Consolidated Financial Statements and Supplementary Information

The Cleveland Clinic Foundation
d.b.a. Cleveland Clinic Health System
Years Ended December 31, 2019 and 2018
With Report of Independent Auditors

Ernst & Young LLP

Building a better
working world

Cleveland Clinic Health System

Consolidated Financial Statements
and Supplementary Information

Years Ended December 31, 2019 and 2018

Contents

Building a better working world

Ernst & Young LLP
Suite 1800
950 Main Avenue
Cleveland, OH 44113-7214

Tel: +1 216 861 5000
Fax: +1 216 583 2013
ey.com

Report of Independent Auditors

The Board of Directors
The Cleveland Clinic Foundation

We have audited the accompanying consolidated financial statements of The Cleveland Clinic Foundation and controlled affiliates, d.b.a. Cleveland Clinic Health System, which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Cleveland Clinic Foundation and controlled affiliates, d.b.a. Cleveland Clinic Health System, at December 31, 2019 and 2018, and the consolidated results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Adoption of ASU No. 2016-02, *Leases*

As discussed in Note 3 to the consolidated financial statements, the System changed its method of accounting for leases as a result of the adoption of the amendments to the FASB Accounting Standards Codification resulting from Accounting Standards Update No. 2016-02, *Leases*, effective January 1, 2019. Our opinion is not modified with respect to this matter.

Ernst & Young LLP

March 6, 2020

Cleveland Clinic Health System

Consolidated Balance Sheets
(In Thousands)

	December 31 2019	December 31 2018
Assets		
Current assets:		
Cash and cash equivalents	**$ 505,729**	$ 444,763
Patient receivables	**1,299,256**	1,122,918
Investments for current use	**178,800**	53,841
Other current assets	**488,668**	426,465
Total current assets	**2,472,453**	2,047,987
Investments:		
Long-term investments	**9,272,287**	7,533,668
Funds held by trustees	**225,207**	49,377
Assets held for self-insurance	**157,972**	106,966
Donor-restricted assets	**860,120**	744,851
	10,515,586	8,434,862
Property, plant, and equipment, net	**5,865,590**	5,072,464
Other assets:		
Pledges receivable, net	**154,918**	152,448
Trusts and interests in foundations	**113,437**	87,606
Operating lease right-of-use assets	**325,960**	–
Other noncurrent assets	**526,440**	411,762
	1,120,755	651,816
Total assets	**$ 19,974,384**	$ 16,207,129

	December 31	
	2019	**2018**
Liabilities and net assets		
Current liabilities:		
Accounts payable	**$ 536,680**	$ 527,672
Compensation and amounts withheld from payroll	**430,921**	359,342
Current portion of long-term debt	**95,405**	191,350
Variable rate debt classified as current	**529,841**	407,776
Other current liabilities	**573,923**	493,453
Total current liabilities	**2,166,770**	1,979,593
Long-term debt	**4,698,648**	3,558,911
Other liabilities:		
Professional and general liability insurance reserves	**164,008**	141,182
Accrued retirement benefits	**347,064**	465,527
Operating lease liabilities	**296,668**	–
Other noncurrent liabilities	**542,091**	542,029
	1,349,831	1,148,738
Total liabilities	**8,215,249**	6,687,242
Net assets:		
Without donor restrictions	**10,540,856**	8,465,468
With donor restrictions	**1,218,279**	1,054,419
Total net assets	**11,759,135**	9,519,887
Total liabilities and net assets	**$ 19,974,384**	$ 16,207,129

See accompanying notes.

Cleveland Clinic Health System

Consolidated Statements of Operations
and Changes in Net Assets
(In Thousands)

Operations

	Year Ended December 31 2019	2018
Unrestricted revenues		
Net patient service revenue	**$ 9,516,283**	$ 8,031,799
Other	**1,043,238**	895,758
Total unrestricted revenues	**10,559,521**	8,927,557
Expenses		
Salaries, wages, and benefits	**5,697,915**	4,857,426
Supplies	**1,049,256**	864,870
Pharmaceuticals	**1,307,519**	1,090,981
Purchased services and other fees	**674,833**	563,770
Administrative services	**218,961**	222,116
Facilities	**378,489**	353,478
Insurance	**80,252**	71,584
	9,407,225	8,024,225
Operating income before interest, depreciation, amortization, and special charges	**1,152,296**	903,332
Interest	**161,272**	138,844
Depreciation and amortization	**600,819**	495,636
Operating income before special charges	**390,205**	268,852
Special charges (*Note 21)*	**–**	2,419
Operating income	**390,205**	266,433
Nonoperating gains and losses		
Investment return	**1,249,381**	(191,190)
Derivative losses	**(36,194)**	(186)
Other, net	**421,830**	28,862
Net nonoperating gains (losses)	**1,635,017**	(162,514)
Excess of revenues over expenses	**2,025,222**	103,919

(continued on next page)

Changes in Net Assets

	Year Ended December 31	
	2019	**2018**
Changes in net assets without donor restrictions:		
Excess of revenues over expenses	**$ 2,025,222**	$ 103,919
Donated capital	**38**	603
Net assets released from restriction for capital purposes	**57,843**	12,159
Retirement benefits adjustment	**(6,260)**	24,589
Foreign currency translation	**(1,395)**	(23,332)
Other	**(60)**	881
Increase in net assets without donor restrictions	**2,075,388**	118,819
Changes in net assets with donor restrictions:		
Gifts and bequests	**128,500**	121,814
Net investment income (loss)	**72,074**	(9,005)
Net assets released from restrictions used for operations included in other unrestricted revenues	**(52,853)**	(51,886)
Net assets released from restriction for capital purposes	**(57,843)**	(12,159)
Change in interests in foundations	**1,521**	(3,300)
Change in value of perpetual trusts	**611**	(984)
Member substitution contribution	**71,748**	13,180
Other	**102**	(45)
Increase in net assets with donor restrictions	**163,860**	57,615
Increase in net assets	**2,239,248**	176,434
Net assets at beginning of year	**9,519,887**	9,343,453
Net assets at end of year	**$ 11,759,135**	$ 9,519,887

See accompanying notes.

Cleveland Clinic Health System

Consolidated Statements of Cash Flows

(In Thousands)

	Year Ended December 31	
	2019	**2018**
Operating activities and net nonoperating gains and losses		
Increase in net assets	**$ 2,239,248**	$ 176,434
Adjustments to reconcile increase in net assets to net cash provided by operating activities and net nonoperating gains and losses:		
Loss on extinguishment of debt	**6,340**	–
Retirement benefits adjustment	**6,260**	(24,589)
Net realized and unrealized (gains) losses on investments	**(1,256,463)**	249,359
Depreciation and amortization	**600,799**	497,357
Foreign currency translation loss	**1,395**	23,332
Donated capital	**(38)**	(603)
Restricted gifts, bequests, investment income, and other	**(202,706)**	(108,525)
Amortization of bond premiums and debt issuance costs	**(6,267)**	(6,046)
Net loss (gain) in value of derivatives	**21,068**	(15,701)
Member substitution contribution	**(500,155)**	(64,876)
Pension funding	**(183,093)**	(12,871)
Changes in operating assets and liabilities:		
Patient receivables	**(72,198)**	(89,108)
Other current assets	**(2,117)**	(27,394)
Other noncurrent assets	**(334,699)**	65,984
Accounts payable and other current liabilities	**82,810**	80,075
Other liabilities	**200,567**	2,658
Net cash provided by operating activities and net nonoperating gains and losses	**600,751**	745,486
Financing activities		
Proceeds from long-term borrowings	**1,574,341**	556,864
Payments for advance refunding and redemption of long-term debt	**(511,218)**	(420,030)
Principal payments on long-term debt	**(304,161)**	(88,437)
Debt issuance costs	**(8,931)**	(6,417)
Change in pledges receivable, trusts, and interests in foundations	**2,137**	(16,300)
Restricted gifts, bequests, investment income, and other	**202,706**	108,525
Net cash provided by financing activities	**954,874**	134,205
Investing activities		
Expenditures for property, plant, and equipment	**(922,242)**	(804,515)
Proceeds from sale of property, plant, and equipment	**85,348**	165
Cash acquired through member substitution	**16,402**	1,515
Net change in cash equivalents reported in long-term investments	**(481,206)**	(35,398)
Purchases of investments	**(5,283,207)**	(3,683,770)
Sales of investments	**5,195,524**	3,747,101
Net cash used in investing activities	**(1,389,381)**	(774,902)
Effect of exchange rate changes on cash	**25,921**	(4,916)
Increase in cash, cash equivalents and restricted cash	**192,165**	99,873
Cash, cash equivalents and restricted cash at beginning of year	**445,121**	345,248
Cash, cash equivalents and restricted cash at end of year	**$ 637,286**	$ 445,121
Supplemental disclosure of noncash activity		
Assets acquired through finance leases and other financing agreements	**$ 21,639**	$ 40,185
Accounts payable accruals for property, plant, and equipment	**$ 59,716**	$ 86,804

See accompanying notes.

1. Organization and Consolidation

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

The System is the leading provider of healthcare services in northeast Ohio. As of December 31, 2019, the System operates 18 hospitals with approximately 4,900 staffed beds. Thirteen of the hospitals are operated in the Northeast Ohio area, anchored by the Clinic. The System operates 21 outpatient Family Health Centers, 11 ambulatory surgery centers, as well as numerous physician offices, which are located throughout northeast Ohio, and specialized cancer centers in Sandusky and Mansfield, Ohio. In Florida, the System operates five hospitals and a clinic located throughout Southeast Florida, outpatient family health centers in West Palm Beach and Port St. Lucie, an outpatient family health and ambulatory surgery center in Coral Springs, and numerous physician offices located throughout southeast Florida. In addition, the System operates a health and wellness center and a sports medicine clinic in Toronto, Canada and a specialized neurological clinical center in Las Vegas, Nevada. Pursuant to agreements, the System also provides management services for Ashtabula County Medical Center, located in Ashtabula, Ohio, with approximately 180 staffed beds, and Cleveland Clinic Abu Dhabi, a multispecialty hospital offering critical and acute care services that is part of Mubadala Development Company's network of healthcare facilities located in Abu Dhabi, United Arab Emirates with 364 staffed beds.

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

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

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

2. Business Combinations

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

The fair value of Martin Health System's net assets as of January 1, 2019, by major type, is as follows (in thousands):

Net working capital	$ 21,148
Intangible asset	18,100
Property and equipment	430,178
Investments	196,122
Other assets	103,005
Noncurrent liabilities assumed	(423,186)
Fair value of net assets	345,367

The results of operations for Martin Health System are included in the consolidated statement of operations and changes in net assets beginning on January 1, 2019. For the year ended December 31, 2019, Martin Health System had total unrestricted revenues of $614.5 million, operating loss of $3.5 million and an excess of revenues over expenses of $16.1 million. Additionally, for the year ended December 31, 2019, Martin Health System recognized an increase in net assets without donor restrictions of $22.5 million, including excess of revenues over expenses of $16.1 million, and an increase in net assets with donor restrictions of $3.3 million.

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

2. Business Combinations (continued)

The fair value of Indian River Hospital's net assets as of January 1, 2019, by major type, is as follows (in thousands):

Net working capital	$ 22,162
Property and equipment	141,474
Investments	53,010
Other assets	6,836
Noncurrent liabilities assumed	(68,694)
Fair value of net assets	154,788

The results of operations for Indian River Hospital are included in the consolidated statement of operations and changes in net assets beginning on January 1, 2019. For the year ended December 31, 2019, Indian River Hospital had total unrestricted revenues of $325.5 million, operating income of $4.4 million and an excess of revenues over expenses of $7.7 million. Additionally, for the year ended December 31, 2019, Indian River Hospital recognized an increase in net assets without donor restrictions of $8.9 million, including excess of revenues over expenses of $7.7 million, and an increase in net assets with donor restrictions of $10.7 million.

Effective April 1, 2018, the Clinic, through a subsidiary, became the sole member of The Union Hospital Association (Union Hospital) through a non-cash business combination transaction. The business combination was recorded under the acquisition method of accounting. The System recorded the fair value of the assets acquired of $122.8 million and the liabilities assumed of $57.9 million as of April 1, 2018. The fair value of net assets of $64.9 million was recognized in the consolidated statement of operations and changes in net assets for the year ended December 31, 2018 as a member substitution inherent contribution of $51.7 million included in other nonoperating gains and losses and inherent contributions of net assets with donor restrictions of $13.2 million. There was no goodwill or identifiable intangible assets recorded as a result of the member substitution.

2. Business Combinations (continued)

The following unaudited pro forma financial information presents the combined results of operations and changes in net assets of the System, Martin Health System, Indian River Hospital and Union Hospital for the year ended December 31, 2018, as though the business combination transactions had occurred on January 1, 2018 (in thousands):

Total unrestricted revenues	$ 9,853,259
Total unrestricted expenses	9,612,325
Operating income	240,934
Nonoperating gains and losses	260,408
Excess of revenues over expenses	501,342
Increase in net assets without donor restrictions	518,581
Increase in net assets with donor restrictions	128,944

The pro forma financial information in the table above includes certain adjustments attributable to the Martin Health System and Indian River Hospital business combination transactions. Nonoperating gains and losses, excess of revenue over expenses and increase in net assets without donor restrictions for the year ended December 31, 2018 in the table above include member substitution contributions of $428.4 million that were reflected in the consolidated statement of operations and changes in net assets for the year ended December 31, 2019. In addition, increases in net assets with donor restrictions for the year ended December 31, 2018 in the table above include member substitution contributions of $71.8 million that were reflected in the consolidated statement of operations and net assets for the year ended December 31, 2019. The preceding amounts are included in the table above for the year ended December 31, 2018, as if the business combinations occurred on January 1, 2018.

This pro forma financial information is not necessarily indicative of the results of operations and changes in net assets that would have occurred had the System, Martin Health System, Indian River Hospital and Union Hospital constituted a single entity during that period, nor is it necessarily indicative of future operating results and changes in net assets.

3. Accounting Policies

Recent Accounting Pronouncements

Adopted

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases*. This ASU requires lessees to recognize assets and liabilities on the balance sheet for leases with lease terms greater than twelve months. The recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. This amends current guidance that required only capital leases to be recognized on the lessee's balance sheet. ASU 2016-02 also requires additional disclosures on the amount, timing and uncertainty of cash flows arising from leases. The System adopted ASU 2016-02 on January 1, 2019, using a modified retrospective approach. The System also elected the package of practical expedients permitted under the new standard that allowed the System to carry forward historical lease classification. The impact of adoption on the consolidated financial statements was an increase on January 1, 2019 in other noncurrent assets to record right-of-use assets and an increase in other current and noncurrent liabilities to record lease obligations for current operating leases of approximately $380 million, representing the present value of remaining lease payments for operating leases. The impact of adopting ASU 2016-14 was not material to total unrestricted revenues, excess of revenues over expenses or total net assets.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230)*. This ASU requires entities to show the changes in the total of cash, cash equivalents and restricted cash in the statement of cash flows and reconcile those amounts to the balance sheet. The System adopted ASU 2016-18 on December 31, 2019, and applied the provisions retrospectively to all periods presented in the consolidated financial statements. For the years ended December 31, 2019 and 2018, the System added $131.6 million and $0.4 million, respectively, of restricted cash to the total cash, cash equivalents and restricted cash presented in the consolidated statements of cash flows. The adoption of ASU 2016-18 had no impact to total unrestricted revenues, excess of revenues over expenses or total net assets.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU intends to clarify and improve current accounting guidance to determine when a transaction should be accounted for as a contribution or as an exchange transaction and provides additional guidance about how to determine whether a contribution is conditional. The System adopted ASU 2018-08 on January 1, 2019, using a modified prospective basis. The adoption of ASU 2018-08 did not have a material impact on the consolidated financial statements.

3. Accounting Policies (continued)

Not Yet Adopted

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement, Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. This ASU intends to improve the effectiveness of disclosures in the notes to financial statements by modifying disclosure requirements for fair value measurements. The ASU is effective for the System for annual and interim reporting periods beginning after December 15, 2019, with early adoption permitted. The System is currently assessing the impact that ASU 2018-13 will have on its consolidated financial statements and will adopt the provisions upon the effective date.

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

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

Use of Estimates

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

3. Accounting Policies (continued)

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 includes variable consideration for retroactive revenue adjustments due to settlement of reviews and audits. Generally, the System bills the patients and third-party payors several days after the services are performed or shortly after discharge. Revenue is recognized as performance obligations are satisfied.

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

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

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

3. Accounting Policies (continued)

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

Generally, patients who are covered by third-party payors are responsible for patient responsibility balances, including deductibles and coinsurance, which vary in amount. The System estimates the transaction price for patients with deductibles and coinsurance based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any explicit price concessions, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Adjustments arising from a change in the transaction price increased net patient service revenue by $40.4 million in 2019. There were no significant adjustments arising from a change in the transaction price in 2018.

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

3. Accounting Policies (continued)

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 increased net patient service revenue by $14.4 million and $16.7 million in 2019 and 2018, respectively.

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

3. 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 2019 and 2018 approximated \$169 million and \$107 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 service a disproportionate share of low-income patients unable to pay for care. HCAP funds basic, medically necessary hospital services for patients whose family income is at or below the federal poverty level, which includes Medicaid patients and patients without health insurance. The System recorded HCAP revenues of \$3.0 million and expenses of \$6.2 million for the years ended December 31, 2019 and 2018, respectively, which are reported in net patient service revenue.

Management Service Agreements

The System has management service agreements with regional, national and international organizations to provide advisory services for various healthcare ventures. The scope of these services range from managing current healthcare operations that are designed to improve clinical quality, innovation, patient care, medical education and research at other healthcare organizations and educational institutions to managing the construction, training, organizational infrastructure, and operational management of healthcare entities. The System recognizes revenues related to management service agreements on a pro rata basis over the term of the agreements as services are provided. Payments received in advance are recorded as deferred revenue until the services have been provided. The System has recorded deferred revenue related to management service agreements, included in other current liabilities, of \$8.8 million at both December 31, 2019 and 2018, respectively. Revenue related to management service agreements for 2019 and 2018 was \$131.5 million and \$108.9 million, respectively, and is included in other unrestricted revenues.

3. 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, 2019 and 2018 is as follows (in thousands):

	2019	2018
Cash and cash equivalents	**$ 505,729**	$ 444,763
Investments for current use	**119,446**	–
Restricted cash in investments	**12,111**	358
Total cash, cash equivalents and restricted cash	**$ 637,286**	$ 445,121

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

Inventories

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

3. Accounting Policies (continued)

Property, Plant, and Equipment

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

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.

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.

3. Accounting Policies (continued)

Investments in alternative investments, which include hedge funds, private equity/venture funds and real estate funds, are primarily limited partnerships that invest in marketable securities, privately held securities, real estate, and derivative products and are reported using the equity method of accounting based on net asset value information provided by the respective partnership or third-party fund administrators. 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 equity method investment balance of the System's holdings in alternative investments reflects net contributions to the partnerships and the System's share of realized and unrealized investment income and expenses. The investments may individually expose the System to securities lending, short sales, and trading in futures and forward contract options and other derivative products. The System's risk is limited to its carrying value. The financial statements of the limited partnerships are audited annually.

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

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

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

3. Accounting Policies (continued)

Fair Value Measurements

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

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

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

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

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

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

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

Goodwill and Other Intangibles

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

3. 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 and foreign currency forward contracts (*Note 13*), which are recognized as assets or liabilities in the consolidated balance sheets at fair value.

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

Foreign Currency Translation

The statements of operations of foreign subsidiaries whose functional currencies are other than the U.S. dollar are translated into U.S. dollars using average exchange rates for the period. The assets and liabilities of foreign subsidiaries whose functional currencies are other than the U.S. dollar are translated into U.S. dollars using exchange rates as of the consolidated balance sheet date. The U.S. dollar effects that arise from translating the net assets of these subsidiaries at changing rates are recorded as foreign currency translation gains and losses in the consolidated statements of operations and changes in net assets. Cumulative foreign currency translation losses included in net assets without donor restrictions were $66.8 million and $65.4 million at December 31, 2019 and 2018, 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.

3. 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.

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 $217.8 million and $212.8 million in 2019 and 2018, respectively.

3. Accounting Policies (continued)

Net Assets With Donor Restrictions

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

Excess of Revenues Over Expenses

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

4. Net Patient Service Revenue and Patient Receivables

Net patient service revenue by major payor source, net of price concessions, for the years ended December 31, 2019 and 2018, is as follows (in thousands):

	2019		**2018**	
Medicare	**$ 3,555,679**	**37%**	$ 2,871,709	36%
Medicaid	**817,631**	**9**	649,428	8
Managed care and commercial	**5,076,374**	**53**	4,465,582	55
Self-pay	**66,599**	**1**	45,080	1
Net patient service revenue	**$ 9,516,283**	**100%**	$ 8,031,799	100%

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

The System's concentration of credit risk relating to patient receivables is limited due to the diversity of patients and payors. Patient receivables consist of amounts due from government programs, commercial insurance companies, other group insurance programs, and private pay patients. Patient receivables due from Medicare, Medicaid, and one commercial payor account for approximately 26%, 7%, and 23% of the System's total patient receivables at both December 31, 2019 and 2018. Revenues from the Medicare and Medicaid programs and one commercial payor account for approximately 37%, 9%, and 13% for 2019, and 36%, 8%, and 15% for 2018, respectively, of the System's net patient service revenue. Excluding these payors, no one payor represents more than 10% of the System's patient receivables or net patient service revenue.

5. Cash, Cash Equivalents, and Investments

The composition of cash, cash equivalents, and investments at December 31, 2019 and 2018 is as follows (in thousands):

	2019	**2018**
Cash, cash equivalents and restricted cash	**$ 637,286**	$ 445,121
Money market funds	**1,158,515**	466,756
Fixed income securities:		
U.S. treasuries	**1,146,082**	1,385,156
U.S. government agencies	**31,698**	20,889
U.S. corporate	**334,914**	108,240
U.S. government agencies asset-backed securities	**325,341**	94,399
Corporate asset-backed securities	**167,647**	31,477
Foreign	**151,625**	54,132
Fixed income mutual funds	**120,239**	122,034
Commingled fixed income funds	**630,122**	692,830
Common and preferred stocks:		
U.S.	**311,327**	425,269
Foreign	**320,123**	292,635
Equity mutual funds	**142,424**	97,932
Commingled equity funds	**1,881,713**	1,772,594
Commingled commodity funds	**210,265**	188,769
Alternative investments:		
Hedge funds	**2,071,318**	1,357,553
Private equity/venture funds	**1,259,139**	1,007,692
Real estate	**300,337**	369,988
Total cash, cash equivalents, and investments	**$ 11,200,115**	$ 8,933,466

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

Investments are primarily maintained in a master trust fund administered using a bank as the custodian. The management of the majority of the System's investments is conducted by numerous external investment management organizations that are monitored by the System. The alternative investments have separate administrators and custodian arrangements. Alternative investments also include five holdings, valued at $3.1 million, in which the System invests directly.

Total investment return is comprised of the following for the years ended December 31, 2019 and 2018 (in thousands):

	2019	2018
Other unrestricted revenues:		
Interest income and dividends	**$ 2,284**	$ 2,108
Nonoperating gains and losses, net:		
Interest income and dividends	**84,544**	73,101
Net realized gains on sales of investments	**502,068**	171,240
Net change in unrealized gains (losses) on investments	**409,950**	(553,824)
Equity method income on alternative investments	**281,129**	148,278
Investment management fees	**(28,310)**	(29,985)
	1,249,381	(191,190)
Other changes in net assets:		
Investment income (loss) on restricted investments	**72,074**	(9,005)
Total investment return	**$ 1,323,739**	$ (198,087)

6. Liquidity and Availability

Financial assets available for general expenditure within one year of December 31, 2019 and 2018 include the following (in thousands):

	2019	2018
Cash and cash equivalents	**$ 505,729**	$ 444,763
Patient receivables	**1,299,256**	1,122,918
Long-term investments	**6,531,369**	5,579,202
	$ 8,336,354	$ 7,146,883

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

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

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

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

Other current and noncurrent assets at December 31, 2019 and 2018 consist of the following (in thousands):

	2019	2018
Current:		
Inventories	**$ 192,490**	$ 162,198
Prepaid expenses	**89,368**	73,511
Pledges receivable, current *(Note 11)*	**67,300**	66,674
Research receivables	**33,017**	37,024
Estimated amounts due from third-party payors	**1,729**	13,447
Other	**104,764**	73,611
Total other current assets	**$ 488,668**	$ 426,465

	2019	2018
Noncurrent:		
Deferred compensation plan assets	**$ 285,792**	$ 211,345
Goodwill and other intangible assets *(Note 8)*	**121,745**	102,857
Investments in affiliates	**85,599**	35,436
Other	**33,304**	62,124
Total other noncurrent assets	**$ 526,440**	$ 411,762

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

Other current and noncurrent liabilities at December 31, 2019 and 2018 consist of the following (in thousands):

	2019	2018
Current:		
Interest payable	**$ 71,766**	$ 63,046
Current portion of professional and general liability insurance reserves *(Note 15)*	**59,354**	53,841
Research deferred revenue	**54,929**	61,591
Estimated amounts due to third-party payors	**47,870**	31,910
Employee benefit related liabilities	**34,924**	30,804
Operating lease liabilities *(Note 14)*	**31,006**	–
Management contracts and other deferred revenue	**28,267**	31,821
Current portion of pledges payable	**5,653**	1,255
Derivative liabilities *(Note 13)*	**1,871**	–
Other	**238,283**	219,185
Total other current liabilities	**$ 573,923**	$ 493,453

	2019	2018
Noncurrent:		
Employee benefit related liabilities	**$ 340,013**	$ 259,341
Derivative liabilities *(Note 13)*	**132,012**	110,863
Pledge liabilities	**17,341**	21,603
Gift annuity liabilities	**15,126**	11,688
Estimated amounts due to third-party payors	**15,092**	12,799
Other	**22,507**	125,735
Total other noncurrent liabilities	**$ 542,091**	$ 542,029

8. Goodwill and Other Intangible Assets

The System recorded goodwill of $0.5 million and $1.7 million in 2019 and 2018, respectively, related to the acquisitions of various physician practices. Goodwill is recorded in other noncurrent assets in the consolidated balance sheets.

The changes in the carrying amount of goodwill for the years ended December 31, 2019 and 2018 are as follows (in thousands):

	Year Ended December 31 2019	2018
Balance, beginning of year	**$ 70,420**	$ 69,420
Goodwill acquired	**543**	1,726
Foreign currency translation	**368**	(726)
Balance, end of year	**$ 71,331**	$ 70,420

The System acquired other intangible assets of $18.5 million and $0.5 million in 2019 and 2018, respectively, related to the member substitution of Martin Health System and 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, 2019 and 2018 consist of the following (in thousands):

	2019		2018	
	Historical Cost	Accumulated Amortization	Historical Cost	Accumulated Amortization
Trade name	**$ 49,800**	**$ –**	$ 31,700	$ –
Finite-lived intangible assets	**7,156**	**6,542**	6,786	6,049
Total	**$ 56,956**	**$ 6,542**	$ 38,486	$ 6,049

Amortization related to finite-lived intangible assets was $0.5 million and $0.7 million in 2019 and 2018, 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): 2020 – $357; 2021 – $232; and 2022 – $25.

9. Fair Value Measurements

The following tables present the financial instruments measured at fair value on a recurring basis as of December 31, 2019 and 2018, based on the valuation hierarchy (in thousands):

December 31, 2019	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Cash and investments:				
Cash and cash equivalents	$ 637,286	$ –	$ –	$ 637,286
Money market funds	1,158,348	167	–	1,158,515
Fixed income securities:				
U.S. treasuries	1,146,082	–	–	1,146,082
U.S. government agencies	–	31,698	–	31,698
U.S. corporate	–	334,914	–	334,914
U.S. government agencies asset-backed securities	–	325,341	–	325,341
Corporate asset-backed securities	–	167,647	–	167,647
Foreign	–	151,625	–	151,625
Fixed income mutual funds	120,239	–	–	120,239
Common and preferred stocks:				
U.S.	311,327	–	–	311,327
Foreign	311,283	8,840	–	320,123
Equity mutual funds	142,424	–	–	142,424
Total cash and investments	3,826,989	1,020,232		4,847,221
Perpetual and charitable trusts	–	88,301	–	88,301
Total assets at fair value	$ 3,826,989	$ 1,108,533	$ –	$ 4,935,522
Liabilities				
Interest rate swaps	$ –	$ 131,004	$ –	$ 131,004
Foreign currency forward contracts	–	2,879	–	2,879
Total liabilities at fair value	$ –	$ 133,883	$ –	$ 133,883

9. Fair Value Measurements (continued)

December 31, 2018	Level 1	Level 2	Level 3	Total
Assets				
Cash and investments:				
Cash and cash equivalents	$ 445,121	$ –	$ –	$ 445,121
Money market funds	466,503	253		466,756
Fixed income securities:				
U.S. treasuries	1,385,156	–	–	1,385,156
U.S. government agencies	–	20,889	–	20,889
U.S. corporate	–	108,240	–	108,240
U.S. government agencies asset-backed securities	–	94,399	–	94,399
Corporate asset-backed securities	–	31,477	–	31,477
Foreign	–	54,132	–	54,132
Fixed income mutual funds	122,034	–	–	122,034
Common and preferred stocks:				
U.S.	425,269	–	–	425,269
Foreign	288,773	3,862	–	292,635
Equity mutual funds	97,932	–	–	97,932
Total cash and investments	3,230,788	313,252	–	3,544,040
Perpetual and charitable trusts	–	63,991	–	63,991
Total assets at fair value	$ 3,230,788	$ 377,243	$ –	$ 3,608,031
Liabilities				
Interest rate swaps	$ –	$ 101,444	$ –	$ 101,444
Foreign currency forward contracts	–	9,419	–	9,419
Total liabilities at fair value	$ –	$ 110,863	$ –	$ 110,863

9. Fair Value Measurements (continued)

Financial instruments at December 31, 2019 and 2018 are reflected in the consolidated balance sheets as follows (in thousands):

	2019	2018
Cash, cash equivalents, and investments measured at fair value	**$ 4,847,221**	$ 3,544,040
Commingled funds measured at net asset value	**2,722,100**	2,654,193
Alternative investments accounted for under the equity method	**3,630,794**	2,735,233
Total cash, cash equivalents, and investments	**$ 11,200,115**	$ 8,933,466
Perpetual and charitable trusts measured at fair value	**$ 88,301**	$ 63,991
Interests in foundations	**25,136**	23,615
Trusts and interests in foundations	**$ 113,437**	$ 87,606

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

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

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

9. Fair Value Measurements (continued)

The fair value of perpetual and charitable trusts in which the System receives periodic payments from the trust is determined based on the present value of expected cash flows to be received from the trust using discount rates ranging from 1.0% to 6.5%, which are based on Treasury yield curve interest rates or the assumed yield of the trust assets. The fair value of charitable trusts in which the System is a remainder beneficiary is based on the System's beneficial interest in the investments held in the trust, which are measured at fair value.

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

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

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

10. Property, Plant, and Equipment

Property, plant, and equipment at December 31, 2019 and 2018 consist of the following (in thousands):

	2019	2018
Land and improvements	**$ 530,594**	$ 438,577
Buildings	**7,058,399**	6,021,391
Leasehold improvements	**31,203**	30,237
Equipment	**1,918,486**	1,732,114
Computer hardware and software	**1,017,757**	1,074,167
Construction-in-progress	**360,635**	617,055
Leased facilities and equipment	**203,927**	194,421
	11,121,001	10,107,962
Accumulated depreciation and amortization	**(5,255,411)**	(5,035,498)
	$ 5,865,590	$ 5,072,464

Included in the preceding table is unamortized computer software of $231.3 million and $212.6 million at December 31, 2019 and 2018, respectively. Amortization of computer software totaled $48.1 million and $46.3 million in 2019 and 2018, respectively. Amortization of computer software for the five years subsequent to December 31, 2019 is as follows (in millions): 2020 – $42.9; 2021 – $37.2; 2022 – $31.2; 2023 – $29.0; and 2024 – $28.3.

Accumulated amortization of leased facilities and equipment was $93.5 million and $79.1 million at December 31, 2019 and 2018, respectively.

11. Pledges Receivable

Outstanding pledges receivable from various corporations, foundations, and individuals at December 31, 2019 and 2018 are as follows (in thousands):

	2019	2018
Pledges due:		
In less than one year	**$ 79,114**	$ 85,918
In one to five years	**110,696**	116,240
In more than five years	**87,664**	79,200
	277,474	281,358
Allowance for uncollectible pledges and discounting	**(55,256)**	(62,236)
Current portion (net of allowance for uncollectible pledges of $11.8 million in 2019 and $19.2 million in 2018)	**(67,300)**	(66,674)
	$ 154,918	$ 152,448

12. Long-Term Debt

Long-term debt at December 31, 2019 and 2018, consists of the following (in thousands):

	Interest Rate(s)	Final Maturity	Amount Outstanding at December 31 2019	2018
Series 2019A Bonds	3.39%	2046	**$ 247,045**	$ –
Series 2019B Bonds	3.22% to 3.55%	2046	**250,320**	–
Series 2019C Bonds	Floating rate	2052	**89,000**	–
Series 2019D Bonds	Variable rate	2052	**119,340**	–
Series 2019E Bonds	Variable rate	2052	**130,405**	–
Series 2019F Bonds	Variable rate	2052	**130,405**	–
Series 2019G Bonds	2.70% to 3.28%	2042	**241,835**	–
Series 2018 Sterling Notes	2.90% to 3.08%	2068	**872,285**	509,476
Series 2018 Term Loan, Martin	Variable rate	2023	**33,070**	–
Series 2017A Bonds	0.96% to 3.48%	2043	**811,785**	818,775
Series 2017B Bonds	1.81% to 3.70%	2043	**167,580**	169,255
Series 2017C Bonds	2.72%	2032	**8,555**	8,945
Series 2016 Private Placement	3.35%	2046	**325,000**	325,000
Series 2016 Term Loan	Variable rate	2026	**15,170**	15,170
Series 2014 Bonds	4.86%	2114	**400,000**	400,000
Series 2014A CP Notes	Variable rate	2044	**–**	70,955
Series 2013A Bonds	4.04%	2042	**34,955**	62,650
Series 2013B Bonds	Variable rate	2039	**201,160**	201,160
Series 2013, Keep Memory Alive	Variable rate	2037	**56,980**	59,115
Series 2013 Bonds, Martin	Variable rate	2032	**16,200**	–
Series 2012A Bonds	2.07% to 4.07%	2039	**275,765**	439,925
Series 2011A Bonds	3.47% to 4.83%	2032	**94,385**	148,645
Series 2011B Bonds	2.56%	2031	**24,900**	26,380
Series 2011C Bonds	3.55% to 4.72%	2032	**144,035**	157,945
Series 2010 Bonds, Martin	3.04%	2025	**14,995**	–
Series 2009B Bonds	4.21%	2039	**–**	16,135
Series 2008B Bonds	Variable rate	2043	**327,575**	327,575
Series 2003C Bonds	Variable rate	2035	**41,905**	41,905
Revolving credit facility	Variable rate	2019	**–**	105,000
Notes payable	Varies	Varies	**3,584**	106
Finance leases	Varies	Varies	**118,053**	121,589
			5,196,287	4,025,706
Net unamortized premium			**161,322**	160,044
Unamortized debt issuance costs			**(33,715)**	(27,713)
Current portion			**(95,405)**	(191,350)
Long-term variable rate debt classified as current			**(529,841)**	(407,776)
			$ 4,698,648	$ 3,558,911

12. Long-Term Debt (continued)

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

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

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

12. Long-Term Debt (continued)

The Series 2010 Martin Bonds, Series 2013 Martin Bonds and the Series 2018 Martin Term Loan were assumed by the System in the member substitution inherent contribution of Martin Health System. The Series 2018 Martin Term Loan provides a term loan facility with up to $41.0 million available for borrowing through July 2020 to finance a construction project. The System has drawn $33.1 million of the facility as of December 31, 2019. The term loan matures in 2023 and bears interest at a variable rate.

In August 2018, the System, through a UK subsidiary, entered into a private placement agreement to issue Guaranteed Senior Notes (Series 2018 Sterling Notes) totaling £665 million. The subsidiary received proceeds of £300 million, £100 million and £265 million in August 2018, November 2018 and August 2019, respectively. The Series 2018 Sterling Notes are guaranteed by the Cleveland Clinic obligated group and another UK subsidiary, mature at various dates from 2048 through 2068 and bear interest at an average fixed rate of 2.99%. The proceeds of the Series 2018 Sterling Notes repaid a $375.0 million term loan used to acquire a long-term leasehold interest in a building in London, England and have been or will be used to partially fund the construction and conversion of the building into a healthcare facility.

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, 2019. The System had $71.0 million of outstanding Series 2014A CP Notes at December 31, 2018.

Certain of the System's current outstanding bonds bear interest at a variable rate. During 2019 and 2018, the rates for the System's variable rate long-term debt series ranged from 0.80% to 3.32% (average rate 1.61%) and 0.49% to 3.14% (average rate 1.56%), respectively.

Certain variable rate bonds are secured by irrevocable direct pay letters of credit and standby bond purchase agreements, totaling $613.7 million at December 31, 2019. Long-term variable rate debt is classified as current in the consolidated balance sheets if it is supported by letters of credit or standby bond purchase agreements that expire within one year, require repayment of a remarketing draw within one year or contain a subjective clause that, if declared by the lender, could cause immediate repayment of the bonds.

12. Long-Term Debt (continued)

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

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

During the term of agreements with the issuing authorities, the System is required to make specified deposits with trustees to fund principal and interest payments when due. Also, unexpended bond proceeds are held by the trustee and released to the System for approved requisition requests for capital projects. Unexpended bond proceeds at December 31, 2019 were $139.6 million and are included in funds held by trustee. There were no unexpended bond proceeds at December 31, 2018. The System has made deposits with the trustee, included in investments for current use, to fund current principal and interest payments of $119.4 million at December 31, 2019. There were no deposits with the trustee to fund principal and interest payments at December 31, 2018.

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, 2019 and 2018.

The System terminated a $300 million revolving credit facility in April 2019. The facility allowed the System to enter into short-term loans that automatically renewed throughout the term of the facility. The revolving credit facility bore interest at a variable rate based on the London Interbank Offered Rate (LIBOR) plus an applicable spread. Amounts outstanding on the revolving credit facility as of December 31, 2018 totaled $105.0 million. The interest rate on the revolving credit facility ranged from 3.04% to 3.07% in 2019 (average rate 3.05%) and from 2.09% to 3.10% in 2018 (average rate 2.58%).

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, 2019 are as follows (in thousands): 2020 – $70,783; 2021 – $74,597; 2022 – $77,818; 2023 – $114,239; and 2024 – $82,098.

Total interest paid approximated $158.3 million and $128.5 million in 2019 and 2018, respectively. Capitalized interest cost approximated $4.0 million and $0.4 million in 2019 and 2018, respectively.

13. Derivative Instruments

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

The System's objective with respect to interest rate risk is to manage the risk of rising interest rates on the System's variable rate debt. Consistent with its interest rate risk management objective, the System entered into various interest rate swap agreements with a total outstanding notional amount of $615.8 million and $618.2 million at December 31, 2019 and 2018, respectively. During the term of these transactions, the System pays interest at a fixed rate and receives interest at a variable rate based on LIBOR or the Securities Industry and Financial Markets Association Index (SIFMA). The swap agreements are not designated as hedging instruments. Net interest paid or received under the swap agreements is included in derivative losses in the consolidated statements of operations and changes in net assets.

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

Swap Type	Expiration Date	System Pays	System Receives	Notional Amount at December 31 2019	2018
Fixed	2021	3.21%	68% of LIBOR	**$ 28,525**	$ 30,145
Fixed	2024	3.42%	68% of LIBOR	**25,700**	26,500
Fixed	2024	3.45%	67% of LIBOR	**6,185**	–
Fixed	2027	3.56%	68% of LIBOR	**115,757**	120,113
Fixed	2028	5.12%	100% of LIBOR	**35,430**	36,605
Fixed	2028	3.51%	68% of LIBOR	**27,395**	28,285
Fixed	2030	5.07%	100% of LIBOR	**56,350**	57,250
Fixed	2030	5.06%	100% of LIBOR	**56,325**	57,225
Fixed	2031	3.04%	68% of LIBOR	**44,000**	46,975
Fixed	2032	4.32%	79% of LIBOR	**2,091**	2,189
Fixed	2032	4.33%	70% of LIBOR	**4,183**	4,377
Fixed	2032	3.78%	70% of LIBOR	**2,091**	2,189
Fixed	2032	3.58%	67% of LIBOR	**10,015**	–
Fixed	2036	4.90%	100% of LIBOR	**48,500**	49,125
Fixed	2036	4.90%	100% of LIBOR	**75,250**	76,950
Fixed	2037	4.62%	100% of SIFMA	**56,980**	59,115
Fixed	2039	4.62%	68% of LIBOR	**21,025**	21,170
				$ 615,802	$ 618,213

13. Derivative Instruments (continued)

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

In November 2018, the System entered into three foreign currency forward contracts, expiring between May 2020 and April 2021, with a total outstanding notional amount of $336.2 million at both December 31, 2019 and December 31, 2018.

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

	Derivative Liabilities			
	December 31, 2019		December 31, 2018	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives not designated as hedging instruments				
Interest rate swap agreements	Other noncurrent liabilities	**$ 131,004**	Other noncurrent liabilities	$ 101,444
Foreign currency contracts	Other current liabilities	**$ 1,871**	Other current liabilities	$ –
Foreign currency contracts	Other noncurrent liabilities	**$ 1,008**	Other noncurrent liabilities	$ 9,419

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

	Location of Loss Recognized	Year Ended December 31 2019	2018
Derivatives not designated as hedging instruments			
Interest rate swap agreements	Derivative (losses) gains	**$ (42,734)**	$ 9,233
Foreign currency contracts	Derivative gains (losses)	**$ 6,540**	$ (9,419)

13. Derivative Instruments (continued)

The System has used various derivative contracts in connection with certain prior obligations and investments. Although minimum credit ratings are required for counterparties, this does not eliminate the risk that a counterparty may fail to honor its obligations. Derivative contracts are subject to periodic "mark-to-market" valuations. A derivative contract may, at any time, have a positive or negative value to the System. In the event that the negative value reaches certain thresholds established in the derivative contracts, the System is required to post collateral, which could adversely affect its liquidity. At December 31, 2019 and 2018, the System posted $82.4 million and $49.0 million, respectively, of collateral with counterparties that is included in funds held by trustees in the consolidated balance sheets. In addition, if the System were to choose to terminate a derivative contract or if a derivative contract were terminated pursuant to an event of default or a termination event as described in the derivative contract, the System could be required to pay a termination payment to the counterparty.

14. Leases

The System has operating and finance leases for real estate, personal property and equipment. 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 which require payments for lease and non-lease components and has elected to account for these as a single lease component. For leases that commenced before the effective date of ASU 2016-02, the System elected the permitted practical expedients to not reassess the following: (i) whether any expired or existing contracts contain leases; (ii) the lease classification for any expired or existing leases; and (iii) initial direct costs for any existing leases.

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. As most of the System's operating leases do not provide an implicit rate, the System 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 rates. Finance lease agreements generally include an interest rate that is

14. Leases (continued)

used to determine the present value of future lease payments. 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.

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

Operating leases	
Right-of-use assets:	
Operating lease assets	$ 325,960
Lease liabilities:	
Other current liabilities	$ 31,006
Noncurrent operating lease liabilities	296,668
Total operating lease liabilities	$ 327,674
Finance leases	
Right-of-use assets:	
Property, plant, and equipment, net	$ 110,399
Lease liabilities:	
Current portion of long-term debt	$ 24,622
Long-term debt	93,431
Total finance lease liabilities	$ 118,053

14. Leases (continued)

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

Lease Type	Classification	Amount
Operating lease costs*	Facilities expense	$ 57,493
Short-term lease costs	Facilities expense	17,793
Financing lease interest	Interest expense	5,373
Financing lease amortization	Depreciation and amortization	27,977
Total lease cost		$ 108,636

* Includes fixed and variable lease costs.

In 2018, rental expense related to operating leases was $71.2 million.

Cash paid for amounts included in the measurement of lease liabilities for the year ended December 31, 2019 is as follows (in thousands):

Operating cash flows from operating leases	$ 57,523
Operating cash flows from finance leases	5,373
Financing cash flows from finance leases	25,408
Total	$ 88,304

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

Operating leases	$ 84,264
Finance leases	21,639
Total	$ 105,903

14. Leases (continued)

The aggregate future lease payments for operating and finance leases as of December 31, 2019 were as follows (in thousands):

	Operating	Finance
2020	$ 36,542	$ 29,254
2021	33,904	24,953
2022	31,196	19,963
2023	25,939	13,623
2024	21,298	11,705
Thereafter	1,340,324	38,408
Total lease payments	1,489,203	137,906
Less: Interest	(1,161,529)	(19,853)
Present value of lease liabilities	$ 327,674	$ 118,053

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

Weighted-average remaining lease term (years):	
Operating leases	54.9
Finance leases	7.2
Weighted-average discount rate:	
Operating leases	2.8%
Finance leases	4.3%

Included in the tables above is a long-term leasehold interest in a building in London, England that expires in June 2139. The System is currently converting the building into an advanced healthcare facility with approximately 185 beds that is expected to open in the spring of 2021. Rental expense is fixed at increasing annual rates until December 2027, after which rental expense will be adjusted annually by a variable index that is subject to minimum and maximum thresholds through the end of the lease term. Excluding this lease, the weighted average remaining lease term for the System's operating leases is 8.5 years.

15. Professional and General Liability Insurance

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

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

The System's professional and general liability insurance reserves of $223.4 million and $195.0 million at December 31, 2019 and 2018, 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 2.0% and 3.25% at December 31, 2019 and 2018, respectively. Unasserted claims were discounted at 2.0% and 3.50% at December 31, 2019 and 2018, respectively. Through the captive insurance subsidiary, the System has set aside investments of $217.3 million ($59.4 million included in investments for current use) and $160.8 million ($53.8 million included in investments for current use) at December 31, 2019 and 2018, respectively, of which $44.4 million and $38.2 million at December 31, 2019 and 2018, respectively, are restricted in accordance with reinsurance trust agreements related to coverage of the Florida operations and other reinsurance programs provided by the captive insurance subsidiary.

15. Professional and General Liability Insurance (continued)

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

	2019	2018
Balance at beginning of year	**$ 195,023**	$ 198,378
Incurred related to:		
Current period	**72,975**	62,320
Prior period	**(8,274)**	(4,095)
Total incurred	**64,701**	58,225
Paid related to:		
Current period	**4,615**	6,481
Prior period	**69,582**	54,747
Total paid	**74,197**	61,228
Total incurred less total paid	**(9,496)**	(3,003)
Member substitution	**39,324**	–
Decrease in unasserted claims	**(1,247)**	(320)
Decrease in reinsurance recoverable	**(242)**	(32)
Balance at end of year	**$ 223,362**	$ 195,023

The foregoing reconciliation shows $8.3 million and $4.1 million of favorable development in 2019 and 2018, respectively, due to changes in actuarial estimates as a result of lower claim activity, closed claims, and expedited settlement of claims, which has reduced claim expenses and resulted in more favorable settlements. The System utilizes a combination of actual and industry statistics to estimate loss and loss adjustment expense reserves.

16. Pensions and Other Postretirement Benefits

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

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

16. Pensions and Other Postretirement Benefits (continued)

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

The mortality tables used to calculate the defined benefit obligation for the System's defined benefit and postretirement health benefit plans at December 31, 2019 are based on the Pri-2012 "Employees," "Healthy Retiree" and "Contingent Annuitant" tables, fully generational for employees reflecting an unadjusted MP-2019 projection scale from the 2012 base year. The mortality tables used to calculate the defined benefit obligation for the System's defined benefit and postretirement health benefit plans at December 31, 2018 are based on the RP-2014 "Employees" table unadjusted, with generational projection for non-annuitants and the RP-2014 "Healthy Annuitants" table unadjusted, reflecting an unadjusted MP-2018 projection scale from the 2006 base year. The System believes that the updated mortality rates are the best estimate of future experience.

The System expects to make contributions of $25.5 million to the defined benefit pension plans in 2020. Pension benefit payments over the next ten years are estimated as follows: 2020 – $164.3 million; 2021 – $137.0 million; 2022 – $133.0 million; 2023 – $133.6 million; 2024 – $132.3 million; and in the aggregate for the five years thereafter – $600.4 million.

The System expects to make contributions of $4.3 million to other postretirement benefit plans in 2020. Other postretirement benefit payments over the next ten years, net of the average annual Medicare Part D subsidy of approximately $1.0 million, are estimated as follows: 2020 – $4.3 million; 2021 – $4.1 million; 2022 – $3.8 million; 2023 – $3.5 million; 2024 – $3.2 million; and in the aggregate for the five years thereafter – $11.1 million.

No plan assets are expected to be returned to the employer during 2020.

16. Pensions and Other Postretirement Benefits (continued)

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

Unrecognized prior service credits and costs are amortized on a straight-line basis over the estimated life of the plan participants. In 2020, the System is expected to amortize $3.5 million of unrecognized prior service credits in net periodic benefit cost.

Included in net assets without donor restrictions at December 31, 2019 and 2018 are the following amounts that have not yet been recognized in net periodic benefit cost (in thousands):

	Defined Benefit Pension Plans		**Other Postretirement Benefits**	
	2019	**2018**	**2019**	**2018**
Unrecognized actuarial losses (gains)	**$ 151,105**	$ 144,463	**$ (7,466)**	$ (8,189)
Unrecognized prior service credit	**(15,768)**	(13,711)	**(6,089)**	(7,041)
Total	**$ 135,337**	$ 130,752	**$ (13,555)**	$ (15,230)

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

16. Pensions and Other Postretirement Benefits (continued)

Changes in plan assets and benefit obligations recognized in net assets without donor restrictions for the years ended December 31, 2019 and 2018, are as follows (in thousands):

	Defined Benefit Pension Plans		**Other Postretirement Benefits**	
	2019	**2018**	**2019**	**2018**
Current year actuarial (loss) gain	**$ (14,539)**	$ (5,114)	**$ 4,617**	$ 13,870
Recognition of actuarial loss (gain) in excess of corridor	**7,897**	33,930	**(5,340)**	(15,234)
Current year prior service credit	**3,966**	–	**–**	–
Amortization of prior service credit	**(1,909)**	(1,910)	**(952)**	(953)
Total	**$ (4,585)**	$ 26,906	**$ (1,675)**	$ (2,317)

16. Pensions and Other Postretirement Benefits (continued)

The following table sets forth the funded status of the System's pensions and other postretirement benefit plans and the amounts recognized in the System's December 31, 2019 and 2018, consolidated balance sheets (in thousands):

	Defined Benefit Pension Plans		Other Postretirement Benefits	
	2019	**2018**	**2019**	**2018**
Change in projected benefit obligation:				
Projected benefit obligation at beginning of year	**$ 1,630,583**	$ 1,785,443	**$ 81,889**	$ 95,533
Service (credit) cost	**(3,421)**	(1,513)	**1,469**	1,068
Interest cost	**77,571**	64,712	**3,723**	3,622
Actuarial loss (gain)	**163,942**	(104,647)	**(4,617)**	(13,870)
Participant contributions	**–**	–	**16,886**	15,254
Plan amendments	**(3,966)**	–	**–**	–
Member substitution	**215,695**	–	**3,906**	–
Settlement payments	**(65,088)**	(68,676)	**–**	–
Benefits paid	**(56,276)**	(44,736)	**(23,731)**	(20,478)
Federal subsidy	**–**	–	**–**	760
Projected benefit obligation at end of year	**1,959,040**	1,630,583	**79,525**	81,889
Change in plan assets:				
Fair value of plan assets at beginning of year	**1,234,419**	1,375,159	**–**	–
Actual return on plan assets	**235,043**	(34,975)	**–**	–
Participant contributions	–	–	**16,886**	15,254
System contributions	**176,248**	7,647	**6,845**	5,224
Member substitution	**153,792**	–	**–**	–
Benefits paid	**(121,364)**	(113,412)	**(23,731)**	(20,478)
Fair value of plan assets at end of year	**1,678,138**	1,234,419	**–**	–
Accrued retirement benefits	**$ (280,902)**	$ (396,164)	**$ (79,525)**	$ (81,889)
Current liabilities	**$ (9,111)**	$ (8,680)	**$ (4,252)**	$ (3,846)
Noncurrent liabilities	**(271,791)**	(387,484)	**(75,273)**	(78,043)
Net liability recognized in consolidated balance sheets	**$ (280,902)**	$ (396,164)	**$ (79,525)**	$ (81,889)

The accumulated benefit obligation for all defined benefit pension plans was $1.9 billion and $1.6 billion at December 31, 2019 and 2018, respectively.

16. Pensions and Other Postretirement Benefits (continued)

The CCHS Retirement Plan paid $65.1 million and $68.7 million in lump-sum payments in accordance with plan terms in 2019 and 2018, respectively, which exceeded the sum of the service cost and interest cost components of net periodic benefit cost for each year. As a result, the System recorded a settlement charge of $4.9 million and $8.0 million for the years ended December 31, 2019 and 2018, respectively.

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

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

	Defined Benefit Pension Plans		Other Postretirement Benefits	
	2019	**2018**	**2019**	**2018**
Components of net periodic benefit cost:				
Service (credit) cost	**$ (3,421)**	$ (1,513)	**$ 1,469**	$ 1,068
Interest cost	**77,571**	64,712	**3,723**	3,622
Expected return on plan assets	**(85,639)**	(74,786)	**–**	–
Recognition of actuarial loss (gain) in excess of corridor	**2,954**	25,901	**(5,340)**	(15,234)
Settlement charge	**4,943**	8,029	**–**	–
Amortization of prior service credit	**(1,909)**	(1,910)	**(952)**	(953)
Net periodic benefit (credit) cost	**(5,501)**	20,433	**(1,100)**	(11,497)
Defined contribution plans	**266,314**	238,129	**–**	–
Total	**$ 260,813**	$ 258,562	**$ (1,100)**	$ (11,497)

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

16. Pensions and Other Postretirement Benefits (continued)

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

	Defined Benefit Pension Plans		Other Postretirement Benefits	
	2019	**2018**	**2019**	**2018**
Weighted-average assumptions:				
Discount rates:				
Used for benefit obligations	**3.41%**	4.37%	**3.71%**	4.38%
Used for net periodic benefit cost	**4.37%**	3.74%	**4.38%**	3.83%
Expected rate of return on plan assets	**6.48%**	5.65%	–	–
Rate of compensation increase:				
Used for benefit obligations	**2.25%**	2.25%	–	–
Used for net periodic benefit cost	**2.25%**	2.25%	–	–

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

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

	2019	**2018**
Internally provided services:		
Initial rate	**5.5%**	5.75%
Ultimate rate	**4.0%**	4.50%
Year ultimate reached	**2026**	2024
Externally provided services:		
Initial rate	**6.5%**	6.75%
Ultimate rate	**5.0%**	5.50%
Year ultimate reached	**2026**	2024

16. Pensions and Other Postretirement Benefits (continued)

A one-percentage-point increase or decrease in the healthcare cost trend rate would have increased or decreased service and interest costs in 2019 by $1.9 million and $1.3 million, respectively, and service and interest costs in 2018 by $2.1 million and $1.4 million, respectively.

The System's weighted-average asset allocation of pension plan assets at December 31, 2019 and 2018, by asset category, are as follows:

	Percentage of Plan Assets		
	2019	**2018**	**Target Allocation**
Asset category			
Interest-bearing cash	**9.1%**	4.1%	5%–9%
Fixed income securities	**56.0**	49.7	42%–70%
Common and preferred stocks	**17.2**	27.6	16%–35%
Alternative investments	**17.7**	18.6	7%–27%
Total	**100.0%**	100.0%	

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

The System's weighted-average pension portfolio return assumption of 6.48% and 5.65% in 2019 and 2018, respectively, is based on the targeted assumed rate of return through its asset mix at the beginning of each year, which is designed to mitigate short-term return volatility and achieve an efficient trade-off between return and risk. Expected returns and risk for each asset class are formed using a global capital asset pricing model framework in which the expected return is the compensation earned from taking risk. Forward-looking adjustments are made to expected return, volatility, and correlation estimates as well. Additionally, constraints such as permissible asset classes, portfolio guidelines, and liquidity considerations are included in the model.

16. Pensions and Other Postretirement Benefits (continued)

The System has been implementing an investment strategy for its defined benefit pension plans over the last few years that has reduced the asset allocation for common and preferred stocks with a corresponding increase in fixed income securities. The updated investment strategy is being 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. Once the investment strategy is fully implemented, it is anticipated that the duration of the fixed-income investment assets will match the liabilities of the pension plan over time.

The following tables present the financial instruments in the System's defined benefit pension plans measured at fair value on a recurring basis as of December 31, 2019 and 2018, based on the valuation hierarchy (in thousands):

December 31, 2019	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Cash and investments:				
Cash and cash equivalents	**$ 152,445**	**$ 485**	**$ –**	**$ 152,930**
Fixed income securities:				
U.S. treasuries	**324,075**	**–**	**–**	**324,075**
U.S. government agencies	**–**	**9,912**	**–**	**9,912**
U.S. corporate	**–**	**157,520**	**–**	**157,520**
Foreign	**–**	**24,406**	**–**	**24,406**
Common and preferred stocks:				
U.S.	**24,489**	**2**	**–**	**24,491**
Foreign	**11,246**	**1,214**	**–**	**12,460**
Equity mutual funds	**7,267**	**–**	**–**	**7,267**
Total assets at fair value	**$ 519,522**	**$ 193,539**	**$ –**	**$ 713,061**

16. Pensions and Other Postretirement Benefits (continued)

December 31, 2018	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Cash and investments:				
Cash and cash equivalents	$ 49,767	$ 367	$ –	$ 50,134
Fixed income securities:				
U.S. treasuries	297,780	–	–	297,780
U.S. corporate	–	144,345	–	144,345
Foreign	–	17,437	–	17,437
Common and preferred stocks:				
U.S.	60,750	–	–	60,750
Foreign	14,924	1,174	–	16,098
Equity mutual funds	19,927	–	–	19,927
Total assets at fair value	$ 443,148	$ 163,323	$ –	$ 606,471

Total plan assets in the System's defined benefit pension plans at December 31, 2019 and 2018 are comprised of the following (in thousands):

	2019	**2018**
Plan assets measured at fair value	**$ 713,061**	$ 606,471
Commingled funds measured at net asset value	**668,002**	398,884
Alternative investments measured at net asset value	**297,075**	229,064
Total fair value of plan assets at end of year	**$ 1,678,138**	$ 1,234,419

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

16. Pensions and Other Postretirement Benefits (continued)

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

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

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

17. Income Taxes

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

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

At December 31, 2019 and 2018, the liability for uncertainty in income taxes was $1.0 million and $0.9 million, respectively. The System does not expect a significant increase or decrease in unrecognized tax benefits within the next 12 months. The System recognizes interest and penalties accrued related to the liability for unrecognized tax benefits in the consolidated statements of operations and changes in net assets.

The System has temporary differences of $504.8 million and $201.9 million at December 31, 2019 and 2018, respectively. The temporary differences primarily relate to net operating losses available for income tax purposes. The majority of these losses expire in varying amounts from 2020 through 2037. A deferred tax asset of $101.8 million and $40.9 million has been recorded at December 31, 2019 and 2018, respectively. A valuation allowance of $101.8 million and $40.9 million has been recorded at December 31, 2019 and 2018, respectively, against the deferred tax assets due to the uncertainty regarding their use.

18. Commitments and Contingent Liabilities

At December 31, 2019, the System has commitments for construction and other related capital contracts of $434.4 million and letters of credit of $0.7 million. Guarantees of mortgage loans made by banks to certain staff members are $20.2 million at December 31, 2019. In addition, the System has remaining commitments to invest approximately $984 million in alternative investments at December 31, 2019. The largest commitment at December 31, 2019 to any one alternative strategy manager is $45 million. These investments are expected to occur over the next three to five years. No amounts have been recorded in the consolidated balance sheets for these commitments and guarantees.

18. Commitments and Contingent Liabilities (continued)

Pledge liabilities to various foundations and other entities at December 31, 2019, are as follows (in thousands): 2020 – $5,653; 2021 – $1,100; 2022 – $4,700; 2023 – $600; 2024 – $4,700; and thereafter – $9,000. The unamortized discount on pledge liabilities at December 31, 2019 was $2.8 million. Pledge liabilities are recorded in other current liabilities and other noncurrent liabilities in the consolidated balance sheets.

19. Endowment

The System's endowment consists of 363 individual donor-restricted funds established for a variety of purposes. Endowment funds are classified and reported based on donor-imposed restrictions as net assets with donor restrictions.

Interpretation of Relevant Law

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

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

19. 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. As of December 31, 2019, the System had no deficiencies of this nature in donor-restricted endowment funds. As of December 31, 2018, the System had deficiencies of this nature in 18 donor-restricted endowment funds, which together have an original gift value of $23.2 million, a current fair value of $22.6 million, and a deficiency of $0.6 million. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new contributions for donor-restricted endowment funds and continued appropriations for certain programs that were 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.

Return Objectives and Risk Parameters

The System has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity. Under this policy, the endowment assets are invested in a highly diversified portfolio of U.S. and non-U.S. publicly traded equities, alternative investments, and fixed income securities structured to achieve an optimal balance between return and risk. The System expects its endowment funds, over time, to provide an average rate of return of approximately 7.5% annually. Actual returns in any given year may vary from this amount.

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.

19. 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 at an average of 2.5% annually. This is consistent with the System's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Changes in Endowment Net Assets

The following table summarizes the changes in endowment net assets for the years ended December 31, 2019 and 2018 (in thousands):

	2019	2018
Endowment net assets, beginning of year	**$ 388,135**	$ 381,810
Investment income	**2,805**	2,303
Net appreciation (depreciation)	**44,066**	(7,885)
Contributions	**28,805**	17,655
Appropriation of endowment assets for expenditure	**(8,087)**	(5,748)
Member substitution	**12,126**	–
Endowment net assets, end of year	**$ 467,850**	$ 388,135

20. Functional Expenses

The System provides healthcare services and education and performs research. The following table presents expenses by both their nature and their function for the years ended December 31, 2019 and 2018 (in thousands):

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

	2018					
	Healthcare Services	**Research**	**Medical Education**	**General and Administrative**	**Non-Healthcare Services**	**Total**
Salaries, wages, and benefits	$ 3,809,548	$ 163,740	$ 301,073	$ 561,890	$ 21,175	$ 4,857,426
Supplies	816,522	20,217	7,409	12,048	8,674	864,870
Pharmaceuticals	1,090,116	393	9	463	–	1,090,981
Purchased services and other fees	306,136	5,609	9,060	243,317	(352)	563,770
Administrative services	96,024	43,510	23,741	44,534	14,307	222,116
Facilities	318,726	3,801	2,024	19,778	9,149	353,478
Insurance	68,776	–	340	2,113	355	71,584
Interest	124,309	1,732	–	3,545	9,258	138,844
Depreciation and amortization	364,571	12,119	151	100,374	18,421	495,636
Special charges	2,419	–	–	–	–	2,419
	$ 6,997,147	$ 251,121	$ 343,807	$ 988,062	$ 80,987	$ 8,661,124

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

21. Special Charges

The System incurred and recorded special charges of $2.4 million in 2018. There were no special charges recorded in 2019. Special charges include accelerated depreciation expense and other costs related to the transition of healthcare services in the City of Lakewood.

22. Subsequent Events

The System evaluated events and transactions occurring subsequent to December 31, 2019, through March 6, 2020, the date the consolidated financial statements were issued. During this period, there were no subsequent events requiring recognition in the consolidated financial statements, and there were no nonrecognized subsequent events requiring disclosure.

Supplementary Information

Building a better working world

Ernst & Young LLP
Suite 1800
950 Main Avenue
Cleveland, OH 44113-7214

Tel: +1 216 861 5000
Fax: +1 216 583 2013
ey.com

Report of Independent Auditors on Supplementary Information

The Board of Directors
The Cleveland Clinic Foundation

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The following consolidating balance sheets, statements of operations and changes in net assets, and statements of cash flows are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Ernst & Young LLP

March 6, 2020

Cleveland Clinic Health System

Consolidating Balance Sheet

December 31, 2019
(In Thousands)

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

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

See accompanying note.

Cleveland Clinic Health System

Consolidating Balance Sheet

December 31, 2018
(In Thousands)

	Obligated Group	Non-Obligated Group	Consolidating Adjustments and Eliminations	Consolidated
Assets				
Current assets:				
Cash and cash equivalents	$ 279,847	$ 164,916	$ –	$ 444,763
Patient receivables	1,008,777	150,582	(36,441)	1,122,918
Due from affiliates	5,053	20	(5,073)	–
Investments for current use	–	53,841	–	53,841
Other current assets	359,623	67,392	(550)	426,465
Total current assets	1,653,300	436,751	(42,064)	2,047,987
Investments:				
Long-term investments	6,959,237	574,431	–	7,533,668
Funds held by trustees	49,353	24	–	49,377
Assets held for self-insurance	–	106,966	–	106,966
Donor-restricted assets	715,268	29,583	–	744,851
	7,723,858	711,004	–	8,434,862
Property, plant, and equipment, net	4,144,790	927,674	–	5,072,464
Other assets:				
Pledges receivable, net	150,876	1,572	–	152,448
Trusts and interests in foundations	67,279	20,327	–	87,606
Other noncurrent assets	546,032	63,367	(197,637)	411,762
	764,187	85,266	(197,637)	651,816
Total assets	$ 14,286,135	$ 2,160,695	$ (239,701)	$ 16,207,129

	Obligated Group	Non-Obligated Group	Consolidating Adjustments and Eliminations	Consolidated
Liabilities and net assets				
Current liabilities:				
Accounts payable	$ 448,095	$ 79,693	$ (116)	$ 527,672
Compensation and amounts withheld from payroll	329,434	29,908	–	359,342
Current portion of long-term debt	185,676	5,746	(72)	191,350
Variable rate debt classified as current	351,024	56,752	–	407,776
Due to affiliates	20	5,053	(5,073)	–
Other current liabilities	411,584	121,009	(39,140)	493,453
Total current liabilities	1,725,833	298,161	(44,401)	1,979,593
Long-term debt	3,028,825	723,115	(193,029)	3,558,911
Other liabilities:				
Professional and general liability insurance reserves	55,556	85,626	–	141,182
Accrued retirement benefits	420,436	45,091	–	465,527
Other noncurrent liabilities	505,891	36,289	(151)	542,029
	981,883	167,006	(151)	1,148,738
Total liabilities	5,736,541	1,188,282	(237,581)	6,687,242
Net assets:				
Without donor restrictions	7,547,813	919,775	(2,120)	8,465,468
With donor restrictions	1,001,781	52,638	–	1,054,419
Total net assets	8,549,594	972,413	(2,120)	9,519,887
Total liabilities and net assets	$ 14,286,135	$ 2,160,695	$ (239,701)	$ 16,207,129

See accompanying note.

Cleveland Clinic Health System

Consolidating Statements of Operations and Changes in Net Assets

Year Ended December 31, 2019
(In Thousands)

Operations

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

(continued on next page)

Changes in Net Assets

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

See accompanying note.

Cleveland Clinic Health System

Consolidating Statements of Operations and Changes in Net Assets

Year Ended December 31, 2018
(In Thousands)

Operations

	Obligated Group	Non-Obligated Group	Consolidating Adjustments and Eliminations	Consolidated
Unrestricted revenues				
Net patient service revenue	$ 7,334,426	$ 966,755	$ (269,382)	$ 8,031,799
Other	753,137	301,295	(158,674)	895,758
Total unrestricted revenues	8,087,563	1,268,050	(428,056)	8,927,557
Expenses				
Salaries, wages, and benefits	4,486,481	682,986	(312,041)	4,857,426
Supplies	758,369	107,452	(951)	864,870
Pharmaceuticals	1,012,348	78,633	–	1,090,981
Purchased services and other fees	490,408	98,784	(25,422)	563,770
Administrative services	160,416	85,015	(23,315)	222,116
Facilities	281,921	74,809	(3,252)	353,478
Insurance	69,121	65,438	(62,975)	71,584
	7,259,064	1,193,117	(427,956)	8,024,225
Operating income before interest, depreciation, amortization, and special charges	828,499	74,933	(100)	903,332
Interest	119,904	18,940	–	138,844
Depreciation and amortization	432,794	62,942	(100)	495,636
Operating income (loss) before special charges	275,801	(6,949)	–	268,852
Special charges	–	2,419	–	2,419
Operating income (loss)	275,801	(9,368)	–	266,433
Nonoperating gains and losses				
Investment loss	(173,401)	(17,789)	–	(191,190)
Derivative gains (losses)	1,458	(1,644)	–	(186)
Other, net	(9,459)	38,321	–	28,862
Net nonoperating (losses) gains	(181,402)	18,888	–	(162,514)
Excess of revenues over expenses	94,399	9,520	–	103,919

(continued on next page)

Changes in Net Assets

	Obligated Group	Non-Obligated Group	Consolidating Adjustments and Eliminations	Consolidated
Changes in net assets without donor restrictions:				
Excess of revenues over expenses	$ 94,399	$ 9,520	$ –	$ 103,919
Donated capital	592	11	–	603
Net assets released from restriction for capital purposes	11,378	781	–	12,159
Retirement benefits adjustment	28,398	(3,809)	–	24,589
Foreign currency translation	–	(23,332)	–	(23,332)
Transfers from (to) affiliates	15,793	(15,793)		–
Other	(545)	1,426	–	881
Increase (decrease) in net assets without donor restrictions	150,015	(31,196)	–	118,819
Changes in net assets with donor restrictions:				
Gifts and bequests	117,396	4,418	–	121,814
Net investment (loss) income	(9,159)	154	–	(9,005)
Net assets released from restrictions used for operations included in other unrestricted revenues	(46,459)	(5,427)	–	(51,886)
Net assets released from restriction for capital purposes	(11,378)	(781)	–	(12,159)
Change in interests in foundations	(3,300)	–	–	(3,300)
Change in value of perpetual trusts	355	(1,339)	–	(984)
Member substitution contribution	–	13,180	–	13,180
Other	(218)	173	–	(45)
Increase in net assets with donor restrictions	47,237	10,378	–	57,615
Increase (decrease) in net assets	197,252	(20,818)	–	176,434
Net assets at beginning of year	8,352,342	993,231	(2,120)	9,343,453
Net assets at end of year	$ 8,549,594	$ 972,413	$ (2,120)	$ 9,519,887

See accompanying note.

Cleveland Clinic Health System

Consolidating Statement of Cash Flows

Year Ended December 31, 2019
(In Thousands)

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

See accompanying note.

Cleveland Clinic Health System

Consolidating Statement of Cash Flows

Year Ended December 31, 2018
(In Thousands)

	Obligated Group	Non-Obligated Group	Consolidating Adjustments and Eliminations	Consolidated
Operating activities and net nonoperating gains and losses				
Increase (decrease) in net assets	$ 197,252	$ (20,818)	$ –	$ 176,434
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities and net nonoperating gains and losses:				
Retirement benefits adjustment	(28,398)	3,809	–	(24,589)
Net realized and unrealized losses on investments	227,207	22,152	–	249,359
Depreciation and amortization	432,794	64,663	(100)	497,357
Foreign currency translation loss	–	23,332	–	23,332
Donated capital	(592)	(11)	–	(603)
Restricted gifts, bequests, investment income, and other	(105,292)	(3,233)	–	(108,525)
Transfers (from) to affiliates	(15,793)	15,793	–	–
Amortization of bond premiums and debt issuance costs	(6,109)	63	–	(6,046)
Net gain in value of derivatives	(13,126)	(2,575)	–	(15,701)
Member substitution contribution	–	(64,876)	–	(64,876)
Pension funding	(12,699)	(172)	–	(12,871)
Changes in operating assets and liabilities:				
Patient receivables	(104,672)	12,775	2,789	(89,108)
Other current assets	22,876	467	(50,737)	(27,394)
Other noncurrent assets	19,890	283	45,811	65,984
Accounts payable and other current liabilities	86,971	(54,916)	48,020	80,075
Other liabilities	11,570	(8,761)	(151)	2,658
Net cash provided by (used in) operating activities and net nonoperating gains and losses	711,879	(12,025)	45,632	745,486
Financing activities				
Proceeds from long-term borrowings	45,000	557,496	(45,632)	556,864
Payments for advance refunding and redemption of long-term debt	–	(420,030)	–	(420,030)
Principal payments on long-term debt	(82,613)	(5,824)	–	(88,437)
Debt issuance costs	–	(6,417)	–	(6,417)
Change in pledges receivables, trusts and interests in foundations	(16,249)	(51)	–	(16,300)
Restricted gifts, bequests, investment income, and other	105,292	3,233	–	108,525
Net cash provided by financing activities	51,430	128,407	(45,632)	134,205
Investing activities				
Expenditures for property, plant, and equipment	(723,445)	(81,070)	–	(804,515)
Proceeds from sale of property, plant, and equipment	165	–	–	165
Cash acquired through member substitution	–	1,515	–	1,515
Net change in cash equivalents reported in long-term investments	67,879	(103,277)	–	(35,398)
Purchases of investments	(3,401,430)	(282,340)	–	(3,683,770)
Sales of investments	3,426,273	320,828	–	3,747,101
Transfers from (to) affiliates	15,793	(15,793)	–	–
Net cash used in investing activities	(614,765)	(160,137)	–	(774,902)
Effect of exchange rate changes on cash	–	(4,916)	–	(4,916)
Increase (decrease) in cash, cash equivalents and restricted cash	148,544	(48,671)	–	99,873
Cash, cash equivalents and restricted cash at beginning of year	131,636	213,612	–	345,248
Cash, cash equivalents and restricted cash at end of year	$ 280,180	$ 164,941	$ –	$ 445,121

See accompanying note.

1. Presentation of Consolidating Financial Statements

The accompanying financial statement information presents consolidating financial statement information for the Obligated Group (as defined herein) and certain controlled affiliates of The Cleveland Clinic Foundation (collectively referred to as the Non-Obligated Group), which have no liability under the Master Trust Indenture (Indenture), amended and restated as of August 1, 2017 (as supplemented, the Indenture), between The Cleveland Clinic Foundation and The Huntington National Bank, as successor Master Trustee. The Cleveland Clinic Foundation, Cleveland Clinic Avon Hospital, Cleveland Clinic Health System – East Region, Fairview Hospital, Lutheran Hospital, Marymount Hospital, Inc., Medina Hospital, Cleveland Clinic Florida (a nonprofit corporation), Cleveland Clinic Florida Health System Nonprofit Corporation and Martin Memorial Medical Center, Inc. are the sole members of the Obligated Group under the Indenture.

With respect to the Obligated Group, certain properties and interests are considered to be Excluded Property under the Indenture. In addition, the provisions of the Indenture provide that additional property may be categorized as Excluded Property upon satisfaction of various financial tests. As such, these properties and interests are not subject to the restrictions contained in the Indenture and, under the Indenture, are not subject to the restriction on liens and other encumbrances that may be placed on property of the Obligated Group. Furthermore, the revenues derived from the Excluded Property are not subject to the restrictions contained in the Indenture until they are received and commingled with other revenues of the Obligated Group. The accompanying financial statement information is presented by legal entity, and no adjustment has been made for the Excluded Property.

In 2019, concurrently with the issuance of the Series 2019A Bonds, Martin Memorial Medical Center, Inc. became a member of the Obligated Group. Martin Memorial Medical Center, Inc. is reported as a member of the Obligated Group beginning January 1, 2019, which is the date Martin Memorial Medical Center, Inc. joined the System.

EY | Assurance | Tax | Transactions | Advisory

About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. For more information about our organization, please visit ey.com.

ey.com