Unaudited Consolidated Financial Statements and Other Information

For The Period Ended September 30, 2024

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

Contents

The following summary describes the unaudited, consolidated financial results for Cleveland Clinic Health System (System) for the quarters and nine months ended September 30, 2024 and 2023.

Operating income for the System in the third quarter of 2024 was $43.4 million on total unrestricted revenues of $4.0 billion, resulting in 1.1% operating margin, as compared to an operating loss of $14.9 million and an operating margin of -0.4% in in the third quarter of 2023. Operating income for the System in the first nine months of 2024 was $138.9 million on total unrestricted revenues of $11.8 billion, resulting in a 1.2% operating margin, as compared to an operating loss of $4.0 million and a break even operating margin in the first nine months of 2023. The improved operating performance in the first nine months of 2024 resulted from a 9.6% increase in operating revenues, supported by strong patient demand for both inpatient and outpatient services, that outpaced an 8.3% increase in operating expenses compared to the same period in 2023. Overall, the System reported an excess of revenues over expenses of $895 million in the first nine months of 2024, a 7.1% total margin, compared to an excess of revenues over expenses of $353 million in the first nine months of 2023.

Patients served were higher in the third quarter and the first nine months of 2024 compared to the same periods in 2023 as the System continues to experience strong demand for both inpatient and outpatient services. In the first nine months of 2024, inpatient admissions increased 4%, total surgical cases increased 4% and outpatient evaluation and management visits increased 5% compared to the same period in 2023. The following table summarizes patient utilization statistics for the System:

	For the quarter ended September 30				For the nine months ended September 30			
	2024	2023	Variance	%	2024	2023	Variance	%
Inpatient admissions[(1)]	67,325	66,122	1,203	1.8%	203,596	196,256	7,340	3.7%
Patient days[(1)]	333,833	335,697	-1,864	-0.6%	1,019,859	1,000,220	19,639	2.0%
Surgical cases								
Inpatient	20,133	19,154	979	5.1%	60,960	57,964	2,996	5.2%
Outpatient	59,147	55,825	3,322	6.0%	179,371	172,194	7,177	4.2%
	79,280	74,979	4,301	5.7%	240,331	230,158	10,173	4.4%
Emergency department visits	249,776	240,729	9,047	3.8%	741,645	706,739	34,906	4.9%
Clinic outpatient evaluation and management visits	1,937,221	1,847,724	89,497	4.8%	5,883,829	5,611,768	272,061	4.8%

(1) Excludes newborns

Total operating revenue increased $340 million (9.3%) in the third quarter and more than $1 billion (9.6%) in the first nine months of 2024 compared to the same periods in 2023. The increase through the first nine months was comprised of a $769 million increase in net patient service revenue, supported by increased patient activity noted above, and a $268 million increase in other unrestricted revenues. Other unrestricted revenues increased primarily due to growth in outpatient pharmacy revenues, grants earned and investment income from the establishment of a board designated endowment fund in 2023 to support the expanding research and education activities of the System.

Total operating expenses increased $281 million (7.7%) in the third quarter and $894 million (8.3%) in the first nine months of 2024 compared to the same periods in 2023. The growth in expenses is primarily due to higher patient volumes and inflationary trends that increased salaries, wages and benefits, supplies expenses and pharmaceutical costs. Nationwide, labor shortages for licensed caregivers continued to create staffing challenges, resulting in ongoing utilization of agency nurses and other temporary personnel to meet the demand of patient activity. Agency utilization and costs have remained elevated in 2024 but are below levels experienced during 2023 due to various workforce strategies implemented by the System to reduce its reliance on agency personnel.

The following table summarizes the financial results of the System ($ in thousands):

	For the quarter ended September 30				For the nine months ended September 30			
	2024	2023	Variance	%	2024	2023	Variance	%
Total unrestricted revenue	$ 3,977,616	$ 3,637,928	$ 339,688	9.3%	$ 11,785,801	$ 10,748,957	$ 1,036,844	9.6%
Operating income before interest, depreciation and amortization	$ 234,632	$ 194,762	$ 39,870	20.5%	$ 717,477	$ 618,613	$ 98,864	16.0%
Operating cashflow margin	5.9%	5.4%			6.1%	5.8%		
Operating income	$ 43,372	$ (14,875)	$ 58,247	391.6%	$ 138,909	$ (3,986)	$ 142,895	3584.9%
Operating margin	1.1%	-0.4%			1.2%	0.0%		
Net nonoperating gains and losses	$ 331,451	$ (112,563)	$ 444,014	394.5%	$ 756,490	$ 357,240	$ 399,250	111.8%
Excess of revenues over expenses	$ 374,823	$ (127,438)	$ 502,261	394.1%	$ 895,399	$ 353,254	$ 542,145	153.5%
Total margin	8.7%	-3.6%			7.1%	3.2%		

Gains and losses from nonoperating activities are recorded below operating income in the statement of operations. Nonoperating gains for the System were $331 million in the third quarter and $756 million in the first nine months of 2024, compared to net losses of $113 million in the third quarter and net gains of $357 million in the first nine months of 2023. Investment returns approximated 7.7% in the first nine months of 2024 compared to returns of 3.8% in the same period in 2023. Total cash and investments for the System were $14.6 billion at September 30, 2024, which is an increase of $871 million compared to $13.7 billion at December 31, 2023.

Unaudited Consolidated Balance Sheets

($ in thousands)

	September 30 2024	December 31 2023
Assets		
Current assets:		
Cash and cash equivalents	$ 661,779	$ 698,965
Patient receivables	1,880,293	1,859,557
Investments for current use	74,703	74,703
Other current assets	925,612	923,019
Total current assets	3,542,387	3,556,244
Investments:		
Long-term investments	12,095,830	11,312,499
Funds held by trustees	11,419	8,724
Assets held for self-insurance	200,765	208,650
Donor restricted assets	1,562,292	1,432,245
	13,870,306	12,962,118
Property, plant, and equipment, net	6,625,225	6,282,016
Other assets:		
Pledges receivable, net	183,781	170,592
Trusts and interests in foundations	96,387	92,493
Operating lease right-of-use assets	385,947	369,310
Other noncurrent assets	1,092,699	1,011,972
	1,758,814	1,644,367
Total assets	$ 25,796,732	$ 24,444,745

Unaudited Consolidated Balance Sheets (continued)

($ in thousands)

	September 30 2024	December 31 2023
Liabilities and net assets		
Current liabilities:		
Accounts payable	$ 606,901	$ 697,264
Compensation and amounts withheld from payroll	658,546	650,318
Current portion of long-term debt	108,572	106,357
Variable rate debt classified as current	789,369	842,354
Other current liabilities	805,818	715,193
Total current liabilities	2,969,206	3,011,486
Long-term debt	4,553,369	4,311,487
Other liabilities:		
Professional and general insurance liability reserves	247,480	251,941
Accrued retirement benefits	220,214	224,991
Operating lease liabilities	339,263	321,609
Other noncurrent liabilities	773,807	650,971
	1,580,764	1,449,512
Total liabilities	9,103,339	8,772,485
Net assets:		
Without donor restrictions	14,786,835	13,860,396
With donor restrictions	1,906,558	1,811,864
Total net assets	16,693,393	15,672,260
Total liabilities and net assets	$ 25,796,732	$ 24,444,745

See notes to unaudited consolidated financial statements.

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

Operations

	Three Months Ended September 30	
	2024	2023
Unrestricted revenues		
Net patient service revenue	$ 3,393,702	$ 3,198,196
Other	583,914	439,732
Total unrestricted revenues	3,977,616	3,637,928
Expenses		
Salaries, wages, and benefits	2,254,915	2,110,713
Supplies	379,610	365,784
Pharmaceuticals	594,482	487,892
Purchased services and other fees	287,413	257,426
Administrative services	57,432	64,725
Facilities	121,789	117,905
Insurance	47,343	38,721
	3,742,984	3,443,166
Operating income before interest, depreciation, and amortization expenses	234,632	194,762
Interest	43,222	44,089
Depreciation and amortization	148,038	165,548
Operating income (loss)	43,372	(14,875)
Nonoperating gains and losses		
Investment return	339,876	(120,433)
Derivative (losses) gains	(5,702)	14,051
Other, net	(2,723)	(6,181)
Net nonoperating gains and losses	331,451	(112,563)
Excess (deficiency) of revenues over expenses	374,823	(127,438)

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

Changes in Net Assets

	Three Months Ended September 30	
	2024	2023
Changes in net assets without donor restrictions:		
Excess (deficiency) of revenues over expenses	$ 374,823	$ (127,438)
Donated capital	21	-
Net assets released from restriction for capital purposes	18,732	3,632
Retirement benefits adjustment	(792)	(792)
Foreign currency translation	3,910	(3,417)
Other	(186)	(198)
Increase (decrease) in net assets without donor restrictions	396,508	(128,213)
Changes in net assets with donor restrictions:		
Gifts and bequests	57,132	19,009
Net investment income (loss)	23,960	(4,615)
Net assets released from restrictions used for operations included in other unrestricted revenues	(35,909)	(33,432)
Net assets released from restriction for capital purposes	(18,732)	(3,632)
Change in interests in foundations	371	(1,772)
Change in value of perpetual trusts	1,258	327
Other	100	200
Increase (decrease) in net assets with donor restrictions	28,180	(23,915)
Increase (decrease) in net assets	424,688	(152,128)
Net assets at beginning of period	16,268,705	15,177,317
Net assets at end of period	$ 16,693,393	$ 15,025,189

See notes to unaudited consolidated financial statements.

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

($ in thousands)

Operations

	Nine Months Ended September 30	
	2024	2023
Unrestricted revenues		
Net patient service revenue	$ 10,179,519	$ 9,410,276
Other	1,606,282	1,338,681
Total unrestricted revenues	11,785,801	10,748,957
Expenses		
Salaries, wages, and benefits	6,761,564	6,238,412
Supplies	1,156,790	1,096,581
Pharmaceuticals	1,662,885	1,412,291
Purchased services and other fees	839,297	755,340
Administrative services	174,494	184,321
Facilities	357,510	339,318
Insurance	115,784	104,081
	11,068,324	10,130,344
Operating income before interest, depreciation, and amortization expenses	717,477	618,613
Interest	134,092	129,921
Depreciation and amortization	444,476	492,678
Operating income (loss)	138,909	(3,986)
Nonoperating gains and losses		
Investment return	758,697	351,954
Derivative gains	5,856	18,498
Other, net	(8,063)	(13,212)
Net nonoperating gains and losses	756,490	357,240
Excess of revenues over expenses	895,399	353,254

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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	
	2024	2023
Changes in net assets without donor restrictions:		
Excess of revenues over expenses	$ 895,399	$ 353,254
Donated capital	76	65
Net assets released from restriction for capital purposes	31,305	9,325
Retirement benefits adjustment	(2,375)	(2,375)
Foreign currency translation	2,806	2,811
Other	(772)	(252)
Increase in net assets without donor restrictions	926,439	362,828
Changes in net assets with donor restrictions:		
Gifts and bequests	151,116	82,254
Net investment income	75,259	41,550
Net assets released from restrictions used for operations included in other unrestricted revenues	(106,717)	(109,362)
Net assets released from restriction for capital purposes	(31,305)	(9,325)
Change in interests in foundations	1,018	(1,233)
Change in value of perpetual trusts	3,223	81
Other	2,100	300
Increase in net assets with donor restrictions	94,694	4,265
Increase in net assets	1,021,133	367,093
Net assets at beginning of year	15,672,260	14,658,096
Net assets at end of period	$ 16,693,393	$ 15,025,189

See notes to unaudited consolidated financial statements.

Unaudited Consolidated Statements of Cash Flows
($ in thousands)

	Nine Months Ended September 30	
	2024	2023
Operating activities and net nonoperating gains and losses		
Increase in net assets	$ 1,021,133	$ 367,093
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities and net nonoperating gains and losses:		
Loss on extinguishment of debt	414	-
Retirement benefits adjustment	2,375	2,375
Net realized and unrealized gains on investments	(879,550)	(358,543)
Depreciation and amortization	440,690	488,991
Foreign currency translation gain	(2,806)	(2,811)
Donated capital	(76)	(65)
Restricted gifts, bequests, investment income, and other	(230,616)	(122,652)
Accreted interest and amortization of bond premiums	(7,229)	(5,452)
Net gain in value of derivatives	(5,117)	(19,022)
Changes in operating assets and liabilities:		
Patient receivables	(17,460)	(196,507)
Other current assets	(51,043)	(115,391)
Other noncurrent assets	(89,808)	(95,902)
Accounts payable and other current liabilities	(1,217)	(196,364)
Other liabilities	123,297	77,865
Net cash provided by (used in) operating activities and net nonoperating gains and losses	302,987	(176,385)
Financing activities		
Proceeds from short-term borrowings	-	65,170
Payments on short-term borrowings	-	(65,170)
Proceeds from long-term borrowings	503,218	300,000
Payments for redemption of long-term debt	(300,000)	-
Principal payments on long-term debt	(99,539)	(121,650)
Debt issuance costs	(3,318)	(279)
Change in pledges receivables, trusts and interests in foundations	32,676	54,927
Restricted gifts, bequests, investment income, and other	230,616	122,652
Net cash provided by financing activities	363,653	355,650
Investing activities		
Expenditures for property, plant and equipment	(688,621)	(559,061)
Proceeds from sale of property, plant and equipment	11,410	11,890
Net change in cash equivalents reported in long-term investments	(395,338)	(243,315)
Purchases of investments	(4,271,951)	(3,197,827)
Sales of investments	4,638,707	3,384,441
Net cash used in investing activities	(705,793)	(603,872)
Effect of exchange rate changes on cash	2,023	2,059
Decrease in cash and cash equivalents	(37,130)	(422,548)
Cash, cash equivalents and restricted cash at beginning of year	703,716	868,345
Cash, cash equivalents and restricted cash at end of period	$ 666,586	$ 445,797

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, 2023.

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, 2024, the System operates 21 hospitals with approximately 5,500 staffed beds. Fifteen of the hospitals are operated in the northeast Ohio area, anchored by the Clinic. The System also operates 22 outpatient family health centers, nine ambulatory surgery centers, numerous physician offices located throughout northeast Ohio, and specialized cancer centers in Sandusky and Mansfield, Ohio. In Southeast Florida, the System operates five hospitals, including an academic medical center in Weston, 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 the United Kingdom, the System operates a hospital and two outpatient facilities in the central London area. 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 a range of complex quaternary and general acute care services that is part of M42 Health’s network of healthcare facilities located in Abu Dhabi, United Arab Emirates, with 364 staffed beds.

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

3. Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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.

4. Net Patient Service Revenue and Patient Receivables

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

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

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

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

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

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

Generally, patients who are covered by third-party payors are responsible for patient responsibility balances, including deductibles and coinsurance, which vary in amount. The System estimates the transaction price for patients with deductibles and coinsurance based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any explicit price concessions, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Adjustments arising from a change in the transaction price were not significant in the first nine months of 2024. Adjustments arising from a change in the transaction price increased net patient revenue by $61.0 million in the first nine months of 2023.

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.

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

Settlements with third-party payors for retroactive adjustments due to reviews and audits are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care in the period the related services are provided. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the System's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known or as years are settled or are no longer subject to such reviews and audits. Adjustments arising from a change in estimated settlements were not significant in the first nine months of 2024 or 2023.

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

Net patient service revenue by major payor source, for the nine months ended September 30, 2024 and 2023 is as follows (in thousands):

	Nine Months Ended September 30, 2024		**Nine Months Ended September 30, 2023**	
Medicare	**$ 3,988,825**	**39%**	$ 3,678,477	39%
Medicaid	**978,313**	**10**	944,884	10
Managed care and commercial	**5,071,495**	**50**	4,663,280	50
Self-pay	**140,886**	**1**	123,635	1
Net patient service revenue	**$ 10,179,519**	**100%**	$ 9,410,276	100%

5. 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.

5. Cash and Cash Equivalents (continued)

The reconciliation of cash, cash equivalents, and restricted cash within the consolidated balance sheets that comprise the amount reported on the consolidated statements of cash flows at September 30, 2024 and December 31, 2023 is as follows (in thousands):

	September 30 2024	December 31 2023
Cash and cash equivalents	**$ 661,779**	$ 698,965
Restricted cash in investments	**4,807**	4,751
Total cash, cash equivalents, and restricted cash	**$ 666,586**	$ 703,716

Restricted cash in investments includes amounts held by the System's captive insurance subsidiaries and restricted cash for various programs.

6. 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.

6. Fair Value Measurements (continued)

The following tables present the financial instruments measured at fair value on a recurring basis as of September 30, 2024 and December 31, 2023, based on the valuation hierarchy (in thousands):

September 30, 2024

	Level 1	Level 2	Level 3	Total
Assets				
Cash and investments:				
Cash and cash equivalents	$ 666,586	$ –	$ –	$ 666,586
Money market funds	853,563	–	–	853,563
Fixed-income securities:				
U.S. treasuries	1,222,888	–	–	1,222,888
U.S. government agencies	–	64,618	–	64,618
U.S. corporate	–	493,313	–	493,313
U.S. government agencies asset-backed securities	–	397,204	–	397,204
Corporate asset-backed securities	–	290,383	–	290,383
Foreign	–	151,339	–	151,339
Fixed-income mutual funds	176,773	–	–	176,773
Common and preferred stocks:				
U.S.	185,391	286	–	185,677
Foreign	615,687	69,085	–	684,772
Equity mutual funds	88,213	–	–	88,213
Total cash and investments	3,809,101	1,466,228	–	5,275,329
Perpetual and charitable trusts	–	67,504	–	67,504
Total assets at fair value	$ 3,809,101	$ 1,533,732	$ –	$ 5,342,833
Liabilities				
Interest rate swaps	$ –	$ 11,942	$ –	$ 11,942
Total liabilities at fair value	$ –	$ 11,942	$ –	$ 11,942

6. Fair Value Measurements (continued)

December 31, 2023

	Level 1	Level 2	Level 3	Total
Assets				
Cash and investments:				
Cash and cash equivalents	$ 703,716	$ –	$ –	$ 703,716
Money market funds	456,797	–	–	456,797
Fixed-income securities:				
U.S. treasuries	1,365,960	–	–	1,365,960
U.S. government agencies	–	51,597	–	51,597
U.S. corporate	–	546,984	–	546,984
U.S. government agencies asset-backed securities	–	507,778	–	507,778
Corporate asset-backed securities	–	295,247	–	295,247
Foreign	–	216,533	–	216,533
Fixed-income mutual funds	76,717	–	–	76,717
Common and preferred stocks:				
U.S.	182,155	106	–	182,261
Foreign	498,282	50,920	–	549,202
Equity mutual funds	72,904	–	–	72,904
Total cash and investments	3,356,531	1,669,165	–	5,025,696
Perpetual and charitable trusts	–	64,628	–	64,628
Total assets at fair value	$ 3,356,531	$ 1,733,793	$ –	$ 5,090,324
Liabilities				
Interest rate swaps	$ –	$ 30,851	$ –	$ 30,851
Total liabilities at fair value	$ –	$ 30,851	$ –	$ 30,851

6. Fair Value Measurements (continued)

Financial instruments at September 30, 2024 and December 31, 2023 are reflected in the consolidated balance sheets as follows (in thousands):

	September 30 2024	December 31 2023
Cash, cash equivalents, and investments measured at fair value	**$ 5,275,329**	$ 5,025,696
Commingled funds measured at net asset value	**2,224,224**	1,922,611
Alternative investments measured at net asset value	**7,107,235**	6,787,479
Total cash, cash equivalents, and investments	**$ 14,606,788**	$ 13,735,786
Perpetual and charitable trusts measured at fair value	**$ 67,504**	$ 64,628
Interests in foundations	**28,883**	27,865
Trusts and interests in foundations	**$ 96,387**	$ 92,493

Interest rate swaps (Note 7) are reported in other noncurrent liabilities in the consolidated balance sheets.

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

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

The fair value of perpetual and charitable trusts in which the System receives periodic payments from the trust is determined based on the present value of expected cash flows to be received from the trust using discount rates ranging from 3.9% 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.

6. Fair Value Measurements (continued)

The fair value of interest rate swaps is determined based on the present value of expected future cash flows using discount rates appropriate with the risks involved. The valuations include a credit spread adjustment to market interest rate curves to appropriately reflect nonperformance risk. The credit spread adjustment is derived from other comparably rated 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.

7. Derivative Instruments

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

The System's objective with respect to interest rate risk is to manage the risk of rising interest rates on the System's variable rate debt. Consistent with its interest rate risk management objective, the System has entered into various interest rate swap agreements with a total notional amount of $298.3 million and $499.5 million at September 30, 2024 and December 31, 2023, respectively. In 2024, the System terminated three fixed payor swaps with a notional amount totaling $169.6 million, including a notional amount of $122.0 million terminated in March and a notional amount of $47.6 million terminated in April. The System did not have a significant gain or loss on the termination of the swaps.

The interest rate swap agreements mature in varying years between 2024-2039. During the term of these transactions, the System pays interest at a fixed rate, ranging from 3.04% to 5.12%, and receives interest at a variable rate based on the London Interbank Offered Rate (LIBOR) or the Securities Industry and Financial Markets Association index. On June 9, 2023, the System adhered to the International Swaps and Derivatives Association's IBOR Fallback Protocol, which was effective for the System on July 1, 2023 and incorporates interest rate fallback language in the respective interest rate swap agreements. The fallback provisions provide a process that uses the Secured Overnight Financing Rate (SOFR) plus a spread to determine a replacement rate for LIBOR upon the cessation of its availability. This change did not have a material impact on the consolidated financial statements. The swap agreements are not designated as hedging instruments. Net interest paid or received under the swap agreements is included in derivative gains (losses) in the consolidated statements of operations and changes in net assets.

7. Derivative Instruments (continued)

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

	Balance Sheet Location	September 30 2024	December 31 2023
Derivatives not designated as hedging instruments			
Interest rate swap agreements	Other noncurrent liabilities	**$ 11,942**	$ 30,851

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

	Location of Gain (Loss) Recognized	Quarter Ended September 30 2024	Quarter Ended September 30 2023	Nine Months Ended September 30 2024	Nine Months Ended September 30 2023
Derivatives not designated as hedging instruments					
Interest rate swap agreements	Derivative (losses) gains	**($5,702)**	$ 14,051	**$ 5,856**	$ 18,498

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, 2024 and December 31, 2023, the System had no posted collateral. 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.

8. 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 six contributory, defined contribution plans covering active System employees. The Cleveland Clinic Investment Pension Plan (IPP) is a noncontributory, defined contribution plan that covers substantially all of the System's employees, except employees covered by the Cleveland Clinic Cash Balance Plan (CBP) and certain employees of Akron General, Union Hospital and Indian River Hospital. The System's contribution to the IPP for participants is based upon a percentage of employee compensation and years of creditable service. The 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 determined according to age. The System sponsors six tax-qualified contributory, defined contribution plans, including two plans that cover certain employees of Akron General, a plan that covers certain employees of Union Hospital, a plan that covers certain employees of Indian River Hospital and two plans that cover substantially all other employees of the System. The plans generally permit employees to make pretax, Roth and after-tax employee deferrals and to become entitled to certain employer matching contributions that are based on pretax and Roth employee contributions. In January 2024, the System established a new defined contribution plan and merged five defined contribution plans related to various entities into the new plan or existing plans.

8. Pensions and Other Postretirement Benefits (continued)

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

	Quarter Ended September 30		Nine Months Ended September 30	
	2024	**2023**	**2024**	**2023**
Amounts related to defined benefit pension plans:				
Service credit	**$ (561)**	$ (608)	**$ (1,682)**	$ (1,825)
Interest cost	**17,853**	19,155	**53,560**	57,464
Expected return on assets	**(16,494)**	(16,271)	**(49,483)**	(48,812)
Net amortization and deferral	**(454)**	(454)	**(1,362)**	(1,362)
Total defined benefit pension plans	**344**	1,822	**1,033**	5,465
Defined contribution plans	**106,692**	94,801	**341,531**	301,776
	$ 107,036	$ 96,623	**$ 342,564**	$ 307,241

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

9. Long-Term Debt

In June 2024, pursuant to certain agreements between the System and the State of Ohio (State) acting by and through the Ohio Higher Educational Facility Commission, the State issued $440.4 million of fixed-rate Hospital Revenue Bonds (Series 2024A Bonds), which generated proceeds of $503.2 million for the benefit of the System. Proceeds from the Series 2024A Bonds were used to finance certain capital expenditures of the System, refund the Series 2023 bonds and to pay the cost of issuance.

10. Subsequent Events

The System evaluated events and transactions occurring subsequent to September 30, 2024 through November 26, 2024, 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, 2024				December 31, 2023			
	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	$ 661,779	$ -	$ -	$ 661,779	$ 655,095	$ 43,870	$ -	$ 698,965
Patient receivables, net	1,579,056	381,012	(79,775)	1,880,293	1,506,099	393,097	(39,639)	1,859,557
Due from affiliates	37,945	21,830	(59,775)	-	14,625	3,227	(17,852)	-
Investments for current use	-	74,703	-	74,703	-	74,703	-	74,703
Other current assets	716,911	223,967	(15,266)	925,612	729,532	203,265	(9,778)	923,019
Total current assets	2,995,691	701,512	(154,816)	3,542,387	2,905,351	718,162	(67,269)	3,556,244
Investments:								
Long-term investments	10,768,190	1,327,640	-	12,095,830	10,063,164	1,249,335	-	11,312,499
Funds held by trustees	11,419	-	-	11,419	8,724	0	-	8,724
Assets held for self-insurance	-	200,765	-	200,765	-	208,650	-	208,650
Donor restricted assets	1,439,438	122,854	-	1,562,292	1,318,471	113,774	-	1,432,245
	12,219,047	1,651,259	-	13,870,306	11,390,359	1,571,759	-	12,962,118
Property, plant, and equipment, net	4,968,676	1,656,549	-	6,625,225	4,687,206	1,594,810	-	6,282,016
Other assets:								
Pledges receivable, net	158,264	25,517	-	183,781	151,304	19,288	-	170,592
Trusts and beneficial interests in foundations	67,023	29,364	-	96,387	63,819	28,674	-	92,493
Operating lease right-of-use assets	135,664	250,283	-	385,947	121,611	247,699	-	369,310
Other noncurrent assets	1,255,614	177,489	(340,404)	1,092,699	1,171,247	180,783	(340,058)	1,011,972
	1,616,565	482,653	(340,404)	1,758,814	1,507,981	476,444	(340,058)	1,644,367
Total assets	$ 21,799,979	$ 4,491,973	$ (495,220)	$ 25,796,732	$ 20,490,897	$ 4,361,175	$ (407,327)	$ 24,444,745

	September 30, 2024				December 31, 2023			
	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	$ 484,799	$ 122,405	$ (303)	$ 606,901	$ 538,310	$ 159,257	$ (303)	$ 697,264
Compensation and amounts withheld from payroll	584,578	73,968	-	658,546	569,560	80,758	-	650,318
Short-term borrowings	-	-	-	-	-	-	-	-
Current portion of long-term debt	100,804	7,768	-	108,572	98,474	7,883	-	106,357
Variable rate debt classified as current	747,275	42,094	-	789,369	797,560	44,794	-	842,354
Due to affiliates	11,708	39,482	(51,190)	-	2,650	15,202	(17,852)	-
Other current liabilities	667,619	218,180	(79,981)	805,818	553,461	201,632	(39,900)	715,193
Total current liabilities	2,596,783	503,897	(131,474)	2,969,206	2,560,015	509,526	(58,055)	3,011,486
Long-term debt	3,646,145	1,194,947	(287,723)	4,553,369	3,488,071	1,110,794	(287,378)	4,311,487
Other liabilities:								
Professional and general insurance liability reserves	112,037	135,443	-	247,480	73,745	178,196	-	251,941
Accrued retirement benefits	219,212	1,002	-	220,214	223,907	1,084	-	224,991
Operating lease liabilities	94,168	245,095	-	339,263	83,910	237,699	-	321,609
Other noncurrent liabilities	720,109	77,041	(23,343)	773,807	590,460	69,725	(9,214)	650,971
	1,145,526	458,581	(23,343)	1,580,764	972,022	486,704	(9,214)	1,449,512
Total liabilities	7,388,454	2,157,425	(442,540)	9,103,339	7,020,108	2,107,024	(354,647)	8,772,485
Net assets:								
Without donor restrictions	12,702,868	2,136,647	(52,680)	14,786,835	11,845,711	2,067,365	(52,680)	13,860,396
With donor restrictions	1,708,657	197,901	-	1,906,558	1,625,078	186,786	-	1,811,864
Total net assets	14,411,525	2,334,548	(52,680)	16,693,393	13,470,789	2,254,151	(52,680)	15,672,260
Total liabilities and net assets	$ 21,799,979	$ 4,491,973	$ (495,220)	$ 25,796,732	$ 20,490,897	$ 4,361,175	$ (407,327)	$ 24,444,745

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, 2024				Three Months Ended September 30, 2023			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated
Unrestricted revenues								
Net patient service revenue	$ 2,837,492	$ 669,668	$ (113,458)	$ 3,393,702	$ 2,680,642	$ 630,131	$ (112,577)	$ 3,198,196
Other	526,221	115,341	(57,648)	583,914	394,285	110,749	(65,302)	439,732
Total unrestricted revenues	3,363,713	785,009	(171,106)	3,977,616	3,074,927	740,880	(177,879)	3,637,928
Expenses								
Salaries, wages, and benefits	1,912,092	470,692	(127,869)	2,254,915	1,777,859	447,713	(114,859)	2,110,713
Supplies	303,181	76,733	(304)	379,610	290,632	75,334	(182)	365,784
Pharmaceuticals	532,127	62,355	-	594,482	441,601	46,291	-	487,892
Purchased services and other fees	243,268	64,074	(19,929)	287,413	218,837	68,718	(30,129)	257,426
Administrative services	6,750	58,724	(8,042)	57,432	11,160	60,170	(6,605)	64,725
Facilities	87,311	34,865	(387)	121,789	84,838	33,494	(427)	117,905
Insurance	29,074	32,819	(14,550)	47,343	25,915	38,458	(25,652)	38,721
	3,113,803	800,262	(171,081)	3,742,984	2,850,842	770,178	(177,854)	3,443,166
Operating income (loss) before interest, depreciation, and amortization expenses	249,910	(15,253)	(25)	234,632	224,085	(29,298)	(25)	194,762
Interest	34,581	8,641	-	43,222	35,470	8,619	-	44,089
Depreciation and amortization	99,048	49,015	(25)	148,038	129,476	36,097	(25)	165,548
Operating income (loss)	116,281	(72,909)	-	43,372	59,139	(74,014)	-	(14,875)
Nonoperating gains and losses								
Investment return	287,853	52,023	-	339,876	(110,252)	(10,181)	-	(120,433)
Derivative (losses) gains	(5,702)	-	-	(5,702)	14,186	(135)	-	14,051
Other, net	(2,294)	(429)	-	(2,723)	(6,084)	(97)	-	(6,181)
Net nonoperating gains and losses	279,857	51,594	-	331,451	(102,150)	(10,413)	-	(112,563)
Excess (deficiency) of revenues over expenses	396,138	(21,315)	-	374,823	(43,011)	(84,427)	-	(127,438)

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, 2024				Three Months Ended September 30, 2023			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated
Changes in net assets without donor restrictions:								
Excess (deficiency) of revenues over expenses	$ 396,138	$ (21,315)	$ -	$ 374,823	$ (43,011)	$ (84,427)	$ -	$ (127,438)
Donated capital	21	-	-	21	-	-	-	-
Net assets released from restriction for capital purposes	17,674	1,058	-	18,732	2,800	832	-	3,632
Retirement benefits adjustment	(592)	(200)	-	(792)	(592)	(200)	-	(792)
Foreign currency translation	-	3,910	-	3,910	-	(3,417)	-	(3,417)
Other	(52,005)	51,819	-	(186)	(49,714)	49,516	-	(198)
Increase (decrease) in net assets without donor restrictions	361,236	35,272	-	396,508	(90,517)	(37,696)	-	(128,213)
Changes in net assets with donor restrictions:								
Gifts and bequests	51,419	5,713	-	57,132	13,664	5,345	-	19,009
Net investment income (loss)	22,729	1,231	-	23,960	(5,546)	931	-	(4,615)
Net assets released from restrictions used for operations included in other unrestricted revenues	(31,821)	(4,088)	-	(35,909)	(29,872)	(3,560)	-	(33,432)
Net assets released from restriction for capital purposes	(17,674)	(1,058)	-	(18,732)	(2,800)	(832)	-	(3,632)
Change in interests in foundations	371	-	-	371	(1,772)	-	-	(1,772)
Change in value of perpetual trusts	749	509	-	1,258	172	155	-	327
Other	(385)	485	-	100	360	(160)	-	200
Increase (decrease) in net assets with donor restrictions	25,388	2,792	-	28,180	(25,794)	1,879	-	(23,915)
Increase (decrease) in net assets	386,624	38,064	-	424,688	(116,311)	(35,817)	-	(152,128)
Net assets at beginning of period	14,024,901	2,296,484	(52,680)	16,268,705	13,137,965	2,064,032	(24,680)	15,177,317
Net assets at end of period	$ 14,411,525	$ 2,334,548	$ (52,680)	$ 16,693,393	$ 13,021,654	$ 2,028,215	$ (24,680)	$ 15,025,189

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

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

($ in thousands)

Operations

	Nine Months Ended September 30, 2024				Nine Months Ended September 30, 2023			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated
Unrestricted revenues								
Net patient service revenue	$ 8,517,882	$ 1,985,174	$ (323,537)	$ 10,179,519	$ 7,926,991	$ 1,798,370	$ (315,085)	$ 9,410,276
Other	1,439,108	333,616	(166,442)	1,606,282	1,179,595	351,664	(192,578)	1,338,681
Total unrestricted revenues	9,956,990	2,318,790	(489,979)	11,785,801	9,106,586	2,150,034	(507,663)	10,748,957
Expenses								
Salaries, wages, and benefits	5,711,371	1,411,388	(361,195)	6,761,564	5,269,493	1,311,794	(342,875)	6,238,412
Supplies	909,117	248,199	(526)	1,156,790	862,126	234,846	(391)	1,096,581
Pharmaceuticals	1,493,672	169,213	-	1,662,885	1,274,251	138,040	-	1,412,291
Purchased services and other fees	715,802	183,384	(59,889)	839,297	634,677	185,508	(64,845)	755,340
Administrative services	14,787	183,259	(23,552)	174,494	28,890	176,739	(21,308)	184,321
Facilities	254,104	104,456	(1,050)	357,510	244,157	96,493	(1,332)	339,318
Insurance	86,645	72,831	(43,692)	115,784	77,660	103,258	(76,837)	104,081
	9,185,498	2,372,730	(489,904)	11,068,324	8,391,254	2,246,678	(507,588)	10,130,344
Operating income (loss) before interest, depreciation, and amortization expenses	771,492	(53,940)	(75)	717,477	715,332	(96,644)	(75)	618,613
Interest	108,016	26,076	-	134,092	104,069	25,852	-	129,921
Depreciation and amortization	326,645	117,906	(75)	444,476	384,558	108,195	(75)	492,678
Operating income (loss)	336,831	(197,922)	-	138,909	226,705	(230,691)	-	(3,986)
Nonoperating gains and losses								
Investment return	632,417	126,280	-	758,697	307,723	44,231	-	351,954
Derivative gains (losses)	6,017	(161)	-	5,856	19,021	(523)	-	18,498
Other, net	(8,252)	189	-	(8,063)	(14,184)	972	-	(13,212)
Net nonoperating gains and losses	630,182	126,308	-	756,490	312,560	44,680	-	357,240
Excess (deficiency) of revenues over expenses	967,013	(71,614)	-	895,399	539,265	(186,011)	-	353,254

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, 2024				Nine Months Ended September 30, 2023			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated
Changes in net assets without donor restrictions:								
Excess (deficiency) of revenues over expenses	$ 967,013	$ (71,614)	$ -	$ 895,399	$ 539,265	$ (186,011)	$ -	$ 353,254
Donated capital	76	-	-	76	49	16	-	65
Net assets released from restriction for capital purposes	28,088	3,217	-	31,305	7,819	1,506	-	9,325
Retirement benefits adjustment	(1,776)	(599)	-	(2,375)	(1,776)	(599)	-	(2,375)
Foreign currency translation	-	2,806	-	2,806	-	2,811	-	2,811
Other	(136,244)	135,472	-	(772)	(134,504)	134,252	-	(252)
Increase (decrease) in net assets without donor restrictions	857,157	69,282	-	926,439	410,853	(48,025)	-	362,828
Changes in net assets with donor restrictions:								
Gifts and bequests	131,164	19,952	-	151,116	59,028	23,226	-	82,254
Net investment income	70,419	4,840	-	75,259	38,908	2,642	-	41,550
Net assets released from restrictions used for operations included in other unrestricted revenues	(94,918)	(11,799)	-	(106,717)	(84,496)	(24,866)	-	(109,362)
Net assets released from restriction for capital purposes	(28,088)	(3,217)	-	(31,305)	(7,819)	(1,506)	-	(9,325)
Change in interests in foundations	1,018	-	-	1,018	(1,233)	-	-	(1,233)
Change in value of perpetual trusts	1,766	1,457	-	3,223	(971)	1,052	-	81
Other	2,218	(118)	-	2,100	626	(326)	-	300
Increase in net assets with donor restrictions	83,579	11,115	-	94,694	4,043	222	-	4,265
Increase (decrease) in net assets	940,736	80,397	-	1,021,133	414,896	(47,803)	-	367,093
Net assets at beginning of year	13,470,789	2,254,151	(52,680)	15,672,260	12,606,758	2,076,018	(24,680)	14,658,096
Net assets at end of period	$ 14,411,525	$ 2,334,548	$ (52,680)	$ 16,693,393	$ 13,021,654	$ 2,028,215	$ (24,680)	$ 15,025,189

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, 2024				Nine Months Ended September 30, 2023			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated
Operating activities and net nonoperating gains and losses								
Increase (decrease) in total net assets	$ 940,736	$ 80,397	$ -	$ 1,021,133	$ 414,896	$ (47,803)	$ -	$ 367,093
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities and net nonoperating gains and losses:								
Loss on extinguishment of debt	414	-	-	414	-	-	-	-
Retirement benefits adjustment	1,776	599	-	2,375	1,776	599	-	2,375
Net realized and unrealized gains on investments	(759,448)	(120,102)	-	(879,550)	(320,812)	(37,731)	-	(358,543)
Depreciation and amortization	326,645	114,120	(75)	440,690	384,558	104,508	(75)	488,991
Foreign currency translation gain	-	(2,806)	-	(2,806)	-	(2,811)	-	(2,811)
Donated capital	(76)	-	-	(76)	(49)	(16)	-	(65)
Restricted gifts, bequests, investment income, and other	(204,367)	(26,249)	-	(230,616)	(95,732)	(26,920)	-	(122,652)
Transfers to (from) affiliates	136,246	(136,246)	-	-	134,508	(134,508)	-	-
Accreted interest and amortization of bond premiums	(7,363)	134	-	(7,229)	(5,580)	128	-	(5,452)
Net gain in value of derivatives	(5,117)	-	-	(5,117)	(19,022)	-	-	(19,022)
Changes in operating assets and liabilities:								
Patient receivables	(72,957)	15,361	40,136	(17,460)	(139,857)	(49,447)	(7,203)	(196,507)
Other current assets	(58,269)	(40,185)	47,411	(51,043)	(93,708)	(119,895)	98,212	(115,391)
Other noncurrent assets	(101,679)	11,450	421	(89,808)	(81,984)	(14,206)	288	(95,902)
Accounts payable and other current liabilities	77,196	(4,994)	(73,419)	(1,217)	(124,752)	(12,394)	(59,218)	(196,364)
Other liabilities	176,845	(39,419)	(14,129)	123,297	49,633	60,023	(31,791)	77,865
Net cash provided by (used in) operating activities and net nonoperating gains and losses	450,582	(147,940)	345	302,987	103,875	(280,473)	213	(176,385)
Financing activities								
Proceeds from short-term borrowings	-	-	-	-	65,170	-	-	65,170
Payments on short-term borrowings	-	-	-	-	(65,170)	-	-	(65,170)
Proceeds from long-term borrowings	503,218	345	(345)	503,218	300,000	213	(213)	300,000
Payments for advance refunding of long-term debt	(300,000)	-	-	(300,000)	-	-	-	-
Principal payments on long-term debt	(92,936)	(6,603)	-	(99,539)	(115,531)	(6,119)	-	(121,650)
Debt issuance costs	(3,318)	-	-	(3,318)	(279)	-	-	(279)
Change in pledges receivable, trusts and interests in foundations	37,406	(4,730)	-	32,676	46,705	8,222	-	54,927
Restricted gifts, bequests, investment income, and other	204,367	26,249	-	230,616	95,732	26,920	-	122,652
Net cash provided by financing activities	348,737	15,261	(345)	363,653	326,627	29,236	(213)	355,650
Investing activities								
Expenditures for property, plant and equipment	(598,559)	(90,062)	-	(688,621)	(472,968)	(86,093)	-	(559,061)
Proceeds from sale of property, plant and equipment	11,410	-		11,410	11,890	-		11,890
Net change in cash equivalents reported in long-term investments	(384,902)	(10,436)	-	(395,338)	(126,083)	(117,232)	-	(243,315)
Purchases of investments	(3,802,720)	(469,231)	-	(4,271,951)	(2,883,243)	(314,584)	-	(3,197,827)
Sales of investments	4,118,497	520,210	-	4,638,707	3,015,004	369,437	-	3,384,441
Transfers (to) from affiliates	(136,246)	136,246	-	-	(134,508)	134,508	-	-
Net cash (used in) provided by investing activities	(792,520)	86,727	-	(705,793)	(589,908)	(13,964)	-	(603,872)
Effect of exchange rate changes on cash	-	2,023		2,023	-	2,059		2,059
Incease (decrease) in cash and cash equivalents	6,799	(43,929)	-	(37,130)	(159,406)	(263,142)	-	(422,548)
Cash, cash equivalents and restricted cash at beginning of year	658,473	45,243	-	703,716	552,573	315,772	-	868,345
Cash, cash equivalents and restricted cash at end of period	$ 665,272	$ 1,314	$ -	$ 666,586	$ 393,167	$ 52,630	$ -	$ 445,797

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 System:

	Year Ended December 31			YTD September 30	
	2021	2022	2023	2023	2024
Total Staffed Beds[1]	5,128	5,328	5,343	5,433	5,343
Percent Occupancy[1]	75.2%	73.8%	76.3%	76.6%	77.9%
Inpatient Admissions[1]					
Acute	237,312	234,693	254,329	189,026	196,447
Post-acute	10,955	9,856	9,596	7,230	7,149
Total	248,267	244,549	263,925	196,256	203,596
Patient Days[1]					
Acute	1,273,381	1,255,688	1,298,450	941,291	962,064
Post-acute	89,215	81,399	81,284	58,929	57,795
Total	1,362,596	1,337,087	1,379,734	1,000,220	1,019,859
Average Length of Stay					
Acute	5.24	5.22	4.98	5.01	4.91
Post-acute	7.89	8.04	8.18	8.17	8.11
Surgical Facility Cases					
Inpatient	70,672	72,673	77,281	57,964	60,960
Outpatient	198,164	208,204	223,799	172,194	179,371
Total	268,836	280,877	301,080	230,158	240,331
Emergency Department Visits	904,317	907,491	950,744	706,739	741,645
Outpatient Observations	68,838	68,613	68,761	51,950	53,684
Outpatient Evaluation and Management Visits	6,428,116	6,854,080	7,488,002	5,611,768	5,883,829
Acute Medicare Case Mix Index - Health System	2.01	2.00	1.99	1.98	2.01
Acute Medicare Case Mix Index - Cleveland Clinic	2.89	2.95	2.99	2.97	3.06
Total Acute Patient Case Mix Index - Health System	1.94	1.93	1.91	1.90	1.94
Total Acute Patient Case Mix Index - Cleveland Clinic	2.79	2.84	2.84	2.83	2.92

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

Utilization statistics for Mercy Hospital, which joined the System on February 1, 2021, are included for all periods.

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	
	2021	**2022**	**2023**	**2023**	**2024**
Total Staffed Beds[(1)]	3,931	4,104	4,113	4,209	4,113
Percent Occupancy[(1)]	76.4%	74.9%	77.8%	78.1%	79.7%
Inpatient Admissions[(1)]					
Acute	183,261	181,709	196,383	146,170	150,861
Post-acute	6,490	5,762	5,937	4,472	4,418
Total	189,751	187,471	202,320	150,642	155,279
Patient Days[(1)]					
Acute	1,003,388	989,958	1,034,500	748,628	762,421
Post-acute	54,152	48,716	52,486	38,164	37,972
Total	1,057,540	1,038,674	1,086,986	786,792	800,393
Surgical Facility Cases					
Inpatient	57,834	59,384	62,618	47,036	49,006
Outpatient	158,659	166,565	181,326	140,374	146,693
Total	216,493	225,949	243,944	187,410	195,699
Emergency Department Visits	655,244	660,421	697,423	516,482	546,708
Outpatient Observations	51,633	51,084	53,257	39,834	42,100
Outpatient Evaluation and Management Visits	5,105,519	5,447,629	5,952,816	4,453,700	4,672,923
Acute Medicare Case Mix Index	2.05	2.05	2.04	2.04	2.07
Total Acute Patient Case Mix Index	1.99	1.98	1.97	1.96	2.00

(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 System and Obligated Group as a whole:

CLEVELAND CLINIC HEALTH SYSTEM
Based on Gross Patient Service Revenue

	Year Ended December 31			YTD September 30	
	2021	2022	2023	2023	2024
Payor					
Managed Care and Commercial	34%	34%	34%	33%	34%
Medicare	50%	51%	51%	51%	51%
Medicaid	14%	13%	13%	13%	12%
Self-Pay & Other	2%	2%	2%	3%	3%
Total	100%	100%	100%	100%	100%

OBLIGATED GROUP
Based on Gross Patient Service Revenue

	Year Ended December 31			YTD September 30	
	2021	2022	2023	2023	2024
Payor					
Managed Care and Commercial	35%	37%	37%	36%	37%
Medicare	49%	48%	49%	49%	49%
Medicaid	14%	13%	12%	13%	12%
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	
	2021	**2022**	**2023**	**2023**	**2024**
External Grants Earned					
Federal Sources	$ 116,049	$ 161,270	$ 157,489	$ 120,122	$ 125,237
Non-Federal Sources	129,010	138,925	145,922	107,509	127,393
Total	245,059	300,195	303,411	227,631	252,630
Internal Support	70,384	77,569	100,549	74,334	78,849
Total Sources of Support	$ 315,443	$ 377,764	$ 403,960	$ 301,965	$ 331,479

Debt Service Coverage

($ in thousands)

The following table provides the Obligated Group's income available to pay maximum annual debt service of the Obligated group:

	Year Ended December 31			YTD September 30	
	2021	2022	2023	2023	2024
Excess (deficiency) of revenues over expenses	$ 2,124,095	$ (760,743)	$ 1,127,365	$ 862,422	$ 1,555,113
Plus depreciation, amortization and interest	615,018	613,647	569,116	641,850	515,150
(Less) plus (increase) decrease in unrealized net (gains) losses on investments and earnings on alternative investments	(975,106)	947,024	(729,756)	(449,323)	(1,138,614)
Less increase in fair value of derivative instruments	(42,395)	(84,336)	(1,815)	(22,871)	12,090
Actuarial gains and losses related to pension plans, gains and losses resulting from changes in foreign currency exchange rates and other	(25,715)	89,857	29,269	69,859	22,833
Less gain on extinguishment of debt	(19,312)	-	-	-	-
Funds available for debt service	$ 1,676,585	$ 805,449	$ 994,179	$ 1,101,937	$ 966,572
Maximum annual debt service**	$ 240,096	$ 237,645	$ 262,828	$ 260,066	$ 276,421
Maximum annual debt service coverage (x)	6.98	3.39	3.78	4.24	3.50

NOTES:
Calculated using 12-month rolling income statement

*** Maximum annual debt service is calculated based on the master trust indenture*

Other Key Ratios

The following table provides selected key ratios for the System:

	Year Ended December 31			YTD September 30	
	2021	**2022**	**2023**	**2023**	**2024**
Liquidity ratios					
Days of cash on hand	431	334	316	308	315
Days of revenue in accounts receivable	48	50	53	55	51
Coverage ratios					
Cash to debt (%)	251.7	228.8	228.3	218.4	234.0
Interest expense coverage (x)	11.9	3.9	4.8	5.8	4.9
Leverage ratios					
Debt to cash flow (x)	3.0	8.5	6.2	5.3	6.2
Debt to capitalization (%)	27.0	28.1	27.5	28.3	26.9
Debt to revenue (%)	42.0	38.8	36.3	36.6	35.1
Profitability ratios					
Operating margin (%)	6.0	(1.6)	0.4	(0.0)	1.2
Operating cash flow margin (%)	11.9	4.3	5.5	5.8	6.1
Excess margin (%)	15.9	(10.4)	5.9	3.2	7.1
Return on assets (%)	9.1	(5.4)	3.7	2.0	4.6

NOTES:

Liquidity, coverage and leverage ratios are calculated using a 12-month rolling income statement.

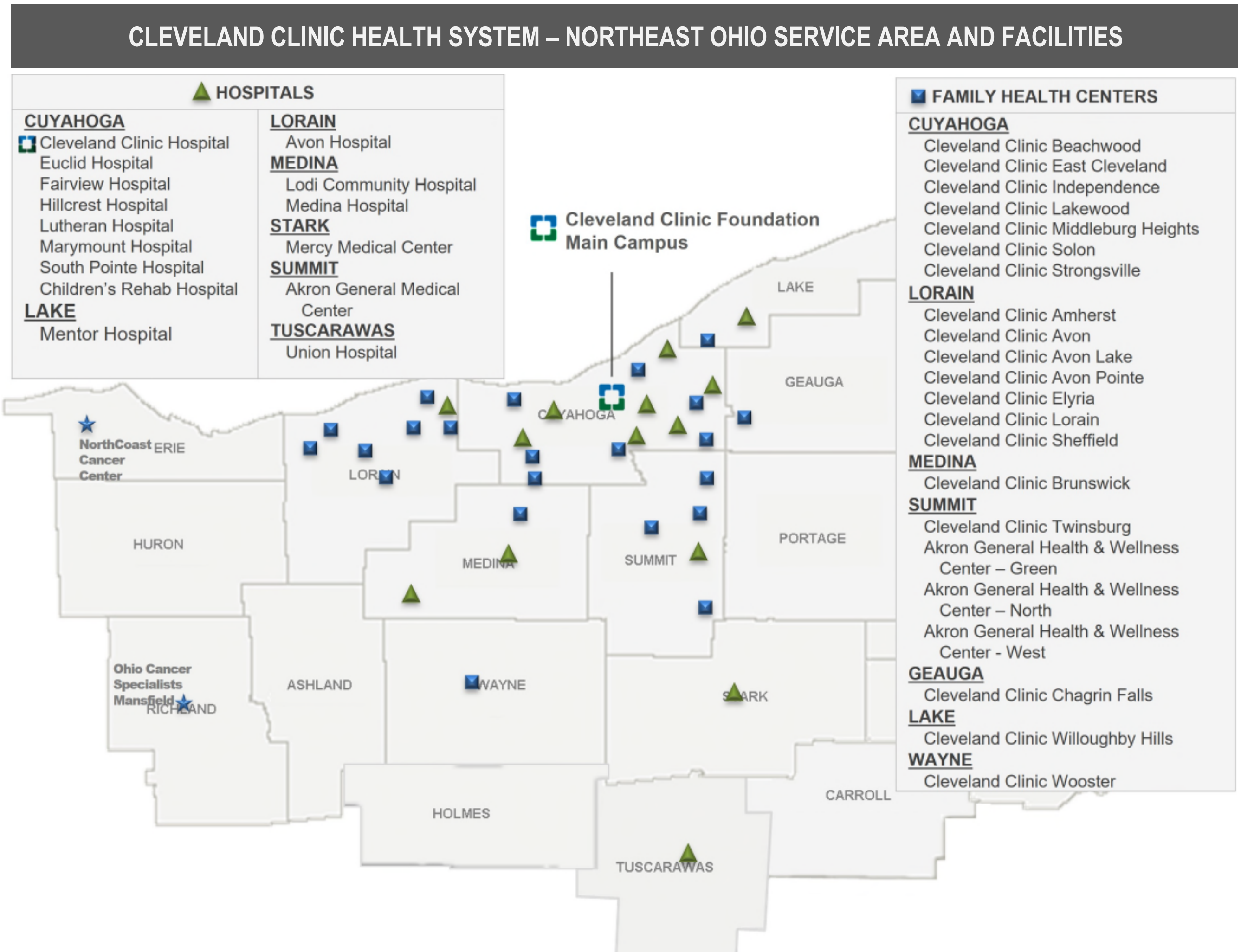
Certain prior period ratios have been restated to conform to the current presentation.

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 132 other countries in 2023. As of September 30, 2024, the System operates 21 hospitals with approximately 5,500 staffed beds and is the leading provider of healthcare services in Northeast Ohio. Fifteen of the hospitals are operated in the Northeast Ohio area, anchored by The Cleveland Clinic Foundation (Clinic). The System also operates 22 outpatient family health centers, nine ambulatory surgery centers, numerous physician offices located throughout Northeast Ohio, and specialized cancer centers in Sandusky and Mansfield, Ohio. In Southeast Florida, the System operates five hospitals, including an academic medical center in Weston, 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 the United Kingdom, the System operates a hospital and two outpatient facilities in the central London area. 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 a range of complex quaternary and general acute care services that is part of M42 Health's network of healthcare facilities located in Abu Dhabi, United Arab Emirates with approximately 364 staffed beds.

Cleveland Clinic Akron General Lodi Hospital
Lodi, OH

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, 2024:

	Staffed Beds
OBLIGATED	
Cleveland Clinic	1,273
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
Mentor Hospital	34
South Pointe Hospital	172
Tradition Hospital	177
Weston Hospital	258
	4,113
NON-OBLIGATED	
Akron General Medical Center	485
Children's Rehabilitation Hospital	25
Indian River Hospital	275
Lodi Hospital	20
London Hospital	184
Mercy Hospital	323
Union Hospital	102
	1,414
HEALTH SYSTEM	5,527

AWARDS & RECOGNITION

The Clinic was named by *U.S. News and World Report* to the Honor Roll in its 2024-2025 edition of "America's Best Hospitals." The Honor Roll recognizes 20 top-performing hospitals based on their rankings in various specialties and procedures. 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 30 consecutive years. The Clinic was nationally ranked in 14 specialties, including eight in the top ten nationwide. The following table summarizes the Clinic's national rankings by medical specialty:

2024-25 U.S. NEWS & WORLD REPORT RANKINGS

Ranked No. 1	
Cardiology, Heart & Vascular Surgery	1st
In America's Top 10	
Rheumatology	2nd
Gastroenterology & GI Surgery	3rd
Obstetrics & Gynecology	4th
Urology	5th
Geriatrics	6th
Ophthalmology	9th
Pulmonology & Lung Surgery	9th

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 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 seventh in Ohio. Akron General Medical Center, located in Summit County, was ranked first in the Akron metropolitan area and fifth (tie) in the State of Ohio. In Florida, Weston Hospital was ranked first in the Miami-Fort Lauderdale metro area and sixth (tie) in the State of Florida; Martin Health was ranked 15th (tie) in the State of Florida; and Indian River Hospital was ranked 22nd in the State of Florida.

Cleveland Clinic Children's Hospital located on the Clinic's main campus earned national recognition in ten out of ten pediatric specialties ranked by *U.S. News and World Report* in its 2024-2025 edition of "Best Children's Hospitals." For 16 consecutive years, the Cleveland Clinic Children's Hospital has ranked among the nation's top 50 pediatric hospitals. Regionally, Cleveland Clinic Children's Hospital has also been ranked as the third best (tie) pediatric hospital in the Midwest and the third best (tie) in Ohio.

In February 2024, the Clinic was named the second-best hospital in the world for the sixth consecutive year by *Newsweek* as part of its "World's Best Hospitals 2024" list. *Newsweek* partnered with global research data company Statista to rank the leading hospitals in 30 countries. According to *Newsweek,* its rankings are based on four data sources: online surveys of more than 80,000 medical experts from around the world; results from publicly available patient experience surveys; hospital quality metrics; and patient reported outcome measures. Fairview Hospital and Cleveland Clinic Abu Dhabi were also ranked in the top 250 hospitals internationally, and the System had four other hospitals listed among the best hospitals in the U.S.

In September 2024, the Clinic was recognized among the top hospitals in the world in *Newsweek's* "World's Best Specialized Hospitals of 2025." The Clinic was ranked as the number one hospital in the world for urologic care and among the world's best in all twelve specialties rated by *Newsweek*. In addition to urology, ranked specialties include cardiac surgery, cardiology, endocrinology, gastroenterology, neurology, neurosurgery, obstetrics and gynecology, oncology, orthopedics, pediatrics and pulmonology. Fairview Hospital, Hillcrest Hospital and Weston Hospital were also recognized among the world's best specialized hospitals in at least one specialty.

In *Newsweek's* separate "World's Best Smart Hospitals of 2025" list, the Clinic was ranked as the number one smart hospital in the world. In its rankings, *Newsweek* identified hospitals that implement new medical technologies and fundamentally rethink how patient care is provided using some of the most advanced technologies. The list highlights hospitals that lead in their use of artificial intelligence (AI), robotic surgery, digital imaging, telemedicine, smart buildings, information technology infrastructure and electronic medical records.

Cleveland Clinic Lutheran Hospital
Cleveland, OH

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 four 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 23 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 75 active Trustees, two Professional Staff Trustees, ten Emeritus Directors and six 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:

- Audit and Conflict of Interest
- Board Policy
- Compensation
- Finance
- Governance
- Investment
- Medical Staff Appointment
- Philanthropy
- Technology

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 meet more often. 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. 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 maintains separate boards of trustees for each hospital. The Ohio regional hospital boards meet quarterly and, among other topics, provide local input on quality, patient safety and community health needs.

The System maintains 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. Local boards at Martin Health, Indian River Hospital and Weston Hospital provide input on quality, patient safety and community health needs.

APPOINTMENTS

Tommaso Falcone, MD was appointed as the first Executive Vice President and President, International and Emerging Markets effective April 1, 2024. In this role, Dr. Falcone is responsible for leading and executing the System's strategic initiatives with a focus on both established and emerging markets, including enterprise-wide global patient services, international operations, Cleveland Clinic Canada and Cleveland Clinic Nevada. Dr. Falcone joined the Clinic in 1995 as a staff gynecologist and has since served in many clinical and academic leadership roles. He previously served as the Chief of Staff and Chief Academic Officer at Cleveland Clinic London and was the interim President of Cleveland Clinic London from October 2022 through June 2023.

Jorge Guzman, MD was appointed Executive Vice President and President of the Northeast Ohio Market effective July 1, 2024. Dr. Guzman is responsible for overseeing the leadership for the main campus and all Ohio regional hospitals, family health centers, ambulatory sites and pharmacy. Dr. Guzman joined the Clinic in 2007 and has served in various roles in the U.S. and Abu Dhabi, most recently serving as Chief Executive Officer of Cleveland Clinic Abu Dhabi from 2021 to May 2024.

Georges-Pascal Haber, MD, PhD was appointed Chief Executive Officer of Cleveland Clinic Abu Dhabi effective June 1, 2024. He is leading a workforce of more than 5,300 caregivers, with a focus on strategic growth, innovation and excellence in high-acuity care. Dr. Haber has been with the Clinic for nearly 20 years and most recently served as Chair of the Glickman Urological Institute, Enterprise Chair of Urology and Professor of Surgery.

Deborah Gordon, JD was appointed Executive Vice President and Chief Legal Officer, effective June 1, 2024. Ms. Gordon leads the System's legal, compliance, enterprise risk and government relations teams. She has more than 25 years of varied experience and most recently served as the Executive Vice President, Chief Administration Officer and Chief Legal Officer for Memorial Hermann Health System in Houston, Texas. Ms. Gordon succeeds David Rowan, who retired effective June 1, 2024. Mr. Rowan continues to serve as a senior advisor on international matters.

Lisa Yerian, MD was appointed Executive Vice President and Chief Clinical and Operational Improvement Officer effective April 15, 2024. In her new role, she is responsible for building an improvement culture and driving strategic improvements in safety, quality, patient experience, continuous improvement and patient access throughout the System. Dr. Yerian joined the System in Anatomic Pathology in 2004 and most recently served as the interim Chief Clinical Transformation Officer from July 2023 to April 2024.

Ben Shahshahani, PhD was appointed Vice President, Chief Artificial Intelligence Officer, effective August 12, 2024. In this newly created role, Dr. Shahshahani leads development and execution of an enterprise AI strategy, focusing on opportunities where AI can help transform patient care, caregiver experience and organizational efficiencies, while ensuring that the use of AI is done safely and adheres to industry regulations, ethical considerations and data security best practices. Dr. Shahshahani, a technology executive with more than 20 years of experience in AI and machine learning, most recently served as Sr. Vice President of Science, Machine Learning and Product Analytics at SiriusXM and Pandora from 2021 to July 2024.

Sarah Hatchett was named Senior Vice President, Chief Information Officer, effective May 16, 2024. Ms. Hatchett served as the interim Chief Information Officer since August 2023 and has been with the System for seven years. She has more than 20 years of experience in information technology and healthcare leadership, having worked at NYC Health + Hospitals, Sutter Health and Epic before joining the System.

Lindsey Amerine, PharmD, was named Chief Pharmacy Officer, effective February 26, 2024. Dr. Amerine oversees enterprise pharmacy initiatives, which encompasses over 1,500 pharmacy caregivers in Ohio and Florida. She has held various healthcare pharmacy leadership positions throughout her career and most recently served as the Interim Chief Pharmacy Officer and Vice President of Pharmacy for UNC Health.

STRATEGY

The Clinic's mission statement, updated in 2021 as the Clinic celebrated its centennial year, is as follows:

Caring for life
Researching for health
Educating those who serve

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

The Clinic's Professional Staff is organized as an integrated academic group of practicing physicians, scientists and other health-related professionals. It is a unique model that continues to be conducive to the achievement of excellence in the delivery of health care services. The System's commitment to excellence, its integrated, academic group practice approach to the delivery of health care services and its commitment to the guiding principles established by its founders — namely, cooperation, compassion and innovation — enable the System to continue to attract and retain world-class physicians in all specialty areas, who deliver world-class health care services to patients from throughout the world.

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.

As the System celebrated its centennial year in 2021, the executive team began to review the strategy needed for the System to remain a leader in healthcare for the next 100 years and made the decision to evolve its operating model to better support its current footprint and plan for future growth. The operating model changes aim to better align services and enhance quality, safety and patient experience across all System locations. In addition to enabling greater clarity and execution of strategy, it is the goal of the new operating model to create organizational synergies and efficiencies that will be needed in a challenging operating environment.

In 2023, under the new operating model, the System adopted a new enterprise planning approach to meet the challenges in a post pandemic world. The strategy emerging from this process guides the organization through these times and positions the System to not only succeed, but to lead. Through this strategy, the System will strive to guide the evolution of healthcare to be:

- More accessible and affordable,
- Continuous throughout a patient's life and customizable to individuals,
- Provided in the right setting for each patient to achieve the best outcome,
- Delivered by care teams with more diverse roles and skills, and
- Enabled by digital tools and new technologies.

The System works to achieve the mission and fulfill the vision by working as a team of teams guided by newly created strategic focus areas.

The strategy of the System is organized around four focus areas:

Transform Care	Providing care that is consistent, continuous and customized.
Empower Caregivers	Ensuring a work environment that is safe, rewarding and team-based.
Uplift Communities	Focusing on prevention and solutions.
Sustain Cleveland Clinic	Controlling costs to allow for sustainable growth.

The strategic focus areas are aligned with the four care priorities and the path to achieve the mission and fulfill the vision. Each focus area has multi-year strategic initiatives with various goals and tactics.

Overall, 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 providing value to the patient. The System is committed to a path that responds to the changing healthcare environment and develops novel approaches that preserve excellence in care.

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 March 2021, the Clinic and International Business Machines Corporation (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. As part of the collaboration, IBM installed its first private sector, on-premises IBM Quantum System One in the United States on the Clinic's main campus. The Quantum System One, IBM's commercial quantum computer, went online in the first quarter of 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 and serve as the foundation of a new quantum ecosystem for life sciences, focused on advancing quantum skills and the mission of the center.

In February 2024, the System announced that it is joining the AI Alliance, a group launched by IBM and Meta that is dedicated to artificial intelligence innovation. The AI Alliance is focused on creating an open research environment between different companies and will also work to develop benchmarks and evaluation standards for artificial intelligence safety.

In June 2024, the Clinic and IBM announced they are collaborating with the Hartree Centre, a high-performing computing data analytics and AI firm based in the United Kingdom. The project is integrating both AI and quantum computing with a goal of using advanced computing to progress life sciences and healthcare. Two projects are currently planned. In one, Cleveland Clinic London and Hartree Centre will employ AI to track patient treatments and outcomes and analyze how their quality of life has been impacted by care at the hospital. In the other, the collaboration will use quantum computing to predict the surgical response of epilepsy patients and uncover biomarkers that could help in their treatment.

In October 2024, the Clinic and the Cleveland Cavaliers, partnering with Bedrock real estate broke ground on the Cleveland Clinic Global Peak Performance Center – an innovative sports performance center and training facility. Plans include the development of an interdisciplinary training center, which will be located on the Cuyahoga Riverfront in downtown Cleveland. The Center, which is expected to open in 2027, plans to offer personalized expertise in training, treatment, nutrition and recovery from the Clinic's professional medical specialists.

In October 2024, the Clinic and Amazon One Medical announced a collaboration to expand access to high-quality coordinated care in the Cleveland area. Amazon One Medical, a hybrid virtual and in-person primary care organization, will open its first primary care office in affiliation with the Clinic in 2025, offering same and next-day appointment availability, onsite lab services and virtual care support for members. The Clinic and Amazon One Medical will determine where to open new facilities to meet patient needs over the next several years. This new relationship will ensure that patients have increased access to coordinated care through Amazon One Medical's innovative care model and the Clinic's network of specialists, hospitals and facilities.

CLEVELAND INNOVATION DISTRICT

The Cleveland Innovation District (District) is designed to leverage talent and research across multiple clinical and academic institutions to drive the next generation of healthcare technology. It includes 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.

Included in the District is the Clinic's Sheikha Fatima bint Mubarak Global Center for Pathogen and Human Health Research (Global Pathogen Research Center), which will be located in new or renovated research facilities on the Clinic's main campus. 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 Pathogen Research Center. The Global Pathogen Research Center allows the Health System 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.

In October 2021, the Clinic and Brooks Automation opened a 22,000 square-foot biorepository facility in the District that increased and centralized 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.

In November 2023, the Clinic and Canon Inc. announced intentions to form a strategic research partnership to develop innovative imaging and healthcare technologies aimed at improving diagnosis, care and outcomes for patients. Joint research projects will focus on cardiology, neurology and musculoskeletal medicine and will have three major components – pre-clinical imaging, human imaging and image analysis. The comprehensive imaging research center is expected to be located in the District.

In January 2024, the grocery store company Meijer, along with the City of Cleveland, the Clinic, Fairfax Renaissance Development Corporation (FRDC) and Fairmount Properties, opened a mixed-use building in the Fairfax neighborhood of Cleveland near the main campus in the District. The building includes 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.

CLEVELAND CLINIC INNOVATIONS

Cleveland Clinic Innovations (CCI) encompasses commercial innovation, start-up company investments, licensing and healthcare technology partnership opportunities for the System. CCI moves the System toward its vision of being the best place to receive and partner for care by focusing on novel solutions that seek better and more efficient methods to achieve healthcare goals.

CCI identifies, assesses and commercializes transformative solutions. 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 over 880 technology licenses, has had over 2,800 patents issued and contributed to several of the System's historical advancements.

A dedicated team within CCI focuses on investing in companies that align with organizational priorities and address healthcare white space opportunities to resolve pressing medical problems. The team transforms strategic licensed and patented solutions developed at the System into investible, stand-alone companies. Since 2000, CCI has formed a total of 107 spin-off companies, 43 of which are currently operational and 28 of which have been monetized.

EXPANSION AND IMPROVEMENT PROJECTS

The System is investing in buildings, equipment and technology to better serve its patients and has the following expansion and improvement projects currently in progress:

Neurological Institute Building – The Clinic is in the midst of a multi-year project to build a new Neurological Institute building on its main campus to accommodate the expansion of patient care, research and education. The new approximately 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 began in 2023, and the new facility is scheduled to open in the first quarter of 2027. 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 investigation and discovery of 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 Building Expansion – The Clinic is in the midst of a multi-year project, which began in 2022, to expand and renovate the Cole Eye building on its main campus to accommodate the expansion of patient care, research and education. The new addition will add approximately 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. The new addition is expected to open in the first quarter of 2025 and the renovation of the existing building is expected to be complete in the fourth quarter of 2025. A portion of the construction costs are expected to be raised through fundraising efforts and donations.

Cleveland Innovation District –The initial phase of the District project opened in September 2023 and includes approximately 45,000 square feet of remodeled space in existing research facilities to house leading-edge laboratories for many of the Clinic's growing research programs. The Clinic is also constructing two new research buildings totaling approximately 296,000 square feet on the Clinic's main campus. The new buildings, which are expected to be completed in 2026, will be dedicated to scientific investigation and will feature research laboratories, dedicated classroom space and offices. For additional description of the District, associated partnerships and related projects refer to "CLEVELAND INNOVATION DISTRICT."

INTERNATIONAL GROWTH

Cleveland Clinic London Hospital (London Hospital) opened on March 29, 2022. London Hospital has 184 beds, including 29 ICU beds, eight operating theaters and a 42-bed neurological rehabilitation unit. It provides comprehensive medical and surgical services with a special focus on cardiovascular, digestive, neurological and orthopedic care utilizing the latest technology. The hospital is located in central London with two outpatient facilities located near the hospital. Portland Place Outpatient Centre opened in September 2021, and the Moorgate Outpatient Centre opened in December 2023. The facilities are operated by Cleveland Clinic London Ltd, a private company limited by shares that is incorporated and domiciled in England and Wales. The Clinic through a subsidiary is the sole shareholder of London Hospital.

In addition to the London Hospital, the System's international portfolio includes a health and wellness center and a sports medicine clinic in Toronto, Canada, and management services provided to Cleveland Clinic Abu Dhabi, which operates a multispecialty 364-staffed bed hospital offering critical and acute care services and a ten-story cancer treatment center located adjacent to the hospital tower.

CLEVELAND CLINIC CONNECTED

In 2017, the Clinic launched Cleveland Clinic Connected, a global affiliation program that aims to improve patient care delivery around the world by enabling healthcare providers both in the United States and internationally to access the Clinic's best practices. Facilities affiliated with the Clinic through the 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. Providers at the facilities have the option of consulting on complex cases for second opinions and guidance 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 also supports continuous improvement through the provision of advisory services across a spectrum of clinical and non-clinical areas. In March 2024, the Clinic and Parrish Medical Center, a Parrish Healthcare integrated care partner, announced that Parrish Medical Center has become the first domestic member of Cleveland Clinic Connected. Parrish Medical Center is located on Florida's Space Coast in Brevard County. In January 2024, Vinmec Central Park International Hospital, owned by Vingroup and located in Vietnam, became the second Vinmec Healthcare System hospital to become a member of Cleveland Clinic Connected.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE INITIATIVES

Sustainability Initiatives

Recognizing the link between environmental and human health, the System supports healthy environments for healthy communities by acknowledging its obligation and opportunity to reduce its environmental footprint and minimize the health impacts of climate change. The System has sustainability goals related to energy efficiency, climate resilience, diverting waste to landfill, local and sustainable purchasing, and tree planting. As a national leader in healthcare, the System is in a position to lead by example in the adoption of environmental best practices.

Areas of focus for the System's sustainability initiatives include:

- <u>Energy Efficiency</u>: Using energy efficiently reduces operational expenses and supports the System's climate resilience goal. With support from its 29 facility-level Green Teams, the System actively engages caregivers in stewardship behaviors across the enterprise.

- <u>Waste reduction</u>: The System strives to identify and embed operational processes that reduce waste and implement programs that divert waste to landfill via reusing, reprocessing, recycling and composting.

- <u>Better Buying</u>: The System is committed to selecting non-hazardous and environmentally-preferable alternatives to conventional products, seeking out ways to stop waste at its source and engaging its suppliers in sustainable practices.

The System's energy program is designed to enhance the patient experience while reducing operating expenses. The System met its previous goal of becoming 20% more energy efficient by 2020 from a 2010 baseline on more than 20 million square feet of facilities. 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.

The System is committed to designing and constructing safe, green buildings in which to work and heal and has incorporated green building practices from leading frameworks in its design guidelines, such as the U.S. Green Building Council's Leadership in Energy and Environmental Design (LEED) criteria. Currently, the System has 19 LEED-certified buildings covering more than six million square feet, including seven projects that are certified LEED-Gold: the Clinic's Global Cardiovascular Innovation Center, Marymount Hospital Surgical Expansion, Twinsburg Family Health and Surgery Center, the Tomsich Pathology Laboratories building, the Sheila and Eric Samson Pavilion at Health Education Campus, Cleveland Clinic Abu Dhabi and the Oncology Centre at Abu Dhabi. The System is currently pursuing LEED certifications for the London Hospital and Mentor Hospital.

In 2024, the Clinic, ten regional hospitals and nine family health centers received Practice Greenhealth Environmental Excellence Awards. Launched in 2002, the awards program recognizes healthcare facilities and health systems for their commitment to environmental stewardship and their sustainability achievements.

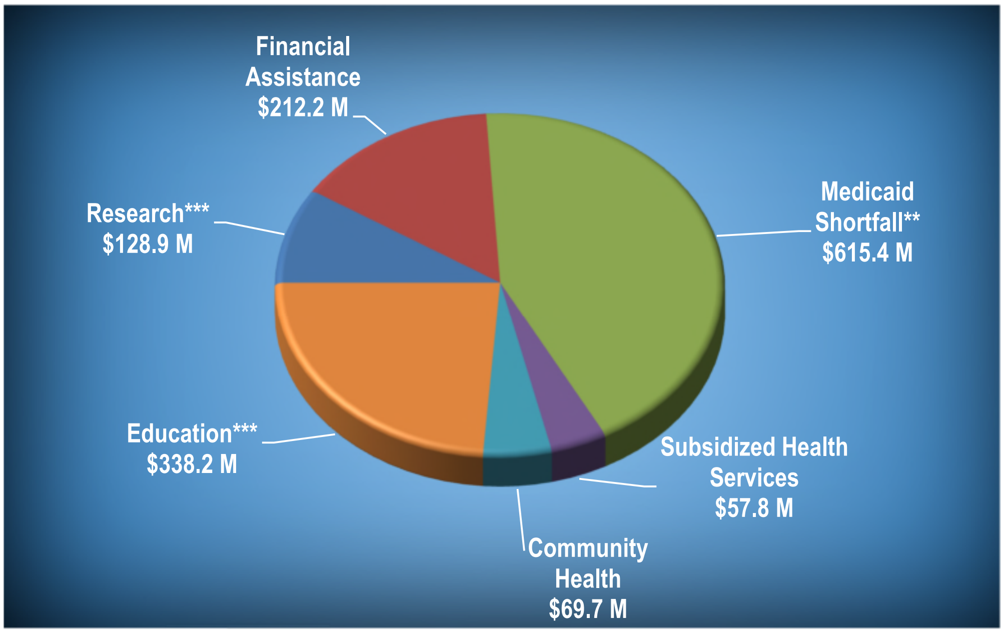
Community Benefit

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. The System provided $1.42 billion in community benefits in 2022, which is the most current year that community benefit information is available for the System. The full community benefit report and additional community information are available on the Health System's website (https://my.clevelandclinic.org/about/community/reports/benefit).

The following chart summarizes community benefits for the System:

Cleveland Clinic Health System*
Breakdown of Community Benefit (2022)
$1.42 Billion



* Includes all System operations in Ohio, Nevada and Florida

** Includes net Hospital Care Assurance Program receipts of $6.7 million

*** Research and Education are reported net of externally sponsored funding of $231.7 million.

Community Health Needs Assessment

The System completes comprehensive community health needs assessments (CHNA) and implementation strategy reports once every three years for each hospital facility in adherence with Internal Revenue Code Section 501(r). To gain an in-depth understanding of the community risk indicators, data from a number of sources is analyzed, and input from persons representing broad interest of the community, including those with special knowledge or expertise in public health, is solicited.

Key CHNA needs identified throughout the System include:

- access to affordable healthcare (available services, internet access);
- behavioral health (substance use disorder and mental health);
- chronic disease prevention and management (heart disease, cancer, diabetes, asthma, obesity);
- maternal and infant mortality;
- socioeconomic issues (food insecurity, affordable and safe housing); and
- additional overarching community themes of health equity and medical research and professional health education.

The current CHNA reports and implementation strategies for the System hospitals are available on the Clinic's website (www.clevelandclinic.org/CHNAReports).

Social Impact

The System is uniquely positioned to play an active role in building equitable and sustainable local economies. The System is committed to improve community health and well-being by more intentionally leveraging assets, including hiring, purchasing and investing for equitable, local economic and social impact. The System's investment in the community includes partnering with other community organizations to impact the surrounding areas in which it is invested, ensuring the community organizations continue to thrive.

Addressing Hunger in Greater Cleveland

In December 2023, in collaboration with the City of Cleveland, Greater Cleveland Food Bank, University Hospitals Health System and The MetroHealth System, the Clinic announced a commitment to donate $10.4 million over the next five years toward new programs that will help address food insecurity in Greater Cleveland communities. The Clinic's commitment will also be used to support local food partners, including donations to Greater Cleveland Food Bank and Children's Hunger Alliance and a grant to the Nourishing Power Network.

Employment

Employment is a major social determinant of health. As the largest employer in many of its communities, the System has made hiring one of its goals, and it is intentional about who it recruits and develops. The System's "Hire" strategy is a workforce pipeline that begins with career exploration in local middle schools and provides internships for high school students. Cleveland Clinic's Worldwide Classroom® engages middle and high school students in topical explorations of health issues as well as health science and medicine career opportunities. Each connected learning experience includes interactive exchanges with health care professionals that are designed to influence and encourage students to make healthy life choices and to explore health science and medicine career paths.

In partnership with other local health care providers, the System has established a workforce development program to develop a pool of skilled labor for the health care sector and create opportunities for local residents. One example is the ASPIRE Nurse Scholars program, which is a local high school and college program that seeks to increase diversity in health care, address opportunity gaps and reduce health disparities in the community. Up to 50 students per year from Cleveland-area high schools enter the program as high school juniors and are taught relationship-based care, research and evidence-based practice, simulation health care and more. Seniors who choose to return to the program participate in a clinical nursing experience and have the opportunity to earn a scholarship to pursue a Bachelor of Science in Nursing degree from the Breen School of Nursing and Health Professions at Ursuline College. Students work as patient care nursing assistants at the Clinic during the summer after high school graduation and throughout their college career. They also have the opportunity to work at the Clinic as registered nurses after college graduation and licensure. In August 2024, the Clinic received a gift that will allow it to expand the program to allow future students to pursue careers in respiratory therapy, surgical technology and sterile processing.

The Clinic is member of OneTen, a coalition of more than 60 U.S. employers established in 2020 that was formed to train, hire and promote one million Black Americans into family-sustaining jobs with opportunities for advancement over a ten-year period. 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 is on reducing exclusionary hiring practices, identifying robust and new talent sources and ensuring that adequate and equitable career pathways for advancement exist.

Diversity, Equity and Inclusion

The Office of Diversity and Inclusion, created in 2006, makes diversity, equity, inclusion and cultural competence a critical part of the System's mission. In January 2021, the Clinic established the Diversity, Inclusion and Racial Equity Executive Council, which is a diverse leadership advisory team from across the enterprise that helps drive transformational change central to achieving the System's aspiration of building a culture of diversity, equity and inclusion that is free from racism, bias and health disparities. This council supports regional diversity councils and business employee resource groups that work to raise awareness and create opportunities to support caregivers, patients and communities.

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' Audit and Conflict of Interest 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's Enterprise Risk Management (ERM) process is a formalized and systemic approach to the identification, assessment, prioritization and mitigation of risks. The process is closely aligned with the System's strategic objectives and long-range planning. The ERM process includes participation by executive risk owners, risk owners and risk contributors, who report on the System's top risks to an Enterprise Risk Steering Committee on a monthly basis. Additionally, ERM reports to the Executive Team and the Audit and Conflict of Interest Committee of the Board of Directors at least two times per year. Risk identification is continuously conducted through biennial senior leader risk interviews, ERM Steering Committee input and the observations arising out of the business operations and activities of risk owners.

The ERM process results in eight broad top risk categories, which are separated into level two and level three sub-risks for evaluation, analysis and development of mitigation actions. This work is performed by the various risk owners. Risks have traditionally been scored for likelihood and impact. To enhance the risk rating, management is implementing a comprehensive quant-model application to overlay estimated values of top risks from the enterprise risk register onto the long-range (five-year) financial projections of the System. This activity includes risk simulation of the velocity, probability and scale of the unmitigated risks of the System into a risk-adjusted set of financial projections and key results to be used as part of enterprise-wide strategic and financial planning, as well as informing the System of the most impactful risks in order to prioritize risk mitigation efforts.

INTERNAL CONTROL OVER FINANCIAL REPORTING

System management 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 2023, which is the 15th year the management report was completed. As part of the internal control evaluation process for 2023, certifications were completed by 160 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, 2024 that have materially affected, or are likely to materially affect, the internal controls over financial reporting for the System.

Cleveland Clinic Marymount Hospital
Garfield Heights, OH

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			
	2024	2023	Variance	%	2024	2023	Variance	%
Inpatient admissions[1]								
Acute admissions	65,007	63,666	1,341	2.1%	196,447	189,026	7,421	3.9%
Post-acute admissions	2,318	2,456	-138	-5.6%	7,149	7,230	-81	-1.1%
	67,325	66,122	1,203	1.8%	203,596	196,256	7,340	3.7%
Patient days[1]								
Acute patient days	315,040	315,601	-561	-0.2%	962,064	941,291	20,773	2.2%
Post-acute patient days	18,793	20,096	-1,303	-6.5%	57,795	58,929	-1,134	-1.9%
	333,833	335,697	-1,864	-0.6%	1,019,859	1,000,220	19,639	2.0%
Surgical cases								
Inpatient	20,133	19,154	979	5.1%	60,960	57,964	2,996	5.2%
Outpatient	59,147	55,825	3,322	6.0%	179,371	172,194	7,177	4.2%
	79,280	74,979	4,301	5.7%	240,331	230,158	10,173	4.4%
Emergency department visits	249,776	240,729	9,047	3.8%	741,645	706,739	34,906	4.9%
Observations	18,482	17,317	1,165	6.7%	53,684	51,950	1,734	3.3%
Clinic outpatient evaluation and management visits	1,937,221	1,847,724	89,497	4.8%	5,883,829	5,611,768	272,061	4.8%

[1] Excludes newborns

Utilization statistics for London Hospital are excluded from the above table for comparative purposes as the hospital opened in 2022 and continues to ramp-up patient services.

Patient activity in the third quarter of 2024 continues to show strong patient demand for clinical services. The System continues to implement initiatives to expand access to patient care while striving to ensure the safety of patients, caregivers and visitors.

Inpatient acute admissions for the System increased 2.1% in the third quarter of 2024 and 3.9% in the first nine months of 2024 compared to the same periods in 2023. In 2024, acute admissions for the System in Ohio increased 4.9%, while the Florida facilities increased 0.9% compared to the same period in 2023.

Total surgical cases for the System increased 5.7% in the third quarter of 2024 and 4.4% in the first nine months of 2024 compared to the same periods in 2023. In 2024, total surgical cases for the System in Ohio increased 4.8%, while the Florida facilities increased 3.4% compared to the same period in 2023.

Evaluation and management visits for the System increased 4.8% in the second quarter of 2024 and 4.8% in the first nine months of 2024 compared to the same periods in 2023. In 2024, evaluations and management visits for the System in Ohio increased 4.9%, while the Florida facilities increased 4.5% compared to the same period in 2023.

LIQUIDITY

Cash and Investments

The majority of the System's cash and cash equivalents are held in operating bank accounts for general expenditures. The System is continually monitoring its forecasted operating performance and cash position using various scenarios and assumptions to ensure that there is sufficient liquidity to meet the cash needs of the organization.

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 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 Mentor Hospital Mentor, OH

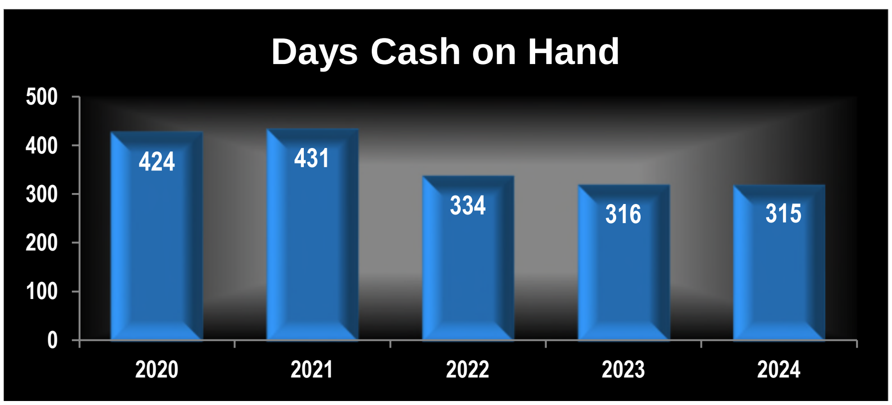
The following table sets forth the allocation of the System's cash and investments in its general investment portfolios and captive insurance fund at September 30, 2024 and December 31, 2023:

Cash and Investments
(Dollars in thousands)

	September 30, 2024		December 31, 2023	
Cash and cash equivalents	$ 1,520,149	10%	$ 1,160,513	9%
Fixed income securities*	2,840,409	19%	3,078,102	22%
Marketable equity securities*	3,138,955	22%	2,709,692	20%
Alternative investments	7,107,235	49%	6,787,479	49%
Total cash and investments	$ 14,606,788	100%	$ 13,735,786	100%
Less restricted investments**	(1,849,179)		(1,724,322)	
Unrestricted cash and investments	$ 12,757,609		$ 12,011,464	
Days cash on hand	315		316	

* 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, 2024:



At September 30, 2024, total cash and investments for the System (including restricted investments) were $14.6 billion, an increase of approximately $871.0 million from $13.7 billion at December 31, 2023. Cash inflows consist of investment gains of $879.6 million, net cash provided by operating activities of $303.0 million, net increases in restricted gifts and income of $263.3 million and proceeds from the issuance of long-term debt (net of refunding and debt issuance costs) of $200.0 million. Cash inflows were offset by net capital expenditures for property, plant and equipment of $677.2 million and principal payments on debt of $99.5 million.

Included in the System's cash and investments are investments held for self-insurance. These investments totaled $275.5 million at September 30, 2024, with an asset mix of 4% cash and short-term investments, 35%

fixed income securities, 30% 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.

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, 2024 and December 31, 2023 consist of the following:

Alternative Investments
(Dollars in thousands)

	September 30, 2024			December 31, 2023		
Hedge funds	$	3,623,882	51%	$	3,498,957	52%
Private equity/venture capital		3,483,353	49%		3,288,522	48%
Total alternative investments	$	7,107,235	100%	$	6,787,479	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

Investment return, including income on alternative investments, is reported as nonoperating gains and losses except for interest and dividends earned on assets held for self-insurance and amounts designated for current operations from board-designated endowment funds, which are included in other unrestricted revenues. Investment return greater or less than amounts designated for current operations from board-designated funds is recorded in nonoperating gains and losses. Donor-restricted investment return on restricted investments is included in net assets with donor restrictions.

In the third quarter of 2024, the System increased the value of a board-designated endowment fund. The increase in the board-designated fund generated an additional $18.8 million in investment return designated for current operations for the third quarter and nine months ended September 30, 2024.

Appropriations from the board-designated endowment fund are used to support research and education activities of the System.

The System's long term investment portfolio, which excludes assets held for self-insurance, reported preliminary investment gains of 7.7% in the first nine months of 2024 compared to gains of 3.8% during the same period in 2023. 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	
	2024	2023	2024	2023
Other unrestricted revenue:				
Interest income and dividends	$ 1,266	$ 1,027	$ 4,028	$ 2,841
Investment return designated for current operations	62,500	43,750	150,000	43,750
	63,766	44,777	154,028	46,591
Nonoperating gains and losses, net:				
Interest income and dividends	45,059	31,242	121,955	92,056
Net realized gains on sales of investments	16,329	42,191	59,969	38,122
Net change in unrealized gains (losses) on investments	219,349	(174,992)	332,827	41,926
Equity method income on alternative investments	130,357	32,943	418,933	247,056
Investment management fees	(8,718)	(8,067)	(24,987)	(23,456)
Investment return designated for current operations	(62,500)	(43,750)	(150,000)	(43,750)
	339,876	(120,433)	758,697	351,954
Other changes in net assets:				
Investment income (loss) on restricted investments	23,960	(4,615)	75,259	41,550
Total investment return	$ 427,602	$ (80,271)	$ 987,984	$ 440,095

Operating Lines of Credit

As of September 30, 2024, the System has three operating lines of credit totaling $600 million with no amounts drawn and $600 million in available capacity. The lines of credit are structured with $150 million expiring on April 4, 2025, $250 million expiring on April 22, 2026 and $200 million expiring on May 29, 2026.

Long-term Debt

At September 30, 2024, outstanding current and long-term debt for the System totaled $5.5 billion, comprised of $5,137 million in bonds and notes, $136.4 million in finance leases and $210.0 million in unamortized net premium, offset by $31.8 million of unamortized debt issuance costs. Bonds and notes are structured with approximately 81% fixed-rate debt and 19% variable-rate debt. The System utilizes various interest rate swap derivative contracts to manage the risk of increased debt service resulting from rising market interest rates on variable-rate bonds. The total notional amount on the System's interest rate swap contracts at September 30, 2024 was $298.3 million. In 2024, the System terminated three fixed payor swaps with a notional amount totaling $169.6 million, including a notional amount of $122.0 million terminated in March and a notional amount of $47.6 million terminated in April. The System did not have a significant gain or loss on the termination of the swaps. Using an interest rate benchmark, the swap 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. On June 9, 2023, the System adhered to the International Swaps and Derivatives Association's IBOR Fallback Protocol, which was effective for the System on July 1, 2023 and incorporates interest rate fallback language in the respective interest rate swap agreements. The fallback provisions provide a process that uses the Secured Overnight Financing Rate (SOFR) plus a spread to determine a replacement rate for LIBOR upon the cessation of its availability. This change did not have a material impact on the consolidated financial statements.

As of September 30, 2024, approximately $594.9 million of variable-rate debt are bonds secured by irrevocable direct pay letters of credit or standby bond purchase agreements. 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.

As of September 30, 2024, the System maintains $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 (described below) 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, 2024, the System did not have any outstanding Series 2014A CP Notes.

In June 2024, pursuant to certain agreements between the System and the State of Ohio (State) acting by and through the Ohio Higher Educational Facility Commission, the State issued $440.4 million of fixed-rate Hospital Revenue Bonds (Series 2024A Bonds), which generated proceeds of $503.2 million for the benefit of the System. Proceeds from the Series 2024A Bonds were used to finance certain capital expenditures of the System, refund the Series 2023 Bonds and to pay the cost of issuance.

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, 2024.

The System through a United Kingdom 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 London. The outstanding 2018 Sterling Notes have been converted to U.S. dollars in the consolidated balance sheet using exchange rates of $1.34 and $1.27 at September 30, 2024 and December 31, 2023, respectively.

Cleveland Clinic Weston Hospital
Weston, FL

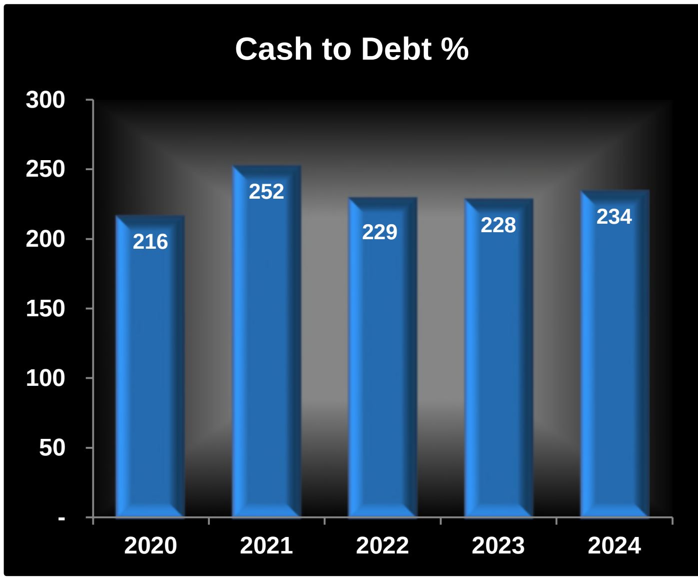
Outstanding long-term debt (including current portion) for the System as of September 30, 2024 and December 31, 2023 consist of the following:

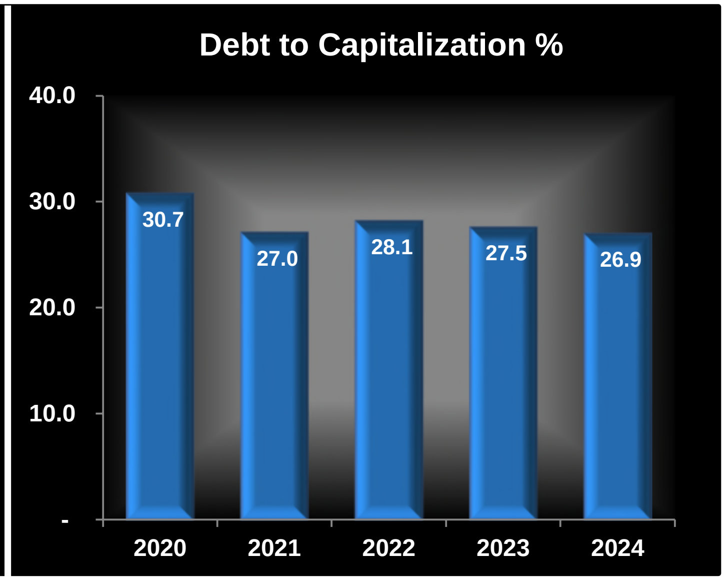
Hospital Revenue Bonds and Notes
(Dollars in thousands)

Series	Type	Final Maturity	September 30 2024	December 31 2023
2024A Bonds	Fixed	2035	$ 440,420	$ –
2023 Bonds	Variable	2054	–	300,000
2021A Bonds	Fixed	2049	83,810	83,810
2021B Bonds	Fixed	2039	179,595	189,185
2021 Term Loan	Fixed	2025	16,460	33,285
2020 Term Loan	Fixed	2025	2,290	2,290
2019A Bonds	Fixed	2046	247,045	247,045
2019B Bonds	Fixed	2046	250,320	250,320
2019C Bonds	Fixed	2052	89,000	89,000
2019D Bonds	Variable	2052	119,340	119,340
2019E Bonds	Variable	2052	130,405	130,405
2019F Bonds	Variable	2052	130,405	130,405
2019G Bonds	Fixed	2042	241,835	241,835
2018 Sterling Notes[1]	Fixed	2068	889,322	846,635
2017A Bonds	Fixed	2043	696,160	721,850
2017B Bonds	Fixed	2043	160,030	161,655
2017C Bonds	Fixed	2032	6,080	6,660
2016 Private Placement	Fixed	2046	325,000	325,000
2014 Taxable Bonds	Fixed	2114	400,000	400,000
2013A Bonds	Fixed	2042	34,955	34,955
2013B Bonds	Variable	2039	201,160	201,160
2013 Keep Memory Alive Bonds	Variable	2037	44,960	47,555
2011B Bonds	Fixed	2031	16,295	18,190
2011C Bonds	Fixed	2032	61,345	78,870
2008B Bonds	Variable	2042	327,575	327,575
2003C Bonds	Variable	2035	41,905	41,905
Notes Payable	Varies	Varies	970	1,187
Finance Leases	Varies	Varies	136,393	104,236
			$ 5,273,075	$ 5,134,353

[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, 2024.





Cleveland Clinic

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 May 2024, 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 very strong and increasingly diverse enterprise profile, growing and diversifying operations in three states and internationally, trend of improving margins, healthy unrestricted reserves and a growing capacity with continued high demand for services. S&P also noted that the System has strong research and philanthropy capabilities as well as a national and international reputation for quality, innovation and integrated services. Challenges to the current rating include weak financial results in the last two fiscal years, Northeast Ohio's unfavorable demographic trends, the System's robust capital spending program and a highly competitive service area in Ohio and Florida.

In May 2024, Moody's affirmed its Aa2 rating on the obligated group's outstanding debt and maintained its stable outlook. Moody's cited various factors to support this rating and outlook, including a national and international reputation in highly complex care and research, a centralized governance model, strong liquidity, strong patient demand and exceptional fundraising abilities. In its report, Moody's indicated that these strengths compensate for challenges such as high labor costs, moderately high debt levels, the ongoing integration and improvement strategies in Florida, weak demographic trends in Northeast Ohio and heavy competition in the Florida market.

CONSOLIDATED RESULTS OF OPERATIONS

For the Quarters Ended September 30, 2024 and 2023

The following narrative describes the consolidated results of operations for the System for the quarters ended September 30, 2024 and 2023.

Operating income for the System in the third quarter of 2024 was $43.4 million, resulting in an operating margin of 1.1%, as compared to an operating loss of $14.9 million and an operating margin of -0.4% in the third quarter of 2023. The higher operating margin was due to a 9.3% increase in operating revenues, which outpaced a 7.7% increase in operating expenses in the third quarter of 2024 compared to the same period in 2023. Nonoperating gains for the System were $331.5 million in the third quarter of 2024 compared to losses of $112.6 million in the third quarter of 2023. The increase from the prior year was primarily due to favorable investment returns in the third quarter of 2024 compared to the same period in 2023. Overall, the System reported an excess of revenues over expenses of $374.8 million in the third quarter of 2024 compared to a deficiency of revenues over expenses of $127.4 million in the third quarter of 2023.

The System's net patient service revenue increased $195.5 million (6.1%) in the third quarter of 2024 compared to the same period in 2023. Patients served were higher in 2024 compared to 2023 as the System continues to experience strong demand for both inpatient and outpatient services. Acute admissions increased 2.1%, total surgical cases increased 5.7%, and outpatient evaluation and management visits increased 4.8% in the third quarter of 2024 compared to the same period in 2023. Net patient revenue also benefited from rate increases on the System's managed care contracts that became effective in 2024. Over the last few years, the System initiated national, regional and local revenue management projects designed to improve patient access throughout the System while striving to ensure the safety of patients, caregivers and visitors.

Other unrestricted revenues increased $144.2 million (32.8%) in the third quarter of 2024 compared to the same period in 2023. The increase in other unrestricted revenues was primarily due to a $78.0 million increase in outpatient pharmacy revenue primarily due to higher utilization of outpatient and specialty drugs, a $20.2 million increase in Federal Emergency Management Agency (FEMA) funds to reimburse the System for pandemic-related costs and an $18.8 million increase in investment return designated for current operations.

Total operating expenses increased $281.4 million (7.7%) in the third quarter of 2024 compared to the same period in 2023. The growth in expenses was primarily due to higher patient volumes and inflationary trends that increased salaries, wages and benefits, supplies expenses and pharmaceutical costs. Nationwide labor shortages continued to create staffing challenges, resulting in ongoing utilization of agency nurses and other temporary personnel to meet the demand of patient activity. Agency utilization and costs have remained elevated in 2024 but are below levels experienced during 2023 due to various workforce strategies implemented by the System to reduce its reliance on agency personnel. The System continues to develop and implement cost reduction and containment initiatives designed to make a more affordable care model for patients and to enable investments in key strategic initiatives.

Salaries, wages and benefits increased $144.2 million (6.8%) in the third quarter of 2024 compared to the same period in 2023. Salaries, excluding benefits, increased $104.1 million (5.7%) due primarily to annual salary adjustments averaging 3% across the System that were awarded in the second quarter of 2024 and a 2.2% increase in full-time equivalent employees in the third quarter of 2024 compared to the same period in 2023. The System has implemented various initiatives to recruit and retain caregivers that has resulted in reduced vacancy and turnover rates in 2024 compared to 2023. Benefit costs increased $40.1 million (13.8%) during the same period primarily due to the growth in the full-time equivalent employees and salaries. The System experienced a $15.5 million increase in employee health benefits expenses, a $11.9 million increase in defined contribution plan expenses and a $8.4 million increase in FICA expenses.

Supplies expense increased $13.8 million (3.8%) in the third quarter of 2024 compared to the same period in 2023. The increase in supplies was due to a $16.7 million increase in medical supplies and implantables offset by a $2.9 million decrease in non-medical supplies. The increase in medical supplies and implantables was primarily due to increases in patients served and recent inflationary trends for many supplies.

Pharmaceutical costs increased $106.6 million (21.8%) in the third quarter of 2024 compared to the same period in 2023. The increase in pharmaceuticals was primarily due to recent inflationary trends and increased utilization in outpatient areas including retail and specialty pharmacy. The System also experienced a corresponding increase in outpatient pharmacy revenues related to the increased utilization.

Purchased services and other fees increased $30.0 million (11.6%) in the third quarter of 2024 compared to the same period in 2023. The increase in purchased services was primarily related to a $22.0 million increase in purchased nonmedical services primarily comprised of increases in software and hardware technology costs and an increase in various strategic expenses. The System also had a $8.0 million increase in purchased medical services to meet the demand of higher patient activity.

Administrative services expenses decreased $7.3 million (11.3%) in the third quarter of 2024 compared to the same period in 2023 due to a decrease in professional and consulting fees and research expenses.

Facilities expense increased $3.9 million (3.3%) in the third quarter of 2024 compared to the same period in 2023. The increase in facilities expense was primarily due to a $1.2 million increase in lease costs, a $1.0 million increase in maintenance and repair costs and a $1.0 million increase in utilities expenses.

Insurance expense increased $8.6 million (22.3%) in the third quarter of 2024 compared to the same period in 2023. The increase in insurance expenses was primarily due to an increase in malpractice claim payments and related settlements the System has experienced over the last few years. The System's medical professional insurance program has been influenced by the impact of both regular and social inflation that has created an upward national trend of jury verdicts and settlement amounts.

Interest expense decreased $0.9 million (2.0%) in the third quarter of 2024 compared to the same period in 2023. The decrease in interest expense was primarily due to the reduction in debt from regularly scheduled principal payments in 2024 and a lease modification in 2024 that reclassified certain finance leases to operating leases.

Depreciation and amortization expenses decreased $17.5 million (10.6%) in the third quarter of 2024 compared to the same period in 2023. In the fourth quarter of 2023, the System completed a review of the estimated useful lives of its property, plant and equipment, which indicated that the actual lives of certain assets were longer than the estimated useful lives used for depreciation purposes. As a result, the System changed its estimated useful lives of certain assets to better reflect the estimated periods during which the assets will remain in service. Other changes in depreciation included property, plant and equipment that was fully depreciated in 2023, offset by depreciation for property, plant and equipment that was acquired and placed into service in 2023 and 2024.

Gains and losses from nonoperating activities resulted in net gains to the System of $331.5 million in the third quarter of 2024 compared to losses of $112.6 million in the third quarter of 2023, resulting in a favorable variance of $444.0 million. Investment returns were $460.3 million higher in the third quarter of 2024 compared to the same period in 2023 driven by overall financial markets that resulted in investment gains in the third quarter of 2024 compared to investment losses in the third quarter of 2023. Derivative losses were $5.7 million in the third quarter of 2024 compared to gains of $14.1 million in the third quarter of 2023. Derivative gains and losses result from changes in interest rate benchmarks associated with the System's interest rate swap agreements, including net interest paid or received under the swap agreements. Other nonoperating gains and losses were favorable by $3.5 million in the third quarter of 2024 compared to the same period in 2023 due primarily to a favorable variance in the portion of net periodic pension cost recognized in the statement of operations.

For the Nine Months Ended September 30, 2024 and 2023

The following narrative describes the consolidated results of operations for the System for the nine months ended September 30, 2024 and 2023.

Operating income for the System in the first nine months of 2024 was $138.9 million, resulting in an operating margin of 1.2%, as compared to an operating loss of $4.0 million and a break-even operating margin in the first nine months of 2023. The higher operating margin was due to a 9.6% increase in operating revenues, which outpaced an 8.3% increase in operating expenses in the first nine months of 2024 compared to the same period in 2023. Nonoperating gains for the System were $756.5 million in the first nine months of 2024 compared to gains of $357.2 million in the first nine months of 2023. The increase from the prior year was primarily due to favorable investment returns in the first nine months of 2024 compared to the same period in 2023. Overall, the System reported an excess of revenues over expenses of $895.4 million in the first nine months of 2024 compared to $353.3 million in the first nine months of 2023.

The System's net patient service revenue increased $769.2 million (8.2%) in the first nine months of 2024 compared to the same period in 2023. Patients served were higher in 2024 compared to 2023 as the System continues to experience strong demand for both inpatient and outpatient services. Acute admissions increased 3.9%, total surgical cases increased 4.4%, and outpatient evaluation and management visits increased 4.8% in the first nine months of 2024 compared to the same period in 2023. Net patient revenue also benefited from rate increases on the System's managed care contracts that became effective in 2024. Over the last few years, the System initiated national, regional and local revenue management projects designed to improve patient access throughout the System while striving to ensure the safety of patients, caregivers and visitors.

Other unrestricted revenues increased $267.6 million (20.0%) in the first nine months of 2024 compared to the same period in 2023. The increase in other unrestricted revenues was primarily due to a $127.7 million increase in outpatient pharmacy revenue primarily due to higher utilization of outpatient and specialty drugs, a $106.3 million increase in investment return designated for current operations due to the establishment of a board-designated endowment fund effective in the third quarter of 2023 that supports research and education activities of the System and a $15.2 million increase in research and education grant revenue. These increases were partially offset by a $14.1 million decrease in revenue related to pandemic relief funds from FEMA grants and other government assistance and an $8.2 million decrease in gifts and assets released from restriction primarily driven by a few large gifts received in the first nine months of 2023.

Total operating expenses increased $893.9 million (8.3%) in the first nine months of 2024 compared to the same period in 2023. The growth in expenses was primarily due to higher patient volumes and inflationary trends that increased salaries, wages and benefits, supplies expenses and pharmaceutical costs. Nationwide labor shortages continued to create staffing challenges, resulting in ongoing utilization of agency nurses and other temporary personnel to meet the demand of patient activity. Agency utilization and costs have remained elevated in 2024 but are below levels experienced during 2023 due to various workforce strategies implemented by the System to reduce its reliance on agency personnel. The System continues to develop and implement cost reduction and containment initiatives designed to make a more affordable care model for patients and to enable investments in key strategic initiatives.

Salaries, wages and benefits increased $523.2 million (8.4%) in the first nine months of 2024 compared to the same period in 2023. Salaries, excluding benefits, increased $385.8 million (7.2%) due primarily to annual salary adjustments averaging 3% across the System that were awarded in the second quarter of 2024, market increases for nurses and other caregivers and a 3.4% increase in full-time equivalent employees in the first nine months of 2024 compared to the same period in 2023. The System has implemented various initiatives to recruit and retain caregivers that has resulted in reduced vacancy and turnover rates in 2024 compared to 2023. Benefit costs increased $137.4 million (15.4%) during the same period primarily due to the growth in full-time equivalent employees and salaries. The System experienced a $55.6 million increase in employee health benefits expenses, a $39.8 million increase in defined contribution plan expenses and a $28.8 million increase in FICA expenses.

Supplies expense increased $60.2 million (5.5%) in the first nine months of 2024 compared to the same period in 2023. The increase in supplies was due to a $64.2 million increase in medical supplies and implantables offset by a $3.9 million decrease in non-medical supplies. The increase in medical supplies and implantables was primarily due to increases in patients served and recent inflationary trends for many supplies.

Pharmaceutical costs increased $250.6 million (17.7%) in the first nine months of 2024 compared to the same period in 2023. The increase in pharmaceuticals was primarily due to recent inflationary trends and increased utilization in outpatient areas including retail and specialty pharmacy. The System also experienced a corresponding increase in outpatient pharmacy revenues related to the increased utilization.

Purchased services and other fees increased $84.0 million (11.1%) in the first nine months of 2024 compared to the same period in 2023. The increase in purchased services was primarily related to a $71.8 million increase in purchased nonmedical services primarily comprised of increases in software and hardware technology costs, including maintenance agreements and software subscriptions, and an increase in various strategic expenses. The System also had a $12.1 million increase in purchased medical services to meet the demand of higher patient activity.

Administrative services expenses decreased $9.8 million (5.3%) in the first nine months of 2024 compared to the same period in 2023 due a decrease in professional and consulting fees. The decrease in professional and consulting fees was partially offset by increases in research expenses, which correlates to an increase in research grant revenues.

Facilities expense increased $18.2 million (5.4%) in the first nine months of 2024 compared to the same period in 2023. The increase in facilities expense was primarily due to a $12.3 million increase in maintenance and repair costs, a $3.7 million increase in lease expense and a $2.0 million increase in utilities expenses.

Insurance expense increased $11.7 million (11.2%) in the first nine months of 2024 compared to the same period in 2023. The increase in insurance expense was primarily due to an increase in malpractice claim payments and related settlements over the last few years. The System's medical professional insurance program has been influenced by the impact of both regular and social inflation that has created an upward national trend of jury verdicts and settlement amounts.

Interest expense increased $4.2 million (3.2%) in the first nine months of 2024 compared to the same period in 2023. The increase in interest expense was primarily due to higher interest rates on variable-rate debt and additional interest resulting from bonds issued in September 2023 and June 2024. These increases were partially offset by a decrease in interest expense due to the reduction in debt from regularly scheduled principal payments in 2024 and a lease modification in 2024 that reclassified certain finance leases to operating leases.

Depreciation and amortization expenses decreased $48.2 million (9.8%) in the first nine months of 2024 compared to the same period in 2023. In the fourth quarter of 2023, the System completed a review of the estimated useful lives of its property, plant and equipment, which indicated that the actual lives of certain assets were longer than the estimated useful lives used for depreciation purposes. As a result, the System changed its estimated useful lives of certain assets to better reflect the estimated periods during which the assets will remain in service. Other changes in depreciation included property, plant and equipment that was fully depreciated in 2023, offset by depreciation for property, plant and equipment that was acquired and placed into service in 2023 and 2024.

Gains and losses from nonoperating activities resulted in net gains to the System of $756.5 million in the first nine months of 2024 compared to $357.2 million in the same period of 2023, resulting in a favorable variance of $399.3 million. Investment returns were favorable by $406.7 million in the first nine months of 2024 compared to the same period in 2023 driven by overall financial markets. Derivative gains were $5.9 million in the first nine months of 2024 compared to gains of $18.5 million in the same period in 2023. Derivative gains and losses result from changes in interest rate benchmarks associated with the System's interest rate swap agreements, including net interest paid or received under the swap agreements. Other nonoperating gains and losses were favorable by $5.1 million in the first nine months of 2024 compared to the same period in 2023 due primarily to a favorable variance in the portion of net periodic pension cost recognized in the statement of operations.

BALANCE SHEET – SEPTEMBER 30, 2024 COMPARED TO DECEMBER 31, 2023

The following narrative describes the consolidated balance sheets for the System as of September 30, 2024 and December 31, 2023.

Cash and cash equivalents decreased $37.2 million (5.3%) from December 31, 2023 to September 30, 2024. The majority of the System's cash and cash equivalents are held in operating bank accounts for general expenditures. The decrease in cash equivalents related to the timing of operating and financing cash flows and transfers to or from the investment portfolio to manage the liquidity needs of the System.

Patient accounts receivable increased $20.7 million (1.1%) from December 31, 2023 to September 30, 2024. The increase in patient receivables was primarily attributable to the increase in net patient revenue in 2024 compared to 2023 and rate increases on the System's managed care contracts that became effective in January 2024. The System has various initiatives to enhance cash collection efforts and create efficiencies in the revenue cycle process. Days revenue outstanding for the System, which is calculated based on average daily revenue for the most recent quarter, decreased from 53 days at December 31, 2023 to 51 days at September 30, 2024.

Investments for current use were unchanged from December 31, 2023 to September 30, 2024. Investments for current use include assets held for self-insurance that will be used to pay the current portion of estimated claim liabilities.

Other current assets increased $2.6 million (0.3%) from December 31, 2023 to September 30, 2024. The increase in other current assets was primarily due to a $69.5 million increase in receivables related to international management fees and a $31.7 million increase in prepaid expenses driven by information technology contracts. The increases were partially offset by a $49.8 million decrease in the current portion of pledges receivable and a $48.9 million decrease in third party receivables.

Unrestricted long-term investments increased $783.3 million (6.9%) from December 31, 2023 to September 30, 2024. The increase in long-term investments was primarily due to $908.7 million of unrestricted investment gains experienced in the System's investment portfolio that reported preliminary investment returns of 7.7% in the first nine months of 2024. Other changes in unrestricted investments included transfers to and from operating cash based on the liquidity needs of the System.

Funds held by trustees increased $2.7 million (30.9%) from December 31, 2023 to September 30, 2024. The increase in funds held by trustees is due to a balance of $2.6 million in unexpended bond proceeds from the Series 2024A Bonds issued in June 2024 that will be used for future capital expenditures.

Assets held for self-insurance decreased $7.9 million (3.8%) from December 31, 2023 to September 30, 2024. The decrease in self-insurance assets was primarily due to claims paid in excess of insurance premiums received by the System's captive insurance companies and positive investment returns on their investments.

Donor-restricted assets increased $130.0 million (9.1%) from December 31, 2023 to September 30, 2024. The increase in restricted assets was primarily from the receipt of donor-restricted gifts and investment gains on restricted investments in excess of expenditures from restricted funds.

Net property, plant and equipment increased $343.2 million (5.5%) from December 31, 2023 to September 30, 2024. The System had expenditures for property, plant and equipment of $688.6 million, offset by depreciation expense of $444.5 million. Increases in property, plant and equipment also resulted from $44.4 million of foreign currency translation gains. Decreases in property, plant and equipment resulted from $11.4 million of proceeds from the sale of property, plant and equipment. Capital expenditures in 2024 included amounts paid on retainage liabilities recorded at December 31, 2023 and excluded assets acquired through finance leases and other financing arrangements. Retainage liabilities increased $7.6 million, and new finance leases totaled $63.5 million in the first nine months of 2024. Expenditures for property, plant and equipment were incurred at numerous facilities across the System and included 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 $13.2 million (7.7%) from December 31, 2023 to September 30, 2024. The increase in pledges receivable was due to new pledges received in 2024 offset by the reclassification of regularly scheduled principal payments from long-term to current that are due within one year.

Trusts and interests in foundations increased $3.9 million (4.2%) from December 31, 2023 to September 30, 2024. The increase in trusts and interests in foundations was comprised of a $2.9 million increase in perpetual and charitable trusts and a $1.0 million increase in interests in community foundations.

Operating lease right-of-use assets increased $16.6 million (4.5%) from December 31, 2023 to September 30, 2024. The increase in operating lease right-of-use assets was primarily due to changes in foreign currency exchange rates related to leases at London Hospital and the addition of new operating leases recorded during 2024 offset by the reduction in value of future lease payments through the recognition of operating lease expenses.

Other noncurrent assets increased $80.7 million (8.0%) from December 31, 2023 to September 30, 2024. The increase in other noncurrent assets was due primarily to a $86.6 million increase in deferred compensation plan assets (corresponding increase in noncurrent liabilities) primarily due to changes in investment markets, a $12.1 million increase in investments in affiliates including investments in joint venture rehabilitation and long-term acute care hospitals and other affiliates and a $7.8 million increase in cloud computing assets. The increases were partially offset by a $25.1 million decrease in third-party receivables.

Accounts payable decreased $90.4 million (13.0%) from December 31, 2023 to September 30, 2024. The decrease in accounts payable was primarily attributable to the timing of payment processing for trade payables. These decreases were partially offset by a $7.6 million increase in retainage liabilities for current construction projects.

Compensation and amounts withheld from payroll increased $8.2 million (1.3%) from December 31, 2023 to September 30, 2024. The increase in compensation and amounts withheld from payroll was primarily attributable to the timing of payroll and changes in employee benefit accruals.

Current portion of long-term debt increased $2.2 million (2.1%) from December 31, 2023 to September 30, 2024. 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 2024.

Variable-rate debt classified as current decreased $53.0 million (6.3%) from December 31, 2023 to September 30, 2024. 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 System does not expect to make principal payments on these bonds in the next year but classifies them as current for accounting purposes. The decrease in variable-rate debt classified as current was primarily due to the reclassification of $50.3 million from current to long-term for bonds supported by standby bond purchase agreements that were scheduled to expire in 2024. The System entered into new agreements that allow the bonds to be classified as long-term at September 30, 2024.

Other current liabilities increased $90.6 million (12.7%) from December 31, 2023 to September 30, 2024. The increase in other current liabilities was primarily due to a $62.1 million increase in state franchise fee liabilities due to the timing of payments and increases in deferred revenue related to management agreements and research projects. The increases were partially offset by a $28.4 million decrease in accrued interest payable related to the timing of semi-annual interest payments.

Long-term debt increased $241.9 million (5.6%) from December 31, 2023 to September 30, 2024. The increase in long-term debt was due to the issuance of the Series 2024A Bonds, which generated proceeds of $503.2 million, offset by the redemption of the Series 2023 Bonds totaling $300 million. Also contributing to the increase was $42.7 million of foreign currently translation losses on the 2018 Sterling Notes and the reclassification of $50.3 million transferred from variable-rate debt classified as current to long-term debt for bonds supported by standby bond purchase agreements that were scheduled to expire in 2024. The System entered into new agreements that allow the bonds to be classified as long-term at September 30, 2024. Partially offsetting the increase is 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 decreased $4.5 million (1.8%) from December 31, 2023 to September 30, 2024. The decrease in insurance liability reserves was due to claim payments in excess of expenses recorded for the accrual of claim liabilities.

Accrued retirement benefits decreased $4.8 million (2.1%) from December 31, 2023 to September 30, 2024. The decrease in accrued retirement benefits was comprised of a $4.2 million decrease in in certain defined benefit pension plan liabilities and a $0.6 million decrease in other postretirement benefit liabilities.

Operating lease liabilities increased $17.7 million (5.5%) from December 31, 2023 to September 30, 2024. The increase in operating lease liabilities was primarily due to changes in foreign currency exchange rates related to leases at London Hospital and the addition of new operating leases recorded in 2024 offset by the reclassification of operating lease payments from long-term to short-term.

Other noncurrent liabilities increased $122.8 million (18.9%) from December 31, 2023 to September 30, 2024. The increase in other noncurrent liabilities was primarily due to a $86.7 million increase in deferred compensation plan liabilities (corresponding increase in noncurrent assets) primarily due to changes in investment markets, a $49.6 million increase related to deferred grants and an $9.6 million increase in noncurrent amounts due to third-party payors. These increases were partially offset by a $18.9 million decrease in liabilities related to the fair value of the System's derivative agreements driven by favorable changes in the fair value of interest rate swaps and the termination of three swaps in the first nine months of 2024.

Total net assets increased $1.0 billion (6.5%) from December 31, 2023 to September 30, 2024. Net assets without donor restrictions increased $926.4 million (6.7%) primarily due to an excess of revenues over expenses of $895.4 million, net assets released from restriction for capital purposes of $31.3 million and foreign currency translation gains of $2.8 million. The increases were partially offset by retirement benefit adjustments of $2.4 million. Net assets with donor restrictions increased $94.7 million (5.2%), primarily due to restricted gifts of $151.1 million and investment gains of $75.3 million offset by assets released from restrictions of $138.0 million.

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, and/or cost of providing, 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 continue developing the London Hospital and operate 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, including the risks pertaining to third parties who have access to the 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;
- Changes in federal and state employment laws and regulations, as well as interpretations of those laws and regulations by courts and governmental agencies;
- Management, utilization and increases in the cost of medical drugs and devices as technological advancement progresses without concurrent increases in federal reimbursement;
- Ability of the System to adjust its cost structure and reduce operating expenses; and
- Changes in accounting standards or practices.

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

Cleveland Clinic

Every life deserves world class care.