McLaren Health Care Corporation and Subsidiaries

Consolidated Financial Report
with Additional Information
September 30, 2022

Contents

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Independent Auditor's Report

To the Board of Directors
McLaren Health Care Corporation
and Subsidiaries

Opinion

We have audited the consolidated financial statements of McLaren Health Care Corporation and Subsidiaries (the "Corporation"), which comprise the consolidated balance sheet as of September 30, 2022 and 2021 and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as of September 30, 2022 and 2021 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditor's Responsibilities for the Audits of the Consolidated Financial Statements

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

To the Board of Directors
McLaren Health Care Corporation
and Subsidiaries

In performing audits in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audits in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for a reasonable period of time.

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

Plante & Moran, PLLC

January 10, 2023

Consolidated Balance Sheet

September 30, 2022 and 2021
(in thousands)

	2022	2021
Assets		
Current Assets		
Cash and cash equivalents	$ 1,065,462	$ 1,844,982
Accounts receivable - Net (Note 3)	348,085	308,153
Health care insurance receivables	297,383	284,634
Assets limited as to use (Note 7)	1,000	1,000
Other current assets	243,300	172,407
Total current assets	1,955,230	2,611,176
Investments - Including internally designated (Note 7)	1,608,839	1,637,186
Other Assets (Note 7)	455,307	598,924
Property and Equipment - Net (Note 6)	1,989,695	1,853,226
Right-of-use Operating Lease Assets (Note 18)	118,958	114,185
Goodwill (Note 8)	129,150	127,625
Intangible Assets (Note 8)	88,979	96,647
Fair Value of Interest Rate Swap Agreements (Note 11)	-	10,775
Defined Benefit Pension Plan Asset (Note 15)	-	45,658
Total assets	**$ 6,346,158**	**$ 7,095,402**
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 415,608	$ 406,599
Medical and other claims payable (Note 10)	327,036	311,189
Current portion of long-term debt (Note 11)	27,193	26,400
Commercial paper (Note 12)	64,973	64,989
Current portion of lease liabilities - Operating (Note 18)	18,999	19,945
Third-party payor settlements payable (Note 4)	57,766	64,664
Accrued liabilities and other:		
Medicare advance payments (Note 20)	87,629	329,176
Deferred revenue (Note 20)	22,004	18,240
Other accrued liabilities (Note 13)	591,457	758,781
Total current liabilities	1,612,665	1,999,983
Long-term Debt - Net of current portion (Note 11)	1,715,608	1,747,092
Lease Liabilities - Operating (Note 18)	102,913	96,588
Fair Value of Interest Rate Swap Agreements (Note 11)	23,956	39,472
Other Liabilities		
Accrued defined benefit pension cost (Note 15)	50,498	61,616
Accrued postretirement benefit obligations (Note 15)	3,191	4,907
Accrued professional liability claims (Note 16)	120,777	111,759
Other long-term liabilities	82,039	75,779
Total liabilities	3,711,647	4,137,196
Net Assets		
Without donor restrictions	2,485,370	2,785,576
With donor restrictions	149,141	172,630
Total net assets	2,634,511	2,958,206
Total liabilities and net assets	**$ 6,346,158**	**$ 7,095,402**

See notes to consolidated financial statements.

Consolidated Statement of Operations

Years Ended September 30, 2022 and 2021
(in thousands)

	2022	2021
Unrestricted Revenue, Gains, and Other Support		
Patient service revenue (Note 4)	$ 3,128,435	$ 3,120,990
Premium revenue	2,952,804	2,593,471
Other (Note 20)	371,406	300,915
Net assets released from restrictions used for operations	7,006	6,918
Total unrestricted revenue, gains, and other support	6,459,651	6,022,294
Expenses		
Salaries and wages	1,505,212	1,452,306
Employee benefits and payroll taxes	279,737	268,765
Supplies	762,298	719,714
Purchased services and other	1,029,192	1,063,244
Medical claims expense (Note 10)	2,583,874	2,167,869
Depreciation and amortization	166,153	142,735
Interest expense	52,153	36,908
Total expenses (Note 17)	6,378,619	5,851,541
Operating Income - Before nonrecurring impairment loss	81,032	170,753
Nonrecurring Impairment Loss (Note 2)	1,153	719
Total operating income	79,879	170,034
Nonoperating Income (Loss)		
Investment income (Note 7)	90,531	125,631
Change in interest rate swap agreements (Note 11)	4,741	13,375
Other components of net periodic pension cost	1,208	22,293
Change in unrealized investment (losses) gains (Note 7)	(450,541)	165,048
Other	(1,307)	1,049
Total nonoperating (loss) income	(355,368)	327,396
Excess of Revenue (Under) Over Expenses	(275,489)	497,430
Other Changes in Net Assets	(1,438)	(1,044)
Pension-related Changes Other Than Net Periodic Benefit Cost (Note 15)	(39,215)	169,360
Net Assets Released from Restrictions	15,936	11,103
(Decrease) Increase in Net Assets without Donor Restrictions	**$ (300,206)**	**$ 676,849**

See notes to consolidated financial statements.

Consolidated Statement of Changes in Net Assets

Years Ended September 30, 2022 and 2021
(in thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
Net Assets - October 1, 2020	$ 2,108,727	$ 153,422	$ 2,262,149
Excess of revenue over expenses	497,430	-	497,430
Restricted contributions	-	21,532	21,532
Change in unrealized gains and losses on investments (Note 7)	-	3,994	3,994
Increase in fair value of perpetual trust	-	6,540	6,540
Pension-related changes other than net periodic benefit cost	169,360	-	169,360
Other changes in net assets	(1,044)	2,085	1,041
Net assets released from restrictions	11,103	(18,021)	(6,918)
Restricted investment income (Note 7)	-	3,078	3,078
Increase in net assets	676,849	19,208	696,057
Net Assets - September 30, 2021	2,785,576	172,630	2,958,206
Excess of expenses over revenue	(275,489)	-	(275,489)
Restricted contributions	-	15,842	15,842
Change in unrealized gains and losses on investments (Note 7)	-	(11,060)	(11,060)
Decrease in fair value of perpetual trust	-	(9,775)	(9,775)
Pension-related changes other than net periodic benefit cost	(39,215)	-	(39,215)
Other changes in net assets	(1,438)	1,239	(199)
Net assets released from restrictions	15,936	(22,942)	(7,006)
Restricted investment income (Note 7)	-	3,207	3,207
Decrease in net assets	(300,206)	(23,489)	(323,695)
Net Assets - September 30, 2022	**$ 2,485,370**	**$ 149,141**	**$ 2,634,511**

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Years Ended September 30, 2022 and 2021
(in thousands)

	2022	2021
Cash Flows from Operating Activities		
Decrease increase in net assets	$ (323,695)	$ 696,057
Adjustments to reconcile (decrease) increase in net assets to net cash and cash equivalents from operating activities:		
Depreciation and amortization	166,153	142,735
Impairment of property and equipment	1,153	719
(Gain) loss on disposal of equipment	(2,696)	1,424
Net change in unrealized gains and losses on investments	461,601	(169,042)
Realized gains on investments	(80,830)	(123,900)
Income from unconsolidated subsidiaries	(1,365)	(5,749)
Pension-related changes other than periodic benefit costs	39,215	(169,360)
Increase in fair value of perpetual trusts	9,775	(6,540)
Change in fair value of interest rate swap agreements	(4,741)	(13,375)
Donor-restricted contributions	(15,842)	(14,052)
Amortization of bond premium	(4,880)	(5,091)
Changes in operating assets and liabilities that (used) provided cash and cash equivalents, net of assets acquired and liabilities assumed in connection with acquisitions:		
Accounts receivable	(39,932)	(67,732)
Other current assets	(70,893)	(41,552)
Third-party payor settlements	(6,898)	7,131
Other assets	61,785	(52,553)
Accounts payable	5,983	(4,793)
Medical claims payable	15,847	15,429
Accrued and other liabilities	(163,561)	242,404
Health care insurance receivables	(12,749)	(156,073)
Other liabilities	(36,771)	(101,961)
Medicare advance payments	(241,547)	(56,813)
Net cash and cash equivalents (used in) provided by operating activities	(244,888)	117,313
Cash Flows from Investing Activities		
Purchase of property and equipment	(293,169)	(434,767)
Proceeds from disposition of property and equipment	3,503	147
Purchases of investments	(962,727)	(553,057)
Proceeds from sales and maturities of investments	597,997	560,744
Change in funds held by trustee under bond indenture	130,793	195,196
Cash received as part of the acquisition of McLaren St. Luke's	-	7,342
Cash paid to joint ventures	(6,239)	(5,173)
Cash received from joint ventures	2,267	555
Net cash and cash equivalents used in investing activities	(527,575)	(229,013)
Cash Flows from Financing Activities		
Principal payments on long-term debt	(26,282)	(89,447)
Debt issuance costs	(113)	(794)
Net proceeds and repayments from commercial paper program	(15)	64,988
Donor-restricted contributions	15,996	14,052
Other	3,357	260
Net cash and cash equivalents used in financing activities	(7,057)	(10,941)
Net Decrease in Cash and Cash Equivalents	(779,520)	(122,641)
Cash and Cash Equivalents - Beginning of year	1,844,982	1,967,623
Cash and Cash Equivalents - End of year	**$ 1,065,462**	**$ 1,844,982**
Supplemental Cash Flow Information - Cash paid for interest	$ 67,154	$ 70,143
Significant Noncash Transactions		
Noncash purchases of property and equipment within accounts payable	$ (1,442)	$ (10,077)
Operating lease right-of-use assets and liabilities recorded during the year	22,491	7,343

See notes to consolidated financial statements.

Note 1 - Nature of Business

McLaren Health Care Corporation and Subsidiaries (the "Corporation"), a not-for-profit corporation, is a major provider of health care and insurance services to residents throughout Michigan and northwest Ohio and the cities of Flint, Lansing, Bay City, Lapeer, Mt. Pleasant, Petoskey, Port Huron, Caro, and Bad Axe, Michigan; Maumee, Ohio; and surrounding communities. A significant portion of the Corporation's revenue is derived through its insurance organizations in the states of Michigan and Indiana.

The consolidated financial statements include the corporations listed below, as well as their subsidiaries and related foundations, of which McLaren Health Care (MHC) is the sole member:

McLaren Flint (Flint)

McLaren Bay Region (Bay)

McLaren Lapeer Region (Lapeer)

McLaren Greater Lansing (Lansing)

McLaren Macomb (Macomb)

McLaren Oakland (Oakland)

McLaren Central Michigan (Central)

McLaren Northern Michigan (Northern)

McLaren Port Huron (Port Huron)

McLaren Caro (Caro)

McLaren Thumb Region (Thumb)

Barbara Ann Karmanos Cancer Institute and Karmanos Cancer Center (Karmanos)

McLaren Medical Group (MMG)

McLaren High Performance Network (ACO)

McLaren Health Management Group (MHMG)

McLaren Integrated HMO Group (MIG)

McLaren Health Plan (MHP)

MDwise

McLaren Bay Special Care (BSC)

McLaren Insurance Company, LTD (MICOL)

McLaren St. Luke's (St. Luke's)

Note 2 - Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of McLaren Health Care Corporation and all of its subsidiaries. All material intercompany accounts and transactions have been eliminated in consolidation.

Note 2 - Significant Accounting Policies (Continued)

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt investments with an original maturity of three months or less when purchased, excluding those amounts included in assets limited as to use by board designation or other arrangements under trust agreements (see Note 7).

The Corporation routinely invests a portion of its operating funds in money market mutual funds and in insured bank deposits. The money market mutual funds invest only in high-quality, short-term securities that are triple A rated. The bank deposits, backed by the full faith and credit of the U.S. government, utilize a series of insured deposit accounts that are electronically linked and aggregated. Both investments aim to preserve capital, maintain liquidity, and provide a competitive yield.

Accounts Receivable

Accounts receivable for patients, insurance companies, and governmental agencies are based on gross charges, reduced by explicit price concessions provided to third-party payors, discounts provided to qualifying individuals as part of the Corporation's financial assistance policy, and implicit price concessions provided primarily to self-pay patients. Estimates for explicit price concessions are based on provider contracts, payment terms for relevant prospective payment systems, and historical experience adjusted for economic conditions and other trends affecting the Corporation's ability to collect outstanding amounts.

For receivables associated with self-pay patients, which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill, the Corporation records significant implicit price concessions in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible.

Health Care Insurance Receivables

Health care insurance receivables include uncollected capitation and premiums due from the Michigan and Indiana departments of Medicaid and other amounts due from networks and delivery systems. Certain receivable balances are secured under an escrow account established as a result of the acquisition of MDwise. Amounts due from Michigan and Indiana departments of Medicaid are unsecured and are estimated based on provisions of the contracts with Michigan and Indiana departments of Medicaid and capitation rates in effect throughout the year. Capitation premiums received in excess of estimated premiums, including contract adjustments for risk corridor and risk adjustment terms, resulting in a payable due to the Michigan and Indiana departments of insurance, are recorded within other accrued liabilities on the consolidated balance sheet.

Investments

Investments include general investments held by the Corporation and assets set aside by the governing boards of various subsidiaries for future capital improvements, over which the boards retain control and may, at their discretion, subsequently use for other purposes, subject to the reserve powers of the Corporation's governing board. Investments in equity securities with readily determinable fair values and all investments in debt securities are stated at fair market value. Investment income or loss (including interest and dividend income, realized gains or losses, and changes in unrealized gains or losses on investments) is included in excess of revenue (under) over expenses, unless the income or loss is restricted by the donor.

The Corporation's investments are exposed to various risks, such as interest rate, market, and credit risk. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible that changes in the value of investments in the near term could materially affect the amounts reported in the consolidated balance sheet and the consolidated statements of operations and changes in net assets.

Note 2 - Significant Accounting Policies (Continued)

Assets Limited as to Use

Assets limited as to use include assets held by trustees under indenture agreements, funds held in trust by foundations, funds restricted by donors for specific purposes, funds held in trust for payment of employee benefits, and funds held under self-insurance trust arrangements (see Note 7).

Property and Equipment

Property and equipment acquisitions are recorded at cost. Donated property and equipment are recorded at the estimated fair market value at the time of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Costs of maintenance and repairs are charged to expense when incurred.

Impairment of Long-lived Assets

The Corporation evaluates the recoverability of long-lived assets and the related estimated remaining lives when indicators of impairment are present. For the purpose of impairment analysis, assets are grouped with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. The Corporation 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. An impairment loss of approximately $1,153 and $719 was recognized in 2022 and 2021, respectively.

Goodwill

The recorded amounts of goodwill from prior business combinations are based on management's best estimates of the fair values of assets acquired and liabilities assumed at the date of acquisition. Goodwill is not amortized but rather is assessed on an annual basis for impairment.

Intangible Assets

The recorded amount of intangible assets results primarily from the acquisition of plan members and provider networks by MHP and MDwise and the acquisition of various physician practices. Intangible assets are based on management's best estimates of the fair value of assets acquired at the date of acquisition. As described in Note 8, certain components of the intangible assets are being amortized. The remainder is assessed for impairment on an annual basis. No impairment charge related to intangible assets was recognized during the years ended September 30, 2022 or 2021.

Medical Claims Payable and Medical Claims Expense

Medical claims expense includes claim payments made to a variety of health care providers for the provision of medical care related to its members, pharmacy costs net of rebates, and other costs incurred to provide health insurance coverage to members, as well as estimates of future claims payments to health care providers for medical care provided prior to the consolidated balance sheet date.

Note 2 - Significant Accounting Policies (Continued)

Medical claims payable is estimated in aggregate, employing actuarial methods that are commonly used by health insurance actuaries and meet actuarial standards of practice. Claims incurred but not reported are based primarily on past experience, including claim payment patterns, enrollment data, historical utilization of services, emerging health care cost trends, seasonality, and other relevant information and determined by actuarial calculations. Health care cost trends are primarily impacted by service utilization and unit costs that are affected by changes in the level and mix of health care benefits offered, in addition to the impact of copayments and deductibles, changes in provider practices, and changes in consumer demographics. Under this process, historical paid claims data is formatted into claim triangles, which compare claim incurred dates to the dates of claim payments. This information is analyzed to create completion factors that represent the average percentage of total incurred claims that have been paid through a given date. Completion factors are applied to claims paid through the period end date to estimate the ultimate claim expense incurred for the period. Actuarial estimates of incurred but not paid claim liabilities are then determined by subtracting the actual paid claims from the estimate of the ultimate incurred claims. Although considerable variability is inherent in such estimates, management believes the recorded liability for accrued medical claims payable is adequate. The estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known. Such adjustments are reflected in current operations. There were no significant changes in estimates or assumptions during 2022 or 2021.

Capitation payments represent contractual fees disbursed to health care providers who are responsible for providing medical care to members and are recorded in purchased services and other in the consolidated statement of operations.

Interest Rate Swaps

The Corporation has entered into interest rate swap agreements to manage its investments and capitalization, including risks associated with changes in interest rates. The Corporation records its interest rate swaps at fair value in the accompanying consolidated balance sheet as either assets or liabilities. None of the Corporation's current swaps are designated as a hedge. Accordingly, both the unrealized and realized gains or losses related to the interest rate swaps are included in nonoperating income (loss) on the consolidated statement of operations (see Note 11).

Classification of Net Assets

Net assets of the Corporation are classified based on the presence or absence of donor-imposed restrictions.

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions or for which the donor-imposed restrictions have expired or been fulfilled. Net assets in this category may be expended for any purpose in performing the primary objectives of the Corporation.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Corporation or by the passage of time. Other donor restrictions are perpetual in nature, where the donor has stipulated the funds be maintained in perpetuity.

Earnings, gains, and losses on net assets with donor restrictions are classified as net assets without donor restrictions unless specifically restricted by the donor or by applicable state law.

Note 2 - Significant Accounting Policies (Continued)

Excess of Revenue (Under) Over Expenses

The consolidated statement of operations includes excess of revenue (under) over expenses. Changes in net assets without donor restrictions, which are excluded from excess of revenue (under) over expenses, consistent with industry practice, include net assets transferred from (to) affiliates, other changes in net assets, pension-related changes other than net periodic benefit cost, and net assets released from restrictions for the acquisition of long-lived assets.

Revenue Recognition - Patient Service Revenue

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

Performance obligations are determined based on the nature of the services provided by the Corporation. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred as services are provided. The Corporation believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients of the Corporation receiving inpatient acute-care services or patients receiving services in outpatient centers or other clinical settings. The Corporation measures performance obligations from admission into the Corporation, or the commencement of an outpatient service or other visit, to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of outpatient services or other visits.

Because all of its performance obligations relate to contracts with a duration of less than one year, the Corporation has elected to apply the optional exemption provided in Financial Accounting Standards Board (FASB) ASC 606-10-50-14 (a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period.

The Corporation determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Corporation's policy, and implicit price concessions provided to uninsured patients. The Corporation determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The Corporation determines its estimates of implicit price concessions based on its historical collections expense with this class of patients.

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

Note 2 - Significant Accounting Policies (Continued)

Contributions

The Corporation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of operations and the consolidated statement of changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the year they are recognized are reported as contributions without donor restrictions in the accompanying financial statements.

The Corporation reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Corporation reports the expiration of donor restrictions when the assets are placed in service.

Premium Revenue

Premiums and capitated premiums are recognized in the period members are entitled to health care services. Additional premium revenue received from the Michigan and Indiana departments of Medicaid for maternity cases is recognized in the period maternity services are provided. Premiums billed and collected in advance are recorded as advance premiums. The majority of premiums are received from the Michigan and Indiana departments of Medicaid.

Premium Deficiency Reserve

A reserve for premium deficiency and related expense is recognized when it is probable that expected future health care costs, under a group of existing contracts, will exceed future premiums and stop-loss coverage recoveries anticipated over the remaining term of the contract. The Corporation determines whether a premium deficiency reserve is necessary, including investment income as a factor in the premium deficiency calculation. At September 30, 2022 and 2021, the Corporation recorded an estimate for premium deficiency reserve of approximately $2,452 and $2,925, respectively, recorded with medical claims payable on the accompanying consolidated balance sheet.

Professional Liability Insurance

Subsidiaries of the Corporation and qualifying medical staff are insured for professional liability on a claims-made basis by MICOL, a multiprovider offshore captive insurance company that is wholly owned by the Corporation. The Corporation and its subsidiaries accrue an estimate of the ultimate expense, including litigation and settlement expense, for professional service liability claims occurring during the year, as well as for those claims that have not been reported at year end, which is based on estimates provided by an independent actuary (see Note 16). The expected amount of insurance recoveries is recorded as a receivable, net of allowance for uncollectible receivables, if applicable.

Charity Care

Subsidiaries of the Corporation provide care to patients who meet certain criteria under charity care policies without charge or at amounts less than established rates. Because the Corporation and its subsidiaries do not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue (see Note 5).

(all amounts in thousands unless otherwise noted)

Note 2 - Significant Accounting Policies (Continued)

Tax Status

The Corporation and substantially all of its subsidiaries are nonprofit, tax-exempt organizations. Some subsidiaries are for-profit corporations. Income tax provisions are not material to the consolidated financial statements.

Management believes the Corporation is not subject to federal tax examinations for years prior to September 30, 2019.

Use of Estimates

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

Subsequent Events

The consolidated financial statements and related disclosures include evaluation of events up through and including January 10, 2023, which is the date the consolidated financial statements were available to be issued.

Note 3 - Accounts Receivable

Subsidiaries of the Corporation grant credit without collateral to patients, most of whom are local residents and are insured under third-party payor agreements. The composition of receivables from patients and third-party payors was as follows:

	2022	2021
Medicare	40 %	42 %
Blue Cross/Blue Shield of Michigan	16	16
Medicaid	10	10
Commercial insurance and HMOs	24	23
Self-pay	10	9
Total	100 %	100 %

Note 4 - Patient Service Revenue

Medical centers of the Corporation have agreements with third-party payors that provide for reimbursement at amounts different from established rates. A summary of the basis of reimbursement with these third-party payors is as follows:

- **Medicare** - Inpatient, acute-care, and rehabilitation services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system based on clinical, diagnostic, and other factors. Inpatient psychiatric and substance abuse services are reimbursed at cost subject to a per case limit. Outpatient and home care services related to Medicare beneficiaries are reimbursed based on a prospectively determined amount per episode of care. Caro is reimbursed as a critical access hospital by the Medicare program. Critical access hospitals receive cost reimbursement for all acute-care inpatient and outpatient services.

(all amounts in thousands unless otherwise noted)

Note 4 - Patient Service Revenue (Continued)

- **Medicaid** - Inpatient, acute-care services rendered to Medicaid program beneficiaries are also paid at prospectively determined rates per discharge. Outpatient and physician services are reimbursed on an established fee-for-service methodology.
- **Blue Cross/Blue Shield** - Inpatient, acute-care services are reimbursed at prospectively determined rates per discharge. Outpatient services are reimbursed on fee-for-service and percentage-of-charge basis.
- **Commercial and Health Maintenance Organizations** - Services rendered to commercial and HMO beneficiaries are paid at predetermined rates or at a percentage of hospital charges.

Cost report settlements result from the adjustment of interim payments to final reimbursement under the Medicare, Medicaid, and Blue Cross/Blue Shield programs that are subject to audit by fiscal intermediaries.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result of investigations by governmental agencies, various health care entities have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in entities entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the Corporation's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Corporation. In addition, the contracts the Corporation has with commercial payors also provide for retroactive audit and review of claims.

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

The Corporation has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected primarily by payor. The composition of net patient service revenue by primary payor for the years ended September 30 is as follows:

	2022	2021
Medicare	$ 1,564,195	$ 1,544,609
Medicaid	491,908	487,896
Blue Cross	609,575	579,707
Commercial and managed care	423,957	471,155
Self-pay	38,799	37,623
Total	$ 3,128,434	$ 3,120,990

Revenue from patients' deductibles and coinsurance is included in the categories presented above based on the primary payor.

(all amounts in thousands unless otherwise noted)

Note 4 - Patient Service Revenue (Continued)

The Corporation recognized patient service revenue over time as patients simultaneously receive and consume benefits provided as care is administered. Total patient service revenue recognized over time was approximately $3,128,434 and $3,120,990 for the years ended September 30, 2022 and 2021, respectively.

Note 5 - Community Benefit

The Corporation and its subsidiaries accept all patients regardless of their ability to pay. The Corporation has established a formal policy where a patient may qualify as a charity patient if certain criteria are met. These policies define charity services as those services for which no payment is anticipated. In assessing a patient's ability to pay, the Corporation utilizes multiples of the Federal Poverty Guideline consistent with industry practice but also includes certain cases where incurred charges are significant compared to the patient's available resources. In addition to providing services to the financially disadvantaged, the medical centers participate in county, state, and federal programs designed for the indigent and elderly, where the medical centers may be reimbursed at less than the cost of providing those services, provide other community services at no or nominal cost, and subsidize graduate medical education in the community. The estimated cost of providing charity services is based on a calculation that applies a ratio of cost to charges to the gross uncompensated charges associated with providing charity care to patients. The ratio of cost to charges is calculated based on the Corporation’s total expenses divided by gross patient charges. The Corporation also provides price concessions to uninsured and underinsured individuals. The amount of these inherent price concessions to these patients is based on the Corporation's history. An estimate of charity and other uncompensated care for the medical centers is as follows:

	2022	2021
Charity care cost	$ 27,267	$ 26,175
Cost in excess of reimbursement from government programs (unaudited)	411,094	341,751
Cost in excess of reimbursement for graduate medical education (unaudited)	35,913	30,334
Cost of community programs (unaudited)	20,350	20,350
Uninsured - Price concessions	27,363	35,576
Total	$ 521,987	$ 454,186

Note 6 - Property and Equipment

Property and equipment and depreciable lives are summarized as follows:

	2022	2021	Depreciable Life - Years
Land	$ 98,091	$ 96,876	-
Land improvements	63,255	57,339	5-35
Buildings	2,034,279	1,589,087	20-40
Equipment	1,619,974	1,374,126	5-15
Construction in progress	114,384	639,657	-
Total cost	3,929,983	3,757,085	
Accumulated depreciation	1,940,288	1,903,859	
Net property and equipment	$ 1,989,695	$ 1,853,226	

(all amounts in thousands unless otherwise noted)

Note 6 - Property and Equipment (Continued)

Construction in progress consists primarily of an expansion of Northern, various other new construction and renovation projects, and the implementation of information technology projects at the medical centers and MHC. At September 30, 2022, the Corporation had commitments of approximately $55 million related to various construction projects and financial and clinical information technology applications. The Corporation had capitalized interest, net of investment earnings, of approximately $10,176 and $26,179 as of September 30, 2022 and 2021, respectively.

Note 7 - Other Assets

The detail of other assets is summarized in the following schedule:

	2022	2021
Assets limited as to use and donor-restricted assets:		
Funds held by trustees under bond indentures (Note 19)	$ 31,674	$ 162,467
Funds held in trust for payment of professional and other liability claims (Note 19)	95,554	95,529
Funds held in trust for the benefit of MHC and funds restricted by donors for specific purpose (Note 19)	111,269	118,506
Funds held in trust for payment of employee benefits (Note 19)	53,501	64,425
Amount for payment of current liabilities	(1,000)	(1,000)
Total assets limited as to use and donor-restricted assets	290,998	439,927
Investment in joint ventures	35,781	27,156
Pledges receivable - Net (Note 19)	5,594	6,048
Other	122,934	125,793
Total other assets	$ 455,307	$ 598,924

Investments, included within other assets above, and investments, including internally designated amounts on the consolidated balance sheet, consist of the following:

	2022	2021
Money market investments	$ 29,382	$ 11,512
Certificates of deposit and cash equivalents	89,978	212,868
Government securities	2,088	1,394
Mortgage-backed securities	147	151
Mutual funds	1,486,369	1,522,596
Corporate bonds	792	854
Common and preferred stocks	252,908	278,020
Due from trusts (Note 14)	39,173	50,718
Total	$ 1,900,837	$ 2,078,113

Funds held by the trustee under bond indenture are held for the purpose of making future bond principal and interest payments and payments for certain construction projects. Investment income accrues to the funds as earned.

(all amounts in thousands unless otherwise noted)

Note 7 - Other Assets (Continued)

Investment income and gains and losses are composed of the following for the years ended September 30, 2022 and 2021:

	2022	2021
Unrestricted investment income	$ 90,531	$ 125,631
Investment income on donor-restricted fund investments	3,207	3,078
Change in net unrealized gains and losses on unrestricted investments	(450,541)	165,048
Change in net unrealized gains and losses on donor-restricted investments	(11,060)	3,994
Total investment income	$ (367,863)	$ 297,751

Note 8 - Goodwill and Intangible Assets

The Corporation has recognized intangible assets of approximately $88,979 and $96,647 at September 30, 2022 and 2021, respectively. The Corporation has recorded approximately $85,729 and $93,398 of net intangible assets for plan members, state contracts, trade names, and provider networks that is being amortized over 7 to 20 years at September 30, 2022 and 2021, respectively. In addition, the Corporation recognized intangible assets related to Medicare Advantage contracts of approximately $3,250 at September 30, 2022 and 2021. These assets are considered to have an indefinite useful life and, therefore, are not being amortized but are tested for impairment on an annual basis.

The Corporation has recognized goodwill of approximately $129,150 and $127,625 at September 30, 2022 and 2021, respectively. For the year ended September 30, 2022, additional goodwill of $1,525 was recorded during the year as a result of insignificant acquisitions. For the year ended September 30, 2021, as part of the acquisition of McLaren St. Luke's, the Corporation recognized $68,882 of goodwill as the difference between the fair value of assets acquired and liabilities assumed. Additional goodwill of approximately $8,347 was recorded during the year ended September 30, 2021 related to other insignificant acquisitions. There is no amortization or impairment of goodwill recognized in 2022 or 2021.

Note 9 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

The following tables present information about the Corporation’s assets and liabilities measured at fair value on a recurring basis at September 30, 2022 and 2021 and the valuation techniques used by the Corporation to determine those fair values.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities that the Corporation has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets and liabilities in active markets and other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset or liability. These Level 3 fair value measurements are based primarily on management’s own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset or liability.

(all amounts in thousands unless otherwise noted)

Note 9 - Fair Value Measurements (Continued)

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Corporation's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

	Assets and Liabilities Measured at Fair Value on a Recurring Basis at September 30, 2022			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at September 30, 2022
Assets				
Mutual funds:				
Fixed-income investments	$ 285,298	$ 55,558	$ -	$ 340,856
Equity investments	1,011,128	75,343	-	1,086,471
Balanced investments	59,012	-	-	59,012
Short-term investments	30	-	-	30
Total mutual funds	1,355,468	130,901	-	1,486,369
Common stocks:				
U.S. securities	197,788	-	-	197,788
Foreign securities	55,120	-	-	55,120
Total common stocks	252,908	-	-	252,908
Debt securities:				
U.S. government and agencies	1,068	1,020	-	2,088
Corporate bonds and notes	792	-	-	792
Residential mortgage-backed securities	-	147	-	147
Total debt securities	1,860	1,167	-	3,027
Money market investments:				
Short-term investments	22,615	5,149	-	27,764
Fixed-income investments	139	-	-	139
Equity investments	1,479	-	-	1,479
Total money market investments	24,233	5,149	-	29,382
Due from trusts	-	39,173	-	39,173
Total assets	$ 1,634,469	$ 176,390	$ -	$ 1,810,859
Liabilities - Interest rate swap agreements	$ -	$ 23,956	$ -	$ 23,956

(all amounts in thousands unless otherwise noted)

Note 9 - Fair Value Measurements (Continued)

	Assets and Liabilities Measured at Fair Value on a Recurring Basis at September 30, 2021			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at September 30, 2021
Assets				
Mutual funds:				
Fixed-income investments	$ 291,763	$ 51,429	$ -	$ 343,192
Equity investments	1,010,473	101,849	-	1,112,322
Balanced investments	67,047	-	-	67,047
Short-term investments	35	-	-	35
Total mutual funds	1,369,318	153,278	-	1,522,596
Common stocks:				
U.S. securities	203,783	-	-	203,783
State and local government securities	74,237	-	-	74,237
Total common stocks	278,020	-	-	278,020
Debt securities:				
U.S. government and agencies	1,367	27	-	1,394
Corporate bonds and notes	854	-	-	854
Residential mortgage-backed securities	-	151	-	151
Total debt securities	2,221	178	-	2,399
Money market investments:				
Short-term investments	669	7,020	-	7,689
Fixed-income investments	150	-	-	150
Equity investments	3,673	-	-	3,673
Total money market investments	4,492	7,020	-	11,512
Due from trusts	-	50,718	-	50,718
Interest rate swap agreements	-	10,775	-	10,775
Total assets	$ 1,654,051	$ 221,969	$ -	$ 1,876,020
Liabilities - Interest rate swap agreements	$ -	$ 39,472	$ -	$ 39,472

Assets whose use is limited or restricted and investments on the consolidated balance sheet, as further discussed in Note 7, at September 30, 2022 and 2021 included cash and certificates of deposit of approximately $89,978 and $212,868, respectively.

The Corporation holds fixed-income and equity mutual funds, debt securities, money market investments, due from trusts, and interest rate swap agreements at September 30, 2022 and 2021, the fair value of which was based on Level 2 inputs. The Corporation estimates the fair value of these investments using quoted prices for similar assets in active markets. The fair value of the assets was determined primarily based on quoted market prices from the investment custodians. The Level 2 inputs used in estimating the fair value of the swap agreements include the notional amount, effective interest rate, and maturity date.

(all amounts in thousands unless otherwise noted)

Note 10 - Medical and Other Claims Payable

The following summarizes activity in the liability for medical claims, including claim adjustment expenses, for the years ended September 30, 2022 and 2021:

	2022	2021
Balance - Beginning of year	$ 293,986	$ 295,760
Incurred related to:		
Current year	2,588,974	2,208,353
Prior years	(19,314)	(40,484)
Total incurred	2,569,660	2,167,869
Paid related to:		
Current year	(2,323,782)	(1,927,348)
Prior years	(245,435)	(242,295)
Total paid	(2,569,217)	(2,169,643)
Balance - End of year	$ 294,429	$ 293,986

Medical and other claims payable on the consolidated balance sheet at September 30, 2022 and 2021 is $327,036 and $311,189, respectively. The amounts on the consolidated balance sheet at September 30, 2022 and 2021 include other claims payable of $32,607 and $17,203, respectively, related to deferred distributions, member incentives payable, risk-sharing contracts, and risk adjustments payable, which are not included in the above table.

As a result of changes in estimates for medical claims expenses attributable to insured events in prior years, the provision of medical claims expenses changed during 2022 and 2021. Estimates are adjusted as changes in these factors occur, and such adjustments are reported in the period of determination.

The following presents information about incurred and paid claims development as of September 30, 2022, net of reinsurance, as well as IBNR and cumulative reported claims by loss year for MHP and MDwise. The information related to incurred and paid claims development for the year ended September 30, 2021 and prior is presented as required supplemental information.

	Incurred Claims and Claim Adjustment Expenses, Net of Reinsurance, for the Years Ended September 30	
Incident Year	2021	2022
2021	$ 2,208,353	$ 2,190,046
2022	-	2,588,974
Total	$ 2,208,353	$ 4,779,020

	As of September 30, 2022	
Incident Year	Total IBNR and Bulk Reserves	Cumulative Number of Reported Claims
2021	$ 30,254	$ 7,857
2022	264,175	9,192
Total	$ 294,429	$ 17,049

(all amounts in thousands unless otherwise noted)

Note 10 - Medical and Other Claims Payable (Continued)

	Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance, for the Years Ended September 30	
Incident Year	2021	2022
2021	$ 1,927,348	$ 2,159,800
2022	-	2,324,791
Total	$ 1,927,348	$ 4,484,591

Note 11 - Long-term Debt

The following is the detail of long-term debt:

	2022	2021
McLaren Health Care Series 2022A	$ 45,215	$ -
McLaren Health Care Series 2019A	600,000	600,000
McLaren Health Care Series 2018A	400,000	400,000
McLaren Health Care Series 2016A	154,140	154,140
McLaren Health Care Series 2015A	80,562	84,127
McLaren Health Care Series 2015B	62,005	62,975
McLaren Health Care Series 2015C	74,542	77,628
McLaren Health Care Series 2015D-1	61,782	64,859
McLaren Health Care Series 2015D-2	75,408	75,407
McLaren Health Care Series 2012A	-	50,251
McLaren Health Care Series 2010	63,769	67,125
Promissory and other notes payable	52,520	59,711
Unamortized premium	82,285	87,165
Less bond issuance cost	(9,427)	(9,896)
Long-term debt and unamortized discount/premium less debt issuance costs	1,742,801	1,773,492
Less current portion	27,193	26,400
Long-term portion	$ 1,715,608	$ 1,747,092

The McLaren Health Care Series bonds are issued through MHC as credit group agent, on behalf of the credit group, which consists of the following medical centers: Bay, Flint, Karmanos, Lansing, Oakland, Lapeer, Macomb, Northern, Central, and Port Huron (the "Credit Group"), along with the following foundations: McLaren Foundation, McLaren Macomb Healthcare Foundation, and McLaren Lapeer Region Foundation. As credit group agent, MHC has the power to cause any member of the Credit Group to make required principal and interest payments on the bonds issued by the Credit Group.

During 2022, the Michigan Finance Authority issued Hospital Revenue Refunding Bonds, Series 2022A, totaling $45,215. The 2022A bonds bear interest at 3.03 percent and have annual maturities ranging from $100 to $6,385 beginning in 2023 through 2035. The bonds are secured by the gross revenue of the Credit Group. The proceeds of the bonds were used to refinance the 2012A bonds.

Note 11 - Long-term Debt (Continued)

During 2019, the Michigan Finance Authority issued Hospital Revenue Bonds, Series 2019A, totaling $600,000. The 2019A bonds consist of serial bonds and term bonds. The serial bonds bear interest at 5 percent and have annual maturities ranging from $960 to $26,470 beginning in 2025 through 2039. The term bonds have amounts and interest of $12,000 and 3.125 percent due on February 15, 2044; $152,165 and 4 percent due on February 15, 2044; $12,000 and 3.25 percent due on February 15, 2047; $129,130 and 4 percent due on February 15, 2047; and $167,165 and 4 percent due on February 15, 2050. The bonds are secured by the gross revenue of the Credit Group. The proceeds of the bonds were used to finance a replacement hospital at Lansing and capital projects at certain of its affiliates, as well as to finance general corporate purposes of the Corporation and certain of its affiliates.

During 2018, the Corporation issued Taxable Bonds, Series 2018A, totaling $300,000. The bonds have a balloon payment of $300,000 in 2048 with interest at 4.386 percent. The bonds are secured by the gross revenue of the Credit Group. The proceeds of the bonds were used to fund the acquisition of MDwise and to finance general corporate purposes of the Corporation and certain of its affiliates. During 2020, the Corporation issued $100,000 of Taxable Bonds. These bonds were issued pursuant to the terms of the original indenture of the Series 2018A bonds, which allowed for additional bonds to be issued from time to time and consolidated with the original series 2018A bonds. As with the 2018A bonds, these additional bonds have a balloon payment of $100,000 in 2048, with interest at 4.386 percent. The bonds are secured by the gross revenue of the Credit Group. The proceeds of the bonds were used to fund a portion of the costs of a medical office building at Lansing and to finance general corporate purposes of the Corporation and certain of its affiliates.

During 2016, the Michigan Finance Authority issued Hospital Revenue Bonds, Series 2016, totaling $154,140. The term bonds have annual redemption requirements ranging from $17,945 to $24,735 beginning in 2040 through 2046, with interest at 4.40 percent. The Series 2016 bonds are secured by the gross revenue of the Credit Group.

In May 2015, the Michigan Finance Authority issued Hospital Revenue Refunding Bonds, Series 2015A, totaling $101,995. The 2015A bonds consist of serial bonds with interest ranging from 4 percent to 5 percent and annual maturities ranging from $3,530 to $5,850 through May 15, 2035 and a term bond in the amount of $19,960, with interest at 5 percent and annual redemption requirements ranging from $6,370 to $6,940 through May 15, 2038.

In March 2015, the Michigan Finance Authority issued Hospital Revenue Refunding Bonds, Series 2015B, totaling $67,950. The 2015B bonds consist of serial bonds with interest ranging from 3 percent to 5 percent and annual maturities ranging from $1,020 to $14,095 through May 15, 2035.

In March 2015, Bank of New York Mellon issued McLaren Health Care Taxable Bonds, Series 2015C. The 2015C bonds consist of serial bonds with interest ranging from 3.28 percent to 4.23 percent and annual maturities ranging from $3,490 in 2023 to $4,805 in 2032 and a term bond in the amount of $41,495, due on May 15, 2038, with interest at 4.53 percent. The bonds also have mandatory sinking fund payments ranging from $4,070 in 2028 to $6,085 in 2038.

(all amounts in thousands unless otherwise noted)

Note 11 - Long-term Debt (Continued)

In May 2015, the Michigan Finance Authority issued Hospital Revenue Refunding Bonds, Series 2015D-1 and D-2 (collectively, the "2015D bonds"), totaling $154,160. The 2015D-1 bonds currently consist of serial bonds and term bonds. The serial bonds bear interest at rates varying from 0.40 percent to 1.10 percent and have annual maturities ranging from $3,565 to $6,425 beginning in 2021 through 2027. The term bonds have a principal amount of $36,215 and are due on October 15, 2030. The term bonds bear interest at a rate of 1.20 percent through April 12, 2028, at which point the term bonds are subject to a mandatory purchase date. The 2015D-2 bonds consist of term bonds. The term bonds have a principal amount of $75,420 and are due on October 15, 2038. The 2015D-2 bonds also have mandatory sinking fund payments ranging from $2,915 in 2035 to $20,295 in 2039.The term bonds bear interest at a rate of 1.20 percent through April 12, 2028, at which point the term bonds are subject to a mandatory purchase date.

In June 2012, the Michigan Finance Authority issued the Hospital Revenue Refunding Bonds, Series 2012A. The bonds were refinanced with the 2022A bonds in 2022.

McLaren Health Care Series 2010 bonds consist of revenue bonds issued by the Michigan Finance Authority on behalf of the Credit Group. The bonds are secured by the gross revenue of the Credit Group and are payable in annual installments of $3,356 plus interest beginning on December 1, 2021. The remaining outstanding principal is due on January 30, 2030. The bonds bear interest at 2.36 percent per annum.

Under the terms of the revenue bond indentures, the revenue bonds are subject to certain financial covenants calculated on a quarterly basis. As of September 30, 2022, management believes that the Corporation was in compliance with financial covenants.

Karmanos has various promissory notes that are due to a financial institution, of which a portion of the promissory notes is guaranteed by various donors. Donors have committed to support and guarantee various components of donor-collateralized debt. These pledges are reflected as other assets in the consolidated balance sheet and follow the maturity schedules of the debt instruments. Interest is payable quarterly at an interest rate of 0.95 percent over the LIBOR-based rate for an effective rate of 3.51 percent and 1.04 percent as of September 30, 2022 and 2021, respectively. The promissory notes mature in July 2023.

Scheduled minimum principal payments on long-term debt to maturity as of September 30, 2022 are as follows:

Years Ending	Amount
2023	$ 27,193
2024	27,812
2025	28,398
2026	29,454
2027	28,867
Thereafter	1,528,219
Bond issue costs	(9,427)
Unamortized premium	82,285
Total	$ 1,742,801

Derivatives

The derivative instruments used by the Corporation are interest rate swap agreements that are used to manage variability in interest rates.

Note 11 - Long-term Debt (Continued)

Objectives and Strategies

The Corporation's objectives with respect to its use of derivative instruments include managing the risk of increased debt service resulting from rising market interest rates, the risk of decreased surplus returns resulting from falling interest rates, and the management of the risk of an increase in the fair value of outstanding fixed-rate obligations resulting from declining market interest rates.

Debt obligations expose the Corporation to variability in interest payments due to changes in interest rates. Management believes that it is prudent to limit the variability of a portion of its interest payments. To meet this objective, management enters into interest rate swap agreements to manage fluctuations resulting from interest rate risk.

By using derivative financial instruments to hedge exposure to changes in interest rates, the Corporation exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes the Corporation, which creates credit risk for the Corporation. When the fair value of a derivative contract is negative, the Corporation owes the counterparty, and, therefore, it does not pose credit risk. The Corporation minimizes the credit risk in derivative instruments by entering into transactions with high-quality counterparties.

Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest rate contracts is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

Risk Management Policies

The Corporation assesses interest rate risk by continually identifying and monitoring changes in interest rate exposures that may adversely impact expected future cash flows and by evaluating hedging opportunities. The Corporation maintains risk management control systems to monitor interest rate risk attributable to both the Corporation's outstanding or forecasted debt obligations and the Corporation's offsetting hedge positions. The risk management control system involves the use of analytical techniques, including cash flow sensitivity analysis, to estimate the expected impact of changes in interest rates on the Corporation's future cash flows.

The Corporation does not use derivative instruments for speculative investment purposes.

Transactions

MHC has entered into five interest rate swap agreements to manage the overall variability in interest rates.

Under the terms of the ISDA master agreement, the Corporation is required to maintain collateral posted within the counterparty to secure a portion of the estimated value of the derivative instruments when said instruments are valued in favor of the counterparty, as periodically determined by the counterparty. No collateral was required to be posted at September 30, 2022 and 2021. The Corporation’s accounting policy is not to offset collateral amounts against fair value amounts recognized for derivative instrument obligations.

The first swap agreement is for a notional amount of $225,000. Under the terms of the agreement, MHC pays the counterparty a rate equal to the USD-SIFMA Municipal Swap Index rate and receives in exchange 61.3 percent of LIBOR plus 0.776 percent.

The second swap agreement is for a notional amount of $57,320 and $60,700 at September 30, 2022 and 2021, respectively. Under the terms of the agreement, MHC pays the counterparty a fixed rate of 3.355 percent and receives in exchange 65 percent of LIBOR plus 0.12 percent.

Note 11 - Long-term Debt (Continued)

The third swap agreement is for a notional amount of $75,000. Under the terms of the agreement, MHC pays the counterparty a fixed rate of 3.64 percent and receives in exchange 65 percent of LIBOR plus 0.12 percent.

The fourth swap agreement is for a notional amount of $154,140. Under the terms of the agreement, MHC pays the counterparty a fixed rate of 1.89 percent and receives in exchange 0.79 percent of the USD federal funds rate through January 15, 2025. MHC will receive 68 percent of the USD federal funds rate beginning on February 15, 2025.

The fifth swap agreement is for a notional amount of $154,140. Under the terms of the agreement, MHC pays the counterparty a variable rate of the USD federal funds rate plus 0.55 percent and receives in exchange a fixed rate of 4.40 percent.

These swap agreements are recorded on the consolidated balance sheet at their fair value. Changes in the fair value of the swap agreements are reported as a component of excess of revenue over expenses, as well as any settlements on the interest rate swaps. There were no settlements in 2022 or 2021.

The Corporation's interest rate swap liability was approximately $23,956 and $39,472 at September 30, 2022 and 2021, respectively. The Corporation's interest rate swap asset was approximately $0 and $10,775 at September 30, 2022 and 2021, respectively. The amount of gain recognized in the consolidated statement of operations attributable to derivative instruments as changes in fair market value of interest rate swap agreements was approximately $4,741 and $13,375 for the years ended September 30, 2022 and 2021, respectively.

Note 12 - Notes Payable and Commercial Paper

The Corporation opened a $150,000 commercial paper program in May 2021. The Corporation uses the proceeds to finance current transactions, including to refinance certain indebtedness and for other corporate purposes. As of September 30, 2022 and 2021, the Corporation had an outstanding balance on the commercial paper debt of $64,973 and $64,989, respectively.

MHC negotiated, on behalf of the Corporation, two revolving line of credit agreements, secured by the gross revenue of the Credit Group, with two banks in the amount of $250,000 and $100,000. During 2021, MHC amended the $250,000 revolving line of credit to $150,000. The $100,000 revolving line expired and was not renewed. There were no changes to the lines of credit in 2022.

The remaining line of credit agreement expires on May 31, 2023.

There was no outstanding balance on the line of credit as of September 30, 2022 and 2021. The line of credit would bear interest on any outstanding balance at the one-month London Interbank Offer Rate plus 60 basis points, an effective rate of 3.74 percent and 0.68 percent at September 30, 2022 and 2021, respectively.

(all amounts in thousands unless otherwise noted)

Note 13 - Accrued and Other Liabilities

The following is the detail of accrued liabilities:

	2022	2021
Payroll and related items	$ 99,301	$ 204,433
Compensated absences	59,131	72,651
Professional liability claims - Current portion (Note 16)	1,195	2,279
Interest	14,216	14,881
Amounts due to others	27,773	23,530
Insurance payables to delivery systems and the State of Indiana	227,505	285,923
Other	162,336	155,084
Total accrued liabilities	$ 591,457	$ 758,781

Other accrued liabilities consist of various amounts owed by the Corporation, including certain liabilities for MDwise relating to escrow balances and amounts due to providers and networks for funds related to capitation receipts and risk-sharing agreements.

Note 14 - Due from Trusts

McLaren Foundation is the sole beneficiary of the income from the Minnie I. Ballenger Trust and other trusts (collectively, the "Trusts"). The amount due from the Trusts (see Note 7) represents the fair value of the assets held in the Trusts. Since McLaren Foundation receives only the net interest and dividend income of the Trusts, this income is recorded as an increase in net assets without donor restrictions. Changes in the fair value of the investments in the Trusts are recorded as changes in net assets with donor restrictions by McLaren Foundation.

The amounts receivable, representing the fair value of the trust assets, are as follows:

	2022	2021
Minnie I. Ballenger Trust	$ 38,248	$ 47,781
Other	925	2,937
Total	$ 39,173	$ 50,718

Note 15 - Pension and Other Postretirement Benefit Obligation

MHC, Flint, MHP, MHMG, MMG, Bay, Lansing, Lapeer, Macomb, Oakland, Port Huron, and Northern participate in a defined benefit pension plan (the "MEPP plan"). The Corporation intends to annually contribute amounts deemed necessary, if any, to maintain the MEPP plan on a sound actuarial basis.

The MEPP plan has frozen the accrual of future benefits or participation by new hires. Essentially, the MEPP plan has been frozen for future benefit accruals. The MEPP plan is in an underfunded position at September 30, 2022, reflected as a defined benefit pension plan liability on the consolidated balance sheet, compared to an overfunded position at September 30, 2021, with the balance being recorded as an asset on the consolidated balance sheet. The MEPP plan has received approval from the Internal Revenue Service to terminate, and the Corporation is moving forward with the intent to terminate the MEPP plan in future years.

During 2021, the Corporation acquired St. Luke's Hospital. St. Luke's Hospital had an existing defined benefit plan (the "St. Luke's plan"). The Corporation intends to annually contribute amounts deemed necessary, if any, to maintain the St. Luke's plan on a sound actuarial basis.

Note 15 - Pension and Other Postretirement Benefit Obligation (Continued)

The St. Luke's plan has frozen the accrual of future benefits or participation by new hires. Essentially, the St. Luke's plan has been frozen for future benefit accruals. The St. Luke's plan is in an underfunded position at September 30, 2022 and 2021.

Substantially all employees of the Corporation also participate in defined contribution pension plans that provide benefits to eligible participants, as determined according to the provisions of the plan agreements.

MHC, Flint, Lansing, Macomb, and Bay also sponsor defined benefit postretirement plans that provide postretirement medical benefits summarized as follows:

MHC and Flint

The plan includes substantially all employees who have a minimum of 10 years of service after the age of 45. Employees who elect for early retirement can purchase benefits at the group rate through the plan. MHC and Flint currently fund the cost of these benefits as they are incurred. The retiree health care plan requires participant contributions and deductibles.

Lansing

The plan allows retirees to purchase health insurance coverage at group rates through Lansing. Individuals who retired before December 31, 1993 also receive a maximum monthly contribution for the purchase of health insurance coverage. Individuals who retire after January 1, 1994 and have attained the age of 65 do not receive postretirement medical benefits under this plan. Lansing does not prefund the plan and has the right to modify or terminate the plan in the future.

Bay

The plan provides certain health care and prescription drugs for employees who retired prior to October 1994. Bay funds the costs of these benefits as they are incurred. Benefits have been frozen for certain employee groups under this plan. As a result of collective bargaining during 2018, certain employees are no longer eligible for coverage upon retirement.

Macomb

The plan provides medical savings account plan benefits to substantially all employees who are subject to certain collective bargaining unit agreements.

(all amounts in thousands unless otherwise noted)

Note 15 - Pension and Other Postretirement Benefit Obligation (Continued)

Obligations and Funded Status

	Pension Benefits		Other Postretirement Benefits	
	2022	2021	2022	2021
Change in benefit obligation:				
Benefit obligation at beginning of year	$ 1,536,192	$ 1,356,770	$ 4,907	$ 5,831
Benefit obligation at acquisition - St. Luke's	-	226,892	-	-
Service cost	2,358	2,255	49	53
Interest cost	47,891	47,889	152	159
Plan participants' contributions	-	-	270	250
Amendments	-	-	-	(677)
Actuarial gain	(306,627)	(18,663)	(1,812)	(318)
Benefits and expenses	(84,205)	(78,951)	(375)	(391)
Benefit obligation at end of year	1,195,609	1,536,192	3,191	4,907
Change in plan assets:				
Fair value of plan assets at beginning of year	1,520,234	1,104,634	-	-
Fair value of plan assets at acquisition St. Luke's	-	147,893	-	-
Actual return on plan assets	(299,767)	218,030	-	-
Employer contributions	8,532	128,629	105	141
Plan participants' contributions	-	-	270	250
Benefits paid	(83,888)	(78,952)	(375)	(391)
Fair value of plan assets at end of year	1,145,111	1,520,234	-	-
Funded status and accrued benefit obligation at end of year	$ (50,498)	$ (15,958)	$ (3,191)	$ (4,907)

All pension benefit plans were in an underfunded position at September 30, 2022 and 2021 with the exception of the MEPP plan, which was in a prepaid position of $45,658 as of September 30, 2021.

The accumulated benefit obligation for all defined benefit pension plans was approximately $1,196,662 and $1,537,244 at September 30, 2022 and 2021, respectively.

(all amounts in thousands unless otherwise noted)

Note 15 - Pension and Other Postretirement Benefit Obligation (Continued)

Components of net periodic benefit cost (benefit) and other changes in plan assets and benefit obligations are as follows:

	Pension Benefits		Other Postretirement Benefits	
	2022	2021	2022	2021
Net Periodic Benefit Cost				
Service cost	$ 2,358	$ 2,255	$ 49	$ 53
Interest cost	47,891	47,889	152	159
Expected return on plan assets	(66,944)	(88,893)	-	-
Amortization of prior service cost (credits)	20,944	21,568	(1,718)	(1,718)
Total net periodic benefit cost	$ 4,249	$ (17,181)	$ (1,517)	$ (1,506)
Other Changes in Plan Assets and Benefit Obligations				
Net loss (gain)	$ 582,171	$ 542,985	$ (16,945)	$ (15,912)
Prior service credit	-	-	(7,697)	(8,759)
Total other changes in plan assets and benefit obligations	$ 582,171	$ 542,985	$ (24,642)	$ (24,671)

Weighted-average assumptions used to determine benefit obligations at September 30 are as follows:

	Pension Benefits		Other Postretirement Benefits	
	2022	2021	2022	2021
Discount rate - MEPP	5.20%	3.20%	5.90%	3.20%
Discount rate - St. Luke's	5.90%	3.20%		

Weighted-average assumptions used to determine net periodic benefit cost for the years ended September 30 are as follows:

	Pension Benefits		Other Postretirement Benefits	
	2022	2021	2022	2021
Discount rate - MEPP	3.20%	3.20%	3.20%	3.20%
Discount rate - St. Luke's	3.20%	2.50%		
Expected long-term return on plan assets - MEPP	4.50%	7.00%		
Expected long-term return on plan assets - St. Luke's	6.50%	6.50%		

The actuarial assumption for rate of compensation increase is age graded for the benefit obligation and net periodic benefit cost at September 30, 2022 and 2021.

The overall expected rate of return on plan assets represents a weighted-average composite rate based on the historical rates of returns of the respective asset classes. Adjustments to historical returns have been made to reflect anticipated market movements. The determination is influenced by the asset allocation, as well as the Corporation's investment policy. The Corporation's investment strategy is of a long-term nature and is intended to ensure that funds are available to pay benefits as they become due and to maximize the trust's total return at an appropriate level of investment risk.

(all amounts in thousands unless otherwise noted)

Note 15 - Pension and Other Postretirement Benefit Obligation (Continued)

Pension Plan Assets

The goals of the pension plan investment program are to fully fund the obligation to pay retirement benefits in accordance with the plan documents and to provide returns that, along with appropriate funding from the Corporation, maintain an asset/liability ratio that is in compliance with all applicable laws and regulations and ensures timely payment of retirement benefits.

The target allocation asset categories are 100 percent global fixed income for the MEPP plan and 60 percent global equity, 30 percent global fixed income, and 10 percent diversifying strategies for the St. Luke's plan.

The fair values of the Corporation’s pension plan assets by major asset classes are as follows:

	Fair Value Measurements at September 30, 2022			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Asset Classes				
Mutual funds:				
Equity investments	$ 112,433	$ 19,024	$ -	$ 131,457
Fixed-income investments	52,762	950,330	-	1,003,092
Other - Money market fund	-	10,562	-	10,562
Total	$ 165,195	$ 979,916	$ -	$ 1,145,111

	Fair Value Measurements at September 30, 2021			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Asset Classes				
Mutual funds:				
Equity investments	$ 507,977	$ 13,004	$ -	$ 520,981
Fixed-income investments	175,081	778,828	-	953,909
Equity investments:				
Common stock	38,715	-	-	38,715
Foreign	1,621	-	-	1,621
Other - Money market fund	-	5,008	-	5,008
Total	$ 723,394	$ 796,840	$ -	$ 1,520,234

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

Cash Flow

<u>Contributions</u>

The Corporation expects to contribute approximately $9,125 to its pension plan in 2023. The Corporation expects that it will not need to make contributions to its other postretirement benefit plan in 2023.

(all amounts in thousands unless otherwise noted)

Note 15 - Pension and Other Postretirement Benefit Obligation (Continued)

Estimated Future Benefit Payments

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

Year	Pension Benefits	Postretirement Benefits
2023	$ 81,205	$ 309
2024	82,550	320
2025	123,693	305
2026	85,516	309
2027	84,632	308
Thereafter	420,052	1,409

Note 16 - Professional Liability Insurance

The Corporation has professional malpractice liability coverage provided by a multiprovider offshore captive insurance company (MICOL) on a retrospectively rated claims-made policy for all entities.

MICOL has agreements with various reinsurers. MICOL has coverage of $6 million per claim during the year ended September 30, 2022 and $5 million per claim during the year ended September 30, 2021, in excess of $30 million.

During 2021, St. Luke's was self-insured for professional liability risk under a self-insured retention program (SIR). Under the SIR, St. Luke's was self-insured the first $2,000,000 of losses related to each claim, with a $6,000,000 aggregate loss limit per year for professional liability. St. Luke's had purchased umbrella insurance for claims exceeding the SIR retention amounts. The umbrella insurance is through an excess carrier that covers aggregate claims up to $20,000,000. Effective October 1, 2021, St. Luke's began participating in the MICOL program with the same limits as other subsidiaries disclosed above.

The Corporation records an estimate of the present value of the ultimate settlement cost of settling and defending professional liability claims based on projections from a consulting actuary. The estimate of losses is based on the covered entities' own past experience along with industry experience. This estimate includes a reserve for known claims and unreported incidents. A discount rate of 4 percent was used in determining the present value of the claims. Claims expected to be settled within one year and the related assets are recorded as a current liability and current asset, respectively, in the accompanying consolidated balance sheet.

The detail of accrued professional liability for the self-insurance plans, St. Luke's, and the MICOL claims are as follows:

	2022	2021
Total professional liability claims	$ 121,972	$ 114,038
Less current portion (Note 13)	1,195	2,279
Long-term portion	$ 120,777	$ 111,759

(all amounts in thousands unless otherwise noted)

Note 17 - Functional Expenses

The Corporation fulfills the health care requirements of residents in the communities it serves by providing, as its principal function, a complete array of necessary health care services. The financial statements report certain expense categories that are attributable to more than one health care service or support function; therefore, these expenses required an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, including depreciation and amortization, are based on total square footage, and interest is allocated based on total square footage of buildings funded by debt. Although methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Expenses related to providing these services, classified by function, are as follows for the year ended September 30, 2022:

	Health Care Services			Support Services			
	Hospital/ Physician	Insurance	Post Acute/Other	MG&A	Fundraising	Research	Total
Salaries and wages	$ 1,020,096	$ 29,297	$ 147,427	$ 289,883	$ 3,178	$ 15,331	$ 1,505,212
Employee benefits and payroll taxes	172,837	5,758	24,325	73,697	473	2,647	279,737
Supplies	667,533	1,199	82,415	10,705	292	154	762,298
Purchased services and other	427,582	156,483	33,941	403,550	7,319	317	1,029,192
Medical claims expense	-	2,583,716	8	150	-	-	2,583,874
Depreciation and amortization	87,196	125	9,873	68,258	279	422	166,153
Interest expense	24,468	21	502	27,162	-	-	52,153
Total	$ 2,399,712	$ 2,776,599	$ 298,491	$ 873,405	$ 11,541	$ 18,871	$ 6,378,619

Expenses related to providing these services, classified by function, are as follows for the year ended September 30, 2021:

	Health Care Services			Support Services			
	Hospital/ Physician	Insurance	Post Acute/Other	MG&A	Fundraising	Research	Total
Salaries and wages	$ 954,395	$ 27,404	$ 144,498	$ 307,163	$ 3,422	$ 15,424	$ 1,452,306
Employee benefits and payroll taxes	163,845	5,779	21,501	74,695	476	2,469	268,765
Supplies	624,077	574	79,216	15,160	536	151	719,714
Purchased services and other	419,054	106,497	50,932	480,306	6,154	301	1,063,244
Medical claims expense	-	2,167,707	-	162	-	-	2,167,869
Depreciation and amortization	73,091	68	6,618	62,152	296	510	142,735
Interest expense	13,557	79	872	22,400	-	-	36,908
Total	$ 2,248,019	$ 2,308,108	$ 303,637	$ 962,038	$ 10,884	$ 18,855	$ 5,851,541

(all amounts in thousands unless otherwise noted)

Note 18 - Leases

The Corporation is obligated under operating leases primarily for equipment and buildings, expiring at various dates through the 2042 fiscal year. Some leases contain renewal options. The Corporation utilizes the risk-free rate and the term of the lease to determine the present value of future payments. The weighted-average remaining lease term at September 30, 2022 and 2021 is 8.51 and 7.92 years, respectively. The weighted-average discount rate of the leases is 2.47 and 2.43 percent at September 30, 2022 and 2021, respectively. Some of the leases require the Corporation to pay taxes, insurance, utilities, and maintenance costs. Total operating lease expense during the years ended September 30, 2022 and 2021 was $25,090 and $28,579, respectively. Total operating cash flows relating to operating leases during the years ended September 30, 2022 and 2021 was $24,391 and $27,902, respectively.

The Corporation assesses whether it is reasonably certain to exercise an option to extend or terminate a lease at the commencement date. In this assessment, the Corporation considers all relevant factors that create economic incentive to exercise such options, including asset, contract, market, and entity-based factors.

The Corporation has made a policy election to not separate lease and nonlease components for land, building, and leasehold improvement leases. Therefore, the full amount of the lease payment is included in the recorded right-of-use asset and lease liability.

The Corporation has certain operating leases with a lease term of one year or less that the Corporation has elected to account for as short-term leases. As these leases are short-term leases, they are not included in the right-of-use asset and lease liability. Total expense related to short-term leases was $11,637 and $11,118 for the years ended September 30, 2022 and 2021, respectively.

Future minimum annual commitments under these operating leases are as follows:

Years Ending September 30	Amount
2023	$ 21,787
2024	18,933
2025	16,310
2026	14,708
2027	12,814
Thereafter	51,836
Total	136,388
Less amount representing interest	14,476
Present value of net minimum lease payments	121,912
Less current obligations	18,999
Long-term obligations under capital leases	$ 102,913

(all amounts in thousands unless otherwise noted)

Note 19 - Liquidity and Availability of Resources

The following reflects the Corporation's financial assets as of September 30, 2022 and 2021, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the consolidated balance sheet date:

	2022	2021
Cash and cash equivalents	$ 1,065,462	$ 1,844,982
Accounts receivable	348,085	308,153
Health care insurance receivable	297,383	284,634
Investments and assets limited as to use	1,609,839	1,638,186
Other current assets and other assets	544,576	621,671
Financial assets - At year end	3,865,345	4,697,626
Less those unavailable for general expenditures within one year due to contractual or donor-imposed restrictions:		
Funds held by trustees under bond indentures (Note 7)	31,674	162,467
Funds held in trust for payment of professional and other liability claims (Note 7)	95,554	95,529
Funds held in trust for benefit of MHC and funds restricted by donors for specific purposes (Note 7)	111,269	118,506
Funds held in trust for payment of employee benefits (Note 7)	53,501	64,425
Pledges receivable - Net (Note 7)	5,594	6,048
Financial assets available to meet cash needs for general expenditures within one year	$ 3,567,753	$ 4,250,651

The Corporation has certain donor-restricted assets limited as to use, which are more fully described in Note 7. These amounts are not available for general expenditure within the next year. However, the board-designated amounts could be made available, if necessary.

The Corporation has a goal to maintain financial assets, which consist of cash and short-term investments, on hand to meet at least 30 days of normal operating expenses. The Corporation has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Corporation invests cash in excess of daily requirements in various short-term investments, including certificates of deposit and short-term treasury instruments.

The Corporation also realizes there could be unanticipated liquidity needs.

Note 20 - COVID-19 Pandemic

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus a pandemic. First identified in late 2019 and now known as COVID-19, the outbreak has impacted hundreds of thousands of individuals worldwide. In response, many countries have implemented measures to combat the outbreak that have impacted global business operations. During the second and third quarters of 2020, and all of 2021 and 2022, the Corporation’s operations were significantly impacted, as shelter-in-place orders and a government mandate to suspend elective procedures reduced volumes during the period. The Corporation mitigated the impact by managing workforce productivity, delaying capital expenditures, actively managing cash disbursements, and implementing other cost-reduction measures.

Note 20 - COVID-19 Pandemic (Continued)

The CARES Act was enacted on March 27, 2020 and authorizes $100 billion to be administered through grants and other mechanisms to hospitals, public entities, not-for-profit entities, and Medicare- and Medicaid-enrolled suppliers and institutional providers. The purpose of these funds is to reimburse providers for lost revenue attributable to the coronavirus disease pandemic, such as forgone revenue from canceled procedures, and to provide support for related health care expenses, such as constructing temporary structures or emergency operation centers; retrofitting facilities; purchasing medical supplies and equipment, including personal protective equipment and testing supplies; and increasing workforce. Further, these relief funds ensure uninsured patients are receiving testing and treatment for COVID-19. There was also an additional $8.5 billion in funds appropriated under the American Rescue Plan (ARP) Act of 2021, which was distributed in December 2021 to eligible health care providers.

As of September 30, 2022, the Corporation has received payments of $258 million, as part of general and targeted distributions of the CARES Act Provider Relief Fund and ARP Rural Payments under the American Rescue Plan Act of 2021, which were distributed between April 2020 and December 2021. These payments are not subject to repayment, provided the Corporation is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for health care-related expenses or lost revenue attributed to COVID-19. Based on an analysis of compliance and reporting requirements of the Provider Relief Fund and ARP Rural Payment and the impact of the pandemic on the Corporation’s operating results through September 30, 2022, the Corporation believes there is reasonable assurance the applicable terms and conditions required to retain the funds are met as of September 30, 2022 and 2021. Therefore, the Corporation has recognized $49 and $53 million as other operating revenue on the consolidated statement of operations for the years ended September 30, 2022 and 2021, respectively.

The Corporation recorded $7 and $10 million as deferred revenue in the consolidated balance sheet as of September 30, 2022 and 2021, respectively, where conditions for recognition have not yet been met. The Corporation will continue to monitor the terms and conditions of the CARES Act funds and ARP Rural Payments and the impact of the pandemic on revenue and expenses.

HHS’ requirements for the uses of the CARES Act funds and ARP Rural Payments are subject to change and are open to interpretation and clarification; therefore, there may be changes in the amounts recognized as other operating revenue during the years ended September 30, 2022 and 2021. If the Corporation is unable to attest to or comply with future terms and conditions, the ability to retain some or all of the distributions received may be impacted. Any changes in amounts recognized as a result of new guidance, interpretation, or clarification will be recognized in the period in which the change occurred.

In addition, the Corporation has received reimbursement for qualifying expenses related to COVID-19 under the Federal Emergency Management Agency (FEMA) Disaster Relief Fund. In 2022, the Corporation recognized $9 million in FEMA funding received. The Corporation also received and recognized $17 million in state funding to be used towards workforce retention. These amounts are recorded within other operating revenue on the consolidated statement of operations.

(all amounts in thousands unless otherwise noted)

Note 20 - COVID-19 Pandemic (Continued)

Medicare Accelerated Payments

The Corporation requested accelerated Medicare payments, as provided for in the CARES Act, which allows for eligible health care facilities to request up to 6 months of accelerated Medicare payments for acute-care hospitals. The repayment terms of accelerated payments began one year after the first payment was issued and are initially recouped at 25 percent of the Medicare payments to the Corporation for 11 months. After 11 months, the recoupment will increase to 50 percent of the Medicare payments to the Corporation for 6 additional months (or until all amounts are repaid). Any unapplied accelerated payment amounts that are unpaid after this 17-month period are due to CMS, plus interest at a rate of 4 percent on the outstanding balance. The Corporation received approximately $386 million of accelerated payments. During 2022 and 2021, the Corporation repaid approximately $242 and $57 million, respectively, and has approximately $87 million remaining as a current liability on the consolidated balance sheet as of September 30, 2022. Subsequent to September 30, 2022, the Corporation repaid the remaining outstanding balance of the accelerated payments.

Note 21 - Business Combinations

McLaren St. Luke's

On October 1, 2020, the Corporation acquired St. Luke's Hospital. At the time of acquisition, the St. Luke’s Hospital name was changed to McLaren St. Luke’s. The Corporation's board of directors provides governance oversight of McLaren St. Luke’s assets and operations. The accompanying consolidated financial statements represent the result of operations for the 12-month period as of the acquisition date of October 1, 2020 and ending on September 30, 2021, the Corporation's fiscal year end.

The transaction has been accounted for as an acquisition in accordance with FASB Accounting Standards Codification 958-805, *Not-for-Profit Entities: Mergers and Acquisitions*. The assets and liabilities of McLaren St. Luke’s were adjusted to fair value as of October 1, 2020. The fair value of the assets on October 1, 2020 acquired from St. Luke’s Hospital was $157,303. The fair value of the liabilities on October 1, 2020 acquired from St. Luke’s Hospital was approximately $226,185. Goodwill of approximately $68,882 was recorded as part of the transaction. No consideration was recorded in connection with the acquisition.

The Corporation acquired the following net assets without donor restrictions and net assets with donor restrictions at October 1, 2020:

Cash and cash equivalents	$ 7,342
Other current assets	22,345
Property and equipment	56,834
Investments and other assets	69,619
Goodwill	68,882
Other long-term assets	1,163
Accounts payable	(30,001)
Other short-term liabilities	(48,101)
Long-term debt	(64,107)
Accrued pension cost	(78,998)
Other long-term liabilities	(4,978)

Additional Information

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Independent Auditor's Report on Additional Information

To the Board of Directors
McLaren Health Care Corporation
and Subsidiaries

We have audited the consolidated financial statements of McLaren Health Care Corporation and Subsidiaries as of and for the years ended September 30, 2022 and 2021 and have issued our report thereon dated January 10, 2023, which contained an unmodified opinion on those consolidated financial statements. Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for the purpose of additional analysis rather than to present the financial position, results of operations, and cash flows of the individual companies and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Plante & Moran, PLLC

January 10, 2023

McLaren Health Care Corporation and Subsidiaries

Consolidating Balance Sheet - Credit Group

September 30, 2022
(in thousands)

	McLaren Credit Group	Non-Credit Group Members	Eliminating Entries	Total
Assets				
Current Assets				
Cash and cash equivalents	$ 293,924	$ 771,538	$ -	$ 1,065,462
Accounts receivable - Net	302,357	49,760	(4,032)	348,085
Due from related parties	321,465	29,723	(351,188)	-
Health care insurance receivables	-	297,383	-	297,383
Third-party payor settlements receivable	6,315	48	(6,363)	-
Assets limited as to use	1,000	-	-	1,000
Other current assets	166,819	81,164	(4,683)	243,300
Total current assets	1,091,880	1,229,616	(366,266)	1,955,230
Investments - Including internally designated	1,252,203	356,636	-	1,608,839
Property and Equipment - Net	1,855,777	133,918	-	1,989,695
Right-of-use Operating Lease Assets	88,318	30,640	-	118,958
Goodwill	17,842	111,308	-	129,150
Intangible Assets	-	88,979	-	88,979
Other Assets	284,992	185,923	(15,608)	455,307
Total assets	**$ 4,591,012**	**$ 2,137,020**	**$ (381,874)**	**$ 6,346,158**
Liabilities and Net Assets				
Current Liabilities				
Due to related parties	$ 1,632	$ 350,563	$ (352,195)	$ -
Accounts payable	244,425	174,208	(3,025)	415,608
Claims payable	-	327,036	-	327,036
Current portion of long-term debt	25,285	1,908	-	27,193
Commercial paper	64,973	-	-	64,973
Current portion of lease liabilities - Operating	12,011	6,988	-	18,999
Third-party payor settlements payable	57,809	6,320	(6,363)	57,766
Accrued liabilities and other	274,459	426,631	-	701,090
Total current liabilities	680,594	1,293,654	(361,583)	1,612,665
Long-term Debt - Net of current portion	1,709,861	5,747	-	1,715,608
Lease Liabilities - Operating	78,188	24,725	-	102,913
Fair Value of Interest Rate Swap Agreements	23,956	-	-	23,956
Other Liabilities - Other long-term liabilities	118,818	153,243	(15,556)	256,505
Total liabilities	2,611,417	1,477,369	(377,139)	3,711,647
Net Assets				
Without donor restrictions	1,884,618	605,487	(4,735)	2,485,370
With donor restrictions	94,977	54,164	-	149,141
Total net assets	1,979,595	659,651	(4,735)	2,634,511
Total liabilities and net assets	**$ 4,591,012**	**$ 2,137,020**	**$ (381,874)**	**$ 6,346,158**

Consolidating Statement of Operations - Credit Group

Year Ended September 30, 2022
(in thousands)

	McLaren Credit Group	Non-Credit Group Members	Eliminating Entries	Total
Unrestricted Revenue, Gains, and Other Support				
Patient service revenue	$ 2,775,520	$ 408,006	$ (55,091)	$ 3,128,435
Premium revenue	-	2,963,703	(10,899)	2,952,804
Other	564,076	92,473	(285,143)	371,406
Net assets released from restrictions used for operations	4,495	2,511	-	7,006
Total unrestricted revenue, gains, and other support	3,344,091	3,466,693	(351,133)	6,459,651
Expenses				
Salaries and wages	1,284,895	310,797	(90,480)	1,505,212
Employee benefits and payroll taxes	254,148	57,253	(31,664)	279,737
Supplies	682,785	79,300	213	762,298
Purchased services and other	840,026	343,541	(154,375)	1,029,192
Medical claims expense	-	2,638,966	(55,092)	2,583,874
Depreciation and amortization	153,476	28,001	(15,324)	166,153
Interest expense	44,166	12,398	(4,411)	52,153
Total expenses	3,259,496	3,470,256	(351,133)	6,378,619
Operating Income (Loss) - Before nonrecurring impairment loss	84,595	(3,563)	-	81,032
Nonrecurring Impairment Loss	-	1,153	-	1,153
Total operating income (loss)	84,595	(4,716)	-	79,879
Nonoperating Income (Loss)				
Investment income	75,457	15,074	-	90,531
Change in interest rate swap agreements	4,741	-	-	4,741
Other components of net periodic pension cost	(2,593)	3,801	-	1,208
Change in unrealized investment losses	(376,458)	(74,083)	-	(450,541)
Other	(1,300)	(7)	-	(1,307)
Total nonoperating loss	(300,153)	(55,215)	-	(355,368)
Excess of Expenses Over Revenue	(215,558)	(59,931)	-	(275,489)
Net Assets Transferred from (to) Affiliate	60,207	(60,207)	-	-
Other Changes in Net Assets	1,275	(2,713)	-	(1,438)
Pension-related Changes Other Than Net Periodic Benefit Cost	(44,871)	5,656	-	(39,215)
Net Assets Released from Restrictions	971	14,965	-	15,936
Decrease in Net Assets without Donor Restrictions	**$ (197,976)**	**$ (102,230)**	**$ -**	**$ (300,206)**