Interim Unaudited Consolidated Financial Statements and Other Information

For The Period Ended December 31, 2021

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

Contents

Cleveland Clinic

March 11, 2022

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, 2021 using the framework specified in *Internal Control – Integrated Framework (2013 framework)*, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). During February 2021, Cleveland Clinic Mercy Hospital joined the Cleveland Clinic. Management elected to exclude Cleveland Clinic Mercy Hospital from the assessment of effectiveness of internal control over financial reporting as of December 31, 2021. In our opinion, Cleveland Clinic maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, 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

Unaudited Consolidated Balance Sheets

($ in thousands)

	December 31	
	2021	2020
Assets		
Current assets:		
Cash and cash equivalents	$ 667,500	$ 1,045,393
Patient receivables	1,532,362	1,255,681
Investments for current use	160,786	177,389
Other current assets	619,023	546,722
Total current assets	2,979,671	3,025,185
Investments:		
Long-term investments	12,483,568	10,353,877
Funds held by trustees	69,541	110,307
Assets held for self-insurance	207,114	179,300
Donor restricted assets	1,207,707	1,013,430
	13,967,930	11,656,914
Property, plant, and equipment, net	5,894,500	5,866,974
Other assets:		
Pledges receivable, net	155,593	125,641
Trusts and interests in foundations	120,934	112,425
Operating lease right-of-use assets	355,350	360,841
Other noncurrent assets	792,027	644,570
	1,423,904	1,243,477
Total assets	$ 24,266,005	$ 21,792,550

Unaudited Consolidated Balance Sheets (continued)

($ in thousands)

	December 31	
	2021	2020
Liabilities and net assets		
Current liabilities:		
Accounts payable	$ 663,259	$ 528,794
Compensation and amounts withheld from payroll	524,664	464,249
Current portion of long-term debt	105,022	101,006
Variable rate debt classified as current	449,297	589,891
Other current liabilities	730,802	738,323
Total current liabilities	2,473,044	2,422,263
Long-term debt	4,671,424	4,582,994
Other liabilities:		
Professional and general insurance liability reserves	207,448	216,100
Accrued retirement benefits	286,149	297,741
Operating lease liabilities	314,867	323,682
Other noncurrent liabilities	650,491	707,915
	1,458,955	1,545,438
Total liabilities	8,603,423	8,550,695
Net assets:		
Without donor restrictions	14,107,442	11,921,757
With donor restrictions	1,555,140	1,320,098
Total net assets	15,662,582	13,241,855
Total liabilities and net assets	$ 24,266,005	$ 21,792,550

See notes to unaudited consolidated financial statements.

Unaudited Consolidated Statements of Operations and Changes in Net Assets

($ in thousands)

Operations

	Three Months Ended December 31	
	2021	2020
Unrestricted revenues		
Net patient service revenue	$2,929,793	$2,585,360
Other	416,477	395,321
Total unrestricted revenues	3,346,270	2,980,681
Expenses		
Salaries, wages, and benefits	1,829,114	1,478,258
Supplies	343,698	284,983
Pharmaceuticals	370,424	352,432
Purchased services and other fees	252,760	200,090
Administrative services	60,733	43,209
Facilities	104,768	88,372
Insurance	18,710	15,126
	2,980,207	2,462,470
Operating income before interest, depreciation, and amortization	366,063	518,211
Interest	36,023	37,977
Depreciation and amortization	133,226	140,008
Operating income	196,814	340,226
Nonoperating gains and losses		
Investment return	329,452	925,824
Derivative gains	1,428	12,085
Other, net	5,148	(2,198)
Net nonoperating gains and losses	336,028	935,711
Excess of revenues over expenses	532,842	1,275,937

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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	
	2021	2020
Changes in net assets without donor restrictions:		
Excess of revenues over expenses	$ 532,842	$1,275,937
Donated capital	1,576	(7,883)
Net assets released from restriction for capital purposes	3,255	35,128
Retirement benefits adjustment	(32,606)	(5,989)
Foreign currency translation	(30)	6,416
Other	(100)	(4,011)
Increase in net assets without donor restrictions	504,937	1,299,598
Changes in net assets with donor restrictions:		
Gifts and bequests	105,406	48,449
Net investment income	23,830	70,495
Net assets released from restrictions used for operations included in other unrestricted revenues	(16,429)	(17,716)
Net assets released from restriction for capital purposes	(3,255)	(35,128)
Change in interests in foundations	850	1,923
Change in value of perpetual trusts	1,671	1,349
Other	-	(36)
Increase in net assets with donor restrictions	112,073	69,336
Increase in net assets	617,010	1,368,934
Net assets at beginning of period	15,045,572	11,872,921
Net assets at end of period	$ 15,662,582	$ 13,241,855

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	
	2021	2020
Unrestricted revenues		
Net patient service revenue	$ 10,968,531	$ 9,134,685
Other	1,472,161	1,493,221
Total unrestricted revenues	12,440,692	10,627,906
Expenses		
Salaries, wages, and benefits	6,745,050	5,902,522
Supplies	1,271,100	1,105,710
Pharmaceuticals	1,397,282	1,299,085
Purchased services and other fees	869,791	732,304
Administrative services	192,353	179,205
Facilities	392,834	350,903
Insurance	91,282	78,829
	10,959,692	9,648,558
Operating income before interest, depreciation, and amortization	1,481,000	979,348
Interest	148,098	157,024
Depreciation and amortization	586,642	589,954
Operating income	746,260	232,370
Nonoperating gains and losses		
Investment return	1,402,666	1,127,943
Derivative gains (losses)	20,749	(61,473)
Other, net	40,079	26,404
Net nonoperating gains and losses	1,463,494	1,092,874
Excess of revenues over expenses	2,209,754	1,325,244

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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	
	2021	2020
Changes in net assets without donor restrictions:		
Excess of revenues over expenses	$ 2,209,754	$ 1,325,244
Donated capital	3,436	1,819
Net assets released from restriction for capital purposes	12,592	56,514
Retirement benefits adjustment	(34,753)	(8,136)
Foreign currency translation	(2,439)	9,004
Other	(2,905)	(3,544)
Increase in net assets without donor restrictions	2,185,685	1,380,901
Changes in net assets with donor restrictions:		
Gifts and bequests	214,417	132,381
Net investment income	70,909	82,853
Net assets released from restrictions used for operations included in other unrestricted revenues	(49,034)	(61,465)
Net assets released from restriction for capital purposes	(12,592)	(56,514)
Change in interests in foundations	1,774	2,395
Change in value of perpetual trusts	7,184	747
Other	2,384	1,422
Increase in net assets with donor restrictions	235,042	101,819
Increase in net assets	2,420,727	1,482,720
Net assets at beginning of year	13,241,855	11,759,135
Net assets at end of period	$ 15,662,582	$ 13,241,855

See notes to unaudited consolidated financial statements.

Unaudited Consolidated Statements of Cash Flows

($ in thousands)

	Year Ended December 31	
	2021	2020
Operating activities and net nonoperating gains and losses		
Increase in net assets	$ 2,420,727	$ 1,482,720
Adjustments to reconcile increase in net assets to net cash provided by operating activities and net nonoperating gains and losses:		
Gain on extinguishment of debt	(19,312)	-
Retirement benefits adjustment	34,753	8,136
Net realized and unrealized gains on investments	(1,407,021)	(1,155,392)
Depreciation and amortization	586,662	589,954
Foreign currency translation loss (gain)	2,439	(9,004)
Donated capital	(3,436)	(1,819)
Restricted gifts, bequests, investment income, and other	(294,284)	(218,376)
Accreted interest and amortization of bond premiums	(5,783)	(5,956)
Net (gain) loss in value of derivatives	(42,761)	25,878
Pension Funding	(13,764)	(31,679)
Changes in operating assets and liabilities:		
Patient receivables	(238,690)	43,575
Other current assets	(59,098)	(78,886)
Other noncurrent assets	(135,030)	(146,175)
Accounts payable and other current liabilities	132,416	212,147
Other liabilities	(72,065)	184,203
Net cash provided by operating activities and net nonoperating gains and losses	885,753	899,326
Financing activities		
Proceeds from short-term borrowings	26,500	225,000
Payments on short-term borrowings	(26,500)	(225,000)
Proceeds from long-term borrowings	397,135	16,408
Payments for redemption of long-term debt	(312,238)	(12,660)
Principal payments on long-term debt	(166,647)	(98,498)
Debt issuance costs	(2,996)	(30)
Change in pledges receivables, trusts and interests in foundations	(40,727)	45,328
Restricted gifts, bequests, investment income, and other	294,284	218,376
Net cash provided by financing activities	168,811	168,924
Investing activities		
Expenditures for property, plant and equipment	(509,375)	(577,884)
Proceeds from sale of property, plant and equipment	15,755	22,543
Net change in cash equivalents reported in long-term investments	152,851	441,506
Purchases of investments	(5,560,710)	(6,260,930)
Sales of investments	4,510,712	5,831,084
Payment for business acquisition, less cash assumed	(54,197)	-
Net cash used in investing activities	(1,444,964)	(543,681)
Effect of exchange rate changes on cash	(304)	11,280
(Decrease) increase in cash and cash equivalents	(390,704)	535,849
Cash, cash equivalents and restricted cash at beginning of year	1,173,135	637,286
Cash, cash equivalents and restricted cash at end of period	$ 782,431	$ 1,173,135

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, 2021.

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, 2021, the System operates 19 hospitals with approximately 5,100 staffed beds. Fourteen of the hospitals are operated in the northeast Ohio area, anchored by the Clinic. The System operates 21 outpatient Family Health Centers and 11 ambulatory surgery centers, as well as numerous physician offices, which are located throughout northeast Ohio, and specialized cancer centers in Sandusky and Mansfield, Ohio. In Florida, the System operates five hospitals and a clinic located throughout southeast Florida, outpatient family health centers in West Palm Beach and Port St. Lucie, an outpatient family health and ambulatory surgery center in Coral Springs, and numerous physician offices located throughout southeast Florida. In addition, the System operates a health and wellness center and a sports medicine clinic in Toronto, Canada, and a specialized neurological clinical center in Las Vegas, Nevada. Pursuant to agreements, the System also provides management services for Ashtabula County Medical Center, located in Ashtabula, Ohio, with approximately 120 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 February 2021, the Clinic became the sole member of Mercy Medical Center (Mercy) pursuant to the terms of a member substitution agreement with The Sisters of Charity of St. Augustine Health System, the prior sole member of Mercy. Mercy is a 337-staffed bed hospital serving Stark, Carroll, Wayne, Holmes and Tuscarawas counties and parts of southeastern Ohio.

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

2. Business Combinations

Effective February 1, 2021, the Clinic became the sole member of Mercy 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. The business combination was recorded under the acquisition method of accounting. The System recorded the fair value of the assets acquired of $189.6 million and liabilities assumed of $92.4 million as of February 1, 2021. Total consideration provided to the Sisters of Charity of St. Augustine Health System was $97.2 million, which included assumed indebtedness that was repaid in connection with the acquisition.

The fair value of Mercy's net assets as of February 1, 2021, by major type, is as follows (in thousands):

Net working capital	$	45,057
Investments		3,056
Property and equipment, net		84,913
Other assets		9,013
Noncurrent liabilities assumed		(44,886)
Fair value of net assets		97,153

The results of operations for Mercy are included in the consolidated statement of operations and changes in net assets beginning on February 1, 2021. For the eleven months ended December 31, 2021, Mercy had total unrestricted revenues of $357.6 million, an operating loss of $1.6 million and a deficiency of revenues over expenses of $1.1 million. Additionally, for the eleven months ended December 31, 2021, Mercy recognized a decrease in net assets without donor restrictions of $1.4 million, including a deficiency of revenues over expenses of $1.1 million, and an increase in net assets with donor restrictions of $0.2 million.

Pro forma results of operations and changes in net assets of Mercy for the years ended December 31, 2021 and 2020, as though the business combination transaction had occurred on January 1, 2020, are not material and, accordingly, are not provided.

3. Accounting Policies

Recent Accounting Pronouncements

Adopted

In August 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 System adopted ASU 2018-14 in 2021. The adoption of ASU 2018-14 did not materially impact the consolidated financial statements.

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. Amortization of capitalized implementation costs is required to be presented in the same line item in the statement of operations as the expense for fees associated with the hosting arrangement. The System adopted ASU 2018-15 on January 1, 2021, using a prospective transition method. See cloud computing accounting policies note.

Not Yet Adopted

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 increased net patient service revenue by $92.9 million in 2021. Adjustments arising from a change in the transaction price were not significant in 2020.

The System is paid a prospectively determined rate for the majority of inpatient acute care and outpatient, skilled nursing, and rehabilitation services provided (principally Medicare, Medicaid, and certain insurers). These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Payments for capital are received on a prospective basis for Medicare and 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 2021 or 2020.

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 2021 and 2020 approximated $185 million and $173 million, respectively. The System estimated these costs by calculating a ratio of cost to gross charges and then multiplying that ratio by the gross uncompensated charges associated with providing care to charity patients.

The System participates in the Hospital Care Assurance Program (HCAP). Ohio created HCAP to financially support those hospitals that serve a disproportionate share of low-income patients unable to pay for care. HCAP funds basic, medically necessary hospital services for patients whose family income is at or below the federal poverty level, which includes Medicaid patients and patients without health insurance. The System recorded HCAP expenses of $14.8 million and revenues of $13.8 million for the years ended December 31, 2021 and 2020, respectively, which are reported in net patient service revenue.

3. Accounting Policies (continued)

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. Revenue related to management service agreements for 2021 and 2020 was $118.1 million and $116.2 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.

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, 2021 and 2020 is as follows (in thousands):

	2021	2020
Cash and cash equivalents	**$ 667,500**	$ 1,045,393
Investments for current use	**104,813**	122,669
Restricted cash in investments	**10,118**	5,073
Total cash, cash equivalents, and restricted cash	**$ 782,431**	$ 1,173,135

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

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.

3. Accounting Policies (continued)

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.

Cloud Computing Arrangements

The System has entered into hosting arrangements that are service contracts for various cloud computing arrangements. The System capitalizes implementation costs associated with these arrangements and amortizes the asset on a straight-line basis over the term of the hosting arrangement, including expected renewal periods. As of December 31, 2021, the System has $72.8 million of unamortized capitalized implementation costs, which are recorded in other noncurrent assets in the consolidated balance sheets. For the year ended December 31, 2021, the System recorded $7.1 million of amortization expense in purchased services and other fees in the consolidated statements of operations and changes in net assets.

Impairment of Long-Lived Assets

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

3. Accounting Policies (continued)

Leases

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

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

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

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

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.

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.

3. Accounting Policies (continued)

Fair Value Measurements

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

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

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

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

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

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

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

Goodwill and Other Intangibles

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

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.

3. Accounting Policies (continued)

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 $60.2 million and $57.8 million at December 31, 2021 and 2020, respectively.

Debt Issuance Costs

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

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.

3. Accounting Policies (continued)

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 $232.7 million and $203.7 million in 2021 and 2020, respectively.

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, for the years ended December 31, 2021 and 2020 is as follows (in thousands):

	2021		2020	
Medicare	**$ 4,165,001**	**38%**	$ 3,459,418	38%
Medicaid	**1,126,981**	**10**	886,408	10
Managed care and commercial	**5,482,319**	**50**	4,709,980	51
Self-pay	**194,230**	**2**	78,879	1
Net patient service revenue	**$ 10,968,531**	**100%**	$ 9,134,685	100%

The System's concentration of credit risk relating to patient receivables is limited due to the diversity of patients and payors. Patient receivables consist of amounts due from government programs, commercial insurance companies, other group insurance programs, and private pay patients. Patient receivables due from Medicare, Medicaid, and one commercial payor account for approximately 26%, 7% and 14% of the System's total patient receivables, respectively, at December 31, 2021. Patient receivables due from Medicare, Medicaid, and one commercial payor account for approximately 30%, 9% and 22% of the System's total patient receivables, respectively, at December 31, 2020. Revenues from the Medicare and Medicaid programs and two different commercial payors account for approximately 38%, 10%, 19% and 12% of the System's net patient service revenue, respectively, for 2021. Revenues from the Medicare and Medicaid programs and one commercial payor account for approximately 38%, 10% and 12% of the System's net patient service revenue, respectively, for 2020. 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, 2021 and 2020 is as follows (in thousands):

	2021	2020
Cash, cash equivalents and restricted cash	**$ 782,431**	$ 1,173,135
Money market funds	**564,950**	675,660
Fixed income securities:		
U.S. treasuries	**1,540,626**	1,197,397
U.S. government agencies	**65,000**	57,404
U.S. corporate	**511,272**	522,576
U.S. government agencies asset-backed securities	**319,023**	319,847
Corporate asset-backed securities	**194,258**	221,751
Foreign	**266,566**	252,380
Fixed income mutual funds	**166,156**	230,158
Commingled fixed income funds	**33,894**	126,219
Common and preferred stocks:		
U.S.	**368,066**	285,260
Foreign	**358,655**	268,136
Equity mutual funds	**95,748**	89,239
Commingled equity funds	**1,956,204**	1,739,575
Commingled commodity funds	**900,336**	324,625
Alternative investments:		
Hedge funds	**3,886,307**	3,335,262
Private equity/venture funds	**2,786,724**	2,061,072
Total cash, cash equivalents, and investments	**$ 14,796,216**	$ 12,879,696

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 $8.5 million and $7.1 million at December 31, 2021 and 2020, respectively, in which the System invests directly.

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

Total investment return is comprised of the following for the years ended December 31, 2021 and 2020 (in thousands):

	2021	2020
Other unrestricted revenues:		
Interest income and dividends	**$ 1,831**	$ 1,406
Nonoperating gains and losses, net:		
Interest income and dividends	**87,610**	72,412
Net realized gains on sales of investments	**260,090**	341,800
Net change in unrealized gains on investments	**235,376**	76,723
Income on alternative investments	**850,330**	662,254
Investment management fees	**(30,740)**	(25,246)
	1,402,666	1,127,943
Other changes in net assets:		
Investment income on restricted investments	**70,909**	82,853
Total investment return	**$ 1,475,406**	$ 1,212,202

6. Liquidity and Availability

Financial assets available for general expenditure within one year of December 31, 2021 and 2020 include the following (in thousands):

	2021	2020
Cash and cash equivalents	**$ 667,500**	$ 1,045,393
Patient receivables	**1,532,362**	1,255,681
Long-term investments	**7,079,664**	6,029,764
	$ 9,279,526	$ 8,330,838

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.

The System maintains two lines of credit totaling $300 million as discussed in Note 12. As of December 31, 2021, $300 million was available under the credit facilities.

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

Other current and noncurrent assets at December 31, 2021 and 2020 consist of the following (in thousands):

	2021	2020
Current:		
Inventories	**$ 268,126**	$ 246,507
Prepaid expenses	**111,907**	89,026
Estimated amounts due from third-party payors	**57,016**	1,474
Pledges receivable, current *(Note 11)*	**46,639**	44,372
Research and grants receivables	**28,636**	56,114
Other	**106,699**	109,229
Total other current assets	**$ 619,023**	$ 546,722

	2021	2020
Noncurrent:		
Deferred compensation plan assets	**$ 410,604**	$ 343,728
Goodwill and other intangible assets *(Note 8)*	**129,969**	125,244
Investments in affiliates	**117,821**	97,844
Cloud computing capitalized implementation costs *(Note 3)*	**72,833**	–
Prepaid pension cost	**13,711**	10,844
Other	**47,089**	66,910
Total other noncurrent assets	**$ 792,027**	$ 644,570

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

Other current and noncurrent liabilities at December 31, 2021 and 2020 consist of the following (in thousands):

	2021	2020
Current:		
Management contracts and other deferred revenue	**$ 104,925**	$ 94,680
Deferred social security payroll taxes *(Note 21)*	**88,718**	86,386
Current portion of professional and general liability insurance reserves *(Note 15)*	**87,186**	54,720
Interest payable	**66,771**	72,641
Estimated amounts due to third-party payors	**56,215**	21,644
Operating lease liabilities *(Note 14)*	**50,026**	43,787
Employee benefit related liabilities	**43,629**	35,260
Research deferred revenue	**33,503**	64,068
Other	**199,829**	265,137
Total other current liabilities	**$ 730,802**	$ 738,323

	2021	2020
Noncurrent:		
Employee benefit related liabilities	**$ 464,276**	$ 395,173
Derivative liabilities *(Note 13)*	**117,001**	159,762
Deferred social security payroll taxes *(Note 21)*	**–**	86,386
Estimated amounts due to third-party payors	**19,502**	14,883
Pledge liabilities	**14,562**	16,829
Gift annuity liabilities	**12,347**	13,903
Other	**22,803**	20,979
Total other noncurrent liabilities	**$ 650,491**	$ 707,915

8. Goodwill and Other Intangible Assets

The System recorded goodwill of $4.9 million and $2.9 million in 2021 and 2020, respectively, 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, 2021 and 2020 are as follows (in thousands):

	2021	2020
Balance, beginning of year	**$ 74,420**	$ 71,331
Goodwill acquired	**4,901**	2,895
Foreign currency translation	**1**	194
Balance, end of year	**$ 79,322**	$ 74,420

The System acquired other intangible assets of $0.5 million and $0.9 million in 2021 and 2020, respectively, related to the acquisitions of various physician practices. Other intangible assets are recorded in other noncurrent assets in the consolidated balance sheets.

Other intangible assets at December 31, 2021 and 2020 consist of the following (in thousands):

	2021		2020	
	Historical Cost	Accumulated Amortization	Historical Cost	Accumulated Amortization
Trade name	**$ 49,800**	**$ –**	$ 49,800	$ –
Finite-lived intangible assets	**8,531**	**7,684**	8,024	7,000
Total	**$ 58,331**	**$ 7,684**	$ 57,824	$ 7,000

Amortization related to finite-lived intangible assets was $0.7 million and $0.5 million in 2021 and 2020, respectively, and is included in depreciation and amortization in the consolidated statements of operations and changes in net assets. Future amortization is as follows (in thousands): 2022 – $484, 2023 – $357, and 2024 – $6.

9. Fair Value Measurements

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

December 31, 2021

	Level 1	Level 2	Level 3	Total
Assets				
Cash and investments:				
Cash and cash equivalents	**$ 782,431**	**$ –**	**$ –**	**$ 782,431**
Money market funds	**564,950**	**–**	**–**	**564,950**
Fixed income securities:				
U.S. treasuries	**1,540,626**	**–**	**–**	**1,540,626**
U.S. government agencies	**–**	**65,000**	**–**	**65,000**
U.S. corporate	**–**	**511,272**	**–**	**511,272**
U.S. government agencies asset-backed securities	**–**	**319,023**	**–**	**319,023**
Corporate asset-backed securities	**–**	**194,258**	**–**	**194,258**
Foreign	**–**	**266,566**	**–**	**266,566**
Fixed income mutual funds	**166,156**	**–**	**–**	**166,156**
Common and preferred stocks:				
U.S.	**368,019**	**47**	**–**	**368,066**
Foreign	**342,363**	**16,292**	**–**	**358,655**
Equity mutual funds	**95,748**	**–**	**–**	**95,748**
Total cash and investments	**3,860,293**	**1,372,458**	**–**	**5,232,751**
Perpetual and charitable trusts	**–**	**91,630**	**–**	**91,630**
Total assets at fair value	**$ 3,860,293**	**$ 1,464,088**	**$ –**	**$ 5,324,381**
Liabilities				
Interest rate swaps	**$ –**	**$ 117,001**	**$ –**	**$ 117,001**
Total liabilities at fair value	**$ –**	**$ 117,001**	**$ –**	**$ 117,001**

9. Fair Value Measurements (continued)

December 31, 2020

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

9. Fair Value Measurements (continued)

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

	2021	2020
Cash, cash equivalents, and investments measured at fair value	**$ 5,232,751**	$ 5,292,943
Commingled funds measured at net asset value	**2,890,434**	2,190,419
Alternative investments measured at net asset value	**6,673,031**	5,396,334
Total cash, cash equivalents, and investments	**$ 14,796,216**	$ 12,879,696
Perpetual and charitable trusts measured at fair value	**$ 91,630**	$ 84,894
Interests in foundations	**29,304**	27,531
Trusts and interests in foundations	**$ 120,934**	$ 112,425

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

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

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

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, 2021 and 2020 consist of the following (in thousands):

	2021	2020
Land and improvements	**$ 559,377**	$ 534,519
Buildings	**7,336,868**	7,303,916
Leasehold improvements	**51,219**	35,625
Equipment	**1,954,616**	1,921,575
Computer hardware and software	**878,298**	953,697
Construction-in-progress	**727,768**	502,469
Leased facilities and equipment	**230,002**	207,174
	11,738,148	11,458,975
Accumulated depreciation and amortization	**(5,843,648)**	(5,592,001)
	$ 5,894,500	$ 5,866,974

Included in the preceding table is unamortized computer software of $221.7 million and $265.8 million at December 31, 2021 and 2020, respectively. Amortization of computer software totaled $37.6 million and $44.4 million in 2021 and 2020, respectively. Amortization of computer software for the five years subsequent to December 31, 2021, is as follows (in millions): 2022 – $41.4, 2023 – $36.7, 2024 – $33.3, 2025 – $31.5, and 2026 – $20.4.

Accumulated amortization of leased facilities and equipment was $118.8 million and $104.3 million at December 31, 2021 and 2020, respectively.

11. Pledges Receivable

Outstanding pledges receivable from various corporations, foundations, and individuals at December 31, 2021 and 2020 are as follows (in thousands):

	2021	2020
Pledges due:		
In less than one year	**$ 63,557**	$ 57,668
In one to five years	**110,437**	80,491
In more than five years	**86,622**	83,975
	260,616	222,134
Allowance for uncollectible pledges and discounting	**(58,384)**	(52,121)
Current portion (net of allowance for uncollectible pledges of $16.9 million and $13.3 million in 2021 and 2020, respectively)	**(46,639)**	(44,372)
	$ 155,593	$ 125,641

12. Long-Term Debt

Long-term debt at December 31, 2021 and 2020 consists of the following (in thousands):

	Interest Rate(s)	Final Maturity	Amount Outstanding at December 31 2021	2020
Series 2021A Bonds	2.31%	2049	**$ 83,810**	$ –
Series 2021B Bonds	0.21% to 1.41%	2039	**198,280**	–
Series 2021 Term Loan	0.67%	2025	**64,650**	–
Series 2020 Term Loan	0.84%	2025	**9,375**	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	**897,114**	902,952
Series 2018 Term Loan	–	–	**–**	36,818
Series 2017A Bonds	1.24% to 3.48%	2043	**770,025**	792,350
Series 2017B Bonds	2.22% to 3.70%	2043	**164,775**	166,290
Series 2017C Bonds	2.72%	2032	**7,680**	8,135
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	**52,450**	54,760
Series 2013 Bonds	Variable rate	2032	**12,640**	14,455
Series 2012A Bonds	2.50%	2022	**10,800**	266,060
Series 2011A Bonds	–	–	**–**	79,285
Series 2011B Bonds	1.43%	2031	**21,710**	23,345
Series 2011C Bonds	3.85% to 4.72%	2032	**112,025**	127,740
Series 2008B Bonds	Variable rate	2042	**327,575**	327,575
Series 2003C Bonds	Variable rate	2035	**41,905**	41,905
Notes payable	Varies	Varies	**2,274**	2,901
Finance leases	Varies	Varies	**123,119**	110,621
			5,084,842	5,152,487
Net unamortized premium			**172,843**	154,012
Unamortized debt issuance costs			**(31,942)**	(32,608)
Current portion			**(105,022)**	(101,006)
Long-term variable rate debt classified as current			**(449,297)**	(589,891)
			$ 4,671,424	$ 4,582,994

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 2021 Term Loan, 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 January 2021, the System entered into a taxable term loan agreement with a financial institution for $64.7 million. The loan matures in 2025 and bears interest at a fixed rate of 0.67%. The proceeds of the taxable term loan were used to refund all of the remaining outstanding Series 2011A Bonds. The System recorded a gain on extinguishment of debt of $4.2 million related to this transaction, which is recorded in other nonoperating gains and losses in the consolidated statements of operations and changes in net assets.

In July 2021, 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 $83.8 million of fixed-rate State of Ohio Hospital Revenue Bonds (Series 2021A Bonds) for the benefit of the System. At the same time, the State also entered into a Forward Delivery Contract of Purchase related to $198.3 million of fixed-rate State of Ohio Hospital Revenue Refunding Bonds (Series 2021B Bonds) for the benefit of the System. The Series 2021B bonds were settled and delivered on October 5, 2021. Proceeds from the issuance of the Series 2021A Bonds were used for the purpose of financing a portion of the costs of the System's acquisition of the sole membership interest in Mercy and paying the cost of issuance. Proceeds from the issuance of the Series 2021B Bonds were used to refund a portion of the Series 2012A Bonds and pay the cost of issuance. The System recorded a gain on extinguishment of debt of $15.1 million related to this transaction, which is recorded in other nonoperating gains and losses in the consolidated statements of operations and changes in net assets.

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.

12. Long-Term Debt (continued)

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, 2021 or 2020.

Certain of the System's current outstanding bonds bear interest at a variable rate. During 2021 and 2020, the rates for the System's variable rate long-term debt series ranged from 0.01% to 1.13% (average rate 0.13%) and 0.01% to 9.00% (average rate 0.60%), respectively.

Certain variable rate bonds are secured by irrevocable direct pay letters of credit and standby bond purchase agreements, totaling $609.2 million at December 31, 2021. 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 2020, the System obtained lines of credit totaling $650 million with multiple financial institutions. Each of the lines matured in 2021 and bore 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 on these lines of credit. In 2021, four of the lines of credit totaling $425 million expired or were terminated. Additionally, one of the lines of credit was increased to $150 million and extended to April 22, 2024, and the other line of credit was increased to $150 million and extended to May 24, 2023. As of December 31, 2021, the System has two operating lines of credit totaling $300 million with no amounts drawn and $300 million in available capacity.

12. Long-Term Debt (continued)

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, 2021 or 2020. The System has made deposits with the trustee, included in investments for current use, to fund current principal and interest payments of $104.8 million and $122.7 million at December 31, 2021 and 2020, 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, 2021 and 2020.

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, 2021, are as follows (in thousands): 2022 – $77,818, 2023 – $78,914, 2024 – $79,789, 2025 – $82,238, and 2026 – $85,047.

Total interest paid approximated $157.7 million and $160.6 million in 2021 and 2020, respectively. Capitalized interest cost approximated $3.8 million and $4.4 million in 2021 and 2020, 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 gains (losses) in the consolidated statements of operations and changes in net assets.

13. Derivative Instruments (continued)

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

Swap Type	Expiration Date	System Pays	System Receives	Notional Amount at December 31 2021	2020
Fixed	2021	3.21%	68% of LIBOR	**$ –**	$ 26,865
Fixed	2024	3.42%	68% of LIBOR	**22,750**	24,250
Fixed	2024	3.45%	67% of LIBOR	**3,850**	5,040
Fixed	2027	3.56%	68% of LIBOR	**106,519**	111,226
Fixed	2028	5.12%	100% of LIBOR	**32,900**	34,195
Fixed	2028	3.51%	68% of LIBOR	**25,315**	26,405
Fixed	2030	5.07%	100% of LIBOR	**52,175**	54,300
Fixed	2030	5.06%	100% of LIBOR	**52,150**	54,275
Fixed	2031	3.04%	68% of LIBOR	**37,725**	40,925
Fixed	2032	4.32%	79% of LIBOR	**1,873**	1,986
Fixed	2032	4.33%	70% of LIBOR	**3,745**	3,973
Fixed	2032	3.78%	70% of LIBOR	**1,873**	1,986
Fixed	2032	3.58%	67% of LIBOR	**8,790**	9,415
Fixed	2036	4.90%	100% of LIBOR	**48,125**	48,325
Fixed	2036	4.90%	100% of LIBOR	**74,950**	75,125
Fixed	2037	4.62%	100% of SIFMA	**52,450**	54,760
Fixed	2039	4.62%	68% of LIBOR	**20,740**	20,885
				$ 545,930	$ 593,936

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

The System had foreign currency forward contracts, maturing at various dates through April 2021, with no contracts outstanding at December 31, 2021, and a total outstanding notional amount of $68.1 million at December 31, 2020.

13. Derivative Instruments (continued)

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

	Derivative Assets and Liabilities			
	December 31, 2021		December 31, 2020	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives not designated as hedging instruments				
Interest rate swap agreements	Other noncurrent liabilities	**$ 117,001**	Other noncurrent liabilities	$ 159,762
Foreign currency contracts	Other current assets	**–**	Other current assets	366

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

	Location of Loss Recognized	Year Ended December 31 2021	2020
Derivatives not designated as hedging instruments			
Interest rate swap agreements	Derivative gains (losses)	**$ 19,424**	$ (51,287)
Foreign currency contracts	Derivative gains (losses)	**1,325**	(10,186)

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, 2021 and 2020, the System posted $63.2 million and $102.4 million, respectively, of collateral with counterparties that is included in funds held by trustees in the consolidated balance sheets. In addition, if the System were to choose to terminate a derivative contract or if a derivative contract were terminated pursuant to an event of default or a termination event as described in the derivative contract, the System could be required to pay a termination payment to the counterparty.

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, 2021 and 2020 were as follows (in thousands):

Operating leases	**2021**	**2020**
Right-of-use assets:		
Operating lease assets	**$ 355,350**	$ 360,841
Lease liabilities:		
Other current liabilities	**$ 50,026**	$ 43,787
Noncurrent operating lease liabilities	**314,867**	323,682
Total operating lease liabilities	**$ 364,893**	$ 367,469
Finance leases		
Right-of-use assets:		
Property, plant, and equipment, net	**$ 111,166**	$ 102,846
Lease liabilities:		
Current portion of long-term debt	**$ 27,204**	$ 26,409
Long-term debt	**95,915**	84,212
Total finance lease liabilities	**$ 123,119**	$ 110,621

Operating expenses for the leasing activity of the System as lessee for the years ended December 31, 2021 and 2020 are as follows (in thousands):

Lease Type	**Classification**	**2021**	**2020**
Operating lease costs*	Facilities expense	**$ 55,119**	$ 52,508
Short-term lease costs	Facilities expense	**22,133**	16,895
Financing lease interest	Interest expense	**5,448**	4,776
Financing lease amortization	Depreciation and amortization	**30,051**	29,264
Total lease cost		**$ 112,751**	$ 103,443

* Includes fixed and variable lease costs.

14. Leases (continued)

Cash paid for amounts included in the measurement of lease liabilities for the years ended December 31, 2021 and 2020 was as follows (in thousands):

	2021	2020
Operating cash flows from operating leases	**$ 51,654**	$ 48,153
Operating cash flows from finance leases	**5,448**	4,776
Financing cash flows from finance leases	**27,483**	27,715
Total	**$ 84,585**	$ 80,644

Right-of-use assets obtained in exchange for new lease obligations for the years ended December 31, 2021 and 2020 are as follows (in thousands):

	2021	2020
Operating leases	**$ 27,454**	$ 55,786
Finance leases	**29,016**	20,283
Total	**$ 56,470**	$ 76,069

The aggregate future lease payments for operating and finance leases as of December 31, 2021 were as follows (in thousands):

	Operating	Finance
2022	$ 54,807	$ 32,408
2023	46,741	26,424
2024	40,464	21,405
2025	21,475	14,326
2026	20,690	9,827
Thereafter	1,365,415	73,983
Total lease payments	1,549,592	178,373
Less interest	(1,184,699)	(55,254)
Present value of lease liabilities	$ 364,893	$ 123,119

14. Leases (continued)

Average lease terms and discount rates at December 31, 2021 and 2020 were as follows:

	2021	2020
Weighted average remaining lease term (years):		
Operating leases	**52.4**	49.6
Finance leases	**8.8**	6.5
Weighted average discount rate:		
Operating leases	**2.5%**	2.6%
Finance leases	**4.1**	3.9

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 8.0 years and 8.1 years at December 31, 2021 and 2020, 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.

15. Professional and General Liability Insurance (continued)

The System's professional and general liability insurance reserves of $294.6 million and $270.8 million at December 31, 2021 and 2020, respectively, are recorded as current and noncurrent liabilities and include discounted estimates of the ultimate costs for both asserted claims and unasserted claims. Asserted claims for the System's reserves were discounted at 1.00% and 0.50% at December 31, 2021 and 2020, respectively. Unasserted claims were discounted at 1.25% and 0.50% at December 31, 2021 and 2020, respectively. Through the captive insurance subsidiary, the System has set aside investments of $263.1 million ($56.0 million included in investments for current use) and $234.0 million ($54.7 million included in investments for current use) at December 31, 2021 and 2020, respectively, of which $46.1 million and $46.7 million at December 31, 2021 and 2020, 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.

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

	2021	2020
Balance at beginning of year	**$ 270,820**	$ 223,362
Incurred related to:		
Current period	**84,020**	72,446
Prior period	**(13,436)**	(1,338)
Total incurred	**70,584**	71,108
Paid related to:		
Current period	**4,896**	2,129
Prior period	**29,273**	41,547
Total paid	**34,169**	43,676
Total incurred less total paid	**36,415**	27,432
Increase in unasserted claims	**7,399**	26
(Decrease) increase in reinsurance recoverable	**(20,000)**	20,000
Balance at end of year	**$ 294,634**	$ 270,820

The foregoing reconciliation shows $13.4 million and $1.3 million of favorable development in 2021 and 2020, 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, Mercy Hospital, Union Hospital or Indian River Hospital. All benefit accruals under the CCHS Retirement Plan ceased as of December 31, 2012. Martin Health System had a tax-qualified defined benefit plan covering substantially all of its employees who were hired before October 1, 2005, and met certain eligibility requirements. All benefit accruals under the Martin Health System defined benefit plan ceased as of January 1, 2013. On June 30, 2019, the Martin Health System defined benefit pension plan merged with the CCHS Retirement Plan, with the CCHS Retirement Plan being a single continuing pension plan. Akron General has a tax-qualified defined benefit plan covering substantially all of its employees who were hired before 2004 and meet certain eligibility requirements. All benefit accruals under the Akron General defined benefit plan ceased as of December 31, 2017. Indian River Hospital has a tax-qualified defined benefit plan covering substantially all of its employees who were hired before December 31, 2002 and meet certain eligibility requirements. All benefit accruals under the Indian River Hospital defined benefit plan ceased as of December 31, 2002. The benefits for the System's tax-qualified defined benefit pension plans are provided based on age, years of service, and compensation. The System's policy for its tax-qualified defined benefit pension plans is to fund at least the minimum amounts required by the Employee Retirement Income Security Act of 1974. The System maintains two unfunded, nonqualified defined benefit supplemental retirement plans, which cover certain professional staff and administrative employees.

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

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 Mercy Hospital, Union Hospital or Indian River Hospital. The System's healthcare plans generally provide for cost sharing, in the form of retiree contributions, deductibles, and coinsurance. The System's policy is to fund the annual cost of healthcare benefits from the general assets of the System. The estimated cost of these postretirement benefits is actuarially determined and accrued over the employees' service periods.

The mortality tables used to calculate the defined benefit obligation for the System's defined benefit and postretirement health benefit plans at December 31, 2021, are based on the Pri-2012 "Employees," "Healthy Retiree" and "Contingent Annuitant" tables, fully generational for employees reflecting an unadjusted MP-2021 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, 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 System believes that the updated mortality rates are the best estimate of future experience.

The System expects to make contributions of $10.2 million to the defined benefit pension plans in 2022. Pension benefit payments over the next ten years are estimated as follows: 2022 – $173.8 million, 2023 – $126.1 million, 2024 – $127.2 million, 2025 – $123.7 million, 2026 – $124.0 million, and in the aggregate for the five years thereafter – $578.1 million.

The System expects to make contributions of $0.2 million to other postretirement benefit plans in 2022. Other postretirement benefit payments over the next ten years are estimated as follows: 2022 – $0.2 million, 2023 – $3.1 million, 2024 – $2.8 million, 2025 – $2.5 million, 2026 – $2.1 million, and in the aggregate for the five years thereafter – $8.4 million.

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

16. Pensions and Other Postretirement Benefits (continued)

Included in net assets without donor restrictions at December 31, 2021 and 2020 are the following amounts that have not yet been recognized in net periodic benefit cost (in thousands):

	Defined Benefit Pension Plans		Other Postretirement Benefits	
	2021	**2020**	**2021**	**2020**
Unrecognized actuarial losses	**$ 172,828**	$ 144,563	**$ 6,711**	$ 3,718
Unrecognized prior service credit	**(10,684)**	(13,226)	**(4,184)**	(5,137)
Total	**$ 162,144**	$ 131,337	**$ 2,527**	$ (1,419)

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

Changes in plan assets and benefit obligations recognized in net assets without donor restrictions for the years ended December 31, 2021 and 2020 are as follows (in thousands):

	Defined Benefit Pension Plans		Other Postretirement Benefits	
	2021	**2020**	**2021**	**2020**
Current year actuarial loss	**$ (44,932)**	$ (5,255)	**$ (2,927)**	$ (8,951)
Recognition of actuarial loss (gain) in excess of corridor	**16,667**	11,797	**(66)**	(2,233)
Amortization of prior service credit	**(2,542)**	(2,542)	**(953)**	(952)
Total	**$ (30,807)**	$ 4,000	**$ (3,946)**	$ (12,136)

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, 2021 and 2020, consolidated balance sheets (in thousands):

	Defined Benefit Pension Plans		Other Postretirement Benefits	
	2021	**2020**	**2021**	**2020**
Change in projected benefit obligation:				
Projected benefit obligation at beginning of year	**$2,039,751**	$1,959,040	**$ 85,674**	$ 79,525
Service (credit) cost	**(5,045)**	(4,714)	**1,038**	1,160
Interest cost	**51,586**	63,802	**2,695**	2,913
Actuarial (gain) loss	**(33,824)**	157,445	**2,927**	8,951
Participant contributions	**–**	–	**22,137**	18,856
Settlement payments	**(82,006)**	(76,375)	**–**	–
Benefits paid	**(60,244)**	(59,447)	**(26,984)**	(25,731)
Projected benefit obligation at end of year	**1,910,218**	2,039,751	**87,487**	85,674
Change in plan assets:				
Fair value of plan assets at beginning of year	**1,825,925**	1,678,138	**–**	–
Actual return on plan assets	**22,355**	258,805	**–**	–
Participant contributions	**–**	–	**22,137**	18,856
System contributions	**8,917**	24,804	**4,847**	6,875
Benefits paid	**(142,250)**	(135,822)	**(26,984)**	(25,731)
Fair value of plan assets at end of year	**1,714,947**	1,825,925	**–**	–
Accrued retirement benefits	**$ (195,271)**	$ (213,826)	**$ (87,487)**	$ (85,674)
Noncurrent assets	**$ 13,711**	$ 10,844	**$ –**	$ –
Current liabilities	**(10,152)**	(8,835)	**(168)**	(3,768)
Noncurrent liabilities	**(198,830)**	(215,835)	**(87,319)**	(81,906)
Net liability recognized in consolidated balance sheets	**$ (195,271)**	$ (213,826)	**$ (87,487)**	$ (85,674)

16. Pensions and Other Postretirement Benefits (continued)

The accumulated benefit obligation for all defined benefit pension plans was $1.9 billion and $2.0 billion at December 31, 2021 and 2020, respectively. At December 31, 2021, defined benefit pension plans that had projected benefit obligations in excess of the fair value of plan assets had total accumulated benefit obligations of $190.9 million, projected benefit obligations of $209.0 million and no plan assets. At December 31, 2021, defined benefit pension plans that had fair value of plan assets in excess of projected benefit obligations had total accumulated benefit obligations and projected benefit obligations of $1.7 billion and fair value of plan assets of $1.7 billion. 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 and 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.

Actuarial gains and losses related to changes in the benefit obligation of defined benefit pension plans were $33.8 million of gains and $157.4 million of losses in 2021 and 2020, respectively. Significant components of gains and losses impacting defined benefit pension plans include changes in the discount rate, demographic experience changes and updates to the mortality assumption. Actuarial losses related to changes in the benefit obligation of other postretirement benefit plans were $2.9 million and $9.0 million in 2021 and 2020, respectively. Significant components of gains and losses impacting other postretirement benefit plans include changes in the discount rate, updates to healthcare claim costs and updates to the mortality assumption.

The CCHS Retirement Plan paid $82.0 million and $76.4 million in lump-sum payments in accordance with plan terms in 2021 and 2020, 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 $7.4 million and $5.3 million for the years ended December 31, 2021 and 2020, respectively.

16. Pensions and Other Postretirement Benefits (continued)

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

	Defined Benefit Pension Plans		Other Postretirement Benefits	
	2021	**2020**	**2021**	**2020**
Components of net periodic benefit cost:				
Service (credit) cost	**$ (5,045)**	$ (4,714)	**$ 1,038**	$ 1,160
Interest cost	**51,586**	63,802	**2,695**	2,913
Expected return on plan assets	**(101,112)**	(106,615)	**–**	–
Recognition of actuarial loss (gain) in excess of corridor	**9,296**	6,481	**(66)**	(2,233)
Settlement charge	**7,371**	5,316	**–**	–
Amortization of prior service credit	**(2,542)**	(2,542)	**(953)**	(952)
Net periodic benefit (credit) cost	**(40,446)**	(38,272)	**2,714**	888
Defined contribution plans	**304,712**	276,624	**–**	–
Total	**$ 264,266**	$ 238,352	**$ 2,714**	$ 888

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	
	2021	**2020**	**2021**	**2020**
Weighted average assumptions:				
Discount rates:				
Used for benefit obligations	**2.99%**	2.65%	**3.14%**	3.17%
Used for net periodic benefit cost	**2.65**	3.41	**3.17**	3.71
Expected rate of return on plan assets	**5.79**	6.59	**–**	–
Rate of compensation increase:			**–**	
Used for benefit obligations	**2.25**	2.25	**–**	–
Used for net periodic benefit cost	**2.25**	2.25	**–**	–
Crediting interest rate on cash balance plans	**5.93**	5.93	**–**	–

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

16. Pensions and Other Postretirement Benefits (continued)

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

	2021	2020
Internally provided services:		
Initial rate	**5.50%**	5.75%
Ultimate rate	**4.00**	4.00
Year ultimate reached	**2028**	2028
Externally provided services:		
Initial rate	**6.50%**	6.75%
Ultimate rate	**5.00**	5.00
Year ultimate reached	**2028**	2028

The System's weighted average asset allocation of pension plan assets at December 31, 2021 and 2020, by asset category, is as follows:

	Percentage of Plan Assets		
	2021	2020	Target Allocation
Asset category			
Interest-bearing cash	**4.6%**	3.2%	1%–5%
Fixed income securities	**73.8**	69.5	60%–90%
Common and preferred stocks	**6.1**	8.6	3%–25%
Alternative investments	**15.5**	18.7	0%–19%
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.

16. Pensions and Other Postretirement Benefits (continued)

The System's weighted average pension portfolio return assumption of 5.79% and 6.59% in 2021 and 2020, 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.

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.

16. Pensions and Other Postretirement Benefits (continued)

The following tables present the financial instruments in the System's defined benefit pension plans measured at fair value on a recurring basis as of December 31, 2021 and 2020, based on the valuation hierarchy (in thousands):

December 31, 2021

	Level 1	Level 2	Level 3	Total
Assets				
Cash and investments:				
Cash and cash equivalents	**$ 79,058**	**$ 36**	**$ –**	**$ 79,094**
Fixed income securities:				
U.S. treasuries	**386,241**	**–**	**–**	**386,241**
U.S. government agencies	**–**	**15,244**	**–**	**15,244**
U.S. corporate	**–**	**517,003**	**–**	**517,003**
Foreign	**–**	**130,210**	**–**	**130,210**
Common and preferred stocks:				
U.S.	**1,801**	**–**	**–**	**1,801**
Foreign	**–**	**1**	**–**	**1**
Total assets at fair value	**$ 467,100**	**$ 662,494**	**$ –**	**$1,129,594**

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)

Total plan assets in the System's defined benefit pension plans at December 31, 2021 and 2020 are comprised of the following (in thousands):

	2021	2020
Plan assets measured at fair value	**$ 1,129,594**	$ 910,467
Commingled funds measured at net asset value	**320,154**	573,951
Alternative investments measured at net asset value	**265,199**	341,507
Total fair value of plan assets at end of year	**$ 1,714,947**	$ 1,825,925

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

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

16. Pensions and Other Postretirement Benefits (continued)

Alternative investments include hedge funds and private equity funds that are valued using net asset value as a practical expedient. Hedge funds are meant to provide returns between those expected from stocks and fixed income investments with commensurate levels of risk and lower correlation relative to traditional investments. Included in this category are investments that are well diversified across various strategies and may consist of absolute return funds, long/short funds, and other opportunistic/multi-strategy funds. The underlying investments in such funds may include publicly traded and privately held equity and debt instruments issued by U.S. and international corporations as well as various derivatives based on these securities. Hedge fund redemptions typically contain restrictions that allow for a portion of the withdrawal proceeds to be held back from distribution while the underlying investments are liquidated. Private equity 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. Generally, the System is no longer subject to U.S. federal, state, and local tax examinations by tax authorities for years before 2018 and non-U.S. income tax examinations for years before 2016.

At December 31, 2021 and 2020, the liability for uncertainty in income taxes was $2.0 million and $1.5 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 $784.3 million and $588.9 million at December 31, 2021 and 2020, respectively. The temporary differences primarily relate to net operating losses available for income tax purposes. The majority of these losses expire in varying amounts through 2037. A deferred tax asset of $179.8 million and $121.0 million has been recorded at December 31, 2021 and 2020, respectively. A valuation allowance of $179.8 million and $121.0 million has been recorded at December 31, 2021 and 2020, respectively, against the deferred tax assets due to the uncertainty regarding their use.

18. Commitments and Contingent Liabilities

At December 31, 2021, the System has commitments for construction and other related capital contracts of $294.2 million and letters of credit of $12.6 million. Guarantees of mortgage loans made by banks to certain staff members are $19.7 million at December 31, 2021. In addition, the System has remaining commitments to invest approximately $1,382 million in alternative investments at December 31, 2021. The largest commitment at December 31, 2021, to any one alternative strategy manager is $58.0 million. These investments are generally expected to occur within the next five years. No amounts have been recorded in the consolidated balance sheets for these commitments and guarantees.

Pledge liabilities to various foundations and other entities at December 31, 2021, are as follows (in thousands): 2022 – $5,700, 2023 – $1,100, 2024 – $5,200, 2025 – $1,100, 2026 – $5,200, and thereafter – $3,700. The unamortized discount on pledge liabilities at December 31, 2021, was $1.7 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 376 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.

19. Endowment (continued)

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, 2021 or 2020. 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, 2021 and 2020 (in thousands):

	2021	2020
Endowment net assets, beginning of year	**$ 537,605**	$ 467,850
Investment income	**3,241**	2,590
Net appreciation	**69,103**	57,121
Contributions	**22,490**	26,948
Appropriation of endowment assets for expenditure	**(9,830)**	(16,904)
Endowment net assets, end of year	**$ 622,609**	$ 537,605

20. Functional Expenses

The following table presents expenses by both their nature and their function for the years ended December 31, 2021 and 2020 (in thousands):

	2021					
	Healthcare Services	**Research**	**Medical Education**	**General and Administrative**	**Non-Healthcare Services**	**Total**
Salaries, wages, and benefits	**$ 5,333,262**	**$ 194,843**	**$ 366,869**	**$ 764,755**	**$ 85,321**	**$ 6,745,050**
Supplies	**1,208,726**	**25,021**	**6,527**	**20,983**	**9,843**	**1,271,100**
Pharmaceuticals	**1,395,022**	**198**	**1**	**2,056**	**5**	**1,397,282**
Purchased services and other fees	**546,073**	**8,458**	**13,104**	**288,749**	**13,407**	**869,791**
Administrative services	**67,396**	**38,966**	**22,869**	**30,507**	**32,615**	**192,353**
Facilities	**349,528**	**4,919**	**960**	**22,051**	**15,376**	**392,834**
Insurance	**88,909**	**–**	**209**	**1,605**	**559**	**91,282**
Interest	**138,471**	**1,526**	**–**	**455**	**7,646**	**148,098**
Depreciation and amortization	**425,834**	**10,747**	**343**	**133,551**	**16,167**	**586,642**
	$ 9,553,221	**$ 284,678**	**$ 410,882**	**$ 1,264,712**	**$ 180,939**	**$ 11,694,432**

	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

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. The System has worked 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. The System has also provided extensive education to patients on the precautions that have been implemented to keep patients and caregivers safe during their appointments and procedures. Throughout the pandemic, the System has remained focused on creating a safe environment for patients and caregivers to ensure the availability of care for early identification of diseases and helping patients in managing chronic diseases. The System has taken, and continues to take, actions to mitigate the effect of the pandemic on its financial condition and results of operations; however, the outcome and ultimate effect of the pandemic on the System's consolidated financial statements cannot be determined at this time.

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

The PRF and ARP rural payments provide 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 HHS 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. The System received $222.0 million and $423.3 million of payments in 2021 and 2020, respectively. The System recognized $222.0 million and $359.2 million in other unrestricted revenues in 2021 and 2020, respectively, based on the terms and conditions of the payments. The remaining $64.1 million is included in other current liabilities at December 31, 2021 and 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. The System recognized $0.6 million and $28.4 million of ERC in other unrestricted revenues in 2021 and 2020, respectively.

21. COVID-19 (continued)

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. The System has deferred payroll tax payments of $88.7 million and $172.8 million at December 31, 2021 and 2020, respectively, which are recorded in other current liabilities and other noncurrent liabilities.

Additionally, the System submitted claims to the Federal Emergency Management Agency (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. The System recognized $6.7 million and $67.2 million of FEMA grant revenue in other unrestricted revenues in 2021 and 2020, respectively.

22. Subsequent Events

The System evaluated events and transactions occurring subsequent to December 31, 2021 through March 31, 2022, the date the unaudited consolidated financial statements were issued. During this period, there were no subsequent events requiring recognition in the consolidated financial statements, and there were no nonrecognized subsequent events requiring disclosure.

Unaudited Consolidating Balance Sheets

($ in thousands)

	December 31, 2021			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments and Eliminations	Consolidated
Assets				
Current assets:				
Cash and cash equivalents	$ 303,834	$ 363,666	$ –	$ 667,500
Patient receivables	1,274,240	288,999	(30,877)	1,532,362
Due from affiliates	48,181	242	(48,423)	–
Investments for current use	104,813	55,973	–	160,786
Other current assets	622,389	108,801	(112,167)	619,023
Total current assets	2,353,457	817,681	(191,467)	2,979,671
Investments:				
Long-term investments	11,100,040	1,383,528	–	12,483,568
Funds held by trustees	69,541	–	–	69,541
Assets held for self-insurance	–	207,114	–	207,114
Donor-restricted assets	1,124,486	83,221	–	1,207,707
	12,294,067	1,673,863	–	13,967,930
Property, plant, and equipment, net	4,275,212	1,619,288	–	5,894,500
Other assets:				
Pledges receivable, net	151,457	4,136	–	155,593
Trusts and interests in foundations	70,913	50,021	–	120,934
Operating lease right-of-use assets	112,486	242,864	–	355,350
Other noncurrent assets	952,127	132,140	(292,240)	792,027
	1,286,983	429,161	(292,240)	1,423,904
Total assets	$ 20,209,719	$ 4,539,993	$ (483,707)	$ 24,266,005

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, 2021			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments and Eliminations	Consolidated
Liabilities and net assets				
Current liabilities:				
Accounts payable	$ 506,864	$ 156,405	$ (10)	$ 663,259
Compensation and amounts withheld from payroll	457,264	67,400	–	524,664
Current portion of long-term debt	98,055	6,967	–	105,022
Variable rate debt classified as current	399,438	49,859	–	449,297
Due to affiliates	5	48,418	(48,423)	–
Other current liabilities	620,671	247,970	(137,839)	730,802
Total current liabilities	2,082,297	577,019	(186,272)	2,473,044
Long-term debt	3,788,616	1,172,368	(289,560)	4,671,424
Other liabilities:				
Professional and general liability insurance reserves	73,102	134,346	–	207,448
Accrued retirement benefits	284,735	1,414	–	286,149
Operating lease liabilities	78,388	236,479	–	314,867
Other noncurrent liabilities	603,973	51,713	(5,195)	650,491
	1,040,198	423,952	(5,195)	1,458,955
Total liabilities	6,911,111	2,173,339	(481,027)	8,603,423
Net assets:				
Without donor restrictions	11,880,683	2,229,439	(2,680)	14,107,442
With donor restrictions	1,417,925	137,215	–	1,555,140
Total net assets	13,298,608	2,366,654	(2,680)	15,662,582
Total liabilities and net assets	$ 20,209,719	$ 4,539,993	$ (483,707)	$ 24,266,005

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
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 Statements of Operations and Changes in Net Assets

($ in thousands)

Operations

	Three Months Ended December 31, 2021			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments and Eliminations	Consolidated
Unrestricted revenues				
Net patient service revenue	$ 2,473,026	$ 549,986	$ (93,219)	$ 2,929,793
Other	333,294	136,494	(53,311)	416,477
Total unrestricted revenues	2,806,320	686,480	(146,530)	3,346,270
Expenses				
Salaries, wages, and benefits	1,535,863	401,500	(108,249)	1,829,114
Supplies	275,013	68,720	(35)	343,698
Pharmaceuticals	323,570	46,854	–	370,424
Purchased services and other fees	196,629	64,901	(8,770)	252,760
Administrative services	26,999	40,549	(6,815)	60,733
Facilities	77,747	27,513	(492)	104,768
Insurance	23,840	17,014	(22,144)	18,710
	2,459,661	667,051	(146,505)	2,980,207
Operating income before interest, depreciation and amortization	346,659	19,429	(25)	366,063
Interest	27,782	8,241	–	36,023
Depreciation and amortization	112,963	20,288	(25)	133,226
Operating income (loss)	205,914	(9,100)	–	196,814
Nonoperating gains and losses				
Investment income	303,846	25,606	–	329,452
Derivative gains (losses)	2,026	(598)	–	1,428
Other, net	7,963	(2,815)	–	5,148
Net nonoperating gains	313,835	22,193	–	336,028
Excess of revenues over expenses	519,749	13,093	–	532,842

(continued on next page)

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, 2021			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments and Eliminations	Consolidated
Changes in net assets without donor restrictions				
Excess of revenues over expenses	$ 519,749	$ 13,093	$ –	$ 532,842
Donated capital	1,429	147	–	1,576
Net assets released from restriction for capital purposes	3,029	226	–	3,255
Retirement benefits adjustment	(24,919)	(7,687)	–	(32,606)
Foreign currency translation	–	(30)	–	(30)
Other	(39,296)	39,756	(560)	(100)
Increase in net assets without donor restrictions	459,992	45,505	(560)	504,937
Changes in net assets with donor restrictions				
Gifts and bequests	103,644	1,762	–	105,406
Net investment income	21,086	2,744	–	23,830
Net assets released from restrictions used for operations included in other unrestricted revenues	(14,212)	(2,217)	–	(16,429)
Net assets released from restriction for capital purposes	(3,051)	(204)	–	(3,255)
Change in interests in foundations	850	–	–	850
Change in value of perpetual trusts	806	865	–	1,671
Other	814	(814)	–	–
Increase in net assets with donor restrictions	109,937	2,136	–	112,073
Increase in net assets	569,929	47,641	(560)	617,010
Net assets at beginning of period	12,728,679	2,319,013	(2,120)	15,045,572
Net assets at end of period	$ 13,298,608	$ 2,366,654	$ (2,680)	$ 15,662,582

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, 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 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 gains (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

(continued on next page)

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	45,940	2,509	–	48,449
Net investment income	65,965	4,530	–	70,495
Net assets released from restrictions used for operations included in other unrestricted revenues	(14,993)	(2,723)	–	(17,716)
Net assets released from restriction for capital purposes	(27,005)	(8,123)	–	(35,128)
Change in interests in foundations	1,923	–	–	1,923
Change in value of perpetual trusts	251	1,098	–	1,349
Other	(76)	40	–	(36)
Increase (decrease) in net assets with donor restrictions	72,005	(2,669)	–	69,336
Increase in net assets	1,292,534	76,400	–	1,368,934
Net assets at beginning of period	10,100,903	1,774,138	(2,120)	11,872,921
Net assets at end of period	$ 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, 2021			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments and Eliminations	Consolidated
Unrestricted revenues				
Net patient service revenue	$ 9,264,760	$ 2,032,337	$ (328,566)	$ 10,968,531
Other	1,255,662	415,638	(199,139)	1,472,161
Total unrestricted revenues	10,520,422	2,447,975	(527,705)	12,440,692
Expenses				
Salaries, wages, and benefits	5,709,179	1,416,828	(380,957)	6,745,050
Supplies	1,032,794	238,687	(381)	1,271,100
Pharmaceuticals	1,224,431	172,851	–	1,397,282
Purchased services and other fees	689,230	216,714	(36,153)	869,791
Administrative services	63,842	153,081	(24,570)	192,353
Facilities	290,634	104,170	(1,970)	392,834
Insurance	94,482	80,374	(83,574)	91,282
	9,104,592	2,382,705	(527,605)	10,959,692
Operating income before interest, depreciation and amortization	1,415,830	65,270	(100)	1,481,000
Interest	115,383	32,715	–	148,098
Depreciation and amortization	499,635	87,107	(100)	586,642
Operating income (loss)	800,812	(54,552)	–	746,260
Nonoperating gains and losses				
Investment income	1,260,581	142,085	–	1,402,666
Derivative gains (losses)	23,201	(2,452)	–	20,749
Other, net	39,501	578	–	40,079
Net nonoperating gains	1,323,283	140,211	–	1,463,494
Excess of revenues over expenses	2,124,095	85,659	–	2,209,754

(continued on next page)

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, 2021			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments and Eliminations	Consolidated
Changes in net assets without donor restrictions				
Excess of revenues over expenses	$ 2,124,095	$ 85,659	$ –	$ 2,209,754
Donated capital	3,289	147	–	3,436
Net assets released from restriction for capital purposes	10,356	2,236	–	12,592
Retirement benefits adjustment	(26,894)	(7,859)	–	(34,753)
Foreign currency translation	–	(2,439)	–	(2,439)
Transfers (to) from affiliates	(425,167)	425,167	–	–
Other	(7)	(2,338)	(560)	(2,905)
Increase in net assets without donor restrictions	1,685,672	500,573	(560)	2,185,685
Changes in net assets with donor restrictions				
Gifts and bequests	203,457	10,960	–	214,417
Net investment income	61,739	9,170	–	70,909
Net assets released from restrictions used for operations included in other unrestricted revenues	(44,733)	(4,301)	–	(49,034)
Net assets released from restriction for capital purposes	(10,356)	(2,236)	–	(12,592)
Change in interests in foundations	1,774	–	–	1,774
Change in value of perpetual trusts	4,291	2,893	–	7,184
Other	3,327	(943)	–	2,384
Increase in net assets with donor restrictions	219,499	15,543	–	235,042
Increase in net assets	1,905,171	516,116	(560)	2,420,727
Net assets at beginning of year	11,393,437	1,850,538	(2,120)	13,241,855
Net assets at end of year	$ 13,298,608	$ 2,366,654	$ (2,680)	$ 15,662,582

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

(continued on next page)

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 Cash Flows

($ in thousands)

	Year Ended December 31, 2021			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments and Eliminations	Consolidated
Operating activities and net nonoperating gains and losses				
Increase in net assets	$1,905,171	$ 516,116	$ (560)	$ 2,420,727
Adjustments to reconcile increase in net assets to net cash provided by operating activities and net nonoperating gains and losses:				
Gain on retirement of debt	(19,312)	–	–	(19,312)
Retirement benefits adjustment	26,894	7,859	–	34,753
Net realized and unrealized gains on investments	(1,264,530)	(142,491)	–	(1,407,021)
Depreciation and amortization	499,635	87,127	(100)	586,662
Foreign currency translation loss	–	2,439	–	2,439
Donated capital	(3,289)	(147)	–	(3,436)
Restricted gifts, bequests, investment income, and other	(271,261)	(23,023)	–	(294,284)
Transfers to (from) affiliates	425,167	(425,167)	–	–
Amortization of bond premiums and debt issuance costs	(6,207)	424	–	(5,783)
Net gain in value of derivatives	(42,761)	–	–	(42,761)
Pension funding	(13,419)	(345)	–	(13,764)
Changes in operating assets and liabilities:				
Patient receivables	(199,568)	(41,682)	2,560	(238,690)
Other current assets	(92,975)	(23,003)	56,880	(59,098)
Other noncurrent assets	(191,656)	(4,338)	60,964	(135,030)
Accounts payable and other current liabilities	55,865	127,603	(51,052)	132,416
Other liabilities	(47,142)	(19,728)	(5,195)	(72,065)
Net cash provided by operating activities and net nonoperating gains and losses	760,612	61,644	63,497	885,753
Financing activities				
Proceeds from short-term borrowings	26,500	–	–	26,500
Payments on short-term borrowings	(26,500)	–	–	(26,500)
Proceeds from long-term borrowings	433,953	26,679	(63,497)	397,135
Payments for advance refunding and redemption of long-term debt	(312,238)	–	–	(312,238)
Principal payments on long-term debt	(132,893)	(33,754)	–	(166,647)
Debt issuance costs	(2,996)	–	–	(2,996)
Change in pledges receivables, trusts and interests in foundations	(46,813)	6,086	–	(40,727)
Restricted gifts, bequests, investment income, and other	271,261	23,023	–	294,284
Net cash provided by financing activities	210,274	22,034	(63,497)	168,811
Investing activities				
Expenditures for property, plant, and equipment	(274,157)	(235,218)	–	(509,375)
Proceeds from sale of property, plant, and equipment	15,755	–	–	15,755
Net change in cash equivalents reported in long-term investments	115,558	37,293	–	152,851
Purchases of investments	(4,968,884)	(591,826)	–	(5,560,710)
Sales of investments	4,057,925	452,787	–	4,510,712
Payment for business acquisition, less cash assumed	–	(54,197)	–	(54,197)
Transfers (to) from affiliates	(425,167)	425,167	–	–
Net cash (used in) provided by investing activities	(1,478,970)	34,006	–	(1,444,964)
Effect of exchange rate changes on cash	–	(304)	–	(304)
(Decrease) increase in cash, cash equivalents and restricted cash	(508,084)	117,380	–	(390,704)
Cash, cash equivalents and restricted cash at beginning of year	917,591	255,544	–	1,173,135
Cash, cash equivalents and restricted cash at end of year	$ 409,507	$ 372,924	$ –	$ 782,431

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, 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				
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.

Utilization

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

	Year Ended December 31		
	2019	**2020**	**2021**
Total Staffed Beds[1]	4,900	4,859	5,128
Percent Occupancy[1]	68.1%	69.9%	75.1%
Inpatient Admissions[1]			
Acute	226,558	211,770	236,318
Post-acute	11,327	10,739	10,983
Total	237,885	222,509	247,301
Patient Days[1]			
Acute	1,098,807	1,044,240	1,223,781
Post-acute	84,522	82,334	86,872
Total	1,183,329	1,126,574	1,310,653
Average Length of Stay			
Acute	4.86	4.92	5.19
Post-acute	7.44	7.66	7.88
Surgical Facility Cases			
Inpatient	74,607	64,318	68,152
Outpatient	181,721	152,625	191,137
Total	256,328	216,943	259,289
Emergency Department Visits	889,489	757,055	892,394
Outpatient Observations	82,143	61,460	67,369
Outpatient Evaluation and Management Visits	6,161,693	5,683,571	6,753,960
Acute Medicare Case Mix Index - Health System	1.91	2.00	2.01
Acute Medicare Case Mix Index - Cleveland Clinic	2.74	2.87	2.89
Total Acute Patient Case Mix Index - Health System	1.83	1.91	1.94
Total Acute Patient Case Mix Index - Cleveland Clinic	2.65	2.76	2.79

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

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

Utilization (continued)

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

	Year Ended December 31		
	2019	**2020**	**2021**
Total Staffed Beds[(1)]	3,987	4,018	3,931
Percent Occupancy[(1)]	70.0%	70.3%	76.7%
Inpatient Admissions[(1)]			
Acute	186,133	173,614	183,512
Post-acute	7,122	6,601	6,489
Total	193,255	180,215	190,001
Patient Days[(1)]			
Acute	928,486	875,432	966,957
Post-acute	54,515	53,504	52,751
Total	983,001	928,936	1,019,708
Surgical Facility Cases			
Inpatient	63,677	54,735	56,011
Outpatient	153,886	127,810	156,009
Total	217,563	182,545	212,020
Emergency Department Visits	666,313	574,683	649,380
Outpatient Observations	64,359	47,974	51,333
Outpatient Evaluation and Management Visits	5,315,503	4,857,870	5,565,953
Acute Medicare Case Mix Index	1.94	2.04	2.06
Total Acute Patient Case Mix Index	1.88	1.95	1.99

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

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

Payor Mix

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

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

OBLIGATED GROUP
Based on Gross Patient Service Revenue

	Year Ended December 31		
	2019	**2020**	**2021**
Payor			
Managed Care and Commercial	36%	36%	35%
Medicare	49%	49%	49%
Medicaid	13%	13%	14%
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 Mercy Hospital is included beginning February 1, 2021, which is the date Mercy Hospital joined the System.

Research Support

($ in thousands)

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

	Year Ended December 31		
	2019	**2020**	**2021**
External Grants Earned			
Federal Sources	$120,858	$117,931	$116,049
Non-Federal Sources	104,760	94,173	129,010
Total	225,618	212,104	245,059
Internal Support	72,637	92,305	70,384
Total Sources of Support	$298,255	$304,409	$315,443

Key Ratios

The following table provides selected key ratios:

	Year Ended December 31		
	2019	**2020**	**2021**
Liquidity ratios			
Days of cash on hand	373	424	431
Days of revenue in accounts receivable	49	45	48
Coverage ratios			
Cash to debt (%)	183.7	216.1	251.7
Maximum annual debt service coverage (x)	6.2	5.7	7.0
Interest expense coverage (x)	10.5	8.5	11.9
Debt to cash flow (x)	3.5	4.5	3.2
Leverage ratio			
Debt to capitalization (%)	33.6	30.7	27.0
Profitability ratios			
Operating margin (%)	3.7	2.2	6.0
Operating cash flow margin (%)	10.9	9.2	11.9
Excess margin (%)	16.6	11.3	15.9
Return on assets (%)	10.1	6.1	9.1

NOTES:

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

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

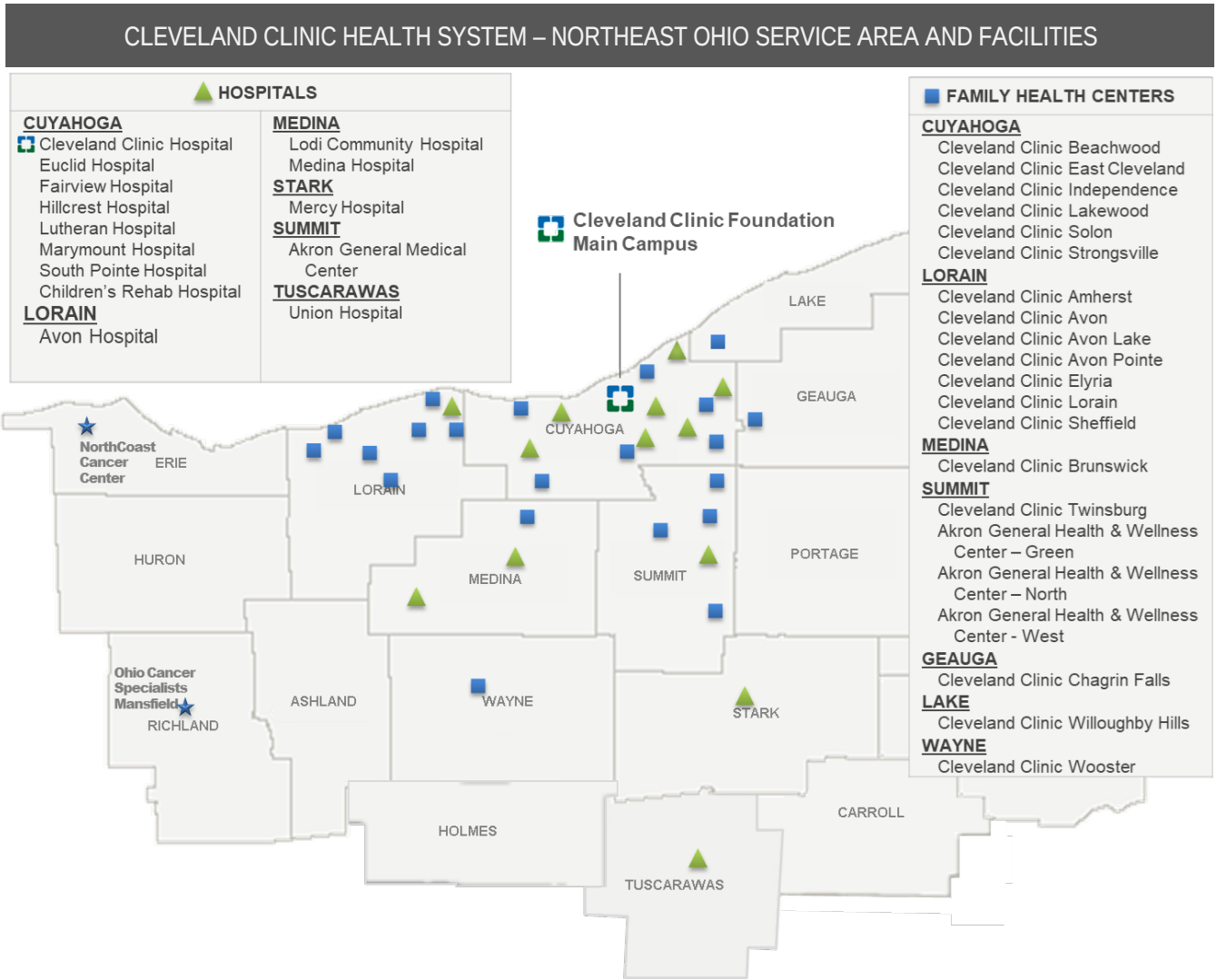
OVERVIEW

The Cleveland Clinic Health System (System) is a world-renowned provider of healthcare services that attracted patients from across the United States and from 131 other countries in 2021. As of December 31, 2021, the System operates 19 hospitals with approximately 5,100 staffed beds and is the leading provider of healthcare services in Northeast Ohio. Fourteen of the hospitals are operated in the Northeast Ohio area, anchored by The Cleveland Clinic Foundation (Clinic). The System operates 21 outpatient family health centers, 11 ambulatory surgery centers, as well as numerous physician offices, which are located throughout Northeast Ohio, and specialized cancer centers in Sandusky and Mansfield, Ohio. In Florida, the System operates five hospitals and a clinic located throughout Southeast Florida, outpatient family health centers in Port St. Lucie, Stuart and West Palm Beach, an outpatient family health and ambulatory surgery center in Coral Springs and numerous physician offices located throughout Southeast Florida. In addition, the System operates a health and wellness center and a sports medicine clinic in Toronto, Canada and a specialized neurological clinical center in Las Vegas, Nevada. Pursuant to agreements, the System also provides management services for Ashtabula County Medical Center, located in Ashtabula, Ohio, with approximately 120 staffed beds, and Cleveland Clinic Abu Dhabi, a multispecialty hospital offering critical and acute care services that is part of Mubadala Development Company's network of healthcare facilities located in Abu Dhabi, United Arab Emirates with approximately 364 staffed beds.

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

Richard E. Jacobs Health Center
Avon, 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:

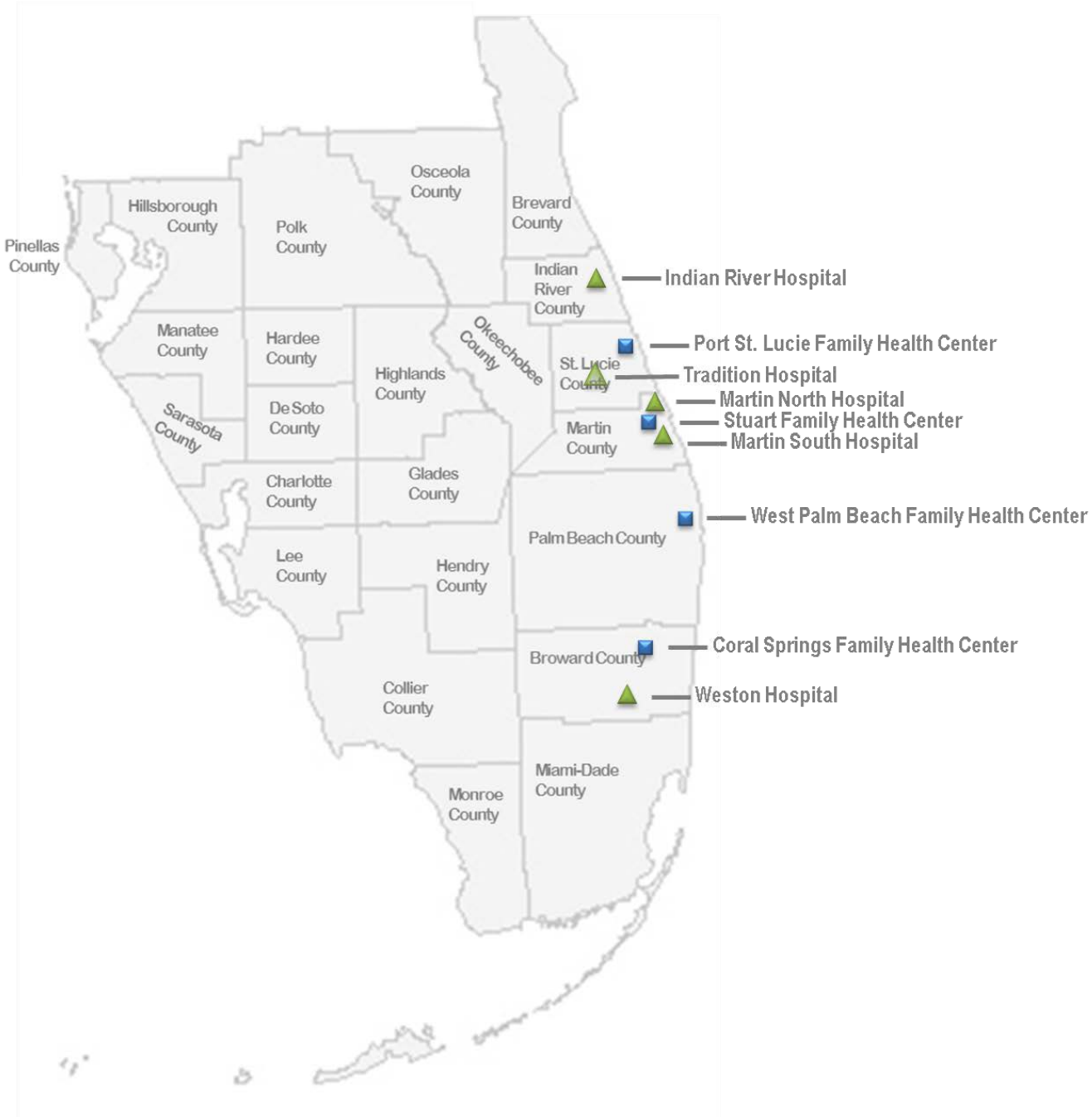


Cleveland Clinic

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, 2021:

	Staffed Beds
OBLIGATED	
Cleveland Clinic	1,298
Avon Hospital	126
Euclid Hospital	126
Fairview Hospital	494
Hillcrest Hospital	452
Lutheran Hospital	132
Martin North Hospital	244
Martin South Hospital	100
Marymount Hospital	218
Medina Hospital	148
South Pointe Hospital	172
Tradition Hospital	177
Weston Hospital	244
	3,931
NON-OBLIGATED	
Akron General Medical Center	469
Children's Rehabilitation Hospital	25
Indian River Hospital	250
Lodi Hospital	20
Mercy Hospital	337
Union Hospital	96
	1,197
HEALTH SYSTEM	5,128

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 has worked 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 has also provided extensive education to patients on the precautions that have been implemented to keep patients and caregivers safe during their appointments and procedures. Throughout the pandemic the System has remained focused on creating a safe environment for patients and caregivers to ensure the availability of care for early identification of diseases and helping patients in managing chronic diseases.

In November and December 2020, the System experienced a significant increase in the number of hospitalized patients with COVID-19 at its Ohio facilities. In mid-November, in order to continue to provide access to care needed by the community, the System decided to temporarily postpone non-essential surgeries that required a hospital bed at many Ohio hospitals to preserve hospital beds for COVID-19 patients as well as allow for the temporary reassignment of caregiver resources. After experiencing a peak in daily admissions for COVID-19 patients in December 2020, the System decided to resume non-essential surgeries that had previously been postponed beginning January 4, 2021. Although non-essential services resumed, patient levels across the System did not return to budgeted levels.

In July and August 2021, the Florida region experienced a surge in COVID-19 patients. Hospitalizations of COVID-19 patients in the State of Florida were higher than at any point during the pandemic. The surge prompted the System to postpone non-essential procedures that required an overnight stay at Indian River Memorial Hospital (Indian River Hospital) effective late July and acute-care hospitals of Martin Memorial Health Systems, Inc. (Martin Health) effective early August. Weston Hospital evaluated non-essential care on a case-by-case basis. Indian River Hospital also reduced certain outpatient care services, excluding primary care and cancer treatments, to allow caregivers to support inpatient care during the surge. In early September, the System began lifting the suspension of non-essential procedures and outpatient care while maintaining certain restrictions to allow for adequate staffing and sufficient bed capacity for COVID-19 and non-COVID-19 patients.

In December 2021, Ohio hospitals experienced an increase in patients hospitalized with COVID-19. This surge prompted the System to postpone non-essential surgeries requiring a hospital bed at Ohio hospitals beginning in early December to preserve hospital beds for COVID-19 patients and allow for the temporary reassignment of caregiver resources. COVID-19 cases continued to rise and staffing challenges persisted throughout December 2021 prompting the System to postpone outpatient surgeries at Ohio hospitals from January 3, 2022 through January 30, 2022. The System resumed all non-essential surgeries that had been previously postponed on January 31, 2022. The surge in Florida was not as severe as Ohio, although increasing COVID-19 admissions at the end of December and early January prompted the System to postpone non-essential surgeries at Florida facilities for

portions of the month of January 2022. The System will continue to monitor bed capacity and caregiver support and will take proactive steps to ensure the safety of patients and caregivers.

Since the beginning of the pandemic, the System has provided care to more than 40,000 COVID-19 patients admitted to its Ohio and Florida facilities. In Ohio, the System has cared for approximately 25% of all patients hospitalized with COVID-19. During the early phase of the pandemic, the System established testing sites in its communities to help slow the spread of COVID-19. The System was one of the first health systems to offer COVID-19 testing when the pandemic began and has performed more than 1.3 million tests in its laboratories in Ohio and Florida. The System developed and received Food and Drug Administration authorization for an at-home self-swabbing kit to make testing more convenient. Additionally, the System is partnering with Breath Tech Corporation, an Astrotech Corporation subsidiary, to develop a COVID-19 breath test to rapidly screen for COVID-19 or related indicators.

Throughout the pandemic, the System has been a guiding partner in the safe reopening of businesses and is collaborating with more than 150 organizations, from airlines to hospitality, to share safe practices. The System created the "AtWork" program offering resources to companies and organizations on safely returning to work with expertise in infection prevention, appropriate cleaning and disinfection, managing employee screening and symptoms, keeping employees and customers safe, and maintaining emotional well-being in the workplace. In collaboration with The Clorox Company, the System provided resources on health and safety measures to limit the spread of the virus in everyday life and in the workplace. The System also coordinated a media campaign with more than 100 top hospitals across the U.S. to encourage wearing masks to prevent the spread of COVID-19.

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

Vaccinations of caregivers and patients are being provided in accordance with state and federal guidelines. The System established various vaccination sites in Ohio and Florida and provided storage, transportation and pharmacy oversight for a temporary mass vaccination site at Cleveland State University. Additionally, in April 2021 it was announced that the System and the Mayo Clinic were leading a nationwide campaign, "Get the Vaccine to Save Lives," to encourage adults to get vaccinated against COVID-19. In total, 60 top hospitals and healthcare institutions joined in support of the campaign.

The System has received support under the Coronavirus Aid, Relief, and Economic Security (CARES) Act and the American Rescue Plan Act

(ARP). CARES Act support includes Provider Relief Funds (PRF) and the Employee Retention Credit (ERC), and ARP support includes ARP rural payments. The System accounted for the PRF payments, ERC and ARP payments as contributions that are recognized as revenue when any related conditions have been substantially met.

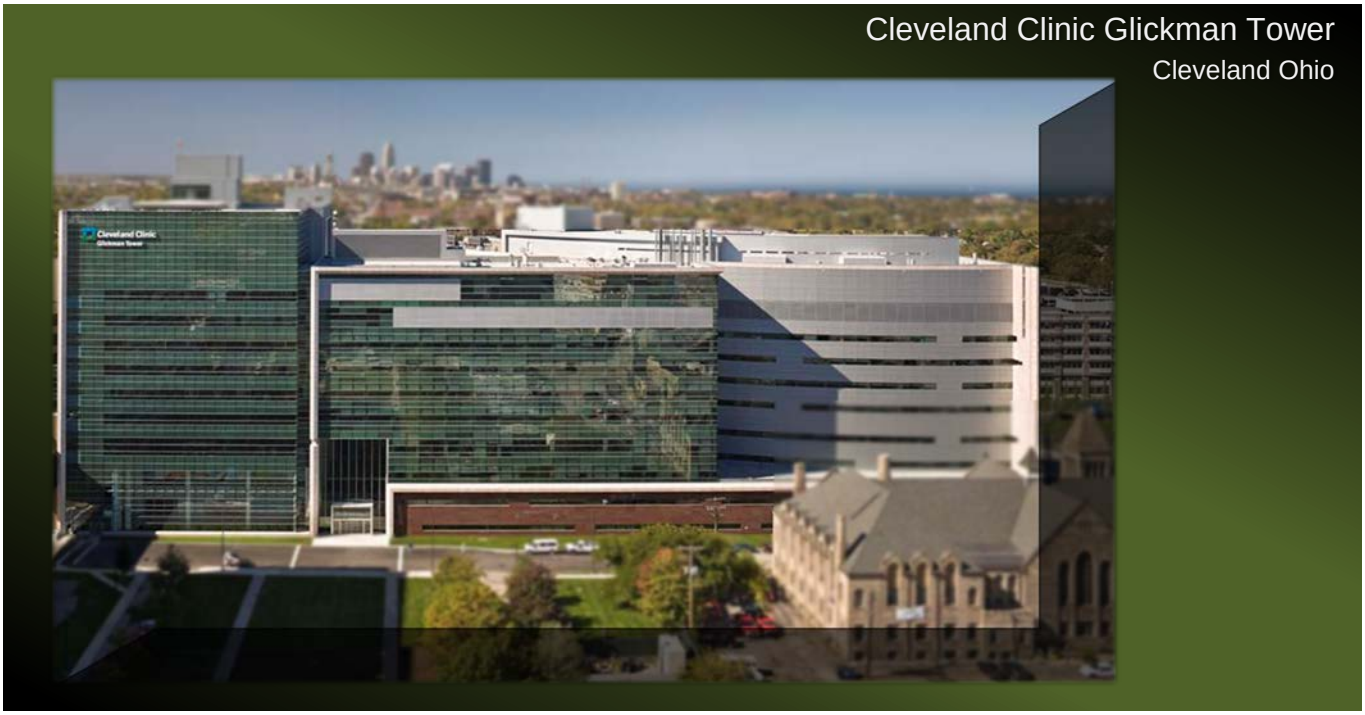
The PRF and ARP rural payments provide funding from the U.S. Department of Health and Human Services (HHS) to healthcare providers to support healthcare-related expenses or lost revenue attributable to COVID-19. Funds received from HHS represent payments to providers and do not need to be repaid as long as the System complies with certain terms and conditions imposed by HHS, including reporting and compliance requirements. The System received $222.0 million of payments and recognized the payments in other unrestricted revenues based on the applicable terms and conditions in 2021. The System received $423.3 million in PRF payments in 2020. Additionally, the System submitted claims to the Federal Emergency Management Agency (FEMA) to reimburse costs related to the System's response to the COVID-19 pandemic. The System has recognized $6.7 million and $67.2 million of FEMA grant revenue in other unrestricted revenues in 2021 and 2020, respectively.

In response to the continued spread of COVID-19, President Biden announced a COVID-19 Action Plan in September 2021 that, among other things, would require employers with one hundred or more employees to require their employees to get the COVID-19 vaccine or undergo weekly testing pursuant to a new Emergency Temporary Standard (ETS) of the Occupational Safety and Health Administration and also require vaccination for federal workers and contractors, as well as health care workers in hospitals, nursing facilities, and other institutions that receive Medicare and Medicaid reimbursement. On November 5, 2021, the Centers for Medicare & Medicaid Services (CMS) and the Occupational Safety and Health Administration (OSHA) released federal mandates related to the President's plan. The CMS rules include federal preemption language and provide that its rules supersede other federal vaccination related rules/requirements, including the OSHA vaccine ETS. The System announced on November 12, 2021 its plan to comply with the CMS rules, including a policy describing its vaccine mandate for all employed caregivers, students, volunteers, contractors, vendors and independent licensed practitioners (collectively referred to as caregivers). The policy required documentation of receipt of at least a single dose of the COVID-19 vaccine or first dose of a multi-dose COVID-19 vaccine series by December 6, 2021, and that all caregivers be fully vaccinated by January 4, 2022. The System implemented a process by which to consider exemptions and reasonable accommodations for those caregivers who are unable to receive the COVID-19 vaccine due to medical contraindications or firmly held religious beliefs, observances or practices. The System also has established a recordkeeping process to track the vaccine status of all caregivers and any approved exemptions and accommodations, including how any accommodations will mitigate against the transmission and spread of COVID-19. CMS will monitor compliance through its established survey and enforcement processes. It is anticipated that, if a covered entity does not meet the CMS requirements, it will first be cited as noncompliant and have an opportunity to comply before more onerous action is taken, which could include financial penalties or the termination of the Medicare/Medicaid provider agreement.

On November 30, 2021 a federal court granted a temporary injunction to block enforcement of the CMS rule mandating the COVID-19 vaccine that was set to go into effect December 6, 2021. In

light of the temporary injunction, the System paused the implementation of its COVID-19 vaccine policy. On January 13, 2022, the U.S. Supreme Court ruled that the COVID-19 vaccine mandate issued by CMS can be enforced for healthcare workers in the U.S., including in states where injunctions applied in December 2021. As a result of this decision, the System announced that it would reinstate the COVID-19 vaccine policy established in November 2021 and all caregivers would be required to either complete the COVID-19 vaccination series by the established deadlines or have an approved medical or religious exemption or temporary delay approval. New deadlines for unvaccinated caregivers were established in which caregivers needed to receive the second dose of the multi-dose COVID-19 vaccine series by February 28, 2022 or January 27, 2022 for the one-dose vaccine. The System has had more than 99% of its caregivers in compliance with the new policy by the established deadlines.

The COVID-19 pandemic has presented financial challenges for the System. The System continues to incur incremental supply costs and other expenditures for COVID-19 preparedness in an effort to provide safe and effective patient care. Nationwide labor shortages have created staffing challenges that have resulted in increased overtime costs and premium pay for employed caregivers as well as an increase in the utilization of agency nurses and other temporary personnel to meet the demand of patient activity. Where appropriate, the System has taken measures to reduce costs and expenditures, including restricting travel, reducing purchased/administrative service expenses and other controllable costs and postponing certain capital expenditures. The System is continually monitoring its forecasted operating performance and liquidity position and is assessing the financial impact of COVID-19 on its operations using various scenarios and assumptions to ensure that there is sufficient liquidity during the pandemic. The System has taken, and continues to take, actions to mitigate the effect of the pandemic on its financial condition and results of operations; however, the outcome and ultimate effect of the pandemic on the System's consolidated financial statements cannot be determined at this time.



AWARDS & RECOGNITION

The Clinic was ranked as the second best hospital in the United States by *U.S. News and World Report* in its 2021-2022 edition of "America's Best Hospitals." For the past 23 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 27 consecutive years. The Clinic was nationally ranked in 13 specialties, including 11 in the top ten nationwide, and is one of just 20 hospitals to earn a place on the *U.S. News'* 2021-2022 Honor Roll. The following table summarizes the Clinic's national rankings by medical specialty:

Other System hospitals also received national recognition from *U.S. News and World Report*. Hospitals that received national rankings included the following: Fairview Hospital ranked 31st (tie) in orthopedics and 40th in neurology and neurosurgery; Hillcrest Hospital ranked 41st in cardiology and heart surgery, 43rd in gastroenterology and GI surgery and 43rd (tie) in neurology and neurosurgery; and Weston Hospital ranked 33rd in gastroenterology and GI surgery.

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 2021-2022 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 (tie) in Ohio; and Fairview Hospital ranked fourth in the Cleveland metropolitan area and sixth 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, Weston Hospital was ranked first in the Miami-Fort Lauderdale metro area and fifth in the State of Florida; Martin Health ranked 25th (tie) in the State of Florida; and Indian River Hospital ranked 31st (tie) in the State of Florida.

In March 2022, the Clinic was again named the second best hospital in the world by *Newsweek* as part of its "World's Best Hospitals 2022" list. *Newsweek* partnered with global research data company Statista to rank the leading hospitals in 27 countries. According to *Newsweek,* its rankings are based on three broad categories including recommendations from more than 80,000 medical experts, doctors, hospital managers, and healthcare professionals; key hospital performance indicators, such as patient safety, infection prevention measures and doctor

to patient ratios, and patient experience surveys, including general satisfaction with a hospital, recommendation of a hospital and satisfaction with medical care. Fairview and Weston Hospitals were also ranked in the top 250 hospitals internationally, and the System had three other hospitals listed among the best hospitals nationwide.

In September 2021, the Clinic was recognized as the number two hospital in the world for specialized care and the number one hospital in the world for cardiac surgery in *Newsweek's* "World's Best Specialized Hospitals of 2022." Since 2019 *Newsweek* has partnered with Statista to rank the world's best hospitals. The Clinic ranked among the world's best in all ten categories including cardiac surgery, cardiology, endocrinology, gastroenterology, neurology, neurosurgery, oncology, orthopedics, pediatrics and pulmonology. In addition to the Clinic's main campus, Cleveland Clinic Florida and Cleveland Clinic Fairview Hospital also were recognized among the world's best specialized hospitals. *Newsweek* and Statista invited more than 40,000 medical experts to participate in surveys to recommend and assess various hospitals within their respective specializations. Survey results were validated by a global board of medical experts.

In June 2021, the System was recognized as the number three hospital in the world on *Newsweek's* "World's Best Smart Hospitals" 2021 list. *Newsweek* partnered with data firm Statista to develop a list of 250 hospitals worldwide that best use some of the most advanced technologies. The list features hospitals that lead in their use of artificial intelligence, robotic surgery, digital imaging, telemedicine, smart buildings, information technology infrastructure and electronic medical records. Hospitals were ranked using feedback from more than 13,000 international hospital managers and healthcare professionals with backgrounds in healthcare technology as well as research conducted by Statista.

For the tenth consecutive year, the Clinic has been recognized as one of the World's Most Ethical Companies. The Clinic is one of just nine healthcare providers worldwide on the 2022 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 2022 list of the World's Most Ethical Companies includes 136 organizations from 22 countries and 45 industries. The Clinic, which earned its first Ethisphere ranking in 2009, has established itself as an industry leader through its strong ethics and compliance program and a variety of innovative initiatives that demonstrate its commitment to patients, caregivers and the community. Ethisphere develops its list of most ethical companies based on five core categories: governance; leadership and reputation; ethics and compliance activities; culture of ethics; and environmental and social impact.

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. Additionally, in July Avon Hospital's Geriatric

Emergency Department was awarded Level 2 GEDA. With this most recent addition, the System now has 13 locations awarded with GEDA.

In December 2021, the Clinic announced that it successfully implanted a leadless pacemaker defibrillator system in the world's first two patients. The novel device combines the technology of a leadless pacemaker with a subcutaneous implantable cardioverter defibrillator (ICD), which aims to deliver treatment for both low and elevated heart rates. Unlike conventional pacemaker-ICDs, this leadless system does not require wires to be threaded through the blood vessels, which are vulnerable to complications such as infection, dislodgement, fracture or blood clots.

In March 2022, the Clinic announced that it successfully implanted a dual-chamber leadless pacemaker system in the first patient in the United States. The novel device provides pacing support to both the right atrium and right ventricle of the heart and aims to offer heart rhythm patients a more targeted approach through a less invasive procedure with fewer complications. Unlike traditional pacemakers, the dual-chamber leadless pacemaker system does not require an incision to implant a power generator and does not require wires to be threaded through the blood vessels, which are vulnerable to complications such as infection, dislodgement, fracture or blood clots.

In 2021 the Clinic's transplant program completed 1,039 transplants, an 18% increase from 2020. The Clinic's transplant program includes heart, kidney, liver, intestine and lung transplants. Also in 2021 Weston Hospital completed its 1,000th kidney transplant and 200th heart transplant and started a living-donor liver transplant program.

In June 2021, Marymount Hospital received Magnet recognition from the American Nurses Credentialing Center (ANCC), which is the highest honor an organization can receive for professional nursing practice. Also receiving Magnet recognition were Lutheran Hospital in October 2021, Euclid Hospital in February 2022 and Avon Hospital in March 2022. With these achievements, Marymount, Lutheran, Euclid and Avon Hospitals join a select group of more than 500 healthcare institutions worldwide that have been recognized with this credential, with only about 40 located in Ohio. Marymount was recognized with nine exemplars for outstanding work in the following areas: satisfaction and engagement rates; nursing quality outperformance inpatient setting; nursing quality outperformance ambulatory setting; patient satisfaction ambulatory; innovation; and technology involvement. Lutheran was recognized with seven exemplars for outstanding work in the following areas: nursing quality outperformance inpatient setting; quality outperformance ambulatory setting; and patient satisfaction ambulatory. Euclid was recognized for outstanding work in seven areas including nursing quality outperformance inpatient setting; nursing quality outperformance ambulatory setting; and patient satisfaction ambulatory setting. To achieve Magnet recognition, organizations go through an extensive review and systematic evaluation of their nursing practices by the ANCC against numerous quantitative and qualitative standards that represent excellence in nursing services, clinical outcomes and patient care delivery. With the recognition of Marymount, Lutheran, Euclid and Avon Hospitals, the System now has nine hospitals that have earned Magnet designation.

For a second consecutive term, the System was awarded "Accreditation with Excellence" in July 2021 for its medical travel services by Global Healthcare Accreditation (GHA). GHA has developed international standards and

professional norms for medical travel in consultation with leading global experts in the industries it represents, including health providers, insurers, and employers. The GHA accreditation seal helps build trust by demonstrating to patients and international payors that the organization has implemented procedures and policies designed to mitigate risks to medical travel patients and enhance the patient experience. In March 2022, plans were announced for the Clinic to open a concierge lounge at Cleveland Hopkins International Airport to assist patients and families with travel to and from the Clinic.

In February 2022, it was announced that the System was recognized by *Forbes* and market researcher Statista as one of "America's Best Large Employers of 2022." The System was ranked 94 in a list of top 500 employers. The selection was based on an independent survey of 60,000 employees working for companies with at least 1,000 people employed in their U.S. locations.

In August 2021, *Forbes* named the System a top Ohio employer in its annual list of America's Best Employers by State. Results were based on surveys of 80,000 U.S. employees working for businesses with at least 500 employees. Participants were asked to reflect on aspects of their work experience such as diversity, salary, working conditions and potential for growth.

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.

The System was recognized by *The Plain Dealer*, the major newspaper in Cleveland, as one of Northeast Ohio's top workplaces for 2021, ranking sixteenth 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 ninth time on this list.

The Clinic was recognized by ERC, a regional human resources organization, as a recipient of the NorthCoast99 Award for the 16th time. The award recognizes organizations for attracting, developing and retaining top talent based on the results of an anonymous survey sent to randomly selected caregivers earlier this year.

FINANCING DEVELOPMENTS

In July 2021, 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 $83.8 million of fixed-rate State of Ohio Hospital Revenue Bonds (Series 2021A Bonds) for the benefit of the System. At the same time, the State also entered into a Forward Delivery Contract of Purchase related to $198.3 million of fixed-rate State of Ohio Hospital Revenue Refunding Bonds (Series 2021B Bonds) for the benefit of the System. The Series 2021B bonds were settled and delivered on October 5, 2021. Proceeds from the issuance of the Series 2021A Bonds were used for the purpose of financing a portion of the costs of the System's acquisition of the sole membership interest in Cleveland Clinic Mercy Hospital and pay the cost of issuance. Proceeds from the issuance of the Series 2021B Bonds were used to refund a portion of the Series

2012A Bonds and pay the cost of issuance. The long-term rating assigned to both series of bonds by Moody's Investors Service (Moody's) and Standard and Poor's (S&P) were Aa2 and AA, respectively.

In the second quarter of 2020, the System obtained operating lines of credit with six financial institutions totaling $650 million to further enhance its liquidity position. Each of the lines matured within one year and bore interest at LIBOR plus an applicable spread. In February 2021, the System drew $26.5 million on one line of credit to refinance debt that was assumed in the Mercy member substitution transaction. In the second quarter of 2021, four of the lines totaling $425 million expired or were terminated. Also in the second quarter of 2021, one of the remaining existing lines was increased to $150 million and extended to April 22, 2024, and the other line was increased to $150 million and extended to May 24, 2023. The System paid the full amount drawn on the line of credit in July 2021. As of December 31, 2021, the System has two operating lines of credit totaling $300 million with no amounts drawn and $300 million in available capacity.

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

In July 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.

In July 2021, Moody's affirmed its Aa2 rating on the obligated group's outstanding debt and maintained its stable outlook. Moody's cited various factors to support this rating and outlook, including an international brand, a centralized and integrated governance structure, strong liquidity with sustained good operating cashflow margins and exceptional fundraising abilities. In its report, Moody's indicated that these strengths compensate for challenges such as the impact of the pandemic on patient volumes, moderately high debt levels, execution risks of multiple strategies related to the London expansion and ongoing integration of Florida acquisitions and competition in the constrained northeast Ohio market and in Florida.

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 30 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 73 active Trustees, nine Professional Staff Trustees and 12 Emeritus Trustees. Directors and Trustees each serve four-year terms and are selected on the basis of their expertise and experience in a variety of areas beneficial to the Clinic. Directors and Trustees are not compensated for their service.

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

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

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

Concurrently with Martin Health and Indian River Hospital joining the System in 2019, the System established a separate Board of Directors to oversee the Florida hospitals. This Board of Directors has representatives from the Clinic Board of Directors and each of the Florida hospitals. Boards have also been maintained at Martin Health and Indian River Hospital to provide local input on quality and patient safety and community health needs. A new board of trustees has been created for Weston Hospital to provide local input on quality and patient safety and community health needs.

APPOINTMENTS

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

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

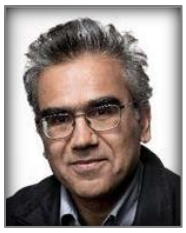
Timothy Barnett, MD was appointed President of Cleveland Clinic Lutheran Hospital effective in February 2021. Dr. Barnett most recently served as Chief Medical Officer at Cleveland Clinic Fairview Hospital. He held several other leadership roles during his tenure at Fairview Hospital, including Chair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

Jim Cotelingam was appointed Chief Strategy Officer effective August 2021. Mr. Cotelingam leads the enterprise Strategy Office team that is responsible for setting growth plans for the System. Mr. Cotelingam joined the System in 2019 as the Executive Director of Strategy and has served as interim Chief Strategy Officer since February 2021.Prior to joining the System, he was the Senior Vice President of Strategy at Trinity Health.

Madhu Sasidhar, MD was appointed President of Cleveland Clinic Tradition Hospital effective September 2021. Dr. Sasidhar most recently served as Chief Medical Officer, Cleveland Clinic Abu Dhabi (CCAD). During his tenure, CCAD experienced growing outpatient and surgical volume as well as increasing hospital transfers to CCAD. He also chaired the hospital's COVID-19 Task Force. Prior to joining CCAD, he served as Section Head, Enterprise Respiratory Care, Respiratory Institute at the Cleveland Clinic main campus. Dr. Sasidhar has been a member of the Clinic's professional staff as a practicing pulmonologist since 2008.

Rishi Singh, MD was appointed President of Cleveland Clinic Martin North and South Hospitals effective January 1, 2022. Dr. Singh most recently served as a staff physician at the Cole Eye Institute and Professor of Ophthalmology at the Cleveland Clinic Lerner College of Medicine. He currently serves on the Board of Governors for Cleveland Clinic and is the executive physician champion for documentation excellence for Ohio.

Col. Thomas Rogers, MD was named President of Cleveland Clinic Union Hospital effective in the summer of 2022 after he retires from active military service. Dr. Rogers joins the Clinic from the DiLorenzo Pentagon Health Clinic and Fort Belvoir Community Hospital Branch Clinics in Washington, D.C., where he has served as Director since 2017. In this role, Dr. Rogers oversaw a team of more than 700 employees who care for the nation's wounded, active-duty service members, retirees and family members. Dr. Rogers has served in leadership positions at military hospitals and outposts in several states and was a taskforce surgeon at a U.S. Special Operation Command in Iraq.



Rohit Chandra, PhD was appointed Chief Digital Officer effective February 14, 2022. Dr. Chandra leads digital innovation within the organization to help transform the use of digital technologies such as artificial intelligence, machine learning and big data to improve access to care and enhance the patient and caregiver experience. Dr. Chandra brings more than 25 years of experience in digital technology and engineering in both consumer and enterprise settings.

Jacqui Robertson was appointed Chief of Diversity & Inclusion effective March 1, 2022. Jacqui will lead efforts for the System that will further embrace and leverage diversity in support of the System's diverse patient and caregiver population, both nationally and internationally. Ms. Robertson brings nearly 20 years of national and international experience in leading diversity and inclusion strategies in the financial services and industrial supply industries.

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. The facility will provide comprehensive medical and surgical services with a special focus on cardiovascular, digestive, neurological and orthopedic care. 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 complete and the hospital opened in March 2022. A separate outpatient clinic located near the hospital opened in September 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 building that will centralize all neurological care on the main campus, bringing together services currently delivered in eight locations. Construction is expected to begin in 2022, and 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. 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, is expected to begin in 2022 and 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. 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 is expected to offer both inpatient and outpatient services including 34 inpatient beds, an emergency department, outpatient exam and procedure rooms, lab and imaging services. The hospital will have a flexible modular design that will allow it to adapt to changing community needs. In 2020, the Mentor Hospital project was paused due to the COVID-19 pandemic and the need to preserve resources for patients, caregivers and the community. However, the project has recently resumed with construction beginning in September 2021 and the hospital expected to open in 2023.

Hillcrest Hospital Cancer Center Expansion – In August 2021, construction began on a new 10,600 square foot addition to the hospital's existing cancer center that will be called the Lozick Cancer Pavilion in recognition of a significant donation form the Lozick Family Foundation. The new pavilion will incorporate a home-like healing environment centered on the patient experience, similar to the Taussig Cancer Center on the Clinic's main campus. Design features include abundant natural light, views of green space, natural elements and specially selected artwork. Construction is expected to be completed in the summer of 2023, and all hospital and cancer center services will continue to be provided during construction.

Cleveland Clinic Florida
Weston, Florida

PHILANTHROPY CAMPAIGN

The Clinic recently concluded "The Power of Every One" philanthropic campaign on December 31, 2021. The campaign was publicly launched in 2014 with a goal of raising $2 billion by the Clinic's 100th anniversary in 2021. The funds raised during the campaign will enable the Clinic to transform patient care, promote health, advance research and innovation, train caregivers and revitalize facilities through new construction and renovation of existing buildings. As of December 31, 2021, the Clinic has received pledges, cash and other assets of approximately $2.6 billion for the campaign.

CLEVELAND CLINIC INNOVATIONS

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

CCI identifies, assesses and commercializes transformative solutions via an innovative operating model. It focuses on three domain portfolios—life science, medical device and health information technology— and employs a unique approach to assess, protect, build, test and market the most promising ideas of System caregivers. Since its inception in 2000, CCI has transacted more than 750 technology licenses, issued nearly 2,400 patents and has contributed to a number of the System's historical advancements.

A dedicated team in CCI invests in companies that address organizational priorities and healthcare white space opportunities to resolve pressing medical problems. The team grows strategic licensed and patented solutions out of the System into investible, standalone companies. During 2021, the team guided the formation of two new spin-off companies, while overseeing over $23.2 million in investments across ten companies. Since 2000, CCI has formed a total of 100 spin-off companies, 42 of which are currently operational, with 24 spin-offs monetized.

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

CCI operates the 50,000-square-foot Cleveland Clinic Incubator on the Clinic's main campus, which is home to the department and approximately 26 health technology companies.

AFFILIATIONS AND PARTNERSHIPS

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

In January 2021, the Clinic, the State of Ohio, JobsOhio and the Ohio Development Services Agency announced a partnership to support the Clinic's Global Center for Pathogen Research and Human Health (Center). The Center allows the Clinic to significantly expand its global commitment to infectious disease research and translational programs and brings together a research team focused on broadening the understanding of viral pathogens, virus-induced cancers, genomics, immunology and immunotherapies. The State of Ohio and JobsOhio will invest $200 million 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. The Clinic has already filled over 300 new jobs as part of this initiative.

This support for the Center is part of the creation of the Cleveland Innovation District (District), which will include the Clinic, University Hospitals Health System, The MetroHealth System, Case Western Reserve University and Cleveland State University. The purpose of the District is to be a center of excellence to act as a catalyst for ongoing investment in Northeast Ohio, including the attraction of businesses and talent. In December 2021, the grocery store company Meijer, along with the City of Cleveland, the Clinic, Fairfax Renaissance Development Corporation and Fairmount Properties broke ground on a mixed-use building in the Fairfax neighborhood of Cleveland near the main campus. The building, part of the District, will include a 40,000 square foot Meijer grocery store and 196 apartment units. The building could open as early as 2023. The project is designed to help revitalize and transform the neighborhood by creating a healthier community and supporting economic development in the area.

In March 2021, the Clinic and IBM announced a planned ten year partnership to establish the Discovery Accelerator, a joint Cleveland Clinic – IBM partnership with the mission of fundamentally advancing the pace of discovery in healthcare and life sciences through the use of high performance computing on the hybrid cloud, artificial intelligence and quantum computing technologies. The collaboration is anticipated to build a robust research and clinical infrastructure to empower big data medical research in ethical, privacy preserving ways, discoveries for patient care and novel approaches to public health threats such as the COVID-19 pandemic. Through the Discovery Accelerator, the Clinic and IBM researchers will use advanced computational technology to create and analyze data that supports the System's Global Center for Pathogen Research and Human Health in areas such as genomics, single cell transcriptomics, population health, clinical applications and chemical and drug discovery. As part of the collaboration, IBM plans to install its first private sector, on-premises IBM Quantum System One in the United States, to be located on the Clinic's main campus. IBM also plans to install the first of its next-generation 1,000+ qubit quantum systems at a client facility, also to be

located on the Clinic's main campus, in the coming years. This quantum program will be designed to actively engage with universities, government, industry, startups and other relevant organizations. It will leverage the Clinic's global enterprise to serve as the foundation of a new quantum ecosystem for life sciences, focused on advancing quantum skills and the mission of the center. A significant pillar of the program plans to focus on educating the workforce of the future and creating jobs to grow the economy. The ten year collaboration plans to include education and workforce development opportunities related to quantum computing.

In August 2021, the Clinic and the Alice L. Walton Foundation announced a joint initiative to identify ways of providing access to the Clinic's specialty care services to residents in Northwest Arkansas. The organizations will assess specialty care needs in the region and develop recommendations for healthcare solutions to best meet those needs.

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 few physician contracts 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 have resulted 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 produced information to, engaged in discussions with, and cooperated 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 resulted in a settlement agreement pursuant to which Akron General paid a total settlement of approximately $22 million, which was within existing reserves established for the matter.

CLEVELAND CLINIC MERCY HOSPITAL

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

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

INTERNATIONAL GROWTH

In October 2015, the Clinic through a subsidiary acquired all of the share capital of 33 Grosvenor Place Limited (Grosvenor Place). Grosvenor Place is a limited liability company existing under Luxembourg law and a private company incorporated under Jersey law that has a long-term leasehold interest in a building in London, England. In January 2017, regulatory approvals were received to convert the building from office space into an approximately 184-bed hospital that will bring the Clinic's model of care to the United Kingdom. For a description of the London hospital project, refer to "EXPANSION AND IMPROVEMENT PROJECTS." All leadership positions have been filled, payer contracts have been signed with many private medical insurers, physicians and nurses have commenced employment and final operational strategies are being developed and implemented as the hospital opens and begins to serve patients on March 29, 2022. In September 2021, Cleveland Clinic London opened an outpatient facility located near the hospital.

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 ten-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. The facility is expected to open in November 2022.

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 2026. 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
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 statement was "To provide better care for the sick, investigation into their problems and further education of those who serve."

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

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

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

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

In 2019, the organization announced 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. The events of the past two years revealed the resilience of the System's model of care. Teamwork and preparedness enabled the System to meet the needs of its patients while keeping its communities safe. The System launched new research programs in infectious disease and increased the pace of medical innovation. Consequently, 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 patients; care for 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 from 2019 to 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
- **Research & Education:** enhance Research and Education 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 from 2019 to 2024
- **Patient Experience:** provide empathic care through a seamless and individualized approach in which the System is a trusted lifelong partner in the health and wellness patients
- **Payor and Risk Strategy:** create payor agreements and capabilities to enhance the System's ability to sustainably adopt and deliver on value-based care
- **Physician Growth & Alignment:** become the best place for physicians to practice medicine under any model
- **Technology:** enable modern platforms to serve patients and caregivers while integrating technology pursuant to growth, transforming electronic health records and modernizing infrastructure
- **Virtual Health:** leverage digital health technology to expand access to care thereby improving patient experience, caregiver experience and operational efficiency

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

In parallel with efforts to transform the care model, the System is redefining its relationships with payors and the payment system to match the broader industry trend toward value-based contracting. The System continues to explore increased forms of risk-taking in payor contracts including pay-for-performance, bundled payments, global risk contracts and narrow network arrangements with payor partners. The System has implemented various risk contracting initiatives, including the co-branded insurance products with payor partners launched in 2017 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 integrate the current hospitals into a regional health system and better prepare the Florida facilities for value-based 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. COVID-19 has accelerated the shift in patient appointments from in-person to telehealth visits. 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. The System has improved patient access and convenience through digital technology by expanding and improving the tools offered to patients. Virtual visits for the System were over 1.2 million in 2020 and over 841,000 in 2021.

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.

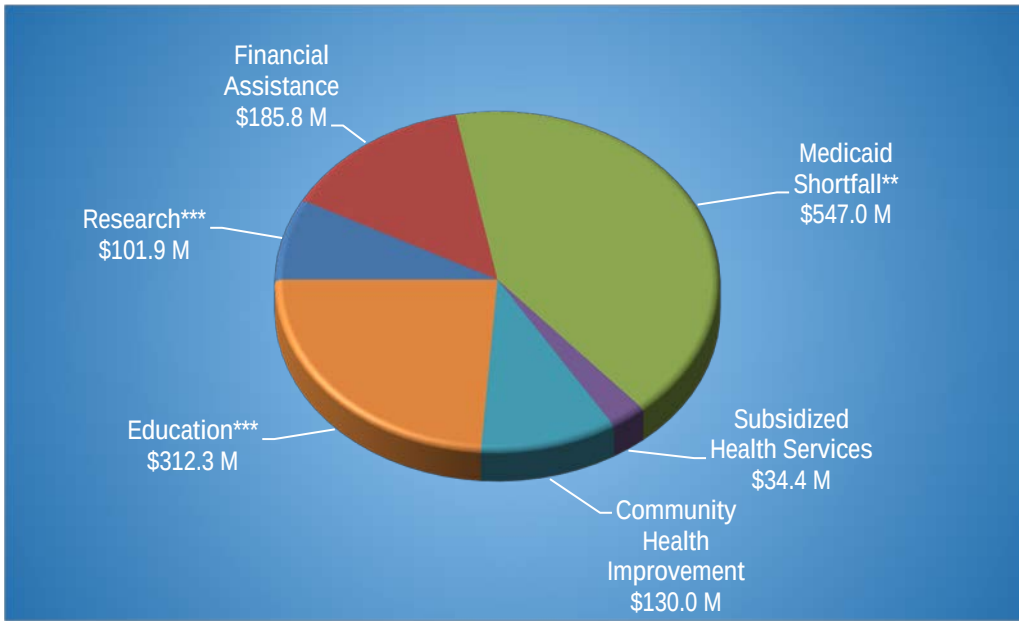
Community benefit includes activities or programs that improve access to health services, enhance public health, advance generalizable knowledge and relieve government burden. The primary categories for assessing community benefit include financial assistance, Medicaid shortfall, subsidized health services,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

In 2020, the System provided $1.31 billion in benefits to the communities it serves. Community benefit information for 2021 was not available at the time of issuance of this Management Discussion and Analysis.

Community Benefit in 2020 includes certain COVID-19 expenses incurred by the System in support of its initial and on-going response to the COVID-19 pandemic. Specifically, community-based clinical services were provided consisting of: COVID-19 clinics and screenings; public education related to COVID-19; and various COVID-19 public assistance programs. Additionally, the System invested in capital and equipment to prepare for the anticipated surge of patients requiring treatment and hospitalization. The System submitted claims to FEMA to reimburse costs related to the System's response to the COVID-19 pandemic. To the extent the COVID-19 costs reported as community benefit expense were reimbursed by FEMA, the reimbursement is reflected as direct offsetting revenue.

The following chart summarizes community benefits for the System:

Cleveland Clinic Health System*
Breakdown of Community Benefit (2020)
$1.31 Billion



* Includes all System operations in Ohio, Nevada and Florida

** Includes net Hospital Care Assurance Program benefit of $14.3 million

*** Research and Education are reported net of externally sponsored funding of $161.8 million.

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

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

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

Community Health Improvement: The System is actively engaged in numerous community health improvement programs, including initiatives designed to address issues of health equity and social determinants of health, as well as serve vulnerable and at-risk populations in the community. Community health improvement programs typically fall into three categories: community health services; cash and in-

kind donations; and community building. The System's community health improvement initiatives for 2020 include costs associated with the System's response to the COVID-19 pandemic as well as traditional community programs in chronic disease prevention and management, clinical services, workforce development and enrollment assistance for government funded health programs.

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

- COVID-19 community health improvement services:
  - The System provided community health education and clinical services for community residents regarding virus impact, testing and vaccine distribution in local neighborhoods.
  - Faith based forums for key community leaders on COVID-19 education and access.
  - Wellness initiatives to residents, schools and community based organizations in the areas of disease prevention, including COVID-19 protocol, personal safety, behavioral health, stress management, nutrition improvement and exercise.
  - The System provided high-speed internet access to local community in efforts to increase residents' ability to attend virtual visits, schools and community forums.
  - Donations of personal protective equipment to community based organizations supported safety issues.
  - 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.

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

- Traditional on-going community health improvement initiatives:
  - Community farmers markets, urban gardens, food donations and a mobile food pantry provided access to fresh local products and supplemental food programs to address food insecurity issues.
  - 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 community education, cancer screening and chronic disease management services. Langston Hughes also served as a community-based vaccination clinic, open to all Ohio residents who meet the Ohio Department of Health criteria.
  - 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.

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

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

Supply Chain

The System invests in the community by developing partnerships to buy local. It also has increased procurement and construction purchasing from minority-owned and women-owned businesses. In 2021, the System joined 11 other U.S health systems in signing the Healthcare Anchor Network's "Impact Purchasing Commitment" to build, healthy, equitable and climate-resilient local economies. Designed in partnership with Health Care Without Harm and Practice Greenhealth, the network's commitments include:

- Increasing spending with Minority and Women Owned Business Enterprises, as well as local and employee-owned, cooperatively owned and/or nonprofit owned enterprises, by at least $1 billion over five years;
- Agreeing to work with at least two large existing vendors to create hiring pipelines in disinvested communities; and
- Adopting procurement goals, which helps purchase goods and services that minimize damage to health and the environment.

Lead Safe Cleveland Coalition

In September 2021, the Clinic announced it would be providing $2.5 million to the Lead Safe Cleveland Coalition and, in January 2022, pledged an additional $50 million. Terms of the pledge agreement are still being finalized. The funds will be used to identify and remove harmful sources of lead exposure from homes in the City of Cleveland. The Lead Safe Cleveland Coalition is a public-private partnership with more than 500 members representing over 120 organizations with the same common goal of ensuring that no child is lead poisoned. Through their Lead Safe Home Fund, the Coalition provides landlords and owner occupants with loans, grants, and incentives to make properties lead safe. They also train residents and others to inspect and remediate lead in homes. The Lead Safe Home Fund assists, educates and engages families, homeowners and landlords through the Lead Safe Resource Center. On behalf of the Coalition, United Way of Greater Cleveland will serve as the steward for Clinic's investment in the Lead Safe Home Fund.

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 2021 and was based on 2019 data. In 2019 the System generated $21.6 billion of the total economic activity in Ohio and has directly and indirectly supported more than 133,000 jobs generating approximately $8.8 billion in wages and earnings. The System's economic activity was accountable for $2.3 billion in federal income taxes and $1.3 billion in total state and local taxes paid by employees and vendors. System-supported households spent $7.8 billion on goods and services, and the System purchased $2.3 billion of goods and services from Ohio businesses. In addition to Ohio, the System

contributed $4.1 billion in total economic output and supported more than 25,000 jobs in the State of Florida.

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

SUSTAINABILITY

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

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

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

The Clinic is a member of Practice Greenhealth, the nation's leading 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 2021, the Clinic and nine regional hospitals received the Practice Greenhealth Environmental Excellence Award. The Environmental Excellence Awards are the nation's premier recognition program for environmental performance in the health care sector. Launched in 2002, the awards program recognizes health care facilities and health systems for their commitment to environmental stewardship and their sustainability achievements.

The System's energy program is designed to enhance 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 25% 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 2021, the Clinic set a new goal to make its facilities 40% more efficient by 2030.

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.

The System currently has 18 LEED-certified buildings that encompass more than six million square feet. The System has five buildings that are certified LEED-Gold, including the Cleveland Clinic Incubator, Marymount Hospital Surgical Expansion, Twinsburg Family Health and Surgery Center, the Tomsich Pathology Laboratories building and the Sheila and Eric Samson Pavilion at Health Education Campus.

The Clinic supports sustainable transportation initiatives that improve air quality for healthier communities. To improve Ohioans' access to electric vehicle (EV) charging infrastructure, the Ohio EPA awarded $3.25 million in grants to support the installation of EV charging stations in April 2021. Through the competitive grant application process, the Clinic received 15% of the available grant funds to support the installation of 124 charging spaces—20% of the total supported through the grant—at 22 Clinic locations. Upon installation in 2022, the System will be a leading provider of public accessible EV charging stations in Northeast Ohio and in the healthcare industry.

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

DIVERSITY & INCLUSION

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

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

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

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

For the fourth year in a row, *Forbes* named the Clinic among America's Best Employers for Diversity for 2021. In order to determine the rankings, *Forbes* partnered with market research company Statista to survey 50,000 Americans working for businesses with at least 1,000 employees. Participants were asked to share their opinions and rate their organizations on age, gender, ethnicity, disability, sexual orientation, equality, general diversity and other criteria. The results ranked 500 employers based on the employers that received the most recommendations while also considering employers that have diverse boards and executive teams as well as proactive diversity and inclusion initiatives.

For the 12th consecutive year, DiversityInc named the Clinic to its 2021 list of Top Hospitals and Health Systems in the country for diversity,

equity and inclusion. This year the Clinic ranked fifth on the list. The Clinic has made the rankings each year since the list for healthcare organization began in 2010. The ranking are empirically driven and assess performance based on a number of factors including leadership accountability, human capital diversity metrics, talent programs, workforce practices, supplier diversity and philanthropy.

In third quarter 2021, the Greater Cleveland Partnership Equity & Inclusion, a program whose focus includes creating positive, measurable outcomes in board, senior management, workforce and supplier diversity within the Northeast Ohio employer community, named the Clinic among the members that are included in the Commission 20. These members may participate in an annual benchmark survey and can be recognized annually for progress in creating, enhancing and sustaining their diversity and inclusion strategies. The Clinic has been recognized as Best in Class in Workforce Diversity multiple times since 2007 and in 2021 was inducted into the Best in Class Hall of Fame.

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 2021. 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 2021, which is the thirteenth year the management report was completed. As part of the internal control evaluation process for 2021, certifications were completed by 142 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 January 2022, Moody's confirmed the negative outlook for the U.S. not-for-profit healthcare sector. Moody's expects that expense growth, driven by nursing shortages and increased labor costs, will outpace revenue gains.

In June 2021, S&P revised its outlook for the U.S not-for-profit healthcare sector to stable as the sector recovers from the COVID-19 pandemic. S&P stated that the revision reflects a trend of revenue recovery, ongoing balance sheet strength, and proactive focus on maintaining financial stability. In January 2022, S&P stated that while the U.S. not-for-profit healthcare sector remains stable, healthcare facilities will likely continue to face operating expense and revenue pressures throughout 2022. The top operating risks noted by S&P were labor expenses and shortages, as well as supply inflation. S&P had previously changed its outlook for the U.S not-for-profit healthcare sector from stable to negative in March 2020 due to the increasing threat of the COVID-19 pandemic.

PATIENTS SERVED

The following table summarizes patient utilization statistics for the System:

Utilization Statistics

	For the quarter ended December 31				For the year ended December 31			
	2021	2020	Variance	%	2021	2020	Variance	%
Inpatient admissions[1]								
Acute admissions	58,749	55,454	3,295	5.9%	236,318	211,770	24,548	11.6%
Post-acute admissions	2,593	2,721	-128	-4.7%	10,983	10,739	244	2.3%
	61,342	58,175	3,167	5.4%	247,301	222,509	24,792	11.1%
Patient days[1]								
Acute patient days	313,639	283,593	30,046	10.6%	1,223,781	1,044,240	179,541	17.2%
Post-acute patient days	20,798	21,216	-418	-2.0%	86,872	82,334	4,538	5.5%
	334,437	304,809	29,628	9.7%	1,310,653	1,126,574	184,079	16.3%
Surgical cases								
Inpatient	16,064	16,099	-35	-0.2%	68,152	64,318	3,834	6.0%
Outpatient	47,834	43,720	4,114	9.4%	191,137	152,625	38,512	25.2%
	63,898	59,819	4,079	6.8%	259,289	216,943	42,346	19.5%
Emergency department visits	228,017	194,477	33,540	17.2%	892,394	757,055	135,339	17.9%
Observations	15,931	15,215	716	4.7%	67,369	61,460	5,909	9.6%
Clinic outpatient evaluation and management visits	1,703,782	1,496,559	207,223	13.8%	6,753,960	5,683,571	1,070,389	18.8%

[1] Excludes newborns

Patients served in 2020 were negatively impacted by the suspension of non-essential procedures in mid-March based on government orders that lasted through early May. The reactivation of clinical services throughout 2020 resulted in steadily increasing patient levels until the fourth quarter of 2020 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 did not return to budgeted levels. A surge of COVID-19 patients in the Florida region in the third quarter of 2021 prompted the System to postpone non-essential procedures that require an overnight stay at Indian River Hospital effective late July and at Martin Health hospitals effective early August. Indian River Hospital also reduced certain outpatient care services, excluding primary care and cancer treatments, to allow caregivers to support inpatient care during the surge. In early September, the Health System began lifting the suspension of non-essential procedures and outpatient care while maintaining certain restrictions to allow for adequate staffing and sufficient bed capacity for COVID-19 and non-COVID-19 patients. In

December 2021, the System experienced another surge of COVID-19 patients in its Ohio and Florida hospitals. In early December, the System began postponing non-essential surgeries requiring a hospital bed at its Ohio hospitals to preserve hospital beds for COVID patients. At the end of December, the System also made the decision to postpone non-essential outpatient/ ambulatory surgeries at its Ohio hospitals through the end of January 2022 in response to critical staffing challenges. The surge in Florida was not as severe as Ohio, although increasing COVID admissions at the end of December and early January prompted the System to postpone non-essential surgeries at Florida facilities for portions of the month of January 2022. The System will continue to monitor bed capacity and caregiver support and will take proactive steps to ensure the safety of patients and caregivers.

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

Inpatient acute admissions for the System increased 5.9% in the fourth quarter of 2021 and 11.6% in 2021 compared to the same periods in 2020. Excluding Mercy, acute admissions in 2021 compared to 2020 increased 5.7%, including a 4.8% increase in Ohio and an 8.5% increase in Florida.

Total surgical cases for the System increased 6.8% in the fourth quarter of 2021 and 19.5% in 2021 compared to the same periods in 2020. Excluding Mercy, total surgical cases in 2021 compared to 2020 increased 15.1%, including a 14.9% increase in Ohio and a 15.7% increase in Florida.

Evaluation and management visits for the System increased 13.8% in the fourth quarter of 2021 and 18.8% in 2021 compared to the same periods in 2020. Excluding Mercy, evaluation and management visits in 2021 compared to 2020 increased 14.5%, including a 14.5% increase in Ohio and a 14.3% increase in Florida.

The System also compared patients served in 2021 to the same periods in 2019 to determine the variance compared to pre-pandemic levels. For comparative purposes, Mercy Hospital patient activity was excluded from the comparison to 2019. Acute admissions decreased 4.1%, total surgical cases decreased 5.7% and outpatient evaluation and management visits increased 5.6% in the fourth quarter of 2021 compared to the same period in 2019. On a year-to-date basis, acute admissions decreased 1.2%, total surgical cases decreased 2.6% and outpatient evaluation and management visits increased 5.6% in 2021 compared to 2019.

Cleveland Clinic Medina Hospital
Medina, Ohio

The following table summarizes patient utilization statistics for the System for 2021 compared to 2019:

Utilization Statistics

	For the Year Ended December 31			
	2021[1]	2019	Variance	%
Inpatient admissions[2]				
Acute admissions	223,805	226,544	-2,739	-1.2%
Post-acute admissions	10,698	11,325	-627	-5.5%
	234,503	237,869	-3,366	-1.4%
Patient days[2]				
Acute patient days	1,159,612	1,098,809	60,803	5.5%
Post-acute patient days	83,085	84,506	-1,421	-1.7%
	1,242,697	1,183,315	59,382	5.0%
Surgical cases				
Inpatient	65,490	74,645	-9,155	-12.3%
Outpatient	184,194	181,747	2,447	1.3%
	249,684	256,392	-6,708	-2.6%
Emergency department visits	846,898	889,475	-42,577	-4.8%
Observations	64,953	82,138	-17,185	-20.9%
Clinic outpatient evaluation and management visits	6,507,455	6,161,618	345,837	5.6%

[1] Excludes Mercy for comparative purposes
[2] Excludes newborns

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, 2021 and 2020:

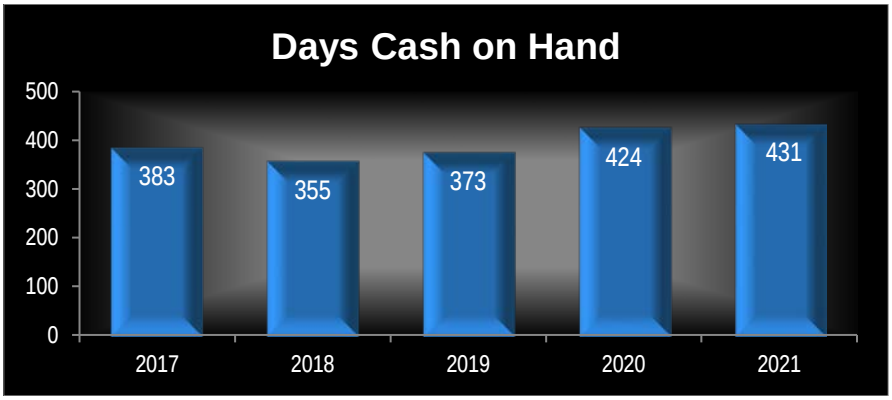
Cash and Investments
(Dollars in thousands)

	December 31, 2021		December 31, 2020	
Cash and cash equivalents	$ 1,347,381	9%	$ 1,848,795	14%
Fixed income securities*	3,096,795	21%	2,927,732	23%
Marketable equity securities*	3,679,009	25%	2,706,835	21%
Alternative investments	6,673,031	45%	5,396,334	42%
Total cash and investments	$ 14,796,216	100%	$ 12,879,696	100%
Less restricted investments**	(1,645,148)		(1,480,426)	
Unrestricted cash and investments	$ 13,151,068		$ 11,399,270	
Days cash on hand	431		424	

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

Cleveland Clinic Lou Ruvo Center for Brain Health
Las Vegas, Nevada

The following chart summarizes days cash on hand for the System at December 31 for the last five years:



At December 31, 2021, total cash and investments for the System (including restricted investments) were $14.8 billion, an increase of approximately $1.9 billion from $12.9 billion at December 31, 2020. Cash inflows consist of cash provided by operating activities and unrestricted investment income of $2,293 million and net increases in restricted gifts and income of $253.6 million. Cash inflows were offset by net capital expenditures for property, plant and equipment of $493.6 million and principal payments on debt of $166.6 million, which includes $26.3 million of payments on debt assumed in the Mercy acquisition and a $36.8 million payment on debt related to Martin Health that was originally scheduled to mature in 2023. Days cash on hand for the System in 2021 benefited from positive investment returns but was diluted as a result of the acquisition of Mercy.

Included in the System's cash and investments are investments held for self-insurance. These investments totaled $263.1 million at December 31, 2021, with an asset mix of 3% cash and short-term investments, 38% fixed-income securities, 31% equity investments and 28% 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 December 31, 2021 are $174.4 million of funds held by trustees. Funds held by trustees include $104.8 million reported in investments for current use to fund current principal and interest payments due in January 2022 and $69.6 million of posted collateral. Collateral is primarily comprised of $5.5 million related to a futures and options program within the System's investment portfolio and $63.2 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, 2021, the asset mix of funds held by trustees was 63% cash and short-term investments and 37% 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, 2021 and 2020 consist of the following:

Alternative Investments
(Dollars in thousands)

	December 31, 2021		December 31, 2020	
Hedge funds	$ 3,886,307	58%	$ 3,335,262	62%
Private equity/venture capital	2,786,724	42%	2,061,072	38%
Total alternative investments	$ 6,673,031	100%	$ 5,396,334	100%

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

Investment Return

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

The System's long term investment portfolio, which excludes assets held for self-insurance, reported preliminary investment gains of 12.1% for 2021 compared to gains of 14.2% in 2020. 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.

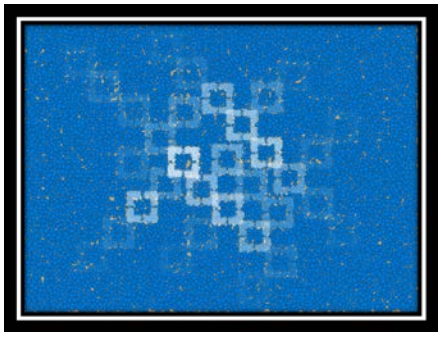
Total investment return for the System is comprised of the following:

Investment Return
(Dollars in thousands)

	For the quarter ended December 31		For the year ended December 31	
	2021	2020	2021	2020
Other unrestricted revenue:				
Interest income and dividends	$ 488	$ 368	$ 1,831	$ 1,406
Nonoperating gains and losses, net:				
Interest income and dividends	23,084	19,734	87,610	72,412
Net realized gains on sales of investments	43,898	115,449	260,090	341,800
Net change in unrealized gains on investments	88,981	271,322	235,376	76,723
Equity method income on alternative investments	182,127	526,212	850,330	662,254
Investment management fees	(8,638)	(6,893)	(30,740)	(25,246)
	329,452	925,824	1,402,666	1,127,943
Other changes in net assets:				
Investment income on restricted investments	23,830	70,495	70,909	82,853
Total investment return	$353,770	$996,687	$ 1,475,406	$ 1,212,202

Operating Lines of Credit

In the second quarter of 2020, the System obtained lines of credit with six financial institutions totaling $650 million. Each of the lines matured within one year and bore interest at LIBOR plus an applicable spread. The lines of credit were obtained to provide additional liquidity for the System. In February 2021, the System drew $26.5 million on one line of credit to refinance debt that was assumed in the Mercy member substitution transaction. In the second quarter of 2021, four of the lines totaling $425 million expired or were terminated. Also in the second quarter of 2021, one of the remaining existing lines was increased to $150 million and extended to April 22, 2024, and the other line was increased to $150 million and extended to May 24, 2023. The System paid the full amount drawn on the line of credit in July 2021. As of December 31, 2021, the System has two operating lines of credit totaling $300 million with no amounts drawn and $300 million in available capacity.



Long-term Debt

At December 31, 2021, outstanding current and long-term debt for the System, excluding $172.8 million of net unamortized premium/debt issuance costs, totaled $5.1 billion, comprised of $5.0 billion in bonds and notes and $123.1 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, 2021 was $545.9 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, 2021, approximately $602 million of variable-rate debt are bonds secured by irrevocable direct pay letters of credit or standby bond purchase agreements, and another $28 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 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, 2021, the System did not have any outstanding Series 2014A CP Notes.

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

In August 2018, the System through a UK subsidiary entered into a private placement agreement to issue the 2018 Sterling Notes totaling £665 million. The subsidiary received proceeds of £300 million, £100 million and £265 million in August 2018, November 2018 and August 2019, respectively. The outstanding 2018 Sterling Notes have been converted to U.S. dollars in the consolidated balance sheet using exchange rates of $1.35 and $1.36 at December 31, 2021 and December 31, 2020, respectively.

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 July 2021, the Series 2021A Bonds totaling $83.8 were issued for the benefit of the System. In October 2021, the Series 2021B Bonds totaling $198.3 million were settled and delivered pursuant to a Forward Delivery Contract of Purchase entered into when the Series 2021A Bonds were issued. Proceeds from the issuance of the Series 2021A Bonds were used for the purpose of financing a portion of the costs of the System's acquisition of the sole membership interest in Cleveland Clinic Mercy Hospital and pay the cost of issuance. Proceeds from the issuance of the Series 2021B Bonds were used to refund a portion of the Series 2012A Bonds and pay the cost of issuance. For a description of the bonds issued in 2021, refer to "FINANCING DEVELOPMENTS."

Cleveland Clinic Hospital Building **c.1924**

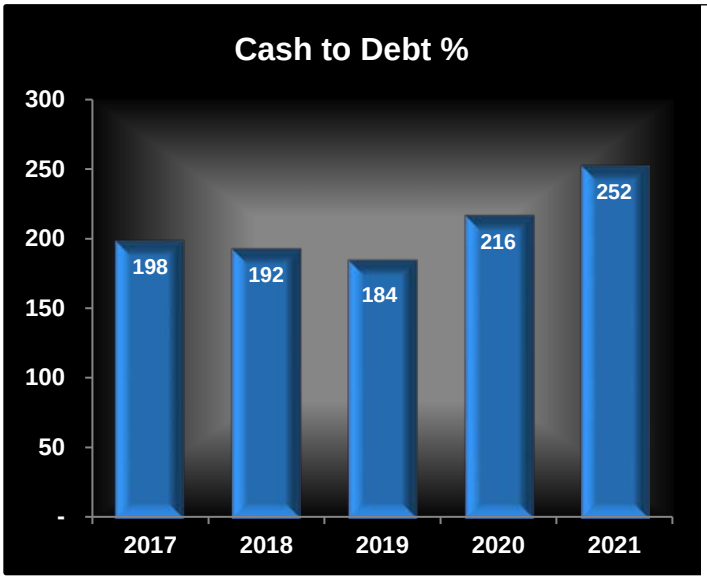
Outstanding long-term debt (including current portion) for the System as of December 31, 2021 and 2020 consist of the following:

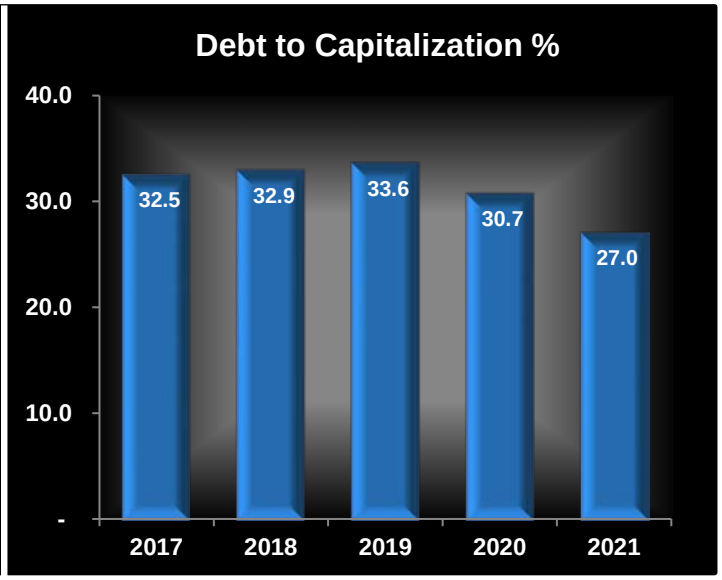
Hospital Revenue Bonds and Notes
(Dollars in thousands)

Series	Type	Final Maturity	December 31 2021	December 31 2020
2021A Revenue Bonds	Fixed	2049	$ 83,810	$ -
2021B Revenue Bonds	Fixed	2039	198,280	-
2021 Term Loan	Fixed	2025	64,650	-
2020 Term Loan	Fixed	2025	9,375	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	897,114	902,952
2018 Term Loan, Martin	Variable	-	-	36,818
2017A Revenue Bonds	Fixed	2043	770,025	792,350
2017B Revenue Bonds	Fixed	2043	164,775	166,290
2017C Revenue Bonds	Fixed	2032	7,680	8,135
2016 Private Placement	Fixed	2046	325,000	325,000
2016 Term Loan	Variable	2026	15,170	15,170
2014 Taxable Bonds	Fixed	2114	400,000	400,000
2013A Revenue Bonds	Fixed	2042	34,955	34,955
2013B Revenue Bonds	Variable	2039	201,160	201,160
2013 Keep Memory Alive Bonds	Variable	2037	52,450	54,760
2013 Bonds, Martin	Variable	2032	12,640	14,455
2012A Revenue Bonds	Fixed	2022	10,800	266,060
2011A Revenue Bonds	Fixed	-	-	79,285
2011B Revenue Bonds	Fixed	2031	21,710	23,345
2011C Revenue Bonds	Fixed	2032	112,025	127,740
2008B Revenue Bonds	Variable	2042	327,575	327,575
2003C Revenue Bonds	Variable	2035	41,905	41,905
Notes Payable	Varies	Varies	2,274	2,901
Finance Leases	Varies	Varies	123,119	110,621
			$ 5,084,842	$ 5,152,487

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

The following charts summarize cash-to-debt and debt-to-capitalization ratios for the System at December 31 for the last 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 July 2021, S&P and Moody's affirmed their respective rating and outlook. According to reports issued by Moody's and S&P, the ratings reflect a unique and strong enterprise profile, a strong leadership team and a national and international clinical reputation.

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

Bond Ratings

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

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

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

CONSOLIDATED RESULTS OF OPERATIONS

For the Quarters Ended December 31, 2021 and 2020

The following narrative describes the consolidated results of operations for the System for the quarters ended December 31, 2021 and 2020. The consolidated results of operations for 2021 include the financial operations of Mercy, which became a consolidated entity of the System on February 1, 2021. For comparative purposes, certain financial activity in the narrative below is presented on a same facility basis, which excludes the financial operations of Mercy for the quarter ended December 31, 2021. For the three months ended December 31, 2021, Mercy had total unrestricted revenues of $105.6 million, an operating loss of $95,000 and excess of revenues over expenses of $165,000.

Operating income for the System in the fourth quarter of 2021 was $196.8 million, resulting in an operating margin of 5.9%, as compared to operating income of $340.2 million and an operating margin of 11.4% in the fourth quarter of 2020. On a same facility basis (excluding Mercy's operating loss of $95 thousand), operating income for the System was $196.9 million, resulting in an operating margin of 6.1%. On a same facility basis, total unrestricted revenues increased 8.7% and total expenses increased 15.3% in the fourth quarter of 2021 compared to the same period in 2020. Growth in unrestricted revenues was driven by higher patient activity in 2021 compared to 2020. The increase in operating expenses was primarily due to higher personnel costs and supplies expense driven by patient activity and utilization of agency nurses. Nonoperating gains for the System were $336.0 million in the fourth quarter of 2021 compared to nonoperating gains of $935.7 million in the fourth quarter of 2020. The decrease from the prior year was primarily due to lower investment returns in the fourth quarter of 2021 compared to the same period in 2020. Overall, the System reported an excess of revenues over expenses of $532.8 million in the fourth quarter of 2021 compared to an excess of revenues over expenses of $1,276 million in the fourth quarter of 2020.

The System's net patient service revenue increased $344.4 million (13.3%) in the fourth quarter of 2021 compared to the same period in 2020. On a same facility basis, net patient service revenue increased $248.9 million (9.6%). Patients served in the fourth quarter of 2021 and 2020 were negatively impacted by the pandemic. On a same facility basis, acute admissions were flat, total surgical cases increased 2.9% and outpatient evaluation and management visits increased 9.3% in the fourth quarter of 2021 compared to the same period in 2020. The System also compared patients served in the fourth quarter of 2021 to the same period in 2019 to determine the variance compared to pre-pandemic levels. On a same facility basis, acute admissions decreased 4.1%, total surgical cases decreased 5.7% and outpatient evaluation and management visits increased 5.6% in the fourth quarter of 2021 compared to the same period in 2019. Net patient revenue has also benefited from rate increases on the System's managed care contracts that became effective in 2021. Over the last few years, the System has initiated national, regional and local revenue management projects designed to improve patient access throughout the System while striving to ensure the safety of patients, visitors and caregivers.

Other unrestricted revenues increased $21.2 million (5.4%) in the fourth quarter of 2021 compared to the same period in 2020. On a same facility basis, other unrestricted revenues increased $11.0 million (2.8%). The increase in same facility other unrestricted revenues was primarily due to an increase of $45.0 million in CARES Act PRF payments recognized in the fourth quarter of 2021 compared to the same period of 2020, a $14.5 million increase in management fee revenue, a $11.0 million increase in gifts and assets released from restriction, and an $8.2 million increase in outpatient pharmacy revenue primarily due to higher utilization of outpatient and specialty drugs and implementation of a contract pharmacy program. Partially offsetting the increase was a $46.3 million decrease in grants earned primarily due to FEMA grants recorded in the fourth quarter of 2020 and a $19.0 million decrease in revenues due to employee retention credits that were recognized in the fourth quarter of 2020.

Total operating expenses increased $509.0 million (19.3%) in the fourth quarter of 2021 compared to the same period in 2020. On a same facility basis, total operating expenses increased $403.3 million (15.3%). The growth in expenses

is primarily due to higher personnel costs. Nationwide labor shortages have created staffing challenges that have resulted in increased overtime costs and premium pay for employed caregivers as well as an increase in the utilization of agency nurses and other temporary personnel to meet the demand of patient activity. Supplies, pharmaceuticals and other non-labor expenses have increased due to higher patient activity and recent inflationary trends. Over the last several years, the System has implemented Care Resource Optimization initiatives 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 high-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 $350.9 million (23.7%) in the fourth quarter of 2021 compared to the same period in 2020. On a same facility basis, salaries, wages and benefits increased $286.5 million (19.4%). Same facilities salaries, excluding benefits, increased $244.5 million (19.0%) due primarily to a 3.2% increase in average full-time equivalent employees in the fourth quarter of 2021 compared to the same period in 2020, annual salary adjustments averaging 2% across the System that were awarded in the second quarter of 2021 and an increase in overtime, premium pay and agency costs to provide adequate staffing at System hospitals. Salaries also increased due to a gratitude gesture from the System in the form of monetary payments of $1,000 to all caregivers in December 2021. The gratitude gesture was provided to honor the commitment, hard work and selflessness of caregivers across the System. Same facility benefit costs increased $42.1 million (22.1%) during the same period primarily due to the growth in the full-time equivalent employees and salaries. The System experienced a $15.1 million increase in employee healthcare costs, an $11.6 million increase in FICA expenses and a $9.7 million increase in defined contribution plan expenses.

Supplies expense increased $58.7 million (20.6%) in the fourth quarter of 2021 compared to the same period in 2020. On a same facility basis, supplies expense increased $45.2 million (15.9%). The increase in same facility supplies was comprised of a $30.6 million increase in medical supplies and implantables and a $14.6 million increase in non-medical supplies. The increase is medical supplies and implantables is primarily due to the increase in surgical cases. The increase in non-medical supplies was driven primarily by an increase in minor equipment and office supplies.

Pharmaceutical costs increased $18.0 million (5.1%) in the fourth quarter of 2021 compared to the same period in 2020. On a same facility basis, pharmaceutical costs increased $9.0 million (2.5%). The increase in pharmaceuticals is primarily due to the increase in patients served in the fourth quarter of 2021 compared to the same period in 2020.

Purchased services and other fees increased $52.7 million (26.3%) in the fourth quarter of 2021 compared to the same period in 2020. On a same facility basis, purchased services and other fees increased $41.5 million (20.7%). The increase in same facility purchased services and other fees was primarily related to a $16.3 million increase in state franchise fee expenses, an increase of $7.1 million of amortization expense for capitalized cloud computing implementation costs, a $6.9 million increase in software and

hardware technology costs related to maintenance agreements and software subscriptions and a $2.0 million increase in purchased medical services.

Administrative services increased by $17.5 million (40.6%) in the fourth quarter of 2021 compared to the same period in 2020. On a same facility basis, administrative services increased $16.6 million (38.4%). The increase in same facility administrative services was primarily due to an $11.6 million increase in professional and consulting fees and a $3.1 million increase in travel and meeting costs that were significantly restricted in 2020 as part of the System's initiatives to reduce expenses.

Facilities expense increased $16.4 million (18.6%) in the fourth quarter of 2021 compared to the same period in 2020. On a same facility basis, facilities expenses increased $12.5 million (14.1%). The increase in same facility expenses was primarily due to a $7.5 million increase in utilities expense and a $1.5 million increase in maintenance and supplies.

Insurance expense increased $3.6 million (23.7%) in the fourth quarter of 2021 compared to the same period in 2020. On a same facility basis insurance expense increased 2.8 million (18.7%) in the fourth quarter of 2021 compared to the same period in 2020. The increase in same facility insurance expense is primarily due to added coverages written by the System's captive insurance subsidiary and premium payments on other insurance policies.

Interest expense decreased $2.0 million (5.1%) in the fourth quarter of 2021 compared to the same period in 2020. On a same facility basis, interest expense decreased by $2.6 million (6.9%). The decrease in same facility interest expense is primarily due to regularly scheduled principal payments in 2021 and lower interest rates attributable to the System's outstanding variable-rate debt. The System also refunded $64.7 million of fixed-rate debt in January 2021 and $245.0 million of fixed-rate debt in October 2021 at lower interest rates.

Depreciation and amortization expenses decreased $6.8 million (4.8%) in the fourth quarter of 2021 compared to the same period in 2020. On a same facility basis depreciation and amortization expenses decreased $8.2 million (5.8%). Changes in same facility depreciation include property, plant and equipment that was fully depreciated in 2020, offset by depreciation for property, plant and equipment that was acquired and placed into service after the fourth quarter of 2020.

Gains and losses from nonoperating activities are recorded below operating income in the statement of operations. These items resulted in net gains to the System of $336.0 million in the fourth quarter of 2021 compared to net gains of $935.7 million in the fourth quarter of 2020, resulting in an unfavorable variance of $599.7 million. Investment returns were lower by $596.4 million in the fourth quarter of 2021 compared to the same period in 2020. Derivative gains and losses were unfavorable by $10.7 million in the fourth quarter of 2021 compared to the same period in 2020. Derivative gains and losses result from changes in interest rate benchmarks associated with the System's interest rate swap agreements, including net interest paid or received under the swap agreements. Other nonoperating gains and losses were favorable by $7.3 million in the fourth quarter of 2021 compared to the same period in 2020 due to $15.1 million of gains on retirement of debt related to the refunding the Series 2012A Bonds in the fourth quarter of 2021.

For the Years Ended December 31, 2021 and 2020

The following narrative describes the consolidated results of operations for the System for the years ended December 31, 2021 and 2020. The consolidated results of operations for 2021 include the financial operations of Mercy, which became a consolidated entity of the System on February 1, 2021. For comparative purposes, certain financial activity in the narrative below is presented on a same facility basis, which excludes the financial operations of Mercy for the year ended December 31, 2021. For the eleven months ended December 31, 2021, Mercy had total unrestricted revenues of $357.6 million, an operating loss of $1.6 million and a deficiency of revenues over expenses of $1.1 million.

Operating income for the System in 2021 was $746.3 million, resulting in an operating margin of 6.0%, as compared to operating income of $232.4 million and an operating margin of 2.2% in 2020. The operations of the System in 2020 were significantly impacted by the pandemic and the actions taken by the System to postpone non-essential procedures and appointments between mid-March and early May. On a same facility basis, total unrestricted revenues increased 13.7% and total expenses increased 9.0% in 2021 compared to 2020. Growth in unrestricted revenues was driven by higher patient activity in 2021 compared to 2020. The lower patient activity experienced throughout the pandemic has been partially offset by the recognition of CARES Act PRF payments and other stimulus funds. The increase in operating expenses was primarily due to higher personnel costs and supplies expenses driven by patient activity and utilization of agency nurses. Nonoperating gains for the System were $1,463 million in 2021 compared to nonoperating gains of $1,093 million in 2020. The increase from the prior year was primarily due to higher investment returns and derivative gains in 2021 compared to the same period in 2020. Overall, the System reported an excess of revenues over expenses of $2,210 million in 2021 compared to an excess of revenues over expenses of $1,325 million in 2020.

The System's net patient service revenue increased $1,834 million (20.1%) in 2021 compared to 2020. On a same facility basis, net patient service revenue increased $1,494 million (16.4%). Patients served in 2020 were negatively impacted by the suspension of non-essential procedures in mid-March based on government orders that lasted through early May. On a same facility basis, acute admissions increased 5.7%, total surgical cases increased 15.1% and outpatient evaluation and management visits increased 14.5% in 2021 compared to 2020. The System also compared patients served in 2021 to 2019 to determine the variance compared to pre-pandemic levels. On a same facility basis, acute admissions decreased 1.2%, total surgical cases decreased 2.6% and outpatient evaluation and management visits increased 5.6% in 2021 compared to 2019. Net patient revenue has also benefited from rate increases on the System's managed care contracts that became effective in 2021. Over the last few years, the System has initiated national, regional and local revenue management projects designed to improve patient access throughout the System while striving to ensure the safety of patients, visitors and caregivers.

Other unrestricted revenues decreased $21.1 million (1.4%) in 2021 compared to 2020. On a same facility basis, other unrestricted revenues decreased $38.3 million (2.6%). The decrease in same facility other unrestricted revenues was primarily due to a decrease of $144.2 million in CARES Act PRF payments, a $27.7 million decrease in ERC revenues recognized and a $60.5 million decrease in FEMA grant revenues

recognized in 2021 compared to 2020. The decreases were partially offset by a $140.1 million increase in outpatient pharmacy revenue primarily due to higher utilization of outpatient and specialty drugs and implementation of a contract pharmacy program, a $30.0 million increase in research and education grant revenues and an $11.6 million increase in revenues related to parking, food service and hotels primarily due to higher patient activity and changes to visitation restrictions that have recently become less restrictive.

Total operating expenses increased $1,299 million (12.5%) in 2021 compared to 2020. On a same facility basis, total operating expenses increased $939.7 million (9.0%). The growth in expenses is primarily due to higher personnel costs. Nationwide labor shortages have created staffing challenges that have resulted in increased overtime costs and premium pay for employed caregivers as well as an increase in the utilization of agency nurses and other temporary personnel to meet the demand of patient activity. Supplies, pharmaceuticals and other non-labor expenses have increased due to higher patient activity and recent inflationary trends. Over the last several years, the System has implemented Care Resource Optimization initiatives 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 high-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 $842.5 million (14.3%) in 2021 compared to 2020. On a same facility basis, salaries, wages and benefits increased $631.5 million (10.7%). Same facilities salaries, excluding benefits, increased $516.6 million (10.2%) due primarily to a 3.0% increase in average full-time equivalent employees in 2021 compared to 2020, annual salary adjustments averaging 2% across the System that were awarded in the second quarter of 2021 and an increase in overtime, premium pay and agency costs to provide adequate staffing at System hospitals. Salaries also increased due to two gratitude gestures from the System in the form of monetary payments of $500 to all caregivers in April 2021 and $1,000 to all caregivers in December 2021. The gratitude gesture was provided to honor the commitment, hard work and selflessness of caregivers across the System. Same facility benefit costs increased $114.9 million (13.7%) during the same period primarily due to the growth in the full-time equivalent employees and salaries. The System experienced a $42.1 million increase in employee healthcare costs due to increased utilization within the plan, a $28.0 million increase in FICA expenses, a $21.2 million increase in defined contribution pension plan expenses and a $10.7 million increase in maternity and parental leave (an enhanced benefit to caregivers that became effective in the second quarter of 2020).

Supplies expense increased $165.4 million (15.0%) in 2021 compared to 2020. On a same facility basis, supplies expense increased $114.9 million (10.4%). The increase in same facility supplies was comprised of a $104.0 million increase in medical supplies and implantables primarily due to the increase in surgical cases and a $10.9 million increase in non-medical supplies.

Pharmaceutical costs increased $98.2 million (7.6%) in 2021 compared to 2020. On a same

facility basis, pharmaceutical costs increased $71.4 million (5.5%). The increase in pharmaceuticals is primarily due to the increase in patients served in 2021 compared to 2020.

Purchased services and other fees increased $137.5 million (18.8%) in 2021 compared to 2020. On a same facility basis, purchased services and other fees increased $99.9 million (13.6%). The increase in same facility purchased services and other fees was primarily related to a $61.9 million increase in state franchise fee expenses, a $26.7 million increase in software and hardware technology costs related to maintenance agreements and software subscriptions and a $6.6 million increase in purchased medical services including lab costs.

Administrative services increased by $13.1 million (7.3%) in 2021 compared to 2020. On a same facility basis, administrative services increased $8.5 million (4.8%). The increase in same facility administrative services was primarily due to a $3.4 million increase in professional and consulting fees and a $1.8 million increase in travel and education expenses.

Facilities expense increased $41.9 million (11.9%) in 2021 compared to 2020. On a same facility basis, facilities expenses increased $27.4 million (7.8%). The increase in same facility expenses was primarily due to a $19.3 million increase in utilities expense, a $5.8 million increase in various facility service fees including security, cleaning and landscaping and a $5.1 million increase in building and equipment lease expense.

Insurance expense increased $12.5 million (15.8%) in 2021 compared to 2020. On a same facility basis insurance expense increased $10.1 million (12.8%). The increase in same facility insurance expense is primarily due to added coverages written by the System's captive insurance subsidiary and premium payments on other insurance policies.

Interest expense decreased $8.9 million (5.7%) in 2021 compared to 2020. On a same facility basis, interest expense decreased by $10.8 million (6.9%). The decrease in same facility interest expense is primarily due to regularly scheduled principal payments in 2021 and lower interest rates attributable to the System's outstanding variable-rate debt. The System also refunded $64.7 million of fixed-rate debt in January 2021 and $245.0 million of fixed-rate debt in October 2021 at lower interest rates.

Depreciation and amortization expenses decreased $3.3 million (0.6%) in 2021 compared to 2020. On a same facility basis depreciation and amortization expenses decreased $13.3 million (2.3%). Changes in same facility depreciation include property, plant and equipment that was fully depreciated in 2020, offset by depreciation for property, plant and equipment that was acquired and placed into service 2021.

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 $1,463 million in 2021 compared to gains of $1,093 million in 2020, resulting in a favorable variance of $370.6 million. Investment returns were favorable by $274.7 million in 2021 compared to 2020. The System's long-term investment portfolio reported preliminary investment gains of 12.1% for 2021, which was slightly below returns experienced in 2020. However, the higher portfolio value in 2021 resulted in higher overall investment returns in 2021 compared to 2020. Derivative gains and losses were favorable by $82.2 million in 2021 compared to 2020. Derivative gains and losses result from changes in currency exchange rates associated with the System's foreign exchange forward currency contracts and changes in

interest rate benchmarks associated with the System's interest rate swap agreements, including net interest paid or received under the swap agreements. Other nonoperating gains and losses were favorable by $13.7 million in 2021 compared to 2020 primarily due to $19.3 million of gains on retirement of debt related to the refunding of the Series 2011A Bonds in the first quarter of 2021 and the Series 2012A Bonds in the fourth quarter of 2021.

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

The following narrative describes the consolidated balance sheets for the System as of December 31, 2021 and December 31, 2020. The consolidated balance sheet at December 31, 2021 includes Mercy, which became a consolidated entity of the System February 1, 2021. For comparative purposes, certain financial activity in the narrative below is presented on a same facility basis, which excludes balance sheet information for Mercy as of December 31, 2021.

Cash and cash equivalents decreased $377.9 million (36.1%) from December 31, 2020 to December 31, 2021. On a same facility basis, cash and cash equivalents decreased $407.6 million (39.0%). The majority of the System's cash and cash equivalents are held in operating bank accounts and money market accounts for general expenditures. The decrease in same facility cash equivalents relates to the timing of operating cash flows and transfers to or from the investment portfolio.

Patient accounts receivable increased $276.7 million (22.0%) from December 31, 2020 to December 31, 2021. On a same facility basis, patient accounts receivable increased 231.8 million (18.5%) The increase in same facility patient receivables is primarily attributable to the increase in patients served in 2021 compared to 2020 and rate increases on the System's managed care contracts that became effective in January 2021. The System has various initiatives to enhance cash collection efforts and create efficiencies in the revenue cycle process. Days revenue outstanding for the System, which is calculated based on average daily revenue for the most recent quarter, increased from 45 days at December 31, 2020 to 48 days at December 31, 2021.

Investments for current use decreased $16.6 million (9.4%) from December 31, 2020 to December 31, 2021. On a same facility basis, investments for current use decreased $16.6 million (9.4%). Investments for current use includes funds held by the bond trustee that are used to pay current debt service payments. The System paid $104.8 million to the bond trustee in 2021 to fund debt service payments that occurred in the first quarter of 2022. In 2020 the System paid $122.7 million to the bond trustee to fund debt service payments that occurred in the first quarter of 2021. Investments for current use also includes assets held for self-insurance that will be used to pay the current portion of estimated claim liabilities. Assets held for self-insurance increased $1.3 million from December 31, 2020 to December 31, 2021.

Other current assets increased $72.3 million (13.2%) from December 31, 2020 to December 31, 2021. On a same facility basis, other current assets increased $59.1 million (10.8%). The increase in same facility other current assets was primarily due to a $52.7 million increase in receivables related to government programs that provide assistance to hospitals, a $20.9 million increase in prepaid expenses driven by information technology contracts and a $15.9 million increase in inventory driven by higher

patient activity. The increases in same facility other current assets were partially offset by a $27.5 million decrease in receivables related to research and grant receivables due to a $17.2 million reduction in FEMA receivables.

Unrestricted long-term investments increased by $2,130 million (20.6%) from December 31, 2020 to December 31, 2021. On a same facility basis, unrestricted long-term investments increased by $2,114 million (20.4%). The increase in same facility long-term investments was primarily due to $1,403 million of unrestricted investment income experienced in the System's investment portfolio that reported preliminary investment gains of 12.1% in 2021. Unrestricted investments also increased as a result of the payment of a $25.0 million dividend form the System's captive insurance subsidiary. Other changes in the unrestricted investments include transfers to or from operating cash based on the liquidity needs of the System.

Funds held by trustees decreased $40.8 million (37.0%) from December 31, 2020 to December 31, 2021. On a same facility basis, funds held by trustees decreased $40.8 million (37.0%). The decrease in same facility funds held by trustees is primarily due to a $39.2 million decrease in collateral posted with the counterparties on the System's derivative contracts.

Assets held for self-insurance increased by $27.8 million (15.5%) from December 31, 2020 to December 31, 2021. On a same facility basis, assets held for self-insurance increased by $27.8 million (15.5%). The increase in same facility self-insurance assets is primarily due to premiums received by the captive insurance subsidiary in excess of claims paid and positive investment returns of $15.0 million in the System's captive insurance portfolio. These increases were offset by a $25.0 million dividend declared by the System's captive insurance subsidiary in 2020 that was paid to the System in the first quarter of 2021.

Donor restricted assets increased $194.3 million (19.2%) from December 31, 2020 to December 31, 2021. On a same facility basis, donor restricted assets increased $191.4 million (18.9%). The increase in same facility donor restricted assets was primarily from the receipt of donor restricted gifts and investment income on restricted investments in excess of expenditures from restricted funds.

Net property, plant and equipment increased $27.5 million (0.5%) from December 31, 2020 to December 31, 2021. On a same facility basis, net property, plant and equipment decreased $49.0 million (0.8%). The System had same facility net expenditures for property, plant and equipment of $507.9 million, offset by depreciation expense of $576.0 million. The System also had proceeds from the sale of property, plant and equipment of $15.8 million and foreign currency translation losses of $8.3 million. Capital expenditures in 2021 include amounts paid on retainage liabilities recorded at December 31, 2020 and exclude assets acquired through finance leases and other financing arrangements. Retainage liabilities increased $10.8 million, and new finance leases totaled $29.0 million. The System also receive $3.4 million of donated capital in 2021. Expenditures for property, plant and equipment were incurred at numerous facilities across the System and include expenditures for strategic construction, expansion and technological investment as well as replacement of existing facilities and equipment. For a description of a few of the System's current projects, refer to "EXPANSION AND IMPROVEMENT PROJECTS."

Pledges receivable increased $30.0 million (23.8%) from December 31, 2020 to December 31, 2021. On a same facility basis, pledges receivable increased $30.0 million (23.8%). The

increase in same facility pledges receivable was due to new pledges received in 2021 offset by the reclassification of regularly scheduled principal payments from long-term to current that are due within one year.

Trusts and interests in foundations increased $8.5 million (7.6%) from December 31, 2020 to December 31, 2021. On a same facility basis trusts and interests in foundations increased $8.5 million (7.6%). The increase in same facility trusts and interests in foundations is comprised of a $6.7 million increase in perpetual and charitable trusts primarily due to an increase in market value of the trusts and a $1.8 million increase in interest in community foundations.

Operating lease right-of-use assets decreased $5.5 million (1.5%) from December 31, 2020 to December 31, 2021. On a same facility basis, operating lease right-of-use assets decreased $12.5 million (3.5%). The decrease in same facility operating lease right-of-use assets was due to the reduction in the value of future lease payments through the recognition of operating lease expenses offset by the addition of new operating leases recorded during 2021.

Other noncurrent assets increased $147.5 million (22.9%) from December 31, 2020 to December 31, 2021. On a same facility basis, other noncurrent assets increased $146.7 million (22.8%). The increase in same facility other noncurrent assets was primarily due to the System's implementation of 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*. As a result of the implementation the System recorded $72.8 million of implementation costs related to cloud computing arrangements. Other noncurrent assets also increased due to a $67.5 million increase in deferred compensation plan assets (corresponding increase in noncurrent liabilities), a $23.3 million increase in investments in affiliates primarily related to income at joint venture rehabilitation hospitals recorded under the equity method and investment in various companies in connection with Cleveland Clinic Innovations, and a $4.9 million increase in goodwill primarily due to a physician practice acquisition. These increases were partially offset by a $20.2 million decrease in reinsurance recoverable primarily due to collection of a malpractice reinsurance recovery.

Accounts payable increased $134.5 million (25.4%) from December 31, 2020 to December 31, 2021. On a same facility basis accounts payable increased $116.8 million (22.1%). The increase in same facility accounts payable was primarily attributable to the timing of payment processing for trade payables and a $10.8 million increase in retainage liabilities for current construction projects.

Compensation and amounts withheld from payroll increased $60.4 million (13.0%) from December 31, 2020 to December 31, 2021. On a same facility basis compensation and amounts withheld from payroll increased $46.8 million (10.1%). The increase in same facility compensation and amounts withheld from payroll was primarily attributable to the timing of payroll and the growth in employee benefit accruals.

Current portion of long-term debt increased $4.0 million (4.0%) from December 31, 2020 to December 31, 2021. On a same facility basis current portion of long-term debt increased $3.9 million (3.9%). Changes in the current portion of long-term debt include the reclassification of regularly scheduled principal payments from long-term to current that are due within one year, offset by principal payments made in 2021.

Variable rate debt classified as current decreased $140.6 million (23.8%) from December 31, 2020 to

December 31, 2021. On a same facility basis variable rate debt classified as current decreased $140.6 million (23.8%). Long-term debt classified as current consists of variable-rate bonds supported by the System's self-liquidity program and bonds with letters of credit or standby bond purchase agreements that expire within one year, require repayment of a remarketing draw within one year or contain a subjective clause that would allow the lender to declare an event of default and cause immediate repayment of such bonds. The decrease in variable rate debt classified as current was primarily due to the reclassification of $138.3 million from current to long-term for bonds supported by standby bond purchase agreements that were scheduled to expire in 2021. The System entered into new agreements that allow the bonds to be classified as long-term at December 31, 2021.

Other current liabilities decreased $7.5 million (1.0%) from December 31, 2020 to December 31, 2021. On a same facility basis other current liabilities decreased $28.0 million (3.8%). The decrease in same facility other current liabilities is primarily due to a $30.6 million decrease in deferred research revenue, a $27.3 million decrease in state franchise fee liabilities primarily related to the timing of payments to the State of Ohio, a $22.2 million decrease for payments related to the Akron General settlement agreement with the DOJ and a $5.8 million decrease in accrued interest payable. Refer to "AKRON GENERAL HEALTH SYSTEM" for additional description of the settlement agreement. These decreases were offset by a $32.5 million increase in professional and general liability insurance reserves driven primarily by the reclassification of malpractice claims from noncurrent to current, a $32.4 million increase in third party payables and a $9.8 million increase in deferred revenue.

Long-term debt increased $88.4 million (1.9%) from December 31, 2020 to December 31, 2021. On a same facility basis long-term debt increased $50.5 million (1.1%). The increase in same facility long-term debt is partially due to the issuance of the Series 2021A Bonds totaling $83.8 million. For a description of the bonds issued in 2021, refer to "FINANCING DEVELOPMENTS." Also contributing to the increase was $138.3 million transferred from variable rate debt classified as current to long-term debt. The increases were offset by the reclassification of regularly scheduled principal payments from long-term to current for debt payments due within one year, a $36.8 million payment on a note related to Martin Health that was classified as long-term and $5.8 million of foreign currency translation gains on the 2018 Sterling Notes.

Professional and general insurance liability reserves decreased $8.7 million (4.0%) from December 31, 2020 to December 31, 2021. On a same facility basis professional and general liability reserves decreased $8.7 million (4.0%). The decrease in same facility insurance liability reserves is due to the reclassification of claim liabilities form noncurrent to current offset by expenses recorded for the accrual of current and prior year claims estimates in excess of claim liability payments.

Accrued retirement benefits decreased $11.6 million (3.9%) from December 31, 2020 to December 31, 2021. On a same facility basis accrued retirement benefits decreased $11.6 million (3.9%). The decrease in same facility accrued retirement benefits is comprised of a $17.0 million decrease in the System's defined benefit pension plan liabilities and a $5.4 million increase in other postretirement benefit liabilities. The decrease in defined benefit plan liabilities was due to the CCHS Retirement Plan, which was in a net liability position of $16.5 million at December 31, 2020. At December 31, 2021, the fair value of assets in the CCHS Retirement Plan exceeded the projected benefit obligation.

Operating lease liabilities decreased $8.8 million (2.7%) from December 31, 2020 to December 31, 2021. On a same facility basis operating lease liabilities decreased $13.5 million (4.2%). The decrease in same facility operating lease liabilities was due to the reclassification of operating lease payments from long-term to short-term partially offset by the addition of new operating leases recorded during 2021.

Other noncurrent liabilities decreased $57.4 million (8.1%) from December 31, 2020 to December 31, 2021. Same facility other noncurrent liabilities increased $57.4 million (8.1%). The decrease in same facility other noncurrent liabilities is primarily due to $86.4 million of social security payroll tax liabilities that were deferred in 2020 under the provision of the CARES Act and have been reclassified to current liabilities for payments due in 2022. Also contributing to the decrease is a $42.8 million decrease in liabilities related to changes in the fair value of the System's derivative agreements. These decreases are being offset by a $67.3 million increase in deferred compensation plan liabilities and a $4.6 million increase in noncurrent third party reserves.

Total net assets increased $2,421 million (18.3%) from December 31, 2020 to December 31, 2021. Net assets without donor restrictions increased $2,186 million (18.3%) primarily due to excess of revenues over expenses of $2,210 million and net assets released from restriction for capital purposes of $12.6 million offset by a $34.8 million retirement benefits adjustment that reduced net assets without donor restrictions. Net assets with donor restrictions increased $235.0 million (17.8%), primarily due to gifts of $214.4 million and investment income of $70.9 million offset by assets released from restrictions of $61.6 million.

[Cleveland Clinic's Critical Care Transport (CCT)]

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, (4) the loss of employment and health insurance for a significant portion of the population, or (5) staffing reductions resulting from vaccination mandates of employees;
- Changes to the Medicare and Medicaid reimbursement systems resulting in reductions in payments and/or changes in eligibility of patients to qualify for Medicare and Medicaid;
- Legislative reforms or actions that reduce the payment for, and/or utilization of, healthcare services, such as the Patient Protection and Affordable Care Act and/or draft legislation to address reimbursement cuts related to the Sustainable Growth Rate Formulas;
- Possible repeal and/or replacement of the Patient Protection and Affordable Care Act, and repeal of the individual mandate;
- Adjustments resulting from Medicare and Medicaid reimbursement audits, including audits initiated by the Medicare Recovery Audit Contractor program;
- Future contract negotiations between public and private insurers, employers and participating hospitals, including the System's hospitals, and other efforts by these insurers and employers to limit hospitalization costs and coverage;
- Increased competition in the areas served by the System and limited options to respond to the same in part due to uncertainty in the enforcement of antitrust laws;
- The ability of the System to integrate the hospitals in Florida into a regional health system;
- The ability of the System to access capital for the funding of capital projects;
- Availability of malpractice, cyber or other insurance at reasonable rates, if at all;
- The System's ability to recruit and retain professionals;
- The ability of the Clinic to develop the London Hospital and establish relationships with payors in that market;
- General economic and business conditions, internationally, nationally and regionally, including the impact of interest rates, inflation, foreign currencies, financial market conditions and volatility and increases in the number of self-pay patients;
- The increasing number and severity of cyber threats and the costs of preventing them and protecting patient and other data;

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

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

Cleveland Clinic

Every life deserves world class care.