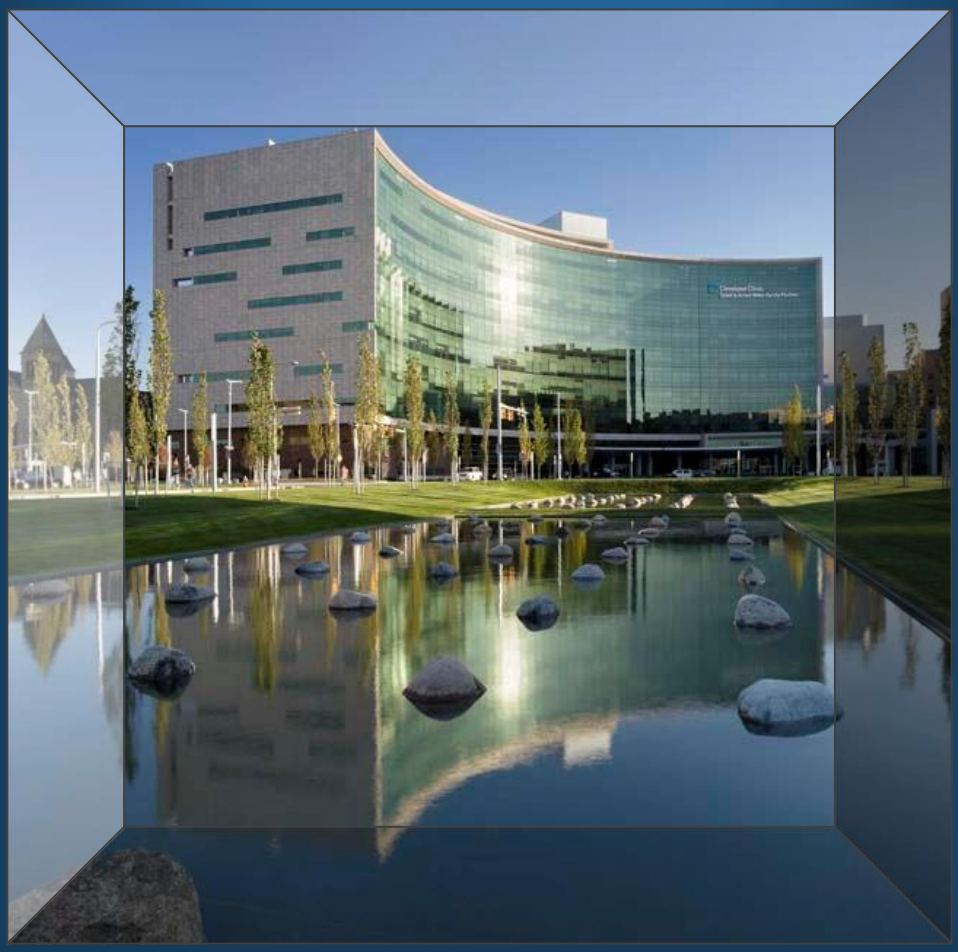
Interim Unaudited Consolidated Financial Statements and Other Information

For The Period Ended June 30, 2015

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



Contents

Unaudited Consolidated Balance Sheets

($ in thousands)

	June 30 2015	December 31 2014
Assets		
Current assets:		
Cash and cash equivalents	$ 174,123	$ 70,322
Patient receivables, net	829,231	819,074
Investments for current use	46,828	144,838
Other current assets	343,693	332,075
Total current assets	1,393,875	1,366,309
Investments:		
Long-term investments	6,179,470	5,950,076
Funds held by trustees	120,528	119,388
Assets held by captive insurance subsidiary	119,348	106,317
Donor restricted assets	509,443	474,227
	6,928,789	6,650,008
Property, plant, and equipment, net	3,582,186	3,599,607
Other assets:		
Pledges receivable, net	162,281	161,757
Trusts and interests in foundations	122,927	122,498
Other noncurrent assets	370,932	367,381
	656,140	651,636
Total assets	$ 12,560,990	$ 12,267,560

Unaudited Consolidated Balance Sheets (continued)

($ in thousands)

	June 30 2015	December 31 2014
Liabilities and net assets		
Current liabilities:		
Accounts payable	$ 299,237	$ 335,475
Compensation and amounts withheld from payroll	318,952	238,938
Current portion of long-term debt	73,125	55,778
Variable rate debt classified as current	386,725	386,875
Other current liabilities	392,448	434,815
Total current liabilities	1,470,487	1,451,881
Long-term debt:		
Hospital revenue bonds	2,743,846	2,798,062
Notes payable and capital leases	158,273	175,548
	2,902,119	2,973,610
Other liabilities:		
Professional and general insurance liability reserves	144,901	143,240
Accrued retirement benefits	443,044	452,897
Other noncurrent liabilities	426,990	443,437
	1,014,935	1,039,574
Total liabilities	5,387,541	5,465,065
Net assets:		
Unrestricted	6,343,908	5,998,053
Temporarily restricted	539,685	519,730
Permanently restricted	289,856	284,712
Total net assets	7,173,449	6,802,495
Total liabilities and net assets	$ 12,560,990	$ 12,267,560

See notes to unaudited consolidated financial statements.

Unaudited Consolidated Statements of Operations and Changes in Net Assets

($ in thousands)

Operations

	Three Months ended June 30	
	2015	2014
Unrestricted revenues		
Net patient service revenue	$1,616,745	$1,591,463
Provision for uncollectible accounts	(61,535)	(103,496)
Net patient service revenue less provision for uncollectible accounts	1,555,210	1,487,967
Other	171,889	154,202
Total unrestricted revenues	1,727,099	1,642,169
Expenses		
Salaries, wages, and benefits	923,156	916,427
Supplies	165,129	156,167
Pharmaceuticals	166,883	141,216
Purchased services and other fees	90,971	89,529
Administrative services	34,661	42,979
Facilities	69,885	75,116
Insurance	17,563	18,949
	1,468,248	1,440,383
Operating income before interest, depreciation, and amortization expenses	258,851	201,786
Interest	30,628	26,097
Depreciation and amortization	100,461	96,807
Operating income	127,762	78,882
Nonoperating gains and losses		
Investment return	33,325	176,185
Derivative gains (losses)	22,642	(19,761)
Other, net	91	128
Net nonoperating gains and losses	56,058	156,552
Excess of revenues over expenses	183,820	235,434

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

($ in thousands)

Changes in Net Assets

	Net Assets			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Total net assets at April 1, 2014	$ 5,584,273	$ 480,071	$ 270,796	$ 6,335,140
Excess of revenues over expenses	235,434	-	-	235,434
Donated capital and assets released from restrictions for capital purposes	1,494	(1,492)	-	2
Gifts and bequests	-	22,820	4,028	26,848
Net investment income	-	9,328	-	9,328
Net assets released from restrictions used for operations included in other unrestricted revenues	-	(8,220)	-	(8,220)
Retirement benefits adjustment	(765)	-	-	(765)
Change in interests in foundations	-	497	-	497
Change in value of perpetual trusts	-	-	728	728
Net change in unrealized losses on nontrading investments	(7,152)	-	-	(7,152)
Other	(43)	-	-	(43)
Increase in net assets	228,968	22,933	4,756	256,657
Total net assets at June 30, 2014	$ 5,813,241	$ 503,004	$ 275,552	$ 6,591,797
Total net assets at April 1, 2015	$ 6,159,310	$ 537,605	$ 286,359	$ 6,983,274
Excess of revenues over expenses	183,820	-	-	183,820
Donated capital and assets released from restrictions for capital purposes	929	(929)	-	-
Gifts and bequests	-	14,328	3,247	17,575
Transfer of net assets	163	(163)	-	-
Net investment income	-	3,455	-	3,455
Net assets released from restrictions used for operations included in other unrestricted revenues	-	(14,899)	-	(14,899)
Retirement benefits adjustment	(757)	-	-	(757)
Change in interests in foundations	-	288	63	351
Change in value of perpetual trusts	-	-	187	187
Net change in unrealized losses on nontrading investments	292	-	-	292
Other	151	-	-	151
Increase in net assets	184,598	2,080	3,497	190,175
Total net assets at June 30, 2015	$ 6,343,908	$ 539,685	$ 289,856	$ 7,173,449

See notes to unaudited consolidated financial statements.

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

($ in thousands)

Operations

	Six Months Ended June 30	
	2015	2014
Unrestricted revenues		
Net patient service revenue	$ 3,184,966	$ 3,152,589
Provision for uncollectible accounts	(137,528)	(209,338)
Net patient service revenue less provision for uncollectible accounts	3,047,438	2,943,251
Other	314,571	282,354
Total unrestricted revenues	3,362,009	3,225,605
Expenses		
Salaries, wages, and benefits	1,849,631	1,841,754
Supplies	320,348	306,768
Pharmaceuticals	317,249	267,899
Purchased services and other fees	181,439	179,153
Administrative services	67,235	80,673
Facilities	138,290	147,759
Insurance	34,807	35,087
	2,908,999	2,859,093
Operating income before interest, depreciation, and amortization expenses	453,010	366,512
Interest	61,245	52,402
Depreciation and amortization	203,299	193,397
Operating income	188,466	120,713
Nonoperating gains and losses		
Investment return	159,659	244,544
Derivative losses	(117)	(42,960)
Other, net	(272)	(30)
Net nonoperating gains and losses	159,270	201,554
Excess of revenues over expenses	347,736	322,267

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

($ in thousands)

Changes in Net Assets

	Net Assets			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balances at January 1, 2014	$ 5,478,927	$ 461,110	$ 268,369	$ 6,208,406
Excess of revenues over expenses	322,267	-	-	322,267
Donated capital and assets released from restrictions for capital purposes	3,008	(3,006)	-	2
Gifts and bequests	-	46,767	5,763	52,530
Transfer of net assets	92	(92)	-	-
Net investment income	-	12,632	-	12,632
Net assets released from restrictions used for operations included in other unrestricted revenues	-	(15,084)	-	(15,084)
Retirement benefits adjustment	(1,529)	-	-	(1,529)
Change in interests in foundations	-	677	-	677
Change in value of perpetual trusts	-	-	1,420	1,420
Net change in unrealized gains on nontrading investments	10,658	-	-	10,658
Other	(182)	-	-	(182)
Increase in net assets	334,314	41,894	7,183	383,391
Balances at June 30, 2014	$ 5,813,241	$ 503,004	$ 275,552	$ 6,591,797
Balances at January 1, 2015	$ 5,998,053	$ 519,730	$ 284,712	$ 6,802,495
Excess of revenues over expenses	347,736	-	-	347,736
Donated capital and assets released from restrictions for capital purposes	1,298	(1,277)	-	21
Gifts and bequests	-	31,494	4,894	36,388
Transfer of net assets	199	(199)	-	-
Net investment income	-	11,335	-	11,335
Net assets released from restrictions used for operations included in other unrestricted revenues	-	(21,686)	-	(21,686)
Retirement benefits adjustment	(1,514)	-	-	(1,514)
Change in interests in foundations	-	288	63	351
Change in value of perpetual trusts	-	-	187	187
Net change in unrealized losses on nontrading investments	(2,385)	-	-	(2,385)
Other	521	-	-	521
Increase in net assets	345,855	19,955	5,144	370,954
Balances at June 30, 2015	$ 6,343,908	$ 539,685	$ 289,856	$ 7,173,449

See notes to unaudited consolidated financial statements.

Unaudited Consolidated Statements of Cash Flows

($ in thousands)

	Six Months Ended June 30	
	2015	2014
Operating activities and net nonoperating gains and losses		
Increase in net assets	$ 370,954	$ 383,391
Adjustments to reconcile increase in net assets to net cash provided by operating activities and net nonoperating gains and losses:		
Retirement benefits adjustment	1,514	1,529
Net realized and unrealized gains on investments	(151,619)	(248,553)
Depreciation and amortization	203,299	193,397
Provision for uncollectible accounts	137,528	209,338
Donated capital	(21)	(2)
Restricted gifts, bequests, investment income, and other	(48,261)	(67,259)
Accreted interest and amortization of bond premiums	(1,268)	(1,266)
Net (gain) loss in value of derivatives	(12,519)	30,081
Changes in operating assets and liabilities:		
Patient receivables	(147,685)	(287,043)
Other current assets	(23,233)	29,306
Other noncurrent assets	(4,667)	(9,857)
Accounts payable and other current liabilities	3,419	(34,695)
Other liabilities	(13,634)	(4,750)
Net cash provided by operating activities and net nonoperating gains and losses	313,807	193,617
Financing activities		
Principal payments on long-term debt	(58,263)	(48,995)
Change in pledges receivables, trusts and interests in foundations	10,662	(27,837)
Restricted gifts, bequests, investment income, and other	48,261	67,259
Net cash provided by (used in) financing activities	660	(9,573)
Investing activities		
Expenditures for property and equipment, net	(181,514)	(175,865)
Net change in cash equivalents reported in long-term investments	100,280	(91,821)
Purchases of investments	(1,211,363)	(751,752)
Sales of investments	1,081,931	848,155
Net cash used in investing activities	(210,666)	(171,283)
Increase in cash and cash equivalents	103,801	12,761
Cash and cash equivalents at beginning of year	70,322	70,900
Cash and cash equivalents at end of period	$ 174,123	$ 83,661

See notes to unaudited consolidated financial statements.

1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal and recurring nature. Operating results for the three and six months ended June 30, 2015 are not necessarily indicative of the results to be expected for the year ending December 31, 2015. For further information, refer to the audited financial statements and notes thereto for the year ended December 31, 2014.

2. Organization and Consolidation

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

The System is the leading provider of healthcare services in northeast Ohio. The System operates eleven hospitals with approximately 3,600 staffed beds. Ten of the hospitals are operated in the Cleveland metropolitan area, anchored by the Clinic. The System operates eighteen outpatient Family Health Centers, ten ambulatory surgery centers, as well as numerous physician offices, which are located throughout a seven-county area of northeast Ohio, and specialized cancer centers in Sandusky and Mansfield, Ohio. In addition, the System operates a hospital and a clinic in Weston, Florida, health and wellness centers in West Palm Beach, Florida and Toronto, Canada, and a specialized neurological clinical center in Las Vegas, Nevada (Keep Memory Alive). The System is a minority member in Akron General Health System (Akron General), an integrated healthcare delivery system with a 532-bed flagship medical center located in Akron, Ohio. Pursuant to agreements, the System also provides management services for Ashtabula County Medical Center, located in Ashtabula, Ohio, with approximately 180 staffed beds, 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 approximately 364 staffed beds, and in cooperation with Abu Dhabi Health Services Company, the Sheikh Khalifa Medical City (SKMC), a network of healthcare facilities in Abu Dhabi, United Arab Emirates with approximately 711 staffed beds.

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

3. Accounting Policies

Recent Accounting Pronouncement

In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-03, Imputation of Interest, Simplifying the Presentation of Debt Issuance Costs. This ASU requires debt issuance costs to be presented in the balance sheet as a direct deduction from the associated debt liability, consistent with the presentation of a debt discount. This amends current guidance that requires debt issuance costs to be presented as a deferred charge on the balance sheet. This guidance is effective for reporting periods beginning after December 15, 2015 with early adoption permitted. The System is currently evaluating the impact that ASU 2015-03 will have on its consolidated financial statements.

4. Use of Estimates

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

5. Net Patient Service Revenue and Patient Receivables

Net patient service revenue before the provision for uncollectible accounts by major payor source for the six months ended June 30, 2015 and 2014, are as follows (in thousands):

	2015		**2014**	
Medicare	**$ 950,904**	**30%**	$ 908,534	29%
Medicaid	**200,613**	**6**	170,873	6
Managed care and commercial	**1,917,470**	**60**	1,936,469	61
Self-pay	**115,979**	**4**	136,713	4
	$ 3,184,966	**100%**	$ 3,152,589	100%

An estimated provision for uncollectible accounts is recorded that results in net patient service revenue being reported at the net amount expected to be received. The System has determined, based on an assessment at the consolidated entity level, that patient service revenue is primarily recorded prior to assessing the patient's ability to pay and as such, the entire provision for uncollectible accounts related to patient service revenue is recorded as a deduction from patient service revenue.

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

For patient receivables associated with self-pay patients, including patients with deductible and copayment balances for which third-party coverage provides for a portion of the services provided, the System records an estimated provision for uncollectible accounts in the year of service. As a result of the Affordable Care Act, former uninsured patients are shifting into the expanded Ohio Medicaid program and the newly formed Health Insurance Exchanges. Self-pay write-offs decreased $78.2 million in the first six months of 2015 compared to the same period in 2014. The System does not maintain a material allowance for uncollectible accounts from third-party payors.

The allowance for uncollectible accounts is based upon management's assessment of historical and expected net collections considering historical business and economic conditions, trends in healthcare coverage, major payor sources and other collection indicators. Periodically throughout the year, management assesses the adequacy of the allowance for uncollectible accounts based upon historical write-off experience by payor category. The results of this review are then used to make modifications to the provision for uncollectible accounts to establish an appropriate allowance for uncollectible receivables. The System follows established guidelines for placing certain past-due patient balances with collection agencies, subject to the terms of certain restrictions on collection efforts as determined by the System and in compliance with Internal Revenue Code 501(r).

6. Fair Value Measurements

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

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

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

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

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

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

6. Fair Value Measurements (continued)

The carrying values of accounts receivable and accounts payable are reasonable estimates of fair value due to the short-term nature of these financial instruments. Investments, other than alternative investments, are recorded at their fair value. Other noncurrent assets and liabilities have carrying values that approximate fair value.

The fair value of the System's pledges receivable is based on discounted cash flow analysis using treasury yield curve interest rates consistent with the maturities of the pledges receivable and adjusted for consideration of the donor's credit. The fair value of pledges receivable was $199.5 million and $213.3 million at June 30, 2015 and December 31, 2014, respectively. The carrying value of the System's pledges receivable was $194.4 million and $205.5 million at June 30, 2015 and December 31, 2014, respectively. Pledges receivable would be classified as Level 3 in the fair value hierarchy.

The fair value of the System's long-term debt is estimated by discounted cash flow analyses using current borrowing rates for similar types of borrowing arrangements and adjusted for the System's credit. Inputs, which include reported/comparable trades, broker/dealer quotes, bids and offerings, are obtained from various sources, including market participants, dealers, brokers and various news media/market information. The fair value of long-term debt was $3.3 billion at both June 30, 2015 and December 31, 2014, respectively. The carrying value of the System's long-term debt was $3.2 billion at both June 30, 2015 and December 31, 2014. Long-term debt would be classified as Level 2 in the fair value hierarchy.

6. Fair Value Measurements (continued)

The following tables present the financial instruments measured at fair value on a recurring basis as of June 30, 2015 and December 31, 2014, based on the valuation hierarchy (in thousands):

June 30, 2015	Level 1	Level 2	Level 3	Total
Assets				
Cash and investments:				
Cash and cash equivalents	$ 665,022	$ 113	$ –	$ 665,135
Fixed income securities:				
U.S. treasuries	716,400	–	–	716,400
U.S. government agencies	–	22,600	–	22,600
U.S. corporate	–	160,235	–	160,235
U.S. government agencies asset-backed securities	–	19,746	–	19,746
Corporate asset-backed securities	–	7,763	–	7,763
Foreign	–	43,195	–	43,195
Fixed income mutual funds	77,283	–	–	77,283
Commingled fixed income funds	–	756,772	–	756,772
Common and preferred stocks:				
U.S.	575,445	2,341	–	577,786
Foreign	259,989	2,005	–	261,994
Equity mutual funds	183,530	–	–	183,530
Commingled equity funds	–	1,434,253	–	1,434,253
Total cash and investments	2,477,669	2,449,023	–	4,926,692
Perpetual and charitable trusts	–	66,308	–	66,308
Total assets at fair value	$ 2,477,669	$ 2,515,331	$ –	$ 4,993,000
Liabilities				
Interest rate swaps	$ –	$ 139,876	$ –	$ 139,876
Total liabilities at fair value	$ –	$ 139,876	$ –	$ 139,876

6. Fair Value Measurements (continued)

December 31, 2014	Level 1	Level 2	Level 3	Total
Assets				
Cash and investments:				
Cash and cash equivalents	$ 661,598	$ 12	$ –	$ 661,610
Fixed income securities:				
U.S. treasuries	629,321	–	–	629,321
U.S. government agencies	–	20,416	–	20,416
U.S. corporate	–	172,947	–	172,947
U.S. government agencies asset-backed securities	–	21,582	–	21,582
Corporate asset-backed securities	–	8,802	–	8,802
Foreign	–	47,115	–	47,115
Fixed income mutual fund	53,235	–	–	53,235
Commingled fixed income funds	–	779,183	–	779,183
Common and preferred stocks:				
U.S.	609,133	2,615	–	611,748
Foreign	235,907	1,702	–	237,609
Equity mutual funds	238,320	–	–	238,320
Commingled equity funds	–	1,165,477	–	1,165,477
Total cash and investments	2,427,514	2,219,851	–	4,647,365
Perpetual and charitable trusts	–	66,231	–	66,231
Total assets at fair value	$ 2,427,514	$ 2,286,082	$ –	$ 4,713,596
Liabilities				
Interest rate swaps	$ –	$ 152,395	$ –	$ 152,395
Total liabilities at fair value	$ –	$ 152,395	$ –	$ 152,395

6. Fair Value Measurements (continued)

Financial instruments at June 30, 2015 and December 31, 2014 are reflected in the consolidated balance sheets as follows (in thousands):

	June 30 2015	December 31 2014
Cash, cash equivalents, and investments measured at fair value	**$ 4,926,692**	$ 4,647,365
Alternative investments accounted for under the equity method	**2,223,048**	2,067,803
Pending purchases of investments	**-**	150,000
Total cash, cash equivalents, and investments	**$ 7,149,740**	$ 6,865,168
Perpetual and charitable trusts measured at fair value	**$ 66,308**	$ 66,231
Interests in foundations	**56,619**	56,267
Trusts and interests in foundations	**$ 122,927**	$ 122,498

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

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

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

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 3.8% to 5.0%, which are based on Treasury yield curve interest rates or the assumed yield of the trust assets. The fair value of charitable trusts in which the System is a remainder beneficiary is based on the System's beneficial interest in the investments held in the trust, which are measured at fair value.

6. Fair Value Measurements (continued)

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

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

7. Interest Rate Swaps

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 and certain variable rate operating lease payments. Consistent with its interest rate risk management objective, the System entered into various interest rate swap agreements with a total outstanding notional amount of $601.1 million and $612.6 million at June 30, 2015 and December 31, 2014, respectively. 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 (losses) in the consolidated statements of operations and changes in net assets.

7. Interest Rate Swaps (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 June 30 2015	Notional Amount at December 31 2014
Fixed	2016	5.28%	100% of SIFMA	**$ 4,150**	$ 8,080
Fixed	2021	3.21%	68% of LIBOR	**34,770**	36,240
Fixed	2024	3.42%	68% of LIBOR	**28,300**	28,800
Fixed	2027	3.56%	68% of LIBOR	**132,212**	135,939
Fixed	2028	5.12%	100% of LIBOR	**39,815**	40,785
Fixed	2028	3.51%	68% of LIBOR	**30,755**	31,495
Fixed	2030	5.07%	100% of LIBOR	**62,500**	62,500
Fixed	2030	5.06%	100% of LIBOR	**62,500**	62,500
Fixed	2032	4.32%	79% of LIBOR	**2,474**	2,509
Fixed	2032	4.33%	70% of LIBOR	**4,948**	5,017
Fixed	2032	3.78%	70% of LIBOR	**2,474**	2,509
Fixed	2036	4.90%	100% of LIBOR	**50,000**	50,000
Fixed	2036	4.90%	100% of LIBOR	**79,375**	79,375
Fixed	2037	4.62%	100% of SIFMA	**66,850**	66,850
				$ 601,123	$ 612,599

The following table summarizes the location and fair value for the System's interest rate swap agreements (in thousands):

	Derivatives Liability			
	June 30, 2015		December 31, 2014	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives not designated as hedging instruments				
Interest rate swap agreements	Other noncurrent liabilities	**$ 139,876**	Other noncurrent liabilities	$ 152,395

7. Interest Rate Swaps (continued)

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

Derivatives not designated as hedging instruments	Location of Gain (Loss) Recognized	Quarter ended June 30		Six months ended June 30	
		2015	2014	2015	2014
Interest rate swap agreements	Derivative gains (losses)	**$22,642**	($19,761)	**($117)**	($42,960)

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 June 30, 2015 and December 31, 2014, the System posted $81.3 million and $88.2 million, respectively, of collateral with counterparties that is included in funds held by trustees in the consolidated balance sheets. In addition, if the System were to choose to terminate a derivative contract or if a derivative contract were terminated pursuant to an event of default or a termination event as described in the derivative contract, the System could be required to pay a termination payment to the counterparty.

8. Pensions and Other Postretirement Benefits

The System has two defined benefit pension plans, including the CCHS Retirement Plan, which covers substantially all of the System's employees. The benefits provided are based on age, years of service, and compensation. The System's policy is to fund at least the minimum amounts required by the Employee Retirement Income Security Act. The CCHS Retirement Plan ceased benefit accruals as of December 31, 2009 for substantially all employees. Benefit accruals for remaining employees ceased at various intervals through December 31, 2012. The System also maintains a nonqualified defined benefit supplemental retirement plan, which covers certain of its employees.

8. Pensions and Other Postretirement Benefits (continued)

The System sponsors two noncontributory, defined contribution plans, and a contributory, defined contribution plan. The Cleveland Clinic Investment Pension Plan (IPP) is a noncontributory, defined contribution plan, which covers substantially all of the System's employees. The System's contribution for the IPP is based upon a percentage of employee compensation and years of service. The System sponsors an additional noncontributory, defined contribution plan, which covers certain of its employees. The System's contribution to the plan is based upon a percentage of employee compensation, as defined, determined according to age. The System also sponsors a contributory, defined contribution plan, which covers substantially all employees. The System's contribution to the contributory plan is determined based on employee contributions.

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

	Quarter Ended June 30		Six Months Ended June 30	
	2015	**2014**	**2015**	**2014**
Amounts related to defined benefit pension plans:				
Service cost	$ 585	$ 581	$ 1,171	$ 1,162
Interest cost	16,057	17,968	32,115	35,935
Expected return on assets	(20,596)	(25,180)	(41,191)	(50,360)
Net amortization and deferral	(420)	(165)	(841)	(330)
Total defined benefit pension plans	(4,374)	(6,796)	(8,746)	(13,593)
Defined contribution plans	50,980	50,349	102,234	101,890
	$ 46,606	**$ 43,553**	**$ 93,488**	**$ 88,297**

As of June 30, 2015, the System has made contributions of $2.9 million to the defined benefit pension plans. The System expects to make additional contributions of $2.9 million to the defined benefit pension plans for the remainder of 2015.

9. Subsequent Events

The System evaluated events and transactions occurring subsequent to June 30, 2015 through August 28, 2015, the date the financial statements were issued. During this period, there were no subsequent events requiring recognition in the consolidated financial statements, and there were no nonrecognized subsequent events requiring disclosure.

Unaudited Consolidating Balance Sheets

($ in thousands)

	June 30, 2015				December 31, 2014			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated
Assets								
Current assets:								
Cash and cash equivalents	$ 111,795	$ 62,328	$ -	$ 174,123	$ 2,952	$ 67,370	$ -	$ 70,322
Patient receivables, net	820,714	34,018	(25,501)	829,231	807,085	36,257	(24,268)	819,074
Due from affiliates	25,845	40,872	(66,717)	-	1,466	119	(1,585)	-
Investments for current use	-	46,828	-	46,828	98,010	46,828	-	144,838
Other current assets	304,472	41,824	(2,603)	343,693	305,379	27,794	(1,098)	332,075
Total current assets	1,262,826	225,870	(94,821)	1,393,875	1,214,892	178,368	(26,951)	1,366,309
Investments:								
Long-term investments	5,963,952	215,518	-	6,179,470	5,739,503	210,573	-	5,950,076
Funds held by trustees	120,528	-	-	120,528	119,388	0	-	119,388
Assets held by captive insurance subsidiary	-	119,348	-	119,348	-	106,317	-	106,317
Donor restricted assets	494,457	14,986	-	509,443	459,401	14,826	-	474,227
	6,578,937	349,852	-	6,928,789	6,318,292	331,716	-	6,650,008
Property, plant, and equipment, net	3,317,363	264,823	-	3,582,186	3,329,725	269,882	-	3,599,607
Other assets:								
Pledges receivable, net	161,180	1,101	-	162,281	160,774	983	-	161,757
Trusts and beneficial interests in foundations	81,196	41,731	-	122,927	80,971	41,527	-	122,498
Other noncurrent assets	384,573	3,232	(16,873)	370,932	378,275	3,242	(14,136)	367,381
	626,949	46,064	(16,873)	656,140	620,020	45,752	(14,136)	651,636
Total assets	$ 11,786,075	$ 886,609	$ (111,694)	$ 12,560,990	$ 11,482,929	$ 825,718	$ (41,087)	$ 12,267,560

	June 30, 2015				December 31, 2014			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated
Liabilities and net assets								
Current liabilities:								
Accounts payable	$ 266,293	$ 33,317	$ (373)	$ 299,237	$ 307,962	$ 28,611	$ (1,098)	$ 335,475
Compensation and amounts withheld from payroll	309,334	9,618	-	318,952	233,438	5,500	-	238,938
Current portion of long-term debt	70,511	2,614	-	73,125	50,763	5,015	-	55,778
Variable rate debt classified as current	321,695	65,030	-	386,725	321,845	65,030	-	386,875
Due to affiliates	13,108	27,308	(40,416)	-	22	1,563	(1,585)	-
Other current liabilities	346,797	71,152	(25,501)	392,448	387,019	72,064	(24,268)	434,815
Total current liabilities	1,327,738	209,039	(66,290)	1,470,487	1,301,049	177,783	(26,951)	1,451,881
Long-term debt:								
Hospital revenue bonds	2,743,846	-	-	2,743,846	2,798,062	0	-	2,798,062
Notes payable and capital leases	149,099	22,599	(13,425)	158,273	165,875	20,361	(10,688)	175,548
	2,892,945	22,599	(13,425)	2,902,119	2,963,937	20,361	(10,688)	2,973,610
Other liabilities:								
Professional and general insurance liability reserves	55,606	89,295	-	144,901	54,760	88,480	-	143,240
Accrued retirement benefits	443,044	-	-	443,044	452,897	-	-	452,897
Other noncurrent liabilities	420,029	35,492	(28,531)	426,990	436,676	6,761	-	443,437
	918,679	124,787	(28,531)	1,014,935	944,333	95,241	-	1,039,574
Total liabilities	5,139,362	356,425	(108,246)	5,387,541	5,209,319	293,385	(37,639)	5,465,065
Net assets:								
Unrestricted	5,878,384	468,972	(3,448)	6,343,908	5,533,572	467,929	(3,448)	5,998,053
Temporarily restricted	509,484	30,201	-	539,685	486,218	33,512	-	519,730
Permanently restricted	258,845	31,011	-	289,856	253,820	30,892	-	284,712
Total net assets	6,646,713	530,184	(3,448)	7,173,449	6,273,610	532,333	(3,448)	6,802,495
Total liabilities and net assets	$ 11,786,075	$ 886,609	$ (111,694)	$ 12,560,990	$ 11,482,929	$ 825,718	$ (41,087)	$ 12,267,560

See notes to unaudited consolidated financial statements.

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

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

Operations

	Three Months Ended June 30, 2015				Three Months Ended June 30, 2014			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated
Unrestricted revenues								
Net patient service revenue	$ 1,607,392	$ 57,400	$ (48,047)	$ 1,616,745	$ 1,584,577	$ 62,544	$ (55,658)	$ 1,591,463
Provision for uncollectible accounts	(59,821)	(1,714)	-	(61,535)	(100,089)	(3,407)	-	(103,496)
Net patient service revenue less provision for uncollectible accounts	1,547,571	55,686	(48,047)	1,555,210	1,484,488	59,137	(55,658)	1,487,967
Other	139,700	65,899	(33,710)	171,889	125,468	60,534	(31,800)	154,202
Total unrestricted revenues	1,687,271	121,585	(81,757)	1,727,099	1,609,956	119,671	(87,458)	1,642,169
Expenses								
Salaries, wages, and benefits	928,393	52,076	(57,313)	923,156	928,340	51,884	(63,797)	916,427
Supplies	151,644	13,732	(247)	165,129	143,089	13,423	(345)	156,167
Pharmaceuticals	163,409	3,474	-	166,883	137,949	3,267	-	141,216
Purchased services and other fees	85,802	8,283	(3,114)	90,971	84,116	8,635	(3,222)	89,529
Administrative services	26,878	13,863	(6,080)	34,661	34,636	14,114	(5,771)	42,979
Facilities	64,780	6,519	(1,414)	69,885	69,560	6,978	(1,422)	75,116
Insurance	15,688	15,464	(13,589)	17,563	15,302	16,548	(12,901)	18,949
	1,436,594	113,411	(81,757)	1,468,248	1,412,992	114,849	(87,458)	1,440,383
Operating income (loss) before interest, depreciation, and amortization expenses	250,677	8,174	-	258,851	196,964	4,822	-	201,786
Interest	30,032	596	-	30,628	25,585	512	-	26,097
Depreciation and amortization	95,234	5,227	-	100,461	91,606	5,201	-	96,807
Operating income (loss)	125,411	2,351	-	127,762	79,773	(891)	-	78,882
Nonoperating gains and losses								
Investment return	32,215	1,110	-	33,325	167,399	8,786	-	176,185
Derivative gains (losses)	23,401	(759)	-	22,642	(18,982)	(779)	-	(19,761)
Other, net	93	(2)	-	91	128	-	-	128
Net nonoperating gains and losses	55,709	349	-	56,058	148,545	8,007	-	156,552
Excess of revenues over expenses	181,120	2,700	-	183,820	228,318	7,116	-	235,434

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

($ in thousands)

Changes in Net Assets

	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated
Total net assets at April 1, 2014	$ 5,810,525	$ 528,063	$ (3,448)	$ 6,335,140
Excess of revenues over expenses	228,318	7,116	-	235,434
Donated capital, excluding assets released from restrictions for capital purposes	2	-	-	2
Restricted gifts and bequests	25,966	882	-	26,848
Restricted net investment loss	9,052	276	-	9,328
Net assets released from restrictions used for operations included in other unrestricted revenues	(6,946)	(1,274)	-	(8,220)
Retirement benefits adjustment	(765)	-	-	(765)
Change in restricted net assets related to interests in foundations	497	-	-	497
Change in restricted net assets related to value of perpetual trusts	566	162	-	728
Net change in unrealized losses on nontrading investments	(7,152)	-	-	(7,152)
Other	(43)	-	-	(43)
Increase in total net assets	249,495	7,162	-	256,657
Total net assets at June 30, 2014	$ 6,060,020	$ 535,225	$ (3,448)	$ 6,591,797
Total net assets at April 1, 2015	$ 6,456,278	$ 530,444	$ (3,448)	$ 6,983,274
Excess of revenues over expenses	181,120	2,700	-	183,820
Restricted gifts and bequests	17,204	371	-	17,575
Restricted net investment income	3,218	237	-	3,455
Net assets released from restrictions used for operations included in other unrestricted revenues	(10,858)	(4,041)	-	(14,899)
Transfers from (to) affiliates	231	(231)	-	-
Retirement benefits adjustment	(757)	-	-	(757)
Change in restricted net assets related to interests in foundations	186	165	-	351
Change in restricted net assets related to value of perpetual trusts	148	39	-	187
Net change in unrealized gains on nontrading investments	292	-	-	292
Other	(349)	500	-	151
Increase (decrease) in total net assets	190,435	(260)	-	190,175
Total net assets at June 30, 2015	$ 6,646,713	$ 530,184	$ (3,448)	$ 7,173,449

See notes to unaudited consolidated financial statements.

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

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

($ in thousands)

Operations

	Six Months Ended June 30, 2015				Six Months Ended June 30, 2014			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated
Unrestricted revenues								
Net patient service revenue	$ 3,166,028	$ 117,676	$ (98,738)	$ 3,184,966	$ 3,128,473	$ 128,713	$ (104,597)	$ 3,152,589
Provision for uncollectible accounts	(133,315)	(4,213)	-	(137,528)	(202,082)	(7,256)	-	(209,338)
Net patient service revenue less provision for uncollectible accounts	3,032,713	113,463	(98,738)	3,047,438	2,926,391	121,457	(104,597)	2,943,251
Other	266,297	112,743	(64,469)	314,571	236,790	107,181	(61,617)	282,354
Total unrestricted revenues	3,299,010	226,206	(163,207)	3,362,009	3,163,181	228,638	(166,214)	3,225,605
Expenses								
Salaries, wages, and benefits	1,861,017	103,926	(115,312)	1,849,631	1,857,036	104,035	(119,317)	1,841,754
Supplies	298,648	21,972	(272)	320,348	284,680	22,558	(470)	306,768
Pharmaceuticals	309,402	7,847	-	317,249	260,056	7,843	-	267,899
Purchased services and other fees	172,044	15,409	(6,014)	181,439	170,063	15,384	(6,294)	179,153
Administrative services	50,317	28,575	(11,657)	67,235	63,402	28,760	(11,489)	80,673
Facilities	128,094	12,970	(2,774)	138,290	136,842	13,759	(2,842)	147,759
Insurance	31,397	30,588	(27,178)	34,807	30,180	30,709	(25,802)	35,087
	2,850,919	221,287	(163,207)	2,908,999	2,802,259	223,048	(166,214)	2,859,093
Operating income before interest, depreciation, and amortization expenses	448,091	4,919	-	453,010	360,922	5,590	-	366,512
Interest	60,094	1,151	-	61,245	51,400	1,002	-	52,402
Depreciation and amortization	193,118	10,181	-	203,299	183,035	10,362	-	193,397
Operating income (loss)	194,879	(6,413)	-	188,466	126,487	(5,774)	-	120,713
Nonoperating gains and losses								
Investment return	151,392	8,267	-	159,659	232,312	12,232	-	244,544
Derivative gains (losses)	1,410	(1,527)	-	(117)	(41,396)	(1,564)	-	(42,960)
Other, net	(219)	(53)	-	(272)	21	(51)	-	(30)
Net nonoperating gains and losses	152,583	6,687	-	159,270	190,937	10,617	-	201,554
Excess of revenues over expenses	347,462	274	-	347,736	317,424	4,843	-	322,267

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

($ in thousands)

Changes in Net Assets

	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated
Total net assets at January 1, 2014	$ 5,681,819	$ 530,035	$ (3,448)	$ 6,208,406
Excess of revenues over expenses	317,424	4,843	-	322,267
Donated capital, excluding assets released from restrictions for capital purposes	2	-	-	2
Restricted gifts and bequests	50,544	1,986	-	52,530
Restricted net investment income	12,148	484	-	12,632
Net assets released from restrictions used for operations included in other unrestricted revenues	(12,781)	(2,303)	-	(15,084)
Retirement benefits adjustment	(1,529)	-	-	(1,529)
Change in restricted net assets related to interest in foundations	677	-	-	677
Change in restricted net assets related to value of perpetual trusts	1,089	331	-	1,420
Net change in unrealized gains on nontrading investments	10,658	-	-	10,658
Other	(31)	(151)	-	(182)
Increase in total net assets	378,201	5,190	-	383,391
Total net assets at June 30, 2014	$ 6,060,020	$ 535,225	$ (3,448)	$ 6,591,797
Total net assets at January 1, 2015	$ 6,273,610	$ 532,333	$ (3,448)	$ 6,802,495
Excess of revenues over expenses	347,462	274	-	347,736
Donated capital, excluding assets released from restrictions for capital purposes	21	-	-	21
Restricted gifts and bequests	35,926	462	-	36,388
Restricted net investment income	10,771	564	-	11,335
Net assets released from restrictions used for operations included in other unrestricted revenues	(17,264)	(4,422)	-	(21,686)
Transfers from (to) affiliates	231	(231)	-	-
Retirement benefits adjustment	(1,514)	-	-	(1,514)
Change in restricted net assets related to interests in foundations	186	165	-	351
Change in restricted net assets related to value of perpetual trusts	148	39	-	187
Net change in unrealized losses on nontrading investments	(2,385)	-	-	(2,385)
Other	(479)	1,000	-	521
Increase (decrease) in total net assets	373,103	(2,149)	-	370,954
Total net assets at June 30, 2015	$ 6,646,713	$ 530,184	$ (3,448)	$ 7,173,449

See notes to unaudited consolidated financial statements.

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

Unaudited Consolidating Statements of Cash Flows

($ in thousands)

	Six Months Ended June 30, 2015				Six Months Ended June 30, 2014			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated
Operating activities and net nonoperating gains and losses								
Increase (decrease) in total net assets	$ 373,103	$ (2,149)	$ -	$ 370,954	$ 378,201	$ 5,190	$ -	$ 383,391
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities and net nonoperating gains and losses:								
Retirement benefits adjustment	1,514	-	-	1,514	1,529	-	-	1,529
Net realized and unrealized gains on investments	(143,623)	(7,996)	-	(151,619)	(236,844)	(11,709)	-	(248,553)
Depreciation and amortization	193,118	10,181	-	203,299	183,035	10,362	-	193,397
Provision for uncollectible accounts	133,315	4,213	-	137,528	202,082	7,256	-	209,338
Donated capital	(21)	-	-	(21)	(2)	-	-	(2)
Restricted gifts, bequests, investment income, and other	(47,031)	(1,230)	-	(48,261)	(64,458)	(2,801)	-	(67,259)
Transfers (from) to affiliates	(231)	231	-	-	-	-	-	-
Accreted interest and amortization of bond premiums	(1,268)	-	-	(1,268)	(1,266)	-	-	(1,266)
Net (gain) loss in value of derivatives	(12,519)	-	-	(12,519)	30,081	-	-	30,081
Changes in operating assets and liabilities:								
Patient receivables	(146,944)	(1,974)	1,233	(147,685)	(274,529)	(11,301)	(1,213)	(287,043)
Other current assets	(31,412)	(58,458)	66,637	(23,233)	19,563	(44,169)	53,912	29,306
Other noncurrent assets	(7,404)	-	2,737	(4,667)	(11,867)	(286)	2,296	(9,857)
Accounts payable and other current liabilities	9,020	33,738	(39,339)	3,419	(12,069)	2,870	(25,496)	(34,695)
Other liabilities	(14,649)	29,546	(28,531)	(13,634)	(16,591)	39,045	(27,204)	(4,750)
Net cash provided by (used in) operating activities and net nonoperating gains and losses	304,968	6,102	2,737	313,807	196,865	(5,543)	2,295	193,617
Financing activities								
Proceeds from long-term borrowings	-	2,737	(2,737)	-	-	2,295	(2,295)	-
Principal payments on long-term debt	(55,363)	(2,900)	-	(58,263)	(46,098)	(2,897)	-	(48,995)
Change in pledges receivable, trusts and interests in foundations	7,309	3,353	-	10,662	(27,459)	(378)	-	(27,837)
Restricted gifts, bequests, investment income, and other	47,031	1,230	-	48,261	64,458	2,801	-	67,259
Net cash provided by (used in) financing activities	(1,023)	4,420	(2,737)	660	(9,099)	1,821	(2,295)	(9,573)
Investing activities								
Expenditures for property and equipment	(176,321)	(5,193)	-	(181,514)	(163,273)	(12,592)	-	(175,865)
Net change in cash equivalents reported in long-term investments	92,899	7,381	-	100,280	(93,420)	1,599	-	(91,821)
Purchases of investments	(1,015,134)	(196,229)	-	(1,211,363)	(702,804)	(48,948)	-	(751,752)
Sales of investments	903,223	178,708	-	1,081,931	805,942	42,213	-	848,155
Transfers from (to) affiliates	231	(231)	-	-	-	-	-	-
Net cash used in investing activities	(195,102)	(15,564)	-	(210,666)	(153,555)	(17,728)	-	(171,283)
Increase (decrease) in cash and cash equivalents	108,843	(5,042)	-	103,801	34,211	(21,450)	-	12,761
Cash and cash equivalents at beginning of year	2,952	67,370	-	70,322	-	70,900	-	70,900
Cash and cash equivalents at end of period	$ 111,795	$ 62,328	$ -	$ 174,123	$ 34,211	$ 49,450	$ -	$ 83,661

See notes to unaudited consolidated financial statements.

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

Utilization

The following table provides selected utilization statistics for The Cleveland Clinic Health System:

CLEVELAND CLINIC HEALTH SYSTEM

	Year Ended December 31			YTD June 30	
	2012	2013	2014	2014	2015
Total Staffed Beds[1]	3,572	3,535	3,579	3,562	3,563
Percent Occupancy[1]	68.8%	67.7%	66.9%	66.8%	68.8%
Inpatient Admissions[1]					
Acute	144,495	145,199	140,603	69,048	71,230
Post-acute	12,899	11,801	11,929	5,925	5,843
Total	157,394	157,000	152,532	74,973	77,073
Patient Days[1]					
Acute	766,940	759,553	745,000	366,898	382,818
Post-acute	109,133	99,205	99,857	49,409	48,917
Total	876,073	858,758	844,857	416,307	431,735
Average Length of Stay					
Acute	5.29	5.24	5.28	5.29	5.38
Post-acute	8.42	8.40	8.38	8.33	8.32
Surgical Facility Cases					
Inpatient	56,377	57,084	55,560	27,585	27,865
Outpatient	135,973	137,898	137,086	64,726	66,390
Total	192,350	194,982	192,646	92,311	94,255
Emergency Room Visits	458,333	475,777	497,681	233,634	255,888
Outpatient Observations	38,099	43,416	49,607	24,641	24,932
Outpatient Evaluation and Management Visits[2]	2,702,052	2,926,084	3,098,225	1,489,754	1,616,716
Acute Medicare Case Mix Index - Health System	1.83	1.87	1.90	1.90	1.91
Acute Medicare Case Mix Index - Cleveland Clinic	2.45	2.50	2.47	2.46	2.48
Total Acute Patient Case Mix Index - Health System	1.76	1.78	1.81	1.81	1.81
Total Acute Patient Case Mix Index - Cleveland Clinic	2.32	2.35	2.37	2.37	2.37

(1) Acute and post-acute, including rehabilitative and psychiatric services within post-acute, but excluding newborns and bassinets.
(2) Statistic is calculated based on Cleveland Clinic only.

Utilization (continued)

The following table provides selected utilization statistics for the obligated group:

TOTAL OBLIGATED GROUP

	Year Ended December 31			YTD June 30	
	2012	**2013**	**2014**	**2014**	**2015**
Total Staffed Beds[1]	3,297	3,260	3,311	3,294	3,318
Percent Occupancy[1]	70.0%	69.0%	68.1%	68.0%	70.0%
Inpatient Admissions[1]					
Acute	137,911	138,697	134,711	66,088	68,475
Post-acute	10,604	9,564	9,848	4,855	4,923
Total	148,515	148,261	144,559	70,943	73,398
Patient Days[1]					
Acute	740,927	734,783	721,684	355,367	371,917
Post-acute	79,542	70,666	72,145	35,594	36,878
Total	820,469	805,449	793,829	390,961	408,795
Surgical Facility Cases					
Inpatient	54,247	55,085	53,809	26,686	27,054
Outpatient	132,406	134,760	134,289	63,307	65,233
Total	186,653	189,845	188,098	89,993	92,287
Emergency Room Visits	423,159	442,113	465,017	218,005	241,364
Outpatient Observations	35,575	40,476	46,291	22,963	23,487
Outpatient Evaluation and Management Visits[2]	2,702,052	2,926,084	3,098,225	1,489,754	1,616,716
Acute Medicare Case Mix Index	1.79	1.83	1.85	1.85	1.86
Total Acute Patient Case Mix Index	1.71	1.74	1.76	1.76	1.77

(1) Acute and post-acute, including rehabilitative and psychiatric services within post-acute, but excluding newborns and bassinets.
(2) Statistic is calculated based on Cleveland Clinic only.

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

Payor Mix

The following table shows payor mix as a percentage of gross patient service revenue for the health system and obligated group as a whole:

CLEVELAND CLINIC HEALTH SYSTEM
Based on Gross Patient Service Revenue

	Year Ended December 31			YTD June 30	
	2012	2013	2014	2014	2015
Payor					
Managed Care and Commercial	43%	43%	43%	43%	42%
Medicare	43%	43%	43%	43%	43%
Medicaid	8%	8%	10%	9%	12%
Self-Pay & Other	6%	6%	4%	5%	3%
Total	100%	100%	100%	100%	100%

OBLIGATED GROUP
Based on Gross Patient Service Revenue

	Year Ended December 31			YTD June 30	
	2012	2013	2014	2014	2015
Payor					
Managed Care and Commercial	43%	43%	44%	43%	42%
Medicare	43%	43%	42%	43%	43%
Medicaid	8%	8%	10%	9%	12%
Self-Pay & Other	6%	6%	4%	5%	3%
Total	100%	100%	100%	100%	100%

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

Research Support

($ in thousands)

The Clinic funds the annual cost of research from external sources, such as federal grants and contracts and contributions restricted for research, and internal sources, such as contributions, endowment earnings and revenue from operations. The following table summarizes the sources of research support for the Clinic:

	Year Ended December 31			YTD June 30	
	2012	**2013**	**2014**	**2014**	**2015**
External Grants Earned					
Federal Sources	$107,284	$106,211	$97,327	$49,668	$48,635
Non-Federal Sources	72,008	72,255	88,284	42,794	37,426
Total	179,292	178,466	185,611	92,462	86,061
Internal Support	72,133	67,259	66,758	34,913	33,987
Total Sources of Support	$251,425	$245,725	$252,369	$127,375	$120,048

Key Ratios

The following table provides selected key ratios for the System as a whole:

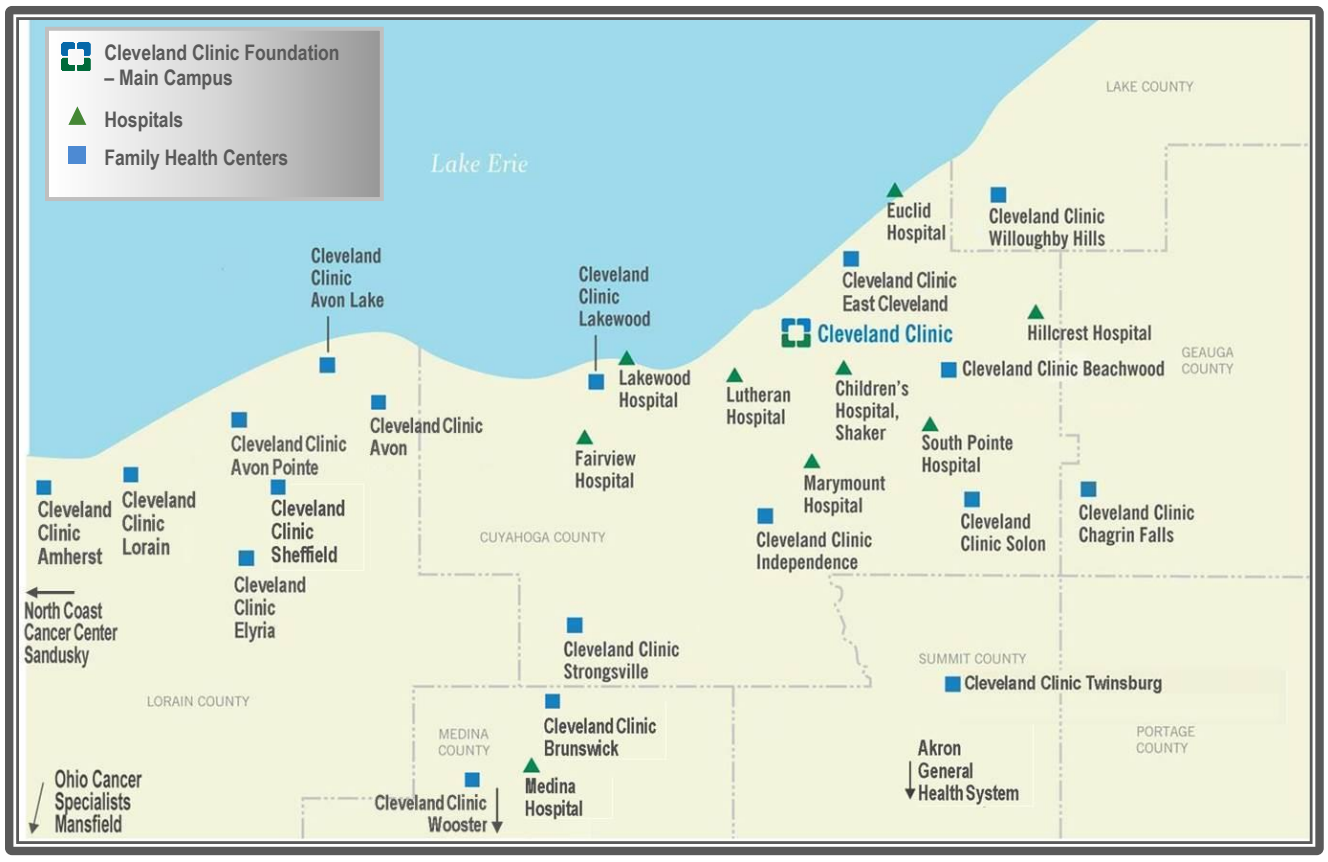
	Year Ended December 31			YTD June 30	
	2012	2013	2014	2014	2015
Liquidity ratios					
Days of cash on hand	284	323	377	338	394
Days of revenue in accounts receivable	49	48	47	52	49
Coverage ratios					
Cash to debt (%)	146.9	172.6	176.2	185.1	189.0
Maximum annual debt service coverage (x)	4.4	5.6	5.6	5.3	5.9
Interest expense coverage (x)	8.3	10.4	11.2	10.0	10.8
Debt to cash flow (x)	3.9	3.0	3.0	3.1	2.9
Leverage ratio					
Debt to capitalization (%)	40.9	35.2	36.3	33.5	34.6
Profitability ratios					
Operating margin (%)	2.5	4.6	7.0	3.7	5.6
Operating cash flow margin (%)	10.3	11.7	14.4	11.4	13.5
Excess margin (%)	9.2	12.8	10.2	9.4	9.9
Return on assets (%)	6.0	8.2	5.7	5.7	5.5

NOTE:
Coverage and liquidity ratios are calculated using a 12-month rolling income statement.

OVERVIEW

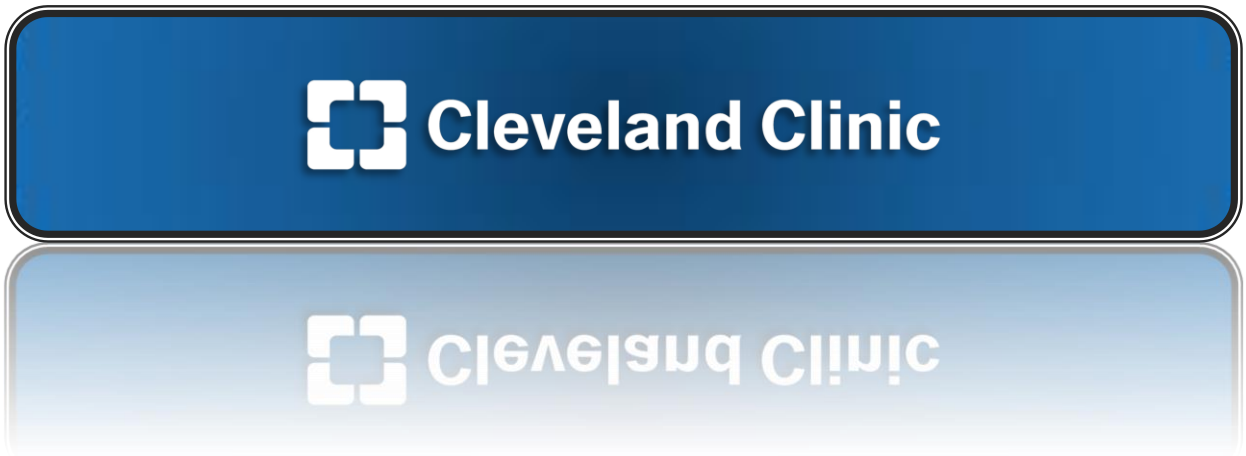
The Cleveland Clinic Health System (System) is a world-renowned provider of healthcare services, which attracted patients from across the United States and from 147 other countries in 2014. The System operates eleven hospitals with approximately 3,600 staffed beds and is the leading provider of healthcare services in northeast Ohio. Ten of the hospitals are operated in the Cleveland metropolitan area, anchored by The Cleveland Clinic Foundation (Clinic). The System also operates eighteen outpatient Family Health Centers, ten ambulatory surgery centers, as well as numerous physician offices, which are located throughout a seven-county area of northeast Ohio, and specialized cancer centers in Sandusky and Mansfield, Ohio. In addition, the System operates a hospital and a clinic in Weston, Florida, health and wellness centers in West Palm Beach, Florida and Toronto, Canada and a specialized neurological clinical center in Las Vegas, Nevada. The System is a minority member in Akron General Health System (Akron General), an integrated healthcare delivery system with a 532-bed flagship medical center located in Akron, Ohio. Pursuant to agreements, the System also provides management services for Ashtabula County Medical Center, located in Ashtabula, Ohio, with approximately 180 staffed beds, 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 approximately 364 staffed beds, and, in cooperation with Abu Dhabi Health Services Company, the Sheikh Khalifa Medical City, a network of healthcare facilities in Abu Dhabi, United Arab Emirates with approximately 711 staffed beds.

CLEVELAND CLINIC HEALTH SYSTEM
NORTHEAST OHIO SERVICE AREA AND FACILITIES



The following table sets forth the number of staffed beds for the hospitals currently operated by the obligated group as well as the other entities in the System as of June 30, 2015:

	Staffed Beds
OBLIGATED	
Cleveland Clinic	1,272
Euclid Hospital	221
Fairview Hospital	428
Hillcrest Hospital	448
Lutheran Hospital	198
Marymount Hospital	285
Medina Hospital	136
South Pointe Hospital	175
Weston Hospital	155
	3,318
NON-OBLIGATED	
Children's Hospital, Shaker	25
Lakewood Hospital	220
	245
HEALTH SYSTEM	3,563



AWARDS & RECOGNITION

The Clinic was ranked as the fifth best hospital in the United States by *U.S. News and World Report* in its 2015-2016 edition of "America's Best Hospitals." This is the seventeenth consecutive year the Clinic was ranked among the top five hospitals in the United States. The Clinic's Heart and Vascular Institute, located on the Clinic's main campus, was recognized as the best cardiology and heart surgery program in the United States, an honor the Clinic has received annually for twenty-one consecutive years. The Clinic was nationally ranked in fourteen specialties, including nine in the top three nationwide, and is one of just fifteen hospitals nationwide to earn a place on the *U.S. News'* 2015-2016 Honor Roll. The following table summarizes the Clinic's national rankings by medical specialty:

2015 U.S. NEWS & WORLD REPORT RANKINGS

BEST HOSPITALS U.S.News & WORLD REPORT HONOR ROLL 2015-16

In the "HONOR ROLL"

Cleveland Clinic	5th

Ranked No. 1

Cardiology & Heart Surgery	1st

In America's Top 3

Gastroenterology & GI Surgery	2nd
Nephrology	2nd
Rheumatology	2nd
Urology	2nd
Diabetes & Endocrinology	3rd
Gynecology	3rd
Orthopaedics	3rd
Pulmonology	3rd

In America's Top 15

Ophthalmology	6th
Ear, Nose & Throat	7th
Neurology & Neurosurgery	8th
Geriatrics	10th
Cancer	12th

Cleveland Clinic Children's Hospital located on the Clinic's main campus ranked as one of the top pediatric hospitals in the country. The Children's Hospital earned national recognition in all ten medical specialties ranked by *U.S. News and World Report* in its 2015-2016 edition of "Best Children's Hospitals." It is one of only twenty children's hospitals to be ranked in all ten pediatric specialties. The following table summarizes the Clinic's national rankings by pediatric specialty:

The publication also evaluated hospitals by metropolitan area with a methodology similar to that used to determine the national rankings. The Clinic was ranked as the best hospital in both the state of Ohio and the Cleveland metropolitan area, which includes the City of Cleveland and its surrounding suburbs. The report also ranked four of the System's regional hospitals in the top 10 hospitals in the Cleveland metropolitan area: Hillcrest Hospital (3), Fairview Hospital (4), South Pointe Hospital (6), and Lutheran Hospital (7). Weston Hospital was ranked third in the Miami-Fort Lauderdale metro area and ninth out of more than 260 hospitals in the state.

The Clinic has been named one of the World's Most Ethical Companies by the Ethisphere Institute for the fifth time in seven years. The 2015 award recognizes organizations that have had a material impact on the way business is conducted by fostering a culture of ethics and transparency at every level of the company. Companies were evaluated in five categories: ethics and compliance programs; corporate citizenship and responsibility; culture of ethics; governance; and leadership, innovation and reputation.

The Clinic and Cleveland Clinic Florida received Healthgrades' 2015 Outstanding Patient Experience Award. Recipients of this award were chosen for providing outstanding performance in the delivery of positive experiences for patients based on hospitals' HCAHPS patient survey scores for visits occurring during 2013. Hospitals that received the award were in the top fifteen percent of HCAHPS scores nationally. In addition, Healthgrades recognized Marymount and South

Pointe Hospitals in the 2015 list of the top 50 U.S. Hospitals in its annual ranking of quality providers. Healthgrades indicated that those making the top 50 list are in the top one percent of hospitals in the nation for consistent clinical excellence based on an analysis of risk-adjusted mortality and complication rates for common procedures and conditions. These hospitals have consecutively received a Healthgrades Distinguished Hospital Award for Clinical Excellence for at least the last six years.

The Clinic's CEO and President, Delos M. Cosgrove, M.D., was named the thirteenth most influential physician executive in the nation by Modern Healthcare in its 2015 list of the fifty most influential physician executives and leaders. The list honors physicians working in the healthcare industry who are recognized by their peers and an expert panel as being influential in terms of demonstrated leadership and impact. Dr. Cosgrove was recognized for his focus on technology transfer, physician engagement and standardization of care processes.

Dr. Cosgrove has also earned the prestigious 2015 Deming Cup, an annual award presented by the Deming Center at Columbia Business School. The Deming Cup recognizes world leaders who have made outstanding contributions in the area of operational excellence and have fostered a culture of continuous improvement in an organization.

CORPORATE GOVERNANCE

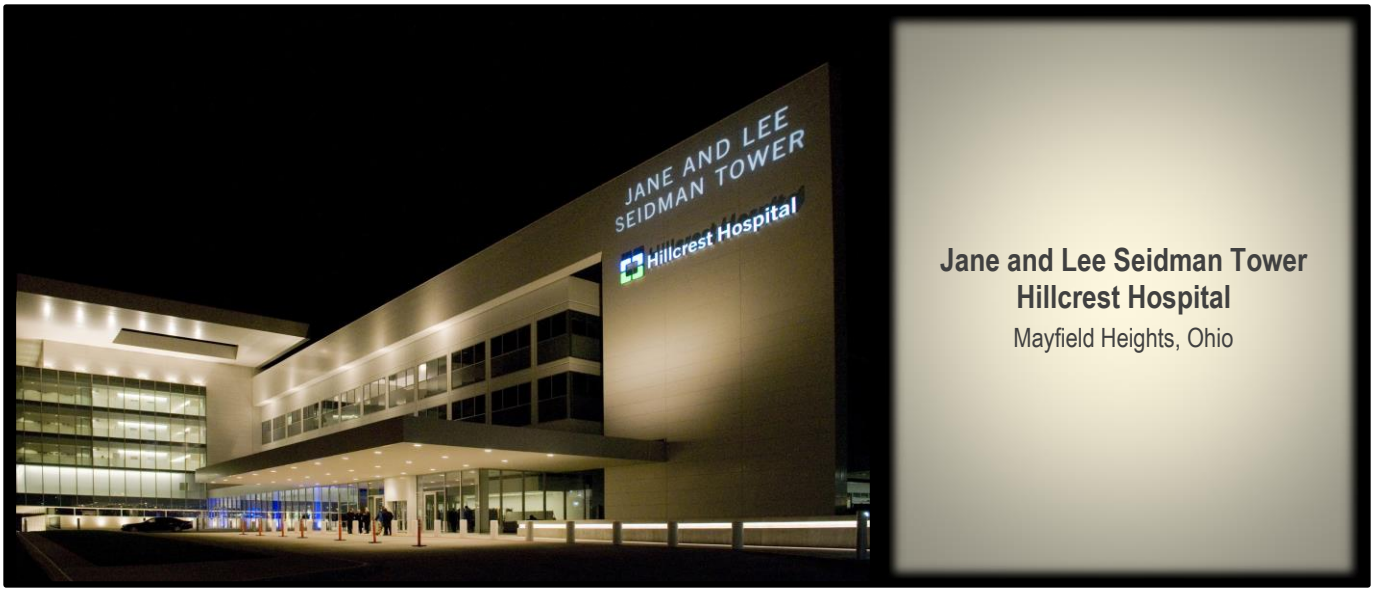
The Board of Directors of the Clinic is responsible for all of its operations and affairs and controls its property. The Board of Directors is also responsible for ensuring that the Clinic is organized, and at all times operated, consistent with its charitable mission and its status as an Ohio nonprofit corporation and tax-exempt charitable organization. The Board of Directors generally meets eight times per year, including an annual meeting during which the Clinic's officers are elected and standing committees are appointed. The size of the Board of Directors can range between 15 to 25 Directors (currently there are 22 Directors). The Board of Trustees serves as an advisor to the Board of Directors. The Trustees actively serve on the committees of the Board of Directors. At present, there are 70 active Trustees and 13 Emeritus Trustees (not including Directors). Directors and Trustees each serve four-year terms and are selected on the basis of their expertise and experience in a variety of areas beneficial to the Clinic. Directors and Trustees are not compensated for their service.

Sydell & Arnold Miller Family Pavilion
Cleveland, Ohio

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

Members of the Committees are chosen based on the interests and skills of the Board members and the needs of the particular Committee. Most Committees meet three or four times per year, though a few (such as the Audit Committee) meet five or six times per year.

The Clinic and its regional hospitals maintain a governance model for the regional hospitals that provides for regional hospital representation on the Clinic's Board of Directors while also maintaining separate boards of trustees for each hospital. The regional hospital boards meet quarterly and, among other topics, provide local input on quality and patient safety and community health needs.



APPOINTMENTS

Tarek Elsawy, MD, was appointed as the Vice President of Regional Medical Operations. Dr. Elsawy most recently served as Chief Medical Officer of the Quality Alliance, a program that facilitates collaboration of independent physicians and Clinic employed physicians around quality and value, and as an associate director in Regional Medical Operations, where he helped to secure the System's designation as a Medicare Accountable Care Organization. Dr. Elsawy replaced J. Stephen Jones, MD, who was appointed President of the Regional Hospitals and Family Health Centers.

Joanne Zeroske, BSN, MBA, was appointed as the Executive Director of Clinical Transformation. Ms. Zeroske most recently served as President of Marymount Hospital and has also served as President of Euclid Hospital. Clinical Transformation encompasses the integrated care model, care path bundles, care coordination, distance health, patient-centered medical home, population health, quality, patient safety, patient experience, continuous improvement, medical management of the Employee Health Plan, the Quality Alliance, health-enabling technology, and data interrogation and analytics.

Richard Parker, MD, was appointed as the President of Marymount Hospital. Dr. Parker most recently served as Chairman of the Clinic's Department of Orthopaedic Surgery. He is a professor of surgery in the Cleveland Clinic Lerner College of Medicine and specializes in sports medicine and arthroscopic knee surgery. Dr. Parker replaced Joanne Zeroske, who was appointed as the Executive Director of Clinical Transformation.

Lars Svensson, MD, PhD, was appointed as the Chair of the Sydell and Arnold Miller Family Heart and Vascular Institute. Dr. Svensson has served as Director of the Aorta Center, Director of the Marfan Syndrome and Connective Tissue Disorder Clinic, and Director of Quality and Process Improvement in the Department of Thoracic and Cardiovascular Surgery. He is also a professor of surgery at the Cleveland Clinic Lerner College of Medicine, serves on the Council of the American Association for Thoracic Surgery and is Chairman of the Guidelines Committee that sets recommendations for the surgical management of cardiac, thoracic and aorta disease.

Daniel Napierkowski, MD, was appointed as the President of Euclid Hospital. Dr. Napierkowski joined the staff in 1997 and has served as the chairman of Regional Practice Anesthesiology since 2010. Dr. Napierkowski replaced Mark Froimson, MD, who left the organization in November 2014.

LAKEWOOD HOSPITAL ASSOCIATION

The Lakewood Hospital Association (LHA) is a non-obligated affiliate of the System, and the Lakewood Hospital Foundation (LHF) is a financially interrelated organization of LHA whose purpose is to seek private gifts to support the work and activities of LHA. LHA and LHF are working with the City of Lakewood on potential changes to the arrangement between the City of Lakewood and LHA to meet the healthcare needs of the Lakewood community. LHA and LHF entered into a non-binding Letter of Intent on January 14, 2015 with the Clinic. The Letter of Intent is now expired but the parties remain in discussions about the healthcare needs of the community and how the Clinic can be a leader in meeting those healthcare needs. The Letter of Intent proposed, among other things, that both LHA and the Clinic would make contributions to a health and wellness foundation to be used for the benefit of the Lakewood community and its citizens. The Letter of Intent further provided that the Clinic would construct, own and operate an estimated $34 million, 62,000-square-foot family health center with a full-service emergency department in the City of Lakewood. Lakewood Hospital is currently leased from the City of Lakewood, Ohio and operated by LHA. The Clinic's goal is to provide every Lakewood Hospital employee who wants a job with an opportunity within the System or at one of its partner organizations. LHA and the Clinic's goal for a potential change in the Lease would include termination of existing contractual obligations between or among LHA, the City, and the Clinic, including a current 30-year lease between LHA and the City. An agreement to terminate the Lease is subject to the approval of Lakewood City Council, which has not occurred as of the date of issuance of this Management Discussion and Analysis.

A lawsuit has been filed by a few Lakewood residents seeking to stop the closure of the hospital and money damages. To date, the court has denied the Plaintiffs' Motions for a Temporary Restraining Order and for a Preliminary Injunction. The Defendants jointly filed a Motion to Dismiss the lawsuit. A group of Lakewood residents are attempting to put a Lakewood charter amendment on the November 3, 2015 ballot, which if passed, would require Lakewood voter approval on any City Council ordinance that would cause Lakewood Hospital to no longer be a fulltime and full service inpatient hospital.

EXPANSION AND IMPROVEMENT PROJECTS

Due to the anticipated long-term growth in the demand for services and the desire to continually upgrade medical facilities, the System is investing in buildings, equipment and technology to better serve its patients.

In 2015, the System completed construction of a $92 million expansion of the outpatient facilities at the Weston campus. The 143,000 square foot five-story facility includes an expanded Neurological Department and Cancer Center, a linear accelerator, advanced radiosurgery technology and a shelled vault for future expansion. The facility is designed to use natural light to create a positive and healthier experience for patients and a more functional, sustainable environment for visitors and caregivers. The facility opened in March 2015 and was named the Egil and Pauline Braathen Center.

In 2015, the System completed an $18 million replacement, renovation, and expansion of Lutheran Hospital's emergency department

(ED). It includes 1,800 square feet of new building space, a 3,800 square foot canopy, and 19,700 square feet of renovated space. The renovation includes an upgrade to the Hospital's main lobby area and a more prominent entrance providing better access to emergency services. The new ED unit includes 21 ED beds, including 6 beds specifically designed for patients with behavioral health needs, a resuscitation room, and 3 intake chairs. Construction began in the second quarter of 2013 and was completed in the second quarter of 2015.

The System has the following expansion and improvement projects currently in progress:

Radiology Master Plan - This multi-year, multi-phase renovation and construction plan is aimed at fulfilling the growth needs of the Department of Radiology within the Imaging Institute. The project will consolidate and centralize magnetic resonance (MR) services for the Clinic in the Glickman Tower located on the Clinic's main campus. The project also includes the renovation of vacated molecular functional imaging space into a patient preparation and recovery department. Additionally, the plan allows for a new outpatient entrance to the Department of Radiology and enhanced patient waiting and changing areas. Phase 1A of the project, the Interventional MR Surgical Suite, began in 2009 and was completed in 2010. The Suite combines high-field MR imaging with a surgical suite, which allows surgeons to take advantage of MR imaging in real time during surgical procedures. Phase 1B, the consolidation of MR services in the Glickman Tower, began in the fourth quarter 2010 and was completed in July 2011. Phase 2, the consolidation of CT services, was completed in the third quarter of 2013. Phase 3, the relocation and upgrade of the Interventional Radiology Department, began in the third quarter of 2013 and was completed in the first quarter of 2015. The entire project is scheduled to have a total of five phases and is expected to be completed in 2019 with a total estimated cost of approximately $86 million.

Avon Hospital – In 2013, the System started design of a hospital to be located adjacent to the existing Family Health Center in Avon. The expansion includes an approximately 221,500 square foot five-story facility with 126 beds. The facility is being designed to leverage the latest in wireless capabilities and serve as a test site for evaluating future advancements in patient care. Construction started in the second quarter of 2014 and is expected to be completed in the fourth quarter of 2016.

New Cancer Outpatient Building – In 2013, the System started programming and design of a new Cancer Outpatient Building. The new building will be located on the Clinic's main campus, adjacent to the Crile Outpatient Building and across from the new Tomsich Pathology Laboratories Building. The 377,000 square foot, seven-story building is expected to house 126 exam rooms, 98 infusion bays, 6 linear accelerators, 7 procedure rooms, a Gamma Knife and other support functions for the Clinic's cancer program. The building will unite multidisciplinary surgical, medical, and support services for cancer at the main campus in one facility. The estimated cost of the new building is $276 million. Construction started in the third quarter of 2014 and is expected to be completed in the first quarter of 2017.

Enterprise Administrative Patient Management - The System is currently in the midst of a multi-year project to align revenue cycle support services and processes to support patients as they progress through their continuum of care. The Enterprise Administrative Patient Management (EAPM) project is consolidating thirteen different technology systems used for scheduling appointments, admissions, the electronic medical record, billing and collections into one technology platform with the goal of improving patient experience. Reducing the number of systems will improve patient service and employee efficiency. Implementation of EAPM began in the first quarter of 2012 at the System facilities in Weston, Florida and will continue in phases for the other System facilities over the next several years. EAPM will cost approximately $169 million over the implementation period.

Main Campus Structured Parking Garage – With the anticipated increase in patient services provided by the new Cancer Outpatient Building, the System began design in 2014 of a 3,000 space structured parking garage to be located on the southeast corner of the main campus. The garage will be exclusively for employees, allowing current employee parking to be designated for patients and visitors. The garage is expected to cost approximately $45 million and be completed in late 2016.

In the second quarter of 2013, the Clinic and Case Western Reserve University (CWRU) School of Medicine reached an agreement to build a health education campus that will contain the university's medical school program and the Cleveland Clinic Lerner College of Medicine. The facility will be located on the Clinic's main campus and will serve as home for the seminar, lecture, and laboratory curriculum taught during the first two years of medical school. Students' clinical training will continue to take place at area hospitals. This initiative is aligned with the future plans of the Clinic's main campus and supports the Clinic's mission and strategic direction. The facility will also house the CWRU Nursing School and School of Dental Medicine. Construction of the new campus is expected to begin in 2015 and take approximately four years to complete. CWRU and the Clinic will share in the construction and ongoing operational costs of the facility, with a portion of the construction costs expected to be raised through fundraising efforts and donations.

PHILANTHROPY CAMPAIGN

The Clinic publicly launched "The Power of Every One" philanthropic campaign in June 2014 with a goal of raising $2 billion by the Clinic's 100th anniversary in 2021. The campaign will enable the organization to transform patient care, promote health, advance research and innovation, train caregivers and revitalize facilities through new construction and renovation of existing buildings. At the announcement of the public campaign, the Clinic had already raised more than $600 million toward the goal.

The $2 billion campaign is divided into four categories: promoting health ($800 million), advancing discovery ($700 million), training caregivers ($400 million) and transforming care ($100 million). Promoting health will focus on improving patient experience and supporting construction and renovation projects, including a

new hospital in Avon, new cancer and neurology buildings at the Clinic, renovation of the Taussig Cancer Institute building, new facilities in Florida and other building projects at regional hospitals and family health centers. Training caregivers will support scholarships, training programs and the construction of the new medical education campus, a collaboration with CWRU. Advancing discovery will support translational, basic science and clinical research as well as endowed chairs. Transforming care will support the development of new care delivery models, personalized therapies and information technology.

INNOVATIONS

Cleveland Clinic Innovations promotes scientific, clinical and administrative creativity throughout the System and seeks commercial application of the products of that creativity. Specifically, it helps to grow the Clinic's innovative capacity, mentors inventors, licenses technology, secures resources, and establishes spin-off companies and strategic collaborations with corporate partners. Since 2000, 75 companies, of which more than 46 are currently active, have been spun-off from the Clinic with Cleveland Clinic Innovations entering into more than 450 technology licenses, filing over 2,800 patent applications with nearly 800 issued patents, and acted on approximately 3,400 new inventions. In 2010, Cleveland Clinic Innovations opened a new 50,000-square-foot Global Cardiovascular Innovation Center on the Clinic's main campus, which is home to its operations, as well as an incubator facility for approximately 20 other companies.

Cleveland Clinic Innovations created the "Global Healthcare Innovations Alliance", a collaborative network of healthcare systems, academic institutions and industry partners from around the world. Alliance partners utilize the Clinic's comprehensive technology and commercialization experience to turn medical ideas into marketable inventions and commercial ventures. The integration of capabilities between organizations is focused on discovery and rapid development of new technologies with the goal of improving patient care. In the first quarter of 2015, Cleveland Clinic Innovations announced three additions to the Global Healthcare Innovations Alliance. Cox Communications, Lubrizol and NASA Glenn Research Center will work with Cleveland Clinic Innovations to identify, prioritize, develop, and commercialize technologies in each organization's portfolio that can be applied to healthcare. Other members of the Global Healthcare Innovations Alliance include Medstar Health, University of Notre Dame, Promedica Health System, the Innovation Institute (St. Joseph Health and Bon Secours), Marshfield Clinic and Parker Hannifin.

In April 2015, Explorys, a Cleveland Clinic Innovation spinoff company, was acquired by IBM. Explorys is a healthcare intelligence cloud company that has built one of the largest clinical data sets in the world. Explorys' HIPAA-enabled cloud-computing platform is used by twenty-six healthcare systems and clinically integrated networks to identify patterns in diseases, treatments and outcomes. Explorys was spun off from the Clinic in 2009.

In May 2015, the Clinic became a member of eHealth Ventures, LLC (EHV), an investment and development entity that will provide incubation services to promising early stage healthcare technology companies in Israel. The non-exclusive focus of EHV will be in healthcare IT and digital health technologies. Through EHV, Cleveland Clinic Innovations will collaborate with Israeli healthcare company Maccabi Healthcare Services of Tel Aviv and

will offer its network of business advisors to evaluate products and advise Israeli companies throughout the commercialization process. The collaboration may also provide new international commercialization opportunities for the intellectual property of the Clinic and other members of the Global Healthcare Innovations Alliance.

Cleveland Clinic Innovations hosts an annual Medical Innovation Summit for industry leaders, investors, and entrepreneurs looking to expand their understanding of the healthcare market and the future of medical innovation. The 12th annual Summit was held in October 2014 with the focus on cancer treatment and personalized medicine. The 13th annual Summit is scheduled for October 2015 and will focus on the future of neurosciences.

CLINICAL AFFILIATIONS

The Clinic has entered into various affiliations with national and regional partners that are seeking to improve clinical quality, patient care, medical education and research. The goal of clinical affiliations is to provide value-added, high quality clinical care to patients through the support, expansion and development of Institute-driven integrated care strategies. In addition, the Clinic has partnered with educational institutions with the goal of improving medical education and research.

During the first quarter of 2015, the Clinic's Sydell and Arnold Miller Family Heart & Vascular institute entered into two new affiliation agreements. In March, it entered into an affiliation with Dignity Health Sequoia Hospital's Heart and Vascular Institute located in Northern California. Sequoia Hospital was recently recognized by Healthgrades as one of America's 100 Best hospitals for cardiac care. The second affiliation is with the Valley Health System, a regional health care system serving northern New Jersey and southern New York. Under the terms of the affiliation agreements, the Clinic will collaborate with these institutions by sharing best practices, coordinating care and developing programs to improve quality and patient safety in their cardiac programs.

During the first quarter of 2015, the Clinic announced an affiliation with Akron Children's Hospital to collaborate patient care for pediatric patients with congenital heart defects. The goal of the affiliation is to increase efficiency through coordination and improvement of patient care for a larger population of patients. The affiliation will initially include three surgeons from Akron Children's and two surgeons from the Clinic.

STRATEGIC ALLIANCES

In January 2015, the Clinic signed an agreement with five other health systems in Ohio to form the Midwest Health Collaborative. The Midwest Health Collaborative is represented by 40 hospitals and hundreds of care sites across Ohio. The goal of the Midwest Health Collaborative is to improve the value of healthcare. The health systems will remain independent but will work together to exchange best practices, share resources, reduce costs and care variation, and develop innovative ways to deliver healthcare across large populations.

In February 2015, the Clinic announced the formation of Vivre Health, a strategic alliance with Cox Communications to bring healthcare to the home through telehealth and home health solutions. Through access to broadband, the

alliance will help drive transformation to make the home a place for healthcare delivery.

In March 2015, the Clinic announced a long-term strategic alliance with Theranos, Inc., a company known for its low-cost blood tests that require only a few drops of blood. The alliance was formed to enhance quality, increase patient satisfaction and reduce the cost of care. As part of the arrangement, the Clinic will explore using Theranos' tests on its own patients. Additionally, Theranos and the Clinic will collaboratively pursue research studies, clinical trials, and the development of new tests.

In May 2015, the Clinic and Human Longevity Inc have entered into an agreement that will allow both organizations to work together to sequence and analyze patient blood samples in hopes of discovering genes and other early indicators of heart disease. Human Longevity Inc is a privately held San Diego based company founded in 2013 that is using genomic sequencing and other research efforts to develop a comprehensive database to better understand aging related diseases and human biological decline.

JOINT VENTURE

The Clinic announced a joint venture with Select Medical in June 2014 to expand inpatient rehabilitation services in Northeast Ohio and improve access for patients with complex rehabilitation needs. Select Medical is the nation's largest provider of post-acute care services and has partnerships with academic medical centers around the country. As part of the joint venture, a new 60-bed adult inpatient rehabilitation hospital will be built in Avon, near the Avon medical campus. The new facility is expected to open in late 2015. The two organizations also entered into a management agreement that became effective in August 2014 to enhance inpatient rehabilitation operations in existing System facilities. Additionally, the joint venture will establish a residency program for physicians in physical medicine and rehabilitation.

STRATEGY

The System is focused on building a business model that drives improvement in outcomes and cost (value-based). This represents a shift from the long-standing model of providing care and billing for services (volume-based). While the System has long been committed to providing the highest quality of care with a focus on patients first, the formula for success in a value-based world requires equal focus on cost and adherence to prescriptive measurement and comparative reporting.

Unsustainable economic trends, an aging population, dramatic increases in chronic disease, dissatisfaction with access, technological transparency to cost and quality information and legislative efforts have all contributed to the need for new models of healthcare delivery and payment.

Transitioning to a value-based care model, while managing reimbursement pressures and investment requirements, is a challenge requiring creativity and commitment. Through integrated facilities and engaged caregivers and leaders, the System is innovating its care and business model to be even more patient-centered, evidence-based, efficient and uniform. Targeted areas of effort include:

- Care Paths across the continuum to reduce practice variation, improve quality outcomes, lower costs and improve efficiency – multiple pilots are currently underway to test Care Paths in practice, with goals of quality improvement and cost reduction
- Development of a Medicare ACO, expansion of the Center for Medicare and Medicaid Innovation bundled payment initiative and participation in shared savings agreements with commercial health plans to incentivize improved outcomes - collaborative discussions are underway with major health plans as the System transitions from a fee-based to a value-based payment structure
- Clinical integration programs, like the Quality Alliance, to further incorporate care protocols and measurements beyond the Clinic's physician group
- Advanced technology infrastructure to enhance predictive capabilities and knowledge management
- Cost reduction, resource rationalization and asset optimization to drive efficiency

Glickman Tower
Cleveland, Ohio

The System continues to focus on cost saving initiatives that are designed to increase value and make healthcare affordable to patients. Despite inflationary pressures in many expense categories such as specialized pharmaceuticals, the System has experienced solid cost management primarily through implementation of Care Affordability initiatives. Care Affordability initiatives are designed to transform patient care and business models in an effort to provide quality, affordable patient care. The System identifies, quantifies and implements these initiatives through an extensive analysis of the cost structure. As part of this focus, management will continue to evaluate existing operations at System facilities and explore opportunities for creating greater efficiencies through consolidation and redeployment of System assets.

To continually operate in a lower cost structure while maintaining or improving performance, the System is compelled to grow in non-traditional ways. Through both owned and affiliated relationships, the System expects to continue to pursue growth opportunities that optimize its regional assets, increase its national and international presence and maximize efficiency. Growth considerations include contracting with large employers, commercial health plan based accountable care organizations, payors and other delivery systems to provide clinical products of proven value.

The System believes it is uniquely positioned to not only succeed but to lead in the changing healthcare environment. Previous organizational changes and investments have laid the groundwork for this new, integrated care model.

Adopting an aligned institute structure, strengthening measurement and reporting capabilities, piloting population management programs and declaring an intent to build "One Cleveland Clinic" are all being leveraged and incorporated into the System's new strategy.

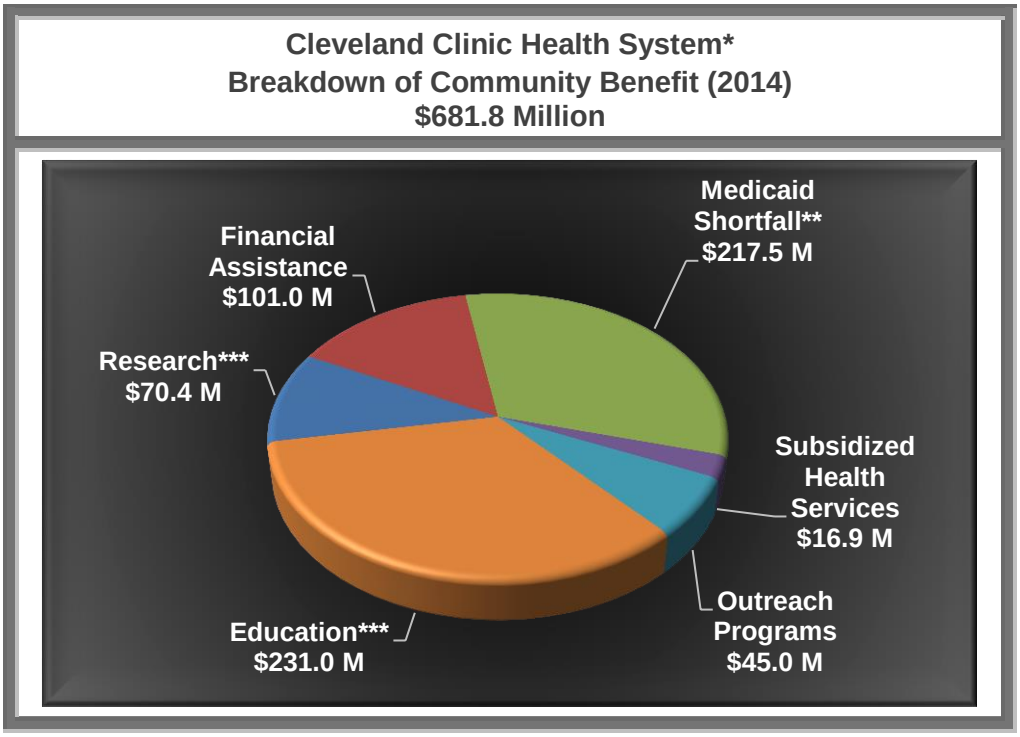
COMMUNITY BENEFIT AND ECONOMIC IMPACT

Community Benefit

The Clinic and its hospital affiliates within the System are composed of charitable, tax-exempt healthcare organizations. The System's mission includes addressing health service needs and providing benefits to the communities it serves. The tax-exempt members of the System must satisfy a community benefit standard to maintain tax-exempt status. Community benefit reporting for the System conforms to Internal Revenue Service requirements.

Community benefit includes activities or programs that improve access to health services, enhance public health, advance generalizable knowledge and relieve government burden. The primary categories for assessing community benefit include financial assistance, Medicaid shortfall, subsidized health services, outreach programs, education and research.

In 2014, the System provided $681.8 million in benefits to the communities it serves. The following chart summarizes community benefits for the System:



* Includes all System operations in Ohio, Florida and Nevada
** Net of Hospital Care Assurance Program benefit of $9.1 million
*** Research and Education are reported net of externally sponsored funding of $138.7 million.

Financial Assistance: Financial Assistance represents the cost of providing free or discounted medically necessary care to patients unable to pay some or all of their medical bills. The System's financial assistance policy provides free or discounted care to uninsured patients with incomes up to 400 percent of the federal poverty level and who meet certain other eligibility criteria by state. This policy covers both hospital care and services provided by the System's employed physicians. As a result of the Affordable Care Act implementation, which requires individuals to obtain healthcare insurance, nonprofit hospitals across the United States saw an increase of individuals covered by Medicaid or health exchange policies. With more persons covered under such programs, there was a decline in the number of patients seeking financial assistance.

Medicaid Shortfall: The System is a leading provider of Medicaid services in Ohio. The Medicaid program provides healthcare coverage for low-income families and individuals and is funded by both the state and federal governments. Medicaid shortfall represents the difference between the costs of providing care to Medicaid beneficiaries and the reimbursement received by the System. Due primarily to the effects of Medicaid expansion in Ohio, Medicaid shortfall in 2014 increased 75% compared to 2013. The combined total of Medicaid shortfall and financial assistance increased 8% during the same time period.

Subsidized Health Services: Subsidized health services yield low or negative margins, but these programs are needed in the community. Subsidized health services provided in the System include pediatric programs, psychiatric/behavioral health programs, obstetrical services, chronic disease management and outpatient clinics.

Outreach Programs: The System is actively engaged in a broad array of community outreach programs, including numerous initiatives designed to serve vulnerable and at-risk populations in the community. Outreach programs typically fall into three categories: community health services; cash and in-kind donations; and community building. The System's outreach programs include wellness initiatives, chronic disease management, clinical services, free health screenings, and enrollment assistance for government funded health programs. A few of the System's community outreach initiatives are highlighted below:

- The System provided no-cost clinical care to under- and uninsured families at community sites. The Langston Hughes Health and Education Center, a Fairfax neighborhood site, provided multigenerational prevention and wellness services.

- Health fairs provided thousands of people with free screenings for diabetes, cholesterol, heart disease, and prostate and various cancers. The Cleveland Clinic Minority Men's Health Fair, Celebrating Sisterhood, Tu Familia and dozens of community health fairs educated community members on the benefits of preventive healthcare.

- Community education classes were offered across the enterprise on chronic disease management in the areas of heart disease, stroke, cancer, diabetes and brain health.

- Wellness initiatives and health lectures were provided to schools, faith-based organizations and community centers in the areas of prevention and behavioral change, including smoking cessation, weight management, teen parenting, family violence and child safety.

- Physical education, training and concussion awareness were provided to high school students by the Clinic's Orthopaedic and Rheumatology Institute.

- The Clinic's Robert J. Tomsich Pathology & Laboratory Medicine Institute donated services to The Free Clinic and Care Alliance, Cleveland area safety-net providers.

Education: The System provides a wide range of high-quality medical education, including accredited training programs for residents, physicians, nurses and other allied health professionals. The System maintains one of the largest graduate medical education programs in the nation. At the postgraduate level, the System's Center of Continuing Education has developed one of the largest and most diverse continuing medical education programs in the world. The System also operates Cleveland Clinic Lerner College of Medicine of Case Western Reserve University, dedicated to the teaching of physician-scientists.

Research: From a community benefit perspective, medical research includes basic, clinical and community health research, as well as studies on healthcare delivery. Community benefits include research activities supported by government and foundation sources; corporate and other grants are excluded from community benefits. The System uses internal funding to cover shortfalls in outside resources for research.

Additional information regarding the System's community benefits is available on the Clinic's website at *www.clevelandclinic.org/communitybenefit*.

Community Health Needs Assessment

In 2013, the System completed comprehensive community health needs assessments (CHNA) for each of the hospitals in the System. Internal Revenue Code Section 501(r)(3) requires nonprofit hospital organizations to conduct a CHNA every three years and adopt an implementation strategy to identify the community health needs the hospital will address.

To obtain an in-depth understanding of the community risk indicators, population trends and healthcare needs, the System gathered various data, including:

- demographic and health statistical data;
- information on socio-economic barriers to care, including income, culture, language, education, insurance and housing;
- national, state and local disease prevalence;
- health behavior;
- penetrating trauma rates; and
- research and education.

Information was also gathered from persons representing the broad interests of the community, including those with special knowledge or expertise in public health.

Key CHNA needs identified throughout the System include:

- chronic disease management (heart disease, cancer, diabetes, asthma, obesity);
- wellness (nutrition, exercise, tobacco cessation, preventative care);
- access to care;
- education (physician shortage, community education); and
- medical research.

Hospital implementation strategies that address the health needs identified in the assessments were developed by individual hospital leadership teams and were adopted by the applicable boards in 2013. The CHNA reports and implementation strategies for the System hospitals are available on the Clinic's website.

Economic Impact

According to the System's Economic and Fiscal Impact Report released in 2015, the System is the largest employer in Northeast Ohio and the second largest employer in the State of Ohio. In 2013 the System generated $12.6 billion of the total economic activity in Ohio and has directly and indirectly supported more than 93,000 jobs generating approximately $5.9 billion in wages and earnings. The System's economic activity was accountable for $811 million in total state and local taxes. System-supported households spent almost $4 billion on goods and services. Locally, the System's economic activity within an eight-county region accounted for approximately $757 million of purchased good and services from Northeast Ohio vendors. Visitors to the System's Northeast Ohio facilities spent close to $191 million on hotels, food and other expenses. As a major part of the region's healthcare industry, the System has contributed to the strengthening of Ohio's economy by sustaining a strong workforce and supporting businesses and professional services across the state.

The System's Economic and Fiscal Impact Report is the result of an economic analysis completed by the Silverlode Consulting Corp. The most recent report was commissioned in 2014 and used 2013 data, the most current data available at that time. The report was completed in part using the IMPLAN® economic impact model, which is used by more than 1,000 universities and government agencies to estimate economic and fiscal impacts.

SUSTAINABILITY

The System supports healthy environments for healthy communities. Through its operations and community leadership, the System takes a precautionary approach to environmental stewardship with the understanding that environmental health and human health are closely linked. In 2007, the System created the Office for a Healthy Environment (OHE). The OHE's purpose is to create a healthcare system that is ecologically, socially, and economically sustainable and avoids harm to human health and the environment. OHE goals are aligned with the mission and values of the System, and sustainability policies are embedded in the construction, maintenance and operation of facilities across the System. The OHE works cross-functionally and enterprise-wide to mitigate resource consumption intensity, identify

and pursue new opportunities and educate caregivers.

The System has publically committed to compiling a sustainability report through two leading international frameworks: The United Nations Global Compact and the Global Reporting Initiative. The System compiles this report for its patients, caregivers, communities and global stakeholders. As a leader in the healthcare industry, the System is accountable for its social, environmental and economic impacts. The System develops this report to share its performance metrics and stories, to highlight its accomplishments and to communicate its challenges as it strives to reach its goals.

To align the System's reporting process with its environmental stewardship goals, an online report has been developed. The complete sustainability report is available on the Clinic's website at: *www.clevelandclinic.org/ungc*.

The Clinic is a member of Practice Greenhealth (PGH), the nation's leading health care community that empowers its members to increase their efficiencies and environmental stewardship while improving patient safety and care through tools, best practices and knowledge. In 2015, the Clinic was awarded the most prestigious environmental achievement award offered by Practice Greenhealth, a Top 25 Best of Sustainability in Health Care designation. The Top 25 Environmental Excellence Awards recognize health care facilities that exemplify environmental excellence and are setting the highest standards for environmental practices in health care. Award winners are chosen from hospitals that have the highest scores for the Greenhealth Emerald Award using Practice Greenhealth's thorough scoring and evaluation system. The System was honored with twenty-five additional Practice Greenhealth Environmental Excellence Awards for outstanding performance in health care sustainability, including the System for Change Award, two Emerald Awards for Euclid and Marymount Hospitals, Circles of Excellence in Chemicals, Greening the OR, Green Building and Climate.

The System joined the Department of Energy's (DOE) Better Buildings Challenge as a challenge partner in 2011, committing the System to a 20 percent reduction in energy usage by 2020. Participation in the Better Buildings Challenge allows the System to track, manage and save energy as well as providing open forums for the System to share its initiatives and to learn from other partners. Additionally, the System has set a goal of $12 million in energy demand reduction targets across the enterprise through its Care Affordability initiatives. Projects include a combination of critical energy efficiency projects and broad occupant education and engagement campaigns. From the December 2010 baseline, the System has realized a 10.91% reduction in weather normalized source energy use intensity for in-scope and reportable facilities.

A central component of the Systems' ongoing commitment to responsible energy management is to construct buildings that conform to the U.S. Green Building Council's Leadership in Energy and Environmental Design (LEED). LEED is a third-party certification program and the nationally accepted benchmark for design, construction and operation of environmentally responsible and energy-efficient buildings. All new major construction projects for the System follow LEED standards, with a goal of achieving silver certification. Construction projects also emphasize recycling of debris, with current diversion rates of up to 98% in recent years.

The System currently has fifteen LEED-certified buildings, with additional buildings pending certification. The System has four buildings that

are certified LEED-Gold, including the Marymount Hospital Surgical Expansion, Twinsburg Health and Family Surgery Center and the Robert J. Tomsich Pathology and Laboratory Medicine Institute building. Additionally, the System has seven buildings that are certified LEED-Silver.

DIVERSITY

The System provides healthcare services to patients and families from a global community. This makes diversity, inclusion and cultural competence a critical part of the System's mission. In 2006, the System created the Office of Diversity and Inclusion (Diversity). Diversity's mission is to provide strategic direction that builds cultural competence, cultivates an inclusive organization, develops talent, and supports caregivers to better serve our patients. Its programs include cultural competence training, diversity councils, employee resource groups, language enrichment, and pipeline development programs for high school and college students.

In 2015, the System was named one of the country's top five healthcare organizations for diversity management practices by DiversityInc for the sixth consecutive year. Rankings are empirically driven and assess performance based on a number of factors including CEO commitment, equitable talent development and spend with certified minority and women businesses.

In 2015, the System's SALUD Hispanic/Latino Employee Resource Group (ERG) and ClinicPride ERG have been identified as two of the top twenty-five U.S. ERGs by the nationally recognized Association of ERGs and Councils. The System was one of only a few organizations with more than one ERG on the list. The award recognizes honors and celebrates the contributions and achievements of ERGs and diversity councils that lead the diversity and inclusion process in organizations and demonstrate results within the workforce and at the workplace.

HEALTH INFORMATION TECHNOLOGY

The System is a national leader in the innovative application of health information technology (HIT) systems. Through the development and application of HIT systems, the System is focusing on providing more cost effective healthcare and improving patient safety. HIT systems have received particular attention due to the Health Information Technology for Economic and Clinical Health Act, a part of the American Recovery and Reinvestment Act of 2009 (Recovery Act).

In 2011, the Centers for Medicare & Medicaid Services (CMS) implemented provisions of the Recovery Act that provide annual incentive payments for the meaningful use of certified electronic health record (EHR) technology. CMS has defined meaningful use as meeting certain objectives and clinical quality measures based on current and updated technology capabilities over predetermined reporting periods as established by CMS. The objectives and clinical quality measures are implemented in stages with increasing requirements for participation. CMS announced Stage 2 electronic health record meaningful use requirements in 2012, which added new objectives and increased the threshold for many of the objectives in Stage 1. In order to be reimbursed, System hospitals

were required to meet Stage 2 meaningful use requirements in the 2014 federal fiscal year.

The Medicare EHR incentive program provides annual incentive payments to eligible professionals, eligible hospitals, and critical access hospitals, as defined, that are meaningful users of certified EHR technology. In order to qualify for an incentive payment, eligible hospitals and providers need to demonstrate meaningful use of the certified EHR by entering certain objectives and clinical quality measures and attesting that they have successfully demonstrated meaningful use via the CMS' web-based Medicare EHR Incentive Program System. The Medicaid EHR incentive program provides annual incentive payments to eligible professionals and hospitals for efforts to adopt, implement, and meaningfully use certified EHR technology in the first year of participation and successfully demonstrating meaningful use of certified EHR technology in subsequent participation years. Hospitals and providers are required to attest to the EHR requirements on the state's Medicaid Provider Incentive Program. Incentive payments for hospitals are subject to retrospective adjustments after the submission of annual cost reports and audits thereof by the Medicare Administrative Contractor. Annual incentive payments for Medicare and Medicaid are reduced for hospitals and providers in each subsequent year of attestation and are completely phased-out within four to six years of the initial attestation year.

Currently, all of the System's acute care hospitals meet the Medicare meaningful use standards for attestation for Stage 2. Additionally, all of the System's acute care hospitals meet the Medicaid meaningful use standards for attestation for Stage 2 except for Weston Hospital, which currently does not qualify to participate in the Medicaid EHR incentive program. Cleveland Clinic Children's Hospital for Rehabilitation, a non-acute hospital located near the main campus, also meets the Medicaid meaningful use standards for attestation for Stage 2. All of the System's eligible acute care hospitals attested Stage 2 meaningful use standards to Medicare and Medicaid in the 2014 federal fiscal year. The System believes that the hospitals that met meaningful use objectives for the 2014 federal fiscal year, and that are eligible for EHR incentive payments in the 2015 federal fiscal year, will continue to meet these objectives for the 2015 federal fiscal year.

The System utilizes a grant accounting model to recognize EHR incentive revenues. Under this model, the System records EHR incentive revenue ratably throughout the incentive reporting period when it is reasonably assured that it will meet the meaningful use objectives for the required reporting period and that the grants will be received. The System recorded EHR incentive revenues of $3.0 million in the first six months of 2015 and has recorded a total of $131.4 million since the inception of the program through the end of 2014. Throughout the program, the System is expected to receive approximately $143 million in EHR incentive payments.

The System continues to implement improvements to its HIT systems, including several components that can be accessed through the Clinic's website. These components include:

- An electronic medical record system composed of an integrated suite of software modules that virtually align physical locations, physician expertise and nursing and care team skills into a single, coordinated group practice.

- A secure, on-line health management tool that connects patients to portions of their personalized health information.
- A secure, on-line system that allows physicians in private practice to become clinically integrated with the System to treat their patients.

The System participates in the Care Everywhere network, a module offered through Epic Systems Corp. that allows health systems to safely and directly share electronic medical records (EMRs). Through this program, the System has access to a network of over 287 healthcare organizations nationwide. In the past year, the System has exchanged patient information with more than 259 external healthcare organizations with over 1.8 million records exchanged to assist with treating patients in all fifty states across the country since the beginning of 2015. This is believed to have improved patient care by immediately providing more complete medical histories, eliminating the need for unnecessary diagnostic tests, allowing for faster and more accurate diagnosis and aiding in criteria required for Stage 2 meaningful use standards. The System collaborates with both local and national hospitals and health systems to link EMRs via Epic. In 2013, the System engaged ClinicSync, Ohio's statewide electronic medical records exchange. Participation in CliniSync links the System to a significant number of hospitals across Ohio.

To further broaden its interoperability capabilities, the System has also engaged with Surescripts, a health information service provider that connects the System to over 200,000 providers across the nation via DIRECT messaging. The System is also connected to eHealth Exchange, the national health exchange hub. This connection has allowed the System to exchange data with the Social Security Administration, which occurred over 17,000 times since implementation in the summer of 2014.

In 2015, the System connected its electronic medical system, MyPractice, to the Veterans' Administration (VA) electronic medical record system. The connection to the VA has had over 600 exchanges since implementation. This data exchange allows medical information of veteran patients to be securely shared and improves provider-to-provider communication between the Clinic and the VA.

In 2015, the System made MyCare Online available to patients meeting certain age requirements. MyCare Online allows a patient to conduct a Skype-like visit with a System provider from a computer, tablet or smartphone in lieu of a medical office visit. The program is designed for many common symptoms and minor medical concerns.

CONFLICT OF INTEREST

The System maintains policies that require internal reporting of outside financial and fiduciary interests to ensure that potential conflicts of interests do not inappropriately influence research, patient care, education, business or professional decision making. In connection with these policies, the System developed the Innovation Management and Conflict of Interest Program, which is designed to promote innovation while at the same time reducing, eliminating or managing real or perceived bias either due to System personnel consulting with pharmaceutical, medical device and diagnostic companies (industry) or the commercialization efforts undertaken by the System to develop discoveries and make them

accessible to patients. The Program works with investigators who interact with industry to manage any conflicts. Provisions related to whether or not "compelling circumstances" are required to justify conducting research in the presence of related financial interests have been relaxed in policies that went into effect in 2013, consistent with the value the System places on beneficial relationships with industry. The System is committed to a process that maintains integrity in innovation and places the interests of our patients first.

The Innovation Management and Conflict of Interest Program reviews situations in which a physician prescribes or uses products of a company in their practice and has a financial relationship with that company. When appropriate, the Program will put management in place to address any conflict (for example, by disclosure). The goal of this policy is not to interfere with the practice of medicine.

An initiative to bring transparency to the System's relationships with industry was implemented in 2008, in which the specific types of interactions that individual physicians and scientists have with industry were disclosed on publicly-accessible web pages on the System's internet site. Information can be accessed by patients that describes the training, type of practice and accomplishments of a specific doctor or scientist, as well as the names of companies with which the doctor has financial or fiduciary relations as an inventor, consultant, speaker or board member. These disclosures are updated regularly. The System was the first academic medical center in the country to have made these interactions public. Many other academic medical centers have followed the System's lead by providing similar disclosures.

The System maintains a Conflict of Interest in Education Policy to reflect its values and represent its and its Staff's best interests. This policy is responsive to guidelines from the Association of American Medical Colleges, the Institute of Medicine and other organizations. It places restrictions on outside speaking activities that are not Accreditation Council for Continuing Medical Education (ACCME) approved and are generally considered marketing. Speakers must present content that is data-driven and balanced; speakers must create their own slides or use only unbranded slides created by industry. This policy puts the System in step with other top academic medical centers that have already banned speakers bureaus. In addition, the policy requires instructors to disclose relevant financial interests with companies to trainees.

The Innovation Management and Conflict of Interest Committee of the System has also established processes with cross-membership and seamless interactions and communications with the Board of Directors' Conflict of Interest and Managing Innovations Committee.

Board members of the Clinic and the regional hospitals in the System are required to complete annual disclosure questionnaires each year. These questionnaires are designed to identify possible conflicts of interest that may exist and ensure that any such conflicts do not inappropriately influence the operations of the System. The information obtained from these questionnaires is used to respond to the related-party transactions and other disclosures required by the Internal Revenue Service on Form 990. The Forms 990 for the Clinic and the System are available on the Clinic's website, as well as additional information regarding the Clinic's Board of Directors and any business relationships the Directors may have with the System.

ENTERPRISE RISK MANAGEMENT

In 2010 the System began a multi-phase enterprise risk management (ERM) initiative to develop a more formal systematic approach to the identification, assessment, prioritization, and reporting of risks. The process is closely linked with the System's strategic and annual planning. The ultimate objective is to create an enterprise-wide risk management model that contains sustainable reporting and monitoring processes and embeds risk management into the System's culture, in order to more effectively mitigate risks. The System established an ERM Steering Committee and engaged a consulting firm to support this process.

In the ERM process, risk identification is conducted resulting in a System risk profile that categorizes individual risks based on their impact upon the System's ability to meet its strategic objectives. During this process, certain risks are identified as top risks and then further separated into sub-risks and individual risk components. The most recent evaluation of top risks was conducted during the fourth quarter of 2013. Extensive risk assessments and mitigation analysis are completed during this process whereby risk components are evaluated according to their likelihood of occurring and potential impact should they occur. Risk mitigation activities, including risk response effectiveness, are examined, reviewed and updated as part of this evaluation. ERM is an on-going program, with regular reporting to senior management, including the Audit Committee of the Board of Directors, the body with oversight responsibility for ERM.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

In 2007, the System began an initiative to evaluate its internal control environment and to create efficiencies in the System's financial reporting processes. The initiative is based upon concepts established in the Sarbanes-Oxley Act of 2002. The goals of the initiative are to ensure the integrity and reliability of financial information, strengthen internal control in the reporting process, reduce the risk of fraud and improve efficiencies in the financial reporting process. The initiative reviews all aspects of the financial reporting process, identifies potential risks and ensures that they have been mitigated utilizing a management self-assessment process. As a result of this initiative, management completed a certification of its internal controls over financial reporting as part of the issuance of its consolidated financial results for 2014, which is the sixth year the certification process was completed. More than 130 members of management, including top leadership, were involved in this certification. The System is one of the first not-for-profit hospitals to issue a management report on the effectiveness of internal controls over financial reporting, a step that further increases the transparency of the organization. Management updates the certification on a quarterly basis. There were no changes in the internal control over financial reporting during the six months ended June 30, 2015 that have materially affected, or are reasonably likely to materially affect, the internal control over financial reporting for the System.

INDUSTRY OUTLOOK

In December 2014, Moody's maintained its negative outlook for the U.S. not-for-profit healthcare sector for 2015, an outlook Moody's has maintained since 2008. Moody's cites

multiple factors to support its negative outlook. Moody's expects weak operating cash flow growth in 2015 that will range from -0.5% to +1.5%, with an expectation that it will decline even more for smaller hospitals while the largest systems will grow cash flow at a stronger rate. Operating margins are expected to weaken as hospitals adapt to changing reimbursement models, incur additional costs in information technology, and make investments in physician practices. Revenue growth is expected to remain low, with median top-line growth below 4%. This is in line with the last several years but well below historical norms of 6%-8% prior to 2009. The primary drivers of low revenue growth are the Medicare inpatient rate increase of 1.4% for federal fiscal year 2015, the ongoing impact of the "Two-Midnight Rule," the payor mix shift to governmental payors due to the aging population and the Affordable Care Act, lower reimbursement growth from commercial payors, and a general shift in patient volumes characterized by outpatient growth and inpatient declines. Moody's report cites that, to date, the Affordable Care Act has only had a modest impact on their rated portfolio due in large part to uneven implementation across the country. Hospitals in the states that expanded Medicaid eligibility and aggressively enrolled individuals for healthcare insurance in 2014 will see the greatest benefit in 2015. Other provisions of the Affordable Care Act contain both positive and negative elements for hospitals, and the impact may not be known until later in 2015 or into 2016.

In December 2014, Fitch Ratings maintained its negative outlook for nonprofit hospitals and healthcare systems for 2015. This negative outlook reflects the ongoing uncertainties surrounding the implementation and legality of key provisions of the Affordable Care Act and continued movement toward value-based reimbursement models. Fitch believes that hospital and health system financial performance will continue to be highly impacted by management's ability and willingness to proactively control expenses, generate improved clinical efficiencies and quickly flex staffing to changes in patient volumes.

In January, S&P maintained its negative outlook for the U.S. not-for-profit healthcare sector. S&P believes operating margins will continue to be pressured by top-line revenue constraints, soft demand, a movement toward value- and risk-based payment structures, the impact of reform readiness activities and the high cost of electronic medical record implementation and maintenance. Strong investment markets in 2014 and expansion of health insurance coverage under the Affordable Care Act have not been sufficient to reverse the generally negative trends driven by revenue and cost pressures.

The System continues to be impacted by industry challenges that put pressure on the System's financial performance. Management is focused on the recruitment and retention of qualified staff in many clinical areas in order to meet the demands of patient activity, particularly as the Affordable Care Act health insurance mandates that are expected to increase the number of insured Americans seeking healthcare services are implemented. These efforts pressure the System's salary cost structure, as well as employee benefit costs. Pharmaceutical costs and medical supply costs continue to create challenges to the cost structure. Increases in pharmaceutical costs are driven by utilization, price increases and the specialized nature of many pharmaceuticals used in oncology and hematology. Medical supply costs are primarily driven by utilization and price of implants. For both pharmaceuticals and medical supplies, a sizeable percentage of the cost increase flows through to increases in payments from payors; however, the balance cannot be passed through to payors.

Additionally, the healthcare industry is subject to significant regulation by federal, state, and local governmental agencies and independent organizations and accrediting bodies, changes in technology and treatment modes, competition and changes in third-party reimbursement programs. The decline in the population of the Greater Cleveland area, as noted in the 2013 census, creates challenges among hospitals to attract patients. Furthermore, although the System maintains a diversified investment portfolio, the System's investments are subject to the inherent risk and volatility associated with global financial markets. The System continuously monitors the environment in which it operates and is engaged in various strategic initiatives to address its cost structure and reimbursement challenges to make healthcare affordable to patients.

PATIENT VOLUMES

The following table summarizes patient volumes for the System:

Utilization Statistics

	For the quarter ended June 30				For the six months ended June 30			
	2015	2014	Variance	%	2015	2014	Variance	%
Inpatient admissions[(1)]								
Acute admissions	36,180	35,154	1,026	2.9%	71,230	69,048	2,182	3.2%
Post-acute admissions	2,920	2,976	-56	-1.9%	5,843	5,925	-82	-1.4%
	39,100	38,130	970	2.5%	77,073	74,973	2,100	2.8%
Patient days[(1)]								
Acute patient days	190,774	184,207	6,567	3.6%	382,818	366,898	15,920	4.3%
Post-acute patient days	24,133	24,717	-584	-2.4%	48,917	49,409	-492	-1.0%
	214,907	208,924	5,983	2.9%	431,735	416,307	15,428	3.7%
Surgical cases								
Inpatient	13,888	13,903	-15	-0.1%	27,865	27,585	280	1.0%
Outpatient	34,026	33,433	593	1.8%	66,390	64,726	1,664	2.6%
	47,914	47,336	578	1.2%	94,255	92,311	1,944	2.1%
Emergency department visits	131,713	122,518	9,195	7.5%	255,888	233,634	22,254	9.5%
Observations	12,133	12,471	-338	-2.7%	24,932	24,641	291	1.2%
Clinic outpatient evaluation and management visits	822,749	774,903	47,846	6.2%	1,616,716	1,489,754	126,962	8.5%

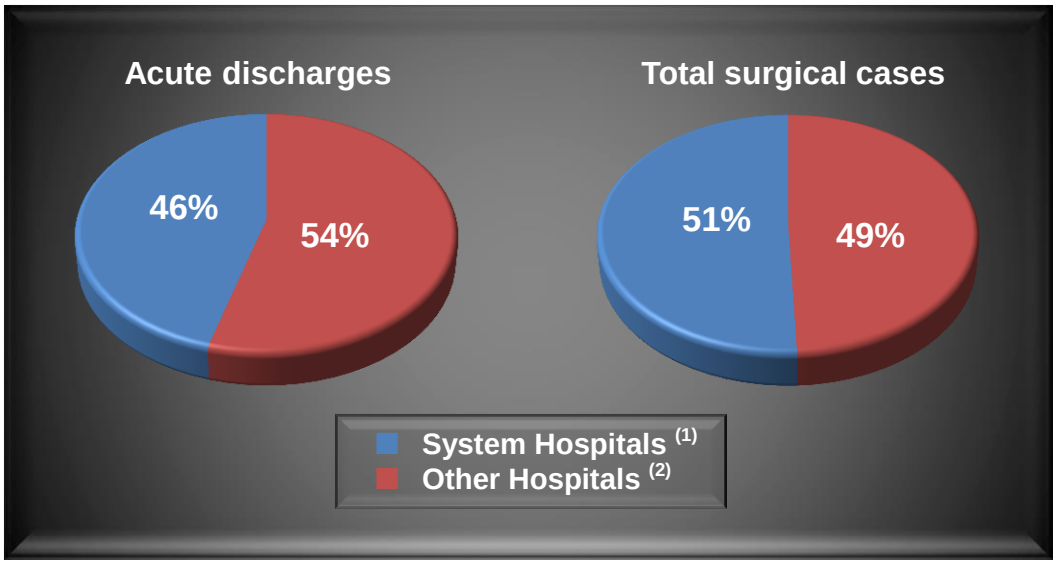
[(1)] Excludes newborns

Inpatient admissions for the System increased 3% in the first six months of 2015 compared to the same period in 2014. The Clinic experienced a 2% increase in inpatient admissions and the regional hospitals collectively experienced a 3% increase in inpatient admissions. According to data from the Center for Health Affairs, inpatient discharges excluding newborns in the Northeast Ohio service area increased 2% in the first six months of 2015 compared to the same period in 2014. The Florida facilities experienced a 6% increase in inpatient admissions that was partially due to expanded outpatient and surgical facilities and increased activity in the expanded transplant program.

Total surgical cases for the System increased 2% in the first six months of 2015 compared to the same period in 2014. The increase was driven by a 2% increase at the Clinic's main campus and family health centers and a 9% increase at the Florida facilities. Total surgical cases at the regional hospitals were flat in the first six months of 2015 compared to the same period in 2014, with changes at individual hospitals ranging from -15% to +13%. According to data from the Center for Health Affairs, total surgical cases in northeast Ohio increased 2% in the first six months of 2015 compared to 2014. The surgical mix of total surgical cases for the System for the first six months of 2015 was 30% inpatient and 70% outpatient, which is consistent with the surgical mix in the first six months of 2014.

Emergency department visits increased 10% in the first six months of 2015 compared to the same period in 2014. The increase in emergency department visits was partially due to elevated levels of influenza in Ohio in the first quarter of 2015. Emergency department visits also increased from the prior year due to the opening of the Brunswick Family Health Center emergency department in July 2014.

The following charts summarize selected statistical information for Northeast Ohio hospitals for the six months ended June 30, 2015:



Source: The Center for Health Affairs Volume Statistics

(1) "System Hospitals" excludes Florida facilities and includes Ashtabula County Medical Center.
(2) "Other Hospitals" includes all other hospitals in northeast Ohio reported by the Center for Health Affairs that are not included in System hospitals.

LIQUIDITY

Cash and Investments

The System's objectives for its investment portfolio are to target returns over the long-term that exceed the System's capital costs so as to optimize its asset/liability mix and preserve and enhance its strong financial structure. The asset allocation of the portfolio is broadly diversified across global equity and global fixed income asset classes and alternative investment strategies and is designed to maximize the probability of achieving the long-term investment objectives at an appropriate level of risk while maintaining a level of liquidity to meet the needs of ongoing portfolio management. This allocation is formalized into a strategic policy benchmark that guides the management of the portfolio and provides a standard to use in evaluating the portfolio's performance.

Investments are primarily maintained in a master trust fund administered using a bank as trustee. The management of the majority of the System's investments is conducted by numerous external investment management organizations that are monitored by management and an external third-party advisor. The System has established formal investment policies that support the System's investment objectives and provides an appropriate balance between return and risk.

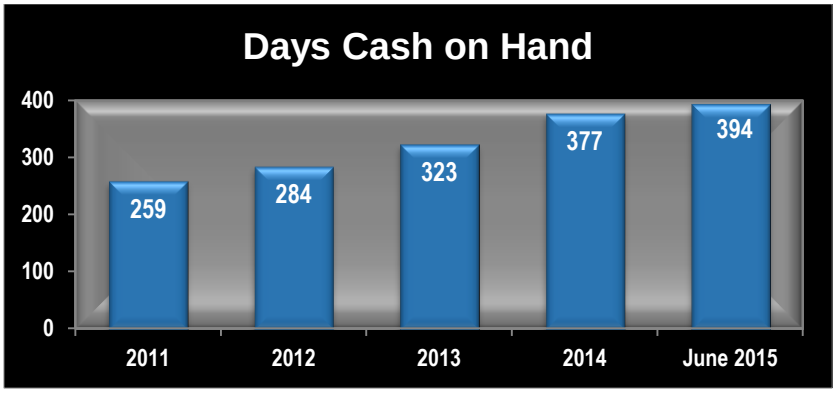
The following table sets forth the allocation of the System's cash and investments at June 30, 2015 and December 31, 2014:

Cash and Investments
(Dollars in thousands)

	June 30, 2015		December 31, 2014	
Cash and cash equivalents	$ 665,135	9%	$ 661,610	10%
Fixed income securities*	1,803,994	25%	1,732,601	25%
Marketable equity securities*	2,457,563	35%	2,303,154	33%
Alternative investments	2,223,048	31%	2,167,803	32%
Total cash and investments	7,149,740	100%	6,865,168	100%
Less restricted investments**	(796,147)		(844,770)	
Unrestricted cash and investments	$ 6,353,593		$ 6,020,398	
Days cash on hand	394		377	

* Fixed income securies and marketable equity securities include mutual funds and commingled investment funds within each investment allocation category.
** Restricted investments include funds held by trustees, assets held by captive insurance subsidiary and donor restricted assets.

The following chart summarizes days cash on hand for the System at December 31 for the last four years and at June 30, 2015:



At June 30, 2015, total cash and investments for the System (including restricted investments) were $7.150 billion, an increase of $285 million from $6.865 billion at December 31, 2014. Cash inflows consist of cash provided by operating activities and related investment income of $465 million and a net increase in restricted gifts and income of $59 million. Cash inflows were offset by net capital expenditures of $181 million and scheduled principal payments on debt of $58 million.

Included in the System's cash and investments are investments held by the System's captive insurance subsidiary. These investments totaled $166.2 million at June 30, 2015, with an asset mix of 10% cash and short-term investments, 45% fixed-income securities, 31% equity investments and 14% alternative investments. The asset mix reflects the need for liquidity within the captive and the objective to maintain stable returns utilizing a lower tolerance for risk and volatility consistent with insurance regulatory requirements.

Also included in the System's cash and investments are $120.5 million of funds held by trustees. Funds held by trustees include $111.0 million of posted collateral. Collateral is comprised of $29.7 million related to a futures and options program within the System's investment portfolio and $81.3 million related to the System's interest rate swap contracts. The swap contracts require that collateral be posted when the market value of a contract in a liability position exceeds a certain threshold. The collateral is returned as the liability is reduced. The System also has $9.5 million of funds held by trustee for other purposes. Investment objectives of funds held by the trustees are designed to preserve principal by investing in highly liquid cash or fixed-income investments. At June 30, 2015, the asset mix of funds held by trustees was 15% cash and short-term investments and 85% fixed-income securities.

The System invests in alternative investments to increase the portfolio's diversification. Alternative investments are primarily limited partnerships that invest in marketable securities, privately held securities, real estate, and derivative products and are reported using the equity method of accounting based on information provided by the respective partnership.

Alternative investments at June 30, 2015 and December 31, 2014 consist of the following:

Alternative Investments
(Dollars in thousands)

	June 30, 2015		December 31, 2014	
Hedge funds	$ 1,370,836	61%	$ 1,375,549	63%
Private equity/venture capital	473,638	22%	434,798	20%
Real estate	378,574	17%	357,456	17%
Total alternative investments	$ 2,223,048	100%	$ 2,167,803	100%

Alternative investments have varying degrees of liquidity and are generally less liquid than the traditional equity and fixed income classes of investments. Over time, investors may earn a premium return in exchange for this lack of liquidity. Hedge funds typically contain redeemable interests and offer the most liquidity of the alternative investment classes. These investment funds permit holders periodic opportunities to redeem interests at frequencies that can range from daily to annually, subject to lock-up provisions that are generally imposed upon initial investment in the fund. It is common, however, that a small portion (5-10%) of withdrawal proceeds are held back from distribution pending the fund's annual audit, which can be up to a year away. Private equity, venture capital, and real estate funds typically have non-redeemable partnership interests. Due to the inherent illiquidity of the underlying investments, the funds generally contain lock-up provisions that prohibit redemptions during the fund's life. Distributions from the funds are received as the underlying investments in the fund are liquidated. These investments have an initial subscription period, under which commitments are made to contribute a specified amount of capital as called for by the general partner of the fund. The System periodically reviews unfunded commitments to ensure adequate liquidity exists to fulfill anticipated contributions to alternative investments.

Investment Return

Return on investments, including equity method income on alternative investments, is reported as nonoperating gains and losses except for earnings on funds held by bond trustees and interest and dividends earned on assets held by the captive insurance subsidiary, which are included in other unrestricted revenues. Donor restricted investment return on temporarily and permanently restricted investments is included in temporarily restricted net assets.

The System's long-term investment portfolio, which excludes assets held by the captive insurance subsidiary, reported investment losses of 0.2% for the second quarter of 2015, which is equal to the portfolio's benchmark and lower than investment gains of 3.1% experienced in the second quarter of 2014. For the first six months of 2015, the System experienced investment gains of 2.5%, which is higher than the portfolio's benchmark of gain of 1.8% and lower than the investment gains of 4.8% experienced for the first six months of 2014.

Total investment return for the System is comprised of the following:

Investment Return
(Dollars in thousands)

	For the quarter ended Jun 30		For the six months ended Jun 30	
	2015	2014	2015	2014
Other unrestricted revenue:				
Interest income and dividends	$ 900	$ 391	$ 1,182	$ 729
Nonoperating gains, net:				
Interest income and dividends	14,171	14,074	23,127	25,194
Net realized gains on sales of investments	41,115	43,613	79,338	110,948
Net change in unrealized gains (losses) on investments	(48,334)	91,854	12,643	72,349
Equity method income on alternative investments	30,312	30,695	52,685	43,886
Investment management fees	(3,939)	(4,051)	(8,134)	(7,833)
	33,325	176,185	159,659	244,544
Other changes in net assets:				
Net change in unrealized (losses) gains on nontrading investments	292	(7,152)	(2,385)	10,658
Investment income on restricted investments	3,455	9,328	11,335	12,632
Total investment return	$ 37,972	$ 178,752	$ 169,791	$ 268,563

Pension Investments

In 2014, the System updated its investment strategy and modified the allocation of pension plan investments in the CCHS Retirement Plan (Plan), the System's primary defined benefit pension plan. The Plan ceased benefit accruals for substantially all employees as of December 31, 2009, and ceased benefit accrual for remaining employees at various intervals through December 31, 2012. As of December 31, 2014, the Plan had investments of $1.2 billion, which was 87% of the projected benefit obligation. Coincident with the updated investment strategy the System reduced the asset allocation for common and preferred stocks with a corresponding increase in fixed income securities. The updated investment strategy was implemented because of the funded status of the Plan and the anticipation that such changes in investment strategy will result in lower volatility of future changes in funded status. As a result of these changes, the System estimates an expected rate of return on plan assets of 7%. Once the new investment strategy is fully implemented, it is anticipated that the duration of the investment assets will match the liabilities of the Plan over time. Additional revisions in asset allocations may occur based on future changes in the funded status of the Plan. As of June 30, 2015, the asset allocation of investments in the Plan was comprised of 5% cash and cash equivalents, 46% fixed-income investments, 29% equities, and 20% alternative investments.

Long-term Debt

At June 30, 2015, outstanding hospital revenue bonds for the System totaled $3.131 billion, comprised of $2.423 billion (77%) of fixed-rate bonds, $19 million (1%) of index-rate bonds and $689 million (22%) of variable-rate bonds. The System utilizes various interest rate swap derivative contracts to manage the risk of increased debt service resulting from rising market interest rates on variable-rate bonds and certain variable-rate operating lease payments. The total notional amount on the System's interest rate swap contracts at June 30, 2015 was $601 million. Using an interest rate benchmark, these contracts convert variable-rate debt to a fixed-rate, which further reduces the System's exposure to variable interest rates. The derivative contracts can be unwound by the System at any time, whereas the counterparty has the option to unwind the derivative contracts only upon an event of default as defined in the contracts.

Approximately $377 million of the variable-rate bonds are secured by irrevocable direct pay letters of credit or standby bond purchase agreements. Bonds are classified as current liabilities if they are 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.

Independence Family Health Center
Independence, Ohio

The remaining $312 million variable-rate bonds are supported by the System's self-liquidity program. Bonds supported by self-liquidity are remarketed in commercial paper mode. Commercial paper bonds are structured with various term dates so that no more than $50 million of bonds mature within a five-day period. Bonds supported by self-liquidity are classified as current liabilities.

In November 2014, the System established the Cleveland Clinic Health System Obligated Group Commercial Paper Program, which provides for the issuance of the Series 2014A CP Notes. The Series 2014A CP Notes may be issued from time to time in a maximum outstanding face amount of $100 million and will be supported by the System's self-liquidity program. As of June 30, 2015, there were no amounts outstanding on the Series 2014A CP Notes. When issued, the Series 2014A CP Notes and the existing variable rate bonds remarketed in commercial paper mode in the self-liquidity program will be structured so that no more than $50 million of notes and bonds mature within a five-day period.

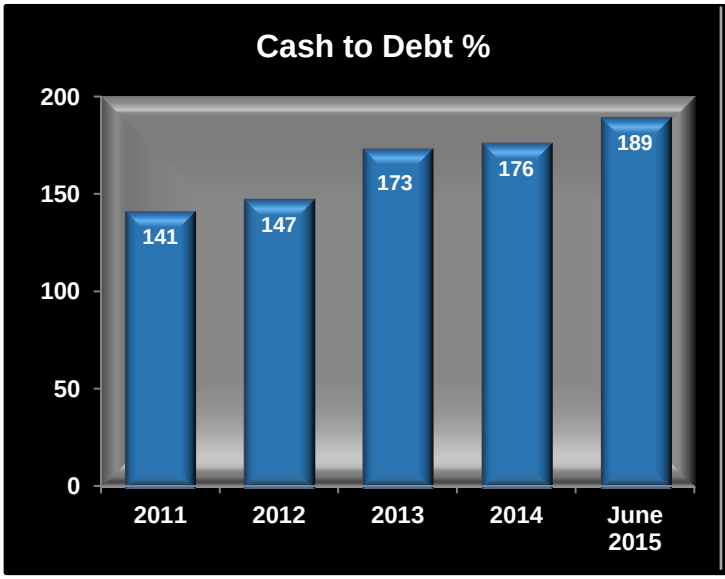
Combined current aggregate scheduled principal payments by calendar year, assuming the remarketing of the variable-rate bonds for the five years subsequent to December 31, 2014, are as follows (in millions): 2015 – $44.1; 2016 – $55.2; 2017 – $58.7; 2018 – $60.9; and 2019 – $64.0. The System has paid $42.1 million of scheduled principal payments in first six months of 2015.

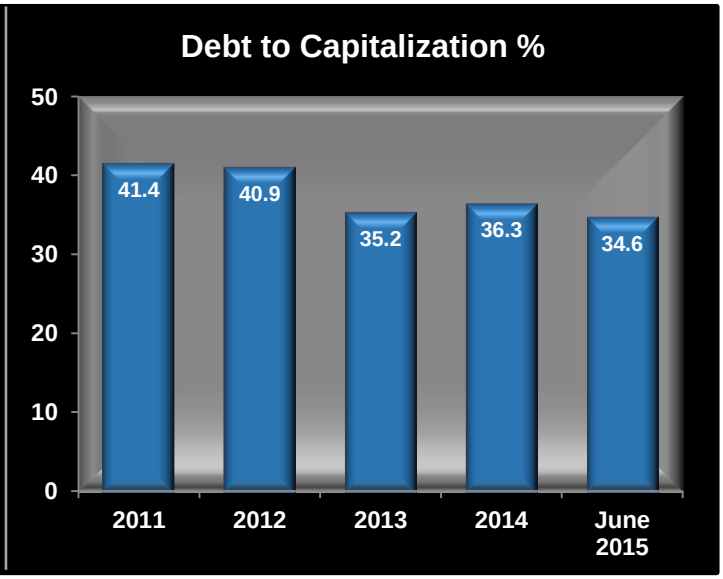
Outstanding hospital revenue bonds for the System as of June 30, 2015 and December 31, 2014 consist of the following:

Hospital Revenue Bonds
(Dollars in thousands)

Series	Beneficiary	Type	Final Maturity	June 30 2015	December 31 2014
2014	CCHS Obligated Group	Fixed	2114	$ 400,000	$ 400,000
2013A	CCHS Obligated Group	Fixed / Index	2042	81,225	89,380
2013B	CCHS Obligated Group	Variable	2039	201,160	201,160
2013	Keep Memory Alive	Variable	2037	66,850	66,850
2012A	CCHS Obligated Group	Fixed	2039	469,485	469,485
2011A	CCHS Obligated Group	Fixed	2032	181,180	190,085
2011B	CCHS Obligated Group	Fixed	2031	31,250	33,270
2011C	CCHS Obligated Group	Fixed	2032	170,995	170,995
2009A	CCHS Obligated Group	Fixed	2039	305,400	305,400
2009B	CCHS Obligated Group	Fixed	2039	381,505	395,165
2008A	CCHS Obligated Group	Fixed	2043	420,205	429,500
2008B	CCHS Obligated Group	Variable	2043	369,250	369,250
2003C	CCHS Obligated Group	Variable	2035	41,905	41,905
2002	CCHS Obligated Group	Variable	2032	10,085	10,225
				$ 3,130,495	$ 3,172,670

The following charts summarize cash-to-debt and debt-to-capitalization ratios for the System at December 31 for the last four years and at June 30, 2015:





BOND RATINGS

The obligated group's outstanding bonds have been assigned ratings of Aa2 (stable outlook) and AA- (positive outlook) by Moody's and S&P, respectively. In August 2014, Moody's and S&P affirmed their rating and outlook.

The following table lists the various bond rating categories for Moody's and S&P:

Bond Ratings

	Rating category		
	Moody's	S&P	Definition
Stongest	Aaa	AAA	Prime
↑	Aa	AA	High grade/high quality
↕	A	A	Upper medium grade
↕	Baa	BBB	Lower medium grade
↕	Ba	BB	Non-investment grade/speculative
↕	B	B	Highly speculative
↓	Caa/Ca	CCC	Extremely speculative
Weakest	C	D	Default or bankruptcy
Cleveland Clinic	Aa2	AA-	

Within each rating category are the following modifiers:
Moody's ratings: 1 indicates higher end, 2 indicates mid-range, 3 indicates lower end
S&P ratings: + indicates higher end, - indicates lower end

Healthcare organizations generally do not achieve a rating of Aaa or AAA from Moody's or S&P, respectively, due to the nature of the healthcare industry. Based on recent ratings summary reports obtained from Moody's and S&P, no healthcare organizations were rated in the prime category.

CONSOLIDATED RESULTS OF OPERATIONS

For the Quarters Ended June 30, 2015 and 2014

Operating income for the System in the second quarter of 2015 was $127.8 million, resulting in an operating margin of 7.4% as compared to operating income of $78.9 million and an operating margin of 4.8% in the second quarter of 2014. The higher operating income for the second quarter of 2015 primarily resulted from a 5.2% increase in total unrestricted revenues, which is primarily due to increases in patient volumes compared to the prior year. Total operating expenses increased 2.3% in the second quarter of 2015 compared to the second quarter of 2014, with notable increases experienced in supplies and pharmaceutical costs, interest expense and depreciation and amortization expenses. Nonoperating gains for the System were $56.1 million in the second quarter of 2015 compared to nonoperating gains of $156.6 million in the second quarter of 2014. The decrease from the prior year was primarily a result of gains and losses on investments attributable to overall changes in the financial markets. Overall, the System reported an excess of revenues over expenses of $183.8 million in the second quarter of 2015 compared to an excess of revenues over expenses of $235.4 million in the second quarter of 2014.

The System's net patient service revenue increased $25.3 million (1.6%) in the second quarter of 2015 compared to the same period in 2014. The System experienced an increase in

inpatient admissions of 2.5% and a decrease in outpatient observations of 2.7%, which resulted in combined admissions and observations to be 1.2% higher in the second quarter of 2015 compared to the second quarter of 2014. Total surgical cases increased 1.2%, emergency department visits increased 7.5%, and outpatient E&M visits at the Clinic increased 6.2% in the second quarter of 2015 compared to the second quarter of 2014. The System has also experienced a payor mix shift due to expansion of Medicaid eligibility in the State of Ohio, which has increased enrollment in the Medicaid program and decreased the number of self-pay patients. The State of Ohio expanded the program effective January 1, 2014, which has allowed former uninsured patients to shift into the expanded Medicaid program. Medicaid revenue for the System was 12.1% of total gross patient revenue in the second quarter of 2015 compared to 10.0% in the second quarter of 2014. This increase was partially offset by a decrease in self-pay gross revenues. In addition to the payor mix shifts in Medicaid and self-pay, the System experienced a negative payor mix shift in managed care and commercial gross revenues. Increases in revenue also resulted from rate increases on the System's managed care contracts that became effective in 2015. Over the last few years, the System has initiated national, regional and local revenue management projects designed to improve patient care access throughout the System.

Provision for uncollectible accounts decreased $42.0 million (40.5%) in the second quarter of 2015 compared to the same period in 2014. Total uncompensated care, which includes provision for uncollectible accounts and charity care, decreased 31.6% over the same time period. The decrease is primarily attributable to the expansion of Medicaid eligibility in the State of Ohio, and the resulting decrease in the number of self-pay patients. Self-pay revenue for the System was 3.1% of total gross patient revenue in the second quarter of 2015 compared to 4.8% in the second quarter of 2014. Partially offsetting this shift is an increase in provision for uncollectible accounts resulting from high co-pay and deductible health plans. The growth in high deductible health plans is an industry trend that will likely continue to accelerate, particularly as patients enroll in the newly formed exchanges offered under the Affordable Care Act. Employers have also shifted a greater portion of the cost of care to employees to manage health benefit costs resulting in rising patient responsibility balances. These balances continue to grow and are more difficult to collect than traditional insurance payors. Management continues to monitor the changing healthcare environment and resulting impact on the System and is focused on strategic initiatives that are designed to promote growth and increase value to make healthcare affordable to patients by improving quality and efficiency of care and managing costs throughout the System.

Other unrestricted revenues increased $17.7 million (11.5%) in the second quarter of 2015 compared to the same period in 2014. The increase was primarily due to a $15.0 million increase in outpatient pharmacy revenue, a $10.8 million increase related to the sale of Explorys, a CCF Innovations spin-off company, a $7.1 million increase in gifts and assets released from restrictions resulting from a few large pledge payments received in 2015 and a $2.6 million increase in equity earnings related to the System's investment in Akron General. These increases were offset by a $9.1 million decrease in international contract revenue and a $7.1 million decrease in research and education grant revenues. The System also experienced a corresponding decrease in expenses related to research activities.

Total operating expenses increased $36.1 million (2.3%) in the second quarter of 2015

compared to the same period in 2014. Excluding interest, depreciation and amortization expenses, the increase in expenses was 1.9%. Despite inflationary pressures in many expense categories such as specialized pharmaceuticals, the System experienced solid cost management primarily through implementation of Care Affordability initiatives. Care Affordability initiatives are designed to transform patient care and business models in an effort to provide quality, affordable patient care. The System identifies, quantifies and implements these initiatives through an extensive analysis of the cost structure. Management continues to develop and implement cost management plans designed to make healthcare affordable to patients.

Salaries and benefits increased $6.7 million (0.7%) in the second quarter of 2015 compared to the same period in 2014. Salaries, excluding benefits, increased $11.4 million (1.5%) due to annual salary adjustments averaging 1-2% across the System that were awarded in the second quarter of 2015. The System also experienced a 0.6% increase in average full-time equivalent employees in the second quarter of 2015 compared to the same period in 2014. Employee benefit costs decreased $4.7 million (3.4%). The System experienced a $5.0 million decrease in employee and retiree healthcare costs, offset by a $0.6 million increase in FICA expenses.

Supplies expense increased $9.0 million (5.7%) in the second quarter of 2015 compared to the same period in 2014. The System experienced a $6.8 million increase in implantables and other medical supplies primarily due to increased patient volumes and the expansion of the transplant program at the Florida facilities. The System also experienced a $2.2 million increase in non-medical supplies. To address the challenge of rising supply and service costs in the healthcare industry, management is engaged in an organizational transformation program to identify and implement clinical and non-clinical savings initiatives through renegotiation, product standardization, utilization changes and improvements in procurement to payment processes. This ongoing program has returned over $200 million of annualized savings to the organization since its inception in 2010.

Pharmaceutical costs increased $25.7 million (18.2%) in the second quarter of 2015 compared to the same period in 2014. The increase is primarily due to increased patient volumes, higher costs and increased utilization in the oncology departments. In addition, the System opened a specialty pharmacy in September 2014 that is used to treat chronic illnesses and complex conditions. The System has also experienced a corresponding increase in outpatient pharmacy revenues related to specialty pharmaceuticals.

Purchased services and other fees increased $1.4 million (1.6%) in the second quarter of 2015 compared to the same period in 2014. Expenses in the second quarter of 2015 were higher primarily due to a favorable adjustment recorded in the second quarter of 2014 to contingent liabilities of $8.4 million that had been accrued in prior years and are now resolved. Offsetting this adjustment are expenses that decreased in the second quarter of 2015 compared to the same period in 2014. These expenses include a decrease of $2.5 million in uncertain tax liabilities, a decrease of $2.3 million in hardware and software maintenance agreements and related costs, a decrease of $1.5 million in collection and processing fees, and a decrease of $1.0 million in outside lab services.

Administrative services decreased $8.3 million (19.4%) in the second quarter of 2015

compared to the same period in 2014. The decrease was primarily due to a decrease in expenses related to research activities of $5.9 million and a decrease in consulting fees and other professional services of $1.5 million.

Facilities expense decreased $5.2 million (7.0%) in the second quarter of 2015 compared to the same period in 2014. The decrease was primarily due to a $2.0 million decrease in repairs and maintenance expenses and a $1.5 million decrease in property and equipment rent expenses, which is partially due to the expiration of various operating leases.

Insurance expense decreased $1.4 million (7.3%) in the second quarter of 2015 compared to the same period in 2014. The decrease is comprised of a $1.3 million decrease in professional malpractice expense and a $0.1 million decrease in property, general and other liability insurance expenses. The System utilizes an independent actuarial firm to review professional malpractice loss experience and establish estimated funding levels to the System's captive insurance subsidiary. Over the last few years, the System has undertaken numerous initiatives to manage its medical malpractice insurance expense that resulted in reducing the number of claims and lawsuits and associated costs. These initiatives include hiring additional staff devoted to clinical risk management, promoting patient safety to prevent untoward events, and expanding education programs geared to enhance quality throughout the organization. The System has also taken, where appropriate, a more proactive approach to expedite the settlement of claims, which has reduced claim expenses and has resulted in more favorable settlements.

Interest expense increased $4.5 million (17.4%) in the second quarter of 2015 compared to the same period in 2014. In September 2014, the System issued $400.0 million of taxable century bonds, which has increased interest expense in 2015. Offsetting the increase in interest expense related to the taxable century bonds was a $42.1 million reduction in the total principal amount of outstanding bonds through regularly scheduled principal payments during 2015.

Depreciation and amortization expenses increased $3.7 million (3.8%) in the second quarter of 2015 compared to the same period in 2014. Changes in depreciation include property, plant and equipment that was fully depreciated in 2014, offset by depreciation for property, plant and equipment that was acquired and placed into service in 2015.

Gains and losses from nonoperating activities are recorded below operating income in the statement of operations. These items resulted in a net gain to the System of $56.1 million in the second quarter of 2015 compared to $156.6 million in the second quarter of 2014. The net decrease of $100.5 million is comprised primarily from a $142.9 million unfavorable variance in net investment gains and losses on the System's investment portfolio and a $42.4 million favorable variance in derivative gains and losses. The System's long-term investment portfolio reported investment losses of 0.2% for the second quarter of 2015, which is equal to the portfolio's benchmark and lower than investment gains of 3.1% experienced in the second quarter of 2014. Derivative gains and losses result from changes in the interest rate benchmark associated with the System's interest rate swap contracts and include net interest paid or received under the swap agreements.

For the Six Months Ended June 30, 2015 and 2014

Operating income for the System in the first six months of 2015 was $188.5 million, resulting in an operating margin of 5.6% as compared to operating income of $120.7 million and an operating margin of 3.7% in the first six months of 2014. The higher operating income for the first six months of 2015 primarily resulted from a 4.2% increase in total unrestricted revenues, which is primarily due to increases in patient volumes compared to the prior year. Total operating expenses increased 2.2% in the first six months of 2015 compared to the first six months of 2014, with notable increases experienced in supplies and pharmaceutical costs, interest expense and depreciation and amortization expenses. Nonoperating gains for the System were $159.3 million in the first six months of 2015 compared to nonoperating gains of $201.6 million in the first six months of 2014. The decrease from the prior year was primarily a result of gains and losses on investments attributable to overall changes in the financial markets. Overall, the System reported an excess of revenues over expenses of $347.7 million in the first six months of 2015 compared to an excess of revenues over expenses of $322.3 million in the first six months of 2014.

The System's net patient service revenue increased $32.4 million (1.0%) in the first six months of 2015 compared to the same period in 2014. The System experienced increases in inpatient admissions of 2.8% and outpatient observations of 1.2%, which resulted in combined admissions and observations to be 2.4% higher in the first six months of 2015 compared to the first six months of 2014. Total surgical cases increased 2.1%, emergency department visits increased 9.5%, and outpatient E&M visits at the Clinic increased 8.5% in the first six months of 2015 compared to the first six months of 2014. The System has also experienced a payor mix shift due to expansion of Medicaid eligibility in the State of Ohio, which has increased enrollment in the Medicaid program and decreased the number of self-pay patients. The State of Ohio expanded the program effective January 1, 2014, which has allowed former uninsured patients to shift into the expanded Medicaid program. Medicaid revenue for the System was 12.3% of total gross patient revenue in the first six months of 2015 compared to 9.3% in the first six months of 2014. This increase was partially offset by a decrease in self-pay gross revenues. In addition to the payor mix shifts in Medicaid and self-pay, the System experienced a negative payor mix shift in managed care and commercial gross revenues. Increases in revenue also resulted from rate increases on the System's managed care contracts that became effective in 2015. Over the last few years, the System has initiated national, regional and local revenue management projects designed to improve patient care access throughout the System.

Provision for uncollectible accounts decreased $71.8 million (34.3%) in the first six months of 2015 compared to the same period in 2014. Total uncompensated care, which includes provision for uncollectible accounts and charity care, decreased 29.0% over the same time period. The decrease is primarily attributable to the expansion of Medicaid eligibility in the State of Ohio, and the resulting decrease in the number of self-pay patients. Self-pay revenue for the System was 3.1% of total gross patient revenue in the first six months of 2015 compared to 5.5% in the first six months of 2014. Partially offsetting this shift is an increase in provision for uncollectible accounts resulting from high co-pay and deductible health plans. The growth in high deductible health plans is an industry trend that will likely continue to accelerate, particularly as patients enroll in the

newly formed exchanges offered under the Affordable Care Act. Employers have also shifted a greater portion of the cost of care to employees to manage health benefit costs resulting in rising patient responsibility balances. These balances continue to grow and are more difficult to collect than traditional insurance payors. Management continues to monitor the changing healthcare environment and resulting impact on the System and is focused on strategic initiatives that are designed to promote growth and increase value to make healthcare affordable to patients by improving quality and efficiency of care and managing costs throughout the System.

Other unrestricted revenues increased $32.2 million (11.4%) in the first six months of 2015 compared to the same period in 2014. The increase was primarily due to a $24.7 million increase in outpatient pharmacy revenue, a $10.8 million increase related to the sale of Explorys, a CCF Innovations spin-off company, a $7.1 million increase in gifts and assets released from restrictions resulting from a few large pledge payments received in 2015 and a $3.1 million increase in equity earnings related to the System's investment in Akron General. These increases were offset by a $10.5 million decrease in international contract revenue and a $6.1 million decrease in research and education grant revenues. The System also experienced a corresponding decrease in expenses related to research activities.

Total operating expenses increased $68.7 million (2.2%) in the first six months of 2015 compared to the same period in 2014. Excluding interest, depreciation and amortization expenses, the increase in expenses was 1.7%. Despite inflationary pressures in many expense categories such as specialized pharmaceuticals, the System experienced solid cost management primarily through implementation of Care Affordability initiatives. Care Affordability initiatives are designed to transform patient care and business models in an effort to provide quality, affordable patient care. The System identifies, quantifies and implements these initiatives through an extensive analysis of the cost structure. Management continues to develop and implement cost management plans designed to make healthcare affordable to patients.

Salaries and benefits increased $7.9 million (0.4%) in the first six months of 2015 compared to the same period in 2014. Salaries, excluding benefits, increased $15.1 million (1.0%) due to annual salary adjustments averaging 1-2% across the System that were awarded in the second quarter of 2015. This impact was partially offset by a 0.1% decrease in average full-time equivalent employees in the first six months of 2015 compared to the same period in 2014. Employee benefit costs decreased $7.2 million (2.5%). The System experienced a $7.2 million decrease in employee and retiree healthcare costs, a $1.1 million decrease in retirement benefits, and a $0.8 million decrease in long-term disability costs. These decreases were offset by a $1.0 million increase in employee tuition reimbursement benefits and a $0.9 million increase in FICA expenses.

Supplies expense increased $13.6 million (4.4%) in the first six months of 2015 compared to the same period in 2014. The System experienced a $12.6 million increase in implantables and other medical supplies primarily due to increased patient volumes and the expansion of the transplant program at the Florida facilities. The System also experienced a $1.0 million increase in non-medical supplies. To address the challenge of rising supply and service costs in the healthcare industry, management is engaged in an organizational transformation program to identify and implement clinical and non-clinical savings

initiatives through renegotiation, product standardization, utilization changes and improvements in procurement to payment processes. This ongoing program has returned over $200 million of annualized savings to the organization since its inception in 2010.

Pharmaceutical costs increased $49.4 million (18.4%) in the first six months of 2015 compared to the same period in 2014. The increase is primarily due to increased patient volumes, higher costs and increased utilization in the oncology departments. In addition, the System opened a specialty pharmacy in September 2014 that is used to treat chronic illnesses and complex conditions. The System has also experienced a corresponding increase in outpatient pharmacy revenues related to specialty pharmaceuticals.

Purchased services and other fees increased $2.3 million (1.3%) in the first six months of 2015 compared to the same period in 2014. Expenses in the second quarter of 2015 were higher primarily due to a favorable adjustment recorded in the second quarter of 2014 to contingent liabilities of $8.4 million that had been accrued in prior years and are now resolved. Offsetting this adjustment are expenses that decreased in the second quarter of 2015 compared to the same period in 2014. These expenses include a decrease of $2.5 million in uncertain tax liabilities in 2015, a decrease of $1.8 million in collection and processing fees, a decrease of $1.3 million in outside lab services and a decrease of $1.2 million in hardware and software maintenance agreements and related costs, .

Administrative services decreased $13.4 million (16.7%) in the first six months of 2015 compared to the same period in 2014. The decrease was primarily due to a decrease in expenses related to research activities of $7.4 million and a decrease in consulting fees and other professional services of $5.3 million.

Facilities expense decreased $9.5 million (6.4%) in the first six months of 2015 compared to the same period in 2014. The decrease was primarily due to a $3.8 million decrease in property and equipment rent expenses, which is partially due to the expiration of various operating leases, and a $2.0 million decrease in repairs and maintenance expenses.

Insurance expense decreased $0.3 million (0.8%) in the first six months of 2015 compared to the same period in 2014. The decrease is comprised of a $0.5 million decrease in professional malpractice expense and a $0.2 million increase in property, general and other liability insurance expenses. The System utilizes an independent actuarial firm to review professional malpractice loss experience and establish estimated funding levels to the System's captive insurance subsidiary. Over the last few years, the System has undertaken numerous initiatives to manage its medical malpractice insurance expense that resulted in reducing the number of claims and lawsuits and associated costs. These initiatives include hiring additional staff devoted to clinical risk management, promoting patient safety to prevent untoward events, and expanding education programs geared to enhance quality throughout the organization. The System has also taken, where appropriate, a more proactive approach to expedite the settlement of claims, which has reduced claim expenses and has resulted in more favorable settlements.

Interest expense increased $8.8 million (16.9%) in the first six months of 2015 compared to the same period in 2014. In September 2014, the System issued $400.0 million of taxable century bonds, which has increased interest expense in 2015. Offsetting the increase in interest

expense related to the taxable century bonds was a $42.1 million reduction in the total principal amount of outstanding bonds through regularly scheduled principal payments during 2015.

Depreciation and amortization expenses increased $9.9 million (5.1%) in the first six months of 2015 compared to the same period in 2014. Changes in depreciation include property, plant and equipment that was fully depreciated in 2014, offset by depreciation for property, plant and equipment that was acquired and placed into service in 2015.

Gains and losses from nonoperating activities are recorded below operating income in the statement of operations. These items resulted in a net gain to the System of $159.3 million in the first six months of 2015 compared to $201.6 million in the first six months of 2014. The net decrease of $42.3 million is comprised primarily of an $84.9 million unfavorable variance in net investment gains and losses on the System's investment portfolio and a $42.8 million favorable variance in derivative gains and losses. The System's long-term investment portfolio reported investment gains of 2.5% for the first six months of 2015, which is favorable compared to the portfolio's benchmark gain of 1.8% but lower than investment gains of 4.8% experienced in the first six months of 2014. Derivative gains and losses result from changes in the interest rate benchmark associated with the System's interest rate swap contracts and include net interest paid or received under the swap agreements.

BALANCE SHEET – JUNE 30, 2015 COMPARED TO DECEMBER 31, 2014

Patient accounts receivable, net of allowances for uncollectible accounts, increased $10.2 million (1.2%) from December 31, 2014 to June 30, 2015. The increase in patient receivables is partially due to the increase in net patient service revenue resulting from increased patient volumes and rate increases on the System's managed care contracts that became effective in January 2015. Additionally, the System has experienced a growth in patient responsibility accounts receivable. Patient responsibility accounts, which represents the portion of services that is not paid by a patient's insurance company, have increased as a result of employers shifting a greater portion of the cost of care to employees, typically in the form of co-pays and deductibles. These balances have continued to grow and are generally more difficult to collect than traditional insurance payors. Patient responsibility accounts receivable also tends to be seasonally higher in the first half of the year as many insurance plans have annual deductible requirements. The System has also experienced an increase in accounts receivables related to international patients. The System records estimated allowances that result in patient accounts receivable being reported at the net amount expected to be received. Days revenue outstanding for the System increased from 47 days at December 31, 2014 to 49 days at June 30, 2015.

Investments for current use, which is comprised of bond trustee funds and assets held by the captive insurance subsidiary, decreased $98.0 million (67.7%) from December 31, 2014 to June 30, 2015. Current bond trustee funds decreased $98.0 million due to the timing of principal and interest payments paid in early 2015 that were funded to the bond trustee in December 2014. Assets held by the captive insurance subsidiary reported in investments for current use represents investments that will be used to pay the current portion of estimated claim liabilities. There was no change in these

investments in the first six months of 2015.

Other current assets increased $11.6 million (3.5%) from December 31, 2014 to June 30, 2015. The increase was primarily due to a $25.8 million increase in prepaid expenses, an $8.3 million increase in international consulting contract receivables and a $4.3 million increase in inventory balances. These increases were offset by a an $16.0 million decrease in receivables related to the timing of receipts for various Medicare and Medicaid programs and a $11.6 million reduction in the current portion of pledges receivable primarily due to pledge payments received in the first six months of 2015.

Unrestricted investments increased $229.4 million (3.9%) from December 31, 2014 to June 30, 2015. Increases in unrestricted investments include positive cash flow from operations and positive earnings on investments. The increases were offset by net capital expenditures of $181.5 million.

Funds held by trustees increased $1.1 million (1.0%) from December 31, 2014 to June 30, 2015. The increase was primarily due to $11.8 million of additional collateral to support a futures and options program within the System's investment portfolio. Offsetting this increase was a $6.9 million reduction in collateral posted with the counterparties on the System's derivative contracts and a $3.7 million decrease in other trusteed funds related to certain System contracts.

Assets held by the System's captive insurance subsidiary increased $13.0 million (12.3%) from December 31, 2014 to June 30, 2015. The increase in the captive insurance assets is primarily related to insurance premiums received by the captive in excess of reimbursement payments for claims previously settled and paid by other System entities and positive market returns on the captive's investment portfolio.

Donor restricted assets increased $35.2 million (7.4%) from December 31, 2014 to June 30, 2015. The increase in donor restricted assets was primarily from investment gains on restricted investments and receipt of donor restricted gifts in excess of expenditures from restricted funds.

Net property, plant and equipment decreased $17.4 million (0.5%) from December 31, 2014 to June 30, 2015. In the first six months of 2015, the System had net expenditures for property, plant and equipment of $181.5 million, offset by depreciation expense of $202.2 million. Capital expenditures in 2015 include amounts paid on retainage liabilities recorded at December 31, 2014 and exclude assets acquired through capital lease arrangements. Expenditures for property, plant and equipment were incurred at numerous facilities across the System and include expenditures for strategic construction, expansion and technological investment as well as replacement of existing facilities and equipment. For a complete description of many of System's current projects, refer to "EXPANSION AND IMPROVEMENT PROJECTS."

Other noncurrent assets increased $4.5 million (0.7%) from December 31, 2014 to June 30, 2015. The increase was primarily due to a $6.2 million increase in investments in affiliates that includes equity earnings and capital contributions for various affiliates of the System, including the System's investment in Akron General, a $0.5 million increase in noncurrent pledges receivable and a $0.4 million increase in the System's beneficial interest in community foundations. These increases were offset by a $3.3 million decrease in deferred compensation plan assets and a $1.7 million decrease in reinsurance recoverable receivables.

Accounts payable decreased $36.2 million (10.8%) from December 31, 2014 to June 30, 2015. The increase was primarily attributable to the timing of payment processing for trade payables. Other changes include an $18.6 million decrease in outstanding checks and a $2.0 million decrease in retainage liabilities associated with the System's construction projects.

Compensation and amounts withheld from payroll increased $80.0 million (33.5%) from December 31, 2014 to June 30, 2015. The change was primarily attributable to the timing of payroll and the growth in employee benefit accruals.

Current portion of long-term debt increased $17.3 million (31.1%) from December 31, 2014 to June 30, 2015. The increase was due to reclassifications of debt from long-term to current, offset by regularly scheduled principal payments. The net change is comprised of a $10.9 million increase related to bond payments and $6.4 million increase related to notes payable and capital leases.

Variable rate debt classified as current decreased $0.2 million (0.04%) from December 31, 2014 to June 30, 2015. Long-term debt classified as current consists of variable-rate bonds supported by the System's self-liquidity program and bonds with letters of credit or standby bond purchase agreements that expire within one year, require repayment of a remarketing draw within one year or contain a subjective clause that would allow the lender to declare an event of default and cause immediate repayment of such bonds. The decrease in variable rate debt classified as current in the first six months of 2015 relates to reclassifications to current portion of long-term debt for regularly scheduled principal payments.

Other current liabilities decreased $42.4 million (9.7%) from December 31, 2014 to June 30, 2015. The decrease is primarily due to a $31.1 million decrease in state franchise liabilities due to the timing of payments for this program and a $29.0 million reduction in the current portion of third-party liabilities. These decreases were offset by a $6.5 million increase in deferred revenue related to research activities and a $3.4 million increase in interest payable related to fixed-rate bonds that pay interest semi-annually in January and July of each year. The increase in interest liabilities resulted from the issuance of the Series 2014A Bonds in September 2014.

Hospital revenue bonds decreased $54.2 million (1.9%) from December 31, 2014 to June 30, 2015. The decrease is primarily due to the reclassification of regularly scheduled principal payments from long-term to current. The System has $55.2 million of regularly scheduled principal payments due in 2016.

Notes payable and capital leases decreased $17.3 million (9.8%) from December 31, 2014 to June 30, 2015. The decrease is primarily due to $8.5 million of principal payments on a note payable related to the System's affiliation with Akron General Health System. Payments on the note payable are made to Akron General in accordance with the terms of the affiliation agreement. Other changes in notes payable and capital leases include reclassification of regularly scheduled principal payments from long-term to current, offset by new capital leases totaling $5.2 million that were executed in the first six months of 2015.

Professional and general insurance liability reserves increased $1.7 million (1.2%) from December 31, 2014 to June 30, 2015. The increase is due to the growth in expected claim liabilities in excess of claim payments.

Accrued retirement benefits decreased $9.9 million (2.2%) from December 31, 2014 to June

30, 2015. The decrease is comprised of a $10.8 million decrease in the System's defined benefit pension plan liabilities and a $0.9 million increase in other postretirement benefit liabilities. The decrease in defined benefit pension plan liabilities was primarily due to $13.4 million in negative net periodic benefit cost for the CCHS Retirement Plan, which has resulted from actuarial expected return on plan assets in excess of interest cost incurred on plan obligations. The System froze the CCHS Retirement Plan for substantially all employees in 2009, with benefits for remaining participants ceasing at various intervals through December 31, 2012.

Other noncurrent liabilities decreased $16.4 million (3.7%) from December 31, 2014 to June 30, 2015. Changes in other noncurrent liabilities include a $12.5 million decrease in derivative liabilities associated with changes in the fair value of the System's interest rate swap contracts and a $3.7 million decrease in long-term employee benefit related liabilities.

Total net assets increased $371.0 million (5.5%) from December 31, 2014 to June 30, 2015. Unrestricted net assets increased $345.9 million (5.8%), comprised primarily of an excess of revenues over expenses of $347.7 million and assets released from restriction for capital purposes of $1.3 million, offset by unrealized losses on non-trading investments of $2.4 million and retirement benefit adjustments of $1.5 million related to the amortization of prior service credits on the System's pension and postretirement benefit plans. Temporarily restricted net assets increased $20.0 million (3.8%), primarily due to $31.5 million in temporarily restricted gifts and $11.3 million in restricted investment income, offset by $23.0 million in assets released from restrictions. Permanently restricted net assets increased $5.1 million (1.8%) primarily due to $4.9 million of permanently restricted gifts recorded in the first six months of 2015.

Lerner Research Institute
Cleveland, Ohio

FORWARD-LOOKING STATEMENTS

Forward-looking statements contained in this report and other written reports and oral statements are made based on known events and circumstances at the time of release, and as such, are subject in the future to unforeseen uncertainties and risks. All statements regarding future performance, events or developments are forward-looking statements. It is possible that the System's future performance may differ materially from current expectations depending on economic conditions within the healthcare industry and other factors. Among other factors that might affect future performance are:

- Changes to the Medicare and Medicaid reimbursement systems resulting in reductions in payments, and/or changes in eligibility of patients to qualify for Medicare and Medicaid;
- Legislative reforms or actions that reduce the payment for, and/or utilization of, healthcare services, such as the Patient Protection and Affordable Care Act and/or draft legislation to address reimbursement cuts related to the Sustainable Growth Rate Formulas;
- Adjustments resulting from Medicare and Medicaid reimbursement audits, including audits initiated by the Medicare Recovery Audit Contractor program;
- Increased competition in the areas served by the System;
- The ability of the System to access capital for the funding of capital projects;
- Availability of malpractice insurance at reasonable rates, if at all;
- The System's ability to recruit and retain professionals;
- General economic and business conditions, internationally, nationally and regionally, including the impact of financial market conditions and volatility and increases in the number of self-pay patients;
- The declining population in the Greater Cleveland area;
- Impact of federal laws on tax-exempt organizations and state law relating to exemption from income taxes, sales taxes and real estate taxes;
- Management, utilization and increases in the cost of medical drugs and devices as technological advancement progresses without concurrent increases in federal reimbursement;
- Ability of the System to adjust its cost structure and reduce operating expenses; and
- Changes in accounting standards or practices.

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