

Unaudited Consolidated Financial Statements and Other Information

For The Period Ended December 31, 2024

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



**CLEVELAND CLINIC HEALTH SYSTEM
UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2024**

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March 11, 2025

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

Management conducted an assessment of the Cleveland Clinic's internal control over financial reporting as of December 31, 2024, using the framework specified in *Internal Control – Integrated Framework (2013 framework)*, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, Cleveland Clinic maintained, in all material respects, effective internal control over financial reporting as of December 31, 2024, based on the COSO criteria.

Tomislav Mihaljevic, M.D.
CEO and President
Morton L. Mandel CEO Chair

Dennis Laraway
Executive Vice President
Chief Financial Officer

Timothy Longville
Vice President
Chief Accounting Officer

**CLEVELAND CLINIC HEALTH SYSTEM
MANAGEMENT'S SUMMARY OF FINANCIAL PERFORMANCE
FOR THE PERIOD ENDED DECEMBER 31, 2024**

The following summary describes the unaudited, consolidated financial results for Cleveland Clinic Health System (System) for the quarters and years ended December 31, 2024 and 2023.

Operating income for the System for the full year of 2024 was \$276 million on total unrestricted revenues of \$15.9 billion, resulting in a 1.7% operating margin, as compared to operating income of \$64 million and a 0.4% operating margin in 2023. The System generated \$1.1 billion in operating cash flow (EBIDA) during 2024, a 6.8% EBIDA margin, compared to \$800 million and a 5.5% margin in 2023. The System's 2024 operating income and EBIDA represent year over year increases of 329% and 36%, respectively. The improved operating performance in 2024 resulted from a 10.0% increase in operating revenues, supported by strong patient demand for both inpatient and outpatient services, that outpaced an 8.6% increase in operating expenses compared to 2023. Overall, the System reported an excess of revenues over expenses of \$980 million in 2024, a 5.9% total margin, compared to an excess of revenues over expenses of \$911 million in 2023. Specific to the fourth quarter, operating income for the System was \$137 million on total unrestricted revenues of \$4.2 billion, resulting in 3.3% operating margin, compared to operating income of \$68 million and an operating margin of 1.8% in the fourth quarter of 2023.

Patients served were higher in 2024 compared to the same periods in 2023 as the System continues to experience strong demand for both inpatient and outpatient services. In 2024, inpatient admissions increased 2%, total surgical cases increased 4% and outpatient evaluation and management visits increased 5% compared to 2023. The following table summarizes patient utilization statistics for the System:

	For the quarter ended December 31				For the year ended December 31			
	2024	2023	Variance	%	2024	2023	Variance	%
Inpatient admissions(1)	65,902	67,769	-1,867	-2.8%	269,462	264,024	5,438	2.1%
Patient days(1)	331,608	341,408	-9,800	-2.9%	1,351,691	1,341,625	10,066	0.8%
Surgical cases								
Inpatient	19,531	19,365	166	0.9%	80,536	77,331	3,205	4.1%
Outpatient	60,044	57,832	2,212	3.8%	239,399	230,023	9,376	4.1%
	79,575	77,197	2,378	3.1%	319,935	307,354	12,581	4.1%
Emergency department visits	251,998	245,128	6,870	2.8%	993,993	951,863	42,130	4.4%
Clinic outpatient evaluation and management visits	1,995,983	1,903,304	92,679	4.9%	7,908,916	7,515,108	393,808	5.2%
Total patient encounters	3,666,394	3,530,424	135,970	3.9%	14,486,247	13,999,363	486,884	3.5%
(1) Excludes newborns								

**CLEVELAND CLINIC HEALTH SYSTEM
MANAGEMENT'S SUMMARY OF FINANCIAL PERFORMANCE
FOR THE PERIOD ENDED DECEMBER 31, 2024**

Total operating revenue increased \$417 million (11.2%) in the fourth quarter and \$1.5 billion (10.0%) for the full year of 2024 compared to the same periods in 2023. Revenue growth in 2024 includes increases of over \$1 billion in net patient service revenue, supported by increased patient activity noted above, and a \$405 million increase in other unrestricted revenues. Other unrestricted revenues increased primarily due to growth in outpatient pharmacy revenues, international activity and appropriations 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 \$348 million (9.5%) in the fourth quarter and \$1.2 billion (8.6%) for the full year of 2024 compared to the same periods in 2023. The increase in expenses is due primarily to the growth in patient volumes and inflationary trends that increased personnel costs and pharmaceutical expenses. Agency labor costs remain elevated mainly in Ohio but are below levels experienced during 2023 due to various workforce strategies implemented by the System to reduce its reliance on contracted personnel. Malpractice insurance costs continue to increase due to social inflation and other industry trends that have resulted in higher claim settlement payments.

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

	For the quarter ended				For the year ended			
	December 31				December 31			
	2024	2023	Variance	%	2024	2023	Variance	%
Total unrestricted revenue	\$ 4,150,397	\$ 3,733,720	\$ 416,677	11.2%	\$ 15,936,198	\$ 14,482,677	\$ 1,453,521	10.0%
Operating income before interest, depreciation and amortization	\$ 367,721	\$ 181,590	\$ 186,131	102.5%	\$ 1,085,198	\$ 800,203	\$ 284,995	35.6%
Operating cashflow margin	8.9%	4.9%			6.8%	5.5%		
Operating income	\$ 136,803	\$ 68,259	\$ 68,544	100.4%	\$ 275,712	\$ 64,273	\$ 211,439	329.0%
Operating margin	3.3%	1.8%			1.7%	0.4%		
Net nonoperating gains and losses	\$ (51,850)	\$ 489,698	\$ (541,548)	-110.6%	\$ 704,640	\$ 846,938	\$ (142,298)	-16.8%
Excess of revenues over expenses	\$ 84,953	\$ 557,957	\$ (473,004)	-84.8%	\$ 980,352	\$ 911,211	\$ 69,141	7.6%
Total margin	2.1%	13.2%			5.9%	5.9%		

Gains and losses from nonoperating activities are recorded below operating income in the statement of operations. The System recognized nonoperating gains of \$705 million for the full year of 2024 compared to net gains of \$847 million in 2023. Investment returns on the System's investment portfolio approximated 7.5% in 2024 compared to returns of 9.3% in 2023. Total cash and investments for the System were \$14.8 billion at December 31, 2024, which is an increase of more than \$1 billion compared to \$13.7 billion at December 31, 2023.

**CLEVELAND CLINIC HEALTH SYSTEM
UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2024**

Unaudited Consolidated Balance Sheets
(\$ in thousands)

	December 31	
	2024	2023
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,022,346	\$ 698,965
Patient receivables	1,850,016	1,859,557
Investments for current use	89,627	74,703
Other current assets	863,182	923,019
Total current assets	3,825,171	3,556,244
Investments:		
Long-term investments	11,944,509	11,312,499
Funds held by trustees	6,169	8,724
Assets held for self-insurance	165,757	208,650
Donor restricted assets	1,571,601	1,432,245
	13,688,036	12,962,118
Property, plant, and equipment, net	6,882,228	6,282,016
Other assets:		
Pledges receivable, net	137,852	170,592
Trusts and interests in foundations	97,562	92,493
Operating lease right-of-use assets	374,656	369,310
Other noncurrent assets	1,110,529	1,011,972
	1,720,599	1,644,367
Total assets	\$ 26,116,034	\$ 24,444,745

**CLEVELAND CLINIC HEALTH SYSTEM
UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2024**

Unaudited Consolidated Balance Sheets (continued)
(\$ in thousands)

	December 31	
	2024	2023
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 819,544	\$ 697,264
Compensation and amounts withheld from payroll	708,934	650,318
Current portion of long-term debt	108,261	106,357
Variable rate debt classified as current	701,499	842,354
Other current liabilities	786,970	715,193
Total current liabilities	3,125,208	3,011,486
Long-term debt	4,580,902	4,311,487
Other liabilities:		
Professional and general insurance liability reserves	260,469	251,941
Accrued retirement benefits	198,805	224,991
Operating lease liabilities	328,034	321,609
Other noncurrent liabilities	798,901	650,971
	<u>1,586,209</u>	<u>1,449,512</u>
Total liabilities	9,292,319	8,772,485
Net assets:		
Without donor restrictions	14,908,343	13,860,396
With donor restrictions	1,915,372	1,811,864
Total net assets	<u>16,823,715</u>	<u>15,672,260</u>
Total liabilities and net assets	<u>\$ 26,116,034</u>	<u>\$ 24,444,745</u>

See notes to unaudited consolidated financial statements.

**CLEVELAND CLINIC HEALTH SYSTEM
UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2024**

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

Operations

	Three Months Ended December 31	
	2024	2023
Unrestricted revenues		
Net patient service revenue	\$ 3,523,177	\$ 3,243,981
Other	627,220	489,739
Total unrestricted revenues	4,150,397	3,733,720
Expenses		
Salaries, wages, and benefits	2,259,236	2,130,474
Supplies	327,128	393,538
Pharmaceuticals	635,878	494,186
Purchased services and other fees	286,070	277,947
Administrative services	71,095	68,154
Facilities	121,728	121,219
Insurance	81,541	66,612
	3,782,676	3,552,130
Operating income before interest, depreciation, and amortization expenses	367,721	181,590
Interest	42,789	46,026
Depreciation and amortization	188,129	67,305
Operating income (loss)	136,803	68,259
Nonoperating gains and losses		
Investment return	(59,924)	537,127
Derivative (losses) gains	5,750	(16,829)
Other, net	2,324	(30,600)
Net nonoperating gains and losses	(51,850)	489,698
Excess (deficiency) of revenues over expenses	84,953	557,957

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**CLEVELAND CLINIC HEALTH SYSTEM
UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2024**

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

Changes in Net Assets

	Three Months Ended December 31	
	2024	2023
Changes in net assets without donor restrictions:		
Excess (deficiency) of revenues over expenses	\$ 84,953	\$ 557,957
Donated capital	385	1,504
Net assets released from restriction for capital purposes	43,397	4,917
Retirement benefits adjustment	1,375	11,639
Foreign currency translation	(4,739)	3,528
Other	(3,863)	(753)
Increase (decrease) in net assets without donor restrictions	121,508	578,792
Changes in net assets with donor restrictions:		
Gifts and bequests	92,403	59,263
Net investment income (loss)	2,681	45,340
Net assets released from restrictions used for operations included in other unrestricted revenues	(47,169)	(34,231)
Net assets released from restriction for capital purposes	(43,397)	(4,917)
Change in interests in foundations	(779)	970
Change in value of perpetual trusts	1,216	1,154
Other	3,859	700
Increase (decrease) in net assets with donor restrictions	8,814	68,279
Increase (decrease) in net assets	130,322	647,071
Net assets at beginning of period	16,693,393	15,025,189
Net assets at end of period	\$ 16,823,715	\$ 15,672,260

See notes to unaudited consolidated financial statements.

**CLEVELAND CLINIC HEALTH SYSTEM
UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2024**

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

Operations

	Twelve Months Ended December 31	
	2024	2023
Unrestricted revenues		
Net patient service revenue	\$ 13,702,696	\$ 12,654,257
Other	2,233,502	1,828,420
Total unrestricted revenues	15,936,198	14,482,677
Expenses		
Salaries, wages, and benefits	9,020,800	8,368,886
Supplies	1,483,918	1,490,119
Pharmaceuticals	2,298,763	1,906,477
Purchased services and other fees	1,125,367	1,033,287
Administrative services	245,589	252,475
Facilities	479,238	460,537
Insurance	197,325	170,693
	14,851,000	13,682,474
Operating income before interest, depreciation, and amortization expenses	1,085,198	800,203
Interest	176,881	175,947
Depreciation and amortization	632,605	559,983
Operating income	275,712	64,273
Nonoperating gains and losses		
Investment return	698,773	889,081
Derivative gains	11,606	1,669
Other, net	(5,739)	(43,812)
Net nonoperating gains and losses	704,640	846,938
Excess of revenues over expenses	980,352	911,211

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**CLEVELAND CLINIC HEALTH SYSTEM
UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2024**

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

Changes in Net Assets

	Twelve Months Ended December 31	
	2024	2023
Changes in net assets without donor restrictions:		
Excess of revenues over expenses	\$ 980,352	\$ 911,211
Donated capital	461	1,569
Net assets released from restriction for capital purposes	74,702	14,242
Retirement benefits adjustment	(1,000)	9,264
Foreign currency translation	(1,933)	6,339
Other	(4,635)	(1,005)
Increase in net assets without donor restrictions	1,047,947	941,620
Changes in net assets with donor restrictions:		
Gifts and bequests	243,519	141,517
Net investment income	77,940	86,890
Net assets released from restrictions used for operations included in other unrestricted revenues	(153,886)	(143,593)
Net assets released from restriction for capital purposes	(74,702)	(14,242)
Change in interests in foundations	239	(263)
Change in value of perpetual trusts	4,439	1,235
Other	5,959	1,000
Increase in net assets with donor restrictions	103,508	72,544
Increase in net assets	1,151,455	1,014,164
Net assets at beginning of year	15,672,260	14,658,096
Net assets at end of period	<u>\$ 16,823,715</u>	<u>\$ 15,672,260</u>

See notes to unaudited consolidated financial statements.

CLEVELAND CLINIC HEALTH SYSTEM
UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2024

Unaudited Consolidated Statements of Cash Flows
(\$ in thousands)

	Twelve Months Ended December 31	
	2024	2023
Operating activities and net nonoperating gains and losses		
Increase in net assets	\$ 1,151,455	\$ 1,014,164
Adjustments to reconcile increase in net assets to net cash provided by operating activities and net nonoperating gains and losses:		
Loss on extinguishment of debt	414	-
Retirement benefits adjustment	1,000	(9,264)
Net realized and unrealized gains on investments	(849,921)	(953,837)
Depreciation and amortization	629,125	555,078
Foreign currency translation loss (gain)	1,933	(6,339)
Donated capital	(461)	(1,569)
Restricted gifts, bequests, and other	(248,197)	(229,379)
Accreted interest and amortization of bond premiums	(10,776)	(7,410)
Net gain in value of derivatives	(10,981)	(1,815)
Changes in operating assets and liabilities:		
Patient receivables	8,586	(151,517)
Other current assets	51,678	(80,052)
Other noncurrent assets	(110,079)	(175,521)
Accounts payable and other current liabilities	238,836	(96,022)
Other liabilities	89,425	145,770
Net cash provided by operating activities and net nonoperating gains and losses	942,037	2,287
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	(107,959)	(132,724)
Debt issuance costs	(3,318)	(587)
Change in pledges receivables, trusts and interests in foundations	35,555	62,447
Restricted gifts, bequests, and other	248,197	229,379
Net cash provided by financing activities	375,693	458,515
Investing activities		
Expenditures for property, plant and equipment	(1,113,346)	(768,990)
Proceeds from sale of property, plant and equipment	11,960	12,390
Net change in cash equivalents reported in long-term investments	(28,611)	(174,866)
Purchases of investments	(5,761,108)	(4,406,938)
Sales of investments	5,898,669	4,708,608
Net cash used in investing activities	(992,436)	(629,796)
Effect of exchange rate changes on cash	(2,042)	4,365
Decrease in cash and cash equivalents	323,252	(164,629)
Cash, cash equivalents and restricted cash at beginning of year	703,716	868,345
Cash, cash equivalents and restricted cash at end of period	\$ 1,026,968	\$ 703,716

See notes to unaudited consolidated financial statements.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal and recurring nature. For further information, refer to the audited financial statements and notes thereto for the year ended December 31, 2024.

1. Organization and Consolidation

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

The System is the leading provider of healthcare services in northeast Ohio. As of December 31, 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 operates 22 outpatient family health centers and nine ambulatory surgery centers, as well as numerous physician offices, which are located throughout northeast Ohio, and specialized cancer centers in Sandusky and Mansfield, Ohio. In southeast Florida, the System operates five hospitals, a clinical facility 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.

2. Accounting Policies

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.

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.

2. Accounting Policies (continued)

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

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

The System has agreements with third-party payors that generally provide for payments to the System at amounts different from its established rates. For uninsured patients who do not qualify for charity care, the System recognizes revenue based on established rates (charges), 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

2. Accounting Policies (continued)

the standard charge by any explicit price concessions, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Adjustments arising from a change in the transaction price increased net patient service revenue by \$49.8 million in 2023. Adjustments arising from a change in the transaction price were not significant for 2024.

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

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

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

2. Accounting Policies (continued)

Charity Care

The System provides care to patients who do not have the ability to pay and who qualify for charity care pursuant to established policies of the System. Charity care is defined as services for which patients have the obligation to pay but do not have the ability to do so. The System does not report charity care as net patient service revenue. The cost of charity care provided in 2024 and 2023 approximated \$335 million and \$259 million, respectively. The System estimated these costs by calculating a ratio of cost to gross charges and then multiplying that ratio by the gross uncompensated charges associated with providing care to charity patients.

The System participates in the Hospital Care Assurance Program (HCAP). Ohio created HCAP to financially support those hospitals that serve a disproportionate share of low-income patients unable to pay for care. HCAP funds basic, medically necessary hospital services for patients whose family income is at or below the federal poverty level, which includes Medicaid patients and patients without health insurance. The System recorded HCAP expenses of \$7.2 million for both years ended December 31, 2024 and 2023, which are reported in net patient service revenue.

Management Service Agreements

The System has management service agreements with regional, national and international organizations to provide advisory services for various healthcare ventures. The scope of these services includes managing current healthcare operations that are designed to improve clinical quality, innovation, patient care, medical education and research at other healthcare organizations and educational institutions, and managing the construction, training, organizational infrastructure, and operational management of healthcare entities. The System recognizes revenues related to management service agreements on a pro rata basis over the term of the agreements as services are provided. Payments received in advance are recorded as deferred revenue until the services have been provided. Revenue related to management service agreements for 2024 and 2023 was \$180.1 million and \$146.9 million, respectively, and is included in other unrestricted revenues.

2. Accounting Policies (continued)

Cash and Cash Equivalents

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

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

	<u>2024</u>	<u>2023</u>
Cash and cash equivalents	\$ 1,022,346	\$ 698,965
Restricted cash in investments	4,622	4,751
Total cash, cash equivalents, and restricted cash	<u>\$ 1,026,968</u>	<u>\$ 703,716</u>

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

Inventories

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

Property, Plant, and Equipment

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

2. Accounting Policies (continued)

Cloud Computing Arrangements

The System has entered into hosting arrangements that are service contracts for various cloud computing arrangements. The System capitalizes implementation costs associated with these arrangements and amortizes the asset on a straight-line basis over the term of the hosting arrangement, including expected renewal periods. The System had \$88.9 million and \$80.4 million at December 31, 2024 and 2023, respectively, of unamortized capitalized implementation costs recorded in other noncurrent assets in the consolidated balance sheets. For the years ended December 31, 2024 and 2023, the System recorded \$13.8 million and \$16.2 million, respectively, of amortization expense in purchased services and other fees in the consolidated statements of operations and changes in net assets.

Impairment of Long-Lived Assets

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

Leases

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

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

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

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

2. Accounting Policies (continued)

Investments and Investment Income

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

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

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

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

Investment return, including income on alternative investments, is reported as nonoperating gains and losses, except for interest and dividends earned on assets held for self-insurance 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 in the consolidated statements of operations and changes in net assets. Donor-restricted investment return on restricted investments is included in net assets with donor restrictions.

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

2. Accounting Policies (continued)

Fair Value Measurements

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

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

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

- Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

Goodwill and Other Intangibles

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

2. Accounting Policies (continued)

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

Derivative Instruments

The System's derivative financial instruments consist of interest rate swaps that are recognized as assets or liabilities in the consolidated balance sheets at fair value.

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

Foreign Currency Translation

The statements of operations of foreign subsidiaries whose functional currencies are other than the U.S. dollar are translated into U.S. dollars using average exchange rates for the period. The assets and liabilities of foreign subsidiaries whose functional currencies are other than the U.S. dollar are translated into U.S. dollars using exchange rates as of the consolidated balance sheet date. The U.S. dollar effects that arise from translating the net assets of these subsidiaries at changing rates are recorded as foreign currency translation gains and losses in the consolidated statements of operations and changes in net assets. Cumulative foreign currency translation losses included in net assets without donor restrictions were \$81.0 million and \$79.0 million at December 31, 2024 and 2023, respectively.

Debt Issuance Costs

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

2. Accounting Policies (continued)

Contributions

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

Donated capital is recorded at fair value at the date of donation based on appraised value from a third-party or quoted prices for similar or identical assets. Contributions of donated capital generally include artwork and donated equipment that is placed into service and utilized to support various programs of the System.

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

Grants

Grant revenue is recognized in the period it is earned based on when the applicable project expenses are incurred and project milestones are achieved. The System records research grants as exchange transactions or conditional contributions based on an evaluation of whether the resource provider is receiving commensurate value in return for the resources transferred to the System. Conditional contributions contain barriers that must be overcome by the System before research grant revenue is recorded. Grant payments received in advance of related project expenses and the achievement of project milestones are recorded as deferred revenue and included in other current liabilities. The System recorded research grant revenue, included in other unrestricted revenues, of \$309.5 million and \$286.4 million in 2024 and 2023, respectively.

2. Accounting Policies (continued)

Net Assets Without Donor Restrictions

Net assets without donor restrictions represent resources that are available for the general support of the System and are not subject to donor restrictions. The Board of Directors may designate a portion of net assets without donor restrictions for specific purposes.

Net Assets With Donor Restrictions

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

Related-Party Transactions

The System has a policy regarding the identification and disclosure of any transactions with related parties. During the years ended December 31, 2024 and 2023, the System had no material related-party transactions.

Excess of Revenues Over Expenses

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

3. Net Patient Service Revenue and Patient Receivables

Net patient service revenue by major payor source, for the years ended December 31, 2024 and 2023 is as follows (in thousands):

	2024		2023	
Medicare	\$ 5,186,670	38%	\$ 4,736,122	38%
Medicaid	1,178,392	8	1,192,339	9
Managed care and commercial	7,093,798	52	6,559,007	52
Self-pay	243,836	2	166,789	1
Net patient service revenue	<u>\$13,702,696</u>	<u>100%</u>	<u>\$12,654,257</u>	<u>100%</u>

The System’s concentration of credit risk relating to patient receivables is limited due to the diversity of patients and payors. Patient receivables consist of amounts due from government programs, commercial insurance companies, other group insurance programs, and private pay patients. Patient receivables due from Medicare and one commercial payor account for approximately 26% and 12% at December 31, 2024 and 28% and 14% at December 31, 2023, respectively, of the System’s total patient receivables. Revenues from Medicare and one commercial payor account for approximately 38% and 18%, respectively of the System’s net patient service revenue for 2024. Revenues from Medicare and two different commercial payors account for approximately 38%, 18% and 11%, respectively of the System’s net patient service revenue for 2023. Excluding these payors, no one payor represents more than 10% of the System’s patient receivables or net patient service revenue.

**CLEVELAND CLINIC HEALTH SYSTEM
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2024**

4. Cash, Cash Equivalents, and Investments

The composition of cash, cash equivalents, and investments at December 31, 2024 and 2023 is as follows (in thousands):

	<u>2024</u>	<u>2023</u>
Cash, cash equivalents and restricted cash	\$ 1,026,968	\$ 703,716
Money market funds	496,060	456,797
Fixed-income securities:		
U.S. treasuries	900,871	1,365,960
U.S. government agencies	60,020	51,597
U.S. corporate	457,169	546,984
U.S. government agencies asset-backed securities	390,217	507,778
Corporate asset-backed securities	282,498	295,247
Foreign	148,683	216,533
Fixed-income mutual funds	535,822	76,717
Commingled fixed-income funds	53,918	17,286
Common and preferred stocks:		
U.S.	171,841	182,261
Foreign	642,550	549,202
Equity mutual funds	68,390	72,904
Commingled equity funds	1,602,552	1,330,340
Commingled commodity funds	645,885	574,985
Alternative investments:		
Hedge funds	3,677,767	3,498,957
Private equity funds	3,638,798	3,288,522
Total cash, cash equivalents, and investments	<u>\$ 14,800,009</u>	<u>\$ 13,735,786</u>

Investments are primarily maintained in a master trust fund administered using a bank as the custodian. The management of the majority of the System's investments is conducted by numerous external investment management organizations that are selected and monitored by the System. The alternative investments have separate administrators and custodian arrangements.

**CLEVELAND CLINIC HEALTH SYSTEM
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2024**

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

Total investment return is comprised of the following for the years ended December 31, 2024 and 2023 (in thousands):

	<u>2024</u>	<u>2023</u>
Other unrestricted revenues:		
Interest income and dividends	\$ 7,693	\$ 4,358
Investment return designated for current operations <i>(Note 18)</i>	<u>212,500</u>	<u>87,500</u>
	220,193	91,858
Nonoperating gains and losses, net:		
Interest income and dividends	160,846	127,173
Net realized gains on sales of investments	42,605	51,801
Net change in unrealized gains on investments	185,109	390,728
Investment gain on alternative investments	555,600	438,192
Investment management fees	(32,887)	(31,313)
Investment return designated for current operations <i>(Note 18)</i>	<u>(212,500)</u>	<u>(87,500)</u>
	698,773	889,081
Other changes in net assets:		
Investment income on restricted investments	77,940	86,890
Total investment return	<u>\$ 996,906</u>	<u>\$ 1,067,829</u>

5. Liquidity and Availability

Financial assets available for general expenditure within one year of the consolidated balance sheet date include the following at December 31, 2024 and 2023 (in thousands):

	<u>2024</u>	<u>2023</u>
Cash and cash equivalents	\$ 1,022,346	\$ 698,965
Patient receivables	1,850,016	1,859,557
Long-term investments	<u>6,277,582</u>	<u>6,020,042</u>
	<u>\$ 9,149,944</u>	<u>\$ 8,578,564</u>

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

5. Liquidity and Availability (continued)

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

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

The System maintains three lines of credit totaling \$600 million as discussed in Note 11. As of December 31, 2024, \$600 million was available under the credit facilities.

**CLEVELAND CLINIC HEALTH SYSTEM
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2024**

6. Other Current Assets and Liabilities and Other Noncurrent Assets and Liabilities

Other current and noncurrent assets at December 31, 2024 and 2023 consist of the following (in thousands):

	<u>2024</u>	<u>2023</u>
Current:		
Inventories	\$ 367,648	\$ 335,659
Prepaid expenses	119,548	133,169
Estimated amounts due from third-party payors	105,488	209,047
Pledges receivable, current (<i>Note 10</i>)	91,596	99,477
Research and grants receivables	39,959	32,518
Other	138,943	113,149
Total other current assets	<u>\$ 863,182</u>	<u>\$ 923,019</u>
	<u>2024</u>	<u>2023</u>
Noncurrent:		
Deferred compensation plan assets	\$ 543,690	\$ 456,341
Investments in affiliates	225,140	196,987
Goodwill and other intangible assets (<i>Note 7</i>)	131,337	130,926
Cloud computing capitalized implementation costs	88,856	80,360
Prepaid pension cost (<i>Note 15</i>)	47,829	49,099
Estimated amounts due from third-party payors	18,504	44,192
Other	55,173	54,067
Total other noncurrent assets	<u>\$ 1,110,529</u>	<u>\$ 1,011,972</u>

**CLEVELAND CLINIC HEALTH SYSTEM
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FOR THE PERIOD ENDED DECEMBER 31, 2024**

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

Other current and noncurrent liabilities at December 31, 2024 and 2023 consist of the following (in thousands):

	<u>2024</u>	<u>2023</u>
Current:		
Current portion of professional and general liability insurance reserves (<i>Note 14</i>)	\$ 89,627	\$ 74,703
Interest payable	79,640	71,601
Management contracts and other deferred revenue	78,756	70,002
Operating lease liabilities (<i>Note 13</i>)	60,715	59,826
Employee benefit related liabilities	45,328	57,166
Estimated amounts due to third-party payors	41,490	58,965
Research deferred revenue	36,194	21,540
Other	355,220	301,390
Total other current liabilities	<u>\$ 786,970</u>	<u>\$ 715,193</u>
Noncurrent:		
Employee benefit related liabilities	\$ 581,701	\$ 495,373
Estimated amounts due to third-party payors	57,414	27,974
Pledge liabilities	27,091	38,158
Gift annuity liabilities	18,818	18,539
Derivative liabilities (<i>Note 12</i>)	6,078	30,851
Other	107,799	40,076
Total other noncurrent liabilities	<u>\$ 798,901</u>	<u>\$ 650,971</u>

7. Goodwill and Other Intangible Assets

Goodwill is recorded in other noncurrent assets in the consolidated balance sheets. The changes in the carrying amount of goodwill for the years ended December 31, 2024 and 2023 are as follows (in thousands):

	<u>2024</u>	<u>2023</u>
Balance, beginning of year	\$ 80,604	\$ 80,192
Goodwill acquired	1,083	228
Foreign currency translation	(675)	184
Balance, end of year	<u>\$ 81,012</u>	<u>\$ 80,604</u>

The System acquired other intangible assets of \$0.3 million and \$0.4 million in 2024 and 2023, respectively, related to the acquisitions of various physician practices. Other intangible assets are recorded in other noncurrent assets in the consolidated balance sheets.

Other intangible assets at December 31, 2024 and 2023 consist of the following (in thousands):

	<u>2024</u>		<u>2023</u>	
	<u>Historical Cost</u>	<u>Accumulated Amortization</u>	<u>Historical Cost</u>	<u>Accumulated Amortization</u>
Trade name	\$ 49,800	\$ –	\$ 49,800	\$ –
Finite-lived intangible assets	9,658	9,133	9,317	8,795
Total	<u>\$ 59,458</u>	<u>\$ 9,133</u>	<u>\$ 59,117</u>	<u>\$ 8,795</u>

Amortization related to finite-lived intangible assets was \$0.3 million and \$0.6 million in 2024 and 2023, respectively, and is included in depreciation and amortization in the consolidated statements of operations and changes in net assets. Future amortization is as follows (in thousands): 2025 – \$319, 2026 – \$159, and 2027 – \$47.

**CLEVELAND CLINIC HEALTH SYSTEM
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2024**

8. Fair Value Measurements

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

December 31, 2024

	Level 1	Level 2	Level 3	Total
Assets				
Cash and investments:				
Cash and cash equivalents	\$ 1,026,968	\$ —	\$ —	\$ 1,026,968
Money market funds	496,060	—	—	496,060
Fixed-income securities:				
U.S. treasuries	900,871	—	—	900,871
U.S. government agencies	—	60,020	—	60,020
U.S. corporate	—	457,169	—	457,169
U.S. government agencies asset-backed securities	—	390,217	—	390,217
Corporate asset-backed securities	—	282,498	—	282,498
Foreign	—	148,683	—	148,683
Fixed-income mutual funds	535,822	—	—	535,822
Common and preferred stocks:				
U.S.	171,563	278	—	171,841
Foreign	578,934	63,616	—	642,550
Equity mutual funds	68,390	—	—	68,390
Total cash and investments	3,778,608	1,402,481	—	5,181,089
Perpetual and charitable trusts	—	69,457	—	69,457
Investments in affiliates	—	—	66,433	66,433
Total assets at fair value	<u>\$ 3,778,608</u>	<u>\$ 1,471,938</u>	<u>\$ 66,433</u>	<u>\$ 5,316,979</u>
Liabilities				
Interest rate swaps	\$ —	\$ 6,078	\$ —	\$ 6,078
Total liabilities at fair value	<u>\$ —</u>	<u>\$ 6,078</u>	<u>\$ —</u>	<u>\$ 6,078</u>

CLEVELAND CLINIC HEALTH SYSTEM
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2024

8. 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	<u>\$ 3,356,531</u>	<u>\$ 1,733,793</u>	<u>\$ —</u>	<u>\$ 5,090,324</u>
Liabilities				
Interest rate swaps	\$ —	\$ 30,851	\$ —	\$ 30,851
Total liabilities at fair value	<u>\$ —</u>	<u>\$ 30,851</u>	<u>\$ —</u>	<u>\$ 30,851</u>

8. Fair Value Measurements (continued)

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

	<u>2024</u>	<u>2023</u>
Cash, cash equivalents, and investments measured at fair value	\$ 5,181,089	\$ 5,025,696
Commingled funds measured at net asset value	2,302,355	1,922,611
Alternative investments measured at net asset value	7,316,565	6,787,479
Total cash, cash equivalents, and investments	<u>\$ 14,800,009</u>	<u>\$ 13,735,786</u>
Perpetual and charitable trusts measured at fair value	\$ 69,457	\$ 64,628
Interests in foundations	28,105	27,865
Trusts and interests in foundations	<u>\$ 97,562</u>	<u>\$ 92,493</u>

Investments in affiliates measured at fair value are reported in other noncurrent assets in the consolidated balance sheets.

Interest rate swaps 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.

Level 1 is based upon quoted market prices.

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.

8. Fair Value Measurements (continued)

The fair value of perpetual and charitable trusts in which the System receives periodic payments from the trust is determined based on the present value of expected cash flows to be received from the trust using discount rates ranging from 4.3% to 5.0%, which are based on Treasury yield curve interest rates or the assumed yield of the trust assets. The fair value of charitable trusts in which the System is a remainder beneficiary is based on the System's beneficial interest in the investments held in the trust, which are measured at fair value.

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

Level 3 investments consist of start-up private medical technology companies. The fair value for each investment is determined using inputs from the most recent post-closing valuation or series funding. Other factors such as financial performance, projections and industry developments are also inputs used to support the fair value of each investment. The range of significant unobservable inputs is dependent on the nature and characteristics of each investment and may vary at each balance sheet date.

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.

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9. Property, Plant, and Equipment

Property, plant, and equipment at December 31, 2024 and 2023 consist of the following (in thousands):

	<u>2024</u>	<u>2023</u>
Land and improvements	\$ 597,713	\$ 590,544
Buildings	8,387,528	8,194,996
Leasehold improvements	48,316	49,471
Equipment	2,714,506	2,323,473
Computer hardware and software	1,322,696	1,196,658
Construction-in-progress	770,048	395,234
Leased facilities and equipment	244,604	223,510
	<u>14,085,411</u>	<u>12,973,886</u>
Accumulated depreciation and amortization	<u>(7,203,183)</u>	<u>(6,691,870)</u>
	<u>\$ 6,882,228</u>	<u>\$ 6,282,016</u>

Included in the preceding table is unamortized computer software of \$200.6 million and \$224.9 million at December 31, 2024 and 2023, respectively. Amortization of computer software totaled \$67.4 million and \$55.0 million in 2024 and 2023, respectively. Amortization of computer software for the five years subsequent to December 31, 2024, is as follows (in millions): 2025 – \$65.5, 2026 – \$42.7, 2027 – \$26.9, 2028 – \$17.5, and 2029 – \$15.1.

Accumulated amortization of leased facilities and equipment was \$111.7 million and \$125.5 million at December 31, 2024 and 2023, respectively.

10. Pledges Receivable

Outstanding pledges receivable from various corporations, foundations, and individuals at December 31, 2024 and 2023 are as follows (in thousands):

	<u>2024</u>	<u>2023</u>
Pledges due:		
In less than one year	\$ 113,237	\$ 118,483
In one to five years	104,665	133,497
In more than five years	67,090	75,036
	<u>284,992</u>	<u>327,016</u>
Allowance for uncollectible pledges and discounting	(55,544)	(56,947)
Current portion (net of allowance for uncollectible pledges of \$21.6 million and \$19.0 million in 2024 and 2023, respectively)	<u>(91,596)</u>	<u>(99,477)</u>
	<u>\$ 137,852</u>	<u>\$ 170,592</u>

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11. Long-Term Debt

Long-term debt at December 31, 2024 and 2023 consists of the following (in thousands):

	Interest Rate(s)	Final Maturity	Amount Outstanding at December 31	
			2024	2023
Series 2024A Bonds	3.12% to 3.16%	2035	\$ 440,420	\$ –
Series 2023 Bonds	Variable rate	2054	–	300,000
Series 2021A Bonds	2.31%	2049	83,810	83,810
Series 2021B Bonds	0.42% to 1.41%	2039	179,595	189,185
Series 2021 Term Loan	0.67%	2025	16,460	33,285
Series 2020 Term Loan	0.84%	2025	1,160	2,290
Series 2019A Bonds	3.39%	2046	247,045	247,045
Series 2019B Bonds	3.22% to 3.55%	2046	250,320	250,320
Series 2019C Bonds	2.75%	2052	89,000	89,000
Series 2019D Bonds	Variable rate	2052	119,340	119,340
Series 2019E Bonds	Variable rate	2052	130,405	130,405
Series 2019F Bonds	Variable rate	2052	130,405	130,405
Series 2019G Bonds	2.70% to 3.28%	2042	241,835	241,835
Series 2018 Sterling Notes	2.90% to 3.08%	2068	835,648	846,635
Series 2017A Bonds	1.80% to 3.48%	2043	696,160	721,850
Series 2017B Bonds	2.77% to 3.70%	2043	160,030	161,655
Series 2017C Bonds	2.72%	2032	6,080	6,660
Series 2016 Private Placement	3.35%	2046	325,000	325,000
Series 2014 Bonds	4.86%	2114	400,000	400,000
Series 2013A Bonds	4.04%	2042	34,955	34,955
Series 2013B Bonds	Variable rate	2039	201,160	201,160
Series 2013 Keep Memory Alive	Variable rate	2037	44,960	47,555
Series 2011B Bonds	1.43%	2031	16,295	18,190
Series 2011C Bonds	4.25% to 4.72%	2032	61,345	78,870
Series 2008B Bonds	Variable rate	2042	327,575	327,575
Series 2003C Bonds	Variable rate	2035	41,905	41,905
Notes payable	Varies	Varies	896	1,187
Finance leases	Varies	Varies	133,825	104,236
			5,215,629	5,134,353
Net unamortized premium			206,038	155,482
Unamortized debt issuance costs			(31,005)	(29,637)
Current portion			(108,261)	(106,357)
Long-term variable rate debt classified as current			(701,499)	(842,354)
			\$ 4,580,902	\$ 4,311,487

11. Long-Term Debt (continued)

The majority of the System's outstanding bonds are limited obligations of various issuing authorities payable solely by the System pursuant to agreements between the borrowing entities and the issuing authorities. The Series 2021 Term Loan, Series 2020 Term Loan, Series 2018 Sterling Notes, Series 2016 Private Placement, Series 2014 Bonds, and Series 2013 Keep Memory Alive Bonds are issued directly by the Clinic or its subsidiaries. Under various financing agreements, the System must meet certain operating and financial performance covenants.

In 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) 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 pay the cost of issuance.

In September 2023, 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 \$300 million of variable-rate Hospital Revenue Bonds (Series 2023 Bonds) for the benefit of the System. Proceeds from the Series 2023 Bonds were used to finance certain capital expenditures of the System and pay the cost of issuance. The Series 2023 Bonds were fully refunded in 2024.

On May 1, 2023, the System remarketed the Series 2019C Bonds and converted the interest rate from a variable rate to a fixed rate of 2.75% with a five-year mandatory tender date.

The System maintains the Cleveland Clinic Health System Obligated Group Commercial Paper Program (CP Program), which provides for the issuance of the Series 2014A CP Notes. The CP Program was established in November 2014 and will terminate no later than January 2044. The Series 2014A CP Notes may be issued from time to time in a maximum outstanding face amount of \$100 million and are supported by the System's self-liquidity program. The System did not have any outstanding Series 2014A CP Notes at December 31, 2024 or 2023.

Certain of the System's current outstanding bonds bear interest at a variable rate. During 2024 and 2023, the rates for the System's variable rate long-term debt series ranged from 0.45% to 5.50% (average rate 3.45%) and 1.00% to 5.83% (average rate 3.38%), respectively.

Certain variable rate bonds totaling \$594.9 million at December 31, 2024, are secured by irrevocable direct pay letters of credit and standby bond purchase agreements. Long-term variable rate debt is classified as current in the consolidated balance sheets if it is supported by letters of

11. Long-Term Debt (continued)

credit or standby bond purchase agreements that expire within one year, require repayment of a remarketing draw within one year, or contain a subjective clause that, if declared by the lender, could cause immediate repayment of the bonds.

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

As of December 31, 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 in 2025 and \$450 million expiring in 2026.

During the terms of agreements with the issuing authorities, the System is required to make specified deposits with trustees to fund principal and interest payments when due. Also, unexpended bond proceeds are held by the trustee and released to the System for approved requisition requests for capital projects. Unexpended bond proceeds, included in funds held by trustees, totaled \$1.8 million at December 31, 2024. There were no unexpended bond proceeds at December 31, 2023. There was no current portion of funds held by trustees at December 31, 2024 or 2023.

The System is subject to certain restrictive covenants, including provisions relating to certain debt ratios, days cash on hand, and other matters. The System was in compliance with these covenants at December 31, 2024 and 2023.

Combined current aggregate scheduled maturities of long-term debt, excluding finance leases and assuming the remarketing of the variable rate demand bonds, for the five years subsequent to December 31, 2024, are as follows (in thousands): 2025 – \$81,509, 2026 – \$69,117, 2027 – \$86,249, 2028 – \$90,514, and 2029 – \$95,150.

Total interest paid approximated \$178.6 million and \$178.1 million in 2024 and 2023, respectively. Capitalized interest cost approximated \$9.8 million and \$3.8 million in 2024 and 2023, respectively.

12. Derivative Instruments

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

The System's objective with respect to interest rate risk is to manage the risk of rising interest rates on the System's variable rate debt. Consistent with its interest rate risk management objective, the System has entered into various interest rate swap agreements with a total notional amount of \$289.4 million and \$499.5 million at December 31, 2024 and 2023, respectively. In 2024, the System terminated three fixed payor swaps with a notional amount totaling \$169.6 million. The System did not have a significant gain or loss on the termination of the swaps.

The swap agreements mature in varying years between 2027 and 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 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 in the consolidated statements of operations and changes in net assets.

12. Derivative Instruments (continued)

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

		Derivative Assets and Liabilities			
		December 31, 2024		December 31, 2023	
		Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives not designated as hedging instruments					
Interest rate swap agreements	Other noncurrent liabilities	\$ 6,078	Other noncurrent liabilities	\$ 30,851	

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

		Location of Gain Recognized	Year Ended December 31	
			2024	2023
Derivatives not designated as hedging instruments				
Interest rate swap agreements	Derivative gains		\$ 11,606	\$ 1,669

The System has used various derivative contracts in connection with certain prior obligations and investments. Although minimum credit ratings are required for counterparties, this does not eliminate the risk that a counterparty may fail to honor its obligations. Derivative contracts are subject to periodic "mark-to-market" valuations. A derivative contract may, at any time, have a positive or negative value to the System. In the event that the negative value reaches certain thresholds established in the derivative contracts, the System is required to post collateral, which could adversely affect its liquidity. At December 31, 2024 and 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.

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13. Leases

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

Operating and finance lease right-of-use assets and lease liabilities as of December 31, 2024 and 2023 were as follows (in thousands):

	<u>2024</u>	<u>2023</u>
Operating leases		
Right-of-use assets:		
Operating lease assets	<u>\$ 374,656</u>	<u>\$ 369,310</u>
Lease liabilities:		
Other current liabilities	<u>\$ 60,715</u>	<u>\$ 59,826</u>
Noncurrent operating lease liabilities	<u>328,034</u>	<u>321,609</u>
Total operating lease liabilities	<u>\$ 388,749</u>	<u>\$ 381,435</u>
Finance leases		
Right-of-use assets:		
Property, plant, and equipment, net	<u>\$ 132,933</u>	<u>\$ 97,979</u>
Lease liabilities:		
Current portion of long-term debt	<u>\$ 26,752</u>	<u>\$ 28,611</u>
Long-term debt	<u>107,073</u>	<u>75,625</u>
Total finance lease liabilities	<u>\$ 133,825</u>	<u>\$ 104,236</u>

Operating expenses for the leasing activity of the System as lessee for the years ended December 31, 2024 and 2023 are as follows (in thousands):

<u>Lease Type</u>	<u>Classification</u>	<u>2024</u>	<u>2023</u>
Operating lease costs*	Facilities expense	<u>\$ 67,727</u>	<u>\$ 62,485</u>
Short-term lease costs	Facilities expense	<u>27,402</u>	<u>27,926</u>
Financing lease interest	Interest expense	<u>4,292</u>	<u>4,829</u>
Financing lease amortization	Depreciation and amortization	<u>32,288</u>	<u>32,453</u>
Total lease cost		<u>\$ 131,709</u>	<u>\$ 127,693</u>

* Includes fixed and variable lease costs.

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13. Leases (continued)

Cash paid for amounts included in the measurement of lease liabilities for the years ended December 31, 2024 and 2023 was as follows (in thousands):

	<u>2024</u>	<u>2023</u>
Operating cash flows from operating leases	\$ 67,996	\$ 61,488
Operating cash flows from finance leases	4,292	4,829
Financing cash flows from finance leases	29,723	29,980
Total	<u>\$ 102,011</u>	<u>\$ 96,297</u>

Right-of-use assets obtained in exchange for new lease obligations for the years ended December 31, 2024 and 2023 are as follows (in thousands):

	<u>2024</u>	<u>2023</u>
Operating leases	\$ 46,228	\$ 27,323
Finance leases	68,132	16,444
Total	<u>\$ 114,360</u>	<u>\$ 43,767</u>

The aggregate future lease payments for operating and finance leases as of December 31, 2024 were as follows (in thousands):

	<u>Operating</u>	<u>Finance</u>
2025	\$ 54,965	\$ 30,776
2026	48,540	24,422
2027	35,797	18,860
2028	27,023	13,535
2029	21,163	11,035
Thereafter	1,269,422	87,328
Total lease payments	1,456,910	185,956
Less interest	(1,068,161)	(52,131)
Present value of lease liabilities	<u>\$ 388,749</u>	<u>\$ 133,825</u>

13. Leases (continued)

Average lease terms and discount rates at December 31, 2024 and 2023 were as follows:

	2024	2023
Weighted average remaining lease term (years):		
Operating leases	47.2	48.7
Finance leases	9.1	8.2
Weighted average discount rate:		
Operating leases	2.8%	2.6%
Finance leases	3.7	4.3

Included in the tables above is a long-term leasehold interest in a building in London, England that expires in June 2139. The System operates a hospital in the building. Rental expense is fixed at increasing annual rates until December 2027, after which rental expense will be adjusted annually by a variable index that is subject to minimum and maximum thresholds through the end of the lease term. Excluding this lease, the weighted average remaining lease term for the System’s operating leases is 7.1 years and 7.7 years at December 31, 2024 and 2023, respectively.

14. Professional and General Liability Insurance

The System manages its professional and general liability insurance program primarily through captive insurance arrangements. The captive insurance subsidiaries maintain reinsurance contracts with commercial carriers for coverages in excess of certain limits.

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

14. Professional and General Liability Insurance (continued)

The System's professional and general liability insurance reserves of \$350.1 million and \$326.6 million at December 31, 2024 and 2023, respectively, are recorded as current and noncurrent liabilities and include discounted estimates of the ultimate costs for both asserted claims and unasserted claims. Asserted claims for the System's reserves were discounted at 4.75% and 5.00% at December 31, 2024 and 2023, respectively. Unasserted claims were discounted at 4.75% at both December 31, 2024 and 2023. Through the captive insurance subsidiaries, the System has set aside investments of \$255.4 million (\$89.6 million included in investments for current use) and \$283.4 million (\$74.7 million included in investments for current use) at December 31, 2024 and 2023, respectively, of which \$36.6 million and \$35.3 million at December 31, 2024 and 2023, respectively, is restricted in accordance with reinsurance trust agreements related to coverage of the Florida operations and other reinsurance programs provided by the captive insurance subsidiaries.

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

	<u>2024</u>	<u>2023</u>
Balance at beginning of year	\$ 326,644	\$ 280,535
Incurred related to:		
Current period	119,441	117,034
Prior period	41,986	20,332
Total incurred	<u>161,427</u>	<u>137,366</u>
Paid related to:		
Current period	13,979	23,884
Prior period	136,708	90,757
Total paid	<u>150,687</u>	<u>114,641</u>
Total incurred less total paid	<u>10,740</u>	<u>22,725</u>
Increase in unasserted claims	10,739	6,088
Increase in reinsurance recoverable	1,973	17,296
Balance at end of year	<u>\$ 350,096</u>	<u>\$ 326,644</u>

14. Professional and General Liability Insurance (continued)

The foregoing reconciliation shows \$42.0 million and \$20.3 million of unfavorable development in 2024 and 2023, respectively, primarily due to changes in actuarial estimates of outstanding claims influenced by the impact of both regular and social inflation that has created an upward national trend of jury verdicts and settlement amounts, as well as a few larger than normal claim settlement payments over the last few years. The System utilizes a combination of actual and industry statistics to estimate loss and loss adjustment expense reserves.

15. 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.

15. Pensions and Other Postretirement Benefits (continued)

The System sponsors two noncontributory, defined contribution plans and three 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 and certain employees of 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 Cleveland Clinic Cash Balance Plan (CBP) is a noncontributory, defined contribution plan that covers certain professional and administrative employees not covered by the IPP. The System's contribution to the CBP is a percentage of employee compensation that is determined according to age. Prior to 2024, the System sponsored ten tax-qualified contributory, defined contribution plans covering active System employees. In 2024, the System established a new contributory, defined contribution plan and merged eight defined contribution plans related to various System entities into the new or existing plans. Accordingly, the System currently sponsors three tax-qualified contributory, defined contribution plans, including 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.

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

The mortality tables used to calculate the defined benefit obligation for the System's defined benefit and postretirement health benefit plans are based on the Pri-2012 "Employees," "Healthy Retiree" and "Contingent Annuitant" tables, fully generational for employees, reflecting (i) recently observed mortality experience adjustments from the Society of Actuaries Research Institute to the MP-2021 projection scale from the 2012 base year for defined benefit obligations at December 31, 2024, and (ii) the Internal Revenue Service adjusted MP-2021 projection scale from the 2012 base year for defined benefit obligations at December 31, 2023. Mortality tables used to calculate the defined benefit obligation for the System's qualified defined benefit plans also include adjustments for annuitant tables based on application of a geospatial mortality model. The System believes that the updated mortality rates are the best estimate of future experience.

15. Pensions and Other Postretirement Benefits (continued)

The System expects to make contributions of \$16.2 million to the defined benefit pension plans in 2025. Pension benefit payments over the next ten years are estimated as follows: 2025 – \$202.9 million, 2026 – \$124.5 million, 2027 – \$123.3 million, 2028 – \$121.2 million, 2029 – \$117.7 million, and in the aggregate for the five years thereafter – \$513.0 million.

The System expects to make contributions of \$2.5 million to other postretirement benefit plans in 2025. Other postretirement benefit payments over the next ten years are estimated as follows: 2025 – \$2.5 million, 2026 – \$2.2 million, 2027 – \$1.9 million, 2028 – \$1.8 million, 2029 – \$1.6 million, and in the aggregate for the five years thereafter – \$6.8 million.

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

Included in net assets without donor restrictions at December 31, 2024 and 2023 are the following amounts that have not yet been recognized in net periodic benefit (credit) cost (in thousands):

	Defined Benefit Pension Plans		Other Postretirement Benefits	
	2024	2023	2024	2023
Unrecognized actuarial losses	\$ 104,439	\$ 97,110	\$ 1,835	\$ 8,329
Unrecognized prior service credit	(3,783)	(5,598)	(8,268)	(6,618)
Total	\$ 100,656	\$ 91,512	\$ (6,433)	\$ 1,711

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

15. Pensions and Other Postretirement Benefits (continued)

Changes in plan assets and benefit obligations recognized in net assets without donor restrictions for the years ended December 31, 2024 and 2023 are as follows (in thousands):

	Defined Benefit Pension Plans		Other Postretirement Benefits	
	2024	2023	2024	2023
Current year actuarial (loss) gain	\$ (2,220)	\$ 12,912	\$ 6,494	\$ (6,627)
Recognition of actuarial (gain) loss in excess of corridor	(5,109)	4,080	–	2,066
Current year prior service credit	–	–	3,001	–
Amortization of prior service credit	(1,815)	(1,816)	(1,351)	(1,351)
Total	\$ (9,144)	\$ 15,176	\$ 8,144	\$ (5,912)

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15. Pensions and Other Postretirement Benefits (continued)

The following table sets forth the funded status of the System's pensions and other postretirement benefit plans and the amounts recognized in the System's December 31, 2024 and 2023, consolidated balance sheets (in thousands):

	Defined Benefit Pension Plans		Other Postretirement Benefits	
	2024	2023	2024	2023
Change in projected benefit obligation:				
Projected benefit obligation at beginning of year	\$ 1,419,709	\$ 1,440,454	\$ 83,292	\$ 79,344
Service (credit) cost	(2,243)	(2,433)	729	760
Interest cost	71,413	76,618	4,280	4,283
Actuarial (gain) loss	(35,862)	27,633	(6,494)	6,627
Participant contributions	–	–	29,509	27,680
Plan amendments	–	–	(3,001)	–
Settlement payments	–	(58,568)	–	–
Benefits paid	(109,915)	(63,995)	(40,882)	(35,402)
Projected benefit obligation at end of year	1,343,102	1,419,709	67,433	83,292
Change in plan assets:				
Fair value of plan assets at beginning of year	1,312,355	1,301,399	–	–
Actual return on plan assets	27,896	105,628	–	–
Participant contributions	–	–	29,509	27,680
System contributions	14,755	27,891	11,373	7,722
Benefits paid	(109,915)	(122,563)	(40,882)	(35,402)
Fair value of plan assets at end of year	1,245,091	1,312,355	–	–
Accrued retirement benefits	\$ (98,011)	\$ (107,354)	\$ (67,433)	\$ (83,292)
Noncurrent assets	\$ 47,829	\$ 49,099	\$ –	\$ –
Current liabilities	(11,922)	(11,863)	(2,546)	(2,891)
Noncurrent liabilities	(133,918)	(144,590)	(64,887)	(80,401)
Net liability recognized in consolidated balance sheets	\$ (98,011)	\$ (107,354)	\$ (67,433)	\$ (83,292)

15. Pensions and Other Postretirement Benefits (continued)

The accumulated benefit obligation for all defined benefit pension plans was \$1.3 billion and \$1.4 billion at December 31, 2024 and 2023, respectively. At December 31, 2024, defined benefit pension plans that had projected benefit obligations in excess of the fair value of plan assets had total accumulated benefit obligations of \$139.1 million, projected benefit obligations of \$145.8 million and no plan assets. At December 31, 2024, defined benefit pension plans that had fair value of plan assets in excess of projected benefit obligations had total accumulated benefit obligations and projected benefit obligations of \$1.2 billion and fair value of plan assets of \$1.2 billion. At December 31, 2023, defined benefit pension plans that had projected benefit obligations in excess of the fair value of plan assets had total accumulated benefit obligations of \$146.6 million, projected benefit obligations of \$156.5 million and no plan assets. At December 31, 2023, defined benefit pension plans that had fair value of plan assets in excess of projected benefit obligations had total accumulated benefit obligations and projected benefit obligations of \$1.3 billion and fair value of plan assets of \$1.3 billion.

Actuarial gains and losses related to changes in the benefit obligation of defined benefit pension plans were \$35.9 million of gains and \$27.6 million of losses in 2024 and 2023, respectively. Significant components of gains and losses impacting defined benefit pension plans include changes in the discount rate, demographic experience changes and updates to the mortality assumption. Actuarial gains and losses related to changes in the benefit obligation of other postretirement benefit plans were \$6.5 million of gains and \$6.6 million of losses in 2024 and 2023, respectively. Significant components of gains and losses impacting other postretirement benefit plans include changes in the discount rate, updates to healthcare claim costs and updates to the mortality assumption.

The CCHS Retirement Plan paid \$58.6 million in lump-sum payments in accordance with plan terms in 2023, which exceeded the sum of the service cost and interest cost components of net periodic benefit cost. As a result, the System recorded a settlement charge of \$5.4 million for the year ended December 31, 2023.

15. Pensions and Other Postretirement Benefits (continued)

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

	Defined Benefit Pension Plans		Other Postretirement Benefits	
	2024	2023	2024	2023
Components of net periodic benefit cost:				
Service (credit) cost	\$ (2,243)	\$ (2,433)	\$ 729	\$ 760
Interest cost	71,413	76,618	4,280	4,283
Expected return on plan assets	(65,978)	(65,083)	–	–
Recognition of actuarial (gain) loss in excess of corridor	(5,109)	(1,320)	–	2,066
Settlement charge	–	5,400	–	–
Amortization of prior service credit	(1,815)	(1,816)	(1,351)	(1,351)
Net periodic benefit (credit) cost	(3,732)	11,366	3,658	5,758
Defined contribution plans	430,812	385,439	–	–
Total	\$ 427,080	\$ 396,805	\$ 3,658	\$ 5,758

The service (credit) cost 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 service (credit) cost are included in other nonoperating gains and losses in the consolidated statements of operations and changes in net assets.

15. Pensions and Other Postretirement Benefits (continued)

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

	Defined Benefit Pension Plans		Other Postretirement Benefits	
	2024	2023	2024	2023
Weighted average assumptions:				
Discount rates:				
Used for benefit obligations	5.77%	5.40%	5.68%	5.18%
Used for net periodic benefit cost	5.40	5.69	5.18	5.46
Expected rate of return on plan assets	5.37	5.35	–	–
Rate of compensation increase:				
Used for benefit obligations	3.00	3.00	–	–
Used for net periodic benefit cost	3.00	3.00	–	–
Crediting interest rate on cash balance plans	5.92	5.92	–	–

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

15. Pensions and Other Postretirement Benefits (continued)

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

	<u>2024</u>	<u>2023</u>
Internally provided services:		
Initial rate	5.50%	5.75%
Ultimate rate	4.25	4.25
Year ultimate rate reached	2030	2030
Externally provided services:		
Initial rate	6.50%	6.75%
Ultimate rate	5.25	5.25
Year ultimate rate reached	2030	2030

The System's weighted average asset allocation of pension plan assets at December 31, 2024 and 2023, by asset category, is as follows:

	<u>Percentage of Plan Assets</u>		
	<u>2024</u>	<u>2023</u>	<u>Target Allocation</u>
Asset category			
Interest-bearing cash	5.0%	5.4%	1%-5%
Fixed-income securities	73.0	70.6	60%-90%
Common and preferred stocks	7.7	8.2	3%-25%
Alternative investments	14.3	15.8	0%-19%
Total	100 %	100 %	

The System's investment strategy for its pension assets balances the liquidity needs of the pension plans with the long-term return goals necessary to satisfy future pension obligations. Interest-bearing cash includes amount held by various investment management organizations that can fluctuate based on the timing of investment activity and expected cash flows. The target allocation ranges of the investment pool to various asset classes are designed to diversify the portfolio in a way that achieves an efficient trade-off between long-term return and risk, while providing adequate liquidity to meet near-term expenses and obligations.

15. Pensions and Other Postretirement Benefits (continued)

The System's weighted average pension portfolio return assumption of 5.37% and 5.35% in 2024 and 2023, respectively, is based on the targeted assumed rate of return through its asset mix at the beginning of each year, which is designed to mitigate short-term return volatility and achieve an efficient trade-off between return and risk. Expected returns and risk for each asset class are formed using a global capital asset pricing model framework in which the expected return is the compensation earned from taking risk. Forward-looking adjustments are made to expected return, volatility, and correlation estimates as well. Additionally, constraints such as permissible asset classes, portfolio guidelines, and liquidity considerations are included in the model.

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

15. Pensions and Other Postretirement Benefits (continued)

The following tables present the financial instruments in the System's defined benefit pension plans measured at fair value on a recurring basis as of December 31, 2024 and 2023, based on the valuation hierarchy (in thousands):

December 31, 2024

	Level 1	Level 2	Level 3	Total
Assets				
Cash and investments:				
Cash and cash equivalents	\$ 61,902	\$ 34	\$ –	\$ 61,936
Fixed-income securities:				
U.S. treasuries	282,465	–	–	282,465
U.S. government agencies	–	12,419	–	12,419
U.S. corporate	–	382,995	–	382,995
Foreign	–	73,628	–	73,628
Total assets at fair value	\$ 344,367	\$ 469,076	\$ –	\$ 813,443

December 31, 2023

	Level 1	Level 2	Level 3	Total
Assets				
Cash and investments:				
Cash and cash equivalents	\$ 70,817	\$ 35	\$ –	\$ 70,852
Fixed-income securities:				
U.S. treasuries	240,093	–	–	240,093
U.S. government agencies	–	15,774	–	15,774
U.S. corporate	–	423,856	–	423,856
Foreign	–	74,850	–	74,850
Total assets at fair value	\$ 310,910	\$ 514,515	\$ –	\$ 825,425

15. Pensions and Other Postretirement Benefits (continued)

Total plan assets in the System's defined benefit pension plans at December 31, 2024 and 2023 are comprised of the following (in thousands):

	<u>2024</u>	<u>2023</u>
Plan assets measured at fair value	\$ 813,443	\$ 825,425
Commingled funds measured at net asset value	254,049	279,097
Alternative investments measured at net asset value	177,599	207,833
Total fair value of plan assets at end of year	<u>\$ 1,245,091</u>	<u>\$ 1,312,355</u>

Fair value methodologies for Level 1 and Level 2 are consistent with the inputs described in Note 8.

Fixed-income securities include debt obligations of the U.S. government and various agencies, U.S. corporations, and other fixed-income instruments such as mortgage-backed and asset-backed securities. Additionally, investments may include mutual funds and commingled fixed-income funds that invest opportunistically in non-U.S. and high-yield debt instruments. Commingled fixed-income funds are valued using net asset value as a practical expedient.

Common and preferred stocks include commingled equity funds whose underlying assets may include publicly traded equity securities. Commingled equity funds are valued using net asset value as a practical expedient.

15. Pensions and Other Postretirement Benefits (continued)

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

16. Income Taxes

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

The System files income tax returns in the U.S. federal jurisdiction and in various state and foreign jurisdictions. Generally, the System is no longer subject to U.S. federal, state, local and non-U.S. tax examinations by tax authorities for years before 2021.

Uncertain income tax positions were not significant to the consolidated financial statements at December 31, 2024 and 2023. The System does not expect a significant increase or decrease in unrecognized tax benefits within the next 12 months. The System recognizes accrued interest and penalties related to the liability for unrecognized tax benefits in the consolidated statements of operations and changes in net assets.

16. Income Taxes (continued)

The System has temporary differences of \$2.0 billion and \$1.3 billion at December 31, 2024 and 2023, respectively. The temporary differences primarily relate to net operating losses available for income tax purposes. The majority of these losses expire in varying amounts through 2037. A deferred tax asset of \$379.2 million and \$313.0 million has been recorded at December 31, 2024 and 2023, respectively. A valuation allowance of \$379.2 million and \$313.0 million has been recorded at December 31, 2024 and 2023, respectively, against the deferred tax assets due to the uncertainty regarding their use.

17. Commitments and Contingent Liabilities

At December 31, 2024, the System has commitments for construction and other related capital contracts of \$1.0 billion and letters of credit of \$0.7 million. Guarantees of mortgage loans made by banks to certain staff members are \$21.6 million at December 31, 2024. In addition, the System has remaining commitments to invest approximately \$1.6 billion in alternative investments at December 31, 2024. The largest commitment at December 31, 2024 to any one alternative strategy manager is \$75.0 million. These investments are generally expected to occur within the next five years. No amounts have been recorded in the consolidated balance sheets for these commitments and guarantees.

Pledge liabilities to various foundations and other entities at December 31, 2024, are as follows (in thousands): 2025 – \$29,880, 2026 – \$16,230, 2027 – \$9,380, 2028 – \$600, 2029 – \$500, and thereafter – \$2,000. The unamortized discount on pledge liabilities at December 31, 2024 was \$1.6 million. Pledge liabilities are recorded in other current liabilities and other noncurrent liabilities in the consolidated balance sheets.

18. Endowment

The System's endowment consists of 404 individual donor-restricted funds established for a variety of purposes and one board-designated endowment fund that supports research and education activities of the System. See Note 19 for a summary of research and education expenses of the System for the years ended December 31, 2024 and 2023. Endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions as net assets without donor restrictions or net assets with donor restrictions. The board-designated endowment fund was established effective July 2023 with a contribution of net assets without donor restrictions of \$3.5 billion, and the fund was increased to \$5.0 billion during 2024. The income on the board-designated endowment fund is used to provide for ongoing operating support of a portion of the System's research and education expenses.

18. Endowment (continued)

Interpretation of Relevant Law

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

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

18. Endowment (continued)

Funds With Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the original and subsequent donor gift amounts. These deficiencies can result from unfavorable market fluctuations that occur shortly after the investment of new contributions for donor-restricted endowment funds and continued appropriations for certain programs that are deemed prudent by the System. The System maintains policies that permit spending from underwater endowment funds, depending on the degree to which the fund is underwater, unless otherwise precluded by donor intent or relevant laws and regulations. As of December 31, 2024 and 2023, the System had no significant deficiencies of this nature in donor-restricted endowment funds.

Return Objectives and Risk Parameters

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

Strategies Employed for Achieving Objectives

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

18. Endowment (continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy

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

Changes in Endowment Net Assets

The System maintains a board-designated endowment fund that is not subject to donor restrictions and is included within unrestricted long-term investments and net assets without donor restrictions. The board-designated endowment fund was established in 2023 with a contribution of \$3.5 billion. The board-designated endowment fund had investment return of \$146 million and appropriations of \$88 million during 2023, resulting in a balance of \$3.6 billion at December 31, 2023. Changes in the board-designated endowment fund during 2024 include contributions of \$1.3 billion, investment return of \$365 million and appropriations of \$213 million, resulting in a balance of \$5.1 billion at December 31, 2024.

Donor-restricted endowment funds were \$599 million at January 1, 2023. Changes in donor-restricted endowment funds during 2023 include contributions of \$23 million, investment return of \$41 million and appropriations of \$15 million, resulting in a balance of \$648 million at December 31, 2023. Changes in donor-restricted endowment funds during 2024 include contributions of \$29 million, investment return of \$60 million and appropriations of \$28 million, resulting in a balance of \$709 million at December 31, 2024.

CLEVELAND CLINIC HEALTH SYSTEM
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2024

19. Functional Expenses

The following tables present expenses by both their nature and their function for the years ended December 31, 2024 and 2023 (in thousands):

	2024					
	Healthcare Services	Research	Education	General and Administrative	Non-Healthcare Services	Total
Salaries, wages, and benefits	\$7,139,303	\$ 267,310	\$ 600,985	\$ 918,506	\$ 94,696	\$9,020,800
Supplies	1,413,720	27,386	11,605	11,541	19,666	1,483,918
Pharmaceuticals	2,292,486	193	6	3,636	2,442	2,298,763
Purchased services and other fees	698,941	16,795	14,570	381,527	13,534	1,125,367
Administrative services	60,503	76,185	26,431	31,102	51,368	245,589
Facilities	427,433	7,952	1,805	25,695	16,353	479,238
Insurance	191,922	–	23	4,901	479	197,325
Interest	170,639	2,001	–	1,407	2,834	176,881
Depreciation and amortization	446,726	14,809	661	163,480	6,929	632,605
	\$12,841,673	\$ 412,631	\$ 656,086	\$1,541,795	\$ 208,301	\$15,660,486

	2023					
	Healthcare Services	Research	Education	General and Administrative	Non-Healthcare Services	Total
Salaries, wages, and benefits	\$6,547,754	\$ 248,844	\$ 555,863	\$ 920,634	\$ 95,791	\$8,368,886
Supplies	1,421,209	29,268	12,718	13,261	13,663	1,490,119
Pharmaceuticals	1,902,310	357	12	3,795	3	1,906,477
Purchased services and other fees	616,710	17,064	13,425	372,639	13,449	1,033,287
Administrative services	77,907	70,785	24,164	38,282	41,337	252,475
Facilities	408,970	7,069	2,436	25,277	16,785	460,537
Insurance	166,415	–	169	3,525	584	170,693
Interest	157,473	1,958	–	1,108	15,408	175,947
Depreciation and amortization	391,993	8,333	748	134,552	24,357	559,983
	\$11,690,741	\$ 383,678	\$ 609,535	\$1,513,073	\$ 221,377	\$14,418,404

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

20. Subsequent Events

The System evaluated events and transactions occurring subsequent to December 31, 2024 through March 28, 2025, 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.

**CLEVELAND CLINIC HEALTH SYSTEM
OTHER INFORMATION
FOR THE PERIOD ENDED DECEMBER 31, 2024**

Unaudited Consolidating Balance Sheets
(\$ in thousands)

	December 31, 2024			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments and Eliminations	Consolidated
Assets				
Current assets:				
Cash and cash equivalents	\$ 986,681	\$ 35,665	\$ –	\$ 1,022,346
Patient receivables	1,558,559	361,195	(69,738)	1,850,016
Due from affiliates	30,238	7,664	(37,902)	–
Investments for current use	–	89,627	–	89,627
Other current assets	682,838	188,409	(8,065)	863,182
Total current assets	3,258,316	682,560	(115,705)	3,825,171
Investments:				
Long-term investments	10,613,125	1,331,384	–	11,944,509
Funds held by trustees	6,169	–	–	6,169
Assets held for self-insurance	–	165,757	–	165,757
Donor-restricted assets	1,443,640	127,961	–	1,571,601
	12,062,934	1,625,102	–	13,688,036
Property, plant, and equipment, net	5,262,656	1,619,572	–	6,882,228
Other assets:				
Pledges receivable, net	123,392	14,460	–	137,852
Trusts and interests in foundations	67,364	30,198	–	97,562
Operating lease right-of-use assets	138,883	235,773	–	374,656
Other noncurrent assets	1,001,915	184,440	(75,826)	1,110,529
	1,331,554	464,871	(75,826)	1,720,599
Total assets	<u>\$ 21,915,460</u>	<u>\$ 4,392,105</u>	<u>\$ (191,531)</u>	<u>\$ 26,116,034</u>

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

**CLEVELAND CLINIC HEALTH SYSTEM
OTHER INFORMATION
FOR THE PERIOD ENDED DECEMBER 31, 2024**

Unaudited Consolidating Balance Sheets (continued)
(\$ in thousands)

	December 31, 2024			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments and Eliminations	Consolidated
Liabilities and net assets				
Current liabilities:				
Accounts payable	\$ 678,591	\$ 141,077	\$ (124)	\$ 819,544
Compensation and amounts withheld from payroll	627,337	81,597	-	708,934
Current portion of long-term debt	100,795	7,466	-	108,261
Variable rate debt classified as current	659,393	42,106	-	701,499
Due to affiliates	5,150	32,752	(37,902)	-
Other current liabilities	639,770	217,362	(70,162)	786,970
Total current liabilities	<u>2,711,036</u>	<u>522,360</u>	<u>(108,188)</u>	<u>3,125,208</u>
Long-term debt	3,691,201	892,847	(3,146)	4,580,902
Other liabilities:				
Professional and general liability insurance reserves	130,894	129,575	-	260,469
Accrued retirement benefits	197,807	998	-	198,805
Operating lease liabilities	98,130	229,904	-	328,034
Other noncurrent liabilities	738,046	68,372	(7,517)	798,901
	<u>1,164,877</u>	<u>428,849</u>	<u>(7,517)</u>	<u>1,586,209</u>
Total liabilities	7,567,114	1,844,056	(118,851)	9,292,319
Net assets:				
Without donor restrictions	12,632,974	2,348,049	(72,680)	14,908,343
With donor restrictions	1,715,372	200,000	-	1,915,372
Total net assets	<u>14,348,346</u>	<u>2,548,049</u>	<u>(72,680)</u>	<u>16,823,715</u>
Total liabilities and net assets	<u>\$ 21,915,460</u>	<u>\$ 4,392,105</u>	<u>\$ (191,531)</u>	<u>\$ 26,116,034</u>

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

**CLEVELAND CLINIC HEALTH SYSTEM
OTHER INFORMATION
FOR THE PERIOD ENDED DECEMBER 31, 2024**

Unaudited Consolidating Balance Sheets (continued)
(\$ in thousands)

	December 31, 2023			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments and Eliminations	Consolidated
Assets				
Current assets:				
Cash and cash equivalents	\$ 655,095	\$ 43,870	\$ –	\$ 698,965
Patient receivables	1,506,099	393,097	(39,639)	1,859,557
Due from affiliates	14,625	3,227	(17,852)	–
Investments for current use	–	74,703	–	74,703
Other current assets	729,532	203,265	(9,778)	923,019
Total current assets	2,905,351	718,162	(67,269)	3,556,244
Investments:				
Long-term investments	10,063,164	1,249,335	–	11,312,499
Funds held by trustees	8,724	–	–	8,724
Assets held for self-insurance	–	208,650	–	208,650
Donor-restricted assets	1,318,471	113,774	–	1,432,245
	11,390,359	1,571,759	–	12,962,118
Property, plant, and equipment, net	4,687,206	1,594,810	–	6,282,016
Other assets:				
Pledges receivable, net	151,304	19,288	–	170,592
Trusts and interests in foundations	63,819	28,674	–	92,493
Operating lease right-of-use assets	121,611	247,699	–	369,310
Other noncurrent assets	1,171,247	180,783	(340,058)	1,011,972
	1,507,981	476,444	(340,058)	1,644,367
Total assets	\$ 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.

**CLEVELAND CLINIC HEALTH SYSTEM
OTHER INFORMATION
FOR THE PERIOD ENDED DECEMBER 31, 2024**

Unaudited Consolidating Balance Sheets (continued)
(\$ in thousands)

	December 31, 2023			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments and Eliminations	Consolidated
Liabilities and net assets				
Current liabilities:				
Accounts payable	\$ 538,310	\$ 159,257	\$ (303)	\$ 697,264
Compensation and amounts withheld from payroll	569,560	80,758	–	650,318
Current portion of long-term debt	98,474	7,883	–	106,357
Variable rate debt classified as current	797,560	44,794	–	842,354
Due to affiliates	2,650	15,202	(17,852)	–
Other current liabilities	553,461	201,632	(39,900)	715,193
Total current liabilities	<u>2,560,015</u>	<u>509,526</u>	<u>(58,055)</u>	<u>3,011,486</u>
Long-term debt	3,488,071	1,110,794	(287,378)	4,311,487
Other liabilities:				
Professional and general liability insurance reserves	73,745	178,196	–	251,941
Accrued retirement benefits	223,907	1,084	–	224,991
Operating lease liabilities	83,910	237,699	–	321,609
Other noncurrent liabilities	590,460	69,725	(9,214)	650,971
	<u>972,022</u>	<u>486,704</u>	<u>(9,214)</u>	<u>1,449,512</u>
Total liabilities	7,020,108	2,107,024	(354,647)	8,772,485
Net assets:				
Without donor restrictions	11,845,711	2,067,365	(52,680)	13,860,396
With donor restrictions	1,625,078	186,786	–	1,811,864
Total net assets	<u>13,470,789</u>	<u>2,254,151</u>	<u>(52,680)</u>	<u>15,672,260</u>
Total liabilities and net assets	<u>\$ 20,490,897</u>	<u>\$ 4,361,175</u>	<u>\$ (407,327)</u>	<u>\$ 24,444,745</u>

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

**CLEVELAND CLINIC HEALTH SYSTEM
OTHER INFORMATION
FOR THE PERIOD ENDED DECEMBER 31, 2024**

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

Operations

Operations	Three Months Ended December 31, 2024			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments and Eliminations	Consolidated
Unrestricted revenues				
Net patient service revenue	\$ 2,937,933	\$ 693,321	\$ (108,077)	\$ 3,523,177
Other	564,695	122,541	(60,016)	627,220
Total unrestricted revenues	3,502,628	815,862	(168,093)	4,150,397
Expenses				
Salaries, wages, and benefits	1,911,111	471,445	(123,320)	2,259,236
Supplies	252,270	75,108	(250)	327,128
Pharmaceuticals	571,032	64,846	–	635,878
Purchased services and other fees	242,972	65,141	(22,043)	286,070
Administrative services	11,931	66,668	(7,504)	71,095
Facilities	87,181	34,940	(393)	121,728
Insurance	40,481	55,618	(14,558)	81,541
	3,116,978	833,766	(168,068)	3,782,676
Operating income (loss) before interest, depreciation and amortization	385,650	(17,904)	(25)	367,721
Interest	34,315	8,474	–	42,789
Depreciation and amortization	151,100	37,054	(25)	188,129
Operating income (loss)	200,235	(63,432)	–	136,803
Nonoperating gains and losses				
Investment return	(54,681)	(5,243)	–	(59,924)
Derivative gains	5,750	–	–	5,750
Other, net	1,925	399	–	2,324
Net nonoperating losses	(47,006)	(4,844)	–	(51,850)
Excess (deficiency) of revenues over expenses	153,229	(68,276)	–	84,953

(continued on next page)

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

**CLEVELAND CLINIC HEALTH SYSTEM
OTHER INFORMATION
FOR THE PERIOD ENDED DECEMBER 31, 2024**

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

Changes in Net Assets

Changes in Net Assets	Three Months Ended December 31, 2024			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments and Eliminations	Consolidated
Changes in net assets without donor restrictions				
Excess (deficiency) of revenues over expenses	\$ 153,229	\$ (68,276)	\$ –	\$ 84,953
Donated capital	385	–	–	385
Net assets released from restrictions				
for capital purposes	40,842	2,555	–	43,397
Retirement benefits adjustment	2,555	(1,180)	–	1,375
Foreign currency translation	–	(4,739)	–	(4,739)
Other	(266,905)	283,042	(20,000)	(3,863)
(Decrease) Increase in net assets without donor restrictions	(69,894)	211,402	(20,000)	121,508
Changes in net assets with donor restrictions				
Gifts and bequests	84,786	7,617	–	92,403
Net investment income	2,268	413	–	2,681
Net assets released from restrictions used				
for operations included in other unrestricted revenues	(43,790)	(3,379)	–	(47,169)
Net assets released from restrictions for capital purposes	(40,842)	(2,555)	–	(43,397)
Change in interests in foundations	(779)	–	–	(779)
Change in value of perpetual trusts	829	387	–	1,216
Other	4,243	(384)	–	3,859
Increase in net assets with donor restrictions	6,715	2,099	–	8,814
(Decrease) increase in net assets	(63,179)	213,501	(20,000)	130,322
Net assets at beginning of period	14,411,525	2,334,548	(52,680)	16,693,393
Net assets at end of period	\$ 14,348,346	\$ 2,548,049	\$ (72,680)	\$ 16,823,715

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

**CLEVELAND CLINIC HEALTH SYSTEM
OTHER INFORMATION
FOR THE PERIOD ENDED DECEMBER 31, 2024**

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

Operations

Operations	Three Months Ended December 31, 2023			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments and Eliminations	Consolidated
Unrestricted revenues				
Net patient service revenue	\$ 2,743,916	\$ 604,206	\$ (104,141)	\$ 3,243,981
Other	420,852	137,478	(68,591)	489,739
Total unrestricted revenues	3,164,768	741,684	(172,732)	3,733,720
Expenses				
Salaries, wages, and benefits	1,796,575	454,612	(120,713)	2,130,474
Supplies	308,781	84,901	(144)	393,538
Pharmaceuticals	448,286	45,900	–	494,186
Purchased services and other fees	233,717	62,171	(17,941)	277,947
Administrative services	17,321	58,795	(7,962)	68,154
Facilities	85,464	36,049	(294)	121,219
Insurance	32,192	60,073	(25,653)	66,612
	2,922,336	802,501	(172,707)	3,552,130
Operating income (loss) before interest, depreciation and amortization	242,432	(60,817)	(25)	181,590
Interest	37,525	8,501	–	46,026
Depreciation and amortization	42,964	24,366	(25)	67,305
Operating income (loss)	161,943	(93,684)	–	68,259
Nonoperating gains and losses				
Investment return	471,417	65,710	–	537,127
Derivative losses	(16,717)	(112)	–	(16,829)
Other, net	(28,543)	(2,057)	–	(30,600)
Net nonoperating gains	426,157	63,541	–	489,698
Excess (deficiency) of revenues over expenses	588,100	(30,143)	–	557,957

(continued on next page)

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

**CLEVELAND CLINIC HEALTH SYSTEM
OTHER INFORMATION
FOR THE PERIOD ENDED DECEMBER 31, 2024**

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

Changes in Net Assets

Changes in Net Assets	Three Months Ended December 31, 2023			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments and Eliminations	Consolidated
Changes in net assets without donor restrictions				
Excess (deficiency) of revenues over expenses	\$ 588,100	\$ (30,143)	\$ –	\$ 557,957
Donated capital	1,504	–	–	1,504
Net assets released from restrictions				
for capital purposes	4,247	670	–	4,917
Retirement benefits adjustment	3,956	7,683	–	11,639
Foreign currency translation	–	3,528	–	3,528
Other	(208,496)	235,743	(28,000)	(753)
Increase in net assets without donor restrictions	389,311	217,481	(28,000)	578,792
Changes in net assets with donor restrictions				
Gifts and bequests	50,128	9,135	–	59,263
Net investment income	43,611	1,729	–	45,340
Net assets released from restrictions used				
for operations included in other unrestricted revenues	(31,069)	(3,162)	–	(34,231)
Net assets released from restrictions for capital purposes	(4,247)	(670)	–	(4,917)
Change in interests in foundations	970	–	–	970
Change in value of perpetual trusts	187	967	–	1,154
Other	244	456	–	700
Increase in net assets with donor restrictions	59,824	8,455	–	68,279
Increase in net assets	449,135	225,936	(28,000)	647,071
Net assets at beginning of period	13,021,654	2,028,215	(24,680)	15,025,189
Net assets at end of period	\$ 13,470,789	\$ 2,254,151	\$ (52,680)	\$ 15,672,260

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

**CLEVELAND CLINIC HEALTH SYSTEM
OTHER INFORMATION
FOR THE PERIOD ENDED DECEMBER 31, 2024**

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

Operations

Operations	Year Ended December 31, 2024			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments and Eliminations	Consolidated
Unrestricted revenues				
Net patient service revenue	\$ 11,455,815	\$ 2,678,495	\$ (431,614)	\$ 13,702,696
Other	2,003,803	456,157	(226,458)	2,233,502
Total unrestricted revenues	13,459,618	3,134,652	(658,072)	15,936,198
Expenses				
Salaries, wages, and benefits	7,622,482	1,882,833	(484,515)	9,020,800
Supplies	1,161,387	323,307	(776)	1,483,918
Pharmaceuticals	2,064,704	234,059	–	2,298,763
Purchased services and other fees	958,774	248,525	(81,932)	1,125,367
Administrative services	26,718	249,927	(31,056)	245,589
Facilities	341,285	139,396	(1,443)	479,238
Insurance	127,126	128,449	(58,250)	197,325
	12,302,476	3,206,496	(657,972)	14,851,000
Operating income (loss) before interest, depreciation and amortization	1,157,142	(71,844)	(100)	1,085,198
Interest	142,331	34,550	–	176,881
Depreciation and amortization	477,745	154,960	(100)	632,605
Operating income (loss)	537,066	(261,354)	–	275,712
Nonoperating gains and losses				
Investment return	577,736	121,037	–	698,773
Derivative gains (losses)	11,767	(161)	–	11,606
Other, net	(6,327)	588	–	(5,739)
Net nonoperating gains	583,176	121,464	–	704,640
Excess (deficiency) of revenues over expenses	1,120,242	(139,890)	–	980,352

(continued on next page)

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

**CLEVELAND CLINIC HEALTH SYSTEM
OTHER INFORMATION
FOR THE PERIOD ENDED DECEMBER 31, 2024**

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

Changes in Net Assets

Changes in Net Assets	Year Ended December 31, 2024			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments and Eliminations	Consolidated
Changes in net assets without donor restrictions				
Excess (deficiency) of revenues over expenses	\$ 1,120,242	\$ (139,890)	\$ –	\$ 980,352
Donated capital	461	–	–	461
Net assets released from restrictions				
for capital purposes	68,930	5,772	–	74,702
Retirement benefits adjustment	779	(1,779)	–	(1,000)
Foreign currency translation	–	(1,933)	–	(1,933)
Transfers (to) from affiliates	(403,145)	403,145	–	–
Other	(4)	15,369	(20,000)	(4,635)
Increase in net assets without donor restrictions	787,263	280,684	(20,000)	1,047,947
Changes in net assets with donor restrictions				
Gifts and bequests	215,950	27,569	–	243,519
Net investment income	72,687	5,253	–	77,940
Net assets released from restrictions used				
for operations included in other unrestricted revenues	(138,708)	(15,178)	–	(153,886)
Net assets released from restrictions for capital purposes	(68,930)	(5,772)	–	(74,702)
Change in interests in foundations	239	–	–	239
Change in value of perpetual trusts	2,595	1,844	–	4,439
Other	6,461	(502)	–	5,959
Increase in net assets with donor restrictions	90,294	13,214	–	103,508
Increase in net assets	877,557	293,898	(20,000)	1,151,455
Net assets at beginning of year	13,470,789	2,254,151	(52,680)	15,672,260
Net assets at end of year	<u>\$ 14,348,346</u>	<u>\$ 2,548,049</u>	<u>\$ (72,680)</u>	<u>\$ 16,823,715</u>

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

**CLEVELAND CLINIC HEALTH SYSTEM
OTHER INFORMATION
FOR THE PERIOD ENDED DECEMBER 31, 2024**

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

Operations

Operations	Year Ended December 31, 2023			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments and Eliminations	Consolidated
Unrestricted revenues				
Net patient service revenue	\$ 10,670,907	\$ 2,402,576	\$ (419,226)	\$ 12,654,257
Other	1,600,447	489,142	(261,169)	1,828,420
Total unrestricted revenues	12,271,354	2,891,718	(680,395)	14,482,677
Expenses				
Salaries, wages, and benefits	7,066,068	1,766,406	(463,588)	8,368,886
Supplies	1,170,907	319,747	(535)	1,490,119
Pharmaceuticals	1,722,537	183,940	–	1,906,477
Purchased services and other fees	868,394	247,679	(82,786)	1,033,287
Administrative services	46,211	235,534	(29,270)	252,475
Facilities	329,621	132,542	(1,626)	460,537
Insurance	109,852	163,331	(102,490)	170,693
	11,313,590	3,049,179	(680,295)	13,682,474
Operating income (loss) before interest, depreciation and amortization	957,764	(157,461)	(100)	800,203
Interest	141,594	34,353	–	175,947
Depreciation and amortization	427,522	132,561	(100)	559,983
Operating income (loss)	388,648	(324,375)	–	64,273
Nonoperating gains and losses				
Investment return	779,140	109,941	–	889,081
Derivative gains (losses)	2,304	(635)	–	1,669
Other, net	(42,727)	(1,085)	–	(43,812)
Net nonoperating gains	738,717	108,221	–	846,938
Excess (deficiency) of revenues over expenses	1,127,365	(216,154)	–	911,211

(continued on next page)

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

**CLEVELAND CLINIC HEALTH SYSTEM
OTHER INFORMATION
FOR THE PERIOD ENDED DECEMBER 31, 2024**

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

Changes in Net Assets

Changes in Net Assets	Year Ended December 31, 2023			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments and Eliminations	Consolidated
Changes in net assets without donor restrictions				
Excess (deficiency) of revenues over expenses	\$ 1,127,365	\$ (216,154)	\$ –	\$ 911,211
Donated capital	1,553	16	–	1,569
Net assets released from restrictions				
for capital purposes	12,066	2,176	–	14,242
Retirement benefits adjustment	2,180	7,084	–	9,264
Foreign currency translation	–	6,339	–	6,339
Transfers (to) from affiliates	(343,001)	343,001	–	–
Other	1	26,994	(28,000)	(1,005)
Increase in net assets without donor restrictions	800,164	169,456	(28,000)	941,620
Changes in net assets with donor restrictions				
Gifts and bequests	109,156	32,361	–	141,517
Net investment income	82,519	4,371	–	86,890
Net assets released from restrictions used				
for operations included in other unrestricted revenues	(115,565)	(28,028)	–	(143,593)
Net assets released from restrictions for capital purposes	(12,066)	(2,176)	–	(14,242)
Change in interests in foundations	(263)	–	–	(263)
Change in value of perpetual trusts	(784)	2,019	–	1,235
Other	870	130	–	1,000
Increase in net assets with donor restrictions	63,867	8,677	–	72,544
Increase in net assets	864,031	178,133	(28,000)	1,014,164
Net assets at beginning of year	12,606,758	2,076,018	(24,680)	14,658,096
Net assets at end of year	\$ 13,470,789	\$ 2,254,151	\$ (52,680)	\$ 15,672,260

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

**CLEVELAND CLINIC HEALTH SYSTEM
OTHER INFORMATION
FOR THE PERIOD ENDED DECEMBER 31, 2024**

Unaudited Consolidating Statements of Cash Flows
(\$ in thousands)

	Year Ended December 31, 2024			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments and Eliminations	Consolidated
Operating activities and net nonoperating gains and losses				
Increase in net assets	\$ 877,557	\$ 293,898	\$ (20,000)	\$ 1,151,455
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	-	-	414
Retirement benefits adjustment	(779)	1,779	-	1,000
Net realized and unrealized gains on investments	(736,902)	(113,019)	-	(849,921)
Depreciation and amortization	477,745	151,480	(100)	629,125
Foreign currency translation loss	-	1,933	-	1,933
Donated capital	(461)	-	-	(461)
Restricted gifts, bequests, and other	(218,784)	(29,413)	-	(248,197)
Transfers to (from) affiliates	403,145	(403,145)	-	-
Amortization of bond premiums and debt issuance costs	(10,954)	178	-	(10,776)
Net gain in value of derivatives	(10,981)	-	-	(10,981)
Pension funding	(25,790)	(338)	-	(26,128)
Changes in operating assets and liabilities:				
Patient receivables	(52,460)	30,947	30,099	8,586
Other current assets	22,012	11,329	18,337	51,678
Other noncurrent assets	151,896	5,498	(264,132)	(106,738)
Accounts payable and other current liabilities	270,596	18,373	(50,133)	238,836
Other liabilities	167,230	(56,715)	1,697	112,212
Net cash provided by (used in) operating activities and net nonoperating gains and losses	1,313,484	(87,215)	(284,232)	942,037
Financing activities				
Proceeds from long-term borrowings	503,218	1,029	(1,029)	503,218
Payments to refund long-term debt	(300,000)	-	-	(300,000)
Principal payments on long-term debt	(136,829)	(256,391)	285,261	(107,959)
Debt issuance costs	(3,318)	-	-	(3,318)
Change in pledges receivables, trusts and interests in foundations	33,436	2,119	-	35,555
Restricted gifts, bequests, and other	218,784	29,413	-	248,197
Net cash provided by (used in) financing activities	315,291	(223,830)	284,232	375,693
Investing activities				
Expenditures for property, plant, and equipment	(970,331)	(143,015)	-	(1,113,346)
Proceeds from sale of property, plant, and equipment	11,960	-	-	11,960
Net change in cash equivalents reported in long-term investments	(25,525)	(3,086)	-	(28,611)
Purchases of investments	(5,132,768)	(628,340)	-	(5,761,108)
Sales of investments	5,222,763	675,906	-	5,898,669
Transfers (to) from affiliates	(403,145)	403,145	-	-
Net cash (used in) provided by investing activities	(1,297,046)	304,610	-	(992,436)
Effect of exchange rate changes on cash and cash equivalents	-	(2,042)	-	(2,042)
Increase (decrease) in cash, cash equivalents and restricted cash	331,729	(8,477)	-	323,252
Cash, cash equivalents and restricted cash at beginning of year	658,473	45,243	-	703,716
Cash, cash equivalents and restricted cash at end of year	\$ 990,202	\$ 36,766	\$ -	\$ 1,026,968

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

**CLEVELAND CLINIC HEALTH SYSTEM
OTHER INFORMATION
FOR THE PERIOD ENDED DECEMBER 31, 2024**

Unaudited Consolidating Statements of Cash Flows
(\$ in thousands)

	Year Ended December 31, 2023			
	Obligat ed Group	Non- Obligat ed Group	Consolidating Adjus tme nts and Eliminations	
			Consolidat ed	Consolidat ed
Operating activities and net nonoperating gains and losses				
Increase in net assets	\$ 864,031	\$ 178,133	\$ (28,000)	\$ 1,014,164
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities and net nonoperating gains and losses:				
Retirement benefits adjustment	(2,180)	(7,084)	–	(9,264)
Net realized and unrealized gains on investments	(851,602)	(102,235)	–	(953,837)
Depreciation and amortization	427,522	127,656	(100)	555,078
Foreign currency translation gain	–	(6,339)	–	(6,339)
Donated capital	(1,553)	(16)	–	(1,569)
Restricted gifts, bequests, and other	(190,628)	(38,751)	–	(229,379)
Transfers to (from) affiliates	343,001	(343,001)	–	–
Amortization of bond premiums and debt issuance costs	(7,581)	171	–	(7,410)
Net gain in value of derivatives	(1,815)	–	–	(1,815)
Pension funding	(34,441)	(1,172)	–	(35,613)
Changes in operating assets and liabilities:				
Patient receivables	(113,920)	(42,592)	4,995	(151,517)
Other current assets	203,135	(54,738)	(228,449)	(80,052)
Other noncurrent assets	(144,966)	(41,945)	28,390	(158,521)
Accounts payable and other current liabilities	(196,057)	(128,422)	228,457	(96,022)
Other liabilities	107,532	61,854	(5,003)	164,383
Net cash provided by (used in) operating activities and net nonoperating gains and losses	400,478	(398,481)	290	2,287
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	300,000	290	(290)	300,000
Principal payments on long-term debt	(125,644)	(7,080)	–	(132,724)
Debt issuance costs	(587)	–	–	(587)
Change in pledges receivables, trusts and interests in foundations	49,596	12,851	–	62,447
Restricted gifts, bequests, and other	190,628	38,751	–	229,379
Net cash provided by financing activities	413,993	44,812	(290)	458,515
Investing activities				
Expenditures for property, plant, and equipment	(653,472)	(115,518)	–	(768,990)
Proceeds from sale of property, plant, and equipment	12,390	–	–	12,390
Net change in cash equivalents reported in long-term investments	12,045	(186,911)	–	(174,866)
Purchases of investments	(3,771,737)	(635,201)	–	(4,406,938)
Sales of investments	4,035,204	673,404	–	4,708,608
Transfers (to) from affiliates	(343,001)	343,001	–	–
Net cash (used in) provided by investing activities	(708,571)	78,775	–	(629,796)
Effect of exchange rate changes on cash and cash equivalents	–	4,365	–	4,365
Increase (decrease) in cash, cash equivalents and restricted cash	105,900	(270,529)	–	(164,629)
Cash, cash equivalents and restricted cash at beginning of year	552,573	315,772	–	868,345
Cash, cash equivalents and restricted cash at end of year	<u>\$ 658,473</u>	<u>\$ 45,243</u>	<u>\$ –</u>	<u>\$ 703,716</u>

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

**CLEVELAND CLINIC HEALTH SYSTEM
OTHER INFORMATION
FOR THE PERIOD ENDED DECEMBER 31, 2024**

Utilization

The following table provides selected utilization statistics for the System:

	Year Ended December 31		
	2022	2023	2024
Total Staffed Beds ⁽¹⁾	5,328	5,343	5,270
Percent Occupancy ⁽¹⁾	73.8%	76.5%	77.9%
Inpatient Admissions ⁽¹⁾			
Acute	234,693	254,433	259,989
Post-acute	9,856	9,591	9,473
Total	244,549	264,024	269,462
Patient Days ⁽¹⁾			
Acute	1,255,688	1,263,212	1,275,440
Post-acute	81,399	78,413	76,251
Total	1,337,087	1,341,625	1,351,691
Average Length of Stay			
Acute	5.22	4.98	4.91
Post-acute	8.04	8.19	8.09
Surgical Facility Cases			
Inpatient	72,673	77,331	80,536
Outpatient	208,204	230,023	239,399
Total	280,877	307,354	319,935
Emergency Department Visits	907,491	951,863	993,993
Outpatient Observations	68,613	68,572	73,002
Outpatient Evaluation and Management Visits	6,854,080	7,515,108	7,908,916
Acute Medicare Case Mix Index - Health System	2.00	1.98	2.03
Acute Medicare Case Mix Index - Cleveland Clinic	2.95	2.99	3.09
Total Acute Patient Case Mix Index - Health System	1.93	1.91	1.95
Total Acute Patient Case Mix Index - Cleveland Clinic	2.84	2.84	2.93

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

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

**CLEVELAND CLINIC HEALTH SYSTEM
OTHER INFORMATION
FOR THE PERIOD ENDED DECEMBER 31, 2024**

Utilization (continued)

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

	Year Ended December 31		
	2022	2023	2024
Total Staffed Beds ⁽¹⁾	4,104	4,113	4,047
Percent Occupancy ⁽¹⁾	74.9%	78.1%	79.7%
Inpatient Admissions ⁽¹⁾			
Acute	181,709	196,482	200,013
Post-acute	5,762	5,938	5,830
Total	187,471	202,420	205,843
Patient Days ⁽¹⁾			
Acute	989,958	1,002,826	1,011,518
Post-acute	48,716	50,874	50,166
Total	1,038,674	1,053,700	1,061,684
Surgical Facility Cases			
Inpatient	59,384	62,661	64,626
Outpatient	166,565	187,565	195,904
Total	225,949	250,226	260,530
Emergency Department Visits	660,421	697,515	732,958
Outpatient Observations	51,084	53,109	57,142
Outpatient Evaluation and Management Visits	5,447,629	5,965,741	6,283,469
Acute Medicare Case Mix Index	2.05	2.04	2.08
Total Acute Patient Case Mix Index	1.98	1.97	2.01

⁽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.

**CLEVELAND CLINIC HEALTH SYSTEM
OTHER INFORMATION
FOR THE PERIOD ENDED DECEMBER 31, 2024**

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		
	2022	2023	2024
<u>Payor</u>			
Managed Care and Commercial	34%	34%	34%
Medicare	51%	51%	51%
Medicaid	13%	13%	12%
Self-Pay & Other	2%	2%	3%
Total	100%	100%	100%

**OBLIGATED GROUP
Based on Gross Patient Service Revenue**

	Year Ended December 31		
	2022	2023	2024
<u>Payor</u>			
Managed Care and Commercial	37%	37%	37%
Medicare	48%	49%	49%
Medicaid	13%	12%	12%
Self-Pay & Other	2%	2%	2%
Total	100%	100%	100%

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

**CLEVELAND CLINIC HEALTH SYSTEM
OTHER INFORMATION
FOR THE PERIOD ENDED DECEMBER 31, 2024**

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		
	2022	2023	2024
External Grants Earned			
Federal Sources	\$ 161,270	\$ 157,489	\$ 164,172
Non-Federal Sources	138,925	145,922	171,933
Total	300,195	303,411	336,105
Internal Support	77,569	100,549	105,725
Total Sources of Support	\$ 377,764	\$ 403,960	\$ 441,830

**CLEVELAND CLINIC HEALTH SYSTEM
OTHER INFORMATION
FOR THE PERIOD ENDED DECEMBER 31, 2024**

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		
	2022	2023	2024
Excess (deficiency) of revenues over expenses	\$ (760,743)	\$ 1,127,365	\$ 1,120,242
Plus depreciation, amortization and interest	613,647	569,116	620,076
(Less) plus (increase) decrease in unrealized net (gains) losses on investments and earnings on alternative investments	947,024	(729,756)	(673,845)
Less increase in fair value of derivative instruments	(84,336)	(1,815)	(10,981)
Actuarial gains and losses related to pension plans, gains and losses resulting from changes in foreign currency exchange rates and other	89,857	29,269	5,907
Funds available for debt service	<u>\$ 805,449</u>	<u>\$ 994,179</u>	<u>\$ 1,061,399</u>
Maximum annual debt service**	\$ 237,645	\$ 262,828	\$ 289,198
Maximum annual debt service coverage (x)	3.39	3.78	3.67

NOTES:

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

**CLEVELAND CLINIC HEALTH SYSTEM
OTHER INFORMATION
FOR THE PERIOD ENDED DECEMBER 31, 2024**

Other Key Ratios

The following table provides selected key ratios for the System:

	Year Ended December 31		
	2022	2023	2024
Liquidity ratios			
Days of cash on hand	334	316	315
Days of revenue in accounts receivable	50	53	48
Coverage ratios			
Cash to debt (%)	228.8	228.3	240.5
Interest expense coverage (x)	3.9	4.8	5.9
Leverage ratios			
Debt to cash flow (x)	8.5	6.2	5.2
Debt to capitalization (%)	28.1	27.5	26.6
Debt to revenue (%)	38.8	36.3	33.8
Profitability ratios			
Operating margin (%)	(1.6)	0.4	1.7
Operating cash flow margin (%)	4.3	5.5	6.8
Excess margin (%)	(10.4)	5.9	5.9
Return on assets (%)	(5.4)	3.7	3.8

OVERVIEW

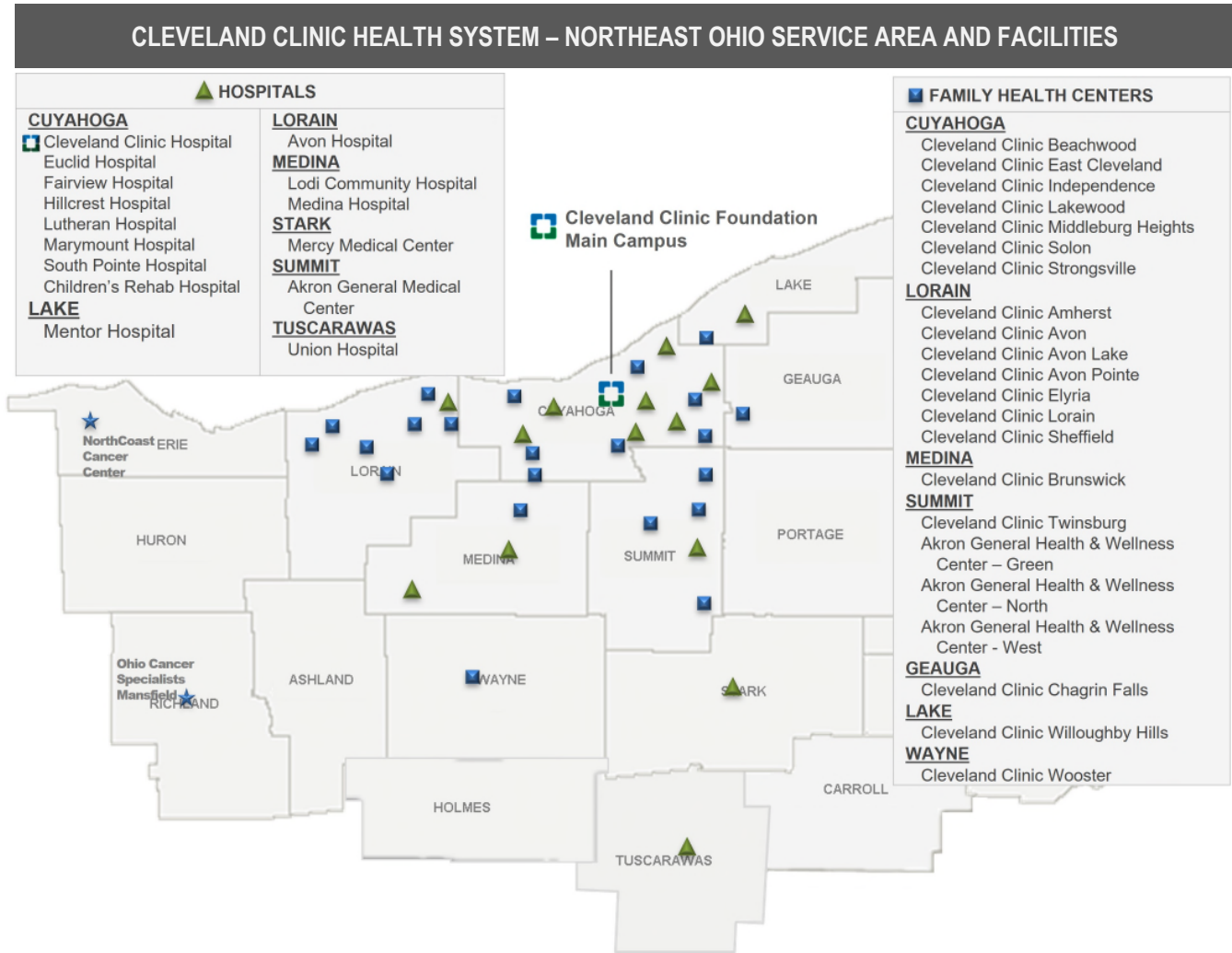
The Cleveland Clinic Health System (System) is a world-renowned provider of healthcare services that attracted patients from across the United States and from 178 other countries in 2024. As of December 31, 2024, the System operates 21 hospitals with approximately 5,500 staffed beds and is the leading 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 Cole Eye Building
Cleveland, OH**

**CLEVELAND CLINIC HEALTH SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD ENDED DECEMBER 31, 2024**

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 HEALTH SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD ENDED DECEMBER 31, 2024**

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



**CLEVELAND CLINIC HEALTH SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD ENDED DECEMBER 31, 2024**

The following table sets forth the hospitals operated by the obligated issuers and their affiliates, together with each hospital's staffed bed count as of December 31, 2024:

	Staffed Beds
<u>OBLIGATED</u>	
Cleveland Clinic	1,227
Avon Hospital	126
Euclid Hospital	146
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
	4,047
<u>NON-OBLIGATED</u>	
Akron General Medical Center	478
Children's Rehabilitation Hospital	25
Indian River Hospital	275
Lodi Hospital	20
London Hospital	184
Mercy Hospital	323
Union Hospital	102
	1,407
HEALTH SYSTEM	5,454



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:



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 2025, the Clinic was named the second-best hospital in the world for the seventh consecutive year by *Newsweek* as part of its "World's Best Hospitals 2025" 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 data sources including: opinions from more than 85,000 global medical experts; publicly available data on patient experience and hospital quality metrics; and patient reported outcome measures. Fairview Hospital and Cleveland Clinic Abu Dhabi were also ranked in the top 225 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.

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, eleven 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.

**CLEVELAND CLINIC HEALTH SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD ENDED DECEMBER 31, 2024**

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



Members of the Committees are chosen based on the interests and skills of individual Board members and the needs of the particular Committee. Most Committees meet three or four times per year, though a few 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.



**Cleveland Clinic Union Hospital
Dover, OH**

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.



Lisa Yerian, MD was appointed Executive Vice President and Chief Clinical and Operational Improvement Officer effective April 15, 2024. 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.



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.



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.



Steven Shook, MD was appointed Chief Safety, Quality and Patient Experience Officer, effective December 1, 2024. Dr. Shook joined the Clinic as a staff neurologist in 2007 and has held various leadership roles. He most recently served as the Interim Safety, Quality and Patient Experience Officer and previously served as Medical Director of the Neurosciences Unit, Quality Improvement Officer and Vice Chair of Operations from 2011 to 2021.



Brian Harte, MD was appointed President of Hillcrest and Mentor Hospitals and President of the East Submarket of the Northeast Ohio Market, effective February 1, 2025. Dr. Harte has been with the Clinic for more than 20 years and most recently served as President of Akron General and Lodi Hospital and President of the South Submarket of the Northeast Ohio Market. Dr. Harte previously served as President of both Hillcrest and South Pointe Hospitals and was the former Chair of the Department of Hospital Medicine and the Medicine Institute at the Clinic. Dr. Harte replaced Richard Parker, MD, who retired on January 31, 2025.



Teri Lash-Ritter, MD was appointed President of Akron General and Lodi Hospitals and President of the South Submarket of the Northeast Ohio Market, effective February 1, 2025. Dr. Lash-Ritter most recently served as the Chief Medical Officer at Akron General and Lodi hospitals. She previously served as the Associate Chief Experience Officer for Cleveland Clinic Regional Hospitals and the Associate Chief Experience Officer for Akron General. Dr. Lash-Ritter replaces Brian Harte, MD, who was appointed the new President of Hillcrest and Mentor hospitals and President of the East Submarket of the Northeast Ohio Market.



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.



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.



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.



Rakesh Sharma was appointed Chief Information Security Officer, effective February 15, 2025. Mr. Sharma joined the Clinic in 2022 as the Senior Director of Cybersecurity Assurance and most recently served as the Interim Chief Information Security Officer since November 2024. Mr. Sharma has more than 25 years of experience in healthcare information technology and cybersecurity leadership. His past appointments include roles at Accenture, Health Care Service Corporation and Froedtert 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 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 2024, under the new operating model, the System adopted a new enterprise, market-focused planning approach. The strategy emerging from this process guides the organization and positions the System to not only succeed, but to lead. Through this strategy, the System will strive to build on its integrated strategic, financial and capital plan to sustainably achieve its mission and fulfill its vision.

The strategy to achieve the System's vision 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; engaging environment for caregivers; development of new technologies; 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. This quantum program is 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 joined 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 900 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, 39 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 project includes a new four-story addition that opened for patients in February 2025. The new addition adds approximately 150,000 square feet to the existing building and features an ophthalmic surgical center with eight operating rooms, 60 new exam rooms, enhanced imaging capabilities and dedicated spaces for patient check-in and discharge. The second phase of the project includes the renovation and redesign of the existing 130,000 square foot building, which is expected to be complete in the fourth quarter of 2025. The renovation will include a dedicated space for pediatric ophthalmology and updated imaging services. A portion of the project costs have been 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 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. 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 2025, the Clinic and Columbus Regional Health (CRH) announced that CRH will become the second domestic member of the Cleveland Clinic Connected. CRH is a health system that serves a ten-county region in southeastern Indiana.

SUSTAINABILITY

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.

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

- **Energy Efficiency:** 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.
- **Waste reduction:** 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.
- **Better Buying:** 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 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.

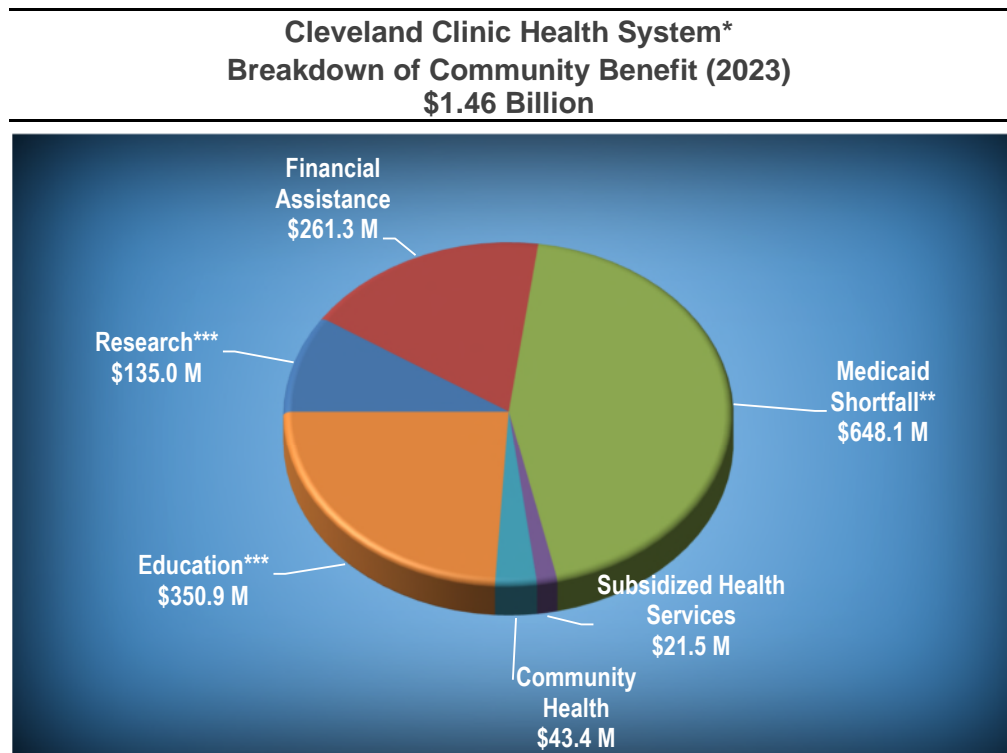
In 2024, the Clinic, ten regional hospitals and nine family health centers received Practice Greenhealth Environmental Excellence Awards. Launched in 2002, the awards program recognizes healthcare facilities and health systems for their commitment to environmental stewardship and sustainability achievements.

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 \$1.46 billion in community benefits in 2023, 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:



- * Includes all System operations in Ohio, Nevada and Florida
- ** Includes net Hospital Care Assurance Program receipts of \$7.2 million
- *** Research and Education are reported net of externally sponsored funding of \$325.4 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).

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.

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.



**Cleveland Clinic Fairview Hospital
Cleveland, OH**

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 2024, which is the 16th year the management report was completed. As part of the internal control evaluation process for 2024, certifications were completed by 130 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.



**Cleveland Clinic Akron General Hospital
Akron, OH**

PATIENTS SERVED

The following table summarizes patient utilization statistics for the System:

	For the quarter ended December 31				For the year ended December 31			
	2024	2023	Variance	%	2024	2023	Variance	%
Inpatient admissions ⁽¹⁾								
Acute admissions	63,576	65,408	-1,832	-2.8%	259,989	254,433	5,556	2.2%
Post-acute admissions	2,326	2,361	-35	-1.5%	9,473	9,591	-118	-1.2%
	65,902	67,769	-1,867	-2.8%	269,462	264,024	5,438	2.1%
Patient days ⁽¹⁾								
Acute patient days	313,235	321,924	-8,689	-2.7%	1,275,440	1,263,212	12,228	1.0%
Post-acute patient days	18,373	19,484	-1,111	-5.7%	76,251	78,413	-2,162	-2.8%
	331,608	341,408	-9,800	-2.9%	1,351,691	1,341,625	10,066	0.8%
Surgical cases								
Inpatient	19,531	19,365	166	0.9%	80,536	77,331	3,205	4.1%
Outpatient	60,044	57,832	2,212	3.8%	239,399	230,023	9,376	4.1%
	79,575	77,197	2,378	3.1%	319,935	307,354	12,581	4.1%
Emergency department visits	251,998	245,128	6,870	2.8%	993,993	951,863	42,130	4.4%
Observations	19,367	16,624	2,743	16.5%	73,002	68,572	4,430	6.5%
Clinic outpatient evaluation and management visits	1,995,983	1,903,304	92,679	4.9%	7,908,916	7,515,108	393,808	5.2%
⁽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. In 2024, London Hospital reported more than 131,000 total patient encounters, a 33% increase compared to 2023.

Patient activity in 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 decreased 2.8% in the fourth quarter of 2024 and increased 2.2% in 2024 compared to the same periods in 2023. In 2024, acute admissions for the System in Ohio increased 3.3%, while the Florida facilities decreased 1.3% compared to 2023.

Total surgical cases for the System increased 3.1% in the fourth quarter of 2024 and 4.1% in 2024 compared to the same periods in 2023. In 2024, total surgical cases for the System in Ohio increased 4.4%, while the Florida facilities increased 3.2% compared to 2023.

Evaluation and management visits for the System increased 4.9% in the fourth quarter of 2024 and 5.2% in 2024 compared to the same periods in 2023. In 2024, evaluations and management visits for the System in Ohio increased 5.3%, while the Florida facilities increased 4.7% compared to 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 HEALTH SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD ENDED DECEMBER 31, 2024**

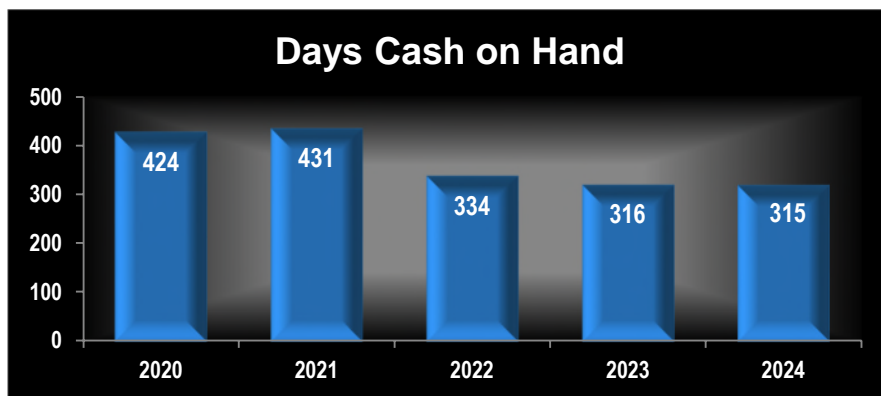
The following table sets forth the allocation of the System's cash and investments in its general investment portfolios and captive insurance fund at December 31, 2024 and December 31, 2023:

**Cash and Investments
(Dollars in thousands)**

	December 31, 2024		December 31, 2023	
Cash and cash equivalents	\$ 1,523,028	10%	\$ 1,160,513	9%
Fixed income securities*	2,829,198	19%	3,078,102	22%
Marketable equity securities*	3,131,218	21%	2,709,692	20%
Alternative investments	7,316,565	50%	6,787,479	49%
Total cash and investments	\$ 14,800,009	100%	\$ 13,735,786	100%
Less restricted investments**	<u>(1,833,154)</u>		<u>(1,724,322)</u>	
Unrestricted cash and investments	\$ 12,966,855		\$ 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 five years:



At December 31, 2024, total cash and investments for the System (including restricted investments) were \$14.8 billion, an increase of approximately \$1,064 million from \$13.7 billion at December 31, 2023. Cash inflows consist of investment gains of \$849.9 million, net cash provided by operating activities of \$942.0 million, net increases in restricted gifts of \$283.8 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 \$1,101 million and principal payments on debt of \$108.0 million.

Included in the System's cash and investments are investments held for self-insurance. These investments totaled \$255.4 million at December 31, 2024, with an asset mix of 5% cash and short-term investments, 35% fixed income securities, 29% 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 December 31, 2024 and December 31, 2023 consist of the following:

**Alternative Investments
(Dollars in thousands)**

	December 31, 2024		December 31, 2023		
Hedge funds	\$	3,677,767	50%	\$ 3,498,957	52%
Private equity/venture capital		3,638,798	50%	3,288,522	48%
Total alternative investments	\$	7,316,565	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.

**CLEVELAND CLINIC HEALTH SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD ENDED DECEMBER 31, 2024**

The System maintains a board-designated endowment fund that was established effective July 2023 with a contribution of net assets without donor restrictions of \$3.5 billion, and the fund was increased to \$5.0 billion during the third quarter of 2024. The increase in the board-designated fund generated an additional \$18.8 million of investment return designated for current operations for the fourth quarter of 2024 and \$37.5 million for the year ended December 31, 2024, compared to the same periods in 2023. 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 7.5% in 2024 compared to gains of 9.3% 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 December 31		For the year ended December 31	
	2024	2023	2024	2023
Other unrestricted revenue:				
Interest income and dividends	\$ 3,665	\$ 1,516	\$ 7,693	\$ 4,358
Investment return designated for current operations	62,500	43,750	212,500	87,500
	66,165	45,266	220,193	91,858
Nonoperating gains and losses, net:				
Interest income and dividends	38,891	35,118	160,846	127,173
Net realized (losses) gains on sales of investments	(17,364)	13,679	42,605	51,801
Net change in unrealized (losses) gains on investments	(147,718)	348,801	185,109	390,728
Equity method income on alternative investments	136,666	191,136	555,600	438,192
Investment management fees	(7,899)	(7,857)	(32,887)	(31,313)
Investment return designated for current operations	(62,500)	(43,750)	(212,500)	(87,500)
	(59,924)	537,127	698,773	889,081
Other changes in net assets:				
Investment income on restricted investments	2,681	45,340	77,940	86,890
Total investment return	\$ 8,922	\$ 627,733	\$ 996,906	\$ 1,067,829

Operating Lines of Credit

As of December 31, 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 December 31, 2024, outstanding current and long-term debt for the System totaled \$5.4 billion, comprised of \$5,082 million in bonds and notes, \$133.8 million in finance leases and \$206.0 million in unamortized net premium, offset by \$31.0 million of unamortized debt issuance costs. Bonds and notes are structured with approximately 80% fixed-rate debt and 20% variable-rate debt. The System utilizes various interest rate swap derivative contracts to manage the risk of increased debt service resulting from rising market interest rates on variable-rate bonds. The total notional amount on the System's interest rate swap contracts at December 31, 2024 was \$289.4 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 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 December 31, 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 December 31, 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.

**CLEVELAND CLINIC HEALTH SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD ENDED DECEMBER 31, 2024**

The System maintains the Cleveland Clinic Health System Obligated Group Commercial Paper Program (CP Program), which provides for the issuance of the Series 2014A CP Notes. The CP Program was established in November 2014 and will terminate no later than January 2044. The Series 2014A CP Notes may be issued from time to time in a maximum outstanding face amount of \$100 million and are supported by the System's self-liquidity program. At December 31, 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 December 31, 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 \$1.26 and \$1.27 at December 31, 2024 and December 31, 2023, respectively.



**CLEVELAND CLINIC HEALTH SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD ENDED DECEMBER 31, 2024**

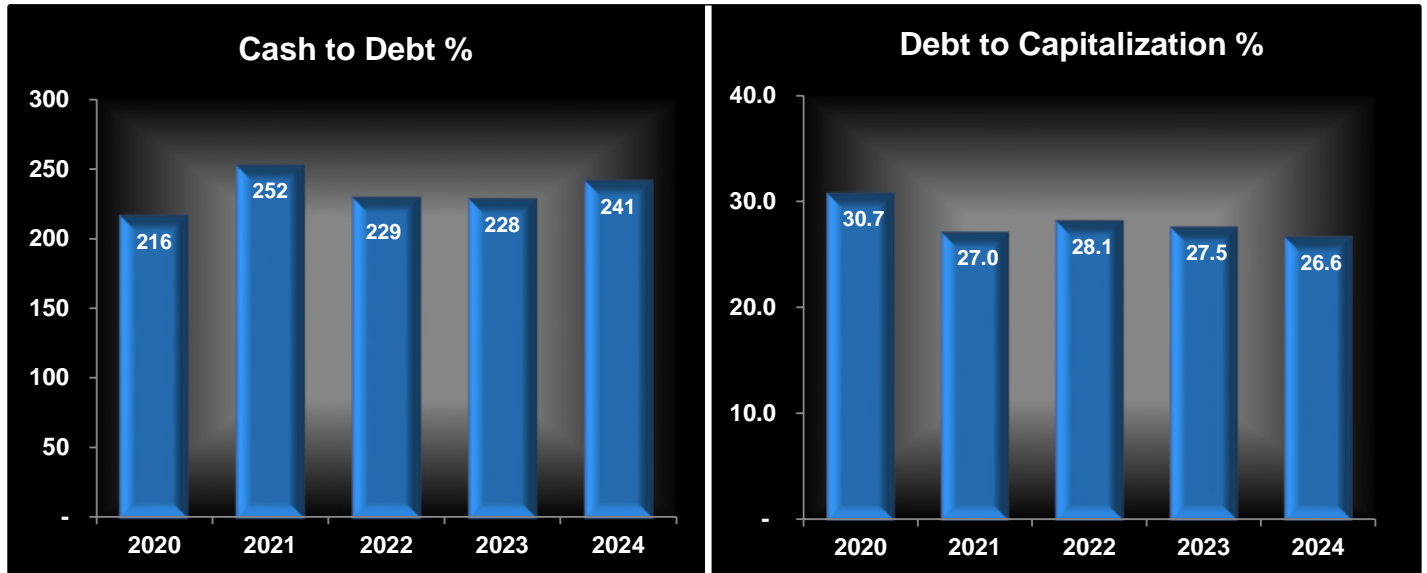
Outstanding long-term debt (including current portion) for the System as of December 31, 2024 and December 31, 2023 consist of the following:

**Hospital Revenue Bonds and Notes
(Dollars in thousands)**

Series	Type	Final Maturity	December 31 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	1,160	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	835,648	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	896	1,187
Finance Leases	Varies	Varies	133,825	104,236
			\$ 5,215,629	\$ 5,134,353

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

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



BOND RATINGS

The obligated group's outstanding bonds have been assigned ratings of Aa2 (stable outlook) and AA (stable outlook) by Moody's and S&P, respectively.

In 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 December 31, 2024 and 2023

The following narrative describes the consolidated results of operations for the System for the quarters ended December 31, 2024 and 2023.

Operating income for the System in the fourth quarter of 2024 was \$136.8 million, resulting in an operating margin of 3.3%, as compared to operating income of \$68.3 million and an operating margin of 1.8% in the fourth quarter of 2023. The higher operating margin was due to a 11.2% increase in operating revenues, which outpaced a 9.5% increase in operating expenses in the fourth quarter of 2024 compared to the same period in 2023. The System experienced nonoperating losses of \$51.9 million in the fourth quarter of 2024 compared to gains of \$489.7 million in the fourth quarter of 2023. The decrease from the prior year was primarily due to unfavorable investment returns in the fourth quarter of 2024 compared to the same period in 2023. Overall, the System reported an excess of revenues over expenses of \$85.0 million in the fourth quarter of 2024 compared to \$558.0 million in the fourth quarter of 2023.

**CLEVELAND CLINIC HEALTH SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD ENDED DECEMBER 31, 2024**

The System's net patient service revenue increased \$279.2 million (8.6%) in the fourth quarter of 2024 compared to the same period in 2023. Total surgical cases increased 3.1%, and outpatient evaluation and management visits increased 4.9% in the fourth 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 \$137.5 million (28.1%) in the fourth quarter of 2024 compared to the same period in 2023. The increase in other unrestricted revenues was primarily due to a \$88.1 million increase in outpatient pharmacy revenue primarily due to higher utilization of outpatient and specialty drugs, a \$23.8 million increase in valuation adjustments for investment company equity interests held by Cleveland Clinic Innovations that are reported at fair value and an \$18.8 million increase in investment return designated for current operations.

Total operating expenses increased \$348.1 million (9.5%) in the fourth 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 personnel costs and pharmaceutical expenses. 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 \$128.8 million (6.0%) in the fourth quarter of 2024 compared to the same period in 2023. Salaries, excluding benefits, increased \$83.9 million (4.5%) due primarily to annual salary adjustments averaging 3% across the System that were awarded in the second quarter of 2024 and a 1.6% increase in full-time equivalent employees in the fourth 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 \$44.8 million (16.6%) during the same period primarily due to the growth in the full-time equivalent employees and salaries. The System experienced a \$13.3 million increase in employee health benefits expenses, a \$6.9 million increase in FICA expenses and a \$5.6 million increase in defined contribution plan expenses.

Supplies expense decreased \$66.4 million (16.9%) in the fourth quarter of 2024 compared to the same period in 2023. During 2024, management determined that certain supply instruments qualified for capitalization under the System's capitalization policies based on the useful lives of the instruments. As a result, the System reclassified certain instrument costs from expense to capital and inventory, which reduced medical supplies expense. Partially offsetting this decrease were increases in medical supplies due to increases in patients served and recent inflationary trends for many supplies.

Pharmaceutical costs increased \$141.7 million (28.7%) in the fourth 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 \$8.1 million (2.9%) in the fourth quarter of 2024 compared to the same period in 2023. The increase in purchased services was primarily related to a \$4.6 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 \$3.5 million increase in purchased medical services to meet the demand of higher patient activity.

Administrative services expenses increased \$2.9 million (4.3%) in the fourth quarter of 2024 compared to the same period in 2023. The increase in administrative services was related to increases in research and travel expenses, which were partially offset by decreases in professional and consulting fees.

Facilities expense increased \$0.5 million (0.4%) in the fourth quarter of 2024 compared to the same period in 2023. The increase in facilities expense was primarily due to an increase in lease costs and utilities expenses that were partially offset by a decrease in maintenance and repair costs.

Insurance expense increased \$14.9 million (22.4%) in the fourth quarter 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 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 \$3.2 million (7.0%) in the fourth 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. The decrease was partially offset by interest expense from bonds issued in June 2024.

Depreciation and amortization expenses increased \$120.8 million (179.5%) in the fourth 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 losses to the System of \$51.9 million in the fourth quarter of 2024 compared to gains of \$489.7 million in the fourth quarter of 2023. Investment returns, net of appropriations from the board-designated endowment fund, were losses of \$59.9 million in the fourth quarter of 2024 compared to gains of \$537.1 million in the same period in 2023 driven by overall financial markets. Derivative gains were \$5.8 million in the fourth quarter of 2024 compared to losses of \$16.8 million in the fourth 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 \$32.9 million in the fourth 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 Years Ended December 31, 2024 and 2023

The following narrative describes the consolidated results of operations for the System for the years ended December 31, 2024 and 2023.

Operating income for the System in 2024 was \$275.7 million, resulting in an operating margin of 1.7%, as compared to operating income of \$64.3 million and a 0.4% operating margin in 2023. The higher operating margin was due to a 10.0% increase in operating revenues, which outpaced an 8.6% increase in operating expenses in 2024 compared to 2023. Nonoperating gains for the System were \$704.6 million in 2024 compared to gains of \$846.9 million in 2023. The lower nonoperating gains in 2024 compared to 2023 was primarily due to more favorable investment returns in 2023 compared to 2024. Overall, the System reported an excess of revenues over expenses of \$980.4 million in 2024 compared to \$911.2 million in 2023.

The System's net patient service revenue increased \$1,048 million (8.3%) in 2024 compared to 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 2.2%, total surgical cases increased 4.1%, and outpatient evaluation and management visits increased 5.2% in 2024 compared to 2023. In addition, net patient service revenue was favorably impacted by a strong case mix due to efforts that focused on accurate documentation of patient care and higher acuity patients, which has resulted in more inpatient revenue per patient. Net patient service 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 \$405.1 million (22.2%) in 2024 compared to 2023. The increase in other unrestricted revenues was primarily due to a \$215.8 million increase in outpatient pharmacy revenue primarily due to higher utilization of outpatient and specialty drugs, a \$125.0 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, \$33.2 million increase in revenues related to management service agreements, a \$23.8 million increase in valuation adjustments for investment company equity interests held by Cleveland Clinic Innovations that are reported at fair value and a \$23.1 million increase in research grant revenue. These increases were partially offset by a \$14.9 million decrease in revenue related to pandemic relief funds.

**CLEVELAND CLINIC HEALTH SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD ENDED DECEMBER 31, 2024**

Total operating expenses increased \$1,242 million (8.6%) in 2024 compared to 2023. The growth in expenses was primarily due to higher patient volumes, inflationary trends that increased personnel costs and pharmaceutical expenses, and growth in malpractice insurance 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. 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 \$651.9 million (7.8%) in 2024 compared to 2023. Salaries, excluding benefits, increased \$469.7 million (6.5%) 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 2.9% increase in full-time equivalent employees in 2024 compared to 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. Agency personnel 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. Benefit costs increased \$182.2 million (15.7%) during the same period primarily due to the growth in full-time equivalent employees and salaries. The System experienced a \$68.8 million increase in employee health plan expenses due to enhanced benefits and increased utilization within the plan, a \$45.3 million increase in defined contribution plan expenses and a \$35.7 million increase in FICA expenses.

Supplies expense decreased \$6.2 million (0.4%) in 2024 compared to 2023. During 2024, management determined that certain supply instruments qualified for capitalization under the System's capitalization policies based on the useful lives of the instruments. As a result, the System reclassified certain instrument costs from expense to capital and inventory, which reduced medical supplies expense. Partially offsetting this decrease were increases in medical supplies due to increases in patients served and recent inflationary trends for many supplies.

Pharmaceutical costs increased \$392.3 million (20.6%) in 2024 compared to 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 \$92.1 million (8.9%) in 2024 compared to 2023. The increase in purchased services and other fees was primarily related to a \$29.0 million increase in software and hardware technology costs, including maintenance agreements and software subscriptions, a \$21.7 million increase in the Ohio state franchise fee and the Florida Agency for Health Care Administration assessment accruals, a \$6.7 million increase in costs related to the ramp-up of patient care at London Hospital and an increase in other various strategic expenses.

Administrative services expenses decreased \$6.9 million (2.7%) in 2024 compared to 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 \$18.7 million (4.1%) in 2024 compared to 2023. The increase in facilities expense was primarily due to a \$10.9 million increase in maintenance and repair costs, a \$4.7 million increase in lease expense and a \$2.5 million increase in utilities expenses.

Insurance expense increased \$26.6 million (15.6%) in 2024 compared to 2023. The increase in insurance expense was primarily due to an increase in malpractice claim payments and related settlements over the last few years. Total incurred claims at the System's captive insurance subsidiary increased \$24.1 million in 2024 compared to 2023, which includes unfavorable development of claims related to prior years. In addition, unasserted claims liabilities increased \$10.7 million in 2024 compared to increases of \$6.1 million in 2023. 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 \$1.0 million (0.5%) in 2024 compared to 2023. The increase in interest expense was primarily due to 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 increased \$72.6 million (13.0%) in 2024 compared to 2023. 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 \$704.6 million in 2024 compared to gains of \$846.9 million in 2023. Investment returns, net of appropriations from the board-designated endowment fund, were \$698.8 million in 2024 compared to \$889.1 million in 2023 driven by overall financial markets. Derivative gains were \$11.6 million in 2024 compared to gains of \$1.7 million 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 \$38.1 million in 2024 compared to 2023 due primarily to a favorable variance in the portion of net periodic pension cost recognized in the statement of operations.

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

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

Cash and cash equivalents increased \$323.4 million (46.3%) from December 31, 2023 to December 31, 2024. The majority of the System's cash and cash equivalents are held in operating bank accounts for general expenditures. The increase 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.

**CLEVELAND CLINIC HEALTH SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD ENDED DECEMBER 31, 2024**

Patient accounts receivable decreased \$9.5 million (0.5%) from December 31, 2023 to December 31, 2024. The reduction in patients accounts receivable is due to various initiatives by the System 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 48 days at December 31, 2024. These efficiencies helped offset increases in patient receivables due 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.

Investments for current use increased \$14.9 million (20.0%) from December 31, 2023 to December 31, 2024. Investments for current use include assets held for self-insurance that will be used to pay the current portion of estimated claim liabilities. Assets held for self-insurance increased \$14.9 million from December 31, 2023 to December 31, 2024 due to the increase in self-insured malpractice reserves.

Other current assets decreased \$59.8 million (6.5%) from December 31, 2023 to December 31, 2024. The decrease in other current assets was primarily due to a \$73.9 million decrease in third party receivables. Also contributing to the decrease was a \$29.7 million decrease in receivables related to government programs that provide assistance to hospitals due to the timing of payments for the program and a \$13.6 million decrease in prepaid expenses. The decrease in other current assets was partially offset by a \$33.2 million increase in receivables related to management service agreements and a \$32.0 million increase in inventories.

Unrestricted long-term investments increased \$632.0 million (5.6%) from December 31, 2023 to December 31, 2024. The increase in long-term investments was primarily due to \$911.3 million of unrestricted investment gains experienced in the System's investment portfolio that reported preliminary investment returns of 7.5% in 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 decreased \$2.6 million (29.3%) from December 31, 2023 to December 31, 2024. The decrease in funds held by trustees is due to a \$4.4 million decrease in collateral posted with the counterparties on various initiative and programs of the System. The decrease was partially offset by a balance of \$1.8 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 \$42.9 million (20.6%) from December 31, 2023 to December 31, 2024. The decrease in self-insurance assets was primarily due to a reclassification of \$14.9 million to investments for current use and claims paid in excess of insurance premiums received by the System's captive insurance companies and investment returns on their investments.

Donor-restricted assets increased \$139.4 million (9.7%) from December 31, 2023 to December 31, 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.

**CLEVELAND CLINIC HEALTH SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD ENDED DECEMBER 31, 2024**

Net property, plant and equipment increased \$600.2 million (9.6%) from December 31, 2023 to December 31, 2024. The System had expenditures for property, plant and equipment of \$1,113 million, offset by depreciation expense of \$632.6 million. Decreases in property, plant and equipment resulted from \$12.0 million of proceeds from the sale of property, plant and equipment and \$6.7 million of foreign currency translations losses. 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 \$14.4 million, and new finance leases totaled \$68.1 million in 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 decreased \$32.7 million (19.2%) from December 31, 2023 to December 31, 2024. The decrease in pledges receivable was due to the reclassification of pledges receivable, due within one year, from long term to current partially offset by new pledges received in 2024.

Trusts and interests in foundations increased \$5.1 million (5.5%) from December 31, 2023 to December 31, 2024. The increase in trusts and interests in foundations was comprised of a \$4.8 million increase in perpetual and charitable trusts and a \$0.2 million increase in interests in community foundations.

Operating lease right-of-use assets increased \$5.3 million (1.4%) from December 31, 2023 to December 31, 2024. The increase in operating lease right-of-use assets was primarily due to 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 and changes in foreign currency exchange rates related to leases at London Hospital.

Other noncurrent assets increased \$98.6 million (9.7%) from December 31, 2023 to December 31, 2024. The increase in other noncurrent assets was due primarily to a \$87.3 million increase in deferred compensation plan assets (corresponding increase in noncurrent liabilities) primarily due to changes in investment markets, a \$28.2 million increase in investments in affiliates including investments in joint venture rehabilitation and long-term acute care hospitals and other affiliates and a \$8.5 million increase in cloud computing assets. The increases were partially offset by a \$25.7 million decrease in third-party receivables.

Accounts payable increased \$122.3 million (17.5%) from December 31, 2023 to December 31, 2024. The increase in accounts payable was primarily attributable to the timing of payment processing for trade payables and a \$14.4 million increase in retainage liabilities for current construction projects.

Compensation and amounts withheld from payroll increased \$58.6 million (9.0%) from December 31, 2023 to December 31, 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 \$1.9 million (1.8%) from December 31, 2023 to December 31, 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 \$140.9 million (16.7%) from December 31, 2023 to December 31, 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 \$138.3 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 December 31, 2024.

Other current liabilities increased \$71.8 million (10.0%) from December 31, 2023 to December 31, 2024. The increase in other current liabilities was primarily due to a \$14.9 million increase in the current portion of self-insured malpractice reserves, a \$14.7 million increase in deferred revenue related to research projects and a \$8.0 million increase in accrued interest payable related to the timing of semi-annual interest payments.

Long-term debt increased \$269.4 million (6.2%) from December 31, 2023 to December 31, 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 the reclassification of \$138.3 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 December 31, 2024. Partially offsetting the increase is \$11.0 million of foreign currently translation gains on the 2018 Sterling Notes and the reclassification of regularly scheduled principal payments from long-term to current for debt payments due within one year.

Professional and general insurance liability reserves increased \$8.5 million (3.4%) from December 31, 2023 to December 31, 2024. The System had total incurred claims of \$161.4 million in 2024 offset by \$150.7 million in paid claims. Additional increases in professional and general liability reserves include a \$10.7 million increase in unasserted claim liabilities and a \$2.0 million increase in ceded reinsurance reserves, which are offset by reinsurance recoverables. These increases were offset by a \$14.9 million decrease due to the reclassification of reserves from long-term to current.

Accrued retirement benefits decreased \$26.2 million (11.6%) from December 31, 2023 to December 31, 2024. The decrease in accrued retirement benefits was comprised of a \$15.5 million decrease in other postretirement benefit liabilities and a \$10.7 million decrease in certain defined benefit pension plan liabilities.

Operating lease liabilities increased \$6.4 million (2.0%) from December 31, 2023 to December 31, 2024. The increase in operating lease liabilities was primarily due to 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 \$147.9 million (22.7%) from December 31, 2023 to December 31, 2024. The increase in other noncurrent liabilities was primarily due to an \$86.3 million increase in deferred compensation plan liabilities (corresponding increase in noncurrent assets) primarily due to changes in investment markets, a \$60.0 million increase related to deferred grants and a \$29.4 million increase in noncurrent amounts due to third-party payors. These increases were partially offset by a \$24.8 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 2024.

Total net assets increased \$1.2 billion (7.3%) from December 31, 2023 to December 31, 2024. Net assets without donor restrictions increased \$1.0 billion (7.6%) primarily due to an excess of revenues over expenses of \$980.4 million and net assets released from restriction for capital purposes of \$74.7 million. The increases were partially offset by foreign currency translation losses of \$1.9 million and retirement benefit adjustments of \$1.0 million. Net assets with donor restrictions increased \$103.5 million (5.7%), primarily due to restricted gifts of \$243.5 million and investment gains of \$77.9 million offset by assets released from restrictions of \$228.6 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 executive orders from the President of the U.S. and regulatory, litigation or other actions from federal agencies that might affect the operations of the System, including reductions in federal funding for research, education or other programs or the ability of the System to provide adequate staffing of caregivers;
- 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 340B drug discount program;
- 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.

