress and recovery. Patients can access education, condition-tracking and treatment information through the tool's app. All patient information from the remote monitoring is stored in the Electronic Health Record (EHR), and the system integrates population management tools to generate reports and a patient registry to track outreach and encounters with clinicians.

Daily monitoring, which continues for 14 days from the reported onset of symptoms, includes a Care Companion task reminder and telephone outreach to high-risk patients from a registered nurse or allied health professional. Patients enrolled after a hospital stay are monitored for seven days after discharge. Through the EHR, patients' primary care and other providers are kept informed about all encounters.

The information collected through these touch points is stored in the EHR, and discrete data collection enables further research and predictive modeling in the ongoing efforts to better understand and treat COVID-19.

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

In November 2020, the Clinic and Lee Health announced a strategic alliance to enhance patient-centered care for residents of Southwest Florida. Lee Health operates four acute care and two specialty hospitals in Southwest Florida with a total of approximately 1,812 beds. Collectively, the two organizations will explore opportunities for clinical service line affiliations and strategic initiatives that improve quality and efficiency of

care through clinical and operations enhancements. This strategic alliance establishes a framework for how the two health systems will work together as they assess opportunities to share best practices and enhance existing clinical or operational projects. As the two organizations move forward, they will lay groundwork for potential further areas of collaboration in the future.

In January 2021, the Clinic and Doctors Hospital Health System (Doctors Hospital) formed a strategic advisory council with the goal of expanding and improving the delivery of healthcare services in the Bahamas. The organizations agreed to form the advisory council in a two-year strategic advisory agreement that will provide Doctors Hospital access to the Clinic's network of internal experts for strategic planning, clinical education and leadership development. The Clinic and Doctors Hospital will work together on various projects including expansion into outpatient services and the development of centers of excellence in the Bahamas.

CO-BRANDED INSURANCE

In August the Clinic announced a new multi-faceted collaboration with Aetna, a CVS Health Company, to form an Accountable Care Organization model and offer new plans and programs featuring System providers. The collaboration includes the launch of a co-branded insurance plan that could reduce healthcare costs for participating employers, an expanded relationship nationwide to provide members enrolled in Aetna commercial plans access to second opinions by the Clinic for certain conditions, and the opportunity to deploy the Clinic's specialty care services, including the Cardiac Center of Excellence program, to Aetna plan sponsors across the country. The co-branded insurance plan offers Northeast Ohio employers and their plan members care that is delivered in a coordinated approach through the System's network of employed, aligned and affiliated providers from the Cleveland Clinic Quality Alliance or at any System facility. The System will be rewarded for achieving quality and cost targets.

AKRON GENERAL HEALTH SYSTEM

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

government authorities in connection with this matter.

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

CLEVELAND CLINIC MERCY HOSPITAL

On February 1, 2021, the Clinic became the sole member of Mercy pursuant to the terms of a member substitution agreement with The Sisters of Charity of St. Augustine Health System, the prior sole member of Mercy. Mercy is a 476 licensed bed hospital serving Stark, Carroll, Wayne, Holmes and Tuscarawas counties and parts of southeastern Ohio. It has approximately 2,800 caregivers and 620 members on its medical staff. Mercy will maintain its Catholic identity through sponsorship by the Sisters of Charity of St. Augustine.

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

FLORIDA GROWTH

In January 2019, the Clinic through a subsidiary became the sole member of Martin Health System, located in Southeast Florida, approximately 100 miles north of Weston. Martin Health System is a regional nonprofit, community-based healthcare provider consisting of three licensed acute-care hospitals with approximately 521 licensed beds, an approximately 140-member employed physician group and a network of outpatient services. As part of the agreement, the Clinic committed to invest at least $500 million into Martin Health System over five years to support strategic and capital needs, as well as other programs and services. The Clinic also will maintain certain clinical services at each of the Martin Health System hospitals for at least ten years. Martin Memorial Medical Center, a subsidiary of Martin Health System, became a member of the Obligated Group in May 2019.

In January 2019, the Clinic through a subsidiary became the sole member of Indian River Hospital, located in Southeast Florida approximately 130 miles north of Weston. Indian River Hospital is a nonprofit medical center with

approximately 332 licensed beds and is focused on providing healthcare to Indian River and surrounding counties in Florida. Under the terms of the transaction, the Clinic committed to invest at least $250 million in Indian River Hospital over ten years and will maintain certain clinical services at Indian River Hospital for at least ten years. Indian River Hospital 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.

Since the completion of the affiliations with Martin Health System and Indian River Hospital in January 2019, the services, programs and locations managed and operated by Martin Health System and Indian River Hospital are being integrated into and/or aligned with the Health System, and their operations and procedures examined to look for opportunities to improve the quality and delivery of care.

In July 2020, Cleveland Clinic Florida opened the Florida Research and Innovation Center in Port St. Lucie, Florida. The center will advance innovative translational research focused on immune-oncology and infectious diseases, including COVID-19. The 107,000-square-foot, state-of-the-art research facility features modern laboratory space, biosafety level 3 facilities for work with infectious agents, and office space for support services. Cleveland Clinic Florida entered into a long-term lease for the facility. The Florida Research and Innovation Center will be closely integrated with the Clinic's new Center for Global and Emerging Pathogen Research and Human Health, which has brought together some of the world's top research experts in virology, immunology, genomics, and population health to broaden understanding of emerging pathogens – ranging from the Zika virus to SARS-CoV-2 (which causes COVID-19) – and to expedite critically needed treatments and vaccines. The facility will also collaborate with researchers and scientists at the Lerner Research Institute on the Clinic's main campus and will provide a training environment for researchers.

INTERNATIONAL GROWTH

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

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

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

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

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

STRATEGY

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

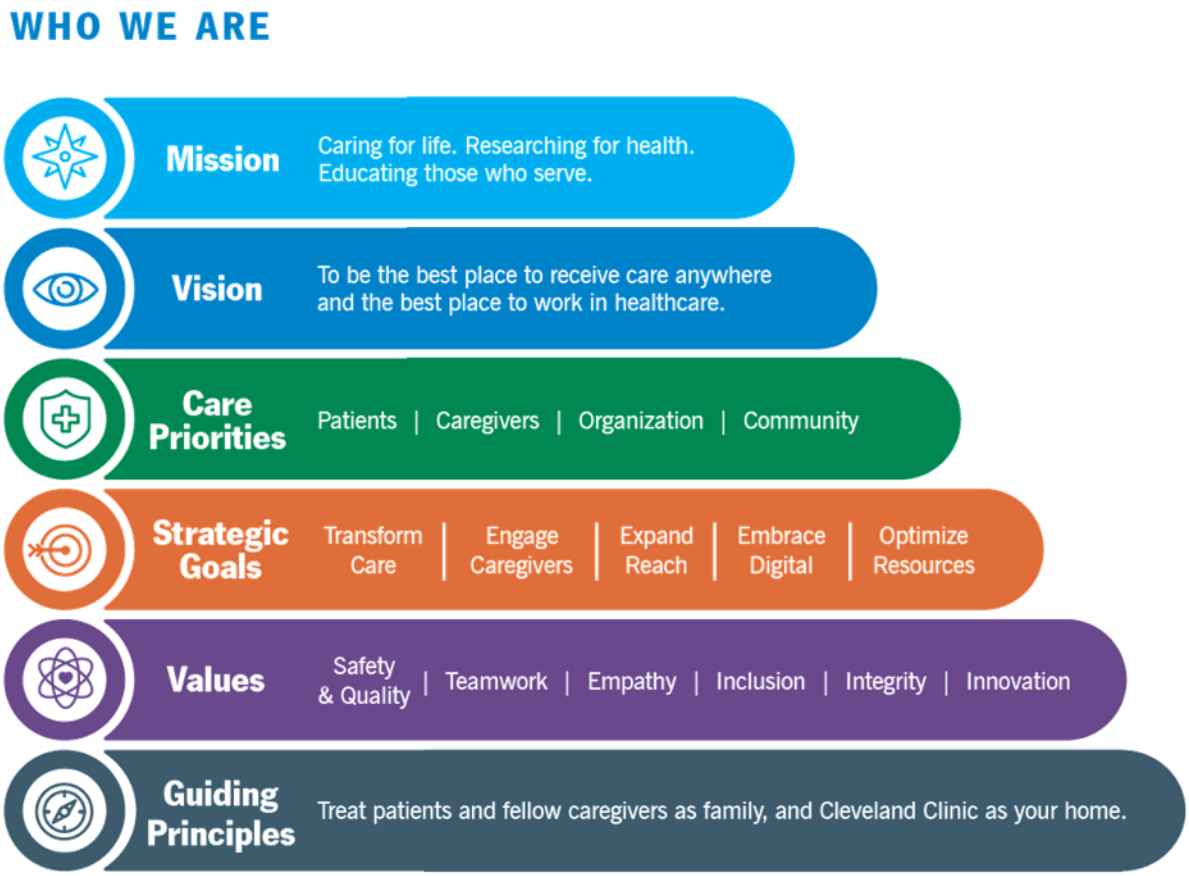
The COVID-19 pandemic has been an evolving situation that has significantly affected the global economy and the healthcare industry. The System continues to monitor the situation and remains committed to providing exceptional patient care while ensuring the safety of its patients, visitors and caregivers.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

Akron General Hospital
Akron, Ohio

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

- The economy may face a prolonged downturn and may not recover until late 2021 or beyond.
- There will be significant cost pressure in the payor environment due to decreased commercial insurance and increased reliance on government programs. Payors will rely on narrow or high-performance networks and/or cost-shifting to consumers.
- In many cases, patient volumes will be suppressed. More services may be delivered through lower cost settings, such as virtual or in-home care.
- Health systems will see greater competition for physicians from payors wanting to build their own networks, and from private equity. Stronger health systems will expand regionally in an effort to serve more patients and spread costs.
- Workforce attrition will arise at some health systems as a result of low patient volumes. Remote work rates will remain high.

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



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

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

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

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

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

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

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

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

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

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

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

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

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

COMMUNITY BENEFIT AND ECONOMIC IMPACT

Community Benefit

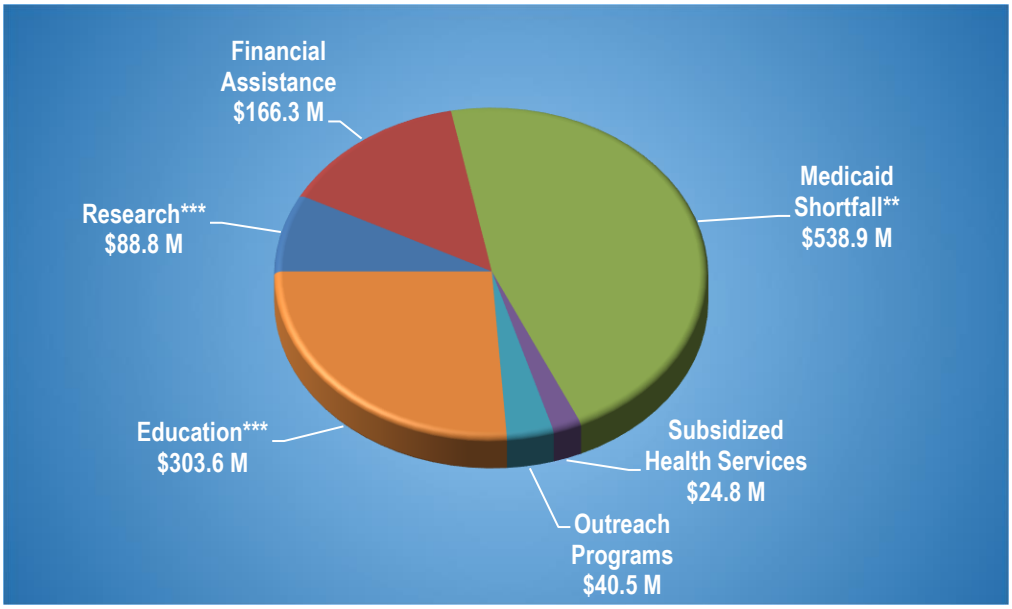
The Clinic and its hospital affiliates within the System are comprised of charitable, tax-exempt healthcare organizations. The System's mission includes addressing health service needs and providing benefits to the communities it serves. The tax-exempt members of the System must satisfy a community benefit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

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

Cole Eye Institute
Cleveland Ohio

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

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



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

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

Medicaid Shortfall: The System is a leading provider of Medicaid services in Ohio. The Medicaid program provides healthcare coverage for low-income families and individuals and is funded by both 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 numerous community outreach programs, including initiatives designed to address issues of health equity and social determinants of health, as well as serve vulnerable and at-risk populations in the community. Outreach programs typically fall into three categories: community health services; cash and in-kind donations; and community building. The System's outreach programs include chronic disease prevention and management, clinical services, workforce development and enrollment assistance for government funded health programs. A few of the System's community outreach initiatives are highlighted below:

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

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

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

COVID-19 Community Response

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

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

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

Community Health Needs Assessment

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

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

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

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

Key CHNA needs identified throughout the System include:

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

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

Economic Impact

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

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

SUSTAINABILITY

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

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

As a leader in the healthcare industry, the System has publicly committed to compiling an annual sustainability report for its patients, caregivers, communities and global stakeholders through two leading international frameworks: The United Nations Global Compact and the Global Reporting Initiative. The compilation, titled "Serving Our Present, Caring for Our Future," includes performance metrics and stories,

highlights accomplishments and communicates challenges as the System strives to reach its goals. The complete report is available on the Clinic's website (www.clevelandclinic.org/ungc).

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

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

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

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

The System currently has 17 LEED-certified buildings, with one additional building pending certification. The System has five buildings that are certified LEED-Gold, including the Global Cardiovascular Innovations Center, Marymount Hospital Surgical Expansion, Twinsburg Family Health and Surgery Center, the Tomsich Pathology Laboratories building and the Sheila

and Eric Samson Pavilion at Health Education Campus.

In 2018, the Clinic's Center for Functional Medicine suite located on the Clinic's main campus achieved WELL certification, a 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 the following 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 & INCLUSION

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

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

Beginning in April, ODI partnered with the Office of Caregiver Experience (OCE) on the Care Support Team initiative. All ODI caregivers were assigned to care support teams, with two of the four team leads being ODI members. The ODI, OCE, Wellness Division, and Office of Patient Experience provided key services to caregivers experiencing challenges due to the COVID-19 pandemic, including meals, groceries, supplies, child care resources and other resources to support caregiver well-being. ODI was active with this initiative through July 2020 and provided support to more than 6,500 caregivers.

In December the Clinic announced that it has partnered with OneTen, and will join a coalition of 37 of the largest U.S. employers, to train, hire and promote one million Black Americans into family-sustaining jobs with opportunities for advancement. The coalition will achieve this goal over the next 10 years. In January 2021, OneTen will begin working with the Clinic and other partner employers to improve workplace inclusivity practices and connect talent providers to partner employers. OneTen's focus will be on reducing exclusionary hiring practices, identifying robust and new talent sources, and

ensuring that adequate and equitable career pathways for advancement exist.

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

The System was recognized as a "2020 Top Performer in LGBTQ Healthcare Equality," by the Human Rights Campaign. This distinction is based on the results of the campaign's Health Equality Index, which scores healthcare facilities on policies and practices dedicated to the equitable treatment and inclusion of LGBTQ patients, visitors, and employees.

The SALUD ERG sponsored program ACTiVHOS™ received financial support and approval for ongoing expansion through 2020. ACTiVHOS™ stands for "Activity, Cognitive Therapy, and Incentives in Health Outreach for Students" and is the first and only bilingual/bi-cultural youth wellness program in Northeast Ohio. It was started by SALUD, the System's Hispanic/Latino ERG with support from ODI.

For the third year in a row, *Forbes* named the Clinic among America's Best Employers for Diversity for 2020. In order to determine the rankings, *Forbes* surveyed 60,000 Americans working for businesses with at least 1,000 employees. Participants were asked to share their opinions and rate their organizations on age, gender, ethnicity, disability, sexual orientation, equality, general diversity and other criteria. The results ranked 500 employers based on the employers that received the most recommendations while also considering employers that have diverse boards and executive teams as well as proactive diversity and inclusion initiatives.

For the 11th year in a row, DiversityInc named the Clinic to its 2020 list of Top Hospitals & Health Systems in the country for diversity, equity and inclusion. This year the Clinic ranked third on the list. The Clinic has made the rankings each year since the list for healthcare organizations began in 2010. The rankings are empirically driven and assess performance based on a number of factors including talent pipeline, talent development, leadership accountability and supplier diversity.

CONFLICT OF INTEREST

The System maintains policies that require internal reporting of outside financial and fiduciary interests to ensure that potential conflicts of interests do not inappropriately influence research, patient care, education, business or professional decision making. In connection with these policies, the System developed the Innovation Management and Conflict of Interest Program, which is designed to promote innovation while at the same time reducing, eliminating or managing real or perceived bias either due to System personnel consulting with pharmaceutical, medical device and diagnostic companies (industry) or the commercialization efforts undertaken by the System to develop discoveries and make them accessible to patients. The program works with physicians, managers and other employees who

interact with industry to manage any conflicts. Provisions related to whether or not "compelling circumstances" are required to justify conducting research in the presence of related financial interests have been modified in policies that went into effect in 2013, consistent with the value the System places on beneficial relationships with industry. The System is committed to a process that maintains integrity in innovation and places the interests of its patients first. The Innovation Management and Conflict of Interest Program reviews situations in which a physician or other clinician prescribes or uses products of a company in their practice and has a financial relationship with that company. When appropriate, the program will put management in place to address any conflict (for example, by disclosure). The goal of this policy is not to interfere with the practice of medicine.

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

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

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

ENTERPRISE RISK MANAGEMENT

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

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

The System regularly evaluates its internal control environment over the System's financial reporting processes through an initiative based upon concepts established in the Sarbanes-Oxley Act of 2002. The goals of the initiative are to ensure the integrity and reliability of financial information, strengthen internal control in the reporting process, reduce the risk of fraud and improve efficiencies in the financial reporting process. The initiative reviews all aspects of the financial reporting process, identifies potential risks and ensures that they have been mitigated utilizing a management self-assessment process. As a result of this initiative, management of the System issued a report on the effectiveness of its internal control over financial reporting as part of the issuance of its consolidated financial results for 2020, which is the twelfth year the management report was completed. As part of the internal control evaluation process for 2020, certifications were completed by 134 members of System management, including top leadership. The System is one of the first nonprofit hospitals to issue a management report on the effectiveness of internal control over financial reporting, a step that further increases the transparency of the organization.

INDUSTRY OUTLOOK

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

In March 2020, S&P changed its outlook for the U.S not-for-profit healthcare sector from stable to negative due to the increasing threat of the COVID-19 pandemic. S&P anticipates the pandemic will result in increased operating costs, reduced volume and revenues, reliance on working capital lines of credit, and decreased unrestricted reserves and nonoperating revenue.

PATIENTS SERVED

The following table summarizes patient utilization statistics for the System:

Utilization Statistics

	For the quarter ended December 31				For the twelve months ended December 31			
	2020	2019	Variance	%	2020	2019	Variance	%
Inpatient admissions[1]								
Acute admissions	55,440	57,739	-2,299	-4.0%	211,766	226,558	-14,792	-6.5%
Post-acute admissions	2,711	2,805	-94	-3.4%	10,728	11,327	-599	-5.3%
	58,151	60,544	-2,393	-4.0%	222,494	237,885	-15,391	-6.5%
Patient days[1]								
Acute patient days	283,669	276,805	6,864	2.5%	1,044,310	1,098,807	-54,497	-5.0%
Post-acute patient days	21,109	21,022	87	0.4%	82,224	84,522	-2,298	-2.7%
	304,778	297,827	6,951	2.3%	1,126,534	1,183,329	-56,795	-4.8%
Surgical cases								
Inpatient	16,056	19,026	-2,970	-15.6%	64,234	74,607	-10,373	-13.9%
Outpatient	43,725	46,231	-2,506	-5.4%	152,632	181,721	-29,089	-16.0%
	59,781	65,257	-5,476	-8.4%	216,866	256,328	-39,462	-15.4%
Emergency department visits	193,796	224,399	-30,603	-13.6%	756,416	889,489	-133,073	-15.0%
Observations	15,222	19,379	-4,157	-21.5%	61,476	82,143	-20,667	-25.2%
Clinic outpatient evaluation and management visits	1,480,127	1,548,901	-68,774	-4.4%	5,665,140	6,161,693	-496,553	-8.1%

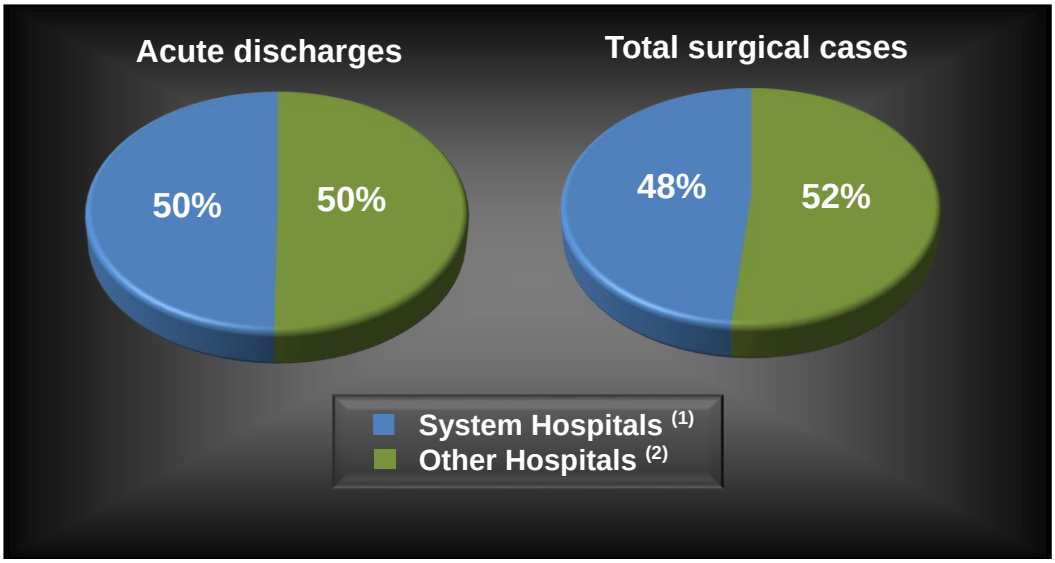
[1] Excludes newborns

Patients served for the System in 2020 has been significantly impacted by the suspension of non-essential procedures and appointments from mid-March through early May 2020. On May 4, 2020, with the support of state governments, the System began the reactivation process for clinical services using a prudent, phased approach to protect patients and caregivers and maintain the highest levels of patient care and safety. The reactivation of clinical services resulted in steadily increasing patient levels until the fourth quarter when the System experienced an increase in COVID-19 patients and made the decision to postpone non-essential procedures requiring a hospital bed. Although non-essential services resumed January 4, 2021, patient levels across the System have not returned to levels experienced prior to the pandemic.

Inpatient acute admissions for the System decreased 4.0% in the fourth quarter of 2020 and 6.5% during 2020 compared to 2019. In 2020, acute admissions for the System in Ohio decreased 5.7%, while the Florida facilities decreased 9.0% compared to 2019.

Total surgical cases for the System decreased 8.4% in the fourth quarter of 2020 and 15.4% in 2020 compared to 2019. In 2020, total surgical cases for the System in Ohio decreased 16.0%, while the Florida facilities decreased 13.0% compared to the same period in 2019.

The following charts summarize selected statistical information for Cleveland metropolitan hospitals for the year ended December 31, 2020:



Source: The Center for Health Affairs Volume Statistics

(1) "System Hospitals" excludes Akron General Medical Center, Lodi Hospital, Union Hospital and the Florida facilities and includes Ashtabula County Medical Center.
(2) "Other Hospitals" includes all other hospitals in the Cleveland metropolitan area 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 custodian. The Cleveland Clinic Investment Office (CCIO) is charged with the day-to-day management of the System's investments and their strategic direction. These portfolios include the System's general short-term and long-term investment portfolios, its defined benefit pension fund and the captive insurance fund. The System has established formal investment policies that support the System's investment objectives and provide an appropriate balance between return and risk.

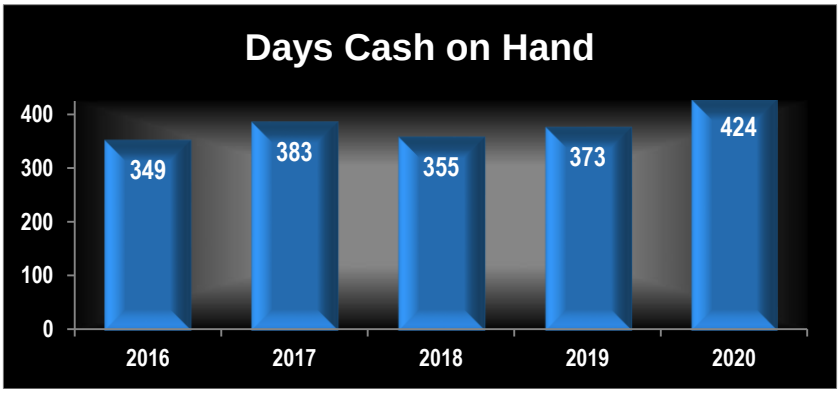
The following table sets forth the allocation of the System's cash and investments in its general investment portfolios and captive insurance fund at December 31, 2020 and 2019:

Cash and Investments
(Dollars in thousands)

	December 31, 2020		December 31, 2019	
Cash and cash equivalents	$ 1,848,795	14%	$ 1,795,801	16%
Fixed income securities*	2,927,732	23%	2,907,668	26%
Marketable equity securities*	2,706,835	21%	2,865,852	26%
Alternative investments	5,396,334	42%	3,630,794	32%
Total cash and investments	$ 12,879,696	100%	$ 11,200,115	100%
Less restricted investments**	(1,480,426)		(1,422,099)	
Unrestricted cash and investments	$ 11,399,270		$ 9,778,016	
Days cash on hand	424		373	

* 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 five years:



At December 31, 2020, total cash and investments for the System (including restricted investments) were $12.9 billion, an increase of approximately $1.7 billion from $11.2 billion at December 31, 2019. Cash inflows consist of cash provided by operating activities and unrestricted investment income of $2,055 million, a net increase in restricted gifts and income of $264 million and foreign exchanges gains on cash and cash equivalents of $11 million. Cash inflows were offset by net capital expenditures of $555 million and principal payments on debt of $98 million. Days cash on hand for the System in 2020 benefited from the support received under the CARES Act and by positive investment returns. For a description of the impact and actions taken by the System as a result of the COVID-19 pandemic see "CORONAVIRUS DISEASE (COVID-19)."

Included in the System's cash and investments are investments held for self-insurance. These investments totaled $234.0 million at December 31, 2020, with an asset mix of 4% cash and short-term investments, 37% fixed-income securities, 32% equity investments and 27% 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, 2020 are $233.0 million of funds held by trustees. Funds held by trustees include $122.7 million reported in investment for current use to fund current principal and interest payments due in January 2021 and $110.3 million of posted collateral. Collateral is primarily comprised of $7.1 million related to a futures and options program within the System's investment portfolio and $102.4 million related to the System's interest rate swap contracts. The swap contracts require that collateral be posted when the market value of a contract in a liability position exceeds a certain threshold. The collateral is returned as the liability is reduced. Investment objectives of funds held by the trustees are designed to preserve principal by investing in highly liquid cash or fixed-income investments. At December 31, 2020, the asset mix of funds held by trustees was 56% cash and short-term investments and 44% fixed-income securities.

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

Alternative investments at December 31, 2020 and December 31, 2019 consist of the following:

Alternative Investments
(Dollars in thousands)

	December 31, 2020		December 31, 2019	
Hedge funds	$ 3,335,262	62%	$ 2,071,318	57%
Private equity/venture capital	2,061,072	38%	1,559,476	43%
Total alternative investments	$ 5,396,334	100%	$ 3,630,794	100%

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

Investment Return

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

The System's long term investment portfolio, which excludes assets held for self-insurance, reported investment gains of approximately 7.2% for the fourth quarter of 2020 compared to gains of 3.6% in the fourth quarter of 2019. During 2020, the System experienced investment gains of 11.0% compared to gains of 12.2% in 2019. These investment returns are preliminary as they do not include all of the valuation adjustments of private equity investments that have not yet issued their final earnings reports.

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

Investment Return
(Dollars in thousands)

	For the quarter ended December 31		For the year ended December 31	
	2020	2019	2020	2019
Other unrestricted revenue:				
Interest income and dividends	$ 368	$ 504	$ 1,406	$ 2,284
Nonoperating gains and losses, net:				
Interest income and dividends	19,734	20,328	72,412	84,544
Net realized gains on sales of investments	115,450	313,622	341,800	502,068
Net change in unrealized gains on investments	271,322	159,797	76,723	409,950
Income on alternative investments	526,211	110,546	662,254	281,129
Investment management fees	(6,893)	(7,880)	(25,246)	(28,310)
	925,824	596,413	1,127,943	1,249,381
Other changes in net assets:				
Investment income on restricted investments	70,495	25,124	82,853	72,074
Total investment return	$996,687	$622,041	$1,212,202	$1,323,739

Operating Lines of Credit

In the second quarter of 2020, the System obtained lines of credit with multiple financial institutions totaling $650 million. Each of the lines mature within one year and bear interest at LIBOR plus an applicable spread. The lines of credit were obtained to provide additional liquidity for the System. As of December 31, 2020, the System had no amounts drawn and $650 million in available capacity. In February 2021, the System drew $26.5 million on one line of credit to refinance debt that was acquired in the Mercy member substitution transaction.

Long-term Debt

At December 31, 2020, outstanding current and long-term debt for the System, excluding $121.4 million of net unamortized premium/debt issuance costs totaled $5.2 billion, comprised of $5.0 billion in bonds and notes and $110.6 million in finance leases. Bonds and notes are structured with approximately 77% fixed-rate debt and 23% variable-rate debt. The System utilizes various interest rate swap derivative contracts to manage the risk of increased debt service resulting from rising market interest rates on variable-rate bonds. The total notional amount on the System's interest rate swap contracts at December 31, 2020 was $593.9 million. Using an interest rate benchmark, these contracts convert variable-rate debt to a fixed-rate, which further reduces the System's exposure to variable interest rates. The interest rate swap contracts can be unwound by the System at any time, whereas the counterparty has the option to unwind the contracts only upon an event of default as defined in the contracts.

As of December 31, 2020, approximately $605 million of variable-rate debt are bonds secured by irrevocable direct pay letters of credit or standby bond purchase agreements, and another $66 million are bonds directly placed with a financial institution. Debt supported by letters of credit or standby bond purchase agreements that expire within one year, require repayment of a remarketing draw within one year, or contain a subjective clause that would allow the lender to declare an event of default and cause immediate repayment of such bonds are classified as current liabilities

The remaining $490 million of variable-rate debt includes $89 million of floating rate notes and $401 million of variable-rate bonds supported by the System's self-liquidity program. Debt supported by self-liquidity includes the Series 2014A CP Notes and certain variable-rate bonds that are remarketed in commercial paper or weekly mode. Debt supported by self-liquidity are classified as current liabilities. The System has sufficient liquidity within its investment portfolio to support the self-liquidity program. The System also maintains a $400 million revolving credit facility that can be drawn upon in the case of a failed remarketing of self-liquidity debt. The revolving credit facility expires in May 2022 and bears interest at a variable rate based on various interest rate benchmarks and spreads. There were no amounts outstanding under the revolving credit facility at December 31, 2020.

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 December 31, 2020, the System did not have any outstanding Series 2014A CP Notes.

The System is subject to certain restricted covenants associated with its debt, including provisions related to certain debt ratios, days cash on hand, and other matters. The System was in compliance with these covenants at December 31, 2020.

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

Outstanding long-term debt (including current portion) for the System as of December 31, 2020 and 2019 consist of the following:

Hospital Revenue Bonds and Notes
(Dollars in thousands)

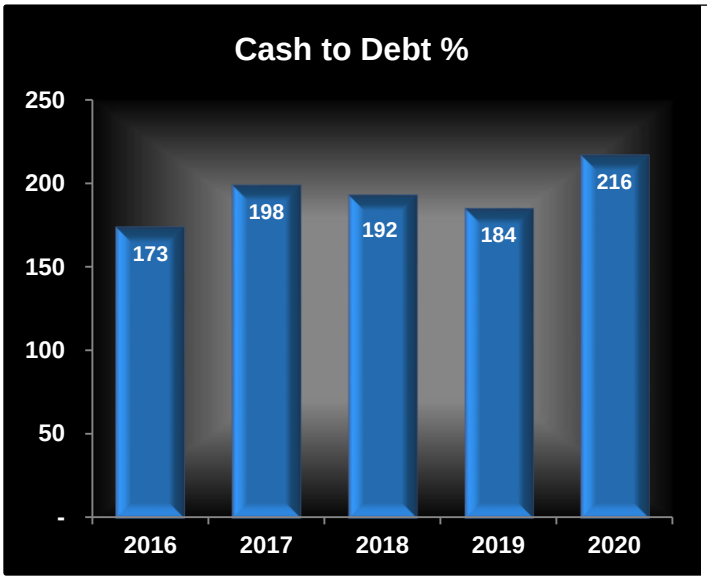
Series	Type	Final Maturity	December 31 2020	December 31 2019
2020 Term Loan	Fixed	2025	$ 12,660	$ -
2019A Revenue Bonds	Fixed	2046	247,045	247,045
2019B Revenue Bonds	Fixed	2046	250,320	250,320
2019C Revenue Bonds	Floating	2052	89,000	89,000
2019D Revenue Bonds	Variable	2052	119,340	119,340
2019E Revenue Bonds	Variable	2052	130,405	130,405
2019F Revenue Bonds	Variable	2052	130,405	130,405
2019G Revenue Bonds	Fixed	2042	241,835	241,835
2018 Sterling Notes[1]	Fixed	2068	902,952	872,285
2018 Term Loan, Martin	Variable	2023	36,818	33,070
2017A Revenue Bonds	Fixed	2043	792,350	811,785
2017B Revenue Bonds	Fixed	2043	166,290	167,580
2017C Revenue Bonds	Fixed	2032	8,135	8,555
2016 Private Placement	Fixed	2046	325,000	325,000
2016 Term Loan	Variable	2026	15,170	15,170
2014 Taxable Bonds	Fixed	2114	400,000	400,000
2013A Revenue Bonds	Fixed	2042	34,955	34,955
2013B Revenue Bonds	Variable	2039	201,160	201,160
2013 Keep Memory Alive Bonds	Variable	2037	54,760	56,980
2013 Bonds, Martin	Variable	2032	14,455	16,200
2012A Revenue Bonds	Fixed	2039	266,060	275,765
2011A Revenue Bonds	Fixed	2025	79,285	94,385
2011B Revenue Bonds	Fixed	2031	23,345	24,900
2011C Revenue Bonds	Fixed	2032	127,740	144,035
2010 Bonds, Martin	Fixed	2025	-	14,995
2008B Revenue Bonds	Variable	2042	327,575	327,575
2003C Revenue Bonds	Variable	2035	41,905	41,905
Notes Payable	Varies	Varies	2,901	3,584
Finance leases	Varies	Varies	110,621	118,053
			$ 5,152,487	$ 5,196,287

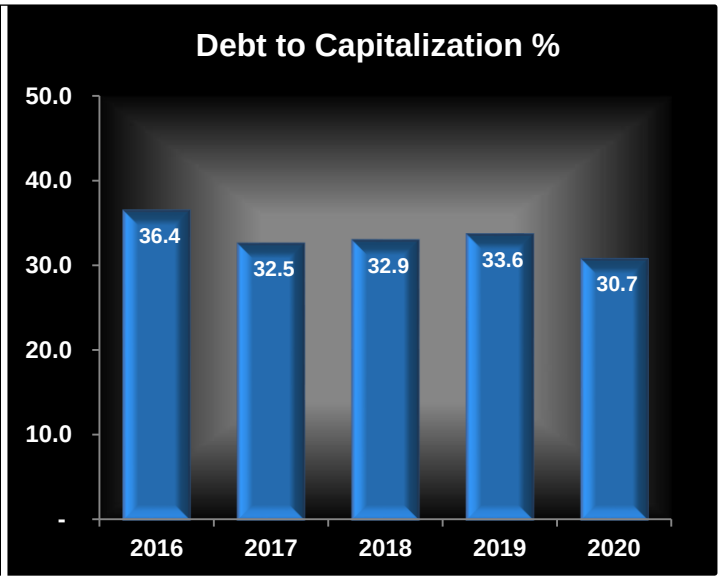
[1]Converted to U.S. dollars using foreign exchange rates at the period end date

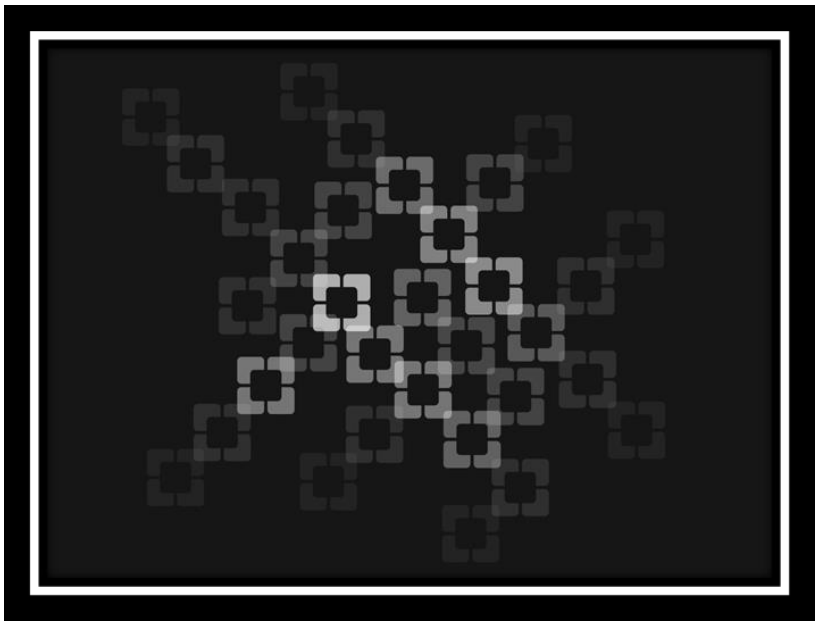
In November 2020, the System entered into a taxable term loan with a financial institution for $12.7 million. The loan matures in 2025 and bears interest at a fixed rate. The proceeds of the term loan were used to refund the Series 2010 Martin Bonds that were assumed in the member substitution of Martin Health System.

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

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







BOND RATINGS

The obligated group's outstanding bonds have been assigned ratings of Aa2 (stable outlook) and AA (stable outlook) by Moody's and S&P, respectively. In January 2021, S&P affirmed their respective rating and outlook. The most recent Moody's rating was issued in April 2019. 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 December 31, 2020 and 2019

Operating income for the System in the fourth quarter of 2020 was $340.2 million, resulting in an operating margin of 11.4%, as compared to operating income of $122.6 million and an operating margin of 4.5% in the fourth quarter of 2019. The higher operating income resulted from an 8.9% increase in total unrestricted revenues that outpaced total unrestricted expense growth of 1.0% in the same period. The increase in unrestricted revenues was driven by a 5.8% increase in net patient revenue and the recognition of $93.9 million of CARES Act funding and FEMA assistance during the period. For a description of the impact and actions taken by the System as a result of the COVID-19 pandemic, see "CORONAVIRUS DISEASE (COVID-19)." Nonoperating gains for the System were $935.7 million in the fourth

quarter of 2020 compared to nonoperating gains of $632.2 million in the fourth quarter of 2019. The increase from the prior year was primarily due to favorable investment returns in the fourth quarter of 2020 compared to the same period in 2019. Overall, the System reported an excess of revenues over expenses of $1,276 million in the fourth quarter of 2020 compared to an excess of revenues over expenses of $754.9 million in the fourth quarter of 2019.

The System's net patient service revenue increased $140.6 million (5.8%) in the fourth quarter of 2020 compared to the same period in 2019. Despite lower patient activity, the System experienced a strong case mix with higher acuity patients. Patients served in the fourth quarter of 2020 were lower than the same period in 2019 due to the impact of the COVID-19 pandemic. For a description of the impact and actions taken by the System as a result of the COVID-19 pandemic, see "CORONAVIRUS DISEASE (COVID-19)." Acute admissions decreased by 4.0%, total surgical cases decreased by 8.4% and outpatient evaluation and management visits decreased by 4.4% in the fourth quarter 2020 compared to the same period in 2019. Net patient revenue has benefited from rate increases on the System's managed care contracts that became effective in 2020. In addition, patient service revenue was favorably impacted by a strong case mix that has resulted in more inpatient revenue per patient. The System has experienced an increase in Medicare and Medicaid 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 0.6% in the fourth quarter of 2020 compared to the same period in 2019. 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 while striving to ensure the safety of patients, visitors and caregivers.

Other unrestricted revenues increased $102.1 million (34.8%) in the fourth quarter of 2020 compared to the same period in 2019. The increase in other unrestricted revenues was primarily due to $67.2 million of FEMA assistance, $19.0 million of Employee Retention Credit and $7.7 million of CARES Act Provider Relief Fund payments recognized during the period. The System also experienced a $31.5 million increase in outpatient pharmacy revenue primarily due to higher utilization of outpatient and specialty drugs and implementation of a contract pharmacy program, a $2.8 million increase in royalty revenue and a $2.5 million increase in earnings from joint ventures recorded under the equity method of accounting. The increases were offset by a $10.4 million decrease in management service fee revenue, a $5.5 million decrease in grant revenue (excluding FEMA assistance), a $4.8 million decrease in revenues related to parking, food service and hotels primarily due to lower patient activity and visitation restrictions, a $4.1 million reduction in continuing medical education revenue primarily due to cancelled events in 2020, and a $1.1 million decrease in gifts and assets released from restriction.

Total operating expenses increased $25.1 million (1.0%) in the fourth quarter of 2020 compared to the same period in 2019. During the fourth quarter of 2020, the System continued to incur incremental supply costs and other expenditures related to COVID-19 in an effort to provide safe and effective patient care. In order to offset the impact of the COVID-19 pandemic, the System has taken measures to reduce costs and expenditures, including restricting travel, reducing purchased/administrative service

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

Salaries, wages and benefits increased $36.9 million (2.6%) in the fourth quarter of 2020 compared to the same period in 2019. Salaries, excluding benefits, increased $20.0 million (1.6%) due primarily to a 2.5% increase in average full-time equivalent employees in the fourth quarter of 2020 compared to the same period in 2019. The System suspended annual pay increases for caregivers in 2020, required caregivers to use a specified amount of paid time off by July 31, 2020 and implemented a review process to evaluate open positions in non-clinical areas. Despite the financial challenges of the pandemic, the System remained committed to retain its caregivers by avoiding layoffs, furloughs and pay cuts. Benefit costs increased $16.9 million (9.7%) during the same period. The System experienced an $8.1 million increase in employee healthcare costs, a $6.6 million increase in maternity and parental leave (an enhanced benefit to caregivers that became effective in the second quarter of 2020) and a $4.1 million increase in short and long term disability costs.

Supplies expense increased $4.5 million (1.6%) in the fourth quarter of 2020 compared to the same period in 2019. The increase in supplies was comprised of an $11.2 million increase in medical supplies and a $2.0 million increase in implantables offset by an $8.6 million decrease in non-medical supplies. The System has incurred incremental supply costs for personal protective equipment and other supplies to scale up testing capacity of COVID-19, protect caregivers in the organization and provide safe and effective patient care at its facilities. The decrease in non-medical supplies was driven primarily by a decrease in catering, minor equipment and software costs as part of the System's initiatives to reduce controllable costs.

Pharmaceutical costs increased by $7.7 million (2.2%) in the fourth quarter of 2020 compared to the same period in 2019. The increase in pharmaceuticals is primarily due to the increase in cost and utilization resulting from higher acuity patients.

Purchased services and other fees increased $13.6 million (7.3%) in the fourth quarter of 2020 compared to the same period in 2019. The increase in purchased services and other fees was primarily related to a $7.8 million increase in software and hardware technology costs related to maintenance agreements and software subscriptions and a $5.3 million increase in purchased medical services including lab costs. The increases were partially offset by a reduction in various costs related to certain System projects and initiatives that are part of the System's initiatives to reduce expenses.

Administrative services decreased by $20.9 million (32.5%) in the fourth quarter of 2020 compared to the same period in 2019. The decrease in administrative services was primarily due to an $11.4 million decrease in travel and meeting costs that are part of the System's initiatives to reduce expenses. Also contributing

was a $5.1 million decrease in consulting fees and a $4.1 million decrease in research services.

Facilities expense decreased $5.7 million (6.1%) in the fourth quarter of 2020 compared to the same period in 2019. The decrease in facility expenses was primarily due to a $3.6 million decrease in repair and maintenance costs and a $2.9 million decrease in utilities expense offset by a $1.7 million increase in rent and lease expenses.

Insurance expense decreased by $2.4 million (13.8%) in the fourth quarter of 2020 compared to the same period in 2019. The decrease in insurance expense is primarily due to a reduction in annual insurance premiums for Martin Health System for coverages that switched from external insurance companies to the System's captive insurance subsidiary at various periods in 2019.

Interest expense decreased $3.3 million (8.1%) in the fourth quarter of 2020 compared to the same period in 2019. The decrease in interest expense is primarily due to regularly scheduled principal payments in 2020, lower interest rates attributable to the System's outstanding variable-rate debt and the issuance of the Series 2019G Bonds in November 2019 that refunded bonds at a lower interest rate.

Depreciation and amortization expenses decreased $5.3 million (3.6%) in the fourth quarter of 2020 compared to the same period in 2019. Changes in depreciation include property, plant and equipment that was fully depreciated in 2019, offset by depreciation for property, plant and equipment that was acquired and placed into service after the fourth quarter of 2019.

Gains and losses from nonoperating activities are recorded below operating income in the statement of operations. These items resulted in net gains to the System of $935.7 million in the fourth quarter of 2020 compared to net gains of $632.2 million in the fourth quarter of 2019, resulting in a favorable variance of $303.5 million. Investment returns were favorable by $329.4 million in the fourth quarter of 2020 compared to the same period in 2019. The System's long-term investment portfolio reported preliminary investment gains of 7.2% for the fourth quarter of 2020 compared to gains of 3.6% in the fourth quarter of 2019. Derivative gains and losses were unfavorable by $24.2 million in the fourth quarter of 2020 compared to the same period in 2019. Derivative gains and losses result from changes in currency exchange rates associated with the System's foreign exchange forward currency contracts and changes in interest rate benchmarks associated with the System's interest rate swap agreements, including net interest paid or received under the swap agreements. Other nonoperating gains and losses were unfavorable by $1.8 million in the fourth quarter of 2020 compared to the same period in 2019.

For the Years Ended December 31, 2020 and 2019

Operating income for the System in 2020 was $232.4 million, resulting in an operating margin of 2.2%, as compared to operating income of $390.2 million and an operating margin of 3.7% in 2019. The lower operating income resulted from a 2.2% increase in operating expenses offset by a 0.6% increase in total unrestricted revenues. Total unrestricted revenues were negatively impacted by the suspension of non-essential procedures and appointments during various periods of 2020 due to the COVID-19 pandemic. CARES Act funding and FEMA assistance recognized in 2020 totaling $454.9 million has partially offset lost

revenues resulting from lower patient activity associated with the pandemic and reimbursed the System for certain COVID-19 expenses. For a description of the impact and actions taken by the System as a result of the COVID-19 pandemic, see "CORONAVIRUS DISEASE (COVID-19)." Nonoperating gains for the System were $1,093 million in 2020 compared to nonoperating gains of $1,635 million in 2019. The decrease from the prior year was primarily due to the member substitution contribution for Martin Health System and Indian River Hospital that was recorded in the first quarter of 2019 as well as lower investment returns in 2020. Overall, the System reported an excess of revenues over expenses of $1,325 million in 2020 compared to an excess of revenues over expenses of $2,025 million in 2019.

The System's net patient service revenue decreased $381.6 million (4.0%) in 2020 compared to 2019. Patients served in 2020 were lower compared to 2019 due to the impact of the COVID-19 pandemic. For a description of the impact and actions taken by the System as a result of the COVID-19 pandemic, see "CORONAVIRUS DISEASE (COVID-19)." Acute admissions decreased by 6.5%, total surgical cases decreased by 15.4% and outpatient evaluation and management visits decreased by 8.1% in 2020 compared to 2019. Net patient revenue has benefited from rate increases on the System's managed care contracts that became effective in 2020. In addition, patient service revenue was favorably impacted by a strong case mix that has resulted in more inpatient revenue per patient. Case mix index for the full year of 2020 was 4.2% higher than the same period last year. The System has experienced an increase in Medicare and Medicaid 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 0.4% in 2020 compared to 2019. 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 while striving to ensure the safety of patients, visitors and caregivers.

Other unrestricted revenues increased $450.0 million (43.1%) in 2020 compared to 2019. The increase in other unrestricted revenues was primarily due to $359.2 million of CARES Act Provider Relief Fund payments, $67.2 million of FEMA assistance and $28.4 million of Employee Retention Credits recognized in 2020. The System also experienced a $59.4 million increase in outpatient pharmacy revenue primarily due to higher utilization of outpatient and specialty drugs and implementation of a contract pharmacy program, an $8.8 million increase in gifts and assets released from restriction, and a $6.5 million increase in earnings from joint ventures recorded under the equity method of accounting. The increases were partially offset by a $21.6 million decrease in revenues related to parking, food service and hotels primarily due to lower patient activity and visitation restrictions, a $15.6 million decrease in research and education grant revenues, a $15.3 million reduction in management service revenues and a $7.5 million reduction in continuing medical education revenue primarily due to cancelled events in 2020.

Total operating expenses increased $226.2 million (2.2%) in 2020 compared to 2019. Notable increases in expenses were experienced in salaries, wages and benefits, supplies expenses and purchased services and other fees. Lower patient activity has reduced costs in many expense categories; however, the System incurred incremental supply costs and other expenditures for COVID-19 preparedness

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

Salaries, wages and benefits increased $204.6 million (3.6%) in 2020 compared to 2019. Salaries, excluding benefits, increased $148.1 million (3.0%) due to a 1.6% increase in average full-time equivalent employees in 2020 compared to 2019. In an effort to reduce costs while preserving patient care, the System suspended annual pay increases for caregivers in 2020, required caregivers to use a specified amount of paid time off by July 31, 2020 and implemented a review process to evaluate open positions in non-clinical areas. Despite the financial challenges of the pandemic, the System remained committed to retain its caregivers by avoiding layoffs, furloughs and pay cuts. Benefit costs increased $56.5 million (7.2%) during the same period. The System experienced a $17.0 million increase in maternity and parental leave (an enhanced benefit to caregivers that became effective in the second quarter of 2020), a $12.8 million increase in employee healthcare and other related benefit costs, a $10.3 million increase in defined contribution plan expenses, $9.1 million increase in FICA expenses, a $4.6 million increase in short and long term disability and a $4.3 million increase in unemployment and workers compensation expenses.

Supplies expense increased $56.5 million (5.4%) in 2020 compared to 2019. The increase in supplies was comprised of a $61.2 million increase in medical supplies offset by a $4.1 million decrease in implantables and a $0.7 million decrease in non-medical supplies. Lower surgical activity in 2020 reduced certain medical supply and implantable costs; however, the System has incurred incremental supply costs for personal protective equipment and other supplies to scale up testing capacity of COVID-19, protect caregivers in the organization and provide safe and effective patient care at its facilities.

Pharmaceutical costs decreased $8.4 million (0.6%) in 2020 compared to 2019. The decrease in pharmaceuticals is primarily due to lower patient volumes experienced during 2020.

Purchased services and other fees increased $57.5 million (8.5%) in 2020 compared to 2019. The increase in purchased services and other fees was primarily related to a $25.0 million increase in software and hardware technology costs related to maintenance agreements and software subscriptions, a $15.8 million increase in state franchise fee tax and a $15.4 million increase in purchased medical services primarily related to lab services. The System also recorded an $8.3 million reduction in deferred tax liabilities in 2019. The increases were partially offset by a reduction in various costs related to certain System projects and initiatives that are part of the System's initiatives to reduce expenses.

Administrative services decreased by $39.8 million (18.2%) in 2020 compared to 2019. The decrease in administrative services was primarily due to a $33.0 million decrease in travel and meeting costs that are part of the System's initiatives to reduce expenses, a $3.5 million decrease in research services and a $2.4 million decrease in professional services.

Facilities expense decreased $27.6 million (7.3%) in 2020 compared to 2019. The decrease in facility expenses was primarily due to a $12.6 million decrease in utilities expense, a $9.3 million decrease in repair and maintenance costs, and a $5.9 million decrease in rent and lease expenses.

Insurance expense decreased by $1.4 million (1.8%) in 2020 compared to 2019. Professional malpractice expense in the System's captive insurance program was relatively flat in 2020 compared to 2019. The decrease in insurance expense is primarily due to a reduction in annual insurance premiums for Martin Health System for coverages that switched from external insurance companies to the System's captive insurance subsidiary at various periods in 2019.

Interest expense decreased $4.2 million (2.6%) in 2020 compared to 2019. The decrease in interest expense is primarily due to regularly scheduled principal payments in 2020, lower interest rates attributable to the System's outstanding variable-rate debt and the issuance of the Series 2019G Bonds in November 2019 that refunded bonds at a lower interest rate.

Depreciation and amortization expenses decreased $10.9 million (1.8%) in 2020 compared to 2019. Changes in depreciation include property, plant and equipment that was fully depreciated in 2019, offset by depreciation for property, plant and equipment that was acquired and placed into service in 2020. Depreciation expense in 2019 included a $20.3 million loss related to a reduction in the value of property that was reclassified from held and used to assets held for sale.

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 $1,093 million in 2020 compared to net gains of $1,635 million in 2019, resulting in an unfavorable variance of $542.1 million. Investment returns were unfavorable by $121.4 million in 2020 compared to the same period in 2019. The System's long-term investment portfolio reported preliminary investment gains of 11.0% for 2020 compared to gains of 12.2% in 2019. Derivative gains and losses were unfavorable by $25.3 million in 2020 compared to 2019. Derivative gains and losses result from changes in currency exchange rates associated with the System's foreign exchange forward currency contracts and changes in interest rate benchmarks associated with the System's interest rate swap agreements, including net interest paid or received under the swap agreements. Other nonoperating gains and losses were unfavorable by $395.4 million in 2020 compared to 2019 primarily due to a $428.4 million member substitution contribution in 2019 related to the acquisitions of Martin Health System and Indian River Hospital. The unfavorable other nonoperating gains and losses were partially offset by favorable net periodic pension cost of $29.2 million and a $6.3 million loss on the extinguishment of debt in 2019 primarily related to bonds previously held by Martin Health System.

BALANCE SHEET – DECEMBER 31, 2020 COMPARED TO DECEMBER 31, 2019

Cash and cash equivalents increased $539.7 million (106.7%) from December 31, 2019 to December 31, 2020. The majority of the System's cash and cash equivalents are held in operating bank accounts and money market accounts for general expenditures. The increase in cash and cash equivalents reflects the System's strategy to maintain additional liquidity during the pandemic. The increase also relates to the timing of operating cash flows and transfers to or from the investment portfolio.

Patient accounts receivable decreased $43.6 million (3.4%) from December 31, 2019 to December 31, 2020. The decrease in patient receivables is primarily attributable to the decrease in patients served due to the impact of the COVID-19 pandemic. The System has various initiatives to enhance cash collection efforts and create efficiencies in the revenue cycle process. Days revenue outstanding for the System, which is calculated based on average daily revenue for the most recent quarter, decreased from 49 days at December 31, 2019 to 45 days at December 31, 2020.

Investments for current use decreased $1.4 million (0.8%) from December 31, 2019 to December 31, 2020. Investments for current use includes funds held by the bond trustee that are used to pay current debt service payments. The System paid $122.7 million to the bond trustee in 2020 to fund debt service payments that occurred in the first quarter of 2021. In 2019 the System paid $119.4 million to the bond trustee to fund debt service payments that occurred in the first quarter of 2020. Investments for current use also includes assets held for self-insurance that will be used to pay the current portion of estimated claim liabilities. Assets held for self-insurance decreased $4.6 million from December 31, 2019 to December 31, 2020.

Other current assets increased $58.1 million (11.9%) from December 31, 2019 to December 31, 2020. The increase in other current assets was primarily due to a $54.0 million increase in inventories driven by an increase in pharmaceutical inventories as well as personal protective equipment and other supplies to safely treat COVID patients and protect caregivers and a $23.1 million increase in grant receivables driven by $17.2 million recorded for FEMA assistance. The increases were partially offset by a $22.9 million decrease in current pledges receivable primarily due to timing of cash collections.

Unrestricted long-term investments increased by $1,082 million (11.7%) from December 31, 2019 to December 31, 2020. The increase in long-term investments was primarily due to $1,128 million of unrestricted investment gains experienced in the System's investment portfolio.

Funds held by trustees decreased $114.9 million (51.0%) from December 31, 2019 to December 31, 2020. The decrease in funds held by trustees is primarily due to $139.6 million of bond project fund draws that reimbursed the System for capital expenditures. The decrease was partially offset by a $24.9 million increase in collateral posted with the counterparties on the System's derivative contracts.

Assets held for self-insurance increased by $21.3 million (13.5%) from December 31, 2019 to December 31, 2020. The increase in self-insurance assets is primarily due to premiums received by the captive insurance subsidiary in excess of claims paid, positive investment returns in the System's captive insurance portfolio and a $4.6 million reclassification of investments from current to long-term based on estimated claim payments. These increases

were offset by a $28.0 million dividend declared by the System's captive insurance subsidiary in 2019 that was paid to the Clinic in 2020.

Donor restricted assets increased $153.3 million (17.8%) from December 31, 2019 to December 31, 2020. The increase in donor restricted assets was primarily from the receipt of donor restricted gifts and investment income on restricted investments in excess of expenditures from restricted funds.

Net property, plant and equipment was flat from December 31, 2019 to December 31, 2020. The System had net expenditures for property, plant and equipment of $577.9 million, offset by depreciation expense of $590.0 million. The System also had proceeds from the sale of property, plant and equipment of $22.5 million and foreign currency translation gains of $28.9 million. The System has received donated capital of $1.8 million in 2020. Capital expenditures in 2020 include amounts paid on retainage liabilities recorded at December 31, 2019 and exclude assets acquired through finance leases and other financing arrangements. Retainage liabilities decreased $23.3 million, and new finance leases totaled $20.3 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. In 2020, the System re-evaluated the scope and timeline for certain capital project to preserve liquidity during the COVID-19 pandemic. For a description of a few of the System's current projects, refer to "EXPANSION AND IMPROVEMENT PROJECTS."

Pledges receivable decreased $29.3 million (18.9%) from December 31, 2019 to December 31, 2020. The decrease was due to the reclassification of pledge receivables from long-term to current.

Operating lease right-of-use assets increased $34.9 million (10.7%) from December 31, 2019 to December 31, 2020. The increase was due to the addition of new operating leases recorded during 2020 offset by the reduction in the value of future lease payments through the recognition of operating lease expenses.

Other noncurrent assets increased $118.1 million (22.4%) from December 31, 2019 to December 31, 2020. The increase in other noncurrent assets was primarily due to a $57.9 million increase in deferred compensation plan assets, a $12.2 million increase in investment in affiliates primarily related to joint venture rehabilitation hospitals and a $10.8 million increase in prepaid pension assets related to defined pension plans that that have plan assets in excess of projected benefit obligation.

Accounts payable decreased $7.9 million (1.5%) from December 31, 2019 to December 31, 2020. The decrease in accounts payable was primarily attributable to the timing of payment processing for trade payables, a $23.3 million decrease in retainage liabilities for current construction projects offset by a $23.5 million increase in outstanding checks.

Compensation and amounts withheld from payroll increased $33.3 million (7.7%) from December 31, 2019 to December 31, 2020. The change was primarily attributable to the timing of payroll and the growth in employee benefit accruals.

Current portion of long-term debt increased $5.6 million (5.9%) from December 31, 2019 to December 31, 2020. Changes in the current portion of long-term debt include the reclassification of regularly scheduled principal payments from long-term to current that are due

within one year, offset by principal payments made in 2020.

Variable-rate debt classified as current increased $60.1 million (11.3%) from December 31, 2019 to December 31, 2020. 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 increase in variable-rate debt classified as current is primarily due to the reclassification of $138.3 million of debt from long-term to current for bonds supported by a standby bond purchase agreement that expires within one year. This increase was offset by the reclassification of $75.4 million from current to long-term for bonds supported by a standby bond purchase agreement that were previously scheduled to expire within one year. The System entered into a new agreement in 2020 that allows the bonds to be classified as long-term.

Other current liabilities increased $164.4 million (28.6%) from December 31, 2019 to December 31, 2020. The increase is primarily due to $86.4 million of current social security payroll tax liabilities that have been deferred under provisions of the CARES Act, $64.1 million of CARES Act Provider Relief Fund payments that were deferred at December 31, 2020 and $12.8 million increase in short term operating lease liabilities.

Long-term debt decreased $115.7 million (2.5%) from December 31, 2019 to December 31, 2020. The decrease in long-term debt is primarily due to the reclassification of regularly scheduled principal payments from long-term to current for debt payments due within one year and $62.9 million of net transfers from long-term debt to variable-rate debt classified as current. These decreases were offset by $30.5 million of foreign currency translation losses on the 2018 Sterling Notes.

Professional and general insurance liability reserves increased $52.1 million (31.8%) from December 31, 2019 to December 31, 2020. The increase in insurance liability reserves is due to expenses recorded for the accrual of current and prior year claims estimates of $71.1 million, a $20.0 million increase in reinsurance recoverable and the reclassification of $4.6 million of claim liabilities from current to long-term. These increases were offset by $43.7 million of claim liability payments during the year.

Accrued retirement benefits decreased $49.3 million (14.2%) from December 31, 2019 to December 31, 2020. The decrease in accrued retirement benefits is comprised of a $56.0 million decrease in the System's defined benefit pension plan liabilities offset by a $6.6 million increase in other postretirement benefit liabilities. The decrease in defined benefit plan liabilities was primarily due to $16.4 million funded to the Indian River defined benefit pension plan and strong investments returns in the pension master trust investment portfolio in 2020. The increase in other postretirement benefit liabilities was primarily due to actuarial losses driven by a decrease in the discount rate used to determine the benefit obligation.

Operating lease liabilities increased $27.0 million (9.1%) from December 31, 2019 to December 31, 2020. The increase in operating lease liabilities was due to the addition of new operating leases recorded during 2020 partially offset by the reclassification of operating lease payments from long-term to current.

Other noncurrent liabilities increased $165.8 million (30.6%) from December 31, 2019 to December 31, 2020. The increase in other

noncurrent liabilities is primarily due to $86.4 million of noncurrent social security payroll tax liabilities that have been deferred under the provisions of the CARES Act, a $55.2 million increase in employee benefit related liabilities, and a $27.7 million increase in liabilities related to the System's derivative agreements.

Total net assets increased $1,483 million (12.6%) from December 31, 2019 to December 31, 2020. Net assets without donor restrictions increased $1,381 million (13.1%) primarily due to the excess of revenues over expenses of $1,325 million and net assets released from restriction for capital purposes of $56.5 million. Net assets with donor restrictions increased $101.8 million (8.4%), primarily due to gifts of $132.4 million and investment income of $82.9 million offset by assets released from restrictions of $118.0 million.

Cleveland, Ohio
Main Cleveland Clinic Building – 1935

FORWARD-LOOKING STATEMENTS

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

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

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

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