NEW ISSUE
BOOK ENTRY ONLY **See "RATINGS" herein**

In the opinion of Squire, Sanders & Dempsey L.L.P., Bond Counsel, under existing law, (i) assuming continuing compliance with certain covenants and the accuracy of certain representations, interest on the Series 2008A Bonds is excluded from gross income for federal income tax purposes, and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations and (ii) interest on, and any profit made on the sale, exchange or other disposition of, the Series 2008A Bonds are exempt from the Ohio personal income tax, the Ohio commercial activity tax, the net income base of the Ohio corporate franchise tax, and municipal, school district and joint economic development district income taxes in Ohio. Interest on the Series 2008A Bonds may be subject to certain federal taxes imposed only on certain corporations, including the corporate alternative minimum tax on a portion of that interest. For a more complete discussion of the tax aspects, see "Tax Matters" herein.

$452,340,000
State of Ohio
Hospital Revenue Bonds, Series 2008A
(Cleveland Clinic Health System Obligated Group)

Dated: Date of Issuance Due: January 1, as shown below

The State of Ohio (the "State"), acting by and through the Ohio Higher Educational Facility Commission (the "Commission"), will issue its $452,340,000 State of Ohio Hospital Revenue Bonds, Series 2008A (Cleveland Clinic Health System Obligated Group) (the "Series 2008A Bonds") pursuant to the Bond Indenture described herein for the purpose of financing, funding and refinancing costs of hospital facilities for the benefit of The Cleveland Clinic Foundation, an Ohio nonprofit corporation (the "Cleveland Clinic"), and certain other participants in the Cleveland Clinic Health System. The payment of principal of and interest and any premium on (collectively, "Bond Service Charges") the Series 2008A Bonds will be secured by a promissory note (the "Sixtieth Master Note") issued by the Cleveland Clinic under an Amended and Restated Master Trust Indenture, as amended and supplemented (the "Master Trust Indenture"), between the Cleveland Clinic and five controlled, affiliated nonprofit corporations, which together form a combined financing group under the Master Trust Indenture (each an "Obligated Issuer" and, collectively, the "Obligated Group"), and The Huntington National Bank, as Master Trustee.

The Sixtieth Master Note will be a general obligation of the Cleveland Clinic and the other Obligated Issuers, each of which will be jointly and severally liable for payment of amounts due thereon. Payment of principal of and interest and any premium on the Sixtieth Master Note will be secured, together with amounts payable on all other promissory notes heretofore or hereafter issued under the Master Trust Indenture on a parity therewith (collectively, "Master Notes"), by a pledge of Gross Receipts of the members of the Obligated Group. See "SECURITY FOR THE SERIES 2008A BONDS." Entities may join or withdraw from the Obligated Group under the circumstances described in the Master Trust Indenture.

The Series 2008A Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). Purchases of the Series 2008A Bonds may be made only in book-entry form, and no physical delivery of the Series 2008A Bonds will be made to beneficial owners, except as described herein. See "BOOK-ENTRY SYSTEM." The Series 2008A Bonds are issuable in denominations of $5,000 or any integral multiple thereof.

The Series 2008A Bonds are subject to optional, extraordinary optional and mandatory sinking fund redemption, and to optional purchase in lieu of redemption, all prior to maturity as described herein.

The Series 2008A Bonds are special obligations of the State, issued by the Commission, secured under the provisions of the Bond Indenture and by the State Financing Lease described herein, and will be payable from rental payments made by the Cleveland Clinic under the State Financing Lease, and from certain funds held by the Bond Trustee under the Bond Indenture. The obligation of the Cleveland Clinic to make such payments is evidenced and secured by the Sixtieth Master Note to be issued under and pursuant to the terms of the Master Trust Indenture, under which the members of the Obligated Group are obligated jointly and severally to make payments on such Sixtieth Master Note according to the terms thereof. Payments on the Sixtieth Master Note are required to be in an amount sufficient to pay Bond Service Charges on the Series 2008A Bonds when due. The Series 2008A Bonds are secured solely by the Bond Indenture and are payable solely from payments required to be made by the Cleveland Clinic under the State Financing Lease and by members of the Obligated Group on the Sixtieth Master Note and as otherwise provided in the Master Trust Indenture.

THE SERIES 2008A BONDS DO NOT REPRESENT OR CONSTITUTE A DEBT OR PLEDGE OF THE FAITH AND CREDIT OF THE COMMISSION OR THE STATE, WILL NOT BE SECURED BY AN OBLIGATION OR PLEDGE OF ANY MONEY RAISED BY TAXATION AND DO NOT GRANT TO THE HOLDERS ANY RIGHTS TO HAVE THE STATE OR ANY POLITICAL SUBDIVISION THEREOF LEVY ANY TAXES OR APPROPRIATE ANY FUNDS FOR THE PAYMENT OF BOND SERVICE CHARGES ON THE SERIES 2008A BONDS.

This cover page contains certain information for immediate reference only. It is not intended to be a complete summary of the terms of or security for the Series 2008A Bonds. Investors must read the entire Offering Circular to obtain information essential to the making of an informed investment decision.

Maturity (January 1)	Amount	Rate	Yield	Maturity (January 1)	Amount	Rate	Yield
2012	$5,500,000	4.000%	3.350%	2021	$ 6,525,000	5.250%	4.820%[C]
2013	8,445,000	4.000%	3.560%	2022	6,815,000	5.250%	4.940%[C]
2014	8,895,000	5.000%	3.770%	2023	7,205,000	5.250%	5.000%[C]
2015	9,295,000	5.000%	3.930%	2024	7,615,000	5.250%	5.050%[C]
2016	9,950,000	5.000%	4.090%	2025	10,365,000	5.000%	5.100%
2017	7,585,000	5.000%	4.240%	2026	14,220,000	5.000%	5.150%
2018	7,930,000	5.000%	4.390%	2027	28,865,000	5.125%	5.200%
2019	8,250,000	5.250%	4.560%[C]	2028	30,855,000	5.125%	5.250%
2020	4,060,000	5.250%	4.710%[C]	2029	32,765,000	5.250%	5.300%

$147,200,000 5.250% Term Bond due January 1, 2033, Price 98.376 to Yield 5.370%
$30,000,000 5.375% Serial Bond due January 1, 2038, Price 98.901 to Yield 5.450%
$60,000,000 5.500% Serial Bond due January 1, 2043, Price 99.228 to Yield 5.550%

The Series 2008A Bonds are offered when, as and if issued and received by the Underwriter, subject to prior sale, withdrawal or modification of the offer without any notice, and to the approval of legality of the Series 2008A Bonds by Squire, Sanders & Dempsey L.L.P., Bond Counsel to the Commission. Certain legal matters will be passed upon for the Underwriter by its counsel, McCall, Parkhurst & Horton L.L.P., and for the Cleveland Clinic and the other Obligated Issuers by the Chief Legal Officer of the Cleveland Clinic and by their special counsel, Jones Day. Jones Day has also served as disclosure counsel to the Cleveland Clinic in connection with the preparation of this Offering Circular. The Series 2008A Bonds are expected to be available for delivery to DTC in New York, New York, on October 15, 2008.

J.P.Morgan

Dated: September 10, 2008

[C] Yield to first call date.

REGARDING THE OFFERING CIRCULAR

This Offering Circular does not constitute an offering of any security other than the original offering of the Series 2008A Bonds identified on the cover. No person has been authorized by the Ohio Higher Educational Facility Commission (the "Commission"), or by The Cleveland Clinic Foundation (the "Cleveland Clinic"), Cleveland Clinic Health System – East Region, Fairview Hospital, Lutheran Hospital, Marymount Hospital, Inc. or Cleveland Clinic Florida (a nonprofit corporation) (collectively, the "Obligated Issuers") or the Underwriter to give any information or to make any representation with respect to the Series 2008A Bonds other than as contained in this Offering Circular. Any other information or representation should not be relied upon as having been given or authorized by the Commission, any Obligated Issuer, or the Underwriter. This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy, and there shall not be any sale of the Series 2008A Bonds, by any person in any jurisdiction in which it is unlawful to make such offer, solicitation or sale.

Except for the information under the captions "THE COMMISSION" and "LITIGATION — The Commission," the Commission has not confirmed, and has assumed no responsibility for, the accuracy, sufficiency, completeness or fairness of any statements in this Offering Circular or any amendment hereof or supplements hereto, or in any reports, financial information, offering or disclosure documents or other information relating to the Underwriter, the Leased Premises (as described herein), the Cleveland Clinic, the other Obligated Issuers, or the history, businesses, properties, organization, management, operations, financial condition, market area or any other matter relating to the Cleveland Clinic, the other Obligated Issuers or any other entities contained otherwise in this Offering Circular.

This Offering Circular has been approved by the Cleveland Clinic, for itself and the other Obligated Issuers, and its use and distribution for the purposes of offering and selling the Series 2008A Bonds have been authorized by the Commission and by the Cleveland Clinic, for itself and the other Obligated Issuers. The information set forth herein has been obtained from the Obligated Issuers, The Depository Trust Company ("DTC") and from other sources that are believed to be reliable. The Underwriter has reviewed the information in this Offering Circular in accordance with, and as part of, its responsibilities to investors under federal securities laws as applied to the facts and circumstances of the transaction, but the Underwriter does not guarantee the accuracy or completeness of such information. The information and expressions of opinion in this Offering Circular are subject to change without notice. Neither the delivery of this Offering Circular nor any sale made hereunder shall, under any circumstances, give rise to any implication that there has been no change in the affairs of the Commission, any Obligated Issuer or DTC since its date.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY EFFECT CERTAIN TRANSACTIONS THAT STABILIZE THE PRICE OF THE SERIES 2008A BONDS. SUCH TRANSACTIONS MAY CONSIST OF BIDS OR PURCHASES FOR THE PURPOSE OF MAINTAINING THE PRICE OF THE SERIES 2008A BONDS. IN ADDITION, IF THE UNDERWRITER OVERALLOTS (THAT IS, SELLS MORE THAN THE AGGREGATE PRINCIPAL AMOUNT OF THE SERIES 2008A BONDS SET FORTH ON THE COVER PAGE OF THIS OFFERING CIRCULAR) AND THEREBY CREATES A SHORT POSITION IN SUCH SERIES 2008A BONDS IN CONNECTION WITH THE OFFERING, THE UNDERWRITER MAY REDUCE THAT SHORT POSITION BY PURCHASING SERIES 2008A BONDS IN THE OPEN MARKET. IN GENERAL, PURCHASES OF A SECURITY FOR THE PURPOSE OF STABILIZATION OR TO REDUCE A SHORT POSITION COULD CAUSE THE PRICE OF A SECURITY TO BE HIGHER THAN IT MIGHT OTHERWISE BE IN THE ABSENCE OF SUCH PURCHASES. THE UNDERWRITER MAKES NO REPRESENTATION OR PREDICTION AS TO THE DIRECTION OR THE MAGNITUDE OF ANY EFFECT THAT THE TRANSACTIONS DESCRIBED ABOVE MAY HAVE ON THE PRICE OF THE SERIES 2008A BONDS. IN ADDITION, THE UNDERWRITER MAKES NO REPRESENTATION THAT IT WILL ENGAGE IN SUCH TRANSACTIONS OR THAT SUCH TRANSACTIONS, IF COMMENCED, WILL NOT BE DISCONTINUED WITHOUT NOTICE. IN ADDITION, THE UNDERWRITER MAKES NO REPRESENTATION OR PREDICTION AS TO THE DIRECTION OR THE MAGNITUDE OF ANY EFFECT THAT THE TRANSACTIONS DESCRIBED ABOVE MAY HAVE ON THE PRICE OF THE SERIES 2008A BONDS.

NEITHER THE SERIES 2008A BONDS NOR ANY OTHER SECURITY RELATING TO THE SERIES 2008A BONDS HAS BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 OR UNDER THE LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND NEITHER THE BOND INDENTURE NOR THE MASTER TRUST INDENTURE HAS BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, IN EACH CASE IN RELIANCE UPON APPLICABLE EXEMPTIONS. THE EXEMPTIONS FROM REGISTRATION AND FROM QUALIFICATION IN ACCORDANCE WITH APPLICABLE PROVISIONS OF FEDERAL OR STATE SECURITIES LAWS CANNOT BE REGARDED AS A RECOMMENDATION THEREOF. NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE SERIES 2008A BONDS OR ANY RELATED SECURITY, OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS OFFERING CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS IN THIS OFFERING CIRCULAR

Certain statements included or incorporated by reference in this Offering Circular constitute "forward-looking statements" within the meaning of the United States *Private Securities Litigation Reform Act of 1995*, Section 21E of the United States *Securities Exchange Act of 1934*, as amended, and Section 27A of the United States *Securities Act of 1933*, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words. Such forward looking statements include, among others, the information under the caption "APPENDIX A — PART IV. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF HEALTH SYSTEM OPERATIONS AND FINANCIAL POSITION" in APPENDIX A to this Offering Circular and "BONDHOLDERS' RISKS" in the forepart of this Offering Circular.

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVES KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS THAT MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE OBLIGATED GROUP DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN ITS EXPECTATIONS CHANGE OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED, OCCUR OR FAIL TO OCCUR.

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OFFERING CIRCULAR

Relating to

$452,340,000
STATE OF OHIO HOSPITAL REVENUE BONDS, SERIES 2008A
(CLEVELAND CLINIC HEALTH SYSTEM OBLIGATED GROUP)

INTRODUCTORY STATEMENT

The descriptions and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive, and reference is made to each document for the complete details of all terms and conditions. All statements herein regarding any such documents are qualified in their entirety by reference to such documents. This Introductory Statement is intended only to serve as a brief description of the Offering Circular and is expressly qualified by reference to the Offering Circular as a whole, as well as the documents summarized or described herein (all references to this Offering Circular include the cover page and appendices). All capitalized terms used in this Offering Circular and not otherwise defined herein have the meanings set forth in "APPENDIX C — SUMMARY OF BASIC DOCUMENTS — Definitions of Certain Terms." For more detailed descriptions of the matters summarized below, see the information set forth in the specific sections of the Offering Circular noted below.

Purpose of this Offering Circular

The purpose of this Offering Circular is to set forth certain information in connection with the offering by the State of Ohio (the "State"), acting by and through the Ohio Higher Educational Facility Commission, a body both corporate and politic and an agency or instrumentality of the State (the "Commission"), of $452,340,000 aggregate principal amount of the State's Hospital Revenue Bonds, Series 2008A (Cleveland Clinic Health System Obligated Group) (the "Series 2008A Bonds"), to finance, fund and refinance costs of acquiring, constructing, equipping and otherwise improving hospital facilities to be leased by the State, acting by and through the Commission (in such capacity, the "Lessor"), to The Cleveland Clinic Foundation, an Ohio nonprofit corporation (the "Cleveland Clinic"), as lessee (in such capacity, the "Lessee"), under a Lease dated as of September 1, 2008 (as amended and supplemented from time to time, the "State Financing Lease"), between the Lessor and the Lessee.

The Series 2008A Bonds will be issued in accordance with the laws of the State, particularly Chapter 140, Ohio Revised Code (the "Act"), and a resolution duly adopted by the Commission. The Series 2008A Bonds will be issued pursuant to and in accordance with the provisions of the Bond Indenture dated as of September 1, 2008 (as amended and supplemented from time to time, the "Bond Indenture"), between the State, acting by and through the Commission, and The Huntington National Bank, Columbus, Ohio, as bond trustee (in such capacity, the "Bond Trustee"). The Series 2008A Bonds will be special obligations of the State and will be payable solely from amounts payable by the Cleveland Clinic pursuant to the State Financing Lease, certain amounts held by the Bond Trustee from time to time in the Special Funds created under the Bond Indenture, and amounts payable by members of the combined financing group (each an "Obligated Issuer" and, together, the "Obligated Group") established under the Amended and Restated Master Trust Indenture dated as of April 1, 2003, as amended and supplemented from time to time (the "Master Trust Indenture"), between the Obligated Group and The Huntington National Bank, as master trustee (in such capacity, the "Master Trustee").

The Obligated Issuers; Related Entities

When the Series 2008A Bonds are issued, the Cleveland Clinic, Cleveland Clinic Health System – East Region ("CCHS-East Region"), Fairview Hospital ("Fairview"), Lutheran Hospital ("Lutheran") and Marymount Hospital, Inc. ("Marymount"), each an Ohio nonprofit corporation, and Cleveland Clinic Florida (a nonprofit corporation) ("Florida Clinic"), a Florida nonprofit corporation, will be the only Obligated Issuers under the Master Trust Indenture and, as such, each Obligated Issuer will be obligated, jointly and severally, to perform all obligations of the Obligated Group or any member thereof under the Master Trust Indenture and to pay all amounts payable on promissory notes issued under the Master Trust Indenture from time to time (collectively, "Master Notes"). An Obligated Issuer may withdraw from the Obligated Group and be relieved of its obligations under the Master Trust

Indenture and on any outstanding Master Notes, and other entities may become Obligated Issuers and jointly and severally liable under the Master Trust Indenture, including with respect to Master Notes previously or thereafter issued under the Master Trust Indenture, all as provided in the Master Trust Indenture. See "APPENDIX C — SUMMARY OF BASIC DOCUMENTS — The Master Trust Indenture — The Combined Group." The Cleveland Clinic has covenanted, however, that it will not withdraw from the Obligated Group as long as the Series 2008A Bonds are outstanding.

The Huntington National Bank, Columbus, Ohio, is acting as bond trustee and paying agent with respect to the Series 2008A Bonds, as bond trustee for the Variable Rate Bonds (as hereinafter defined) and as Master Trustee under the Master Trust Indenture. The Huntington National Bank also serves as bond trustee (in such capacity, the "County Bond Trustee") under the Bond Indenture dated as of June 15, 1987, as amended and supplemented (the "County Bond Indenture"), pursuant to which certain outstanding revenue bonds to be refunded by a portion of the Series 2008A Bonds were issued by the County of Cuyahoga, Ohio (the "County").

See "APPENDIX A — PART II. OBLIGATED GROUP" for a description of the Obligated Issuers, their facilities and their operations. APPENDIX B also includes certain audited financial statements of the Cleveland Clinic and its controlled affiliates, including the other Obligated Issuers and certain other corporations that are not Obligated Issuers (collectively, the "Cleveland Clinic Health System").

Although the Cleveland Clinic, CCHS- East Region, Fairview, Lutheran, Marymount and Florida Clinic are the only Obligated Issuers under the Master Trust Indenture, the Cleveland Clinic controls several other entities that operate health care facilities. See "APPENDIX A — PART V. NON-OBLIGATED HEALTH SYSTEM PARTICIPANTS."

Concurrent Issues

Concurrent with the issuance of the Series 2008A Bonds, the State is expected to issue, acting by and through the Commission, its $670,000,000 Hospital Revenue Bonds, Series 2008B (Cleveland Clinic Health System Obligated Group) in one or more series or subseries (collectively, the "Variable Rate Bonds" and, together with the Series 2008A Bonds, the "Series 2008 Bonds") to provide additional financing for the purposes for which the Series 2008A Bonds are being issued. The Variable Rate Bonds will bear interest at variable rates of interest per year, including, initially, daily, weekly and commercial paper rates. The Variable Rate Bonds will be subject to optional tender at the option of their holders, as well as mandatory tender under certain circumstances. The payment of the principal of and interest on the Variable Rate Bonds, and the purchase price for optionally or mandatorily tendered Variable Rate Bonds, will be the obligation of the Cleveland Clinic under the State Financing Lease and of each Obligated Issuer under a promissory note to be issued under the Master Trust Indenture to secure that obligation and the obligation of the Cleveland Clinic to make payments under the State Financing Lease in amounts and at times sufficient to pay Bond Service Charges on the Variable Rate Bonds (the "Variable Rate Note"). No liquidity facility from a financial institution will be available to make any payment of such purchase price. The Variable Rate Bonds will be issued pursuant to and secured on a parity basis with the Series 2008A Bonds by the Bond Indenture.

Use of Proceeds

The net proceeds of the Series 2008 Bonds, together with funds held by the Bond Trustee for the benefit of the hereinafter defined Bonds to be Refunded and the proceeds of the Variable Rate Bonds, will be used to (i) pay, or reimburse the Cleveland Clinic for the cost of acquiring, constructing, equipping and otherwise improving certain facilities of the Cleveland Clinic and certain of its controlled affiliates, (ii) refund several series of outstanding revenue bonds issued by the County under the County Bond Indenture (as hereinafter more particularly described, the "Bonds to be Refunded") and (iii) pay costs relating to the issuance of the Series 2008 Bonds and the refunding of the Bonds to be Refunded. See "PLAN OF FINANCE" and "ESTIMATED SOURCES AND USES OF FUNDS."

Security and Sources of Payment for the Series 2008A Bonds

General. The Series 2008A Bonds will be special obligations of the State and will be payable solely from the Hospital Receipts (*i.e.*, all rentals and other money received by the Commission or the Bond Trustee pursuant to the State Financing Lease, including, without limitation, Basic Rent, money and investments credited to the Special Funds created under the Bond Indenture and income from the investment thereof) and amounts payable by the Obligated Group under the Sixtieth Master Note delivered by the Cleveland Clinic to the Bond Trustee.

No revenues of the State or the Commission, other than as described in the immediately preceding paragraph, will be pledged to secure the payment of any amounts payable on or with respect to the Series 2008A Bonds, and the Series 2008A Bonds will not be secured by any mortgage of or security interest in any property of the Obligated Issuers, other than the Gross Receipts of the Obligated Issuers, which are pledged under the Master Trust Indenture to secure Master Notes, and except to the extent that the State Financing Lease may be deemed to constitute a security agreement and to create a security interest under applicable Ohio law. The assignment by the Commission of the Hospital Receipts may be subject to limitations on enforceability and may be subordinated by operation of law to the interests and claims of others in certain instances. See "BONDHOLDERS' RISKS — Enforcement of Remedies; Risks of Bankruptcy" and "— Certain Matters Relating to Enforceability of Security Interest in Gross Receipts." The Series 2008A Bonds, and the obligation to pay principal of and interest and any premium on (collectively, "Bond Service Charges") the Series 2008A Bonds, will not represent or constitute general obligations, debt or bonded indebtedness or a pledge of the assets, moneys or faith and credit of the Commission, the State or of any political subdivision thereof, and the owners of the Series 2008A Bonds will not have any right to have excise, ad valorem or other taxes levied by the Commission, the State or the taxing authority of any political subdivision of the State, for the payment thereof or rights to any revenue of the State or the Commission other than as described in the immediately preceding paragraph.

Security under the Bond Indenture. The Series 2008A Bonds will be issued pursuant to the Bond Indenture. Payment of Bond Service Charges on the Series 2008A Bonds will be secured by (i) an assignment of the Hospital Receipts, consisting of Basic Rent and the money and investments on deposit in the Special Funds created under the Bond Indenture and (ii) all right, title and interest of the Commission in the Special Funds established under the Bond Indenture. The assignment and security interest granted by the Commission in the Hospital Receipts may be subject to limitations on enforceability and may be subordinated by operation of law to the interests and claims of others in certain instances. See "BONDHOLDERS' RISKS — Enforcement of Remedies; Risks of Bankruptcy" and "– Certain Matters Relating to Enforceability of Security Interest in Gross Receipts."

The Series 2008A Bonds, the Variable Rate Bonds and any other bonds hereafter issued pursuant to the Bond Indenture are, except as otherwise provided therein, secured on a parity basis by the Bond Indenture. Upon issuance of the Series 2008A Bonds and the Variable Rate Bonds, they will be the only Bonds outstanding under the Bond Indenture.

Security under the State Financing Lease. Pursuant to a Lease dated as of September 1, 2008 with the Commission (the "State Financing Lease"), the Cleveland Clinic will covenant and agree to pay (i) as Basic Rent for the property subject to the State Financing Lease (the "Leased Premises"), an amount equal to the Bond Service Charges on the Bonds outstanding under the Bond Indenture, including the Series 2008A Bonds and the Variable Rate Bonds, (ii) the purchase price of any tendered Variable Rate Bonds that are not timely remarketed and (iii) certain additional amounts payable under the State Financing Lease. The obligation of the Cleveland Clinic to pay the Basic Rent and other amounts payable under the State Financing Lease will be absolute and unconditional, subject to limitations described herein. See "SECURITY FOR THE SERIES 2008A BONDS" and "BONDHOLDERS' RISKS — Enforcement of Remedies; Risks of Bankruptcy."

In connection with the issuance of the County Bonds, the Cleveland Clinic has previously leased a portion of the property comprising the Leased Premises to the County pursuant to a lease agreement and amendments and supplements thereto (the "County Base Lease"), and the County has leased that property back to the Cleveland Clinic pursuant to a financing lease agreement and amendments and supplements thereto (the "County Financing Lease"). The County has assigned its right to payment of rent and certain additional payments under the County Financing Lease to the County Bond Trustee, and has assigned substantially all of its other rights under the County Financing Lease, together with its rights under the County Base Lease, to the Master Trustee. As a result, except for

the receipt of rental and other payments under the County Financing Lease and certain rights retained by the County, including the rights to be indemnified and reimbursed for expenses, the Master Trustee possesses, and controls, subject to the direction of holders (or deemed holders), the exercise of, all of the rights of the County pursuant to the County Base Lease and County Financing Lease.

To support the issuance of the Series 2008A Bonds and the Variable Rate Bonds, the Cleveland Clinic, as lessor (in such capacity, the "Base Lessor") and the State, acting by and through the Commission, as lessee (in such capacity, the "Base Lessee") will enter into a Base Lease dated as of September 1, 2008, representing a sublease by the Cleveland Clinic of its interest in the Leased Premises to the Base Lessee. In turn, the Base Lessee, in its capacity as Lessor under the State Financing Lease, will lease its interest in the Leased Premises back to the Cleveland Clinic, as Lessee under the State Financing Lease. The State, acting by and through the Commission, will, however, assign its right to payment of Basic Rent and certain additional payments under the State Financing Lease to the Bond Trustee, and will assign substantially all of its other rights under the State Financing Lease, together with its rights under the Base Lease, to the Master Trustee. Accordingly, except for the receipt of rental and other payments under the State Financing Lease and certain rights retained by the Lessor under the State Financing Lease, including the rights to be indemnified and reimbursed for expenses, the Master Trustee will possess, and will control, subject to the direction of holders (or deemed holders) of Master Notes, the exercise of, all of the rights of the Base Lessee under the Base Lease and the Lessor under the State Financing Lease.

Master Notes. Payment of Bond Service Charges on the Series 2008A Bonds will be secured by the Sixtieth Master Note, which will be issued by the Cleveland Clinic pursuant to the Master Trust Indenture on the date of delivery of the Series 2008A Bonds and delivered to the Bond Trustee. The Sixtieth Master Note will represent the joint and several obligation of each Obligated Issuer to pay amounts at the times and in the amounts that Bond Service Charges are payable on the Series 2008A Bonds. Except for the security interest in the Gross Receipts of the Obligated Issuers granted to the Master Trustee under the Master Trust Indenture, no assets of any Obligated Issuer will be pledged as security for the Sixtieth Master Note.

In connection with the issuance of the Variable Rate Bonds, the Cleveland Clinic will issue the Variable Rate Note pursuant to the Master Trust Indenture, for delivery to the Bond Trustee to secure the payment of Bond Service Charges on the Variable Rate Bonds and the purchase price of any tendered Variable Rate Bonds that are not timely remarketed. The Variable Rate Note and the Sixtieth Master Note are sometimes collectively referred to as the "Series 2008 Master Notes."

The Series 2008 Master Notes are on a parity with Master Notes heretofore issued and outstanding under the Master Trust Indenture. The Master Trust Indenture permits the issuance of additional Master Notes (the "Additional Master Notes") on a parity with the Series 2008 Master Notes and those Master Notes heretofore or hereafter issued. The term "Master Notes," as used herein, refers to all master notes from time to time outstanding under the Master Trust Indenture, whether heretofore or hereafter issued. All outstanding Master Notes are on a parity with each other. Each Obligated Issuer will be permitted to issue Additional Master Notes to evidence, or as security for, additional indebtedness permitted under the Master Trust Indenture and to secure obligations under interest rate hedging transactions. The instruments authorizing or securing such additional indebtedness or evidencing any such interest hedging transactions may contain such covenants and provisions as the parties thereto may determine, provided that such instruments comply with the provisions of the Master Trust Indenture. See "APPENDIX C — SUMMARY OF BASIC DOCUMENTS — The Master Trust Indenture — Permitted Indebtedness."

The Master Trust Indenture contains covenants of the Obligated Issuers that are summarized in "APPENDIX C — SUMMARY OF BASIC DOCUMENTS — The Master Trust Indenture." Such covenants include provisions with respect to debt service coverage, permitted additional indebtedness, liens, rates and charges and certain other matters. So long as any of the Series 2008A Bonds and, therefore, the Sixtieth Master Note remain outstanding, each Obligated Issuer will be required to comply with the terms and provisions of the Master Trust Indenture. In specified circumstances described in the Master Trust Indenture, an Obligated Issuer (other than the Cleveland Clinic) may withdraw from the Obligated Group and thereby be relieved of its obligations under the Master Trust Indenture and all outstanding Master Notes, without affecting the obligations of the remaining Obligated Issuers.

Upon issuance of the Series 2008A Bonds and the Variable Rate Bonds, there will be approximately $1,934,870,000 aggregate principal amount of Master Notes outstanding under the Master Trust Indenture directly securing bonded indebtedness of the Obligated Group. In addition, Master Notes have been issued to secure obligations of the Cleveland Clinic under outstanding interest rate swap agreements. Certain Master Notes have also been issued to secure reimbursement obligations to liquidity and credit facility providers in connection with bonded indebtedness, all but $11,645,000 of which is separately secured by Master Notes directly securing such bonded indebtedness.

The Master Trust Indenture may be amended or supplemented from time to time in certain circumstances with the consent of the holders of a majority in aggregate principal amount of the Master Notes then outstanding. Such consent could consist of consents from holders of Master Notes (including Master Notes subsequently issued), other than the holder of the Sixtieth Master Note. The Master Trust Indenture may also be amended or supplemented without the consent of holders of Master Notes in certain circumstances and for specified purposes. See "APPENDIX C — SUMMARY OF BASIC DOCUMENTS — The Master Trust Indenture – Supplements and Amendments to the Master Indenture."

The security for the Series 2008A Bonds is discussed more fully under "SECURITY FOR THE SERIES 2008A BONDS" herein.

Bond Trustee

The Huntington National Bank, Columbus, Ohio, is acting as bond trustee and paying agent with respect to the Series 2008A Bonds, as bond trustee for the Variable Rate Bonds and as Master Trustee under the Master Trust Indenture. The Huntington National Bank also serves as bond trustee under the County Bond Indenture.

Additional Bonds

Pursuant to and under the Bond Indenture, at the request of the Cleveland Clinic, the State, acting by and through the Commission, may issue additional revenue bonds ("Additional Bonds") from time to time, for any purpose permitted under the Act, under certain terms and conditions. If issued, the Additional Bonds will be on a parity (except as described in "APPENDIX C — SUMMARY OF BASIC DOCUMENTS — The Bond Indenture — Additional Bonds"), as to the assignment to the Bond Trustee of Hospital Receipts, with the Series 2008 Bonds, any other series of Bonds then outstanding under the Bond Indenture and any further Additional Bonds issued and at that time or thereafter Outstanding. In connection with the issuance of any series of Additional Bonds, the Master Trust Indenture will be supplemented to provide for the issuance of a Master Note to the Bond Trustee relating to those Additional Bonds. Additional Bonds may, however, be secured by property, instruments or documents other than those securing the Series 2008 Bonds, any outstanding Bonds or any further Additional Bonds issued and outstanding at the time of issuance of such Additional Bonds.

Additional Indebtedness

Subject to certain exceptions, the Master Trust Indenture requires that certain financial tests be met prior to the incurrence of additional indebtedness by members of the Obligated Group, including indebtedness proposed to be evidenced or secured by Master Notes and indebtedness that is not proposed to be so evidenced or secured. See "APPENDIX C — SUMMARY OF BASIC DOCUMENTS — The Master Trust Indenture — Permitted Indebtedness." That additional indebtedness may include additional bonds issued pursuant to the County Bond Indenture.

Other Outstanding Indebtedness and Obligations

For a description of the outstanding indebtedness of the Obligated Issuers other than indebtedness evidenced by Master Notes, see "SECURITY FOR THE SERIES 2008A BONDS — Other Outstanding Master Notes; Other Indebtedness" herein.

Consent to Certain Amendments

As a result of their purchase of the Series 2008A Bonds, owners thereof will be deemed to have consented to certain amendments to the Master Trust Indenture. Such amendments relate to, among other things, permitted liens on Property of the Obligated Group in connection with interest rate swaps and the calculation of Revenue and Expenses for purposes of the Master Trust Indenture. The Master Trust Indenture, as summarized in Appendix C, reflects such amendments.

Bondholders' Risks

Certain risk factors associated with the purchase of the Series 2008A Bonds are described under the caption "BONDHOLDERS' RISKS" herein.

Continuing Disclosure

The Cleveland Clinic has undertaken all responsibilities for any continuing disclosure to the holders of the Series 2008A Bonds as described below, and the Commission will have no liability to such holders or any other person with respect to such disclosures. In order to provide certain continuing disclosure with respect to its outstanding Bonds in accordance with Rule 15c2-12 of the United States Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time ("Rule 15c2 12"), the Cleveland Clinic has entered into an Amended and Restated Master Continuing Disclosure Agreement (the "Master Continuing Disclosure Agreement") with Digital Assurance Certification, LLC ("DAC" or the "Dissemination Agent"), under which the Cleveland Clinic has designated DAC as successor Dissemination Agent. See "CONTINUING DISCLOSURE" below.

Availability of Documents

This Offering Circular speaks only as of its date, and the information contained herein is subject to change. This Offering Circular will be made available prior to the issuance and sale of the Series 2008A Bonds through the Cleveland Clinic, at 9500 Euclid Avenue, Cleveland, Ohio 44195.

Descriptions of the Series 2008A Bonds, the Bond Indenture, the State Financing Lease, the Master Trust Indenture and other agreements and documents contained herein constitute summaries of certain provisions thereof, and do not purport to be complete. Reference is made to the Bond Indenture, the State Financing Lease, the Master Trust Indenture and such other agreements and documents for a more complete description of such provisions. To obtain copies of such agreements and documents prior to the issuance and sale of the Series 2008A Bonds, requests should be directed to the Cleveland Clinic at its address set forth above. Following the issuance and sale of the Series 2008A Bonds, copies may be examined at the principal office of The Huntington National Bank, 7 Easton Oval, EA4E63, Columbus, Ohio 43219.

PLAN OF FINANCE

The proceeds of the Series 2008A Bonds will be used, together with the proceeds of the Variable Rate Bonds, to (i) pay or reimburse the Cleveland Clinic for the payment of a portion of the cost of acquiring, constructing, remodeling and equipping certain of the health care facilities of the Cleveland Clinic and certain other of the Obligated Issuers, (ii) current refund the Bonds to be Refunded and (iii) pay related expenses.

The Projects

A portion of the proceeds of the Series 2008A Bonds, together with a portion of the proceeds of the Variable Rate Bonds, will be used to pay or reimburse the Obligated Issuers for a number of construction and renovation projects, including without limitation:

(i) acquisition of furnishings and equipment and construction of tenant improvements to a service center located in a garage/service center building on the campus of the Cleveland Clinic;

(ii) acquisition of magnetic resonance imaging equipment and renovation of waiting and changing areas related to the imaging department on the campus of the Cleveland Clinic;

(iii) expansion of clinical services, including emergency department, surgical procedures room and post-anesthesia care on the campus of the Cleveland Clinic;

(iv) acquisition of magnetic resonance imaging equipment and renovation of physician procedure rooms at Marymount;

(v) construction of a new, approximately 35,000 square foot, multi-story facility at the Family Health Center located in Brunswick;

(vi) construction of a new, approximately 150,000 square foot, multi-story facility that will replace the existing Family Health Center located in Avon;

(vii) construction of a new, approximately 168,000 square foot, multi-story facility at the Family Health Center located in Twinsburg;

(viii) reconstruction, remodeling, equipping, furnishing and improvements of office and related facilities, including the acquisition of existing buildings currently leased by the Cleveland Clinic, at the Clinic's administrative facilities in Beachwood; and

(ix) various other construction and renovation projects and equipment acquisitions undertaken by the Obligated Issuers throughout Northeast Ohio.

Refundings

A portion of the proceeds of the Series 2008A Bonds, together with a portion of the proceeds of the Variable Rate Bonds, will be used to refund some or all of the following series of bonds:

(i) County of Cuyahoga, Ohio Hospital Revenue Refunding Bonds, Series 1997A and 1997B (The Cleveland Clinic Foundation) (the "1997 Bonds"), $40,620,000 of which are currently outstanding;

(ii) County of Cuyahoga, Ohio Hospital Revenue Bonds, Series 2001A (Cleveland Clinic Health System Obligated Group) Auction Rate Securities (the "2001 Bonds"), $250,000,000 of which are currently outstanding;

(iii) County of Cuyahoga, Ohio Revenue Bonds, Series 2004A (Cleveland Clinic Health System Obligated Group) (the "2004A Bonds"), $229,375,000 of which are currently outstanding; and

(iv) County of Cuyahoga, Ohio Revenue Bonds, Series 2006A and 2006B (Cleveland Clinic Health System Obligated Group) Auction Rate Securities (the "2006 Bonds" and, together with the 1997 Bonds, the 2001 Bonds, and the 2004A Bonds, the "Bonds to be Refunded"), $100,000,000 of which are currently outstanding.

All of the Bonds to be Refunded are expected to be redeemed on or about October 15, 2008.

THE SERIES 2008A BONDS

General

The Series 2008A Bonds will be dated, bear interest at the annual interest rates and mature in the years and in the principal amounts shown on the cover page of this Offering Circular, subject to redemption prior to maturity

as hereinafter described. The Series 2008A Bonds are issuable only as fully registered bonds, under a book entry system, each in the denomination of $5,000 or any integral multiple thereof.

Interest on the Series 2008A Bonds will be calculated on the basis of a 360-day year, composed of twelve 30-day months. Except while the Series 2008A Bonds are registered in the name of Cede & Co., as described below under "BOOK-ENTRY SYSTEM," (i) the principal of and premium, if any, on each Series 2008A Bond will be payable upon presentation and surrender thereof at the Designated Corporate Trust Office of the Bond Trustee or, at the option of the Holder, at the designated corporate trust office of any Paying Agent named in the Series 2008A Bonds, and (ii) interest on each Series 2008A Bond will be paid semiannually on January 1 and July 1, commencing January 1, 2009, to the registered Holders thereof as of the Record Date at their addresses appearing on the registration books maintained by the Bond Trustee or at such other address furnished in writing by such registered Holder to the Bond Trustee by (A) check or draft of the Bond Trustee mailed on the Interest Payment Date relating to such Series 2008A Bond or (B) to any Holder of $1,000,000 or more in aggregate principal amount of Series 2008A Bonds by wire transfer of funds sent on the Interest Payment Date upon written notice from the Holder received by the Bond Trustee not later than the Business Day prior to the Interest Payment Date containing the wire transfer address (which shall be in the continental United States). Defaulted interest will be paid to registered Holders of the Series 2008A Bonds as of a Special Record Date established by the Bond Trustee in accordance with the Bond Indenture.

Redemption Prior to Maturity

Mandatory Sinking Fund Redemption. The Series 2008A Bonds will be subject to redemption prior to maturity pursuant to the mandatory sinking fund provisions of the Bond Indenture, at a redemption price equal to 100% of the principal amount redeemed plus accrued interest to the redemption date, on January 1 in the years and in the respective amounts set forth below:

$147,200,000 Term Bonds Due January 1, 2033

Year	Principal Amount
2030	$34,780,000
2031	36,965,000
2032	18,615,000
2033*	56,840,000

* Final Maturity

At its option, to be exercised on or before the 45th day immediately preceding any Mandatory Redemption Date, the Commission, or the Cleveland Clinic on behalf of the Commission, shall receive a credit against the current Mandatory Sinking Fund Requirement, as set forth in the Principal Retirement Schedule opposite the year in which the next succeeding Mandatory Redemption Date occurs, if and to the extent there have been redeemed (other than through the operation of Mandatory Sinking Fund Requirements) or purchased by or delivered to the Bond Trustee for cancellation and cancelled by the Bond Trustee, and not theretofore applied as a credit against other mandatory redemption obligations, Series 2008A Bonds maturing on the same date as the Series 2008A Bonds subject to those Mandatory Sinking Fund Requirements on that Mandatory Redemption Date.

Extraordinary Optional Redemption. The Series 2008A Bonds will be subject to extraordinary optional redemption by the Commission, at the direction of the Cleveland Clinic, at a redemption price equal to the principal amount thereof, plus interest accrued to the redemption date, in the event: (i) of the occurrence of a Casualty Event or a Condemnation Event and the Cleveland Clinic exercises its option to prepay the Basic Rent in an amount sufficient to redeem all or a portion of the Series 2008A Bonds then outstanding or (ii)(A) the Board of Trustees of the Cleveland Clinic determines in good faith that continued operation of the property (or portions thereof) financed or refinanced with the proceeds of Series 2008A Bonds is not financially feasible or is otherwise disadvantageous to the Cleveland Clinic; (B) as a result thereof, the Cleveland Clinic sells, leases or otherwise disposes of all or a portion of its property financed or refinanced with the proceeds of Series 2008A Bonds to a person or entity unrelated to the Cleveland Clinic; and (C) there is delivered to the Commission and the Bond Trustee a written statement of Bond Counsel to the effect that, unless the Series 2008A Bonds are redeemed or retired in the amount specified either prior to or concurrently with such sale, lease or other disposition, or on a subsequent date prior to the first date on which the Series 2008A Bonds are subject to redemption, without premium, at the option of the Commission at the direction of the Cleveland Clinic, such Bond Counsel will be unable to render a No Adverse Effect Opinion concerning the sale, lease or other disposition of all or a portion of the Leased Premises; provided that the Cleveland Clinic provides notice of its intention to prepay Basic Rent for any such purpose in accordance with the State Financing Lease and that any such redemption is in an amount not greater than the lesser of (1) the portion of the Series 2008A Bonds that remain outstanding the proceeds of which provided financing for the facility, and (2) the net proceeds received by the Cleveland Clinic from the claims for any losses due to a Casualty Event and from any award made in connection with a Condemnation Event.

Optional Redemption. The Series 2008A Bonds will be subject to redemption prior to maturity by the Commission, at the direction of the Cleveland Clinic, on or after January 1, 2018 in whole or in part on any date as described below under "Partial Redemption" at the applicable Optional Redemption Price plus accrued interest thereon to the redemption date.

Partial Redemption. If fewer than all of the Outstanding Series 2008A Bonds are called for redemption at one time, the Cleveland Clinic will designate the maturities and the amount of each maturity of the Series 2008A Bonds to be redeemed. If the Cleveland Clinic does not select the Series 2008A Bonds for redemption, or if Series 2008A Bonds within the portions selected by the Cleveland Clinic are to be redeemed, such redemption will be made in such manner as the Bond Trustee may determine. Subject to other applicable provisions of the Bond Indenture, the portion of any Series 2008A Bond to be redeemed must be in Authorized Denominations.

In selecting Series 2008A Bonds for redemption, the Bond Trustee will treat each Series 2008A Bond as representing that number of the Series 2008A Bonds that is obtained by dividing the principal amount of such Series 2008A Bond by the minimum Authorized Denomination. If it is determined that one or more, but not all, of the integral multiples of the minimum Authorized Denomination of principal amount represented by any Series 2008A Bond are to be called for redemption, then, upon notice of intention to redeem such integral multiples of an Authorized Denomination, the owner of such Series 2008A Bond will forthwith surrender such Series 2008A Bond to the Bond Trustee for payment to such owner of the redemption price of the integral multiples of the Authorized Denomination of principal amount called for redemption. The Bond Trustee will deliver to such owner a new Series 2008A Bond in the aggregate principal amount of the unredeemed balance of the principal amount of such Series 2008A Bond. New Series 2008A Bonds representing the unredeemed balance of the principal amount of such Series 2008A Bond will be issued to the registered owner thereof without charge therefor.

No redemption of less than all of the Series 2008A Bonds at the time outstanding shall be made pursuant to the Bond Indenture unless the aggregate principal amount of such Series 2008A Bonds to be redeemed is not less than an Authorized Denomination. If the Series 2008A Bonds or portions thereof are called for redemption and if on the redemption date moneys sufficient for the redemption thereof are held by the Bond Trustee, thereafter those Series 2008A Bonds or portions thereof to be redeemed shall cease to bear interest, and shall cease to be secured by, and shall be considered no longer to be outstanding under the Bond Indenture.

Optional Purchase in Lieu of Redemption. The Commission and, by their acceptance of the Series 2008A Bonds, the Holders of the Series 2008A Bonds irrevocably grant to the Cleveland Clinic, and any assignee of the Cleveland Clinic with respect to this right, the option to purchase, at any time when the Series 2008A Bonds are redeemable pursuant to the provisions of the Bond Indenture described above in "Redemption Prior to Maturity", any Series 2008A Bonds at a purchase price equal to its redemption price, including interest accrued to the purchase date. To exercise such option with respect to the Series 2008A Bonds, the Cleveland Clinic must give the Bond Trustee a Written Request as though such Written Request were a written request of the Commission for redemption, and the Bond Trustee is thereupon required to give the Holders of such Series 2008A Bonds notice of such purchase in the manner specified under the subcaption, "Notice of Redemption," below as though such purchase were a redemption. The purchase of such Series 2008A Bonds will be mandatory and enforceable against the Holders of the Series 2008A Bonds. On the date fixed for purchase pursuant to any exercise of such option, the Cleveland Clinic is required to pay the purchase price of the Series 2008A Bonds then being purchased to the Bond Trustee and the Bond Trustee will pay the same to the owners of such Series 2008A Bonds against delivery thereof. Following such purchase, the Bond Trustee will cause such Series 2008A Bonds to be registered in the name of the Cleveland Clinic or its nominee and shall deliver them to the Cleveland Clinic or its nominee. In the case of the purchase of less than all of the Series 2008A Bonds, the particular Series 2008A Bonds to be purchased will be selected in accordance with the provisions of the Bond Indenture as though such purchase were a redemption.

No purchase of Series 2008A Bonds as described above will operate to extinguish the indebtedness of the State evidenced thereby.

Notwithstanding the foregoing, no purchase of Series 2008A Bonds as described above in "Optional Purchase in Lieu of Redemption" may be made unless the Cleveland Clinic shall have delivered a No Adverse Effect Opinion to the Bond Trustee and the Commission concurrently therewith.

Notice of Redemption. A copy of the notice of the call for any redemption of the Series 2008A Bonds from the Commission to the Bond Trustee identifying the Series 2008A Bonds to be redeemed shall be given by first class mail, postage prepaid, to the Holders of the Series 2008A Bonds to be redeemed at their addresses as shown on the Bond Register not later than the fifteenth day prior to the redemption date. That notice will specify the place or places where the amounts due upon redemption are payable, the redemption date and the principal amount and maturity of the Series 2008A Bonds to be redeemed. Failure to give such notice by mailing to any particular Holder or a defect in the notice or mailing to any particular Holder will not affect the validity of such notice with respect to any other Holder to which notice is given in accordance with the provisions of the Bond Indenture.

Except for mandatory sinking fund redemptions, prior to the date that a redemption notice is first mailed, funds shall be placed with the Bond Trustee to pay the principal of such Series 2008A Bonds to be redeemed and the accrued interest thereon to the redemption date and the premium, if any, payable thereon, or such notice shall state

that the redemption is conditional on such funds being deposited on or prior to the redemption date and that failure to make such a deposit will not constitute an Event of Default under the Bond Indenture.

BOOK-ENTRY SYSTEM

General

Information concerning The Depository Trust Company ("DTC") and the Book-Entry System defined below has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Commission, the Underwriter, the Bond Trustee, the Cleveland Clinic or the Borrower.

Beneficial ownership in the Series 2008A Bonds will be available to Beneficial Owners (as described below) only by or through DTC Participants via a book-entry system (the "Book-Entry System") maintained by DTC. If the Series 2008A Bonds are taken out of the Book Entry System and delivered to owners in physical form, as contemplated hereinafter under "Discontinuance of DTC Services," the following discussion will not apply.

DTC and Its Participants

DTC will act as securities depository for the Series 2008A Bonds. The Series 2008A Bonds will be issued as fully registered bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered bond certificate will be issued for the Series 2008A Bonds in the aggregate principal amount of such Series and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has S&P's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org. The content of such websites are not incorporated by reference in this Offering Circular and should not be considered part of this Offering Circular.

Purchases of the Series 2008A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2008A Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2008A Bond ("Beneficial Owner") is in turn to be recorded on the Direct or Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2008A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2008A Bonds, except in the event that use of the book entry system for the Series 2008A Bonds is discontinued.

To facilitate subsequent transfers, all Series 2008A Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of the Series 2008A Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee does not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2008A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2008A Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices will be sent to DTC. If less than all the Series 2008A Bonds and, where applicable, of a particular maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Series 2008A Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Bond Trustee as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2008A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, purchase price, premium and interest payments on the Series 2008A Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Bond Trustee, on the payable date in accordance with their respective holdings as shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Bond Trustee, the Borrower, the Cleveland Clinic or the Commission, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, purchase price, premium and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Bond Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

Tenders

A Beneficial Owner shall give notice to elect to have its Series 2008A Bonds purchased or tendered, through its Participant, to the Bond Trustee, and shall effect delivery of such Series 2008A Bonds by causing the Direct Participant to transfer the Participant's interest in such Series 2008A Bonds, on DTC's records, to the Bond Trustee. The requirement for physical delivery of Series 2008A Bonds in connection with a demand for purchase or a mandatory purchase will be deemed satisfied when the ownership rights in the Series 2008A Bonds are transferred by Direct Participants on DTC's records and followed by a book entry credit to the Bond Trustee.

Discontinuance of DTC Services

DTC may discontinue providing its services as securities depository with respect to the Series 2008A Bonds at any time by giving notice to the Commission and Bond Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, bond certificates are required to be authenticated and delivered.

The Commission may, as provided in the Bond Indenture, decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, bond certificates will be authenticated and delivered for the Series 2008A Bonds.

Use of Certain Terms in Other Sections of the Offering Circular

In reviewing this Offering Circular it should be understood that while the Series 2008A Bonds are in the Book-Entry System, reference in other sections of this Offering Circular to owners of such Series 2008A Bonds should be read to include any person for whom a Participant acquires an interest in Series 2008A Bonds, but (i) all rights of ownership, as described herein, must be exercised through DTC and the Book-Entry System and (ii) notices that are to be given to registered owners by the Bond Trustee will be given only to DTC. DTC is required to forward (or cause to be forwarded) the notices to the Participants by its usual procedures so that such Participants may forward (or cause to be forwarded) such notices to the Beneficial Owners.

None of the Commission, the Borrower, the Cleveland Clinic, the Underwriter or the Bond Trustee has any responsibility or obligation to any DTC Participant or any Beneficial Owner with respect to: (1) the accuracy of any records maintained by DTC or any Participant; (2) the payment by DTC or any Participant of any amount due to any Beneficial Owner in respect of the principal or purchase price of, or interest or any premium on the Series 2008A Bonds; (3) the delivery by DTC or any Participant to any Beneficial Owner of any notice (including a notice of redemption) or other communication which is required or permitted to be given to Bondholders under the Bond Indenture; (4) the selection of the Beneficial Owners to receive payment in the event of a partial redemption of the Series 2008A Bonds; or (5) any consent given or other action taken by DTC as Bondholder.

THE COMMISSION

The Ohio Higher Educational Facility Commission is a body both corporate and politic constituting an agency and instrumentality of the State. It was created in 1968 by, and exists under, Chapter 3377 of the Ohio Revised Code. Under Chapter 140 of the Revised Code, the State, as a "public hospital agency" and acting by and through the Commission as its "governing body" for this purpose, may issue revenue bonds to pay costs of "hospital facilities" for the benefit of "nonprofit hospital agencies", such as the Cleveland Clinic. Those revenue bonds are authorized by a resolution of the Commission. The revenue bonds are not general obligations, debt, or bonded indebtedness of the State or any other public hospital agency. The holders or owners of the bonds are not given the right, and have no right, to have excises or taxes levied by a public hospital agency for the payment of bond service charges thereon, and each such bond shall bear on its face a statement to that effect and to the effect that the right to such payment is limited to the hospital receipts and special funds pledged to such purpose under the bond proceedings. The State, as a public hospital agency and acting by and through the Commission, may lease hospital facilities to or from a nonprofit hospital agency, such as the Cleveland Clinic, for such uses, and upon such terms and conditions, as are agreed upon by the parties, in accordance with Chapter 140 of the Revised Code.

The Commission consists of nine members including the Chancellor of the Ohio Board of Regents or a designee of the Chancellor, an ex officio member. The other eight members are appointed to overlapping eight-year terms by the Governor with the advice and consent of the State Senate. The Chairman is designated by the Governor, and the other officers, including the Vice Chairman, the Secretary and the Deputy Secretary are elected by the members from their own number. The members of the Commission receive no compensation for their services but are entitled to reimbursement for their actual and necessary expenses. The Commission's office is located in Columbus, Ohio. The Commission does not have any employees. The Ohio Board of Regents provides staffing assistance to the Commission when necessary.

SECURITY FOR THE SERIES 2008A BONDS

Limited Obligations of the State

The Bond Service Charges on the Series 2008A Bonds are payable from the Hospital Receipts, including primarily the Basic Rent paid by the Cleveland Clinic to the Commission under the State Financing Lease, and the money, securities and funds and accounts to be held by the Bond Trustee (including investment earnings) available for that purpose under the Bond Indenture. All series of Bonds issued under the Bond Indenture, including the Series 2008A Bonds, are issued on a parity basis.

Under existing law, the remedies specified by the Bond Indenture and the State Financing Lease may not be readily available or may be limited. A court may decide not to order the specific performance of the covenants contained in these documents. The various legal opinions to be delivered concurrently with the delivery of the Series 2008A Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by State and federal laws, rulings and decisions affecting remedies and by bankruptcy, reorganization or other laws affecting the enforcement of creditors' rights or the application of general principles of equity.

The enforceability of the State Financing Lease and the Bond Indenture may be subject to subordination or prior claims in certain instances other than bankruptcy proceedings. For a discussion of examples of possible limitations on enforceability and of possible subordination or prior claims, see "BONDHOLDERS' RISKS – Enforcement of Remedies; Risks of Bankruptcy" and "- Risks Related to Obligated Group Financings".

THE SERIES 2008A BONDS DO NOT REPRESENT OR CONSTITUTE A DEBT OR PLEDGE OF THE FAITH AND CREDIT OF THE COMMISSION OR THE STATE, WILL NOT BE SECURED BY AN OBLIGATION OR PLEDGE OF ANY MONEY RAISED BY TAXATION, AND DO NOT GRANT TO THE HOLDERS ANY RIGHTS TO HAVE THE STATE OR ANY POLITICAL SUBDIVISION THEREOF LEVY ANY TAXES OR APPROPRIATE ANY FUNDS FOR THE PAYMENT OF THE BOND SERVICE CHARGES ON THE SERIES 2008A BONDS.

General

The Series 2008A Bonds will be issued under and pursuant to the Bond Indenture. The Cleveland Clinic and the Commission will enter into the State Financing Lease, under which the Commission will lease the Leased Premises to the Cleveland Clinic. The terms of the State Financing Lease will require the Cleveland Clinic to make, or cause to be made, payments of Basic Rent that will be sufficient to pay the Bond Service Charges on the Series 2008A Bonds and all other Bonds outstanding under the Bond Indenture, as and when due. To secure its obligation to pay Basic Rent under the State Financing Lease, the Cleveland Clinic will deliver to the Commission, and the Commission will assign without recourse to the Bond Trustee, the Sixtieth Master Note, issued pursuant to the Master Trust Indenture under which the Cleveland Clinic, CCHS - East Region, Fairview, Lutheran, Marymount and Florida Clinic will be, as of the date the Series 2008A Bonds are issued, the only Obligated Issuers. The Cleveland Clinic will also deliver to the Commission, and the Commission will assign without recourse to the Bond Trustee, the Variable Rate Note to secure the Variable Rate Bonds to be issued concurrently with the issuance of the Series 2008A Bonds under the Bond Indenture. The Cleveland Clinic has also issued several other Master Notes that are currently outstanding and which secure bonds outstanding under the County Bond Indenture.

The Series 2008A Bonds, the Variable Rate Bonds and any Additional Bonds issued pursuant to the Bond Indenture will be secured on a parity by the Bond Indenture. The Series 2008A Bonds, the Variable Rate Bonds and any such Additional Bonds are referred to collectively as the "Bonds."

The Bond Service Charges on the Series 2008A Bonds will be payable solely from amounts payable by the Cleveland Clinic as Basic Rent under the State Financing Lease, together with all other Hospital Receipts, all moneys derived under the Sixtieth Master Note and all moneys and investments held by the Bond Trustee in the Special Funds established under the Bond Indenture. To secure the Series 2008A Bonds, the Commission has pledged and assigned without recourse all of its rights in Hospital Receipts and will assign without recourse all of its interest in the Sixtieth Master Note to, and will transfer and grant a lien on all of its right, title and interest in the Special Funds in favor of, the Bond Trustee. No revenues of the Commission or any Obligated Issuer are pledged to the payment of the Series 2008A Bonds, and the Series 2008A Bonds are not secured by any mortgage on or security interest in any assets of an Obligated Issuer (except to the extent that the State Financing Lease may be deemed to constitute a security agreement under applicable Ohio law) other than the Gross Receipts of the Obligated Issuers that are pledged under the Master Trust Indenture. See "Security Interest in Gross Receipts" below under this caption. The Commission's rights and interest in the Hospital Receipts and the Special Funds under the Bond Indenture and the State Financing Lease have been assigned directly to the Bond Trustee. The remaining rights and interest of the Commission under the State Financing Lease (except for Unassigned Rights) have been assigned to the Master Trustee as security for the Master Notes.

County Bonds

The Cleveland Clinic and the County have previously entered into the County Base Lease and the County Financing Lease pursuant to which the Cleveland Clinic has leased portions of the Leased Premises to the County to secure several series of revenue bonds (the "County Bonds") issued under the County Bond Indenture. As of the date the Series 2008A Bonds are issued, $758,980,000 in aggregate principal amount of the County Bonds will remain outstanding. The County has assigned substantially all of its rights under the County Base Lease and the County Financing Lease to the Master Trustee. As a result, except for the receipt of rental and other payments under the County Financing Lease and certain rights retained by the County, including the rights to be indemnified and reimbursed for expenses, the Master Trustee possesses, and controls, subject to the direction of holders (or deemed holders), the exercise of, all of the rights of the County pursuant to the County Base Lease and County Financing Lease.

Master Trust Indenture

As a result of their purchase of the Series 2008A Bonds, owners thereof will be deemed to have consented to certain amendments to the Master Trust Indenture as described above under "INTRODUCTORY STATEMENT — Consent to Certain Amendments."

The Master Trust Indenture authorizes each Obligated Issuer to issue Master Notes, which are entitled to the benefit and security of the Master Trust Indenture. The Master Trust Indenture requires that certain financial tests be met prior to the incurrence of additional indebtedness, including indebtedness evidenced or secured by Master Notes or indebtedness in the nature of guaranties. Each Obligated Issuer will be jointly and severally obligated to make all payments of principal of and interest and any premium on all Master Notes, as and when due. Master Notes issued in the future may be secured or payable from sources or by property and instruments in addition to or other than those securing other outstanding Master Notes.

The obligations of the Obligated Issuers under the Master Trust Indenture and the Master Notes are general obligations and are not secured by any liens on real estate, equipment or other assets or any pledge of the revenues of the Cleveland Clinic, CCHS-East Region, Fairview, Lutheran, Marymount or Florida Clinic or any future Obligated Issuer other than their Gross Receipts which are pledged under the Master Trust Indenture.

The following table provides information relating to the Sixtieth Master Note and the Variable Rate Note and all currently outstanding Master Notes that have been issued under the Master Trust Indenture and the amount thereof outstanding as of June 1, 2008, as adjusted to give effect to issuance of the Series 2008A Bonds and the Variable Rate Bonds and the application of the proceeds thereof to refund the Bonds to be Refunded. For each Master Note, the table indicates the bonds or other obligations to which such Master Note relates and, where applicable, the outstanding principal amount at June 1, 2008, as so adjusted.

MASTER NOTE	BONDS OR OTHER OBLIGATIONS	PRINCIPAL AMOUNT OUTSTANDING, AS ADJUSTED
Twenty-Eighth Master Note	Hospital Revenue Bonds, Series 1999B (Cleveland Clinic Health System Obligated Group)	$45,010,000
Thirty-Fifth Master Note	Cuyahoga County, Ohio Revenue Bonds, Series 2003A (Cleveland Clinic Health System Obligated Group)	$513,970,000
Thirty-Ninth Master Note	Collier County (Florida) Health Facilities Authority Revenue Bonds, Series 2003C (Cleveland Clinic Health System Obligated Group)	$41,905,000
Fortieth Master Note[1]	Reimbursement Obligation	N/A
Forty-First Master Note[1]	Reimbursement Obligation	N/A
Forty-Second Master Note	Swap Obligation	N/A
Forty-Third Master Note	Swap Obligation	N/A
Forty-Sixth Master Note	Cuyahoga County, Ohio Revenue Bonds, Series 2004B (Cleveland Clinic Health System Obligated Group)	$200,000,000
Forty-Seventh Master Note[2]	Reimbursement Obligation	N/A
Forty-Eighth Master Note[2]	Reimbursement Obligation	N/A
Fiftieth Master Note	Swap Obligation	N/A
Fifty-First Master Note	Swap Obligation	N/A
Fifty-Fifth Master Note[3]	Reimbursement Obligation	$11,645,000
Fifty-Sixth Master Note	Swap Obligation	N/A
Fifty-Ninth Master Note[2]	Reimbursement Obligation	N/A
Sixtieth Master Note	Series 2008A Bonds	$452,340,000
Sixty-First Master Note[4]	Variable Rate Bonds	$670,000,000
Sixty-Second Master Note[4]	Reimbursement Obligation	N/A
Sixty-Third Master Note[4]	Reimbursement Obligation	N/A
Sixty-Fourth Master Note[4]	Reimbursement Obligation	N/A
Sixty-Fifth Master Note[4]	Reimbursement Obligation	N/A
		Total: $1,934,870,000

[1] The Fortieth and Forty-First Master Notes were issued to the related credit facility providers for the Series 2003C Bonds for the purpose of securing the Obligated Issuers' reimbursement obligations to such credit facility providers in the event such credit facility providers are required to make any payment in respect of principal, interest or the tender price of any Series 2003C Bonds.

[2] The Forty-Seventh, Forty-Eighth and Fifty-Ninth Master Notes were issued to the related liquidity facility providers for the Series 2004B Bonds for the purpose of securing the Obligated Issuers' reimbursement obligations to such liquidity facility providers in the event such liquidity facility providers are required to make any payment in respect of tender price of any Series 2004B Bonds. In addition to a principal component equal to the principal amount of the Series 2004B Bonds shown in the table above, each such Master Note includes in its par amount the interest component associated with the related bank's obligation to fund interest for a period of days with respect to the related Series 2004B Bonds, which interest component is not reflected in the amounts included in the table above.

[3] The Fifty-Fifth Master Note was issued to the related liquidity facility providers for the $11,645,000 outstanding principal amount Cuyahoga County, Ohio Multi-Mode Variable Rate Civic Facility Revenue Bonds, Series 2002 (Cleveland Health Museum Project) (the "HealthSpace Bonds"), which are not issued under the either the Bond Indenture or the County Bond Indenture, but the obligations with respect to which were assumed by the Cleveland Clinic in connection with the acquisition in 2006 of the facilities of the Cleveland Health Museum known as "HealthSpace." The Fifty-fifth Master Note secures the Obligated Issuers' reimbursement obligations to such liquidity facility provider in the event such liquidity facility provider is required to make any payment in respect of tender price of any HealthSpace Bonds. In addition to the principal component of the HealthSpace Bonds related to the Fifty-fifth Master Note, such Master Note includes in its par amount the interest component associated with the related bank's obligation to fund interest for a period of days with respect to the HealthSpace Bonds, and such component is not reflected in the par amount listed in the table above.

[4] The Sixty-Second through and including the Sixty-Fifth Master Note will be issued to banks that provide lines of credit to the Cleveland Clinic in connection with the Cleveland Clinic's plans to provide self-liquidity for any Variable Rate Bonds which are tendered pursuant to their terms.

The Cleveland Clinic regularly reviews the relative amounts of its fixed and variable rate indebtedness. The Cleveland Clinic may consider entering into one or more interest rate swap agreements to adjust its mix of indebtedness. It is anticipated that the Cleveland Clinic's payment obligations under any such interest rate swap agreements would be secured by additional Master Notes issued pursuant to the Master Trust Indenture.

Pursuant to the Master Trust Indenture, the Sixtieth Master Note and the Variable Rate Note will be issued on a parity with the outstanding Master Notes.

The revenues and expenses of all members of the Combined Group, that is, the Obligated Issuers and the Group Affiliates, are combined for purposes of the financial tests set forth in the Master Trust Indenture. The operational and financial restrictions and contractual obligations of the Master Trust Indenture apply directly only to Obligated Issuers. Each Obligated Issuer covenants to cause any Group Affiliate that it controls to abide by such restrictions and covenants. The Master Trust Indenture does not obligate any Group Affiliate on any Master Note. Rather, the Master Trust Indenture provides that each Master Note is a joint and several obligation of each Obligated Issuer and the full faith, credit and revenues of the Obligated Group are committed for payment of each Master Note including such moneys as may, in accordance with law, be realized by liquidation or other drawing on all of the assets and investments of the Combined Group, including such moneys as may be derived from Group Affiliates. See "APPENDIX C — SUMMARY OF BASIC DOCUMENTS — The Master Trust Indenture." At present, there are not any "Group Affiliates" under the Master Trust Indenture.

In determining compliance with a number of provisions of the Master Trust Indenture, the Obligated Issuers may assume that certain types of Indebtedness that bear interest at variable rates and which may not be payable over an extended term on a level annual debt service basis will in fact bear interest over a long term and will be amortized on a level debt service basis. The actual interest rates and payments on such Indebtedness will in all likelihood vary from such assumptions, and such variance may be material. See "APPENDIX C — SUMMARY OF BASIC DOCUMENTS — The Master Trust Indenture — Negative Lien Covenant," "— Transfers of Property," "— Rate Covenant", "— Permitted Indebtedness" and "— Merger and Consolidation." The Master Trust Indenture provides that certain tests must be met before Obligated Issuers and Group Affiliates may be added to, or withdrawn from, the Combined Group. See "APPENDIX C — SUMMARY OF BASIC DOCUMENTS — The Master Trust Indenture — The Combined Group."

Upon the issuance of the Series 2008A Bonds and the Variable Rate Bonds, the Cleveland Clinic, CCHS-East Region, Fairview, Lutheran, Marymount and Florida Clinic will be the only Obligated Issuers and the only members of the Combined Group under the Master Trust Indenture. See "APPENDIX C — SUMMARY OF BASIC DOCUMENTS — The Master Trust Indenture – The Combined Group" for information regarding the ability of an entity to be added as an Obligated Issuer or Obligated Issuers or the ability of Obligated Issuers to withdraw from the Obligated Group. The foregoing notwithstanding, the Cleveland Clinic has covenanted that it will not withdraw from the Obligated Group as long as the Series 2008A Bonds are outstanding.

Security Interest in Gross Receipts

The Obligated Issuers have granted a security interest to the Master Trustee in their Gross Receipts pursuant to the Master Trust Indenture as security for all of the Master Notes outstanding thereunder, including the Series 2008 Master Notes. Gross Receipts are defined as all accounts and assignable general intangibles (other than those general intangibles that may not be assigned under the law) now owned or hereafter acquired by any Member of the Obligated Group regardless of how generated and all proceeds therefrom, whether cash or non-cash, all as defined in Article 9 of the Uniform Commercial Code (as amended) of the applicable jurisdictions, excluding, however, gifts, grants, bequests, donations, contributions and pledges to any Obligated Issuer heretofore or hereafter made, and the income and gains derived therefrom, which are specifically restricted by the donor or grantor to a particular purpose which is inconsistent with its use for payments required on the Master Notes. Accounts receivable of the Obligated Issuers which constitute Gross Receipts may be sold or pledged if such sale or pledge is made in accordance with the provisions of the Master Trust Indenture. Under the Master Trust Indenture, accounts receivable may be sold or pledged despite the security interest of the Master Indenture. The lien created under the Master Trust Indenture on Gross Receipts would terminate and be immediately released with respect to any accounts receivable that are so sold or pledged. See the discussion below under "Additional Liens."

Additional Liens

The Sixtieth Master Note and the Variable Rate Note are not secured by a pledge, grant or mortgage of, or a security interest in, any of the Property of any Obligated Issuer, other than a security interest in the Gross Receipts of each Obligated Issuer. The Obligated Group will covenant in the Master Trust Indenture that the Obligated Issuers will not create, assume or suffer to exist any mortgage, lien, charge, encumbrance, pledge or security interest of any kind on their Property, except Permitted Encumbrances. In addition to certain specific Permitted Encumbrances, the Master Trust Indenture will permit the Obligated Issuers to create any mortgage, lien, charge, encumbrance, pledge or security interest on its Property as long as, at the time of creation of any such mortgage, lien, charge, encumbrance, pledge or security interest, the aggregate Book Value of Property which is subject to such mortgage, lien, charge, encumbrance, pledge or security interest of any kind (a) (1) does not exceed 25% of the Book Value of all Property of the Combined Group, or (2) does not exceed 15% of the Fair Market Value of all Property of the Combined Group; or (b) does not exceed 15% of the Gross Revenues of the Combined Group for the most recent Fiscal Year for which audited financial statements of the Combined Group are available. In the alternative, any mortgage, lien, charge, encumbrance, pledge or security interest may be incurred if the Master Trustee shall have received a report or opinion of an Independent Consultant to the effect that the Debt Service Coverage of the Combined Group for the most recent Fiscal Year for which audited financial statements of the Combined Group are available, excluding in the computation of Net Income Available for Debt Service any income from Property on which a mortgage, lien, charge, encumbrance, pledge or other security interest has been imposed pursuant to this authority, is greater than 1.25. The foregoing provisions of the Master Trust Indenture summarized under this paragraph notwithstanding, no lien on Gross Receipts shall be permitted except for those permitted by paragraph (w) of the definition of "Permitted Encumbrances" in the Master Trust Indenture as summarized in APPENDIX C hereto under the caption "SUMMARY OF BASIC DOCUMENTS — Definition of Certain Terms." See the information in "APPENDIX C — SUMMARY OF BASIC DOCUMENTS — The Master Trust Indenture — Negative Lien Covenant."

Additional Bonds

The Series 2008A Bonds will be secured by the Bond Indenture on a parity with the Variable Rate Bonds and any Additional Bonds issued thereunder. At the time the Series 2008A Bonds are issued, they will be the only outstanding Bonds under the Bond Indenture.

Pursuant to the Bond Indenture, the Commission may issue Additional Bonds from time to time under certain terms and conditions. If issued, such Additional Bonds will be on a parity as to the assignment to the Bond Trustee of Hospital Receipts with the Series 2008A Bonds and the Variable Rate Bonds and any further Additional Bonds issued and at that time or thereafter Outstanding. Additional Bonds may, however, be secured by property, instruments or documents other than those securing the Series 2008A Bonds, any outstanding bonds or any further Additional Bonds issued and outstanding at the time of issuance of such Additional Bonds.

Other Outstanding Master Notes; Other Indebtedness

The Obligated Issuers have certain previously issued Master Notes to secure the County Bonds. See "Master Trust Indenture" above. As of the date of issuance of the Series 2008A Bonds and the Variable Rate Bonds, $758,980,000 in aggregate principal amount of Master Notes will be outstanding which secure bonds issued under the County Indenture.

The Obligated Issuers also have certain outstanding indebtedness and obligations not secured by Master Notes. As of December 31, 2007, the outstanding principal balance of such indebtedness and obligations was approximately $64.2 million. See Note 9 to the financial statements included in Appendix B.

ESTIMATED SOURCES AND USES OF FUNDS

The table below shows the estimated sources and uses of funds for the Series 2008A Bonds and the Variable Rate Bonds, exclusive of investment earnings.

	Series 2008A Bonds	Variable Rate Bonds
Sources of funds:		
Principal amount	$452,340,000	$670,000,000
Original Issue Discount	(4,466,533)	-
Original Issue Premium	3,812,918	-
Total Sources	$451,686,385	$670,000,000
Uses of funds:		
Provide for payment of the Bonds to be Refunded	$40,756,327	$579,788,947
Acquisition, Construction and Equipping of Projects [(1)]	407,913,592	87,905,553
Costs of issuance [(2)]	3,016,466	2,305,500
Total Uses	$451,686,385	$670,000,000

(1) Approximately $348,990,943 of the collective proceeds of the Series 2008A Bonds and the Variable Rate Bonds will be paid to the Cleveland Clinic on the date of issuance of the Series 2008 Bonds as reimbursement for prior capital expenditures.

(2) Including underwriting discount, underwriter's reimbursable expenses, legal and accounting fees, trustee's fees and financial printing and rating agency charges.

ESTIMATED ANNUAL DEBT SERVICE REQUIREMENTS

The following table sets forth the estimated annual debt service requirements of the Obligated Group with respect to the Series 2008A Bonds, the Variable Rate Bonds and all other revenue bonds secured by Master Notes. Debt service requirements in each period include principal and interest payments, including mandatory sinking fund requirements.

Period Ending	Series 2008A Bonds			Variable Rate Bonds[1]			Debt Service on	
January 1	Principal	Interest	Total	Principal	Interest	Total	Other Indebtedness[1,2]	Total Debt Service
2009		$4,964,444	$4,964,444		$4,997,541	$4,997,541	$40,988,979	$50,950,964
2010		23,515,788	23,515,788		23,444,558	23,444,558	40,998,014	87,958,360
2011		23,515,788	23,515,788		23,450,000	23,450,000	62,127,380	109,093,168
2012	$5,500,000	23,515,788	29,015,788		23,450,000	23,450,000	57,781,999	110,247,787
2013	8,445,000	23,295,788	31,740,788		23,455,442	23,455,442	55,024,447	110,220,677
2014	8,895,000	22,957,988	31,852,988		23,444,558	23,444,558	54,858,171	110,155,717
2015	9,295,000	22,513,238	31,808,238		23,450,000	23,450,000	54,688,081	109,946,318
2016	9,950,000	22,048,488	31,998,488		23,450,000	23,450,000	54,486,910	109,935,398
2017	7,585,000	21,550,988	29,135,988		23,455,442	23,455,442	57,235,660	109,827,089
2018	7,930,000	21,171,738	29,101,738		23,444,558	23,444,558	57,221,140	109,767,436
2019	8,250,000	20,775,238	29,025,238		23,450,000	23,450,000	57,195,338	109,670,575
2020	4,060,000	20,342,113	24,402,113		23,450,000	23,450,000	61,112,465	108,964,577
2021	6,525,000	20,128,963	26,653,963		23,455,442	23,455,442	58,783,879	108,893,283
2022	6,815,000	19,786,400	26,601,400		23,444,558	23,444,558	58,771,893	108,817,852
2023	7,205,000	19,428,613	26,633,613		23,450,000	23,450,000	58,755,108	108,838,721
2024	7,615,000	19,050,350	26,665,350		23,450,000	23,450,000	58,729,723	108,845,073
2025	10,365,000	18,650,563	29,015,563		23,455,442	23,455,442	56,399,304	108,870,308
2026	14,220,000	18,132,313	32,352,313		23,444,558	23,444,558	53,047,800	108,844,671
2027	28,865,000	17,421,313	46,286,313		23,450,000	23,450,000	39,093,590	108,829,903
2028	30,855,000	15,941,981	46,796,981		23,450,000	23,450,000	38,760,201	109,007,183
2029	32,765,000	14,360,663	47,125,663		23,455,442	23,455,442	38,384,072	108,965,176
2030	34,780,000	12,640,500	47,420,500		23,444,558	23,444,558	38,051,906	108,916,964
2031	36,965,000	10,814,550	47,779,550		23,450,000	23,450,000	37,660,409	108,889,959
2032	18,615,000	8,873,888	27,488,888		23,450,000	23,450,000	57,933,545	108,872,432
2033	56,840,000	7,896,600	64,736,600		23,455,442	23,455,442	21,026,016	109,218,057
2034		4,912,500	4,912,500	$61,070,000	23,444,558	84,514,558	20,584,665	110,011,724
2035		4,912,500	4,912,500	65,320,000	21,312,550	86,632,550	20,682,700	112,227,750
2036		4,912,500	4,912,500	81,235,000	19,026,350	100,261,350	7,000,000	112,173,850
2037		4,912,500	4,912,500	19,500,000	16,186,880	35,686,880	71,501,624	112,101,005
2038	30,000,000	4,912,500	34,912,500	4,885,000	15,497,028	20,382,028	71,441,399	126,735,928
2039		3,300,000	3,300,000	36,895,000	15,329,650	52,224,650	71,208,000	126,732,650
2040		3,300,000	3,300,000	109,395,000	14,038,325	123,433,325		126,733,325
2041		3,300,000	3,300,000	113,220,000	10,211,869	123,431,869		126,731,869
2042		3,300,000	3,300,000	117,190,000	6,245,350	123,435,350		126,735,350
2043	60,000,000	3,300,000	63,300,000	61,290,000	2,145,150	63,435,150		126,735,150

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[1] For purposes of calculating interest on the Variable Rate Bonds and other bonds bearing interest at a variable rate, assumed average annual interest costs were used based upon a constant interest rate of 3.50% per year.). Interest calculations for outstanding bonds which bear interest at variable rates do not reflect the economic impact of related interest rate agreements.

[2] Includes the debt service requirements for the Series 2004B Bonds, the Series 2003A Bonds, the Series 2003C Bonds, the Series 2002 Bonds and the unrefunded portion of the Series 1999B Bonds ($45 million). Interest calculations for outstanding bonds which bear interest at variable rates do not reflect the economic impact of related interest rate agreements.

DEBT SERVICE COVERAGE

The following table sets forth, for the fiscal years ended December 31, 2006 and 2007, the Obligated Group's income available to pay maximum annual debt service on Master Notes of the Obligated Group assuming the issuance of the Series 2008A Bonds and the Variable Rate Bonds.

	(in thousands) December 31, 2006	2007
Excess of revenues over expenses	$389,035	$379,966
Plus depreciation, amortization and interest	229,803	242,251
(Less increase) plus decrease in unrealized net gains on investments and value of interest rate swaps	(56,447)	55,079
Funds available for debt service	$562,391	$677,296
Maximum annual debt service[1]	$126,736	$126,736
Historical coverage of pro forma debt service	4.44x	5.34x

[1] Maximum annual debt service on outstanding Master Notes issued to secure or guarantee related revenue bonds. It has been assumed all indebtedness bearing interest at a variable rate bears interest at a constant interest rate of 3.50% per annum. It has also been assumed that the Variable Rate Bonds are issued in an aggregate principal amount of $670,000,000.

BONDHOLDERS' RISKS

General

The following is a discussion of certain risk factors that could affect payments to be made with respect to the Series 2008A Bonds. The discussion is not exhaustive, should be read in conjunction with all other parts of this Offering Circular. It should not be considered as a complete description of all risks that could affect such payments. Prospective purchasers of the Series 2008A Bonds should analyze carefully the information contained in this Offering Circular, including the Appendices hereto, and additional information in the form of the complete documents summarized herein, copies of which are available as described in this Offering Circular. See the caption "INTRODUCTORY STATEMENT — Availability of Documents" above.

As set forth under "SECURITY FOR THE SERIES 2008A BONDS," the Series 2008A Bonds will be payable by the Commission solely from Hospital Receipts (i.e., all rentals and other moneys received by the Commission or the Bond Trustee pursuant to the State Financing Lease with the Cleveland Clinic, including, without limitation, Basic Rent and moneys and investments credited to the Special Funds created under the Bond Indenture, and income from the investment of those moneys) and from amounts payable under the Sixtieth Master Note and the Variable Rate Note assigned by the Commission to the Bond Trustee. No representation or assurance can be made that revenues will be realized by the Obligated Issuers in amounts sufficient to provide funds for payments on the Series 2008A Bonds when due and to make other payments necessary to meet the obligations of the Obligated Issuers. Further, there is no assurance that the revenues of the Obligated Issuers can be increased sufficiently to compensate for cost increases that may occur.

The receipt of future revenues by the Obligated Issuers is subject to, among other factors, federal and state laws, regulations and policies affecting the health care industry and the policies and practices of major managed care providers, private insurers and other third party payors and private purchasers of health care services. The effect on the Obligated Issuers of recently enacted laws and regulations and recently adopted policies, and of future changes in federal and state laws, regulations and policies, and private policies, cannot be determined at this time. Loss of established managed care contracts of an Obligated Issuer could also adversely affect its future revenues.

Future economic conditions, which may include an inability to control expenses in periods of inflation, and other conditions, including demand for health care services, the availability and affordability of insurance, including without limitation, malpractice and casualty insurance, availability of nurses and other professional personnel, the capability of each Obligated Issuer's management, the receipt of grants and contributions, referring physicians' and self referred patients' confidence in the Obligated Issuers, economic and demographic developments in the United States, the State of Ohio, the State of Florida and the Obligated Issuers' service areas, and competition from other health care institutions in the service areas, together with changes in rates, costs, third party payments and governmental laws, regulations and policies, may adversely affect revenues and expenses and, consequently, the ability of the Cleveland Clinic to make payments under the State Financing Lease and of the Obligated Issuers to make payments under the Master Notes.

Federal Laws and Regulations

Medicare and Medicaid Programs; General

Medicare and Medicaid are the commonly used names for hospital reimbursement or payment programs governed by certain provisions of the federal Social Security Act. Medicare is an exclusively federal program administered by the Centers for Medicare & Medicaid Services ("CMS"), formerly the Health Care Financing Administration, an agency of the United Stated Department of Health and Human Services ("DHHS"), through contracts with fiscal intermediaries and carriers. Medicaid is jointly funded by federal and state appropriations and is administered by the individual states. Medicare provides certain health care benefits to beneficiaries who are 65 years of age or older or disabled, or qualify for the End Stage Renal Disease Program. Medicaid is designed to pay providers for care given to the medically indigent. Hospital benefits are available under each participating state's Medicaid program, within prescribed limits, to persons meeting certain minimum income or other eligibility requirements including children, the aged, the blind and/or disabled.

Health care providers have been and will be affected significantly by changes in the last several years in federal health care laws and regulations, particularly those pertaining to Medicare and Medicaid. The purpose of much of the recent statutory and regulatory activity has been to limit or reduce the rate of increase in government health care costs, particularly costs paid under the Medicare and Medicaid programs. Diverse and complex mechanisms to limit the amount of money paid to health care providers under both the Medicare and Medicaid programs have been enacted, and have caused severe reductions in reimbursement from these programs. Specifically, the Balanced Budget Act of 1997 (the "BBA") which was signed into law on August 5, 1997, was intended to reduce government health care costs and has had the effect of significantly decreasing reimbursement or payment to health care providers. Congress has also affected reimbursement levels to providers in the Medicare and Medicaid and State Children's Health Insurance Program Balanced Budget Refinement Act of 1999 ("BBRA") and the Benefits Improvement and Protection Act of 2000 ("BIPA"). The Deficit Reduction Acts of 2005 and 2008 (collectively, the "DRA"), contained, among other things, a number of provisions to slow the pace of spending growth in the Medicare program while increasing health care providers' focus on quality and efficient delivery of health care services. The following is a summary of the Medicare and Medicaid programs and certain risk factors related thereto.

President Bush presented his Fiscal Year 2009 Budget (the "FY 2009 Budget") to Congress on February 4, 2008. To achieve a plan to eliminate the federal budget deficit by 2012, the President has proposed approximately $182.7 billion in cuts to Medicare over five years in the FY 2009 Budget. Most of the reduction in Medicare spending would result from decreases in reimbursement rates for inpatient and outpatient hospital patients, with a majority in cuts over five years ($124 billion) reducing payments to acute care hospitals. Significant cuts to the Medicaid program are also contained in the FY 2009 Budget and described in detail below under the caption "Medicaid Programs and State Aid." It is uncertain at this time which provisions of the President's FY 2009 Budget will be enacted into law; however, any reduction in the level of Medicare and Medicaid spending or a reduction in the rate of increase of Medicare and Medicaid spending would have an adverse impact on the revenues of the Obligated Group derived from the Medicare and Medicaid programs.

Medicare

General

Approximately 29% of the net patient service revenues of the Obligated Issuers for the fiscal year ended December 31, 2007 were derived from Medicare. Medicare pays acute care hospitals for most services provided to inpatients under a payment system known as the "Prospective Payment System" or "PPS" pursuant to which hospitals are paid for services based on predetermined rates. Separate PPS payments are made for inpatient operating costs and inpatient capital costs. Such payments are not based upon a hospital's actual costs of providing services, and accordingly may not, and often will not, cover the costs of actual patient care in individual cases. See APPENDIX A under "PART II. THE OBLIGATED GROUP — M. PAYOR MIX, MANAGED CARE AND COMMERCIAL INSURANCE ARRANGEMENTS" for a discussion of the Medicare payments received by the Obligated Issuers.

Hospital Inpatient Operating Costs

Providers are reimbursed for most Medicare inpatient services under PPS. Under PPS, each Medicare patient discharge is classified into diagnosis-related group categories ("DRGs") and the hospital is reimbursed a specific fixed predetermined rate established by Medicare for that particular patient's DRG, regardless of the actual costs incurred by the hospital for the treatment of such patient. For each DRG category a nationwide rate has been set for each DRG category. The rate varies based on the particular region's wage rates, and the DRG rate for each hospital within a region depends on the weights (based upon the hospital's case-mix) for each DRG. If a hospital treats a patient for less than the applicable DRG rate, the hospital is entitled to retain the difference. Generally, if a hospital's cost of treating the patient exceeds the DRG rate, the hospital will not be entitled to any additional payment, and it will realize a loss. Furthermore, a hospital is precluded from charging the patient any costs beyond the coinsurance and deductible required under Medicare. Payments to hospitals under a DRG system may not reflect the actual costs incurred by many hospitals.

The Secretary of the Department of Health and Human Services ("DHHS") is required to review annually the DRG categories to take into account any new procedures and to reclassify DRGs and recalibrate the DRG relative weights, which reflect the resources used by the hospitals with respect to discharges classified within a given DRG category. The legislation that created the inpatient PPS requires that payments under the inpatient PPS be adjusted annually based on the national average cost of providing inpatient services (the "market basket"). For every year since 1983, Congress has modified the increases and given substantially less than the increase in the "market basket" index. There is no assurance that future updates in the inpatient PPS payments will come any closer to keeping pace with the increases in the cost of providing hospital services. In addition, there is no assurance that the Obligated Group will be paid amounts which will adequately reflect changes in the cost of providing health care or in the cost of health care technology being made available to patients or will cover the actual costs incurred by a hospital. The Obligated Group cannot predict how future adjustments that may be made by Congress and CMS may affect the financial condition of the Obligated Group.

Effective October 1, 2007, hospitals operated by the Obligated Group are paid under a new DRG system intended to ensure that payments more accurately reflect the costs of services provided by hospitals by better recognizing the severity of a patient's illness. The new DRG system, referred to as the Medicare-Severity DRGs, retains the basic logic of the DRG system but revises the complication or comorbidity list and creates 745 new DRGs based on the presence or absence of a complication or comorbidity. The 745 new severity-adjusted DRGs will replace the current 538 DRGs through a two year phase-in beginning in federal fiscal year 2008. It is expected that payments will increase for hospital servicing more severely ill patients and will decrease for hospitals serving patients who are less severely ill.

With certain exceptions, PPS payments are not adjusted for actual costs or variations in lengths of stay or intensity of services. Additional payments, however, are made under PPS for cases involving unusually high costs in comparison with other discharges in the same DRG category, known as "outliers." Consequently, if a hospital's costs of treating Medicare patients exceed the prospective payment for such services, the hospital will have a loss from treating Medicare patients, which loss will have to be recovered, if at all, from other sources of revenue; however, if the hospital's costs are less than the prospective payment rate, the hospital will realize a profit. Many

other third-party payors, including alternative delivery systems, are implementing their own prospective payment systems and/or required contractual terms designed to prevent "cost shifting" to such payors and are actively seeking to reduce their payment obligations to hospitals.

Hospital Inpatient Capital Costs

Hospitals' capital-related costs for treating Medicare inpatients, which include interest expense, depreciation, lease expense, property taxes, building costs and return on equity capital of proprietary providers, are reimbursed on the basis of a prospective capital rate (e.g., under the PPS system), adjusted for case mix, area wage index, urban location, disproportionate share factors, outlier cases and other items. Certain operating costs associated with Medicare patients, including deductible and coinsurance amounts not paid by Medicare patients, the cost of certain training and educational activities, limited research costs not otherwise covered by grants, the value of service of non-paid workers, compensation of owners, payments for therapy services provided "under arrangements", organ transplant services, and providers' cost of compensation to provider-based physicians, may be reimbursed on a reasonable cost or prospective basis depending on the cost category. Medicare payments for capital or operating costs rarely cover the actual costs incurred by a hospital. In addition to the basic payments, additional payments may be made for outlier cases that are extraordinarily costly or involve atypically long stays. The Obligated Group cannot predict how future adjustment of the cost-based methodologies or PPS rates may affect the financial condition of the Obligated Group. There can be no assurance that the prospective payments for capital costs will be sufficient to cover the actual capital-related costs of the Obligated Group allocable to Medicare patient stays or to provide adequate flexibility in meeting the Obligated Group's future capital needs.

Costs of Medical Education

Medicare pays for certain costs associated with both direct and indirect medical education (including the salaries of residents and teachers and other overhead costs directly attributable to approved medical education programs for training residents, nurses and allied health professionals), but there are limits on the amount and type of such program costs which can be reimbursed under Medicare. Accordingly, there can be no assurance that payments to the Obligated Issuers for providing medical education will be adequate to cover the costs attributable to its medical education programs.

Skilled Nursing Facility Services, Home Health Reimbursement, and Inpatient Psychiatric and Rehabilitation

Medicare Part A covers nursing services furnished by or under the supervision of a registered professional nurse, as well as physical, occupational, and speech therapy provided by skilled nursing facilities ("SNFs") that are certified for participation in the Medicare program. Certain "ancillary" services furnished to SNF patients are also covered under Medicare Part B. Medicare coverage of SNF services is limited to 100 days per benefit period after discharge from a Medicare participating hospital or critical access hospital, and is available only if the patient is hospitalized for at least three consecutive days, the need for SNF services is related to the reason for the hospitalization, and the patient is admitted to the SNF within 30 days following discharge from a Medicare participating hospital. For the first 20 days, Medicare pays for all covered services. Thereafter, the patient must pay co insurance amounts for the remaining days of covered care per year.

Medicare payments for SNF services are paid solely upon a case-mix adjusted per diem PPS for all routine, ancillary and capital-related costs. In addition to the limit on per diem PPS costs, SNF payments are also negatively impacted by Medicare regulations which require that post-hospitalization SNF services be "bundled" into the hospital's DRG payment in certain circumstances. Where these regulations apply, the hospital and the SNF must, in effect, divide the payment which otherwise would have been paid to the hospital alone for the patient's treatment, and no additional funds are paid by Medicare for SNF care of the patient. This provision is having a negative effect on SNF utilization and payments, either because hospitals are finding it difficult to place patients in SNFs which will not be paid as before or because hospitals are reluctant to discharge the patients to SNFs and lose part of their payment.

There is no guarantee that SNF prospective payment rates, as they may change from time to time, will cover the Obligated Issuers' actual costs of providing skilled nursing services to Medicare beneficiaries. In addition,

there is no assurance that the Obligated Issuers will be fully reimbursed for all services for which they bill through consolidated billing.

Since October 1, 2000, Medicare has been paying all home health agencies for services delivered to home bound Medicare beneficiaries on the basis of a home health prospective payment system. Home health providers are paid a predetermined base payment, adjusted to the health condition of the beneficiary. There can be no assurance that the prospective payment amounts for home health services provided by the Obligated Issuers will be sufficient to cover the actual costs of providing such services to Medicare beneficiaries.

Since January 1, 2002, all inpatient services furnished by a hospital enrolled in the Medicare program as a "rehabilitation hospital" or by a "rehabilitation unit" of a hospital have been reimbursed by Medicare on a prospective payment system specifically established for such hospitals and units. PPS for inpatient psychiatric services at other hospitals was implemented pursuant to a final rule replacing the reasonable cost-based system previously in effect and took effect on January 1, 2005, subject to a three-year phase-in period. There can be no assurance that PPS payments for such psychiatric services provided by the Obligated Issuers will be sufficient to cover the actual costs of providing such services to Medicare beneficiaries.

Hospital Outpatient Reimbursement

The BBA established a PPS for outpatient hospital services. Outpatient PPS ("OPPS") became effective August 1, 2000 for hospital outpatient services and October 7, 2000 for provider-based facilities owned by hospitals. OPPS was phased-in over a three-year period ending in 2004. Under OPPS, hospital outpatient services are divided into ambulatory payment classifications ("APCs"). APC groups define the clinically-related and resource-similar items and services that contribute to the cost of a procedure or service. Each APC is assigned a weight, which is based on the median cost of the services in the group. Payment rates for the APCs are established by applying a conversion factor to the APC weight. Under BIPA, the conversion factor may be adjusted in subsequent fiscal years if CMS determines that the adjustment factor has resulted or is likely to result in hospitals changing their coding or classification of covered services. Depending on the type of service provided, hospitals may be eligible for payment under more than one APC per patient encounter. Hospitals are also eligible to receive an outlier payment for outpatient services for which the hospital's charges, adjusted to cost, exceed a fixed multiple of the OPPS payment. Payments to hospitals under OPPS may not reflect the actual costs incurred by many hospitals. The Obligated Group cannot predict how future adjustments that may be made by Congress and CMS may affect the financial condition of the Obligated Group.

On November 1, 2007, CMS issued a final rule updating the hospital OPPS for services furnished during calendar year 2008, which encourages higher quality and accessible health care through new payment policies and the reporting of quality measures. CMS estimates that under the OPPS update, hospitals will receive an overall average increase of 3.8 percent in Medicare payments for outpatient services in calendar year 2008. The update to the OPPS also established a new payment system for ambulatory surgery centers ("ASCs"), effective as of January 1, 2008. Under the new payment system, ASC payments are linked to rates paid to hospital outpatient departments ("HOPDs"), with a number of adjustments, and most ASCs are being reimbursed at approximately 65% of the amounts paid to HOPDs. From 2008 to 2011, ASCs are subject to a transition "blended rate" calculated by blending the new rates with the old rates. The Obligated Group could suffer financially under the new payment system depending on a number of factors including the level of exposure to ASC reimbursement rates.

Physician Payments

Physicians may elect to "participate" or enroll in the Medicare program as a provider. Medicare Part B provides payments for physician services, including employed or provider-based physicians, based upon a national fee schedule. Subject to certain limitations, including limits on the overall growth rate for Medicare Part B costs, payments to participating physicians are to be adjusted based upon inflation for medical services according to the Resource-Based Relative Value Scale ("RBRVS"). Under the RBRVS system, payments for services are determined by the "resource costs" necessary to provide such services. Payments also are adjusted for geographical differences. The costs have three components: physician work, practice expense and professional liability insurance. Payments are calculated by multiplying the combined costs of a service by a conversion factor. The conversion factor is a monetary amount that currently is determined by CMS's Sustainable Growth Rate ("SGR") system. The

SGR system annually takes into account changes in the Medicare fee-for-services enrollment, input prices, spending due to law and regulation, and gross domestic product, effectively changing the RBRVS on an annual basis. There is no guarantee that reimbursement under RBRVS will cover the Obligated Group's actual costs of providing physician services to Medicare beneficiaries.

Payments to physicians who opt not to participate in Medicare are paid by Medicare at lower levels than payments to participating physicians. Regardless of physician enrollment status, all physicians who furnish health care services to Medicare beneficiaries must meet the full gamut of federal coding, documentation and other compliance requirements. In general, the professional staff members of the Obligated Group are participating physicians in the Medicare program.

Hospice Payments

Hospice services are paid on a cost-based prospective payment method, subject to a "cap" amount. CMS establishes daily payment amounts, which are adjusted to reflect local differences in wages, to reimburse four categories of covered hospice care: routine home care; continuous home care; inpatient respite care; and general inpatient care. Under the BBA and BBRA, the amount paid for hospice services will be less than the market basket increase for the fiscal year involved. Payments to a hospice for general inpatient care are subject to a limitation on the number of days of inpatient care furnished to Medicare patients. During the 12-month period beginning November 1 of each year and ending October 31, the aggregate number of inpatient days (both for general inpatient care and inpatient respite care) may not exceed 20 percent of the aggregate total number of days of hospice care provided to all Medicare beneficiaries during that same period. This limitation is applied once each year, at the end of the hospices' "cap period" (November 1 to October 31).

Outpatient Renal Dialysis Payments

Renal dialysis services are reimbursed on the basis of a prospective payment amount, although different rates are paid for hospital-based and freestanding facilities, and are adjusted for geographic differences in labor costs. In an effort to provide an incentive for home dialysis, the composite rate is the same regardless of whether the treatment is furnished in the facility or in the patient's home and must be accepted by the facility as payment in full for covered outpatient dialysis. There can be no assurance that the amount received by the Obligated Issuers for these services will be sufficient to cover their costs to provide these services.

Provider-Based Standards

The Medicare program pays certain facilities and services, including, for example, SNFs and physician offices and clinics, differently depending upon whether they are "provider based" or "freestanding." A "provider based" facility or service is an integral part of another provider, such as a hospital. Certain administrative costs and overhead of the provider organization may or must be allocated in part to the provider-based entity. In addition, provider-based designation can result in additional Medicare payments for services furnished at the provider-based location and also may increase the co-insurance liability of Medicare beneficiaries for those services. "Freestanding" providers are not considered part of another provider under the Medicare program and stand on their own for purposes of Medicare payments. For any given facility or service, it is probable that classification as "provider based" will result in higher aggregate Medicare payments for a hospital system as a whole.

Effective October 1, 2002, the mandatory requirement to obtain provider based designation was replaced with a voluntary attestation process. Nevertheless, providers may elect to obtain a determination of provider based status prior to billing in that manner, thereby eliminating the risk of incorrect billing and reimbursement for services provided to Medicare beneficiaries. Management of the Obligated Issuers believes that all facilities or services, which currently are or have been treated as provider-based, met and continue to meet all applicable criteria for such designation. However, should a determination be made to the contrary, reclassification of entities now characterized as "provider-based" to "freestanding" may adversely affect those entities' payments under the Medicare Program and could make them liable for Medicare overpayments.

Medicare Conditions of Participation

Hospitals must comply with standards called "Conditions of Participation" in order to be eligible for Medicare and Medicaid reimbursement. CMS is responsible for ensuring that hospitals meet these regulatory Conditions of Participation. Under the Medicare rules, hospitals accredited by The Joint Commission ("JCAHO") are deemed to meet the Conditions of Participation. However, CMS may request that the state agency responsible for approving hospitals on behalf of CMS, conduct a "sample validation survey" of a hospital to determine whether it is complying with the Conditions of Participation. Failure to maintain JCAHO accreditation or to otherwise comply with the Conditions of Participation could have a material adverse effect on the continued participation in the Medicare and Medicaid programs, and ultimately, the financial condition and results of operations of the Obligated Issuers.

Medicare Audits and Withholds

Hospitals participating in Medicare and Medicaid are subject to audits and retroactive audit adjustments with respect to reimbursement claimed under those programs, and the representations upon which such reimbursements are claimed. Although management of the Obligated Issuers believes its reserves are adequate for the purpose, any such future adjustments could be material. Both Medicare and Medicaid regulations also provide for withholding payments in certain circumstances. Any such withholding with respect to any Obligated Issuer could have a material adverse effect on the financial condition and results of operations of the Obligated Issuers. In addition, contracts between hospitals and third-party payors often have contractual audit, setoff and withhold language that may cause substantial, retroactive adjustments. Such contractual adjustments also could have a material adverse effect on the financial condition and results of operations of the Obligated Issuers. The Obligated Issuers are not aware of any situation in which a Medicare or other payment is being, or may in the future be, withheld that would materially and adversely affect the financial condition or results of operations of the Obligated Issuers.

Under both Medicare and Medicaid programs, certain health care providers, including hospitals, are required to report certain financial information on a periodic basis, and with respect to certain types of classifications of information, penalties are imposed for inaccurate reports. As these requirements are numerous, technical and complex, there can be no assurance that the Obligated Issuers will avoid incurring such penalties in the future. These penalties may be material and could include criminal, civil or administrative liability for making false claims and/or exclusion from participation in the federal healthcare programs. Under certain circumstances, payments made may be determined to have been made as a consequence of improper claims subject to the federal False Claims Act or other federal statutes, subjecting the provider to civil or criminal sanctions. The United States Department of Justice has initiated a number of national investigations, including in the State of Ohio and the State of Florida, involving proceedings under the federal False Claims Act relating to alleged improper billing practices by hospitals. These actions have resulted in substantial settlement amounts being paid in certain cases.

Management of the Cleveland Clinic does not anticipate that Medicare audits or cost report settlements for the Medicare program will materially adversely affect the financial condition or results of operations of the Obligated Issuers, taken as a whole; however, in light of the complexity of the regulations relating to the Medicare program, and the threat of ongoing investigations as described above, there can be no assurance that significant difficulties will not develop in the future.

Recent Legislation

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "2003 Act"), in addition to adding outpatient prescription drug coverage, made significant changes to the Medicare program affecting hospitals, and provides certain economic benefits to hospitals over the 10 years from its effective date. Among other things, the 2003 Act's hospital-related provisions (i) increase payments to rural providers; (ii) ensure that inpatient PPS payment updates remain at the full market basket, provided hospitals participate in a voluntary CMS-sponsored hospital reporting initiative; (iii) increase home health payments; and (iv) establish a competitive acquisition program for durable medical equipment beginning in 2007.

While it is believed that the 2003 Act will provide a measure of financial relief to hospitals, it is impossible to predict the effect that the 2003 Act will have on Obligated Issuers, especially given the 2003 Act's complexity and long phase-in period, as well as the potential for future amendment and alteration of the potential benefits provided by the 2003 Act.

In addition, the current trend of federal Medicare legislation and regulation favors the replacement of cost based, provider-specific reimbursement with prospectively determined national payment rates. The net effect of this trend could be lower revenues that would have a material adverse effect on the future financial condition and results of operations of the Obligated Issuers.

The 2003 Act also included provisions creating a 3-year demonstration program using Recovery Audit Contractors ("RACs") to detect and correct improper payments in the Medicare fee for service program. The RAC demonstration program was designed to determine whether the use of RACs would be a cost-effective means of adding resources to ensure correct payments were being made to providers and suppliers and, therefore, protect the Medicare Trust Fund. The demonstration program operated initially in New York, Florida, and California, and was expanded to Massachusetts and South Carolina, and ended on March 27, 2008. The Tax Relief and Health Care Act of 2006 makes the RAC program permanent and requires the Secretary of DHHS to expand the program to all 50 states by no later than 2010. As implemented by CMS, RACs are required to identify both overpayments and underpayments and are paid on a contingency fee basis.

Medicare Advantage

Medicare beneficiaries may obtain Medicare coverage through a managed care Medicare Advantage plan (formerly known as a "Medicare+Choice" plan). A Medicare Advantage plan may be offered by a coordinated care plan (such as an HMO or PPO), a provider sponsored organization ("PSO") (a network operated by health care providers rather than an insurance company), a private fee-for-service plan, or a combination of a medical savings account ("MSA") and contributions to a Medicare Advantage plan. Each Medicare Advantage plan, except an MSA plan, is required to provide benefits approved by the Secretary of HHS. A Medicare Advantage plan will receive a monthly capitated payment from DHHS for each Medicare beneficiary who has elected coverage under the plan. Health care providers such as the Obligated Issuers must contract with Medicare Advantage plans to treat Medicare Advantage enrollees at agreed upon rates or may form a PSO to contract directly with HHS as a Medicare Advantage plan. Covered inpatient and emergency services rendered to a Medicare Advantage beneficiary by a hospital that is an out-of-plan provider (i.e., that has not entered into a contract with a Medicare Advantage plan) will be paid at Medicare fee-for-service payment rates as payment in full.

As is the case for Medicare payments, there can be no assurance that Medicare Advantage or out of network Medicare fee-for-service payments for Medicare Advantage enrollees treated at the Obligated Issuer's facilities will be sufficient to cover the Obligated Issuers' actual costs of providing such services to such enrollees.

Future legislation or regulations may be created to encourage increased participation in the Medicare Advantage program. The effect of such future legislation/regulation is unknown but could materially and adversely affect the Obligated Issuers.

Medicaid

Medicaid is a program of medical assistance, funded jointly by the federal government and the states, for certain needy individuals and their dependants. Under Medicaid, the federal government provides limited funding to states that have medical assistance programs that meet federal standards. Attempts to balance or reduce federal and state budgets will likely negatively impact Medicaid spending. Payments made to health care providers under the Medicaid program are subject to change as a result of federal or state legislative and administrative actions, including changes in the methods for calculating payments, the amount of payments that will be made for covered services and the types of services that will be covered under the program. Such changes have occurred in the past and may be expected to occur in the future, particularly in response to federal and state budgetary constraints. The President has proposed approximately $18.2 billion in cuts to Medicaid over five years in the FY 2009 Budget. Most of the reduction in Medicaid spending would result from shifting costs from the federal government to the states. These cuts are in addition to approximately $12 billion in cuts from the President's proposals in the 2008

fiscal year's budget that are in various stages of implementation and effectiveness. While it is uncertain at this time which provisions of the President's FY 2009 Budget will be enacted into law, any reduction in the level of Medicaid spending by the federal government is likely to have an adverse impact on the revenues of the Obligated Group derived from the Medicaid program. Approximately 5% of the net patient service revenues of the Obligated Group for the fiscal year ended December 31, 2007 were derived from Medicaid.

Ohio Medicaid

The Medicaid program is administered in Ohio by its Department of Job and Family Services ("ODJFS"). Payments made to health care providers under the Medicaid program are subject to change as a result of federal or State legislative and administrative actions, including changes in the methods for calculating payments, the amount of payments that will be made for covered services and the types of services that will be covered under the program. Such changes have occurred in the past and may be expected to occur in the future, particularly in response to federal and state budgetary constraints. The Ohio Medicaid program provides comprehensive primary and acute care medical services through a managed care system or, for certain individuals excluded by statute from the managed care system, a fee-for-service system. Both the managed care and fee-for-service delivery system provide all medically necessary primary care, specialty and emergency care, and preventive services. Ohio Medicaid also provides both home health care and facility-based services for eligible people requiring long-term care.

Recent Ohio Legislation

In the mid-1990's, the State of Ohio received conditional approval from CMS to waive the State's required participation under certain federal Medicaid regulations and law, pursuant to Section 1115 of the Social Security Act. The State's original plan called for expansion of Medicaid managed care into all 88 counties by the State fiscal year ending June 30, 2001. A number of factors combined to cause the State to temporarily suspend the expansion.

In June 2005, the Governor of the State of Ohio signed the State of Ohio's Biennial Budget Bill (Amended Substitute House Bill 66), requiring the Ohio Department of Job and Family Services ("ODJFS") to expand the Medicaid Managed Care Program (the "Program") statewide for the Covered Families and Children ("CFC") population and Aged, Blind, and Disabled ("ABD") population by December 2006. According to ODJFS, as of April 1, 2008, over 1.1 million CFC Medicaid consumers have enrolled in a managed care plan ("MCP") which bases the delivery of health care services on a "medical home" model that focuses on care coordination and preventive services. Each region has a minimum of three MCPs to enhance consumer choice. MCPs are paid a premium by the State the direct the care of each enrollee. Ohio's 88 counties have been grouped into 8 regions and all counties have been converted to managed care for the CFC populations.

Ohio Medicaid Reimbursement

Reimbursement for care provided to Ohio Medicaid patients is subject to appropriation by the Ohio legislature of sufficient funds to pay incurred patient obligations. With respect to the MCP Program, MCPs are paid a premium by the State for each enrollee to direct their care. While MCPs are required to cover the same medically necessary services that the Medicaid fee for service program offers, MCP reimbursement rates are negotiated and established between the MCP and the provider. Under the fee-for-service system, Ohio hospitals are reimbursed for Medicaid inpatient services under a DRG, prospective payment system on a per discharge basis. Payments vary depending according to the DRG and peer group to which the case is assigned, the size and cost, if applicable, of a hospital's medical education program and certain other factors. With respect to nursing facilities, prospective rates are established based upon the sum of the allowable per diems for the following cost components: direct care, other projected costs, indirect care and capital costs. As a result of the implementation of the MCP Program in Ohio, other Ohio Medicaid reimbursement methodologies that limit payments to providers of Medicaid services and continuing Ohio budget cuts reducing the levels of benefits paid, there can be no assurance that the payments for services provided by the members of the Obligated Group to Ohio Medicaid patients will be sufficient to cover the actual costs of providing such services to such Medicaid beneficiaries.

As currently proposed, budget cuts in Ohio are likely to both reduce the level of benefits available and amounts to be paid for services provided to Medicaid recipients. At this time, however, exact changes to the program are unknown. Accordingly, it is uncertain how the Obligated Group might be affected.

Ohio HCAP Program

Ohio currently has in place a program known as the "Hospital Care Assurance Program" ("HCAP") that imposes an assessment on hospitals to create a pool of funds for redistribution to hospitals based upon an indigent care factor. Under the HCAP, ODJFS helps hospitals pay for uncompensated costs of treating indigent people. The Department does so by levying a provider tax against hospitals to generate a basic funding source that is joined with matching federal Medicaid funds. The pooled funds are then redistributed to hospitals based on the relative level of each hospital's indigent care services. The BBA imposed reductions on the level of matching federal funds available with respect to the HCAP and similar programs in other states. The pool of funds available to hospitals under the HCAP is therefore expected to decrease in the future. In the fiscal year ended December 31, 2007, the Obligated Group received HCAP fund net distributions of approximately $7.3 million. There is no guarantee that, in the future, the Obligated Group will continue to receive distributions at this level or that the Obligated Group will receive any aggregate net amount from HCAP.

State Children's Health Insurance Program

The State Children's Health Insurance Program ("CHIP") is a federally funded insurance program for children whose families earn too much money to be eligible for Medicaid, but yet cannot afford commercial health insurance. CMS administers the CHIP, but each state creates its own program based upon minimum federal guidelines. Ohio has implemented a CHIP. A CHIP can either be part of a state's Medicaid program, or a completely separate state program.

While generally considered to be beneficial for both patients and providers by reducing the number of uninsured children, it is difficult to assess the fiscal impact of CHIP on the payments to the Obligated Group. Moreover, states must periodically submit their CHIP plan to CMS for review to determine if it meets the federal requirements. If it does not meet the federal requirements, a state can lose its federal funding for its program. Finally, the CHIP currently is only funded by the federal government through March 31, 2009. A state's decision to elevate the eligibility requirements, thereby decreasing the number of children eligible for CHIP, the loss of federal approval for a state's program and the failure of the federal government to appropriate additional funds for CHIP after March 2009 could each have a material adverse effect on the financial condition and results of operations of the Obligated Group.

Florida Medicaid Program

Florida Medicaid provides a variety of health care services at varying levels of coverage to eligible persons who meet certain income and asset limits. The Medicaid Program in Florida is administered by AHCA through various systems of payment, including a fee for service system and a managed care program.

Reimbursement for care provided to Florida Medicaid patients is subject to appropriation by the Florida legislature of sufficient funds to pay incurred patient obligations. In Florida, Medicaid reimbursement rates for hospitals, nursing facilities and other institutional providers are determined by the Medicaid Program Analysis Bureau. Currently, hospitals are reimbursed for inpatient hospital services prospectively based on fixed per diem rates, subject to caps, regardless of diagnosis or level of care delivered to such patients. An exception is made for diagnostic laboratory procedures, which are reimbursed at the lesser of the provider's customary fee or the maximum Medicaid fee.

As a result of Florida Medicaid reimbursement methodologies that limit payments to providers of Medicaid services and continuing Florida budget cuts reducing the level of benefits paid, there can be no assurance that the payments for services provided by the Obligated Issuers to Florida Medicaid patients will be sufficient to cover the actual costs of providing such services to such Medicaid beneficiaries.

Federal Regulatory and Contractual Matters

Anti-Fraud and Abuse Laws

The federal Anti-Kickback Statute makes it a felony to knowingly and willfully offer, pay, solicit or receive remuneration, directly or indirectly, in order to induce business that is reimbursable under any federal health care program. The statute has been interpreted to cover any arrangement where one purpose of the remuneration was to obtain or pay money for the referral of services or to induce further referrals. Violation of the Anti-Kickback Statute may result in imprisonment for up to five years and/or fines of up to $25,000 for each act. In addition, the OIG has the authority to impose civil assessments and fines and to exclude hospitals engaged in prohibited activities from the Medicare, Medicaid, TRICARE (a health care program providing benefits to dependents of members of the uniformed services), and other federal health care programs for not less than five years. In addition to certain statutory exceptions to the Anti-Kickback Statute, the OIG has promulgated a number of regulatory "safe harbors" under the Anti-Kickback Statute designed to protect certain payment and business practices. A party may seek an advisory opinion to determine whether an actual or proposed arrangement meets a particular safe harbor; however, the failure of a party to seek an advisory opinion may not be introduced into evidence to prove that the party intended to violate the provisions of the statute. Failure to comply with a statutory exception or regulatory safe harbor does not mean that an arrangement is unlawful but may increase the likelihood of challenge.

The Health Insurance Portability and Accountability Act of 1996 ("HIPAA") created a new program operated jointly by HHS and the United States Attorney General to coordinate federal, state and local law enforcement with respect to fraud and abuse including the Anti-Kickback Statute. HIPAA also provides for minimum periods of exclusion from a federal health care program for fraud related to federal health care programs, provides for intermediate sanctions and expands the scope of civil monetary penalties. The BBA expanded the authority of the OIG to exclude persons from federal health care programs, increased certain civil and monetary penalties for violations of the Anti-Kickback Statute and added a new monetary penalty for persons who contract with a provider that the person knows or should know is excluded from the federal health care programs. Finally, actions which violate the Anti-Kickback Statute or similar laws may also involve liability under the federal civil False Claims Act, which prohibits the knowing presentation of a false, fictitious or fraudulent claim for payment to the United States government. Actions under the civil False Claims Act may be brought by the United States Attorney General or as a qui tam action brought by a private individual in the name of the government.

Pursuant to the mandates of HIPAA, increased emphasis is being placed on federal investigations and prosecutions of Medicare and Medicaid "fraud and abuse" cases, and increases in personnel investigations and prosecuting such cases have been reported, which will most likely result in a higher level of scrutiny of hospitals and health care providers, including the Obligated Issuers.

The management of the Cleveland Clinic believes that the Obligated Issuers are in material compliance with the Anti-Kickback Statute and the state anti-kickback laws. However, because of the breadth of the these laws and the narrowness of the safe harbor regulations, there can be no assurance that regulatory authorities will not take a contrary position or that the Obligated Issuers will not be found to have violated the Anti-Kickback Statute or the state anti-kickback laws, and that such contrary position or finding will not have a material adverse effect on the future operations or financial condition of the Obligated Issuers.

Stark Law

Another federal law (known as the "Stark Law") prohibits, subject to limited exceptions, a physician who has a financial relationship, or whose immediate family has a financial relationship, with entities (including hospitals) providing "designated health services" from referring Medicare patients to such entities for the furnishing of such designated health services. Stark Law "designated health services" include physical therapy services, occupational therapy services, radiology or other diagnostic services (including MRIs, CT scans and ultrasound procedures), durable medical equipment, radiation therapy services, parenteral and enteral nutrients, equipment and supplies, prosthetics, orthotics and prosthetic devices, home health services, outpatient prescription drugs, inpatient and outpatient hospital services, clinical laboratory services, nuclear medicine services and supplies. The Stark Law also prohibits the entity receiving the referral from filing a claim or billing for the services arising out of the prohibited referral. The prohibition applies regardless of the reasons for the financial relationship and the referral; that is, unlike the federal Anti-Kickback Statute, no finding of intent to violate the Stark Law is required. Sanctions for violation of the Stark Law include denial of payment for the services provided in violation of the prohibition, refunds of amounts collected in violation, a civil penalty of up to $15,000 for each service arising out of the prohibited referral, exclusion from participation in the federal healthcare programs, and a civil penalty of up to $100,000 against parties that enter into a scheme to circumvent the Stark Law's prohibition. Under an emerging legal theory, knowing violations of the Stark Law may also serve as the basis for liability under the False Claims Act. The types of financial arrangements between a physician and an entity that trigger the self-referral prohibitions of the Stark Law are broad, and include direct and indirect ownership and investment interests and compensation arrangements.

The 2003 Act contained an 18-month moratorium on physician self-referrals under Medicare/Medicaid to certain new "specialty hospitals" defined to include hospitals engaged in the care of patients with a cardiac or an orthopedic condition, patients receiving a surgical procedure or other specialized categories of patients designated by the Secretary of DHHS. Prior to the 2003 Act, referrals to specialty hospitals were exempt from the Stark Law's prohibitions under that law's exception for referrals to "whole hospitals." The moratorium contained in the 2003 Act expired on June 8, 2005. After expiration of the moratorium, however, CMS announced that it was suspending the enrollment of specialty hospitals into Medicare. This suspension was ultimately extended until August 8, 2006, at which time CMS issued a final report. Among other items, the report called for transparency in hospital investment by physicians, to include requiring specialty hospitals to disclose financial interests to CMS and to patients.

On September 5, 2007, CMS issued a third phase of the regulations implementing the Stark Law (the "Phase III Regulations"). The Phase III Regulations became effective in large part on December 4, 2007. Most recently, the 2009 Inpatient Prospective Payment Systems Final Rule ("IPPS 2009 Final Rule") further revised the Stark regulations, with certain provisions becoming effective October 1, 2008. The provisions of the IPPS 2009 Final Rule that may have the most significant impact on the Obligated Group are: (a) the definition of "entity" and the affect on services provided under arrangements; (b) the "stand in the shoes" provisions; (c) limitations placed on revenue-based or percentage payments for space and equipment; and (d) limitations on per click arrangements. The definition of an "entity" for Stark purposes now includes the person or entity that performs DHS services, as well as the person or entity that bills for DHS services. This change in definition has a delayed effective date of October 1, 2009. This change significantly affects the manner in which an "under arrangements" relationship with physicians may be structured and will require many "under arrangements" relationships to be restructured or terminated. In addition, many revenue-based and percentage payments for space or equipment might no longer comply with the space rental, equipment rental, fair market value, or indirect compensation exceptions. Further, many per-unit or per-click compensation methodologies for space or equipment rental charges might no longer comply with the space rental, equipment rental, fair market value, or indirect compensation exceptions. The changes to percentage-based and per-click compensations arrangements also have a delayed effective date of October 1, 2009. At a minimum, the new Stark regulations may require the Obligated Group to amend or terminate certain arrangements with physicians or other referral sources to comply with the regulations' requirements. At this point, it is uncertain whether or how these regulations will affect the financial condition and results of operations of the Obligated Group.

A number of states (including Ohio and Florida) have passed similar statutes pursuant to which similar types of prohibitions are made applicable to all other health plans or third party payors. Although both Florida's and Ohio's Stark-type statutes apply to fewer health care services than those specified in the Stark Law, both states'

Stark-type statutes have fewer exceptions than the Federal Stark Law. Accordingly, an arrangement might comply with the Federal Stark Law, but could fail to comply with the applicable state's Stark-type statute, or vise versa.

Although management of the Cleveland Clinic believes that the arrangements of the Obligated Issuers with physicians are in material compliance with the federal and applicable state Stark Laws, as currently interpreted, there can be no assurance that regulatory authorities will not take a contrary position or that the Obligated Issuers will not be found to have violated those laws. Sanctions under the federal and applicable state Stark Laws, including exclusion from the Medicare and Medicaid programs, could have a material adverse effect on the future operations and financial condition and results of operations of the Obligated Issuers.

Investment in the Series 2008A Bonds by physicians (and their family members) raises at least the question of whether such physician-investors, by such investment, will have a "financial relationship" with the Obligated Group. If such a financial relationship is created, under the Stark Law, such physician-investors would be prohibited from referring patients to the Obligated Group's facilities. A Stark Law exception allows physicians to refer patients to hospitals in which they (or their family members) invest if: (i) the referring physician is authorized to perform services at the hospital; and (ii) the ownership or investment interest is in the hospital itself, and not merely a subdivision of the hospital.

False Claims Laws

There are principally three federal statutes addressing the issue of "false claims." First, the Civil False Claims Act imposes civil liability (including substantial monetary penalties and damages) on any person or corporation that (1) knowingly presents or causes to be presented a false or fraudulent claim for payment to the United States government; (2) knowingly makes, uses, or causes to be made or used a false record or statement to obtain payment; or (3) engages in a conspiracy to defraud the federal government by getting a false or fraudulent claim allowed or paid. Specific intent to defraud the federal government is not required to act with knowledge. This statute authorizes private persons to file qui tam actions on behalf of the United States.

In addition to the Civil False Claims Act, the Civil Monetary Penalties Law authorizes the imposition of substantial civil money penalties against an entity that engages in activities including, but not limited to, (1) knowingly presenting or causing to be presented, a claim for services not provided as claimed or which is otherwise false or fraudulent in any way; (2) knowingly giving or causing to be given false or misleading information reasonably expected to influence the decision to discharge a patient; (3) offering or giving remuneration to any beneficiary of a federal health care program likely to influence the receipt of reimbursable items or services; (4) arranging for reimbursable services with an entity which is excluded from participation from a federal health care program; (5) knowingly or willfully soliciting or receiving remuneration for a referral of a federal health care program beneficiary; or (6) using a payment intended for a federal health care program beneficiary for another use. A hospital that participates in arrangements know as "gainsharing," through which the hospital pays physicians to limit or reduce services to Medicare fee-for-service beneficiaries also may be subject to substantial civil monetary penalties. The Secretary of DHHS, acting through the OIG, also has both mandatory and permissive authority to exclude individuals and entities from participation in federal health care programs pursuant to this statute.

Finally, it is a criminal federal health care fraud offense to: (1) knowingly and willfully execute or attempt to execute any scheme to defraud any healthcare benefit program; or (2) to obtain, by means of false or fraudulent pretenses, representations or promises, any money or property owned or controlled by any healthcare benefit program. Penalties for a violation of this federal law include fines and/or imprisonment, and a forfeiture of any property derived from proceeds traceable to the offense.

It is also significant to note that a number of states have passed similar statutes expanding the prohibition against the submission of false claims to nonfederal third party payors. Florida has enacted its own False Claims Act statute but only with respect to false claims paid by the Florida state government. Ohio has no False Claims Act statute.

On September 12, 2007, Senator Charles Grassley introduced Senate Bill 2041, "The False Claims Correction Act of 2007." Hearings on the Bill were held before the Senate Judiciary Committee on February 27, 2008 and the Bill was reported out of the Committee with bipartisan support on April 3, 2008. The legislation seeks

to amend the Civil False Claims Act in light of recent case rulings that its sponsors believe have led to a narrowed interpretation of the existing Civil False Claims Act. Senate Bill 2041, if enacted as is, would greatly expand potential liability under the Civil False Claims Act and could effectively eliminate several longstanding defenses intended to protect against speculative lawsuits. In particular, Senate Bill 2041, among other changes, eliminates the presentment requirement as a defense to a false claim, eliminates the "public disclosure bar" (which currently prohibits a qui tam relator from bringing a complaint that is based on information already available to the public) as a jurisdictional defense to qui tam suits, extends the statute of limitations to ten years in all cases, and generally expands liability for false claims. A house companion bill, House Bill 4854, largely tracks Senate Bill 2041 with a few differences. The effect of such legislation, if enacted, cannot be determined at this time.

Health Plans and Managed Care. Most private health insurance coverage is provided by various types of "managed care" plans, including health maintenance organizations ("HMOs") and preferred provider organizations ("PPOs"), that generally use discounts and other economic incentives to reduce or limit the cost and utilization of health care services. Medicare and Medicaid also purchase hospital care using managed care options. Payments to hospitals from managed care plans typically are lower than those received from traditional indemnity or commercial insurers.

For the fiscal year ended December 31, 2007, managed care (other than Medicare and Medicaid managed care) accounted for approximately 58% of the net patient service revenue of the Obligated Group.

Many HMOs and PPOs currently pay providers on a negotiated fee-for-service basis or, for institutional care, on a fixed rate per day of care, which, in each case, usually is discounted from the typical charges for the care provided. As a result, the discounts offered to HMOs and PPOs may result in payment to a provider that is less than its actual cost. Additionally, the volume of patients directed to a provider may vary significantly from projections, and/or changes in the utilization may be dramatic and unexpected, thus jeopardizing the provider's ability to manage this component of revenue and cost.

Some HMOs employ a "capitation" payment method under which hospitals are paid a predetermined periodic rate for each enrollee in the HMO who is "assigned" or otherwise directed to receive care at a particular hospital. The hospital may assume financial risk for the cost and scope of institutional care given. If payment is insufficient to meet the hospital's actual costs of care, or if utilization by such enrollees materially exceeds projections, the financial condition of the hospital could erode rapidly and significantly.

Often, HMO contracts are enforceable for a stated term, regardless of hospital losses and may require hospitals to care for enrollees for a certain time period, regardless of whether the HMO is able to pay the hospital. Hospitals also from time to time have disputes with managed care payors concerning payment and contract interpretation issues.

Failure to maintain contracts could have the effect of reducing the market share and net patient services revenues of the Obligated Group. Conversely, participation may result in lower net income if the Obligated Group are unable to adequately contain their costs. Thus, managed care poses a significant business risk (and opportunity) that hospitals face.

The growth of alternative delivery systems such as managed care organizations can have a negative impact on hospitals in several ways. First, a hospital generally will not be able to serve the patients of alternative delivery systems with which it does not contract. Second, a hospital generally is required to substantially reduce its charges to obtain a contract to service alternative delivery system patients. Third, the alternative delivery systems market is becoming increasingly competitive and many of the alternative delivery systems with which the Obligated Group have contracted may not survive, which may result in the Obligated Group being responsible for providing services for which the Obligated Group may not ultimately be compensated.

Exclusions from Medicare or Medicaid Participation

The term "exclusion" means that no Medicare or state health care program reimbursement (including Medicaid and the Maternal and Child Health programs) will be made for any services rendered by the excluded

party or for any services rendered on the order or under the supervision of an excluded physician. The Secretary of DHHS is required to exclude from program participation for not less than five years any individual or entity who has been convicted of a criminal offense relating to the delivery of any item or service reimbursed under Medicare or a state health care program; any criminal offense relating to patient neglect or abuse in connection with the delivery of health care; a felony relating to fraud, theft, embezzlement, breach of fiduciary responsibility or other misdemeanor in connection with the delivery of health care services financed or with respect to any act or omission in a health care program (other than Medicare or a state health care program) operated by or financed in whole or in part by a governmental agency; or a felony offense relating to the illegal manufacture, distribution, prescription or dispensing of a controlled substance. The Secretary also has permissive authority to exclude individuals or entities under certain other circumstances, such as a misdemeanor conviction for fraud in connection with delivery of health care services or conviction for obstruction of an investigation of a health care violation. The minimum period of exclusion for certain permissive exclusions is three years.

Enforcement Activity

Enforcement activity against health care providers is increasing, and enforcement authorities are adopting more aggressive approaches. In the current regulatory climate, it is anticipated that many hospitals and physician groups will be subject to investigation, audit or inquiry regarding billing practices or false claims. As with other health care providers, the Obligated Issuers may be the subject of investigations, audits or inquiries by a Medicare intermediary or carrier, the OIG, U.S. Attorney General, Department of Justice Medicaid fraud control unit and/or state attorney general or other state agency in the future. Because of the complexity of these laws, the instances in which an alleged violation may arise to trigger such investigations, audits or inquiries are increasing and could result in expensive and prolonged enforcement action against the Obligated Issuers.

Physician Recruitment

The Internal Revenue Service ("IRS") and OIG have issued various pronouncements that could limit physician recruiting and retention arrangements. In IRS Revenue Ruling 97-21, the IRS ruled that tax-exempt hospitals that provide recruiting and retention incentives to physicians risk loss of tax-exempt status unless the incentives are necessary to remedy a community need and accordingly provide a community benefit; improvement of a charitable hospital's financial condition does not necessarily constitute such a purpose. The IRS also has issued guidelines for its agents to follow in conducting audits that emphasize these restrictions, and has established special audit teams and procedures to ensure compliance. The OIG has taken the position that any arrangement between a federal healthcare program-certified facility and a physician that is intended to encourage the physician to refer patients may violate the federal Anti-Kickback Statute unless a regulatory exception applies. Physician recruiting and retention arrangements may also implicate the Stark Law. While the OIG has promulgated a practitioner recruitment safe harbor to the Anti-Kickback Statute, it is limited to recruitment in areas that are health professional shortage areas ("HPSA"). The OIG also has issued an advisory opinion (Opinion No. 01-4) analyzing physician recruitment arrangements and providing further insight into the manner in which it would evaluate and apply the physician recruitment safe harbor. The Stark Law exception for practitioner recruitment is not limited to HPSAs; rather it applies to the recruitment of physicians who are relocating their practices to the geographic area served by the hospital, if certain requirements are met. The Stark Law also contains an exception pertaining to retention arrangements allows hospitals, in limited circumstances, to pay incentives to retain a physician in underserved areas. CMS has also issued an advisory opinion (CMS - AO - 2007 – 01) analyzing a physician recruitment arrangement and providing further insight in the manner in which it would evaluate and apply the Stark Law recruitment exception.

Management of the Cleveland Clinic believes that the physician recruitment programs of the Obligated Issuers are in material compliance with these laws and policies, but no assurance can be given that the IRS or OIG will not take a contrary position and that such position or any future laws, regulations or policies will not have a material adverse impact on the ability of the Obligated Issuers to recruit and retain physicians.

Emergency Medical Treatment and Active Labor Act

The federal Emergency Medical Treatment and Active Labor Act ("EMTALA") imposes certain requirements on hospitals and facilities with emergency departments. Generally, EMTALA requires that hospitals

provide "appropriate medical screening" to patients who come to the emergency department. If an emergency medical condition exists, the hospital must stabilize the patient or effect an appropriate transfer of the patient. On September 9, 2003, CMS issued rules clarifying hospital obligations under EMTALA. The rules expanded the definition of hospital emergency department to include any department or facility of the hospital, regardless of whether it is located on or off the main hospital campus, that (i) is licensed by the state in which it is located under applicable state law as an emergency room or emergency department; (ii) is held out to the public as a place that provides care on an emergency medical or urgent care basis or (iii) provides at least one third of all of its outpatient visits for the examination and treatment of emergency medical conditions. The rules also clarify the physician "on-call" requirements to allow hospitals the discretion to develop their on-call lists in a way that best meets the needs of their communities. Furthermore, the rules permit hospital departments that are off-campus to provide the most effective way for caring for emergency patients without requiring that the patient be moved to the main campus. In addition, the rules provide that emergency room services provided to screen and stabilize a Medicare beneficiary furnished after January 1, 2004, must be evaluated for Medicare's "reasonable and necessary" requirements on the basis of information available to the treating physician or practitioner at the time the services were ordered. On August 1, 2006, CMS released a rule finalizing two further revisions to the EMTALA regulations, one relating to labor and delivery related discharges and the other requiring that all Medicare-participating hospitals with specialized capabilities, including specialty hospitals, must accept appropriate transfers of unstable individuals, regardless of whether the hospital with specialized capabilities has an emergency department.

In the IPPS 2009 Final Rule, CMS made further amendments to EMTALA. Under the IPPS Final Rule, if an individual with an unstable emergency medical condition presents to a participating hospital and is admitted, the admitting hospital has satisfied its EMTALA obligation. If the patient is subsequently transferred to a hospital with capabilities for specialized care, that hospital does not have an EMTALA obligation to accept the individual. CMS invites ongoing public comment on whether this policy results in unintended consequences, such as refusals by hospitals with specialized capabilities to accept the transfer of inpatients whose emergency medical condition remains unstabilized. The IPPS Final Rule also finalizes requirements that hospitals must meet to participate in a community call plan to share on-call responsibilities and comply with EMTALA.

Failure to comply with the EMTALA may result in a hospital's exclusion from the Medicare and/or Medicaid programs, as well as civil monetary penalties. As such, failure of the Obligated Issuers to meet their responsibilities under the EMTALA could adversely affect the financial condition of the Obligated Issuers.

Management of the Cleveland Clinic believes its policies and procedures are in material compliance with EMTALA, but no assurance can be given that a violation of EMTALA will not be found. Any sanctions imposed as a result of an EMTALA violation could have a material adverse effect on the future operations or financial condition of the Obligated Issuers.

Enforcement Activity

Enforcement activity against health care providers has increased, and enforcement authorities may aggressively pursue perceived violations of health care laws. In the current regulatory climate, it is anticipated that many hospitals and physician groups may be subject to an audit, investigation, or other enforcement action regarding the health care fraud laws mentioned above. The cost of defending such an action, the time and management attention consumed, and the facts of a case may dictate settlement. Therefore, regardless of the merits of a particular case, a hospital could experience materially adverse settlement costs, as well as materially adverse costs associated with implementation of any settlement agreement. Prolonged and publicized investigations could also be damaging to the reputation and business of a hospital, regardless of outcome.

Certain acts or transactions may result in violation or alleged violation of a number of the federal health care fraud laws described above, and therefore penalties or settlement amounts often are compounded. Generally these risks are not covered by insurance.

Joint Ventures

The OIG has expressed its concern in various advisory bulletins that many types of joint venture arrangements involving hospitals may implicate the Anti-Kickback Statute, since the parties to joint ventures are

typically in a position to refer patients of federal health care programs. In its 1989 Special Fraud Alert, the OIG raised concern about certain physician joint ventures where the intent is not to raise investment capital to start a business but rather to "lock up a stream of referrals from the physician investors and compensate these investors indirectly for these referrals." The OIG listed various features of suspect joint ventures, but noted that its list was not exhaustive. These features include: (i) whether investors are chosen because they are in a position to make referrals; (ii) whether physicians with more potential referrals are given larger investment interests; (iii) whether referrals are tracked and referral sources shared with investing physicians; (iv) whether the overall structure is a "shell" (i.e., one of the parties is an ongoing entity already engaged in a particular line of business); and (v) whether investors are required to invest a disproportionately small amount or are paid extraordinary returns in comparison with their risk.

In April 2003, the OIG issued a Special Advisory Bulletin indicating that "contractual joint ventures" (where a provider expands into a new line of business by contracting with an entity that already provides the items or services) may violate the Anti-Kickback Statute and expressing skepticism that existing statutory or regulatory safe-harbors would protect suspect contractual joint ventures. In January, 2005, the OIG published its Supplemental Program Guidance for hospitals and reiterated its concerns regarding joint ventures entered into by hospitals.

In addition, under the federal tax laws governing Section 501(c)(3) organizations, a tax-exempt hospital's participation in a joint venture with for-profit entities must further the hospital's exempt purposes and the joint venture arrangement must permit the hospital to act exclusively in the furtherance of its exempt purposes, with only incidental benefit to any for-profit partners. If the joint venture does not satisfy these criteria, the hospital's tax-exemption may be revoked, the hospital's income from the joint venture may be subject to tax, or the parties may be subject to some other sanction. See "Tax-Exempt Status of the Obligated Issuers and the Series 2008 Bonds" for further discussion of risks related to the tax-exempt status of the Cleveland Clinic and certain of the Obligated Issuers.

Finally, many hospital joint ventures with physicians may also implicate the federal Stark Law.

Any evaluation of compliance with the Anti-Kickback Statute or tax laws governing Section 501(c)(3) organizations depends on the totality of the facts and circumstances. While management of the Combined Group believes that the joint venture arrangements to which the Combined Group is a party are in material compliance with the Anti-Kickback Statute and OIG policies, and the tax laws governing Section 501(c)(3) organizations, there can be no assurance that the IRS or OIG will not take a contrary view. Any determination that it is not in compliance with the Anti-Kickback Statute and OIG policies could have a material adverse effect on the future operational or financial condition of the Obligated Issuers.

The Obligated Issuers have entered or are in the process of entering into several joint ventures with physicians. The ownership and operation of certain of these joint ventures may not meet safe harbors under the Anti-Kickback Statute. Management of the Obligated Issuers has proceeded or is proceeding with the transactions related to the joint ventures on the assumption, after consultation with its legal counsel, that each of the transactions related to the joint ventures is in material compliance with the Stark Law and the tax laws governing Section 501(c)(3) organizations, and is otherwise generally in material compliance with the Anti-Kickback Statute. However, there can be no assurance that regulatory authorities will not take a contrary position or that such transactions will not be found to have violated the Stark Law, the tax laws governing Section 501(c)(3) organizations and/or the Anti-Kickback Statute. Any such determination could have a material adverse effect on the future operations or financial condition of the Obligated Issuers.

HIPAA Administrative Simplification

Providers of health care and operators of health plans are significantly affected by certain health information requirements contained in the "administrative simplification" provisions of HIPAA, which require standardization of electronic transactions, specific security protections for medical information and processes, privacy protections for patient health information, and establishment of national employer and provider identifiers. DHHS and CMS have promulgated rules related to electronic transactions, national employer identifiers, national provider identifiers, security, and privacy. Rules regarding national health plan identifiers, claims attachments standards and first report of injury standards have been published in proposed form or are under development.

These new rules required the implementation of new policies and procedures by health care providers for coding, maintaining, storing and transmitting medical information, as well as policies and procedures designed to protect the security, data integrity and confidentiality of patient medical information and to permit patients to exercise their specific rights under HIPAA. The Obligated Issuers have made significant expenditures to date and anticipate the need for substantial additional expenditures to ensure compliance with all of these requirements.

The penalty for violating HIPAA's administrative simplification requirements includes imposition of civil monetary penalties of not more than $100 per person, per violation, up to a maximum of $25,000 for violation of the same standard within any calendar year. Criminal penalties may also be imposed on any person who knowingly obtains or discloses protected health information in violation of HIPAA. These penalties range from up to $50,000 and one year in prison for obtaining or disclosing protected health information; up to $100,000 and up to five years in prison for obtaining or disclosing protected health information under "false pretenses;" and up to $250,000 and up to 10 years in prison for obtaining protected health information with the intent to sell, transfer or use it for commercial advantage, personal gain or malicious harm. The Secretary of DHHS and the Secretary's designees have the authority to conduct compliance reviews to determine whether any covered entity is complying with HIPAA requirements, and to investigate complaints filed by any person who believes a covered entity is not complying with those requirements. HIPAA requires the Secretary of DHHS, however, to the extent practicable, to seek cooperation in obtaining compliance prior to formal action for civil monetary or criminal penalties. Except for the privacy rule, which is enforced by the Office for Civil Rights of DHHS, the standards promulgated pursuant to HIPAA's administrative simplification provisions are enforced by CMS.

The Obligated Issuers maintain formal plans for compliance with all applicable HIPAA requirements, have trained their staff and employees in these requirements and maintain specified HIPAA Compliance Officers for Privacy and Security who have been provided the authority to supervise, update and enforce policies and procedures designed to assure HIPAA compliance.

While Management of the Obligated Issuers believes it has taken reasonable and appropriate steps in the design of policies and procedures and in its supervision so as to maintain material compliance with HIPAA's administrative simplification provisions, it cannot be predicted when or to what extent complaints may be filed or investigations undertaken, which could involve the expenditure of possibly substantial sums to defend, and the possibility of fines or other penalties, should DHHS determine that any covered component of the Obligated Issuers' operations is not in compliance with HIPAA requirements.

State Laws and Regulations

Legislation may be introduced from time to time in the Ohio General Assembly and the Florida Legislature relating to the operations and reimbursement of health care providers, including hospitals. Changes in the governmental regulations concerning the treatment of patients, the referral of patients and services, certificate of public need requirements and regulations, licensure, medical malpractice damage limitations and a tax-exempt organization's qualification for tax-exempt treatment under state law all could have a significant effect on the Obligated Issuers. No precise determination can be made at this time whether the bills that have been or may be introduced or the regulations which may be proposed for the purpose of containing costs, improving quality of care or otherwise affecting hospital revenues or increasing the competition among hospitals, will be enacted or, if enacted, whether and to what degree such legislation will affect the financial condition or results of operations of the Obligated Issuers or their ability to make future capital expenditures.

Ohio

Ohio Certificate of Need Program

Ohio previously had certificate of need ("CON") laws that regulated the activities and expenditures of the Obligated Issuers and other health care providers. As of May 1, 1997, Ohio's CON laws were substantially phased out, limiting their current applicability to nursing facilities only. As a result, the Obligated Issuers could face increased competition from other providers. Therefore, the ability of each Obligated Issuer and of the Obligated Group, taken as a whole, to generate sufficient revenues to meet its obligations and to pay the debt service on the Series 2008 Bonds and its other indebtedness could be adversely affected.

Ohio Licensure

The Licensure Department within the Ohio Department of Health is responsible for licensure and registration of health care facilities. All hospitals in Ohio must be Medicare certified or accredited by the JCAHO or the American Osteopathic Association. The Ohio Department of Health prescribes licensing requirements for certain health care facilities, including ambulatory surgical facilities, freestanding dialysis centers, freestanding inpatient rehabilitation facilities, freestanding birthing centers, freestanding radiation therapy centers, and freestanding or mobile diagnostic imaging centers.

The Healthcare Simplification Act. On March 25, 2008, the Governor of Ohio signed House Bill 125, commonly referred to as The Healthcare Simplification Act (the "HSA"), into law. Set to become effective on June 25, 2008, the HSA makes many revisions to Ohio law that may impact hospitals. Specifically the HSA will impose new regulations on health care contracts between health plans and providers. Some of these regulations include establishing a moratorium on the use of "most favored nation" clauses in certain health care contracts, subjecting certain contractual disputes to binding arbitration, and restricting the use of rental networks. Additionally, the HSA requires the Ohio Department of Insurance to establish standard credentialing forms for providers. Due to the recent passage of the HSA, its impact on the Obligated Group cannot be ascertained at this point. It is possible that the regulations contained in the HSA could impose, among other things, material adverse operational, financial and legal burdens, costs and risks upon the Obligated Group.

Florida

Florida Certificate of Need Program

The CON program in Florida is administered by AHCA. Florida's CON program covers new facility construction, as well as the initiation of certain specialized hospital services, bed conversions, increases in the number of inpatient beds at hospitals and SNFs, hospice services, transfers of services and other projects that could significantly affect services or costs. Such CON requirements may restrict the Obligated Issuers from expanding, adding or changing facilities and services as necessary to respond to competitive and market forces. If an Obligated Issuer were to proceed with a future capital expenditure program that required a CON but for which a CON had not been obtained, the Obligated Issuer would be in violation of Florida law, subject to injunctions and/or other sanctions and possibly guilty of a misdemeanor of the second degree. No assurance can be given as to the ability to obtain CON approval of future projects necessary for the maintenance of competitive rates and charges or quality and scope of care.

Florida Licensure

AHCA's Hospital and Outpatient Services Unit within the Division of Health Quality Assurance is responsible for licensing, registering and regulating hospitals, outpatient facilities and health care service facilities. Hospital facilities must meet state licensing requirements, submit a completed application, provide required documentation and have a satisfactory survey in order to be licensed. Florida licensure requires compliance with an array of operational, physical plant and other statutory and regulatory requirements. In addition, Florida's hospital licensing law includes a requirement for treatment of persons with emergency medical conditions that is similar to the provision contained in the Medicare law. While each Obligated Issuer believes it is in material compliance with

licensure requirements, there can be no assurance that AHCA will not challenge past, current or future activities under these laws and regulations, or that each Obligated Issuer will be able to cost effectively comply with licensure requirements that may be enacted or adopted in the future.

Data Collection and Planning

The State Center for Health Statistics was established in Florida to further data collection goals established by Florida law. AHCA requires certain types of health care facilities to submit data regarding case-mix, patient admission or discharge data with patient and provider specific identifiers included, actual charge data by diagnostic groups, financial data, accounting data, operating expenses, expenses incurred for rendering services to patients who cannot or do not pay, interest charges, depreciation expenses and demographic data. AHCA is charged with the development, endorsement, implementation and evaluation of practice parameters in order to reduce unwarranted variation in the delivery of medical treatment and improve the quality of medical care. To assist AHCA in its mission, hospitals and medical staff are required to produce outcome data by diagnosis for each patient treated in a hospital and send the data to AHCA.

The data collection and analysis activities of AHCA are financed by assessments on hospitals and other health care facilities. Hospitals are assessed up to a maximum of .04% of their annual gross operating expenses to pay for these data collection and analysis activities.

Market Dynamics

In providing health care services, each Obligated Issuer competes with a number of other providers in its service area, including for profit and not for profit providers of acute health care services. See "PART II. THE OBLIGATED GROUP — D. MARKET DYNAMICS" in APPENDIX A for a description of the principal competitors of the Obligated Group in its northeast Ohio and Florida service areas and certain information regarding Northeast Ohio service area economics.

In addition, other affiliations among health care providers in the Obligated Issuers' service areas may be either in a formative phase or under negotiation. Competition could also result from certain health care providers that may be able to offer lower priced services to the population served by the Obligated Issuers. These services could be substituted for some of the revenue generating services currently offered by the Obligated Issuers. The services that could serve as substitutes for hospital treatment include skilled, specialized and residential nursing facilities, home care, drug and alcohol abuse programs, ambulatory surgical centers, expanded preventive medicine and outpatient treatment, freestanding independent diagnostic testing facilities, and increasingly sophisticated physician group practices. Certain of such forms of health care delivery are designed to offer comparable services at lower prices, and the federal government and private third party payors may increase their efforts to encourage the development and use of such programs. The recent expiration of the moratorium on specialty hospitals could also result in increased competition for certain hospital services. In addition, future changes in state and federal law may have the effect of increasing competition in the health care industry.

The growth of e-commerce may result in a shift in the way that health care is delivered. Persons residing in the Obligated Issuers' service areas may be able to receive certain health services from remote providers. For example, physicians are increasingly able to provide certain services over the internet (e.g., teleradiology and second opinions). Pharmaceuticals and other health services may also now be ordered on-line. Additionally, other service providers in competition with the Obligated Issuers may now compete through this new medium by advertising their services and providing easy registration for competing services over the internet. Also, alternative forms of health care payment including managed care organizations and consumer-driven care, as well as expanded preventive medicine and outpatient treatment, could affect the Obligated Issuers' ability to maintain their market share at current levels.

Recent "pay for performance" initiatives designed to reward hospitals, physicians, medical groups and other providers for achieving improvements in quality and clinical outcomes will likely impact how health care services are provided in the future. Quality benchmarks established by a number of industry organizations serve as the basis for these reward programs. There are currently over 100 pay-for-performance programs operated nationwide by health plans, employer coalitions and public insurance programs. CMS is conducting several pay for

performance demonstration programs and legislation was introduced in Congress in both the House and Senate on pay-for-performance for physicians. Because these initiatives are relatively new, it is unclear what the financial impact will be of participating in these programs.

Finally, the Obligated Issuers that raise significant revenues through sponsor-supported clinical research are facing competition from newly formed companies such as clinical research organizations that market their services to drug and medical device companies. To the extent that these companies offer a faster development track than academic medical centers, they are likely to siphon off lucrative research support previously secured by these hospitals.

Management of the Cleveland Clinic believes that the Obligated Issuers have positioned themselves to effectively provide community based health care throughout the areas served by the Cleveland Clinic Health System, but no assurance can be given as to the effect on the future operational or financial condition of the Obligated Issuers of any such affiliations or entry into the market by alternative providers of health care services. See "APPENDIX A — PART I. THE CLEVELAND CLINIC HEALTH SYSTEM."

Accreditations

Each Obligated Issuer is subject to periodic review by the JCAHO, and the various federal, state and local agencies created by the National Health Planning and Resources Development Act of 1974. From time to time, accrediting bodies may review their accreditations of members of the Obligated Issuers and recommend certain actions or impose conditions on an existing accreditation. Management of the Cleveland Clinic does not expect any such review to require actions or impose conditions that could not be satisfied or to adversely affect the continuing accreditation of any Obligated Issuer. No assurance can be given that the JCAHO will not determine otherwise or as to the effect on future operations of existing laws, regulations and standards for certification or accreditation or of any future changes in such laws, regulations and standards, or that such determination or laws, regulation or standards will not have a material adverse effect on the future operations or financial condition of the Obligated Issuer.

Future Legislation

Legislation is periodically introduced in the U.S. Congress, the Ohio General Assembly and the Florida Legislature that could result in limitations on hospital revenues, reimbursement, costs or charges or that could require an increase in the quantity of indigent care required to maintain charitable status. The effect of any such proposals, if enacted, cannot be determined at this time.

In addition to legislative proposals previously discussed herein, other legislative proposals that could have an adverse effect on the Obligated Issuers include: (a) any changes in the taxation of not for profit corporations or in the scope of their exemption from income or property taxes; (b) limitations on the amount or availability of tax exempt financing for corporations described in Section 501(c)(3) of the Code; and (c) regulatory limitations affecting the ability of the Obligated Issuers to undertake capital projects or develop new services. Each Obligated Issuer currently pays real estate taxes on those of its facilities (or portions of facilities) that are not used for its health care activities.

Legislative bodies have considered legislation concerning the charity care standards that non-profit, charitable hospitals must meet to maintain their federal income tax-exempt status under the Code and legislation mandating that non-profit, charitable hospitals have an open-door policy toward Medicare and Medicaid patients as well as offer, in a non-discriminatory manner, qualified charity care and community benefits. Excise tax penalties on non-profit, charitable hospitals that violate these charity care and community benefit requirements could be imposed or their tax-exempt status under the Code could be revoked. The scope and effect of legislation, if any, that may be enacted at the federal or state levels with respect to charity care of non-profit hospitals cannot be predicted. Any such legislation or similar legislation, if enacted, could have the effect of subjecting a portion of the income of an Obligated Issuer to federal or state income taxes or to other tax penalties and adversely affect the ability of the Obligated Issuers, individually and, taken as a whole, to generate net revenues sufficient to meet their obligations and to pay the debt service on the Series 2008 Bonds and their other obligations.

Malpractice Lawsuits and Malpractice Insurance

The ability of, and the cost to, the Obligated Issuers to insure or otherwise protect themselves against malpractice claims may adversely affect their future results of operations or financial condition. For further information, see "PART II. THE OBLIGATED GROUP — K. LIABILITY CONSIDERATIONS AND LITIGATION" in APPENDIX A hereto.

The ability of health care providers to obtain malpractice insurance in Ohio and Florida, like most of the rest of the United States, has significantly deteriorated as rates for such insurance have increased, commercial providers have reduced their participation in, or withdrawn entirely from, the medical malpractice insurance realm, and PHICO, a Pennsylvania private malpractice insurer that had written such medical malpractice policies nationally, was declared insolvent. In addition, the events of September 11, 2001 and the attendant decline in financial markets and their impact on insurance companies' assets had an adverse impact on the medical malpractice insurance market. However, in 2003, both Ohio and Florida enacted legislation to limit amounts of money injured patients may recover in medical malpractice lawsuits. Although this legislation is intended to stabilize the liability insurance market, this will only occur over time, if at all.

In 2003, Ohio enacted legislation to limit amounts of money injured patients may recover in medical malpractice lawsuits. Although this legislation is intended to stabilize the liability insurance market, this effect will only occur over time, if at all. The central benefit of the Ohio reforms is a complex cap on non-economic damages in medical malpractice cases. The basic cap is the larger of $250,000 or three times economic damages, subject to a maximum of $350,000 per plaintiff and a maximum of $500,000 per occurrence. These maximum amounts increase to $500,000 per plaintiff and $1 million per occurrence if the plaintiff has suffered permanent and substantial physical deformity, loss of use of a limb, loss of a bodily organ system, or permanent physical functional injury that prevents him from being able to independently care for himself and perform life sustaining activities. The cap does not limit the non-economic damages that family members can recover in a wrongful death case, but it does limit the right of a decedent's estate to recover for damages like conscious pain and suffering that the decedent experienced prior to death.

In addition, in 2005, Senate Bill 80 became law in Ohio. This law extended many of the 2003 Ohio medical malpractice reforms to other areas of tort law, and, among other things, established a cap on non-economic damages in non-catastrophic cases and imposed a cap on punitive damages.

The Ohio Supreme Court recently affirmed the constitutionality of several provisions of the 2005 tort reform act in Arbino v. Johnson & Johnson. Decided on December 27, 2007, the Ohio Supreme Court upheld the constitutionality of the caps on non-economic damages and punitive damages, and further found that neither cap violated the separation of powers or single subject rule. The Ohio Supreme Court did not rule, however, on a challenge to the collateral source provision, as the court concluded that the plaintiff did not have standing to challenge that provision.

In Florida, a comprehensive tort reform statute took effect September 15, 2003, for lawsuits filed on or after that date. The most important provisions of the statute are those related to damage caps. All the caps are on non-economic damages only. These are somewhat complicated, because there are separate caps for "practitioners" (primarily doctors) and non-practitioners (primarily hospitals). In both cases, the caps depend on the seriousness of injury.

Non-economic damages from all non-practitioners (including hospitals) are limited to $750,000 per claimant and $1.5 million in the aggregate. The $750,000 is increased to $1.5 million in cases of death or a permanent vegetative state, and can be increased to $1.5 million for catastrophic injuries if the court makes an appropriate finding that manifest injustice would otherwise result. The caps include a hospital's vicarious liability for its employees and agents.

Non-economic damages from all practitioners (including doctors) are limited to $500,000 per claimant and $1 million in the aggregate. The $500,000 is increased to $1 million in cases of death or a permanent vegetative state, and can be increased to $1 million for catastrophic injuries if the court makes an appropriate finding that

manifest injustice would otherwise result. The caps include a practitioner's professional corporation, employees, and others.

Special limits apply in emergency cases for acts or omissions that occur before the patient is stabilized and capable of receiving non-emergency care. Finally, there are rules defining how these caps should be reduced by settlements.

In addition to the damage caps, Florida's 2003 tort reform act included tightening of rules governing the qualification of experts, granting prospective defendants broader discovery rights than before during pre-litigation investigation; and adding a new duty for doctors and hospitals to notify patients of adverse incidents that result in serious harm.

An additional aspect of tort reform in Florida occurred at the ballot box in November 2004, when three constitutional amendments were adopted by ballot initiative. Amendment 3 has as its objective the limitation of contingent fees received by plaintiff's attorneys in medical malpractice cases. Amendment 7 gives patients "a right to have access to any records made or received in the course of business by a health care facility or provider relating to any adverse medical incident." The intent of the amendment is to allow access to records relating to adverse medical incidents involving others, not just the patient's own, records. The legislature passed a bill limiting the effect of Amendment 7 to final reports created on or after November 2, 2004, preserving the attorney and peer review privileges, and limiting requests to cases of conditions or treatment similar to the patient's. A case is now before the Florida Supreme Court that will clarify the constitutionality of the legislation. Finally, Amendment 8 provides a means of revoking the license of doctors with three adverse judgments, administrative determinations, or arbitration awards. Settlements do not count against this limit.

The most recent legislative development occurred when Florida abolished joint and several liability this year for causes of action accruing on or after April 26, 2008. It previously had a modified form of joint and several liability based on a sliding scale. In cases under the old rule in which plaintiff is not at fault (which includes most malpractice cases), a defendant with less than 10 percent fault is severally liable for his share of economic damages only, a defendant with 10 to 24 percent fault is jointly liable for the first $500,000 in economic damages only, one with 25 to 50 percent fault is jointly liable for the first $1 million only, and no defendant is jointly liable for more than $2 million in economic damages.

Accordingly, the ability of the Obligated Issuers to insure or otherwise protect themselves against malpractice claims remains in question and the cost of such protection will likely continue to rise, which may adversely affect the financial condition and results of operations of the Obligated Issuers.

Many hospitals and health care providers are having difficulty renewing or obtaining commercial insurance, including insurance against malpractice and general liability claims, at reasonable cost. The insurers are providing lower amounts of coverage, requiring greater deductibles and charging larger premiums. Policies issued may not be renewed or renewable. While the Cleveland Clinic management considers its insurance coverage to be adequate, no assurance can be given that such coverage will be available for purchase in the same amounts and on the same terms in the future, and that such availability will not have a material adverse effect on the future operations or financial condition of the Obligated Issuers.

Antitrust

Enforcement of the antitrust laws against health care providers is becoming more common, and antitrust liability may arise in a wide variety of circumstances, including medical staff privilege disputes, third-party contracting, physician relations, and joint venture, merger, affiliation and acquisition activities. In some respects, the application of the federal and state antitrust laws to health care is still evolving, and enforcement activity by federal and state agencies appears to be increasing. In particular, the Federal Trade Commission has publicly acknowledged increasing enforcement action in the area of physician joint contracting. Likewise, increased enforcement action exists relating to a retrospective review of completed hospital mergers. Violation of the antitrust laws could subject a hospital to criminal and civil enforcement by federal and state agencies, as well as treble damage liability by private litigants. At various times, an Obligated Issuer may be subject to an investigation by a governmental agency charged with the enforcement of the antitrust laws, or may be subject to administrative or

judicial action by a federal or state agency or a private party. The most common areas of potential liability are joint activities among providers with respect to payor contracting, medical staff credentialing, and use of a hospital's local market power for entry into related health care businesses. From time to time, an Obligated Issuer may be involved in joint contracting activity with other hospitals or providers. The precise degree to which this or similar joint contracting activities may expose Obligated Issuers to antitrust risk from governmental or private sources is dependent on specific facts which may change from time to time. A U.S. Supreme Court decision now allows physicians who are subject to adverse peer review proceedings to file federal antitrust actions against hospitals. Hospitals regularly have disputes regarding credentialing and peer review, and therefore may be subject to liability in this area. In addition, hospitals occasionally indemnify medical staff members who are involved in such credentialing or peer review activities, and may also be liable with respect to such indemnity. Recent court decisions have also established private causes of action against hospitals which use their local market power to promote ancillary health care business in which they have an interest. Such activities may result in monetary liability for the participating hospitals under certain circumstances where a competitor suffers business damage. Government or private parties are entitled to challenge joint ventures that may injure competition. Liability in any of these or other antitrust areas of liability may be substantial, depending on the facts and circumstances of each case, and may have a material adverse impact on the Obligated Issuers.

Nationwide Nursing Shortage

Health care providers depend on qualified nurses to provide quality service to patients. There is currently a nationwide shortage of qualified nurses. This shortage and the more stressful working conditions it creates for those remaining in the profession are increasingly viewed as a threat to patient safety and may trigger the adoption of state and federal laws and regulations intended to reduce that risk. For example, some states are considering legislation that would prohibit forced overtime for nurses. In response to the shortage of qualified nurses, health care providers have increased and could continue to increase wages and benefits to recruit or retain nurses and have had to hire more expensive contract nurses. The shortage could also limit the operations of health care providers by limiting the number of patient beds available. Management of the Cleveland Clinic believes that the Obligated Issuers currently employ an adequate number and type of nurses at each of the Obligated Issuers' hospitals. However, the Obligated Issuers have experienced increased volume growth which, in combination with the nursing shortage, may require the Obligated Issuers to increase wages and benefits to recruit and retain nurses or to engage expensive contract nurses in the future to meet increased demands for nurses. No assurance can be given that the nursing shortage or the increased costs related thereto will not have a material adverse effect on the future operations or financial condition of the Obligated Issuers.

Employees

The ability of the Obligated Issuers to employ and retain qualified employees, and their ability to maintain good relations with such employees and the unions they may be represented by, affect the quality of services to patients and the financial condition of the Obligated Issuers. For a discussion of the employees of the Obligated Group, existing union relationships and the Obligated Group's relationship with its employees, see the discussion under the caption "PART II. THE OBLIGATED GROUP — G. EMPLOYEES" in APPENDIX A hereto.

Investments

During certain fiscal years, investment income has constituted a significant portion of the net income of the Obligated Group. No assurance can be given that the investments of the Obligated Issuers will produce positive returns or that losses on investments will not occur in the future.

To the extent investment returns are lower than anticipated or losses on investments occur, the Obligated Issuers may also be required to made additional deposits in connection with pension fund liabilities.

Environmental Laws and Regulations

Health care providers are subject to a wide variety of federal, state and local environmental and occupational health and safety laws and regulations which address, among other things, hospital operations, facilities

and properties owned or operated by hospitals. Among the types of regulatory requirements faced by hospitals are (a) air and water quality control requirements, (b) waste management requirements, (c) specific regulatory requirements applicable to asbestos, polychlorinated biphenyls and radioactive substances, (d) requirements for providing notice to employees and members of the public about hazardous materials handled by or located at the hospital, and (e) requirements for training employees in the proper handling and management of hazardous materials and wastes.

In its role as an owner and operator of properties or facilities, each Obligated Issuer may be subject to liability for investigating and remedying any hazardous substances that may be present on or have migrated off of its property or facilities. Typical hospital operations include, but are not limited to, in various combinations, the handling, use, storage, transportation, disposal and discharge of hazardous, infectious, toxic, radioactive, flammable and other hazardous materials, wastes, pollutants or contaminants. As such, hospital operations are particularly susceptible to the practical, financial and legal risks associated with compliance with such laws and regulations. Such risks may result from damage to individuals, property or the environment and include an interruption of operations, an increase in operating costs, legal liability, damages, injunctions or fines and investigations, administrative proceedings, penalties or other governmental agency actions. The Obligated Issuers expect to continue to encounter such risks in the future, and exposure to such risks could materially adversely affect the future financial condition or results of operations of individual Obligated Issuers and of the Obligated Group, taken as a whole.

Management of the Cleveland Clinic is not aware of any pending or threatened claim, investigation or enforcement action regarding such environmental issues involving any Obligated Issuer which, if determined adversely, would have a material adverse effect on the future financial condition or results of operations of the Obligated Issuers, taken as a whole.

The Master Trustee or the Bond Trustee may decline to enforce the Master Trust Indenture or the Bond Indenture, as the case may be, if the related trustee has not been indemnified to its satisfaction, in accordance with its Indenture, for all liabilities it may incur as a consequence thereof. Such liabilities may include, but are not limited to, costs associated with complying with environmental laws and regulations.

Increased Enforcement Affecting Clinical Research

In addition to increasing enforcement of laws governing payment and reimbursement, the federal government has also stepped up enforcement of laws and regulations governing the conduct of clinical trials at hospitals. DHHS elevated and strengthened its Office of Human Research Protection, one of the agencies with responsibilities for monitoring federally funded research. In addition, the National Institutes of Health significantly increased the number of facility inspections that these agencies perform. The Food and Drug Administration ("FDA") also has authority over the conduct of clinical trials performed in hospitals when these trials are conducted on behalf of sponsors seeking FDA approval to market the drug or device that is the subject of the research. The FDA's inspection of facilities increased significantly in recent years. These agencies' enforcement powers range from substantial fines and penalties to exclusions of researchers and suspension or termination of entire research programs. Management of the Cleveland Clinic believes that clinical research being conducted by any of the Obligated Issuers is in substantial compliance with material applicable requirements, but no assurance can be made that the FDA will not take a contrary position and that such position will not have a material adverse effect on the future operations or financial condition of the Obligated Issuers.

Technological Changes

Medical research and resulting discoveries have grown exponentially in the last decade. These new discoveries may add greatly to the Obligated Issuers' cost of providing services with no or little offsetting increase in federal reimbursement and may also render obsolete certain of the Obligated Issuers' health services. New drugs and devices may increase hospitals' expense because, for the most part, the costs of new drugs and devices are not typically accounted for in the DRG payment received by hospitals for inpatient care. The PPS system imposed on outpatient services does permit a direct pass-through of certain new technologies defined by the government.

The rate of discovery of new drugs and devices has grown dramatically for several reasons. First, as medical discovery grows, it generates new avenues of research and discovery. Second, pharmaceutical and medical device companies are devoting increasing amounts of money to research and development spurred in part by reforms in the regulation of product approval for sale and distribution. The 1990s witnessed significant reforms at the FDA, the agency that regulates the introduction of new drugs and devices to the market. In 1992, Congress passed the Prescription Drug User Fee Act that levied fees on industry to support a substantial upgrade and reorganization of the agency for the purpose of dramatically decreasing the time required to secure approval for new drugs and devices. This Act was renewed and new FDA reforms enacted by the Food and Drug Administration Modernization Act of 1997. The result of these pieces of legislation has been to cut in half the median time required for new drug approval. Other effects include decrease in the types of devices regulated, reform of the biologics approval process and decrease in clinical development times.

Once these drugs secure market approval, they are often included on hospitals' formularies — the list of drugs maintained by the hospitals for patient care. These may add significant operating expense with no immediate reimbursement through government payors for inpatient services.

Medical discoveries could also reduce utilization or render obsolete the way that services are currently rendered, thereby either increasing expense or reducing revenues. However, any such effect cannot currently be quantified or predicted.

Technological advances in recent years have accelerated the trend toward the use by hospitals of sophisticated and costly equipment and services, and the Obligated Issuers may have to incur significant costs to acquire the equipment needed to maintain or enhance their competitive position. Recently, President Bush called for the establishment of a nationwide electronic medical records system by 2014 and created a national health information technology office within DHHS to lead the effort. The costs to acquire and implement an electronic medical records system are significant but it is widely believed that such systems will lead to greater efficiencies in the provision of patient care and improved quality of care. The acquisition and operation of certain equipment and services may continue to be a significant factor in hospital utilization, but the ability of the Obligated Issuers to offer such equipment or services may be subject to the availability of equipment and specialists, governmental approval and the ability to finance such acquisitions and operations. CMS recently published new Stark exceptions for electronic prescribing and electronic medical records technology. The OIG published similar safe harbors for the Anti-Kickback Law. The final rules provide some relief from the restrictions hospitals have faced in providing such technology to physicians.

Enforcement of Remedies; Risks of Bankruptcy

The obligations of the Obligated Issuers under the Master Trust Indenture and the Master Notes are general obligations of the Obligated Issuers and are not secured by any liens on real estate, equipment or other assets or any pledge of the revenues of the current Obligated Issuers or any future Obligated Issuers, other than the security interest granted to the Master Trustee in the Gross Receipts of the Obligated Issuers and except that the State Financing Lease may be deemed to constitute a security agreement under Ohio law. Enforcement of the remedies mentioned under the headings "APPENDIX C — SUMMARY OF BASIC DOCUMENTS — The State Financing Lease — Defaults and Remedies," " — The Bond Indenture — Acceleration, Waiver and Rescission," "— The Master Trust Indenture — Events of Default," may be limited or delayed in the event of application of federal bankruptcy laws or other laws affecting creditors' rights and may be substantially delayed and subject to judicial discretion in the event of litigation or the required use of statutory remedial procedures.

If an Obligated Issuer were to file a petition for relief under Title 11 of the United States Code (the "Bankruptcy Code"), the filing would operate as an automatic stay of the commencement or continuation of any judicial or other proceeding against such Obligated Issuer and any interest it has in property. If a bankruptcy court so ordered, such Obligated Issuer's property, including its accounts receivable and proceeds thereof, could be used, at least temporarily, for the benefit of such Obligated Issuer's bankruptcy estate despite the claims of its creditors.

In a case under the current Bankruptcy Code, an Obligated Issuer could file a plan of reorganization. The plan is the vehicle for satisfying, and provides for the comprehensive treatment of all claims against such Obligated Issuer, and could result in the modification of rights of any class of creditors, secured or unsecured. To confirm a

plan of reorganization, with one exception discussed below, it must be approved by the vote of each class of impaired creditors. A class approves a plan if, of those who vote, those holding more than one-half in number and two-thirds in amount vote in favor of a plan. Approval by classes of interests requires a vote in favor of the plan by two-thirds in amount. If these levels of votes are attained, those voting against the plan or not voting at all are nonetheless bound by the terms thereof. Other than as provided in the confirmed plan, all claims and interests are discharged and extinguished. If less than all of the impaired classes accept the plan, the plan may nevertheless be confirmed by the bankruptcy court, and the dissenting claims and interests would be bound thereby. For this to occur, one of the impaired classes must vote to accept the plan and the bankruptcy court must determine that the plan does not "discriminate unfairly" and is "fair and equitable" with respect to the nonconsenting class. A plan is fair and equitable if each class is treated in accordance with its credit priority and no class receives a distribution until senior classes are paid in full. The Bankruptcy Code establishes different fair and equitable tests for secured claims and interest holders. To be confirmed, the bankruptcy court must also determine that a plan, among other requirements, provides creditors with more than would be received in the event of liquidation, is proposed in good faith, and the debtor's performance is feasible.

Risks Related to Obligated Group Financings

The obligations of the members of the Obligated Group under the Master Notes and the Master Trust Indenture will be limited to the same extent as the obligations of any debtor under applicable federal and state laws governing bankruptcy, insolvency and avoidance of fraudulent transfers and the application of general principles of creditors' rights and as additionally described below. Although, upon the issuance of the Series 2008 Bonds, the Cleveland Clinic, CCHS-East Region, Fairview, Lutheran, Marymount and Florida Clinic will be the only Obligated Issuers and members of the Combined Group under the Master Trust Indenture, the Master Trust Indenture permits the addition of other Obligated Issuers if certain conditions are met. See "APPENDIX C — SUMMARY OF BASIC DOCUMENTS — The Master Trust Indenture — The Combined Group."

The joint and several obligations described herein of the members of the Obligated Group to make payments of debt service on the Master Notes issued pursuant to and under the Master Trust Indenture may not be enforceable to the extent (1) enforceability may be limited by applicable bankruptcy, moratorium, reorganization, fraudulent conveyance or similar laws affecting the enforcement of creditors' rights and by general equitable principles or (2) such payments (a) are requested to be made with respect to payments on any Master Note that is issued for a purpose that is not consistent with the charitable purposes of the member of the Obligated Group from which such payment is requested or that is issued for the benefit of any entity other than a tax-exempt organization; (b) are requested to be made from any money or assets that are donor restricted or that are subject to a direct or express trust that does not permit the use of such money or assets for such payment; (c) would result in the cessation or discontinuation of any material portion of the health-care or related services previously provided by the member of the Obligated Group from which such payment is requested; or (d) are requested to be made pursuant to any loan violating applicable usury laws. The extent to which the money or assets of any present or future member of the Obligated Group falls within the categories referred to above cannot be determined and could be substantial. The foregoing notwithstanding, the accounts of the Obligated Issuers are and will continue to be combined for financial reporting purposes and will be used in determining whether various covenants and tests contained in the Master Trust Indenture (including tests relating to the issuance of Additional Indebtedness) are satisfied.

A member of the Obligated Group may not be required to make any payment of any Master Note, or portion thereof, or the recipient of such payment may be compelled to return such payment, the proceeds of which were not lent or otherwise disbursed to such member to the extent that such payment would conflict with, or would be prohibited or avoidable under applicable laws.

The application of the law relating to the enforceability of guaranties or obligations of a member of the Obligated Group to make debt service payments on behalf of another member of the Obligated Group, is not amenable to an unqualified declaration of whether a transfer would be prohibited or subject to avoidance.

As a general matter, in addition to a transfer of property made with the actual intent to hinder, defraud or delay creditors, a transfer of an interest in property by an entity may be avoided if the transfer is made for less than "reasonably equivalent value" or "fair consideration" and the transferor (i) is insolvent (e.g., is unable to pay its debts as they become due), (ii) rendered insolvent by the transaction, (iii) is undercapitalized (i.e., operating or about

to operate without property constituting reasonably sufficient capital given its business operations), or (iv) intended or expected to incur debts that it could not pay as they became due.

The lack of certainty in the treatment of transfers is attributable to several factors. First, there is no true uniform law governing fraudulent transfers. Such transfers may be avoided under the Bankruptcy Code, state law variants of the Uniform Fraudulent Transfer Act and its predecessor, the Uniform Fraudulent Conveyance Act, or other non-uniform statutes or common law principles. Second and more importantly, the standards for determining the reasonable equivalence of value, or the fairness of consideration, and the measure for determining insolvency are subjective standards resolved in the exercise of judicial discretion after engaging in a fact intensive analysis. This subjectivity has resulted in a conflicting body of case law and a lack of certainty as to whether a given transfer would be subject to avoidance.

In addition, the Bankruptcy Code provides a means to avoid transfers of a debtor's interests in property made on account of an antecedent debt within 90 days of the debtor filing for relief, or one year if the transferee is an "insider," if as a result of that transfer the transferee receives more than he would have received in a liquidation of the debtor under Chapter 7 of the Bankruptcy Code. Whether the creation of a lien, or a payment, made by a member of the Obligated Group would be determined to be avoidable would be dependent on the particular circumstances surrounding the transfer.

There exists, in addition to the foregoing, common law authority and authority under various state statutes pursuant to which courts may terminate the existence of a not-for-profit corporation or undertake supervision of its affairs on various grounds, including a finding that the corporation has insufficient assets to carry out its stated charitable purposes or has taken some action that renders it unable to carry out its purposes. Such court action may arise on the court's own motion or pursuant to a petition of the attorney general of a particular state or other persons who have interests different from those of the general public, pursuant to the common law and statutory power to enforce charitable trusts and to see to the application of their funds to their intended charitable uses.

Certain Matters Relating to Enforceability of Security Interest in Gross Receipts

The enforceability, priority and perfection of the security interest in Gross Receipts created under the Master Trust Indenture may be limited by a number of factors, including, without limitation: (i) provisions prohibiting the direct payment of amounts due to health care providers from Medicaid and Medicare programs to persons other than such providers; (ii) the absence of an express provision permitting assignment of receivables due under the contracts between the Obligated Issuers and third-party payors, and present or future legal prohibitions against assignment; (iii) certain judicial decisions which cast doubt on the right of the Master Trustee, in the event of the bankruptcy of an Obligated Issuer, to collect and retain accounts receivable from Medicare, Medicaid and other governmental programs; (iv) commingling of proceeds of accounts receivable with other moneys of the Obligated Issuers not so pledged under the Master Trust Indenture; (v) statutory liens; (vi) rights arising in favor of the United States of America or any agency thereof; (vii) constructive trusts or equitable or other rights impressed or conferred thereon by a federal or state court in the exercise of its equitable jurisdiction; (viii) federal and state laws governing fraudulent transfers as discussed above; (ix) federal bankruptcy laws that may affect the enforceability of the Master Trust Indenture or the security interest in the Gross Receipts; (x) rights of third parties in Gross Receipts converted to cash and not in the possession of the Master Trustee; and (xi) claims that might arise if appropriate financing or continuation statements or amendments of financing statements are not filed in accordance with the Uniform Commercial Code, as from time to time in effect.

Matters Relating to the Security for the Series 2008 Bonds

Certain amendments to the Master Trust Indenture may be made with the consent of the holders of not less than a majority of the aggregate principal amount of outstanding Master Notes. Such amount may be composed wholly or partially of the holders of the outstanding Master Notes (including Master Notes issued in the future) other than Master Notes issued in connection with the issuance of the Series 2008 Bonds. Such amendments could be material and may adversely affect the security of the holders of the Series 2008 Bonds.

Certain amendments to the Bond Indenture may be made with the consent of the holders of not less than 51% of the outstanding aggregate principal amount of the bonds outstanding under the Bond Indenture. Such

percentage may be composed wholly or partially of the holders of the bonds outstanding (including bonds issued in the future) under the Bond Indenture other than the Series 2008 Bonds. Such amendments may adversely affect the security of the holders of the Series 2008 Bonds.

The facilities of the Obligated Group are not pledged or mortgaged as security for the Series 2008 Bonds, except that the State Financing Lease may be deemed to constitute a security agreement under Ohio law. Consequently, in the event of a default under the Bond Indenture, the Bondholders would have the status of general unsecured creditors (except with respect to the pledge of Gross Receipts). The facilities of the Obligated Group are not general purpose buildings and generally would not be suitable for industrial or commercial use. Consequently, it could be difficult to find a buyer or lessee for the facilities if it were necessary to proceed against such facilities, whether pursuant to a judgment, if any, against the Obligated Group or otherwise. As a result, upon any such default, the Bond Trustee may not realize the amount necessary to pay the Series 2008 Bonds in full from the sale or lease of such facilities.

Pursuant to the terms of the Master Trust Indenture, Obligated Issuers may incur additional Indebtedness (including Indebtedness secured by additional Master Notes) that is entitled to the benefits of security that does not extend to any other Indebtedness (including the Fifty-Seventh Master Note and the Fifty-Eighth Master Note). Such security may include liens on the Obligated Group's Property (including health care facilities) or any depreciation reserve, debt service or interest reserve or similar fund established for such additional Indebtedness. See "APPENDIX C – SUMMARY OF BASIC DOCUMENTS – The Master Trust Indenture – Permitted Indebtedness" and "– Negative Lien Covenant."

Certain of the rights and remedies afforded to the holders of Master Notes by the Master Trust Indenture, including without limitation the right to demand acceleration of Master Notes (including the Sixtieth Master Note and the Sixtieth Master Note), may be controlled by the holders of 25% or more in aggregate principal amount of the Master Notes. At the time the Series 2008 Bonds are issued, the Sixtieth Master Note and the Fifty-Eighth Master Note, which secure the Series 2008 Bonds, will represent approximately 7% of the aggregate principal amount of the outstanding Master Notes which secure bonded indebtedness.

Interest Rate Swap Risk

In the normal course of business the Cleveland Clinic, periodically enters into interest rate swap agreements to hedge interest rate risk. Changes in the market value of such agreements could negatively or positively impact the Obligated Group's operating results and financial condition, and such impact could be material. See "PART IV. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF HEALTH SYSTEM OPERATIONS AND FINANCIAL POSITION — I. INTEREST RATE HEDGING AGREEMENTS" in APPENDIX A hereto and footnote 11 to the audited financial statements in APPENDIX B hereto. Any such agreement may be subject to early termination upon the occurrence of certain specified events. If either the Cleveland Clinic or the counterparty terminates such an agreement when the agreement has a negative value to the Cleveland Clinic, the Cleveland Clinic could be obligated to make a termination payment to the counterparty in the amount of such negative value, and such payment could be substantial and potentially materially adverse to the Obligated Group's financial condition.

On September 15, 2008, Lehman Brothers Holdings Inc. ("LBHI") filed a petition under Chapter 11 of the U.S. Bankruptcy Code with the United States Bankruptcy Court for the Southern District of New York. None of the broker-dealer subsidiaries or other subsidiaries of LBHI was included in the Chapter 11 filing. Cleveland Clinic has entered into an interest rate swap agreement (the "Lehman Swap") with Lehman Brothers Special Financing Inc., a subsidiary of LBHI ("LBSFI"), which has a current notional amount of $27,755,000. As a result of the bankruptcy filing of LBHI, the Cleveland Clinic delivered a termination notice pursuant to terms of the Lehman Swap.

Tax-Exempt Status of the Obligated Issuers and the Series 2008 Bonds

The tax-exempt status of interest on the Series 2008 Bonds depends at present upon maintenance by the Cleveland Clinic and certain of the Obligated Issuers of their status as tax-exempt organizations by reason of being described in Section 501(c)(3) of the Code. The maintenance of such status is contingent on compliance with general rules based on the Code, regulations, and judicial decisions regarding the organization and operation of tax

exempt hospitals and health systems. The IRS's interpretation of and position on these rules as they affect the organization and operation of health care organizations (for example, with respect to providing charity care, joint ventures, physician and executive compensation, physician recruitment and retention, etc.) is constantly evolving. The IRS reserves the power to, and in fact occasionally does, alter or reverse its positions concerning tax-exemption issues, even concerning long-held positions upon which tax-exempt health care organizations have relied.

In addition, the IRS has asserted that tax-exempt hospitals that are in violation of Medicare and Medicaid regulations regarding inducement for referrals may also be subject to revocation of their tax-exempt status. Because a wide variety of hospital-physician transactions potentially violate these broadly stated prohibitions on inducement for referrals, the IRS has broadened the range of activities that may directly affect tax exemption, without defining specifically how those rules will be applied. As a result, tax-exempt hospitals, particularly those that have extensive transactions with physicians, are currently subject to an increased degree of scrutiny and perhaps enforcement by the IRS. The IRS's policy position is not necessarily indicative of a judicial adjudication of the applicable issues.

For transactions occurring on or after September 14, 1995, Section 4958 of the Code imposes excise taxes of up to 200% on "disqualified persons" (such as officers, trustees and directors) who enter into "excess benefit transactions" with tax-exempt organizations such as the Obligated Issuers. No penalty excise tax applies to the tax-exempt organization itself. According to the legislative history and regulations associated with Section 4958, these excise taxes may be imposed by the IRS either in lieu of or in addition to revocation of exemption. The legislation is potentially favorable to taxpayers because it provides the IRS with a punitive option short of revocation of exempt status to deal with incidents of private inurement. However, the standards for tax exemption have not been changed, including the requirement that no part of the net earnings of an exempt entity inure to the benefit of any private individual. Consequently, although the IRS has only infrequently revoked the tax exemption of non-profit health care corporations in the past, the risk of revocation remains and there can be no assurance that the IRS will not direct enforcement activities against any of the Obligated Issuers.

In 1990, the Employee Plans and Exempt Organizations Division of the IRS expanded the Coordinated Examination Program (referred to as "CEP") of the IRS to tax-exempt health care organizations. CEP audits are conducted by teams of revenue agents. The CEP audit teams consider a wide range of possible issues, including the community benefit standard, private inurement and private benefit, partnerships and joint ventures, retirement plans and employee benefits, employment taxes, tax-exempt bond financing, political contributions and unrelated business income.

On August 10, 2004, the IRS announced an enforcement effort (referred to as the "Tax Exempt Compensation Enforcement Project") to identify and curb abuses by charities that pay excessive compensation and benefits to officers and other insiders. The IRS will implement this new effort by contacting nearly 2,000 charities about their compensation practices and procedures. The project's goals are to address the compensation of specific individuals, influence how organizations set compensation, and learn about existing practices. The inquiry will involve both large and small charities, and will also investigate insider transactions, including loans, leases, and other transfers of income and assets to officers and insiders. As a result of such inquiry, the IRS could seek to use the entire range of its enforcement activities, including penalties for filing incorrect information, intermediate sanctions, and revocation of the organization's exempt status. It is possible that one or more of the Obligated Issuers will be contacted by the IRS in connection with this project.

On March 1, 2007, the IRS released its "Report on Exempt Organizations Executive Compensation Compliance Project – Parts I and II." According to the Report, the Enforcement Project "uncovered significant reporting errors and omissions in specific compliance areas, particularly excess benefit transactions and transactions with disqualified persons, as well as potential compliance issues related to loans made to officers." The Report contains specific survey information of levels of compliance with various aspects of compensation by exempt organizations. The Report found that significant reporting issues exist, but did not find evidence of other more widespread concerns. Where compliance issues were found, significant penalties have been assessed. Further, due to concern from information discovered during the Enforcement Project, the IRS has initiated Part III of the Enforcement Project, in which the IRS will perform an additional 200 compliance checks and 50 single-issue examinations focusing on loans to executives.

The Internal Revenue Service Form 990 is used by 501(c)(3) not-for-profit organizations to submit information required by the federal government for tax-exemption. On December 20, 2007, the IRS released a revised Form 990. The revision includes a new schedule, Schedule H, which hospitals must use to report their community benefit activities and other tax-exemption related information. For the 2008 tax year, only section V of Schedule H will be required to be completed. All other parts of the form will be optional for the 2008 tax year. The entire Schedule H must be completed for tax years beginning in 2009.

Loss of tax-exempt status by any of the Obligated Issuers could result in loss of the exclusion from gross income of the interest on the Series 2008A Bonds that, in turn, could result in a default under the Bond Indenture, potentially triggering an acceleration of the Series 2008A Bonds. Any such event would have material adverse consequences on the future financial condition and results of operations of the affected Obligated Issuers and, potentially, the Obligated Group as a whole. Additionally, the loss of federal tax-exempt status by an Obligated Issuer could adversely affect its access to future tax-exempt financing.

As described herein under the caption "TAX MATTERS," failure to comply with certain legal requirements may cause the interest on the Series 2008A Bonds to become included in gross income of the recipients thereof for federal income tax purposes. In such event, the Series 2008A Bonds may be accelerated at the discretion of the Bond Trustee or, at the written request of holders of not less than 25% of the aggregate principal amount of all the Bonds then outstanding under the Bond Indenture. The Bond Indenture does not provide for the payment of any additional interest or penalty in the event the interest on the Series 2008A Bonds is determined to be includible in gross income for federal income tax purposes.

In July of 2008, the IRS began an examination initiative in which it announced that between 30 and 40 tax exempt health care bond issues issued between 1995 and 1999 would be audited to determine compliance with the private use limitations contained in the Code. Such audits, as described by the IRS, will examine the use of bond financed assets pursuant to management and service contracts, under sponsored and cooperative research agreements, pursuant to joint ventures and in unrelated trades or businesses of the exempt entities. It is possible that one or more bond issues which benefit the Obligated Issuers could be examined in connection with this, or similar future initiatives.

The IRS has recently reviewed a number of bond issues and concluded that such bond issues did not comply with applicable provisions of the Code and related regulations. The IRS has typically entered into closing agreements with Commissions and beneficiaries of such bond issues under which payments have been made to the IRS. No assurance can be given that the IRS will not examine a Bondholder, an Obligated Issuer or the Series 2008A Bonds. If the Series 2008A Bonds are examined, it may have an adverse impact on their marketability and price and could also result in substantial payments by the Combined Group to resolve issues raised by the IRS. The IRS, through its representatives, has made public pronouncements that it intends to pursue Bondholders for tax liabilities while simultaneously pursuing Commissions and beneficiaries of audited bond issues for which it has made an adverse determination of taxability.

One or more of the Obligated Issuers could be audited by the IRS. The Cleveland Clinic, on behalf of the Health System, has received from the IRS a notice that the Form 990 for the Health System's Group Return for the year ended December 31, 2006 has been selected for examination. Management of the Obligated Issuers believes that they have properly complied with the tax laws. Nevertheless, because of the complexity of the tax laws and the presence of issues about which reasonable persons can differ, an audit could result in additional taxes, interest and penalties. An audit could also ultimately affect the tax-exempt status of any of the Obligated Issuers.

Alternative or Integrated Delivery System Development

Many hospitals and health systems, including the Obligated Issuers, are pursuing strategies with physicians in order to offer an integrated package of health care services, including physician and hospital services, to patients, health care insurers, and managed care providers. These integration strategies may take many forms, including management service organizations ("MSO"), which may provide physicians or physician groups with a combination of financial and managed care contracting services, office and equipment, office personnel and management information systems. Integration objectives may also be achieved via physician-hospital organizations ("PHOs"), which are typically jointly owned or controlled by a hospital and physician group for the purpose of managed care

contracting, implementation and monitoring. Other integration structures include hospital based clinics or medical practice foundations, which may purchase and operate physician practices as well as provide all administrative services to physicians. Many of these integration strategies are capital intensive and may create certain business and legal liabilities for the related hospital or health system.

Often the start-up capitalization for such developments, as well as operational deficits, may be funded by the sponsoring hospital or health system. Depending on the size and organizational characteristics of a particular development, these capital requirements may be substantial. In some cases, the sponsoring hospital or health system may be asked to provide a financial guarantee for the debt of a related entity which is carrying out an integrated delivery strategy. In certain of these structures, the sponsoring hospital or health system may have an ongoing financial commitment to support operating deficits, which may be substantial on an annual or aggregate basis.

These types of integrated delivery developments are generally designed to conform to existing trends in the delivery of medicine, to implement anticipated aspects of health care reform, to increase physician availability to the community and/or enhance the managed care capability of the affiliated hospital and physicians. However, these goals may not be achieved, and, if the development is not functionally successful, it may produce materially adverse results that are counterproductive to some or all of the above-stated goals.

All such integrated delivery developments carry with them the potential for legal or regulatory risks in varying degrees. Such developments may call into question compliance with the Medicare anti-referral laws, relevant antitrust laws, and federal or state tax exemption. Such risks will turn on the facts specific to the implementation, operation or future modification of any integrated delivery system. MSOs which operate at a deficit over an extended period of time may raise significant risks of investigation or challenge regarding tax exemption or compliance with the Medicare anti-referral laws. In addition, depending on the type of development, a wide range of governmental billing and other issues may arise, including questions of the authorization of the entity to bill for or on behalf of the physicians involved. Other related legal and regulatory risks may arise, including employment, pension and benefits, and corporate practice of medicine, particularly in the current atmosphere of frequent and often unpredictable changes in federal and state legal requirements regarding health care and medical practice. The potential impact of any such regulatory or legal risks on the Obligated Issuers cannot be predicted with certainty. There can be no assurance that such issues and risks will not lead to material adverse consequences in the future.

Managed Care Uniform Licensure Act; HIC Solvency Standards

In 1997, the Ohio Managed Care Uniform Licensure Act ("MCULA") repealed existing statutes regulating health maintenance organizations and similar types of existing managed care risk bearing organizations. MCULA replaced such existing statutes by imposing a single comprehensive statutory plan of regulation of all managed care risk bearing entities, known as health insurance corporations ("HICs"), as well as organizations contracting with HICs. Among other things, MCULA established minimum net worth and asset compared to liability requirements for all HICs, including provider-sponsored organizations ("PSOs"). MCULA therefore imposed requirements not contained in prior law that may make it more difficult for providers, including the Obligated Issuers, to establish and maintain their own HICs.

In late 2000, Ohio law was revised to subject HICs to increased solvency standards. In general, all HICs in Ohio will be required to comply with risk-based capital solvency requirements similar to those requirements imposed on traditional indemnity insurers. If a HIC fails to meet the increased solvency requirements, the HIC may be subject to increased regulatory supervision or the commencement of formal delinquency proceedings. Although such standards should, in the long term, benefit contracting health care providers by ensuring that HICs maintain greater solvency, in the short term HICs with weak capitalization may be adversely affected. As a result, the overall impact of such legislation on the Obligated Issuers remains uncertain.

Charity Care, Underinsured and Uninsured Patients; Real Estate Tax Exemption

Recently, focus has increased on the provision of charity care by nonprofit health care institutions and their pricing policies and billing and collection practices involving the underinsured and uninsured. This increased focus has resulted in congressional hearings, governmental inquiries and private, purported class action litigation against more than 100 nonprofit health care institutions nationwide, generally alleging the overcharging of underinsured and uninsured patients. Certain of the Obligated Issuers had been served with two similar complaints. Most of the purported class action cases, including both complaints served against the Obligated Issuers, have been withdrawn or dismissed. Cleveland Clinic management cannot predict the impact that these or related developments may have on the Obligated Issuers or the health care industry generally.

The Attorney General of the State of Ohio has proposed changes to Ohio's nonprofit corporation regulations. The most recent set of proposals, made in September, 2006, would, if adopted, require that nonprofit hospitals register with the office of the Attorney General and make certain filings with the Attorney General. The Attorney General has also proposed establishing an advisory committee on charitable organizations. It is unclear if the proposed regulations will be adopted and, if adopted, what impact they may have on the Obligated Group.

Congress is also examining tax-exemption issues surrounding not-for-profit hospitals. Several Congressional committees, including the House Ways and Means Subcommittee on Oversight, the House Energy and Commerce Subcommittee on Oversight and the Senate Finance Committee, have held hearings that include testimony from hospital executives and industry representatives on billing and collection practices for uninsured patients. The Chairman of the House Ways and Means Committee also initiated a lengthy series of hearings to consider issues related to federal tax-exemption for not-for-profit hospitals. These hearings are expected to explore the uninsured billing and collection controversy, as well as the policy costs and benefits of tax-exemption for not-for-profit hospitals.

In addition, there has recently been an increased focus on the exemption from real estate property taxes afforded nonprofit healthcare providers. State and local taxing authorities around the country have challenged various nonprofit corporations' real estate property tax exemptions on the grounds that some or all of the activities that these nonprofit corporations are engaged in are not charitable activities. Certain of these challenges have occurred in the State of Ohio, and have involved certain facilities of the Cleveland Clinic. There can be no assurance such challenges or any future challenges will not have a material adverse effect on the operations of the Obligated Issuers. See APPENDIX A under "PART II. THE OBLIGATED GROUP — K. LIABILITY CONSIDERATIONS AND LITIGATION — Other Litigation."

Bond Ratings

There is no assurance that the ratings assigned to the Series 2008 Bonds at the time of issuance will not be lowered or withdrawn at any time, the effect of which could be to adversely affect the market price for and marketability of such Series 2008 Bonds.

Additional Risk Factors

The following factors, among others, may also adversely affect the operation of health care facilities, including the Obligated Issuers' facilities, to an extent that cannot be determined at this time:

- Increased efforts by insurers and governmental agencies to limit the cost of hospital services (including, without limitation, the implementation of a system of prospective review of hospital rate changes and negotiating discounted rates), to reduce the number of hospital beds and to reduce utilization of hospital facilities by such means as preventive medicine, improved occupational health and safety, clinical integration programs, utilization review, increased competition among health care providers, development and utilization of medical and scientific research and technological advances, and outpatient care.

- Increasing use of health savings accounts or high deductible health insurance plans by consumers that may be inadequate to pay the ultimate cost of caring for patients who participate in such accounts or plans.

- Cost increases without corresponding increases in revenue could result from, among other factors: increases in the salaries, wages, and fringe benefits of hospital and clinic employees; increases in costs associated with advances in medical technology or with inflation; or future legislation which would prevent or limit the ability of the Obligated Issuers to increase revenues.

- Any termination or alteration of existing agreements between an Obligated Issuer and individual physicians and physician groups who render services to the patients of an Obligated Issuer or any termination or alteration of referral patterns by individual physicians and physician groups who render services to the patients of an Obligated Issuer with whom such Issuer does not have contractual arrangements.

- Future contract negotiations between public and private insurers, employers and participating hospitals, including the Obligated Issuers' hospitals, and other efforts by these insurers and employers to limit hospitalization costs and coverage could adversely affect the level of reimbursement to the Obligated Issuers.

- An inflationary economy and difficulty in increasing room charges and other fees charged while at the same time maintaining the amount or quality of health services may affect the Obligated Issuers' operating margins.

- The cost and effect of any future unionization of employees of the Obligated Issuers.

- The possible inability to obtain future governmental approvals to undertake projects necessary to remain competitive both as to rates and charges as well as quality and scope of care could adversely affect the operations of the Obligated Issuers.

- Imposition of wage and price controls for the health care industry, such as those that were imposed and adversely affected health care facilities in the early 1970s.

- Limitations on the availability of and increased compensation necessary to secure and retain nursing, technical or other professional personnel.

- Changes in law or revenue rulings governing the not-for-profit or tax-exempt status of charitable corporations such as the Obligated Issuers, such that not-for-profit corporations, as a condition of maintaining their tax-exempt status, are required to provide increased indigent care at reduced rates or without charge or discontinue services previously provided.

- Continued spread of Acquired Immune Deficiency Syndrome or the mutation and spread of the avian influenza virus may cause increases in operating costs and increase the incidence of bad debts.

- Trends in delivery of health care services with more procedures becoming noninvasive and not requiring inpatient care. This creates an increased focus on delivery of outpatient care which typically is a more competitive environment for hospitals.

- A decrease in population or change in demographics in the service areas of the Obligated Issuers.

- Efforts by taxing authorities to impose or increase taxes related to the property and operations of non-profit organizations or to cause non-profit organizations to increase the amount of services provided to indigents to avoid the imposition or increase of such taxes.

- Proposals to eliminate the tax-exempt status of interest on bonds issued to finance health facilities, or to limit the use of such tax-exempt bonds, have been made in the past, and may be made again in the future. The adoption of such proposals would increase the cost to the Obligated Issuers of financing future capital needs.

- Increased unemployment or other adverse economic conditions which could increase the proportion of patients who are unable to pay fully for the cost of their care. In addition, increased unemployment caused by a general downturn in the economy of the Obligated Issuers' service areas or by the closing of operations of one or more major employers in such service areas may result in a significant change in the demographics of such service areas, such as a reduction in the population.

In the future, other events may adversely affect the operations of the Obligated Issuers, as well as other health care facilities, in a manner and to an extent that cannot be determined at this time.

TAX MATTERS

In the opinion of Squire, Sanders & Dempsey L.L.P., Bond Counsel, under existing law: (i) interest on the Series 2008A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; and (ii) interest on, and any profit made on the sale, exchange or other disposition of, the Series 2008A Bonds are exempt from the Ohio personal income tax, the Ohio commercial activity tax, the net income base of the Ohio corporate franchise tax, and municipal, school district and joint economic development district income taxes in Ohio. Bond Counsel expresses no opinion as to any other tax consequences regarding the Series 2008A Bonds.

The opinion on tax matters will be based on and will assume the accuracy of certain representations and certifications, and continuing compliance with certain covenants, of the Commission and the Obligated Group contained in the transcript of proceedings and that are intended to evidence and assure the foregoing, including that the Series 2008A Bonds are and will remain obligations the interest on which is excluded from gross income for federal income tax purposes. In addition, Bond Counsel has relied on, among other things, the opinion of David Rowan, Chief Legal Officer of the Cleveland Clinic, regarding the current status of each member of the Obligated Group as an organization described in Section 501(c)(3) of the Code, which opinion is subject to a number of qualifications and limitations. Bond Counsel also has relied upon representations of the members of the Obligated Group concerning the Obligated Group's "unrelated trade or business" activities as defined in Section 513(a) of the Code. Neither Bond Counsel nor the Chief Legal Officer has given any opinion or assurance concerning Section 513(a) of the Code or the effect of any future activities of the Commission or the Obligated Group. Failure of the members of the Obligated Group to maintain their status as organizations described in Section 501(c)(3) of the Code, or to operate the facilities financed by the Series 2008A Bonds in a manner that is substantially related to the Obligated Group's charitable purpose under Section 513(a) of the Code, may cause interest on the Series 2008A Bonds to be included in gross income retroactively to the date of the issuance of the Series 2008A Bonds. Bond Counsel will not independently verify the accuracy of the Commission's and the Obligated Group's certifications and representations or the continuing compliance with the Commission's and the Obligated Group's covenants and will not independently verify the accuracy of the opinion of the Obligated Group's counsel.

The opinion of Bond Counsel is based on current legal authority and covers certain matters not directly addressed by such authority. It represents Bond Counsel's legal judgment as to exclusion of interest on the Series 2008A Bonds from gross income for federal income tax purposes but is not a guaranty of that conclusion. The opinion is not binding on the Internal Revenue Service ("IRS") or any court. Bond Counsel expresses no opinion about (i) the effect of future changes in the Code and the applicable regulations under the Code or (ii) the interpretation and the enforcement of the Code or those regulations by the IRS.

The Code prescribes a number of qualifications and conditions for the interest on state and local government obligations to be and to remain excluded from gross income for federal income tax purposes, some of which require future or continued compliance after issuance of the obligations. Noncompliance with these requirements by the Commission or the Obligated Group may cause loss of such status and result in the interest on

the Series 2008A Bonds being included in gross income for federal income tax purposes retroactively to the date of issuance of the Series 2008A Bonds. The Obligated Group and, subject to certain limitations, the Commission have each covenanted to take the actions required of it for the interest on the Series 2008A Bonds to be and to remain excluded from gross income for federal income tax purposes, and not to take any actions that would adversely affect that exclusion. After the date of issuance of the Series 2008A Bonds, Bond Counsel will not undertake to determine (or to so inform any person) whether any actions taken or not taken, or any events occurring or not occurring, or any other matters coming to Bond Counsel's attention, may adversely affect the exclusion from gross income for federal income tax purposes of interest on the Series 2008A Bonds or the market value of the Series 2008A Bonds.

A portion of the interest on the Series 2008A Bonds earned by certain corporations may be subject to a federal corporate alternative minimum tax. In addition, interest on the Series 2008A Bonds may be subject to a federal branch profits tax imposed on certain foreign corporations doing business in the United States and to a federal tax imposed on excess net passive income of certain S corporations. Under the Code, the exclusion of interest from gross income for federal income tax purposes may have certain adverse federal income tax consequences on items of income, deduction or credit for certain taxpayers, including financial institutions, certain insurance companies, recipients of Social Security and Railroad Retirement benefits, those that are deemed to incur or continue indebtedness to acquire or carry tax-exempt obligations, and individuals otherwise eligible for the earned income tax credit. The applicability and extent of these and other tax consequences will depend upon the particular tax status or other tax items of the owner of the Series 2008A Bonds. Bond Counsel will express no opinion regarding those consequences.

Payments of interest on tax-exempt obligations, including the Series 2008A Bonds, are generally subject to IRS Form 1099-INT information reporting requirements. If a Bond owner is subject to backup withholding under those requirements, then payments of interest will also be subject to backup withholding. Those requirements do not affect the exclusion of such interest from gross income for federal income tax purposes.

Legislation affecting tax-exempt obligations is regularly considered by the United States Congress, and may also be considered by the State legislature. Court proceedings may also be filed the outcome of which could modify the tax treatment of obligations such as the Series 2008A Bonds. There can be no assurance that legislation enacted or proposed, or actions by a court, after the date of issuance of the Series 2008A Bonds will not have an adverse effect on the tax status of interest or other income on the Series 2008A Bonds or the market value of the Series 2008A Bonds.

Prospective purchasers of the Series 2008A Bonds should consult their own tax advisers regarding pending or proposed federal and state tax legislation and court proceedings, and prospective purchasers of the Series 2008A Bonds at other than their original issuance at the respective prices indicated on the cover of this Offering Circular should also consult their own tax advisers regarding other tax considerations such as the consequences of market discount, as to all of which Bond Counsel expresses no opinion.

Bond Counsel's engagement with respect to the Series 2008A Bonds ends with the issuance of the Series 2008A Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Commission, the Obligated Group or the owners of the Series 2008A Bonds regarding the tax status of interest thereon in the event of an audit examination by the IRS. The IRS has a program to audit tax-exempt obligations to determine whether the interest thereon is includible in gross income for federal income tax purposes. If the IRS does audit the Series 2008A Bonds, under current IRS procedures, the IRS will treat the Commission as the taxpayer and the beneficial owners of the Series 2008A Bonds will have only limited rights, if any, to obtain and participate in judicial review of such audit. Any action of the IRS, including but not limited to selection of the Series 2008A Bonds for audit, or the course or result of such audit, or an audit of other obligations presenting similar tax issues, may affect the market value of the Series 2008A Bonds.

Original Issue Discount and Original Issue Premium

The Series 2008A Bonds maturing January 1, 2025 through and including January 1, 2043 ("Discount Bonds") have been offered and sold to the public at an original issue discount ("OID"). OID is the excess of the stated redemption price at maturity (the principal amount) over the "issue price" of a Discount Bond. The issue price of a Discount Bond is the initial offering price to the public (other than to bond houses, brokers or similar persons

acting in the capacity of underwriters or wholesalers) at which a substantial amount of the Discount Bonds of the same maturity is sold pursuant to that offering. For federal income tax purposes, OID accrues to the owner of a Discount Bond over the period to maturity based on the constant yield method, compounded semiannually (or over a shorter permitted compounding interval selected by the owner). The portion of OID that accrues during the period of ownership of a Discount Bond (i) is interest excluded from the owner's gross income for federal income tax purposes to the same extent, and subject to the same considerations discussed above, as other interest on the Bonds, and (ii) is added to the owner's tax basis for purposes of determining gain or loss on the maturity, redemption, prior sale or other disposition of that Discount Bond. A purchaser of a Discount Bond in the initial public offering at the price for that Discount Bond stated on the cover of this Offering Circular who holds that Discount Bond to maturity will realize no gain or loss upon the retirement of that Discount Bond.

The Series 2008A Bonds maturing January 1, 2012 through and including January 1, 2024 ("Premium Bonds") have been offered and sold to the public at a price in excess of their stated redemption price (the principal amount) at maturity. That excess constitutes bond premium. For federal income tax purposes, bond premium is amortized over the period to maturity of a Premium Bond, based on the yield to maturity of that Premium Bond (or, in the case of a Premium Bond callable prior to its stated maturity, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on that Premium Bond), compounded semiannually. No portion of that bond premium is deductible by the owner of a Premium Bond. For purposes of determining the owner's gain or loss on the sale, redemption (including redemption at maturity) or other disposition of a Premium Bond, the owner's tax basis in the Premium Bond is reduced by the amount of bond premium that accrues during the period of ownership. As a result, an owner may realize taxable gain for federal income tax purposes from the sale or other disposition of a Premium Bond for an amount equal to or less than the amount paid by the owner for that Premium Bond. A purchaser of a Premium Bond in the initial public offering at the price for that Premium Bond stated on the cover of this Offering Circular who holds that Premium Bond to maturity (or, in the case of a callable Premium Bond, to its earlier call date that results in the lowest yield on that Premium Bond) will realize no gain or loss upon the retirement of that Premium Bond.

OWNERS OF DISCOUNT AND PREMIUM BONDS SHOULD CONSULT THEIR OWN TAX ADVISERS AS TO THE DETERMINATION FOR FEDERAL INCOME TAX PURPOSES OF THE AMOUNT OF OID OR BOND PREMIUM PROPERLY ACCRUABLE OR AMORTIZABLE IN ANY PERIOD WITH RESPECT TO THE DISCOUNT OR PREMIUM BONDS AND AS TO OTHER FEDERAL TAX CONSEQUENCES AND THE TREATMENT OF OID AND BOND PREMIUM FOR PURPOSES OF STATE AND LOCAL TAXES ON, OR BASED ON, INCOME.

LITIGATION

The Commission

To the knowledge of appropriate officials of the Commission, there is not now pending or threatened any litigation against the Commission restraining or enjoining or seeking to restrain or enjoin the issuance of the Series 2008A Bonds or questioning or affecting the validity of the Series 2008A Bonds or the proceedings and authority under which they are to be issued. Neither the creation, organization or existence of the Commission, nor the title of the present Commissioners or other officers of the Commission to their respective offices, is, to the knowledge of appropriate officials of the Commission, being contested or questioned. To the knowledge of appropriate officials of the Commission, there is no litigation pending which in any manner questions the right of the Commission to enter into, or the validity or enforceability of, the Base Lease, the State Financing Lease, the Assignment to the Bond Trustee (as defined in Appendix C hereto), the Assignment to the Master Trustee (as defined in Appendix C hereto) or the Bond Indenture or to secure the Series 2008A Bonds in the manner provided in the Bond Indenture.

The Obligated Issuers

The Cleveland Clinic has advised that no litigation, proceedings or investigations are pending or, to the Cleveland Clinic's knowledge, threatened against any Obligated Issuer except (i) litigation, proceedings or investigations for which the probable ultimate recoveries and the estimated costs and expenses of defense will be entirely within the Cleveland Clinic's insurance policy limits (subject to applicable deductibles) or are not in excess

of the total reserves held under its self-insurance program or otherwise available, or (ii) litigation, proceedings or investigations in which an adverse determination would not have a materially adverse effect on the financial condition or results of operations of the Obligated Issuers, taken as a whole. The Cleveland Clinic has also advised that no litigation, proceedings or investigations are pending or, to its knowledge, threatened against any Obligated Issuer, that in any manner questions the right of such Obligated Issuer to enter into the transactions described in this Offering Circular.

THE BOND TRUSTEE

The Huntington National Bank ("Huntington"), which is acting as the Bond Trustee, is a national banking association duly organized and existing under the laws of the United States and is duly authorized to exercise corporate trust powers in the State. Huntington's principal corporate trust office is located at 7 Easton Oval, EA4E63, Columbus, Ohio 43219. The Cleveland Clinic maintains banking relationships with Huntington in the ordinary course of business. Huntington will also act as Paying Agent for the Series 2008A Bonds, bond trustee for the Variable Rate Bonds, bond trustee for the County Bonds and as the Master Trustee under the Master Trust Indenture.

FINANCIAL ADVISOR

Ponder & Co. has served as financial advisor to the Cleveland Clinic and the other Obligated Issuers for purposes of assisting with the development and implementation of a bond structure in connection with the issuance of the Series 2008A Bonds. Ponder & Co. is not obligated to undertake, and has not undertaken, an independent verification of nor does Ponder & Co. assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement. Ponder & Co. is an independent advisory firm and is not engaged in the business of underwriting or distributing securities.

LEGAL MATTERS

Legal matters incident to the issuance of the Series 2008A Bonds and with regard to the tax-exempt status of the interest thereon (see "TAX MATTERS") are subject to the legal opinion of Squire, Sanders & Dempsey L.L.P., Bond Counsel to the Commission. A signed copy of that opinion, dated and speaking only as of the date of the original delivery of the Series 2008A Bonds, will be delivered to the Underwriter and the Commission.

The proposed text of the legal opinion is set forth in Appendix D hereto. The legal opinion to be delivered may vary from that text if necessary to reflect facts and law on the date of delivery. The legal opinion of Bond Counsel will speak only as of its date, and subsequent distribution of it by recirculation of the Offering Circular or otherwise shall create no implication that Bond Counsel has reviewed or expresses any opinion concerning any of the matters referred to in the opinion subsequent to its date.

While Bond Counsel has participated in the preparation of portions of this Offering Circular, it has not been engaged to confirm or verify, and expresses and will express no opinion as to, the accuracy, completeness or fairness of any statements in this Offering Circular, or in any other reports, financial information, offering or disclosure documents or other information pertaining to the Cleveland Clinic or the Series 2008A Bonds that may be prepared or made available by the Cleveland Clinic, the Underwriter, or otherwise to the holders of the Series 2008A Bonds or others.

In addition to rendering the legal opinion, Bond Counsel will assist in the preparation of and advise the Commission and the Cleveland Clinic concerning documents for the bond transcript.

Certain legal matters will be passed upon for the Cleveland Clinic and the other Obligated Issuers in opinions rendered by David W. Rowan, Esq., Chief Legal Officer of the Cleveland Clinic and by their special counsel, Jones Day. Jones Day has also served as disclosure counsel to the Cleveland Clinic in connection with the preparation of this Offering Circular. Certain legal matters concerning Florida Clinic will be passed upon by Squire, Sanders & Dempsey L.L.P., in its capacity as Bond Counsel to the Commission for the Series 2008A Bonds. Certain legal matters will be passed upon for the Underwriter by its counsel, McCall, Parkhurst & Horton L.L.P.

Frederick R. Nance, Regional Managing Partner of Squire, Sanders & Dempsey L.L.P., is a member of the Board of Trustees of the Cleveland Clinic. Stephen Brogan, Esq., Managing Partner of Jones Day, is a member of the Board of Trustees of the Cleveland Clinic. Patrick F. McCartan, Esq., a senior partner with Jones Day, is an Emeritus Trustee of the Cleveland Clinic and is a member of the Board of Trustees' Executive Committee. Michael Horvitz, of counsel with Jones Day, is also a member of the Board of Trustees of the Cleveland Clinic.

RATINGS

Moody's and Standard & Poor's have assigned their municipal bond ratings of "Aa2" and "AA-", respectively, to the Series 2008A Bonds. Such ratings reflect only the views of such organizations, and an explanation of the significance of such ratings may be obtained only from the rating agencies furnishing the same. There is no assurance that such ratings will remain in effect for any given period of time or that such ratings will not be revised downward or upward or withdrawn entirely by any of such rating agencies if, in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price or marketability of the Series 2008A Bonds.

UNDERWRITING

All of the Series 2008A Bonds will be purchased by the Underwriter under a Contract of Purchase between J.P. Morgan Securities, Inc. and the Commission at a purchase price of $449,469,919, reflecting an underwriter's discount of $2,216,466, plus original issue premium of $3,812,918, less original issue discount of $4,466,532. The Contract of Purchase provides that the Underwriter will purchase all of the Series 2008A Bonds if any are purchased. Pursuant to Letter of Representations and Indemnification delivered concurrently with the issuance of the Series 2008A Bonds, the Cleveland Clinic will indemnify the Underwriter and the Commission against losses, claims and liabilities arising out of materially incorrect or incomplete statements of information contained in this Offering Circular pertaining to the Cleveland Clinic, the Cleveland Clinic Health System, or the Obligated Group.

The Underwriter may offer and sell the Series 2008A Bonds to certain dealers (including depositing the Series 2008A Bonds into investment trusts) and to others at a price lower than that offered to the public.

INDEPENDENT AUDITORS

The consolidated financial statements of the Cleveland Clinic and controlled affiliates as of December 31, 2007 and 2006 and for the years then ended appearing in APPENDIX B to this Offering Circular have been audited by Ernst & Young LLP, independent auditors, as stated in their report thereon also appearing in APPENDIX B.

INTERIM FINANCIAL INFORMATION

The unaudited consolidated financial statements of the Cleveland Clinic and controlled affiliates as of June 30, 2008 and for the three and six months ended June 30, 2008 are available from Digital Assurance Certification LLC, a post-bond issuance, compliance, and monitoring system for municipal bond issuers ("DAC") (website: www.dacbond.com). The unaudited consolidated financial statements were prepared by management of the Health System in accordance with GAAP. Operating results for the three and six months ended June 30, 2008 are not necessarily indicative of the results to be expected for the year ending December 31, 2008. The financial information that is available from DAC is incorporated herein by reference and should be read in conjunction with the consolidated financial statements, related notes, and other financial information included in this Offering Circular, including the Appendices.

ELIGIBILITY UNDER STATE LAW FOR INVESTMENT AND AS SECURITY FOR THE DEPOSIT OF PUBLIC MONEYS

Under the Act, and to the extent investments of the following are subject to the laws of the State of Ohio, the Series 2008A Bonds will be lawful investments for banks, societies for savings, building and loan associations, savings and loan associations, deposit guarantee associations, trust companies, trustees, fiduciaries, insurance companies, including domestic for life and domestic not for life, trustees or other officers having charge of sinking

and bond retirement or other special funds of political subdivisions and taxing districts of the State, the commissioners of the sinking fund of the State, the industrial commission, the State teachers retirement system, the public employees retirement system, the public school employees retirement system, and the police and firemen's disability and pension fund, notwithstanding any other provisions of the Ohio Revised Code with respect to the nature of lawful investments by them. The Series 2008A Bonds will also be acceptable as security for the deposit of public moneys.

SPECIAL OBLIGATIONS

None of the assets, moneys or faith and credit nor the taxing power of the Commission or the State of Ohio nor any political subdivision thereof is pledged to the payment of debt service of the Series 2008A Bonds. The Series 2008A Bonds are not general obligations, debt or bonded indebtedness of the Commission or of the State of Ohio or any political subdivision thereof, and the holder of the Series 2008A Bonds shall not be given the right, and have no right, to have excise, ad valorem or other taxes levied by the Commission or the State of Ohio or any political subdivision thereof for the payment of debt service on the Series 2008A Bonds or any incidental costs related thereto, or any right to any revenues of the Commission other than as described herein for any such payment or costs.

CONTINUING DISCLOSURE

The Obligated Group

Pursuant to an Amended and Restated Master Continuing Disclosure Agreement (the "Master Continuing Disclosure Agreement") with DAC (the "Dissemination Agent"), the Cleveland Clinic, as Obligated Issuers' Representative, has agreed that either the Cleveland Clinic or its successor as Obligated Issuers' Representative will provide to the Dissemination Agent certain annual audited financial statements (the "Audited Financial Statements") and certain annual financial information and operating data ("Financial Information and Operating Data") for each of the Obligated Issuers' fiscal years in accordance with the requirements of Rule 15c2-12 (the "Rule") of the SEC under the Securities Exchange Act of 1934 and certain unaudited quarterly financial statements. The Audited Financial Statements will consist of the consolidated financial statements of the Cleveland Clinic and its controlled affiliated entities, including those Persons which were Obligated Issuers during the Fiscal Year reported in such financial statements, which have been examined by independent certified public accountants in accordance with generally accepted accounting principles in the United States of America and including as a part thereof, consolidating statements or schedules prepared in accordance with generally accepted accounting principles in the United States of America and covering the Obligated Group. The Audited Financial Statements are required to be prepared in accordance with generally accepted accounting principles in the United States of America on a comparative basis for the two Fiscal Years immediately preceding the date of the Annual Report (defined below) containing the same. The Financial Information and Operating Data will be provided with respect to those persons who were Obligated Issuers during the fiscal years to which the Financial Information and Operating Data relate and the Financial Information and Operating Data will initially consist of the following:

(1) The table herein under the caption "DEBT SERVICE COVERAGE";

(2) The information in APPENDIX A hereto under the following subheadings under the heading "PART II. THE OBLIGATED GROUP":

- A. THE CLEVELAND CLINIC – The Clinic – Clinical Services; – The Clinic – Regional Medical Practice; and – Research and Education – Clinical Research;
- E. UTILIZATION;
- M. PAYOR MIX, MANAGED CARE AND COMMERCIAL INSURANCE ARRANGEMENTS – Payor Mix;

(3) The Table in APPENDIX A hereto under the heading "PART IV. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF HEALTH SYSTEM OPERATIONS AND

FINANCIAL POSITION — D. BALANCE SHEET — DECEMBER 31, 2007 COMPARED TO DECEMBER 31, 2006 — Cash and Investments"; and

(4) The Table under the heading "PART V. NON-OBLIGATED HEALTH SYSTEM PARTICIPANTS".

The Master Continuing Disclosure Agreement will require the Obligated Issuers' Representative to provide the Audited Financial Statements and Financial Information and Operating Data (collectively, the "Annual Report") to the Bond Trustee by the Annual Report Date, the same being the last day of the sixth calendar month after the end of each Fiscal Year of the Obligated Issuers ending after December 31, 2002, the first such Annual Report Date being June 30, 2004; provided, however, that if the Annual Report does not include the Audited Financial Statements because the same are not then available, the Obligated Issuers' Representative shall provide unaudited annual financial statements ("Unaudited Annual Financial Statements") for the Cleveland Clinic and its controlled affiliated entities, including the Obligated Issuers for such Fiscal Year. Such Unaudited Annual Financial Statements shall be prepared on a basis substantially consistent with the Audited Financial Statements to be subsequently prepared for such Fiscal year, and shall include as a part thereof, consolidating statements or schedules prepared substantially in accordance with generally accepted accounting principles in the United States of America and covering the Obligated Group. If the Annual Report does not include the Audited Financial Statements, the Obligated Issuers' Representative shall provide the Audited Financial Statements to the Dissemination Agent as soon as practicable after they have been approved by the governing body of the Obligated Issuers' Representative. The Dissemination Agent shall provide the Annual Report, and, if received separately as provided above, the Audited Financial Statements, within five (5) Business Days after receipt thereof from the Obligated Issuers' Representative, to each nationally recognized municipal securities information repository ("NRMSIR") designated by the SEC and to any state information depository ("SID" and, together with the NRMSIRs, a "Repository"), if any, operated or designated by the State of Ohio (currently, the Ohio Municipal Advisory Council) or the State of Florida (of which there currently is none).

The Master Continuing Disclosure Agreement also requires the Obligated Issuers to provide a document to the Dissemination Agent (the "Quarterly Report") which identifies (a) the Obligated Persons as of the date of the Quarterly Report, (b) contains the unaudited financial statements of the Cleveland Clinic and its controlled affiliated entities, including the Obligated Issuers, for the preceding fiscal quarter of the Obligated Issuers and consisting of unaudited consolidated balance sheets as of the end of such quarter and related statements of operations and changes in net assets for such quarter (year to date), including as a part thereof consolidating statements or schedules covering the Obligated Group, all prepared on substantially the same basis as the most recently prepared Audited Financial Statements. The Quarterly Report is required to be provided by the sixtieth (60^{th}) day following the end of each fiscal quarter of the Obligated Issuers (the "Quarterly Report Date") commencing with the 60^{th} day following the calendar quarter ending June 30, 2008. The Dissemination Agent is required to provide the Quarterly Report to each Repository within five (5) Business Days after receipt thereof from the Obligated Issuers' Representative.

The Master Continuing Disclosure Agreement will also require the Obligated Issuers' Representative to provide promptly to the Dissemination Agent and will in turn require the Dissemination Agent to provide, within three (3) Business Days, to each Repository, notice of the occurrence of any of the following events with respect to the Related Bonds (including the Series 2008A Bonds) covered by such agreement, if such event is in the determination of the Obligated Issuers' Representative material:

(1) Principal and interest payment delinquencies with respect to any Master Note, Related Loan Agreement or Related Bond Indenture;

(2) Non-payment related defaults under the Master Indenture, any Related Loan Agreement or any Related Bond Indenture other than defaults described above in (1);

(3) Unscheduled draws on debt service reserves established under Related Bond Indentures reflecting financial difficulties;

(4) Unscheduled draws on credit enhancements for any Related Bonds reflecting financial difficulties;

(5) Substitution of credit or liquidity providers, or their failure to perform with respect to any Related Bonds;

(6) Adverse tax opinions or events affecting the tax-exempt status of Related Bonds;

(7) Amendments (i) to the Master Indenture modifying the rights or security of holders of Master Notes or rights of holders of Related Bonds or (ii) any Related Bond Indenture or Related Loan Agreement modifying the rights or security of any Bondholders;

(8) Calls for the redemption of any of the Related Bonds (other than mandatory sinking fund redemptions);

(9) Full or partial defeasance of any of the Related Bonds;

(10) Release, substitution or sale of property securing repayment of any of the Related Bonds; and

(11) Rating changes affecting any of the Related Bonds.

The Continuing Disclosure Agreement will also require the Dissemination Agent to provide, within 5 Business Days of each Annual Report Date or Quarterly Report Date to each Repository, notice of its failure to provide the Annual Report or a Quarterly Report by the Annual Report Date or the Quarterly Report Date, respectively.

The types of information to be disclosed in the Annual Report may be modified in connection with subsequent continuing disclosure certificates filed with the Dissemination Agent in the form prescribed by the Master Continuing Disclosure Agreement, but only upon receipt by the Dissemination Agent of (i) an opinion of nationally recognized disclosure counsel (which may also act as counsel to one or more Obligated Issuers) to the effect that the undertaking of the Obligated Issuers pursuant to the Master Continuing Disclosure Agreement, as so modified by the subsequently filed continuing disclosure certificate, would have complied with the Rule on the date of the first offering of Related Bonds under the Master Continuing Disclosure Agreement, taking into account any amendment or interpretation of the Rule by the SEC or a court of competent jurisdiction following delivery of the Master Continuing Disclosure Agreement (such an opinion hereinafter referred to as an "Approving Disclosure Opinion"), and (ii) a determination of a party unaffiliated with any Related Issuer or Obligated Person (e.g., the Master Trustee, a Related Bond Trustee or nationally recognized municipal bond counsel or disclosure counsel) that such modification will not adversely affect the Bondholders in any material respect (or otherwise providing the consent of the requisite approving percentage of Bondholders of each series of Related Bonds to such modification).

In addition, the Master Continuing Disclosure Agreement may be amended or any provision thereof waived, upon provision to the Dissemination Agent of an Approving Disclosure Opinion with respect to such amendment or waiver.

The Master Continuing Disclosure Agreement will remain in effect as long as any Series 2008A Bonds, any other Related Bonds subject thereto or any Master Notes remain outstanding and will require the Obligated Issuers' Representative to provide the Annual Report and Quarterly Report for an entity as long as such entity was an Obligated Issuer during the fiscal years to which such information and data relate. The Continuing Disclosure Agreement will be entered into for the benefit of the owners of Related Bonds, the Obligated Issuers, the Dissemination Agent, the Related Bond Trustees, the Commissions of Related Bonds and any participating underwriters and no other persons. A default by the Obligated Issuers' Representative or the Dissemination Agent in furnishing or forwarding required information or notices will not constitute a default or event of default under any Related Bond Indenture. The sole remedy for any such default is an action by a Bondholder or Related Bond Trustee on behalf of the Related Bondholders. Upon a default and the request of the owners (or any Bond Trustee representing Bondholders) owning not less than 25% in aggregate principal amount of all Related Bonds then outstanding, the Dissemination Agent shall take such actions it deems appropriate, including seeking mandamus or specific performance by court order, to cause the Obligated Issuers' Representative to comply with the Master Continuing Disclosure Agreement.

The Commission

Because the Series 2008A Bonds are special, limited obligations, the Commission does not intend to provide the Bond Trustee with any additional information regarding itself or the Series 2008A Bonds after the date of issuance of the Series 2008A Bonds.

MISCELLANEOUS

The references herein to the Bond Indenture, the State Financing Lease, the Base Lease, the Master Trust Indenture and other documents and materials are brief outlines of certain provisions thereof. Such outlines do not purport to be complete and for full and complete statements of such provisions reference is made to such instruments and other materials, copies of which are on file at the office of The Huntington National Bank, Columbus, Ohio, 44 South High Street, Columbus Ohio 43215.

The Cleveland Clinic has furnished information in this Offering Circular relating to the Cleveland Clinic and each other Obligated Issuer has furnished information in this Offering Circular relating to such Obligated Issuer. The Commission has furnished only the information included in this Offering Circular under the heading "THE COMMISSION" and under the heading "LITIGATION — The Commission." All estimates and other statements in this Offering Circular involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Offering Circular is not to be construed as a contract or agreement between the Commission or the Obligated Issuers and the purchasers, holders or beneficial owners of any of the Series 2008A Bonds.

CONSENT TO DISTRIBUTION

The Cleveland Clinic has authorized distribution of this Offering Circular.

THE CLEVELAND CLINIC FOUNDATION,
as Obligated Group Representative

/s/ Steven C. Glass
Chief Financial Officer

APPENDIX A

CLEVELAND CLINIC HEALTH SYSTEM

OBLIGATED GROUP AND OTHER HEALTH SYSTEM INFORMATION

The information set forth in this Appendix has been provided,
unless otherwise expressly indicated, by the Cleveland Clinic Health System

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This Appendix to the Offering Circular contains information concerning The Cleveland Clinic Foundation (the "Cleveland Clinic") and certain affiliates of the Cleveland Clinic (collectively, the "Affiliates" and each an "Affiliate"), including those that comprise, together with the Cleveland Clinic, a combined financing group (the "Obligated Group"), and certain other Affiliates that are not members of the Obligated Group. The Cleveland Clinic, the Affiliates that are members of the Obligated Group and the other Affiliates together form an integrated healthcare delivery system known as the Cleveland Clinic Health System (collectively, the "Cleveland Clinic Health System", the "Health System" or the "System"). The current members of the Obligated Group are the Cleveland Clinic, Fairview Hospital ("Fairview"), Lutheran Hospital ("Lutheran"), Marymount Hospital, Inc. ("Marymount"), Cleveland Clinic Health System – East Region ("CCHS-East Region") and Cleveland Clinic Florida (A Nonprofit Corporation) ("Florida Clinic"). Each member of the Obligated Group is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"), and is not a private foundation as defined in Section 509(a) of the Code (a "Tax-Exempt Organization").

Part I of this Appendix presents information concerning the Cleveland Clinic Health System and certain of its participants; Part II provides information for the Obligated Group as a whole and each of its members; Part III provides selected financial information for the Obligated Group and the Health System; Part IV provides a discussion and analysis by Cleveland Clinic management of results of operations and the financial position of the Health System as a whole; and Part V presents information for certain Affiliates that are not members of the Obligated Group and for those entities as a whole. Unless otherwise indicated, reference to the Obligated Group or members of the Obligated Group in this Appendix is to the current members of the Obligated Group. Statements regarding the number of available or staffed beds, medical staff allocations, and staffing and employment levels for the Obligated Issuers in this Appendix A are qualified in that such numbers will vary from time to time.

Certain entities that are not material to the financial results of the Cleveland Clinic or the Health System, but are part of the Health System and included in consolidated financial results, are not described in this Appendix. Unless otherwise noted, the Health System is the source of all information set forth in this Appendix.

Certain statements included in this Appendix constitute "forward-looking statements" within the meaning of the United States *Private Securities Litigation Reform Act of 1995*, Section 21E of the United States *Securities Exchange Act of 1934*, as amended, and Section 27A of the United States *Securities Act of 1933*, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words. Such forward-looking statements include, among others, certain of the information under the caption "PART IV – MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF HEALTH SYSTEM OPERATIONS AND FINANCIAL POSITION."

The Obligated Group has delivered a Master Note to secure repayment of the Series 2008A Bonds. At present, the Cleveland Clinic, Fairview, Lutheran, Marymount, CCHS-East Region and Florida Clinic are the sole members of the Obligated Group and are the only entities that have any liability under the Master Trust Indenture with respect to any of the Master Notes. See "SECURITY FOR THE SERIES 2008A BONDS" in the forepart of the Offering Circular.

INTRODUCTION

The Cleveland Clinic is a world-renowned provider of healthcare services. In 2007, it attracted patients from across the United States and provided care to over 4,700 international patients. The Cleveland Clinic Health System is the leading provider of healthcare services in northeast Ohio and also provides healthcare services in southeast Florida. Members of the Obligated Group together own and operate eight hospitals with more than 3,000 available beds in the Cleveland metropolitan area. In addition, The Cleveland Clinic Children's Hospital for Rehabilitation (with 25 available beds) and Lakewood Hospital (with 257 available beds), both of which are located in the Cleveland metropolitan area but are not part of the Obligated Group, comprise part of the Health System. The Cleveland Clinic also owns and operates 16 outpatient primary care facilities known as "Family Health Centers," including five licensed as ambulatory surgery centers, as well as many additional physician office facilities located over a seven-county area of northeast Ohio. In southeast Florida, Florida Clinic, which is a member of the Obligated Group, owns and operates an outpatient clinic in Weston, Florida (the "Weston Clinic"), and Cleveland Clinic Florida Health System Nonprofit Corporation ("CCF Florida Hospital Corporation"), which is not a member of the Obligated Group, owns and operates a hospital adjacent to the Weston Clinic with 150 available beds (the

"Weston Hospital"). Additionally, the System provides management services pursuant to affiliation agreements with Ashtabula County Medical Center, located in Ashtabula, Ohio, with approximately 180 staffed beds. The System has also entered into several alliances with outside parties to promote development outside northeast Ohio of the Cleveland Clinic's integrated, academic group practice model and the practice procedures resulting from that model.

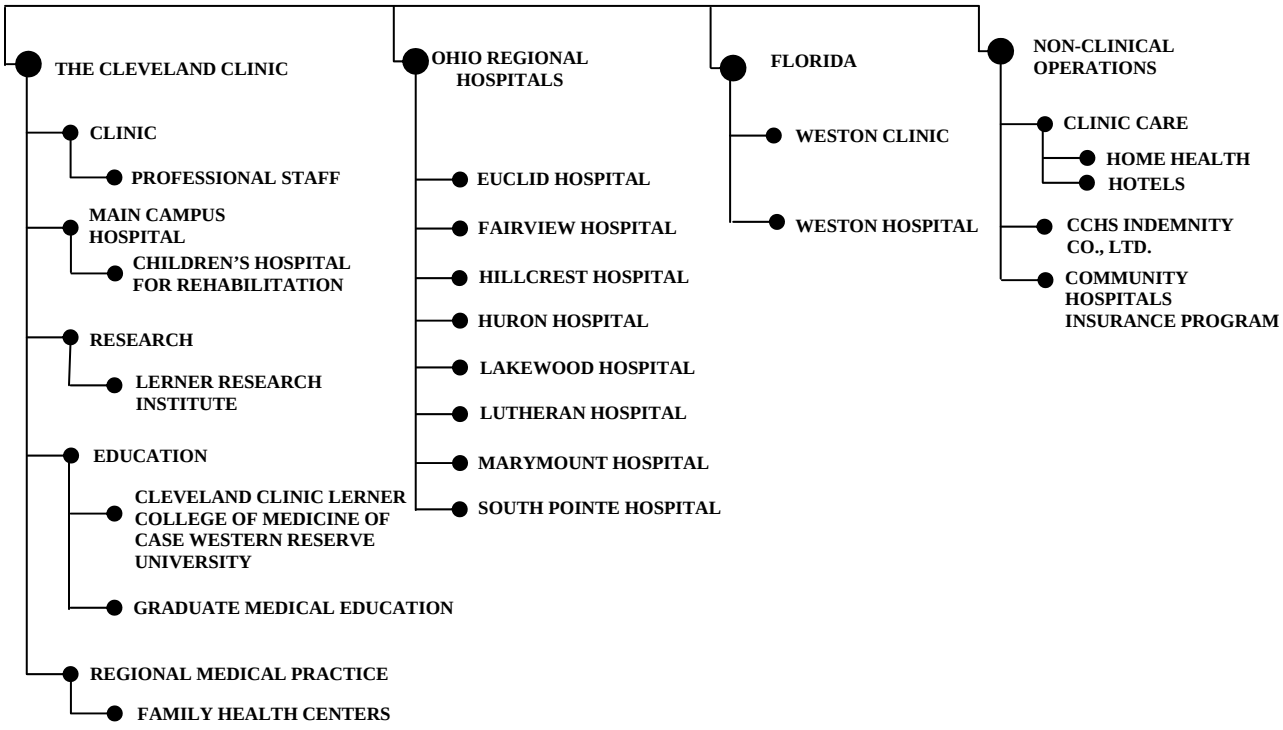
The Cleveland Clinic was ranked as the fourth best hospital in the United States by *U.S. News and World Report* in its 2008 Annual Report of America's Best Hospitals; the eighteenth consecutive year the Cleveland Clinic was ranked sixth or better. In addition, the Cleveland Clinic's Heart and Vascular Institute, located on the Cleveland Clinic's main campus, was recognized as the best in the United States, an honor the Cleveland Clinic has received annually since 1994. Nine other Cleveland Clinic medical specialties were ranked by that report among the nation's Top 10: digestive disorders, rheumatology, urology, orthopedics, nephrology, respiratory disorders, endocrinology, neurology/neurosurgery and gynecology. Six additional specialties – ear, nose & throat, ophthalmology, cancer, geriatrics, rehabilitation and psychiatry – were noted for national excellence. (Full results are available in the magazine's July 21/28, 2008 edition, which was published on July 14, 2008.)

PART I.

THE CLEVELAND CLINIC HEALTH SYSTEM

The Cleveland Clinic Health System is comprised of several facilities, service groups and entities that are organized operationally on the basis of location and type of services provided. Its primary operating elements consist of the Cleveland Clinic, the Ohio Regional Hospitals, Florida and non-clinical operations, as follows:

CLEVELAND CLINIC HEALTH SYSTEM OPERATIONAL STRUCTURE(1)



(1) This chart does not depict legal entities or relationships. For a description of the members of the Obligated Group and their legal relationship to one another, see "PART II – THE OBLIGATED GROUP."

A. ORIGINS AND FUNDAMENTAL MISSION

The Cleveland Clinic began providing healthcare services in February 1921, with a staff of six surgeons, one radiologist, four internists and one biophysicist. The original clinic facility was located on the near east side of Cleveland, in the area where the Cleveland Clinic's main campus is located today. In 1924, the Cleveland Clinic opened a hospital on property near the clinic facility. The Cleveland Clinic's creation marked the culmination of the common vision of its founding physicians, Drs. Frank Bunts, George Crile, William Lower and John Phillips. They sought to create an atmosphere and institution in which medicine and surgery could be practiced, studied and taught by a group of associated specialists. From its inception, the fundamental mission of the Cleveland Clinic has always been and remains today: *better care for the sick, investigation of their problems, and further education of those who serve*. Even as early as 1921, Drs. Bunts, Crile, Lower and Phillips recognized that medicine was far too complex for any one person to fully comprehend and that it would be in the best interest of patients if the resources and talents of multiple specialists were pooled for the development and application of the best medical techniques.

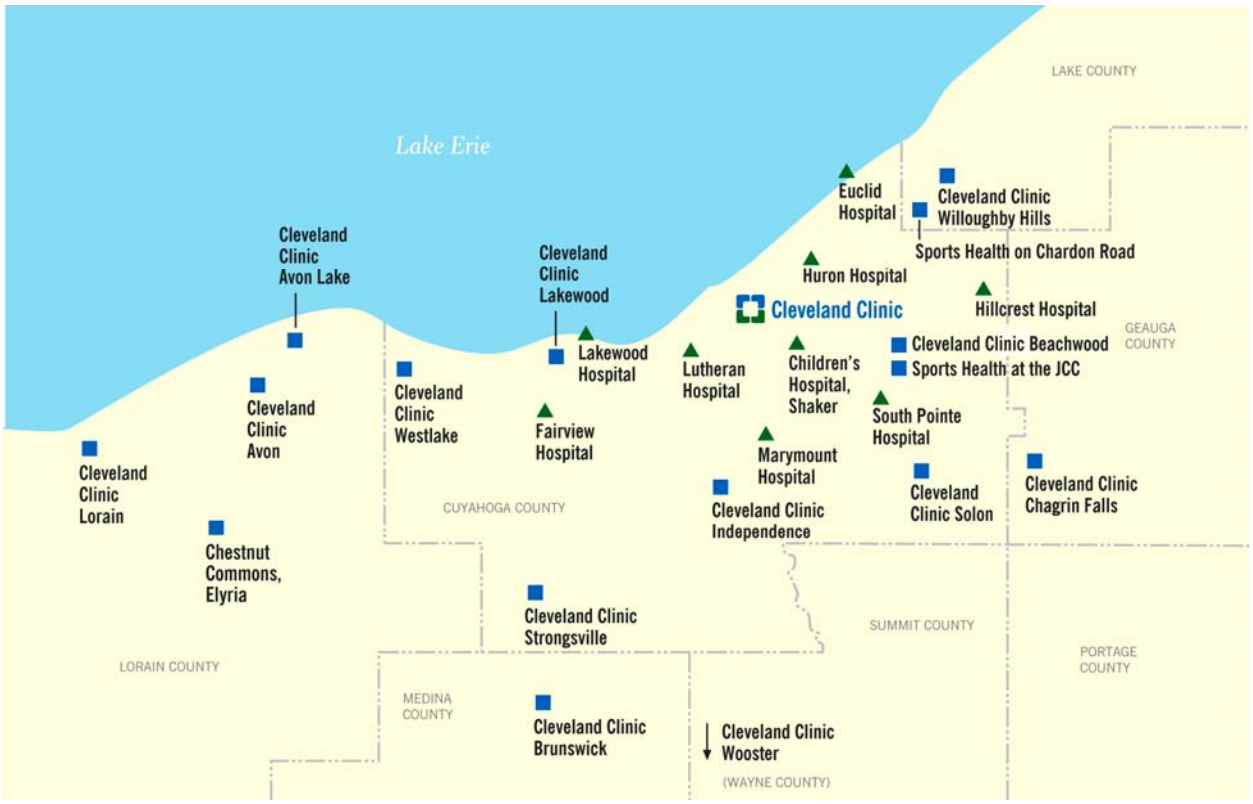
Specialization and subspecialization have characterized the practice and growth of the Cleveland Clinic. From 1921 through the mid-1990s, the Cleveland Clinic's professional staff of employed physicians and Ph.D. scientific investigators (the "Professional Staff") grew at an average annual rate of five percent (5%). Over the past 13 years, the annual growth rate averaged eight percent (8%). The Cleveland Clinic currently has more than 2,100 Professional Staff members, including approximately 1,800 physicians practicing in over 80 different clinical specialties and subspecialties and nearly 200 faculty level scientists working full time in the Lerner Research Institute.

The Cleveland Clinic's Professional Staff is organized as an integrated academic group of practicing physicians, scientists and other health-related professionals. It is a unique model that continues to be conducive to the achievement of excellence in the delivery of healthcare services despite heightened governmental regulation and the national emphasis on "managed healthcare." The Cleveland Clinic's commitment to excellence, its integrated, academic group practice approach to the delivery of healthcare services and its commitment to the initial principles established by its founders — namely, cooperation, compassion and innovation — enable the Cleveland Clinic to continue to attract and retain world-class physicians in all specialty areas, who deliver world-class healthcare services to patients from throughout the world.

B. ESTABLISHMENT AND GROWTH OF THE CLEVELAND CLINIC HEALTH SYSTEM

Northeast Ohio. In the mid-1990s, Cleveland Clinic leadership directed particular attention to growth in northeast Ohio. The Cleveland Clinic began to establish strategically located and geographically dispersed Family Health Centers at which primary outpatient medical care is provided and from which patients requiring secondary or tertiary care are referred to the Cleveland Clinic's main campus or an Ohio Regional Hospital. Consistent with that strategy, during the mid to late 1990s, the Cleveland Clinic began establishing its network of Ohio Regional Hospitals, acquiring membership interests in Marymount, Lakewood Hospital Association ("Lakewood"), Cleveland Clinic Health System - Western Region ("CCHS-Western Region"), the sole member of Lutheran and Fairview, CCHS-East Region (which owns and operates four Ohio Regional Hospitals) and Health Hill Hospital (now known as the Cleveland Clinic Children's Hospital for Rehabilitation ("Children's Hospital")). Today, the Cleveland Clinic Health System operates ten separate hospitals in northeast Ohio, with more than 3,300 available beds and 16 Family Health Centers, all geographically dispersed throughout northeast Ohio as indicated by the map that follows:

CLEVELAND CLINIC HEALTH SYSTEM
NORTHEAST OHIO SERVICE AREA AND FACILITIES



In recent years, the Cleveland Clinic has engaged in several efforts to advance its educational and research mission. In July 2004, the Cleveland Clinic and Case Western Reserve University ("CWRU") School of Medicine launched the Cleveland Clinic Lerner College of Medicine of Case Western Reserve University (the "College of Medicine"). Its primary focus is the teaching and training of medical students who have a particular interest in research, and many of the Cleveland Clinic's world-renowned physicians serve as faculty for the College of Medicine, furthering the integration of clinical care with research and education.

Florida. In 1988, the Cleveland Clinic established Florida Clinic, a group medical practice operating an outpatient medical facility in Fort Lauderdale, Florida. In mid-2001, the operations of Florida Clinic were moved to the Weston Clinic, and in October 2006, CCF Florida Hospital Corporation became the owner and operator of the Weston Hospital. The Cleveland Clinic also established, in 1999 through Florida Clinic and in 2001 through CCF Florida Hospital Corporation, respectively, an outpatient medical facility and an adjacent 75-bed hospital in Naples, Florida, both of which were sold in May 2006. See "PART II – THE OBLIGATED GROUP – C. FLORIDA."

Expansion outside Existing Markets. The Cleveland Clinic has entered into several alliances with outside parties to promote development outside northeast Ohio of the Cleveland Clinic's integrated, academic group practice model and the practice procedures resulting from that model. These include clinical affiliations with other U.S. hospitals to strengthen their existing programs through standardization of practices, protocols and related work; the opening of an executive health clinic in Toronto, Ontario, offering physical examinations, diagnostics and treatment; and an agreement to help establish, develop and operate a specialty hospital in the United Arab Emirates to be known as Cleveland Clinic Abu Dhabi, as well as working with the Health Authority of Abu Dhabi to manage and operate Sheikh Khalifa Medical City, a network of healthcare facilities in Abu Dhabi. In addition, the Cleveland Clinic's eRadiology Department provides offsite health care providers with radiology services, including reading of MRI, CT and other images. Finally, through its website, the Cleveland Clinic offers the "MyConsult" Remote Second Medical Opinion Service.

C. GOVERNANCE OF THE CLEVELAND CLINIC

The Cleveland Clinic is the sole member or sole regular member of each Affiliate within the Health System, or of an Affiliate's direct or indirect parent. The various corporate entities that comprise the Health System each has its own board of trustees and officers. The Cleveland Clinic governs the Health System through direct representation on such boards of trustees, reserved powers and other governance controls. The Cleveland Clinic is governed by its Members, a Board of Trustees, a Board of Governors and its principal operating officers.

Members. The members of the Cleveland Clinic ("Members") are elected by existing voting Members, either for fixed or determinable periods of time, or for life. The classes of Members are (1) Life, (2) Active Trustee, (3) Professional Staff, and (4) Distinguished Fellows. Members of each such class must possess specific qualifications that are delineated in the Code of Regulations. Only Life and Active Trustee members have voting rights. The Members meet at least annually to elect new Trustees to the Board of Trustees, to consider and adopt amendments to the governing documents and to act upon such other matters as may be appropriate. Currently, there are 77 voting Members and approximately 124 other Members.

Board of Trustees. The Board of Trustees is required to have not fewer than 26 nor more than 65 members. Trustees are selected on the basis of their expertise and experience in a variety of areas beneficial to the Cleveland Clinic and the Health System and are not compensated for their services. A majority of the Trustees is required to be comprised of persons who meet each of the following criteria: (1) a citizen of Ohio; (2) a Member of the Cleveland Clinic; and (3) not a member of the Professional Staff. A Trustee is retired from active service as a Trustee, and the office deemed vacant, and his or her status is changed to Emeritus Trustee, at the annual meeting next following the Trustee's 72nd birthday. Emeritus Trustees may hold the office for life and serve on Board committees, but have no voting rights. At present, there are 58 voting members of the Board of Trustees and 28 Emeritus Trustees. The composition of the Board of Trustees is established in the Code of Regulations as follows: eight seats must be held by members of the Professional Staff, five must be members of the Board of Trustees of CCHS-Western Region, one must be the Chairman of the Board of Trustees of Lakewood, and one must be the Chairman of the Board of Trustees of Children's Hospital. Each member of the Board of Trustees is elected for a five-year term, with the exception of Professional Staff members and Trustees from CCHS-Western Region, Lakewood and Children's Hospital, all of whom are elected for one-year terms. Trustees may be re-elected at the expiration of their respective terms of office.

The Board of Trustees generally meets four times per year, including an annual meeting during which the Cleveland Clinic's officers are elected and standing committees are appointed. The Trustees are responsible for all of the Cleveland Clinic's operations and affairs and the control of its property, except as provided by law or otherwise delegated to the Board of Governors by the Code of Regulations. The Board of Trustees annually appoints certain committees to perform duties that it delegates to them from time to time. In addition, the Trustees annually appoint an Executive Committee that subject to the control and direction of the Trustees, generally oversees the operations and financial affairs of the Cleveland Clinic and the Health System during intervals between meetings of the Board of Trustees. The Executive Committee is required to have at least eight members. At present, it has 21 members.

The other committees of the Board of Trustees are: Audit, Buildings and Grounds, Compensation, Conflict of Interest, Development, Emerging Businesses, Finance, Governance, Government Relations, Investment, Marketing, and Research and Education.

The Audit Committee of the Board of Trustees, pursuant to the Audit Committee Charter, reviews and approves the external and internal audit plans and results, approves audit and non-audit accounting services, internal controls and regulatory and financial compliance. Although the Audit Committee is only required to meet quarterly, it typically meets more frequently and is scheduled at present to meet seven times in 2008. Currently, the Audit Committee has eight members, none of whom are employees of the Health System. The Audit Committee regularly reports to the Board of Trustees.

The Conflict of Interest Committee of the Board of Trustees is responsible for reviewing and resolving any potential conflicts of interest in accordance with applicable legal requirements and the Cleveland Clinic's conflict of interest policies. Trustees must disclose to the Conflict of Interest Committee any potential conflicts of interest

involving direct or indirect business relationships with the Cleveland Clinic or its Affiliates. Consistent with Code requirements, as well as other applicable guidelines and best practices for nonprofit corporations, the Conflict of Interest Committee reviews such business relationships for potential conflicts. Trustees who are determined by the Committee to have a conflict of interest with respect to a matter are required not to vote or otherwise take any action concerning the matter. The Conflict of Interest Committee of the Board of Trustees also oversees the Professional Staff's conflict of interest committee.

Following is a list of current voting members of the Board of Trustees and, as to each, his or her principal affiliation or occupation, the year that his or her initial Board term commenced and the year that his or her current Board term expires (members of the Executive Committee are marked with an *; members of the Audit Committee are marked with a #):

Voting Members of the Board of Trustees	**Present/Past Business Affiliation or Occupation**	**Commencement of Initial Term**	**Expiration of Current Term**
Lord Michael Ashcroft	Chairman BB Holdings	2004	2013
Patrick V. Auletta	President Emeritus, Commercial Banking KeyBank National Association	1998	2013
William W. Baker	President Winfield & Associates, Inc.	2006	2009
Stephen Brogan, Esq.[(3)]	Managing Partner, Jones Day	2007	2012
Stephen R. Brown[(2)]	Retired President Alcan Rolled Products Company	2004	2009
Flora M. Cafaro	Vice President and Assistant Treasurer The Cafaro Company	1993	2013
Jeffrey A. Cole	President Cole Limited, Inc.	1999	2009
Thomas A. Commes***#**	Retired President and Chief Executive Officer The Sherwin-Williams Company	1993	2013
William R. Cosgrove	Retired Chairman and Chief Executive Officer Swagelok Company	2001	2011
Terrence C. Z. Egger	President and Publisher *The Plain Dealer*	2007	2012
Umberto P. Fedeli*****	President and Chief Executive Officer The Fedeli Group	2000	2010
Nancy Fisher*****	Former Assistant Prosecutor City of Cleveland	2002	2012
Daniel Gilbert	Chairman and Founder - Quicken Loans Majority Owner - The Cleveland Cavaliers	2007	2012
Larry P. Goldberg	Chief Executive Officer Goldberg Companies, Inc.	2006	2011

Voting Members of the Board of Trustees	Present/Past Business Affiliation or Occupation	Commencement of Initial Term	Expiration of Current Term
Joseph T. Gorman	Chairman and Chief Executive Officer Moxahela Enterprises	1989	2009
David J. Hessler, Esq.	Senior Partner Wegman, Hessler & Vanderburg	1997	2009
Carole Hoover	President and Chief Executive Officer HooverMilstein	2007	2012
Michael J. Horvitz[3]	Of Counsel Jones Day	2006	2011
Robert D. Kain	Vice Chairman The Cleveland Browns	2001	2011
John W. Kemper, Sr.*	Chief Executive Officer/Treasurer – Avalon Precision Casting Co. Vice President/Treasurer – Kemper House	2002	2009
Robert L. Lintz#	Retired Plant Manager Parma Metal Fabricating Division General Motors Corporation	1992	2012
William E. MacDonald, III#*	Retired Vice Chairman National City Corporation	1997	2012
Sydell L. Miller	Retired Chairman and Chief Executive Officer Matrix Essentials, Inc.	2006	2011
A. Malachi Mixon, III*	Chairman and Chief Executive Officer Invacare Corporation	1990	2010
Beth E. Mooney	Vice Chair KeyCorp	2006	2011
Dan T. Moore, III*	President The Dan T. Moore Company, Inc.	1996	2011
Mario Morino	Chairman Venture Philanthropy Partners Morino Institute	2005	2010
Bert W. Moyar	President MEI Hotels Incorporated	1999	2010
William C. Mulligan	Managing Director Primus Venture Partners	1997	2010
Frederick R. Nance[4]	Regional Managing Partner Squire, Sanders & Dempsey L.L.P.	2005	2010

Voting Members of the Board of Trustees	Present/Past Business Affiliation or Occupation	Commencement of Initial Term	Expiration of Current Term
John R. Nottingham	Co-President Nottingham-Spirk	2004	2013
Roseann Park	Roseann Realty	2008	2013
William J. Reidy	Retired Partner Price Waterhouse	2007	2009
Harry T. Rein	General Partner Foundation Medical Partners	2005	2009
Robert E. Rich, Jr.*	President Rich Products Corporation	2002	2012
Joseph B. Richey, II	President, Invacare Technologies Division Invacare Corporation	2004	2013
Charles A. Rini, Sr.	Chairman and Chief Executive Officer Rini Realty Company	2004	2009
Bill R. Sanford*	Chairman SYMARK, LLC	1998	2010
Joseph M. Scaminace*#	President and Chief Executive Officer OM Group, Inc.	1996	2011
John Sherwin, Jr. #	President Mid-Continent Ventures, Inc.	1981	2011
Jack C. Shewmaker*	President - J-Com, Inc. Owner/Operator - Jac's Ranch	2002	2012
John W. Spirk	Co-President Nottingham-Spirk	2004	2013
Thomas C. Sullivan, Sr.	Chairman RPM, Inc.	1990	2010
Mousab Tabbaa, M.D.(1)	President NorthShore Gastroenterology & Endoscopy Center	2007	2009
Brian J. Taussig	President and Chief Executive Officer Classic Direct, Inc.	1996	2011
Tom Wamberg	Chairman and Chief Executive Officer Clark & Wamberg, LLC	2002	2012
Robert Warren, Jr., Esq.	Herman, Cohn, Schneider	2007	2009

Voting Members of the Board of Trustees	Present/Past Business Affiliation or Occupation	Commencement of Initial Term	Expiration of Current Term
Morry Weiss*	Chairman American Greetings Corporation	1997	2012
Woodrow Whitlow, Jr., Ph.D.	Director NASA Glenn Research Center	2007	2012
Loyal W. Wilson	Managing Director Primus Capital Funds	1997	2012
Harry Zilli, Jr.	Retired President and Chief Executive Officer Erie Lackawana, Inc.	2007	2009
	Professional Staff Members		
Brian Bolwell, M.D.	Department Chair, Hematologic Oncology and Blood Disorders; Vice Chair, Professional Staff Affairs	2007	2009
Delos M. Cosgrove, M.D.*****	Chief Executive Officer and President; Chairman, Board of Governors	2000	2009
Richard Lang, M.D., M.P.H.	Vice Chairman, Wellness Institute	2007	2009
Joseph F. Hahn, M.D.*****	Neurological Surgery; Chief of Staff; Vice Chairman, Board of Governors	2002	2009
Conrad Simpfendorfer, M.D.	Cardiovascular Medicine	2008	2009
Armin Schubert, M.D.	Department Chair, General Anesthesiology; Vice Chairman, Anesthesiology Institute	2008	2009
T. Declan Walsh, M.D.*	Interim Chairman, Rehabilitation Institute	2008	2009
Robert Wyllie, M.D.	Chairman, Pediatric Institute; Department Chair, Pediatric Gastroenterology	2006	2009

Certain Emeritus Trustees	Present/Past Business Affiliation or Occupation	Commencement of Initial Term	Expiration of Current Term
Stephen R. Hardis*	Retired Chairman and Chief Executive Officer Eaton Corporation	1996	N/A
Norma Lerner*	Private Investor	2003	N/A
Patrick F. McCartan, Esq.* [3]	Senior Partner Jones Day	1993	N/A
Samuel H. Miller*	Co-Chairman of the Board Forest City Enterprises, Inc.	1991	N/A
Ronald J. Ross, M.D.*	Director Emeritus, Department of Radiology - Hillcrest Hospital Chairman, Executive Committee, Board of Trustees of Cleveland Clinic Health System – East Region	1997	N/A
Robert J. Tomsich*	Chairman NESCO, Inc.	2000	N/A

(1) Chairman of the Board of Trustees of Lakewood.
(2) Chairman of the Board of Trustees of Children's Hospital.
(3) Jones Day is acting as counsel to the Cleveland Clinic in connection with the issuance of the Series 2008 Bonds.
(4) Squire, Sanders & Dempsey L.L.P. is acting as bond counsel to the Issuer in respect of the Series 2008 Bonds and also represents the Cleveland Clinic in certain matters.

Board of Governors. The Board of Governors is charged with the responsibility for ensuring that quality healthcare is delivered to patients of the Cleveland Clinic. Pursuant to the Code of Regulations, the Board of Governors plans and administers the medical activities of the Cleveland Clinic, subject to the policies and authority of the Board of Trustees. It also oversees the integration of research and education with other services provided by the Cleveland Clinic and, subject to the concurrence of the Board of Trustees, is responsible for the appointment, promotion and termination of members of the Professional Staff in cooperation with Institute and department chairmen. The Board of Governors generally meets weekly.

The Board of Governors consists of twelve members elected by the Professional Staff; a Chairman and a Vice Chairman elected by the Board of Governors (who must be members of the Professional Staff but need not be one of such twelve members); two additional appointed members (the Chairman of the Lerner Research Institute and the Chairman of the Education Institute) and the Cleveland Clinic's Chief Financial Officer, Chief Operating Officer and Chief Legal Officer. The Board of Governors annually recommends three of its members for election to the Board of Trustees.

Current members of the Board of Governors are Dr. Delos Cosgrove, Chairman and Chief Executive Officer; Dr. Joseph Hahn, Vice Chairman and Chief of Staff; Drs. Brian Bolwell, Raymond Borkowski, Linda Bradley, Martha Cathcart, Cynthia Deyling, Tomasso Falcone, Isador Lieberman, Thomas Masaryk, Atul Mehta, Conrad Simpfendorfer, T. Declan Walsh and Robert Wyllie; Messrs. David Strand (Chief Operating Officer), Steven Glass (Chief Financial Officer) and David Rowan (Chief Legal Officer); Drs. Paul DiCorleto (Chairman, Lerner Research Institute) and Andrew Fishleder (Chairman, Education Institute); and Ms. Linda McHugh (Assistant Secretary of the Cleveland Clinic, non-voting member).

Principal Operating Officers. The day-to-day administration of the Cleveland Clinic is the responsibility of its principal operating officers, for whom background information is set forth below:

DELOS M. (TOBY) COSGROVE, M.D. (68), Chief Executive Officer and President; Chairman, Board of Governors (October 2004-present). Experience: Chairman of the Department of Thoracic and Cardiovascular Surgery, The Cleveland Clinic Foundation, 1990-2004; Professional Staff, Department of Thoracic and Cardiovascular Surgery, The Cleveland Clinic Foundation, 1976-1990; Associate Staff, Department of Thoracic and Cardiovascular Surgery, The Cleveland Clinic Foundation, 1975-1976. Posts & Committees: Member, Editorial Board, *Annals of Thoracic Surgery*, 1989-1998; Member, Editorial Board, *Journal of Heart Valve Disease*, 1991-present; Member, Editorial Board, *American Heart Journal, Circulation, and Cardiac Chronicle*, 1996-present; Member, Society of Thoracic Surgeons, 1983-present; Member, American College of Surgeons, 1990-present; Member, American Association of Thoracic Surgery, 1983-present. Education: B.A. Williams College, 1962, M.D. University of Virginia School of Medicine, 1966. Graduate Training: Internship, University of Rochester-Strong Memorial Hospital, 1966-1967; Residency, University of Rochester-Strong Memorial Hospital, 1967-1968; Residency, Massachusetts General Hospital, 1970-1972; Residency, Children's Hospital of Boston, 1974.

JOSEPH F. HAHN, M.D. (66), Chief of Staff; Vice Chairman of the Board of Governors (September 2005-present). Experience: Member, Department of Neurological Surgery, The Cleveland Clinic Foundation, 1977-2005; Head, Section of Pediatric Neurosurgery, The Cleveland Clinic Foundation, 1977-1989; Chairman, Department of Neurological Surgery, The Cleveland Clinic Foundation, 1981-1987 and 1992-1998; Professor of Surgery, Cleveland Clinic Foundation/OSU Health Sciences Center of The Ohio State University, 1993-1999; Chairman, Division of Surgery, The Cleveland Clinic Foundation, 1987-2003; and Chairman, Cleveland Clinic Foundation Innovations, 2000-2005. Military experience: U.S. Air Force, 1969-1971. Posts & Committees: Board of Directors, Nortech, 2002-present; Board of Directors, BioEnterprise, 2003-present; Board of Directors, OrthoMEMS, 2008; Board of Trustees, Cleveland Institute of Art, 2000-present; Member, American College of Surgeons, 1978-present; Member, American Association of Neurological Surgeons, 1979-present; Member, Congress of Neurological Surgeons, 1977-present; and Member, Society of Neurological Surgeons, 1978-present; Board Certification and Fellows: American Board of Neurological Surgery, 1978; Neuropathology, Fellow, University of Virginia, 1973-1974. Education: B.A. Johns Hopkins University, 1964; M.D. University of Virginia, 1968; and M.B.A., Case Western Reserve University, 1990. Graduate Training: Internship, University of Michigan Medical Center, Surgical Intern, 1968-1969; and Residency, Neurological Surgery, University of Virginia, 1971-1976.

DAVID R. STRAND (51), Chief Operating Officer (December 2007-present), Chief Emerging Businesses Officer (July 2007-present); Experience: President and Chief Executive Officer, LifeMasters Supported SelfCare, 2003-2007; Chief Operating Officer, Allina Health Systems, Minneapolis, Minnesota, 2000-2002; President, Medica Health Plans, 1994-2000. Posts & Committees: Board of Trustees, Minnesota Public Radio; Board of Trustees, American Public Media Group; Board of Directors, AcelleRX; Board of Directors, Autonomic Technologies (ATI); Board of Directors, IntElectMedical; Board of Directors, OrthoMEMS. Education: B.A. Gustavus Adolphus College, 1978; J.D. University of Minnesota Law School, 1981.

STEVEN C. GLASS (42), Chief Financial Officer (June 2005-present), member of Board of Governors. Experience: Controller and Chief Accounting Officer, The Cleveland Clinic Foundation, 2002-2005; Vice President and Chief Accounting Officer, MedStar Health, 1998-2002; Vice President and Controller, Helix Health System, 1994-1998; and Director of Accounting, Good Samaritan Hospital, 1993-1994. Professional Affiliations: American Institute of Certified Public Accountants; Ohio Society of Certified Public Accountants; and Healthcare Financial Management Association. Certification: Certified Public Accountant. Education: B.S., Accounting, Towson University, Towson, Maryland, 1990.

DAVID W. ROWAN (55), Chief Legal Officer, Chief Governance Officer and Secretary (June 2005-present), member of Board of Governors. Experience: General Counsel, The Cleveland Clinic Foundation, January 1995-June 2005 while remaining a partner with Squire, Sanders & Dempsey L.L.P.; Partner, 1987-2005, Management Committee 1993-1996, co-chair Health Care Section 1995-2005, Squire, Sanders &

Dempsey L.L.P.; Associate, Squire, Sanders & Dempsey L.L.P., 1978-1987. Professional Affiliations: Ohio State Bar Association; American Bar Association; Cleveland Bar Association; American Medical Group Association, Attorneys Council, President 2005-2006; American Health Lawyers Association; American Society of Corporate Secretaries; Association of Corporate Counsel; Greater Cleveland International Lawyers Group; Greater Cleveland General Counsel, Association, Director; American Arbitration Association, Commercial Advisory Council; United States Council for International Business; Canada-United States Law Institute; BIAC Task Force on Health Care Policy; Law-Medicine Center – Case Western Reserve University, Advisory Committee. Certification: Member of the Ohio Bar; District of Columbia (inactive). Education: J.D. (Magna Cum Laude), Georgetown University Law Center, 1978, Law and Policy in International Business; B.A. (Summa Cum Laude), Economics and Political Science, University of Toledo, 1975. Community: The Diversity Center of Northeast Ohio, Trustee; Leadership Cleveland; Boy Scouts of America, N.E. Ohio, Trustee.

PART II.

THE OBLIGATED GROUP

A. THE CLEVELAND CLINIC

The Cleveland Clinic was incorporated in 1921 as an Ohio nonprofit corporation. It is a Tax-Exempt Organization. In accordance with the fundamental aim of the founders (better care for the sick; investigation of their problems; and further education of those who serve), the founders planned a multi-disciplinary medical practice, a new concept at that time, and allocated separate portions of the Cleveland Clinic's resources to research, education and medical care. To this day, the Cleveland Clinic consists of three functional areas: clinical care (the "Clinic"), hospital care (the "Hospital") and medical research and education.

The Clinic

In January 2008, the Clinic's historic division-based system of professional departments within the Clinic was restructured to create patient-oriented Institutes, which are structured on the basis of organ system, disease system, co-location and leadership. The 28 Institutes are: Anesthesiology, Cleveland Clinic Lorain, Cole Eye, Dermatology and Plastic Surgery, Digestive Disease, Education, Emergency Services, Endocrinology and Metabolism, Glickman Urological and Kidney, Head and Neck, Heart and Vascular, Imaging, Lerner Research, Medicine, Neurological, Nursing, Obstetrics/Gynecology, Orthopaedic and Rheumatology, Pathology and Laboratory Medicine, Pediatrics, Pharmacy, Quality and Patient Safety, Regional Operations, Rehabilitation, Respiratory, Surgery, Taussig Cancer and Wellness. The reorganization into Institutes facilitates a multidisciplinary approach, and is designed to reduce duplication and enhance convenience, exchange of knowledge, research collaboration, and educational collaboration.

Clinical Services. The Clinic provides a full range of outpatient care and physician services and coordinates access of primary care patients to specialty care available at the Cleveland Clinic's main campus hospital facilities and the Ohio Regional Hospitals. That range of services and greater accessibility to world-class care, if needed, have enabled the Cleveland Clinic to maintain strong rates of growth in outpatient volumes at its main campus, Family Health Centers and other regional Clinic facilities. Outpatient visits totaled 3,233,482 in 2007, an increase of 162,723 visits (5.3%) over 2006, and an increase of 342,336 visits (11.8%) over 2005.

Regional Medical Practice. The Cleveland Clinic operates 16 Family Health Centers throughout northeast Ohio, two of which are dedicated specifically to rehabilitation of sports-related injuries, one located in Willoughby Hills, Ohio and the other in the Jewish Community Center in Beachwood, Ohio. Each Family Health Center provides primary care and certain specialty services. A broad range of outpatient diagnostic, clinical, surgical and therapeutic services are provided. See the map entitled "Cleveland Clinic Health System – Northeast Ohio Service Area and Facilities" in "Part I. THE CLEVELAND CLINIC HEALTH SYSTEM - B. ESTABLISHMENT AND GROWTH OF THE CLEVELAND CLINIC HEALTH SYSTEM" for the Family Health Center locations.

In addition to the broad range of outpatient services available at the 16 Family Health Centers, certain oncology services, such as radiation therapy, are provided at a variety of other locations. Two examples of such a specialized community facility are the Cancer Care Centers in Parma and Independence, southern suburbs of Cleveland. The Cleveland Clinic also provides on-site, part-time staffing of small offices by regional medical practice physicians at certain nursing homes.

Outpatient visits to Family Health Centers and the Cancer Care Centers totaled 1,310,749 in 2007, an increase of 49,572 visits (3.9%) over 2006, and an increase of 135,067 visits (11.5%) over 2005.

The Cleveland Clinic and its Affiliates plan to establish additional, strategically located outpatient facilities to meet the needs of patients, to address the demands of the changing managed care environment and to improve access to services.

The Hospital

The Cleveland Clinic operates an acute care hospital on its main campus with approximately 1,084 available beds. Patients admitted to the Hospital are attended by members of the Professional Staff in all but limited instances. In 2007, approximately 82% of the Hospital's inpatient activity was from Ohio residents, including 46% from residents of Cuyahoga County, the county in which the Cleveland Clinic's main campus and most of its Ohio facilities are located. The Cleveland Clinic's expert, innovative and specialized services draw patients from throughout the United States and many parts of the world. In 2007, non-U.S. residents accounted for approximately one percent of the Hospital's discharges.

Research and Education

The Cleveland Clinic is committed to research and education to fulfill part of its fundamental mission, and to maintain its position at the forefront of scientific and medical advances. The Cleveland Clinic's research and education activities include conducting basic research activities through the Lerner Research Institute ("LRI"), clinical research activities through clinical departments and LRI, and medical education through the Cleveland Clinic Educational Foundation, an Ohio nonprofit corporation and a Tax-Exempt Organization (the "Educational Foundation").

The Lerner Research Institute. The LRI, located on the Cleveland Clinic's main campus, is home to the Cleveland Clinic's basic research departments. The LRI has nearly 200 faculty-level scientists, organized in departments for research in the areas of biomedical engineering, cancer biology, cell biology, genomic medicine, quantitative health sciences, stem cell biology and regenerative medicine, pathobiology, molecular genetics and virology, molecular cardiology, immunology, ophthalmology and neurosciences. Altogether, nearly 1,500 scientists and support personnel work at the LRI. The LRI is a growing institution and the number of investigators has risen every year. The LRI is committed to academic excellence, and a majority of LRI faculty also has appointments at one or more of CWRU, Cleveland State University and Kent State University. Approximately 175 graduate students are currently conducting their thesis research at the LRI. The LRI is committed to training the next generation of biomedical researchers. The LRI has 270 Postdoctoral Research Fellows. The LRI also offers its own Molecular Medicine PhD program. Researchers are active participants in the College of Medicine.

Clinical Research. In addition to basic pre-clinical research, the Cleveland Clinic conducts many clinical trials of new pharmaceutical agents and medical devices. Under the direction of the Vice-Chairman of Research – LRI, the goals are to ensure institutional policies and procedures that will support responsible conduct of clinical research; develop and manage a centralized infrastructure for clinical research; provide support and education for clinical investigators; and facilitate development of translational research. The Vice-Chairman of Research – LRI works closely with the Staff of the Education Institute and the Educational Foundation to provide educational programs related to clinical research. LRI promotes and coordinates translational research programs and, with clinical departments throughout the Cleveland Clinic, supports and facilitates patient-based research programs.

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

Summary of Research Support
(dollars in thousands)

	Year Ended December 31,			Six Months Ended June 30,	
	2005	2006	2007	2007	2008
External Grants Earned					
Federal Sources	$ 90,114	$91,048	$96,664	$50,202	$51,826
Non-Federal Sources	59,298	61,304	77,936	37,810	40,838
Total	149,412	152,352	174,600	88,012	92,664
Internal Support	43,867	61,271	59,708	27,055	32,275
Total Sources of Support	$193,279	$213,623	$234,308	$115,067	$124,939

Education Institute and the Educational Foundation. The Education Institute works in tandem with the Educational Foundation to further the Cleveland Clinic's educational objectives. The Educational Foundation is dedicated to promoting education and giving instruction in the art, science and practice of medicine, anatomy and allied health sciences and providing support to the Cleveland Clinic in achieving its mission. The Educational Foundation is not a member of the Obligated Group.

The Educational Foundation operates one of the nation's largest postgraduate medical education programs and coordinates and administers clerkships for third and fourth-year medical students, fellowships for advanced physician training in most specialty fields of medicine and surgery and selected fields of research, and continuing education courses for practicing physicians, nurses and allied health professionals. At present, the Education Institute and the Educational Foundation sponsor Graduate Medical Education for over 900 residents and post-graduate fellows in over 130 training programs. Teaching faculty is provided by the Cleveland Clinic.

In July 2004, the Cleveland Clinic and CWRU opened the College of Medicine, with an initial class of 32 students selected from more than 600 applicants. In July 2007, the College of Medicine enrolled a class of 32 students (from more than 1,200 applicants). The College of Medicine provides an educational program leading to the award of the Medical Doctor degree by the CWRU School of Medicine. CWRU's School of Medicine is ranked in the top tier among U.S. medical schools for its educational programs and National Institute of Health funding, and the College of Medicine is built upon the respective strengths of the Cleveland Clinic and CWRU in medical research and education.

Principal Facilities

Main Campus. The Cleveland Clinic's hospital and research activities and a significant portion of its clinical operations take place within approximately six million gross square feet of building space located on a 130-acre campus on the near-east side of Cleveland. Over the past ten years, the Cleveland Clinic has completed the construction of several major projects at its main campus, including the Lerner Research Institute (1998); the Cole Eye Institute (1999); and the Taussig Cancer Center (2000). These projects added approximately 715,000 square feet of clinical, research and education space to the main campus. The Cleveland Clinic also completed during this period the 163-room Cleveland Clinic InterContinental Suites Hotel (the "Suites Hotel") (1999) and the 323-room Cleveland Clinic InterContinental Conference Center Hotel (the "Conference Center Hotel") (2003). The Suites Hotel, Conference Center Hotel and the 232-room Cleveland Clinic Guesthouse (the "Cleveland Clinic Guesthouse") are all located on the main campus and operated by Inter-Continental Hotels Corporation ("InterContinental"). The Sydell and Arnold Miller Family Pavilion (the "Miller Family Pavilion"), which is scheduled to open in Fall 2008, will add 288 beds in private rooms, 110 beds in the Intensive Care Unit and 28 short-stay beds and nearly one million gross square feet of building space to the main campus. The Glickman Tower, a twelve-story, 319,000 square foot facility (the "Glickman Tower"), will open alongside the Miller Family Pavilion in Fall 2008 and will be the home of the Cleveland Clinic's Glickman Urological Institute.

The main campus also includes a combined patient parking garage with 1,346 spaces and office facility containing 131,000 square feet of administrative office space (the "Leased Garage/Office Facility") that was completed in October 2004; a 156,000 square foot Genetics and Adult Stem Cell Research Building (the "Leased Research Facility") that was completed in December 2004, and a combined employee parking garage with approximately 4,000 parking spaces and a 221,975 square foot underground service center and 10,631 square foot ground level office space (the "Leased Garage/Service Center Facility") that is under construction and scheduled to open in Fall 2008, each of which is located on property ground leased by the Cleveland Clinic to a third party and leased by the third party to the Cleveland Clinic under a long-term lease that is treated as an operating lease for financial accounting purposes. For additional detail regarding these facilities, see Appendix B – Audited Consolidated Financial Statements and Other Financial Information. The Leased Office/Garage addresses the need for parking that resulted from the demolition of the main entrance garage to provide the site for the Miller Family Pavilion. The Leased Research Facility houses state-of-the-art genetic research laboratories, administrative offices and conference rooms used by Cleveland Clinic-employed scientists and physician-scientists to perform basic biomedical research, with a focus on adult stem cell and related research. The Leased Garage/Service Center Facility will provide on-campus parking for Cleveland Clinic personnel and centralized services for the main campus, including laundry, sterilization, shipping and receiving, and materials management.

The Cleveland Clinic also leases approximately 145,000 additional square feet of space in the W.O. Walker Center, a facility located immediately east of the main campus. The facility is owned by an Ohio nonprofit corporation of which the Cleveland Clinic and University Hospitals Health System ("University Hospitals") are the sole members and have equal representation as to governance. The Cleveland Clinic is obligated to make rental payments in an amount equal to debt service payable on Hospital Revenue Bonds, Series 1998 I (W.O. Walker Center, Inc.) issued by Cuyahoga County to finance and refinance costs of acquiring and improving the facility allocable to the Cleveland Clinic's interest in the facility. Those bonds are outstanding at present in the aggregate principal amount of approximately $19.5 million. The Cleveland Clinic and University Hospitals share the payment of operating expenses generally on the basis of the square footage used by each.

See the discussion under "PART IV – MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF HEALTH SYSTEM OPERATIONS AND FINANCIAL POSITION – H. ANTICIPATED EXPENDITURES, FUTURE PLANS AND OUTLOOK FOR OPERATIONS" regarding the current consideration of specific projects and the consideration generally of potential new projects.

Regional. The Cleveland Clinic operates 16 suburban Family Health Centers in northeast Ohio, each of which is either owned and occupied exclusively by the Cleveland Clinic or operated by the Cleveland Clinic under long-term lease arrangements. See "PART II – THE OBLIGATED GROUP – A. THE CLEVELAND CLINIC – The Clinic – Regional Medical Practice" for a description of the Cleveland Clinic's 16 Family Health Centers and certain other facilities located in northeast Ohio.

The Cleveland Clinic owns an approximately 522,000 square foot building located six miles east of the main campus that was formerly the world headquarters of Parker Hannifin Corporation. That building houses certain Health System administrative support operations (the "Administrative Support Campus"). In addition, in 2002, the former world headquarters facility for TRW Inc. was donated to the Cleveland Clinic and is currently owned by two affiliates of the Cleveland Clinic. The 435,000 square foot building is located on an approximately 98-acre site seven miles east of the main campus in Lyndhurst, Ohio and is used for administrative functions (the "Lyndhurst Campus"). In 2007, the Cleveland Clinic purchased the underlying land and leased five buildings in Beachwood, Ohio that formerly served as the corporate headquarters of MBNA (the "Beachwood Campus"). The Cleveland Clinic leases approximately 707,000 square feet in two of the buildings for administrative support operations pursuant to the terms of an operating lease and subleases the other three buildings to Bank of America, which acquired MBNA in 2006. The Cleveland Clinic ground leases separate portions of the land to the owners of the buildings.

Excluded Property. The following real property is not integral to the Obligated Group's operational activities and its use, disposition and maintenance are not subject to covenants otherwise applicable to property of the Obligated Group under the Master Trust Indenture: property owned by Cleveland Clinic and used by the Cleveland Museum of Natural History; Foundation House, a fully restored, early-twentieth-century mansion house that is used for meetings and receptions; and various other properties located in the Cleveland area outside the

Cleveland Clinic's main campus that are either undeveloped or have structures on them that the Cleveland Clinic expects to raze or that otherwise meet the Master Trust Indenture requirements for exclusion. In addition, the Cleveland Clinic may, in the future, designate other properties as Excluded Properties, whether those properties are currently owned or are acquired in the future. In order to do so without the consent of any of the holders of Master Notes, the property to be added to the list must meet certain requirements regarding either its value or its significance to the operational activities of the Obligated Group. See "APPENDIX C – SUMMARY OF BASIC DOCUMENTS – THE MASTER TRUST INDENTURE – Excluded Property."

B. OHIO REGIONAL HOSPITALS

Hospital Facilities

The Cleveland Clinic controls indirectly nine freestanding hospital facilities in northeast Ohio: Children's Hospital, Euclid, Fairview, Hillcrest, Huron, Lakewood, Lutheran, Marymount and South Pointe Hospitals. Lakewood Hospital is leased and operated by Lakewood, which is not a member of the Obligated Group; Children's Hospital is operated by the Cleveland Clinic, but is not a member of the Obligated Group; the other seven hospital facilities are owned and operated by members of the Obligated Group. Each hospital in the Obligated Group provides short-term acute care.

Euclid Hospital. Euclid Hospital is located in Euclid, Ohio, and has 231 available beds, including a 48-bed rehabilitation facility, a 40-bed skilled nursing facility and a 13-bed psychiatric unit. Its campus also includes an approximately 25,000 square foot medical office building.

Fairview Hospital. Fairview Hospital is located on the west side of Cleveland and has 410 available beds, including a Level III perinatal unit and a Level II trauma center. Its campus also includes an approximately 53,000 square foot medical office building and attached parking garage.

Hillcrest Hospital. Hillcrest Hospital is located in Mayfield Heights, Ohio, and has 377 available beds; an 88,000 square foot medical office building is attached to the hospital facility; and two additional medical office buildings, together aggregating approximately 119,000 square feet, are located near the hospital facility.

Huron Hospital. Huron Hospital is located in East Cleveland, Ohio, and has 198 available beds, including a 30-bed psychiatric unit, a 10-bed alcohol rehabilitation unit and a Level II trauma center. Its campus also includes an approximately 5,300 square foot medical office building.

Lutheran Hospital. Lutheran Hospital is located on the near-west side of Cleveland, and has 191 available beds, including a 10-bed Extended Rehabilitation Center offering skilled nursing care and a transitional program for patients requiring services at levels below those provided in an acute care hospital, but at levels generally not available in a nursing home or a private residence. Its campus also includes an approximately 38,000 square foot medical office building.

Marymount Hospital. Marymount Hospital is located on a 26-acre campus in Garfield Heights, Ohio, and has 286 available beds. The campus includes an approximately 77,000 square foot medical office building and an independent and assisted living community for senior citizens. Marymount operates its hospital facilities in accordance with the Ethical and Religious Directives for Catholic Health Care Services.

South Pointe Hospital. South Pointe Hospital is located in Warrensville Heights, Ohio, and has 259 available beds, including a 29-bed skilled nursing facility and a 38-bed psychiatric unit. Two medical office buildings owned by CCHS-East Region, together aggregating approximately 37,000 square feet, are also located on its campus. South Pointe Hospital operates two urgent care centers in Twinsburg, Ohio, and an emergency department and ambulatory services site in Sagamore Hills, Ohio.

Governance

The Cleveland Clinic is the sole member of CCHS-East Region (which owns and operates Euclid, Hillcrest, Huron and South Pointe Hospitals) and CCHS-Western Region (which is the parent of Fairview and Lutheran), and is the sole regular member of Marymount, and has substantial control of the facilities, finances and operations of those entities through certain reserve powers, direct representation on each entity's Board of Trustees and other governance controls. Each of CCHS-East Region, CCHS-Western Region, Fairview, Lutheran and Marymount is an Ohio nonprofit corporation and a Tax-Exempt Organization. CCHS-Western Region is not a member of the Obligated Group; each of the others is a member of the Obligated Group.

C. FLORIDA

Cleveland Clinic Health System operations in southeast Florida consist of clinical and hospital services provided, and medical education and research conducted, at the Weston Clinic and the Weston Hospital located in Weston, Broward County, Florida. The Weston Clinic is owned and operated by Florida Clinic, which is a member of the Obligated Group. The Weston Hospital is owned and operated by CCF Florida Hospital Corporation, whose sole member is the Cleveland Clinic, but which is not a member of the Obligated Group.

Florida Clinic

Florida Clinic is a Florida nonprofit corporation and Tax-Exempt Organization. The Cleveland Clinic is Florida Clinic's sole member. Florida Clinic's Articles of Incorporation provide certain reserve powers to the Cleveland Clinic as its sole member, including approval of changes to the Articles of Incorporation and Bylaws. The Board of Trustees of Florida Clinic is currently comprised of six trustees, all of whom (including Cleveland Clinic's Chief Executive Officer and Chief of Staff) are also members of the Executive Committee of Cleveland Clinic's Board of Trustees. The Board of Trustees is empowered with all of the powers and duties necessary or appropriate for the administration of the affairs of Florida Clinic and may do all acts as are not by law or by the Articles of Incorporation or the Bylaws directed to be exercised by the members. Certain corporate officers of the Cleveland Clinic are also corporate officers of Florida Clinic.

Weston Clinic. Weston Clinic is a 190,000 square foot outpatient facility and educational building opened in July 2001, located on a 42-acre campus that includes the Weston Hospital, a medical office building, research facilities, a medical library and facilities for graduate medical education. This facility was built to replace the Florida Clinic's original operations in Fort Lauderdale. The Weston Clinic has approximately 150 physicians on staff covering 45 different specialties and subspecialties.

D. MARKET DYNAMICS

Northeast Ohio

Competition. In addition to the Cleveland Clinic Health System, there are numerous other healthcare providers in northeast Ohio, including University Hospitals, Summa Health System, MetroHealth Medical Center, Akron General Health System, UHHS/CSAHS, Inc.-Cuyahoga, Lake Hospital System, Community Health Partners and other community and regional hospitals. The largest of these other northeast Ohio healthcare providers is University Hospitals. According to its website, University Hospitals is a broad-based healthcare system serving patients throughout northeastern Ohio. Its primary hospital facility is the 801-bed University Hospitals Case Medical Center, which includes Rainbow Babies and Children's Hospital, Ireland Cancer Center and MacDonald Women's Hospital and is the primary affiliate and teaching hospital of the CWRU School of Medicine. University Hospitals has announced plans for the expansion of its main campus on the east side of Cleveland that will include a 200-bed cancer hospital, an expanded emergency department and a new neonatal intensive care unit. It has also announced plans to construct a state-of-the-art Suburban Center for Health in the eastern suburbs of Cleveland that will include a 200 bed hospital, ambulatory surgery center, and physician offices.

The following chart sets forth the number of discharges during 2007 by northeast Ohio's healthcare service providers:

Discharge Statistics

Healthcare System	Year Ended December 31, 2007[1]
Cleveland Clinic Health System	161,592
University Hospitals	94,023
Summa Health System	65,084
Akron General Health System	28,734
MetroHealth Medical Center	26,866
Parma Community	17,539
Lake Hospital System	16,443
Community Health Partners	15,648
Other Hospitals[2]	14,695
Total	440,624

(1) The source of the discharge numbers is The Center for Health Affairs *Volume Statistics*, December 2007 except for Summa Health System and Akron General Health System, which were obtained from Ohio Hospital Association 2007 data.

(2) "Other Hospitals" includes all hospitals not listed above that discharged patients from northeast Ohio.

Economic and Demographic Information. In August 2007, the U.S. Census Bureau released statistical information indicating that the City of Cleveland had the fourth highest percentage of people living below the federal poverty line when compared to other American cities with populations in excess of 250,000. The estimated rate of unemployment in June 2008 was 10.1% for the City of Cleveland, 8.1% for Cuyahoga County, 7.7% for the Cleveland Primary Metropolitan Statistical Area (i.e., Cuyahoga, Geauga, Lake, Lorain and Medina counties) and 6.6% for the State of Ohio, based on information from the Ohio Department of Jobs and Family Services. According to the U.S. Census American Community Survey for 2006, the most recent year for which data are available, median household income was $26,535 in the City of Cleveland, $41,522 in Cuyahoga County, $45,925 in the Cleveland Primary Metropolitan Statistical Area, $44,532 in the State of Ohio and $48,451 nationally. Most recently, reports have indicated that the Cleveland area has been hard hit by the current mortgage crisis throughout the U.S., with foreclosure activity significantly increasing.

While there is no established correlation between such statistics or conditions and the current or future demand for the Health System's healthcare services or its financial performance, the persistence of such conditions may impact the Health System's financial results in the future.

Florida

Florida Clinic and CCF Florida Hospital Corporation are two of many healthcare providers in southeast Florida. Florida Clinic owns and operates the Weston Clinic in Weston and has the largest group multi-specialty medical practice in Broward County. CCF Florida Hospital Corporation owns and operates the 150-bed Weston Hospital, which competes in its primary service area with 17 hospitals. The most significant competition comes from three other hospitals and health systems, each of which has at least 400 beds, and from other physician practice groups in the area.

E. UTILIZATION

The following tables provide selected utilization statistics for the Cleveland Clinic, the Ohio Regional Hospitals that are members of the Obligated Group and the Obligated Group as a whole:

THE CLEVELAND CLINIC
Utilization Statistics

	Year Ended December 31,			Six Months Ended June 30,	
	2005	**2006**	**2007**	**2007**	**2008**
Available Beds[(1)]	1,077	1,080	1,080	1,078	1,084
Percent Occupancy [(1)]	85.1%	87.4%	87.5%	86.1%	86.9%
Inpatient Admissions [(1)]	53,316	53,401	52,561	26,581	25,649
Patient Days [(1)]	325,688	332,048	336,388	168,847	167,709
Average Length of Stay - Acute	5.91	5.95	6.16	6.11	6.38
- Non-acute	9.91	11.05	10.83	10.95	9.82
Surgical Cases - Inpatient	24,302	24,555	24,958	12,699	12,655
- Outpatient	45,119	47,082	49,028	24,455	24,262
- Total	69,421	71,637	73,986	37,154	36,917
Emergency Room Visits	62,841	61,916	59,194	25,407	25,518
Acute Medicare Case Mix Index	2.26	2.28	2.30	2.32	2.36
Total Acute Patient Case Mix Index	2.13	2.16	2.15	2.14	2.26

[(1)] Acute and non-acute, including rehabilitative and psychiatric services within non-acute, but excluding newborns and bassinets.

OHIO REGIONAL HOSPITALS
Utilization Statistics

	Year Ended December 31,			Six Months Ended June 30,	
	2005	**2006**	**2007**	**2007**	**2008**
Available Beds[(1)]	1,816	1,868	1,890	1,888	1,952
Percent Occupancy[(1)]	71.0%	70.2%	70.9%	69.0%	68.7%
Inpatient Admissions[(1)]	88,632	89,525	89,694	45,106	46,742
Patient Days[(1)]	470,816	474,279	482,780	237,054	243,914
Surgical Cases - Inpatient	25,369	24,299	25,314	13,319	13,308
- Outpatient	57,916	55,345	54,127	27,548	27,163
- Total	83,285	79,644	79,441	40,867	40,471
Emergency Room Visits	289,246	288,193	284,434	138,204	136,607

[(1)] Acute and non-acute, including rehabilitative and psychiatric services within non-acute, but excluding newborns and bassinets.

TOTAL OBLIGATED GROUP
Utilization Statistics

	Year Ended December 31,			Six Months Ended June 30,	
	2005*	2006*	2007	2007	2008
Available Beds[(1)]	2,893	2,948	2,970	2,966	3,036
Percent Occupancy [(1)]	76.1%	76.4%	76.9%	75.2%	75.1%
Inpatient Admissions [(1)]	141,948	142,926	142,255	71,687	72,391
Patient Days [(1)]	796,504	806,327	819,168	405,901	411,623
Surgical Cases - Inpatient	49,671	48,854	50,272	26,018	25,963
- Outpatient	103,035	102,427	103,155	52,003	51,425
- Total	152,706	151,281	153,427	78,021	77,388
Emergency Room Visits	352,087	350,109	343,628	163,611	162,125

(1) Acute and non-acute, including rehabilitative and psychiatric services within non-acute, but excluding newborns and bassinets..
(*) Restated to exclude 2005 and 2006 data for the operation of Naples Hospital by CCF Florida Hospital Corporation, which is no longer a member of the Obligated Group.

F. PROFESSIONAL STAFF

The Cleveland Clinic and Florida Clinic. The Cleveland Clinic and Florida Clinic are relatively unique in that they directly employ members of their respective Professional Staffs. The Cleveland Clinic employs approximately 2,100 Professional Staff members, of whom approximately 1,800 are physicians with privileges to practice at the main campus Hospital, and Florida Clinic employs approximately 150 Professional Staff members. Members of the respective Professional Staffs are employed upon approval by an Institute or medical division committee and appointment by the Board of Governors (or in the case of Florida Clinic, the Board of Trustees of Florida Clinic). Those physician members of the Professional Staff are separately credentialed pursuant to the Cleveland Clinic or Weston Hospital Medical Staff Bylaws. Patient care is the first priority for a Professional Staff member. Attending physicians are responsible for the overall management of their patients' care, for evaluation and treatment of those patients while on site and for direct liaison with support services and referring outside physicians until such time as those responsibilities are transferred to another physician.

Professional Staff members are expected to participate in educational activities consistent with departmental and Cleveland Clinic Health System needs. They are also encouraged to undertake research projects with the approval of their department or Institute chairman.

The average age of the Cleveland Clinic's Professional Staff is approximately 46 years, and the average length of service at the Cleveland Clinic is approximately nine years. The average age of Florida Clinic's Professional Staff is approximately 44 years, and the average length of service at Florida Clinic is approximately six years.

The opportunity to specialize, the ability to participate in medical education and research, the high level of patient care practice and the opportunity for professional associations continue to enable the Cleveland Clinic and Florida Clinic to attract highly qualified physicians. Selection is based on prior professional training and experience in a particular field, professional society activities, previous teaching and research experience or interest, and the candidate's documented expertise in the area of specialization.

Other Obligated Group Members. Members of the Obligated Group other than the Cleveland Clinic and Florida Clinic have medical staffs of the following approximate sizes: CCHS-East Region – 2,019, Fairview/Lutheran - 994 and Marymount - 577. Physicians appointed to the medical staffs of these members of the Obligated Group enjoy hospital admitting privileges, but in most instances are not employees of the respective member of the Obligated Group.

Statistical Information. The following table sets forth current medical staff allocations for the Cleveland Clinic and each of the other members of the Obligated Group:

OBLIGATED GROUP
Medical Staff Allocations

Medical Staff[(1)]	Cleveland Clinic	CCHS-East Region	Fairview/ Lutheran	Marymount	Florida Clinic
Primary Care					
Family Practice	46	110	85	30	6
Pediatrics	59	177	112	54	0
Obstetrics/Gynecology	59	50	62	24	0
Internal Medicine	156	309	93	54	14
Total Primary Care	320	646	352	162	20
Medical Specialties					
Cardiology	104	64	53	9	10
Dermatology	27	21	13	6	4
Gastroenterology	40	44	11	10	6
Hematology Oncology	39	32	11	11	3
Infectious Disease	19	28	10	10	1
Neurology	55	25	7	7	6
Psychology/Psychiatry	54	51	45	20	0
Pulmonary	33	35	7	5	4
Other	182	130	85	27	28
Total Medical Specialties	553	430	242	105	62
Surgical Specialties					
Colorectal	18	8	1	3	4
General Surgery	43	54	21	22	4
Neurological Surgery	35	19	17	3	2
Orthopaedics	53	66	34	25	7
Otolaryngology	30	24	15	11	2
Cardiological Surgery	41	12	7	3	2
Urology	53	47	8	19	6
Vascular Surgery	16	20	4	6	2
Other	12	152	92	29	9
Total Surgical Specialties	301	402	199	121	38
Others					
Pathology	51	32	9	8	2
Anesthesiology	184	47	36	19	14
Radiology	198	291	134	135	10
Ophthalmology	54	39	22	12	2
Research[(2)]	288	18	0	0	0
Other	151	114	0	15	0
Total Others	926	541	201	189	28
Total	**2,100**	**2,019**	**994**	**577**	**148**

(1) Certain physicians have admitting privileges at more than one of the members of the Obligated Group, with the result that a physician may be counted more than once in this table.

(2) The members of the Obligated Group (other than the Cleveland Clinic) do not employ full time research scientists. Physicians with staff privileges at the hospital facilities of these Obligated Group members may perform clinical research pursuant to the requirements of the applicable institution's Institutional Review Board.

G. EMPLOYEES

The Cleveland Clinic Health System is one of the largest employers in northeast Ohio, with more than 32,500 non-physician professionals and support personnel employed by the Obligated Group. The following sets forth approximate general employment information for non-physician employees of the Obligated Group:

Obligated Group
Employment Information

Types	Number
Registered Nurses	8,200
Allied Health Professionals	4,700
Other Employees	19,900
Total	32,800

Local 1199 of the Service Employees International Union represents approximately 140 CCHS-East Region service, maintenance and certain clerical employees at Huron Hospital under an agreement extending to August 31, 2010. Local 1199 also represents approximately 190 service, maintenance, nursing assistant and clerical employees at Lutheran Hospital under an agreement extending to April 30, 2009. No bargaining unit represents any Fairview or Marymount employees at present, and Cleveland Clinic management is not aware of any union organizing activities with respect to any employees at any of its other hospital facilities.

The Cleveland Clinic employs the service employees at the Suites Hotel and the Conference Center Hotel, both of which are managed by InterContinental. Currently, the engineering employees are represented by International Brotherhood of Teamsters Local No. 507 under an agreement extending to January 31, 2012. In addition, Local 10 of the Hotel Employees and Restaurant Employees International Union represents certain employees at the Suites Hotel under an agreement extending to August 31, 2011 and certain employees at the Conference Center Hotel under an agreement extending to August 31, 2013. Finally, Local 10 represents certain employees at the Cleveland Clinic Guesthouse under an agreement extending to August 31, 2011.

Members of the Obligated Group provide retirement benefits for substantially all of their full time employees under several retirement plans. The members of the Obligated Group characterize their relations with employees as good.

H. SUPPORT OF RELATED CORPORATIONS AND PROFESSIONAL STAFF

Consistent with requirements applicable to Tax-Exempt Organizations, the Cleveland Clinic has provided, and continues to provide, financial support to a number of controlled affiliated entities that are not members of the Obligated Group. The following are examples of support to certain related corporations.

CCF Hotel Services, Inc. CCF Hotel Services, Inc. ("Hotel Services") is an Ohio nonprofit corporation and Tax-Exempt Organization that owns and operates the Cleveland Clinic Guesthouse, the Suites Hotel and the Conference Center Hotel, each of which is managed by InterContinental. The Cleveland Clinic has made equity contributions of $173 million to Hotel Services that were used to pay a portion of costs of acquiring and constructing the Suites Hotel and the Conference Center Hotel.

Educational Foundation. The Cleveland Clinic supports the activities of the Educational Foundation by providing funding to assist with the payment of expenses incurred in carrying out its educational activities. That support is expected to continue. The contributions to the Educational Foundation in 2005, 2006 and 2007 were $12.2 million, $12.5 million and $13.8 million, respectively.

Professional Staff. The Cleveland Clinic offers a second mortgage guarantee program to members of the Professional Staff for the purpose of assisting in the financing of a primary residence. The balance of these mortgage guarantees was approximately $10.1 million as of December 31, 2007.

I. COLLABORATIVE PROGRAMS

In addition to the collaborative activities of the Health System outside the United States, the Cleveland Clinic has an affiliation agreement with Ashtabula County Medical Center ("ACMC"), an Ohio nonprofit corporation and Tax-Exempt Organization that operates a 180-bed acute-care hospital in Ashtabula County, approximately 60 miles northeast of Cleveland.

The Cleveland Clinic has entered into a number of contractual relationships in the past several years to provide various professional, technical, medical management, and telemedicine services to other hospitals, including other members of the Obligated Group, and their patients. The services provided by the Cleveland Clinic pursuant to these relationships include radiology, anesthesia, cardiovascular surgery, radiation oncology, neonatology, neuroradiology and pediatric cardiology. The services are provided on-site at participating hospitals by members of the Professional Staff or delivered from the Cleveland Clinic's main campus.

The Cleveland Clinic and the other members of the Obligated Group are likely to enter into additional arrangements with other healthcare providers. The nature of any such arrangement and its effect on the Obligated Group is not determinable at present. See the discussion under "PART IV – MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF HEALTH SYSTEM OPERATIONS AND FINANCIAL POSITION – H. ANTICIPATED EXPENDITURES, FUTURE PLANS AND OUTLOOK FOR OPERATIONS" regarding potential new affiliations or relationships with other organizations and enterprises.

J. PHILANTHROPY

From 2001 to 2006, the Cleveland Clinic averaged approximately $145 million in gifts and pledges, including revocable and conditional commitments, per year. In 2007, gifts and pledges totaled more than $176 million.

Sydell and Arnold Miller Family Pavilion Campaign. The Cleveland Clinic has had under way since January 2003 a capital campaign to secure funds for construction of the Miller Family Pavilion, which upon completion will be the centerpiece of the Heart and Vascular Institute. See "PART II – THE OBLIGATED GROUP – A. THE CLEVELAND CLINIC - Principal Facilities." The Miller Family Pavilion campaign has a $300 million goal. The majority of the campaign is directed at individuals and corporations. Support from private foundations and public entities is also being sought. As of December 31, 2007, the Cleveland Clinic had secured pledges totaling approximately $320 million, of which $140 million has been received in cash. It is anticipated that more than $30.0 million in additional cash will be received from current and future pledges during the next two years.

Glickman Tower Campaign. In 2005, the Cleveland Clinic initiated a $60 million campaign to secure funds for the Glickman Tower, which upon its completion will be the home of the Glickman Urological Institute. As of December 31, 2007, the campaign had secured pledges of approximately $47 million. See "PART II – THE OBLIGATED GROUP – A. THE CLEVELAND CLINIC - Principal Facilities."

Today's Innovations, Tomorrow's Healthcare. On May 8, 2006, the Cleveland Clinic announced the public phase of a $1.25 billion fundraising campaign to further the Health System's mission. The campaign will primarily benefit four areas: patient care; medical and patient education; basic and clinical research; and campus master plan and construction. As of December 31, 2007, more than $975 million in cash and pledges had been raised toward that goal, including the silent phase which began in July 2001.

K. LIABILITY CONSIDERATIONS AND LITIGATION

Professional Liability and Other Insurance Coverage

The Health System has established and maintains comprehensive programs of medical professional and general liability insurance covering each of the members of the Obligated Group, including, but not limited to, the Cleveland Clinic, Fairview, Lutheran, Marymount, CCHS-East Region and Florida Clinic, as well as all employees of these entities, including physicians, nurses, and allied health providers. The insurance protection is written on claims-made policies issued by the Cleveland Clinic's wholly owned subsidiaries, CCHS Indemnity Co., Ltd. ("CCHSICO") and Cleveland Clinic Health System Community Hospital Insurance Program ("CHIP"). See "PART V – NON-OBLIGATED HEALTH SYSTEM PARTICIPANTS" for a description of each company. The

companies' loss experience is reviewed annually by an independent actuarial firm, which certifies reserves for liabilities and recommends funding levels. Additionally, CCHSICO issues excess liability insurance policies that are reinsured with commercial insurance carriers.

For the past several years, the Cleveland Clinic has undertaken numerous initiatives to manage its medical professional liability costs and reduce the number of claims and lawsuits. Additional staff devoted to clinical risk management has been hired to promote patient safety and prevent untoward events. The Cleveland Clinic has expanded education programs to enhance quality throughout the organization. Furthermore, where appropriate, the Cleveland Clinic has taken a more aggressive approach toward defending claims. A series of tort reform measures passed by the Ohio legislature beginning in 2003 have also aided the Cleveland Clinic's efforts to manage its medical professional liability risk.

Compliance Programs

The members of the Obligated Group are committed to programs, policies, and procedures to ensure that they and their affiliates, members, trustees, directors, officers, independent contractors and employees conduct activities in full compliance with applicable federal, state and local laws, and ethical standards. To promote satisfaction of this commitment, the Board of Trustees of the Cleveland Clinic has adopted "The Cleveland Clinic Corporate Compliance Program." The program is intended to prevent and detect violations of federal, state or local laws by the Cleveland Clinic. Each Affiliate has adopted a comparable program to ensure its compliance with applicable laws and ethical standards.

Professional and General Liability Litigation

Currently, a number of professional and general liability claims and lawsuits are pending against members of the Obligated Group. Management of the Cleveland Clinic is of the opinion that adequate provision has been made, by insurance coverage or otherwise, for such claims and lawsuits and, accordingly, the outcome thereof will not materially affect the financial condition or results of operations of the Obligated Group, taken as a whole.

Other Litigation

Members of the Obligated Group are engaged from time to time in a variety of litigation and regulatory compliance matters in addition to professional and general liability matters. Cleveland Clinic management is also of the opinion that the outcome of these matters will not materially affect the financial condition or results of operations of the Obligated Group, taken as a whole.

Ohio law permits the owner of real estate to seek an exemption from real estate taxes if the owner is a charitable institution and the property is used in furtherance of or incidental to such owner's charitable purposes. In appropriate circumstances, the Cleveland Clinic and other members of the Obligated Group have either obtained or applied for such an exemption as to many of their respective properties, whether located on hospital campuses or off-campus, such as most of the Cleveland Clinic's Family Health Centers. A number of the currently pending exemption applications have been challenged by local school districts. As of August 1, 2008, these challenges have resulted in denial of exemptions for the Cleveland Clinic's Family Health Centers in Beachwood and Independence, Ohio and several properties used for surface parking lots. The Health System is appealing all of these decisions. If denial of an exemption application is ultimately upheld, the affected member of the Obligated Group would be required to pay all real estate taxes accrued and accruing plus interest with respect to the particular property. Moreover, affirmation of denials could increase the potential for future denials or challenges to existing exemptions. Cleveland Clinic management does not reasonably expect that any such denials or challenges, if successful, would occur, in the aggregate, in such a number or amount as would have a material and adverse effect on the financial condition or results of operations of the Obligated Group, taken as a whole.

L. CHARITY CARE, UNDERINSURED AND UNINSURED PATIENTS

The Cleveland Clinic Health System maintains a charity care policy that applies throughout the Health System. Pursuant to this policy, the Cleveland Clinic accepts all patients, regardless of their ability to pay, who qualify for charity services under the policy, and under no circumstances is a patient ever denied medical care for a life-threatening emergency because of his or her financial status. For further information concerning the Cleveland

Clinic's charity care policy, see "Charity Care" in footnote 3 to the audited consolidated financial statements in Appendix B.

M. PAYOR MIX, MANAGED CARE AND COMMERCIAL INSURANCE ARRANGEMENTS

Payor Mix

Obligated Group revenues are comprised primarily of payments by third-party payors, including the federal government under the Medicare program, the states under the Medicaid program, various health insurance plans and commercial payors, and private individuals. The Obligated Group payor profile, as with national trends, reflects a substantial, stable level of managed care and commercial payor volume. Each member of the Obligated Group accepts assignment on all eligible Medicare patients and, as a result, Medicare remains the most significant single payor.

The following table shows payor mix as a percent of inpatient discharges for the Obligated Group as a whole:

OBLIGATED GROUP
Payor Mix Statistics
Based on Total Inpatient Discharges

	Year Ended December 31,			Six Months Ended June 30,	
Payor	**2005**	**2006**	**2007**	**2007**	**2008**
Managed Care and Commercial	34%	33%	33%	33%	33%
Medicare	48	48	48	48	49
Medicaid	11	11	11	11	11
Self-Pay & Other	7	8	8	8	7
Total	100%	100%	100%	100%	100%

Medicare payments for inpatient hospital stays are generally based upon a fixed rate per case for each eligible patient, and the payment amounts depend upon the patient's diagnosis and treatment. In addition, Medicare reimburses members of the Obligated Group for certain defined "pass-through" costs. The Medicaid program applies principles similar to those of the Medicare program, and the states make fixed payments for each eligible discharge. See the discussion under "BONDHOLDERS' RISKS – Federal Laws and Regulations" in the forepart of this Offering Circular.

Managed Care and Commercial Insurance Arrangements

The Ohio members of the Obligated Group participate in the Medicare and Medicaid programs, and each has commercial contracts with Medical Mutual of Ohio (formerly Blue Cross and Blue Shield of Ohio), Anthem Blue Cross and Blue Shield, Aetna/U.S. Healthcare, UnitedHealthcare, the Kaiser Plan and many other insurance companies. Florida Clinic participates in the Medicare and Medicaid programs and has commercial contracts with, among others, UnitedHealthcare, Blue Cross & Blue Shield of Florida, Cigna, Humana and Aetna/U.S. Healthcare. Most of these commercial insurance plans make direct payments to the members of the Obligated Group at established rates, subject to various limitations and deductibles, but many patients are also covered by HMOs, PPOs and other organizations that negotiate directly with members of the Obligated Group or through The Cleveland Health Network (an affiliation of Northeast Ohio and Northwest Pennsylvania healthcare providers that includes the Health System's Ohio Regional Hospitals). This restricts, but does not eliminate, the ability of members of the Obligated Group to increase revenues by increasing established rates.

The two largest managed care payors for the Ohio members of the Obligated Group are Medical Mutual of Ohio and Anthem Blue Cross and Blue Shield ("Anthem"). The Cleveland Clinic and other Ohio Regional Hospitals within the Obligated Group have entered into contracts to provide hospital and physician services to members of Medical Mutual of Ohio and Anthem. In 2007, approximately 55% of the managed care and commercial net patient service revenue of the Ohio members of the Obligated Group (or 34% of total Obligated Group net patient service revenue), was attributable to Medical Mutual of Ohio and Anthem.

N. ACCREDITATION AND MEMBERSHIPS

Each member of the Obligated Group, Affiliate, outpatient clinic and home health care program of the Health System is accredited by The Joint Commission (formerly known as the Joint Commission on Accreditation of Healthcare Organizations). Each member of the Obligated Group has accreditations for certain specialized programs and services consistent with its mission and operations. From time to time, accrediting bodies may review accreditations of accredited organizations and recommend certain actions or impose conditions on an existing accreditation. The Cleveland Clinic is accredited by The Joint Commission for hospital, long term care, and behavioral health services and is also certified by The Joint Commission as a primary stroke center. The Cleveland Clinic will undergo its next hospital, long term care, and behavioral health services surveys by The Joint Commission in 2011. It will undergo its next survey for the primary stroke center in 2009. All laboratory programs operated by the Cleveland Clinic and the other members of the Obligated Group are accredited by the College of American Pathologists, except for two smaller laboratory programs that are accredited by COLA. The laboratory programs undergo accreditation surveys every two years. The Cleveland Clinic is certified in credentialing and re-credentialing by the National Committee for Quality Assurance ("NCQA"). It will undergo its next NCQA survey in 2010. Management of the Obligated Group does not expect any such review to require actions or impose conditions that could adversely affect the continuing accreditation of any member of the Obligated Group.

The Cleveland Clinic is a member of the American Hospital Association and the Ohio Hospital Association; the Cleveland Clinic and certain other members of the Obligated Group are members of The Center for Health Affairs (formerly known as the Greater Cleveland Hospital Association); and the Cleveland Clinic and CCHS-East Region are members of Premier, Inc., a group purchasing organization.

PART III.

SELECTED FINANCIAL INFORMATION FOR THE OBLIGATED GROUP AND HEALTH SYSTEM

The members of the Obligated Group together accounted for 91% of the total unrestricted revenues and 78% of the excess of revenues over expenses of the Health System for the year ended December 31, 2007, and approximately 88% of the total assets of the Health System as of December 31, 2007. See the financial information described below in this Appendix and in Appendix B for more information regarding the relative financial size of the Obligated Group and the Health System.

The audited consolidated financial statements and other financial information of the Cleveland Clinic and its controlled Affiliates as of and for the years ended December 31, 2007 and 2006, and related notes appear in Appendix B. These financial statements reflect the results of operations and financial position of the members of the Obligated Group and certain Affiliates described in this Appendix, as well as other Affiliates that are not described in this Appendix.

Certain financial information regarding the Obligated Group (which consists only of the Cleveland Clinic, Fairview, Lutheran, Marymount, CCHS-East Region and Florida Clinic) and Health System appears in this Appendix for the years ended December 31, 2005, 2006 and 2007 and the six months ended June 30, 2007 and 2008.

A. CONSOLIDATED BALANCE SHEETS

The following consolidated balance sheets as of December 31, 2005, 2006 and 2007 for the Obligated Group are derived from unaudited consolidating financial information underlying the audited consolidated financial statements of the Cleveland Clinic and its controlled Affiliates. The consolidated balance sheet as of June 30, 2008 has been derived from unaudited interim consolidated financial statements for the Obligated Group. In the opinion of Cleveland Clinic management, the unaudited interim consolidated financial statements include all adjustments necessary for a fair presentation of such information on a basis consistent with the audited financial statements.

The information shown includes data as of those dates for the Obligated Group and the Health System, respectively. The data should be read in conjunction with the information included under "PART IV – MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF HEALTH SYSTEM OPERATIONS AND FINANCIAL POSITION," as well as the audited consolidated financial statements and other financial information of the Cleveland Clinic and its controlled Affiliates as of and for the years ended December 31, 2007 and 2006, and related notes that appear in Appendix B and the June 30, 2008 unaudited consolidated financial

statements filed with Digital Assurance Certification LLC, a post-bond issuance, compliance and monitoring system for municipal bond issuers ("DAC").

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OBLIGATED GROUP
Consolidated Balance Sheets[1]
(unaudited)
(dollars in thousands)

	December 31,			June 30,
	2005	2006	2007	2008
Assets				
Current assets:				
Cash and cash equivalents	$ 355,227	$ 341,610	$ 126,841	$ -
Patient receivables, net	425,310	444,993	511,282	562,401
Due from affiliates	224,994	284,766	18,671	24,942
Investments for current use	9,432	23,871	43,563	44
Other current assets	263,625	337,058	553,153	230,684
Assets of business held for sale	126,808	-	-	-
Total current assets	1,405,396	1,432,298	1,253,510	818,071
Investments:				
Investments	956,692	1,310,493	1,878,168	1,669,652
Funds held by bond trustees	237,775	236,376	51,637	51,624
Donor restricted assets	226,748	270,177	327,589	284,264
	1,421,215	1,817,046	2,257,394	2,005,540
Property, plant and equipment, net	1,627,754	1,867,473	2,199,037	2,312,064
Other assets:				
Pledges receivable, net	147,005	138,792	139,589	137,809
Trusts and interests in foundations	82,622	85,084	87,476	91,574
Other non-current assets	205,045	209,954	126,674	125,352
	434,672	433,830	353,739	354,735
Total assets	$ 4,889,037	$5,550,647	$6,063,680	$ 5,490,410
Liabilities and net assets				
Current liabilities:				
Accounts payable	$ 209,665	$ 243,481	$ 260,866	$ 241,954
Compensation and amounts withheld from payroll	80,658	87,199	93,840	109,781
Estimated amounts due to third-party payors	33,542	28,584	21,334	23,355
Current portion of long-term debt	7,229	7,375	13,536	16,298
Due to affiliates	-	3,958	1,022	60,151
Other current liabilities	458,298	376,004	553,965	246,934
Liabilities of business held for sale	88,142	-	-	-
Total current liabilities	877,534	746,601	944,563	698,473
Long-term debt:				
Hospital revenue bonds	1,345,548	1,446,108	1,443,660	1,112,972
Notes payable and capital leases	44,554	54,237	44,108	37,926
	1,390,102	1,500,345	1,487,768	1,150,898
Other liabilities:				
Accrued malpractice liabilities	92,171	82,370	68,088	70,663
Accrued retirement benefits	243,820	365,243	378,095	382,749
Other noncurrent liabilities	225,188	240,454	262,985	273,732
	561,179	688,067	709,168	727,144
Total liabilities	2,828,815	2,935,013	3,141,499	2,576,515
Net assets:				
Unrestricted	1,556,167	2,068,089	2,301,819	2,342,598
Temporarily restricted	358,981	398,347	453,284	400,884
Permanently restricted	145,074	149,198	167,078	170,413
Total net assets	2,060,222	2,615,634	2,922,181	2,913,895
Total liabilities and net assets	$ 4,889,037	$5,550,647	$6,063,680	$5,490,410

[1] Reclassifications of certain items included in prior period financial statements have been made to conform with the current presentation. Specifically, the Obligated Group reclassified certain patient receivable credit balances, which resulted in an increase in net patient receivables and other current liabilities of $14,885, $12,729 and $12,729 at December 31, 2005, December 31, 2006 and December 31, 2007, respectively, and reclassified balances associated with research activities, which resulted in a decrease to other current assets and other current liabilities of $62,886 at December 31, 2005.

CLEVELAND CLINIC HEALTH SYSTEM
Consolidated Balance Sheets[1]
(unaudited)
(dollars in thousands)

	December 31,			June 30,
	2005	2006	2007	2008
Assets				
Current assets:				
Cash and cash equivalents	$ 430,959	$ 460,632	$ 268,081	$ 71,543
Patient receivables, net	458,689	500,802	564,999	624,678
Investments for current use	68,742	61,726	101,452	57,933
Other current assets	319,764	396,967	570,442	249,592
Assets of business held for sale	126,808	-	-	-
Total current assets	1,404,962	1,420,127	1,504,974	1,003,746
Investments:				
Investments	1,045,367	1,403,058	1,979,101	1,785,959
Funds held by bond trustees	241,071	240,178	55,225	55,237
Assets held by captive insurance companies	227,726	250,527	171,403	165,357
Donor restricted assets	234,224	279,295	338,279	295,460
	1,748,388	2,173,058	2,544,008	2,302,013
Property, plant and equipment, net	1,851,835	2,174,831	2,503,309	2,612,515
Other assets:				
Pledges receivable, net	148,545	140,420	140,924	139,100
Trusts and interests in foundations	110,036	112,262	121,371	125,468
Other non-current assets	236,114	199,990	75,049	72,436
	494,695	452,672	337,344	337,004
Total assets	$ 5,499,880	$6,220,688	$6,889,635	$ 6,255,278
Liabilities and net assets				
Current liabilities:				
Accounts payable	$224,433	$ 271,344	$ 286,955	$ 267,450
Compensation and amounts withheld from payroll	84,774	94,323	101,502	117,972
Estimated amounts due to third-party payors	35,232	36,094	35,233	30,601
Short-term borrowings	38,413	-	-	-
Current portion of long-term debt	9,469	9,655	15,941	18,601
Other current liabilities	576,978	493,125	666,391	330,222
Liabilities of business held for sale	88,142	-	-	-
Total current liabilities	1,057,441	904,541	1,106,022	764,846
Long-term debt:				
Hospital revenue bonds	1,374,648	1,473,121	1,468,480	1,135,573
Notes payable and capital leases	58,649	62,771	52,261	46,054
	1,433,297	1,535,892	1,520,741	1,181,627
Other liabilities:				
Accrued malpractice liabilities	272,622	265,245	183,397	192,902
Accrued retirement benefits	243,820	365,243	378,095	382,749
Other noncurrent liabilities	244,841	248,235	271,341	283,640
	761,283	878,723	832,833	859,291
Total liabilities	3,252,021	3,319,156	3,459,596	2,805,764
Net assets:				
Unrestricted	1,707,121	2,315,489	2,763,227	2,831,348
Temporarily restricted	376,023	416,440	476,407	424,426
Permanently restricted	164,715	169,603	190,405	193,740
Total net assets	2,247,859	2,901,532	3,430,039	3,449,514
Total liabilities and net assets	$5,499,880	$6,220,688	$6,889,635	$6,255,278

[1] Reclassifications of certain items included in prior period financial statements have been made to conform with the current presentation. Specifically, the System reclassified certain patient receivable credit balances, which resulted in an increase in net patient receivables and other current liabilities of $14,885, $12,729 and $12,729 at December 31, 2005, December 31, 2006 and December 31, 2007, respectively, and reclassified balances associated with research activities, which resulted in a decrease to other current assets and other current liabilities of $62,886 at December 31, 2005.

B. CONSOLIDATED STATEMENTS OF OPERATIONS

The following consolidated statements of operations for the years ended December 31, 2005, 2006 and 2007 set forth the results of operations of the Obligated Group; they are derived from unaudited consolidating financial information underlying the audited consolidated financial statements of the Cleveland Clinic and its controlled Affiliates. The consolidated statements of operations for the six months ended June 30, 2007 and 2008 have been derived from unaudited interim consolidated financial statements. In the opinion of Cleveland Clinic management, the unaudited interim consolidated financial statements include all adjustments necessary for a fair presentation of such information. The consolidated statement of operations for the six months ended June 30, 2008 is not necessarily indicative of full-year results. Items affecting changes in net assets that are not depicted in the following consolidated statements of operations include discontinued operations, contributions of long-lived assets, restricted gifts and bequests, restricted investment income, net assets released from restrictions, changes in the minimum pension liability, changes in the value of cash flow hedges, changes in the beneficial interest in foundations, changes in the value of perpetual trusts, foreign currency translation adjustments, unrealized gains and losses on nontrading investments and the cumulative effect of changes in accounting.

The information shown includes data for each period for the Obligated Group and the Health System, respectively. The data should be read in conjunction with the information included under "PART IV – MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF HEALTH SYSTEM OPERATIONS AND FINANCIAL POSITION," as well as the audited consolidated financial statements and related notes included in Appendix B and the June 30, 2008 unaudited consolidated financial statements filed with DAC.

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OBLIGATED GROUP
Consolidated Statements of Operations[1]
(unaudited)
(dollars in thousands)

	Year Ended December 31,			Six Months Ended June 30,	
	2005	**2006**	**2007**	**2007**	**2008**
Unrestricted revenues					
Net patient service revenue	$ 3,448,261	$3,712,206	$3,983,556	$ 1,955,785	$2,101,035
Other	318,957	344,286	388,802	168,542	193,077
Total unrestricted revenues	3,767,218	4,056,492	4,372,358	2,124,327	2,294,112
Expenses					
Salaries, wages and benefits	1,994,651	2,185,062	2,339,639	1,163,207	1,251,248
Supplies	434,743	461,768	485,283	243,902	243,878
Pharmaceuticals	195,603	223,845	239,384	114,362	124,917
Purchased services	193,148	215,852	234,529	115,220	124,772
Administrative services	95,551	108,211	137,526	53,429	72,151
Facilities	170,619	189,968	227,702	104,770	119,242
Insurance	113,218	92,131	72,969	43,820	40,522
Provision for uncollectible accounts	87,223	88,172	124,114	60,973	63,443
	3,284,756	3,565,009	3,861,146	1,899,683	2,040,173
Operating income before interest, depreciation and amortization expenses	482,462	491,483	511,212	224,644	253,939
Interest	50,369	53,377	54,118	27,250	28,947
Depreciation and amortization	183,209	176,426	188,133	101,140	107,927
Operating income before special charges	248,884	261,680	268,961	96,254	117,065
Special charges	3,728	-	-	-	-
Operating income	245,156	261,680	268,961	96,254	117,065
Nonoperating gains and losses					
Interest and dividends	30,272	44,010	36,864	18,748	15,800
Net realized and unrealized gains (losses) on investments classified as trading	28,952	89,201	64,667	73,164	(90,101)
Other, net	(3,372)	(5,856)	9,474	26,964	(15,381)
Net nonoperating gains and losses	55,852	127,355	111,005	118,876	(89,682)
Excess of revenues over expenses	$ 301,008	$ 389,035	$ 379,966	$ 215,130	$ 27,383

[1] Reclassification of the prior period financial statements have been made to conform with the current presentation. In previous years, the Obligated Group investments were classified as other-than-trading and unrealized gains and losses were excluded from excess of revenue over expenses. During 2007, the Obligated Group determined that substantially all of its investment portfolio was more accurately classified as trading, whereby unrealized gains and losses are included in excess of revenues over expenses. Therefore, $55,307 and $7,530 of net unrealized gains and losses previously included in net assets at December 31, 2006 and December 31, 2005, respectively, have been reclassified and included in excess of revenue over expenses.

CLEVELAND CLINIC HEALTH SYSTEM
Consolidated Statements of Operations[1]
(unaudited)
(dollars in thousands)

	Year Ended December 31,			Six Months Ended June 30,	
	2005	**2006**	**2007**	**2007**	**2008**
Unrestricted revenues					
Net patient service revenue	$ 3,661,130	$3,969,429	$4,354,781	$ 2,148,053	$2,307,336
Other	390,601	429,620	452,445	206,738	224,232
Total unrestricted revenues	4,051,731	4,399,049	4,807,226	2,354,791	2,531,568
Expenses					
Salaries, wages and benefits	2,142,757	2,352,799	2,564,129	1,275,041	1,367,673
Supplies	462,276	499,051	549,166	277,078	277,121
Pharmaceuticals	210,673	239,668	258,545	124,261	135,175
Purchased services	203,747	226,497	257,982	124,832	136,936
Administrative services	107,459	125,197	145,562	62,895	75,066
Facilities	192,230	214,094	256,960	120,009	134,915
Insurance	88,603	18,040	11,120	49,680	45,201
Provision for uncollectible accounts	95,219	99,308	147,161	74,949	73,941
	3,502,964	3,774,654	4,190,625	2,108,745	2,246,028
Operating income before interest, depreciation and amortization expenses	548,767	624,395	616,601	246,046	285,540
Interest	54,121	57,275	56,193	28,306	29,899
Depreciation and amortization	201,840	194,919	211,307	112,944	119,452
Operating income before special charges	292,806	372,201	349,101	104,796	136,189
Special charges	3,728	-	-	-	-
Operating income	289,078	372,201	349,101	104,796	136,189
Nonoperating gains and losses					
Interest and dividends	34,573	49,556	44,295	22,174	18,698
Net realized and unrealized gains (losses) on investments classified as trading	36,008	104,851	81,407	85,225	(97,593)
Other, net	(1,765)	(7,162)	11,637	27,998	(15,842)
Net nonoperating gains and losses	68,816	147,245	137,339	135,397	(94,737)
Excess of revenues Over expenses	$ 357,894	$ 519,446	$ 486,440	$ 240,193	$ 41,452

[1] Reclassification of the prior period financial statements have been made to conform with the current presentation. In previous years, the Health System investments were classified as other-than-trading and unrealized gains and losses were excluded from excess of revenue over expenses. During 2007, the Health System determined that substantially all of its investment portfolio was more accurately classified as trading, whereby unrealized gains and losses are included in excess of revenues over expenses. Therefore, $68,884 and $12,855 of net unrealized gains and losses previously included in net assets at December 31, 2006 and December 31, 2005, respectively, have been reclassified and included in excess of revenue over expenses.

PART IV.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF HEALTH SYSTEM OPERATIONS AND FINANCIAL POSITION

A. RESULTS OF OPERATIONS – FISCAL YEAR 2007 COMPARED TO FISCAL YEAR 2006

The System's revenues exceeded expenses by $486.4 million in 2007, compared to $519.4 million in 2006. Income from operations, defined as revenues over expenses before investment income and other nonoperating gains and losses, was $349.1 million in 2007 versus $372.2 million in 2006.

In the fourth quarter of 2006, the Cleveland Clinic acquired Tenet's 51% interest in the joint venture (the "Weston JV") that originally owned the Weston Hospital. Because this acquisition did not occur until the fourth quarter of 2006, the following income statement discussion and analysis excludes the first nine months of 2007 Weston Hospital activity for comparative purposes. (Weston Hospital reported net operating revenues of $110.4 million, operating expenses of $101.1 million and net operating income of $9.3 million in the first nine months of 2007).

Revenues. The System's net patient service revenue in 2007 increased by $275.0 million (6.9%) (excluding the first nine months of Weston Hospital activity of $110.4 million), compared to 2006. Volumes remained primarily flat from 2006. The increase in revenue was due to cross-regional and local revenue management projects initiated throughout 2006 and 2007 and commercial payor rate increases effective for the second half of 2006 and January 2007. Additionally, the increase can be attributed to revenue improvements initiated in 2007, prior year settlements, disproportionate share recognition, credit balance resolution and payor mix. These positive changes were partially offset by an unfavorable case mix adjusted length of stay and increases in self-pay revenue relative to other payors. Management has initiated several improvements in the front-end financial clearance process on the System's main campus to ensure appropriate patient care access to the System.

Gains and losses from nonoperating activities resulted in a net gain to the System of $137.1 million in 2007 (excluding the first nine months of Weston Hospital activity of $0.2 million), compared to $147.2 million in 2006. The decrease was $10.1 million (6.9%), resulting primarily from a decrease in net realized and unrealized gains of $23.4 million and a decrease in interest and dividends of $5.5 million, offset by an increase in income from equity investments of $19.3 million which is included in "Other, net" on the Statement of Operations.

Expenses. Total expenses in 2007 increased by $330.2 million (8.2%) (excluding the first nine months of Weston Hospital activity of $101.1 million), compared to 2006. Salaries and benefits increased $171.2 million (7.3%) (excluding the first nine months of Weston Hospital activity of $40.1 million), compared to 2006. Salaries, excluding benefits, increased $144.9 million (7.6%) in 2007 as compared to 2006, due to an increase in the number of employees and annual salary adjustments (averaging 3-4% across the System). FTEs increased by 3.3% (including agency personnel) from December 2006 to December 2007. The FTE increase occurred mainly at the Clinic's regional Family Health Centers, nursing, neuroscience and research programs, and reflects higher patient volumes and research activities at those programs. The System utilizes agency personnel as temporary support to supplement the employed physicians and nurses as well as to contend with issues in the healthcare industry related to recruitment and retention of qualified staff. Agency costs decreased by $2.9 million (4.4%), compared to 2006. Employee benefit costs increased by $26.3 million (5.9%) in 2007, compared to 2006. The increase was comprised largely of increases in FICA costs of $9.4 million (8.2%), retirement costs of $5.2 million (5.2%) and healthcare costs of $4.7 million (3.3%). Increased employee benefit costs are directly related to the growth in employees and salaries, while healthcare costs increased due to growth in utilization of services.

Other operating expenses (all categories other than salaries, benefits, interest, depreciation, and special charges) increased $148.8 million (10.5%) in 2007 (excluding the first nine months of Weston Hospital activity of $55.8 million), compared to 2006. Medical Supplies and pharmaceuticals increased a combined $40.7 million (excluding the first nine months of Weston Hospital activity of $28.3 million). Medical supplies increased $21.6 million (5.2%) and pharmaceuticals (excluding the first nine months of Weston Hospital activity of $3.7 million) increased $15.2 million (6.3%). The increase in medical supplies was mostly driven by higher surgical supply costs, reagent costs, blood products, and implants. Pharmaceutical cost increases were the result of higher costs and increased utilization of more costly drugs. The increase in supplies cost was moderated by management initiatives to reduce costs through contract negotiations. Provision for uncollectible accounts increased $38.4 million (38.7%)

(excluding the first nine months of Weston Hospital activity of $9.5 million) as a result of the increase in revenues and the increased percentage of self-pay patients compared to 2006. Facility costs increased $36.9 million (17.3%) (excluding the first nine months of Weston Hospital activity of $6.0 million), comprised primarily of increases in costs associated with maintenance contracts, leased space, leased equipment and building maintenance and repairs. Purchased services increased $23.0 million (10.2%) (excluding the first nine months of Weston Hospital activity of $8.5 million) compared to 2006, primarily due to increases in software maintenance, advertising and marketing, outside lab services, parking services, and laundry. Administrative services increased $17.3 million (13.8%) (excluding the first nine months of Weston Hospital activity of $3.1 million), mainly due to increased costs associated with strategic planning projects and costs associated with research projects.

Insurance expense decreased $7.5 million (41.7%) (excluding the first nine months of Weston Hospital activity of $0.6 million) in 2007 compared to 2006. The System has undertaken numerous initiatives to manage its medical malpractice insurance expense and reduce the number of claims and lawsuits. The System has hired additional staff devoted to clinical risk management in order to promote patient safety and prevent untoward events. The System has expanded education programs geared to enhance quality throughout the organization. The System has implemented a coordinated program for managing its claims and medical malpractice risk. The System also has a Steering Committee to oversee risk exposures across the System. The System has also taken, where appropriate, a more aggressive approach toward defending malpractice cases, which has resulted in more favorable settlements. In addition, various tort reform measures that have become law in Ohio since 2003 have helped to reduce malpractice costs.

B. RESULTS OF OPERATIONS – FISCAL YEAR 2006 COMPARED TO FISCAL YEAR 2005

The System's revenues exceeded expenses by $519.4 million in 2006 compared to $357.9 million in 2005. Income from operations, defined as revenues over expenses before investment income and other nonoperating gains and losses, was $372.2 million in 2006 versus $289.1 million in 2005.

Revenues. The System's net patient service revenue for 2006 increased by $308.3 million (8.4%), compared to 2005. Volumes remained essentially flat from 2005. The increase in revenues was due to annual inflationary increases on managed care contracts effective January 1, 2006, favorable cost report settlements, prior year disproportionate share reimbursements, and increases in case mix and severity.

For 2006, gains and losses from nonoperating activities resulted in a gain to the System of $147.2 million, compared to $68.8 million in 2005. The net increase in this item was $78.4 million (more than 100%), of which $83.8 million was related to higher interest, dividends and net realized and unrealized gains on the investment portfolio. Additionally equity earnings increased $12.7 million related to income on investments using the equity method of accounting. Offsetting these gains was a $13.8 million charge for a purchase option premium related to the purchase of the Weston Hospital.

Expenses. Total expenses in 2006 increased by $264.2 million (7.0%), compared to 2005. Salaries and benefits increased $210.0 million (9.8%), compared to 2005. Salaries, excluding benefits, increased $156.6 million (8.9%) in 2006, due to an increase in the number of employees and annual salary adjustments (averaging 3-4% across the System). FTE's increased by 5.2% (including agency personnel) from December 2005 to December 2006. Agency costs increased by 7.3% in 2006 over 2005, most notably in nursing throughout the System. The System continues to establish initiatives to recruit established nurses and nursing students, as well as increase student enrollment at the System's school of nursing. The FTE increase was experienced mainly at the Clinic's regional Family Health Centers, in the neuroscience, nursing, research divisions, and in radiology, and reflects higher patient volumes and research activities at those programs. Employee benefits increased $53.4 million (13.6%) in 2006 compared to 2005. Healthcare costs increased by $22.7 million, retirement costs increased by $15.9 million and FICA taxes increased by $11.8 million which together were the major components of the benefit cost increase. Increased employee benefits are directly related to the growth in employees and salaries.

Other operating expenses increased $61.6 million (4.5%) in 2006 compared to 2005. The increase was primarily comprised of supplies (medical and non-medical) ($36.8 million), pharmaceutical costs ($29.0 million), purchased services ($22.8 million), facility costs ($21.9 million), administrative services ($17.7 million) and provision for bad debts ($4.1 million). Offsetting these increases was a $70.6 million reduction in insurance costs mostly related to malpractice insurance. The increase in the cost of medical supplies was driven mostly by greater use of implants, reagents, blood and blood products and an overall increase in the use of general surgical supplies, mostly in the department of cardiology. The increase in non-medical costs is predominantly to a $4.3 million

increase in minor equipment purchases which was due to the Clinic's decision in December 2005 to increase the threshold on capitalizing assets. Pharmaceutical costs were affected by price increases for drugs like Polygan, a blood product drug for which escalating demand and limited supply has resulted in an approximately 40% increase in cost. Additionally, the System's utilization of cancer-related drugs has increased with the use of the more costly new technology drugs. Three new retail pharmacy stores opened at the Marymount, Weston and Willoughby Hills facilities in 2006, compared to 2005, and contributed to the increase in pharmaceutical costs. Purchased services increased primarily due to a new marketing campaign, the objective of which is to advertise the Cleveland Clinic on a national basis, promoting its ratings by U.S. News and World Report. The increase in facility costs was primarily comprised of increases in utilities, leased space and equipment maintenance and repair costs. Natural gas costs, in particular, increased $4.5 million, compared to 2005. The increase in leased space consisted of administrative office space. The increase in provision for bad debts correlates to the increase in patient revenues.

Insurance expense decreased $70.6 million (79.6%) in 2006, compared to 2005, primarily due to the System initiatives relating to managing medical malpractice costs discussed earlier.

Interest expense increased $3.2 million (5.8%) in 2006, compared to 2005, as a result of an increase in interest rates affecting the System's variable rate debt which represents approximately 42% of the System's debt structure.

C. RESULTS OF OPERATIONS – SIX MONTHS ENDED JUNE 30, 2008 COMPARED TO SIX MONTHS ENDED JUNE 30, 2007

The System reported excess of revenues over expenses of $41.5 million for the first six months of 2008 compared to $240.2 million for the first six months of 2007. The decrease was primarily the result of losses experienced in the System's investment portfolio that were attributable to the overall decline in the equity markets in 2008. Income from operations, defined as excess revenues over expenses before investment income and other nonoperating gains and losses, was $136.2 million in the first six months of 2008 versus $104.8 million in the first six months of 2007.

Revenues. The System's net patient service revenue in the first six months of 2008 increased by $159.3 million (7.4%) as compared to the first six months of 2007. The increase can be attributed to a 3% increase in total outpatient visits at the Cleveland Clinic's main campus, a 2% increase in inpatient admissions at the regional hospitals, favorable settlements of contract disputes and prior year cost reports and rate increases on the System's managed care contracts that became effective in January 2008. Additionally, the increase in revenue is due to cross regional and local revenue management projects that the System adopted throughout 2007 and 2008. Management has also initiated several improvements in the front-end financial clearance process on main campus to ensure appropriate patient care access to the System.

Gains and losses from nonoperating activities resulted in a net loss to the System of $94.7 million in the first six months of 2008, compared to a net gain of $135.4 million in the first six months of 2007. The net change of $230.1 million resulted primarily from a decrease in net realized and unrealized gains on investments classified as trading of $182.8 million and a decrease in earnings on alternative investments and other investments recorded on the equity method of accounting of $23.5 million. In the first six months of 2008, the System's long-term investment portfolio lost 4.1% of its value compared to a combined market benchmark of -5.0%. The decline was most evident in U.S. and international marketable equity securities. Additional nonoperating gains and losses include a negative variance on losses from the change in the fair value of derivatives of $15.9 million, a decrease in interest and dividends of $3.5 million, and a loss on extinguishment of debt of $3.5 million.

Expenses. Total expenses in the first six months of 2008 increased by $145.4 million (6.5%), compared to the same period in 2007. Salaries and benefits increased $92.6 million (7.3%), compared to the same period in 2007. Salaries, excluding benefits, increased $87.4 million (8.6%) in the first six months of 2008, due to an increase in the number of employees and annual salary adjustments (averaging 3-4% across the System). FTE's increased by 4.1% (including agency personnel) from June 2007 to June 2008. These increases were experienced in both clinical Institutes and support areas. The System utilizes agency personnel as temporary support to supplement the employed physicians and nurses as well as to contend with issues in the healthcare industry related to recruitment and retention of qualified staff. Agency costs increased $4.5 million (14.3%) in the first six months of 2008, compared to the first six months of 2007, primarily in the nursing units at the regional and Weston hospitals.

Other operating expenses (all categories other than salaries, benefits, interest and depreciation) increased $44.7 million (5.4%) in the first six months of 2008, compared to the same period in 2007. Facility costs increased $14.9 million (12.4%). That increase was comprised primarily of increases in utilities, maintenance contracts on the System's information technology, real estate taxes and lease expense particularly associated with the occupancy of the Beachwood Campus and the opening of two new Family Health Centers in 2008. Costs of administrative services increased $12.2 million (19.4%) mainly from increased costs associated with strategic planning projects, research projects and the decision by the College of Medicine to provide full tuition scholarships to all of its students, which included a retroactive adjustment for students currently enrolled in the program. Purchased services increased $12.1 million (9.7%), compared to 2007 primarily due to increases in costs related to continuing medical education programs, outside lab services and bank and collection fees. Pharmaceuticals increased $10.9 million (8.8%) in the first six months of 2008, compared to 2007 as a result of higher costs and increased utilization of more costly drugs. Offsetting these increases was a decrease in the cost of medical supplies of $1.1 million (0.5%). The decrease in medical supply costs is partially due to the realization of management initiatives to reduce costs through contract negotiations by leveraging the System's spending power, creating strategic supplier relationships and capitalizing on technology to improve processes, while continually benchmarking quality and service levels.

Additionally, insurance expense decreased $4.5 million (9.0%) in the first six months of 2008, compared to the same period in 2007, primarily due to the System initiatives relating to managing medical malpractice costs discussed earlier.

D. BALANCE SHEET – DECEMBER 31, 2007 COMPARED TO DECEMBER 31, 2006

Cash and Investments. At December 31, 2007, total cash and investments for the System (including restricted funds) were $2.913 billion, an increase of $218.1 million from $2.695 billion at December 31, 2006. This increase is comprised of the net cash provided by operating activities, excluding transactions from trading investments of $621.0 million, an increase in restricted gifts of $112.3 million, and a net increase in proceeds from long-term borrowings of $1.3 million, offset by capital expenditures of $506.7 million and principal payments on long-term debt of $9.8 million.

The System's objectives related to its investment portfolio are preservation of principal and investment returns competitive with market-related and peer benchmarks. The System maintains three separate investment pools to accommodate varying degrees of liquidity and return expectations. The three pools have different asset allocation guidelines and employ multiple asset classes (equity, fixed income, private equity, real estate and hedge funds) and multiple asset styles (growth vs. value; large cap vs. small cap). The System increased the portfolio's diversification by investing $323.9 million and $170.3 million in 2006 and 2007, respectively, in alternative investments. Alternative investments are primarily limited partnerships that invest in marketable securities, privately held securities, real estate, and derivative products and are reported using the equity method of accounting based on information provided by the respective partnership.

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The following table sets forth the allocation of the System's cash and investments, net of short-term borrowings and restricted investments, at December 31, 2007 and December 31, 2006:

Cash and Investments
(dollars in thousands)

	December 31, 2006		December 31, 2007	
Cash and cash equivalents	$460,632	17%	$268,081	9%
Investments:				
Cash and short-term investments	275,758	10%	476,992	16%
Fixed income securities	650,059	24%	513,454	18%
Marketable equity securities	954,570	36%	1,097,636	38%
Alternative investments	354,397	13%	557,378	19%
Total cash and investments	2,695,416	100%	2,913,541	100%
Less restricted investments*	(831,726)		(666,359)	
Unrestricted cash and investments	$1,863,690		$2,247,182	

*Restricted investments include funds held by bond trustees, assets held by captive insurance companies and donor restricted assets.

Included in the System's cash and investments in the preceding table are investments held by the System's captive insurance companies. These assets totaled $229.0 million as of December 31, 2007, with an asset mix of 18% equity securities and 82% fixed income securities, reflecting the need for liquidity within the captives and the lower tolerance for risk and volatility inherent in insurance reserves. The assets are invested using the same multiple asset styles and investment managers used in the System's long-term investment pool.

Below is a comparison of the System's cash and investments allocated with and without the assets in the captive insurance program:

Cash and Investments
(dollars in thousands)

	December 31, 2007			
	with Captive Assets		without Captive Assets	
Cash and cash equivalents	$268,081	9%	$268,081	10%
Investments:				
Cash and short-term investments	476,992	16%	428,233	16%
Fixed income securities	513,454	18%	375,067	14%
Marketable equity securities	1,097,636	38%	1,055,783	39%
Alternative investments	557,378	19%	557,378	21%
Total cash and investments	$2,913,541	100%	$2,684,542	100%

Patient Receivables. Patient accounts receivable, net of allowances for uncollectible accounts, increased $64.2 million (12.8%) from December 31, 2006 to December 31, 2007. The growth in patient revenues increased receivables by $33.3 million. A slight slow down in the collection rate, partially due to a change in the write-off policy for denials and a change in the timeline for pending Medicaid accounts also increased receivables by an additional $30.9 million. The net effect is an increase in days revenue outstanding from 45.1 days at December 31, 2006 to 47.9 days at December 31, 2007.

Other Current Assets. Other current assets increased $173.5 million (43.7%) from December 31, 2006 to December 31, 2007. Included in other current assets were collateralized receivables of $359.7 million, which increased $150.9 million from December 31, 2006 to December 31, 2007. The collateralized receivables relate to the

System's securities lending activity in the investment portfolio. The accounting guidance for securities lending also requires recording of a liability of $359.7 million, which was recorded in other current liabilities. The other major components of the increase in other current assets were increases in research receivables of $10.2 million, reflecting continued growth in the System's research programs, and an increase in the current portion of pledges receivable of $14.0 million.

Investments. Total investments increased $371.0 million (17.1%) from December 31, 2006 to December 31, 2007. Unrestricted investments increased $576.0 million (41.1%) and donor restricted assets increased $59.0 million (21.1%) from December 31, 2006 to December 31, 2007. Strong operating performance and solid market returns on the System's long-term investment pool contributed to the increase. Offsetting these increases were a decrease in funds held by bond trustees of $185.0 million (77.0%), primarily related to capital projects were financed with proceeds of the Series 2004 Bonds and the Series 2006 Bonds, and a decrease in assets held by captive insurance companies of $79.1 million (31.6%). The System's captive insurance companies issued a dividend and returned to the Clinic contributed capital totaling $110 million in 2007.

Property, Plant and Equipment, Net. Net property, plant and equipment increased $328.5 million (15.1%) from December 31, 2006 to December 31, 2007. In 2007, the System acquired $538.2 million in new assets. These additions were offset by a $209.7 million increase in accumulated depreciation for the same period. Included in capital acquisitions were $153.5 million for the Miller Family Pavilion, $36.2 million for the Glickman Tower, $36.0 million for the Beachwood Campus, $26.7 million for the 93rd Street parking garage expansion at the main campus, $21.1 million for the System's investment in electronic medical records systems, $10.2 million for the cardiovascular expansion at Fairview, $8.0 million for the ICU/ER expansion at Marymount, $7.9 million for the leasehold improvements of the new office space at the Beachwood Campus and $6.9 million for the Brunswick Family Health Center.

Other Noncurrent Assets. Other noncurrent assets decreased $124.9 million (62.5%) from December 31, 2006 to December 31, 2007. The decrease was primarily due to the reduction of prepaid pension expense by $110.4 million, a decrease in market value of the System's interest rate swaps of $8.8 million, and a decrease in various notes receivable of $5.0 million. The majority of the interest rate swap agreements convert the variable rate interest on certain hospital revenue bonds to a fixed rate.

Current Liabilities. Other current liabilities increased $173.3 million (35.1%) from December 31, 2006 to December 31, 2007. Included in other current liabilities was a payable of $359.7 million associated with securities lending activity, which increased $150.9 million from December 31, 2006. (See the discussion under "Other Current Assets" above.) Other increases included a $20.0 million reclassification of malpractice reserves from noncurrent to current, a $16.9 million increase in deferred revenue related to international management contracts and a $3.8 million increase in research deferred revenue reflecting a higher volume of research grants. Offsetting these increases is an $11.9 million reduction in credit balances from patient accounts receivable, a $5.4 million decrease in the current portion of pension liability, and a $3.5 million reduction in accrued healthcare benefits.

Long-Term Debt. Notes payable and capital leases decreased $10.5 million (16.7%) from December 31, 2006 to December 31, 2007. The decrease was the result of regularly scheduled debt payments and the reclassification of payments from noncurrent to current.

Noncurrent Liabilities. Other liabilities decreased $45.9 million (5.2%) from December 31, 2006 to December 31, 2007 . The decrease is the result of an $81.8 million decrease in accrued malpractice liabilities offset by increases in accrued retirement benefits of $12.8 million and in other noncurrent liabilities of $23.1 million. The decrease in accrued malpractice liabilities was the result of the numerous initiatives undertaken by the System to reduce its medical malpractice expense (see insurance expense discussion above) and the reclassification of malpractice reserves from noncurrent to current (see the discussion under "Current Liabilities" above.)

Net Assets. Total net assets increased $528.5 million (18.2%) from December 31, 2006 to December 31, 2007, reflecting $486.4 million of excess revenues over expenses, $94.7 million of minimum pension liability adjustment, $87.1 million of net gains on restricted net assets (comprised of $105.3 million of restricted gifts, $22.2 million of investment income, $8.5 million change on beneficial interest in foundations and perpetual trusts, less $48.9 million of assets released from restrictions), $8.3 million gain on unrealized gains on other than trading investments, a $1.7 million gain on derivatives contracts, and $0.4 million of unrestricted donated capital, less the $141.8 million adjustment from the adoption of FASB Statement No. 158 (which required entities to recognize their

pension plans' funded status in the balance sheet), and the $8.3 million cumulative effect of change in accounting for income taxes.

E. BALANCE SHEET – DECEMBER 31, 2006 COMPARED TO DECEMBER 31, 2005

Cash and Investments. At December 31, 2006, total cash and investments for the System (including restricted funds) were $2.7 billion, up $447.3 million from $2.2 billion at December 31, 2005. This increase was primarily due to net cash provided by operating activities (excluding transactions from trading investments of $677.5 million), increases in restricted gifts of $110.2 million, an increase in proceeds from long-term borrowings of $109.8 million, net activity from discontinued operations of $67.1 million, and the change in interests in foundations of $3.3 million. Partially offsetting these increases were capital expenditures of $458.8 million, payments on short-term borrowings of $38.4 million, principal payments on long-term debt of $11.1 million, payments to redeem long term debt of $9.3 million and $3.0 million of deferred debt issuance costs.

In 2006, the System increased the portfolio's diversification by investing $306.0 million of cash in hedge funds and $17.9 in venture capital and other alternative investments. The hedge fund, venture capital and other alternative investments are categorized as alternative investments in the Cash and Investments Table provided below.

The following table sets forth the allocation of the System's cash and investments, net of short-term borrowings and restricted investments, at December 31, 2006 and December 31, 2005:

Cash and Investments
(dollars in thousands)

	December 31, 2005		December 31, 2006	
Cash and cash equivalents	$ 430,959	19%	$ 460,632	17%
Investments:				
Cash and short-term investments	237,515	11%	275,758	10%
Fixed income securities	921,126	41%	650,059	24%
Marketable equity securities	637,431	28%	954,570	36%
Alternative investments	21,058	1%	354,397	13%
Total cash and investments	2,248,089	100%	2,695,416	100%
Less restricted investments*	(771,763)		(831,726)	
Unrestricted cash and investments	$1,476,326		$1,863,690	

*Restricted investments include funds held by bond trustees, assets held by captive insurance companies and donor restricted assets.

The preceding table includes assets totaling $286.6 million as of December 31, 2006 relating to investments held by the System's captive insurance companies, with an asset mix of 26% equity securities and 74% fixed income securities. Below is a comparison of the System's cash and investments allocated with and without the assets in the captive insurance program:

Cash and Investments
(dollars in thousands)

	December 31, 2006			
	with Captive Assets		without Captive Assets	
Cash and cash equivalents	$ 460,632	17%	$ 460,632	19%
Investments:				
Cash and short-term investments	275,758	10%	232,579	10%
Fixed income securities	650,059	24%	481,519	20%
Marketable equity securities	954,570	36%	879,646	36%
Alternative investments	354,397	13%	354,397	15%
Total cash and investments	$2,695,416	100%	$2,408,773	100%

Patient Receivables. Patient accounts receivable, net of allowances for uncollectible accounts, increased $42.1 million (9.2%) from December 31, 2005 to December 31, 2006. The growth in patient revenues increased receivables by $68.3 million. Partially offsetting this increase was the effect of improved collections, which reduced patient receivables by $26.2 million in 2006. The net effect was a decrease in days revenue outstanding from 47.9 days at December 31, 2005 to 45.1 days at December 31, 2006.

Other Current Assets. Other current assets increased $77.2 million (24.1%) from December 31, 2005 to December 31, 2006. Included in other current assets were collateralized receivables of $208.8 million, which increased $45.7 million from December 31, 2005. The collateralized receivables relate to the System's securities lending activity in the investment portfolio. The accounting for securities lending also requires a liability of $208.8 million, which was recorded in other current liabilities. The other major components of the increase in other current assets were increases in research receivables of $20.6 million reflecting continued growth in the System's research programs, a receivable from Tenet of $3.2 million related to patient receipts received by Tenet after the sale of its interest in the Weston JV to the Cleveland Clinic, an increase in prepaid expenses of $3.5 million, primarily due to the timing of annual maintenance contract payments, an increase in inventories of $2.8 million, an increase in the current portion of pledges receivable of $2.6 million, and an increase in miscellaneous nonpatient receivables of $2.1 million.

Sale of Naples Businesses. "Assets of business held for sale" decreased by $126.8 million from December 31, 2005 to December 31, 2006. The decrease is largely comprised of a reduction of fixed assets of $94.1 million and inventories of $1.9 million, which were related to the sale of CCF Florida Hospital Corporation's hospital facilities in Naples, Florida in 2006. The remaining $30.8 million reflected the net activity of the discontinued operations in 2006.

Property, Plant and Equipment, Net. Net property, plant and equipment increased $323.0 million (17.4%) from December 31, 2005 to December 31, 2006. In 2006, the System acquired $516.6 million in new assets. These additions were offset by $193.6 million increase in accumulated depreciation for the same period. The 2006 additions were related to strategic expenditures of $275.3 million and routine expenditures of $241.3 million. Included in the strategic capital additions were $92.5 million for the Miller Family Pavilion, $78.2 million for Weston Hospital, $33.4 million for land and buildings strategically located near Cleveland Clinic's main campus, $19.1 million related to the System's investment in electronic medical records systems, $13.7 million for the ICU/ER expansion at Marymount, $9.0 million related to the acquisition of a medical office building and parking garage attached to Fairview Hospital, $14.2 million for a parking garage expansion at the main campus, $10.5 million for the Glickman Tower and $4.7 million for a parcel of land for future development in the southeast suburbs of Cleveland.

Other Assets. Other noncurrent assets decreased $36.1 million (15.3%) from December 31, 2005 to December 31, 2006. The decrease was primarily the result of the purchase of Weston Hospital in October, 2006. Prior to the purchase, the System recorded its 49% equity interest in the Weston Partnership as a noncurrent asset. Subsequent to the purchase, the Weston Hospital is recorded as a fully consolidated entity and no longer as an equity investment, resulting in a decrease in noncurrent assets from $29.6 million to zero. Related to the purchase, a note receivable from the partnership of $8.2 million was also paid. Another major decrease resulted when the System restructured certain life insurance policies resulting in a reduction in the cash surrender value of $39.1 million. Offsetting these decreases were increases in prepaid pension expense of $13.6 million, comprised of $92.0 million

of funding to the pension plan offset by $78.4 million of pension expense recorded in 2006. Other increases included a $7.5 million increase in the market value of derivatives which consisted of interest rate swap agreements, a $7.0 million increase in a pension-related intangible asset, and a $4.6 million donation of an asset that was held for sale.

Current Liabilities. Accounts payable increased $46.9 million (20.9%) from December 31, 2005 to December 31, 2006 . The increase is principally attributable to a higher than normal level of large invoices at year-end associated with the various construction projects (see the discussion under "Property, Plant and Equipment, Net" above), and the addition of Weston Hospital, which increased accounts payable by $11.5 million. Compensation and amounts withheld from payroll increased $9.5 million (11.2%) from December 31, 2005 to December 31, 2006 . The increase was primarily due to the timing of the pay cycle ending date and the payment of payroll taxes. Short-term borrowing decreased by $38.4 million related to the termination of life insurance policies in 2006, in which the cash surrender value proceeds were used to pay off the short-term notes. The short-term notes were originally entered into in order to pay the premium on the policies. Other current liabilities decreased $83.9 million (14.5%) from December 31, 2005 to December 31, 2006. Included in other current liabilities was a payable of $208.8 million associated with securities lending activity, which increased $45.7 million from December 31, 2005 to December 31, 2006. (See the discussion under "Other Current Assets" above.) Other increases included a $20.7 million increase in research deferred revenue, reflecting a higher volume of research grants, a $15.5 increase in deferred revenue from international management contracts, a $5.0 million increase in accrued healthcare benefits, a $2.8 million increase in accrual for State of Florida uncompensated care program, and a $2.0 million increase in an asset retirement obligation. Offsetting these increases was a $150.8 million decrease in the current portion of pension liability. The decrease is mostly a reclassification of the pension liability payable from current to non-current (see the discussion under "Other Assets" above). Additional decreases included a $4.8 million reduction in credit balances from patient accounts receivable and a $21.5 million reduction in the current portion of malpractice reserves.

Sale of Naples Businesses. "Liabilities of business held for sale" decreased $88.1 million (100%) from December 31, 2005 to December 31, 2006. The decrease was primarily comprised of a $67.0 million bond redemption payment related to the sale of the CCF Florida Hospital Corporation's hospital facilities in Naples, Florida in 2006. The remaining $21.1 million reflected the net activity of the discontinued operations in 2006.

Long-Term Debt. "Hospital revenue bonds" payable increased $98.5 million (7.2%) from December 31, 2005 to December 31, 2006. The increase is primarily due to the issuance in December of the Series 2006 Bonds in the aggregate principal amount of $100 million. Notes payable increased $4.1 million (7.0%). The System obtained a $9.8 million mortgage associated with the purchase of a parking garage and medical office building for $7.8 million and related capital improvements to the property of $2.0 million. Offsetting the increase from the new mortgage was principal payments made during the year. Other liabilities increased $117.4 million (15.4%) from December 31, 2005 to December 31, 2006. The increase mostly reflected the reclassification of the pension liability from current to noncurrent. The noncurrent portion of pension liability increased $121.4 from December 31, 2005 (see the discussion under "Current Liabilities" above.)

Net Assets. Total net assets increased $653.7 million (29.1%) from December 31, 2005 to December 31, 2006, reflecting $519.4 million of excess revenues over expenses, $60.7 million of net gains on restricted net assets (comprised of $90.2 million of restricted gifts and $21.0 million of investment income, less $49.5 million of donated capital and assets released from restrictions and $1.0 million change in the value of perpetual trusts), $7.7 million gain on cash flow hedge contracts, $28.5 million related to income from discontinued operations (comprised of $26.7 million of gain on sale, plus $1.8 million of income related to discontinued operations), and $37.6 million adjustment to the minimum pension liability, less a $0.2 million foreign currency translation adjustment.

F. BALANCE SHEET – JUNE 30, 2008 COMPARED TO DECEMBER 31, 2007

Cash and Investments. At June 30, 2008, total cash and investments for the System (including restricted investments) were $2.432 billion, a decrease of $482.1 million from $2.914 billion at December 31, 2007. This net decrease is comprised of payments of $329.4 million to purchase the Series 2006A Bonds, the Series 2006B Bonds and the Series 2004A Bonds, capital expenditures of $246.8 million, and scheduled principal payments on long-term debt of $6.8 million, offset by net cash provided by operating activities (excluding transactions from trading investments of $80.8 million), and a net increase in restricted gifts and income of $20.1 million.

The following table sets forth the allocation of the System's cash and investments at June 30, 2008 and December 31, 2007:

Cash and Investments
(dollars in thousands)

	December 31, 2007		June 30, 2008	
Cash and cash equivalents	$ 268,081	9%	$ 71,543	3%
Investments:				
Cash and short-term investments	476,992	16%	322,528	13%
Fixed income securities	513,454	18%	489,486	20%
Marketable equity securities	1,097,636	38%	973,658	40%
Alternative investments	557,378	19%	574,274	24%
Total cash and investments	2,913,541	100%	2,431,489	100%
Less restricted investments*	(666,359)		(573,987)	
Unrestricted cash and investments	$2,247,182		$1,857,502	

*Restricted investments include funds held by bond trustees, assets held by captive insurance companies and donor restricted assets.

Included in the System's cash and investments in the preceding table are investments held by the System's captive insurance companies. These assets totaled $223.0 million as of June 30, 2008, with an asset mix of 17% equity securities and 83% cash and fixed income securities. The asset mix reflects the need for liquidity within the captives and the lower tolerance for risk and volatility inherent in insurance reserves. The assets are invested using the same multiple asset styles and investment managers used in the System's long-term investment portfolio.

Below is a comparison of the System's cash and investments allocated with and without the assets in the captive insurance program:

Cash and Investments
(dollars in thousands)

	June 30, 2008			
	with Captive Assets		without Captive Assets	
Cash and cash equivalents	$71,543	3%	$71,543	3%
Investments:				
Cash and short-term investments	322,528	13%	266,048	12%
Fixed income securities	489,486	20%	361,787	17%
Marketable equity securities	973,658	40%	934,878	42%
Alternative investments	574,274	24%	574,274	26%
Total cash and investments	$2,431,489	100%	$2,208,530	100%

Patient Receivables. Patient accounts receivable, net of allowances for uncollectible accounts, increased $59.7 million (10.6%) from December 31, 2007 to June 30, 2008. Days revenue outstanding increased from 47.9 days at December 31, 2007 to 50.2 days at June 30, 2008. Contributing to the increase in patient receivables is the growth in patient revenues due to rate increases on the System's managed care contracts and price increases enacted in 2008. Additionally, the System accrued receivables related to favorable settlements of contract disputes with third-party payors from prior years.

Other Current Assets. Other current assets decreased $320.9 million (56.3%) from December 31, 2007 to June 30, 2008. Included in other current assets are collateralized receivables of $14.0 million, which decreased $345.7 million from December 31, 2007 to June 30, 2008. The collateralized receivables relate to the System's securities lending activity in the investment portfolio. The accounting guidance for securities lending also requires recording a corresponding liability of $14.0 million, which is recorded in other current liabilities. The System has significantly reduced the securities lending program as it evaluates the liquidity needs within its investment

portfolio. Offsetting the decrease in collateralized receivables were increases in prepaid expenses of $12.2 million primarily due to the timing of annual maintenance contracts and insurance payments, increases in Hospital Care Assurance Program receivables of $8.3 million and increases in inventories of $4.7 million.

Investments. Total investments decreased $242.0 million (9.5%) from December 31, 2007 to June 30, 2008. Unrestricted investments decreased $193.1 million (9.8%) primarily from negative market returns on the System's long-term investment pool and reclassifications to short-term cash to fund, in particular, the purchase of bonds in lieu of redemption (See the discussion under "Cash and Investments" above). Donor restricted assets decreased $42.8 million (12.7%) primarily from the release of restrictions for capital purchases of the Miller Family Pavilion and Glickman Tower construction projects. Assets held by captive insurance companies decreased $6.1 million (3.5%). The decrease in assets held by captive insurance companies is primarily related to the timing of reimbursement for claims previously settled and paid by other System entities in excess of insurance premiums received.

Property, Plant and Equipment, Net. Net property, plant and equipment increased $109.2 million (4.4%) from December 31, 2007 to June 30, 2008. In 2008, the System acquired $228.2 million in new assets. These additions were offset by a $119.0 million increase in accumulated depreciation for the same period. Included in capital acquisitions were $95.2 million for the Miller Family Pavilion project, $24.6 million for the Glickman Tower project, $14.3 million for the System's portion of the Carnegie and 89th Street Garage and Service Center project, $12.0 million for the 93rd Street parking garage expansion at the main campus, $5.2 million for the System's investment in electronic medical records systems, and $3.8 million for the leasehold improvements of office space in Beachwood that the System began leasing in 2007.

Current Liabilities. Accounts payable decreased $19.5 million (6.8%) since December 31, 2007. This decrease is principally attributable to a higher than normal level of large invoices at year-end associated with the System's current construction projects. Compensation and amounts withheld from payroll increased $16.5 million (16.2%) since December 31, 2007 which is primarily the result of the timing of payroll and growth in salaries and FTEs. Other current liabilities decreased $336.2 million (50.4%) since December 31, 2007. Included in other current liabilities is a payable of $14.0 million associated with securities lending activity, which decreased $345.7 million from December 31, 2007. (See the discussion under "Other Current Assets" above.) Offsetting this decrease is a $6.1 million increase in third party payor deposits that are expected to be refunded in 2008 and a $5.5 million increase in research deferred revenue related to research activities.

Long-Term Debt. Hospital revenue bonds payable decreased $332.9 million (22.7%) since December 31, 2007. The decrease was primarily the result of the System's payment of $329.4 million to purchase bonds in lieu of redemption. Notes payable and capital leases decreased $6.2 million (11.9%) since December 31, 2007. The decrease was the result of regularly scheduled debt payments and the reclassification of payments from noncurrent to current.

Non-Current Liabilities. Other liabilities increased $26.5 million (3.2%) since December 31, 2007. The increase is the result of a $9.5 million increase in accrued malpractice liabilities, a $4.7 million increase in accrued retirement benefits, and a $12.3 million increase in other noncurrent liabilities. The increase in other noncurrent liabilities was primarily due to a $9.7 million increase in noncurrent paid time off and a $2.8 million increase in derivative liabilities.

Net Assets. Total net assets increased $19.5 million (0.6%) from December 31, 2007 to June 30, 2008. Unrestricted net assets increased $68.1 million (2.5%) comprised primarily of $41.5 million of excess of revenues over expenses, and $50.0 million of donated capital and assets released from restrictions offset by a $21.1 million reduction related to the adoption of FASB Statement No. 158 and a $2.2 million change in unrealized investment net losses on nontrading investments. Restricted net assets decreased $48.6 million (7.3%) comprised of $25.3 million of restricted gifts and $0.5 million increase in beneficial interest in foundations, less $65.0 million of assets released from restrictions and $9.4 million net investment loss.

G. PENSION PLAN

The Health System, including both the Obligated Group and other affiliated entities, has non-contributory defined benefit pension plans covering most employees. As of December 31, 2007, the projected benefit obligation exceeded the fair value of the pension assets by approximately $306.9 million. The Cleveland Clinic's funding for its pension plans were $3.0 million in 2007, $92.0 million in 2006, and $113.0 million in 2005. In 2008, the

Cleveland Clinic will fund $96.2 million and expects to make contributions of $107.0 million and $102.6 million in 2009 and 2010, respectively.

H. ANTICIPATED EXPENDITURES, FUTURE PLANS AND OUTLOOK FOR OPERATIONS

In 2005, 2006 and 2007, the Obligated Group spent $251.7 million, $378.8 million and $487.1 million, respectively, on net purchases of property, plant and equipment in northeast Ohio and Florida, underscoring its commitment to make the capital investments that it believes are necessary to sustain and enhance its patient care service, research and education activities. The Cleveland Clinic's Board of Trustees approves the Cleveland Clinic's annual capital budget and also approves capital expenditures for major new Health System projects.

Cleveland Clinic management continues to anticipate, and remains alert to, changes in the healthcare market and is committed to formulating and implementing financial and strategic plans necessary to meet the Cleveland Clinic's strategic objectives and to enable the Cleveland Clinic Health System to remain a recognized world leader in healthcare. To that end, Cleveland Clinic management continually evaluates the ways in which it conducts business, as reflected by its restructuring of managed care arrangements and its more strategic approach to pricing, billing and charge recovery. In addition, Cleveland Clinic management continues to evaluate new business opportunities that may involve the addition or acquisition of, or affiliation with, new enterprises, or the divestiture of enterprises that it or one of its Affiliates currently owns and operates or with which it is affiliated. All such transactions will comply with the terms of the Master Trust Indenture. See "APPENDIX C – SUMMARY OF BASIC DOCUMENTS – THE MASTER TRUST INDENTURE." The Cleveland Clinic may pursue opportunities, affiliations or relationships with other organizations or enterprises that would not be a part of the Obligated Group or that would not qualify for consolidation in the Cleveland Clinic's financial statements under generally accepted accounting principles in the United States.

The Cleveland Clinic has enjoyed substantial increases in patient volumes due to increases in outpatient care. Cleveland Clinic management seeks to maintain and grow volumes in order to moderate the effect of inflationary increases in healthcare costs. Several strategies directed to that result have been implemented, including: (i) the establishment with other healthcare organizations of formal relationships, such as contractual affiliations and joint ventures, (ii) the expansion of strategically located Family Health Centers to extend the Obligated Group's geographical coverage and to provide a full range of primary and secondary care services, and to improve access to the tertiary services for which the Cleveland Clinic is so well known, (iii) entering into collaborative agreements with other healthcare organizations to provide professional, technical and medical management services to these organizations and their patients, and (iv) continued investment in research and education intended to enhance the quality and clinical reputation of the Cleveland Clinic and the ability of the Health System to deliver specialty care to patients with complex medical problems. Despite the increase in patient volumes, certain economic trends in the service area may adversely affect the financial impact of such increases. See "PART II – THE OBLIGATED GROUP – D. MARKET DYNAMICS" for a discussion of these economic trends.

I. INTEREST RATE HEDGING AGREEMENTS

The Health System's objectives with respect to management of interest rate risk include (1) managing the risk of increased debt service resulting from rising market interest rates, and (2) managing the risk of an increase in the fair value of outstanding fixed rate obligations resulting from declining market interest rates. Consistent with these objectives, the Cleveland Clinic has in the past, and may in the future, enter into interest rate hedging agreements. See footnote 11 to the audited consolidated financial statements in Appendix B for more information on the Cleveland Clinic's interest rate hedging agreements.

PART V.

NON-OBLIGATED HEALTH SYSTEM PARTICIPANTS

This part of Appendix A presents information concerning certain participants in the Cleveland Clinic Health System that are not members of the Obligated Group. *The only participants of the Cleveland Clinic Health System that have any liability with respect to the Series 2008 Bonds are the members of the Obligated Group.*

Affiliates that are not members of the Obligated Group include but are not limited to CCHS – Western Region, Lakewood, Children's Hospital and Florida Hospital, each discussed above. Other Affiliates of a substantial magnitude include:

- Clinic Care, Inc. ("Clinic Care") (formerly known as Clinitec), an Ohio nonprofit corporation and Tax-Exempt Organization that operates hotels and home care service companies. It is the direct or indirect parent of other Health System subsidiaries.

- CCHS Indemnity Co., Ltd. ("CCHSICO") and Cleveland Clinic Health System Community Hospital Insurance Program ("CHIP"). CCHSICO and CHIP were formed in 1997 and 2004, respectively, and operate as Unrestricted Class "B" Cayman Island insurance companies. CHIP provides primary layer coverage for the Cleveland Clinic Health System's regional hospitals, including Fairview, Lutheran, Marymount, Hillcrest, Huron, Euclid and South Pointe, while CCHSICO provides primary layer coverage for the Cleveland Clinic, Florida Clinic and Florida Hospital.

The aggregate unrestricted revenues of the non-obligated participants in the Cleveland Clinic Health System represented approximately 12% of the Health System's aggregate unrestricted revenues for the year ended December 31, 2007. No single non-Obligated Group entity generated more than 4% of the Health System's revenues during that period.

The following table sets forth the aggregate assets, revenues, and excess of revenues over expenses, for the non-obligated participants in the Cleveland Clinic Health System as of and for the years ended December 31, 2005, 2006 and 2007 and for the six months ended June 30, 2007 and 2008.

NON-OBLIGATED HEALTH SYSTEM PARTICIPANTS
Selected Financial Information
(dollars in thousands)

	Year Ended December 31,			Six Months Ended June 30,	
	2005	**2006**	**2007**	**2007**	**2008**
Total assets	$850,450	$979,239	$908,497	$1,063,420	$946,296
Total unrestricted revenues	423,614	476,438	562,965	286,825	299,630
Excess of revenues over expenses	56,886	130,411	106,474	25,063	14,069

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APPENDIX B

CERTAIN FINANCIAL STATEMENTS AND FINANCIAL INFORMATION

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AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND OTHER FINANCIAL INFORMATION

The Cleveland Clinic Foundation d.b.a. Cleveland Clinic Health System
December 31, 2007 and 2006
With Report of Independent Auditors

Cleveland Clinic Health System

Audited Consolidated Financial Statements and Other Financial Information

December 31, 2007 and 2006

Contents

Ernst & Young LLP
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Report of Independent Auditors

The Board of Trustees
The Cleveland Clinic Foundation

We have audited the accompanying consolidated balance sheets of The Cleveland Clinic Foundation and controlled affiliates, d.b.a. Cleveland Clinic Health System (the System), as of December 31, 2007 and 2006, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the System's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the System at December 31, 2007 and 2006, and the consolidated results of its operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

As discussed in Notes 10 and 12 to the consolidated financial statements, in 2007, the System adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, and the recognition provisions of Statement Financial Accounting Standards No. 158, *an Interpretation of FASB Statement 109, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an Amendment of FASB Statements No. 87, 88, 106, and 132(R),* respectively.

Ernst & Young LLP

March 12, 2008

Cleveland Clinic Health System

Consolidated Balance Sheets
(In Thousands)

	December 31 2007	2006
Assets		
Current assets:		
Cash and cash equivalents	**$ 268,081**	$ 460,632
Patient receivables, net of allowances for uncollectible accounts of $98,315 in 2007 and $95,931 in 2006	**552,270**	488,073
Investments for current use	**101,452**	61,726
Other current assets	**570,442**	396,967
Total current assets	**1,492,245**	1,407,398
Investments, including securities pledged to creditors of $349,650 in 2007 and $202,697 in 2006:		
Investments	**1,979,101**	1,403,058
Funds held by bond trustees	**55,225**	240,178
Assets held for self-insurance	**171,403**	250,527
Donor restricted assets	**338,279**	279,295
	2,544,008	2,173,058
Property, plant, and equipment, net	**2,503,309**	2,174,831
Other assets:		
Pledges receivable, net	**140,924**	140,420
Trusts and interests in foundations	**121,371**	112,262
Other noncurrent assets	**75,049**	199,990
	337,344	452,672
Total assets	**$ 6,876,906**	$ 6,207,959

	December 31	
	2007	**2006**
Liabilities and net assets		
Current liabilities:		
Accounts payable	**$ 286,955**	$ 271,344
Compensation and amounts withheld from payroll	**101,502**	94,323
Estimated amounts due to third-party payors	**35,233**	36,094
Current portion of long-term debt	**15,941**	9,655
Other current liabilities	**653,662**	480,396
Total current liabilities	**1,093,293**	891,812
Long-term debt:		
Hospital revenue bonds	**1,468,480**	1,473,121
Notes payable and capital leases	**52,261**	62,771
	1,520,741	1,535,892
Other liabilities:		
Accrued self-insurance	**183,397**	265,245
Accrued retirement benefits	**378,095**	365,243
Other noncurrent liabilities	**271,341**	248,235
	832,833	878,723
Total liabilities	**3,446,867**	3,306,427
Net assets:		
Unrestricted	**2,763,227**	2,315,489
Temporarily restricted	**476,407**	416,440
Permanently restricted	**190,405**	169,603
Total net assets	**3,430,039**	2,901,532
Total liabilities and net assets	**$ 6,876,906**	$ 6,207,959

See notes to consolidated financial statements.

Cleveland Clinic Health System

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

Operations

	Year Ended December 31	
	2007	**2006**
Unrestricted revenues		
Net patient service revenue	**$ 4,354,781**	$ 3,969,429
Other	**452,445**	429,620
Total unrestricted revenues	**4,807,226**	4,399,049
Expenses		
Salaries, wages, and benefits	**2,564,129**	2,352,799
Supplies	**549,166**	499,051
Pharmaceuticals	**258,545**	239,668
Purchased services	**257,982**	226,497
Administrative services	**145,562**	125,197
Facilities	**256,960**	214,094
Insurance	**11,120**	18,040
Provision for uncollectible accounts	**147,161**	99,308
	4,190,625	3,774,654
Operating income before interest, depreciation, and amortization expenses	**616,601**	624,395
Interest	**56,193**	57,275
Depreciation and amortization	**211,307**	194,919
Operating income	**349,101**	372,201
Nonoperating gains and losses		
Interest and dividends	**44,295**	49,556
Net realized and unrealized gains on investments classified as trading	**81,407**	104,851
Other, net	**11,637**	(7,162)
Net nonoperating gains and losses	**137,339**	147,245
Excess of revenues over expenses	**486,440**	519,446

Changes in Net Assets

	Net Assets			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balances at January 1, 2006	$ 1,707,121	$ 376,023	$ 164,715	$ 2,247,859
Excess of revenues over expenses	519,446	–	–	519,446
Discontinued operations	28,479	–	–	28,479
Donated capital and assets released from restrictions for capital purposes	10,212	(9,735)	–	477
Gifts and bequests	–	84,277	5,886	90,163
Transfer of net assets	5,115	(5,115)	–	–
Net investment income	–	21,010	–	21,010
Net assets released from restrictions used for operations included in other unrestricted revenues	–	(50,020)	–	(50,020)
Minimum pension liability adjustment	37,628	–	–	37,628
Change in value of derivatives	7,720	–	–	7,720
Change in value of perpetual trusts	–	–	(998)	(998)
Foreign currency translation adjustment	(232)	–	–	(232)
Increase in net assets	608,368	40,417	4,888	653,673
Balances at December 31, 2006	2,315,489	416,440	169,603	2,901,532
Excess of revenues over expenses	**486,440**	**–**	**–**	**486,440**
Donated capital and assets released from restrictions for capital purposes	**6,636**	**(6,232)**	**–**	**404**
Gifts and bequests	**–**	**88,433**	**16,819**	**105,252**
Net investment income	**–**	**22,210**	**–**	**22,210**
Net assets released from restrictions used for operations included in other unrestricted revenues	**–**	**(48,920)**	**–**	**(48,920)**
Minimum pension liability adjustment	**94,725**	**–**	**–**	**94,725**
Adjustment to adopt FASB Statement No. 158	**(141,771)**	**–**	**–**	**(141,771)**
Change in value of derivatives	**1,693**	**–**	**–**	**1,693**
Change in beneficial interests in foundations		**4,476**	**2,304**	**6,780**
Change in value of perpetual trusts	**–**	**–**	**1,679**	**1,679**
Foreign currency translation adjustment	**36**	**–**	**–**	**36**
Change in unrealized investment net gains on nontrading investments	**8,261**	**–**	**–**	**8,261**
Increase in net assets before cumulative effect of accounting change	**456,020**	**59,967**	**20,802**	**536,789**
Cumulative effect of change in accounting for income taxes	**(8,282)**	**–**	**–**	**(8,282)**
Increase in net assets	**447,738**	**59,967**	**20,802**	**528,507**
Balances at December 31, 2007	**$ 2,763,227**	**$ 476,407**	**$ 190,405**	**$ 3,430,039**

See notes to consolidated financial statements.

Cleveland Clinic Health System

Consolidated Statements of Cash Flows

(In Thousands)

	Year Ended December 31	
	2007	**2006**
Operating activities and net nonoperating gains and losses		
Increase in net assets	**$ 528,507**	$ 653,673
Increase in net assets from discontinued operations	**–**	(28,479)
Increase in net assets from continuing operations	**528,507**	625,194
Adjustments to reconcile increase in net assets to net cash provided by operating activities and net nonoperating gains and losses:		
Cumulative effect of change in accounting for income taxes	**8,282**	–
Minimum pension liability adjustment	**(94,725)**	(37,628)
Adjustment to adopt FASB Statement No. 158	**141,771**	–
Net increase in investments classified as trading	**(364,695)**	(70,769)
Change in unrealized investment net gains for nontrading securities	**(8,261)**	–
Impairment of investments carried at cost	**578**	257
Depreciation and amortization	**211,307**	194,919
Provision for uncollectible accounts	**147,161**	99,308
Restricted gifts, bequests, investment income, and other	**(135,921)**	(110,175)
Donated capital	**(404)**	(477)
Accreted interest and amortization of bond premiums	**(651)**	(651)
Change in value of derivatives	**18,185**	(7,515)
Changes in operating assets and liabilities:		
Patient receivables	**(211,358)**	(143,577)
Other current assets	**(163,458)**	(75,535)
Other noncurrent assets	**114,579**	45,317
Accounts payable and other current liabilities	**168,388**	(66,717)
Other liabilities	**(110,635)**	155,068
Net cash provided by operating activities and net nonoperating gains and losses from continuing operations	**248,650**	607,019
Financing activities		
Payments on short-term borrowings	**–**	(38,413)
Proceeds from long-term borrowings	**1,272**	109,800
Payments to redeem long-term debt	**–**	(9,252)
Principal payments on long-term debt	**(9,767)**	(11,140)
Debt issuance costs	**–**	(3,004)
Change in pledge receivables, trusts and interest in foundations	**(23,620)**	3,309
Restricted gifts, bequests, investment income, and other	**135,921**	110,175
Net cash provided by financing activities from continuing operations	**103,806**	161,475
Investing activities		
Expenditures for property and equipment, net	**(506,709)**	(458,824)
Increase in non-trading investments, net	**(38,298)**	(347,142)
Net cash used in investing activities from continuing operations	**(545,007)**	(805,966)
Net cash provided by discontinued operations	**–**	67,145
(Decrease) increase in cash and cash equivalents	**(192,551)**	29,673
Cash and cash equivalents at beginning of year	**460,632**	430,959
Cash and cash equivalents at end of year	**$ 268,081**	$ 460,632

See notes to consolidated financial statements.

Cleveland Clinic Health System

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

1. Organization and Consolidation

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

The System is the leading provider of healthcare services in northeast Ohio. The System operates eleven hospitals with more than 3,400 staffed beds. Ten of the hospitals are operated in the Cleveland metropolitan area, anchored by the Foundation. In addition, the System operates sixteen Family Health Centers, including five ambulatory surgery centers, and many additional physician offices over a six-county area of northeast Ohio. In South Florida, the System operates a hospital and a clinic on the east coast in Weston.

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

2. Affiliations

In prior years, the Foundation had an affiliation agreement with Comprehensive Health Care of Ohio, Inc. (CHC), the sole voting member of Amherst Hospital (Amherst). Pursuant to the agreement, the Foundation had a 49% membership interest in Amherst, which was accounted for using the equity method. In 2006, the Foundation recorded a loss of $0.5 million, included in other nonoperating gains and losses, and the investment in Amherst was $0 at December 31, 2006. In May 2007, the Foundation terminated its affiliation with CHC.

The Foundation has an affiliation agreement with Ashtabula County Medical Center (Ashtabula). The carrying value of the investment ($12.0 million at December 31, 2007 and 2006) is recorded in other noncurrent assets and is accounted for using the cost (lower of cost or fair value) method of accounting.

2. Affiliations (continued)

Prior to October 1, 2006, the Foundation had a 49% interest in a partnership with Tenet Healthcare Florida, Inc. (Tenet), a subsidiary of Tenet Healthcare Corporation. The partnership, TCC Partners (TCC), was formed to construct, own and operate a hospital in Weston, Florida (Weston Hospital), which opened in July 2001. On October 1, 2006, the Foundation exercised a contractual option to purchase Tenet's 51% interest in TCC at a cost of $90.0 million, including the assumption of a note payable to Tenet of $51.2 million. The Foundation recorded a nonoperating charge of $13.8 million related to a purchase option premium paid to Tenet in accordance with the Partnership's Definitive Agreement. The Foundation also recorded a charge to other unrestricted revenues of $6.4 million comprised of a $9.0 million write-down of the book value of the Foundation's interest in TCC to fair value at the purchase date, less a $2.6 million reduction in noncurrent liabilities associated with the purchase transaction. The transaction was accounted for using the purchase method of accounting. The purchase price and the Foundation's equity investment in TCC of $49.0 million at the acquisition date were allocated to property, plant, and equipment in the amount of $86.8 million, accounts receivable and other assets of $37.2 million, current liabilities of $17.3 million, and noncurrent liabilities of $57.7 million.

Prior to October 1, 2006, the Foundation's interest in TCC was accounted for using the equity method of accounting. Equity income of $4.9 million through the first nine months of 2006 was based on an earnings distribution formula as defined in the partnership agreement and is included in other unrestricted revenues. The Foundation received a distribution of earnings from TCC of $1.2 million in 2006.

3. Accounting Policies

Use of Estimates

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

3. Accounting Policies (continued)

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others, including retroactive adjustments under payment agreements with third-party payors. The System has agreements with third-party payors that generally provide for payments to the System at amounts different from its established rates. An estimated allowance is recorded which results in accounts receivable being reported at the net amount expected to be received from third-party payors. In 2007, net patient revenue was increased by approximately $43.4 million related to a change in estimate for this allowance.

The System is paid a prospectively determined rate for the majority of inpatient acute care and outpatient, skilled nursing and rehabilitation services provided (principally Medicare, Medicaid and certain insurers). These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Medicare payments for capital are received on a prospective basis and on a cost reimbursement methodology for Medicaid. Payments are received on a prospective basis for the System's medical education costs, subject to certain limits. The System is paid for cost reimbursable items at a tentative rate, with final settlement determined after submission of annual cost reports by the System and audits thereof by the Medicare fiscal intermediary. Provision for estimated retroactive adjustments, if any, resulting from regulatory matters or other adjustments under payment agreements are estimated in the period the related services are provided. The System recorded an increase in net patient service revenue of $43.6 million and $41.1 million in 2007 and 2006, respectively, related to changes in estimates.

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

Under other arrangements with third-party payors, the System is paid prospectively determined rates per discharge, at a percentage of established charges or at prospectively determined daily rates.

3. Accounting Policies (continued)

International Contract Revenue Recognition

The System has management agreements with international organizations to provide consulting services for various healthcare ventures. These scope of services range from managing current healthcare operations to managing the construction, training, organizational infrastructure and operational management of future foreign healthcare entities. The management fees are received in advance and are deferred until the services have been provided. The System has recorded deferred revenue related to international management agreements, included in other current liabilities, of $32.4 million and $15.5 million at December 31, 2007 and 2006, respectively.

Charity Care

The System provides care to patients who do not have the ability to pay and who qualify for charity services pursuant to established policies of the System. Charity services are defined as those for which patients have the obligation and willingness to pay but do not have the ability to do so. Charity care provided in 2007 and 2006, measured at established rates and including discontinued operations, approximated $385 million and $324 million, respectively, and is not included in net patient service revenue.

Concentration of Credit Risk

The System's concentration of credit risk relating to accounts receivable is limited due to the diversity of patients and payors. Accounts receivable consist of amounts due from government programs, commercial insurance companies, private pay patients and other group insurance programs. Revenues from the Medicare and Medicaid programs and one commercial payor account for approximately 30%, 2%, and 21% in 2007 and 29%, 5%, and 20% in 2006, respectively, of the System's net patient service revenue. Excluding these payors, no one payor represents more than 10% of the System's accounts receivable or net patient service revenue.

3. Accounting Policies (continued)

The provision for uncollectible accounts is based upon management's assessment of historical and expected net collections considering historical business and economic conditions, trends in health care coverages and other collection indicators. Periodically throughout the year, management assesses the adequacy of the allowance for uncollectible accounts based upon historical write-off experience by payor category. The results of this review are then used to make modifications to the provision for uncollectible accounts to establish an appropriate allowance for uncollectible receivables. After satisfaction of amounts due from insurance, the System follows established guidelines for placing certain past due patient balances with collection agencies, subject to the terms of certain restrictions on collection efforts as determined by the System.

Cash and Cash Equivalents

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

Inventories

Inventories (primarily supplies and pharmaceuticals) are stated at the lower of cost (first-in, first-out method) or market.

Property, Plant, and Equipment

Property, plant, and equipment are stated at cost. Expenditures which substantially increase the useful lives of existing assets are capitalized. Routine maintenance and repairs are expensed as incurred. Depreciation, including amortization of capital leased assets, is computed by the straight-line method using the estimated useful lives of individual assets. Buildings are assigned a useful life of up to forty years. Equipment is assigned a useful life ranging from three to fifteen years. Interest cost incurred on borrowed funds during the period of construction of capital assets and interest income on unexpended project funds are capitalized as a component of the cost of acquiring those assets. The System records costs and legal obligations associated with long-lived asset retirements.

3. Accounting Policies (continued)

Impairment of Long-Lived Assets

The System evaluates the recoverability of long-lived assets and the related estimated remaining lives at each balance sheet date. The System records an impairment charge or changes the useful life if events or changes in circumstances indicate that the carrying amount may not be recoverable or the useful life has changed.

Investments and Investment Income

Investments in equity securities with readily determinable market values and all investments in debt securities are measured at fair value, based on quoted market prices, in the consolidated balance sheets and are classified as trading, excluding one investment with a value of $8.3 million at December 31, 2007, which is classified as nontrading. Realized gains and losses are determined using the average cost method.

Investments in alternative investments are primarily limited partnerships that invest in marketable securities, privately held securities, real estate, and derivative products and are reported using the equity method of accounting based on information provided by the respective partnership. The values provided by the respective partnerships are based on historical cost, appraisals, or other estimates that require varying degrees of judgment. If no public market exists for the alternative investment, the fair value is determined by the general partner taking into consideration, among other things, the cost of the securities, prices of recent significant placements of securities of the same issuer, and subsequent developments concerning the companies to which the securities relate. There is inherent uncertainty in such valuations and the estimated fair values may differ from the values that would have been used had a ready market for the securities existed. Generally, the fair value of the System's holdings in alternative investments reflects net contributions to the partnership and an ownership share of realized and unrealized investment income and expenses. The investments may individually expose the System to securities lending, short sales, and trading in futures and forward contract options and other derivative products. The System's risk is limited to its carrying value. Amounts can be divested only at specified times in accordance with terms of the partnership agreement. The financial statements of the limited partnerships are audited annually.

3. Accounting Policies (continued)

Investment income on investments, including changes in equity values of alternative investments, is reported as nonoperating gains and losses except for earnings on funds held by bond trustees and assets held for self-insurance, which are included in other unrestricted revenues ($6.6 million and $11.8 million in 2007 and 2006, respectively). Donor restricted investment income on temporarily and permanently restricted investments, including realized and unrealized gains and losses, is included in temporarily restricted net assets. An unrealized gain of $8.3 million at December 31, 2007 associated with the investment classified as nontrading is included in unrestricted net assets.

Alternative investments also includes investments related to venture fund investments directly owned by the System aggregating $4.4 million and $5.0 million at December 31, 2007 and 2006, respectively, which are recorded on the cost method. In 2007 and 2006, the System recorded a provision for the impairment of certain venture fund investments of $0.6 million and $0.3 million, respectively, which is included in nonoperating gains and losses.

Financial Instruments

The carrying values of cash and cash equivalents, accounts receivable and accounts payable are reasonable estimates of fair value due to the short-term nature of these financial instruments. At December 31, 2007 and 2006, the fair value of the System's long-term debt, as estimated by discounted cash flow analyses using current borrowing rates for similar types of borrowing arrangements, was $1,482 million and $1,509 million (Note 11), respectively. Other noncurrent assets and liabilities have carrying values that approximate fair value.

In September 2006, the Financial Accounting Standards Board (FASB) issued FASB Statement of Financial Accounting Standard (SFAS) No. 157, *Fair Value Measurements* (SFAS No. 157), which establishes a framework for using fair value to measure assets and liabilities, and expands disclosures about fair value measurements. SFAS No. 157 applies to other accounting pronouncements that require or permit fair value measurements and, accordingly, SFAS No. 157 does not require any new fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The System is currently evaluating the potential impact that the adoption of this statement will have on its financial position and results of operations.

3. Accounting Policies (continued)

Derivatives and Hedging Activities

The System follows SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS No. 133), which requires derivative financial instruments, such as interest rate swaps (Note 11), to be recognized as assets or liabilities in the consolidated balance sheets at fair value.

The System accounts for changes in the fair value of a derivative instrument depending on whether it is designated and qualified as part of a hedging relationship and further, on the type of hedging relationship. The change in fair value of derivative instruments that qualified as cash flow hedges under SFAS No. 133 and the gain or loss on the derivative instrument attributable to the hedged risk are reported as changes in unrestricted net assets. Effective April 1, 2007 in accordance with SFAS No. 133, Implementation Issue No. G26, *Hedging Interest Cash Flows on Variable-Rate Assets and Liabilities that are not based on a Benchmark Interest Rate* (Issue No. G26), the System dedesignated its hedging relationship prospectively on swaps that previously qualified as cash flow hedges and changes in the fair value of these derivative instruments (i.e., gains or losses) are recorded in nonoperating gains and losses. The derivative gain or loss for the period prior to the effective date remains in unrestricted net assets and is amortized and recorded in excess of revenues over expenses over the life of the hedged debt. The changes in fair value of derivative instruments that are designated as speculative for accounting purposes are recorded in nonoperating gains and losses.

Contributions

Unconditional donor pledges to give cash, marketable securities and other assets are reported at fair value and discounted to present value at the date the pledge is made to the extent estimated to be collectible by the System. Conditional donor promises to give and indications of intentions to give are not recognized until the condition is satisfied. Pledges received with donor restrictions that limit the use of the donated assets are reported as either temporarily or permanently restricted support. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are transferred to unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as other unrestricted revenues if the purpose relates to operations or reported as a change in net asset if the purpose relates to capital.

3. Accounting Policies (continued)

Grants

Grant revenue is recognized in the period it is earned as the applicable project expenses are incurred and project milestones are achieved. Payments received in advance are deferred until the expenditure has been incurred and recorded as deferred revenue and included in other current liabilities. The System recorded research grant revenue, included in other unrestricted revenues, of $168.3 million and $150.1 million in 2007 and 2006, respectively.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are used to differentiate resources, the use of which is restricted by donors or grantors to a specific time period or purpose, from resources on which no restrictions have been placed or that arise from the general operations of the System. Temporarily restricted gifts and bequests are recorded as an addition to temporarily restricted net assets in the period received. Permanently restricted net assets consist of amounts held in perpetuity or for terms designated by donors, including the present value of expected future cash flows under several perpetual trusts for which the System is an income beneficiary or the beneficial interest in the fair value of underlying trust assets. Earnings on permanently restricted net assets are recorded as investment income in temporarily restricted net assets and subsequently used in accordance with the donor's designation. Temporarily and permanently restricted net assets are primarily restricted for research, education and strategic capital projects.

The System returned $5.1 million in 2006 from temporarily restricted net assets to unrestricted net assets that had been transferred in prior years for the purpose of maintaining donor restricted funds at the level required by donor stipulations.

Excess of Revenues Over Expenses

The consolidated statements of operations and changes in net assets include excess of revenues over expenses. Changes in unrestricted net assets, which are excluded from excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments classified as nontrading, amortization on the accumulative change in value of cash flow hedges previously recorded in unrestricted net assets in accordance with SFAS No. 133, Implementation Issue No. G26, pension liability adjustments, discontinued operations, foreign currency translation adjustments, contributions of long-lived assets (including assets acquired using grants or contributions which by donor restriction were to be used for the purpose of acquiring such assets) and the cumulative effect of changes in accounting.

3. Accounting Policies (continued)

Foreign Currency Translation

The financial position and results of operations of the System's foreign subsidiaries are measured using the local currency as the functional currency. Assets and liabilities of operations denominated in foreign currencies are translated into U.S. dollars at exchange rates in effect at year-end, while revenues and expenses are translated at the weighted average exchange rates for the year. The resulting translation gains and losses on assets and liabilities are recorded in net assets.

Other Nonoperating Gains and Losses

Other nonoperating gains and losses in December 31, 2007 and 2006 include income or loss on investments accounted for using the equity method of accounting including alternative investments. Additionally in 2006, the System recorded a loss of $4.8 million associated with a required lease termination payment and a loss of $13.8 million associated with the purchase of Weston Hospital (Note 2).

Reclassifications

Certain prior year amounts have been reclassified to conform with the current year presentation, which had no impact on previously reported net assets. In previous years, the System's investments were classified as nontrading. As such, unrealized gains and losses that were considered temporary were excluded from excess of revenue over expenses. During 2007, the System determined that substantially all its investment portfolio was more accurately classified as trading, with unrealized gains and losses included in excess of revenue over expenses. Therefore, $68.9 million of unrealized investment gains previously recorded in unrestricted net assets in 2006 have been reclassified to nonoperating gains and losses. These reclassifications did not impact the total increase in net assets previously reported.

3. Accounting Policies (continued)

Recently Adopted Accounting Pronouncements

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109*, (FIN 48), to create a single model to address accounting for uncertainty in tax positions (Note 10). FIN 48 clarifies the accounting for income taxes, by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. The System adopted FIN 48 in 2007, as required.

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No 87, 88, 106 and 132(R)* (SFAS No. 158). SFAS No. 158 requires plan sponsors of defined benefit pension and other postretirement benefit plans (collectively, postretirement benefit plans) to recognize the funded status of their postretirement benefit plans in the balance sheet, measure the fair value of plan assets and benefit obligations as of the date of the fiscal year-end and provide additional disclosures. On December 31, 2007, the System adopted the recognition and disclosure provisions of SFAS No. 158 (Note 12). The effect of adopting SFAS No. 158 on the System's consolidated balance sheet at December 31, 2007, has been included in the accompanying consolidated financial statements. SFAS No. 158 did not have an effect on the System's consolidated financial position at December 31, 2006. Additionally, SFAS No. 158 eliminates the early measurement date provision of SFAS No. 87. The requirement to measure the plan assets and benefit obligations as of the fiscal year-end is effective for fiscal years ending after December 15, 2008. The System will adopt the change in measurement date in 2008.

4. Cash, Cash Equivalents, and Investments

The composition of cash, cash equivalents, and investments at December 31, 2007 and 2006 is as follows (in thousands):

	2007	2006
Cash and cash equivalents	**$ 745,073**	$ 736,390
Fixed income securities:		
U.S. Government	**62,867**	47,391
U.S. Government agencies	**63,805**	119,240
U.S. Corporate	**251,929**	222,517
U.S. Government agencies asset-backed securities	**18,193**	137,274
Corporate asset-backed securities	**33,676**	17,257
Foreign	**82,984**	106,380
Common and preferred stocks:		
U.S.	**895,305**	730,750
Foreign	**202,331**	223,820
Alternative investments:		
Venture capital	**39,858**	28,899
Hedge funds	**431,827**	314,025
Private equities	**29,399**	5,215
Real estate	**56,294**	6,258
Total cash, cash equivalents, and investments	**$2,913,541**	$2,695,416

Investments are primarily maintained in a master trust fund administered using a bank as trustee. External investment managers are contracted to manage the investment of the portfolio assets, which have investment advisors. Of these investment managers, ten managers focus on equity investments, one manager focuses on fixed income investments and 44 managers focus on direct alternative investments (venture capital, hedge funds, private equity, and real estate). The alternative investments have separate administrators and custodian arrangements. Alternative investments also includes seven limited partnership holdings in which the System invests directly. Included in fixed income securities were $220.9 million and $220.2 million of investments in collective trusts at December 31, 2007 and 2006, respectively. Included in common and preferred stocks were $128.0 million and $13.3 million of investments in collective trusts at December 31, 2007 and 2006, respectively.

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

The System has an arrangement with its investment custodian whereby certain securities in the System's portfolio were loaned to other institutions generally for a short period of time. The System receives as collateral the market value of securities borrowed plus a premium approximating 3% of the market value of those securities. At December 31, 2007 and 2006, investment securities with an aggregate market value of $349.7 million and $202.7 million, respectively, were loaned to various brokers and are returnable on demand. In accordance with SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities*, the System recorded the collateral received as both a current asset and a current liability since the System is obligated to return the collateral upon the return of the borrowed securities.

5. Other Current Assets and Liabilities and Other Noncurrent Assets and Liabilities

Other current and noncurrent assets at December 31, 2007 and 2006 consist of the following (in thousands):

	2007	2006
Current:		
Securities lending collateral (Note 4)	**$ 359,684**	$ 208,774
Research and other receivables	**74,036**	63,801
Inventories	**61,394**	63,166
Pledge receivable current (Note 7)	**61,114**	47,107
Prepaid expenses	**14,214**	14,119
Total other current assets	**$ 570,442**	$ 396,967

	2007	2006
Noncurrent:		
Prepaid benefit cost (Note 12)	$ –	$ 110,426
Deferred compensation plan assets	**29,698**	22,286
Unamortized bond financing costs	**22,032**	22,874
Investments in affiliates	**13,333**	18,492
Other	**9,986**	25,912
Total other assets	**$ 75,049**	$ 199,990

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

The System is a beneficiary of several perpetual and beneficial trusts. These trusts are recorded as noncurrent assets at fair value representing the System's beneficial interest in the investments held by the trust or based on the present value of expected future cash flows to be received under the trusts (discounted at 5% in 2007 and 2006).

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

Other current and noncurrent liabilities at December 31, 2007 and 2006 consist of the following (in thousands):

	2007	2006
Current:		
Securities lending collateral (Note 4)	**$ 359,684**	$ 208,774
Research deferred revenue	**59,421**	52,367
Employee benefit related liabilities	**21,222**	24,145
Accrued self insurance	**57,889**	37,855
International contracts and other deferred revenue	**39,330**	21,034
Interest payable	**17,436**	18,585
Other	**98,680**	117,636
Total other liabilities	**$ 653,662**	$ 480,396

	2007	2006
Noncurrent:		
Accrued payroll costs	**$ 80,074**	$ 74,304
Employee benefit related liabilities	**53,579**	49,215
Accrued income tax liabilities	**10,263**	1,697
Other	**127,425**	123,019
Total other liabilities	**$ 271,341**	$ 248,235

6. Property, Plant, and Equipment

Property, plant, and equipment at December 31, 2007 and 2006 consists of the following (in thousands):

	2007	2006
Land and improvements	**$ 253,784**	$ 214,926
Buildings	**2,471,856**	2,329,893
Equipment	**1,085,740**	990,507
Construction-in-progress	**535,455**	314,708
Computer hardware and software	**302,055**	264,520
Leased facilities and equipment	**29,108**	28,788
	4,677,998	4,143,342
Accumulated depreciation and amortization	**(2,174,689)**	(1,968,511)
	$ 2,503,309	$ 2,174,831

7. Pledges

Outstanding pledges receivable from various corporations, foundations and individuals at December 31, 2007 and 2006 are as follows (in thousands):

	2007	2006
Pledges due:		
In less than one year	**$ 63,586**	$ 50,557
In one to five years	**108,829**	99,851
In more than five years	**71,402**	77,052
	243,817	227,460
Allowance for uncollectible pledges and discounting	**(41,779)**	(39,933)
Current portion (net of allowance for uncollectible accounts of $2.5 million and $2.0 million in 2007 and 2006)	**(61,114)**	(47,107)
	$ 140,924	$ 140,420

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

8. Self-Insurance

CCHS Indemnity Co., Ltd. (CCHSICO) commenced operations on January 1, 1998 and Community Hospitals Insurance Program (CHIP) commenced operations on January 1, 2005, providing professional and general liability insurance coverage on a claims-made basis. In 2007 and 2006, CCHSICO and CHIP have reinsurance agreements with unrelated commercial carriers in place relative to a portion of its insured risks.

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

The System's professional and general liabilities of $241.3 million and $303.1 million at December 31, 2007 and 2006, respectively, are recorded as noncurrent and current liabilities and include estimates of the ultimate costs for both asserted claims and unasserted claims discounted at 3.75% and 4.0% at December 31, 2007 and 2006, respectively. The System recorded a decrease in insurance expense pertaining to asserted claims of $52.3 million and $88.9 million in 2007 and 2006, respectively, related to changes in actuarial estimates reflecting lower claim activity, closed claims and settlement amounts due to management initiatives and the impact of tort reform in 2005 by the Ohio General Assembly. The Board of Trustees has set aside investments of $229.3 million ($57.9 million included in investments for current use) and $288.4 million ($37.9 million included in investments for current use) at December 31, 2007 and 2006, respectively, of which $45.3 million and $44.3 million at December 31, 2007 and 2006, respectively, is restricted in accordance with a reinsurance trust agreement to meet reinsurance requirements in the state of Florida.

9. Short-Term Borrowings, Notes Payable and Capital Leases

The System has a $100.0 million Revolving Credit Facility (the Facility) with several banks that bears interest at various rates and expires on November 28, 2008. No amounts were outstanding under the Facility at December 31, 2007 or 2006.

Notes payable and capital leases at December 31, 2007 and 2006 consists of the following (in thousands):

	2007	2006
Installments and mortgage notes with interest rates ranging from 5.00% to 8.75%	**$ 32,180**	$ 33,971
Capital leases for facilities and equipment	**19,027**	21,698
City of Lakewood lease	**13,005**	13,297
	64,212	68,966
Less current portion	**(11,951)**	(6,195)
Total note payables and capital leases	**$ 52,261**	$ 62,771

Maturities of the note payables for the five years subsequent to December 31, 2007, are as follows (in thousands): 2008 – $8,755; 2009 – $5,945; 2010 – $4,491; 2011 – $923; 2012 – $983; and thereafter $11,084.

Future minimum capital lease payments, including interest of $9.3 million, are as follows (in thousands): 2008 – $4,677; 2009 – $3,580; 2010 – $3,421; 2011 – $3,421; 2012 – $3,421; and thereafter – $9,794. Assets acquired through capital lease arrangements are excluded from the consolidated statements of cash flows.

The City of Lakewood, Ohio (the City) leases real and personal property to Lakewood Hospital (Lakewood) for the purpose of operating Lakewood. In connection with executing an Amended Lease with the City, Lakewood has agreed to make additional payments to the City. The additional payments commenced in 1997 and range in annual amounts from $1.0 million to $1.2 million through 2026. The net present value of the additional payments is $13.0 million and $13.3 million at December 31, 2007 and 2006, respectively (discounted at an interest rate of 6%). In connection with the Amended Lease, Lakewood has $120.1 million of net assets, included in the System's unrestricted net assets at December 31, 2007, available for Lakewood's use, but unavailable to other members of the System.

10. Income Taxes

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

The System files income tax returns in the U.S. federal jurisdiction, various states and foreign jurisdictions. With few exceptions, the System is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2003.

The System adopted the provisions of FIN 48 in 2007. As a result of the implementation of FIN 48, the System recognized an $8.3 million increase in the liability for unrecognized tax benefits recorded in other noncurrent liabilities with a corresponding adjustment to the unrestricted net assets, recorded as a cumulative effect of change in accounting.

A reconciliation of the beginning and ending amount of the liability for unrecognized tax benefits is as follows (in thousands):

Balance at January 1, 2007	$ 10,015
Additions based on tax positions related to the current year	2,659
Additions for tax positions of prior years	1,100
Reductions for tax positions of prior years	(3,511)
Balance at December 31, 2007	$ 10,263

The System recognizes interest and penalties accrued related to the liability for unrecognized tax benefits in the consolidated statement of operations and changes in net assets. In 2007, the System recognized approximately $0.2 million in interest and penalties. At December 31, 2007 and 2006, the System has approximately $1.0 million and $1.6 million, respectively, for the payment of interest and penalties accrued.

At December 31, 2007 and 2006, the System has net operating loss carryforwards of $97.5 million and $98.3 million, respectively, for federal income tax purposes. These losses expire in varying amounts from 2008 through 2027. A valuation allowance has been recorded for the full amount of the deferred tax asset related to the net operating loss carryforwards due to the uncertainty regarding their use.

11. Hospital Revenue Bonds and Interest Rate Swaps

Hospital revenue bonds consists of the following (in thousands):

	Interest Rate(s)	Due Date	Amount Outstanding at December 31 2007	2006
Series 2006A	Auction rate	Through 2041	**$ 50,000**	$ 50,000
Series 2006B	Auction rate	Through 2040	**50,000**	50,000
Series 2004A	Auction rate	Through 2036	**229,375**	229,375
Series 2004B	Variable rate	Through 2039	**200,000**	200,000
Series 2003A	4.40% to 5.67%	Through 2032	**513,970**	513,970
Series 2003C	Variable rate	Through 2035	**41,905**	41,905
Lakewood, Series 2003	2.87% to 4.75%	Through 2015	**21,885**	23,805
Series 2002	Variable rate	Through 2032	**11,685**	11,835
Series 2001	Auction rate	Through 2033	**250,000**	250,000
Series 1999B	4.35% to 5.275%	Through 2031	**45,010**	45,010
Series 1997	Auction rate	Through 2026	**42,425**	43,815
Series 1983	Variable rate	Through 2010	**3,750**	3,750
			1,460,005	1,463,465
Unamortized premium			**12,465**	13,116
Current portion			**(3,990)**	(3,460)
			$ 1,468,480	$ 1,473,121

In December 2006, pursuant to certain agreements between the Foundation and the County of Cuyahoga, Ohio (Cuyahoga County), Cuyahoga County issued $100.0 million of auction rate Revenue Bonds (the Series 2006A and 2006B Bonds). Proceeds from the sale of the Series 2006A and 2006B Bonds will be used primarily to finance certain capital expenditures for the System.

In 2006, the Foundation entered into an agreement to purchase land and a building and assumed variable rate Revenue Bonds (Series 2002) in the amount of $12.0 million issued by Cuyahoga County. The Series 2002 bonds and corresponding assets have been excluded from the consolidated statements of cash flows.

In May 2006, the System redeemed $76.3 million of Series 2003C Revenue Bonds, of which $67.0 million related to the Naples Hospital and Naples Clinic (Naples Businesses) and the remaining $9.3 million related to Weston Clinic. In connection with the redemption, the System recorded in 2006 a $0.4 million loss on extinguishment of debt, of which $0.3 million is recorded in discontinued operations and $0.1 million is recorded in other nonoperating gains and losses.

11. Hospital Revenue Bonds and Interest Rate Swaps (continued)

The outstanding Series 2006A, 2006B, 2004A, 2004B, 2003C, 2002, 2001, 1997 and 1983 Bonds bear interest at a variable or auction rate, as determined by an external agent. During 2007 and 2006, the rates for the System's variable rate and auction rate bonds ranged from 2.67% to 4.50% (average rate of 3.66%) and 2.33% to 4.08% (average rate of 3.38%), respectively.

Subsequent to December 31, 2007, certain of the auction rate bonds had a failed auction. The System's auction rate bonds include various maximum rate provisions in the event of a failed auction. The average interest rate incurred on the auction rate bonds subsequent to December 31, 2007 was 4.72%. The System is considering restructuring all or a portion of the auction rate bonds due to these provisions. On February 21, 2008, the System issued a purchase in lieu of redemption letter to the holders of the Series 2006A and 2006B auction rate bonds, which will be accounted for as an extinguishment for accounting purposes. As of March 12, 2008, the Series 2006A and 2006B bonds will be held by the System until restructuring plans are determined.

Certain variable rate revenue bonds are secured by irrevocable direct pay letters of credit or standby bond purchase agreements totaling $265.2 million at December 31, 2007.

In connection with the issuance of tax-exempt bonds by Cuyahoga County for the benefit of the System, the Foundation has leased to Cuyahoga County, and Cuyahoga County has subleased to the Foundation, substantially all of the health care facilities of the Foundation and certain of its controlled affiliates (CCHS Obligated Group). The System does not receive rental payments under its lease to Cuyahoga County and is required only to make rental payments to the trustee on behalf of Cuyahoga County at the times and in amounts sufficient to pay principal and interest on the outstanding tax-exempt bonds under its lease from Cuyahoga County. The lease agreements expire upon repayment of all indebtedness secured by the leases.

In connection with the issuance of tax-exempt bonds by Collier County, Florida for the benefit of the System, Collier County and the System entered into a loan agreement whereby Collier County loaned the proceeds of the Series 2003C Bonds to the System. Under the loan agreement, the System is obligated to make interest and principal payments.

The Lakewood Series 2003 and Series 1983 Bonds are obligations of Lakewood under a trust indenture between the City of Lakewood (the City) and Lakewood; whereby Lakewood has leased to the City, and the City has subleased to Lakewood, substantially all of Lakewood's healthcare facilities.

11. Hospital Revenue Bonds and Interest Rate Swaps (continued)

During the term of the various agreements and leases, the System is required to make specified deposits with trustees to fund principal and interest payments due, which were $3.7 million and $4.4 million at December 31, 2007 and 2006, respectively. Unexpended bond proceeds held by the trustee were $95.0 million and $259.6 million at December 31, 2007 and 2006, respectively. The current portion of the unexpended bond proceeds were $43.6 million and $23.8 million at December 31, 2007 and 2006, respectively, and included in investments for current use. The System is subject to certain restrictive covenants, including provisions relating to certain debt ratios, days cash on hand and other matters. The System was in compliance with these covenants at December 31, 2007.

Combined current aggregate maturities of the bonds for the five years subsequent to December 31, 2007, are as follows (in thousands): 2008 – $3,990; 2009 – $3,305; 2010 – $6,190; 2011 – $24,285; and 2012 – $25,610.

Total interest paid approximated $66.6 million and $62.3 million in 2007 and 2006, respectively. Capitalized interest cost and income approximated $14.8 million and $5.6 million, respectively, in 2007 and $12.9 million and $9.0 million, respectively, in 2006.

Interest Rate Swaps

The System's objectives with respect to management of interest rate risk include 1) managing the risk of increased debt service resulting from rising market interest rates and 2) managing the risk of an increase in the fair value of outstanding fixed rate obligations resulting from declining market interest rates. Consistent with its interest rate risk management objectives, the System entered into various interest rate swap agreements with a total outstanding notional amount of $560.3 million and $332.1 million at December 31, 2007 and 2006, respectively. During the term of these transactions, the fixed rate swaps convert variable rate debt to a fixed rate and the floating rate swap converts fixed rate debt to a variable rate. Under the floating rate swap, the System pays a rate equal to the Securities Industry and Financial Markets Association Municipal Swap Index (SIFMA Index), an index of seven day high grade tax exempt variable rate demand obligations. The SIFMA Index rates ranged from 3.09% to 3.95% (average rate of 3.62%) in 2007 and 2.93% to 3.97% (average rate of 3.45%) in 2006. In return, the System received a fixed rate of 5.35% in 2007 and 2006. Net interest paid or received under the swap agreements is included in interest expense.

11. Hospital Revenue Bonds and Interest Rate Swaps (continued)

The net fair value of the swap agreements based on current settlement prices is approximately $9.4 million payable to the counterparties (recorded in other noncurrent liabilities) at December 31, 2007, and $8.8 million receivable from the counterparty (recorded in other noncurrent assets) at December 31, 2006. Prior to the adoption of Issue No. G26, the System recorded an increase in unrestricted net assets of $2.0 million for the period January 1 through March 31, 2007 and $7.7 million for the year 2006, which represented the change in the market value on the interest rate swaps that qualified as cash flow hedges. On April 1, 2007, the System dedesignated the cash flow swaps. A loss of $20.2 million was recorded in other nonoperating gains and losses, representing the change in fair value of the interest rate swaps at December 31, 2007. The System also amortized $0.3 million from unrestricted net assets to nonoperating gains and losses based on the accumulated derivative gain in the fair value for those swaps that qualified as cash flow hedges prior to April 1, 2007.

In March 2006, the System entered into an agreement for three interest rate swaps that were cancelled in September 2006. The net proceeds from the cancelled swaps of $1.3 million is recorded as a nonoperating gain. Additionally, in 2007 the System entered into three new interest rate swap agreements related to operating lease payments that are based on variable rate debt for the Service Center and Office Complex (Note 14).

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

Swap Type	Expiration Date	System Pays	Notional Amount at December 31 2007	2006
Fixed	2032	4.32%	**$ 2,874**	$ 2,912
Fixed	2032	4.33%	**5,748**	5,823
Fixed	2032	3.78%	**2,874**	2,912
Floating	2016	SIFMA Swap Index	**30,465**	33,030
Fixed	2016	5.28%	**30,465**	33,030
Fixed	2030	5.07%	**62,500**	62,500
Fixed	2030	5.06%	**62,500**	62,500
Fixed	2036	4.90%	**50,000**	50,000
Fixed	2036	4.90%	**79,375**	79,375
Fixed	2027	3.56%	**152,920**	–
Fixed	2028	5.12%	**45,855**	–
Fixed	2028	3.51%	**34,770**	–
			$ 560,346	$ 332,082

12. Pensions and Other Postretirement Benefits

The System has two defined benefit pension plans, which cover substantially all of the System's employees. The benefits provided are based on age, years of service and compensation. The System's policy is to fund at least the minimum amounts required by the Employee Retirement Income Security Act. The System also sponsors several contributory, 403(b) plans, covering substantially all employees, and one noncontributory defined contribution plan for certain of its employees. The System's contributions for the 403(b) plans are determined based on employee contributions. The System's contribution for the defined contribution plan is based upon a multiple of employee compensation, as defined, determined according to age.

The System provides health care benefits upon retirement for substantially all of its employees. The System's health care plans generally provide for cost sharing, in the form of employee and retiree contributions, deductibles and coinsurance. The System's policy is to fund the annual cost of health care benefits from the general assets of the System. The estimated cost of these postretirement benefits is actuarially determined and accrued over the employees' service periods.

On December 31, 2007, the System adopted the recognition and disclosure provisions of SFAS No. 158. SFAS No. 158 required the System to recognize the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of its postretirement benefit plans in the December 31, 2007 balance sheet, with a corresponding adjustment to unrestricted net assets. The adjustment to unrestricted net assets at adoption represents the net unrecognized actuarial losses and unrecognized prior service costs remaining from the initial adoption of SFAS No. 87, all of which were previously netted against the plan's funded status in the System's balance sheet pursuant to the provisions of SFAS No. 87. These amounts will be subsequently recognized as net periodic pension cost pursuant to the System's historical accounting policy for amortizing such amounts. Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic pension cost in the same periods will be recognized as a component of unrestricted net assets. Those amounts will be subsequently recognized as a component of net periodic pension cost on the same basis as the amounts recognized in unrestricted net assets at adoption of SFAS No. 158.

12. Pensions and Other Postretirement Benefits (continued)

The incremental effects of adopting the provisions of SFAS No. 158 on the System's consolidated balance sheet at December 31, 2007, are presented in the following table. The adoption of SFAS No. 158 had no effect on the System's consolidated statement of operations and changes in net assets for the year ended December 31, 2007, or for any prior period presented, and it will not effect the System's operating results in future periods. Had the System not been required to adopt SFAS No. 158 at December 31, 2007, it would have recognized an additional minimum liability pursuant to the provisions of SFAS No. 87. The effect of recognizing the additional minimum liability is included in the table below in the column labeled "Prior to Adopting SFAS No. 158" (in thousands).

	Prior to Adopting SFAS No. 158	Effect of Adopting SFAS No. 158	As Reported at December 31, 2007
Intangible pension asset	$ 6,571	$ (6,571)	$ –
Accrued benefit liability	248,494	135,200	383,694
Change in unrestricted net assets	(168,300)	(141,771)	(310,071)

Included in unrestricted net assets at December 31, 2007, are the following amounts that have not yet been recognized in net periodic pension cost: unrecognized prior service costs of $35.0 million and unrecognized actuarial losses of $275.1 million. The prior service cost and actuarial loss included in unrestricted net assets and expected to be recognized in net periodic pension cost during the fiscal year-ended December 31, 2008 is $2.2 million and $21.0 million, respectively.

12. Pensions and Other Postretirement Benefits (continued)

The following table sets forth the funded status of the System's postretirement benefit plans as of September 30, 2007 and 2006 (the measurement date), and the amounts recognized in the System's December 31, 2007 and 2006, consolidated balance sheets for the defined benefit and other postretirement benefit plans (in thousands):

	Defined Benefit Pension Plans		Other Postretirement	
	2007	**2006**	**2007**	**2006**
Change in projected benefit obligation:				
Projected benefit obligation at beginning of year	**$ 1,002,910**	$ 942,367	**$ 74,338**	$ 70,280
Service cost (credit)	**49,909**	47,348	**(989)**	130
Interest cost	**61,835**	55,771	**4,340**	3,977
Actuarial (gain) loss	**(38,047)**	(10,117)	**7,682**	14,444
Plan amendments	**–**	7,047	**–**	(10,296)
Benefits paid	**(37,276)**	(39,506)	**(6,320)**	(4,812)
Federal subsidy	**–**	–	**844**	615
Projected benefit obligation at end of year	**1,039,331**	1,002,910	**79,895**	74,338
Change in plan assets:				
Fair value of plan assets at beginning of year	**677,944**	578,306	**–**	–
Actual gain on plan assets	**86,898**	43,612	**–**	–
System contributions	**4,845**	95,532	**–**	–
Benefits paid	**(37,276)**	(39,506)	**–**	–
Fair value of plan assets at end of year	**732,411**	677,944	–	–
Underfunded status of plan	**(306,920)**	(324,966)	**(79,895)**	(74,338)
Unrecognized net actuarial loss (gain)	**–**	377,962	**–**	(13,401)
Unrecognized prior service cost	**–**	7,093	**–**	30,056
Contributions in the fourth quarter	**1,770**	652	**1,351**	1,306
Cumulative minimum pension liability adjustment	**–**	(263,026)	**–**	–
Accrued benefit liability	**$ (305,150)**	$ (202,285)	**$ (78,544)**	$ (56,377)
Prepaid benefit cost	**$ –**	$ 110,426	**$ –**	$ –
Intangible asset	**–**	7,032	**–**	–
Accrued benefit liability	**(305,150)**	(319,743)	**(78,544)**	(56,377)
Net liability recognized in balance sheets	**$ (305,150)**	$ (202,285)	**$ (78,544)**	$ (56,377)

12. Pensions and Other Postretirement Benefits (continued)

The accumulated benefit obligation for all defined benefit pension plans was $926.1 million and $885.3 million at September 30, 2007 and 2006, respectively.

	Defined Benefit Pension Plans		Other Postretirement Benefits	
	2007	**2006**	**2007**	**2006**
Weighted-average assumptions:				
Discount rates:				
Used for benefit obligations	**6.25%**	6.00%	**6.31%**	6.00%
Used for net periodic benefit cost	**6.00%**	5.75%	**6.00%**	5.75%
Expected rate of return on plan assets	**8.50%**	8.50%	**–**	–
Rate of compensation increase	**4.00%**	4.00%	**–**	–
Components of net periodic benefit cost:				
Service cost (credit)	**$ 49,909**	$ 47,348	**$ (989)**	$ 130
Interest cost	**61,835**	55,771	**4,340**	3,977
Expected rate of return on plan assets	**(54,487)**	(48,790)	**–**	–
Amortization of unrecognized actuarial net loss (gain)	**27,036**	28,124	**(361)**	(1,475)
Amortization of unrecognized prior service cost (credit)	**507**	(136)	**1,678**	2,708
Net periodic benefit cost	**84,800**	82,317	**4,668**	5,340
Defined contribution plans	**55,078**	48,543	**–**	–
Total included in operations	**$ 139,878**	$ 130,860	**$ 4,668**	$ 5,340

The System's pension plan weighted average asset allocations at December 31, 2007 and 2006, by asset category, are as follows:

	Percentage of Plan Assets at December 31	
	2007	**2006**
Asset category		
Interest-bearing cash	**10.8%**	4.0%
Equity securities	**60.9**	68.8
Debt securities	**28.3**	27.2
Total	**100.0%**	100.0%

12. Pensions and Other Postretirement Benefits (continued)

The System uses a direct cost approach to estimate its postretirement benefit obligation for internally provided services. Externally provided service liabilities are based on the System's historical cost experience. The annual assumed health care cost trend rate for internally provided services is 8.25% and is assumed to decrease by approximately 0.50% per year to an ultimate rate of 4.75% in 2013. The health care cost trend rate for externally provided services is 9.25% and is assumed to decrease by approximately 0.50% per year to an ultimate rate of 5.75% in 2013 and thereafter. A one-percentage-point increase or decrease in the health care cost trend rate would have increased or decreased the December 31, 2007 service and interest costs in total by $2.1 million and $1.5 million, respectively, and the December 31, 2006 accumulated postretirement benefit obligation by $2.0 million and $1.4 million, respectively.

The System's investment strategy for its pension asset balances the liquidity needs of the pension plans with the long-term return goals necessary to satisfy future pension obligations. The target asset allocation seeks to capture the equity premium granted by the capital markets over the long-term while ensuring security of principal to meet near term expenses and obligations through the fixed income allocation. The target allocation percentages of the investment pool to various sectors of the equity (40–80% target) and fixed income (20–45% target) markets or alternative investments (0–20% target) are designed to reduce volatility in the portfolio.

The System's pension portfolio return assumption of 8.5% is based on the targeted weighted average return of comparative market indices for the asset classes represented in the portfolio and discounted for pension expenses.

The System expects to make contributions of $105.5 million to the defined benefit pension plans in 2008. Additional funding for other postretirement benefit plans is expected to be $2.3 million in 2008. Pension and other postretirement benefit payments over the next five years, net of the average annual Medicare Part D subsidy of approximately $4.3 million, are estimated as follows: 2008 – $54.2 million; 2009 – $54.0 million; 2010 – $55.7 million; 2011 – $59.3 million; 2012 – $70.0 million; and in the aggregate for the five years thereafter is $468.2 million.

No plan assets are expected to be returned to the employer during 2008.

13. Discontinued Operations

In December 2005, the System approved a plan to exit its Naples Businesses in southwestern Florida. Consistent with this decision, the System made these businesses immediately nontrading. In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, the results of operations of Naples Businesses were reported as discontinued operations at December 31, 2006.

In May 2006, the System sold the buildings, equipment and certain other assets of the Naples Businesses and recorded a gain on sale of $26.8 million, which is recorded in unrestricted net assets as discontinued operations.

Revenue and expenses of the business held for sale, net of intercompany activity, for the year ended December 31, 2006 is as follows:

Revenue	$ 51,723
Expenses	49,882
Gain from discontinued operations	1,841
Gain on sale and other	26,638
Discontinued operations	$ 28,479

14. Commitments and Contingent Liabilities

The System leases various equipment and facilities under operating lease arrangements. Total rental expense in 2007 and 2006 was $59.8 million and $50.3 million, respectively. Minimum operating lease payments over the next five years are as follows (in millions): 2008 – $33.9; 2009 – $28.1; 2010 – $23.6; 2011 – $20.2; and 2012 – $17.8.

Included in the System's operating lease payments are the following asset-based financing agreements:

In 2003, the System entered into an operating lease agreement for the purpose of leasing an office building and parking garage (Parking Garage Lease). Under the terms of the Parking Garage Lease, the System began to lease the facility upon issuance of the certificate of occupancy in October 2004 and is required to lease the facility for twenty-three years, with an option (by the System) to extend the lease an additional seven years. At December 31, 2007, total remaining operating lease payments were $45.6 million.

14. Commitments and Contingent Liabilities (continued)

In 2003, the System entered into an operating lease agreement for the purpose of leasing a genetics and stem cell research building (Stem Cell Building Lease). Under the terms of the Stem Cell Building Lease, the System began to lease the facility upon the issuance of the certificate of occupancy in December 2004 and is required to lease the facility for twenty-nine years. At December 31, 2007, total remaining operating lease payments were $31.4 million.

In 2006, the System entered into an operating lease agreement totaling $156.9 million for the purpose of leasing a parking garage and service center building (Service Center Lease), which is under construction at December 31, 2007. Under the terms of the Service Center Lease, the System, upon issuance of a certificate of occupancy, is required to lease the facility for twenty-one years with an option (by the System) to extend the lease an additional five years. The System provides no financing for construction or other guarantees for the Service Center Lease project, expected to be completed in 2008.

In 2007, the System entered into two operating lease agreements totaling $80.3 million to lease an office complex comprised of four office buildings and a day care center facility, totaling approximately 707,000 square feet. The System will lease the facilities for twenty-two years. The System is subsequently leasing two of the office buildings and the day care center (total of 403,000 square feet) back to the seller through June 30, 2010 with the seller having the option for an additional seven years. In a separate transaction, the System purchased the complex's 53 acres of land for $35.5 million.

At December 31, 2007, the System has commitments for construction and other related capital contracts of $253.7 million and letters of credit of $1.9 million. Guarantees of mortgage loans made by banks to certain staff members are $10.1 million at December 31, 2007. In addition, the System has remaining commitments to invest approximately $206.8 million in alternative and direct investments at December 31, 2007. The largest commitment at December 31, 2007, to any one alternative strategy manager is $20.0 million. These investments will occur over the next three to five years. No amounts have been recorded in the consolidated balance sheets for these commitments and guarantees.

15. Year End Adjustments (unaudited)

The System recorded an adjustment in the fourth quarter of 2007 to decrease the account receivable allowance and third party liability allowance by $26.6 million and $37.1 million, respectively (Note 3).

16. Functional Expenses

The System provides health care services and education, performs research and operates a hotel company. Expenses related to these functions were as follows (in thousands):

	2007	2006
Health care services	**$ 3,565,551**	$ 3,175,534
Research	**232,192**	218,476
Medical education	**159,508**	161,815
General and administrative	**448,151**	416,446
Hotel and other	**52,723**	54,577
	$ 4,458,125	$ 4,026,848

Other Financial Information

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Report of Independent Auditors on Other Financial Information

The Board of Trustees
The Cleveland Clinic Foundation

The audited consolidated financial statements of The Cleveland Clinic Foundation and controlled affiliates, d.b.a. Cleveland Clinic Health System (the System), and our report thereon are presented in the preceding section of this report.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The following consolidating balance sheets, statements of operations and changes in net assets, and statements of cash flows are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in our audits of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

Ernst & Young LLP

March 12, 2008

Cleveland Clinic Health System

Consolidating Balance Sheets

December 31, 2007
(In Thousands)

	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated
Assets				
Current assets:				
Cash and cash equivalents	**$ 126,841**	**$ 141,240**	**$ –**	**$ 268,081**
Patient receivables, net	**498,553**	**53,717**	**–**	**552,270**
Due from affiliates	**18,671**	**4,017**	**(22,688)**	**–**
Investments for current use	**43,563**	**57,889**	**–**	**101,452**
Other current assets	**553,153**	**18,599**	**(1,310)**	**570,442**
Total current assets	**1,240,781**	**275,462**	**(23,998)**	**1,492,245**
Investments:				
Investments	**1,878,168**	**100,933**	**–**	**1,979,101**
Funds held by bond trustees	**51,637**	**3,588**	**–**	**55,225**
Assets held for self-insurance	**–**	**171,403**	**–**	**171,403**
Donor restricted assets	**327,589**	**10,690**	**–**	**338,279**
	2,257,394	**286,614**	**–**	**2,544,008**
Property, plant, and equipment, net	**2,199,037**	**304,272**		**2,503,309**
Other assets:				
Pledges receivable, net	**139,589**	**1,335**	**–**	**140,924**
Trusts and interests in foundations	**87,476**	**33,895**	**–**	**121,371**
Other noncurrent assets	**126,674**	**6,919**	**(58,544)**	**75,049**
	353,739	**42,149**	**(58,544)**	**337,344**
Total assets	**$ 6,050,951**	**$ 908,497**	**$ (82,542)**	**$ 6,876,906**

	Obligated Group	Non-Obligated Group	Adjustments & Eliminations	Consolidated
Liabilities and net assets				
Current liabilities:				
Accounts payable	**$ 260,866**	**$ 27,161**	**$ (1,072)**	**$ 286,955**
Compensation and amounts withheld from payroll	**93,840**	**7,662**	**–**	**101,502**
Estimated amounts due to third-party payors	**21,334**	**13,899**	**–**	**35,233**
Current portion of long-term debt	**13,536**	**2,405**	**–**	**15,941**
Due to affiliates	**1,022**	**21,666**	**(22,688)**	**–**
Other current liabilities	**541,236**	**112,592**	**(166)**	**653,662**
Total current liabilities	**931,834**	**185,385**	**(23,926)**	**1,093,293**
Long-term debt:				
Hospital revenue bonds	**1,443,660**	**24,820**	**–**	**1,468,480**
Notes payable and capital leases	**44,108**	**64,577**	**(56,424)**	**52,261**
	1,487,768	**89,397**	**(56,424)**	**1,520,741**
Other liabilities:				
Accrued self-insurance	**68,088**	**115,309**	**–**	**183,397**
Accrued retirement benefits	**378,095**	**–**	**–**	**378,095**
Other noncurrent liabilities	**262,985**	**8,428**	**(72)**	**271,341**
	709,168	**123,737**	**(72)**	**832,833**
Total liabilities	**3,128,770**	**398,519**	**(80,422)**	**3,446,867**
Net assets:				
Unrestricted	**2,301,819**	**463,528**	**(2,120)**	**2,763,227**
Temporarily restricted	**453,284**	**23,123**	**–**	**476,407**
Permanently restricted	**167,078**	**23,327**	**–**	**190,405**
Total net assets	**2,922,181**	**509,978**	**(2,120)**	**3,430,039**
Total liabilities and net assets	**$ 6,050,951**	**$ 908,497**	**$ (82,542)**	**$ 6,876,906**

See notes to consolidating financial statements.

Cleveland Clinic Health System

Consolidating Balance Sheets

December 31, 2006
(In Thousands)

	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated
Assets				
Current assets:				
Cash and cash equivalents	$ 341,610	$ 119,022	$ –	$ 460,632
Patient receivables, net	432,264	55,809	–	488,073
Due from affiliates	284,766	4,200	(288,966)	–
Investments for current use	23,871	37,855	–	61,726
Other current assets	337,058	62,746	(2,837)	396,967
Total current assets	1,419,569	279,632	(291,803)	1,407,398
Investments:				
Investments	1,310,493	92,565	–	1,403,058
Funds held by bond trustees	236,376	3,802	–	240,178
Assets held for self-insurance	–	250,527	–	250,527
Donor restricted assets	270,177	9,118	–	279,295
	1,817,046	356,012	–	2,173,058
Property, plant, and equipment, net	1,867,473	307,358	–	2,174,831
Other assets:				
Pledges receivable, net	138,792	1,628	–	140,420
Trusts and interests in foundations	85,084	27,178	–	112,262
Other noncurrent assets	209,954	7,431	(17,395)	199,990
	433,830	36,237	(17,395)	452,672
Total assets	$ 5,537,918	$ 979,239	$ (309,198)	$ 6,207,959

	Obligated Group	Non-Obligated Group	Adjustments & Eliminations	Consolidated
Liabilities and net assets				
Current liabilities:				
Accounts payable	$ 243,481	$ 29,463	$ (1,600)	$ 271,344
Compensation and amounts withheld from payroll	87,199	7,124	–	94,323
Estimated amounts due to third-party payors	28,584	7,510	–	36,094
Current portion of long-term debt	7,375	2,555	(275)	9,655
Due to affiliates	3,958	284,992	(288,950)	–
Other current liabilities	363,275	117,296	(175)	480,396
Total current liabilities	733,872	448,940	(291,000)	891,812
Long-term debt:				
Hospital revenue bonds	1,446,108	27,013	–	1,473,121
Notes payable and capital leases	54,237	13,534	(5,000)	62,771
	1,500,345	40,547	(5,000)	1,535,892
Other liabilities:				
Accrued self-insurance	82,370	182,875	–	265,245
Accrued retirement benefits	365,243	–	–	365,243
Other noncurrent liabilities	240,454	8,859	(1,078)	248,235
	688,067	191,734	(1,078)	878,723
Total liabilities	2,922,284	681,221	(297,078)	3,306,427
Net assets:				
Unrestricted	2,068,089	259,520	(12,120)	2,315,489
Temporarily restricted	398,347	18,093	–	416,440
Permanently restricted	149,198	20,405	–	169,603
Total net assets	2,615,634	298,018	(12,120)	2,901,532
Total liabilities and net assets	$ 5,537,918	$ 979,239	$ (309,198)	$ 6,207,959

See notes to consolidating financial statements.

Cleveland Clinic Health System

Consolidating Statements of Operations and Changes in Net Assets

Year Ended December 31, 2007
(In Thousands)

Operations

	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated
Unrestricted revenues				
Net patient service revenue	**$ 3,983,556**	**$ 382,751**	**$ (11,526)**	**$ 4,354,781**
Other	**388,802**	**180,214**	**(116,571)**	**452,445**
Total unrestricted revenues	**4,372,358**	**562,965**	**(128,097)**	**4,807,226**
Expenses				
Salaries, wages, and benefits	**2,339,639**	**225,232**	**(742)**	**2,564,129**
Supplies	**485,283**	**66,441**	**(2,558)**	**549,166**
Pharmaceuticals	**239,384**	**19,161**	**–**	**258,545**
Purchased services	**234,529**	**35,157**	**(11,704)**	**257,982**
Administrative services	**137,526**	**38,474**	**(30,438)**	**145,562**
Facilities	**227,702**	**33,019**	**(3,761)**	**256,960**
Insurance	**72,969**	**17,045**	**(78,894)**	**11,120**
Provision for uncollectible accounts	**124,114**	**23,047**	**–**	**147,161**
	3,861,146	**457,576**	**(128,097)**	**4,190,625**
Operating income before interest, depreciation, and amortization expenses	**511,212**	**105,389**	**–**	**616,601**
Interest	**54,118**	**2,075**	**–**	**56,193**
Depreciation and amortization	**188,133**	**23,174**	**–**	**211,307**
Operating income	**268,961**	**80,140**	**–**	**349,101**
Nonoperating gains and losses				
Interest and dividends	**36,864**	**7,431**	**–**	**44,295**
Net realized and unrealized gains on investments classified as trading	**64,667**	**16,740**	**–**	**81,407**
Other, net	**9,474**	**2,163**	**–**	**11,637**
Net nonoperating gains and losses	**111,005**	**26,334**	**–**	**137,339**
Excess of revenues over expenses	**379,966**	**106,474**	**–**	**486,440**

Continued on page 44.

Cleveland Clinic Health System

Consolidating Statements of Operations and Changes in Net Assets

Year Ended December 31, 2006
(In Thousands)

Operations

	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated
Unrestricted revenues				
Net patient service revenue	$ 3,712,206	$ 264,751	$ (7,528)	$ 3,969,429
Other	344,286	211,687	(126,353)	429,620
Total unrestricted revenues	4,056,492	476,438	(133,881)	4,399,049
Expenses				
Salaries, wages, and benefits	2,185,062	168,506	(769)	2,352,799
Supplies	461,768	40,083	(2,800)	499,051
Pharmaceuticals	223,845	15,823	–	239,668
Purchased services	215,852	18,900	(8,255)	226,497
Administrative services	108,211	39,880	(22,894)	125,197
Facilities	189,968	28,040	(3,914)	214,094
Insurance	92,131	21,158	(95,249)	18,040
Provision for uncollectible accounts	88,172	11,136	–	99,308
	3,565,009	343,526	(133,881)	3,774,654
Operating income before interest, depreciation, and amortization expenses	491,483	132,912	–	624,395
Interest	53,377	3,898	–	57,275
Depreciation and amortization	176,426	18,493	–	194,919
Operating income	261,680	110,521	–	372,201
Nonoperating gains and losses				
Interest and dividends	44,010	5,546	–	49,556
Net realized and unrealized gains on investments classified as trading	89,201	15,650	–	104,851
Other	(5,856)	(1,306)	–	(7,162)
Net nonoperating gains and losses	127,355	19,890	–	147,245
Excess of revenues over expenses	389,035	130,411	–	519,446

Continued on page 44.

Cleveland Clinic Health System

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

(In Thousands)

Changes in Net Assets

	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated
Balances at January 1, 2006	$ 2,060,222	$ 199,757	$ (12,120)	$ 2,247,859
Excess of revenues over expenses	389,035	130,411	–	519,446
Discontinued operations	28,479	–	–	28,479
Donated capital and assets released from restrictions for capital purposes	477	–	–	477
Gifts and bequests	87,038	3,125	–	90,163
Net investment income	19,993	1,017	–	21,010
Net assets released from restrictions used for operations included in other unrestricted revenues	(49,174)	(846)	–	(50,020)
Minimum pension liability adjustment	37,628	–	–	37,628
Change in value of derivatives	7,720	–	–	7,720
Contributions from (to) affiliates	35,210	(35,210)	–	–
Change in value of perpetual trusts	(762)	(236)	–	(998)
Foreign currency translation adjustment	(232)	–	–	(232)
Increase in net assets	555,412	98,261	–	653,673
Balances at December 31, 2006	2,615,634	298,018	(12,120)	2,901,532
Excess of revenues over expenses	**379,966**	**106,474**	**–**	**486,440**
Donated capital and assets released from restrictions for capital purposes	**404**	**–**	**–**	**404**
Gifts and bequests	**103,822**	**1,430**	**–**	**105,252**
Net investment income	**21,156**	**1,054**	**–**	**22,210**
Net assets released from restrictions used for operations included in other unrestricted revenues	**(48,256)**	**(664)**	**–**	**(48,920)**
Minimum pension liability adjustment	**94,725**	**–**	**–**	**94,725**
Adjustment to adopt FASB Statement No. 158	**(141,771)**	**–**	**–**	**(141,771)**
Change in value of derivatives	**1,693**	**–**	**–**	**1,693**
Contributions from (to) affiliates	**(106,950)**	**96,950**	**10,000**	**–**
Change in beneficial interest in foundations	**682**	**6,098**	**–**	**6,780**
Change in value of perpetual trusts	**1,061**	**618**	**–**	**1,679**
Foreign currency translation adjustment	**36**	**–**	**–**	**36**
Change in unrealized investment net gains on nontrading investments	**8,261**	**–**	**–**	**8,261**
Increase in net assets before cumulative effect of accounting change	**314,829**	**211,960**	**10,000**	**536,789**
Cumulative effect of change in accounting for income taxes	**(8,282)**	**–**	**–**	**(8,282)**
Increase in net assets	**306,547**	**211,960**	**10,000**	**528,507**
Balances at December 31, 2007	**$ 2,922,181**	**$ 509,978**	**$ (2,120)**	**$ 3,430,039**

See notes to consolidating financial statements.

Cleveland Clinic Health System

Consolidating Statements of Cash Flows

Year Ended December 31, 2007
(In Thousands)

	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated
Operating activities and net nonoperating gains and losses				
Increase in net assets	**$ 306,547**	**$ 211,960**	**$ 10,000**	**$ 528,507**
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities and net nonoperating gains and losses:				
Cumulative effect of change in accounting for income taxes	**8,282**	**–**	**–**	**8,282**
Minimum pension liability adjustment	**(94,725)**	**–**	**–**	**(94,725)**
Adjustment to adopt FASB Statement No. 158	**141,771**	**–**	**–**	**141,771**
Net increase in investments classified as trading	**(413,845)**	**49,150**	**–**	**(364,695)**
Change in unrealized investment net gains for nontrading securities	**(8,261)**	**–**	**–**	**(8,261)**
Impairment of investments carried at cost	**578**	**–**	**–**	**578**
Depreciation and amortization	**188,133**	**23,174**	**–**	**211,307**
Provision for uncollectible accounts	**124,114**	**23,047**	**–**	**147,161**
Donated capital	**(404)**	**–**	**–**	**(404)**
Restricted gifts, bequests, investment income, and other	**(126,721)**	**(9,200)**	**–**	**(135,921)**
Contributions to (from) affiliates	**106,950**	**(96,950)**	**(10,000)**	**–**
Accreted interest and amortization of bond premiums	**(483)**	**(168)**	**–**	**(651)**
Change in value of derivatives	**18,185**	**–**	**–**	**18,185**
Changes in operating assets and liabilities:	**–**	**–**	**–**	**–**
Patient receivables	**(190,403)**	**(20,955)**	**–**	**(211,358)**
Other current assets	**60,057**	**44,290**	**(267,805)**	**(163,458)**
Other noncurrent assets	**72,932**	**498**	**41,149**	**114,579**
Accounts payable and other current liabilities	**165,503**	**(263,914)**	**266,799**	**168,388**
Other liabilities	**(43,644)**	**(67,997)**	**1,006**	**(110,635)**
Net cash provided by (used in) operating activities and net nonoperating gains and losses	**314,566**	**(107,065)**	**41,149**	**248,650**
Financing activities				
Proceeds from long-term borrowings	**1,272**	**51,149**	**(51,149)**	**1,272**
Principal payments on long-term debt	**(7,486)**	**(2,281)**	**–**	**(9,767)**
Change in pledge receivables, trusts and interests in foundations	**(17,236)**	**(6,384)**	**–**	**(23,620)**
Restricted gifts, bequests, investment income, and other	**126,721**	**9,200**	**–**	**135,921**
Net cash provided by (used in) financing activities	**103,271**	**51,684**	**(51,149)**	**103,806**
Investing activities				
Expenditures for property and equipment, net	**(487,144)**	**(19,565)**	**–**	**(506,709)**
Contribution (to) from affiliates	**(106,950)**	**96,950**	**10,000**	**–**
(Increase) decrease in nontrading investments, net	**(38,512)**	**214**	**–**	**(38,298)**
Net cash (used in) provided by investing activities	**(632,606)**	**77,599**	**10,000**	**(545,007)**
(Decrease) increase in cash and cash equivalents	**(214,769)**	**22,218**	**–**	**(192,551)**
Cash and cash equivalents at beginning of year	**341,610**	**119,022**	**–**	**460,632**
Cash and cash equivalents at end of period	**$ 126,841**	**$ 141,240**	**$ –**	**$ 268,081**

See notes to consolidating financial statements.

Cleveland Clinic Health System

Consolidating Statements of Cash Flows

Year Ended December 31, 2006
(In Thousands)

	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated
Operating activities and net nonoperating gains and losses				
Increase in net assets	$ 555,412	$ 98,261	$ –	$ 653,673
Increase in net assets from discontinued operations	(28,479)	–	–	(28,479)
Increase in net assets from continuing operations	526,933	98,261	–	625,194
Adjustments to reconcile increase in net assets to net cash provided by operating activities and net nonoperating gains and losses:				
Minimum pension liability adjustment	(37,628)	–	–	(37,628)
Net increase in investments classified as trading	(63,891)	(6,878)	–	(70,769)
Impairment of investments carried at cost	257	–	–	257
Depreciation and amortization	176,426	18,493	–	194,919
Provision for uncollectible accounts	88,172	11,136	–	99,308
Restricted gifts, bequests, investment income, and other	(106,269)	(3,906)	–	(110,175)
Donated capital	(477)	–	–	(477)
Contribution (from) to affiliates	(35,210)	35,210	–	–
Accreted interest and amortization of bond premiums	(483)	(168)	–	(651)
Change in value of derivatives	(7,515)	–	–	(7,515)
Changes in operating assets and liabilities:				
Patient receivables	(110,011)	(33,566)	–	(143,577)
Other current assets	(131,950)	(8,176)	64,591	(75,535)
Other noncurrent assets	4,303	36,014	5,000	45,317
Accounts payable and other current liabilities	(82,376)	79,172	(63,513)	(66,717)
Other liabilities	164,516	(8,370)	(1,078)	155,068
Net cash provided by operating activities and net nonoperating gains and losses from continuing operations	384,797	217,222	5,000	607,019
Financing activities				
Payments on short-term borrowings	–	(38,413)	–	(38,413)
Proceeds from long-term borrowings	114,800	–	(5,000)	109,800
Payments to redeem long-term debt	(9,252)	–	–	(9,252)
Principal payments on long-term debt	(8,700)	(2,440)	–	(11,140)
Debt issuance costs	(3,004)	–	–	(3,004)
Change in pledge receivables, trusts and interests in foundations	3,574	(265)	–	3,309
Restricted gifts, bequests, investment income, and other	106,269	3,906	–	110,175
Net cash provided by (used in) financing activities from continuing operations	203,687	(37,212)	(5,000)	161,475
Investing activities				
Expenditures for property and equipment, net	(357,820)	(101,004)	–	(458,824)
Contribution from (to) affiliates	35,210	(35,210)	–	–
(Increase) decrease in nontrading investments, net	(346,636)	(506)	–	(347,142)
Net cash used in investing activities from continuing operations	(669,246)	(136,720)	–	(805,966)
Net cash provided by discontinued operations	67,145	–	–	67,145
(Decrease) increase in cash and cash equivalents	(13,617)	43,290	–	29,673
Cash and cash equivalents at beginning of year	355,227	75,732	–	430,959
Cash and cash equivalents at end of year	$ 341,610	$ 119,022	$ –	$ 460,632

See notes to consolidating financial statements.

Cleveland Clinic Health System

Notes to Consolidating Financial Statements

Years Ended December 31, 2007 and 2006

1. Presentation

The accompanying financial statement information presents certain data for the Obligated Group (as defined herein) and certain controlled affiliates of The Cleveland Clinic Foundation (collectively referred to as the Non-Obligated Group), which have no liability under the Master Trust Indenture (Indenture), dated June 1, 1987 and amended and restated April 1, 2003, as supplemented, between the Foundation and The Huntington National Bank, as successor Master Trustee. The Foundation, Meridia Health System, Fairview Hospital, Lutheran Hospital, Marymount Hospital, Inc., Cleveland Clinic Florida and Cleveland Clinic Florida Health System (formerly known as Cleveland Clinic Florida Hospital Naples), which withdrew from the Obligated Group effective May 1, 2006, excluding certain organizations with which they are affiliated, either by membership, equity interest or contract were the sole members of the Obligated Group under that Indenture.

The following real property (Excluded Property) is not integral to the Obligated Group's operational activities and is not subject to the Master Trust Indenture and, therefore, is excepted from covenants otherwise applicable to property of the Obligated Group: the former TRW world headquarters building and the former Parker Hannifin world headquarters building, the Foundation House, and various other properties located in the Cleveland area outside the Foundation's main campus that are either undeveloped or have structures on them that the Foundation expects to raze or that otherwise meet the Master Trust Indenture requirements for exclusion. The accompanying financial statement information is presented by legal entity and no adjustment has been made for these Excluded Properties.

Certain 2006 amounts have been reclassified to conform with the current year presentation.

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APPENDIX C

SUMMARY OF BASIC DOCUMENTS

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APPENDIX C

SUMMARY OF BASIC DOCUMENTS

THE MASTER INDENTURE, THE BOND INDENTURE, THE BASE LEASE, THE LEASE, THE ASSIGNMENT TO THE MASTER TRUSTEE AND THE ASSIGNMENT TO THE BOND TRUSTEE

Brief descriptions of the Master Indenture, the Bond Indenture, the Base Lease, the Lease, the Assignment to the Master Trustee and the Assignment to the Bond Trustee are included hereafter in this Offering Circular. Such descriptions do not purport to be comprehensive or definitive. All references herein to the Master Indenture, the Bond Indenture, the Base Lease, the Lease, the Assignment to the Master Trustee and the Assignment to the Bond Trustee are qualified in their entirety by reference to each such document, copies of which are available for review prior to the issuance and delivery of the Series 2008A Bonds at the offices of the Cleveland Clinic and thereafter at the offices of the Bond Trustee. All references to the Series 2008A Bonds are qualified in their entirety by reference to the definitive forms thereof and the information with respect thereto included in the Bond Indenture.

DEFINITIONS OF CERTAIN TERMS

"*Act*" means Chapter 140, Ohio Revised Code, as enacted or amended from time to time.

"*Additional Bonds*" means bonds issued from time to time pursuant to and in accordance with the Bond Indenture.

"*Affiliate*" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, "control" when used with respect to any specified Person means the power to direct the policies of such Person, directly or indirectly, whether through the power to appoint and remove its directors, the ownership of voting securities, by contract, or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"*Assignment to the Bond Trustee*" means the Assignment to the Bond Trustee, dated as of the same date as the Lease, from the Commission to the Bond Trustee, as it may be amended or supplemented from time to time.

"*Assignment to the Master Trustee*" means the Assignment of Rights under the Base Lease and Lease, dated as of the same date as the Lease, from the Commission to the Master Trustee, as it may be amended or supplemented from time to time.

"*Assumed Amortization Period*" means the period of time determined, at the election of the Obligated Group Representative, pursuant to either paragraph (a) or paragraph (b) below:

(a) 30 years; or

(b) The period of time, exceeding 30 years, set forth in a certificate or opinion of a nationally recognized firm of investment bankers or financial consultants delivered to the Master Trustee (and dated within 90 days prior to the date of delivery), such certificate or opinion stating that a financing of the stated term at the Assumed Interest Rate is reasonably attainable on the date of that opinion or certificate.

"*Assumed Interest Rate*" means the rate per annum determined as of the last day of the calendar month next preceding the month in which the determination of Assumed Interest Rate is being made and determined at the election of the Obligated Group Representative, pursuant to paragraph (a) or (b) below:

(a) A rate per annum equal to (1) ninety percent (90%), if interest on the Indebtedness is not included in the gross income of the holder for federal income tax purposes, or (2) one hundred ten percent (110%), if interest on the Indebtedness is not so excludible, of the most recently published daily yields to

maturity of United States Treasury securities adjusted to a constant maturity of thirty (30) years as published by the Board of Governors of the Federal Reserve System; or

(b) The rate per annum set forth in a certificate or opinion of a nationally recognized firm of investment bankers or financial consultants delivered to the Master Trustee (and dated within 90 days prior to the date of delivery) as being the lowest rate of interest (which may be a rate which reflects the exclusion of such interest from the gross income of the holder for federal income tax purposes if that exclusion is then available) at which Indebtedness having comparable terms and security, amortized on a level debt service basis over a period of time equal to the Assumed Amortization Period, and issued or incurred by health care institutions of comparable credit standing would, if being offered as of such last day of the calendar month, be marketable on reasonable and customary terms.

"*Authenticating Agent*" means the Bond Trustee and the Registrar for the Series 2008A Bonds and any bank, trust company or other Person designated as an Authenticating Agent for those Series 2008A Bonds, by or in accordance with the Bond Indenture; provided in each case that the Authenticating Agent shall be a transfer agent registered in accordance with Section 17A(c) of the Exchange Act.

"*Authorized Denomination*" means $5,000 and integral multiples thereof.

"*Authorized Lessee Representative*" means the individual designated from time to time as the representative of the Cleveland Clinic under the Lease. The designation shall be made in a written certificate furnished to the Commission and the Bond Trustee containing the specimen signature of the Authorized Lessee Representative and shall be signed by, when used with respect to the Master Indenture, the Executive Vice President, Treasurer or the Secretary of the Cleveland Clinic, and when used with respect to the Bond Indenture, the Chief Executive Officer or Chief Financial Officer of the Cleveland Clinic. The certificate may designate an alternate or alternates who shall have the same authority, duties and powers as the Authorized Lessee Representative. In the event that all individuals so designated become unavailable or unable to act and the Cleveland Clinic fails to designate at least one replacement within 20 days after that unavailability or inability, the Bond Trustee may appoint an interim Authorized Lessee Representative to act until the Cleveland Clinic designates a replacement.

"*Balloon Debt*" means Put Indebtedness or Long-Term Indebtedness the principal of (and premium, if any) and interest and other debt service charges on which in any Fiscal Year either are equal to at least 25% of the total principal of (and premium, if any) and interest and other debt service charges on such Long-Term Indebtedness or exceed by more than 50% the greatest amount of principal of (and premium, if any) and interest and other debt service charges on such Long-Term Indebtedness due in any preceding or succeeding Fiscal Year.

"*Bankruptcy Affiliate*" means an "affiliate" as defined in the United States Bankruptcy Code.

"*Base Lease*" means the Base Lease dated as of September 1, 2008, between the Cleveland Clinic, as lessor, and the State, acting by and through the Commission, as lessee, as it may be amended or supplemented from time to time in accordance with its terms.

"*Basic Rent*" means the rent payable by the Cleveland Clinic under the Lease summarized under the caption "SUMMARY OF BASIC DOCUMENTS – THE LEASE – RENT" in this Appendix C.

"*Board Resolution*" of any specified Person means a copy of a resolution certified by the Person responsible for maintaining the records of the Governing Body of such Person to have been duly adopted by the Governing Body of such Person and to be in full force and effect on the date of such certification, and delivered to the Master Trustee.

"*Bond Counsel*" means any nationally recognized municipal bond counsel acceptable to the Cleveland Clinic, the Commission and the Bond Trustee.

"*Bond Indenture*" means the Bond Indenture dated as of September 1, 2008, between the State, acting by and through the Commission, and the Bond Trustee, as it may be amended or supplemented from time to time in accordance with its terms.

"*Bond Legislation*" means:

(a) when used with reference to the Series 2008A Bonds, the resolution adopted by the Commission providing for the issuance of the Series 2008A Bonds;

(b) when used with reference to an issue of Additional Bonds, that resolution, to the extent applicable, and the legislation providing for the issuance of those Additional Bonds; and

(c) when used with reference to Bonds when there are outstanding Additional Bonds, the resolution adopted by the Commission providing for the issuance of the bonds, the legislation providing for the issuance of the outstanding Additional Bonds, and the legislation providing for the issuance of the proposed Additional Bonds;

in each case, including without limitation, any certificate of award that may be required to be executed prior to the issuance of the Series 2008A Bonds or Additional Bonds by the applicable Bond Legislation; all as duly amended or supplemented from time to time.

"*Bond Register*" means the registration books of the Commission kept by the Bond Trustee or the Tender Agent to evidence the registration and transfer of Series 2008A Bonds.

"*Bond Service Charges*" means, for any period or date, the principal of and interest and any premium on the Series 2008A Bonds or accruing for that period or due and payable on that date. In determining Bond Service Charges accruing for any period or due and payable on any date, Mandatory Sinking Fund Requirements accruing for that period or due on that date, as applicable, shall be included and there shall be excluded all amounts to be retired by Mandatory Sinking Fund Requirements prior to such period or date.

"*Bond Trustee*" means, initially, The Huntington National Bank, a national banking association organized and existing under the laws of the United States and authorized to exercise corporate trust powers in the State, together with its successors and permitted assignees as Bond Trustee under the Bond Indenture.

"*Bondholder*" means the Person in whose name a Series 2008A Bond is registered on the Register and has the same meaning as "*Holder*" and "*Registered Owner*."

"*Bonds*" means each series of bonds issued and outstanding pursuant to the Bond Indenture, including the Series 2008A Bonds and any Additional Bonds.

"*Book Value*" when used in connection with Property of a specified Person, means the cost of such Property, net of accumulated depreciation, as it is carried on the books of account of such Person which are used in the preparation of the financial statements required by the Master Indenture.

"*Book Entry Form*" or "*Book Entry System*" means a form or system, as applicable, under which (i) physical Series 2008A Bond certificates in fully registered form are issued only to a Depository or its nominee, with the physical Series 2008A Bond certificates "immobilized" in the custody of the Depository and (ii) the ownership of book entry interests in the Series 2008A Bonds and Bond Service Charges thereon may be transferred only through a book entry made by persons or entities other than the Commission, the Bond Trustee or the Bond Registrar. The records maintained by those Persons or entities other than the Commission, the Bond Trustee and the Bond Registrar constitute the written record that identifies the beneficial owners, and records the transfer, of book entry interests in those Series 2008A Bonds and Bond Service Charges thereon, the Commission, the Bond Trustee and the Registrar having no responsibility therefor.

"*Business Day*" means a day that is not (a) a Saturday, Sunday, or (b) a legal holiday on which banking institutions in the State, the State of New York or the city in which the principal office of the Bond Trustee or the Master Trustee is located are authorized by law to close or (c) a day on which the New York Stock Exchange is closed.

"*Capitalization*" means for any Person the sum of (a) the aggregate principal amount of all Long-Term Indebtedness, and (b) the Fund Balance of such Person.

"*Casualty Event*" means a Facility shall have been damaged or destroyed (i) to such extent that it cannot be reasonably expected to be restored within a period of three months from the commencement of restoration to a condition of usefulness comparable to that immediately preceding such damage or destruction, or (ii) to such extent that it is reasonably expected that the Cleveland Clinic will be thereby prevented from carrying on its normal operations therein or thereon for a period of three months, or (iii) to such an extent that the cost of restoration thereof would exceed twenty percent of the appraised value of the Facility immediately prior to the date on which such damage or destruction occurred.

"*CCF Florida Clinic*" means Cleveland Clinic Florida (a nonprofit corporation), a Florida nonprofit corporation, together with its successors and permitted assignees, and currently an Obligated Issuer.

"*CCF Naples Hospital*" means Cleveland Clinic Florida Hospital Naples Non Profit Corporation, a Florida nonprofit corporation, and formerly an Obligated Issuer.

"*CCHS East Region*" means Cleveland Clinic Health System−East Region (formerly known as Meridia Health System), an Ohio nonprofit corporation, together with its successors and permitted assignees, and currently an Obligated Issuer.

"*Cleveland Clinic*" means The Cleveland Clinic Foundation, an Ohio nonprofit corporation, and any and all corporations succeeding thereto in accordance with the Master Indenture.

"*Code*" means the Internal Revenue Code of 1986, as amended from time to time. When used with respect to the Master Indenture, references to the Code and Sections thereof include, without limitation, relevant regulations, temporary regulations and proposed regulations thereunder and under the Internal Revenue Code of 1954, as amended, and any successor provisions to those Sections, regulations, temporary regulations and proposed regulations. When used with respect to the Bond Indenture, each reference to a section of the Code shall be deemed to include the United States Treasury Regulations, including temporary and proposed regulations, relating to such section that are applicable to a series of tax-exempt bonds or the use of the proceeds thereof.

"*Combined Group*" means all of the Obligated Issuers and all of the Group Affiliates.

"*Commercial Code*" means the Uniform Commercial Code as enacted and effective from time to time in the State.

"*Commission*" means the Ohio Higher Educational Facility Commission, a body both corporate and politic, operating and existing under and by virtue of the provisions of Chapter 3377 of the Ohio Revised Code, together with its successors and any permitted assignees.

"*Completion Date*" means the date specified as such with respect to a Project in accordance with the Lease.

"*Completion Indebtedness*" means any Long-Term Indebtedness or Interim Indebtedness incurred or issued by any Obligated Issuer for the purpose of financing the completion of a project for which Long-Term Indebtedness or Interim Indebtedness has already been issued or incurred.

"*Condemnation Event*" means title to, or the temporary use of, all or a portion of a Facility shall have been taken under the exercise of the power of eminent domain by any governmental authority, or Person acting under governmental authority, (1) to such extent that the Facility cannot be reasonably expected to be restored within a

period of three months from the commencement of restoration to a condition of comparable usefulness to that existing prior to such taking, or (2) to such an extent that it is reasonably expected that such a taking will result in the Cleveland Clinic being thereby prevented from carrying on its normal operations therein or thereon for a period of three months, or (3) to such an extent that the appraised value of the Facility taken exceeds twenty percent of the appraised value of the Leased Facility immediately prior to that taking.

"*Consent*", "*Order*" and "*Request*" of any Person mean, respectively, a written consent, order or request signed in the name of such Person by the Chairman of its Governing Body, the President, the Executive Director or a Vice President and by the Treasurer, an Assistant Treasurer, the Controller, an Assistant Controller, the Secretary or an Assistant Secretary of such Person and delivered to the Master Trustee.

"*Construction Period*" means the period beginning with the commencement of the acquisition and construction of a Project and ending on its Completion Date therefor.

"*Continuing Disclosure Agreement*" means, initially, the Amended and Restated Master Continuing Disclosure Agreement dated as of April 1, 2003 between the Cleveland Clinic, as Obligated Group Representative, and Digital Assurance Certification, L.L.C., as dissemination agent, or such other agreement or undertaking that satisfies the continuing disclosure requirements of Rule 15c2-12.

"*County Base Lease*" means the Base Lease dated as of July 1, 1987, as amended and supplemented from time to time in accordance with its terms, between the Cleveland Clinic, as base lessor, and Cuyahoga County, as base lessee.

"*County Bond Indenture*" means the Trust Indenture dated as of July 1, 1987, between Cuyahoga County and the County Bond Trustee, as amended and supplemented.

"*County Bond Trustee*" means The Huntington National Bank, in its capacity as trustee under the County Bond Indenture.

"*County Financing Lease*" means the Lease dated as of July 1, 1987, as amended and supplemented from time to time in accordance with its terms, between Cuyahoga County, as lessor, and the Cleveland Clinic, as lessee.

"*Cuyahoga County*" means the County of Cuyahoga, Ohio, a county and political subdivision of the State.

"*Debt Service Coverage Ratio*" means the ratio of Net Income Available for Debt Service of a Person for the period in question to the Maximum Annual Debt Service Requirements of that same Person.

"*Debt Service Fund*" means the Debt Service Fund created in the Bond Indenture and the accounts therein.

"*Debt Service Reserve Fund*" means the Debt Service Reserve Fund created in the Bond Indenture and the accounts therein.

"*Debt Service Reserve Requirement*" means, as of the date of any calculation, as to any Bonds that are required to be secured by property deposited in an account of the Debt Service Reserve Fund, an amount (such amount may take the form of cash, securities eligible for deposit therein as provided in the Bond Indenture, an insurance policy or surety bond from a municipal bond insurer or a letter of credit or other credit facility or a combination thereof as provided in the Bond Indenture) that is equal to the lesser of:

(a) the maximum amount required to be paid into the Debt Service Fund for Bond Service Charges on all outstanding Bonds of that Series in the then current or any succeeding year ending on December 31;

(b) 125% of the average annual debt service due on all outstanding Bonds of that Series; or

(c) 10% of the proceeds from the sale of all outstanding Bonds of that Series;

provided, however, that

(x) in connection with the issuance of a Series of Additional Bonds, the Debt Service Reserve Requirement shall not be increased by more than an amount equal to 10% of the proceeds from the sale of that Series of Bonds determined in accordance with Section 148(d) of the Code,

(y) the amount deposited in the Debt Service Reserve Fund from the proceeds of the sale of any Series of Bonds shall not exceed 10% of the proceeds from the sale of such Bonds determined in accordance with Section 148(d) of the Code, and

(z) the portion of the Debt Service Reserve Fund allocated to a Series of Bonds that is invested in higher yielding investments (as defined in Section 148(b) of the Code) may not exceed 10% of the proceeds of that Series of Bonds determined in accordance with Section 148(d) of the Code, unless, as to clauses (x) and (y), the Commission and the Bond Trustee receive a No Adverse Effect Opinion as to the deposit of more than 10% of the proceeds from the sale of that Series of Bonds, or the investment of amounts exceeding 10% of the amount of the proceeds of that Series of Bonds in Higher Yielding Investments, whichever is applicable.

The Debt Service Reserve Requirement is zero as to the Series 2008A Bonds.

"*Default*" means any circumstance which, with the passage of time or the giving of notice or both, would constitute an "*Event of Default.*"

"*Defaulted Interest*" means interest on any Series 2008A Bonds that is payable but not duly paid on the date due.

"*Designated Corporate Trust Office*" means, initially, the Columbus, Ohio corporate trust office of the Bond Trustee and the initial Paying Agent and thereafter such office as the Bond Trustee may designate from time to time; provided, that any change in designation shall be effective not sooner than the thirtieth day following the mailing by first class mail of notice of that change to the Cleveland Clinic, the Commission and each Holder not earlier than the fifth Business Day prior to that mailing.

"*Designated Office*" means, as to the Bond Trustee, its Designated Corporate Trust Office.

"*DTC*" means The Depository Trust Company (a limited purpose trust company), New York, New York, and its successors and assigns appointed pursuant to the Bond Indenture.

"*DTC Participant*" means those broker-dealers, banks and other financial institutions reflected on the books of DTC.

"*Earliest Optional Redemption Date*" means (i) January 1, 2018, as to the Series 2008A Bonds, and (ii) with respect to any Series of Additional Bonds issued in a Fixed Interest Rate Period on their Issuance Date, the date specified in the Supplemental Bond Indenture providing for issuance of that Series of Additional Bonds.

"*Escrow Obligations*" means Government Obligations and Prerefunded Tax Exempt Obligations and, with respect to any series of Master Notes, any other securities classified as Escrow Obligations in the Related Supplemental Indenture pursuant to which such Master Notes are issued.

"*Event of Default*" means an Event of Default under the document referred to.

"*Excluded Property*" means any assets of "employee pension benefits plans" as defined in the Employee Retirement Income Security Act of 1974, as amended, maintained by or for the benefit of the Combined Group and the real estate designated as Excluded Property pursuant to the terms of the Master Indenture summarized under the caption "SUMMARY OF BASIC DOCUMENTS — THE MASTER TRUST INDENTURE — EXCLUDED

PROPERTY", and all improvements, fixtures, tangible personal property and equipment located thereon and used in connection therewith. for a description of the existing Excluded Property, see "PART II. THE OBLIGATED GROUP — A. THE CLEVELAND CLINIC — Principal Facilities — Excluded Property" in Appendix A.

"*Existing Facilities*" means the improvements located on the Leased Real Property, as described more fully in Exhibit B to the Base Lease, together with any substitutions or additions made from time to time thereto, but less any removals therefrom, in the manner and to the extent as provided in the Lease.

"*Expenses*" means, for any period, the aggregate of all expenses calculated under generally accepted accounting principles, including without limitation any taxes, incurred by the Person or group of Persons involved during such period, minus (i) interest on Long-Term Indebtedness, (ii) depreciation and amortization, (iii) extraordinary expenses other than those resulting from the sale of securities (including without limitation extraordinary expenses consisting of losses on the sale of assets which are not securities and of losses on the termination of pension plans), (iv) any expenses resulting from a forgiveness of or the establishment of reserves against Indebtedness of an Affiliate which does not constitute an extraordinary expense and, if such calculation is being made with respect to the Combined Group, excluding any such expenses attributable to transactions among the Combined Group, (v) losses resulting from any reappraisal, revaluation or write-down of assets (including without limitation unrealized losses on the fair market valuation of Interest Rate Hedges and other hedging transactions), (vi) any unrealized losses on investments and (vii) losses from the extinguishment of debt.

"*Fair Market Value*" means (i) for either Real Property or tangible personal property, or both, the value established pursuant to an appraisal made by a Person appointed by the Obligated Group Representative and experienced in appraising the value of assets similar or identical to the Property who is not an employee or officer of any member of the Obligated Group or an employee or elected official of any Related Issuer provided that such appraisal shall be increased or decreased proportionate to any increase or decrease in the consumer price index between the date of such appraisal and the date of determination of Fair Market Value, or if not established by an appraisal, then the insured or insurable value demonstrated either by the policy of insurance or by an appraisal made for insurance purposes and (ii) for intangible personal property, the Book Value thereof or, in the case of securities which are publicly traded, the average bid price for the business day preceding the date of valuation.

"*Fairview*" means Fairview Hospital, an Ohio nonprofit corporation, together with its successors and permitted assignees, and currently an Obligated Issuer.

"*Fiscal Year*" means, with respect to each Obligated Issuer, that period beginning January 1 of each year and ending on December 31 of that year or such other fiscal year as shall be agreed upon by all Obligated Issuers as each of their annual accounting periods.

"*Fixed Interest Rate*" means the rate to be borne by a Series 2008A Bond from and after the Issuance Date.

"*Fixed Rate Conversion Date*" means the date on which a Series 2008A Bond begins to bear interest at a Fixed Interest Rate.

"*Fixed Rate Period*" means, with respect to a particular Series 2008A Bond, the period of time commencing on the Fixed Rate Conversion Date and ending on its Maturity Date.

"*Force Majeure*" means, without limitation:

(a) acts of God; strikes, lockouts or other industrial disturbances; acts of public enemies; orders or restraints of any kind of the government of the United States or of the State or any of their departments, agencies, political subdivisions or officials or any civil or military authority; insurrections; civil disturbances; riots; epidemics; landslides; lightning; earthquakes; fires; hurricanes; tornados; storms; droughts; floods; arrests, restraint of government and people; explosions; breakage, malfunction or accident to facilities, machinery, transmission pipes or canals; partial or entire failure of utilities; shortages of labor, materials, supplies or transportation; or

(b) any cause, circumstance or event not reasonably within the control of the Cleveland Clinic.

"*Fund Balance*" means for (1) a Person that is organized not for profit, the aggregate unrestricted net assets of that Person and (2) a Person that is organized for profit, the excess of assets over liabilities.

"*Funded Interest Payment*" means, as to the Series 2008A Bonds, the amount to be deposited to the Funded Interest Payment Account in the Project Fund established under the Bond Indenture, as provided in the provisions of the Bond Indenture summarized under the caption "SUMMARY OF BASIC DOCUMENTS – THE BOND INDENTURE – APPLICATION OF FUNDS – Project Fund" in this Appendix C, and as to any Additional Bonds, the Funded Interest Payment, if any, set forth in the applicable Bond Legislation or Supplemental Bond Indenture.

"*Funded Interest Payment Account*" means a Funded Interest Payment Account in the Project Fund.

"*Governing Board*" means the Board of Trustees of the Cleveland Clinic, or the Executive Committee of such Board, or its governing board as constituted from time to time.

"*Governing Body*" means, with respect to a specified Person, the board of directors or board of trustees of such Person, or if there shall be no board of trustees or board of directors, then the Person or body which pursuant to law or the Organization Documents of such Person is vested with powers similar to those vested in a board of trustees or a board of directors; the term also encompasses any committee empowered to act on behalf of such board or body.

"*Government Obligations*" means direct obligations of, or obligations guaranteed unconditionally as to full and timely payment of the principal thereof and the interest thereon by, the United States of America (including any investments in pools of such obligations) or evidences of ownership of proportionate interests in future interest and principal payments on such obligations held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor on such obligations, and which underlying obligations are not available to satisfy any claim of the custodian or any Person claiming through the custodian or to whom the custodian may be obligated.

"*Gross Receipts*" has the meaning set forth in the provisions summarized under the caption "SUMMARY OF BASIC DOCUMENTS — THE MASTER TRUST INDENTURE — GROSS RECEIPTS PLEDGE" in this Appendix C.

"*Gross Revenues*" means all present and future accounts of a Person as defined in Chapter 1309, Ohio Revised Code and all proceeds therefrom, whether cash or noncash.

"*Group Affiliate*" means any Affiliate of an Obligated Issuer that:

(1) is (a) a non-stock membership corporation of which one or more members of the Combined Group are the sole members, or (b) a non-stock, non-membership corporation or a trust of which the sole beneficiaries are one or more members of the Combined Group, (c) a stock corporation a majority of the outstanding shares of stock of which are owned by one or more members of the Combined Group, or (d) a limited partnership as to which an Obligated Issuer or a Group Affiliate is the general partner or a general partnership which is controlled directly or indirectly by one or more members of the Combined Group, and

(2) if such Affiliate is a non-stock membership corporation or a trust,

(a) in the Opinion of Counsel, has the legal power, with approval of a majority of its Governing Body but without the consent of any other Person, to transfer to an Obligated Issuer (or to another Group Affiliate a permissible power of which is to transfer to an Obligated Issuer) money required for the payment of Indebtedness of the Obligated Group (other than money which is donor restricted or which is subject to a

direct, express or charitable trust which does not permit the use of such money for the payment of indebtedness of the Obligated Group or the transfer of which would result in the cessation or discontinuance of any material portion of the health care or related services or other charitable services provided by such Affiliate), and

(b) an Obligated Issuer has the sole right to elect or appoint and to remove, with or without cause, a majority of the members of the Governing Body thereof (or a majority of the members of the Governing Body of another Group Affiliate that has such right), and

(c) has the ability under applicable law and its organizational documents, with approval of a majority of the members of its Governing Body, to transfer, upon the liquidation or dissolution of such Affiliate, all assets of such Affiliate remaining after payment of its debts to an Obligated Issuer or to another Group Affiliate whose remaining assets may be so transferred upon liquidation or dissolution, provided that if such Affiliate is an organization described in Section 501(c)(3) of the Code, then for so long as at least one Obligated Issuer is an organization described in Section 501(c)(3) of the Code, the organizational documents of such Affiliate and applicable law may (i) provide for the naming of another member of the Combined Group as a substitute beneficiary if the then current beneficiary ceases to be an organization described in Section 501(c)(3) of the Code and (ii) prohibit transfers to organizations not described in Section 501(c)(3) of the Code, and

(3) has satisfied (or a predecessor has satisfied) the requirements set forth in the Master Indenture for becoming a Group Affiliate and has not thereafter ceased to satisfy the requirements of clauses (1) and (2) above or satisfied the requirements set forth in the Master Indenture for ceasing to be a Group Affiliate.

"*Guaranty Debt*" means an obligation of a Person guaranteeing in any manner an obligation of another Person other than an Obligated Issuer for borrowed money or an installment sale or a lease that would qualify as Indebtedness under paragraph (2) of the definition of Indebtedness.

"*Higher Yielding Investments*" has the meaning assigned to "higher yielding investments" in the Code.

"*Holder*" has the same meaning as the terms "*Bondholder*" and "*Registered Owner*."

"*Hospital Facilities*" means "hospital facilities" as defined in the Act.

"*Hospital Receipts*" means (a) all rentals and other money received by the Commission or the Bond Trustee pursuant to the Lease, including without limitation, the Basic Rent, and (b) money in, including without limitation, investments credited to, the Special Funds, and income from the investment thereof.

"*Immediate Notice*" means notice by telephone, telex or telecopier to such telephone number, telex number or telecopier number as the addressee shall have directed in writing, promptly followed by written notice by first class mail postage prepaid to such address as the addressee shall have directed in writing; provided, however, that if any person required to give an Immediate Notice shall not have been provided with the necessary information as to the telephone, telex or telecopier number of an addressee, Immediate Notice shall mean written notice by first class mail, postage prepaid.

"*Indebtedness*" means with respect to a specified Person all:

(1) indebtedness incurred or assumed by such Person for borrowed money or for the acquisition, construction or improvement of Property other than goods that are acquired in the ordinary course of business of such Person;

(2) lease obligations of such Person that, in accordance with generally accepted accounting principles, are shown on the liability side of a balance sheet;

(3) Guaranty Debt; and

(4) indebtedness secured by any mortgage, lien, pledge, charge, or encumbrance upon Property owned by such Person whether or not such Person has assumed or become liable for the payment thereof.

For the purpose of computing the Indebtedness of any Person, if more than one instrument represents the same obligation to make payments, it shall be counted only once, and there shall be excluded any particular Indebtedness if, upon or prior to the Maturity thereof, there shall have been deposited with the proper depository in trust the necessary funds (or evidences of such Indebtedness or investments that will provide sufficient funds, if permitted by the instrument creating such Indebtedness) for the payment, redemption or satisfaction of such Indebtedness; and thereafter such funds, evidences of Indebtedness and investments so deposited shall not be included in any computation of the assets of such Person, and the income from any such deposits shall not be included in the calculation of Revenues or Net Income Available for Debt Service of such Person. Indebtedness shall not include Interest Rate Hedges.

"*Independent*" means, when used with respect to a specified Person, that such Person has no specific financial interest direct or indirect in the Cleveland Clinic or any Affiliate thereof and in the case of an individual, such individual is not a director, trustee, officer or employee of the Cleveland Clinic or any Affiliate thereof and in the case of an entity, such entity does not have a partner, director, trustee, officer or employee who is a director, trustee, officer or employee of the Cleveland Clinic or any Affiliate thereof.

"*Independent Consultant*" means a firm appointed by the Obligated Group Representative and approved by the Master Trustee (which approval shall not be unreasonably withheld), qualified to pass upon questions relating to the financial affairs of facilities of the type or types operated by the Members of the Obligated Group and having a favorable reputation for skill and experience in the financial affairs of such facilities and which is Independent.

"*Independent Counsel*" means an attorney or firm of attorneys duly admitted to practice law before the highest court of the State, and who or which is Independent.

"*Independent Insurance Consultant*" means a Person, (a) which is Independent, (b) appointed by the Obligated Group Representative and approved by the Master Trustee (which approval shall not be unreasonably withheld), (c) qualified to survey risks and to recommend insurance coverage for facilities of the type or types operated by the Obligated Issuers and services and organizations engaged in like operations, (d) having a favorable reputation for skill and experience in such surveys and such recommendations, and (e) who shall not be an underwriter of any insurance of an Obligated Issuer.

"*Interest Payment Account*" means the Interest Payment Account in the Debt Service Fund created in the Bond Indenture.

"*Interest Payment Date*" means each January 1 and July 1, and, with respect to any Series 2008A Bonds being redeemed pursuant to mandatory sinking fund redemption, such mandatory redemption date, and the Maturity Date.

"Interest Rate Hedge" means an agreement, expressly identified in an Officer's Certificate as having been entered into for the purpose of reducing, modifying, converting or otherwise managing the risk of interest rate or interest rate index changes or interest rate or interest rate index exposures or risk of changes or exposures to prices of commodities, securities, portfolios, products, supplies, goods or services, which agreement may include, without limitation, interest rate swap, basis swap, index swap or option, exchange, cap, collar, option, floor, forward, futures contract or other hedging agreement, arrangement or security, or combination of the foregoing, however denominated, including any option to enter into the foregoing. Any of the foregoing may be treated as an "Interest

Rate Hedge" for purposes of this Master Indenture without regard to whether such arrangement qualifies for hedge accounting treatment under GAAP.

"*Interest Rate Period*" means a period during which all of the Series 2008A Bonds bear interest at a Fixed Interest Rate as specified in or determined in accordance with the Bond Indenture.

"*Interim Indebtedness*" means Indebtedness incurred or assumed in anticipation of being refinanced or refunded with Long-Term Indebtedness.

"*Issuance Date*" means the date of physical delivery of the Series 2008A Bonds by the Commission in exchange for payment of the purchase price of those Series 2008A Bonds.

"*Lease*" means the Lease dated as of September 1, 2008, between the State, acting by and through the Commission, as lessor, and the Cleveland Clinic, as lessee, as it may be amended or supplemented from time to time in accordance with its terms.

"*Leased Premises*" means the Leased Real Property, the Existing Facilities and the Projects, together with any substitutions or additions made thereto from time to time, including without limitation, any Projects, but less any removals therefrom, in the manner and to the extent provided in the Lease.

"*Leased Real Property*" means the property described in Exhibit A to the Base Lease, as modified from time to time, including any substitutions or additions made thereto and excluding any removals made therefrom, in the manner and to the extent provided in the Lease.

"*Lease Term*" means the period commencing on the Issuance Date of the Series 2008A Bonds and ending on the Termination Date.

"*Legal Restrictions*" means federal, state or other applicable governmental laws, regulations, judicial or administrative rulings affecting any Obligated Issuer or Group Affiliate.

"*Long-Term*" when used in connection with Indebtedness (including Master Notes), means Indebtedness that by its terms matures more than one year after the date of the original incurrence or issuance thereof or renewable at the option of the obligor for a period greater than one year from the date of original incurrence or issuance thereof, Indebtedness consisting of demand notes with alternative stated maturities of one year or less which in the absence of demand are extended to a date more than one year after the date of the original incurrence thereof and Indebtedness consisting of commercial paper.

"*Lutheran*" means Lutheran Hospital, an Ohio nonprofit corporation, together with its successors and permitted assignees, and currently an Obligated Issuer.

"*Maker*" means the member of the Obligated Group issuing the Master Note or Master Notes.

"*Mandatory Redemption Dates*" means, (i) as to the Series 2008A Bonds, January 1 of the years set forth in the Principal Retirement Schedule, and (ii) as to any Additional Bonds, the Mandatory Redemption Dates determined or designated in or pursuant to the applicable Bond Legislation or Supplemental Bond Indenture with respect to any bonds to be retired pursuant to the Mandatory Sinking Fund Requirements.

"*Mandatory Sinking Fund Requirements*" means (i) as to the Series 2008A Bonds, the amounts to be redeemed by mandatory redemption indicated in the Principal Retirement Schedule for the Series 2008A Bonds, and (ii) as to any Additional Bonds, the mandatory sinking fund requirements determined or designated in or pursuant to the applicable Bond Legislation or Supplemental Bond Indenture.

"*Marymount*" means Marymount Hospital, Inc., an Ohio nonprofit corporation, together with its successors and permitted assignees, and currently an Obligated Issuer.

"*Master Indenture*" means the Original Master Indenture, as amended and supplemented from time to time in accordance with its terms.

"*Master Note*" means any Master Note issued, authenticated and delivered under the Master Indenture. References to Master Notes of a series means the Master Notes issued pursuant to a single Related Supplemental Indenture.

"*Master Trustee*" means The Huntington National Bank, in its capacity as successor trustee under the Master Indenture, together with its successors and permitted assignees.

"*Maturity*" means the date on which the principal of Indebtedness, or any installments thereof, becomes due and payable as therein provided, whether at the stated maturity thereof, by acceleration, call for mandatory redemption or otherwise.

"*Maturity Date*" means with respect to Series 2008A Bonds bearing interest at a Fixed Interest Rate that have been assigned specific serial maturity or different term maturity dates pursuant to subsection 5.03(b) of the Bond Indenture, the Maturity Date or Dates shall be the date or dates so specified.

"*Maximum Annual Debt Service Requirements*" of any specified Person means the largest amount of payments of principal (whether at Maturity or pursuant to sinking fund redemption requirements) of and premium, if any, and interest payments and other debt service charges on all Outstanding Long-Term Indebtedness of such Person (including Outstanding Interim Indebtedness as if it were Long-Term Indebtedness maturing over a term equal to the Assumed Amortization Period with level combined annual payments of principal and interest and having an interest rate equal to the Assumed Interest Rate) and payments or assumed payments relating to Guaranty Debt of such Person as provided in paragraph (6) of this definition coming due in any subsequent Fiscal Year (or that could come due, or be payable in respect of any required purchase of such Indebtedness by such Person, on demand of the holder thereof other than demand conditioned upon default by the obligor on such Indebtedness) and, for such purposes, any one or more of the following rules shall apply at the election of the Obligated Group Representative:

(1) if that Person has received a binding commitment, within normal commercial practice, from any bank, savings and loan association, insurance company, or other Person to refund or purchase any of its Long-Term Indebtedness at its Stated Maturity (or, if due on demand, or payable in respect of any required purchase of such Indebtedness by such Person, at any date on which demand may be made), then the portion of the Long-Term Indebtedness committed to be refunded or purchased shall be excluded from such calculation and the principal of and premium, if any, and interest on the Long-Term Indebtedness which would be incurred for such refunding or purchase that would be due in the Fiscal Year for which the calculation is being made, if incurred at the Maturity or purchase date of the Long-Term Indebtedness to be refunded or purchased, shall be added;

(2) in the case of Balloon Debt, if the Person obligated thereon shall deliver to the Master Trustee a certificate of a nationally recognized firm of investment bankers or financial consultants dated within 90 days prior to the date of delivery of such certificate to the Master Trustee stating the interest rate required on the date of such certificate to refund on a level debt service basis for the Assumed Amortization Period such Balloon Debt, then the debt service on such Balloon Debt that could so be refunded shall be excluded from such calculation and there shall be included in such calculation the principal of and premium, if any, and interest and other debt service charges on the Long-Term Indebtedness which would result from the financing so certified that would be due in the Fiscal Year for which the calculation is being made, if such Long-Term Indebtedness were incurred at the Maturity of the Balloon Debt to be refunded provided that if any Balloon Debt is issued with original issue discount the portion of the stated principal amount thereof representing interest shall be determined in accordance with the applicable provisions of the Code and such amount representing interest shall not be treated as principal of Indebtedness;

(3) in the case of Balloon Debt, if the Person obligated thereon shall deliver to the Master Trustee a Board Resolution of such Person providing for the retirement of (and the instrument creating such Balloon Debt shall permit the retirement of), or for the establishment of a sinking fund for, such Balloon

Debt according to a fixed schedule stated in such resolution ending on or before the Fiscal Year in which such principal and premium, if any, is due, then the principal of (and, in the case of retirement, or to the extent provided for by the sinking fund, the premium, if any, and interest and other debt service charges on) such Balloon Debt shall be computed as if the same were due in accordance with such schedule, provided that this clause (3) shall apply only to Balloon Debt for which the installments previously scheduled have been paid or deposited to the sinking fund established with respect to such Indebtedness on or before the times required by such schedule;

(4) principal of and premium, if any, and interest and other debt service charges on Indebtedness, or portions thereof, shall not be included in the computation of the Maximum Annual Debt Service Requirements for any Fiscal Year for which such principal, premium, interest, or other debt service charges are payable from funds irrevocably deposited or set aside in trust or escrowed from the proceeds of Indebtedness (or income from the investment thereof) for the payment thereof at the time of such calculations (including without limitation capitalized interest and accrued interest so deposited or set aside in trust or escrowed with the Master Trustee or another Independent Person approved by the Master Trustee);

(5) as to any Variable Rate Indebtedness, the average rate thereon (or that would have been borne thereby had such Indebtedness then been outstanding and had such Indebtedness accrued interest based upon the variable interest rate specified in such Indebtedness or, for any period for which such variable interest rate was not calculated or calculable, the next most comparable variable interest rate at the time of sale in the opinion of a nationally recognized firm of investment bankers or financial consultants) during any 24 month period ending within two months prior to the date of calculation shall be presumed to apply for all future dates;

(6) except as otherwise provided, in the case of Guaranty Debt, no debt service shall be deemed to be payable by the guarantor; provided, however, that if the Person obligated on the Guaranty Debt is actually required to make any payment in respect of obligations with respect to which the Guaranty Debt was issued, the total amount payable by such Person on the Guaranty Debt in such Fiscal Year shall be included in any computation of the Maximum Annual Debt Service Requirements of such Person for such year and the amount payable by such Person on the Guaranty Debt in any future Fiscal Year shall be included in any computation of the Maximum Annual Debt Service Requirements until such time as the Person primarily liable has made all payments due on the obligations for which the Guaranty Debt was issued for one Fiscal Year; and

(7) anything in the Master Indenture to the contrary notwithstanding, any portion of any Indebtedness of any member of the Combined Group for which an Interest Rate Hedge has been obtained by such member shall be deemed to bear interest for the period of time that such Interest Rate Hedge is in effect at a net rate which takes into account the interest payments made by such member on such Indebtedness and the payments made or received by such member on such Interest Rate Hedge; provided that the long-term credit rating of the provider of such Interest Rate Hedge (or any guarantor thereof) is in one of the three highest rating categories of each Rating Agency which then rates any Related Bonds (without regard to any refinements of gradation of rating category by numerical modifier or otherwise) or is at least as high as that of the Combined Group; in addition, so long as any Indebtedness is deemed to bear interest at a rate taking into account an Interest Rate Hedge, any payments made by a member of the Combined Group on such Interest Rate Hedge shall be excluded from Expenses and any payments received by such a member on such Interest Rate Hedge shall be excluded from Revenues, in each case, for all purposes of the Master Indenture;

provided that any obligation owed by one member of the Combined Group to another member of the Combined Group shall not constitute Long-Term Indebtedness for purposes of this definition; provided further, that there shall be excluded from Long-Term Indebtedness for purposes of this definition any Non-Recourse Indebtedness of the Combined Group or any Obligated Issuer or Group Affiliate.

"*Member*" or "*Member of the Obligated Group*" means an Obligated Issuer under the Master Indenture.

"*Moody's*" means Moody's Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "*Moody's*" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Obligated Group Representative by notice to the Bond Trustee, the Commission.

"*Mortgage*" means any mortgage, deed of trust, collateral assignment of lease or other lien, charge, security interest or encumbrance on or pledge of Property given as security for the payment of Indebtedness or the performance of other obligations.

"*Net Income Available for Debt Service*" of any specified Person or group of Persons means, for any period, the excess of Revenues over Expenses of such Person or group of Persons.

"*Net Proceeds*" when used with respect to any insurance or condemnation award, means the gross proceeds from the insurance or condemnation award (with respect to which that term is used) remaining after payment of all expenses (including attorneys' fees, to the extent permitted by law, and any extraordinary expenses of any Obligated Issuer and the Master Trustee) incurred in the collection of such gross proceeds.

"*No Adverse Effect Opinion*" means an Opinion of Bond Counsel, addressed to the Commission and the Bond Trustee to the effect that a certain action or combination of actions, or the failure to take a certain action or combination of actions, (i) is authorized or permitted in the case of an action or actions to be taken, or will not constitute a breach of or default in the case of the failure to take an action or actions, under the instrument pursuant to which the opinion is to be delivered, taking into account any consent or waiver provided by a party entitled to give or withhold consent or to grant a waiver, and (ii) will not, in and of itself or themselves, affect adversely either (a) the validity of the Series 2008A Bonds, or (b) any then applicable exclusion of interest on the Series 2008A Bonds, if they are tax-exempt bonds, from gross income of Bondholders for federal income tax purposes or any then applicable exemption of interest on those Series 2008A Bonds from treatment as an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations under the Code.

"*Non-Recourse Indebtedness*" means Indebtedness: (i) the principal amount of which does not exceed the Fair Market Value of the Property which is acquired, constructed or improved from the proceeds of such Indebtedness; (ii) which is evidenced by an instrument which affirmatively recites that (a) only the Property which is acquired, constructed or improved from the proceeds of such Indebtedness and the revenues produced by such Property are pledged for the payment of such Indebtedness and the holder of such Indebtedness shall have recourse to no other assets, revenues or Property of any member of the Obligated Group for the payment of such Indebtedness, (b) no payment shall be made on such Indebtedness from sources other than those referred to in clause (a) unless the provisions of the Master Indenture governing transfers of assets are satisfied prior to such payment; and (iii) upon any default in payment of such Indebtedness, the remedy of the holder thereof is limited to foreclosure or taking possession of such Property with no right to seek payment of any deficiency from any member of the Obligated Group or from any other Property of any member of the Obligated Group.

"*Noteholder*" or "*holder*" as applied to Master Notes means the Person in whose name a Master Note is registered.

"*Obligated Group*" means, collectively and from time to time, those Persons that are Obligated Issuers under the Master Indenture.

"*Obligated Group Representative*" means the Cleveland Clinic or such Person or Persons, including an alternate or alternates, designated pursuant to a written notice to the Master Trustee executed by the Cleveland Clinic, or if the Cleveland Clinic is no longer an Obligated Issuer, then by a majority of the then Obligated Issuers.

"*Obligated Issuer*" means (i) the Cleveland Clinic, (ii) CCHS−East Region, Fairview, Lutheran and Marymount, and (iii) CCF Florida Clinic, together with any Person that from time to time becomes, but excluding any Person the status of which is terminated as, an "Obligated Issuer" under the Master Indenture in accordance with the terms thereof.

"*Officer's Certificate*" means, in the case of any Person which is a corporation, a certificate signed by the Chairman, President, any Vice President, Secretary, Treasurer or Controller of such Person; in the case of the entire Obligated Group, by the Obligated Group Representative; or in the case of any Person which is not a corporation, by the managing partner or other person in which the power to act on behalf of such Person is vested by law, the organizational documents of such Person or by subsequent action of its Governing Body.

"*Operating Assets*" means, with respect to a specified Person, all tangible Property owned by such Person and used in the primary business of such Person.

"*Operation and Maintenance Expenses*" mean the costs paid or incurred by an Obligated Issuer for operating and maintaining its Property including, but not limited to (a) all costs of supplies in connection with the foregoing; (b) all costs and expenses of management of the Property; (c) all costs and expenses of maintenance and repair, and other expenses necessary or appropriate in the judgment of the Obligated Issuer to maintain and preserve, the Property in good repair and working order; (d) all administrative costs of the Property, such as salaries and wages (including retirement benefits) of employees, overhead, taxes (if any) and insurance premiums; (e) payments in-lieu of taxes to the City or any other public agency in connection with the Electric System; (f) any cost or expense paid by the Obligated Issuer to comply with requirements of law applicable to the Property or the Obligated Issuer's ownership or operation thereof or in any capacity with respect thereto or any activity in connection therewith; and (g) any other cost or expense which, in accordance with Generally Accepted Accounting Principles, is to be treated as a cost of operating or maintaining the Property; but excluding in all cases depreciation, replacement and obsolescence charges or reserves therefore, and amortization of intangibles.

"*Opinion of Bond Counsel*" means, for purposes of the Bond Indenture, an opinion of Bond Counsel, which counsel and opinion, including the scope, form, substance and other aspects thereof, are acceptable to the Commission, the Cleveland Clinic and the Bond Trustee and which opinion may be based on a ruling or rulings of the Internal Revenue Service and, for purposes of the Master Indenture, an opinion in writing signed by legal counsel which shall be nationally recognized as expert in matters pertaining to the validity of obligations of governmental issuers (as such term is defined within the definition of the term "Related Bonds") and the exemption from federal income taxation of interest on such obligations.

"*Opinion of Counsel*" means, for purposes of the Master Indenture, an opinion in writing signed by legal counsel who may be an employee of or counsel to any Obligated Issuer and who shall be satisfactory to the Master Trustee in its reasonable discretion.

"Optional Redemption Price" means, (i) as to the Series 2008A Bonds, the principal amount thereof, and (ii) as to any Additional Bonds, the Optional Redemption Price determined or designated in or pursuant to the applicable Bond Legislation or Supplemental Bond Indenture.

"*Original Master Indenture*" means the Amended and Restated Master Trust Indenture dated as of April 1, 2003, between the Cleveland Clinic, CCHS−East Region, Fairview, Lutheran, Marymount, CCF Florida Clinic and CCF Naples, and the Master Trustee.

"*Original Purchaser*" means (i) as to the Series 2008A Bonds, J.P. Morgan Securities, Inc., and (ii) as to a Series of Additional Bonds, the Person identified as such in or pursuant to the applicable Supplemental Bond Indenture.

"*Outstanding*", as applied to Master Notes and as applied to Indebtedness, means,

(a) when used in connection with Master Notes, all Master Notes which have been duly authenticated and delivered by the Master Trustee under the Master Indenture, except:

(i) Master Notes theretofore cancelled by the Master Trustee or delivered to the Master Trustee for cancellation;

(ii) Master Notes for the payment or redemption of which sufficient cash or Escrow Obligations to the extent permitted in the Master Indenture shall have theretofore been irrevocably deposited with the Master Trustee; provided that if such Master Notes are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given or arrangements satisfactory to the Master Trustee shall have been made therefor, or waiver of such notice satisfactory in form to the Master Trustee shall have been filed with the Master Trustee; and provided further that prior to such redemption or payment, the Master Notes to be paid or redeemed shall be deemed to be Outstanding for the purpose of replacement under the Master Indenture and transfer and exchange under the Master Indenture;

(iii) Master Notes issued under the Master Indenture in connection with the issuance of a series of Related Bonds, to the extent that such Related Bonds are no longer deemed to be outstanding under the provisions of the Related Bond Indenture;

(iv) Master Notes in lieu of which other Master Notes have been authenticated under the Master Indenture; and

(v) Master Notes owned by members of the Combined Group, subject to the Master Indenture.

(b) when used in connection with Indebtedness not evidenced by Master Notes, all such Indebtedness except:

(i) Indebtedness with respect to which the obligation of any member of the Combined Group to make payments has been discharged or Indebtedness which is no longer deemed to be outstanding, in accordance with the terms of the instrument or instruments creating or evidencing such Indebtedness;

(ii) Indebtedness, provision for the payment of which has been made by the deposit in trust of cash or investment securities, not redeemable at the option of anyone other than the holder thereof, the principal of and interest on which will be sufficient to pay, when due (whether at maturity or by redemption), amounts due with respect to such Indebtedness; and

(iii) Indebtedness owing by one member of the Combined Group to another member of the Combined Group.

"*Outstanding Series 2008A Bonds*" or "*Series 2008A Bonds Outstanding*" means all Series 2008A Bonds that have been duly authenticated and delivered by the Bond Trustee under the Bond Indenture, except:

(a) Series 2008A Bonds cancelled after purchase in the open market or because of payment at or redemption prior to maturity;

(b) Series 2008A Bonds for the payment or redemption of which cash or Escrow Obligations shall have been theretofore deposited with the Bond Trustee (whether upon or prior to the maturity or redemption date of any such Series 2008A Bonds) in accordance with the Bond Indenture; provided that, if those Series 2008A Bonds are to be redeemed prior to the maturity thereof, notice of their redemption shall have been given, or arrangements satisfactory to the Bond Trustee shall have been made therefor, or waiver of such notice satisfactory in form to the Bond Trustee shall have been filed with the Bond Trustee;

(c) Series 2008A Bonds in lieu of which others have been authenticated under the Bond Indenture; and

(d) after the Fixed Rate Conversion Date applicable thereto, for the purpose of all consents, approvals, waivers and notices required to be obtained or given under the Bond Indenture, a Series 2008A Bond held or owned by the Cleveland Clinic or any Affiliate thereof;

provided, however, that Series 2008A Bonds with respect to which provision for payment is made in accordance with the provisions of the Bond Indenture summarized under the caption "SUMMARY OF BASIC DOCUMENTS – THE BOND INDENTURE – DEFEASANCE" in this Appendix C shall be deemed to be outstanding for the purposes of applying the interest rate setting provisions thereof and the transfer, registration and payment provisions of the Bond Indenture.

"*Paying Agent*" means the bank or banks, if any, designated pursuant to the Bond Indenture to receive and disburse payments of principal of and interest on the Series 2008A Bonds.

"*Permitted Encumbrances*" means, for purposes of the Master Indenture, with respect to any specified Person:

(a) any lien securing all Master Notes created by the Master Indenture or any lien created in accordance with the provisions of the Master Indenture summarized under paragraph (g) under the caption "SUMMARY OF BASIC DOCUMENTS — THE MASTER TRUST INDENTURE — NEGATIVE LIEN COVENANT" in this Appendix C;

(b) liens arising by reason of good faith deposits by or with such Person in connection with tenders, leases of real estate, bids or contracts (other than contracts for the payment of money), deposits by any such Person to secure public or statutory obligations, or to secure, or in lieu of, surety, stay or appeal bonds and deposits as security for the payment of taxes or assessments or other similar charges;

(c) any lien arising by reason of deposits with, or the giving of any form of security to, any governmental agency or any body created or approved by law or governmental regulation for any purpose at any time as required by law or governmental regulation (i) as a condition to the transaction of any business or the exercise of any privilege or license in the ordinary course, or (ii) to enable such Person to maintain self-insurance or to participate in any funds established to cover any insurance risks or in connection with workers' compensation, unemployment insurance, pensions or other social security, or to share in the privileges or benefits required for companies participating in such arrangements;

(d) liens created by or existing from any litigation or judicial or administrative proceeding which is then being contested in good faith by appropriate proceedings;

(e) such defects, irregularities, patent reservations, utility easements, access and other easements and rights-of-way, rights of possession or use, party walls, rights of lateral support, restrictions, licenses, exceptions, clouds on title or other encumbrance on Property as do not materially impair the value of such Property or the use of such Property in the operation of the business of such Person and with respect to which the Person which owns the encumbered Property has delivered an Officer's Certificate to the Master Trustee evidencing that the Governing Body of such Person has determined that such encumbrance will not so impair such value or use;

(f) encumbrances arising from grants or loans from, or guarantees of Indebtedness by, federal, state and local governments or agencies thereof;

(g) liens for taxes, assessments or other governmental charges or levies to the extent not required to be paid pursuant to the provisions of the Master Indenture;

(h) liens resulting from governmental regulations on the use of Property;

(i) any lease, assignment of lease, sublease, guaranty, sale or similar agreement of which the Master Trustee is the beneficiary for all Master Noteholders and entered into in connection with the issuance of and providing for or securing the payment of Related Bonds;

(j) the Lease and leases made or existing on Property acquired in the ordinary course of business, any lease, assignment of lease, sublease, lien, charge or encumbrance permitted by the provisions

of the Master Indenture summarized under the caption "SUMMARY OF BASIC DOCUMENTS — THE MASTER TRUST INDENTURE — NEGATIVE LIEN COVENANT" to which such Person is a party, including statutory landlords' liens under such leases;

(k) liens which do not secure Indebtedness of the type described in clauses (1), (2) or (3) of the definition thereof or the equivalent arising by reason of the giving of any form of security to any governmental agency or any body created or approved by law or governmental agency for any purpose at any time as required by law or governmental regulation as a condition to share in the privileges or benefits required for institutions participating in such arrangements;

(l) materialmen's, mechanics', carriers', workmen's, repairmen's, or other like liens arising in the ordinary course of business, or resulting from deposits to obtain the release of such liens;

(m) liens on money deposited by patients as security for or as prepayment for the cost of patient care;

(n) liens or encumbrances on Property (or on the income therefrom) received as a gift, grant, or bequest, if such lien or encumbrance constitutes or results from restrictions (other than the requirement that the grantee thereof make payment in respect of Long-Term Indebtedness incurred by the grantor with respect to such property) placed on such gift, grant, or bequest (or on the income therefrom) by the grantor thereof;

(o) liens on money and receivables securing rights of third party payors to recoupment of amounts paid;

(p) rights reserved to or vested in any municipality or public authority by the terms of any right, power, franchise, grant, license, permit, or provision of law affecting any Property (A) to terminate such right, power, franchise, grant, license, or permit; provided that the exercise of such right would not materially impair the use of such Property for its intended purpose or materially and adversely affect the value thereof and the Person which owns such Property has delivered an Officer's Certificate to the Master Trustee evidencing that the Governing Body of such Person has determined that such exercise would not so impair such use or adversely affect such value, or (B) to purchase, condemn, appropriate, recapture, or designate a purchaser of such Property, or (C) to control, regulate, or zone such Property or to use such Property in any manner, that do not materially impair the use of such Property for its intended purposes or materially and adversely affect the value thereof and the Person which owns such Property has delivered an Officer's Certificate to the Master Trustee evidencing that the Governing Body of such Person has determined that such control, regulation, zoning or use would not so impair such use, or adversely affect such value;

(q) pooling, unitization, repressurization, community and other types of agreements and leases relating to the exploration, development, operation, sale or conservation of minerals or other natural resources, including, without limitation, oil, gas, coal, liquid or gaseous hydrocarbons, salt, sulfur and metal that do not materially impair the use of such Property for its intended purpose or materially and adversely affect the value thereof, provided, that the Person which owns the Property which contains the minerals or other natural resources has delivered an Officer's Certificate evidencing that the Governing Body of such Person has determined that performance of such agreement or lease will not so impair such use or adversely affect such value;

(r) any other lien or encumbrance created or incurred in the ordinary course of business that does not secure, directly or indirectly, the repayment of borrowed money or the payment of installment sales contracts or capital leases and that, individually or in the aggregate, does not materially impair the value or the utility of the Property subject to such lien or encumbrance;

(s) liens on proceeds of Indebtedness (or on income from the investment of such proceeds) that secure payment of such Indebtedness;

(t) liens on money or obligations deposited with a trustee or escrow agent to cause all or any portion of Indebtedness to be no longer outstanding;

(u) liens on money or obligations deposited to fund a debt service fund in an amount not exceeding the amount of the Indebtedness to which such debt service fund relates that matures in the Fiscal Year in which such deposit is made plus a reasonable carryover amount or deposited to a reserve fund in an amount not in excess of 15% of the principal amount of the Indebtedness to which such reserve fund relates in accordance with the instrument under which such Indebtedness may be secured;

(v) liens on debt instruments owned by such Person which have been purchased under a credit or liquidity facility issued to secure or support other Indebtedness;

(w) liens on accounts receivable arising as a result of the sale, purported sale or other transfer or financing of or involving accounts receivable; provided, that the principal amount of Indebtedness secured by such lien does not exceed the aggregate amount of accounts receivable of a Member so sold, purportedly sold or otherwise transferred or financed; and

(x) liens on Excluded Property; and

(y) liens arising in the ordinary course of a Member's security lending activities and in accordance with such Member's investment policies; and

(z) liens on Property posted as collateral to secure payments or potential payments owing under Interest Rate Hedges.

"*Permitted Investments*" means, if and to the extent the same are at the time legal for investment of funds held under the Bond Indenture:

(a) United States Government Obligations;

(b) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including:

- Export-Import Bank
- Rural Economic Community Development Administration (formerly the Farmers Home Administration)
- Federal Financing Bank
- Federal Housing Administration
- Small Business Administration
- U.S. Maritime Administration
- U.S. Department of Housing & Urban Development (PHAs);

(c) Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by the Federal Deposit Insurance Corporation, including those issued by the Bond Trustee or its Affiliates;

(d) Bonds or notes issued by the State with a rating of A2/A or higher by both Moody's and S&P; and

(e) Money market funds, which are solely composed of United States Government Obligations, registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of AAAm-G or AAA-m and if rated by Moody's rated Aaa or Aa1; including, without limitation, any mutual fund for which the Bond Trustee or an Affiliate of the Bond Trustee serves as investment manager, administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding, that (i) the Bond Trustee or an Affiliate of the

Bond Trustee receives fees from such funds for services rendered, (ii) the Bond Trustee charges and collects fees for services rendered pursuant to the Bond Indenture, which fees are separate from the fees received from such funds, and (iii) services performed for such funds and pursuant to the Bond Indenture may at times duplicate those provided to such funds by the Bond Trustee or its Affiliates.

"*Person*" means an individual, a corporation, a partnership, an association, a joint stock company, a joint venture, a trust, an unincorporated organization or a government or any agency or political subdivision thereof.

"*Plans and Specifications*" means, as to a particular Project, the plans and specifications prepared or to be prepared for the construction-related aspects of that Project, which shall conform to the description of the Project on file with the Commission and the Bond Trustee on the Issuance Date for the Series 2008A Bonds issued to finance or refinance costs of the Project, as the same may be changed at the sole discretion of the Cleveland Clinic from time to time in accordance with the Lease.

"*Prerefunded Tax Exempt Obligations*" means obligations, rated by each Rating Agency in its highest grade rating, the interest on which is excludable from the gross income of the owners thereof for federal income tax purposes, provision for the payment of the principal of and premium, if any, and interest on which shall have been made by the irrevocable deposit at least 91 days preceding the date of determination, with a bank or trust company acting as a trustee for holders of such obligations, of money or Government Obligations, the maturing principal of and interest on which, when due and payable, without reinvestment will provide money sufficient to pay when due the principal of and premium, if any, and interest on such obligations, and which money or Government Obligations are not available to satisfy any other claim, including any claim of the trustee or any claim of any Person claiming through the trustee or escrow agent or any claim of any Person to whom the Person on whose behalf such irrevocable deposit was made, or to whom the trustee or escrow agent may be obligated, whether arising out of the insolvency of the trustee or escrow agent or otherwise.

"*Principal Payment Account*" means the Principal Payment Account in the Debt Service Fund created in the Bond Indenture.

"*Principal Retirement Schedule*" means the following installments of principal (including without limitation the amounts to be paid pursuant to the Mandatory Sinking Fund Requirements on the Mandatory Redemption Dates), to be paid on January 1 in the years set forth below:

$147,200,000 Term Bonds Due January 1, 2033

Year	Principal Amount
2030	$34,780,000
2031	36,965,000
2032	18,615,000
2033*	56,840,000

***** Final Maturity

"*Project*" or "*Projects*" means the real, personal or real and personal property acquired, constructed, improved or equipped from the proceeds of the Series 2008A Bonds. For a description of the Projects relating to the Series 2008A Bonds, see "**PLAN OF FINANCE**" in the forepart of this Offering Circular.

"*Project Administrator*" means the individual designated by the Cleveland Clinic from time to time to supervise construction of a Project during the applicable Construction Period. The designation shall be made in a written certificate furnished to the Commission and the Bond Trustee containing the specimen signature of the Project Administrator and signed on behalf of the Cleveland Clinic by the Authorized Lessee Representative. The certificate may designate an alternate or alternates who shall have the same authority, duties and powers as the

Project Administrator. In the event that all individuals so designated become unavailable or unable to act and the Cleveland Clinic fails to designate at least one replacement within 20 days after such unavailability or inability to act, the Bond Trustee may, but shall not be required to, appoint an interim Project Administrator to act until the Cleveland Clinic designates a replacement.

"*Project Fund*" means the Project Fund created under the Bond Indenture and the accounts and subaccounts therein.

"*Property*" when used in connection with a particular Person or group of Persons, means any and all rights, titles and interests of such Person or group of Persons in and to any and all property, whether real or personal, tangible or intangible and wherever situated, other than Excluded Property.

"*Put Indebtedness*" means Long-Term Indebtedness which may, at the option of the holder, be tendered on any date prior to its Maturity for a required purchase by the Person who incurred or assumed that Indebtedness, or by any other Person whom the Person who incurred or assumed that Indebtedness is required to reimburse for the purchase price.

"*Rating Agency*" means Moody's or Standard & Poor's and their respective successors and assigns.

"*Real Property*" means that Property which under the laws of the jurisdiction in which such Property is located is deemed to be "real property."

"*Rebate Fund*" means the Rebate Fund created under the Bond Indenture and the accounts therein.

"*Record Date*" means the fifteenth day (whether or not a Business Day) of the calendar month next preceding an Interest Payment Date therefor, i.e., December 15 and June 15.

"*Refunding Indebtedness*" means any Indebtedness issued for the purpose of refunding Outstanding Long-Term Indebtedness.

"*Register*" means with respect to any Series 2008A Bond, the books kept and maintained by the Registrar for registration and transfer of Series 2008A Bonds pursuant to the Bond Indenture and, with respect to any Master Note, the books kept and maintained by the Master Trustee, as Registrar, for registration and transfer of Master Notes pursuant to the Master Indenture.

"*Registrar*" means, as to any Master Notes, the Master Trustee, and as to the Outstanding Series 2008A Bonds, the Bond Trustee, until a successor Registrar shall have been named pursuant to the Bond Indenture and, as to any Additional Bonds, the bank, trust company or other Person designated in or pursuant to the applicable Bond Legislation or Supplemental Bond Indenture; provided that with respect to any Series 2008A Bonds, the Registrar shall be a transfer agent registered in accordance with Section 17A(c) of the Securities Exchange Act of 1934, as amended.

"*Related Bonds*" means the bonds issued by any state of the United States of America or any municipal corporation or other political subdivision formed under the laws thereof or any body corporate and politic or any constituted authority of any of the foregoing empowered to issue obligations on behalf thereof ("governmental issuer") pursuant to a single Related Bond Indenture, the proceeds of which are loaned or otherwise made available to or for the benefit of one or more members of the Obligated Group, directly or indirectly, in consideration, in whole or in part, of the execution, authentication and delivery of a Master Note or Master Notes to such governmental issuer or Related Bond Trustee.

"*Related Bond Indenture*" means any indenture or resolution pursuant to which a series of Related Bonds is issued.

"*Related Bond Trustee*" means the trustee and its successors in the trusts created under any Related Bond Indenture.

"*Related Issuer*" means the governmental issuer of any issue of Related Bonds.

"*Related Supplemental Indenture*" when used with reference to Master Notes of a particular series, means the Supplemental Indenture creating such series.

"*Rental Payment Date*" means each date that Bond Service Charges shall be due under the Bond Indenture, or any date specified in a supplement to the Lease as the date for payment of Basic Rent to meet principal and interest requirements of any Additional Bonds, or any date on which payment of the installments of Basic Rent is accelerated pursuant to the Lease.

"*Revenues*" means, for any period, (i) in the case of any Person providing health care services, the sum of (a) net patient service revenues, plus (b) other operating revenues, plus (c) non-operating revenues, minus (i) extraordinary revenues derived from the sale of assets which are not securities (ii) any gain from the extinguishment of debt or termination of pension plans (iii) other extraordinary revenues other than those derived from the sale of securities or (iv) any unrealized gains on investments (including without limitation unrealized gains on the fair market valuation of Interest Rate Hedges and other hedging transactions), all as determined in accordance with generally accepted accounting principles; and (ii) in the case of any other Person, gross revenues less sale discounts and sale returns and allowances, as determined in accordance with generally accepted accounting principles, but excluding in any event (a) any gains on the sale or other disposition of investments or fixed or capital assets not in the ordinary course, (b) earnings resulting from any reappraisal, revaluation or write-up of assets (including without limitation unrealized gains on the fair market valuation of Interest Rate Hedges and other hedging transactions) or (c) unrealized gains on investments; provided, however, that if such calculation is being made with respect to the Combined Group, such calculation shall be made in such a manner so as to exclude any revenues attributable to transactions among the Combined Group.

"*Series*" means the Series 2008A Bonds and any Additional Bonds issued under the Bond Indenture that are designated as a separate Series in the related Supplemental Bond Indenture providing for their issuance.

"*Series 2008 Project Account*" or "*Project Account*" means the account in the Project Fund so designated in the Bond Indenture.

"*Series 2008A Bonds*" means the $452,340,000 aggregate principal amount of State of Ohio Hospital Revenue Bonds, Series 2008A (Cleveland Clinic Health System Obligated Group) initially authorized to be issued by the State pursuant to the terms and conditions of Section 2.01 of the Bond Indenture.

"*Short-Term*" when used in connection with Indebtedness (including Master Notes), means Indebtedness which is not Long-Term.

"*Special Funds*" means the Project Fund, the Debt Service Fund and the Debt Service Reserve Fund and the accounts therein, as created under the Bond Indenture.

"*Special Record Date*" means, with respect to the Bond Indenture, the date fixed by the Bond Trustee pursuant to Section 2.01 of the Bond Indenture for the payment of Defaulted Interest, and with respect to any Master Note, the date established by the Master Trustee in connection with the payment of overdue interest on the Master Note pursuant to Section 2.07 of the Master Indenture.

"*Standard & Poor's*" means Standard & Poor's Ratings Service, a division of The McGraw Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, its successors and assigns, and, if such division or corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "*Standard & Poor's*" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Cleveland Clinic by notice to the Bond Trustee and the Commission.

"*State*" means the State of Ohio.

"*Stated Maturity*" means, when used with respect to the principal of or interest on any Indebtedness, any date specified in the instrument evidencing such Indebtedness as a fixed date on which the principal of such Indebtedness, or any installment thereof, or the fixed date on which an installment of interest is due and payable.

"*Subordinated Indebtedness*" means Indebtedness conforming to the terms and provisions of the Master Indenture summarized under the caption "SUMMARY OF BASIC DOCUMENTS — THE MASTER TRUST INDENTURE — SUBORDINATED INDEBTEDNESS" in this Appendix C.

"*Supplemental Bond Indenture*" means a supplement to the Bond Indenture signed and delivered by the State, acting by and through the Commission, and the Bond Trustee in accordance with the Bond Indenture.

"*Supplemental Indenture*" means an indenture supplemental to, and authorized and executed pursuant to the terms of the Master Indenture for the purpose of creating a particular series of Master Notes issued thereunder, or amending or supplementing the terms of the Master Indenture.

"*2008 Project*" means any real, personal, or real and personal property (i) identified generally in Exhibit C to the Lease or pursuant to any amendment of the Lease or change in the Plans and Specifications relating to the 2008 Project in accordance with the terms of the Lease or in a certificate of the Project Administrator given pursuant to the Lease; or (ii) the costs of which are paid from the proceeds of the Series 2008A Bonds or otherwise financed from the 2008 Project Account; or provided as a replacement of or in substitution for property described in clause (i) or (ii) or in addition thereto and which forms an integral part of the 2008 Project.

"*Tax Agreement*" means, as to the Series 2008A Bonds comprising a single "issue" for federal income tax purposes under the Code, the Tax Certificate and Agreement dated the Issuance Date of the respective Series 2008A Bonds, by and among the Commission, the Cleveland Clinic and the Bond Trustee, as it may be amended or supplemented from time to time in accordance with its terms.

"*Tax-Exempt Obligations*" means obligations the interest on which is excludable from the gross income of the holder thereof for federal income tax purposes.

"*Tax-Exempt Organization*" means any organization described in Section 501(c)(3) of the Code that is exempt from federal income taxation under Section 501(a) of the Code, and any "governmental unit" as that term is used in Section 103(b)(3) of the Code.

"*Unassigned Rights*" means all of the rights of the Commission:

(a) to receive Additional Payments as contemplated in the Lease;

(b) to be named as an insured party under insurance policies or plans as contemplated in the Lease;

(c) to be held harmless and indemnified under Section 9.9 of the Lease;

(d) to exercise any remedies that are authorized to be exercised by the Commission under the Lease in connection with an Event of Default under Section 13.1(b) of the Lease as summarized in clause (b) under the caption "SUMMARY OF BASIC DOCUMENTS – THE LEASE – DEFAULTS AND REMEDIES";

(e) to be reimbursed for attorney's fees and expenses under the Lease; and

(f) to execute amendments to the Lease.

"*United States Bankruptcy Code*" means Title 11 of the United States Code, 11 U.S.C. Sections 101 to 133.

"*United States Government Obligations*" means non-callable direct obligations of, or obligations the timely payment of the principal of and interest on which are fully guaranteed by, the United States of America, including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America.

"*Variable Rate Indebtedness*" means any portion of Indebtedness, the terms of which are such that interest thereon for any future period of time is expressed to be calculated at a rate which is not susceptible of precise determination when such rate is required to be determined under the Master Indenture.

THE MASTER TRUST INDENTURE

The Master Indenture sets forth, among other things, the terms pursuant to which the Cleveland Clinic, the other Obligated Issuers and any other members of the Combined Group may incur and secure debt and imposes restrictions upon the members of the Combined Group. The following summarizes certain provisions of the Master Indenture. However, it is not a comprehensive description and reference is made to the full text of the Master Indenture for a complete recital of its terms.

The financial, operating and certain other covenants of the Obligated Group under the Master Indenture have been modified in various Supplemental Indentures delivered in connection with the issuance of outstanding prior bonds. Compliance with those amended covenants may be waived by the providers of credit enhancement or liquidity support imposing them. Consequently, those amendments are not summarized in this Appendix C.

NOTES ISSUED UNDER THE MASTER INDENTURE

Each Obligated Issuer may incur Indebtedness secured by the Master Indenture by the issuance of Master Notes thereunder. Each Obligated Issuer covenants that for so long as any Master Note is Outstanding it shall comply with the provisions of the Master Indenture. Each Obligated Issuer is jointly and severally liable for payment of debt service on all Master Notes issued under the Master Indenture from its Property. Master Notes may be issued to secure other Indebtedness and to evidence and secure obligations under Interest Rate Hedges. Unless contrary provision is made in the Supplemental Master Indenture pursuant to which the Master Note is issued, the principal amount of any Master Note issued to secure any obligations under an Interest Rate Hedge shall be deemed to equal the amount that would be owing to the counterparty of the Obligated Issuer under such Interest Rate Hedge upon the actual termination of the Interest Rate Hedge in accordance with its terms; provided, however, that prior to the termination of the Interest Rate Hedge, the Master Note securing such Interest Rate Hedge shall be deemed outstanding under the Master Indenture solely for the purpose of receiving payment under the Master Indenture and shall not be entitled to exercise any rights under the Master Indenture. Any Obligated Issuer which delivers a Master Note to secure obligations under an Interest Rate Hedge shall give prior notice of such delivery to any Rating Agency then rating any Related Bonds.

Nothing contained in the Master Indenture shall prevent payment of principal of and premium, if any, and interest on one or more series of Master Notes from being otherwise secured and payable from sources or by property and instruments not applicable to any one or more other series of Master Notes or not being secured or protected from sources or by property, instruments or documents applicable to one or more other series of Master Notes.

THE COMBINED GROUP

Admission to the Combined Group

(I) *Obligated Issuers*. A Person may be admitted as an Obligated Issuer only if:

(a) such Person executes and delivers to the Master Trustee a Supplemental Indenture expressly assuming the obligation to make due and punctual payment of the principal of and premium, if any, and interest on all the Master Notes and to perform the covenants of an Obligated Issuer set forth in the Master Indenture which obligation shall be joint and several with every other Obligated Issuer;

(b) the Cleveland Clinic, or if the Cleveland Clinic is not then an Obligated Issuer, each Obligated Issuer, has consented to the admission of the Person to the Obligated Group;

(c) the Obligated Group Representative delivers to the Master Trustee an Officer's Certificate which states that immediately upon the Person's becoming an Obligated Issuer, no default under the Master Indenture shall have occurred or be continuing;

(d) the Obligated Group Representative delivers to the Master Trustee an Officer's Certificate and an Opinion of Counsel, each of which shall state that (i) the admission and the Supplemental Indenture comply with the provisions of the Master Indenture; (ii) the admission will not adversely affect the tax treatment of interest under the Code on any Related Bonds secured by any Outstanding Master Notes; (iii) the Supplemental Indenture and the Master Indenture as so supplemented each constitute legal, valid and binding obligations of the Person enforceable in accordance with their respective terms subject to certain exceptions; (iv) the admission of the Person as an Obligated Issuer and the Supplemental Indenture will not adversely affect the enforceability of the Master Indenture against any Obligated Issuer; (v) the admission will not cause any Outstanding Master Note or any Indebtedness secured by an Outstanding Master Note to be subject to registration under the Securities Act of 1933, or any successor legislation, or cause the Master Indenture or any Supplemental Indenture to be subject to qualification under the Trust Indenture Act of 1939 or a similar statute or regulation, unless the required registration or qualification has occurred, and (vi) there has been compliance with all conditions precedent provided in the Master Indenture relating to the transaction; and

(e) the exhibit to the Master Indenture is amended to include a description of the Property of such Person becoming an Obligated Issuer which is to be considered Excluded Property (provided that such Property may be treated as Excluded Property only if such Property is real or tangible personal property and the primary operations of such Person are not conducted upon such real property).

Upon any Person's becoming an Obligated Issuer as provided above, (i) the Master Trustee may pursue any remedies consequent upon an Event of Default under the Master Indenture against any Obligated Issuer and (ii) any right of contribution or right acquired by subrogation by any Obligated Issuer against any other Obligated Issuer arising out of the payment of Indebtedness shall be subordinated to the rights of the Master Trustee and the Noteholders.

(II) *Group Affiliates*. Any Affiliate of an Obligated Issuer may be admitted as a Group Affiliate upon request of such Obligated Issuer that such Affiliate become a Group Affiliate accompanied by:

(a) a written agreement of such Affiliate (i) to observe and perform the obligations which the Obligated Issuer has covenanted to cause Group Affiliates to observe and perform under the Master Indenture, (ii) subject to Legal Restrictions relating to dispositions of assets by organizations described in Section 501(c)(3) of the Code, that upon the liquidation or dissolution of such Affiliate all remaining assets thereof shall be transferred to an Obligated Issuer or another Group Affiliate, and (iii) that the organizational documents of such Affiliate do not prevent such Affiliate from making available to the Obligated Issuer or Issuers of which it is an Affiliate, moneys of such Affiliate to be used by such Obligated Issuer to pay principal of and interest on Indebtedness of the Obligated Group and that no contractual agreements, other than agreements to pay Indebtedness of such Affiliate, exist on the part of such Affiliate that would prevent such Affiliate from making its money available for such purpose;

(b) a Board Resolution of such Affiliate authorizing such undertaking; and

(c) an Opinion of Counsel to the effect that any transfers of money by such Affiliate to an Obligated Issuer to the extent necessary for the Combined Group to make payments under the Master Indenture are permissible under the laws of the jurisdiction in which such Affiliate is organized and in the case of any Affiliate which is an organization described in Section 501(c)(3) of the Code, assuming that such Obligated Issuer continues to maintain its status as an organization described in Section 501(c)(3) of the Code.

Withdrawal from the Combined Group

(I) *Obligated Issuers*. Any Person that has become an Obligated Issuer may, upon 30 days' prior written notice to the Master Trustee, withdraw as an Obligated Issuer, and the Master Trustee, upon request of the Obligated Issuer and at the withdrawing Obligated Issuer's expense, shall execute and deliver an appropriate instrument releasing the Obligated Issuer from any liability or obligation under the provisions of the Master Indenture provided that:

(a) the withdrawing Obligated Issuer has requested the release by Board Resolution;

(b) the Cleveland Clinic, or if the Cleveland Clinic is not then an Obligated Issuer, each Obligated Issuer, has consented to the release of the Person as an Obligated Issuer as evidenced by a Board Resolution;

(c) there shall have been delivered to the master trustee an officer's certificate of the obligated group representative that, based on the audited financial statements of the combined group for the most recent fiscal year for which such audited financial statements are available and assuming that the proposed withdrawal occurred at the beginning of that fiscal year, the combined group would not have been in default under the provisions of the master indenture summarized under the caption "SUMMARY OF BASIC DOCUMENTS — THE MASTER TRUST INDENTURE — RATE COVENANT";

(d) no default under the Master Indenture shall have occurred and be continuing immediately after giving effect to the withdrawal; and

(e) the Obligated Group Representative shall have delivered to the Master Trustee an Officer's Certificate and an Opinion of Counsel, each of which shall state that the withdrawal will not adversely affect the tax treatment under the Code of interest on any Related Bonds secured by Master Notes and that there has been compliance with all conditions precedent provided in the Master Indenture relating to the transaction.

Following the withdrawal of a Person as an Obligated Issuer, that Person shall not be liable on or responsible for any Master Note whether or not the Person was the Maker of the Master Note. The Master Trustee shall execute and deliver to the Person withdrawing as an Obligated Issuer an instrument releasing that Person from all liability and responsibility as a Maker of any Master Notes.

The foregoing notwithstanding, the Cleveland Clinic will covenant that it will not withdraw as an Obligated Issuer so long as any bonds are outstanding.

(II) *Group Affiliates*. Any Person shall be released from its obligations and status as a Group Affiliate upon request of an Obligated Issuer that such Person no longer be a Group Affiliate if:

(a) the withdrawing Group Affiliate has requested such release by Board Resolution;

(b) the Cleveland Clinic, or if the Cleveland Clinic is not then an Obligated Issuer, each Obligated Issuer, has consented to the release of such Person as a Group Affiliate as evidenced by a Board Resolution;

(c) there shall have been delivered to the master trustee an officer's certificate of the obligated group representative that, based on the audited financial statements of the combined group for the most recent fiscal year for which such audited financial statements are available and assuming that the proposed withdrawal occurred at the beginning of that fiscal year, the combined group would not have been in default under the provisions of the master indenture summarized under the caption "SUMMARY OF BASIC DOCUMENTS — THE MASTER TRUST INDENTURE — RATE COVENANT"; and

(d) the Master Trustee receives an Officer's Certificate of the Person requesting such release, dated within 10 days of the date of such request, stating that all conditions precedent provided for under the Master Indenture relating to the release of such Person as a Group Affiliate have been complied with and that, were such Person released as a Group Affiliate on the date of such Officer's Certificate, no Event of Default would arise out of such release.

NEGATIVE LIEN COVENANT

Each Obligated Issuer covenants that, so long as any Master Note is Outstanding, it will not, and will not permit any Group Affiliate which it controls, to grant, create, assume, or incur any mortgage, lien, charge or other encumbrance on, or pledge of or security interest in, any of its present or future Property, except:

(a) Permitted Encumbrances; and

(b) mortgages, liens, charges, encumbrances, pledges or other security interests created by any Obligated Issuer as security for Indebtedness owed to another Obligated Issuer or by any Group Affiliate as security for Indebtedness owed to any member of the Combined Group; and

(c) purchase or construction money mortgages, liens, pledges or security interests (which term for purposes of this clause shall include conditional sale agreements or other title retention agreements and leases in the nature of title retention agreements), and renewals thereof, upon or in tangible Property acquired or improved after the execution date of the Master Indenture, provided that no mortgage, lien, charge, encumbrance, pledge or security interest extends or shall extend to or cover any Property of the Combined Group other than the Property then being acquired or constructed or on which improvements are being so constructed, and fixed improvements then or later erected and related insurance coverage and proceeds; and

(d) any mortgages, liens, charges, encumbrances, pledges or other security interests of any kind upon any Property of any Obligated Issuer or Group Affiliate or any conditional sale agreement or similar title retention agreement with respect to any such Property, if effective provision is made whereby the Outstanding Master Notes shall be directly secured by the mortgages, liens, charges, encumbrances, pledges or security interests equally and ratably upon the same Property, or upon other Property with a Fair Market Value at least equal to the Fair Market Value of Property to be encumbered, with any and all other obligations and Indebtedness thereby secured for so long as the obligations or Indebtedness are so secured; and

(e) any mortgage, lien, charge, encumbrance, pledge or security interest that is existing on any Property of the Cleveland Clinic on the execution date of the Master Indenture or any mortgage, lien, charge, encumbrance, pledge or security interest that is existing on any real or personal property on the date of acquisition thereof, or that is existing on the Property of any Person on the date the Person becomes a member of the Combined Group; provided, however, that (except in the case of liens on property of the Cleveland Clinic existing on the date of execution of the Master Indenture), those liens were created before the date of final action by the Governing Body of such Person authorizing the acquisition of such Property or such Person to become a member of the Combined Group and there is delivered to the Master Trustee an Officer's Certificate of such Person containing a determination to the effect that such liens were not created in order to avoid the limitations of the Master Indenture; and provided further that no lien so described may be extended or may be modified to include any Property of the Combined Group not subject to such lien on such date, except to the extent that such lien, as so extended or modified is permitted under any provision of the Master Indenture; and

(f) any mortgage, lien, charge, encumbrance, pledge or security interest upon any Property of the Combined Group securing Non-Recourse Indebtedness; and

(g) any mortgage, lien, charge, encumbrance, pledge or other security interest of any kind, if (I) the Book Value of all Property of the Combined Group subjected to mortgages, liens, charges,

encumbrances, pledges, or other security interests pursuant to this clause (g), (A)(1) does not exceed 25% of the Book Value of all Property of the Combined Group or (2) does not exceed 15% of the Fair Market Value of all Property of the Combined Group; or (B) does not exceed 15% of the Gross Revenues of the Combined Group for the most recent Fiscal Year for which audited financial statements of the Combined Group are available or (II) the Master Trustee shall have received a report or opinion of an Independent Consultant to the effect that the Debt Service Coverage of the Combined Group for the most recent Fiscal Year for which audited financial statements of the Combined Group are available, excluding in the computation of Net Income for Debt Service any income from Property on which a mortgage, lien, charge, encumbrance, pledge or other security interest has been imposed pursuant to the provisions of the Master Indenture summarized in this subsection (g), is greater than 1.25; provided, however, that the provisions of the Master Indenture summarized in this subsection (g) shall not permit any mortgage, lien, charge, encumbrance, pledge or other security interest in the Gross Receipts of an Obligated Issuer with respect to a sale, purported sale, or other transfer of or involving accounts receivable if it would not be permitted under paragraph (w) of the definition of Permitted Encumbrances.

TRANSFERS OF PROPERTY

Each Obligated Issuer agrees (i) not to sell, lease, convey, transfer or otherwise dispose of (collectively, "dispose") any portion of its Property to Persons outside the Combined Group and (ii) to cause each Affiliate and Group Affiliate which it controls not to dispose of any Property of a Group Affiliate, unless:

(a) the disposition is in the ordinary course of its business; or

(b) the sum of (i) the Book Value of any Real Property or tangible personal property to be disposed of, and (ii) any cash and investments (valued at Fair Market Value) being disposed of without consideration (other than any such cash and investments which were donor restricted so as not to qualify as Net Income Available for Debt Service), and (iii) the aggregate Book Value of all other Real Property and tangible personal property disposed of by the Combined Group pursuant to the Master Indenture during the then current Fiscal Year, and (iv) the aggregate of all cash and investments (valued at Fair Market Value as of the time of disposition) so disposed of during the current Fiscal Year without consideration (other than any such cash and investment which were donor restricted so as not to qualify as Net Income Available for Debt Service), does not exceed 15% of the Book Value of all the Property of the Combined Group or does not exceed 15% of the Fair Market Value of all Property of the Combined Group; or

(c) the Master Trustee shall have received an Officer's Certificate from the Obligated Group Representative to the effect that (i) the Debt Service Coverage Ratio of the Combined Group obtained using Net Income Available for Debt Service for the most recent Fiscal Year for which audited financial statements of the Combined Group are available and assuming that all of the Property proposed to be disposed of had been disposed of at the beginning of that Fiscal Year is not less than 1.50; or (ii) the forecasted Debt Service Coverage Ratio of the Combined Group, obtained for the Fiscal Year next following the proposed disposition of Property calculated by assuming no additional Indebtedness is to be issued or incurred, is not less than the forecasted Debt Service Coverage Ratio obtained for that Fiscal Year but calculated as if none of such Property had been disposed of; or

(d) the Master Trustee receives an opinion from the Obligated Group Representative that the Property being disposed of is an Operating Asset and is obsolete, worn out, unprofitable or undesirable; or

(e) the proceeds from the disposition of Property, or the Property acquired in exchange, have a Fair Market Value that is not less than that of the Property being disposed of; or

(f) the Property being disposed of is cash or another non-Operating Asset and is disposed of on terms no less favorable than would be obtained in an arm's-length transaction; or

(g) the loan of cash or other non-Operating Asset being made is secured by an obligation of the borrower and such obligation matures within a reasonable time, bears interest at a reasonable interest rate and is reasonably expected to be repaid.

PERMITTED INDEBTEDNESS

Each Obligated Issuer covenants that, so long as any Master Note is Outstanding, it will not, and will not permit any Group Affiliate which it controls to, incur Indebtedness in addition to the Indebtedness evidenced by Master Notes which are outstanding as of the date of execution of the Master Indenture except:

(a) any Indebtedness as to which the Obligated Issuer or Group Affiliate shall certify in an Officer's Certificate delivered to the Master Trustee delivered at the time such Indebtedness is incurred, that for the most recent Fiscal Year for which audited financial statements of the Combined Group are available, the Debt Service Coverage Ratio of the Combined Group was not less than 1.25 assuming that the Indebtedness then proposed to be incurred was outstanding during such Fiscal Year and excluding any debt service on Outstanding Indebtedness which is to be refunded with proceeds of the Indebtedness proposed to be incurred;

(b) Indebtedness of any member of the Combined Group for an amount owing to any other member of the Combined Group;

(c) Indebtedness consisting of an obligation to reimburse payments made under a letter of credit, surety bond, policy of insurance, bond purchase agreement or similar credit or liquidity support obtained to secure the payment or purchase of other Indebtedness incurred pursuant to the provisions of the Master Indenture summarized under this caption, to pay interest thereon until paid and to pay fees, indemnification, expenses, including without limitation, expenses of enforcement, and penalties, in connection therewith;

(d) Non-Recourse Indebtedness;

(e) Liabilities for contributions to self-insurance or shared or pooled-risk insurance programs required or permitted to be maintained under the Master Indenture;

(f) Indebtedness consisting of accounts payable incurred in the ordinary course of business or other Indebtedness not incurred or assumed primarily to assure the repayment of money borrowed or credit extended which Indebtedness is incurred in the ordinary course of business; and

(g) Subordinated Indebtedness.

Indebtedness shall generally be deemed to be "incurred" by an Obligated Issuer or Group Affiliate whenever that Obligated Issuer or Group Affiliate shall create, assume, guarantee, or otherwise become liable in respect thereof, including without limitation, as the result of merger or consolidation; provided, however, that no additional Indebtedness shall be deemed to be incurred if such Obligated Issuer is drawing additional funds available under a line of credit or drawdown loan so long as the provisions of the Master Indenture summarized under this caption have been met assuming the maximum principal amount available under such Indebtedness was incurred on the date such Obligated Issuer or Group Affiliate demonstrates satisfaction of the requirements summarized under this caption.

FILING OF FINANCIAL STATEMENTS AND CERTIFICATE OF NO DEFAULT

As soon as practicable, but in no event later than six months after the end of each Fiscal Year, the Obligated Group Representative is required to file, or cause to be filed, with the Master Trustee and with each Rating Agency (i) a combined revenue and expense statement of the Combined Group and of the Obligated Group prepared in each case on a consolidated and consolidating basis along with combining entries eliminating material inter-company balances and transactions, (ii) a combining balance sheet of the Combined Group and of the

Obligated Group presented as in (i) above as of the end of such Fiscal Year, each accompanied by the certificate or opinion of independent certificated public accountants, in each case in comparative form showing the corresponding figures for the preceding Fiscal Year, and (iii) an Officer's Certificate from the Obligated Group Representative setting forth his calculations of the Debt Service Coverage Ratio of the Combined Group for the Fiscal Year then ended.

For purposes of financial statements of the Combined Group or the Obligated Group required to be delivered by the provisions of the Master Indenture summarized under this caption, such financial statements shall consist of (i) special purpose financial statements including only the members of the Combined Group or the Obligated Group or (ii) consolidated or combined financial statements which include one or more members of the Combined Group or Obligated Group, as the case may be, and one or more other Persons required to be consolidated or combined with such member(s) of the Combined Group or Obligated Group under generally accepted accounting principles, so long as any financial statements which include any other Persons who are not members of the Combined Group or Obligated Group shall contain, as "other financial information," a combining or consolidating schedule from which financial information relating solely to the members of the Combined Group or Obligated Group, as the case may be, may be derived. If a single financial statement (including a single special purpose financial statement) is delivered pursuant to the foregoing provisions of clause (ii) in which the members of the Combined Group or the Obligated Group represent at least 90% of the combined or consolidated income available for debt service (calculated in the same manner as Income Available for Debt Service is calculated under the Master Indenture) of all Persons included in such single financial statement, at the written election of the Obligated Group Representative delivered to the Master Trustee simultaneous with the delivery of such single financial statement to the Master Trustee, such single financial statement may be designated as the "financial statements of the Combined Group" or the "financial statements of the Obligated Group" by the Obligated Group Representative for all purposes of the Master Indenture and shall, upon such designation, be treated as such.

As soon as practicable but in no event later than six months after the end of each Fiscal Year, the Obligated Group Representative is required to file with the Master Trustee an Officer's Certificate of each Obligated Issuer stating whether or not, to the best knowledge of the signer, the Obligated Issuer is in default in the performance of any covenant contained in the Master Indenture or any Related Supplemental Indenture, and, if so, specifying the action proposed to be taken to correct or cure the same and each default of which the signer may have knowledge.

If an Event of Default has occurred and is continuing, the Obligated Group Representative will (i) file with the Master Trustee such other financial statements and information concerning the operations and financial affairs of each Obligated Issuer (or of any consolidated group of companies of which such Obligated Issuer is a member) as the Master Trustee may from time to time reasonably request, excluding specifically donor records, patient records, personnel records, medical staff records, medical staff committee records, and any other records the confidentiality of which may be protected by law, and (ii) provide access to the facilities of such Obligated Issuer for the purpose of inspection by the Master Trustee during regular business hours or at such other times as the Master Trustee may reasonably request.

Within 10 days after receipt thereof by any Obligated Issuer, the Obligated Group Representative is required to file with the Master Trustee a copy of each report which any provision of the Master Indenture requires to have been prepared by an Independent Consultant or an Independent Insurance Consultant.

RATE COVENANT

If the Debt Service Coverage Ratio of the Combined Group as calculated at the end of any Fiscal Year in the Officer's Certificate of the Obligated Group Representative pursuant to the provisions of the Master Indenture is below 1.10, the Obligated Group covenants to promptly notify each Related Bond Trustee of such fact and to retain an Independent Consultant to make recommendations (which may include, without limitation, increasing rates and charges, reducing operating costs, adjusting the patient mix, altering the intensity or scope of services or any combination of the foregoing) to increase the Debt Service Coverage Ratio to at least 1.10. Each Obligated Issuer will, and will cause each Group Affiliate which it controls to, to the extent feasible, follow the recommendations of the Independent Consultant and, so long as the Obligated Group shall retain an Independent Consultant and each Obligated Issuer and Group Affiliate shall follow such Independent Consultant's recommendations with respect to such Obligated Issuer or Group Affiliate to the extent feasible, the provisions of the Master Indenture summarized

under this caption shall be deemed to have been complied with even if the Debt Service Coverage Ratio for any subsequent Fiscal Year is below 1.00. The Obligated Group need not employ an Independent Consultant in the Fiscal Year immediately following the Fiscal Year in which an Independent Consultant's recommendations are received if in such Fiscal Year the aforesaid Debt Service Coverage Ratio is not met.

MERGER AND CONSOLIDATION

Each Obligated Issuer shall not, and shall not permit any Group Affiliate which it controls to, and shall not permit any Affiliate which it controls and which controls a Group Affiliate to permit that Group Affiliate to, consolidate with or merge into any corporation or convey or transfer its Property substantially as an entirety to any Person, unless (a) the consolidation, merger, transfer or conveyance is between two Obligated Issuers or between Group Affiliates or an Obligated Issuer and a Group Affiliate or (b) all the following conditions exist: (i) the Person formed by the consolidation or into which the Obligated Issuer or Group Affiliate merges, or the Person acquiring substantially all of the Property of the Obligated Issuer or Group Affiliate as an entirety, shall be a Person organized and existing under the laws of the United States of America or any state or the District of Columbia and if the merging, consolidating or transferring Person is an Obligated Issuer, shall become an Obligated Issuer and shall expressly assume the due and punctual payment of the principal of and premium, if any, and interest on all Master Notes and the performance and observance of every covenant and condition of the Master Indenture to be performed or observed on the part of an Obligated Issuer; (ii) the Obligated Group Representative delivers to the Master Trustee an Officer's Certificate to the effect that (A) the Debt Service Coverage Ratio of the Combined Group obtained using Net Income Available for Debt Service for the most recent Fiscal Year for which audited financial statements are available and assuming that the proposed transaction took place at the beginning of that Fiscal Year (x) is not less than 1.20, or (y) is not less than 1.15 and the forecasted Debt Service Coverage Ratio of the Combined Group for each of the two full Fiscal Years after the completion of the proposed transaction, as evidenced by a report or opinion of an Independent Consultant, is not less than 1.15; or (B) the Fund Balance of the Combined Group following such transaction will not be less than 85% of the Fund Balance of the Combined Group immediately prior to such transaction; (iii) immediately after giving effect to the transaction, no Event of Default under the Master Indenture shall have occurred and be continuing; and (iv) the Obligated Group Representative shall have delivered to the Master Trustee an Officer's Certificate and an Opinion of Counsel, each of which shall state that the transaction complies with the Master Indenture, will not adversely affect the tax treatment under the Code of interest on any Related Bonds secured by any Outstanding Master Note, and there has been compliance with all conditions precedent which relate to the transaction.

Upon any consolidation or merger, or any conveyance or transfer of the Property of an Obligated Issuer substantially as an entirety, the successor Person formed by the consolidation or into which the Obligated Issuer is merged or to which the conveyance or transfer is made, will succeed to, be substituted for, and may exercise every right and power of the Obligated Issuer under the Master Indenture with the same effect as if the successor Person had been named as an Obligated Issuer. If the Person making the conveyance or transfer has not previously been discharged from its liability as obligor and Maker on the Master Notes, it will then be discharged.

GROSS RECEIPTS PLEDGE

To secure the prompt payment of the principal of and interest and any premium on each Master Note, and the observance and performance by each Member of all of its covenants, agreements and obligations under the Master Indenture, each Member pledges, assigns and grants to the Master Trustee, and covenants, agrees and acknowledges that the Master Trustee shall have, to the extent permitted by law, an assignment of and security interest in the Gross Receipts of each Member.

The provisions of the preceding paragraph are subject, however, to the right of each Member to collect, maintain custody of and use and dispose of its Gross Receipts, subject only to any restriction imposed by the Master Indenture on the encumbrance by Members of their Property; provided that, upon the occurrence and continuation of an Event of Default under the Master Indenture, that right to maintain custody of, use and dispose of Gross Receipts shall be suspended upon delivery to the Obligated Group Representative by the Master Trustee of written notice that the Gross Receipts are to be in the custody of the Master Trustee, and immediately thereafter, the Gross Receipts shall be deposited, as and when collected by each Member, with the Master Trustee, unless and until the Event of Default is waived or cured; provided, however, that such Gross Receipts may be released to any Member upon

receipt by the Master Trustee of an Officer's Certificate of such Member requesting the release of an amount of such Gross Receipts sufficient to pay the ordinary costs and expenses related to operation of such Member's Property, including, but not limited to Operation and Maintenance Expenses.

Upon the written request of the Master Trustee, each Member shall deliver Uniform Commercial Code financing statements that may be necessary to perfect, to the extent a security interest in such Gross Receipts may be perfected solely by filing such Uniform Commercial Code financing statement, the foregoing pledge of the Gross Receipts. Upon the written request of the Obligated Group Representative, the Master Trustee shall deliver releases of the security interest granted in such property, or releases or amendments to, any such financing statements to identify with specificity or otherwise provide evidence that particular Property is not included in Gross Receipts, including without limitation, any Property that is disposed of or that is permitted to be otherwise encumbered pursuant to the provisions of the Master Indenture.

For purposes of the provisions of the Master Indenture summarized under this caption, "Gross Receipts" means all accounts and assignable general intangibles (other than those general intangibles that may not be assigned under the law) owned or acquired by any Member of the Obligated Group regardless of how generated and all proceeds therefrom, whether cash or non-cash, all as defined in Article 9 of the Commercial Code (as amended) of the applicable jurisdictions, excluding, however, gifts, grants, bequests, donations, contributions and pledges to any Obligated Issuer theretofore or thereafter made, and the income and gains derived therefrom, which are specifically restricted by the donor or grantor to a particular purpose which is inconsistent with its use for payments required on the Master Notes.

PROPERTY INSURANCE

Each Obligated Issuer and each Group Affiliate shall at all times keep all its property and operations of an insurable nature and of the character usually insured by Persons operating similar properties and engaged in similar operations insured in amounts customarily carried and against loss or damage from such causes as are customarily insured against by similar Persons.

DAMAGE, DESTRUCTION AND CONDEMNATION

In case of any damage to or the destruction or the taking of any portion or temporary use by the exercise of the power of eminent domain of any Operating Assets of the Combined Group with a Book Value in excess of 10% of the Book Value of all Property of the Combined Group, the Obligated Group Representative is required to promptly give or cause to be given written notice thereof to the Master Trustee generally describing the nature and extent of the damage, destruction or taking. Unless the Obligated Group exercises its option to direct redemption of Master Notes (or Related Bonds secured by a Master Note) pursuant to a Supplemental Indenture, the member of the Combined Group owning the property damaged, destroyed, or taken by eminent domain shall receive the net proceeds of any insurance or award in eminent domain proceedings received for the damages, destruction, or taking and shall apply them as directed by the Obligated Group Representative.

EVENTS OF DEFAULT; REMEDIES

Events of Default. The following are Events of Default under the Master Indenture:

(a) any Obligated Issuer shall fail to make any payment of the principal of, premium, if any, or interest on any Master Note or Notes or on any Indebtedness collateralized or secured by any Master Note or Notes when and as the same shall become due and payable, whether at maturity, upon acceleration or otherwise, in accordance with the terms thereof, of the Master Indenture and the Related Supplemental Indenture and the continuance of such default beyond one business day or any longer period of grace, if any, set forth in the Related Supplemental Indenture or (in the case of a Master Note or Notes collateralizing or securing an issue of Related Bonds) the Related Bond Indenture, as the case may be; or

(b) any Obligated Issuer shall fail duly to observe or perform any other covenant or agreement on the part of such Obligated Issuer contained in the Master Indenture or in a Related

Supplemental Indenture to which such Obligated Issuer is a party for a period of 90 days after the date on which written notice of such failure, requiring the same to be remedied, shall have been given to the members of the Obligated Group, the Related Bond Trustees and to the Obligated Group Representative by the Master Trustee, or to the Obligated Issuers and the Master Trustee by the holders of at least twenty-five percent (25%) in aggregate principal amount of Master Notes then Outstanding; provided that if any such default can be cured by the Obligated Issuer but cannot be cured within the 90-day curative period described above, it shall not constitute an Event of Default if corrective action is instituted by the Obligated Issuer within such 90-day period and diligently pursued until the default is corrected and, if the Event of Default is not of a type which is curable, there shall not be any curative period permitted; or

(c) any Obligated Issuer or Issuers shall default in the payment of any Indebtedness (other than Master Notes or Indebtedness collateralized or secured by Master Notes) then Outstanding in an amount exceeding an amount which is five percent (5%) of the Book Value of the Property of the Combined Group as shown on the audited financial statements of the Combined Group for the most recent Fiscal Year for which audited financial statements of the Combined Group are available, whether such Indebtedness exists or shall be created, which default in payment or event of default shall result in such Indebtedness becoming or being declared due and payable prior to the date on which it would otherwise become due and payable; provided that, any such failure by an Obligated Issuer will not be an event of default under this paragraph if such Obligated Issuer is diligently contesting in good faith its obligation to pay such Indebtedness or the amount of the payment required; or

(d) any Obligated Issuer or Group Affiliate shall: (1) admit in writing its inability to pay its debts generally as they become due; (2) have an order for relief entered in any case commenced by or against it under the federal bankruptcy laws, in effect on the effective date of the Master Indenture and thereafter; (3) commence a proceeding under any federal or state bankruptcy, insolvency, reorganization or other similar law, or have such a proceeding commenced against it and either have an order of insolvency or reorganization entered against it or have the proceeding remain undismissed and unstayed for 90 days; (4) make an assignment for the benefit of creditors; or (5) have a receiver or trustee appointed for it or for the whole or any substantial part of its property, provided that any of such occurrences shall not be an Event of Default under the provisions of the Master Indenture summarized in this paragraph (i) in the case of an obligated issuer, unless the Obligated Issuers shall have failed to deposit with the Master Trustee one or more master notes of one or more of the obligated issuers in substitution for the Master Notes of the Obligated Issuer in default under the provisions of the Master Indenture summarized in this paragraph and (ii) in the case of a Group Affiliate, the test summarized under the caption "SUMMARY OF BASIC DOCUMENTS — THE MASTER TRUST INDENTURE — THE COMBINED GROUP — *Withdrawal from the Combined Group*" for withdrawal of such Group Affiliate from the Combined Group can be met. the declaration of an Event of Default under the provisions of the Master Indenture summarized in this paragraph and the exercise of remedies upon any such declaration shall be subject to any applicable limitations of federal bankruptcy law affecting or precluding such declaration or exercise during the pendency of or immediately following any bankruptcy, liquidation, or reorganization proceedings; or

(e) any representation or warranty set forth in the Master Indenture proves untrue in any material respect as of the date of issuance or making thereof and shall not be corrected within 45 days after written notice thereof to the Obligated Group Representative by the Master Trustee; or

(f) any judgment, or post judgment writ or warrant of attachment or any similar process in an amount in excess of an amount which is five percent (5%) of the Book Value of the property of the Combined Group as shown on the audited financial statements of the Combined Group, for the most recent Fiscal Year for which audited financial statements are available, shall be entered or filed against any Obligated Issuer or Issuers or Group Affiliate or Group Affiliates or against any of their property and (1) shall remain unvacated, unpaid, unbonded, uninsured and unstayed for a period of 60 days and (2) the Combined Group shall have failed to deposit with the Master Trustee within 15 calendar days of the Obligated Group Representative's receipt of written notice from the Master Trustee that an event described in this paragraph has occurred, an amount sufficient to pay such judgment, writ or warrant of attachment or similar process in full; or

(g) any Obligated Issuer shall fail to pay or provide for the payment of the tender price of any bond or Master Note when and as the same shall become due and payable in accordance with the terms of the Master Indenture, of the Bond Indenture or of the Lease if such tender price is not otherwise paid.

Remedies. Upon the occurrence of an Event of Default, then and in each and every such case, unless the principal of Master Notes shall have already become due and payable, the Master Trustee may, and if requested by the holders of, or one or more Related Bond Trustees acting on behalf of, not less than twenty-five percent (25%) in aggregate principal amount of (i) Master Notes of any series then Outstanding, if such Event of Default arises by reason of the failure of any Obligated Issuer to pay the principal of, or premium or interest on, any Master Note of such series or by reason of the acceleration of the maturity of any Indebtedness evidenced, collateralized or secured by such Master Notes, or (ii) all Master Notes then Outstanding, if such Event of Default arises for any other reason, the Master Trustee shall, by notice in writing to the Obligated Issuers, declare the principal of all Master Notes or the Master Notes of such series, as the case may be, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in the Master Indenture or in the Master Notes contained to the contrary notwithstanding. The provision summarized in this paragraph, however, is subject to the condition that if, at any time after the principal of all Master Notes or the Master Notes of such series shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered as provided in the Master Indenture, the Obligated Issuers shall pay or shall deposit with the Master Trustee a sum sufficient to pay all matured installments of interest upon all such Master Notes and the principal and premium, if any, of all such Master Notes that shall have become due otherwise than by acceleration (with interest on overdue installments of interest and on such principal and premium, if any, at the rate specified in the Related Supplemental Indenture) and the expenses of the Master Trustee, and any and all Events of Default under the Master Indenture, other than the nonpayment of principal of and accrued interest on such Master Notes that shall have become due by acceleration, shall have been remedied, the Master Trustee may, and upon the written request of the holders of (i) a majority of the aggregate principal amount of Master Notes of each series then Outstanding in respect of which default in the payment of principal, premium or interest occurred (other than by reason of acceleration) either on such Master Notes or any Indebtedness evidenced, collateralized or secured by such Master Notes, or (ii) the holders of a majority in aggregate principal amount of all Master Notes then Outstanding, in the case of any other default, shall waive all Events of Default and rescind and annul such declaration and its consequences; but no such waiver or rescission and annulment shall extend to or affect any subsequent Event of Default, or shall impair any right consequent thereon.

In case a default occurs in the payment of any installment of interest on or the principal of any Master Notes as and when the same shall have become due and payable, and any Obligated Issuer fails to pay the amounts due upon demand of the Master Trustee, the Master Trustee may institute any actions or proceedings at law or in equity for the collection of the sums so due and unpaid, and may prosecute any actions or proceedings to judgment or final decree, and may enforce any judgment or final decree against each Obligated Issuer, and collect in the manner provided by law out of the Property of each Obligated Issuer the moneys adjudged or decreed to be payable. The Master Trustee, upon the bringing of any action or proceeding, as a matter of right, without notice and without giving bond to any Obligated Issuer, to the extent permitted by law, may have a receiver appointed of all of the Property of each Obligated Issuer pending the action or proceeding, with the powers conferred by the court making the appointment.

Upon the happening and continuance of an Event of Default, each Obligated Issuer, upon demand of the Master Trustee, is required forthwith to surrender the possession of, and it is to be lawful for the Master Trustee, by the officer or agent as it may appoint, to take possession of, all or any part of the Leased Premises, the Leased Real Property, the Existing Facilities and the Projects, together with the books, papers and accounts of the Obligated Issuer pertaining thereto, and including the rights and the position of the Obligated Issuer under the Lease or any subsequent lease or instrument in substitution therefor, and to hold, operate and manage the Leased Premises, the Leased Real Property, the Existing Facilities and the Projects and maintain separate accounts therefor, and from time to time make all needed repairs and improvements as the Master Trustee shall deem wise.

SUITS BY NOTEHOLDERS

No Noteholder shall have any right by virtue of any provisions of the Master Indenture to institute any suit, action or proceeding in equity or at law upon or under or with respect to the Master Indenture or for any other

remedy thereunder, unless the Noteholder shall have given to the Master Trustee written notice of default and of the continuance thereof and (i) the holders of not less than 25% in aggregate principal amount of Outstanding Master Notes of any series if the Event of Default arises by reason of the failure of any Obligated Issuer to pay the principal of, or premium or interest on, any Master Note in that series, or (ii) the holders of not less than a majority in aggregate principal amount of Outstanding Master Notes if such Event of Default arises for any other reason, shall have made written request upon the Master Trustee to institute the action, suit or proceeding in its own name as Master Trustee under the Master Indenture and shall have offered to the Master Trustee the reasonable indemnity as it may require against the costs, expenses and liabilities to be incurred, and the Master Trustee, for thirty (30) days after its receipt of notice, request and offer of indemnity, shall have neglected or refused to institute any action, suit or proceeding and no direction inconsistent with the written request shall have been given to the Master Trustee by Noteholders.

RESIGNATION AND REMOVAL OF MASTER TRUSTEE; SUCCESSOR MASTER TRUSTEE

The Master Trustee may resign at any time without cause by giving at least 10 days' prior written notice to the Obligated Issuers and to each holder of a Master Note then Outstanding. The resignation shall be effective upon the acceptance of the master trusteeship by a successor. In addition, the Master Trustee may be removed without cause by either the Obligated Group Representative after giving 30 days notice to all Noteholders of the intent to effect such removal or by the holders of not less than 50% in aggregate principal amount of Master Notes then Outstanding, by, in either case, delivering a notice of removal to the Master Trustee, each Obligated Issuer and, if the removal is effected by the Noteholders, the Obligated Group Representative, and the Master Trustee shall promptly give notice of such removal in writing to each holder of a Master Note then Outstanding as provided above. In the case of the resignation or removal of the Master Trustee, a successor trustee may be appointed by the Obligated Group Representative or, if such appointment has not been made by the Obligated Group Representative, then the holders of not less than fifty percent (50%) in aggregate principal amount of Master Notes then Outstanding. If a successor trustee shall not have been appointed within 30 days after such notice of resignation or removal, the Master Trustee, the Cleveland Clinic, the Obligated Group Representative, any Obligated Issuer or any holder of a Master Note then Outstanding may apply to any court of competent jurisdiction to appoint a successor to act until such time, if any, as a successor shall have been appointed as above provided. The successor so appointed by such court shall immediately and without further act be superseded by any successor appointed as above provided.

SUPPLEMENTS AND AMENDMENTS TO THE MASTER INDENTURE

Each Obligated Issuer and the Master Trustee may from time to time supplement or amend the Master Indenture to evidence the succession of another corporation to any Obligated Issuer, to add to the covenants of and restrictions imposed on any Obligated Issuer, to cure ambiguities or correct defective or inconsistent provisions in the Master Indenture or any Supplemental Indenture, to permit qualification of the Master Indenture under the Trust Indenture Act of 1939, to evidence additions to or withdrawals from membership in the Obligated Group, to substitute another Trustee for the Master Trustee or to add a co-Master trustee as provided in the Master Indenture, to amend the provisions of the Master Indenture in the event of a material change in third party reimbursement principles, and to make any other change which, in the judgment of the Master Trustee or an Independent Consultant, is not to the prejudice of the Master Trustee or the Noteholders. Any Supplemental Indenture authorized by the provisions of the Master Indenture summarized in this paragraph may be executed by each Obligated Issuer and the Master Trustee without the consent of the holders of Master Notes then Outstanding, notwithstanding any of the provisions summarized in the paragraph below.

With the consent of the holders of not less than a majority in aggregate principal amount of Outstanding Master Notes, each Obligated Issuer and the Master Trustee may change the Master Indenture in any manner; provided, however, that no Supplemental Indenture shall (i) effect a change in the times, amounts or currency of payment of the principal of, premium, if any, or interest on any Master Note or a reduction in the principal amount or redemption price of any Master Note or the rate of interest thereon, without the consent of the Noteholder, or (ii)(a) reduce the aforesaid percentage of Master Notes, the holders of which are required to consent to any supplemental Master Indenture or (b) except pursuant to the provisions of the Master Indenture summarized in the second paragraph under the caption "SUMMARY OF BASIC DOCUMENTS — THE MASTER TRUST INDENTURE — NOTES ISSUED UNDER THE MASTER INDENTURE" and for subordinated indebtedness, permit the preference or priority of any Master Note over any other Master Note without the consent of the holders of all

Outstanding Master Notes, or (iii) modify the right of the holders of not less than 25% in aggregate principal amount of any series of Master Notes in default as to payment of principal or interest to compel the Master Trustee to declare the principal of all such Master Notes to be due and payable, without the consent of the holders of a majority in aggregate principal amount of the Outstanding Master Notes of that series.

DEFEASANCE OF MASTER INDENTURE

When the whole amount of principal of and premium, if any, and interest due and payable on all of the Master Notes Outstanding shall have been paid or provision for payment shall have been made then the Master Indenture shall terminate and be discharged and satisfied. Outstanding Master Notes shall be deemed to have been paid if (i) the Master Trustee has received either sufficient money or Escrow Obligations the principal of and interest on which when due, and without reinvestment, will provide moneys sufficient (as evidenced by an Officer's Certificate of the Obligated Group Representative and a report of an Independent Accountant) to pay when due the principal of and premium, if any, and interest on such Master Notes either at maturity or on redemption, as the case may be, and (iii) if such Master Notes are to be redeemed, (x) irrevocable instructions have been given to the Master Trustee to call them for redemption, and (y) if those Master Notes are not to be called for redemption within 30 days, irrevocable instructions have been given to the Master Trustee to give Noteholders notice of the receipt of money or Escrow Obligations as described in clause (i) above.

SUBORDINATED INDEBTEDNESS

Members of the Combined Group may issue Subordinated Indebtedness under the terms of the Master Indenture. Subordinated Indebtedness shall mean Indebtedness which, with respect to any issue thereof, is evidenced by instruments, or issued under an indenture or other document, containing provisions of the subordination of such Indebtedness (to which appropriate reference shall be made in the instruments evidencing such Indebtedness) substantially as follows (the term "debentures" being, for convenience, used in the provisions set forth below to designate the instruments issued to evidence subordinated debt and the term "this Indenture" to designate the instrument, indenture or other document containing such provisions):

> "All debentures issued under this Indenture shall be issued subject to the following provisions and each person taking or holding any such debenture whether upon original issue or upon transfer or assignment thereof accepts and agrees to be bound by such provisions.
>
> All debentures issued hereunder shall, to the extent and in the manner hereinafter set forth, be subordinated and subject in right to the prior payment in full of Superior Indebtedness as defined in this Section. For all purposes of this Section, the term "Superior Indebtedness" shall mean all Notes (other than Notes containing these subordination provisions) now or hereafter issued and outstanding under that certain Amended and Restated Master Trust Indenture, dated as of April 1, 2003 (the "Master Indenture"), among The Cleveland Clinic Cleveland Clinic, certain other Obligated Issuers named therein and The Huntington National Bank, as successor trustee (the "Master Trustee"), as supplemented and modified to the date hereof, or as the same may hereafter from time to time be further supplemented and modified and any other obligations secured by or evidencing, directly or indirectly, obligations evidenced by such Notes.
>
> No payment on account of principal, premium, if any, sinking funds or interest on the debentures shall be made, nor shall any property or assets be applied to the purchase or other acquisition or retirement of the debentures, unless full payment of amounts then due and payable for principal, premium, if any, sinking funds and interest on Superior Indebtedness has been made or duly provided for in accordance with the terms of such Superior Indebtedness. No payment on account of principal, premium, if any, sinking funds or interest on the debentures shall be made, nor shall any property or assets be applied to the

purchase or other acquisition or retirement of the debentures, if, at the time of such payment or application or immediately after giving effect thereto, (i) there shall exist a default in the payment of principal, premium, if any, sinking funds or interest with respect to any Superior Indebtedness, or (ii) there shall have occurred an event of default (other than a default in the payment of principal, premium, if any, sinking funds or interest) with respect to any Superior Indebtedness, as defined therein or in the instrument under which the same is outstanding, permitting the holders thereof to accelerate the maturity thereof and written notice of such occurrence shall have been given to the issuer of the debentures pursuant to the instrument under which such Superior Indebtedness is outstanding and such event of default shall not have been cured or waived or shall not have ceased to exist, or (iii) the Debt Service Coverage Ratio (as defined in the Master Indenture) shall be less than 1.20.

Upon (i) any acceleration of maturity of the principal amount due on the debentures or (ii) any payment or distribution of any kind or character, whether in cash, property or securities, upon any dissolution or winding-up or total or partial liquidation, reorganization or arrangement of the issuer of the debentures, whether voluntary or involuntary or in bankruptcy, insolvency, receivership or other proceedings, all principal, premium, if any, and interest due or to become due upon all Superior Indebtedness shall first be paid in full, or payment thereof provided for in accordance with the terms of such Superior Indebtedness, before any payment is made on account of the principal, premium, if any, or interest on the indebtedness evidenced by the debentures, and upon any such dissolution or winding-up or liquidation, reorganization or arrangement, any payment or distribution of any kind or character, whether in cash, property or securities, to which the holders of the debentures or the Trustee under this Indenture would be entitled, except for the provisions hereof, shall be paid by the issuer of the debentures, or by a receiver, trustee in bankruptcy, liquidating trustee, agent or other person making such payment on distribution, to the Master Trustee to the extent necessary to pay all Superior Indebtedness in full after giving effect to any concurrent payment or distribution to the Master Trustee for the holders of Superior Indebtedness, before any payment on distribution is made to the holders of the indebtedness evidenced by the debentures or to the Trustee under this Indenture.

In the event that, in violation of any of the foregoing provisions, any payment or distribution of any kind or character, whether in cash, property or securities, shall be received by the Trustee under this Indenture or by the holders of the debentures before all Superior Indebtedness is paid in full, or provision for such payment in accordance with the terms of such Superior Indebtedness, such payment or distribution shall be held in trust for the benefit of, and shall be paid over or delivered to the Master Trustee for application to the payment of all Superior Indebtedness remaining unpaid to the extent necessary to pay all such Superior Indebtedness in full in accordance with its terms, after giving effect to any concurrent payment or distribution to the Master Trustee for the holders of such Superior Indebtedness.

No present or future holder of Superior Indebtedness shall be prejudiced in his right to enforce subordination of the indebtedness evidenced by the debentures by any act or failure to act on the part of the issuer of the debentures or anyone in custody of its assets or property.

The foregoing subordination provisions shall be for the benefit of the holders of Superior Indebtedness and may be enforced by the Master Trustee against the holders of debentures or any trustee therefor."

provided, however, that the indentures or other instruments creating or evidencing subordinated debt or pursuant to which any subordinated debt is issued shall provide: (i) that the foregoing provisions are solely for the purpose of defining the relative rights of the holders of "Superior Indebtedness" (as defined therein) on the one hand and the holders of the subordinated debt on the other hand, and that nothing therein shall impair, as between the issuer of the debentures and the holders of the subordinated debt, the obligation of the issuer of the debentures to pay to the holders thereof the principal thereof, premium, if any, and interest thereon in accordance with its terms, nor shall anything therein prevent the holders of the subordinated debt or any Trustee on their behalf from exercising all remedies otherwise permitted by applicable law or thereunder upon default thereunder, subject to the rights set forth above of the holders of "Superior Indebtedness" to receive cash, property or securities otherwise payable or deliverable to the holders of the subordinated debt, (ii) that upon any payment or distribution of assets of the issuer of the debentures of the character referred to in the fourth paragraph of the foregoing provisions, the Trustee under any indenture relating to subordinated debt shall be entitled to rely upon any order or decree of a court of competent jurisdiction in which such dissolution, winding-up, liquidation, reorganization or arrangement proceedings are pending, and upon a certificate of the receiver, trustee in bankruptcy, liquidating trustee, agent or other person making any such payment or distribution, delivered to said Trustee for the purpose of ascertaining the persons entitled to participate in such distribution, the holders of "Superior Indebtedness" and other indebtedness of the issuer of the debentures, the amount thereof or payable thereon, the amount or amounts paid or distributed thereon and all other facts pertinent thereto or to the foregoing provisions, and (iii) that the Trustee under any indenture relating to subordinated debt and any paying agent therefor shall not be charged with knowledge of the existence of any facts which would prohibit the making of any payment of moneys to or by such Trustee or such paying agent, unless and until such Trustee or such paying agent, as the case may be shall have received notice thereof from the issuer of the debentures or from one or more holders of "Superior Indebtedness", or from the Master Trustee.

EXCLUDED PROPERTY

As of the date of execution of the master indenture, the Obligated Issuers designated certain of their Property as Excluded Property. Additional Property may be designated as Excluded Property under the Master Indenture, without consent of any holders of Master Notes, if: (a) such Property could have been transferred or sold by the Obligated Issuer pursuant to the terms of the Master Indenture summarized under "SUMMARY OF BASIC DOCUMENTS — THE MASTER TRUST INDENTURE — TRANSFERS OF PROPERTY" above, (b) such Property consists of additional real Property acquired by an Obligated Issuer subsequent to the effective date of the master indenture and all improvements, fixtures, tangible personal Property and equipment located thereon and used in connection therewith upon the receipt by the master trustee of an Officer's Certificate of such Obligated Issuer stating that (1) such Property does not constitute an integral part of the operation of such Obligated Issuer's activities and (2) the total value of all such Property so added as Excluded Property does not exceed 10% of the total value of Property of the Combined Group (calculated on the basis of the Book Value of the assets shown on the asset side of the balance sheet in the combined financial statements of the Combined Group for the most recent fiscal year next preceding the date of such addition for which combined financial statements reported on by independent certified public accountants are available or, if the Obligated Issuer so elects, on the basis of current value); or (c) such Property is unimproved real Property upon receipt by the master trustee of an officer's certificate of such Obligated Issuer stating that such real Property is not an integral part of the operation of such Obligated Issuer's activities.

THE BOND INDENTURE

The Bond Indenture contains various covenants, security provisions, terms and conditions, certain of which are summarized below. Reference is made to the Bond Indenture for a full and complete statement of its provisions.

CREATION OF TRUST

In order to secure the payment of the Bond Service Charges on the Series 2008A Bonds and the performance and observance by the State of all of the covenants and conditions contained in the Series 2008A Bonds and in the Bond Indenture and to declare the terms and conditions upon and subject to which the Series 2008A Bonds are issued, held, secured and enforced, the State has pledged and granted a lien on and in favor of the Bond Trustee for the benefit of the Holders of the Series 2008A Bonds all of its right, title and interest in and to certain property, including: (i) all of its right, title and interest in and to all Hospital Receipts, including without

limitation, (A) the Special Funds and (B) the Basic Rent payable by the Cleveland Clinic under the Lease, which Basic Rent is to be paid by the Cleveland Clinic pursuant to the Lease directly to the Bond Trustee at its Designated Corporate Trust Office, for the account of the State and deposited by the Bond Trustee in the Special Funds; (ii) subject to the provisions of the applicable Bond Legislation, all of its right, title and interest in and to the proceeds derived from the sale of the Series 2008A Bonds and (iii) any and all other real or personal property of every name and nature from time to time pledged, assigned or transferred, as and for additional security under the Bond Indenture, by the State or by anyone in its behalf, or with its written consent, to the Bond Trustee, for the benefit of the Holders of the Series 2008A Bonds.

APPLICATION OF FUNDS

The Bond Indenture provides for the creation of, and the accounts in, the Debt Service Fund, the Debt Service Reserve Fund, the Project Fund and the Rebate Fund, and permits and provides for the maintenance of separate accounts within those Funds.

The Bond Indenture provides that, so long as there are any Outstanding Series 2008A Bonds, all payments under the Lease or any other lease, instrument or document under which the Cleveland Clinic has charge of the operation of the Leased Premises, including, without limitation, all Basic Rent, shall be in an amount that is sufficient, and all other Hospital Receipts shall be used, to make the payments necessary to make required deposits into the Debt Service Fund and the Debt Service Reserve Fund.

Debt Service Fund. The Bond Indenture establishes separate accounts within the Debt Service Fund to be known as the "Interest Payment Account" and the "Principal Payment Account." The Debt Service Fund (and all accounts therein for which provision is made in the Bond Indenture) and the moneys and Permitted Investments therein are to be used solely (A) to pay interest on the Series 2008A Bonds as the same becomes due; (B) to pay principal of the Series 2008A Bonds as the Series 2008A Bonds mature or become due and upon mandatory sinking fund redemption of the Series 2008A Bonds; and (C) to pay principal of and any redemption premium on Series 2008A Bonds as the same becomes due upon redemption prior to maturity.

Debt Service Reserve Fund. In the event that money in the Interest Payment Account or the Principal Payment Account of the Debt Service Fund is insufficient on the third day preceding any date on which Bond Service Charges on outstanding Bonds secured by the Debt Service Reserve Fund are due (whether at stated maturity, by mandatory redemption or upon acceleration) to pay such interest or principal, respectively, the Bond Trustee will withdraw from the Debt Service Reserve Fund on that day the money necessary to make up the deficiency and will transfer that money to the Interest Payment Account or the Principal Payment Account of the Debt Service Fund, as the case may be.

Project Fund. The Bond Indenture establishes separate accounts within the Project Fund to be known as the "Project Account," the "Funded Interest Payment Account" and the "Issuance Expense Account." Upon submission of a Disbursement Request in accordance with Section 5.2 of the Lease, money in the Accounts of the Project Fund will be applied in accordance with such section as follows: money in the Project Account will be applied to pay costs of the 2008 Project; money in the Issuance Expense Account will be applied to pay costs of issuance of the Series 2008A Bonds; and money in the Funded Interest Payment Account will be transferred from that Account to the Interest Payment Account of the Debt Service Fund and will be applied to pay interest on the Series 2008A Bonds.

Proceeds of the sale of Additional Bonds to be used to pay costs of a Project are required to be deposited in the Project Fund, as provided in or pursuant to the applicable Bond Legislation or Supplemental Bond Indenture.

Rebate Fund. The accounts in the Rebate Fund are required to be administered, and the calculation of amounts required to be paid into and from the Rebate Fund, and the payments of those amounts, are required to be made in accordance with the provisions of the applicable Tax Agreement. Neither the Rebate Fund nor any money or investments therein are or will be subject to a lien under the Bond Indenture in favor of Bondholders, the Bond Trustee or any other Person.

INVESTMENT OF FUNDS

At the oral or written direction of the Authorized Lessee Representative, money held for the credit of all Special Funds will be continuously invested and reinvested to the extent practicable by the Bond Trustee in Permitted Investments that mature not later than the respective dates when the money held for the credit of the Special Funds or Accounts therein will be required for the purposes intended. The Bond Indenture requires the Bond Trustee to sell or redeem investments credited to the Debt Service Fund to produce sufficient money to and for the purposes of paying Bond Service Charges when due, without necessity for any order on behalf of the Commission and without restriction by reason of any order. No Permitted Investments in any Fund or Account may mature beyond the latest maturity date of any Series 2008A Bonds Outstanding at the time such investments are deposited. Any investment made pursuant to the provisions summarized under this caption must comply with the representations and covenants that the Cleveland Clinic and the Commission made in Section 5.7 of the Lease that each has taken and caused to be taken, and covenants that it will take and cause to be taken, all actions that may be required of it for the interest on the Series 2008A Bonds to be and to remain excluded from gross income for federal income tax purposes and from treatment as an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations under the Code.

Amounts contained in any Debt Service Reserve Fund may be invested only in the instruments set forth in paragraphs (a), (b) and (e) of the definition of Permitted Investments, with maturities of not longer than five years.

Subject to the provisions of the Bond Indenture summarized under this caption, the Authorized Lessee Representative may at any time give to the Bond Trustee written directions respecting the investment of any money in the Special Funds required to be invested under the Bond Indenture, and the Bond Trustee must invest such money as so directed by the Cleveland Clinic. The Bond Trustee may request, in writing, direction or authorization of the Cleveland Clinic with respect to the proposed investment of money under the provisions of the Bond Indenture. Upon receipt of such request, accompanied by a memorandum setting forth the details of any proposed investment, the Authorized Lessee Representative will either approve such proposed investment or give written directions to the Bond Trustee respecting the investment of such money, and, in the case of such directions, the Bond Trustee must then, subject to the provisions of the Bond Indenture summarized under this caption, invest such money in accordance with such directions.

Permitted Investments credited to any Special Fund established under the Bond Indenture will be held by or under the control of the Bond Trustee and while so held are deemed at all times to be part of such Fund or Account in which such money was originally held.

Any profit or loss realized from such investment in any Account or subaccount of the Project Fund will be credited to the respective Account or subaccount of the Project Fund. Any profit or loss realized from such investment in the Rebate Fund will be credited to the Rebate Fund. Profit realized from investment of the Debt Service Reserve Fund together with profit realized on investment of the Debt Service Fund will be credited first to the Principal Payment Account of the Debt Service Fund until the balance therein equals the amount of principal payable within the next thirteen months and thereafter will be credited to the Interest Payment Account of the Debt Service Fund. The Bond Trustee must sell at the best price obtainable or present for redemption any obligations so purchased whenever it shall be necessary to do so in order to provide money to make any payment or transfer of money from any such Fund or Account.

The Bond Trustee will not be liable or responsible for any loss resulting from any such investment.

The Bond Trustee may make any investments permitted under the Bond Indenture through its own bond department or the bond department of any bank or trust company that is an affiliate of the Bond Trustee.

EVENTS OF DEFAULT

The following are Events of Default under the Bond Indenture:

(a) Default in the payment of any interest on any Series 2008A Bond when due and payable;

(b) Default in the payment of the principal, or any redemption premium on, any Series 2008A Bond when due and payable, whether at stated maturity, upon acceleration or redemption;

(c) The Commission for any reason is rendered incapable of fulfilling its obligations under the Bond Indenture, or the Commission defaults in the due and punctual performance of any of the other covenants, conditions, agreements and provisions contained in the Series 2008A Bonds or in the Bond Indenture or any Supplemental Bond Indenture on the part of the Commission to be performed, and such incapacity or default continues for 60 days after written notice specifying such default and requiring the same to be remedied given to the Commission and the Cleveland Clinic by the Bond Trustee (which notice may be given by the Bond Trustee in its discretion and must be given at the written request of the Holders of not less than 25% in aggregate principal amount of the Series 2008A Bonds then Outstanding); provided that, if any such default is correctable but is such that it cannot be corrected within such period, it will not constitute an Event of Default if corrective action is instituted by the Commission or the Cleveland Clinic within such period and diligently pursued until the default is corrected; and

(d) An Event of Default specified in the Lease has occurred and is continuing and has not been waived.

The Bond Trustee is not required under the Bond Indenture to take notice or is not deemed to have notice of any Default or Event of Default unless the Bond Trustee shall be specifically notified in writing of such Default or Event of Default by the Commission, the Cleveland Clinic or the Holders of at least 10% in principal amount of all Series 2008A Bonds Outstanding, and in the absence of such notice so delivered, the Bond Trustee may conclusively assume there is no Default. Not later than the 30th day following the occurrence of any Event of Default of which the Bond Trustee is required to take notice or has received notice, the Bond Trustee must give written notice of such Event of Default by first-class mail to all Holders of Series 2008A Bonds as shown on the Bond Register maintained by the Bond Trustee, unless such Default has been cured or waived; provided that, except in the case of a default in the payment of the principal of or interest or any premium on any Series 2008A Bond, the Bond Trustee shall be protected in withholding such notice from Bondholders if and so long as the Bond Trustee in good faith determines that the withholding of such notice is in the interests of the Bondholders.

ACCELERATION, ANNULMENT AND RESCISSION

If an Event of Default under the Bond Indenture occurred and is continuing, the Bond Trustee may, and must, at the direction of Holders of at least 25% in aggregate principal amount of the Outstanding Series 2008A Bonds, by written notice to the Commission and the Cleveland Clinic, declare the principal of all Series 2008A Bonds then Outstanding and the interest accrued thereon immediately due and payable. Such principal and interest will thereupon become and be immediately due and payable at the place of payment for which provision is made in such written notice, anything in the Bond Indenture or in the Series 2008A Bonds to the contrary notwithstanding.

Upon the acceleration of the principal and interest accrued on the Series 2008A Bonds then Outstanding, the Bond Trustee must immediately declare all Basic Rent payable under the Lease with respect to the Series 2008A Bonds then Outstanding to be immediately due and payable.

If, at any time after the principal of the Series 2008A Bonds then Outstanding becomes due and payable pursuant to the provisions of the Bond Indenture summarized under this caption, and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such acceleration or before the completion of the enforcement of any other remedy under the Bond Indenture, all arrears of interest, with interest (to the extent permitted by law) at the rate borne by the Series 2008A Bonds on overdue installments of interest in respect to which such Default has occurred, and all arrears of payments of principal when due, as the case may be, and all fees and expenses of the Bond Trustee in connection with such Default have been paid or provision for their payment has been made, then the acceleration of the Series 2008A Bonds then Outstanding and the consequences of their acceleration shall be annulled or rescinded; provided that, no such annulment or rescission will extend to or affect any subsequent acceleration of the Series 2008A Bonds then Outstanding, or impair any right consequent thereon.

Immediately upon any such annulment, the Bond Trustee will cancel, by notice to the Cleveland Clinic, any demand made by the Bond Trustee for prepayment of all amounts due under the Lease. The Bond Trustee will promptly give written notice of such annulment to the Commission, the Cleveland Clinic, and, if notice of the acceleration of Bonds was given to the Bondholders, to the Bondholders.

EXERCISE OF REMEDIES BY BOND TRUSTEE

Upon the occurrence of an Event of Default under the Bond Indenture, the Bond Trustee may, and must if requested in writing to do so by the Holders of not less than 25% in aggregate principal amount of Series 2008A Bonds then Outstanding and if indemnified as provided in the Bond Indenture, pursue any available remedy at law or equity by suit, action, mandamus or other proceeding (including any rights of a secured party under the Commercial Code) to enforce the payment of the principal of and interest and any redemption premium on the Series 2008A Bonds then Outstanding, to realize on or to foreclose any of its interests or liens under the Bond Indenture or under any other of the Bond Documents, to exercise any rights or remedies available to the Bond Trustee, to enforce and compel the performance of the duties and obligations of the Commission as set forth in the Bond Indenture and to enforce or preserve any other rights or interests of the Bond Trustee under the Bond Indenture or otherwise existing at law or in equity. If the Bond Trustee is required to pursue such remedies on behalf of the requesting Holders, the Bond Trustee must exercise such one or more of the rights and powers described in the preceding sentence as the Bond Trustee, being advised by counsel, deems most expedient in the interests of the Bondholders.

LIMITATION ON EXERCISE OF REMEDIES BY BONDHOLDERS

No Holder of any Series 2008A Bond has any right under the Bond Indenture to institute any suit, action or proceeding in equity or at law for the enforcement of the Bond Indenture or for the execution of any trust under the Bond Indenture or for the appointment of a receiver or any other remedy under the Bond Indenture, unless: (i) a Default has occurred of which the Bond Trustee has been notified or is deemed to have notice as provided in the provisions summarized under the caption "SUMMARY OF BASIC DOCUMENTS – THE BOND INDENTURE – EVENTS OF DEFAULT," (ii) such Default has become an Event of Default, (iii) the Holders of not less than 25% in aggregate principal amount of Series 2008A Bonds then Outstanding have made written request to the Bond Trustee, have offered it reasonable opportunity either to proceed to exercise the powers granted to it under the Bond Indenture or to institute such action, suit or proceeding in its own name, and have offered to the Bond Trustee indemnity as provided in the Bond Indenture, and (iv) the Bond Trustee thereafter fails or refuses to exercise the powers granted to it in the Bond Indenture or to institute such action, suit or proceeding in its own name; and such notification, request and offer of indemnity are declared in every case, at the option of the Bond Trustee, to be conditions precedent to the execution of the powers and trusts of the Bond Indenture, and to any action or cause of action for the enforcement of the Bond Indenture, or for the appointment of a receiver or for any other remedy under the Bond Indenture, it being understood and intended that no one or more Holders of the Series 2008A Bonds have the right in any manner whatsoever to affect, disturb or prejudice the Bond Indenture by its, his or their action or to enforce any right under the Bond Indenture except in the manner provided under this caption and that all proceedings at law or in equity will be instituted, had and maintained in the manner provided in the Bond Indenture, and for the equal benefit of the Holders of all Series 2008A Bonds then Outstanding.

APPLICATION OF MONEY IN EVENT OF DEFAULT

Except as otherwise provided in the Bond Indenture and unless the principal of all of the Series 2008A Bonds shall have become, or shall have been declared to be, due and payable, all of the money received with respect to an Event of Default will be deposited in the Debt Service Fund and applied (i) first, to the payment to the Holders entitled thereto of all installments of interest then due on the Series 2008A Bonds, in the order of the dates of maturity of the installments of that interest, beginning with the earliest date of maturity and, if the amount available is not sufficient to pay in full any particular installment, then to the payment thereof ratably, according to the amounts due on that installment, to the Holders entitled thereto, without any discrimination or privilege, except as to any difference in the respective rates of interest specified in the Series 2008A Bonds; and (ii) second, to the payment to the Holders entitled thereto of the unpaid principal of any of the Series 2008A Bonds that have become due (other than Series 2008A Bonds previously called for redemption for the payment of which money is held pursuant to the provisions of the Bond Indenture), whether at stated maturity, by redemption or pursuant to any Mandatory Sinking

Fund Requirements, in the order of their due dates, beginning with the earliest due date, with interest on those Series 2008A Bonds from the respective dates upon which they became due at the rates specified in those Series 2008A Bonds, and if the amount available is not sufficient to pay in full all Series 2008A Bonds due on any particular date, together with that interest, then to the payment thereof ratably, according to the amounts of principal due on that date, to the Holders entitled thereto, without any discrimination or privilege, except as to any difference in the respective rates of interest specified in the Series 2008A Bonds.

If the principal of all of the Series 2008A Bonds shall have become due or shall have been declared to be due and payable pursuant to an Event of Default, all of that money received will be deposited into the Debt Service Fund and will be applied to the payment of the principal and interest then due and unpaid upon the Series 2008A Bonds, without preference or priority of principal over interest, of interest over principal, of any installment of interest over any other installment of interest, or of any Series 2008A Bond over any other Series 2008A Bond, ratably, according to the amounts due respectively for principal and interest, to the Holders entitled thereto, without any discrimination or privilege, except as to any difference in the respective rates of interest specified in the Series 2008A Bonds.

WAIVER OF EVENTS OF DEFAULT AND DEFAULTS

Except as provided below, at any time, in its discretion, the Bond Trustee may waive any Event of Default under the Bond Indenture and its consequences and may rescind and annul any declaration of maturity of principal of the Series 2008A Bonds. The Bond Trustee shall do so upon the written request of the Holders of (i) at least a majority in aggregate principal amount of all Outstanding Series 2008A Bonds in respect of which an Event of Default exists in the payment of Bond Service Charges; or (ii) at least 25 percent in aggregate principal amount of all Outstanding Series 2008A Bonds, in the case of any other Event of Default.

The Bond Trustee, however, may not grant a waiver and rescission in the case of any event of default described above in paragraph (a) or (b) under the caption "SUMMARY OF BASIC DOCUMENTS — THE BOND INDENTURE — EVENTS OF DEFAULT," unless at the time of the waiver, rescission or annulment, payments have been duly made, or provision has been duly made for the payment, of the amounts provided under the caption "SUMMARY OF BASIC DOCUMENTS — THE BOND INDENTURE — ACCELERATION, ANNULMENT AND RESCISSION" for waiver, rescission and annulment in connection with a declaration of acceleration. in case of any waiver, rescission or annulment, the Cleveland Clinic, the Commission, the Bond Trustee and the Holders are to be restored to their former positions and rights, remedies and powers under the bond indenture, but no waiver, rescission or annulment will extend to any subsequent or other event of default, or impair any right, remedy or power consequent thereon.

TRANSFERS AND EXCHANGES OF SERIES 2008A BONDS

Unless provided otherwise in the Bond Indenture or applicable Bond Legislation or Supplemental Bond Indenture, at the option of the Holder, Series 2008A Bonds may be exchanged for Series 2008A Bonds of any Authorized Denomination or Denominations in an aggregate principal amount equal to the unmatured and unredeemed principal amount of, and bearing interest at the same rate and maturing on the same date or dates as, the Series 2008A Bonds being exchanged. The exchange will be made upon presentation and surrender of the Series 2008A Bonds being exchanged at the designated office of the Registrar or at the designated office of any Authenticating Agent for the Series 2008A Bonds, together with an assignment duly executed by the Holder or its duly authorized attorney in any form which is satisfactory to the Registrar or the Authenticating Agent, as the case may be.

Any Series 2008A Bond may be transferred on the Register, upon presentation and surrender thereof at the designated office of the Registrar or the designated office of any Authenticating Agent thereof, together with an assignment duly executed by the Holder or its duly authorized attorney in any form which is satisfactory to the Registrar or the Authenticating Agent, as the case may be. Upon transfer of any Series 2008A Bond and upon the request of the Registrar or the Authenticating Agent, the Commission will execute and the Registrar or the Authenticating Agent, as the case may be, will authenticate and deliver, a new Series 2008A Bond or Series 2008A Bonds in the name of the transferee, of any authorized denomination or denominations in an aggregate principal

amount equal to the unmatured and unredeemed principal amount of, and bearing interest at the same rate and maturing on the same date or dates as, the Series 2008A Bonds presented and surrendered for transfer.

The exchange or transfer shall be made without charge; provided that the Commission and the Registrar or Authenticating Agent, as the case may be, may make a charge for every exchange or transfer of Series 2008A Bonds sufficient to reimburse them for any tax or excise imposed, with respect to the exchange or transfer.

Neither the Commission, the Registrar nor any Authenticating Agent, as the case may be, shall be required to make any exchange or transfer of a Series 2008A Bond during a period beginning at the opening of business 15 days before the day of the mailing of a notice of redemption of Series 2008A Bonds and ending at the close of business on the day of the mailing or to transfer or exchange any Series 2008A Bonds selected for redemption, in whole or in part, following the mailing.

AMENDMENTS AND SUPPLEMENTS TO THE BOND INDENTURE

The Bond Indenture provides that the Commission and the Bond Trustee, with the written consent of the Holders of not less than a majority in aggregate principal amount of the Outstanding Series 2008A Bonds, may enter into such other Supplemental Bond Indenture or Supplemental Bond Indentures as shall be deemed necessary or desirable by the Bond Trustee for the purpose of modifying, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Bond Indenture or in any Supplemental Bond Indenture so long as the action does not result in, without the consent of the affected Holders of all of the Series 2008A Bonds then Outstanding: (a) an extension of the maturity of the principal of or the scheduled date of payment of interest on any Series 2008A Bond; (b) a reduction in the principal amount or interest or any redemption premium payable on any Series 2008A Bond; (c) a privilege or priority of any Series 2008A Bond over any other Series 2008A Bond; or (d) a reduction in the aggregate principal amount of Series 2008A Bonds the Holders of which are required for consent to any such Supplemental Bond Indenture.

The Commission and the Bond Trustee may from time to time, without the consent of or notice to any of the Bondholders, enter into one or more Supplemental Bond Indentures, for any one or more of the following purposes:

(a) for any purpose not inconsistent with the terms of the Bond Indenture or to cure any ambiguity or to correct or supplement any provision contained in the Bond Indenture or in any Supplemental Bond Indenture which may be defective or inconsistent with any other provision contained in the Bond Indenture or in any Supplemental Bond Indenture, or to make such other provisions in regard to matters or questions arising under the Bond Indenture that shall not be inconsistent with the provisions of the Bond Indenture and that shall not adversely affect the interests of the Holders of the Series 2008A Bonds, or to release property that was included by reason of an error or other mistake;

(b) to grant to or confer upon the Bond Trustee for the benefit of the Bondholders any additional rights, remedies, powers of the Commission that may lawfully be granted to or conferred upon the Bondholders or the Bond Trustee or either of them;

(c) to more precisely identify a Project or to substitute or add additional property thereto;

(d) to subject to the Bond Indenture additional revenues, properties or collateral;

(e) to modify, amend or supplement the Bond Indenture or any indenture supplemental thereto in such manner as to permit the qualification of the Bond Indenture under the Trust Indenture Act, or any similar federal statute in effect or to permit the qualification of the Series 2008A Bonds for sale under the securities laws of any state of the United States;

(f) to provide for the refunding or advance refunding of any Series 2008A Bonds;

(g) to evidence the appointment of a separate Bond Trustee or the succession of a new Bond Trustee under the Bond Indenture;

(h) to make any other change that, in the sole judgment of the Bond Trustee, does not materially adversely affect the interests of the Bondholders;

(i) to make any other change in connection with a conversion to a different Interest Rate Period; or

(j) to modify, eliminate or add to the provisions of the Bond Indenture to such an extent as shall be necessary to obtain, maintain or improve a rating of the Series 2008A Bonds by a Rating Agency.

So long as the Cleveland Clinic is not in default under the Lease, a Supplemental Bond Indenture that affects any rights of the Cleveland Clinic will not become effective unless and until the Cleveland Clinic has consented in writing to the execution and delivery of the Supplemental Bond Indenture.

AMENDMENTS AND SUPPLEMENTS TO THE BASE LEASE AND LEASE

Without the consent of or notice to the Holders, the Commission and the Bond Trustee may consent to any amendment of the Base Lease and Lease as may be required (i) to comply with the provisions of the Bond Indenture or the Master Indenture, (ii) to make necessary or advisable amendments or additions in connection with the incurrence of Indebtedness (as defined in and permitted under the Master Indenture), and which does not affect adversely the interests of the Holders of Outstanding Series 2008A Bonds, (iii) for the purpose of curing any ambiguity, inconsistency or formal defect or omission in the Base Lease or Lease, (iv) to release any real estate in accordance with the Base Lease or Lease or to accept additional real estate or any interest therein which becomes a part of the real property included in the Leased Premises under the Base Lease or Lease, (v) in connection with an amendment or to effect any purpose for which there could be an amendment of the Bond Indenture not requiring consent of the Bondholders pursuant to the provisions of the Bond Indenture summarized under the caption "SUMMARY OF BASIC DOCUMENTS – THE BOND INDENTURE – AMENDMENTS AND SUPPLEMENTS TO THE BOND INDENTURE" or (vi) in connection with any other change therein that does not materially, adversely affect the Bond Trustee or the Holders of the Series 2008A Bonds, in the judgment of the Bond Trustee.

Except for the amendments contemplated in the immediately preceding paragraph, the Commission or the Bond Trustee cannot consent to (i) any amendment of the Base Lease or Lease that would change the amount or time as of which Basic Rent is required to be paid, without the giving of notice of the proposed amendment and receipt of the written consent thereto of the Holders of all of the then Outstanding Series 2008A Bonds, or (ii) any other amendment of the Base Lease or Lease without the giving of notice of the proposed amendment and receipt of the written consent thereto of the Holders of not less than a majority in aggregate principal amount of the Series 2008A Bonds then Outstanding.

DEFEASANCE

Any Series 2008A Bond or Series 2008A Bonds will be deemed paid and no longer outstanding under the Bond Indenture and will cease to be entitled to any lien, benefit or security under the Bond Indenture if the State pays or provides for the payment of such Series 2008A Bond or Series 2008A Bonds in any one or more of the following ways: (i) by paying or causing to be paid the principal of and interest and any redemption premium on such Series 2008A Bond or Series 2008A Bonds, as and when the same become due and payable; (ii) by delivering and surrendering to the Bond Trustee, for cancellation by it, such Series 2008A Bond or Series 2008A Bonds; or (iii) by depositing with the Bond Trustee, (A) in trust, money or noncallable United States Government Obligations, or both, in such amounts and with maturities as the Bond Trustee determines will be, together with the income to accrue thereon, without consideration of any reinvestment thereof, fully sufficient to pay (1) the principal of such Series 2008A Bond or Series 2008A Bonds at or before their respective maturity dates, (2) any redemption premium payable thereon if the Series 2008A Bonds are to be redeemed before their respective maturity dates, and (3) the interest thereon as and when the same becomes due and payable, and (B) in the case of Series 2008A Bonds that do not mature or will not be redeemed within 90 days of the deposit to which reference is made in subparagraph (A)

above, a verification report of a nationally recognized independent accounting firm or other nationally recognized firm as to the adequacy of the trust funds to fully pay the Series 2008A Bonds deemed to be paid.

If the principal of and interest and any redemption premium on all of the Series 2008A Bonds have been paid in accordance with their terms, or provision has been made for such payment as provided in the paragraph above, and provision shall also be made for paying all other amounts payable under the Bond Indenture to the date of retirement of the Series 2008A Bonds, then the right, title and interest of the Bond Trustee in respect of the Bond Indenture will cease, determine and be void, and, thereupon, the Bond Trustee, upon written request of the Commission or the Cleveland Clinic, and upon receipt by the Bond Trustee and the Commission of a No Adverse Effect Opinion, which will, in addition to its other elements, opine that all conditions precedent to the satisfaction and discharge of the Bond Indenture have been complied with, shall cancel, discharge and release the Bond Indenture and will execute, acknowledge and deliver to the Commission and the Cleveland Clinic such instruments of satisfaction and discharge or release as are reasonably requested to evidence such release and the satisfaction and discharge of the Bond Indenture, and will assign and deliver to the Commission, the Cleveland Clinic or other Person entitled thereto as their respective interests may appear, any property and revenues at the time subject to the Bond Indenture that may then be in its possession, other than money or obligations held by the Bond Trustee for the payment of the principal of and interest and any redemption premium due or to become due on the Series 2008A Bonds.

ADDITIONAL BONDS

At the request of the Cleveland Clinic, upon compliance by the Cleveland Clinic with the requirements of the Lease, the State may issue Additional Bonds from time to time for any purpose or combination of purposes permitted under the Act.

Those Additional Bonds will be on a parity with the Series 2008A Bonds and any Additional Bonds issued and outstanding at the time or thereafter under the Bond Indenture as to (a) the pledge and grant of a lien to the Bond Trustee with respect to the State's right, title and interest in the Hospital Receipts and the Special Funds established under the Bond Indenture to provide for payment of Bond Service Charges on outstanding Bonds and will be equally and ratably payable from those Special Funds, and (b) any Master Notes delivered to the Bond Trustee to provide for, or guarantee payment of, Bond Service Charges on outstanding Bonds; provided that, nothing in the Bond Indenture will prevent payment of Bond Service Charges on any Series of Additional Bonds from (i) being otherwise secured and protected from sources or by property, instruments or documents not applicable to the Series 2008A Bonds or any one or more Series of Additional Bonds, or (ii) not being secured or protected from sources or by property, instruments or documents applicable to the Series 2008A Bonds or any one or more Series of Additional Bonds.

No Additional Bonds may be issued unless the Bond Trustee has received certain certificates, opinions, title evidence and authorizations which evidence that the requirements of the Bond Indenture with respect to the issuance of the Additional Bonds have been satisfied.

THE BASE LEASE

The Base Lease contains various covenants, terms and conditions, certain of which are summarized below. Reference is made to the Base Lease for a full and complete statement of its provisions.

Pursuant to the Base Lease, the Cleveland Clinic leases the Leased Premises to the State. The Base Lease by its terms is to remain in effect until the Lease is terminated.

The Base Lease may be amended and supplemented from time to time to release or remove therefrom portions of the Leased Premises on the same terms and conditions as the property may be released from the Lease. Except for the Lease and the Bond Indenture, the State agrees not to assign, dispose of or otherwise encumber its leasehold estate created by the Base Lease.

THE LEASE

The Lease contains various covenants, terms and conditions, certain of which are summarized below. Reference is made to the Lease for a full and complete statement of its provisions.

CONVEYANCE AND TERM

The State, acting by and through the Commission, collectively as lessor, and the Cleveland Clinic, as lessee, have entered into the Lease. The Lease provides that the Leased Premises will be leased by the Commission to the Cleveland Clinic for the Lease Term, which is at least as long as the Bond Indenture is outstanding and terminating upon the exercise of the Cleveland Clinic's option to terminate under the Lease or in the event of the exercise of the remedies permitted under the Lease or at law upon the occurrence of an Event of Default.

RENT

The Cleveland Clinic is obligated in the Lease to pay Basic Rent, Additional Payments and certain other payments.

Basic Rent is payable to the Bond Trustee during the term of the Lease in an amount sufficient to effect the payment of the Bond Service Charges on the Outstanding Series 2008A Bonds and to make required payments into the Special Funds created by the Bond Indenture. If Additional Bonds are issued by the Commission, the Lease will be amended to increase Basic Rent so that it will be sufficient to pay Bond Service Charges on the Outstanding Series 2008A Bonds and any Additional Bonds and to make payments into the Special Funds as required by the Bond Indenture. The Basic Rent is payable on or before each Rental Payment Date. Payments of principal of and interest on the Master Notes pledged under the Bond Indenture will be credited against the required payments of Basic Rent.

ABSOLUTE OBLIGATION TO PAY BASIC RENT AND ADDITIONAL PAYMENTS

The obligations of the Cleveland Clinic to pay Basic Rent, Additional Payments and any other amounts payable, and to perform and observe the other agreements on its part contained in the Lease are absolute and unconditional. Until all conditions provided in the Bond Indenture for release of the Bond Indenture are met, the Cleveland Clinic (i) will not suspend, reduce or discontinue payment of any Basic Rent or Additional Payments pursuant to the Lease, (ii) will perform and observe all of its other agreements contained in the Lease, (iii) will make all payments of principal on and premium, if any, and interest on all of its indebtedness and any of its other obligations, and (iv) except upon exercise of its termination options as provided in the Lease, will not terminate the Lease for any cause.

NO ABATEMENT OR DIMINUTION OF BASIC RENT

No release, grant or conveyance effected under any of the provisions of the Lease shall entitle the Cleveland Clinic to any abatement, or diminution of the Basic Rent, Additional Payments or other amounts payable, or in any covenant, agreement or obligation of the Cleveland Clinic, under any Foundation Document.

RELEASE OF PORTIONS OF THE LEASED PREMISES

The Lease provides that the Cleveland Clinic may substitute property constituting part of the Leased Premises, provided that the suitability of the Leased Premises as Hospital Facilities is not impaired. Subject to the provisions of the Master Indenture (see "SUMMARY OF BASIC DOCUMENTS — THE MASTER TRUST INDENTURE — TRANSFERS OF PROPERTY"), the Cleveland Clinic retains the discretionary right to remove both real and personal property from the Lease, the Base Lease and the leasehold estate. The Cleveland Clinic and the Commission may release and remove from the Base Lease and the Lease any part of or interest in the Leased Real Property which is no longer cost-effective to the operation of the Leased Premises.

DAMAGE AND DESTRUCTION

If at any time prior to termination of the Lease and prior to payment and discharge of the Outstanding Series 2008A Bonds in accordance with the provisions of the Bond Indenture, the Leased Premises or any part thereof shall be (i) damaged by any casualty, or (ii) taken in whole or in part under the exercise of the power of eminent domain by any governmental body or by any Person acting under governmental authority, the Net Proceeds from claims, or awards, for any losses, or taking, shall be paid to the Cleveland Clinic, subject to Section 3.04 of the Master Indenture and so long as no Event of Default under the Lease has occurred and is continuing, and otherwise to the Bond Trustee, as its interest may appear, and there shall be no abatement or reduction in the Basic Rent, Additional Payments or other amounts payable by the Cleveland Clinic under the Lease.

NO PERSONAL LIABILITY

No representation, warranty, covenant, agreement, obligation or stipulation under the Lease shall be deemed a representation, warranty, covenant, agreement, obligation or stipulation of any present or future trustee, member, officer, agent, or employee of the Cleveland Clinic in an individual capacity and to the extent authorized and permitted by applicable law, no official executing or approving the Cleveland Clinic's participation in any Group Document will be personally liable under any such agreement or on the Series 2008A Bonds or be subject to any personal liability or accountability by reason of the issuance thereof.

ASSIGNMENT AND SUBLEASING

The Cleveland Clinic is permitted to assign or sublease, in whole or in part, the Leased Premises, subject to the Master Indenture, but only if (i) the Cleveland Clinic provides at least 30 days' notice to the Bond Trustee; (ii) the assignment, sublease or grant does not adversely affect the exclusion from gross income for federal income tax purposes of the interest on any Series 2008A Bonds Outstanding or from treatment as an item of tax preference for the purpose of the alternative minimum tax imposed on individuals and corporations under the Code and, in the event of the assignment, sublease or grant of all or substantially all of the Leased Premises, the Bond Trustee shall have received an Opinion of Bond Counsel to that effect; (iii) such assignment, sublease or grant does not relieve the Cleveland Clinic from primary liability for any of its covenants, agreements or obligations under the Lease, and in the event of that assignment, sublease or grant the Cleveland Clinic continues to remain primarily liable for the payment of Basic Rent and Additional Payments and the performance of its covenants, agreements and obligations provided in the Lease; (iv) such assignment, sublease or grant retains for the Cleveland Clinic such rights and interests as will permit it to perform its obligations under the Lease, and any assignee, sublease or grantee assumes the obligations of the Cleveland Clinic under the Lease to the extent of the interest assigned, subleased or granted; and (v) such assignment, sublease or grant is subject to the terms of the Lease and does not materially impair fulfillment of the purposes of the Act to be accomplished by operation of the Leased Premises as provided in the Lease. Pursuant to the Assignments, the Commission has assigned its interest in the Lease and the Base Lease to the Master Trustee, in consideration for the delivery to the Bond Trustee of the Master Notes pledged under the Bond Indenture as security for the payment of Bond Service Charges.

THE CLEVELAND CLINIC'S OPTIONS TO TERMINATE THE LEASE

The Cleveland Clinic has the option to terminate the Lease and the Base Lease at any time when (a) the Bond Indenture shall have been released pursuant to its provisions, (b) sufficient money is on deposit with the Bond Trustee or the Commission, or both, to pay all Additional Payments and other amounts payable to the Bond Trustee or the Commission that are then due under the Lease, and (c) arrangements satisfactory to the Bond Trustee and the Commission have been made for paying as they become due all Additional Payments and other amounts payable to each of them that are not then due under the Lease.

DEFAULTS AND REMEDIES

The following are Events of Default under the Lease:

(a) Failure by the Cleveland Clinic to pay the Basic Rent required to be paid under the Lease on or prior to the applicable Rental Payment Date.

(b) Failure by the Cleveland Clinic to faithfully and efficiently administer, maintain and operate the Leased Premises as Hospital Facilities or failure to provide the services thereof without regard to race, creed, color or national origin, except as noted in subparagraph (c) below.

(c) Failure by the Cleveland Clinic to observe and perform any covenant, condition or agreement on its part to be observed or performed, other than as referred to in subparagraphs (a), (b), (d), (e), (f) and (g) for a period of 30 days after written notice of the failure requesting that it be remedied is given to the Cleveland Clinic by the Commission, the Bond Trustee or the Master Trustee, unless the Commission, the Bond Trustee and the Master Trustee agree in writing to an extension of the time prior to its expiration.

(d) Abandonment by the Cleveland Clinic of the Leased Premises, or of any substantial part thereof, or of the operations thereon contemplated by the Lease and continuation of the abandonment for a period of 30 days after written notice of the abandonment has been given to the Cleveland Clinic by the Commission, the Master Trustee or the Bond Trustee.

(e) Dissolution or liquidation of the Cleveland Clinic or failure by the Cleveland Clinic to vacate promptly any execution, garnishment or attachments of such consequence that it will impair the Cleveland Clinic's ability to carry out its covenants, agreements and obligations under the Lease.

(f) The occurrence of certain bankruptcy actions against the Cleveland Clinic or the appointment of a receiver for the whole or substantial part of the Cleveland Clinic's property.

(g) The occurrence of an Event of Default under the County Financing Lease.

(h) The occurrence of an Event of Default under the Master Indenture.

Whenever any Event of Default under the Lease has occurred and is continuing, any one or more of the following remedial steps may be taken, provided, however, that, in no event shall the Commission or its assignee be obligated to take any step that, in its opinion, might cause it to expend time or money or to incur liability otherwise, until the Commission or its assignee has been furnished a satisfactory indemnity bond at no cost or expense to it:

(i) To the extent permitted by applicable law, if acceleration of maturity of the Series 2008A Bonds is declared under the Bond Indenture, all installments of Basic Rent payable under the Lease for the remainder of the term of the Lease may be declared to be immediately due and payable, whereupon the same are to become immediately due and payable.

(ii) In the event any of the Series 2008A Bonds are at the time Outstanding and not paid and discharged in accordance with the provisions of the Bond Indenture, the Commission, the Bond Trustee and the Master Trustee may have access to and inspect, examine and make copies of the Cleveland Clinic's books and records and any and all of the Cleveland Clinic's accounts, data and income and other tax returns subject to reasonable measures intended to maintain the confidentiality of information that, if revealed publicly, could adversely affect the competitive position of the Cleveland Clinic and excluding specifically donor records, patient records, personnel records, medical staff records, medical staff committee records and any other records the confidentiality of which may be protected by law, and materials protected by the attorney-client or work product privilege.

(iii) The Commission may take whatever action at law or in equity as may appear necessary or desirable to collect the Basic Rent and Additional Payments then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement or covenant of the Cleveland Clinic under the Lease.

Before any of the foregoing remedies are exercised by the Commission or its designee in respect of an Event of Default under subparagraph (b) above, the Commission shall give written notice to the Cleveland Clinic that it believes an Event of Default thereunder has occurred, specifying the charges or circumstances constituting the Event of Default in sufficient detail that the Cleveland Clinic will be fully advised of the nature of the charges made against it and able to adequately prepare a response thereto. Such notice shall fix a date, time and place for a hearing before a hearing officer who shall be a member of the American Arbitration Association or any organization that is nationally recognized as performing the functions performed by that Association on the effective date of the Lease and who is knowledgeable concerning health care facilities reasonably comparable in size and type to the Project and who shall be mutually acceptable to the Cleveland Clinic and the Commission. The hearing shall be held to determine whether an Event of Default under Section 13.1(b) as summarized above under this caption has occurred. That date shall not be sooner than 30 days following the giving of that notice.

Subject to the Bond Indenture, notwithstanding any termination of the Lease, or the exercise of any other right, remedy or power with respect to an Event of Default, prior to the entry of a judgment in a court of law or equity for enforcement after an opportunity for the Cleveland Clinic to be heard, the Cleveland Clinic may (a) at any time pay, or provide by deposit with the Commission and the Bond Trustee in a form and amount satisfactory to the Bond Trustee for, (i) all accrued and unpaid Basic Rent, Additional Payments and other amounts payable under any Group Document (except Basic Rent accelerated pursuant to Event of Default), which Basic Rent will include all interest required to be paid in accordance with the Bond Indenture on overdue principal of and, to the extent lawful, on any overdue interest on, any Series 2008A Bonds and on the principal of any Series 2008A Bonds required to be redeemed in accordance with the Bond Indenture, but not redeemed by reason of any Event of Default by the Cleveland Clinic in the payment of Basic Rent, and (ii) all costs and expenses of the Commission or any assignee occasioned by the Event of Default, and (b) cure to the satisfaction of the Master Trustee and the Bond Trustee (and of the Commission as to an Event of Default under Section 13.1(b) of the Lease as summarized above under this caption) all other Events of Default then capable of being cured.

Upon that payment, deposit and cure, (1) the Lease shall be reinstated fully, as if it had never been terminated; (2) the Cleveland Clinic will be restored to the use, occupancy and possession of the Leased Premises; and (3) that payment, deposit and cure will cause a waiver of the Event of Default and its consequences and an automatic rescission and annulment of any declaration of acceleration; provided that, no waiver or rescission will extend to or affect any subsequent Event of Default or impair any right, remedy or power consequent thereon.

ASSIGNMENT TO THE MASTER TRUSTEE

Pursuant to the Assignment to the Master Trustee, the State, acting by and through the Commission, has assigned all of its rights under the Base Lease and the Lease to the Master Trustee, except for the Unassigned Rights and those rights that have been assigned to the Bond Trustee pursuant to the Bond Indenture and the Assignment to the Bond Trustee.

ASSIGNMENT TO THE BOND TRUSTEE

Pursuant to the Assignment to the Bond Trustee, the State, acting by and through the Commission, has assigned to the Bond Trustee certain of its rights to the Hospital Receipts, including Basic Rent, payable under and pursuant to the Lease, to the proceeds derived from the sale of the Series 2008A Bonds, and any and all other real or personal property pledged, assigned or transferred as and for additional security under the Bond Indenture.

APPENDIX D

PROPOSED FORM OF OPINION OF BOND COUNSEL

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PROPOSED TEXT OF LEGAL OPINION OF
SQUIRE, SANDERS & DEMPSEY L.L.P., AS BOND COUNSEL

October __, 2008

To: State of Ohio, acting by and through the
Ohio Higher Educational Facility
Commission
Columbus, Ohio

J.P. Morgan Securities Inc.
New York, New York

We have examined the transcript of proceedings (the "Transcript") relating to the issuance by the State of Ohio (the "State"), acting by and through the Ohio Higher Educational Facility Commission (the "Commission"), of $452,340,000 Hospital Revenue Bonds, Series 2008A (Cleveland Clinic Health System Obligated Group) (the "Series 2008A Bonds"). The Series 2008A Bonds are being issued for the purpose of financing, funding and refunding the payment or reimbursement of "costs of hospital facilities" as that term is defined in Chapter 140 of the Revised Code (the "Act"), and as are more particularly described in the Lease (the "Lease") between the Commission, as lessor, and The Cleveland Clinic Foundation, an Ohio nonprofit corporation (the "Foundation"), as lessee, including without limitation, the funding and refunding of outstanding obligations previously issued for such purpose, the payment or reimbursement of capital expenditures for such purpose, and costs of funding and refunding those outstanding obligations and of issuing the Series 2008A Bonds.

The Series 2008A Bonds are issued and secured by the Bond Indenture (the "Bond Indenture") between the Commission and The Huntington National Bank, as trustee (in such capacity, the "Bond Trustee"). The hospital facilities described in the Lease and the sites thereof (collectively, the "Leased Premises") have been leased by the Foundation, as lessor, to the Commission, as lessee, under the Base Lease (the "Base Lease") and have been leased back to the Foundation under the Lease. Pursuant to the Bond Indenture, the Assignment to the Bond Trustee (the "Assignment to the Bond Trustee") from the Commission to the Bond Trustee and the Assignment of Rights Under the Base Lease and Lease (the "Assignment to the Master Trustee" and, together with the Assignment to the Bond Trustee, the "Assignments"), from the Commission to The Huntington National Bank, as trustee (in such capacity, the "Master Trustee") under the Amended and Restated Master Trust Indenture, as amended and supplemented (the "Master Indenture"), between the Foundation, Cleveland Clinic Health System - East Region, Fairview Hospital, Lutheran Hospital, Marymount Hospital, Inc. and Cleveland Clinic Florida (a nonprofit corporation) (collectively, the "Members of the Obligated Group") and the Master Trustee, the Commission has assigned substantially all of its rights under the Lease, including the payments of Basic Rent to be made by the Foundation. The documents in the Transcript examined include signed counterparts of the Base Lease, the Lease, the Bond

Indenture and the Assignments, each dated as of September 1, 2008. We have also examined a copy of a signed and authenticated Series 2008A Bond.

Based on this examination, we are of the opinion that under existing law:

1. The Series 2008A Bonds, the Base Lease, the Lease, the Assignments and the Bond Indenture are legal, valid, binding and enforceable in accordance with their respective terms, except that the binding effect and enforceability thereof are subject to applicable bankruptcy, insolvency, reorganization, moratorium and other laws in effect from time to time affecting the rights of creditors generally, and except to the extent that the enforceability thereof may be limited by the application of general principles of equity and the exercise of judicial discretion.

2. The Series 2008A Bonds constitute special obligations of the State, and the principal of and interest and any premium on the Series 2008A Bonds (collectively, "debt service"), together with debt service on any other bonds or obligations hereafter issued under the Bond Indenture, including supplements thereto, on a parity with the Series 2008A Bonds, are payable solely from the revenues and other money pledged and assigned by the Bond Indenture and the Assignments to secure that payment, including the payments required to be made by the Foundation under the Lease. The Series 2008A Bonds do not represent or constitute a general obligation, debt or pledge of the faith and credit, of the State or the Commission, are not secured by an obligation or pledge of any money raised by taxation and do not grant to the holders any rights to have the State levy any taxes or excises or appropriate funds for the payment of debt service on the Series 2008A Bonds.

3. The interest on the Series 2008A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and is not treated as an item of tax preference under Section 57 of the Code for purposes of the alternative minimum tax imposed on individuals and corporations. The interest on the Series 2008A Bonds, and any profit made on their sale, exchange or other disposition, are exempt from the Ohio personal income tax, the Ohio commercial activity tax, the net income base of the Ohio corporate franchise tax, and municipal, school district and joint economic development district income taxes in Ohio. We express no opinion as to any other tax consequences regarding the Series 2008A Bonds.

In giving the foregoing opinion with respect to the treatment of interest on the Series 2008A Bonds and the status of the Series 2008A Bonds under the tax laws, we have assumed and relied upon compliance with the covenants of (i) the Members of the Obligated Group and (ii) the Commission, and the accuracy, which we have not independently verified, of the representations and certifications of the Members of the Obligated Group and the Commission contained in the Transcript. The accuracy of certain of those representations and certifications, and compliance by the Members of the Obligated Group and the Commission with certain of those covenants, may be necessary for the interest on the Series 2008A Bonds to be and remain excluded from gross income for federal income tax purposes and for other tax effects stated above. Failure to comply with certain of those covenants subsequent to issuance of the Series

2008A Bonds could cause interest on the Series 2008A Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Series 2008A Bonds.

Portions of the interest on the Series 2008A Bonds earned by corporations may be subject to a corporate alternative minimum tax under the Code. In addition, under the Code, interest on the Series 2008A Bonds may be subject to a branch profits tax imposed on certain foreign corporations doing business in the United States and to a tax imposed on excess net passive income of certain S corporations.

In rendering this opinion, we have relied upon certifications and representations of fact, contained in the Transcript, which we have not independently verified, and we have assumed the due authorization, signing and delivery by, and the binding effect upon and enforceability against, (i) the Bond Trustee of the Bond Indenture and the Assignment to the Bond Trustee, and (ii) the Master Trustee of the Assignment to the Master Trustee. We have also relied upon the opinions of Jones Day, special counsel to the Members of the Obligated Group, and David W. Rowan, Chief Legal Officer of the Foundation, contained in the Transcript, as to matters concerning the Members of the Obligated Group addressed in those opinions, including without limitation, the due authorization, signing and delivery by, and the binding effect upon and enforceability against, the Foundation of the Base Lease and the Lease, and have relied on the aforementioned opinion of Mr. Rowan as to the status of each of the Members of the Obligated Group as a 501(c)(3) organization within the meaning of the Code and exempt from federal income tax under Section 501(a) of the Code and as to matters of title to the Leased Premises. We express no opinion herein with respect to the Master Indenture or any Master Notes delivered under the Master Indenture as security for the payment of the Series 2008A Bonds; and no opinion is expressed herein as to the status of title to, or the creation or priority of any interest in, the Leased Premises.

Respectfully submitted,

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Cleveland Clinic