

CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

The Cleveland Clinic Foundation
d.b.a. Cleveland Clinic Health System
Years Ended December 31, 2020 and 2019
With Report of Independent Auditors

Ernst & Young LLP



Cleveland Clinic Health System
Consolidated Financial Statements
and Supplementary Information
Years Ended December 31, 2020 and 2019

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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, 2020 and 2019, 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 of America. 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, 2020 and 2019, 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.

March 5, 2021

Cleveland Clinic Health System

Consolidated Balance Sheets
(In Thousands)

	December 31	
	2020	2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,045,393	\$ 505,729
Patient receivables	1,255,681	1,299,256
Investments for current use	177,389	178,800
Other current assets	546,722	488,668
Total current assets	<u>3,025,185</u>	<u>2,472,453</u>
Investments:		
Long-term investments	10,353,877	9,272,287
Funds held by trustees	110,307	225,207
Assets held for self-insurance	179,300	157,972
Donor-restricted assets	1,013,430	860,120
	<u>11,656,914</u>	<u>10,515,586</u>
Property, plant, and equipment, net	5,866,974	5,865,590
Other assets:		
Pledges receivable, net	125,641	154,918
Trusts and interests in foundations	112,425	113,437
Operating lease right-of-use assets	360,841	325,960
Other noncurrent assets	644,570	526,440
	<u>1,243,477</u>	<u>1,120,755</u>
Total assets	<u><u>\$ 21,792,550</u></u>	<u><u>\$ 19,974,384</u></u>

	December 31	
	2020	2019
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 528,794	\$ 536,680
Compensation and amounts withheld from payroll	464,249	430,921
Current portion of long-term debt	101,006	95,405
Variable rate debt classified as current	589,891	529,841
Other current liabilities	738,323	573,923
Total current liabilities	<u>2,422,263</u>	<u>2,166,770</u>
Long-term debt	4,582,994	4,698,648
Other liabilities:		
Professional and general liability insurance reserves	216,100	164,008
Accrued retirement benefits	297,741	347,064
Operating lease liabilities	323,682	296,668
Other noncurrent liabilities	707,915	542,091
	<u>1,545,438</u>	<u>1,349,831</u>
Total liabilities	<u>8,550,695</u>	<u>8,215,249</u>
Net assets:		
Without donor restrictions	11,921,757	10,540,856
With donor restrictions	1,320,098	1,218,279
Total net assets	<u>13,241,855</u>	<u>11,759,135</u>
Total liabilities and net assets	<u><u>\$ 21,792,550</u></u>	<u><u>\$ 19,974,384</u></u>

See accompanying notes.

Cleveland Clinic Health System

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

Operations

	Year Ended December 31	
	2020	2019
Unrestricted revenues		
Net patient service revenue	\$ 9,134,685	\$ 9,516,283
Other	1,493,221	1,043,238
Total unrestricted revenues	<u>10,627,906</u>	<u>10,559,521</u>
Expenses		
Salaries, wages, and benefits	5,902,522	5,697,915
Supplies	1,105,710	1,049,256
Pharmaceuticals	1,299,085	1,307,519
Purchased services and other fees	732,304	674,833
Administrative services	179,205	218,961
Facilities	350,903	378,489
Insurance	78,829	80,252
	<u>9,648,558</u>	<u>9,407,225</u>
Operating income before interest, depreciation, and amortization	979,348	1,152,296
Interest	157,024	161,272
Depreciation and amortization	589,954	600,819
Operating income	<u>232,370</u>	<u>390,205</u>
Nonoperating gains and losses		
Investment return	1,127,943	1,249,381
Derivative losses	(61,473)	(36,194)
Other, net	26,404	421,830
Net nonoperating gains	<u>1,092,874</u>	<u>1,635,017</u>
Excess of revenues over expenses	<u>1,325,244</u>	<u>2,025,222</u>

(continued on next page)

Changes in Net Assets

	Year Ended December 31	
	2020	2019
Changes in net assets without donor restrictions		
Excess of revenues over expenses	\$ 1,325,244	\$ 2,025,222
Donated capital	1,819	38
Net assets released from restrictions for capital purposes	56,514	57,843
Retirement benefits adjustment	(8,136)	(6,260)
Foreign currency translation	9,004	(1,395)
Other	(3,544)	(60)
Increase in net assets without donor restrictions	<u>1,380,901</u>	<u>2,075,388</u>
Changes in net assets with donor restrictions		
Gifts and bequests	132,381	128,500
Net investment income	82,853	72,074
Net assets released from restrictions used for operations included in other unrestricted revenues	(61,465)	(52,853)
Net assets released from restrictions for capital purposes	(56,514)	(57,843)
Change in interests in foundations	2,395	1,521
Change in value of perpetual trusts	747	611
Member substitution contribution	–	71,748
Other	1,422	102
Increase in net assets with donor restrictions	<u>101,819</u>	<u>163,860</u>
Increase in net assets	1,482,720	2,239,248
Net assets at beginning of year	11,759,135	9,519,887
Net assets at end of year	<u>\$ 13,241,855</u>	<u>\$ 11,759,135</u>

See accompanying notes.

Cleveland Clinic Health System
Consolidated Statements of Cash Flows
(In Thousands)

	Year Ended December 31	
	2020	2019
Operating activities and net nonoperating gains and losses		
Increase in net assets	\$ 1,482,720	\$ 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
Retirement benefits adjustment	8,136	6,260
Net realized and unrealized gains on investments	(1,155,392)	(1,256,463)
Depreciation and amortization	589,954	600,799
Foreign currency translation loss	(9,004)	1,395
Donated capital	(1,819)	(38)
Restricted gifts, bequests, investment income, and other	(218,376)	(202,706)
Amortization of bond premiums and debt issuance costs	(5,956)	(6,267)
Net loss in value of derivatives	25,878	21,068
Member substitution contribution	–	(500,155)
Pension funding	(31,679)	(183,093)
Changes in operating assets and liabilities:		
Patient receivables	43,575	(72,198)
Other current assets	(78,886)	(2,117)
Other noncurrent assets	(146,175)	(334,699)
Accounts payable and other current liabilities	212,147	82,810
Other liabilities	184,203	200,567
Net cash provided by operating activities and net nonoperating gains and losses	<u>899,326</u>	<u>600,751</u>
Financing activities		
Proceeds from short-term borrowings	225,000	–
Payments on short-term borrowings	(225,000)	–
Proceeds from long-term borrowings	16,408	1,574,341
Payments for advance refunding and redemption of long-term debt	(12,660)	(511,218)
Principal payments on long-term debt	(98,498)	(304,161)
Debt issuance costs	(30)	(8,931)
Change in pledges receivable, trusts, and interests in foundations	45,328	2,137
Restricted gifts, bequests, investment income, and other	218,376	202,706
Net cash provided by financing activities	<u>168,924</u>	<u>954,874</u>
Investing activities		
Expenditures for property, plant, and equipment	(577,884)	(922,242)
Proceeds from sale of property, plant, and equipment	22,543	85,348
Cash acquired through member substitution	–	16,402
Net change in cash equivalents reported in long-term investments	441,506	(481,206)
Purchases of investments	(6,260,930)	(5,283,207)
Sales of investments	5,831,084	5,195,524
Net cash used in investing activities	<u>(543,681)</u>	<u>(1,389,381)</u>
Effect of exchange rate changes on cash	11,280	25,921
Increase in cash, cash equivalents, and restricted cash	<u>535,849</u>	<u>192,165</u>
Cash, cash equivalents, and restricted cash at beginning of year	<u>637,286</u>	<u>445,121</u>
Cash, cash equivalents, and restricted cash at end of year	<u>\$ 1,173,135</u>	<u>\$ 637,286</u>
Supplemental disclosure of noncash activity		
Assets acquired through finance leases and other financing agreements	<u>\$ 20,283</u>	<u>\$ 21,639</u>
Accounts payable accruals for property, plant, and equipment	<u>\$ 36,375</u>	<u>\$ 59,716</u>

See accompanying notes.

Cleveland Clinic Health System

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

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, 2020, the System operates 18 hospitals with approximately 4,800 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, and 11 ambulatory surgery centers, as well as numerous physician offices, which are located throughout northeast Ohio, and specialized cancer centers in Sandusky and Mansfield, Ohio. In Florida, the System operates five hospitals and a clinic located throughout southeast Florida, outpatient family health centers in West Palm Beach and Port St. Lucie, an outpatient family health and ambulatory surgery center in Coral Springs, and numerous physician offices located throughout southeast Florida. In addition, the System operates a health and wellness center and a sports medicine clinic in Toronto, Canada, and a specialized neurological clinical center in Las Vegas, Nevada. Pursuant to agreements, the System also provides management services for Ashtabula County Medical Center, located in Ashtabula, Ohio, with approximately 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.

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

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.

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.

3. Accounting Policies

Recent Accounting Pronouncements

Adopted

In August 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-13, *Fair Value Measurement (Topic 820): 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 System adopted ASU 2018-13 on January 1, 2020. The adoption of ASU 2018-13 had no impact on the consolidated financial statements.

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

3. Accounting Policies (continued)

Not Yet Adopted

In August 2018, the FASB issued ASU 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20): Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans*. This ASU intends to improve the effectiveness of disclosures in the notes to financial statements by modifying disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The 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 (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. This ASU aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. 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.

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

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

3. Accounting Policies (continued)

Use of Estimates

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

Net Patient Service Revenue and Patient Receivables

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

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

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

3. Accounting Policies (continued)

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

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

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

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

3. Accounting Policies (continued)

Generally, patients who are covered by third-party payors are responsible for patient responsibility balances, including deductibles and coinsurance, which vary in amount. The System estimates the transaction price for patients with deductibles and coinsurance based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any explicit price concessions, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Adjustments arising from a change in the transaction price were not significant in 2020. Adjustments arising from a change in the transaction price increased net patient service revenue by \$40.4 million in 2019.

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.

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.

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

3. Accounting Policies (continued)

Settlements with third-party payors for retroactive adjustments due to reviews and audits are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care in the period the related services are provided. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the System's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known or as years are settled or are no longer subject to such reviews and audits. Adjustments arising from a change in estimated settlements were not significant in 2020. Adjustments arising from a change in estimated settlements increased net patient service revenue by \$14.4 million in 2019.

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.

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 2020 and 2019 approximated \$173 million and \$169 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.

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

3. Accounting Policies (continued)

The System participates in the Hospital Care Assurance Program (HCAP). Ohio created HCAP to financially support those hospitals that serve a disproportionate share of low-income patients unable to pay for care. HCAP funds basic, medically necessary hospital services for patients whose family income is at or below the federal poverty level, which includes Medicaid patients and patients without health insurance. The System recorded HCAP revenues of \$13.8 million and \$3.0 million for the years ended December 31, 2020 and 2019, 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 \$8.9 million and \$8.8 million at December 31, 2020 and 2019, respectively. Revenue related to management service agreements for 2020 and 2019 was \$116.2 million and \$131.5 million, respectively, and is included in other unrestricted revenues.

Cash and Cash Equivalents

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

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

3. Accounting Policies (continued)

The reconciliation of cash, cash equivalents, and restricted cash within the consolidated balance sheets that comprise the amount reported on the consolidated statements of cash flows at December 31, 2020 and 2019 is as follows (in thousands):

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 1,045,393	\$ 505,729
Investments for current use	122,669	119,446
Restricted cash in investments	5,073	12,111
Total cash, cash equivalents, and restricted cash	<u>\$ 1,173,135</u>	<u>\$ 637,286</u>

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

Inventories

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

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 through finance lease arrangements are excluded from the consolidated statements of cash flows.

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

3. Accounting Policies (continued)

Impairment of Long-Lived Assets

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

Leases

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

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

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

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

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

3. Accounting Policies (continued)

Investments and Investment Income

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

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

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

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

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

3. Accounting Policies (continued)

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

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

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.

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

3. Accounting Policies (continued)

Goodwill and Other Intangibles

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

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

Derivative Instruments

The System's derivative financial instruments consist of interest rate swaps and foreign currency forward contracts, which are recognized as assets or liabilities in the consolidated balance sheets at fair value.

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

Foreign Currency Translation

The statements of operations of foreign subsidiaries whose functional currencies are other than the U.S. dollar are translated into U.S. dollars using average exchange rates for the period. The assets and liabilities of foreign subsidiaries whose functional currencies are other than the U.S. dollar are translated into U.S. dollars using exchange rates as of the consolidated balance sheet date. The U.S. dollar effects that arise from translating the net assets of these subsidiaries at changing rates are recorded as foreign currency translation gains and losses in the consolidated statements of operations and changes in net assets. Cumulative foreign currency translation losses included in net assets without donor restrictions were \$57.8 million and \$66.8 million at December 31, 2020 and 2019, respectively.

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

3. Accounting Policies (continued)

Debt Issuance Costs

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

Contributions

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

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

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 \$203.7 million and \$217.8 million in 2020 and 2019, respectively.

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

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, 2020 and 2019, is as follows (in thousands):

	2020		2019	
Medicare	\$ 3,459,418	38%	\$ 3,555,679	37%
Medicaid	886,408	10	817,631	9
Managed care and commercial	4,709,980	51	5,076,374	53
Self-pay	78,879	1	66,599	1
Net patient service revenue	\$ 9,134,685	100%	\$ 9,516,283	100%

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

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 30%, 9%, and 22% at December 31, 2020 and 26%, 7%, and 23% at December 31, 2019, respectively, of the System's total patient receivables. Revenues from the Medicare and Medicaid programs and one commercial payor account for approximately 38%, 10%, and 12% for 2020 and 37%, 9%, and 13% for 2019, 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, 2020 and 2019 is as follows (in thousands):

	2020	2019
Cash, cash equivalents and restricted cash	\$ 1,173,135	\$ 637,286
Money market funds	675,660	1,158,515
Fixed income securities:		
U.S. treasuries	1,197,397	1,146,082
U.S. government agencies	57,404	31,698
U.S. corporate	522,576	334,914
U.S. government agencies asset-backed securities	319,847	325,341
Corporate asset-backed securities	221,751	167,647
Foreign	252,380	151,625
Fixed income mutual funds	230,158	120,239
Commingled fixed income funds	126,219	630,122
Common and preferred stocks:		
U.S.	285,260	311,327
Foreign	268,136	320,123
Equity mutual funds	89,239	142,424
Commingled equity funds	1,739,575	1,881,713
Commingled commodity funds	324,625	210,265
Alternative investments:		
Hedge funds	3,335,262	2,071,318
Private equity/venture funds	2,061,072	1,559,476
Total cash, cash equivalents, and investments	<u>\$ 12,879,696</u>	<u>\$ 11,200,115</u>

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

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 four holdings, valued at \$7.1 million at December 31, 2020, in which the System invests directly.

Total investment return is comprised of the following for the years ended December 31, 2020 and 2019 (in thousands):

	2020	2019
Other unrestricted revenues:		
Interest income and dividends	\$ 1,406	\$ 2,284
Nonoperating gains and losses, net:		
Interest income and dividends	72,412	84,544
Net realized gains on sales of investments	341,800	502,068
Net change in unrealized gains on investments	76,723	409,950
Income on alternative investments	662,254	281,129
Investment management fees	(25,246)	(28,310)
	1,127,943	1,249,381
Other changes in net assets:		
Investment income on restricted investments	82,853	72,074
Total investment return	\$ 1,212,202	\$ 1,323,739

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

6. Liquidity and Availability

Financial assets available for general expenditure within one year of December 31, 2020 and 2019 include the following (in thousands):

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 1,045,393	\$ 505,729
Patient receivables	1,255,681	1,299,256
Long-term investments	6,029,764	6,531,369
	<u>\$ 8,330,838</u>	<u>\$ 8,336,354</u>

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

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

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

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

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

Other current and noncurrent assets at December 31, 2020 and 2019 consist of the following (in thousands):

	<u>2020</u>	<u>2019</u>
Current:		
Inventories	\$ 246,507	\$ 192,490
Prepaid expenses	89,026	89,368
Research and grants receivables	56,114	33,017
Pledges receivable, current (<i>Note 11</i>)	44,372	67,300
Other	110,703	106,493
Total other current assets	<u>\$ 546,722</u>	<u>\$ 488,668</u>
	<u>2020</u>	<u>2019</u>
Noncurrent:		
Deferred compensation plan assets	\$ 343,728	\$ 285,792
Goodwill and other intangible assets (<i>Note 8</i>)	125,244	121,745
Investments in affiliates	97,844	85,599
Prepaid pension cost	10,844	—
Other	66,910	33,304
Total other noncurrent assets	<u>\$ 644,570</u>	<u>\$ 526,440</u>

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

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

Other current and noncurrent liabilities at December 31, 2020 and 2019 consist of the following (in thousands):

	2020	2019
Current:		
Management contracts and other deferred revenue	\$ 94,680	\$ 28,267
Deferred social security payroll taxes (Note 21)	86,386	–
Interest payable	72,641	71,766
Research deferred revenue	64,068	54,929
Current portion of professional and general liability insurance reserves (Note 15)	54,720	59,354
Operating lease liabilities (Note 14)	43,787	31,006
Employee benefit related liabilities	35,260	34,924
Estimated amounts due to third-party payors	21,644	47,870
Other	265,137	245,807
Total other current liabilities	\$ 738,323	\$ 573,923
Noncurrent:		
Employee benefit related liabilities	\$ 395,173	\$ 340,013
Derivative liabilities (Note 13)	159,762	132,012
Deferred social security payroll taxes (Note 21)	86,386	–
Pledge liabilities	16,829	17,341
Estimated amounts due to third-party payors	14,883	15,092
Gift annuity liabilities	13,903	15,126
Other	20,979	22,507
Total other noncurrent liabilities	\$ 707,915	\$ 542,091

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

8. Goodwill and Other Intangible Assets

The System recorded goodwill in 2020 and 2019 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, 2020 and 2019 are as follows (in thousands):

	2020	2019
Balance, beginning of year	\$ 71,331	\$ 70,420
Goodwill acquired	2,895	543
Foreign currency translation	194	368
Balance, end of year	\$ 74,420	\$ 71,331

The System acquired other intangible assets of \$0.9 million and \$18.5 million in 2020 and 2019, respectively, related to the acquisitions of various physician practices and the member substitution of Martin Health System in 2019. Other intangible assets are recorded in other noncurrent assets in the consolidated balance sheets.

Other intangible assets at December 31, 2020 and 2019 consist of the following (in thousands):

	2020		2019	
	Historical Cost	Accumulated Amortization	Historical Cost	Accumulated Amortization
Trade name	\$ 49,800	\$ –	\$ 49,800	\$ –
Finite-lived intangible assets	8,024	7,000	7,156	6,542
Total	\$ 57,824	\$ 7,000	\$ 56,956	\$ 6,542

Amortization related to finite-lived intangible assets was \$0.5 million in both 2020 and 2019 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): 2021 – \$522, 2022 – \$314, and 2023 – \$188.

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

9. Fair Value Measurements

The following tables present the financial instruments measured at fair value on a recurring basis as of December 31, 2020 and 2019, based on the valuation hierarchy (in thousands):

December 31, 2020

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

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

9. Fair Value Measurements (continued)

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	<u>\$ 3,826,989</u>	<u>\$ 1,108,533</u>	<u>\$ –</u>	<u>\$ 4,935,522</u>
Liabilities				
Interest rate swaps	\$ –	\$ 131,004	\$ –	\$ 131,004
Foreign currency forward contracts	–	2,879	–	2,879
Total liabilities at fair value	<u>\$ –</u>	<u>\$ 133,883</u>	<u>\$ –</u>	<u>\$ 133,883</u>

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

9. Fair Value Measurements (continued)

Financial instruments at December 31, 2020 and 2019 are reflected in the consolidated balance sheets as follows (in thousands):

	2020	2019
Cash, cash equivalents, and investments measured at fair value	\$ 5,292,943	\$ 4,847,221
Commingled funds measured at net asset value	2,190,419	2,722,100
Alternative investments measured at net asset value	5,396,334	3,630,794
Total cash, cash equivalents, and investments	\$ 12,879,696	\$ 11,200,115
Perpetual and charitable trusts measured at fair value	\$ 84,894	\$ 88,301
Interests in foundations	27,531	25,136
Trusts and interests in foundations	\$ 112,425	\$ 113,437

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

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

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

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

9. Fair Value Measurements (continued)

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

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

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

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

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

10. Property, Plant, and Equipment

Property, plant, and equipment at December 31, 2020 and 2019 consist of the following (in thousands):

	2020	2019
Land and improvements	\$ 534,519	\$ 530,594
Buildings	7,303,916	7,058,399
Leasehold improvements	35,625	31,203
Equipment	1,921,575	1,918,486
Computer hardware and software	953,697	1,017,757
Construction-in-progress	502,469	360,635
Leased facilities and equipment	207,174	203,927
	11,458,975	11,121,001
Accumulated depreciation and amortization	(5,592,001)	(5,255,411)
	\$ 5,866,974	\$ 5,865,590

Included in the preceding table is unamortized computer software of \$265.8 million and \$231.3 million at December 31, 2020 and 2019, respectively. Amortization of computer software totaled \$44.4 million and \$48.1 million in 2020 and 2019, respectively. Amortization of computer software for the five years subsequent to December 31, 2020, is as follows (in millions): 2021 – \$44.1, 2022 – \$39.4, 2023 – \$35.3, 2024 – \$33.4, and 2025 – \$32.8.

Accumulated amortization of leased facilities and equipment was \$104.3 million and \$93.5 million at December 31, 2020 and 2019, respectively.

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

11. Pledges Receivable

Outstanding pledges receivable from various corporations, foundations, and individuals at December 31, 2020 and 2019 are as follows (in thousands):

	<u>2020</u>	<u>2019</u>
Pledges due:		
In less than one year	\$ 57,668	\$ 79,114
In one to five years	80,491	110,696
In more than five years	83,975	87,664
	<u>222,134</u>	<u>277,474</u>
 Allowance for uncollectible pledges and discounting	 (52,121)	 (55,256)
 Current portion (net of allowance for uncollectible pledges of \$13.3 million and \$11.8 million in 2020 and 2019, respectively)	 (44,372)	 (67,300)
	<u>\$ 125,641</u>	<u>\$ 154,918</u>

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

12. Long-Term Debt

Long-term debt at December 31, 2020 and 2019, consists of the following (in thousands):

	Interest Rate(s)	Final Maturity	Amount Outstanding at December 31	
			2020	2019
Series 2020 Term Loan	0.84%	2025	\$ 12,660	\$ –
Series 2019A Bonds	3.39%	2046	247,045	247,045
Series 2019B Bonds	3.22% to 3.55%	2046	250,320	250,320
Series 2019C Bonds	Floating rate	2052	89,000	89,000
Series 2019D Bonds	Variable rate	2052	119,340	119,340
Series 2019E Bonds	Variable rate	2052	130,405	130,405
Series 2019F Bonds	Variable rate	2052	130,405	130,405
Series 2019G Bonds	2.70% to 3.28%	2042	241,835	241,835
Series 2018 Sterling Notes	2.90% to 3.08%	2068	902,952	872,285
Series 2018 Term Loan	Variable rate	2023	36,818	33,070
Series 2017A Bonds	1.08% to 3.48%	2043	792,350	811,785
Series 2017B Bonds	2.02% to 3.70%	2043	166,290	167,580
Series 2017C Bonds	2.72%	2032	8,135	8,555
Series 2016 Private Placement	3.35%	2046	325,000	325,000
Series 2016 Term Loan	Variable rate	2026	15,170	15,170
Series 2014 Bonds	4.86%	2114	400,000	400,000
Series 2013A Bonds	4.04%	2042	34,955	34,955
Series 2013B Bonds	Variable rate	2039	201,160	201,160
Series 2013 Keep Memory Alive	Variable rate	2037	54,760	56,980
Series 2013 Bonds	Variable rate	2032	14,455	16,200
Series 2012A Bonds	2.32% to 4.07%	2039	266,060	275,765
Series 2011A Bonds	3.62% to 4.21%	2025	79,285	94,385
Series 2011B Bonds	2.56%	2031	23,345	24,900
Series 2011C Bonds	3.68% to 4.72%	2032	127,740	144,035
Series 2010 Bonds	3.04%	2025	–	14,995
Series 2008B Bonds	Variable rate	2042	327,575	327,575
Series 2003C Bonds	Variable rate	2035	41,905	41,905
Notes payable	Varies	Varies	2,901	3,584
Finance leases	Varies	Varies	110,621	118,053
			5,152,487	5,196,287
Net unamortized premium			154,012	161,322
Unamortized debt issuance costs			(32,608)	(33,715)
Current portion			(101,006)	(95,405)
Long-term variable rate debt classified as current			(589,891)	(529,841)
			\$ 4,582,994	\$ 4,698,648

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

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 2020 Term Loan, Series 2018 Sterling Notes, Series 2018 Term Loan, Series 2016 Private Placement, Series 2016 Term Loan, Series 2014 Bonds, and Series 2013 Keep Memory Alive Bonds are issued directly by the Clinic or its subsidiaries. Under various financing agreements, the System must meet certain operating and financial performance covenants.

In November 2020, the System entered into a taxable term loan with a financial institution for \$12.7 million. The loan matures in 2025 and bears interest at a fixed rate of 0.84%. The proceeds of the term loan were used to refund the Series 2010 Bonds that were assumed in the member substitution of Martin Health System.

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. 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 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 2019 consolidated statements of operations and changes in net assets.

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

12. Long-Term Debt (continued)

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 2019 consolidated statements of operations and changes in net assets.

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, 2020 or 2019.

Certain of the System's current outstanding bonds bear interest at a variable rate. During 2020 and 2019, the rates for the System's variable rate long-term debt series ranged from 0.01% to 9.00% (average rate 0.60%) and 0.80% to 3.32% (average rate 1.61%), respectively.

Certain variable rate bonds are secured by irrevocable direct pay letters of credit and standby bond purchase agreements, totaling \$611.5 million at December 31, 2020. Long-term variable rate debt is classified as current in the consolidated balance sheets if it is supported by letters of credit or standby bond purchase agreements that expire within one year, require repayment of a remarketing draw within one year, or contain a subjective clause that, if declared by the lender, could cause immediate repayment of the bonds.

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

In 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, 2020.

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

12. Long-Term Debt (continued)

In 2020, the System obtained lines of credit totaling \$650 million with multiple financial institutions. Each of the lines mature in 2021 and bear interest at the London Interbank Offered Rate (LIBOR) plus an applicable spread. The lines of credit were obtained to provide additional liquidity for the System. As of December 31, 2020, the System had no amounts drawn and \$650 million in available capacity.

During the term of agreements with the issuing authorities, the System is required to make specified deposits with trustees to fund principal and interest payments when due. Also, unexpended bond proceeds are held by the trustee and released to the System for approved requisition requests for capital projects. There were no unexpended bond proceeds at December 31, 2020. Unexpended bond proceeds at December 31, 2019 were \$139.6 million and are included in funds held by trustee. The System has made deposits with the trustee, included in investments for current use, to fund current principal and interest payments of \$122.7 million and \$119.4 million at December 31, 2020 and 2019, respectively.

The System is subject to certain restrictive covenants, including provisions relating to certain debt ratios, days cash on hand, and other matters. The System was in compliance with these covenants at December 31, 2020 and 2019.

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, 2020, are as follows (in thousands): 2021 – \$74,597, 2022 – \$77,818, 2023 – \$117,976, 2024 – \$82,098, and 2025 – \$85,643.

Total interest paid approximated \$160.6 million and \$158.3 million in 2020 and 2019, respectively. Capitalized interest cost approximated \$4.4 million and \$4.0 million in 2020 and 2019, respectively.

13. Derivative Instruments

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

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

13. Derivative Instruments (continued)

The System's objective with respect to interest rate risk is to manage the risk of rising interest rates on the System's variable rate debt. Consistent with its interest rate risk management objective, the System has entered into various interest rate swap agreements. During the term of these transactions, the System pays interest at a fixed rate and receives interest at a variable rate based on LIBOR or the Securities Industry and Financial Markets Association Index (SIFMA). The swap agreements are not designated as hedging instruments. Net interest paid or received under the swap agreements is included in derivative 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	
				2020	2019
Fixed	2021	3.21%	68% of LIBOR	\$ 26,865	\$ 28,525
Fixed	2024	3.42%	68% of LIBOR	24,250	25,700
Fixed	2024	3.45%	67% of LIBOR	5,040	6,185
Fixed	2027	3.56%	68% of LIBOR	111,226	115,757
Fixed	2028	5.12%	100% of LIBOR	34,195	35,430
Fixed	2028	3.51%	68% of LIBOR	26,405	27,395
Fixed	2030	5.07%	100% of LIBOR	54,300	56,350
Fixed	2030	5.06%	100% of LIBOR	54,275	56,325
Fixed	2031	3.04%	68% of LIBOR	40,925	44,000
Fixed	2032	4.32%	79% of LIBOR	1,986	2,091
Fixed	2032	4.33%	70% of LIBOR	3,973	4,183
Fixed	2032	3.78%	70% of LIBOR	1,986	2,091
Fixed	2032	3.58%	67% of LIBOR	9,415	10,015
Fixed	2036	4.90%	100% of LIBOR	48,325	48,500
Fixed	2036	4.90%	100% of LIBOR	75,125	75,250
Fixed	2037	4.62%	100% of SIFMA	54,760	56,980
Fixed	2039	4.62%	68% of LIBOR	20,885	21,025
				\$ 593,936	\$ 615,802

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

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.

The System has foreign currency forward contracts, maturing at various dates through April 2021, with a total outstanding notional amount of \$68.1 million and \$336.2 million at December 31, 2020 and 2019, respectively.

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

Derivative Assets and Liabilities					
December 31, 2020					
December 31, 2019					
Balance Sheet		Fair		Balance Sheet	
Location		Value		Location	
Value		Value		Value	
Derivatives not designated as hedging instruments					
Interest rate swap agreements	Other noncurrent liabilities	\$	159,762	Other noncurrent liabilities	\$ 131,004
Foreign currency contracts	Other current assets	\$	366	Other current assets	\$ –
Foreign currency contracts	Other current liabilities	\$	–	Other current liabilities	\$ 1,871
Foreign currency contracts	Other noncurrent liabilities	\$	–	Other noncurrent liabilities	\$ 1,008

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

		Location of Loss		Year Ended December 31	
		Recognized		2020	
				2019	
Derivatives not designated as hedging instruments					
Interest rate swap agreements	Derivative losses	\$	(51,287)	\$	(42,734)
Foreign currency contracts	Derivative (losses) gains	\$	(10,186)	\$	6,540

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

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, 2020 and 2019, the System posted \$102.4 million and \$82.4 million, respectively, of collateral with counterparties that is included in funds held by trustees in the consolidated balance sheets. In addition, if the System were to choose to terminate a derivative contract or if a derivative contract were terminated pursuant to an event of default or a termination event as described in the derivative contract, the System could be required to pay a termination payment to the counterparty.

14. Leases

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

Operating and finance lease right-of-use assets and lease liabilities as of December 31, 2020 and 2019 were as follows (in thousands):

Operating leases	2020	2019
Right-of-use assets:		
Operating lease assets	\$ 360,841	\$ 325,960
Lease liabilities:		
Other current liabilities	\$ 43,787	\$ 31,006
Noncurrent operating lease liabilities	323,682	296,668
Total operating lease liabilities	\$ 367,469	\$ 327,674
Finance leases		
Right-of-use assets:		
Property, plant, and equipment, net	\$ 102,846	\$ 110,399
Lease liabilities:		
Current portion of long-term debt	\$ 26,409	\$ 24,622
Long-term debt	84,212	93,431
Total finance lease liabilities	\$ 110,621	\$ 118,053

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

14. Leases (continued)

Operating expenses for the leasing activity of the System as lessee for the years ended December 31, 2020 and 2019 are as follows (in thousands):

Lease Type	Classification	2020	2019
Operating lease costs*	Facilities expense	\$ 52,508	\$ 57,493
Short-term lease costs	Facilities expense	16,895	17,793
Financing lease interest	Interest expense	4,776	5,373
Financing lease amortization	Depreciation and amortization	29,264	27,977
Total lease cost		<u>\$ 103,443</u>	<u>\$ 108,636</u>

* Includes fixed and variable lease costs.

Cash paid for amounts included in the measurement of lease liabilities for the years ended December 31, 2020 and 2019 was as follows (in thousands):

	2020	2019
Operating cash flows from operating leases	\$ 48,153	\$ 57,523
Operating cash flows from finance leases	4,776	5,373
Financing cash flows from finance leases	27,715	25,408
Total	<u>\$ 80,644</u>	<u>\$ 88,304</u>

Right-of-use assets obtained in exchange for new lease obligations for the years ended December 31, 2020 and 2019 are as follows (in thousands):

	2020	2019
Operating leases	\$ 55,786	\$ 84,264
Finance leases	20,283	21,639
Total	<u>\$ 76,069</u>	<u>\$ 105,903</u>

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

14. Leases (continued)

The aggregate future lease payments for operating and finance leases as of December 31, 2020 were as follows (in thousands):

	Operating	Finance
2021	\$ 38,340	\$ 30,299
2022	36,361	25,350
2023	30,837	18,495
2024	24,245	13,553
2025	17,782	9,273
Thereafter	1,377,050	29,165
Total lease payments	1,524,615	126,135
Less: interest	(1,157,146)	(15,514)
Present value of lease liabilities	\$ 367,469	\$ 110,621

Average lease terms and discount rates at December 31, 2020 and 2019 were as follows:

	2020	2019
Weighted-average remaining lease term (years):		
Operating leases	49.6	54.9
Finance leases	6.5	7.2
Weighted-average discount rate:		
Operating leases	2.6%	2.8%
Finance leases	3.9	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 early 2022. Rental expense is fixed at increasing annual rates until December 2027, after which rental expense will be adjusted annually by a variable index that is subject to minimum and maximum thresholds through the end of the lease term. Excluding this lease, the weighted average remaining lease term for the System's operating leases is 8.1 years and 8.5 years at December 31, 2020 and 2019, respectively.

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

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 \$270.8 million and \$223.4 million at December 31, 2020 and 2019, respectively, are recorded as current and noncurrent liabilities and include discounted estimates of the ultimate costs for both asserted claims and unasserted claims. Asserted and unasserted claims for the System's reserves were discounted at 0.5% and 2.0% at December 31, 2020 and 2019, respectively. Through the captive insurance subsidiary, the System has set aside investments of \$234.0 million (\$54.7 million included in investments for current use) and \$217.3 million (\$59.4 million included in investments for current use) at December 31, 2020 and 2019, respectively, of which \$46.7 million and \$44.4 million at December 31, 2020 and 2019, respectively, is restricted in accordance with reinsurance trust agreements related to coverage of the Florida operations and other reinsurance programs provided by the captive insurance subsidiary.

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

15. Professional and General Liability Insurance (continued)

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

	<u>2020</u>	<u>2019</u>
Balance at beginning of year	\$ 223,362	\$ 195,023
Incurred related to:		
Current period	72,446	72,975
Prior period	(1,338)	(8,274)
Total incurred	<u>71,108</u>	<u>64,701</u>
Paid related to:		
Current period	2,129	4,615
Prior period	41,547	69,582
Total paid	<u>43,676</u>	<u>74,197</u>
Total incurred less total paid	27,432	(9,496)
Member substitution	–	39,324
Increase (decrease) in unasserted claims	26	(1,247)
Increase (decrease) in reinsurance recoverable	20,000	(242)
Balance at end of year	<u>\$ 270,820</u>	<u>\$ 223,362</u>

The foregoing reconciliation shows \$1.3 million and \$8.3 million of favorable development in 2020 and 2019, 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.

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

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 who were hired before October 1, 2005, and met certain eligibility requirements. All benefit accruals under the Martin Health System defined benefit plan ceased as of January 1, 2013. On June 30, 2019, the Martin Health System defined benefit pension plan merged with the CCHS Retirement Plan, with the CCHS Retirement Plan being a single continuing pension plan. Akron General has a tax-qualified defined benefit plan covering substantially all of its employees who were hired before 2004 and meet certain eligibility requirements. All benefit accruals under the Akron General defined benefit plan ceased as of December 31, 2017. Indian River Hospital has a tax-qualified defined benefit plan covering substantially all of its employees who were hired before December 31, 2002 and meet certain eligibility requirements. All benefit accruals under the Indian River Hospital defined benefit plan ceased as of December 31, 2002. The benefits for the System's tax-qualified defined benefit pension plans are provided based on age, years of service, and compensation. The System's policy for its tax-qualified defined benefit pension plans is to fund at least the minimum amounts required by the Employee Retirement Income Security Act. 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.

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

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, 2020 are based on the Pri-2012 "Employees," "Healthy Retiree" and "Contingent Annuitant" tables, fully generational for employees reflecting an unadjusted MP-2020 projection scale from the 2012 base year. The 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 System believes that the updated mortality rates are the best estimate of future experience.

The System expects to make contributions of \$8.8 million to the defined benefit pension plans in 2021. Pension benefit payments over the next ten years are estimated as follows: 2021 – \$170.3 million, 2022 – \$125.1 million, 2023 – \$129.5 million, 2024 – \$128.5 million, 2025 – \$124.2 million, and in the aggregate for the five years thereafter – \$595.2 million.

The System expects to make contributions of \$3.8 million to other postretirement benefit plans in 2021. Other postretirement benefit payments over the next ten years are estimated as follows: 2021 – \$3.8 million, 2022 – \$3.4 million, 2023 – \$3.1 million, 2024 – \$2.8 million, 2025 – \$2.5 million, and in the aggregate for the five years thereafter – \$8.8 million.

No plan assets are expected to be returned to the employer during 2021.

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

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 2021, 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, 2020 and 2019 are the following amounts that have not yet been recognized in net periodic benefit cost (in thousands):

	Defined Benefit Pension Plans		Other Postretirement Benefits	
	2020	2019	2020	2019
Unrecognized actuarial losses (gains)	\$ 144,563	\$ 151,105	\$ 3,718	\$ (7,466)
Unrecognized prior service credit	<u>(13,226)</u>	<u>(15,768)</u>	<u>(5,137)</u>	<u>(6,089)</u>
Total	<u>\$ 131,337</u>	<u>\$ 135,337</u>	<u>\$ (1,419)</u>	<u>\$ (13,555)</u>

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.

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

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, 2020 and 2019, are as follows (in thousands):

	Defined Benefit Pension Plans		Other Postretirement Benefits	
	2020	2019	2020	2019
Current year actuarial (loss) gain	\$ (5,255)	\$ (14,539)	\$ (8,951)	\$ 4,617
Recognition of actuarial loss (gain) in excess of corridor	11,797	7,897	(2,233)	(5,340)
Current year prior service credit	–	3,966	–	–
Amortization of prior service credit	(2,542)	(1,909)	(952)	(952)
Total	\$ 4,000	\$ (4,585)	\$ (12,136)	\$ (1,675)

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

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, 2020 and 2019, consolidated balance sheets (in thousands):

	Defined Benefit Pension Plans		Other Postretirement Benefits	
	2020	2019	2020	2019
Change in projected benefit obligation:				
Projected benefit obligation at beginning of year	\$ 1,959,040	\$ 1,630,583	\$ 79,525	\$ 81,889
Service (credit) cost	(4,714)	(3,421)	1,160	1,469
Interest cost	63,802	77,571	2,913	3,723
Actuarial loss (gain)	157,445	163,942	8,951	(4,617)
Participant contributions	—	—	18,856	16,886
Plan amendments	—	(3,966)	—	—
Member substitution	—	215,695	—	3,906
Settlement payments	(76,375)	(65,088)	—	—
Benefits paid	(59,447)	(56,276)	(25,731)	(23,731)
Projected benefit obligation at end of year	2,039,751	1,959,040	85,674	79,525
Change in plan assets:				
Fair value of plan assets at beginning of year	1,678,138	1,234,419	—	—
Actual return on plan assets	258,805	235,043	—	—
Participant contributions	—	—	18,856	16,886
System contributions	24,804	176,248	6,875	6,845
Member substitution	—	153,792	—	—
Benefits paid	(135,822)	(121,364)	(25,731)	(23,731)
Fair value of plan assets at end of year	1,825,925	1,678,138	—	—
Accrued retirement benefits	\$ (213,826)	\$ (280,902)	\$ (85,674)	\$ (79,525)
Noncurrent assets	\$ 10,844	\$ —	\$ —	\$ —
Current liabilities	(8,835)	(9,111)	(3,768)	(4,252)
Noncurrent liabilities	(215,835)	(271,791)	(81,906)	(75,273)
Net liability recognized in consolidated balance sheets	\$ (213,826)	\$ (280,902)	\$ (85,674)	\$ (79,525)

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

16. Pensions and Other Postretirement Benefits (continued)

The accumulated benefit obligation for all defined benefit pension plans was \$2.0 billion and \$1.9 billion at December 31, 2020 and 2019, respectively. At December 31, 2020, defined benefit pension plans that had projected benefit obligations in excess of the fair value of plan assets had total accumulated benefit obligations of \$1.7 billion, projected benefit obligations of \$1.7 billion and fair value of plan assets of \$1.5 billion. At December 31, 2020, defined benefit pension plans that had fair value of plan assets in excess of projected benefit obligations had total accumulated benefit obligations and projected benefit obligations of \$290.1 million and fair value of plan assets of \$300.9 million. At December 31, 2019, all of the defined benefit pension plans had projected benefit obligations in excess of the fair value of plan assets.

The CCHS Retirement Plan paid \$76.4 million and \$65.1 million in lump-sum payments in accordance with plan terms in 2020 and 2019, 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 \$5.3 million and \$4.9 million for the years ended December 31, 2020 and 2019, 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.

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

16. Pensions and Other Postretirement Benefits (continued)

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

	Defined Benefit Pension Plans		Other Postretirement Benefits	
	2020	2019	2020	2019
Components of net periodic benefit cost:				
Service (credit) cost	\$ (4,714)	\$ (3,421)	\$ 1,160	\$ 1,469
Interest cost	63,802	77,571	2,913	3,723
Expected return on plan assets	(106,615)	(85,639)	-	-
Recognition of actuarial loss (gain) in excess of corridor	6,481	2,954	(2,233)	(5,340)
Settlement charge	5,316	4,943	-	-
Amortization of prior service credit	(2,542)	(1,909)	(952)	(952)
Net periodic benefit (credit) cost	(38,272)	(5,501)	888	(1,100)
Defined contribution plans	276,624	266,314	-	-
Total	\$ 238,352	\$ 260,813	\$ 888	\$ (1,100)

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.

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

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	
	2020	2019	2020	2019
Weighted-average assumptions:				
Discount rates:				
Used for benefit obligations	2.65%	3.41%	3.17%	3.71%
Used for net periodic benefit cost	3.41	4.37	3.71	4.38
Expected rate of return on plan assets	6.59	6.48	—	—
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 are as follows:

	2020	2019
Internally provided services:		
Initial rate	5.75%	5.50%
Ultimate rate	4.00	4.00
Year ultimate reached	2028	2026
Externally provided services:		
Initial rate	6.75%	6.50%
Ultimate rate	5.00	5.00
Year ultimate reached	2028	2026

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

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 2020 by \$1.6 million and \$1.1 million, respectively, and service and interest costs in 2019 by \$1.9 million and \$1.3 million, respectively.

The System's weighted-average asset allocation of pension plan assets at December 31, 2020 and 2019, by asset category, is as follows:

Asset category	Percentage of Plan Assets		
	2020	2019	Target Allocation
Interest-bearing cash	3.2%	9.1%	1%–5%
Fixed income securities	69.5	56.0	50%–80%
Common and preferred stocks	8.6	17.2	5%–30%
Alternative investments	18.7	17.7	0%–25%
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 6.59% and 6.48% in 2020 and 2019, 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.

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

16. Pensions and Other Postretirement Benefits (continued)

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

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, 2020 and 2019, based on the valuation hierarchy (in thousands):

December 31, 2020

	Level 1	Level 2	Level 3	Total
Assets				
Cash and investments:				
Cash and cash equivalents	\$ 58,158	\$ 36	\$ –	\$ 58,194
Fixed income securities:				
U.S. treasuries	497,599	–	–	497,599
U.S. government agencies	–	13,232	–	13,232
U.S. corporate	–	247,264	–	247,264
Foreign	–	46,954	–	46,954
Common and preferred stocks:				
U.S.	24,440	–	–	24,440
Foreign	13,998	1,444	–	15,442
Equity mutual funds	7,342	–	–	7,342
Total assets at fair value	\$ 601,537	\$ 308,930	\$ –	\$ 910,467

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

16. Pensions and Other Postretirement Benefits (continued)

December 31, 2019

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
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	<u>\$ 519,522</u>	<u>\$ 193,539</u>	<u>\$ –</u>	<u>\$ 713,061</u>

Total plan assets in the System's defined benefit pension plans at December 31, 2020 and 2019 are comprised of the following (in thousands):

	<u>2020</u>	<u>2019</u>
Plan assets measured at fair value	\$ 910,467	\$ 713,061
Commingled funds measured at net asset value	573,951	668,002
Alternative investments measured at net asset value	341,507	297,075
Total fair value of plan assets at end of year	<u>\$ 1,825,925</u>	<u>\$ 1,678,138</u>

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

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

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 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 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.

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

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, 2020 and 2019, the liability for uncertainty in income taxes was \$1.5 million and \$1.0 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 \$588.9 million and \$504.8 million at December 31, 2020 and 2019, 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 2021 through 2037. A deferred tax asset of \$121.0 million and \$101.8 million has been recorded at December 31, 2020 and 2019, respectively. A valuation allowance of \$121.0 million and \$101.8 million has been recorded at December 31, 2020 and 2019, respectively, against the deferred tax assets due to the uncertainty regarding their use.

18. Commitments and Contingent Liabilities

At December 31, 2020, the System has commitments for construction and other related capital contracts of \$275.5 million and letters of credit of \$0.7 million. Guarantees of mortgage loans made by banks to certain staff members are \$20.4 million at December 31, 2020. In addition, the System has remaining commitments to invest approximately \$1,098 million in alternative investments at December 31, 2020. The largest commitment at December 31, 2020 to any one alternative strategy manager is \$65 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.

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

18. Commitments and Contingent Liabilities (continued)

Pledge liabilities to various foundations and other entities at December 31, 2020, are as follows (in thousands): 2021 – \$1,725, 2022 – \$4,700, 2023 – \$600, 2024 – \$4,700, 2025 – \$600, and thereafter – \$8,400. The unamortized discount on pledge liabilities at December 31, 2020 was \$2.2 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 367 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

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

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. The System had no deficiencies of this nature in donor-restricted endowment funds as of December 31, 2020 or 2019. 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 meet or exceed the investment policy benchmark as represented by a policy asset allocation, although actual returns in any given year may vary.

Strategies Employed for Achieving Objectives

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

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

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. 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, 2020 and 2019 (in thousands):

	2020	2019
Endowment net assets, beginning of year	\$ 467,850	\$ 388,135
Investment income	2,590	2,805
Net appreciation	57,121	44,066
Contributions	26,948	28,805
Appropriation of endowment assets for expenditure	(16,904)	(8,087)
Member substitution	-	12,126
Endowment net assets, end of year	\$ 537,605	\$ 467,850

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

20. Functional Expenses

The following table presents expenses by both their nature and their function for the years ended December 31, 2020 and 2019 (in thousands):

	2020					
	Healthcare Services	Research	Medical Education	General and Administrative	Non- Healthcare Services	Total
Salaries, wages, and benefits	\$ 4,706,614	\$ 188,644	\$ 303,283	\$ 683,552	\$ 20,429	\$ 5,902,522
Supplies	1,060,253	20,790	5,316	13,726	5,625	1,105,710
Pharmaceuticals	1,296,248	94	–	2,743	–	1,299,085
Purchased services and other fees	428,825	6,125	9,640	286,623	1,091	732,304
Administrative services	56,694	41,955	29,305	40,259	10,992	179,205
Facilities	314,686	3,319	1,902	22,185	8,811	350,903
Insurance	76,565	–	163	1,760	341	78,829
Interest	145,930	1,621	–	2,176	7,297	157,024
Depreciation and amortization	452,785	10,617	239	110,118	16,195	589,954
	<u>\$ 8,538,600</u>	<u>\$ 273,165</u>	<u>\$ 349,848</u>	<u>\$ 1,163,142</u>	<u>\$ 70,781</u>	<u>\$10,395,536</u>

	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
	<u>\$ 8,362,598</u>	<u>\$ 264,152</u>	<u>\$ 336,270</u>	<u>\$ 1,127,868</u>	<u>\$ 78,428</u>	<u>\$10,169,316</u>

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.

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

21. COVID-19

On March 11, 2020, the World Health Organization declared the novel coronavirus disease (COVID-19) outbreak a global pandemic. The governors of Ohio and Florida declared a state of emergency for their respective states related to the COVID-19 outbreak on March 9, 2020, and a national state of emergency in the U.S. was declared on March 13, 2020. In mid-March, non-essential procedures and appointments were suspended based on government orders and to preserve hospital beds, equipment and supplies for COVID-19 patients. In May, the System began reactivation of non-essential procedures and appointments while implementing several precautions to ensure the safety of patients, caregivers and visitors. The System continues to work with public health partners at all levels to maintain the health and safety of patients, caregivers and visitors to prevent the spread of COVID-19. Throughout the pandemic, the System believes it has become better equipped to manage and treat the disease and provide care for patients. The System has taken, and continues to take, actions to mitigate the effect of the pandemic on its financial condition and results of operations; however, the outcome and ultimate effect of the pandemic on the System's consolidated financial statements cannot be determined at this time.

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

The PRF provides funding from the U.S. Department of Health and Human Services (HHS) to healthcare providers to support healthcare-related expenses or lost revenue attributable to COVID-19. Funds received from the PRF represent payments to providers and do not need to be repaid as long as the System complies with certain terms and conditions imposed by HHS, including reporting and compliance requirements. In 2020, the System received \$423.3 million of PRF payments. The System recognized \$359.2 million of PRF payments in other unrestricted revenues based on the terms and conditions of the payments. The remaining \$64.1 million has been recorded in other current liabilities at December 31, 2020.

The ERC was designed to encourage entities to keep employees on their payroll despite experiencing economic hardship due to the COVID-19 pandemic. The ERC allows eligible entities to take a credit against certain employment taxes equal to 50% of up to \$10,000 of qualified wages an eligible employer pays to employees between March 13, 2020 and December 31, 2020. In 2020, the System recognized \$28.4 million of ERC in other unrestricted revenues.

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

21. COVID-19 (continued)

The CARES Act also permits employers to defer the payment of the employer's portion of social security taxes incurred between March 27, 2020 and December 31, 2020, with half the deferred payments required to be paid by the end of 2021 and the other half to be paid by the end of 2022. At December 31, 2020, the System has deferred payroll tax payments of \$172.8 million, which are recorded in other current liabilities and other noncurrent liabilities.

Additionally, the System submitted claims to the Federal Emergency Management Association (FEMA) to reimburse costs related to expanding capacity; build out of a surge hospital; and the purchase of medical supplies, ventilators, and personal protective equipment. The System records FEMA grants as contributions when the expenses have been incurred and any related conditions have been substantially met. In 2020, the System recognized \$67.2 million of FEMA grant revenue in other unrestricted revenues. Receivables related to FEMA grants were \$17.2 million at December 31, 2020 and are included in other current assets.

22. Subsequent Events

The System evaluated events and transactions occurring subsequent to December 31, 2020 through March 5, 2021, 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, except for the following:

- In January 2021, the System entered into a taxable term loan agreement totaling \$64.7 million with a financial institution. The proceeds of the taxable term loan were used to refund all of the remaining outstanding Series 2011A Bonds.
- On February 1, 2021, the Clinic became the sole member of Mercy Medical Center (Mercy) pursuant to the terms of a member substitution agreement with The Sisters of Charity of St. Augustine Health System, the prior sole member of Mercy. Mercy is a 476 licensed bed hospital serving Stark, Carroll, Wayne, Holmes, and Tuscarawas counties and parts of southeastern Ohio. Effective February 1, 2021, the financial results of Mercy will be included in the System's consolidated financial statements.

Supplementary Information



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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 accompanying 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 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 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Ernst + Young LLP

March 5, 2021

Cleveland Clinic Health System

Consolidating Balance Sheet

December 31, 2020

(In Thousands)

	Obligated Group	Non-Obligated Group	Consolidating Adjustments and Eliminations	Consolidated
Assets				
Current assets:				
Cash and cash equivalents	\$ 792,399	\$ 252,994	\$	\$ 1,045,393
Patient receivables	1,074,672	209,326	(28,317)	1,255,681
Due from affiliates	31,287	56	(31,343)	–
Investments for current use	122,668	54,721	–	177,389
Other current assets	539,922	79,167	(72,367)	546,722
Total current assets	2,560,948	596,264	(132,027)	3,025,185
Investments:				
Long-term investments	9,178,758	1,175,119	–	10,353,877
Funds held by trustees	110,307	–	–	110,307
Assets held for self-insurance	–	179,300	–	179,300
Donor-restricted assets	946,735	66,695	–	1,013,430
	10,235,800	1,421,114	–	11,656,914
Property, plant, and equipment, net	4,462,295	1,404,679	–	5,866,974
Other assets:				
Pledges receivable, net	117,987	7,654	–	125,641
Trusts and interests in foundations	63,956	48,469	–	112,425
Operating lease right-of-use assets	136,712	224,129	–	360,841
Other noncurrent assets	736,665	139,281	(231,376)	644,570
	1,055,320	419,533	(231,376)	1,243,477
Total assets	<u>\$ 18,314,363</u>	<u>\$ 3,841,590</u>	<u>\$ (363,403)</u>	<u>\$ 21,792,550</u>

	Obligated Group	Non-Obligated Group	Consolidating Adjustments and Eliminations	Consolidated
Liabilities and net assets				
Current liabilities:				
Accounts payable	\$ 440,176	\$ 89,094	\$ (476)	\$ 528,794
Compensation and amounts withheld from payroll	417,175	47,074	–	464,249
Current portion of long-term debt	94,264	6,742	–	101,006
Variable rate debt classified as current	537,644	52,247	–	589,891
Due to affiliates	56	31,287	(31,343)	–
Other current liabilities	650,107	191,617	(103,401)	738,323
Total current liabilities	2,139,422	418,061	(135,220)	2,422,263
Long-term debt	3,664,878	1,144,179	(226,063)	4,582,994
Other liabilities:				
Professional and general liability insurance reserves	65,703	150,397	–	216,100
Accrued retirement benefits	296,218	1,523	–	297,741
Operating lease liabilities	102,196	221,486	–	323,682
Other noncurrent liabilities	652,509	55,406	–	707,915
	1,116,626	428,812	–	1,545,438
Total liabilities	6,920,926	1,991,052	(361,283)	8,550,695
Net assets:				
Without donor restrictions	10,195,011	1,728,866	(2,120)	11,921,757
With donor restrictions	1,198,426	121,672	–	1,320,098
Total net assets	11,393,437	1,850,538	(2,120)	13,241,855
Total liabilities and net assets	<u>\$ 18,314,363</u>	<u>\$ 3,841,590</u>	<u>\$ (363,403)</u>	<u>\$ 21,792,550</u>

See accompanying note.

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	<u>\$ 16,857,227</u>	<u>\$ 3,454,208</u>	<u>\$ (337,051)</u>	<u>\$ 19,974,384</u>

	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
	<u>979,080</u>	<u>370,826</u>	<u>(75)</u>	<u>1,349,831</u>
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 Statements of Operations and Changes in Net Assets

Year Ended December 31, 2020
(In Thousands)

Operations

	Obligated Group	Non-Obligated Group	Consolidating Adjustments and Eliminations	Consolidated
Unrestricted revenues				
Net patient service revenue	\$ 7,964,677	\$ 1,427,556	\$ (257,548)	\$ 9,134,685
Other	1,327,134	369,446	(203,359)	1,493,221
Total unrestricted revenues	<u>9,291,811</u>	<u>1,797,002</u>	<u>(460,907)</u>	<u>10,627,906</u>
Expenses				
Salaries, wages, and benefits	5,157,213	1,055,097	(309,788)	5,902,522
Supplies	941,618	164,184	(92)	1,105,710
Pharmaceuticals	1,169,357	129,728	-	1,299,085
Purchased services and other fees	616,669	164,245	(48,610)	732,304
Administrative services	67,616	135,217	(23,628)	179,205
Facilities	268,927	83,893	(1,917)	350,903
Insurance	75,362	80,239	(76,772)	78,829
	<u>8,296,762</u>	<u>1,812,603</u>	<u>(460,807)</u>	<u>9,648,558</u>
Operating income (loss) before interest, depreciation and amortization	995,049	(15,601)	(100)	979,348
Interest	126,569	30,455	-	157,024
Depreciation and amortization	509,788	80,266	(100)	589,954
Operating income (loss)	<u>358,692</u>	<u>(126,322)</u>	<u>-</u>	<u>232,370</u>
Nonoperating gains and losses				
Investment income	989,304	138,639	-	1,127,943
Derivative losses	(59,211)	(2,262)	-	(61,473)
Other, net	24,447	1,957	-	26,404
Net nonoperating gains	<u>954,540</u>	<u>138,334</u>	<u>-</u>	<u>1,092,874</u>
Excess of revenues over expenses	<u>1,313,232</u>	<u>12,012</u>	<u>-</u>	<u>1,325,244</u>

(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	\$ 1,313,232	\$ 12,012	\$ –	\$ 1,325,244
Donated capital	1,819	–	–	1,819
Net assets released from restriction for capital purposes	42,718	13,796	–	56,514
Retirement benefits adjustment	(9,173)	1,037	–	(8,136)
Foreign currency translation	–	9,004	–	9,004
Transfers (to) from affiliates	(266,974)	266,974	–	–
Other	(1,816)	(1,728)	–	(3,544)
Increase in net assets without donor restrictions	1,079,806	301,095	–	1,380,901
Changes in net assets with donor restrictions				
Gifts and bequests	121,754	10,627	–	132,381
Net investment income	75,581	7,272	–	82,853
Net assets released from restrictions used for operations included in other unrestricted revenues	(56,209)	(5,256)	–	(61,465)
Net assets released from restriction for capital purposes	(42,718)	(13,796)	–	(56,514)
Change in interests in foundations	2,395	–	–	2,395
Change in value of perpetual trusts	(4)	751	–	747
Other	1,324	98	–	1,422
Increase (decrease) in net assets with donor restrictions	102,123	(304)	–	101,819
Increase in net assets	1,181,929	300,791	–	1,482,720
Net assets at beginning of year	10,211,508	1,549,747	(2,120)	11,759,135
Net assets at end of year	\$ 11,393,437	\$ 1,850,538	\$ (2,120)	\$ 13,241,855

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	<u>9,253,933</u>	<u>1,808,692</u>	<u>(503,104)</u>	<u>10,559,521</u>
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
	<u>8,143,182</u>	<u>1,767,047</u>	<u>(503,004)</u>	<u>9,407,225</u>
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)	<u>455,696</u>	<u>(65,491)</u>	<u>-</u>	<u>390,205</u>
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	<u>1,099,078</u>	<u>535,939</u>	<u>-</u>	<u>1,635,017</u>
Excess of revenues over expenses	<u>1,554,774</u>	<u>470,448</u>	<u>-</u>	<u>2,025,222</u>

(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 Statement of Cash Flows

Year Ended December 31, 2020
(In Thousands)

	Obligated Group	Non-Obligated Group	Consolidating Adjustments and Eliminations	Consolidated
Operating activities and net nonoperating gains and losses				
Increase in net assets	\$ 1,181,929	\$ 300,791	\$ -	\$ 1,482,720
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities and net nonoperating gains and losses:				
Retirement benefits adjustment	9,173	(1,037)	-	8,136
Net realized and unrealized gains on investments	(1,013,514)	(141,878)	-	(1,155,392)
Depreciation and amortization	509,788	80,266	(100)	589,954
Foreign currency translation gain	-	(9,004)	-	(9,004)
Donated capital	(1,819)	-	-	(1,819)
Restricted gifts, bequests, investment income, and other	(199,726)	(18,650)	-	(218,376)
Transfers to (from) affiliates	266,974	(266,974)	-	-
Amortization of bond premiums and debt issuance costs	(6,134)	178	-	(5,956)
Net loss in value of derivatives	25,878	-	-	25,878
Pension funding	(15,076)	(16,603)	-	(31,679)
Changes in operating assets and liabilities:				
Patient receivables	64,642	(14,140)	(6,927)	43,575
Other current assets	(113,155)	3,149	31,120	(78,886)
Other noncurrent assets	(108,375)	(40,059)	2,259	(146,175)
Accounts payable and other current liabilities	241,341	(4,567)	(24,627)	212,147
Other liabilities	115,700	68,428	75	184,203
Net cash provided by (used in) operating activities and net nonoperating gains and losses	957,626	(60,100)	1,800	899,326
Financing activities				
Payments on short-term borrowings, net				
Proceeds from short-term borrowings	225,000	-	-	225,000
Payments on short-term borrowings	(225,000)	-	-	(225,000)
Proceeds from long-term borrowings	16,408	1,872	(1,872)	16,408
Payments for advance refunding and redemption of long-term debt	(12,660)	-	-	(12,660)
Principal payments on long-term debt	(91,903)	(6,667)	72	(98,498)
Debt issuance costs	(30)	-	-	(30)
Change in pledges receivables, trusts and interests in foundations	46,139	(811)	-	45,328
Restricted gifts, bequests, investment income, and other	199,726	18,650	-	218,376
Net cash provided by financing activities	157,680	13,044	(1,800)	168,924
Investing activities				
Expenditures for property, plant, and equipment	(332,871)	(245,013)	-	(577,884)
Proceeds from sale of property, plant, and equipment	22,543	-	-	22,543
Net change in cash equivalents reported in long-term investments	384,447	57,059	-	441,506
Purchases of investments	(5,527,771)	(733,159)	-	(6,260,930)
Sales of investments	5,100,313	730,771	-	5,831,084
Transfers (to) from affiliates	(266,974)	266,974	-	-
Net cash (used in) provided by investing activities	(620,313)	76,632	-	(543,681)
Effect of exchange rate changes on cash	-	11,280	-	11,280
Increase in cash, cash equivalents and restricted cash	494,993	40,856	-	535,849
Cash, cash equivalents and restricted cash at beginning of year	422,598	214,688	-	637,286
Cash, cash equivalents and restricted cash at end of year	\$ 917,591	\$ 255,544	\$ -	\$ 1,173,135

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				
Payments on short-term borrowings, net				
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 restricted cash at end of year	\$ 422,598	\$ 214,688	\$ -	\$ 637,286

See accompanying note.

Cleveland Clinic Health System

Note to Consolidating Financial Statements

December 31, 2020 and 2019

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.

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