

CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

The Cleveland Clinic Foundation
d.b.a. Cleveland Clinic Health System
Years Ended December 31, 2022 and 2021
With Reports of Independent Auditors

Ernst & Young LLP



Cleveland Clinic Health System
Consolidated Financial Statements and Supplementary Information
Years Ended December 31, 2022 and 2021

Contents

Report of Independent Auditors.....	1
Consolidated Financial Statements	
Consolidated Balance Sheets	3
Consolidated Statements of Operations and Changes in Net Assets	5
Consolidated Statements of Cash Flows.....	7
Notes to Consolidated Financial Statements.....	8
Supplementary Information	
Report of Independent Auditors on Supplementary Information	64
Consolidating Balance Sheets.....	65
Consolidating Statements of Operations and Changes in Net Assets.....	69
Consolidating Statements of Cash Flows	73
Note to Consolidating Financial Statements.....	75

Report of Independent Auditors

The Board of Directors
The Cleveland Clinic Foundation

Opinion

We have audited the consolidated financial statements of The Cleveland Clinic Foundation and controlled affiliates, d.b.a. Cleveland Clinic Health System (the System), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes (collectively referred to as the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the System at December 31, 2022 and 2021, and the results of its operations, changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the System and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for one year after the date that the financial statements are issued.

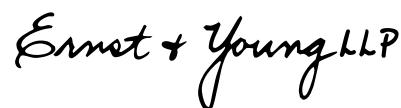
Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 System's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.



March 9, 2023

Cleveland Clinic Health System

Consolidated Balance Sheets
(*In Thousands*)

	December 31	
	2022	2021
Assets		
Current assets:		
Cash and cash equivalents	\$ 858,372	\$ 667,500
Patient receivables	1,706,167	1,532,362
Investments for current use	63,991	160,786
Other current assets	874,568	619,023
Total current assets	<u>3,503,098</u>	2,979,671
Investments:		
Long-term investments	10,671,739	12,483,568
Funds held by trustees	5,689	69,541
Assets held for self-insurance	175,064	207,114
Donor-restricted assets	1,298,527	1,207,707
	<u>12,151,019</u>	13,967,930
Property, plant, and equipment, net	5,971,764	5,894,500
Other assets:		
Pledges receivable, net	214,648	155,593
Trusts and interests in foundations	102,208	120,934
Operating lease right-of-use assets	336,398	355,350
Other noncurrent assets	858,860	792,027
	<u>1,512,114</u>	1,423,904
Total assets	<u><u>\$ 23,137,995</u></u>	\$ 24,266,005

	December 31	
	2022	2021
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 761,923	\$ 663,259
Compensation and amounts withheld from payroll	595,089	524,664
Current portion of long-term debt	107,757	105,022
Variable rate debt classified as current	686,329	449,297
Other current liabilities	778,807	730,802
Total current liabilities	<u>2,929,905</u>	2,473,044
Long-term debt	4,246,037	4,671,424
Other liabilities:		
Professional and general liability insurance reserves	216,544	207,448
Accrued retirement benefits	226,440	286,149
Operating lease liabilities	306,485	314,867
Other noncurrent liabilities	554,488	650,491
Total liabilities	<u>1,303,957</u>	1,458,955
	8,479,899	8,603,423
Net assets:		
Without donor restrictions	12,918,776	14,107,442
With donor restrictions	1,739,320	1,555,140
Total net assets	<u>14,658,096</u>	15,662,582
Total liabilities and net assets	<u>\$ 23,137,995</u>	<u>\$ 24,266,005</u>

See accompanying notes.

Cleveland Clinic Health System

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

Operations

	Year Ended December 31	
	2022	2021
Unrestricted revenues		
Net patient service revenue	\$ 11,570,678	\$ 10,968,531
Other	1,432,103	1,472,161
Total unrestricted revenues	13,002,781	12,440,692
 Expenses		
Salaries, wages, and benefits	7,674,417	6,745,050
Supplies	1,364,133	1,271,100
Pharmaceuticals	1,588,439	1,397,282
Purchased services and other fees	975,650	869,791
Administrative services	271,481	192,353
Facilities	446,437	392,834
Insurance	126,960	91,282
	12,447,517	10,959,692
Operating income before interest, depreciation, and amortization	555,264	1,481,000
Interest	150,915	148,098
Depreciation and amortization	615,687	586,642
Operating (loss) income	(211,338)	746,260
 Nonoperating gains and losses		
Investment return	(1,019,425)	1,402,666
Derivative gains	68,376	20,749
Other, net	(86,114)	40,079
Net nonoperating (losses) gains	(1,037,163)	1,463,494
(Deficiency) excess of revenues over expenses	(1,248,501)	2,209,754

(continued on next page)

Changes in Net Assets

	Year Ended December 31	
	2022	2021
Changes in net assets without donor restrictions		
(Deficiency) excess of revenues over expenses	\$ (1,248,501)	\$ 2,209,754
Donated capital	2	3,436
Net assets released from restrictions for capital purposes	21,711	12,592
Retirement benefits adjustment	62,184	(34,753)
Foreign currency translation	(25,114)	(2,439)
Other	1,052	(2,905)
(Decrease) increase in net assets without donor restrictions	(1,188,666)	2,185,685
Changes in net assets with donor restrictions		
Gifts and bequests	350,852	214,417
Net investment (loss) income	(45,520)	70,909
Net assets released from restrictions used for operations included in other unrestricted revenues	(88,189)	(49,034)
Net assets released from restrictions for capital purposes	(21,711)	(12,592)
Change in interests in foundations	(1,176)	1,774
Change in value of perpetual trusts	(8,262)	7,184
Other	(1,814)	2,384
Increase in net assets with donor restrictions	184,180	235,042
(Decrease) increase in net assets	(1,004,486)	2,420,727
Net assets at beginning of year	15,662,582	13,241,855
Net assets at end of year	\$ 14,658,096	\$ 15,662,582

See accompanying notes.

Cleveland Clinic Health System

Consolidated Statements of Cash Flows (In Thousands)

	Year Ended December 31	
	2022	2021
Operating activities and net nonoperating gains and losses		
(Decrease) increase in net assets	\$ (1,004,486)	\$ 2,420,727
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities and net nonoperating gains and losses:		
Gain on extinguishment of debt	–	(19,312)
Retirement benefits adjustment	(62,184)	34,753
Net realized and unrealized losses (gains) on investments	1,142,583	(1,407,021)
Depreciation and amortization	613,024	586,662
Foreign currency translation loss	25,114	2,439
Donated capital	(2)	(3,436)
Restricted gifts, bequests, investment income, and other	(295,894)	(294,284)
Amortization of bond premiums and debt issuance costs	(7,419)	(5,783)
Net gain in value of derivatives	(84,335)	(42,761)
Pension funding	(31,773)	(13,764)
Changes in operating assets and liabilities:		
Patient receivables	(174,589)	(238,690)
Other current assets	(196,176)	(59,098)
Other noncurrent assets	(54,292)	(135,030)
Accounts payable and other current liabilities	239,012	132,416
Other liabilities	28,748	(72,065)
Net cash provided by operating activities and net nonoperating gains and losses	<u>137,331</u>	<u>885,753</u>
Financing activities		
Proceeds from short-term borrowings	–	26,500
Payments on short-term borrowings	–	(26,500)
Proceeds from long-term borrowings	–	397,135
Payments for advance refunding and redemption of long-term debt	–	(312,238)
Principal payments on long-term debt	(110,013)	(166,647)
Debt issuance costs	–	(2,996)
Change in pledges receivable, trusts, and interests in foundations	(101,846)	(40,727)
Restricted gifts, bequests, investment income, and other	295,894	294,284
Net cash provided by financing activities	<u>84,035</u>	<u>168,811</u>
Investing activities		
Expenditures for property, plant, and equipment	(796,199)	(509,375)
Proceeds from sale of property, plant, and equipment	20,318	15,755
Net change in cash equivalents reported in long-term investments	269,966	152,851
Purchases of investments	(4,147,478)	(5,560,710)
Sales of investments	4,543,677	4,510,712
Payment for business acquisition, less cash assumed	–	(54,197)
Net cash used in investing activities	<u>(109,716)</u>	<u>(1,444,964)</u>
Effect of exchange rate changes on cash	(25,736)	(304)
Increase (decrease) in cash, cash equivalents, and restricted cash	85,914	(390,704)
Cash, cash equivalents, and restricted cash at beginning of year	782,431	1,173,135
Cash, cash equivalents, and restricted cash at end of year	<u>\$ 868,345</u>	<u>\$ 782,431</u>
Supplemental disclosure of noncash activity		
Assets acquired through finance leases and other financing agreements	\$ 26,284	\$ 29,016
Accounts payable accruals for property, plant, and equipment	<u>\$ 31,216</u>	<u>\$ 47,153</u>

See accompanying notes.

Cleveland Clinic Health System

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

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, 2022, the System operates 20 hospitals with approximately 5,600 staffed beds. Fourteen of the hospitals are operated in the northeast Ohio area, anchored by the Clinic. The System operates 21 outpatient Family Health Centers and nine ambulatory surgery centers, as well as numerous physician offices, which are located throughout northeast Ohio, and specialized cancer centers in Sandusky and Mansfield, Ohio. In Florida, the System operates five hospitals and a clinic located throughout southeast Florida, outpatient family health centers in West Palm Beach and Port St. Lucie, an outpatient family health and ambulatory surgery center in Coral Springs, and numerous physician offices located throughout southeast Florida. In addition, the System operates a health and wellness center and a sports medicine clinic in Toronto, Canada, and a specialized neurological clinical center in Las Vegas, Nevada. Pursuant to agreements, the System also provides management services for Ashtabula County Medical Center, located in Ashtabula, Ohio, with approximately 120 staffed beds, and Cleveland Clinic Abu Dhabi, a multispecialty hospital offering critical and acute care services that is part of Mubadala Development Company's network of healthcare facilities located in Abu Dhabi, United Arab Emirates, with 364 staffed beds.

In March 2022, Cleveland Clinic London Hospital opened for patients. The new hospital is located in central London and has 184 inpatient beds. In September 2021, Cleveland Clinic London opened an outpatient facility located near the hospital.

In February 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 337-staffed bed hospital serving Stark, Carroll, Wayne, Holmes and Tuscarawas counties and parts of southeastern Ohio.

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 February 1, 2021, the Clinic became the sole member of 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. The business combination was recorded under the acquisition method of accounting. The System recorded the fair value of the assets acquired of \$189.6 million and liabilities assumed of \$92.4 million as of February 1, 2021. Total consideration provided to the Sisters of Charity of St. Augustine Health System was \$97.2 million, which included assumed indebtedness that was repaid in connection with the acquisition. The results of operations for Mercy are included in the consolidated statements of operations and changes in net assets beginning on February 1, 2021.

3. Accounting Policies

Recent Accounting Pronouncements

Adopted

In September 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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. The adoption of ASU 2020-07 had no material impact to the consolidated financial statements.

Use of Estimates

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

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

3. Accounting Policies (continued)

Net Patient Service Revenue and Patient Receivables

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

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

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

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

3. Accounting Policies (continued)

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

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

Generally, patients who are covered by third-party payors are responsible for patient responsibility balances, including deductibles and coinsurance, which vary in amount. The System estimates the transaction price for patients with deductibles and coinsurance based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any explicit price concessions, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Adjustments arising from a change in the transaction price increased net patient service revenue by \$76.0 million and \$92.9 million in 2022 and 2021, respectively.

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

3. Accounting Policies (continued)

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

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

Settlements with third-party payors for retroactive adjustments due to reviews and audits are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care in the period the related services are provided. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the System's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known or as years are settled or are no longer subject to such reviews and audits. Adjustments arising from a change in estimated settlements increased patient service revenue by \$52.2 million in 2022. Adjustments arising from a change in estimated settlements were not significant in 2021.

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

3. Accounting Policies (continued)

Charity Care

The System provides care to patients who do not have the ability to pay and who qualify for charity care pursuant to established policies of the System. Charity care is defined as services for which patients have the obligation to pay but do not have the ability to do so. The System does not report charity care as net patient service revenue. The cost of charity care provided in 2022 and 2021 approximated \$200 million and \$185 million, respectively. The System estimated these costs by calculating a ratio of cost to gross charges and then multiplying that ratio by the gross uncompensated charges associated with providing care to charity patients.

The System participates in the Hospital Care Assurance Program (HCAP). Ohio created HCAP to financially support those hospitals that serve a disproportionate share of low-income patients unable to pay for care. HCAP funds basic, medically necessary hospital services for patients whose family income is at or below the federal poverty level, which includes Medicaid patients and patients without health insurance. The System recorded HCAP revenues of \$6.7 million and expenses of \$14.8 million for the years ended December 31, 2022 and 2021, 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. Revenue related to management service agreements for 2022 and 2021 was \$130.7 million and \$118.1 million, respectively, and is included in other unrestricted revenues.

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

3. Accounting Policies (continued)

Cash and Cash Equivalents

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

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

	2022	2021
Cash and cash equivalents	\$ 858,372	\$ 667,500
Investments for current use	—	104,813
Restricted cash in investments	9,973	10,118
Total cash, cash equivalents, and restricted cash	\$ 868,345	\$ 782,431

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

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.

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

3. Accounting Policies (continued)

Property, Plant, and Equipment

Property, plant, and equipment purchased by the System are recorded at cost. Expenditures that substantially increase the useful lives of existing assets are capitalized. Routine maintenance and repairs are expensed as incurred. Depreciation, including amortization of finance leased assets, is computed by the straight-line method using the estimated useful lives of individual assets. Buildings 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.

Cloud Computing Arrangements

The System has entered into hosting arrangements that are service contracts for various cloud computing arrangements. The System capitalizes implementation costs associated with these arrangements and amortizes the asset on a straight-line basis over the term of the hosting arrangement, including expected renewal periods. The System had \$82.2 million and \$72.8 million at December 31, 2022 and 2021, respectively, of unamortized capitalized implementation costs recorded in other noncurrent assets in the consolidated balance sheets. For the years ended December 31, 2022 and 2021, the System recorded \$8.5 million and \$7.1 million, respectively, of amortization expense in purchased services and other fees in the consolidated statements of operations and changes in net assets.

Impairment of Long-Lived Assets

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

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

3. Accounting Policies (continued)

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.

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.

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

3. Accounting Policies (continued)

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.

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.

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

3. Accounting Policies (continued)

Fair Value Measurements

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

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

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

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

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

Goodwill and Other Intangibles

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

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

3. Accounting Policies (continued)

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

Derivative Instruments

The System's derivative financial instruments consist of interest rate swaps and foreign currency forward contracts, 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 gains in the consolidated statements of operations and changes in net assets.

Foreign Currency Translation

The statements of operations of foreign subsidiaries whose functional currencies are other than the U.S. dollar are translated into U.S. dollars using average exchange rates for the period. The assets and liabilities of foreign subsidiaries whose functional currencies are other than the U.S. dollar are translated into U.S. dollars using exchange rates as of the consolidated balance sheet date. The U.S. dollar effects that arise from translating the net assets of these subsidiaries at changing rates are recorded as foreign currency translation gains and losses in the consolidated statements of operations and changes in net assets. Cumulative foreign currency translation losses included in net assets without donor restrictions were \$85.3 million and \$60.2 million at December 31, 2022 and 2021, 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.

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

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

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

3. Accounting Policies (continued)

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 \$289.5 million and \$232.7 million in 2022 and 2021, respectively.

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.

(Deficiency) Excess of Revenues Over Expenses

The consolidated statements of operations and changes in net assets include (deficiency) excess of revenues over expenses. Changes in net assets without donor restrictions, which are excluded from (deficiency) 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).

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

4. Net Patient Service Revenue and Patient Receivables

Net patient service revenue by major payor source, for the years ended December 31, 2022 and 2021 is as follows (in thousands):

	2022		2021	
Medicare	\$ 4,478,819	39%	\$ 4,165,001	38%
Medicaid	1,140,122	10	1,126,981	10
Managed care and commercial	5,824,600	50	5,482,319	50
Self-pay	127,137	1	194,230	2
Net patient service revenue	\$ 11,570,678	100%	\$ 10,968,531	100%

The System's concentration of credit risk relating to patient receivables is limited due to the diversity of patients and payors. Patient receivables consist of amounts due from government programs, commercial insurance companies, other group insurance programs, and private pay patients. Patient receivables due from Medicare, Medicaid, and one commercial payor account for approximately 26%, 7% and 14% at December 31, 2022 and 2021, of the System's total patient receivables. Revenues from the Medicare and Medicaid programs and two different commercial payors account for approximately 39%, 10%, 16% and 11% for 2022 and 38%, 10%, 19% and 12% for 2021, 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.

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

5. Cash, Cash Equivalents, and Investments

The composition of cash, cash equivalents, and investments at December 31, 2022 and 2021 is as follows (in thousands):

	2022	2021
Cash, cash equivalents and restricted cash	\$ 868,345	\$ 782,431
Money market funds	271,914	564,950
Fixed-income securities:		
U.S. treasuries	1,161,381	1,540,626
U.S. government agencies	42,379	65,000
U.S. corporate	533,581	511,272
U.S. government agencies asset-backed securities	394,270	319,023
Corporate asset-backed securities	207,955	194,258
Foreign	243,748	266,566
Fixed-income mutual funds	40,821	166,156
Commingled fixed-income funds	844	33,894
Common and preferred stocks:		
U.S.	161,314	368,066
Foreign	469,250	358,655
Equity mutual funds	73,892	95,748
Commingled equity funds	1,353,126	1,956,204
Commingled commodity funds	668,481	900,336
Alternative investments:		
Hedge funds	3,537,479	3,886,307
Private equity/venture funds	3,044,602	2,786,724
Total cash, cash equivalents, and investments	<u>\$ 13,073,382</u>	<u>\$ 14,796,216</u>

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

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

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

Total investment return is comprised of the following for the years ended December 31, 2022 and 2021 (in thousands):

	2022	2021
Other unrestricted revenues:		
Interest income and dividends	\$ 2,422	\$ 1,831
Nonoperating gains and losses, net:		
Interest income and dividends	103,087	87,610
Net realized (losses) gains on sales of investments	(13,808)	260,090
Net change in unrealized (losses) gains on investments	(799,430)	235,376
(Loss) income on alternative investments	(274,649)	850,330
Investment management fees	(34,625)	(30,740)
	<u>(1,019,425)</u>	1,402,666
Other changes in net assets:		
Investment (loss) income on restricted investments	(45,520)	70,909
Total investment return	<u><u>\$ (1,062,523)</u></u>	<u><u>\$ 1,475,406</u></u>

6. Liquidity and Availability

Financial assets available for general expenditure within one year of December 31, 2022 and 2021 include the following (in thousands):

	2022	2021
Cash and cash equivalents	\$ 858,372	\$ 667,500
Patient receivables	1,706,167	1,532,362
Long-term investments	<u>5,438,609</u>	7,079,664
	<u><u>\$ 8,003,148</u></u>	<u><u>\$ 9,279,526</u></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.

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

6. Liquidity and Availability (continued)

The System invests in alternative investments to increase the investment portfolio's diversification. The asset allocation of the portfolio is broadly diversified across global equity and global fixed-income asset classes and alternative investment strategies and is designed to maximize the probability of achieving the System's long-term investment objectives at an appropriate level of risk, while maintaining a level of liquidity to meet the needs of ongoing portfolio management. Hedge funds generally have lock-up periods imposed upon initial investment in the fund and have varying degrees of liquidity that may restrict portions of fund redemptions to be received within one year. Private equity/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.

The System maintains two lines of credit totaling \$300 million as discussed in Note 12. As of December 31, 2022, \$300 million was available under the credit facilities.

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, 2022 and 2021 consist of the following (in thousands):

	2022	2021
Current:		
Inventories	\$ 306,395	\$ 268,126
Estimated amounts due from third-party payors	204,675	57,016
Prepaid expenses	140,995	111,907
Pledges receivable, current (<i>Note 11</i>)	108,155	46,639
Research and grants receivables	37,114	28,636
Other	77,234	106,699
Total other current assets	\$ 874,568	\$ 619,023
 Noncurrent:		
Deferred compensation plan assets	\$ 360,477	\$ 410,604
Investments in affiliates	149,570	117,821
Goodwill and other intangible assets (<i>Note 8</i>)	130,731	129,969
Cloud computing capitalized implementation costs	82,179	72,833
Estimated amounts due from third-party payors	50,584	—
Prepaid pension cost	22,716	13,711
Other	62,603	47,089
Total other noncurrent assets	\$ 858,860	\$ 792,027

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, 2022 and 2021 consist of the following (in thousands):

	2022	2021
Current:		
Management contracts and other deferred revenue	\$ 123,602	\$ 104,925
Ohio hospital franchise fee liabilities	96,202	—
Interest payable	69,902	66,771
Current portion of professional and general liability insurance reserves (<i>Note 15</i>)	63,991	87,186
Employee benefit related liabilities	62,920	43,629
Estimated amounts due to third-party payors	42,097	56,215
Operating lease liabilities (<i>Note 14</i>)	40,037	50,026
Research deferred revenue	24,734	33,503
Deferred social security payroll taxes (<i>Note 21</i>)	—	88,718
Other	255,322	199,829
Total other current liabilities	<u>\$ 778,807</u>	<u>\$ 730,802</u>
Noncurrent:		
Employee benefit related liabilities	\$ 408,370	\$ 464,276
Pledge liabilities	49,524	14,562
Derivative liabilities (<i>Note 13</i>)	32,666	117,001
Estimated amounts due to third-party payors	15,569	19,502
Gift annuity liabilities	13,333	12,347
Other	35,026	22,803
Total other noncurrent liabilities	<u>\$ 554,488</u>	<u>\$ 650,491</u>

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

8. Goodwill and Other Intangible Assets

The System recorded goodwill of \$1.4 million and \$4.9 million in 2022 and 2021, respectively, related to the acquisitions of various physician practices. Goodwill is recorded in other noncurrent assets in the consolidated balance sheets.

The changes in the carrying amount of goodwill for the years ended December 31, 2022 and 2021 are as follows (in thousands):

	2022	2021
Balance, beginning of year	\$ 79,322	\$ 74,420
Goodwill acquired	1,374	4,901
Foreign currency translation	(504)	1
Balance, end of year	<u>\$ 80,192</u>	<u>\$ 79,322</u>

The System acquired other intangible assets of \$0.4 million and \$0.5 million in 2022 and 2021, respectively, related to the acquisitions of various physician practices. Other intangible assets are recorded in other noncurrent assets in the consolidated balance sheets.

Other intangible assets at December 31, 2022 and 2021 consist of the following (in thousands):

	2022		2021	
	Historical Cost	Accumulated Amortization	Historical Cost	Accumulated Amortization
Trade name	\$ 49,800	\$ —	\$ 49,800	\$ —
Finite-lived intangible assets	8,963	8,224	8,531	7,684
Total	\$ 58,763	\$ 8,224	\$ 58,331	\$ 7,684

Amortization related to finite-lived intangible assets was \$0.5 million and \$0.7 million in 2022 and 2021, respectively, and is included in depreciation and amortization in the consolidated statements of operations and changes in net assets. Future amortization is as follows (in thousands): 2023 – \$501, 2024 – \$150, and 2025 – \$88.

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, 2022 and 2021, based on the valuation hierarchy (in thousands):

December 31, 2022

	Level 1	Level 2	Level 3	Total
Assets				
Cash and investments:				
Cash and cash equivalents	\$ 868,345	\$ —	\$ —	\$ 868,345
Money market funds	271,914	—	—	271,914
Fixed-income securities:				
U.S. treasuries	1,161,381	—	—	1,161,381
U.S. government agencies	—	42,379	—	42,379
U.S. corporate	—	533,581	—	533,581
U.S. government agencies asset-backed securities	—	394,270	—	394,270
Corporate asset-backed securities	—	207,955	—	207,955
Foreign	—	243,748	—	243,748
Fixed-income mutual funds	40,821	—	—	40,821
Common and preferred stocks:				
U.S.	161,160	154	—	161,314
Foreign	435,047	34,203	—	469,250
Equity mutual funds	73,892	—	—	73,892
Total cash and investments	<u>3,012,560</u>	<u>1,456,290</u>		<u>4,468,850</u>
Perpetual and charitable trusts	—	74,080	—	74,080
Total assets at fair value	<u>\$ 3,012,560</u>	<u>\$ 1,530,370</u>	<u>\$ —</u>	<u>\$ 4,542,930</u>
Liabilities				
Interest rate swaps	\$ —	\$ 32,666	\$ —	\$ 32,666
Total liabilities at fair value	<u>\$ —</u>	<u>\$ 32,666</u>	<u>\$ —</u>	<u>\$ 32,666</u>

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

9. Fair Value Measurements (continued)

December 31, 2021

	Level 1	Level 2	Level 3	Total
Assets				
Cash and investments:				
Cash and cash equivalents	\$ 782,431	\$ —	\$ —	\$ 782,431
Money market funds	564,950	—	—	564,950
Fixed-income securities:				
U.S. treasuries	1,540,626	—	—	1,540,626
U.S. government agencies	—	65,000	—	65,000
U.S. corporate	—	511,272	—	511,272
U.S. government agencies asset-backed securities	—	319,023	—	319,023
Corporate asset-backed securities	—	194,258	—	194,258
Foreign	—	266,566	—	266,566
Fixed-income mutual funds	166,156	—	—	166,156
Common and preferred stocks:				
U.S.	368,019	47	—	368,066
Foreign	342,363	16,292	—	358,655
Equity mutual funds	95,748	—	—	95,748
Total cash and investments	3,860,293	1,372,458	—	5,232,751
Perpetual and charitable trusts	—	91,630	—	91,630
Total assets at fair value	\$ 3,860,293	\$ 1,464,088	\$ —	\$ 5,324,381
Liabilities				
Interest rate swaps	\$ —	\$ 117,001	\$ —	\$ 117,001
Total liabilities at fair value	\$ —	\$ 117,001	\$ —	\$ 117,001

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

9. Fair Value Measurements (continued)

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

	2022	2021
Cash, cash equivalents, and investments measured at fair value	\$ 4,468,850	\$ 5,232,751
Commingled funds measured at net asset value	2,022,451	2,890,434
Alternative investments measured at net asset value	6,582,081	6,673,031
Total cash, cash equivalents, and investments	\$ 13,073,382	\$ 14,796,216
Perpetual and charitable trusts measured at fair value	\$ 74,080	\$ 91,630
Interests in foundations	28,128	29,304
Trusts and interests in foundations	\$ 102,208	\$ 120,934

Interest rate swaps (Note 13) are reported in other noncurrent liabilities in the consolidated balance sheets.

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

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

The fair value of perpetual and charitable trusts in which the System receives periodic payments from the trust is determined based on the present value of expected cash flows to be received from the trust using discount rates ranging from 3.7% 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.

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

9. Fair Value Measurements (continued)

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

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

10. Property, Plant, and Equipment

Property, plant, and equipment at December 31, 2022 and 2021 consist of the following (in thousands):

	2022	2021
Land and improvements	\$ 562,179	\$ 559,377
Buildings	7,823,860	7,336,868
Leasehold improvements	47,317	51,219
Equipment	2,243,664	1,954,616
Computer hardware and software	1,111,143	878,298
Construction-in-progress	306,786	727,768
Leased facilities and equipment	234,932	230,002
	<hr/> 12,329,881	11,738,148
Accumulated depreciation and amortization	(6,358,117)	(5,843,648)
	<hr/> \$ 5,971,764	\$ 5,894,500

Included in the preceding table is unamortized computer software of \$217.5 million and \$221.7 million at December 31, 2022 and 2021, respectively. Amortization of computer software totaled \$52.2 and \$37.6 million in 2022 and 2021, respectively. Amortization of computer software for the five years subsequent to December 31, 2022, is as follows (in millions): 2023 – \$57.8, 2024 – \$52.9, 2025 – \$39.3, 2026 – \$17.6, and 2027 – \$14.7.

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

10. Property, Plant, and Equipment (continued)

Accumulated amortization of leased facilities and equipment was \$125.2 million and \$118.8 million at December 31, 2022 and 2021, respectively.

11. Pledges Receivable

Outstanding pledges receivable from various corporations, foundations, and individuals at December 31, 2022 and 2021 are as follows (in thousands):

	2022	2021
Pledges due:		
In less than one year	\$ 130,828	\$ 63,557
In one to five years	174,202	110,437
In more than five years	<u>84,005</u>	<u>86,622</u>
	<u>389,035</u>	<u>260,616</u>
Allowance for uncollectible pledges and discounting	(66,232)	(58,384)
Current portion (net of allowance for uncollectible pledges of \$22.7 million and \$16.9 million in 2022 and 2021, respectively)	<u>(108,155)</u>	<u>(46,639)</u>
	<u>\$ 214,648</u>	<u>\$ 155,593</u>

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

12. Long-Term Debt

Long-term debt at December 31, 2022 and 2021 consists of the following (in thousands):

	Interest Rate(s)	Final Maturity	Amount Outstanding at December 31	
			2022	2021
Series 2021A Bonds	2.31%	2049	\$ 83,810	\$ 83,810
Series 2021B Bonds	0.21% to 1.41%	2039	198,240	198,280
Series 2021 Term Loan	0.67%	2025	49,350	64,650
Series 2020 Term Loan	0.84%	2025	5,920	9,375
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	801,984	897,114
Series 2017A Bonds	1.42% to 3.48%	2043	746,325	770,025
Series 2017B Bonds	2.43% to 3.70%	2043	163,235	164,775
Series 2017C Bonds	2.72%	2032	7,190	7,680
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	50,050	52,450
Series 2013 Bonds	Variable rate	2032	10,755	12,640
Series 2012A Bonds	—	2022	—	10,800
Series 2011B Bonds	1.43%	2031	19,995	21,710
Series 2011C Bonds	4.00% to 4.72%	2032	95,750	112,025
Series 2008B Bonds	Variable rate	2042	327,575	327,575
Series 2003C Bonds	Variable rate	2035	41,905	41,905
Notes payable	Varies	Varies	1,620	2,274
Finance leases	Varies	Varies	117,643	123,119
			4,905,982	5,084,842
Net unamortized premium			164,163	172,843
Unamortized debt issuance costs			(30,022)	(31,942)
Current portion			(107,757)	(105,022)
Long-term variable rate debt classified as current			(686,329)	(449,297)
			\$ 4,246,037	\$ 4,671,424

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 2021 Term Loan, Series 2020 Term Loan, Series 2018 Sterling Notes, 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 January 2021, the System entered into a taxable term loan agreement with a financial institution for \$64.7 million. The loan matures in 2025 and bears interest at a fixed rate of 0.67%. The proceeds of the taxable term loan were used to refund all of the remaining outstanding Series 2011A Bonds. The System recorded a gain on extinguishment of debt of \$4.2 million related to this transaction, which is recorded in other nonoperating gains and losses in the consolidated statements of operations and changes in net assets.

In July 2021, 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 \$83.8 million of fixed-rate State of Ohio Hospital Revenue Bonds (Series 2021A Bonds) for the benefit of the System. At the same time, the State also entered into a Forward Delivery Contract of Purchase related to \$198.3 million of fixed-rate State of Ohio Hospital Revenue Refunding Bonds (Series 2021B Bonds) for the benefit of the System. The Series 2021B bonds were settled and delivered on October 5, 2021. Proceeds from the issuance of the Series 2021A Bonds were used for the purpose of financing a portion of the costs of the System's acquisition of the sole membership interest in Mercy and paying the cost of issuance. Proceeds from the issuance of the Series 2021B Bonds were used to refund a portion of the Series 2012A Bonds and pay the cost of issuance. The System recorded a gain on extinguishment of debt of \$15.1 million related to this transaction, which is recorded in other nonoperating gains and losses in the consolidated statements of operations and changes in net assets.

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, 2022 or 2021.

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

12. Long-Term Debt (continued)

Certain of the System's current outstanding bonds bear interest at a variable rate. During 2022 and 2021, the rates for the System's variable rate long-term debt series ranged from 0.01% to 4.92% (average rate 1.2%) and 0.01% to 1.13% (average rate 0.13%), respectively.

Certain variable rate bonds are secured by irrevocable direct pay letters of credit and standby bond purchase agreements, totaling \$606.7 million at December 31, 2022. 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.

As of December 31, 2022, the System has two operating lines of credit totaling \$300 million with no amounts drawn and \$300 million in available capacity. The lines of credit are structured with \$150 million expiring on May 24, 2023 and \$150 million expiring on April 22, 2024.

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, 2022 or 2021. The current portion of the funds held by trustees, which consists of deposits with trustees to fund current principal and interest payments, was \$104.8 million at December 31, 2021 and is included in investments for current use. There was no current portion of funds held by trustees at December 31, 2022.

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, 2022 and 2021.

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, 2022, are as follows (in thousands): 2023 – \$79,123, 2024 – \$79,580, 2025 – \$82,238, 2026 – \$85,047, and 2027 – \$87,027.

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

12. Long-Term Debt (continued)

Total interest paid approximated \$151.4 million and \$157.7 million in 2022 and 2021, respectively. Capitalized interest cost approximated \$3.6 million and \$3.8 million in 2022 and 2021, respectively.

13. Derivative Instruments

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

The System's objective with respect to interest rate risk is to manage the risk of rising interest rates on the System's variable rate debt. Consistent with its interest rate risk management objective, the System 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 the London Interbank Offered Rate (LIBOR) or the Securities Industry and Financial Markets Association Index (SIFMA). The swap agreements are not designated as hedging instruments. Net interest paid or received under the swap agreements is included in derivative gains in the consolidated statements of operations and changes in net assets.

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

13. Derivative Instruments (continued)

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

Swap Type	Expiration Date	System Pays	System Receives	Notional Amount at December 31	
				2022	2021
Fixed	2024	3.42%	68% of LIBOR	\$ 21,195	\$ 22,750
Fixed	2024	3.45%	67% of LIBOR	2,615	3,850
Fixed	2027	3.56%	68% of LIBOR	101,622	106,519
Fixed	2028	5.12%	100% of LIBOR	31,535	32,900
Fixed	2028	3.51%	68% of LIBOR	24,125	25,315
Fixed	2030	5.07%	100% of LIBOR	49,975	52,175
Fixed	2030	5.06%	100% of LIBOR	49,950	52,150
Fixed	2031	3.04%	68% of LIBOR	34,400	37,725
Fixed	2032	4.32%	79% of LIBOR	1,750	1,873
Fixed	2032	4.33%	70% of LIBOR	3,500	3,745
Fixed	2032	3.78%	70% of LIBOR	1,750	1,873
Fixed	2032	3.58%	67% of LIBOR	8,140	8,790
Fixed	2036	4.90%	100% of LIBOR	47,900	48,125
Fixed	2036	4.90%	100% of LIBOR	74,700	74,950
Fixed	2037	4.62%	100% of SIFMA	50,050	52,450
Fixed	2039	4.62%	68% of LIBOR	19,975	20,740
				\$ 523,182	\$ 545,930

The System is exposed to fluctuations in various foreign currencies against its functional currency, the U.S. dollar (USD). The System uses foreign currency forward contracts to manage its exposure to fluctuations in the USD – British pound (GBP) exchange rate. Currency forward contracts involve fixing the USD – GBP exchange rate for delivery of a specified amount of foreign currency on a specified date. The currency forward contracts are typically cash settled in USD for their fair value at or close to their settlement date. The System had no foreign currency forward contracts outstanding at December 31, 2022 or 2021.

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

13. Derivative Instruments (continued)

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

	Derivative Assets and Liabilities			
	December 31, 2022		December 31, 2021	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives not designated as hedging instruments				
Interest rate swap agreements	Other noncurrent liabilities	\$ 32,666	Other noncurrent liabilities	\$ 117,001

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

	Location of Loss Recognized	Year Ended December 31	
		2022	2021
Derivatives not designated as hedging instruments			
Interest rate swap agreements	Derivative gains	\$ 69,342	\$ 19,424
Foreign currency contracts	Derivative (losses) gains	(966)	1,325

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

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

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, 2022 and 2021 were as follows (in thousands):

	2022	2021
Operating leases		
Right-of-use assets:		
Operating lease assets	<u>\$ 336,398</u>	<u>\$ 355,350</u>
Lease liabilities:		
Other current liabilities	<u>\$ 40,037</u>	<u>\$ 50,026</u>
Noncurrent operating lease liabilities	<u>306,485</u>	<u>314,867</u>
Total operating lease liabilities	<u>\$ 346,522</u>	<u>\$ 364,893</u>
Finance leases		
Right-of-use assets:		
Property, plant, and equipment, net	<u>\$ 109,764</u>	<u>\$ 111,166</u>
Lease liabilities:		
Current portion of long-term debt	<u>\$ 28,634</u>	<u>\$ 27,204</u>
Long-term debt	<u>89,009</u>	<u>95,915</u>
Total finance lease liabilities	<u>\$ 117,643</u>	<u>\$ 123,119</u>

Operating expenses for the leasing activity of the System as lessee for the years ended December 31, 2022 and 2021 are as follows (in thousands):

Lease Type	Classification	2022	2021
Operating lease costs*	Facilities expense	\$ 60,924	\$ 55,119
Short-term lease costs	Facilities expense	25,761	22,133
Financing lease interest	Interest expense	4,999	5,448
Financing lease amortization	Depreciation and amortization	32,161	30,051
Total lease cost		<u>\$ 123,845</u>	<u>\$ 112,751</u>

* Includes fixed and variable lease costs.

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

14. Leases (continued)

Cash paid for amounts included in the measurement of lease liabilities for the years ended December 31, 2022 and 2021 was as follows (in thousands):

	2022	2021
Operating cash flows from operating leases	\$ 58,894	\$ 51,654
Operating cash flows from finance leases	4,999	5,448
Financing cash flows from finance leases	30,348	27,483
Total	\$ 94,241	\$ 84,585

Right-of-use assets obtained in exchange for new lease obligations for the years ended December 31, 2022 and 2021 are as follows (in thousands):

	2022	2021
Operating leases	\$ 24,891	\$ 27,454
Finance leases	26,284	29,016
Total	\$ 51,175	\$ 56,470

The aggregate future lease payments for operating and finance leases as of December 31, 2022 were as follows (in thousands):

	Operating	Finance
2023	\$ 44,490	\$ 33,102
2024	39,076	28,317
2025	30,131	21,147
2026	24,435	12,520
2027	17,061	5,695
Thereafter	1,215,148	68,349
Total lease payments	1,370,341	169,130
Less interest	(1,023,819)	(51,487)
Present value of lease liabilities	\$ 346,522	\$ 117,643

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

14. Leases (continued)

Average lease terms and discount rates at December 31, 2022 and 2021 were as follows:

	2022	2021
Weighted average remaining lease term (years):		
Operating leases	49.7	52.4
Finance leases	8.3	8.8
Weighted average discount rate:		
Operating leases	2.5%	2.5%
Finance leases	4.1	4.1

Included in the tables above is a long-term leasehold interest in a building in London, England that expires in June 2139. The System converted the building into an advanced healthcare facility with 184 inpatient beds that opened in March 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 7.6 years and 8.0 years at December 31, 2022 and 2021, respectively.

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.

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

15. Professional and General Liability Insurance (continued)

The System's professional and general liability insurance reserves of \$280.5 million and \$294.6 million at December 31, 2022 and 2021, respectively, are recorded as current and noncurrent liabilities and include discounted estimates of the ultimate costs for both asserted claims and unasserted claims. Asserted claims for the System's reserves were discounted at 5.25% and 1.00% at December 31, 2022 and 2021, respectively. Unasserted claims were discounted at 5.25% and 1.25% at December 31, 2022 and 2021, respectively. Through the captive insurance subsidiary, the System has set aside investments of \$239.1 million (\$64.0 million included in investments for current use) and \$263.1 million (\$56.0 million included in investments for current use) at December 31, 2022 and 2021, respectively, of which \$48.3 million and \$46.1 million at December 31, 2022 and 2021, 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.

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

	2022	2021
Balance at beginning of year	\$ 294,634	\$ 270,820
Incurred related to:		
Current period	106,920	84,020
Prior period	5,827	(13,436)
Total incurred	<u>112,747</u>	<u>70,584</u>
Paid related to:		
Current period	22,966	4,896
Prior period	98,435	29,273
Total paid	<u>121,401</u>	<u>34,169</u>
Total incurred less total paid	(8,654)	36,415
(Decrease) increase in unasserted claims	(5,445)	7,399
Decrease in reinsurance recoverable	–	(20,000)
Balance at end of year	<u><u>\$ 280,535</u></u>	<u><u>\$ 294,634</u></u>

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

15. Professional and General Liability Insurance (continued)

The foregoing reconciliation shows \$5.8 million of unfavorable development in 2022 and \$13.4 million of favorable development in 2021. Unfavorable development in 2022 was primarily due to changes in actuarial estimates of outstanding claims influenced by the impact of both regular and social inflation that has created an upward national trend of jury verdicts and settlement amounts as well as a few larger than normal claim settlements paid in 2022. The System utilizes a combination of actual and industry statistics to estimate loss and loss adjustment expense reserves.

16. Pensions and Other Postretirement Benefits

The System maintains five defined benefit pension plans, including three tax-qualified funded plans and two unfunded plans. The CCHS Retirement Plan is a tax-qualified defined benefit pension plan that provides benefits to substantially all employees of the System, except those employed by Akron General, Mercy Hospital, Union Hospital or Indian River Hospital. All benefit accruals under the CCHS Retirement Plan ceased as of December 31, 2012. Martin Health System had a tax-qualified defined benefit plan covering substantially all of its employees who were hired before October 1, 2005, and met certain eligibility requirements. All benefit accruals under the Martin Health System defined benefit plan ceased as of January 1, 2013. On June 30, 2019, the Martin Health System defined benefit pension plan merged with the CCHS Retirement Plan, with the CCHS Retirement Plan being a single continuing pension plan. Akron General has a tax-qualified defined benefit plan covering substantially all of its employees who were hired before 2004 and meet certain eligibility requirements. All benefit accruals under the Akron General defined benefit plan ceased as of December 31, 2017. Indian River Hospital has a tax-qualified defined benefit plan covering substantially all of its employees who were hired before December 31, 2002 and meet certain eligibility requirements. All benefit accruals under the Indian River Hospital defined benefit plan ceased as of December 31, 2002. The benefits for the System's tax-qualified defined benefit pension plans are provided based on age, years of service, and compensation. The System's policy for its tax-qualified defined benefit pension plans is to fund at least the minimum amounts required by the Employee Retirement Income Security Act of 1974. The System maintains two unfunded, nonqualified defined benefit supplemental retirement plans, which cover certain professional staff and administrative employees.

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

16. Pensions and Other Postretirement Benefits (continued)

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

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 Mercy Hospital, 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, 2022 and 2021 are based on the Pri-2012 "Employees," "Healthy Retiree" and "Contingent Annuitant" tables, fully generational for employees reflecting an unadjusted MP-2021 projection scale from the 2012 base year. Mortality tables used to calculate the defined benefit obligation for the System's qualified defined benefit plans at December 31, 2022 also include adjustments for annuitant tables based on application of a geospatial mortality model. The System believes that the updated mortality rates are the best estimate of future experience.

The System expects to make contributions of \$11.2 million to the defined benefit pension plans in 2023. Pension benefit payments over the next ten years are estimated as follows: 2023 – \$183.2 million, 2024 – \$125.1 million, 2025 – \$122.6 million, 2026 – \$122.7 million, 2027 – \$121.8 million, and in the aggregate for the five years thereafter – \$557.4 million.

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

16. Pensions and Other Postretirement Benefits (continued)

The System expects to make contributions of \$3.4 million to other postretirement benefit plans in 2023. Other postretirement benefit payments over the next ten years are estimated as follows: 2023 – \$3.4 million, 2024 – \$3.0 million, 2025 – \$3.0 million, 2026 – \$2.7 million, 2027 – \$2.5 million, and in the aggregate for the five years thereafter – \$11.4 million.

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

Included in net assets without donor restrictions at December 31, 2022 and 2021 are the following amounts that have not yet been recognized in net periodic benefit cost (in thousands):

	Defined Benefit Pension Plans		Other Postretirement Benefits	
	2022	2021	2022	2021
Unrecognized actuarial losses	\$ 114,102	\$ 172,828	\$ 3,768	\$ 6,711
Unrecognized prior service credit	(7,414)	(10,684)	(7,969)	(4,184)
Total	<u>\$ 106,688</u>	<u>\$ 162,144</u>	<u>\$ (4,201)</u>	<u>\$ 2,527</u>

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

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, 2022 and 2021 are as follows (in thousands):

	Defined Benefit Pension Plans		Other Postretirement Benefits	
	2022	2021	2022	2021
Current year actuarial (loss) gain	\$ (6,352)	\$ (44,932)	\$ 3,129	\$ (2,927)
Recognition of actuarial loss (gain) in excess of corridor	65,078	16,667	(186)	(66)
Current year prior service (cost) credit	(1,293)	–	4,738	–
Amortization of prior service credit	(1,977)	(2,542)	(953)	(953)
Total	\$ 55,456	\$ (30,807)	\$ 6,728	\$ (3,946)

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, 2022 and 2021, consolidated balance sheets (in thousands):

	Defined Benefit Pension Plans		Other Postretirement Benefits	
	2022	2021	2022	2021
Change in projected benefit obligation:				
Projected benefit obligation at beginning of year	\$ 1,910,218	\$ 2,039,751	\$ 87,487	\$ 85,674
Service (credit) cost	(3,774)	(5,045)	1,696	1,038
Interest cost	54,346	51,586	2,796	2,695
Actuarial (gain) loss	(386,399)	(33,824)	(3,129)	2,927
Participant contributions	—	—	26,018	22,137
Plan amendments	1,293	—	(4,738)	—
Settlement payments	(69,503)	(82,006)	—	—
Benefits paid	(65,727)	(60,244)	(30,786)	(26,984)
Projected benefit obligation at end of year	1,440,454	1,910,218	79,344	87,487
Change in plan assets:				
Fair value of plan assets at beginning of year	1,714,947	1,825,925	—	—
Actual return on plan assets	(305,323)	22,355	—	—
Participant contributions	—	—	26,018	22,137
System contributions	27,005	8,917	4,768	4,847
Benefits paid	(135,230)	(142,250)	(30,786)	(26,984)
Fair value of plan assets at end of year	1,301,399	1,714,947	—	—
Accrued retirement benefits	\$ (139,055)	\$ (195,271)	\$ (79,344)	\$ (87,487)
Noncurrent assets	\$ 22,716	\$ 13,711	\$ —	\$ —
Current liabilities	(11,233)	(10,152)	(3,442)	(168)
Noncurrent liabilities	(150,538)	(198,830)	(75,902)	(87,319)
Net liability recognized in consolidated balance sheets	\$ (139,055)	\$ (195,271)	\$ (79,344)	\$ (87,487)

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 \$1.4 billion and \$1.9 billion at December 31, 2022 and 2021, respectively. At December 31, 2022, defined benefit pension plans that had projected benefit obligations in excess of the fair value of plan assets had total accumulated benefit obligations of \$147.1 million, projected benefit obligations of \$161.8 million and no plan assets. At December 31, 2022, defined benefit pension plans that had fair value of plan assets in excess of projected benefit obligations had total accumulated benefit obligations and projected benefit obligations of \$1.3 billion and fair value of plan assets of \$1.3 billion. At December 31, 2021, defined benefit pension plans that had projected benefit obligations in excess of the fair value of plan assets had total accumulated benefit obligations of \$190.9 million, projected benefit obligations of \$209.0 million and no plan assets. At December 31, 2021, defined benefit pension plans that had fair value of plan assets in excess of projected benefit obligations had total accumulated benefit obligations and projected benefit obligations of \$1.7 billion and fair value of plan assets of \$1.7 billion.

Actuarial gains related to changes in the benefit obligation of defined benefit pension plans were \$386.4 million and \$33.8 million in 2022 and 2021, respectively. Actuarial gains in 2022 and 2021 were primarily due to increases in the discount rate used to determine benefit obligations. Other gains and losses resulted from demographic experience changes and updates to the mortality assumption. Actuarial gains and losses related to changes in the benefit obligation of other postretirement benefit plans were \$3.1 million of gains and \$2.9 million of losses in 2022 and 2021, respectively. Significant components of gains and losses impacting other postretirement benefit plans include changes in the discount rate, updates to healthcare claim costs and updates to the mortality assumption.

The CCHS Retirement Plan paid \$69.5 million and \$82.0 million in lump-sum payments in accordance with plan terms in 2022 and 2021, 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 \$10.3 million and \$7.4 million for the years ended December 31, 2022 and 2021, respectively.

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	
	2022	2021	2022	2021
Components of net periodic benefit cost:				
Service (credit) cost	\$ (3,774)	\$ (5,045)	\$ 1,696	\$ 1,038
Interest cost	54,346	51,586	2,796	2,695
Expected return on plan assets	(87,428)	(101,112)	–	–
Recognition of actuarial loss (gain) in excess of corridor	54,753	9,296	(186)	(66)
Settlement charge	10,325	7,371	–	–
Amortization of prior service credit	(1,977)	(2,542)	(953)	(953)
Net periodic benefit cost (credit)	<u>26,245</u>	<u>(40,446)</u>	<u>3,353</u>	<u>2,714</u>
Defined contribution plans	345,357	304,712	–	–
Total	<u><u>\$ 371,602</u></u>	<u><u>\$ 264,266</u></u>	<u><u>\$ 3,353</u></u>	<u><u>\$ 2,714</u></u>

The service (credit) cost component of net periodic benefit cost (credit) and the defined contribution plan expense are included in salaries, wages, and benefits in the consolidated statements of operations and changes in net assets. The components of net periodic benefit cost (credit) 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	
	2022	2021	2022	2021
Weighted average assumptions:				
Discount rates:				
Used for benefit obligations	5.69%	2.99%	5.46%	3.14%
Used for net periodic benefit cost	2.99	2.65	3.14	3.17
Expected rate of return on plan assets	5.35	5.79	—	—
Rate of compensation increase:				
Used for benefit obligations	3.00	2.25	—	—
Used for net periodic benefit cost	2.25	2.25	—	—
Crediting interest rate on cash balance plans	5.93	5.93	—	—

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.

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

16. Pensions and Other Postretirement Benefits (continued)

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

	2022	2021
Internally provided services:		
Initial rate	6.00%	5.50%
Ultimate rate	4.25	4.00
Year ultimate reached	2030	2028
Externally provided services:		
Initial rate	7.00%	6.50%
Ultimate rate	5.25	5.00
Year ultimate reached	2030	2028

The System's weighted average asset allocation of pension plan assets at December 31, 2022 and 2021, by asset category, is as follows:

Asset category	Percentage of Plan Assets		
	2022	2021	Target Allocation
Interest-bearing cash	4.4%	4.6%	1%–5%
Fixed-income securities	71.0	73.8	60%–90%
Common and preferred stocks	7.8	6.1	3%–25%
Alternative investments	16.8	15.5	0%–19%
Total	100%	100%	

The System's investment strategy for its pension assets balances the liquidity needs of the pension plans with the long-term return goals necessary to satisfy future pension obligations. 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.

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

16. Pensions and Other Postretirement Benefits (continued)

The System's weighted average pension portfolio return assumption of 5.35% and 5.79% in 2022 and 2021, respectively, is based on the targeted assumed rate of return through its asset mix at the beginning of each year, which is designed to mitigate short-term return volatility and achieve an efficient trade-off between return and risk. Expected returns and risk for each asset class are formed using a global capital asset pricing model framework in which the expected return is the compensation earned from taking risk. Forward-looking adjustments are made to expected return, volatility, and correlation estimates as well. Additionally, constraints such as permissible asset classes, portfolio guidelines, and liquidity considerations are included in the model.

The System has 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 be similar to the duration of the liabilities of the pension plan over time.

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

16. Pensions and Other Postretirement Benefits (continued)

The following tables present the financial instruments in the System's defined benefit pension plans measured at fair value on a recurring basis as of December 31, 2022 and 2021, based on the valuation hierarchy (in thousands):

December 31, 2022

	Level 1	Level 2	Level 3	Total
Assets				
Cash and investments:				
Cash and cash equivalents	\$ 57,284	\$ 34	\$ —	\$ 57,318
Fixed-income securities:				
U.S. treasuries	251,454	—	—	251,454
U.S. government agencies	—	16,048	—	16,048
U.S. corporate	—	407,834	—	407,834
Foreign	—	72,217	—	72,217
Common and preferred stocks:				
U.S.	901	—	—	901
Foreign	—	1	—	1
Total assets at fair value	\$ 309,639	\$ 496,134	\$ —	\$ 805,773

December 31, 2021

	Level 1	Level 2	Level 3	Total
Assets				
Cash and investments:				
Cash and cash equivalents	\$ 79,058	\$ 36	\$ —	\$ 79,094
Fixed-income securities:				
U.S. treasuries	386,241	—	—	386,241
U.S. government agencies	—	15,244	—	15,244
U.S. corporate	—	517,003	—	517,003
Foreign	—	130,210	—	130,210
Common and preferred stocks:				
U.S.	1,801	—	—	1,801
Foreign	—	1	—	1
Total assets at fair value	\$ 467,100	\$ 662,494	\$ —	\$ 1,129,594

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

16. Pensions and Other Postretirement Benefits (continued)

Total plan assets in the System's defined benefit pension plans at December 31, 2022 and 2021 are comprised of the following (in thousands):

	2022	2021
Plan assets measured at fair value	\$ 805,773	\$ 1,129,594
Commingled funds measured at net asset value	277,198	320,154
Alternative investments measured at net asset value	218,428	265,199
Total fair value of plan assets at end of year	\$ 1,301,399	\$ 1,714,947

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

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

Common and preferred stocks include investments of publicly traded common stocks of primarily U.S. 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 Morgan Stanley Capital International U.S. 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.

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

16. Pensions and Other Postretirement Benefits (continued)

Alternative investments include hedge funds and private equity funds that are valued using net asset value as a practical expedient. Hedge funds are meant to provide returns between those expected from stocks and fixed-income investments with commensurate levels of risk and lower correlation relative to traditional investments. Included in this category are investments that are well diversified across various strategies and may consist of absolute return funds, long/short funds, and other opportunistic/multi-strategy funds. The underlying investments in such funds may include publicly traded and privately held equity and debt instruments issued by U.S. and international corporations as well as various derivatives based on these securities. Hedge fund redemptions typically contain restrictions that allow for a portion of the withdrawal proceeds to be held back from distribution while the underlying investments are liquidated. Private equity 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.

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. Generally, the System is no longer subject to U.S. federal, state, local and non-U.S. tax examinations by tax authorities for years before 2019.

At December 31, 2022 and 2021, the liability for uncertainty in income taxes was \$2.4 million and \$2.0 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.

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

17. Income Taxes (continued)

The System has temporary differences of \$993.4 million and \$784.3 million at December 31, 2022 and 2021, respectively. The temporary differences primarily relate to net operating losses available for income tax purposes. The majority of these losses expire in varying amounts through 2037. A deferred tax asset of \$229.3 million and \$179.8 million has been recorded at December 31, 2022 and 2021, respectively. A valuation allowance of \$229.3 million and \$179.8 million has been recorded at December 31, 2022 and 2021, respectively, against the deferred tax assets due to the uncertainty regarding their use.

18. Commitments and Contingent Liabilities

At December 31, 2022, the System has commitments for construction and other related capital contracts of \$452.4 million and letters of credit of \$12.6 million. Guarantees of mortgage loans made by banks to certain staff members are \$21.4 million at December 31, 2022. In addition, the System has remaining commitments to invest approximately \$1.7 billion in alternative investments at December 31, 2022. The largest commitment at December 31, 2022, to any one alternative strategy manager is \$70.0 million. These investments are generally expected to occur within the next five years. No amounts have been recorded in the consolidated balance sheets for these commitments and guarantees.

Pledge liabilities to various foundations and other entities at December 31, 2021, are as follows (in thousands): 2023 – \$7,200, 2024 – \$15,200, 2025 – \$11,100, 2026 – \$15,200, 2027 – \$8,600, and thereafter – \$3,100. The unamortized discount on pledge liabilities at December 31, 2022, was \$3.7 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 389 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.

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

19. Endowment (continued)

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. As of December 31, 2022, the System had deficiencies of this nature in 19 donor-restricted endowment funds, which together have an original gift value of \$19.6 million, a current fair value of \$18.4 million and a deficiency of \$1.2 million. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new contributions for donor-restricted endowment funds and continued appropriations for certain programs that were deemed prudent by the System. The System had no deficiencies of this nature in donor-restricted endowment funds as of December 31, 2021. 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 System must hold in perpetuity. Under this policy, the endowment assets are invested in a highly diversified portfolio of U.S. and non-U.S. publicly traded equities, alternative investments, and fixed-income securities structured to achieve an optimal balance between return and risk. The System expects its endowment funds, over time, to meet or exceed the investment policy benchmark as represented by a policy asset allocation, although actual returns in any given year may vary.

Strategies Employed for Achieving Objectives

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

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, 2022 and 2021 (in thousands):

	2022	2021
Endowment net assets, beginning of year	\$ 622,609	\$ 537,605
Investment income	3,746	3,241
Net (depreciation) appreciation	(44,411)	69,103
Contributions	33,458	22,490
Appropriation of endowment assets for expenditure	(16,189)	(9,830)
Endowment net assets, end of year	\$ 599,213	\$ 622,609

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, 2022 and 2021 (in thousands):

	2022					
	Healthcare Services	Research	Medical Education	General and Administrative	Non-Healthcare Services	Total
Salaries, wages, and benefits	\$ 6,063,165	\$ 226,510	\$ 461,197	\$ 833,926	\$ 89,619	\$ 7,674,417
Supplies	1,288,288	30,460	9,885	25,774	9,726	1,364,133
Pharmaceuticals	1,586,480	225	4	1,725	5	1,588,439
Purchased services and other fees	587,453	18,814	16,938	341,505	10,940	975,650
Administrative services	97,864	60,938	20,256	62,349	30,074	271,481
Facilities	394,446	5,540	2,130	26,794	17,527	446,437
Insurance	123,329	—	229	2,865	537	126,960
Interest	140,392	1,637	—	590	8,296	150,915
Depreciation and amortization	440,095	12,199	515	140,638	22,240	615,687
	<u>\$10,721,512</u>	<u>\$ 356,323</u>	<u>\$ 511,154</u>	<u>\$ 1,436,166</u>	<u>\$ 188,964</u>	<u>\$ 13,214,119</u>

	2021					
	Healthcare Services	Research	Medical Education	General and Administrative	Non-Healthcare Services	Total
Salaries, wages, and benefits	\$ 5,333,262	\$ 194,843	\$ 366,869	\$ 764,755	\$ 85,321	\$ 6,745,050
Supplies	1,208,726	25,021	6,527	20,983	9,843	1,271,100
Pharmaceuticals	1,395,022	198	1	2,056	5	1,397,282
Purchased services and other fees	546,073	8,458	13,104	288,749	13,407	869,791
Administrative services	67,396	38,966	22,869	30,507	32,615	192,353
Facilities	349,528	4,919	960	22,051	15,376	392,834
Insurance	88,909	—	209	1,605	559	91,282
Interest	138,471	1,526	—	455	7,646	148,098
Depreciation and amortization	425,834	10,747	343	133,551	16,167	586,642
	<u>\$ 9,553,221</u>	<u>\$ 284,678</u>	<u>\$ 410,882</u>	<u>\$ 1,264,712</u>	<u>\$ 180,939</u>	<u>\$ 11,694,432</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, and a national state of emergency in the U.S. was declared on March 13, 2020. The System has experienced surges of COVID-19 patients in its hospitals throughout the pandemic. Throughout the pandemic, the System has remained focused on creating a safe environment for patients and caregivers to ensure the availability of care for early identification of diseases and helping patients in managing chronic diseases.

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

The PRF and ARP rural payments provide 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 HHS 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. The System recognized \$0.4 million and \$222.0 million in other unrestricted revenues in 2022 and 2021, respectively, based on the terms and conditions of the payments.

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. The System recognized \$0.6 million of ERC in other unrestricted revenues in 2021. There was no ERC revenue recognized in 2022.

The CARES Act also permitted employers to defer the payment of the employer's portion of social security taxes incurred between March 27, 2020 and December 31, 2020, with half the deferred payments required to be paid by the end of 2021 and the other half to be paid by the end of 2022. The System had deferred payroll tax payments of \$88.7 million recorded in other current liabilities at December 31, 2021. There were no amounts deferred at December 31, 2022.

Cleveland Clinic Health System

Notes to Consolidated Financial Statements (continued)

21. COVID-19 (continued)

Additionally, the System submitted claims to the Federal Emergency Management Agency (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. The System recognized \$1.4 million and \$6.7 million of FEMA grant revenue in other unrestricted revenues in 2022 and 2021, respectively.

22. Subsequent Events

The System evaluated events and transactions occurring subsequent to December 31, 2022 through March 9, 2023, the date the consolidated financial statements were issued. During this period, there were no subsequent events requiring recognition in the consolidated financial statements, and there were no nonrecognized subsequent events requiring disclosure.

Supplementary Information

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 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 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.



March 9, 2023

Cleveland Clinic Health System

Consolidating Balance Sheet

December 31, 2022

(In Thousands)

	Obligated Group	Non-Obligated Group	Consolidating Adjustments and Eliminations	Consolidated
Assets				
Current assets:				
Cash and cash equivalents	\$ 551,714	\$ 306,658	\$ —	\$ 858,372
Patient receivables	1,392,179	348,632	(34,644)	1,706,167
Due from affiliates	14,066	45	(14,111)	—
Investments for current use	—	63,991	—	63,991
Other current assets	967,896	148,640	(241,968)	874,568
Total current assets	2,925,855	867,966	(290,723)	3,503,098
Investments:				
Long-term investments	9,604,363	1,067,376	—	10,671,739
Funds held by trustees	5,689	—	—	5,689
Assets held for self-insurance	—	175,064	—	175,064
Donor-restricted assets	1,201,698	96,829	—	1,298,527
	10,811,750	1,339,269	—	12,151,019
Property, plant, and equipment, net	4,411,720	1,560,044	—	5,971,764
Other assets:				
Pledges receivable, net	190,567	24,081	—	214,648
Trusts and interests in foundations	63,882	38,326	—	102,208
Operating lease right-of-use assets	111,452	224,946	—	336,398
Other noncurrent assets	1,020,774	149,854	(311,768)	858,860
	1,386,675	437,207	(311,768)	1,512,114
Total assets	\$ 19,536,000	\$ 4,204,486	\$ (602,491)	\$ 23,137,995

	Obligated Group	Non-Obligated Group	Adjustments and Eliminations	Consolidating Consolidated
Liabilities and net assets				
Current liabilities:				
Accounts payable	\$ 591,220	\$ 170,812	\$ (109)	\$ 761,923
Compensation and amounts withheld from payroll	518,372	76,717	–	595,089
Current portion of long-term debt	100,393	7,364	–	107,757
Variable rate debt classified as current	638,952	47,377	–	686,329
Due to affiliates	41	14,070	(14,111)	–
Other current liabilities	730,938	320,161	(272,292)	778,807
Total current liabilities	2,579,916	636,501	(286,512)	2,929,905
Long-term debt	3,462,400	1,070,725	(287,088)	4,246,037
Other liabilities:				
Professional and general liability insurance reserves	67,657	148,887	–	216,544
Accrued retirement benefits	225,303	1,137	–	226,440
Operating lease liabilities	87,717	218,768	–	306,485
Other noncurrent liabilities	506,249	52,450	(4,211)	554,488
Total liabilities	6,929,242	2,128,468	(577,811)	8,479,899
Net assets:				
Without donor restrictions	11,045,547	1,897,909	(24,680)	12,918,776
With donor restrictions	1,561,211	178,109	–	1,739,320
Total net assets	12,606,758	2,076,018	(24,680)	14,658,096
Total liabilities and net assets	\$ 19,536,000	\$ 4,204,486	\$ (602,491)	\$ 23,137,995

See accompanying note.

Cleveland Clinic Health System

Consolidating Balance Sheet

December 31, 2021

(In Thousands)

	Obligated Group	Non-Obligated Group	Consolidating Adjustments and Eliminations	Consolidated
Assets				
Current assets:				
Cash and cash equivalents	\$ 303,834	\$ 363,666	\$ —	\$ 667,500
Patient receivables	1,274,240	288,999	(30,877)	1,532,362
Due from affiliates	48,181	242	(48,423)	—
Investments for current use	104,813	55,973	—	160,786
Other current assets	622,389	108,801	(112,167)	619,023
Total current assets	2,353,457	817,681	(191,467)	2,979,671
Investments:				
Long-term investments	11,100,040	1,383,528	—	12,483,568
Funds held by trustees	69,541	—	—	69,541
Assets held for self-insurance	—	207,114	—	207,114
Donor-restricted assets	1,124,486	83,221	—	1,207,707
	12,294,067	1,673,863	—	13,967,930
Property, plant, and equipment, net	4,275,212	1,619,288	—	5,894,500
Other assets:				
Pledges receivable, net	151,457	4,136	—	155,593
Trusts and interests in foundations	70,913	50,021	—	120,934
Operating lease right-of-use assets	112,486	242,864	—	355,350
Other noncurrent assets	952,127	132,140	(292,240)	792,027
	1,286,983	429,161	(292,240)	1,423,904
Total assets	\$ 20,209,719	\$ 4,539,993	\$ (483,707)	\$ 24,266,005

	Obligated Group	Non-Obligated Group	Consolidating Adjustments and Eliminations	Consolidated
Liabilities and net assets				
Current liabilities:				
Accounts payable	\$ 506,864	\$ 156,405	\$ (10)	\$ 663,259
Compensation and amounts withheld from payroll	457,264	67,400	—	524,664
Current portion of long-term debt	98,055	6,967	—	105,022
Variable rate debt classified as current	399,438	49,859	—	449,297
Due to affiliates	5	48,418	(48,423)	—
Other current liabilities	620,671	247,970	(137,839)	730,802
Total current liabilities	2,082,297	577,019	(186,272)	2,473,044
Long-term debt	3,788,616	1,172,368	(289,560)	4,671,424
Other liabilities:				
Professional and general liability insurance reserves	73,102	134,346	—	207,448
Accrued retirement benefits	284,735	1,414	—	286,149
Operating lease liabilities	78,388	236,479	—	314,867
Other noncurrent liabilities	603,973	51,713	(5,195)	650,491
Total liabilities	6,911,111	2,173,339	(481,027)	8,603,423
Net assets:				
Without donor restrictions	11,880,683	2,229,439	(2,680)	14,107,442
With donor restrictions	1,417,925	137,215	—	1,555,140
Total net assets	13,298,608	2,366,654	(2,680)	15,662,582
Total liabilities and net assets	\$ 20,209,719	\$ 4,539,993	\$ (483,707)	\$ 24,266,005

See accompanying note.

Cleveland Clinic Health System

**Consolidating Statements of Operations and
Changes in Net Assets**

Year Ended December 31, 2022
(*In Thousands*)

Operations	Obligated Group	Non-Obligated Group	Consolidating Adjustments and Eliminations	Consolidated
Unrestricted revenues				
Net patient service revenue	\$ 9,762,743	\$ 2,171,072	\$ (363,137)	\$ 11,570,678
Other	1,255,815	414,951	(238,663)	1,432,103
Total unrestricted revenues	<u>11,018,558</u>	<u>2,586,023</u>	<u>(601,800)</u>	<u>13,002,781</u>
Expenses				
Salaries, wages, and benefits	6,406,265	1,679,898	(411,746)	7,674,417
Supplies	1,084,608	279,905	(380)	1,364,133
Pharmaceuticals	1,418,822	169,617	–	1,588,439
Purchased services and other fees	787,284	246,018	(57,652)	975,650
Administrative services	131,762	167,829	(28,110)	271,481
Facilities	320,218	128,133	(1,914)	446,437
Insurance	93,049	135,809	(101,898)	126,960
	<u>10,242,008</u>	<u>2,807,209</u>	<u>(601,700)</u>	<u>12,447,517</u>
Operating income (loss) before interest, depreciation and amortization	776,550	(221,186)	(100)	555,264
Interest	117,860	33,055	–	150,915
Depreciation and amortization	495,787	120,000	(100)	615,687
Operating income (loss)	<u>162,903</u>	<u>(374,241)</u>	–	<u>(211,338)</u>
Nonoperating gains and losses				
Investment return	(904,887)	(114,538)	–	(1,019,425)
Derivative gains (losses)	70,132	(1,756)	–	68,376
Other, net	(88,891)	2,777	–	(86,114)
Net nonoperating losses	<u>(923,646)</u>	<u>(113,517)</u>	–	<u>(1,037,163)</u>
Deficiency of revenues over expenses	<u>(760,743)</u>	<u>(487,758)</u>	–	<u>(1,248,501)</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				
Deficiency of revenues over expenses	\$ (760,743)	\$ (487,758)	\$ —	\$ (1,248,501)
Donated capital	2	—	—	2
Net assets released from restriction				
for capital purposes	19,124	2,587	—	21,711
Retirement benefits adjustment	62,085	99	—	62,184
Foreign currency translation	—	(25,114)	—	(25,114)
Transfers (to) from affiliates	(155,600)	155,600	—	—
Other	(4)	23,056	(22,000)	1,052
Decrease in net assets without donor restrictions	(835,136)	(331,530)	(22,000)	(1,188,666)
Changes in net assets with donor restrictions				
Gifts and bequests	302,089	48,763	—	350,852
Net investment loss	(41,946)	(3,574)	—	(45,520)
Net assets released from restrictions used				
for operations included in other unrestricted revenues	(77,111)	(11,078)	—	(88,189)
Net assets released from restriction				
for capital purposes	(19,124)	(2,587)	—	(21,711)
Change in interests in foundations	(1,176)	—	—	(1,176)
Change in value of perpetual trusts	(3,739)	(4,523)	—	(8,262)
Other	(15,707)	13,893	—	(1,814)
Increase in net assets with donor restrictions	143,286	40,894	—	184,180
Decrease in net assets	(691,850)	(290,636)	(22,000)	(1,004,486)
Net assets at beginning of year	13,298,608	2,366,654	(2,680)	15,662,582
Net assets at end of year	<u>\$ 12,606,758</u>	<u>\$ 2,076,018</u>	<u>\$ (24,680)</u>	<u>\$ 14,658,096</u>

See accompanying note.

Cleveland Clinic Health System

Consolidating Statements of Operations and Changes in Net Assets

Year Ended December 31, 2021
(In Thousands)

Operations	Obligated Group	Non-Obligated Group	Consolidating Adjustments and Eliminations	Consolidated
Unrestricted revenues				
Net patient service revenue	\$ 9,264,760	\$ 2,032,337	\$ (328,566)	\$ 10,968,531
Other	1,255,662	415,638	(199,139)	1,472,161
Total unrestricted revenues	<u>10,520,422</u>	<u>2,447,975</u>	<u>(527,705)</u>	<u>12,440,692</u>
Expenses				
Salaries, wages, and benefits	5,709,179	1,416,828	(380,957)	6,745,050
Supplies	1,032,794	238,687	(381)	1,271,100
Pharmaceuticals	1,224,431	172,851	–	1,397,282
Purchased services and other fees	689,230	216,714	(36,153)	869,791
Administrative services	63,842	153,081	(24,570)	192,353
Facilities	290,634	104,170	(1,970)	392,834
Insurance	94,482	80,374	(83,574)	91,282
	<u>9,104,592</u>	<u>2,382,705</u>	<u>(527,605)</u>	<u>10,959,692</u>
Operating income before interest, depreciation and amortization	1,415,830	65,270	(100)	1,481,000
Interest	115,383	32,715	–	148,098
Depreciation and amortization	499,635	87,107	(100)	586,642
Operating income (loss)	<u>800,812</u>	<u>(54,552)</u>	–	<u>746,260</u>
Nonoperating gains and losses				
Investment return	1,260,581	142,085	–	1,402,666
Derivative gains (losses)	23,201	(2,452)	–	20,749
Other, net	39,501	578	–	40,079
Net nonoperating gains	<u>1,323,283</u>	<u>140,211</u>	–	<u>1,463,494</u>
Excess of revenues over expenses	<u>2,124,095</u>	<u>85,659</u>	–	<u>2,209,754</u>

(continued on next page)

Changes in Net Assets	Obligated	Non-Obligated	Consolidating
	Group	Group	Adjustments
			and
			Eliminations
			Consolidated
Changes in net assets without donor restrictions			
Excess of revenues over expenses	\$ 2,124,095	\$ 85,659	\$ —
Donated capital	3,289	147	—
Net assets released from restriction			
for capital purposes	10,356	2,236	—
Retirement benefits adjustment	(26,894)	(7,859)	—
Foreign currency translation	—	(2,439)	—
Transfers (to) from affiliates	(425,167)	425,167	—
Other	(7)	(2,338)	(560)
Increase in net assets without donor restrictions	1,685,672	500,573	(560)
			2,185,685
Changes in net assets with donor restrictions			
Gifts and bequests	203,457	10,960	—
Net investment income	61,739	9,170	—
Net assets released from restrictions used			
for operations included in other unrestricted revenues	(44,733)	(4,301)	—
Net assets released from restriction			
for capital purposes	(10,356)	(2,236)	—
Change in interests in foundations	1,774	—	—
Change in value of perpetual trusts	4,291	2,893	—
Other	3,327	(943)	—
Increase in net assets with donor restrictions	219,499	15,543	—
			235,042
Increase in net assets	1,905,171	516,116	(560)
Net assets at beginning of year	11,393,437	1,850,538	(2,120)
Net assets at end of year	\$ 13,298,608	\$ 2,366,654	\$ (2,680)
			\$ 15,662,582

See accompanying note.

Cleveland Clinic Health System

Consolidating Statement of Cash Flows

Year Ended December 31, 2022

(In Thousands)

	Obligated Group	Non-Obligated Group	Consolidating Adjustments and Eliminations	Consolidated
Operating activities and net nonoperating gains and losses				
Decrease in net assets	\$ (691,850)	\$ (290,636)	\$ (22,000)	\$ (1,004,486)
Adjustments to reconcile decrease in net assets to net cash provided by (used in) operating activities and net nonoperating gains and losses:				
Retirement benefits adjustment	(62,085)	(99)	—	(62,184)
Net realized and unrealized losses on investments	1,015,409	127,174	—	1,142,583
Depreciation and amortization	495,787	117,337	(100)	613,024
Foreign currency translation loss	—	25,114	—	25,114
Donated capital	(2)	—	—	(2)
Restricted gifts, bequests, investment loss, and other	(255,228)	(40,666)	—	(295,894)
Transfers to (from) affiliates	155,600	(155,600)	—	—
Amortization of bond premiums and debt issuance costs	(7,591)	172	—	(7,419)
Net gain in value of derivatives	(84,335)	—	—	(84,335)
Pension funding	(31,601)	(172)	—	(31,773)
Changes in operating assets and liabilities:				
Patient receivables	(117,939)	(60,417)	3,767	(174,589)
Other current assets	(258,222)	(33,443)	95,489	(196,176)
Other noncurrent assets	(51,228)	(22,692)	19,628	(54,292)
Accounts payable and other current liabilities	269,423	69,829	(100,240)	239,012
Other liabilities	8,049	19,715	984	28,748
Net cash provided by (used in) operating activities and net nonoperating gains and losses	384,187	(244,384)	(2,472)	137,331
Financing activities				
Principal payments on long-term debt	(102,981)	(9,504)	2,472	(110,013)
Change in pledges receivables, trusts and interests in foundations	(85,249)	(16,597)	—	(101,846)
Restricted gifts, bequests, investment loss, and other	255,228	40,666	—	295,894
Net cash provided by financing activities	66,998	14,565	2,472	84,035
Investing activities				
Expenditures for property, plant, and equipment	(639,744)	(156,455)	—	(796,199)
Proceeds from sale of property, plant, and equipment	20,318	—	—	20,318
Net change in cash equivalents reported in long-term investments	103,891	166,075	—	269,966
Purchases of investments	(3,714,903)	(432,575)	—	(4,147,478)
Sales of investments	4,077,919	465,758	—	4,543,677
Transfers (to) from affiliates	(155,600)	155,600	—	—
Net cash (used in) provided by investing activities	(308,119)	198,403	—	(109,716)
Effect of exchange rate changes on cash	—	(25,736)	—	(25,736)
Increase (decrease) in cash, cash equivalents and restricted cash	143,066	(57,152)	—	85,914
Cash, cash equivalents and restricted cash at beginning of year	409,507	372,924	—	782,431
Cash, cash equivalents and restricted cash at end of year	\$ 552,573	\$ 315,772	—	\$ 868,345

See accompanying note.

Cleveland Clinic Health System

Consolidating Statement of Cash Flows

Year Ended December 31, 2021

(In Thousands)

	Obligated Group	Non-Obligated Group	Consolidating Adjustments and Eliminations	Consolidated
Operating activities and net nonoperating gains and losses				
Increase in net assets	\$ 1,905,171	\$ 516,116	\$ (560)	\$ 2,420,727
Adjustments to reconcile increase in net assets to net cash provided by operating activities and net nonoperating gains and losses:				
Gain on retirement of debt	(19,312)	—	—	(19,312)
Retirement benefits adjustment	26,894	7,859	—	34,753
Net realized and unrealized gains on investments	(1,264,530)	(142,491)	—	(1,407,021)
Depreciation and amortization	499,635	87,127	(100)	586,662
Foreign currency translation loss	—	2,439	—	2,439
Donated capital	(3,289)	(147)	—	(3,436)
Restricted gifts, bequests, investment income, and other	(271,261)	(23,023)	—	(294,284)
Transfers to (from) affiliates	425,167	(425,167)	—	—
Amortization of bond premiums and debt issuance costs	(6,207)	424	—	(5,783)
Net gain in value of derivatives	(42,761)	—	—	(42,761)
Pension funding	(13,419)	(345)	—	(13,764)
Changes in operating assets and liabilities:				
Patient receivables	(199,568)	(41,682)	2,560	(238,690)
Other current assets	(92,975)	(23,003)	56,880	(59,098)
Other noncurrent assets	(191,656)	(4,338)	60,964	(135,030)
Accounts payable and other current liabilities	55,865	127,603	(51,052)	132,416
Other liabilities	(47,142)	(19,728)	(5,195)	(72,065)
Net cash provided by operating activities and net nonoperating gains and losses	760,612	61,644	63,497	885,753
Financing activities				
Proceeds from short-term borrowings	26,500	—	—	26,500
Payments on short-term borrowings	(26,500)	—	—	(26,500)
Proceeds from long-term borrowings	433,953	26,679	(63,497)	397,135
Payments for advance refunding and redemption of long-term debt	(312,238)	—	—	(312,238)
Principal payments on long-term debt	(132,893)	(33,754)	—	(166,647)
Debt issuance costs	(2,996)	—	—	(2,996)
Change in pledges receivables, trusts and interests in foundations	(46,813)	6,086	—	(40,727)
Restricted gifts, bequests, investment income, and other	271,261	23,023	—	294,284
Net cash provided by financing activities	210,274	22,034	(63,497)	168,811
Investing activities				
Expenditures for property, plant, and equipment	(274,157)	(235,218)	—	(509,375)
Proceeds from sale of property, plant, and equipment	15,755	—	—	15,755
Net change in cash equivalents reported in long-term investments	115,558	37,293	—	152,851
Purchases of investments	(4,968,884)	(591,826)	—	(5,560,710)
Sales of investments	4,057,925	452,787	—	4,510,712
Payment for business acquisition, less cash assumed	—	(54,197)	—	(54,197)
Transfers (to) from affiliates	(425,167)	425,167	—	—
Net cash (used in) provided by investing activities	(1,478,970)	34,006	—	(1,444,964)
Effect of exchange rate changes on cash	—	(304)	—	(304)
(Decrease) increase in cash, cash equivalents and restricted cash	(508,084)	117,380	—	(390,704)
Cash, cash equivalents and restricted cash at beginning of year	917,591	255,544	—	1,173,135
Cash, cash equivalents and restricted cash at end of year	\$ 409,507	\$ 372,924	\$ —	\$ 782,431

See accompanying note.

Cleveland Clinic Health System

Note to Consolidating Financial Statements

December 31, 2022 and 2021

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 Weston Hospital 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.

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

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

Ernst & Young LLP is a client-serving member firm of Ernst & Young Global Limited operating in the US.

© 2023 Ernst & Young LLP.
All Rights Reserved.

ey.com