MAYO
CLINIC

Mayo Clinic

Consolidated Financial Report
Years Ended December 31, 2021 and 2020

Mayo Clinic

Contents

Building a better
working world

Ernst & Young LLP
Suite 500
700 Nicollet Mall
Minneapolis, MN 55402

Tel: +1 612 343 1000
ey.com

Report of Independent Auditors

Board of Trustees
Mayo Clinic

Opinion

We have audited the consolidated financial statements of Mayo Clinic ("the Clinic"), which comprise the consolidated statements of financial position as of December 31, 2021 and 2020, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes (collectively referred to as the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Clinic at December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

a. Exercise professional judgment and maintain professional skepticism throughout the audit.

b. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

c. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Clinic's internal control. Accordingly, no such opinion is expressed.

d. Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

e. Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Clinic's ability to continue as a going concern for a reasonable period of time.

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

Building a better
working world

Other Information

Management is responsible for the other information. The other information comprises the Management Discussion and Analysis but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Ernst & Young LLP

February 18, 2022

MAYO CLINIC

Consolidated Statements of Financial Position
December 31, 2021 and 2020 (In Millions)

	2021	2020
Assets		
Current assets:		
Cash and cash equivalents	**$ 46**	$ 72
Accounts receivable for medical services	**1,826**	1,756
Other receivables	**648**	576
Other current assets	**317**	254
Total current assets	**2,837**	2,658
Investments	**18,021**	14,358
Other long-term assets	**1,407**	1,204
Property, plant, and equipment, net	**5,410**	4,964
Total assets	**$ 27,675**	$ 23,184
Liabilities and net assets		
Current liabilities:		
Accounts payable	**$ 768**	$ 584
Accrued payroll	**818**	797
Accrued employee benefits	**168**	163
Deferred revenue	**62**	90
Long-term variable-rate debt	**620**	620
Mandatory tender debt	**—**	135
Other current liabilities	**509**	472
Total current liabilities	**2,945**	2,861
Long-term debt, net of current portion	**3,552**	3,097
Accrued pension and postretirement benefits, net of current portion	**1,378**	2,897
Other long-term liabilities	**2,133**	1,964
Total liabilities	**10,008**	10,819
Net assets:		
Without donor restrictions	**12,431**	8,016
With donor restrictions	**5,236**	4,349
Total net assets	**17,667**	12,365
Total liabilities and net assets	**$ 27,675**	$ 23,184

See notes to consolidated financial statements.

MAYO CLINIC

Consolidated Statements of Activities
Years Ended December 31, 2021 and 2020 (In Millions)

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, gains, and other support:						
Medical service revenue	$ 13,310	$ —	$ 13,310	$ 11,501	$ —	$ 11,501
Grants and contracts	613	—	613	569	—	569
Investment return allocated to current activities	217	24	241	238	32	270
Contributions available for current activities	181	253	434	91	258	349
Other	1,131	—	1,131	1,111	—	1,111
Net assets released from restrictions	430	(430)	—	246	(246)	—
Total revenue, gains, and other support	15,882	(153)	15,729	13,756	44	13,800
Expenses:						
Salaries and benefits	8,661	—	8,661	7,954	—	7,954
Supplies and services	4,767	—	4,767	4,099	—	4,099
Depreciation and amortization	619	—	619	611	—	611
Facilities	326	—	326	276	—	276
Finance and investment	144	—	144	132	—	132
Total expenses	14,517	—	14,517	13,072	—	13,072
Income (loss) from current activities	1,365	(153)	1,212	684	44	728
Noncurrent and other items:						
Contributions not available for current activities, net	(22)	371	349	(21)	250	229
Unallocated investment return, net	1,432	669	2,101	1,254	340	1,594
Income tax expense	(25)	—	(25)	(40)	—	(40)
Benefit credit	61	—	61	62	—	62
Other	(124)	—	(124)	(106)	—	(106)
Total noncurrent and other items	1,322	1,040	2,362	1,149	590	1,739
Increase in net assets before other changes in net assets	2,687	887	3,574	1,833	634	2,467
Pension and other postretirement benefit adjustments	1,728	—	1,728	(496)	—	(496)
Increase in net assets	4,415	887	5,302	1,337	634	1,971
Net assets at beginning of year	8,016	4,349	12,365	6,679	3,715	10,394
Net assets at end of year	$ 12,431	$ 5,236	$ 17,667	$ 8,016	$ 4,349	$ 12,365

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows
Years Ended December 31, 2021 and 2020 (In Millions)

	2021	2020
Cash flows from operating activities:		
Cash from medical services	**$ 12,283**	$ 10,904
Cash from external lab services	**957**	861
Cash from grants and contracts	**616**	555
Cash from benefactors	**368**	271
Cash from other activities	**1,030**	1,052
Cash for salaries and benefits	**(8,350)**	(7,827)
Cash for supplies, services, and facilities	**(5,136)**	(4,369)
Interest and dividends received	**222**	145
Interest paid	**(126)**	(115)
Income taxes paid	**(63)**	(6)
Net cash provided by operating activities	**1,801**	1,471
Cash flows from investing activities:		
Purchase of property, plant, and equipment	**(861)**	(642)
Purchases of investments	**(6,832)**	(5,913)
Sales and maturities from investments	**5,291**	4,463
Investment in unconsolidated entities	**(43)**	(50)
Net cash used in investing activities	**(2,445)**	(2,142)
Cash flows from financing activities:		
Restricted gifts, bequests, and other	**265**	214
Borrowing on long-term debt	**500**	630
Payment of long-term debt	**(141)**	(134)
Payment on leases	**(6)**	(15)
Medicare advance payments	**—**	915
Return of Medicare advance payments	**—**	(915)
Net cash provided by financing activities	**618**	695
Net (decrease) increase in cash and cash equivalents	**(26)**	24
Cash and cash equivalents at beginning of year	**72**	48
Cash and cash equivalents at end of year	**$ 46**	$ 72

See notes to consolidated financial statements.

Note 1. Organization and Summary of Significant Accounting Policies

Organization: Mayo Clinic and its Arizona, Florida, Iowa, Minnesota, and Wisconsin affiliates (the Clinic) provide comprehensive medical care and education in clinical medicine and medical sciences and conduct extensive programs in medical research. The Clinic also provides hospital and outpatient services, and at each major location, the clinical practice is closely integrated with advanced education and research programs. The Clinic and most of its subsidiaries have been determined to qualify as tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code (the Code) and as a public charity under Section 509(a)(2) of the Code.

Basis of presentation: Included in the Clinic's consolidated financial statements are all of its wholly owned or wholly controlled subsidiaries. All significant intercompany transactions have been eliminated in consolidation. In addition, these statements follow generally accepted accounting principles applicable to the not-for-profit industry as described in the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) *Topic 958, Not-for Profit Entiti*es.

Certain reclassifications have been made to the 2020 consolidated financial statements to conform with classifications used in 2021. The reclassifications had no significant effect on total assets, total liabilities, total revenue, or total change in net assets previously reported.

Use of estimates: The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Standards

Effective January 1, 2021, the Clinic adopted FASB Accounting Standards Update (ASU) No. 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans (Topic 715).* This ASU modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The adoption of this ASU did not materially impact the consolidated financial statements.

Effective January 1, 2021, the Clinic adopted FASB ASU No. 2018-15, *Intangibles – Goodwill and Other, Internal-Use Software (Subtopic 350-40), Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. This ASU aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The adoption of this ASU did not materially impact the consolidated financial statements.

New Accounting Standard Not Yet Adopted

In September 2020, the FASB issued ASU No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets (Topic 958)*. This ASU requires presentation of contributed nonfinancial assets as a separate line in the consolidated statement of activities, apart from contributions of cash or other financial assets. The ASU is effective January 1, 2022, and will be applied on a retrospective basis. The adoption of this ASU will not materially impact the consolidated financial statements.

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

Cash and cash equivalents: Cash and cash equivalents include currency on hand, demand deposits with banks or other financial institutions, and short-term investments with maturities of three months or less from the date of purchase, which are not managed by the Clinic's investment managers.

Accounts receivable for medical services: Accounts receivable for medical services are based upon the estimated amounts expected to be paid from patients and third-party payors.

Inventories: Inventories, consisting primarily of medical supplies and pharmaceuticals, are stated at the lower of cost or net realizable value.

Investments: Investments in equity and debt securities, including alternative investments, are recorded at fair value (Notes 4 and 6). Fair value is 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. Realized gains and losses are calculated based on the average cost method. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in the consolidated statements of activities.

Alternative investments (principally limited partnership interests in absolute return, hedge, private equity, real estate, and natural resources funds) represent the Clinic's ownership interest in the respective partnership, which is valued at fair value based on net asset value (NAV) obtained from fund manager statements and historically audited financial statements. The investments in alternative investments may individually expose the Clinic to securities lending, short sales, and trading in futures and forward contract options and other derivative products. The Clinic's risk is limited to the investment's carrying value.

It is the Clinic's intent to maintain a long-term investment portfolio to support research, education, and other activities. Accordingly, the total investment return is reported in the consolidated statements of activities in two categories. The investment return allocated to current activities is determined by a formula, which involves allocating 5% of a three-year moving average of investments related to endowments, and the matching of financing costs for the assets required for operations. Management believes this return is approximately equal to the real return that the Clinic expects to earn on its investments over the long term. The unallocated investment return, included in noncurrent and other items in the consolidated statements of activities, represents the difference between the total investment return and the amount allocated to current activities, net of investment costs.

Property, plant, and equipment: Property, plant, and equipment are carried at cost if purchased or at fair value on the date received through affiliation or donation, less accumulated depreciation. Plant and equipment are depreciated over their estimated useful lives, ranging from 3 to 50 years using the straight-line method. Depreciation expense includes amortization of assets recorded under capital leases.

Costs associated with the development and installation of internal-use software are accounted for in accordance with *Intangibles—Goodwill and Other, Internal-Use Software (Subtopic 350-40)* of the FASB ASC. Accordingly, internal-use software costs are expensed or capitalized and amortized according to the provisions of the accounting standard.

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

Leases: The Clinic determines if an arrangement is a lease at inception. Operating leases are included in other long-term assets, other current liabilities, and other long-term liabilities in the consolidated statements of financial position. Finance leases are included in property, plant, and equipment, other current liabilities, and other long-term liabilities in the consolidated statements of financial position.

Right-of-use (ROU) assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at the commencement date, based on the present value of lease payments over the lease term. As most of the leases do not provide an implicit rate, the Clinic uses an incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. The implicit rate is used when readily determinable. The ROU asset also includes any lease payments made and excludes lease incentives. The lease term may include options to extend or terminate the lease when it is reasonably certain the Clinic will exercise the option.

The Clinic defines a short-term lease as any lease arrangement with a lease term of 12 months or less that does not include an option to purchase the underlying asset. Short-term lease payments are recognized as expense on a straight-line basis over the lease term and variable lease payments in the period in which the obligation is incurred.

The Clinic has lease arrangements with lease and non-lease components, which are generally accounted for separately, except the Clinic has elected the practical expedient to not separate non-lease components for real estate leases. Additionally, for certain equipment leases, the Clinic applies a portfolio approach to effectively account for the ROU assets and liabilities.

Deferred revenue: Deferred revenue consists of payments received in advance for grant, subscription, and tuition revenue. Deferred revenues are subsequently recognized as revenue in accordance with the Clinic’s revenue recognition policies.

Deferred compensation: The Clinic offers eligible employees a nonqualified, tax-deferred compensation retirement plan. Employees defer compensation into the plan on a pretax basis. For the most part, the plan operates similar to a defined contribution plan and is presented in noncurrent and other items on the consolidated statements of activities.

Asset retirement obligations: The Clinic accounts for the estimated cost of legal obligations associated with long-lived asset retirements in accordance with *Asset Retirement and Environmental Obligations (Topic 410)* of the FASB ASC. The asset retirement liability, recorded in other long-term liabilities, is accreted to the present value of the estimated future costs of these obligations at the end of each period.

Net assets: Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition on long-lived assets are recognized as revenue when received. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Medical service revenue: Medical service revenue is reported at the amount that reflects the consideration to which the Clinic expects to be entitled in exchange for providing patient care.

Grants and contracts: Reciprocal grants and contracts revenue is recognized when the expenses have been incurred for the purpose specified by the grantor or in accordance with the terms of the agreement.

Contributed grants and contracts revenue is recorded as conditions are met or immediately if deemed an unconditional contribution. Grant and contract amounts due to the Clinic are included in other receivables.

Charity and uncompensated care: The Clinic provides health care services to patients who meet certain criteria under its Charity Care Policy without charge or at amounts less than established rates. Since the Clinic does not pursue collection of these amounts, they are not reported as revenue. The estimated cost of providing these services was $49 and $89 in 2021 and 2020, respectively, calculated by multiplying the ratio of cost to gross charges for the Clinic by the gross uncompensated charges associated with providing care to charity patients. In addition to the charges related to the direct patient

care provided under the Clinic's Charity Care Policy, the Clinic has programs offered to benefit the broader community and other governmental reimbursement programs. The Clinic also participates in various state Medicaid programs for indigent patients. The estimated unreimbursed cost of providing services related to Medicaid programs totaled $601 and $540 in 2021 and 2020, respectively.

Contributions: The Clinic classifies contributions that are available for current activities as revenue, based on the lack of specific donor restriction or the presence of donor restrictions and the ability of the Clinic to meet those restrictions within the year. Contributions of a perpetual nature or not available for current activities are classified in noncurrent and other items in the consolidated statements of activities.

Development expenses of $48 ($26 allocated to current and $22 allocated to noncurrent) and $48 ($27 allocated to current and $21 allocated to noncurrent) were incurred in 2021 and 2020, respectively. The current portion is recorded in expenses, and the noncurrent portion is netted against contributions not available for current activities in the consolidated statements of activities. Unconditional promises to give and contributions are reported at fair value at the time of the gift. An allowance for uncollectible pledges receivable is estimated, based on a combination of historical experience and specific identification. Conditional promises to give are recognized at fair value when the barriers to entitlement are overcome or the possibility that a condition will not be met is remote.

The Clinic periodically receives works of art from various benefactors. These items are unique in nature and are held on display for the benefit and enjoyment of the Clinic's patients. It is the Clinic's policy to neither capitalize contributed works of art nor record the related contribution revenue.

Income from current activities: The Clinic's policy is to include in income from current activities all medical service and other revenue, grants and contracts, investment return allocated to current activities, contributions available for current activities, net assets released from restrictions, and substantially all

Notes to Consolidated Financial Statements (In Millions)

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

expenses. Contributions not available for current activities, unallocated investment return, income tax expense, benefit credit, and those items not expected to recur on a regular basis are included in noncurrent and other items in the consolidated statements of activities.

Subsequent events: The Clinic evaluated events and transactions occurring subsequent to December 31, 2021 through February 18, 2022, the date of issuance of the consolidated financial statements. During this period, there were no subsequent events requiring recognition in the consolidated financial statements. Additionally, there were no unrecognized events requiring disclosure.

Note 2. Liquidity and Availability

Financial assets available for general expenditure within one year of the consolidated statement of financial position date are composed of the following at December 31:

	2021	2020
Cash and cash equivalents	$ 46	$ 72
Accounts receivable	1,826	1,756
Promises to give	294	234
Grants receivable	134	134
Other receivables	220	208
Investments	11,234	8,878
Total financial assets available within one year	$ 13,754	$ 11,282

As part of a liquidity management plan, the Clinic has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Cash in excess of daily requirements is invested in short-term investments. In the event of an unanticipated liquidity need, the Clinic has $300 of available lines of credit for working capital at December 31, 2021 and 2020 (see Note 9 – Financing).

The Clinic's endowment funds consist of donor-restricted endowments and funds designated by the board as endowment. Income from endowments is restricted for specific purposes. As described in Note 13 – Endowment, under the Clinic spending policy, $247 from the endowments was available as of January 1, 2022, and $224 from the endowments was available at January 1, 2021.

Note 3. Medical Service Revenue

Medical service revenue is reported at the amount that reflects the consideration to which the Clinic expects to be entitled in exchange for providing patient care. These amounts, representing transaction price, are due from patients, third-party payors (including health insurers and government programs), and others and include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Clinic bills the patients and third-party payors several days after the services are performed and/or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Note 3. Medical Service Revenue (Continued)

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

Because all of its performance obligations relate to contracts with a duration of less than one year, the Clinic has elected to apply the optional exemption provided in *Revenue from Contracts with Customers (Topic 606-10-50-14(a))* and, therefore, is not required to disclose the aggregate amount of the

transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

The Clinic determines the transaction price based on standard charges for goods and services provided to patients, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Clinic's policy, and/or implicit price concessions based on historical collection experience.

Agreements with third-party payors typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payors follows:

- **Medicare:** Certain inpatient acute care services are paid at prospectively determined rates per discharge based on clinical, diagnostic, and other factors. Certain services are paid based on cost-reimbursement methodologies subject to certain limits. Physician services are paid based upon established fee schedules. Outpatient services are paid using prospectively determined rates.
- **Medicaid:** Reimbursements for Medicaid services are generally paid at prospectively determined rates per discharge, per occasion of service, or per covered member.
- **Other:** Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be

Note 3. Medical Service Revenue (Continued)

subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the Clinic's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Clinic. In addition, the contracts that the Clinic has with commercial payors also provide for retroactive audit and review of claims.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Clinic also provides services to uninsured patients and offers those uninsured patients a discount, either by policy or law, from standard charges. The Clinic estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured, based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to medical service revenue in the period of the change. For the years ended December 31, 2021 and 2020, revenue recognized due to changes in its estimates of transaction price concessions for performance obligations satisfied in prior years was not significant. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense. Bad debt expense for the years ended December 31, 2021 and 2020, was not significant.

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the Clinic's historical settlement activity, including an assessment to ensure it is probable a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available) or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from a change in the transaction price for the years ended December 31, 2021 and 2020, were not significant.

Patients who meet the Clinic's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts which are determined to qualify as charity care are not reported as revenue.

Notes to Consolidated Financial Statements (In Millions)

Note 3. Medical Service Revenue (Continued)

The composition of medical service revenue based on the regions of the country in which the Clinic operates, its lines of business, and timing of revenue recognition for the years ended December 31, 2021 and 2020, are as follows:

	Year Ended December 31, 2021			
	Midwest	Southeast	Southwest	Total
Hospital	$ 5,108	$ 987	$ 1,156	$ 7,251
Clinic	3,353	802	912	5,067
Senior care and nursing home	15	—	—	15
Other	58	1	—	59
Total patient care service revenue	8,534	1,790	2,068	12,392
External lab	918	—	—	918
Total medical service revenue	$ 9,452	$ 1,790	$ 2,068	$ 13,310
Timing of revenue and recognition:				
At time services are rendered	$ 4,329	$ 803	$ 912	$ 6,044
Services transferred over time	5,123	987	1,156	7,266
Total	$ 9,452	$ 1,790	$ 2,068	$ 13,310

	Year Ended December 31, 2020			
	Midwest	Southeast	Southwest	Total
Hospital	$ 4,353	$ 840	$ 1,041	$ 6,234
Clinic	2,885	649	727	4,261
Senior care and nursing home	16	—	—	16
Other	50	1	—	51
Total patient care service revenue	7,304	1,490	1,768	10,562
External lab	939	—	—	939
Total medical service revenue	$ 8,243	$ 1,490	$ 1,768	$ 11,501
Timing of revenue and recognition:				
At time services are rendered	$ 3,874	650	727	$ 5,251
Services transferred over time	4,369	840	1,041	6,250
Total	$ 8,243	$ 1,490	$ 1,768	$ 11,501

Hospital revenue includes a variety of services mainly covering inpatient procedures requiring overnight stays or outpatient operations that require anesthesia or use of complex diagnostic and surgical equipment, as well as emergency care for traumas and other critical conditions. Clinic revenue includes services mainly focused on the care of outpatients covering primary and specialty health care needs. The Clinic's practice is to record certain radiology, pathology, and other hospital-related services in the

Notes to Consolidated Financial Statements (In Millions)

Note 3. Medical Service Revenue (Continued)

Midwest region as clinic revenue in the amount of $973 and $889 for the years ended December 31, 2021 and 2020, respectively. Examples of revenue at the time services are rendered include clinical services, lab and transport, and services transferred over time include hospital and senior care revenue.

The composition of medical service revenue by payor for the years ended December 31 is as follows:

	2021	2020
Medicare	$ 3,377	$ 2,833
Medicaid	475	373
Contract	7,705	6,779
Other, including self-pay	1,753	1,516
Total	$ 13,310	$ 11,501

The Clinic's practice is to assign a patient to the primary payor and not reflect other uninsured balances (for example, coinsurance and deductibles) as self-pay. Therefore, the payors listed above contain patient responsibility components, such as coinsurance and deductibles.

Financing Component

The Clinic has elected the practical expedient allowed under FASB ASU 2014-09, *Revenue from Contracts with Customers (Topic 606-10-32-18)* and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the Clinic's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less. However, the Clinic does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

Note 4. Fair Value Measurements

The Clinic holds certain financial instruments that are required to be measured at fair value on a recurring basis. The valuation techniques used to measure fair value under the *Fair Value Measurement (Topic 820)* of the FASB ASC are based upon observable and unobservable inputs. The standard establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is 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 same term of the financial instrument.

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

Note 4. Fair Value Measurements (Continued)

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. The Clinic's policy is to recognize transfers in and transfers out as of the actual date of the event or change in circumstances that caused the transfer. There were no significant transfers or activity within Levels for the years ended December 31, 2021 and 2020.

Notes to Consolidated Financial Statements (In Millions)

Note 4. Fair Value Measurements (Continued)

The following tables present the financial instruments carried at fair value as of December 31, 2021 and 2020, by caption on the consolidated statements of financial position categorized by the valuation hierarchy and NAV:

	December 31, 2021				
	Level 1	Level 2	Level 3	NAV	Total Fair Value
Assets:					
Securities lending collateral	$ 6	$ —	$ —	$ —	$ 6
Investments:					
Cash and cash equivalents	2,593	238	—	—	2,831
Fixed-income securities:					
U.S. government	—	566	—	—	566
U.S. government agencies	—	551	—	—	551
U.S. corporate	—	832	—	—	832
Foreign	—	74	—	—	74
Common and preferred stocks:					
U.S.	1,077	—	—	—	1,077
Foreign	658	—	24	—	682
Funds:					
Fixed income	448	—	—	—	448
Equities	1,021	702	—	—	1,723
Less securities under lending agreement	(95)	—	—	—	(95)
Investments at NAV	—	—	—	9,237	9,237
Total investments	5,702	2,963	24	9,237	17,926
Investments under securities lending agreement	95	—	—	—	95
Other long-term assets:					
Trust receivables	82	32	93	—	207
Technology-based ventures	—	—	138	—	138
Total other long-term assets	82	32	231	—	345
Total assets at fair value	$ 5,885	$ 2,995	$ 255	$ 9,237	$ 18,372
Liabilities:					
Securities lending payable	$ 6	$ —	$ —	$ —	6
Total liabilities at fair value	$ 6	$ —	$ —	$ —	$ 6

Notes to Consolidated Financial Statements (In Millions)

Note 4. Fair Value Measurements (Continued)

	December 31, 2020				
	Level 1	Level 2	Level 3	NAV	Total Fair Value
Assets:					
Securities lending collateral	$ 2	$ —	$ —	$ —	$ 2
Investments:					
Cash and cash equivalents	1,980	185	—	—	2,165
Fixed-income securities:					
U.S. government	—	450	—	—	450
U.S. government agencies	—	439	—	—	439
U.S. corporate	—	648	15	—	663
Foreign	—	46	—	—	46
Common and preferred stocks:					
U.S.	870	—	—	—	870
Foreign	529	—	25	—	554
Funds:					
Fixed income	451	10	—	—	461
Equities	830	590	—	—	1,420
Less securities under lending agreement	(38)	—	—	—	(38)
Investments at NAV	—	—	—	7,290	7,290
Total investments	4,622	2,368	40	7,290	14,320
Investments under securities lending agreement	38	—	—	—	38
Other long-term assets:					
Trust receivables	74	29	83	—	186
Technology-based ventures	—	—	81	—	81
Total other long-term assets	74	29	164	—	267
Total assets at fair value	$ 4,736	$ 2,397	$ 204	$ 7,290	$ 14,627
Liabilities:					
Securities lending payable	$ 2	$ —	$ —	$ —	2
Total liabilities at fair value	$ 2	$ —	$ —	$ —	$ 2

Notes to Consolidated Financial Statements (In Millions)

Note 4. Fair Value Measurements (Continued)

The following is a description of the Clinic'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 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 and liabilities. Inputs are obtained from various sources, including market participants, dealers, and brokers. Level 3 primarily consists of trusts recorded at fair value based on the underlying value of the assets in the trust or discounted cash flow of the expected payment streams.

The trusts reported as Level 3 are primarily perpetual trusts managed by third parties invested in stocks, mutual funds, and fixed-income securities that are traded in active markets with observable inputs and, since the Clinic will never receive the trust assets, these perpetual trusts are reported as Level 3. In addition, technology-based ventures, composed primarily of shares in start-up companies, are recorded at fair value based on inputs relying on factors such as the financial performance of the company, sales performance, financial projections, sales projections, management representation, industry developments, market analysis, and any other pertinent factors that would affect the fair value or based on the quoted price of an otherwise identical unrestricted security of the same issuer, adjusted for the effect of the restriction.

The methods described above and those recorded at NAV may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Clinic 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.

The following information pertains to those alternative investments recorded at NAV in accordance with *Fair Value Measurement (Topic 820)* of the FASB ASC.

At December 31, 2021, alternative investments recorded at NAV consisted of the following:

	Fair Value	Unfunded Commitment	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Absolute return/hedge funds (a)	$ 4,167	$ 151	Monthly to annually	30–90 days
Private partnerships (b)	5,070	1,635		
Total alternative investments	$ 9,237	$ 1,786		

At December 31, 2020, alternative investments recorded at NAV consisted of the following:

	Fair Value	Unfunded Commitment	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Absolute return/hedge funds (a)	$ 3,421	$ 99	Monthly to annually	30–90 days
Private partnerships (b)	3,869	1,447		
Total alternative investments	$ 7,290	$ 1,546		

Note 4. Fair Value Measurements (Continued)

(a) This category includes investments in absolute return/hedge funds, which are actively managed commingled investment vehicles that derive the majority of their returns from factors other than the directional flow of the markets in which they invest. Representative strategies include high-yield credit, distressed debt, merger arbitrage, relative value, and long-short equity strategies. The fair values of the investments in this category have been estimated using the NAV per share of the investments. Investments in this category generally carry “lockup” restrictions that do not allow investors to seek redemption in the first year after acquisition. Following the initial lockup period, liquidity is generally available monthly, quarterly, or annually following a redemption request. Over 90% of the investments in this category have at least annual liquidity.

(b) This category includes limited partnership interests in closed-end funds that focus on venture capital, private equity, real estate, and resource-related strategies. The fair values of the investments in this category have been estimated using the NAV of the Clinic’s ownership interest in partners’ capital. Distributions from each fund will be received as the underlying investments of the funds are liquidated. It is estimated that the underlying assets of most funds will generally be liquidated over a seven- to ten-year period.

From time to time, the Clinic invests directly in certain derivative contracts that do not qualify for hedge accounting and are recorded at fair value in investments. Changes in fair value are reported as a component of net unrealized gains or losses in the investment returns. These contracts are used in the Clinic’s investment management program to minimize certain investment risks. During the years ended December 31, 2021 and 2020, the realized and unrealized loss from derivative contracts was not significant.

The carrying values of cash and cash equivalents, short-term investments, accounts receivable, other current assets, and accounts payable are reasonable estimates of their fair value due to the short-term nature of these financial instruments. The estimated fair value of long-term debt, based on quoted market prices for the same or similar issues (Level 2), was $502 and $572 more than its carrying value at December 31, 2021 and 2020, respectively. Other long-term assets and liabilities have a carrying value that approximates fair value.

The Clinic uses various external investment managers to diversify the investments. The largest allocation to any investment strategy manager as of December 31, 2021 and 2020, was $831 (6.1%) and $582 (5.7%), respectively.

The Clinic is required to maintain funds held by trustees under bond indentures and other arrangements. The trustee-held investments, which primarily consist of mutual funds, were $1,044 and $884, respectively, at December 31, 2021 and 2020, which includes segregated investments for deferred compensation plans of $1,041 and $882 at December 31, 2021 and 2020, respectively.

At December 31, 2021 and 2020, cash and mutual funds included segregated investments owned by Mayo Foundation for Medical Education and Research, a wholly owned subsidiary of the Clinic, for gift annuity reserves of $131 and $136, respectively.

The Clinic had internally designated investment balances of $3,392 and $2,806 at December 31, 2021 and 2020, respectively, for research, education, and capital replacement and expansion.

Notes to Consolidated Financial Statements (In Millions)

Note 5. Investments in Unconsolidated Entities (Continued)

The Clinic holds certain investments in unconsolidated entities accounted for in accordance with FASB Subtopic 323, *Investments – Equity Method and Joint Ventures*. The investments are presented as other long-term assets in the consolidated statements of financial position. The Clinic's interest in the investment income is reflected in the accompanying consolidated statements of operations.

The following table presents investments in unconsolidated entities as of December 31, 2021 and 2020:

	Ownership Percentage as of December 31, 2021	Carrying Value as of December 31, 2021	Carrying Value as of December 31, 2020
Sheikh Shakhbout Medical City	25%	$ 89	$ 87
Medically Home	32%	$ 57	$ —
Other investees	various	$ 14	$ 11

The Clinic entered into a joint venture agreement with Abu Dhabi Health Services Company PJSC to operate Sheikh Shakhbout Medical City (SSMC), a 741-bed hospital in the United Arab Emirates. In addition to the joint venture agreement, the Clinic has entered into a hospital expertise agreement, brand license agreement, and research contribution agreement with SSMC. The joint venture has an initial commitment period of 20 years and may be extended by 10 years. The Clinic had a $150 conditional pledge from Sheikh Shakhbout Medical City at December 31, 2021 and 2020.

In July 2021, the Clinic entered into a joint venture agreement with Kaiser Permanente to invest in Medically Home to allow more patients to receive acute care and recovery services in the comfort, convenience, and safety of their homes. The Clinic's 32% equity position is accounted for using the equity method of accounting for investments.

The summarized financial position and results of operations for significant entities accounted for under the equity method as of and for the years ended consisted of the following:

	2021	2020
As of December 31		
Total assets	$ 794	$ 540
Total liabilities	$ 194	$ 224
Partners' equity/net assets	$ 600	$ 317
Year Ended December 31		
Total revenue	$ 440	$ 288
Loss from current activities	$ (65)	$ (140)

Notes to Consolidated Financial Statements (In Millions)

Note 6. Securities Lending

The Clinic has an arrangement with its investment custodian to lend Clinic securities to approved brokers in exchange for a fee. Among other provisions that limit the Clinic's risk, the securities lending agreement specifies that the custodian is responsible for lending securities and obtaining adequate collateral from the borrower. Collateral is limited to cash, government securities, and irrevocable letters of credit. Investments are loaned to various brokers and are returnable on demand. In exchange, the Clinic receives collateral. The cash collateral is shown as both an asset and a liability on the consolidated statements of financial position.

At December 31, 2021 and 2020, the aggregate market value of securities on loan under securities lending agreements totaled $95 and $38, respectively, and the total value of the collateral supporting the securities was $98 and $39, respectively, which represents 103% and 104%, respectively, of the value of the securities on loan at December 31, 2021 and 2020. The cash portion of the collateral supporting the securities as of December 31, 2021 and 2020, was $6 and $2, respectively. The cash portion is presented in other current assets and other current liabilities in the consolidated statements of financial position. Noncash collateral provided to the Clinic is not recorded in the consolidated statements of financial position, as the collateral may not be sold or repledged. The Clinic's claim on such collateral is limited to the market value of loaned securities. In the event of nonperformance by the other parties to the securities lending agreements, the Clinic could be exposed to a loss.

Note 7. Property, Plant, and Equipment, Net

Property, plant, and equipment, net, at December 31 consisted of the following:

	2021	2020
Land	$ 489	$ 316
Buildings and improvements	6,935	6,454
Furniture and equipment	4,347	4,249
	11,771	11,019
Accumulated depreciation and amortization	(6,899)	(6,506)
	4,872	4,513
Construction-in-progress	538	451
Total property, plant, and equipment	$ 5,410	$ 4,964

The above costs and accumulated depreciation include costs for capitalized software, including costs capitalized in accordance with *Intangibles—Goodwill and Other, Internal-Use Software (Topic 350)* of the FASB ASC. The total cost for capitalized software was $874 and $914 at December 31, 2021 and 2020, respectively. The total accumulated amortization was $581 and $558 at December 31, 2021 and 2020, respectively. Amortization expense for capitalized software was $80 and $81 for 2021 and 2020, respectively.

Notes to Consolidated Financial Statements (In Millions)

Note 8. Income Taxes

Most of the income received by the Clinic and its subsidiaries is exempt from taxation under Section 501(a) of the Internal Revenue Code. Some of its subsidiaries are taxable entities, and some of the income received by otherwise exempt entities is subject to taxation as unrelated business income. The Clinic and its subsidiaries file income tax returns in the U.S., including federal and various state returns, as well as certain foreign jurisdictions. The statutes of limitations for tax years 2018 through 2020 remain open in major U.S. taxing jurisdictions in which the Clinic and subsidiaries are subject to taxation.

The Internal Revenue Service (IRS) performed an examination of the tax and information returns of the Clinic and two subsidiaries and ultimately assessed $12 in taxes for years 2003–2012. The results of this audit were ultimately litigated in the U.S. District Court. On August 6, 2019, the Court issued a summary judgment in favor of the Clinic. The IRS has appealed this decision. This ruling has been taken into consideration during the Clinic’s determination of unrecognized tax benefits.

The Clinic has reduced the reserve for uncertain tax positions by $7, including interest and penalties, during the year ended December 31, 2021. As of December 31, 2021 and 2020, the reserve totaled $13 and $20, respectively. It is not anticipated that a significant change in the reserve will occur over the next 12 months.

The Clinic’s practice is to recognize interest and/or penalties related to income tax matters in income tax expense. The components of tax expense are as follows:

	Year ended December 31	
	2021	2020
Current – federal	$ 21	$ 53
Current – state	5	7
	26	60
Deferred – U.S. domestic	(1)	(20)
Total	$ 25	$ 40

Cash payments for income taxes were $63 and $6 for the years ended December 31, 2021 and 2020, respectively.

Notes to Consolidated Financial Statements (In Millions)

Note 8. Income Taxes (Continued)

The Clinic records deferred income taxes due to temporary differences between financial reporting and tax reporting for certain assets and liabilities of its taxable activities. The following is a summary of the components of deferred taxes as of December 31:

	2021	2020
Deferred compensation	$ 13	$ 12
Pension	9	15
Postretirement benefits	6	7
Net operating loss	18	16
Other	8	11
Total deferred tax asset	54	61
Deferred tax liability	(4)	(7)
Valuation allowance	(14)	(13)
Net deferred tax asset	$ 36	$ 41

The Clinic had federal net operating losses of $51 and $46 at December 31, 2021 and 2020, respectively.

The Tax Cuts and Jobs Act (TCJA), enacted on December 22, 2017, repealed net operating loss (NOL) carrybacks while permitting indefinite carryforwards. The Coronavirus Aid, Relief, and Economic Security Act enacted on March 27, 2020, temporarily suspended TCJA repeal of NOL carrybacks, allowing for NOLs arising in tax years beginning after December 31, 2017 and before January 1, 2021, to be carried back to the five taxable years preceding the taxable year of such loss. The Clinic expects to fully utilize any NOLs arising in tax years beginning after December 31, 2018 and before January 1, 2022, within one or more of the five tax years preceding the tax year of such loss.

The Clinic's NOLs generated before January 1, 2020, were remeasured based on the rates at which they are expected to reverse in the carryback periods, which is generally 35%. At December 31, 2020, the provisional amount recorded related to the remeasurement of the deferred tax balance was $5.

Notes to Consolidated Financial Statements (In Millions)

Note 9. Financing

Long-term debt at December 31 consisted of the following:

		2021	2020
City of Rochester, Minnesota Revenue Bonds issued in various series, subject to variable interest rates to a maximum rate of 15.00% (the average rate was 0.08% in 2021 and 0.60% in 2020), principal due in varying amounts from 2028 through 2052	Variable	$ 545	$ 545
City of Rochester, Minnesota Revenue Bonds originally issued at variable interest rate, converted in 2017 to fixed interest rate of 2.20% based on a provision to increase the rate if the federal tax rate is decreased, the rate has been adjusted to 2.67% effective January 1, 2018 through 2027, principal due in varying amounts from 2022 through 2032	Fixed	200	200
City of Rochester, Minnesota Revenue Bonds originally issued with fixed interest rate of 4.74%, converted in 2020 to fixed interest rate of 1.54% until 2030, principal due in varying amounts from 2033 through 2038	Fixed	130	130
City of Rochester, Minnesota Revenue Bonds issued in various series with fixed rates of interest ranging from 4.00% to 4.93%, principal due in varying amounts from 2030 through 2048	Fixed	400	535
City of Rochester, Minnesota Health Care Facilities Revenue Refunding Bonds, series 2016B, issued with fixed interest rate of 5.00%, an effective rate of 2.97% in 2021 and 2020 after amortization of premium, principal due in varying amounts from 2029 through 2036 (unamortized premium of $50 in 2021 and $55 in 2020)	Fixed	220	220
Industrial Development Authority of the City of Phoenix, Arizona issued in various series, subject to variable interest rates to a maximum rate of 10.00% (the average rate was 0.02% in 2021 and 0.41% in 2020), principal due in varying amounts from 2048 through 2052	Variable	180	180
City of Jacksonville, Florida Health Care Facilities Revenue Refunding Bonds, series 2016, issued in various series, subject to variable interest rates to a maximum rate of 10.00% (the average rate was 0.13% in 2021 and 0.81% in 2020), principal due in varying amounts from 2033 through 2047	Variable	125	125
Mayo Clinic Taxable Bonds issued with fixed interest rates ranging from 3.20% to 4.13%, principal due in varying amounts from 2039 through 2061	Fixed	1,450	950
Fixed-rate notes and bonds, payable to financial companies, interest rates at 1.80% to 4.71%, principal due in varying amounts from 2025 through 2062	Fixed	915	915
Other notes payable		12	13
Unamortized discounts and premiums, net		46	52
Debt issuance cost		(13)	(12)
		4,210	3,853
Long-term variable-rate debt classified as current		(620)	(620)
Long-term debt subject to mandatory tender for purchase		—	(135)
Current maturities included in other current liabilities		(38)	(1)
Long-term debt, net of current portion		$ 3,552	$ 3,097

Notes to Consolidated Financial Statements (In Millions)

Note 9. Financing (Continued)

The Clinic's outstanding revenue bond issues are limited obligations of various issuing authorities payable solely by the Clinic pursuant to loan agreements between the borrowing entities and the issuing authorities. Under various financing agreements, the Clinic must meet certain operating and financial performance covenants.

At December 31, 2021, the $850 of variable-rate bonds consisted of variable-rate demand revenue bonds. In conjunction with the issuance of the variable-rate demand revenue bonds, the Clinic has entered into various bank standby purchase and credit agreements in the amount of $230 of which $140 will expire in January 2023 and $90 will expire in January 2025. Under the terms of these agreements, the bank will make liquidity loans to the Clinic in the amount necessary to purchase a portion of the variable-rate demand revenue bonds if not remarketed. The liquidity loans would be payable over a three- to five-year period, with the first payment due after December 31, 2022. The Clinic has provided self-liquidity for the remaining $620 of variable-rate demand revenue bonds, which have been classified as current in the accompanying consolidated statements of financial position.

The Clinic's $135 City of Rochester, Minnesota Revenue Series 2011 C fixed-rate bonds were subject to mandatory tender for purchase on November 15, 2021, and, therefore, were classified as current at December 31, 2020. In November 2021, these bonds were paid off.

The $220 fixed-rate revenue bonds Series 2016B are not callable. The remaining fixed-rate interest revenue bonds are callable from 2022 to 2058 at the option of the Clinic, at a redemption price of 100% of the principal amount or at a price based on U.S. Treasury rates at the time of redemption.

In April 2021, the Clinic issued bonds in the amount of $500 with a 3.20% fixed rate of interest. The bonds are due in 2061 and will be used for general corporate purposes.

In April 2020, the Clinic entered into a five-year bank loan agreement for $100 at 1.80%. In May 2020, the Clinic entered into a seven-year bank loan agreement for $100 at 1.99%. Also in May, the Clinic closed on a private placement transaction with an insurance company in the amount of $200 with a 3.17% fixed rate with a final maturity in 2062. In September 2020, the Clinic closed on a private placement transaction with an insurance company in the amount of $100 million with a 3.16% interest rate with a final maturity in 2060. The proceeds of the private placement and bank loans will be used for general corporate purposes. In addition, in May 2020, the Clinic refunded and modified $130 of bonds by entering into a direct bank purchase for 10 years at 1.54%. The bond modification was accounted for as an extinguishment of debt. The loss on extinguishment was not significant.

The following are scheduled maturities of long-term debt for each of the next five years, assuming the variable-rate demand revenue bonds are remarketed and the standby purchase agreements are renewed. As described above, if such bonds are not remarketed, $620 may be due in 2022 and $230 may be due in years from 2023 to 2025.

Years ending December 31:		
2022	$	38
2023		36
2024		18
2025		105
2026		5

Notes to Consolidated Financial Statements (In Millions)

Note 9. Financing (Continued)

Interest payments on long-term debt, net of amounts capitalized for 2021 and 2020, totaled $118 and $106, respectively. The amount of interest capitalized, net of related interest income, was $3 during 2021 and 2020. Interest expense totaled $121 and $112 for 2021 and 2020, respectively.

At December 31, 2021 and 2020, the Clinic had unsecured lines of credit available with banks that totaled $530, with varying renewable terms and interest up to 2.50% over various published rates. There were no amounts drawn during the years ended December 31, 2021 and 2020.

Note 10. Leases

At December 31, 2021 and 2020, the Clinic had operating and finance leases for facilities and certain equipment with lease terms ranging from 1 to 20 years, with some options to extend up to five years or terminate within one year.

Total lease expense for the years ended December 31 consisted of the following:

	2021	2020
Operating lease expense	$ 34	$ 37
Finance lease expense:		
Amortization of right-of-use assets	$ 10	$ 10
Interest on lease liabilities	1	1
Total finance lease expense	$ 11	$ 11
Short-term lease expense	$ 24	$ 17

Consolidated supplemental cash flow information related to leases as of December 31 consisted of the following:

	2021	2020
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows for operating leases	$ 55	$ 53
Operating cash flows for finance leases	$ 1	$ 1
Financing cash flows for finance leases	$ 6	$ 15
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	$ 21	$ 11
Finance leases	$ 4	$ 12

Notes to Consolidated Financial Statements (In Millions)

Note 10. Leases (Continued)

Consolidated supplemental statement of financial position information related to leases as of the year ended December 31 consisted of the following:

	2021	2020
Operating leases:		
Right-of-use assets	$ 151	$ 168
Other current liabilities	$ 25	$ 28
Other long-term liabilities	131	143
Total operating lease liabilities	$ 156	$ 171

	2021	2020
Finance leases:		
Property, plant, and equipment, gross	$ 62	$ 72
Accumulated depreciation	38	32
Property, plant, and equipment, net	$ 24	$ 40
Other current liabilities	$ 6	$ 9
Other long-term liabilities	16	27
Total finance lease liabilities	$ 22	$ 36
Weighted average remaining lease years:		
Operating leases	9.85	10.02
Finance leases	4.70	8.06
Weighted average discount rate:		
Operating leases	3.37 %	3.54 %
Finance leases	3.04 %	3.49 %

Notes to Consolidated Financial Statements (In Millions)

Note 10. Leases (Continued)

Maturities of lease liabilities for the next five years and thereafter consist of the following:

	Operating	Finance
2022	$ 29	$ 6
2023	23	5
2024	21	5
2025	18	3
2026	15	2
Thereafter	82	3
Minimum lease payments	188	24
Less amount representing interest	32	2
Net minimum lease payments	$ 156	$ 22

Note 11. Board-Designated Funds

Board-designated funds are subject to expenditure for the following purposes for the years ended December 31:

	2021	2020
Research	$ 1,545	$ 1,269
Education	358	296
Buildings and equipment	4	3
Charity care	14	11
Clinical	190	166
Other	1,281	1,061
Total designation for specified purpose	$ 3,392	$ 2,806

At December 31, board-designated funds were classified as follows:

	2021	2020
Quasi-endowments	$ 3,218	$ 2,694
Professional liability reserve	141	112
Other	$ 33	$ —
Total	$ 3,392	$ 2,806

Notes to Consolidated Financial Statements (In Millions)

Note 12. Net Assets With Donor Restrictions

The Clinic receives contributions in support of research, education, and clinical activities. Net assets with donor restrictions were available for the following purposes at December 31:

	2021	2020
Subject to expenditure for specified purposes:		
Research	$ 497	$ 443
Education	46	42
Buildings and equipment	174	226
Charity care	30	36
Clinical	65	58
Other	53	37
Total expenditure for specified purposes	865	842
Subject to passage of time:		
Pledges and trusts	649	470
Endowments:		
Perpetual in nature:		
Research	1,140	1,078
Education	270	229
Charity care	14	14
Clinical	215	195
Other	33	29
Pledges and trusts	274	293
Total perpetual in nature	1,946	1,838
Subject to endowment spending policy:		
Research	1,028	670
Education	433	320
Charity care	59	36
Clinical	206	135
Other	50	38
Total subject to endowment spending policy	1,776	1,199
Total endowments	3,722	3,037
Total net assets with donor restrictions	$ 5,236	$ 4,349

Notes to Consolidated Financial Statements (In Millions)

Note 12. Net Assets With Donor Restrictions (Continued)

Net assets were released from donor restrictions as expenditures were made, which satisfied the following restricted purposes for the years ended December 31:

	2021	2020
Research	$ 188	$ 162
Education	22	22
Buildings and equipment	197	22
Other	23	40
Total net assets released from donor restrictions	$ 430	$ 246

Note 13. Endowment

The Clinic's endowment consists of approximately 2,300 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments (quasi-endowments). Net assets associated with endowment funds, including quasi endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The Board of Trustees retains the right to redesignate quasi endowments for other purposes.

The Board of Trustees of the Clinic has interpreted the Minnesota State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Clinic retains in perpetuity: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the perpetual endowment, and (c) accumulations to the perpetual endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

In accordance with SPMIFA, the Clinic considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

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

The Clinic has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment, while seeking to maintain purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Clinic must hold in perpetuity or for a donor-specified period(s), as well as quasi-endowments. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce a real return, net of inflation and investment management costs, of at least 5% over the long term. Actual returns in any given year may vary from this amount.

Notes to Consolidated Financial Statements (In Millions)

Note 13. Endowment (Continued)

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

The Clinic has a policy of appropriating for distribution each year 5% of its endowment fund's moving average fair value over the prior 36 months as of September 30 of the preceding year in which the distribution is planned. In establishing this policy, the Clinic considered the long-term expected return on its endowment. Accordingly, over the long term, the Clinic expects the current spending policy to allow its endowment to grow at an average of the long-term rate of inflation. This is consistent with the Clinic's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specific term, as well as to provide additional real growth through new gifts and investment return.

At December 31, 2021, the endowment net asset composition by type of fund consisted of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted funds	$ —	$ 3,722	$ 3,722
Quasi-endowments	3,218	—	3,218
Total funds	$ 3,218	$ 3,722	$ 6,940

Changes in endowment net assets for the year ended December 31, 2021, consisted of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 2,694	$ 3,037	$ 5,731
Investment return:			
Investment income	40	42	82
Net appreciation (realized and unrealized)	581	640	1,221
Total investment return	621	682	1,303
Contributions	—	108	108
Appropriation of endowment assets for expenditure	(119)	(105)	(224)
Other changes:			
Transfers to create quasi-endowments	22		22
Endowment net assets, end of year	$ 3,218	$ 3,722	$ 6,940

Notes to Consolidated Financial Statements (In Millions)

Note 13. Endowment (Continued)

At December 31, 2020, the endowment net asset composition by type of fund consisted of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted funds	$ —	$ 3,037	$ 3,037
Quasi-endowments	2,694	—	2,694
Total funds	$ 2,694	$ 3,037	$ 5,731

Changes in endowment net assets for the year ended December 31, 2020, consisted of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 2,286	$ 2,723	$ 5,009
Investment return:			
Investment income	20	20	40
Net appreciation (realized and unrealized)	345	351	696
Total investment return	365	371	736
Contributions	—	47	47
Appropriation of endowment assets for expenditure	(104)	(104)	(208)
Other changes:			
Transfers to create quasi endowments	147	—	147
Endowment net assets, end of year	$ 2,694	$ 3,037	$ 5,731

Note 14. Promises to Give

At December 31, outstanding pledges from various corporations, foundations, and individuals, included in other receivables and other long-term assets, were as follows:

	2021	2020
Pledges due:		
In less than one year	$ 294	$ 234
In one to five years	399	362
In more than five years	35	45
	728	641
Allowance for uncollectible pledges and discounts	(34)	(72)
Total	$ 694	$ 569

Notes to Consolidated Financial Statements (In Millions)

Note 14. Promises to Give (Continued)

Estimated cash flows from pledge receivables due after one year are discounted using a risk-adjusted rate, ranging from 1% to 6%, that is commensurate with the pledges' due dates and established in the year the pledge is received.

The Clinic has received interests in various trusts, primarily split interest, which are included in other long-term assets. The trusts are recorded at fair value, based on the underlying value of the assets in the trust or discounted cash flow using a risk-adjusted discount rate of 2.91% and 3.56% at December 31, 2021 and 2020, respectively. During the years ended December 31, 2021 and 2020, there were no contributions recorded related to the split-interest trusts. The balance of the expected payment streams was $207 and $186 at December 31, 2021 and 2020, respectively.

Note 15. Functional Expenses

The consolidated financial statements present certain expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Benefits and payroll taxes are allocated based on factors of either salary expense or hours worked. Overhead costs that include professional services, office expenses, information technology, interest, insurance, and other similar expenses are allocated based on a variety of factors, including revenues, hours worked, and salary expense. Costs related to space, including occupancy, depreciation and amortization, and property taxes, are allocated on a square footage basis.

The expenses reported in the consolidated statements of activities for the years ended December 31, 2021 and 2020, supported the following programs and functions:

	2021							
	Patient Care	Lab and Technology Ventures	Research	Graduate and Other Education	General and Administrative	Development Expenses	Other Activities	Total Expenses
Salaries and benefits	$ 7,330	$ 187	$ 653	$ 331	$ 103	$ 16	$ 41	$ 8,661
Supplies and services	3,299	1,048	258	61	24	8	69	4,767
Depreciation and amortization	515	8	66	11	15	1	3	619
Facilities	264	4	18	12	26	1	1	326
Finance and investment	150	3	18	1	1	—	(29)	144
Total	$ 11,558	$ 1,250	$ 1,013	$ 416	$ 169	$ 26	$ 85	$ 14,517

	2020							
	Patient Care	Lab and Technology Ventures	Research	Graduate and Other Education	General and Administrative	Development Expenses	Other Activities	Total Expenses
Salaries and benefits	$ 6,750	$ 174	$ 609	$p 307	$ 52	$ 19	$ 43	$ 7,954
Supplies and services	2,726	1,006	223	52	14	6	72	4,099
Depreciation and amortization	513	8	64	12	11	1	2	611
Facilities	227	5	16	11	15	1	1	276
Finance and investment	138	1	18	1	1	—	(27)	132
Total	$ 10,354	$ 1,194	$ 930	$ 383	$ 93	$ 27	$ 91	$ 13,072

Notes to Consolidated Financial Statements (In Millions)

Note 16. Employee Benefit Programs

The Clinic serves as plan sponsor for several defined benefit pension funds and other postretirement benefits.

Included in other changes in unrestricted net assets at December 31, 2021 and 2020, are the following amounts, respectively, that have not yet been recognized in net periodic cost: unrecognized actuarial losses of $3,053 and $4,837 and unrecognized prior service benefit of $109 and $160. Actuarial losses are amortized as a component of net periodic pension cost, only if the losses exceed 10% of the greater of the projected benefit obligation or the fair value of plan assets. Unrecognized prior service benefits are amortized on a straight-line basis over the estimated life of plan participants.

Changes in plan assets and benefit obligations recognized in unrestricted net assets during 2021 and 2020 included the following:

	2021	2020
Current-year actuarial gain (loss)	$ 1,440	$ (701)
Amortization of actuarial loss	338	274
Amortization of prior service credit	(50)	(69)
Pension and other postretirement benefit adjustments	$ 1,728	$ (496)

Pension Plans

Obligations and funded status: The following is a summary of the changes in the benefit obligation and plan assets, the resulting funded status of the qualified and nonqualified pension plans, and accumulated benefit obligation as of and for the years ended December 31:

	2021	2020
Change in projected benefit obligation:		
Benefit obligation, beginning of year	$ 12,360	$ 10,705
Service cost	691	553
Interest cost	350	371
Actuarial (gain) loss	(302)	1,388
Benefits paid	(905)	(657)
Estimated benefit obligation at end of year	$ 12,194	$ 12,360
Change in plan assets:		
Fair value of plan assets, beginning of year	$ 10,642	$ 9,334
Actual return on plan assets	1,793	1,409
Employer contributions	373	556
Benefits paid	(905)	(657)
Fair value of plan assets at end of year	$ 11,903	$ 10,642

Notes to Consolidated Financial Statements (In Millions)

Note 16. Employee Benefit Programs (Continued)

	2021	2020
Funded status of the plans	$ (291)	$ (1,718)
Accumulated benefit obligation	$ (11,441)	$ (11,596)

Amounts recognized in the consolidated statements of financial position consist of the following at December 31:

	2021	2020
Noncurrent liabilities	$ (291)	$ (1,718)
Net amount recognized	$ (291)	$ (1,718)

Components of net periodic benefit cost are as follows at December 31:

	2021	2020
Service cost	$ 691	$ 553
Interest cost	350	371
Expected return on plan assets	(732)	(678)
Amortization of unrecognized:		
Prior service benefit	(50)	(50)
Net actuarial loss	306	244
Net periodic benefit cost	$ 565	$ 440

Plan assets: The largest of the pension funds is the Mayo Clinic Master Retirement Trust Plan, which holds $11,765 of the $11,903 in combined plan assets at December 31, 2021, and $10,519 of the $10,642 in combined plan assets at December 31, 2020. The investment policies described below apply to the Mayo Clinic Master Retirement Trust Plan (the Plan).

The Plan employs a global, multi-asset approach in managing its retirement plan assets. This approach is designed to maximize risk-adjusted returns over a long-term investment horizon, consistent with the nature of the pension liabilities being funded. The plan asset portfolio's target allocation for total return investment strategies, which include public equities, private equities, absolute return, and real assets, is 82.5%. The portfolio's target fixed-income exposure is 17.5%. The fixed-income exposure may include the use of long-term interest rate swap contracts structured to increase the portfolio's interest rate sensitivity and thereby provide a hedge of the plan liabilities resulting from falling long-term interest rates. Investments in private equities, real assets, and absolute return strategies are held to improve diversification and thereby enhance long-term, risk-adjusted returns. However, recognizing that these investments are not as liquid as publicly traded stocks and bonds, portfolio investment policies limit

Notes to Consolidated Financial Statements (In Millions)

Note 16. Employee Benefit Programs (Continued)

overall exposure to these assets. The portfolio's allocation to private equities and real assets is limited to a maximum of 30% (with a target allocation of 22.5%), and exposure to absolute return strategies is limited to a maximum of 35% (with a target of 27.5%). The Clinic reviews performance, asset allocation, and risk management reports for plan asset portfolios on a monthly basis.

The fair values of the Plan's assets at December 31, 2021, by asset category, are as follows:

Assets	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	NAV	Total
Cash and cash equivalents	$ 518	$ 61	$ —	$ —	$ 579
Fixed-income securities:					
U.S. government	—	170	—	—	170
U.S. government agencies	—	120	—	—	120
U.S. corporate	—	400	—	—	400
Foreign	—	52	—	—	52
Common and preferred stocks:					
U.S.	1,077	—	—	—	1,077
Foreign	645	—	—	—	645
Funds:					
Fixed income	114	—	—	—	114
Equities	65	718	—	—	783
Foreign	69	—	—	—	69
Investments at NAV	—	—	—	7,756	7,756
Total investments	$ 2,488	$ 1,521	$ —	$ 7,756	$ 11,765

Assets	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	NAV	Total
Cash and cash equivalents	$ 616	$ 41	$ —	$ —	$ 657
Fixed-income securities:					
U.S. government	—	146	—	—	146
U.S. government agencies	—	126	—	—	126
U.S. corporate	—	406	5	—	411
Foreign	—	33	—	—	33
Common and preferred stocks:					
U.S.	926	—	—	—	926
Foreign	639	—	—	—	639
Funds:					
Fixed income	132	10	—	—	142
Equities	42	654	—	—	696
Foreign	79	—	—	—	79
Investments at NAV	—	—	—	6,664	6,664
Total investments	$ 2,434	$ 1,416	$ 5	$ 6,664	$ 10,519

Notes to Consolidated Financial Statements (In Millions)

Note 16. Employee Benefit Programs (Continued)

The following is a description of the Plan'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 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 or liabilities. Inputs are obtained from various sources, including market participants, dealers, and brokers.

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. The Clinic's policy is to recognize transfers in and transfers out as of the actual date of the event or change in circumstances that caused the transfer. There were no significant transfers in 2021 or 2020.

The methods described above and those recorded at NAV may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan 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.

The following information pertains to those alternative investments recorded at NAV in accordance with *Fair Value Measurement (Topic 820)* of the FASB ASC.

At December 31, 2021, alternative investments recorded at NAV consisted of the following:

	Fair Value	Unfunded Commitment	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Absolute return/hedge funds (a)	$ 3,996	$ 151	Monthly to annually	30–90 days
Private partnerships (b)	3,760	1,245		
	$ 7,756	$ 1,396		

At December 31, 2020, alternative investments recorded at NAV consisted of the following:

	Fair Value	Unfunded Commitment	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Absolute return/hedge funds (a)	$ 3,613	$ 99	Monthly to annually	30–90 days
Private partnerships (b)	3,051	1,281		
	$ 6,664	$ 1,380		

Notes to Consolidated Financial Statements (In Millions)

Note 16. Employee Benefit Programs (Continued)

(a) This category includes investments in absolute return/hedge funds, which are actively managed commingled investment vehicles that derive the majority of their returns from factors other than the directional flow of the markets in which they invest. Representative strategies include high-yield credit, distressed debt, merger arbitrage, relative value, and long-short equity strategies. The fair values of the investments in this category have been estimated using the NAV per share of the investments. Investments in this category generally carry "lockup" restrictions that do not allow investors to seek redemption in the first year after acquisition. Following the initial lockup period, liquidity is generally available monthly, quarterly, or annually following a redemption request. Over 90% of the investments in this category have at least annual liquidity.

(b) This category includes limited partnership interests in closed-end funds that focus on venture capital, private equity, real estate, and resource-related strategies. The fair values of the investments in this category have been estimated using the NAV of the Plan's ownership interest in partners' capital. These investments cannot be redeemed with the funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated. It is estimated that the underlying assets of most funds will generally be liquidated over a seven- to ten-year period.

No plan assets are expected to be returned to the employer during 2022.

Other Postretirement Benefits

Obligations and funded status: A summary of the changes in the benefit obligation and plan assets and the resulting funded status of the other postretirement plans is as follows as of and for the years ended December 31:

	2021	2020
Change in projected benefit obligation:		
Benefit obligation at beginning of year	$ 1,228	$ 1,180
Service cost	9	9
Interest cost	32	39
Plan participants' contributions	35	31
Amendments	—	—
Medicare subsidy	3	3
Actuarial (gain) loss	(82)	46
Benefits paid	(87)	(80)
Estimated benefit obligation at end of year	$ 1,138	$ 1,228
Change in plan assets:		
Fair value of plan assets at beginning of year	$ —	$ —
Employer contributions	52	49
Plan participants' contributions	35	31
Medicare subsidy	—	—
Benefits paid	(87)	(80)
Fair value of plan assets at end of year	$ —	$ —
Funded status of the plan	$ (1,138)	$ (1,228)

Notes to Consolidated Financial Statements (In Millions)

Note 16. Employee Benefit Programs (Continued)

Amounts recognized in the consolidated statements of financial position for postretirement benefits consist of the following at December 31:

	2021	2020
Current liabilities	$ (51)	$ (49)
Noncurrent liabilities	(1,087)	(1,179)
Net amount recognized	$ (1,138)	$ (1,228)

Components of net periodic benefit cost for other postretirement benefits are as follows for the years ended December 31:

	2021	2020
Service cost	$ 9	$ 9
Interest cost	32	39
Amortization of:		
Unrecognized prior service benefit	—	(19)
Unrecognized net actuarial loss	32	30
Net periodic benefit cost for other postretirement benefits	$ 73	$ 59

The Clinic has concluded that the prescription drug benefits under its defined benefit postretirement plan are actuarially equivalent to Medicare Part D under the Medicare Modernization Act (the Act) and that the Clinic will receive the subsidy available under the Act.

The following reflects the expected future Medicare Part D subsidy receipts:

Years ending December 31:	
2022	$ 3
2023	3
2024	3
2025	3
2026	3
2027–2031	3

Plan trend rates are the annual rates of increase expected for the benefits payable from the plan; these rates include health care cost trends plus the leveraging effect of plan design. The assumed plan trend rate is 5.50%.

Notes to Consolidated Financial Statements (In Millions)

Note 16. Employee Benefit Programs (Continued)

Pension and postretirement benefits:

Assumptions: Weighted average assumptions used to determine pension and postretirement benefit obligations at the measurement date are as follows:

	Pension Benefits		Postretirement Benefits	
	2021	2020	2021	2020
Discount rate	3.12%	2.91%	3.04%	2.70%
Rate of compensation increase	3.72%	3.70%	N/A	N/A

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

	Pension Benefits		Postretirement Benefits	
	2021	2020	2021	2020
Discount rate	2.91%	3.56%	2.70%	3.41%
Expected long-term return on plan assets	7.50%	7.50%	N/A	N/A
Rate of compensation increase	3.70%	3.58%	N/A	N/A

The Clinic utilizes a building block approach in determining the expected long-term rate of return for its plan assets. First, historical data on individual asset class returns are studied. Next, the historical correlation among and between asset class returns is studied under both normal conditions and in times of market turbulence. Then, various mixes of asset classes are considered under multiple long-term investment scenarios. Finally, after considering liquidity concerns related to the use of certain alternative asset classes, the plan sponsor selects the portfolio blend that it believes will produce the highest expected long-term return on a risk-adjusted basis.

Cash Flows

Contributions: The Clinic expects to contribute $388 to its pension plans in 2022.

Estimated future benefit payments: The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Pension Benefits	Postretirement Benefits
Years ending December 31:		
2022	$ 673	$ 51
2023	615	53
2024	613	56
2025	626	57
2026	650	59
2027–2031	3,271	310

Notes to Consolidated Financial Statements (In Millions)

Note 16. Employee Benefit Programs (Continued)

In addition to the defined benefit plans, the Clinic sponsors various defined contribution benefit plans. Expense recognized by the Clinic for those plans was $124 and $117 for 2021 and 2020, respectively.

Note 17. General and Professional Liability Insurance

The Clinic insures substantially all general and professional liability risks through a combination of a wholly owned captive insurance company and self-insurance. The insurance program combines various levels of self-insured retention with excess commercial insurance coverage. Actuarial consultants have been retained to assist in the estimation of outstanding general and professional liability losses.

The Clinic's general and professional liability as reported in the accompanying consolidated statements of financial position was $133 and $118 at December 31, 2021 and 2020, respectively. Provisions for the general and professional liability risks are based on an actuarial estimate of losses using the Clinic's actual loss data, adjusted for industry trends and current conditions, and considering an evaluation of claims by the Clinic's legal counsel. The provision includes estimates of ultimate costs for both reported claims and claims incurred but not reported.

Activity in the liability is summarized as follows for the years ended December 31:

	2021	2020
Balance, beginning of year	$ 118	$ 111
Incurred related to captive insurance company liability:		
Current year	29	26
Prior years	—	(4)
Total incurred	29	22
Paid related to captive insurance company liability:		
Current year	(2)	—
Prior years	(10)	(19)
Total paid	(12)	(19)
Net change in self-insurance liability	(2)	4
Balance, end of year	$ 133	$ 118

Notes to Consolidated Financial Statements (In Millions)

Note 18. Other Receivables, Other Current and Long-Term Assets, and Other Current and Long-Term Liabilities

At December 31, other receivables consisted of the following:

	2021	2020
Pledges receivable	$ 294	$ 234
Grants receivable	134	134
Rebates receivable	38	21
Other tax receivable	33	31
Interest receivable	16	9
Royalty receivable	15	15
Other	118	132
Total other receivables	$ 648	$ 576

At December 31, other current assets consisted of the following:

	2021	2020
Inventories	$ 203	$ 186
Prepaid expenses	108	66
Other	6	2
Total other current assets	$ 317	$ 254

At December 31, other long-term assets consisted of the following:

	2021	2020
Pledges receivable	$ 400	$ 335
Trust receivables	207	186
Oil and gas interests	191	165
Investments in unconsolidated entities	160	98
Operating lease right-of-use asset	151	168
Technology-based ventures	138	81
Long-term portion of deferred tax asset	36	41
Notes receivable	16	21
Prepaid maintenance	14	14
Other	94	95
Total other long-term assets	$ 1,407	$ 1,204

Notes to Consolidated Financial Statements (In Millions)

Note 18. Other Receivables, Other Current and Long-Term Assets, and Other Current and Long-Term Liabilities (Continued)

At December 31, other current liabilities consisted of the following:

	2021	2020
Other taxes	$ 83	$ 81
Oil and gas liability	81	85
Current portion of long-term disability	42	38
Current portion of professional and general liability	38	35
Current maturities of long-term debt	38	1
Short-term disability	36	33
Medicare settlements liability	34	25
Real estate tax accrual	28	28
Operating lease liability	25	28
Refunds/recoupments	21	21
Accrued interest	15	14
Current portion of workers' compensation liability	11	11
Finance lease liability	6	9
Other	51	63
Total other current liabilities	$ 509	$ 472

At December 31, other long-term liabilities consisted of the following:

	2021	2020
Deferred compensation	$ 1,041	$ 882
Long-term disability	226	211
Operating lease liability	131	143
Electronic medical record	101	105
Professional and general liability	95	83
Retirement community obligations	86	87
Deferred gain	74	56
Gift annuities	67	67
Trust obligations	55	53
Asset retirement obligation	55	52
Financing obligations	53	54
Workers' compensation liability	32	32
Contract deposit	22	22
Finance lease liability	16	27
Other	79	90
Total other long-term liabilities	$ 2,133	$ 1,964

Notes to Consolidated Financial Statements (In Millions)

Note 19. Other Revenue

For the years ended December 31, other revenue consisted of the following:

	2021	2020
Retail pharmacy sales	$ 436	$ 393
Royalties	166	129
Oil- and gas-producing activities	101	46
Retail stores	67	57
Technology commercialization, health information, and medical products	52	49
Graduate medical and other education revenue	35	22
Cafeteria revenue	29	26
Provider relief funds and other support	1	199
Other	244	190
Total other revenue	$ 1,131	$ 1,111

Note 20. Commitments and Contingencies

The Clinic has various construction projects in progress related to patient care, research, and educational facilities. The estimated costs committed to complete the various projects at December 31, 2021, is $1,316, all of which is expected to be expended over the next three to five years.

While the Clinic is self-insured for a substantial portion of its general and workers' compensation liabilities, the Clinic maintains commercial insurance coverage against catastrophic loss. Additionally, the Clinic

maintains a self-insurance program for its long-term disability coverage. The provision for estimated self-insured claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

The Clinic is a defendant in various lawsuits arising in the ordinary course of business and records an estimated liability for probable claims. Although the outcome of these lawsuits cannot be predicted with certainty, management believes the ultimate disposition of such matters will not have a material effect on the Clinic's consolidated financial position or consolidated statement of activities.

Note 21. COVID-19

In March 2020, the World Health Organization declared the novel coronavirus disease (COVID-19) a pandemic. The Center for Disease Control confirmed its spread to the United States and declared a national public health emergency. The Clinic was well-prepared and continues to treat patients with COVID-19 across the organization, especially those with serious or complex medical conditions. However, COVID-19 could still negatively affect the operating margins and financial results of the Clinic, as the duration of the pandemic is unknown.