Interim Unaudited Consolidated Financial Statements and Other Information

For The Period Ended September 30, 2022

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

Contents

Unaudited Consolidated Balance Sheets

($ in thousands)

	September 30 2022	December 31 2021
Assets		
Current assets:		
Cash and cash equivalents	$ 595,514	$ 667,500
Patient receivables	1,651,295	1,532,362
Investments for current use	55,973	160,786
Other current assets	790,675	619,023
Total current assets	3,093,457	2,979,671
Investments:		
Long-term investments	10,669,844	12,483,568
Funds held by trustees	2,320	69,541
Assets held for self-insurance	148,758	207,114
Donor restricted assets	1,224,801	1,207,707
	12,045,723	13,967,930
Property, plant, and equipment, net	5,807,057	5,894,500
Other assets:		
Pledges receivable, net	238,910	155,593
Trusts and interests in foundations	105,102	120,934
Operating lease right-of-use assets	311,424	355,350
Other noncurrent assets	789,695	792,027
	1,445,131	1,423,904
Total assets	$ 22,391,368	$ 24,266,005

Unaudited Consolidated Balance Sheets (continued)

($ in thousands)

	September 30 2022	December 31 2021
Liabilities and net assets		
Current liabilities:		
Accounts payable	$ 627,901	$ 663,259
Compensation and amounts withheld from payroll	548,574	524,664
Current portion of long-term debt	97,613	105,022
Variable rate debt classified as current	522,252	449,297
Other current liabilities	679,614	730,802
Total current liabilities	2,475,954	2,473,044
Long-term debt	4,351,823	4,671,424
Other liabilities:		
Professional and general insurance liability reserves	224,649	207,448
Accrued retirement benefits	283,984	286,149
Operating lease liabilities	284,212	314,867
Other noncurrent liabilities	537,184	650,491
	1,330,029	1,458,955
Total liabilities	8,157,806	8,603,423
Net assets:		
Without donor restrictions	12,537,112	14,107,442
With donor restrictions	1,696,450	1,555,140
Total net assets	14,233,562	15,662,582
Total liabilities and net assets	$ 22,391,368	$ 24,266,005

See notes to unaudited consolidated financial statements.

Unaudited Consolidated Statements of Operations and Changes in Net Assets

($ in thousands)

Operations

	Three Months Ended Sep 30	
	2022	2021
Unrestricted revenues		
Net patient service revenue	$2,926,964	$2,751,829
Other	378,569	316,450
Total unrestricted revenues	3,305,533	3,068,279
Expenses		
Salaries, wages, and benefits	1,952,560	1,675,633
Supplies	327,820	315,980
Pharmaceuticals	402,843	355,254
Purchased services and other fees	242,385	217,200
Administrative services	65,143	45,661
Facilities	118,382	101,575
Insurance	29,609	17,869
	3,138,742	2,729,172
Operating income before interest, depreciation, and amortization expenses	166,791	339,107
Interest	37,819	37,220
Depreciation and amortization	157,298	153,678
Operating (loss) income	(28,326)	148,209
Nonoperating gains and losses		
Investment return	(417,612)	264,220
Derivative gains	18,588	2,439
Other, net	(41,884)	7,329
Net nonoperating gains and losses	(440,908)	273,988
(Deficiency) excess of revenues over expenses	(469,234)	422,197

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

($ in thousands)

Changes in Net Assets

	Three Months Ended Sep 30	
	2022	2021
Changes in net assets without donor restrictions:		
(Deficiency) excess of revenues over expenses	$ (469,234)	$422,197
Donated capital	-	1,815
Net assets released from restriction for capital purposes	3,659	967
Retirement benefits adjustment	(574)	(715)
Foreign currency translation	(14,997)	(4,114)
Other	(3,502)	(383)
(Decrease) increase in net assets without donor restrictions	(484,648)	419,767
Changes in net assets with donor restrictions:		
Gifts and bequests	165,924	44,387
Net investment (loss) income	(18,649)	11,250
Net assets released from restrictions used for operations included in other unrestricted revenues	(28,598)	(13,785)
Net assets released from restriction for capital purposes	(3,659)	(967)
Change in interests in foundations	(970)	(326)
Change in value of perpetual trusts	(2,920)	1,249
Other	1,500	(1)
Increase in net assets with donor restrictions	112,628	41,807
(Decrease) increase in net assets	(372,020)	461,574
Net assets at beginning of period	14,605,582	14,583,996
Net assets at end of period	$ 14,233,562	$ 15,045,570

See notes to unaudited consolidated financial statements.

Unaudited Consolidated Statements of Operations and Changes in Net Assets

($ in thousands)

Operations

	Nine Months Ended September 30	
	2022	2021
Unrestricted revenues		
Net patient service revenue	$ 8,434,978	$ 8,038,738
Other	1,036,678	1,055,684
Total unrestricted revenues	9,471,656	9,094,422
Expenses		
Salaries, wages, and benefits	5,718,475	4,915,936
Supplies	998,392	927,409
Pharmaceuticals	1,151,447	1,026,858
Purchased services and other fees	733,687	617,031
Administrative services	186,709	131,620
Facilities	332,403	288,066
Insurance	92,396	72,572
	9,213,509	7,979,492
Operating income before interest, depreciation, amortization, and special charges	258,147	1,114,930
Interest	110,149	112,075
Depreciation and amortization	464,300	453,416
Operating (loss) income	(316,302)	549,439
Nonoperating gains and losses		
Investment return	(1,257,604)	1,073,214
Derivative gains	67,315	19,321
Other, net	(32,033)	34,931
Net nonoperating gains and losses	(1,222,322)	1,127,466
(Deficiency) excess of revenues over expenses	(1,538,624)	1,676,905

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

($ in thousands)

Changes in Net Assets

	Nine Months Ended September 30	
	2022	2021
Changes in net assets without donor restrictions:		
(Deficiency) excess of revenues over expenses	$ (1,538,624)	$ 1,676,905
Donated capital	(3)	1,860
Net assets released from restriction for capital purposes	8,699	9,337
Retirement benefits adjustment	(1,723)	(2,147)
Foreign currency translation	(36,478)	(2,409)
Other	(2,201)	(2,800)
(Decrease) increase in net assets without donor restrictions	(1,570,330)	1,680,746
Changes in net assets with donor restrictions:		
Gifts and bequests	285,633	109,011
Net investment (loss) income	(67,843)	47,079
Net assets released from restrictions used for operations included in other unrestricted revenues	(60,324)	(32,605)
Net assets released from restriction for capital purposes	(8,699)	(9,337)
Change in interests in foundations	(3,001)	924
Change in value of perpetual trusts	(5,956)	5,513
Other	1,500	2,384
Increase in net assets with donor restrictions	141,310	122,969
(Decrease) increase in net assets	(1,429,020)	1,803,715
Net assets at beginning of year	15,662,582	13,241,855
Net assets at end of period	$ 14,233,562	$ 15,045,570

See notes to unaudited consolidated financial statements.

Unaudited Consolidated Statements of Cash Flows

($ in thousands)

	Nine Months Ended September 30	
	2022	2021
Operating activities and net nonoperating gains and losses		
(Decrease) increase in net assets	$ (1,429,020)	$ 1,803,715
Adjustments to reconcile (decrease) increase in net assets to net cash used in operating activities and net nonoperating gains and losses:		
Gain on extinguishment of debt	-	(4,252)
Retirement benefits adjustment	1,723	2,147
Net realized and unrealized losses (gains) on investments	1,383,368	(1,071,802)
Depreciation and amortization	464,979	453,424
Foreign currency translation loss	36,478	2,409
Donated capital	3	(1,860)
Restricted gifts, bequests, investment income, and other	(208,833)	(162,527)
Accreted interest and amortization of bond premiums	(5,557)	(4,179)
Net gain in value of derivatives	(80,839)	(35,478)
Changes in operating assets and liabilities:		
Patient receivables	(119,099)	(144,632)
Other current assets	(134,134)	(31,939)
Other noncurrent assets	5,085	(85,490)
Accounts payable and other current liabilities	(43,308)	138,982
Other liabilities	(6,462)	54,450
Net cash (used in) provided by operating activities and net nonoperating gains and losses	(135,616)	912,968
Financing activities		
Proceeds from long-term borrowings	-	82,791
Principal payments on long-term debt	(96,656)	(154,290)
Debt issuance costs	-	(892)
Change in pledges receivables, trusts and interests in foundations	(121,756)	(22,706)
Restricted gifts, bequests, investment income, and other	208,833	162,527
Net cash (used in) provided by financing activities	(9,579)	67,430
Investing activities		
Expenditures for property, plant and equipment	(554,925)	(399,433)
Proceeds from sale of property, plant and equipment	14,111	12,254
Net change in cash equivalents reported in long-term investments	261,965	277,444
Purchases of investments	(2,924,781)	(4,363,195)
Sales of investments	3,201,523	3,411,584
Payment for business acquisition, less cash assumed	-	(54,197)
Net cash used in investing activities	(2,107)	(1,115,543)
Effect of exchange rate changes on cash	(29,629)	(39)
Decrease in cash and cash equivalents	(176,931)	(135,184)
Cash, cash equivalents and restricted cash at beginning of year	782,431	1,173,135
Cash, cash equivalents and restricted cash at end of period	$ 605,500	$ 1,037,951

See notes to unaudited consolidated financial statements.

1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal and recurring nature. For further information, refer to the audited financial statements and notes thereto for the year ended December 31, 2021.

2. 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 September 30, 2022, the System operates 20 hospitals with approximately 5,500 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 March 2022, Cleveland Clinic London Hospital opened for patients. The new hospital is located in central London and has 184 inpatient beds. In September 2021, Cleveland Clinic London opened an outpatient facility located near the hospital.

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

3. Accounting Policies

Recent Accounting Pronouncements

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

4. Use of Estimates

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

5. Net Patient Service Revenue and Patient Receivables

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

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

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

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

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

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

Generally, patients who are covered by third-party payors are responsible for patient responsibility balances, including deductibles and coinsurance, which vary in amount. The System estimates the transaction price for patients with deductibles and coinsurance based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any explicit price concessions, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Adjustments arising from a change in the transaction price were not significant in the first nine months of 2022 or 2021.

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

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

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

Settlements with third-party payors for retroactive adjustments due to reviews and audits are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care in the period the related services are provided. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the System's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known or as years are settled or are no longer subject to such reviews and audits. Adjustments arising from a change in estimated settlements were not significant in the first nine months of 2022 or 2021.

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.

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

Net patient service revenue by major payor source, for the nine months ended September 30, 2022 and 2021 is as follows (in thousands):

	2022		2021	
Medicare	**$ 3,354,813**	**40%**	$ 3,166,967	39%
Medicaid	**887,055**	**10**	834,443	10
Managed care and commercial	**4,159,110**	**49**	4,005,455	50
Self-pay	**34,000**	**1**	31,873	1
Net patient service revenue	**$ 8,434,978**	**100%**	$ 8,038,738	100%

6. Cash and Cash Equivalents

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

The reconciliation of cash, cash equivalents, and restricted cash within the consolidated balance sheets that comprise the amount reported on the consolidated statements of cash flows at September 30, 2022 and December 31, 2021 is as follows (in thousands):

	2022	2021
Cash and cash equivalents	**$ 595,514**	$ 667,500
Investments for current use	**–**	104,813
Restricted cash in investments	**9,986**	10,118
Total cash, cash equivalents, and restricted cash	**$ 605,500**	$ 782,431

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

7. Fair Value Measurements

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

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

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

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

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

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

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

7. Fair Value Measurements (continued)

The following tables present the financial instruments measured at fair value on a recurring basis as of September 30, 2022 and December 31, 2021, based on the valuation hierarchy (in thousands):

September 30, 2022

	Level 1	Level 2	Level 3	Total
Assets				
Cash and investments:				
Cash and cash equivalents	$ 605,500	$ –	$ –	$ 605,500
Money market funds	294,447	–	–	294,447
Fixed income securities:				
U.S. treasuries	1,139,417	–	–	1,139,417
U.S. government agencies	–	45,637	–	45,637
U.S. corporate	–	461,343	–	461,343
U.S. government agencies asset-backed securities	–	375,959	–	375,959
Corporate asset-backed securities	–	207,817	–	207,817
Foreign	–	236,449	–	236,449
Fixed income mutual funds	34,906	–	–	34,906
Common and preferred stocks:				
U.S.	148,677	62	–	148,739
Foreign	317,361	29,013	–	346,374
Equity mutual funds	63,872	–	–	63,872
Total cash and investments	2,604,180	1,356,280	–	3,960,460
Perpetual and charitable trusts	–	78,799	–	78,799
Total assets at fair value	$ 2,604,180	$ 1,435,079	$ –	$ 4,039,259
Liabilities				
Interest rate swaps	$ –	$ 32,961	$ –	$ 32,961
Foreign exchange contracts	–	3,553	–	3,553
Total liabilities at fair value	$ –	$ 36,514	$ –	$ 36,514

7. Fair Value Measurements (continued)

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

7. Fair Value Measurements (continued)

Financial instruments at September 30, 2022 and December 31, 2021 are reflected in the consolidated balance sheets as follows (in thousands):

	2022	2021
Cash, cash equivalents, and investments measured at fair value	**$ 3,960,460**	$ 5,232,751
Commingled funds measured at net asset value	**2,179,035**	2,890,434
Alternative investments measured at net asset value	**6,557,715**	6,673,031
Total cash, cash equivalents, and investments	**$ 12,697,210**	$ 14,796,216
Perpetual and charitable trusts measured at fair value	**$ 78,799**	$ 91,630
Interests in foundations	**26,303**	29,304
Trusts and interests in foundations	**$ 105,102**	$ 120,934

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

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

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

7. Fair Value Measurements (continued)

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

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

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

8. Derivative Instruments

The System has entered into various derivative financial instruments to manage interest rate risk.

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 in the consolidated statements of operations and changes in net assets.

8. Derivative Instruments (continued)

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

Swap Type	Expiration Date	System Pays	System Receives	Notional Amount at September 30 2022	Notional Amount at December 31 2021
Fixed	2024	3.42%	68% of LIBOR	**21,195**	22,750
Fixed	2024	3.45%	67% of LIBOR	**3,850**	3,850
Fixed	2027	3.56%	68% of LIBOR	**101,622**	106,519
Fixed	2028	5.12%	100% of LIBOR	**31,535**	32,900
Fixed	2028	3.51%	68% of LIBOR	**24,125**	25,315
Fixed	2030	5.07%	100% of LIBOR	**52,175**	52,175
Fixed	2030	5.06%	100% of LIBOR	**52,150**	52,150
Fixed	2031	3.04%	68% of LIBOR	**34,400**	37,725
Fixed	2032	4.32%	79% of LIBOR	**1,781**	1,873
Fixed	2032	4.33%	70% of LIBOR	**3,563**	3,745
Fixed	2032	3.78%	70% of LIBOR	**1,781**	1,873
Fixed	2032	3.58%	67% of LIBOR	**8,790**	8,790
Fixed	2036	4.90%	100% of LIBOR	**48,125**	48,125
Fixed	2036	4.90%	100% of LIBOR	**74,950**	74,950
Fixed	2037	4.62%	100% of SIFMA	**50,050**	52,450
Fixed	2039	4.62%	68% of LIBOR	**20,740**	20,740
				$ 530,832	$ 545,930

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

The System has foreign currency forward contracts, maturing at various dates through December 2022, with a total outstanding notional amount of $48.2 million at September 30, 2022. The System had no foreign currency forward contracts outstanding at December 31, 2021.

8. Derivative Instruments (continued)

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

	Derivative Assets and Liabilities			
	September 30, 2022		**December 31, 2021**	
	Balance Sheet Location	**Fair Value**	**Balance Sheet Location**	**Fair Value**
Derivatives not designated as hedging instruments				
Interest rate swap agreements	Other noncurrent liabilities	**$ 32,961**	Other noncurrent liabilities	$ 117,001
Foreign currency contracts	Other current liabilities	**3,553**	Other current assets	–

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

	Location of Gain (Loss) Recognized	**Quarter Ended September 30**		**Nine Months Ended September 30**	
		2022	**2021**	**2022**	**2021**
Derivatives not designated as hedging instruments					
Interest rate swap agreements	Derivative gains (losses)	**$ 22,866**	$ 2,439	**$ 70,562**	$ 17,996
Foreign currency contracts	Derivative (losses) gains	**(4,278)**	–	**(3,247)**	1,325

The System has used various derivative contracts in connection with certain prior obligations and investments. Although minimum credit ratings are required for counterparties, this does not eliminate the risk that a counterparty may fail to honor its obligations. Derivative contracts are subject to periodic "mark-to-market" valuations. A derivative contract may, at any time, have a positive or negative value to the System. In the event that the negative value reaches certain thresholds established in the derivative contracts, the System is required to post collateral, which could adversely affect its liquidity. At September 30, 2022 the System had no posted collateral. At December 31, 2021, the System posted $63.2 million of collateral with counterparties that is included in funds held by trustees in the consolidated balance sheets. In addition, if the System were to choose to terminate a derivative contract or if a derivative contract were terminated pursuant to an event of default or a termination event as described in the derivative contract, the System could be required to pay a termination payment to the counterparty.

9. Pensions and Other Postretirement Benefits

The System maintains five defined benefit pension plans, including three tax-qualified funded plans and two unfunded plans. The CCHS Retirement Plan is a tax-qualified defined benefit pension plan that provides benefits to substantially all employees of the System, except those employed by Akron General, 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.

9. Pensions and Other Postretirement Benefits (continued)

The components of net periodic benefit credit for defined benefit pension plans and the defined contribution plan expense are as follows (in thousands):

	Quarter Ended Sep 30		Nine Months Ended Sep 30	
	2022	**2021**	**2022**	**2021**
Amounts related to defined benefit pension plans:				
Service cost	$ (944)	$ (1,261)	$ (2,831)	$ (3,784)
Interest cost	13,587	12,897	40,760	38,690
Expected return on assets	(21,857)	(25,278)	(65,571)	(75,833)
Net amortization and deferral	(494)	(636)	(1,482)	(1,907)
Total defined benefit pension plans	(9,708)	(14,278)	(29,124)	(42,834)
Defined contribution plans	84,649	74,397	270,824	236,183
	$ 74,941	**$ 60,119**	**$ 241,700**	**$ 193,349**

The service credit component of net periodic benefit credit 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 other than the service credit component are included in other nonoperating gains and losses in the consolidated statements of operations and changes in net assets.

10. COVID-19

On March 11, 2020, the World Health Organization declared the novel coronavirus disease (COVID-19) outbreak a global pandemic. The governors of Ohio and Florida declared a state of emergency for their respective states related to the COVID-19 outbreak on March 9, 2020, and a national state of emergency in the U.S. was declared on March 13, 2020. The System 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 System received $451.7 million and $222.6 million in PRF, ARP and ERC payments in 2020 and 2021, respectively. Amounts received in the first nine months of 2022 were not significant.

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 recorded in other current liabilities of $88.7 million at September 30, 2022 and December 31, 2021.

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 records FEMA grants as contributions when the expenses have been incurred and any related conditions have been substantially met. The System recognized $67.2 million and $6.7 million of FEMA grant revenue in other unrestricted revenues in 2020 and 2021, respectively. FEMA grant revenue was not significant in the first nine months of 2022.

11. Subsequent Events

The System evaluated events and transactions occurring subsequent to September 30, 2022 through November 29, 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)

	September 30, 2022				December 31, 2021			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated
Assets								
Current assets:								
Cash and cash equivalents	$ 409,816	$ 185,698	$ -	$ 595,514	$ 303,834	$ 363,666	$ -	$ 667,500
Patient receivables, net	1,353,896	357,537	(60,138)	1,651,295	1,274,240	288,999	(30,877)	1,532,362
Due from affiliates	19,218	42,960	(62,178)	-	47,900	242	(48,142)	-
Investments for current use	-	55,973	-	55,973	104,813	55,973	-	160,786
Other current assets	872,115	164,515	(245,955)	790,675	622,670	108,801	(112,448)	619,023
Total current assets	2,655,045	806,683	(368,271)	3,093,457	2,353,457	817,681	(191,467)	2,979,671
Investments:								
Long-term investments	9,594,430	1,075,414	-	10,669,844	11,100,040	1,383,528	-	12,483,568
Funds held by trustees	2,320	-	-	2,320	69,541	0	-	69,541
Assets held for self-insurance	-	148,758	-	148,758	-	207,114	-	207,114
Donor restricted assets	1,142,315	82,486	-	1,224,801	1,124,486	83,221	-	1,207,707
	10,739,065	1,306,658	-	12,045,723	12,294,067	1,673,863	-	13,967,930
Property, plant, and equipment, net	4,320,638	1,486,419	-	5,807,057	4,275,212	1,619,288	-	5,894,500
Other assets:								
Pledges receivable, net	212,951	25,959	-	238,910	151,457	4,136	-	155,593
Trusts and beneficial interests in foundations	63,782	41,320	-	105,102	70,913	50,021	-	120,934
Operating lease right-of-use assets	107,927	203,497	-	311,424	112,486	242,864	-	355,350
Other noncurrent assets	954,111	127,608	(292,024)	789,695	952,127	132,140	(292,240)	792,027
	1,338,771	398,384	(292,024)	1,445,131	1,286,983	429,161	(292,240)	1,423,904
Total assets	$ 19,053,519	$ 3,998,144	$ (660,295)	$ 22,391,368	$ 20,209,719	$ 4,539,993	$ (483,707)	$ 24,266,005

	September 30, 2022				December 31, 2021			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated
Liabilities and net assets								
Current liabilities:								
Accounts payable	$ 489,461	$ 138,452	$ (12)	$ 627,901	$ 506,864	$ 156,405	$ (10)	$ 663,259
Compensation and amounts withheld from payroll	478,531	70,043	-	548,574	457,264	67,400	-	524,664
Short-term borrowings	-	-	-	-	-	-	-	-
Current portion of long-term debt	90,334	7,279	-	97,613	98,055	6,967	-	105,022
Variable rate debt classified as current	474,888	47,364	-	522,252	399,438	49,859	-	449,297
Due to affiliates	21,471	20,140	(41,611)	-	5	48,418	(48,423)	-
Other current liabilities	665,877	308,798	(295,061)	679,614	620,671	247,970	(137,839)	730,802
Total current liabilities	2,220,562	592,076	(336,684)	2,475,954	2,082,297	577,019	(186,272)	2,473,044
Long-term debt	3,641,694	999,472	(289,343)	4,351,823	3,788,616	1,172,368	(289,560)	4,671,424
Other liabilities:								
Professional and general insurance liability reserves	73,277	151,372	-	224,649	73,102	134,346	-	207,448
Accrued retirement benefits	282,665	1,319	-	283,984	284,735	1,414	-	286,149
Operating lease liabilities	86,246	197,966	-	284,212	78,388	236,479	-	314,867
Other noncurrent liabilities	495,460	73,312	(31,588)	537,184	603,973	51,713	(5,195)	650,491
	937,648	423,969	(31,588)	1,330,029	1,040,198	423,952	(5,195)	1,458,955
Total liabilities	6,799,904	2,015,517	(657,615)	8,157,806	6,911,111	2,173,339	(481,027)	8,603,423
Net assets:								
Without donor restrictions	10,712,383	1,827,409	(2,680)	12,537,112	11,880,683	2,229,439	(2,680)	14,107,442
With donor restrictions	1,541,232	155,218	-	1,696,450	1,417,925	137,215	-	1,555,140
Total net assets	12,253,615	1,982,627	(2,680)	14,233,562	13,298,608	2,366,654	(2,680)	15,662,582
Total liabilities and net assets	$ 19,053,519	$ 3,998,144	$ (660,295)	$ 22,391,368	$ 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 Statements of Operations and Changes in Net Assets

($ in thousands)

Operations

	Three Months Ended September 30, 2022				Three Months Ended September 30, 2021			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated
Unrestricted revenues								
Net patient service revenue	$ 2,489,278	$ 534,195	$ (96,509)	$ 2,926,964	$ 2,325,315	$ 516,108	$ (89,594)	$ 2,751,829
Other	333,763	105,918	(61,112)	378,569	282,000	86,850	(52,400)	316,450
Total unrestricted revenues	2,823,041	640,113	(157,621)	3,305,533	2,607,315	602,958	(141,994)	3,068,279
Expenses								
Salaries, wages, and benefits	1,631,720	429,348	(108,508)	1,952,560	1,419,661	356,156	(100,184)	1,675,633
Supplies	259,928	68,008	(116)	327,820	258,108	57,890	(18)	315,980
Pharmaceuticals	361,255	41,588	-	402,843	309,866	45,388	-	355,254
Purchased services and other fees	196,549	60,586	(14,750)	242,385	169,647	61,161	(13,608)	217,200
Administrative services	34,024	37,836	(6,717)	65,143	14,386	37,007	(5,732)	45,661
Facilities	85,054	33,813	(485)	118,382	75,687	26,413	(525)	101,575
Insurance	23,275	33,354	(27,020)	29,609	25,331	14,440	(21,902)	17,869
	2,591,805	704,533	(157,596)	3,138,742	2,272,686	598,455	(141,969)	2,729,172
Operating income (loss) before interest, depreciation, and amortization expenses	231,236	(64,420)	(25)	166,791	334,629	4,503	(25)	339,107
Interest	29,493	8,326	-	37,819	29,034	8,186	-	37,220
Depreciation and amortization	124,483	32,840	(25)	157,298	131,269	22,434	(25)	153,678
Operating income (loss)	77,260	(105,586)	-	(28,326)	174,326	(26,117)	-	148,209
Nonoperating gains and losses								
Investment return	(369,047)	(48,565)	-	(417,612)	238,081	26,139	-	264,220
Derivative gains (losses)	18,984	(396)	-	18,588	3,042	(603)	-	2,439
Other, net	(42,472)	588	-	(41,884)	7,192	137	-	7,329
Net nonoperating gains and losses	(392,535)	(48,373)	-	(440,908)	248,315	25,673	-	273,988
(Deficiency) excess of revenues over expenses	(315,275)	(153,959)	-	(469,234)	422,641	(444)	-	422,197

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 September 30, 2022				Three Months Ended September 30, 2021			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated
Changes in net assets without donor restrictions:								
(Deficiency) excess of revenues over expenses	$ (315,275)	$ (153,959)	$ -	$ (469,234)	$ 422,641	$ (444)	$ -	$ 422,197
Donated capital	-	-	-	-	1,815	-	-	1,815
Net assets released from restriction for capital purposes	(3,503)	7,162	-	3,659	(5)	972	-	967
Retirement benefits adjustment	(517)	(57)	-	(574)	(658)	(57)	-	(715)
Foreign currency translation	-	(14,997)	-	(14,997)	-	(4,114)	-	(4,114)
Other	(46,259)	42,757	-	(3,502)	(209,916)	209,533	-	(383)
(Decrease) increase in net assets without donor restrictions	(365,554)	(119,094)	-	(484,648)	213,877	205,890	-	419,767
Changes in net assets with donor restrictions:								
Gifts and bequests	146,287	19,637	-	165,924	43,450	937	-	44,387
Net investment (loss) income	(17,419)	(1,230)	-	(18,649)	9,506	1,744	-	11,250
Net assets released from restrictions used for operations included in other unrestricted revenues	(32,631)	4,033	-	(28,598)	(13,047)	(738)	-	(13,785)
Net assets released from restriction for capital purposes	3,503	(7,162)	-	(3,659)	5	(972)	-	(967)
Change in interests in foundations	760	(1,730)	-	(970)	(326)	-	-	(326)
Change in value of perpetual trusts	(1,436)	(1,484)	-	(2,920)	1,080	169	-	1,249
Other	1,499	1	-	1,500	1,543	(1,544)	-	(1)
Increase (decrease) in net assets with donor restrictions	100,563	12,065	-	112,628	42,211	(404)	-	41,807
(Decrease) increase in net assets	(264,991)	(107,029)	-	(372,020)	256,088	205,486	-	461,574
Net assets at beginning of period	12,518,606	2,089,656	(2,680)	14,605,582	12,472,589	2,113,527	(2,120)	14,583,996
Net assets at end of period	$ 12,253,615	$ 1,982,627	$ (2,680)	$ 14,233,562	$ 12,728,677	$ 2,319,013	$ (2,120)	$ 15,045,570

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

	Nine Months Ended September 30, 2022				Nine Months Ended September 30, 2021			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated
Unrestricted revenues								
Net patient service revenue	$ 7,130,413	$ 1,581,209	$ (276,644)	$ 8,434,978	$ 6,791,734	$ 1,482,351	$ (235,347)	$ 8,038,738
Other	924,623	293,141	(181,086)	1,036,678	922,368	279,144	(145,828)	1,055,684
Total unrestricted revenues	8,055,036	1,874,350	(457,730)	9,471,656	7,714,102	1,761,495	(381,175)	9,094,422
Expenses								
Salaries, wages, and benefits	4,773,691	1,253,693	(308,909)	5,718,475	4,173,316	1,015,328	(272,708)	4,915,936
Supplies	802,993	195,675	(276)	998,392	757,788	169,967	(346)	927,409
Pharmaceuticals	1,025,825	125,622	-	1,151,447	900,861	125,997	-	1,026,858
Purchased services and other fees	596,167	184,885	(47,365)	733,687	492,601	151,813	(27,383)	617,031
Administrative services	90,361	115,565	(19,217)	186,709	36,843	112,532	(17,755)	131,620
Facilities	238,663	95,174	(1,434)	332,403	212,887	76,657	(1,478)	288,066
Insurance	73,200	99,650	(80,454)	92,396	70,642	63,360	(61,430)	72,572
	7,600,900	2,070,264	(457,655)	9,213,509	6,644,938	1,715,654	(381,100)	7,979,492
Operating income (loss) before interest, depreciation, and amortization expenses	454,136	(195,914)	(75)	258,147	1,069,164	45,841	(75)	1,114,930
Interest	85,111	25,038	-	110,149	87,601	24,474	-	112,075
Depreciation and amortization	375,313	89,062	(75)	464,300	386,672	66,819	(75)	453,416
Operating (loss) income	(6,288)	(310,014)	-	(316,302)	594,891	(45,452)	-	549,439
Nonoperating gains and losses								
Investment return	(1,111,842)	(145,762)	-	(1,257,604)	956,735	116,479	-	1,073,214
Derivative gains (losses)	68,812	(1,497)	-	67,315	21,175	(1,854)	-	19,321
Other, net	(34,582)	2,549	-	(32,033)	31,538	3,393	-	34,931
Net nonoperating gains and losses	(1,077,612)	(144,710)	-	(1,222,322)	1,009,448	118,018	-	1,127,466
(Deficiency) excess of revenues over expenses	(1,083,900)	(454,724)	-	(1,538,624)	1,604,339	72,566	-	1,676,905

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

	Nine Months Ended September 30, 2022				Nine Months Ended September 30, 2021			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated
Changes in net assets without donor restrictions:								
(Deficiency) excess of revenues over expenses	$ (1,083,900)	$ (454,724)	$ -	$ (1,538,624)	$ 1,604,339	$ 72,566	$ -	$ 1,676,905
Donated capital	(3)	-	-	(3)	1,860	-	-	1,860
Net assets released from restriction for capital purposes	659	8,040	-	8,699	7,327	2,010	-	9,337
Retirement benefits adjustment	(1,551)	(172)	-	(1,723)	(1,975)	(172)	-	(2,147)
Foreign currency translation	-	(36,478)	-	(36,478)	-	(2,409)	-	(2,409)
Other	(83,505)	81,304	-	(2,201)	(385,873)	383,073	-	(2,800)
(Decrease) increase in net assets without donor restrictions	(1,168,300)	(402,030)	-	(1,570,330)	1,225,678	455,068	-	1,680,746
Changes in net assets with donor restrictions:								
Gifts and bequests	247,927	37,706	-	285,633	99,813	9,198	-	109,011
Net investment (loss) income	(64,460)	(3,383)	-	(67,843)	40,653	6,426	-	47,079
Net assets released from restrictions used for operations included in other unrestricted revenues	(57,624)	(2,700)	-	(60,324)	(30,521)	(2,084)	-	(32,605)
Net assets released from restriction for capital purposes	(659)	(8,040)	-	(8,699)	(7,305)	(2,032)	-	(9,337)
Change in interests in foundations	(1,271)	(1,730)	-	(3,001)	924	-	-	924
Change in value of perpetual trusts	(2,231)	(3,725)	-	(5,956)	3,485	2,028	-	5,513
Other	1,625	(125)	-	1,500	2,513	(129)	-	2,384
Increase in net assets with donor restrictions	123,307	18,003	-	141,310	109,562	13,407	-	122,969
(Decrease) increase in net assets	(1,044,993)	(384,027)	-	(1,429,020)	1,335,240	468,475	-	1,803,715
Net assets at beginning of year	13,298,608	2,366,654	(2,680)	15,662,582	11,393,437	1,850,538	(2,120)	13,241,855
Net assets at end of period	$ 12,253,615	$ 1,982,627	$ (2,680)	$ 14,233,562	$ 12,728,677	$ 2,319,013	$ (2,120)	$ 15,045,570

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)

	Nine Months Ended September 30, 2022				Nine Months Ended September 30, 2021			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated
Operating activities and net nonoperating gains and losses								
(Decrease) increase in total net assets	$ (1,044,993)	$ (384,027)	$ -	$ (1,429,020)	$ 1,335,240	$ 468,475	$ -	$ 1,803,715
Adjustments to reconcile (decrease) increase in net assets to net cash provided by (used in) operating activities and net nonoperating gains and losses:								
Gain on extinguishment of debt	-	-	-	-	(4,252)	-	-	(4,252)
Retirement benefits adjustment	1,551	172	-	1,723	1,975	172	-	2,147
Net realized and unrealized losses (gains) on investments	1,227,469	155,899	-	1,383,368	(955,418)	(116,384)	-	(1,071,802)
Depreciation and amortization	375,313	89,741	(75)	464,979	386,672	66,827	(75)	453,424
Foreign currency translation loss	-	36,478	-	36,478	-	2,409	-	2,409
Donated capital	3	-	-	3	(1,860)	-	-	(1,860)
Restricted gifts, bequests, investment income, and other	(179,965)	(28,868)	-	(208,833)	(144,875)	(17,652)	-	(162,527)
Transfers to (from) affiliates	83,504	(83,504)	-	-	385,868	(385,868)	-	-
Accreted interest and amortization of bond premiums	(5,687)	130	-	(5,557)	(4,321)	142	-	(4,179)
Net gain in value of derivatives	(80,839)	-	-	(80,839)	(35,478)	-	-	(35,478)
Changes in operating assets and liabilities:								
Patient receivables	(79,656)	(68,704)	29,261	(119,099)	(107,951)	(22,425)	(14,256)	(144,632)
Other current assets	(170,581)	(111,096)	147,543	(134,134)	(17,237)	(57,626)	42,924	(31,939)
Other noncurrent assets	2,342	2,884	(141)	5,085	(120,293)	(25,507)	60,310	(85,490)
Accounts payable and other current liabilities	70,747	36,357	(150,412)	(43,308)	98,831	38,650	1,501	138,982
Other liabilities	(20,061)	39,992	(26,393)	(6,462)	22,877	58,549	(26,976)	54,450
Net cash provided by (used in) operating activities and net nonoperating gains and losses	179,147	(314,546)	(217)	(135,616)	839,778	9,762	63,428	912,968
Financing activities								
Proceeds from long-term borrowings	-	(217)	217	-	119,610	26,609	(63,428)	82,791
Principal payments on long-term debt	(90,619)	(6,037)	-	(96,656)	(121,899)	(32,391)	-	(154,290)
Debt issuance costs	-	-	-	-	(892)	-	-	(892)
Change in pledges receivable, trusts and interests in foundations	(104,545)	(17,211)	-	(121,756)	(21,768)	(938)	-	(22,706)
Restricted gifts, bequests, investment income, and other	179,965	28,868	-	208,833	144,875	17,652	-	162,527
Net cash (used in) provided by financing activities	(15,199)	5,403	217	(9,579)	119,926	10,932	(63,428)	67,430
Investing activities								
Expenditures for property, plant and equipment	(420,919)	(134,006)	-	(554,925)	(230,640)	(168,793)	-	(399,433)
Proceeds from sale of property, plant and equipment	14,111	-		14,111	12,254	-		12,254
Payment for business acquisition, less cash assumed	-	-	-	-	-	(54,197)	-	(54,197)
Net change in cash equivalents reported in long-term investments	90,930	171,035	-	261,965	36,174	241,270	-	277,444
Purchases of investments	(2,613,561)	(311,220)	-	(2,924,781)	(3,909,660)	(453,535)	-	(4,363,195)
Sales of investments	2,850,163	351,360	-	3,201,523	3,069,162	342,422	-	3,411,584
Transfers (to) from affiliates	(83,504)	83,504	-	-	(385,868)	385,868	-	-
Net cash (used in) provided by investing activities	(162,780)	160,673	-	(2,107)	(1,408,578)	293,035	-	(1,115,543)
Effect of exchange rate changes on cash	-	(29,629)		(29,629)	-	(39)		(39)
Increase (decrease) in cash and cash equivalents	1,168	(178,099)	-	(176,931)	(448,874)	313,690	-	(135,184)
Cash, cash equivalents and restricted cash at beginning of year	409,507	372,924	-	782,431	917,591	255,544	-	1,173,135
Cash, cash equivalents and restricted cash at end of period	$ 410,675	$ 194,825	$ -	$ 605,500	$ 468,717	$ 569,234	$ -	$ 1,037,951

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

Utilization

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

	Year Ended December 31			YTD September 30	
	2019	2020	2021	2021	2022
Total Staffed Beds[(1)]	4,900	4,859	5,128	5,212	5,297
Percent Occupancy[(1)]	68.1%	69.9%	75.1%	75.1%	74.1%
Inpatient Admissions[(1)]					
Acute	226,558	211,770	236,318	177,495	173,487
Post-acute	11,327	10,739	10,983	8,388	7,469
Total	237,885	222,509	247,301	185,883	180,956
Patient Days[(1)]					
Acute	1,098,807	1,044,240	1,223,781	910,155	897,890
Post-acute	84,522	82,334	86,872	66,075	59,975
Total	1,183,329	1,126,574	1,310,653	976,230	957,865
Average Length of Stay					
Acute	4.86	4.92	5.19	5.15	5.18
Post-acute	7.44	7.66	7.88	7.85	8.00
Surgical Facility Cases					
Inpatient	74,607	64,318	68,152	52,106	52,402
Outpatient	181,721	152,625	191,137	143,283	147,670
Total	256,328	216,943	259,289	195,389	200,072
Emergency Department Visits	889,489	757,055	892,394	670,520	667,371
Outpatient Observations	82,143	61,460	67,369	51,421	51,101
Outpatient Evaluation and Management Visits	6,161,693	5,683,571	6,753,960	5,053,291	5,210,192
Acute Medicare Case Mix Index - Health System	1.91	2.00	2.01	2.01	2.01
Acute Medicare Case Mix Index - Cleveland Clinic	2.74	2.87	2.89	2.89	2.96
Total Acute Patient Case Mix Index - Health System	1.83	1.91	1.94	1.93	1.93
Total Acute Patient Case Mix Index - Cleveland Clinic	2.65	2.76	2.79	2.78	2.85

(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 statistics for Cleveland Clinic London are excluded from the above table.

Utilization (continued)

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

	Year Ended December 31			YTD September 30	
	2019	2020	2021	2021	2022
Total Staffed Beds[(1)]	3,987	4,018	3,931	4,026	4,084
Percent Occupancy[(1)]	70.0%	70.3%	76.7%	76.4%	75.3%
Inpatient Admissions[(1)]					
Acute	186,133	173,614	183,512	138,144	134,612
Post-acute	7,122	6,601	6,489	4,948	4,313
Total	193,255	180,215	190,001	143,092	138,925
Patient Days[(1)]					
Acute	928,486	875,432	966,957	722,382	705,333
Post-acute	54,515	53,504	52,751	40,791	35,115
Total	983,001	928,936	1,019,708	763,173	740,448
Surgical Facility Cases					
Inpatient	63,677	54,735	56,011	42,855	42,820
Outpatient	153,886	127,810	156,009	117,284	120,957
Total	217,563	182,545	212,020	160,139	163,777
Emergency Department Visits	666,313	574,683	649,380	485,333	484,951
Outpatient Observations	64,359	47,974	51,333	39,361	38,108
Outpatient Evaluation and Management Visits	5,315,503	4,857,870	5,565,953	4,162,188	4,346,862
Acute Medicare Case Mix Index	1.94	2.04	2.06	2.05	2.06
Total Acute Patient Case Mix Index	1.88	1.95	1.99	1.98	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			YTD September 30	
	2019	2020	2021	2021	2022
Payor					
Managed Care and Commercial	34%	34%	34%	34%	33%
Medicare	50%	51%	50%	50%	51%
Medicaid	13%	13%	14%	14%	14%
Self-Pay & Other	3%	2%	2%	2%	2%
Total	100%	100%	100%	100%	100%

OBLIGATED GROUP
Based on Gross Patient Service Revenue

	Year Ended December 31			YTD September 30	
	2019	2020	2021	2021	2022
Payor					
Managed Care and Commercial	36%	36%	35%	35%	35%
Medicare	49%	49%	49%	49%	50%
Medicaid	13%	13%	14%	14%	13%
Self-Pay & Other	2%	2%	2%	2%	2%
Total	100%	100%	100%	100%	100%

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

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

Research Support

($ in thousands)

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

	Year Ended December 31			YTD September 30	
	2019	2020	2021	2021	2022
External Grants Earned					
Federal Sources	$120,858	$117,931	$116,049	$81,401	$121,102
Non-Federal Sources	104,760	94,173	129,010	88,197	107,997
Total	225,618	212,104	245,059	169,598	229,099
Internal Support	72,637	92,305	70,384	64,481	51,869
Total Sources of Support	$298,255	$304,409	$315,443	$234,079	$280,968

Key Ratios

The following table provides selected key ratios:

	Year Ended December 31			YTD September 30	
	2019	2020	2021	2021	2022
Liquidity ratios					
Days of cash on hand	373	424	431	445	333
Days of revenue in accounts receivable	49	45	48	48	52
Coverage ratios					
Cash to debt (%)	183.7	216.1	251.7	249.1	226.6
Maximum annual debt service coverage (x)	6.2	5.7	7.0	8.6	3.5
Interest expense coverage (x)	10.5	8.5	11.9	13.2	4.8
Leverage ratios					
Debt to cash flow (x)	3.5	4.5	3.2	2.9	9.0
Debt to capitalization (%)	33.6	30.7	27.0	27.8	28.4
Debt to revenue (%)	50.4	49.6	42.0	43.4	38.8
Profitability ratios					
Operating margin (%)	3.7	2.2	6.0	6.0	(3.3)
Operating cash flow margin (%)	10.9	9.2	11.9	12.3	2.7
Excess margin (%)	16.6	11.3	15.9	16.4	(18.7)
Return on assets (%)	10.1	6.1	9.1	9.4	(9.2)

NOTES:

Liquidity, coverage and leverage 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.

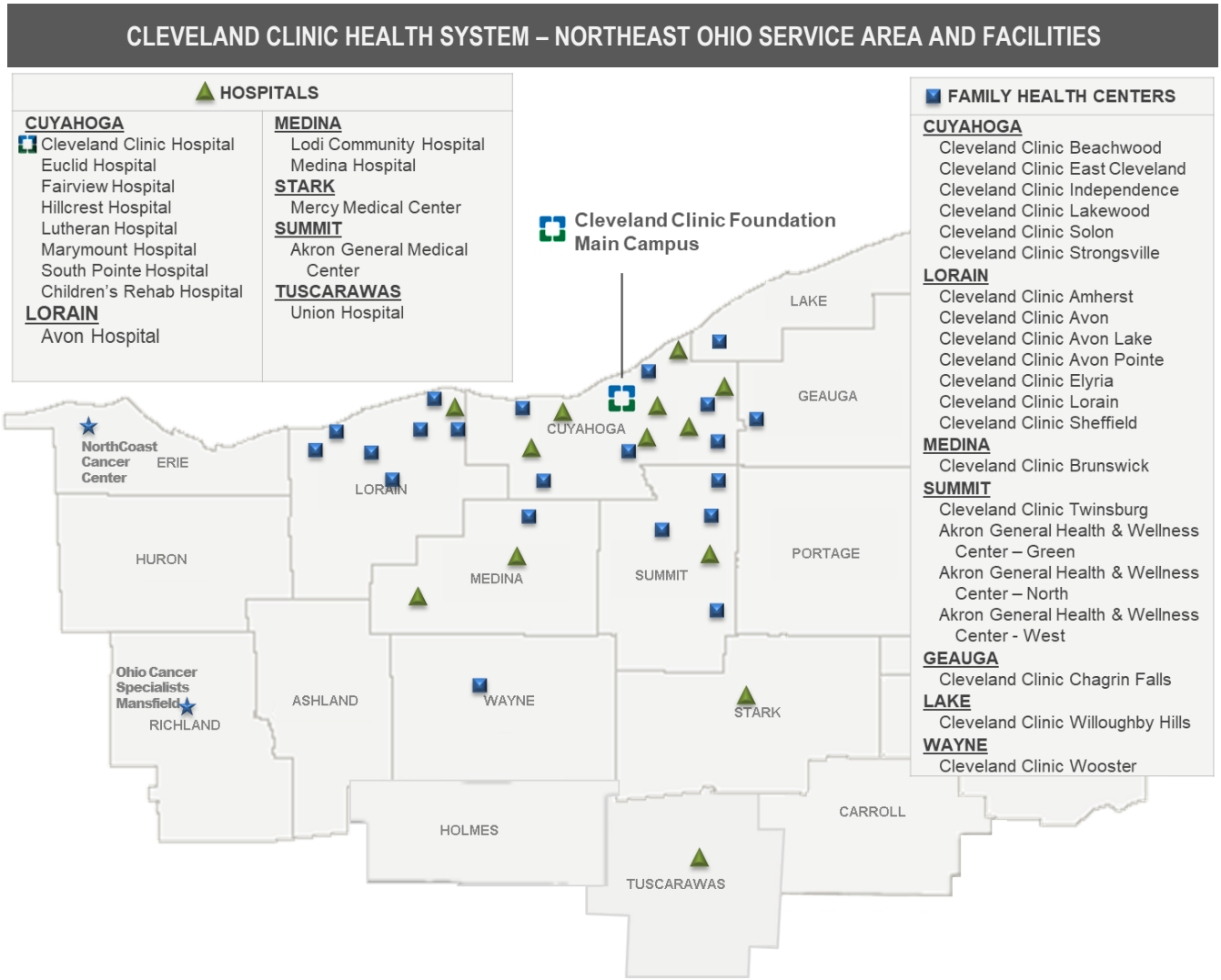
OVERVIEW

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 September 30, 2022, the System operates 20 hospitals with approximately 5,500 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 March 2022, Cleveland Clinic London Hospital opened for patients. The new hospital is located in central London and has 184 inpatient beds. In September 2021, Cleveland Clinic London opened an outpatient facility located near the hospital. For a description of the London Hospital, refer to "EXPANSION AND IMPROVEMENT PROJECTS."

Tomsich Pathology Laboratories
Cleveland, Ohio

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

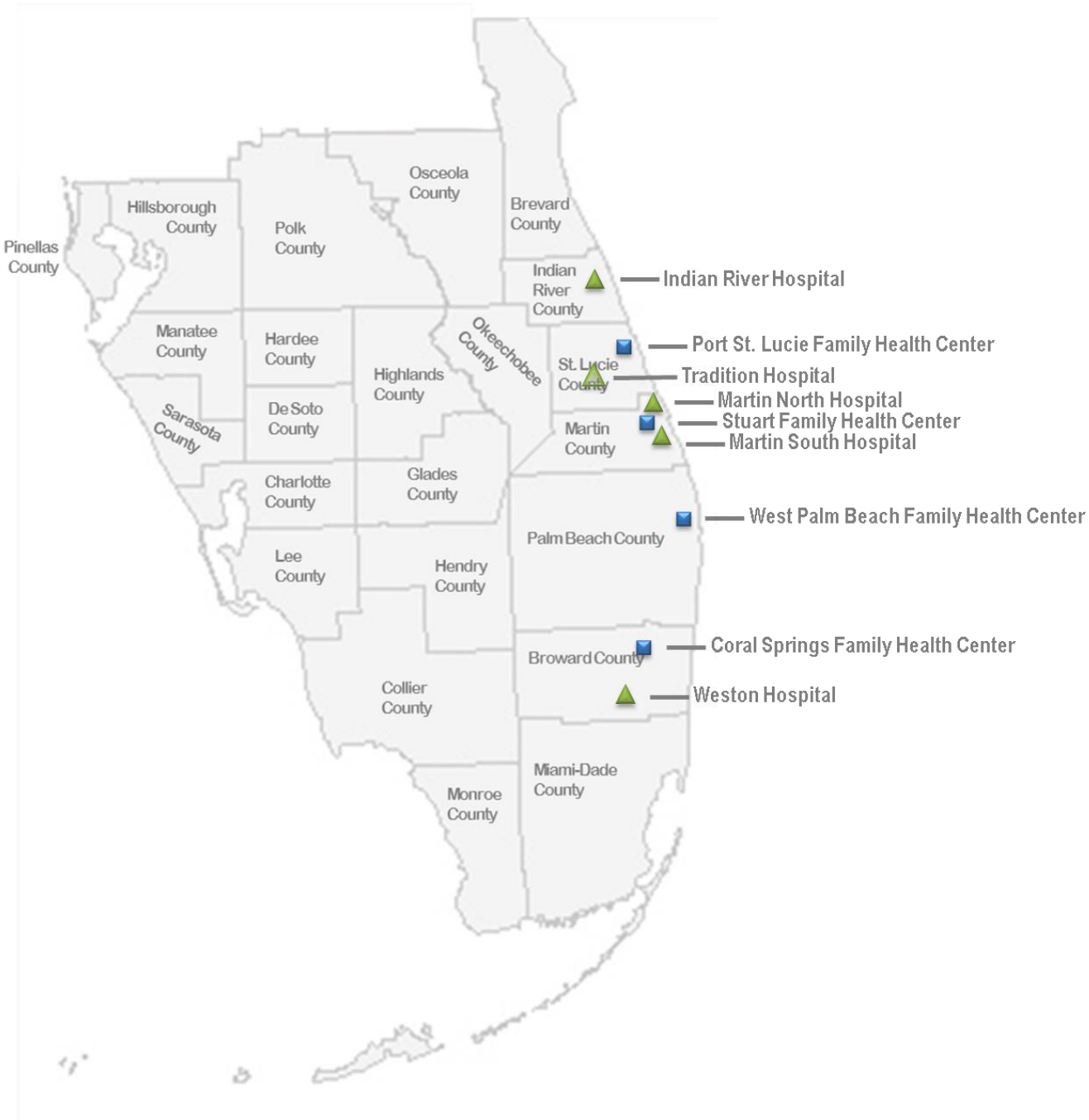


Cleveland Clinic

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 September 30, 2022:

	Staffed Beds
OBLIGATED	
Cleveland Clinic	1,298
Avon Hospital	126
Euclid Hospital	166
Fairview Hospital	498
Hillcrest Hospital	462
Lutheran Hospital	192
Martin North Hospital	244
Martin South Hospital	100
Marymount Hospital	263
Medina Hospital	148
South Pointe Hospital	172
Tradition Hospital	177
Weston Hospital	238
	4,084
NON-OBLIGATED	
Akron General Medical Center	485
Children's Rehabilitation Hospital	25
Indian River Hospital	250
Lodi Hospital	20
London Hospital	184
Mercy Hospital	337
Union Hospital	96
	1,397
HEALTH SYSTEM	5,481

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 experienced surges of COVID-19 patients in its hospitals throughout the pandemic. In addition to providing care to COVID-19 patients, 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 December 2021, Ohio hospitals experienced an increase in patients hospitalized with COVID-19 due to the Omicron surge. 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 recovery of patient activity through the third quarter of 2022 has been slow as patients served have remained below expected levels. The System will continue to monitor bed capacity and caregiver support. It has taken and will continue to take proactive steps to ensure the safety of patients and caregivers.

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 System received $451.7 million and $222.6 million in PRF, ARP and ERC payments in 2020 and 2021, respectively. Amounts received in the first nine months of 2022 were not significant.

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 $67.2 million and $6.7 million of FEMA grant revenue in other unrestricted revenues in 2020 and 2021, respectively. FEMA grant revenue was not significant in the first nine months of 2022. The System will continue to pursue grants and other financial assistance from FEMA that are made available to support hospitals throughout the pandemic.

In response to vaccine mandates for healthcare workers in the U.S. by the Centers for Medicare and Medicaid Services, the System established a policy describing its vaccine mandate for all employed caregivers, students, volunteers, contractors, vendors and independent licensed practitioners (collectively referred to as caregivers). 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 established a recordkeeping process to track the vaccine status of all caregivers and any approved exemptions and accommodations. Deadlines for unvaccinated caregivers were established in which caregivers needed to receive the one-dose Johnson & Johnson COVID-19 vaccine or first dose of the Pfizer or Moderna vaccines by January 27, 2022, and complete the second dose of the multi-dose vaccine series by February 28, 2022. The System 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. 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. 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, predicting the course of this pandemic and its effect on future operations cannot be determined at this time. System management continues to implement initiatives to increase access to care, improve operational efficiency, recruit and retain employees and review discretionary spending in an effort to improve the financial performance of the organization. The System is focused on providing clinical services in a manner that maintains high quality care and ensures the safety of patients, caregivers and visitors.

Cleveland Clinic Cancer Center
Mansfield, Ohio

AWARDS & RECOGNITION

The Clinic was ranked as the fourth best hospital in the United States by *U.S. News and World Report* in its 2022-2023 edition of "America's Best Hospitals." For the past 24 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 28 consecutive years. The Clinic was nationally ranked in 13 specialties, including nine in the top ten nationwide, and is one of just 20 hospitals to earn a place on the *U.S. News'* 2022-2023 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 45th (tie) in neurology and neurosurgery; Hillcrest Hospital ranked 34th in cardiology and heart surgery, 39th in gastroenterology and GI surgery and 45th (tie) in neurology and neurosurgery; South Pointe Hospital ranked 49th in Geriatrics; and Weston Hospital ranked 37th in gastroenterology and GI surgery.

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 three additional System hospitals in the top hospitals in the Cleveland metropolitan area and Ohio: Hillcrest Hospital ranked third in the Cleveland metropolitan area and fourth in Ohio; Fairview Hospital ranked fourth in the Cleveland metropolitan area and fifth (tie) in Ohio; and South Pointe Hospital ranked fifth in the Cleveland Metro Area (tie) and 12th (tie) in Ohio. Akron General Medical Center, located in Summit County, was ranked first in the Akron metropolitan area and seventh (tie) in the State of Ohio. Mercy Hospital located in Stark County was ranked 19th in Ohio. In Florida, Weston Hospital was ranked first in the Miami-Fort Lauderdale metro area and fifth in the State of Florida; Indian River Hospital was ranked 18th (tie) in the State of Florida; and Martin Health was ranked 31st (tie) in the State of Florida.

Cleveland Clinic Children's Hospital located on the Clinic's main campus earned national recognition in nine out of ten pediatric specialties ranked by *U.S. News and World Report* in its 2022-2023 edition of "Best Children's Hospitals." For 14 consecutive years, the Cleveland Clinic Children's Hospital has ranked among the nation's top 50 pediatric hospitals. The following table summarizes the Clinic's national rankings by pediatric specialty:

Regionally, Cleveland Clinic Children's Hospital has also been ranked as the seventh best (tie) pediatric hospital in the Midwest and the third best (tie) in Ohio. In Northeast Ohio, Cleveland Clinic Children's Hospital ranked as the best in five of the specialties (cancer, cardiology and heart surgery, gastroenterology and gastrointestinal surgery, nephrology and urology).

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 addition to being ranked as the number two hospital in the world, the Clinic was recognized as the number one hospital in the world for cardiac surgery in *Newsweek's* "World's Best Specialized Hospitals of 2023." The Clinic ranked among the world's best in all eleven specialties rated by *Newsweek* including cardiac surgery, cardiology, endocrinology, gastroenterology, neurology, neurosurgery, oncology, orthopedics, pediatrics, pulmonology and urology. In addition to the Clinic's main campus, Cleveland Clinic Florida, Akron General Medical Center, Fairview Hospital and Hillcrest Hospital were also recognized among the world's best specialized hospitals in at least one specialty. *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 November 2022, six System hospitals received an "A" in the fall safety grades published by The Leapfrog Group, an independent national nonprofit organization that measures the quality and safety of American healthcare. The Leapfrog Hospital Survey evaluates individual hospitals on safety, quality, and efficacy and assigns letter grades of A, B, C, D or F. Nearly 3,000 hospitals across the nation voluntarily participate in the survey, which looks at more than 30 national performance measures from the Centers for Medicare and Medicaid Services and other data sources. Other System hospitals evaluated by the Leapfrog Group include four hospitals that received a "B" safety grade and seven hospitals that received a "C" safety grade.

The Clinic has been recognized as one of the World's Most Ethical Companies for the twelfth time. The Clinic is one of just seven 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 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 February 2022, Euclid Hospital received Magnet recognition from the American Nurses Credentialing Center (ANCC), which is the highest honor an organization can receive for professional nursing practice. Avon Hospital also received Magnet recognition in March 2022. With these achievements, Euclid and Avon Hospitals join a select group of more than 500 healthcare institutions worldwide that have been recognized with this credential, with approximately 40 located in Ohio. 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 Euclid and Avon Hospitals, the System now has nine hospitals that have earned Magnet designation.

The Clinic has been honored as the first recipient of the Kathleen Singleton Award from the Academy of Medical-Surgical Nurses and Medtronic, Inc. The award recognizes healthcare facilities that have an outstanding record of promoting a healthy workplace environment that fosters a “patient first” philosophy. The Clinic was chosen for its robust support of nursing education and clinical competency and for fostering respectful nurse-nurse, nurse-physician, and inter-professional collaborations.

The Clinic’s Lou Ruvo Center for Brain Health in Las Vegas has been named a Parkinson’s Foundation Center of Excellence (PF COE). With this new status, Lou Ruvo Center for Brain Health will receive triple the funding from the Parkinson’s Foundation to expand research, infrastructure, educational programming and outreach and patient support in Nevada. The Lou Ruvo Center for Brain Health currently holds the distinction as the first and only PF COE in the state of Nevada and one of 51 PF COE sites globally.

Fairview Hospital received the top honor in the 2022 Bernard A. Birnbaum, MD, Quality Leadership Ranking by Vizient, Inc. Out of 127 large, specialized complex care medical centers, Fairview ranked first in high-quality care based on Vizient’s Quality and Accountability Study. The annual ranking measured performance of 650 hospitals on the quality of patient care in six domains – safety, mortality, effectiveness, efficiency, patient centeredness and equity.

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.

Energage, a technology company that empowers workplace excellence, has named the System to its 2022 TopWorkplaces USA list. The program celebrates nationally recognized companies that prioritize a people-centered culture and give employees a strong voice. Nominated companies were evaluated based

on results from an anonymous employee engagement survey, powered by findings from 15 years of research and data from more than 23 million employees across 70,000 organizations.

The Clinic was recognized by ERC, a regional Human Resources organization, as a recipient of the NorthCoast99 Award for the 17th time. The award recognizes organizations for attracting, developing and retaining caregivers based on the results of an anonymous survey sent to randomly selected caregivers earlier this year.

In March 2022, the Clinic's Chief Executive Officer (CEO) and President Tomislav Mihaljevic, M.D. was recognized for The Transformative CEO Healthcare Award for 2022 by the CEO Forum. The CEO Forum is a CEO-focused company that has been recognized for its efforts sharing best practices throughout the community of CEOs and aspiring CEOs. Dr. Mihaljevic earned the award in the category of Vision.

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 72 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:

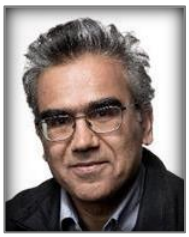
Members of the Committees are chosen based on the interests and skills of individual Board members and the needs of the particular Committee. Most Committees meet three or four times per year, though a few (such as the Audit Committee) meet five or six times per year. Board members also have the opportunity 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 board of trustees has been created for Weston Hospital to provide local input on quality and patient safety and community health needs.

Strongsville Family Health Center
Strongsville, Ohio

APPOINTMENTS



Rohit Chandra, PhD was appointed Chief Digital Officer effective February 14, 2022. Dr. Chandra leads digital innovation within the System 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. He brings more than 25 years of experience in digital technology and engineering in both consumer and enterprise settings.

Anthony Helton was appointed interim Chief Financial Officer (CFO) in May 2022. Mr. Helton has been with the System since 2004 and previously served as the Administrator for the Division of Finance for 13 years and more recently as Executive Director of Revenue Cycle Management and Continuous Improvement in Finance. In May 2022, Steven Glass announced that he would be leaving the System. Mr. Helton will serve as interim CFO during the transition while the System conducts a national search for a new CFO.

Tommaso Falcone, MD was appointed interim Chief Executive Officer (CEO) of Cleveland Clinic London, effective October 17, 2022. Dr. Falcone joined the Clinic as a staff gynecologist in 1995, and has served in many clinical and academic leadership roles. He was appointed chair of the Department of Obstetrics and Gynecology in 2002 and subsequently Chair of the Women's Health Institute in 2008. He was a member of the Board of Governors from 2006 through 2013 and Vice Chairman of Professional Staff Affairs from 2007 through 2014. Most recently he has served as Chief of Staff and Chief Academic Officer of Cleveland Clinic London since May 2018. In October 2022, the CEO of Cleveland Clinic London, Brian Donley, MD, announced that he would be leaving the System. Dr. Donley plans to stay at Cleveland Clinic London through December to support the transition.

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 appointed President of Cleveland Clinic Union Hospital effective August 15, 2022. 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. He 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.

Jacqui Robertson was appointed Chief of Diversity & Inclusion effective March 1, 2022. Ms. Robertson leads 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. She 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.

Cleveland Clinic London Hospital opened on March 29, 2022. The facility is the newest location in the System's expanding global footprint and the second in London, following the opening of an outpatient facility in September 2021 that is located near the hospital. The Clinic through a subsidiary holds a long-term leasehold interest in the hospital building located at 33 Grosvenor Place in central London. The project, which began in 2017, converted the building from office space into an eight-story, 325,000 square-foot advanced healthcare facility that brings the Clinic's model of care to the United Kingdom. The new hospital has 184 inpatient beds, including 29 ICU beds, eight operating theaters and a 41-bed neurological rehabilitation ward. The hospital provides comprehensive medical and surgical services with a special focus on cardiovascular, digestive, neurological and orthopedic care utilizing the latest technology to care for a complex patient population. Alongside its core focus areas, the hospital also offers a full range of medical sub-specialties and comprehensive services for imaging, labs and interventional radiology. The hospital is using the latest medical and surgical technology including pharmacy barcoding and robot-powered medicine administration tracking, laser and robotic surgery capabilities and advanced electronic medical records.

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

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 one million square-foot facility for the Neurological Institute will centralize all neurological care on the main campus, bringing together services currently delivered in eight locations. Construction is expected to begin in 2023 and take about four years to complete. 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 began in 2022 and is expected to take about three years to complete. The new addition will add 150,000 square feet to the existing building and will feature an ophthalmic surgical center with operating rooms and new exam rooms, a new Center of Excellence in Ophthalmic Imaging and an expanded simulation center for education and training of residents and fellows. A portion of the construction costs are expected to be raised through fundraising efforts and donations.

Mentor Hospital – In February 2019, the Clinic announced plans to build a small hospital on 47 acres of vacant land in Lake County, Ohio. The hospital will be managed by Hillcrest Hospital and is expected to offer both inpatient and outpatient services including 36 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. The hospital is expected to open in late 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 from 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 Innovation District –The Cleveland Innovation District (District) is designed to leverage talent and research across multiple world-class clinical and academic institutions to drive the next generation of health care technology. Included in the District is the Clinic's Global Center for Pathogen Research and Human Health, which will add or renovate 400,000 square feet of research space on the Clinic's main campus. Renovation of existing space has begun, and the Clinic is currently in the design phase for additional space on the Clinic's main campus. For additional description of the Cleveland Innovation District, associated partnerships and related projects refer to "AFFILIATIONS AND PARTNERSHIPS."

CLEVELAND CLINIC INNOVATIONS

Cleveland Clinic Innovations (CCI) encompasses 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— therapeutics and diagnostics, medical devices, and digital health — 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 800 technology licenses, issued over 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 portfolio companies. Through the first nine months of 2022, the System has invested $19 million into the portfolio, with multiple pipeline investments under review. Since 2000, CCI has formed a total of 103 spin-off companies, 42 of which are currently operational, with 25 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 24 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. The Global Center for Pathogen Research and Human Health will allow 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 towards the initiative, and the Clinic plans an additional $300 million as a co-investment to fuel discoveries in its research facilities. The Global Center for Pathogen Research and Human Health 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.

The Global Center for Pathogen Research and Human Health is part of the 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 October 2021, the Clinic and Brooks Automation opened a biorepository facility that will increase and centralize the storage capacity for biologic samples at the Clinic, while enhancing researchers' study of human tissue samples to more rapidly translate laboratory discoveries into new treatments for patients. The 22,000 square foot biorepository facility is located near the main campus and is the first building to open in the District.

In December 2021, the grocery store company Meijer, along with the City of Cleveland, the Clinic, Fairfax Renaissance Development Corporation (FRDC) 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 an apartment complex. The project is designed to help revitalize and transform the neighborhood, which has been identified by the U.S. Department of Agriculture as an urban food desert for its lack of accessible supermarkets, by creating a healthier community and supporting economic development in the area. In September 2022, groundbreaking took place for the Aura at Innovation Square, a mixed market-rate apartment development. The Aura, scheduled to open in late 2023, will include 82 one and two bedroom apartment units. The Aura is part of the Fairfax neighborhood revitalization effort spearheaded by FRDC and is located behind the building that will include the Meijer grocery store and additional apartment units.

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 is installing its first private sector, on-premises IBM Quantum System One in the United States, to be located on the Clinic's main campus. The Quantum System One is expected to be completed and operational in early 2023. IBM also plans to install one of its next-generation 1,000+ qubit quantum systems 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. In April 2022, the Alice L. Walton Foundation and Washington Regional Medical System announced their intention to create a regional health system to improve health outcomes across northwest Arkansas. Through these two initiatives, the Alice L. Walton Foundation and Washington Regional Medical System intend to work with the Clinic to support the growth of health care services in the region.

In March 2022, the Clinic announced that Lee Health, based in Fort Myers, Florida, is now an alliance member in heart care. The alliance unites the Clinic's top-ranked cardiac program in the United States with Southwest Florida's leading healthcare provider and expands on the strategic alliance formed with

Lee Health in November 2020 to explore opportunities for service line affiliations and strategic initiatives to improve quality and efficiency of care. Lee Health is now the Clinic's exclusive heart alliance member in Southwest Florida. The alliance will share best practices, enhance opportunities to provide new treatments to patients and explore cutting-edge technologies and techniques in cardiovascular care.

In March 2022, the Clinic and PathAI, a global leader in artificial intelligence–powered technology for pathology, announced a five-year strategic collaboration that will focus on leveraging PathAI's quantitative pathology algorithms to conduct new translational research and for use as clinical diagnostics in multiple disease areas. The collaborative effort combines PathAI's artificial intelligence-based platforms with the Clinic's clinical expertise and multi-modal data to unlock a broad implementation of next-generation pathology diagnostics. The collaboration will enable the digitization of pathology specimens that can be linked with clinical and molecular data to improve research and provide educational opportunities for Clinic faculty and trainees to develop artificial intelligence-powered pathology diagnostics to improve patient care.

INTERNATIONAL GROWTH

Cleveland Clinic London Hospital opened in March 2022. The facility is the newest location in the System's expanding global footprint and the second in London, following the opening of an outpatient facility near the hospital in September 2021. For a description of the London Hospital, refer to "EXPANSION AND IMPROVEMENT PROJECTS."

In addition to the London Hospital, 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 late November 2022.

In 2017, the Clinic launched Cleveland Clinic Connected, a global affiliation program that aims to improve patient care delivery around the world by enabling international healthcare providers both in the United States and internationally to access the Clinic's best practices. Facilities affiliated with the Clinic through the Cleveland Clinic Connected program 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 where legally permissible, 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. While three Cleveland Clinic Connected agreements currently exist internationally, the

Clinic recently announced its renewed commitment to expand this program in 2022 and beyond both domestically and internationally.

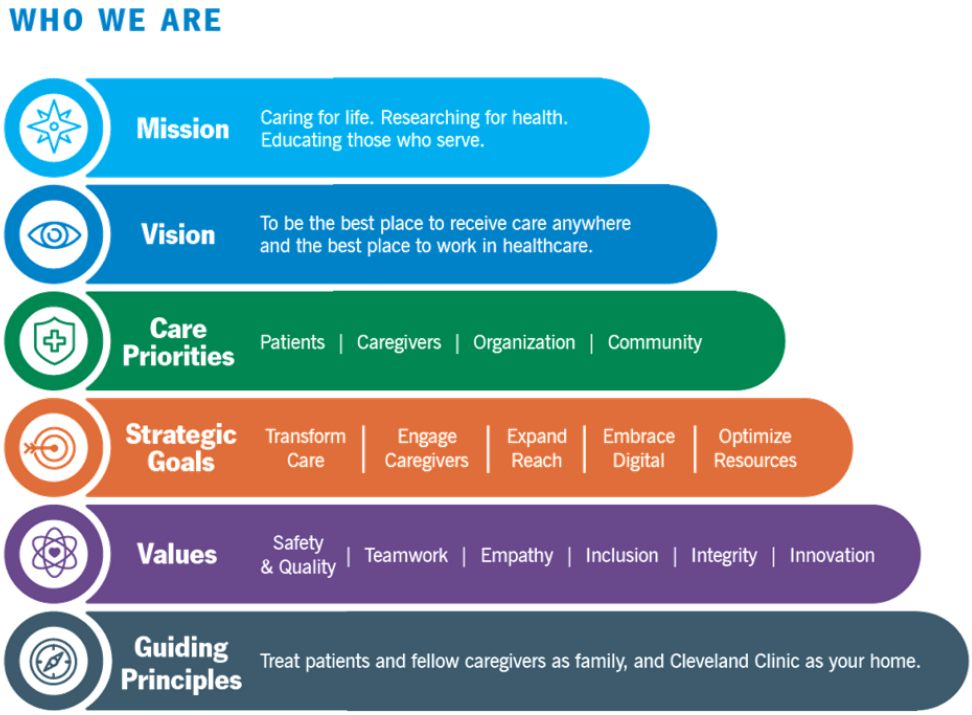
These international activities have increased the diversity of the System's healthcare operations while promoting the Clinic's clinical expertise in new markets.

STRATEGY

In 2021, as the Clinic celebrated its centennial year, a new mission statements was unveiled:

Caring for life
Researching for health
Educating those who serve

The new mission statement stays true to the past, encompasses the present and outlines the future of the System.

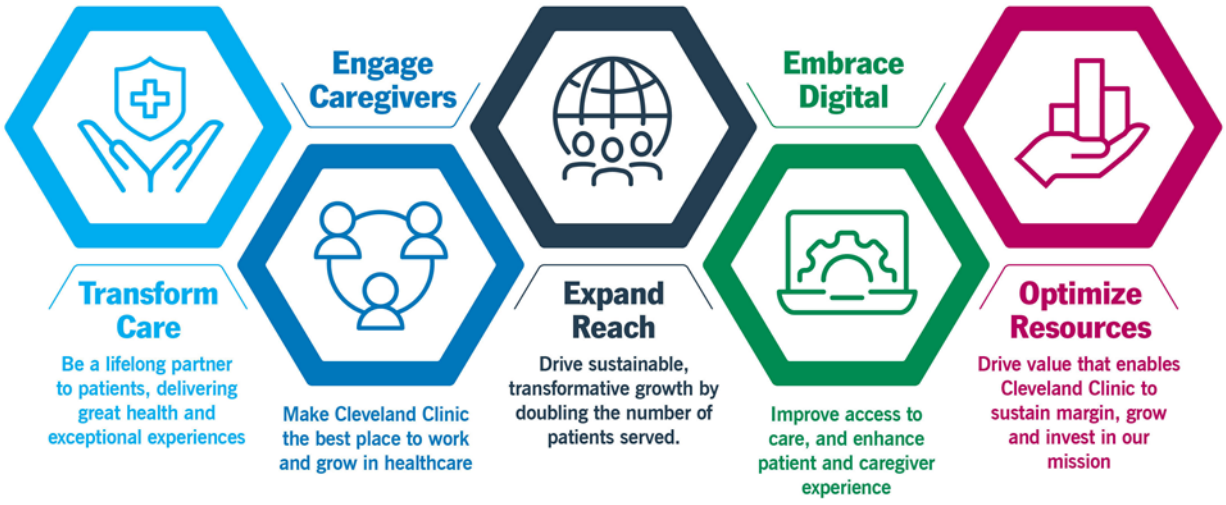


The healthcare industry sits at the intersection of economic pressure, insurance reform, technological breakthroughs and demographic shifts. Patients expect a seamless experience that is enabled by technology. Competition for patients is increasing, and healthcare costs are rising. Providers must demonstrate value to patients, insurers and regulators. Market conditions remain challenging for hospitals and health systems as labor pressures and elevated inflation will continue to compress margins for most providers. Combined with increasing payor pressures and a rapidly evolving competitive landscape, providers must manage rising expenses and execute sound strategic plans in order to continue caring for the communities they serve.

In 2019, the System announced a strategy to position the organization for success while simultaneously responding to the evolving healthcare landscape and emerging industry trends. Since then, this strategy has been examined and reassessed through the lens of industry disruption and shifting trends. The System's ambition is unchanged, and its strategic framework remains in place. This strategy enables the System to focus, innovate and lead in an evolving healthcare environment.

The System's vision is to be the best place to receive care anywhere and the best place to work in healthcare. The strategy charts the course to achieve the mission and vision of the System, while navigating an industry undergoing dramatic change. The System's inclusive and transparent strategic planning process prioritizes work, focuses resources appropriately and monitors performance. 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 strategy provides the System with the ability to prioritize activities and focus on advancing the System's mission, vision and values. In addition, the strategy 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: Cleveland Clinic Community Care is the System's platform for transforming primary care and addressing the physical, social and emotional aspects of care. Community Care physicians are part of teams that include advanced practice providers, nurses, medical assistants, behavioral health social workers, pharmacists, care coordinators and navigators. Specialists work with these teams to integrate specialty care into the patient journey. Key initiatives include simplifying the scheduling process, better understanding patient preferences, growing at-home offerings and forming education, research and community partnerships.

Engage Caregivers: Providing quality care requires a workforce that combines exceptional skills with unwavering empathy. The System's future depends on its ability to attract, engage and develop outstanding caregivers. The Caregiver Office and appointment of its first Chief Caregiver Officer

demonstrates the System's commitment to fostering peak caregiver engagement, preventing burnout, enhancing culture of working as a team of teams and leveraging diversity as a strength. Key initiatives include building a diverse and inclusive culture, recruiting physicians and nurses, conducting workforce planning and educating caregivers on market trends.

Expand Reach: The System will continue to grow and serve more patients, in more ways, and in more places, while continuing its progress toward the goal of doubling the number of patients served. Increasing its ability to touch more lives requires sufficient resources. This means reinvesting in the patient care, research and education that have been the System's mission since 1921. The System has added new locations, renovated facilities in Ohio and Florida and opened Cleveland Clinic London and will continue to explore new and innovative partnership and alignment opportunities.

Embrace Digital: Digital technology will make care smarter, more affordable and more accessible. The System will better understand its patients through enhancing the electronic health record, the use of customer relationship management tools and the increased adoption of augmented intelligence and predictive analytics. The continuing expansion of virtual visits will provide convenience and access for more patients. Key initiatives include increasing virtual offerings in the inpatient, outpatient, primary care and home settings and ensuring transparent pricing for virtual care.

Optimize Resources: The System is finding new value by building a sustainable model of efficient care. This involves establishing metrics for efficiency in all areas. By analyzing buildings and their footprints, the System is making the best use of clinical areas and administrative space. The result is increased reinvestment in the System and its communities. Key initiatives include evaluating the System's facility footprint, ensuring caregivers practice at top of license, integrating technology systems and increasing productivity.

The System continues to identify and pursue ways to improve on every dimension of the enterprise's performance: the relentless pursuit of quality and safety; efficient organization and delivery of care; integration of research and education; and clear messaging of the System's value to the patient. The System is committed to a path that responds to changes in the environment and leads the field with novel approaches that preserve excellence in care, while offering sustainable models.

Cleveland Clinic Florida
Weston, Florida

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.

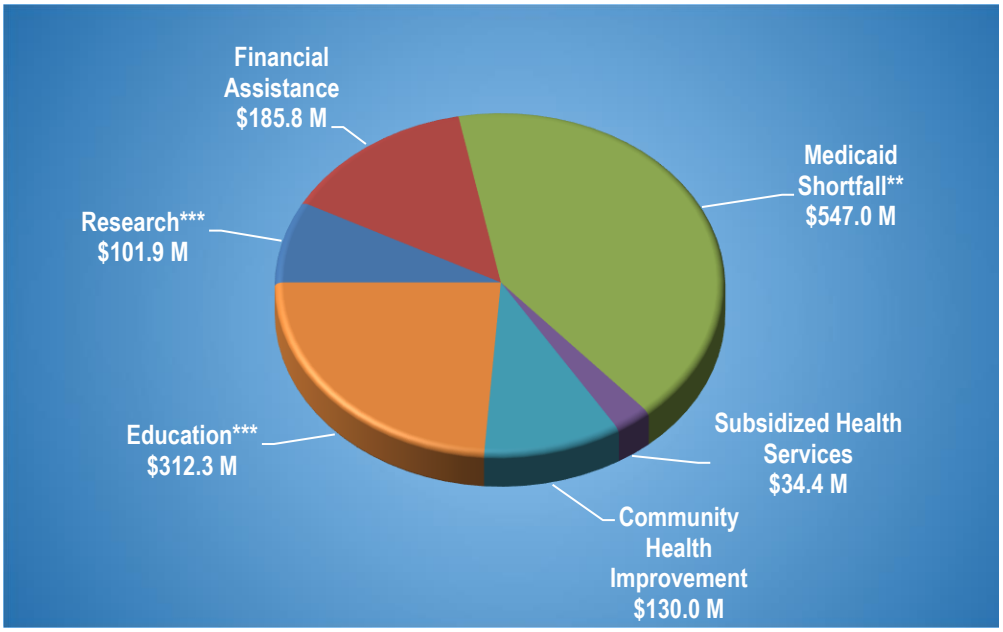
Community benefit includes activities or programs that improve access to health services, enhance public health, advance generalizable knowledge and relieve government burden. The primary categories for assessing community benefit include financial assistance, Medicaid shortfall, subsidized health services, 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:
    - 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.
    - 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.
    - Administration of COVID-19 testing, in partnership with Federally Qualified Health Centers, in underserved areas and hosting testing events for communities with minority populations and large numbers of residents aged 60 years or older to help address health disparities.

- 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 were finalized in the third quarter of 2022 with scheduled payments to be paid in varying amounts through 2027. 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).

Hillcrest Hospital
Mayfield Heights, Ohio

Economic Impact

The System is one of the largest private employers 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 2022, the Clinic, five regional

hospitals and two family health centers received Practice Greenhealth Environmental Excellence Awards. 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 included goals of becoming 20% more energy efficient by 2020 from a 2010 baseline on more than 20 million square feet of facilities. The System met this goal and is the third healthcare system to achieve this level of energy reduction. The System set a new goal in 2021 to make its facilities 40% more efficient by 2030 and joined the Department of Energy's Better Climate Challenge in 2022. As a partner in the challenge, the System has committed to reducing enterprise-wide scope 1 and 2 greenhouse gas emissions by at least 50% by 2030 without the use of offsets.

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. 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 System prioritized energy efficiency in the construction of the London Hospital and is currently pursuing LEED certification.

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 the first half of 2023, 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 12 parks. Community plantings include thousands of free trees provided to caregivers 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 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 helps 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 is 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.

Forbes named the Clinic among America's Best Employers for Diversity for the fifth year in a row in 2022. In order to determine the rankings, *Forbes* partnered with market research company Statista to survey 60,000 Americans working for businesses with at least 1,000 employees. Participants were asked to share their opinions and rate their organizations on age, gender, ethnicity, disability, sexual orientation, equality, general diversity and other criteria. The results ranked 500 employers based on the employers that received the most recommendations while also considering employers that have diverse boards and executive teams as well as proactive diversity and inclusion initiatives.

For the 13th consecutive year, DiversityInc named the Clinic to its 2022 list of Top Hospitals and Health Systems in the country for diversity, equity and inclusion. The Clinic ranked second on the list. The Clinic has made the rankings each year since the list for healthcare organizations 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 March 2022, the System was recognized by the Human Rights Campaign Healthcare Equality Index for its dedication and commitment to LGBTQ+ inclusion. Ten System hospitals achieved Leader status, the highest overall designation, and were noted for their active participation in embracing and adopting LGBTQ+-inclusive practices. Hospital systems are ranked based on their LGBTQ+-centered policies and practices.

In July 2022, the System announced a collaboration with University Hospitals Health System to launch the Diversity Equity Inclusion (DEI) Supplier Accelerator program, a business development mentorship program. The program is designed to improve the economic health of Northeast Ohio's diverse business communities. It focuses on expanding the knowledge and impact of local businesses owned by traditionally underrepresented entrepreneurs including members of the LGBTQ+ community, minorities, veterans and women. Five Northeast Ohio diverse businesses have been chosen to participate in the initial six month cohort that includes training and opportunities in the following areas:

- Immersive coaching on navigating the sourcing process of large corporations;
- One-on-one access to leaders and subject matter experts from both health systems;
- Networking opportunities with key internal decision makers, Tier I suppliers and community partners; and
- A multidisciplinary business review to provide actionable feedback for developing and growing their businesses.

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 plans 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.

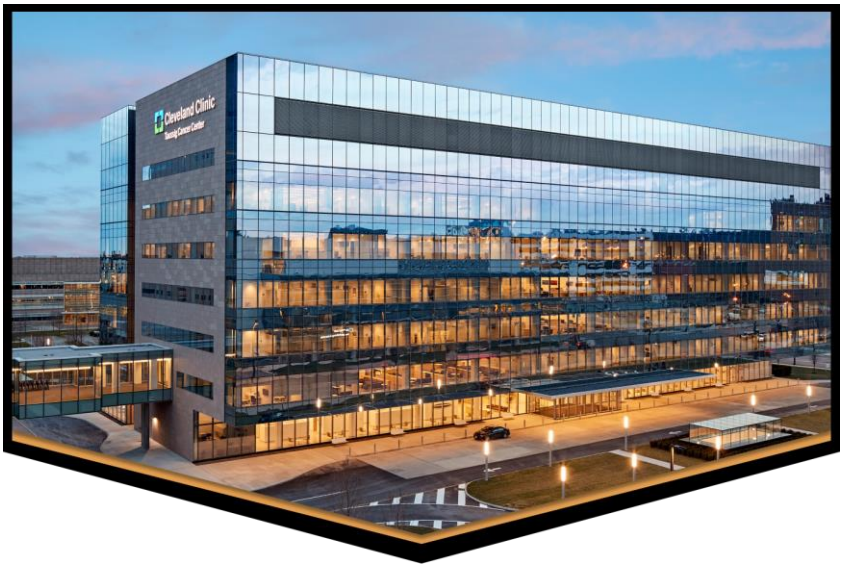
INTERNAL CONTROL OVER FINANCIAL REPORTING

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 13th 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. There were no changes in internal controls over financial reporting during the nine months ended September 30, 2022 that have materially affected, or are likely to materially affect, the internal controls over financial reporting for the System.

INDUSTRY OUTLOOK

In January 2022, Moody's Investors Service (Moody's) announced its 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 January 2022, Standard and Poor's (S&P) announced its stable outlook for the U.S. not-for-profit healthcare sector. 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 and subsequently revised the outlook to stable in June 2021.



Taussig Cancer Center
Cleveland, Ohio

PATIENTS SERVED

The following table summarizes patient utilization statistics for the System:

	For the quarter ended September 30				For the nine months ended September 30			
	2022	2021	Variance	%	2022	2021	Variance	%
Inpatient admissions[1]								
Acute admissions	59,984	60,562	-578	-1.0%	173,487	178,610	-5,123	-2.9%
Post-acute admissions	2,552	2,759	-207	-7.5%	7,469	8,415	-946	-11.2%
	62,536	63,321	-785	-1.2%	180,956	187,025	-6,069	-3.2%
Patient days[1]								
Acute patient days	302,716	317,285	-14,569	-4.6%	897,890	915,836	-17,946	-2.0%
Post-acute patient days	20,541	22,801	-2,260	-9.9%	59,975	66,258	-6,283	-9.5%
	323,257	340,086	-16,829	-4.9%	957,865	982,094	-24,229	-2.5%
Surgical cases								
Inpatient	18,034	17,083	951	5.6%	52,402	52,316	86	0.2%
Outpatient	50,573	47,885	2,688	5.6%	147,670	143,815	3,855	2.7%
	68,607	64,968	3,639	5.6%	200,072	196,131	3,941	2.0%
Emergency department visits	234,986	244,137	-9,151	-3.7%	667,371	674,452	-7,081	-1.0%
Observations	17,743	17,454	289	1.7%	51,101	51,610	-509	-1.0%
Clinic outpatient evaluation and management visits	1,773,524	1,746,687	26,837	1.5%	5,210,192	5,074,015	136,177	2.7%

[1] Excludes newborns

Utilization statistics for Mercy Hospital are included in the above table beginning January 1, 2021 for comparative purposes.

The System has experienced surges of COVID-19 patient in its hospitals throughout the pandemic. As a result, patients served in both 2022 and 2021 were negatively impacted by the suspension of non-essential procedures at various times. In December 2021 and January 2022, the System experienced the Omicron surge 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-19 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-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. While the Omicron surge subsided and the System resumed services, patient activity has remained below expected levels through September 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.

Inpatient acute admissions for the System decreased 1.0% in the third quarter of 2022 and 2.9% in the first nine months of 2022 compared to the same period in 2021. In the first nine months of 2022, acute admissions for the System in Ohio decreased 5.7%, while the Florida facilities increased 6.1% compared to the same period in 2021.

Total surgical cases for the System increased 5.6% in the third quarter of 2022 and 2.0% in the first nine months of 2022 compared to the same period in 2021. In the first nine months of 2022, total surgical cases for the System in Ohio increased 0.2%, while the Florida facilities increased 8.5% compared to the same period in 2021.

Evaluation and management visits for the System increased 1.5% in the third quarter of 2022 and 2.7% in the first nine months of 2022 compared to the same period in 2021. In the first nine months of 2022, evaluation and management visits for the System in Ohio increased 3.3%, while the Florida facilities were flat compared to the same period in 2021.

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.

Cleveland Clinic Lorain Family Health and Surgery Center
Lorain, Ohio

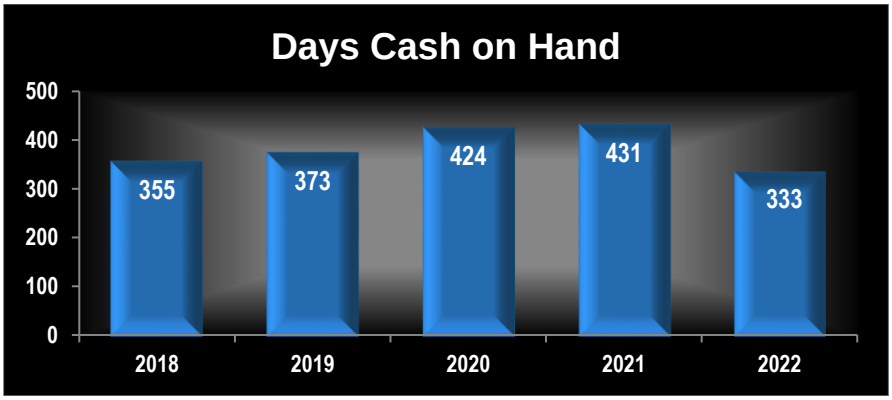
The following table sets forth the allocation of the System's cash and investments in its general investment portfolios and captive insurance fund at September 30, 2022 and December 31, 2021:

Cash and Investments
(Dollars in thousands)

	September 30, 2022		December 31, 2021	
Cash and cash equivalents	$ 899,947	7%	$ 1,347,381	9%
Fixed income securities*	2,502,126	20%	3,096,795	21%
Marketable equity securities*	2,737,422	22%	3,679,009	25%
Alternative investments	6,557,715	51%	6,673,031	45%
Total cash and investments	$ 12,697,210	100%	$ 14,796,216	100%
Less restricted investments**	(1,431,852)		(1,645,148)	
Unrestricted cash and investments	$ 11,265,358		$ 13,151,068	
Days cash on hand	333		431	

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

The following chart summarizes days cash on hand for the System at December 31 for the last four years and September 30, 2022:



At September 30, 2022, total cash and investments for the System (including restricted investments) were $12.7 billion, a decrease of approximately $2.1 billion from $14.8 billion at December 31, 2021. Cash inflows consist of net increases in restricted gifts and income of $87.1 million. Cash inflows were offset by cash used in operating activities and unrestricted investment losses of $1,519 million, net capital expenditures for property, plant and equipment of $540.8 million and principal payments on debt of $96.7 million. Days cash on hand for the System in the first nine months of 2022 was negatively impacted by investment losses.

Included in the System's cash and investments are investments held for self-insurance. These investments totaled $204.7 million at September 30, 2022, with an asset mix of 6% cash and short-term investments, 35% fixed income securities, 28% equity investments and 31% alternative investments. The asset mix reflects the need for liquidity and the objective to maintain stable returns utilizing a lower tolerance for risk and volatility consistent with insurance regulatory requirements.

Also included in the System's cash and investments at September 30, 2022 are $2.3 million of funds held by trustees as posted collateral. Collateral is primarily comprised of $2.0 million related to a futures and options program within the System's investment portfolio. The System's 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. There were no amounts held as collateral related to the System's interest rate swap contracts at September 30, 2022. Investment objectives of funds held by the trustees are designed to preserve principal by investing in highly liquid cash or fixed income investments. At September 30, 2022, the asset mix of funds held by trustees was 55% cash and short-term investments and 45% 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 September 30, 2022 and December 31, 2021 consist of the following:

Alternative Investments
(Dollars in thousands)

	September 30, 2022			December 31, 2021		
Hedge funds	$	3,540,902	54%	$	3,886,307	58%
Private equity/venture capital		3,016,813	46%		2,786,724	42%
Total alternative investments	$	6,557,715	100%	$	6,673,031	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 losses of 10.7% for the first nine months of 2022 compared to gains of 10.8% in the first nine months of 2021. The preliminary investment returns 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 September 30		For the nine months ended September 30	
	2022	2021	2022	2021
Other unrestricted revenue:				
Interest income and dividends	$ 734	$ 534	$ 1,812	$ 1,343
Nonoperating gains and losses, net:				
Interest income and dividends	26,896	23,919	76,538	64,527
Net realized (losses) gains on sales of investments	(15,255)	74,487	(5,924)	216,191
Net change in unrealized (losses) gains on investments	(287,992)	(66,988)	(1,034,669)	146,395
Equity method (losses) income on alternative investments	(132,854)	240,523	(267,541)	668,203
Investment management fees	(8,407)	(7,721)	(26,008)	(22,102)
	(417,612)	264,220	(1,257,604)	1,073,214
Other changes in net assets:				
Investment (loss) income on restricted investments and other	(18,649)	11,250	(67,843)	47,079
Total investment (loss) return	$ (435,527)	$ 276,004	$ (1,323,635)	$1,121,636

Operating Lines of Credit

As of September 30, 2022, the System has two operating lines of credit totaling $300 million with no amounts drawn and $300 million in available capacity. The lines of credit are structured with $150 million expiring on May 24, 2023 and $150 million expiring on April 22, 2024.

Long-term Debt

At September 30, 2022, outstanding current and long-term debt for the System totaled $5.0 billion, comprised of $4.7 billion in bonds and notes, $116.4 million in finance leases and $166.3 million in unamortized net premium, offset by $29.8 million of unamortized debt issuance costs. Bonds and notes are structured with approximately 76% fixed-rate debt and 24% variable-rate. 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 September 30, 2022 was $530.8 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 September 30, 2022, approximately $600 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. Bonds and notes 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 September 30, 2022, 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 September 30, 2022.

The System through a UK subsidiary issued £665 million of sterling notes (2018 Sterling Notes) in 2018 pursuant to a private placement agreement. The proceeds of the 2018 Sterling notes were used to support expansion in the UK. The outstanding 2018 Sterling Notes have been converted to U.S. dollars in the consolidated balance sheet using exchange rates of $1.09 and $1.35 at September 30, 2022 and December 31, 2021, respectively.

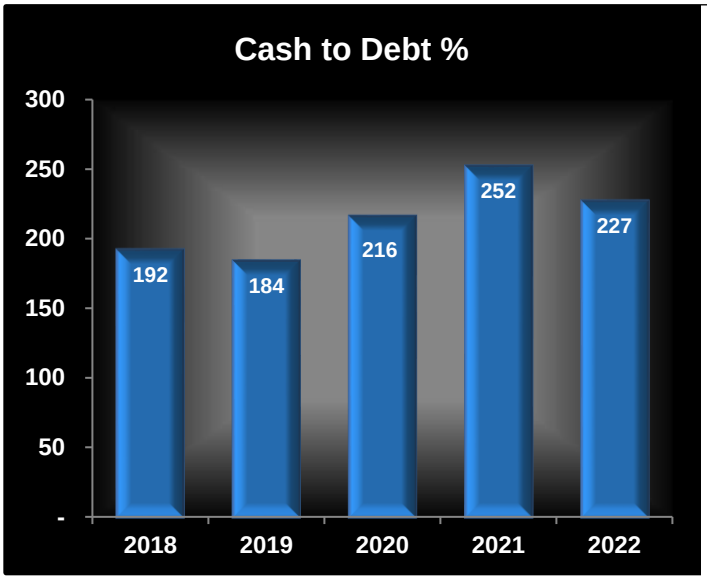
Outstanding long-term debt (including current portion) for the System as of September 30, 2022 and December 31, 2021 consist of the following:

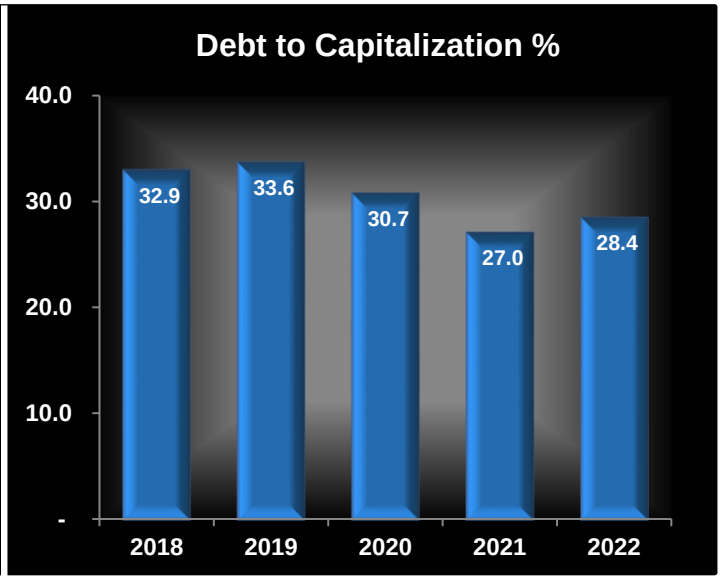
Hospital Revenue Bonds and Notes
(Dollars in thousands)

Series	Type	Final Maturity	September 30 2022	December 31 2021
2021A Revenue Bonds	Fixed	2049	$ 83,810	$ 83,810
2021B Revenue Bonds	Fixed	2039	198,240	198,280
2021 Term Loan	Fixed	2025	49,350	64,650
2020 Term Loan	Fixed	2025	9,375	9,375
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	726,914	897,114
2017A Revenue Bonds	Fixed	2043	746,325	770,025
2017B Revenue Bonds	Fixed	2043	163,235	164,775
2017C Revenue Bonds	Fixed	2032	7,190	7,680
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	50,050	52,450
2013 Bonds, Martin	Variable	2032	12,640	12,640
2012A Revenue Bonds	Fixed	2022	-	10,800
2011B Revenue Bonds	Fixed	2031	19,995	21,710
2011C Revenue Bonds	Fixed	2032	95,750	112,025
2008B Revenue Bonds	Variable	2042	327,575	327,575
2003C Revenue Bonds	Variable	2035	41,905	41,905
Notes Payable	Varies	Varies	1,786	2,274
Finance Leases	Varies	Varies	116,399	123,119
			$ 4,835,174	$ 5,084,842

[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 four years and at September 30, 2022.





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 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.

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

Bond Ratings

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

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

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

CONSOLIDATED RESULTS OF OPERATIONS

For the Quarters Ended September 30, 2022 and 2021

The following narrative describes the consolidated results of operations for the System for the quarters ended September 30, 2022 and 2021.

Operating losses for the System in the third quarter of 2022 were $28.3 million, resulting in an operating margin of -0.9%, as compared to operating income of $148.2 million and an operating margin of 4.8% in the third quarter of 2021. The lower operating income resulted from a 14.2% increase in operating expenses driven primarily by increases in salaries, wages and benefits due to higher overtime, premium and agency costs as well as inflationary pressures in many expense categories. Operating revenues increased 7.7% in the third quarter of 2022 compared to the same period in 2021. Nonoperating losses for the System were $440.9 million in the third quarter of 2022 compared to nonoperating gains of $274.0 million in the third quarter of 2021. The decrease from the prior year was primarily due to lower investment returns in the third quarter of 2022 compared to the same period in 2021. Overall, the System reported a deficiency of revenues over expenses of $469.2 million in the third quarter of 2022 compared to an excess of revenues over expenses of $422.2 million in the third quarter of 2021.

The System's net patient service revenue increased $175.1 million (6.4%) in the third quarter of 2022 compared to the same period in 2021. The System experienced higher outpatient activity in 2022 while inpatient activity was constrained due to the pandemic and staffing challenges at many System hospitals. Acute admissions decreased 1.0%, total surgical cases increased 5.6% and outpatient evaluation and management visits increased 1.5% in the third quarter of 2022 compared to the same period in 2021. Net patient revenue has benefited from rate increases on the System's managed care contracts that became effective in 2022. 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 $62.1 million (19.6%) in the third quarter of 2022 compared to the same period in 2021. The increase in other unrestricted revenues was primarily due to a $25.1 million increase in outpatient pharmacy revenue primarily due to higher utilization of outpatient and specialty drugs, a $13.5 million increase in gifts and assets released from restriction, a $9.8 million increase in research grants earned and an $8.0 million increase in management service fee revenue.

Total operating expenses increased $413.8 million (14.2%) in the third quarter of 2022 compared to the same period in 2021. 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 also increased due to recent inflationary trends and supply chain challenges. 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 $276.9 million (16.5%) in the third quarter of 2022 compared to the same period in 2021. Salaries, excluding benefits, increased $257.2 million (18.0%) due primarily to an increase in overtime, premium pay and agency costs to provide adequate staffing at System hospitals, inflationary pressures on salaries and wages of employed caregivers and annual salary adjustments averaging 3% across the System that were awarded in the second quarter of 2022. Full-time equivalent employees (including agency personnel) increased 5.9% in the third quarter of 2022 compared to the same period in 2021, with a portion of the increase in full-time equivalent employees related to staffing at the London Hospital that opened in the first quarter of 2022. The System has various initiatives being implemented to recruit and retain caregivers. Benefit costs increased $19.8 million (8.1%) during the same period primarily due to the growth in the full-time equivalent employees and salaries. The System experienced a $10.3 million increase in defined contribution plan expenses and a $10.0 million increase in FICA expenses.

Supplies expense increased $11.8 million (3.7%) in the third quarter of 2022 compared to the same period in 2021. The increase in supplies was comprised of a $9.5 million increase in medical supplies and implantables and a $2.3 million increase in non-medical supplies. The increase is medical supplies and implantables is primarily due to increases in net patient revenue and recent inflationary trends for many supplies. The increase in non-medical supplies was driven primarily by an increase in minor equipment and software.

Pharmaceutical costs increased $47.6 million (13.4%) in the third quarter of 2022 compared to the same period in 2021. The increase in pharmaceuticals is primarily due to recent inflationary trends and increased utilization in outpatient areas including retail and specialty pharmacy. The System has also experienced a corresponding increase in outpatient pharmacy revenues related to the increased utilization.

Purchased services and other fees increased $25.2 million (11.6%) in the third quarter of 2022 compared to the same period in 2021. The increase in purchased services and other fees was primarily related to a $6.7 million increase in software and hardware technology costs related to maintenance agreements and software subscriptions, a $6.0 million increase in purchased medical services, and a $5.4 million increase in purchased services primarily related to information technology initiatives.

Administrative services increased by $19.5 million (42.7%) in the third quarter of 2022 compared to the same period in 2021. The increase in administrative services was primarily due to an $8.8 million increase in professional and consulting fees related to various System initiatives, a $5.5 million increase in travel and meeting costs and a $5.1 million increase in various research expenses that correlate to the increase in research grant revenue.

Facilities expense increased $16.8 million (16.5%) in the third quarter of 2022 compared to the same period in 2021. The increase in facility expenses was primarily due to an $8.4 million increase in utilities expense, a $5.4 million increase in maintenance and repair costs and a $2.1 million increase in lease expense.

Insurance expense increased $11.7 million (65.7%) in the third quarter of 2022 compared to the same period in 2021. The increase in insurance expense is primarily due to added coverages written by the System's captive insurance subsidiary and changes in actuarial estimates of outstanding claim liabilities.

Interest expense increased $0.6 million (1.6%) in the third quarter of 2022 compared to the same period in 2021. The increase in interest expense is primarily due to an increase in interest rates on variable-rate debt partially offset by a decrease in interest expense due to the reduction in debt from regularly scheduled principal payments in 2022. The System also refunded $245.0 million of fixed-rate debt in October 2021 at lower interest rates.

Depreciation and amortization expenses increased $3.6 million (2.4%) in the third quarter of 2022 compared to the same period in 2021. Changes in depreciation include property, plant and equipment that was fully depreciated in 2021, offset by depreciation for property, plant and equipment that was acquired and placed into service after the third quarter of 2021, including depreciation for Cleveland Clinic London Hospital, which opened in the first quarter of 2022.

Gains and losses from nonoperating activities are recorded below operating income in the statement of operations. These items resulted in net losses to the System of $440.9 million in the third quarter of 2022 compared to net gains of $274.0 million in the third quarter of 2021, resulting in an unfavorable variance of $714.9 million. Investment returns were lower by $681.8 million in the third quarter of 2022 compared to the same period in 2021 due to unfavorable financial markets that generated investment losses in the third quarter of 2022. Derivative gains and losses were favorable by $16.1 million in the third quarter of 2022 compared to the same period in 2021. 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 unfavorable by $49.2 million in the third quarter of 2022 compared to the same period in 2021 driven primarily by the Clinic's pledge to Lead Safe Cleveland Coalition. For details of the pledge to Lead Safe Cleveland Coalition refer to "COMMUNITY BENEFIT AND ECONOMIC IMPACT".

For the Nine Months Ended September 30, 2022 and 2021

The following narrative describes the consolidated results of operations for the System for the nine months ended September 30, 2022 and 2021. The consolidated results of operations include the financial operations of Mercy, which became a consolidated entity of the System on February 1, 2021. Mercy Hospital comprised approximately 2.9% of total consolidated operating revenues and 3.1% of total consolidated operating expenses in 2021. No adjustments have been made in the following narrative to exclude Mercy Hospital operations.

Operating losses for the System in the first nine months of 2022 were $316.3 million, resulting in an operating margin of -3.3%, as compared to operating income of $549.4 million and an operating margin of 6.0% in the first nine months of 2021. The lower operating income resulted from a 14.5% increase in operating expenses driven primarily by increases in salaries, wages and benefits due to higher overtime, premium and agency costs as well as inflationary pressures in many expense categories. The increase in operating expenses outpaced a 4.1% increase in operating revenues in the first nine months of 2022 compared to the same period in 2021. Operating revenues in the first nine months of 2022 were impacted by lower patients served than expected, partially due to the postponement of nonessential surgeries and procedures during the Omicron surge in early 2022, and CARES Act PRF payments recognized in 2021. Excluding CARES Act PRF payments, operating revenues in the first nine months of 2022 increased 6.0% compared to the same period in 2021. Nonoperating losses for the System were $1,222 million in the first nine months of 2022 compared to nonoperating gains of $1,127 million in the first nine months of 2021. The decrease from the prior year was primarily due to lower investment returns in the first nine months of 2022 compared to the same period in 2021. Overall, the System reported a deficiency of revenues over expenses of $1,539 million in the first nine months of 2022 compared to an excess of revenues over expenses of $1,677 million in the first nine months of 2021.

The System's net patient service revenue increased $396.2 million (4.9%) in the first nine months of 2022 compared to the same period in 2021. The System experienced higher outpatient activity in 2022 while inpatient activity was constrained due to the pandemic and staffing challenges at many System hospitals. Acute admissions decreased 2.9%, total surgical cases increased 2.0% and outpatient evaluation and management visits increased 2.7% in the first nine months of 2022 compared to the same period in 2021. Net patient revenue has benefited from rate increases on the System's managed care contracts that became effective in 2022. 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 $19.0 million (1.8%) in the first nine months of 2022 compared to the same period in 2021. The decrease in other unrestricted revenues was primarily due to a $161.8 million decrease in CARES Act PRF payments in the first nine months of 2022 compared to the same period in 2021. Partially offsetting this decrease was a $61.1 million increase in outpatient pharmacy revenue primarily due to higher utilization of outpatient and specialty drugs, a $54.5 million increase in research grants earned and a $23.8 million increase in gifts and assets released from restriction.

Total operating expenses increased $1,243 million (14.5%) in the first nine months of 2022 compared to the same period in 2021. 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 also increased due to recent inflationary trends and supply chain challenges. 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 $802.5 million (16.3%) in the first nine months of 2022 compared to the same period in 2021. Salaries, excluding benefits, increased $729.9 million (17.5%) due primarily to an increase in overtime, premium pay and agency costs to provide adequate staffing at System hospitals, inflationary pressures on salaries and wages of employed caregivers and annual salary adjustments averaging 3% across the System that were awarded in the second quarter of 2022. Full-time equivalent employees (including agency personnel) increased 4.5% in the third quarter of 2022 compared to the same period in 2021 with a portion of the increase in full-time equivalent employees related to staffing at the London Hospital that opened in the first quarter of 2022. The System has various initiatives being implemented to recruit and retain caregivers. Benefit costs increased $72.7 million (9.8%) during the same period primarily due to the growth in the full-time equivalent employees and salaries. The System experienced a $34.6 million increase in defined contribution plan expenses and a $31.6 million increase in FICA expenses.

Supplies expense increased $71.0 million (7.7%) in the first nine months of 2022 compared to the same period in 2021. The increase in supplies was comprised of a $47.7 million increase in medical supplies and implantables and a $23.3 million increase in non-medical supplies. The increase in medical supplies is primarily due to increases in net patient revenue, recent inflationary trends for many supplies and the cost of treating COVID-19 patients during the Omicron surge. The increase in non-medical supplies was driven primarily by an increase in minor equipment and software.

Pharmaceutical costs increased $124.6 million (12.1%) in the first nine months of 2022 compared to the same period in 2021. The increase in pharmaceuticals is primarily due to recent inflationary trends and increased utilization in outpatient areas including retail and specialty pharmacy. The System has also experienced a corresponding increase in outpatient pharmacy revenues related to the increased utilization.

Purchased services and other fees increased $116.7 million (18.9%) in the first nine months of 2022 compared to the same period in 2021. The increase in purchased services and other fees was primarily related to a $31.7 million increase in software and hardware technology costs related to maintenance agreements and software subscriptions, a $30.7 million increase in purchased services primarily related to information technology initiatives, a $19.4 million increase in purchased medical services and a $8.1 million increase in state franchise fee expenses.

Administrative services increased by $55.1 million (41.9%) in the first nine months of 2022 compared to the same period in 2021. The increase in administrative services was primarily due to a $26.5 million increase in professional and consulting fees related to various System initiatives, a $17.2 million increase in travel and meeting costs and a $11.8 million increase in various research expenses that correlate to the increase in research grant revenue.

Facilities expense increased $44.3 million (15.4%) in the first nine months of 2022 compared to the same period in 2021. The increase in facility expenses was primarily due to a $19.8 million increase in utilities expense, a $13.2 million increase in maintenance and supplies and a $6.6 million increase in lease expense.

Insurance expense increased $19.8 million (27.3%) in the first nine months of 2022 compared to the same period in 2021. The increase in insurance expense is primarily due to added coverages written by the System's captive insurance subsidiary and changes in actuarial estimates of outstanding claim liabilities.

Interest expense decreased $1.9 million (1.7%) in the first nine months of 2022 compared to the same period in 2021. The decrease in interest expense is primarily due to the reduction in debt from regularly scheduled principal payments in 2022. The System also refunded $245.0 million of fixed-rate debt in October 2021 at lower interest rates. These decreases were partially offset by an increase in interest rates on variable-rate debt.

Depreciation and amortization expenses increased $10.9 million (2.4%) in the first nine months of 2022 compared to the same period in 2021. Changes in depreciation include property, plant and equipment that was fully depreciated in 2021, offset by depreciation for property, plant and equipment that was acquired and placed into service after the first quarter of 2021, including depreciation for Cleveland Clinic London Hospital, which opened in the first quarter of 2022.

Gains and losses from nonoperating activities are recorded below operating income in the statement of operations. These items resulted in net losses to the System of $1,222 million in the first nine months of 2022 compared to net gains of $1,127 million in the first nine months of 2021, resulting in an unfavorable variance of $2,350 million. Investment returns were lower by $2,331 million in the first nine months of 2022 compared to the same period in 2021 due to unfavorable financial markets that generated investment losses in the first nine months of 2022. Derivative gains and losses were favorable by $48.0 million in the first nine months of 2022 compared to the same period in 2021. 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 unfavorable by $67.0 million in the first nine months of 2022 compared to the same period in 2021 driven primarily by the Clinic's pledge to Lead Safe Cleveland Coalition. For details of the pledge to Lead Safe Cleveland Coalition refer to "COMMUNITY BENEFIT AND ECONOMIC IMPACT".

BALANCE SHEET – SEPTEMBER 30, 2022 COMPARED TO DECEMBER 31, 2021

The following narrative describes the consolidated balance sheets for the System as of September 30, 2022 and December 31, 2021.

Cash and cash equivalents decreased $72.0 million (10.8%) from December 31, 2021 to September 30, 2022. 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 cash equivalents relates to the timing of operating cash flows and transfers from the investment portfolio.

Patient accounts receivable increased $118.9 million (7.8%) from December 31, 2021 to September 30, 2022. The increase in patient receivables is primarily attributable to the increase in net patient revenue in the first nine months of 2022 compared to the same period in 2021 and rate increases on the System's managed care contracts that became effective in January 2022. 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 48 days at December 31, 2021 to 52 days at September 30, 2022.

Investments for current use decreased $104.8 million (65.2%) from December 31, 2021 to September 30, 2022. 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. There were no funds held by the bond trustee reported in investments for current use as of September 30, 2022. Investments for current use also includes assets held for self-insurance that will be used to pay the current portion of estimated claim liabilities. There were no changes in these investments from December 31, 2021 to September 30, 2022.

Other current assets increased $171.7 million (27.7%) from December 31, 2021 to September 30, 2022. The increase in other current assets was primarily due to a $54.3 million increase in the current portion of pledges receivable, a $52.5 million increase in prepaid expenses driven by information technology contracts, a $47.7 million increase in management fees receivable and a $36.0 million increase in inventories. The increase was partially offset by a $12.5 million decrease in receivables related to various value-based care contracts.

Unrestricted long-term investments decreased by $1,814 million (14.5%) from December 31, 2021 to September 30, 2022. The decrease in long-term investments was primarily due to $1,258 million of unrestricted investment losses experienced in the System's investment portfolio that reported preliminary investment losses of 10.7% in the first nine months of 2022. Other changes in unrestricted investments include transfers to operating cash based on the liquidity needs of the System.

Funds held by trustees decreased $67.2 million (96.7%) from December 31, 2021 to September 30, 2022. The decrease in funds held by trustees is primarily due to a $67.2 million decrease in collateral posted with the counterparties on the System's derivative contracts. At September 30, 2022, the System had no collateral posted on the System's derivative contracts.

Assets held for self-insurance decreased by $58.4 million (28.2%) from December 31, 2021 to September 30, 2022. The decrease in self-insurance assets is primarily due to a $40.0 million dividend declared by the System's captive insurance subsidiary in 2021 that was paid to the System in the first quarter of 2022. The System's captive insurance subsidiary also experienced negative investment returns in the first nine months of 2022.

Donor restricted assets increased $17.1 million (1.4%) from December 31, 2021 to September 30, 2022. The increase in restricted assets was primarily from the receipt of donor restricted gifts in excess of investment losses on restricted investments and expenditures from restricted funds.

Net property, plant and equipment decreased $87.4 million (1.5%) from December 31, 2021 to September 30, 2022. The System had net expenditures for property, plant and equipment of $554.9 million, offset by depreciation expense of $464.3 million. The System also had proceeds from the sale of property, plant and equipment of $14.1 million and foreign currency translation losses of $177.2 million. Capital expenditures in 2022 include amounts paid on retainage liabilities recorded at December 31, 2021 and exclude assets acquired through finance leases and other financing arrangements. Retainage liabilities decreased $4.4 million, and new finance leases totaled $17.2 million in the first nine months of 2022. 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 $83.3 million (53.5%) from December 31, 2021 to September 30, 2022. The increase in pledges receivable was due to new pledges received in the first nine months of 2022 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 decreased $15.8 million (13.1%) from December 31, 2021 to September 30, 2022. The decrease in trusts and interests in foundations is comprised of a $12.8 million decrease in perpetual and charitable trusts primarily due to a decrease in the market value of the trusts and trust distributions to the System and a $3.0 million decrease in interest in community foundations.

Operating lease right-of-use assets decreased $43.9 million (12.4%) from December 31, 2021 to September 30, 2022. The decrease in operating lease right-of-use assets was due to foreign currency translation losses on international leases and 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 the first nine months of 2022.

Other noncurrent assets decreased $2.3 million (0.3%) from December 31, 2021 to September 30, 2022. The decrease in other noncurrent assets was due to a $69.1 million decrease in deferred compensation plan assets (and corresponding decrease in noncurrent liabilities) and a $6.4 million decrease in cloud computing implementation costs. These decreases were partially offset by a $44.5 million increase in prepaid pension costs and a $26.1 million increase in investments in affiliates including receivables related to the Ohio BioValidation Fund and other affiliate investments.

Accounts payable decreased $35.4 million (5.3%) from December 31, 2021 to September 30, 2022. The decrease in accounts payable was primarily attributable to the timing of payment processing for trade payables and a $4.4 million decrease in retainage liabilities for current construction projects.

Compensation and amounts withheld from payroll increased $23.9 million (4.6%) from December 31, 2021 to September 30, 2022. The increase in 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 decreased $7.4 million (7.1%) from December 31, 2021 to September 30, 2022. 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 2022.

Variable-rate debt classified as current increased $73.0 million (16.2%) from December 31, 2021 to September 30, 2022. Variable-rate debt classified as current consists of long-term variable-rate bonds supported by the System's self-liquidity program and bonds with letters of credit or standby bond purchase agreements that expire within one year, require repayment of a remarketing draw within one year or contain a subjective clause that would allow the lender to declare an event of default and cause immediate repayment of such bonds. The increase in variable-rate debt classified as current was due to the reclassification of $75.5 million from long-term to current for bonds supported by a standby bond purchase agreements that expire within one year.

Other current liabilities decreased $51.2 million (7.0%) from December 31, 2021 to September 30. The decrease in other current liabilities is primarily due to a $31.6 million decrease in accrued interest payable related to the timing of semi-annual interest payments, a $31.2 million decrease in the current portion of professional and general liability insurance reserves related to malpractice claim payment in 2022, and a $22.4 million decrease in deferred revenue related to research projects. These decreases were offset by a $47.5 million increase in state franchise fee liabilities due to the timing of payments..

Long-term debt decreased $319.6 million (6.8%) from December 31, 2021 to September 30, 2022. The decrease in long-term debt is primarily due to the reclassification of $75.5 million of bonds from long-term to variable-rate debt classified as current, foreign currency translation gains of $169.0 million on the 2018 Sterling Notes and the reclassification of regularly scheduled principal payments from long-term to current for debt payments due within one year.

Professional and general insurance liability reserves increased $17.2 million (8.3%) from December 31, 2021 to September 30, 2022. The increase in insurance liability reserves is due to expenses recorded for the accrual of current and prior year claims estimates in excess of claim liability payments.

Accrued retirement benefits decreased $2.2 million (0.8%) from December 31, 2021 to September 30, 2022. The decrease in accrued retirement benefits is comprised of a $5.9 million decrease in certain defined benefit pension plan liabilities offset by a $3.7 million increase in other postretirement benefit liabilities.

Operating lease liabilities decreased $30.7 million (9.7%) from December 31, 2021 to September 30, 2022. The decrease in operating lease liabilities was due to foreign currency translation gains on international leases and the reclassification of operating lease payments from long-term to short-term partially offset by the addition of new operating leases recorded during the first nine months of 2022.

Other noncurrent liabilities decreased $113.3 million (17.4%) from December 31, 2021 to September 30, 2022. The decrease in other noncurrent liabilities is primarily due to an $84.0 million decrease in liabilities related to changes in the fair value of the System's derivative agreements and a $68.5 million decrease in deferred compensation plan liabilities. These decreases were partially offset by a $36.8 million increase in pledges payable.

Total net assets decreased $1,429 million (9.1%) from December 31, 2021 to September 30, 2022. Net assets without donor restrictions decreased $1,570 million (11.1%) primarily due to a deficiency of revenues over expenses of $1,539 million and foreign currency translation losses of $36.5 million offset by net assets released from restriction for capital purposes of $8.7 million. Net assets with donor restrictions increased $141.3 million (9.1%), primarily due to gifts of $285.6 million offset by assets released from restrictions of $69.0 million and investment losses of $67.8 million.

Cleveland Clinic Hospital – Circa 1921

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 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.