
McLaren Health Care Corporation and Subsidiaries

**Consolidated Financial Report
with Additional Information
September 30, 2024**

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Independent Auditor's Report

To the Board of Directors
McLaren Health Care Corporation
and Subsidiaries

Report on the Audits of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of McLaren Health Care Corporation and Subsidiaries (the "Corporation"), which comprise the consolidated balance sheet as of September 30, 2024 and 2023 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, 2024 and 2023 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) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 and *Government Auditing Standards* 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 and *Government Auditing Standards*, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 7, 2025 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.



January 7, 2025

McLaren Health Care Corporation and Subsidiaries

Consolidated Balance Sheet

September 30, 2024 and 2023
(in thousands)

	2024	2023
Assets		
Current Assets		
Cash and cash equivalents	\$ 691,529	\$ 709,954
Accounts receivable - Net (Note 3)	411,158	313,589
Health care insurance receivables	498,195	435,853
Assets limited as to use (Note 7)	-	16,471
Other current assets	208,140	248,636
Total current assets	1,809,022	1,724,503
Investments - Including internally designated (Note 7)	2,177,587	1,788,622
Property and Equipment - Net (Note 6)	1,842,132	1,877,488
Right-of-use Operating Lease Assets (Note 18)	117,174	137,842
Goodwill (Note 8)	57,619	57,619
Intangible Assets (Note 8)	73,429	81,122
Fair Value of Interest Rate Swap Agreements (Note 11)	8,805	301
Other Assets (Note 7)	552,023	494,624
Total assets	\$ 6,637,791	\$ 6,162,121
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 445,570	\$ 417,866
Current portion of long-term debt (Note 11)	28,204	27,507
Current portion of lease liabilities - Operating (Note 18)	15,988	18,066
Medical and other claims payable (Note 10)	249,395	307,188
Third-party payor settlements payable (Note 4)	74,514	66,786
Accrued liabilities and other (Note 13)	481,058	441,657
Total current liabilities	1,294,729	1,279,070
Long-term Debt - Net of current portion (Note 11)	1,650,924	1,683,458
Lease Liabilities - Operating (Note 18)	104,359	122,533
Fair Value of Interest Rate Swap Agreements (Note 11)	11,406	7,974
Other Liabilities		
Accrued professional liability claims (Note 16)	114,202	152,043
Other long-term liabilities	157,180	125,814
Total other liabilities	271,382	277,857
Total liabilities	3,332,800	3,370,892
Net Assets		
Without donor restrictions	3,140,242	2,645,202
With donor restrictions (Note 2)	164,749	146,027
Total net assets	3,304,991	2,791,229
Total liabilities and net assets	\$ 6,637,791	\$ 6,162,121

McLaren Health Care Corporation and Subsidiaries

Consolidated Statement of Operations

Years Ended September 30, 2024 and 2023

(in thousands)

	2024	2023
Unrestricted Revenue, Gains, and Other Support		
Patient service revenue (Note 4)	\$ 3,393,662	\$ 3,099,506
Premium revenue	2,925,493	3,154,817
Other	332,605	347,249
Net assets released from restrictions used for operations	6,993	10,635
Total unrestricted revenue, gains, and other support	6,658,753	6,612,207
Expenses		
Salaries and wages	1,515,728	1,411,517
Employee benefits and payroll taxes	296,268	276,686
Supplies	852,791	777,603
Purchased services and other	1,094,885	1,034,900
Medical claims expense	2,587,683	2,781,102
Depreciation and amortization	171,098	172,812
Interest expense	57,575	56,458
Total expenses (Note 17)	6,576,028	6,511,078
Operating Income	82,725	101,129
Nonoperating Income (Loss)		
Investment income (Note 7)	118,923	68,064
Change in interest rate swap agreements (Note 11)	5,073	16,283
Other components of net periodic pension cost	-	(8,945)
Pension settlement cost (Note 15)	-	(627,184)
Change in unrealized investment gains (Note 7)	306,543	176,410
Other	(2,151)	(4,254)
Total nonoperating income (loss)	428,388	(379,626)
Excess of Revenue Over (Under) Expenses	511,113	(278,497)
Loss on Discontinued Operations (Note 20)	(18,606)	(197,230)
Other Changes in Net Assets	(1,100)	(340)
Pension-related Changes Other Than Net Periodic Benefit Cost (Note 15)	-	622,363
Net Assets Released from Restrictions	3,633	13,536
Increase in Net Assets without Donor Restrictions	\$ 495,040	\$ 159,832

McLaren Health Care Corporation and Subsidiaries

Consolidated Statement of Changes in Net Assets

Years Ended September 30, 2024 and 2023

(in thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
Net Assets - October 1, 2022	\$ 2,485,370	\$ 149,141	\$ 2,634,511
Excess of expenses over revenue	(278,497)	-	(278,497)
Restricted contributions	-	12,784	12,784
Change in unrealized gains on investments (Note 7)	-	6,767	6,767
Loss from discontinued operations	(197,230)	-	(197,230)
Pension-related changes other than net periodic benefit cost	622,363	-	622,363
Other changes in net assets	(340)	483	143
Net assets released from restrictions	13,536	(24,171)	(10,635)
Restricted investment income (Note 7)	-	1,023	1,023
Increase (decrease) in net assets	159,832	(3,114)	156,718
Net Assets - September 30, 2023	2,645,202	146,027	2,791,229
Excess of revenue over expenses	511,113	-	511,113
Restricted contributions	-	11,895	11,895
Change in unrealized gains on investments (Note 7)	-	14,777	14,777
Loss from discontinued operations	(18,606)	-	(18,606)
Increase in fair value of perpetual trust	-	111	111
Other changes in net assets	(1,100)	165	(935)
Net assets released from restrictions	3,633	(10,626)	(6,993)
Restricted investment income (Note 7)	-	2,400	2,400
Increase in net assets	495,040	18,722	513,762
Net Assets - September 30, 2024	\$ 3,140,242	\$ 164,749	\$ 3,304,991

McLaren Health Care Corporation and Subsidiaries

Consolidated Statement of Cash Flows

Years Ended September 30, 2024 and 2023

(in thousands)

	2024	2023
Cash Flows from Operating Activities		
Increase in net assets	\$ 513,762	\$ 156,718
Adjustments to reconcile increase in net assets to net cash and cash equivalents from operating activities:		
Depreciation and amortization	171,098	172,812
Loss on disposal of building and equipment	1,916	46,645
Net change in unrealized gains on investments	(321,320)	(183,177)
Realized gains on investments	(74,604)	(49,990)
Income from unconsolidated subsidiaries	(3,397)	(1,401)
Pension-related changes other than periodic benefit costs	-	(622,363)
Increase in fair value of perpetual trusts	(6,954)	(2,015)
Change in fair value of interest rate swap agreements	(5,073)	(16,283)
Donor-restricted contributions	(11,895)	(12,784)
Amortization of bond premium	(4,676)	(4,769)
Impairment of goodwill	-	71,747
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	(97,569)	34,496
Other current assets	40,496	(5,336)
Third-party payor settlements	7,728	9,020
Other assets	(16,934)	(14,040)
Accounts payable	30,715	26,015
Medical claims payable	(57,793)	(19,848)
Accrued and other liabilities	39,401	(171,803)
Health care insurance receivables	(62,342)	(138,470)
Other liabilities	(6,475)	643,713
Medicare advance payments	-	(87,629)
Net cash and cash equivalents provided by (used in) operating activities	136,084	(168,742)
Cash Flows from Investing Activities		
Purchase of property and equipment	(133,490)	(142,272)
Proceeds from disposition of property and equipment	1,140	2,734
Purchases of investments	(285,249)	(559,869)
Proceeds from sales and maturities of investments	279,379	593,615
Change in funds held by trustee under bond indenture	(1,156)	1,857
Distributions from equity method investee	5,750	-
Cash invested in unconsolidated subsidiaries	(4,982)	(7,049)
Net cash and cash equivalents used in investing activities	(138,608)	(110,984)
Cash Flows from Financing Activities		
Principal payments on long-term debt	(27,787)	(27,664)
Net proceeds and repayments from commercial paper program	-	(64,973)
Donor-restricted contributions	11,895	12,627
Other	(9)	4,228
Net cash and cash equivalents used in financing activities	(15,901)	(75,782)
Net Decrease in Cash and Cash Equivalents	(18,425)	(355,508)
Cash and Cash Equivalents - Beginning of year	709,954	1,065,462
Cash and Cash Equivalents - End of year	<u>\$ 691,529</u>	<u>\$ 709,954</u>
Supplemental Cash Flow Information - Cash paid for interest	\$ 61,543	\$ 62,343
Significant Noncash Transactions		
Noncash purchases of property and equipment within accounts payable	\$ 3,011	\$ 23,757
Operating lease right-of-use assets and liabilities recorded during the year	1,212	38,299

McLaren Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

(all amounts in thousands unless otherwise noted)

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 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)

During 2023, the Corporation determined to cease operations at the McLaren St. Luke's (St. Luke's) facilities and subsequently entered into an agreement to sell the St. Luke's facilities to a third party. The suspension of services and the sale of the facilities was finalized prior to September 30, 2023. Note 20 includes further discussion on this transaction. Additionally, for the year ended September 30, 2023, the Corporation recorded a loss on disposal of \$45,341 related to long-lived assets for St. Luke's due to the sale of fixed assets, as disclosed in Note 20.

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.

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).

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

(all amounts in thousands unless otherwise noted)

Note 2 - Significant Accounting Policies (Continued)

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 include 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.

The Corporation's patient accounts receivable balance consists of amounts due from its patients and third-party payors. Patient accounts receivable are stated at expected net realizable amounts. An allowance for credit losses is established for amount expected to be uncollectible over the contractual life of the receivables. The Corporation evaluates patient receivables to determine the allowance for credit losses based on similar risk characteristics that exist within certain classes of payors. The Corporation calculates the allowance using an expected loss model that considers the Corporation's actual historical loss rates adjusted for current economic conditions and reasonable and supportable forecasts. The Corporation considers market trends, future economic conditions, and credit ratings of its payors when making adjustments for reasonable and supportable forecasts. Uncollectible amounts are written off against the allowance for credit losses in the period they are determined to be uncollectible. Recoveries of amounts previously written off are recognized when received.

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. 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.

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

(all amounts in thousands unless otherwise noted)

Note 2 - Significant Accounting Policies (Continued)

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 over (under) 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.

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. Impairment losses recorded during the years ending September 30, 2024 and 2023 were not significant.

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. An impairment charge in the amount of \$72 million was recognized during 2023 specific to goodwill of St. Luke's (see Note 20).

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, 2024 or 2023.

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

(all amounts in thousands unless otherwise noted)

Note 2 - Significant Accounting Policies (Continued)

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.

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 2024 or 2023.

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.

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

(all amounts in thousands unless otherwise noted)

Note 2 - Significant Accounting Policies (Continued)

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. Total net assets with donor restrictions at September 30, 2024 and 2023 of \$164,749 and \$146,027 include \$52,238 and \$46,384 of support for various programs of the Corporation with operating support; \$8,314 and \$8,849 of contributions restricted for a particular capital purpose; \$42,159 and \$36,326 of contributions restricted for research; \$59,720 and \$52,460 of contributions restricted for patient support services; and \$2,318 and \$2,008 of contributions restricted for scholarships, respectively.

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.

Excess of Revenue Over (Under) Expenses

The consolidated statement of operations includes excess of revenue over (under) expenses. Changes in net assets without donor restrictions, which are excluded from excess of revenue over (under) expenses, consistent with industry practice, include loss on discontinued operations, 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.

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

(all amounts in thousands unless otherwise noted)

Note 2 - Significant Accounting Policies (Continued)

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.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Corporation also provides services to uninsured patients and offers those uninsured patients a discount, either by policy or law, from standard charges. The Corporation estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. For the years ended September 30, 2024 and 2023, changes in its estimates of implicit price concessions, discounts, and contractual adjustments for performance obligations satisfied in prior years were not significant. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as credit loss expense.

Consistent with the Corporation's mission, care is provided to patients regardless of their ability to pay. Therefore, the Corporation has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the Corporation expects to collect based on its collection history with those 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.

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.

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

(all amounts in thousands unless otherwise noted)

Note 2 - Significant Accounting Policies (Continued)

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. The Corporation estimates retrospective premium adjustments for policies where the premium varies based on loss experience and specific contract terms, as described within health care insurance receivables policy. These estimates are recorded within premium revenue as they are known. Premiums received in advance represent payments received prior to the effective date of the policy. The majority of premiums are received from the Michigan and Indiana departments of Medicaid.

Premium Deficiency Reserve

A premium deficiency reserve is required when the expected incurred claims, claim adjustment expenses, and administration costs exceed the premiums to be collected for the remainder of the contract period. The Corporation determines whether a premium deficiency reserve is necessary. Investment income is not a factor in the premium deficiency calculation. The Corporation determines whether a premium deficiency reserve is necessary, including investment income as a factor in the premium deficiency calculation. At September 30, 2024 and 2023, the Corporation recorded an estimate for premium deficiency reserve of approximately \$3,592 and \$11,616, respectively, recorded within accrued liabilities and other 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).

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, 2021.

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.

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

(all amounts in thousands unless otherwise noted)

Note 2 - Significant Accounting Policies (Continued)

Recently Adopted Accounting Pronouncement

During the year ended September 30, 2024, the Corporation adopted Financial Accounting Standards Board Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments*. The ASU included changes to the accounting and measurement of financial assets, including the Corporation's accounts receivable, by requiring the Corporation to recognize an allowance for all expected losses over the life of the financial asset at origination. This is different from the current practice where an allowance is not recognized until the losses are considered probable. The Corporation adopted the standard as of October 1, 2023 using the modified retrospective transition method. As a result of the adoption of the standard, there was insignificant impact to the amounts recorded in the financial statements for financial assets subject to this standard. The standard also resulted in expanded disclosures surrounding the Corporation's methods and information used to develop its estimate of expected credit losses.

Subsequent Events

The consolidated financial statements and related disclosures include evaluation of events up through and including January 7, 2025, 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 at September 30 was as follows:

	2024	2023
Medicare	44 %	40 %
Blue Cross/Blue Shield of Michigan	17	15
Medicaid	9	9
Commercial insurance and HMOs	24	25
Self-pay	6	11
Total	100 %	100 %

Accounts receivable are based on the estimated transaction price for completed contracts, which total \$411,158 and \$313,589 at September 30, 2024 and 2023, respectively, and \$348,085 at October 1, 2022.

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.

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

(all amounts in thousands unless otherwise noted)

Note 4 - Patient Service Revenue (Continued)

- **Medicaid** - Acute-care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge, per diem payments, statewide distribution pools and outpatient and physician services at established fee-for-service methodology. During December 2023, the Centers for Medicare and Medicaid Services approved the Michigan Hospital Assessment Program to improve Medicaid reimbursement for Michigan hospitals. The program increased net patient service revenue in the form of additional quarterly payments and increased expenses through a tax assessment from the State of Michigan. The program is subject to annual acceptance by the federal government of the assessments for federal matching funding.
- **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 bases.
- **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 and Medicaid 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 2024 or 2023. On November 2, 2023, in light of the Supreme Court's decision in *American Hospital Association v. Becerra* and the district court's remand to the agency, the Centers for Medicare & Medicaid Services (CMS) issued a final rule outlining the remedy for the invalidated OPPS 340B-acquired drug payment policy for calendar years 2019-2022. In total, the Corporation received \$15,000,000 in payments under this final rule. The budget neutrality offset is expected to be realized between 2026 and 2041.

McLaren Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

(all amounts in thousands unless otherwise noted)

Note 4 - Patient Service Revenue (Continued)

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:

	2024	2023
Medicare	\$ 1,673,483	\$ 1,562,024
Medicaid	649,243	519,245
Blue Cross	591,788	530,554
Commercial and managed care	410,393	422,573
Self-pay	68,755	65,110
Total	<u>\$ 3,393,662</u>	<u>\$ 3,099,506</u>

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

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 \$3,393,662 and \$3,099,506 for the years ended September 30, 2024 and 2023, 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 for the years ended September 30 is as follows:

	2024	2023
Charity care cost	\$ 36,200	\$ 19,812
Cost in excess of reimbursement from government programs (unaudited)	345,634	305,044
Cost in excess of reimbursement for graduate medical education (unaudited)	43,230	31,275
Cost of community programs (unaudited)	24,691	20,350
Uninsured - Price concessions	39,786	35,695
Total	<u>\$ 489,541</u>	<u>\$ 412,176</u>

McLaren Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

(all amounts in thousands unless otherwise noted)

Note 6 - Property and Equipment

Property and equipment and depreciable lives at September 30 are summarized as follows:

	2024	2023	Depreciable Life - Years
Land	\$ 91,559	\$ 89,014	-
Land improvements	62,428	61,480	5-35
Buildings	2,087,557	2,026,099	20-40
Equipment	1,698,108	1,633,359	5-15
Construction in progress	120,170	136,864	-
Total cost	4,059,822	3,946,816	
Accumulated depreciation	2,217,690	2,069,328	
Net property and equipment	<u>\$ 1,842,132</u>	<u>\$ 1,877,488</u>	

Construction in progress consists primarily of expansion of Flint, Lansing, and Oakland, various other new construction and renovation projects, and the implementation of information technology projects at the medical centers and MHC. At September 30, 2024, the Corporation had commitments of approximately \$96 million related to various construction projects and financial and clinical information technology applications.

Note 7 - Other Assets

The detail of other assets at September 30 is summarized in the following schedule:

	2024	2023
Assets limited as to use and donor-restricted assets:		
Funds held by trustees under bond indentures (Note 19)	\$ 30,987	\$ 29,816
Funds held in trust for payment of professional and other liability claims (Note 19)	128,858	131,160
Funds held in trust for the benefit of MHC and funds restricted by donors for specific purpose (Note 19)	121,082	104,331
Funds held in trust for payment of employee benefits (Note 19)	78,215	62,697
Amount for payment of current liabilities	-	(16,471)
Total assets limited as to use and donor-restricted assets	359,142	311,533
Investment in joint ventures	47,749	43,361
Pledges receivable - Net (Note 19)	4,397	4,140
Other	140,735	135,590
Total other assets	<u>\$ 552,023</u>	<u>\$ 494,624</u>

McLaren Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

(all amounts in thousands unless otherwise noted)

Note 7 - Other Assets (Continued)

Investments included within other assets above, and investments, including internally designated amounts on the consolidated balance sheet, consist of the following at September 30:

	2024	2023
Money market investments	\$ 116,414	\$ 108,966
Certificates of deposit and cash equivalents	133,401	104,896
Government securities	923	1,886
Mortgage-backed securities	104	79
Mutual funds	1,902,523	1,577,006
Corporate bonds	763	594
Common and preferred stocks	334,458	282,012
Due from trusts (Note 14)	48,142	41,187
Total	<u>\$ 2,536,728</u>	<u>\$ 2,116,626</u>

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.

Investment income and gains are composed of the following for the years ended September 30:

	2024	2023
Unrestricted investment income	\$ 118,923	\$ 68,064
Investment income on donor-restricted fund investments	2,400	1,023
Change in net unrealized gains on unrestricted investments	306,543	176,410
Change in net unrealized gains on donor-restricted investments	14,777	6,767
Total investment income	<u>\$ 442,643</u>	<u>\$ 252,264</u>

Note 8 - Goodwill and Intangible Assets

The Corporation has recognized intangible assets of approximately \$73,429 and \$81,122 at September 30, 2024 and 2023, respectively. The Corporation has recorded approximately \$70,179 and \$77,872 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, 2024 and 2023, respectively. In addition, the Corporation recognized intangible assets related to Medicare Advantage contracts of approximately \$3,250 at September 30, 2024 and 2023. 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 \$57,619 at September 30, 2024 and 2023. For the year ended September 30, 2023, the Corporation recorded an impairment charge of \$71,747, related to goodwill for St. Luke's due to the closure of operations, as described in Note 20.

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, 2024 and 2023 and the valuation techniques used by the Corporation to determine those fair values.

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

(all amounts in thousands unless otherwise noted)

Note 9 - Fair Value Measurements (Continued)

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.

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.

McLaren Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

(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, 2024

	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, 2024
Assets				
Mutual funds:				
Fixed-income investments	\$ 374,919	\$ 322	\$ -	\$ 375,241
Equity investments	1,277,747	116,029	-	1,393,776
Balanced investments	80,080	-	-	80,080
Short-term investments	27	-	-	27
Total mutual funds	1,732,773	116,351	-	1,849,124
Common stocks:				
U.S. securities	295,758	-	-	295,758
Foreign securities	38,700	-	-	38,700
Total common stocks	334,458	-	-	334,458
Debt securities:				
U.S. government and agencies	923	-	-	923
Corporate bonds and notes	763	-	-	763
Residential mortgage-backed securities	-	104	-	104
Total debt securities	1,686	104	-	1,790
Money market investments:				
Short-term investments	30,745	84,784	-	115,529
Fixed-income investments	133	-	-	133
Equity investments	752	-	-	752
Total money market investments	31,630	84,784	-	116,414
Due from trusts	-	48,142	-	48,142
Interest rate swap agreements	-	8,805	-	8,805
Total at fair value	\$ 2,100,547	\$ 258,186	\$ -	2,358,733
Investments measured at NAV				53,399
Total assets				\$ 2,412,132
Liabilities - Interest rate swap agreements	\$ -	\$ 11,406	\$ -	\$ 11,406

McLaren Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

(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, 2023

	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, 2023
Assets				
Mutual funds:				
Fixed-income investments	\$ 342,244	\$ 296	\$ -	\$ 342,540
Equity investments	1,027,069	91,948	-	1,119,017
Balanced investments	65,998	-	-	65,998
Short-term investments	29	-	-	29
Total mutual funds	1,435,340	92,244	-	1,527,584
Common stocks:				
U.S. securities	233,256	-	-	233,256
Foreign securities	48,756	-	-	48,756
Total common stocks	282,012	-	-	282,012
Debt securities:				
U.S. government and agencies	852	1,034	-	1,886
Corporate bonds and notes	594	-	-	594
Residential mortgage-backed securities	-	79	-	79
Total debt securities	1,446	1,113	-	2,559
Money market investments:				
Short-term investments	23,705	83,261	-	106,966
Fixed-income investments	113	-	-	113
Equity investments	1,887	-	-	1,887
Total money market investments	25,705	83,261	-	108,966
Due from trusts	-	41,187	-	41,187
Interest rate swap agreements	-	301	-	301
Total at fair value	\$ 1,744,503	\$ 218,106	\$ -	1,962,609
Investments measured at NAV				49,422
Total assets				\$ 2,012,031
Liabilities - Interest rate swap agreements	\$ -	\$ 7,974	\$ -	\$ 7,974

Assets whose use is limited or restricted and investments on the consolidated balance sheet, as further discussed in Note 7, at September 30, 2024 and 2023 included cash and certificates of deposit of approximately \$133,401 and \$104,896, respectively.

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

(all amounts in thousands unless otherwise noted)

Note 9 - Fair Value Measurements (Continued)

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, 2024 and 2023, 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.

The Corporation has certain mutual funds that are measured at net asset value (NAV) and are reflected as such in the above tables.

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, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Balance - Beginning of year	\$ 295,490	\$ 309,214
Incurred related to:		
Current year	2,705,633	2,831,891
Prior years	<u>(149,752)</u>	<u>(72,788)</u>
Total incurred	2,555,881	2,759,103
Paid related to:		
Current year	(2,471,137)	(2,541,431)
Prior years	<u>(142,760)</u>	<u>(231,396)</u>
Total paid	<u>(2,613,897)</u>	<u>(2,772,827)</u>
Balance - End of year	<u>\$ 237,474</u>	<u>\$ 295,490</u>

Medical and other claims payable on the consolidated balance sheet at September 30, 2024 and 2023 is \$249,395 and \$307,188, respectively. The amounts on the consolidated balance sheet at September 30, 2024 and 2023 include other claims payable of \$11,921 and \$11,698, 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 2024 and 2023. Estimates are adjusted as changes in these factors occur, and such adjustments are reported in the period of determination.

McLaren Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

(all amounts in thousands unless otherwise noted)

Note 10 - Medical and Other Claims Payable (Continued)

The following presents information about incurred and paid claims development as of September 30, 2024, 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, 2023 and prior is presented as required supplemental information.

Incident Year	Incurred Claims and Claim Adjustment Expenses, Net of Reinsurance, for the Years Ended September 30	
	2023	2024
2023	\$ 2,829,331	\$ 2,683,383
2024	-	2,705,633
Total	\$ 2,829,331	\$ 5,389,016

Incident Year	As of September 30, 2023	
	Total IBNR and Bulk Reserves	Cumulative Number of Reported Claims
2023	\$ 4,222	\$ 8,970
2024	233,252	7,839
Total	\$ 237,474	\$ 16,809

Incident Year	Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance, for the Years Ended September 30	
	2023	2024
2023	\$ 2,541,907	\$ 2,679,162
2024	-	2,472,381
Total	\$ 2,541,907	\$ 5,151,543

McLaren Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

(all amounts in thousands unless otherwise noted)

Note 11 - Long-term Debt

The following is the detail of long-term debt at September 30:

	2024	2023
McLaren Health Care Series 2022A	\$ 34,400	\$ 39,930
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	73,898	77,571
McLaren Health Care Series 2015B	59,920	60,985
McLaren Health Care Series 2015C	66,940	70,535
McLaren Health Care Series 2015D-1	54,930	58,494
McLaren Health Care Series 2015D-2	75,410	75,409
McLaren Health Care Series 2010	57,056	60,413
Promissory and other notes payable	37,886	44,801
Unamortized premium	72,840	77,516
Less bond issuance cost	(8,292)	(8,829)
Long-term debt and unamortized discount/premium less debt issuance costs	1,679,128	1,710,965
Less current portion	28,204	27,507
Long-term portion	<u>\$ 1,650,924</u>	<u>\$ 1,683,458</u>

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 through 2035. The bonds are secured by the gross revenue of the Credit Group.

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.

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

(all amounts in thousands unless otherwise noted)

Note 11 - Long-term Debt (Continued)

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 \$3,875 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 \$1,100 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 3.53 percent to 4.23 percent and annual maturities ranging from \$3,710 in 2025 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.

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 0.55 percent to 1.10 percent and have annual maturities ranging from \$3,830 to \$6,425 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.

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. 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, 2024, management believes that the Corporation was in compliance with financial covenants.

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

(all amounts in thousands unless otherwise noted)

Note 11 - Long-term Debt (Continued)

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 1.5 percent over the Bloomberg Short-Term Bank Yield Index rate for an effective rate of 6.78 percent and 6.87 percent as of September 30, 2024 and 2023, respectively. The promissory notes mature in July 2026.

Scheduled minimum principal payments on long-term debt to maturity as of September 30, 2024 are as follows:

<u>Years Ending</u>	<u>Amount</u>
2025	\$ 28,204
2026	29,649
2027	32,414
2028	31,026
2029	27,661
Thereafter	1,465,626
Bond issue costs	72,840
Unamortized premium	<u>(8,292)</u>
Total	<u>\$ 1,679,128</u>

Derivatives

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

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.

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

(all amounts in thousands unless otherwise noted)

Note 11 - Long-term Debt (Continued)

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, 2024 and 2023. 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 SOFR Fallback plus 0.776 percent spread.

The second swap agreement is for a notional amount of \$50,160 and \$53,820 at September 30, 2024 and 2023, 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 weighted-average SOFR, plus 0.11448 percent index spread adjustment, plus 0.12 spread.

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 SOFR Compound in Arrears, plus 0.11448 percent index spread adjustment, plus 0.12 spread.

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 79 percent of the USD federal funds rate through February 14, 2025. Effective February 15, 2025, MHC will pay the counterparty a fixed rate of 2.209 percent and will receive in exchange 68 percent of the USD federal funds rate.

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 79 percent of the USD federal funds rate plus 0.40 percent and receives in exchange a fixed rate of 6.05 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 (under) expenses, as well as any settlements on the interest rate swaps. There were no settlements in 2024 or 2023.

McLaren Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

(all amounts in thousands unless otherwise noted)

Note 11 - Long-term Debt (Continued)

The Corporation's interest rate swap liability was approximately \$11,406 and \$7,974 at September 30, 2024 and 2023, respectively. The Corporation's interest rate swap asset was approximately \$8,805 and \$301 at September 30, 2024 and 2023, 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 \$5,073 and \$16,283 for the years ended September 30, 2024 and 2023, respectively.

Note 12 - Line of Credit

MHC negotiated, on behalf of the Corporation, one revolving line of credit agreement, secured by the gross revenue of the Credit Group, with JPMorgan Chase in the amount of \$150,000. There were no changes to the line of credit in 2024 or 2023.

The line of credit agreement expires on June 2, 2025.

There was no outstanding balance on the line of credit as of September 30, 2024 and 2023. At September 30, 2024 and 2023, the line of credit would bear interest on any outstanding balance at the one-month Secured Overnight Financing Rate plus 75 basis points, an effective rate of 5.69 and 6.17 percent, respectively.

Note 13 - Accrued and Other Liabilities

The following is the detail of accrued liabilities at September 30:

	2024	2023
Payroll and related items	\$ 98,582	\$ 82,816
Compensated absences	58,817	57,456
Professional liability claims - Current portion (Note 16)	295	1,481
Interest	12,073	13,483
Amounts due to others	56,051	36,124
Deferred revenue	9,764	13,879
Insurance payables to delivery systems and the State of Indiana	8,066	4,991
Other	237,410	231,427
Total accrued liabilities	<u>\$ 481,058</u>	<u>\$ 441,657</u>

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.

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

(all amounts in thousands unless otherwise noted)

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 at September 30, are as follows:

	<u>2024</u>	<u>2023</u>
Minnie I. Ballenger Trust	\$ 46,996	\$ 40,209
Other	1,146	978
Total	<u>\$ 48,142</u>	<u>\$ 41,187</u>

Note 15 - Pension

The Corporation sponsors various defined benefit plans (the "defined benefit plans") for certain eligible employees. The defined benefit plans are closed to new entrants and are considered pay as you go plans, and, therefore, the Corporation funds obligations for the defined benefit plans as they become due.

Certain employees of various subsidiaries participated in a defined benefit pension plan (the "MEPP plan"). The Corporation has historically contributed amounts deemed necessary to maintain the MEPP plan on a sound actuarial basis.

The MEPP plan has frozen the accrual of future benefits and participation by new hires. In November 2021, the Corporation communicated its intent to terminate the MEPP plan. On December 5, 2022, the Corporation was granted approval by the Internal Revenue Service to terminate the plan. During 2023, the Corporation entered into an annuity purchase agreement that triggered a settlement in the amount of approximately \$1.2 billion. The settlement decreased the benefit obligation and increased the net periodic cost by \$627 million. An additional contribution of approximately \$10.7 million was required by the Corporation to fully settle the plan's benefits during 2023.

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.

McLaren Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

(all amounts in thousands unless otherwise noted)

Note 15 - Pension (Continued)

Obligations and Funded Status

	Pension Benefits	
	2024	2023
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ -	\$ 1,165,200
Interest cost	-	40,675
Actuarial gain	-	23,731
Benefits and expenses	-	(46,821)
Settlements	-	(1,182,785)
Benefit obligation at end of year	-	-
Change in plan assets:		
Fair value of plan assets at beginning of year	-	1,146,268
Actual return on plan assets	-	57,886
Employer contributions	-	10,677
Benefits paid	-	(46,565)
Settlements	-	(1,168,266)
Fair value of plan assets at end of year	-	-
Funded status and accrued benefit obligation at end of year	\$ -	\$ -

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

	Pension Benefits	
	2024	2023
Net Periodic Benefit Cost		
Interest cost	\$ -	\$ 21,711
Expected return on plan assets	-	(40,302)
Amortization of prior service cost	-	9,646
Total net periodic benefit cost	-	(8,945)

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 and the Corporation are self insured for the first \$8 million per claim during the years ended September 30, 2024 and 2023. MICOL has agreements with various insurance companies to provide excess and umbrella coverage for amounts over \$8 million.

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.

McLaren Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

(all amounts in thousands unless otherwise noted)

Note 16 - Professional Liability Insurance (Continued)

The detail of accrued professional liability for the self-insurance plans and the MICOL claims are as follows:

	2024	2023
Total professional liability claims	\$ 114,497	\$ 153,524
Less current portion (Note 13)	295	1,481
Long-term portion	<u>\$ 114,202</u>	<u>\$ 152,043</u>

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, 2024:

	Health Care Services			Support Services			Total
	Hospital/ Physician	Insurance	Post Acute/Other	MG&A	Fundraising	Research	
Salaries and wages	\$ 1,042,465	\$ 31,730	\$ 131,214	\$ 299,271	\$ 3,367	\$ 7,681	\$ 1,515,728
Employee benefits and payroll taxes	159,789	5,852	21,763	107,288	433	1,143	296,268
Supplies	762,620	953	81,223	7,498	392	105	852,791
Purchased services and other	507,582	154,391	37,717	374,816	9,979	10,400	1,094,885
Medical claims expense	-	2,586,531	-	1,152	-	-	2,587,683
Depreciation and amortization	75,971	-	5,525	89,053	230	319	171,098
Interest expense	10,094	-	102	47,379	-	-	57,575
Total	<u>\$ 2,558,521</u>	<u>\$ 2,779,457</u>	<u>\$ 277,544</u>	<u>\$ 926,457</u>	<u>\$ 14,401</u>	<u>\$ 19,648</u>	<u>\$ 6,576,028</u>

Expenses related to providing these services, classified by function, are as follows for the year ended September 30, 2023:

	Health Care Services			Support Services			Total
	Hospital/ Physician	Insurance	Post Acute/Other	MG&A	Fundraising	Research	
Salaries and wages	\$ 962,509	\$ 30,937	\$ 128,629	\$ 279,307	\$ 2,781	\$ 7,354	\$ 1,411,517
Employee benefits and payroll taxes	165,070	5,233	20,916	84,220	358	889	276,686
Supplies	691,047	964	78,604	6,554	348	86	777,603
Purchased services and other	448,814	199,532	8,064	357,991	8,992	11,507	1,034,900
Medical claims expense	-	2,779,684	-	1,418	-	-	2,781,102
Depreciation and amortization	71,437	-	6,930	93,803	270	372	172,812
Interest expense	8,876	-	123	47,459	-	-	56,458
Total	<u>\$ 2,347,753</u>	<u>\$ 3,016,350</u>	<u>\$ 243,266</u>	<u>\$ 870,752</u>	<u>\$ 12,749</u>	<u>\$ 20,208</u>	<u>\$ 6,511,078</u>

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

(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 2043 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, 2024 and 2023 is 9.37 and 10.96 years, respectively. The weighted-average discount rate of the leases is 4.16 and 2.67 percent at September 30, 2024 and 2023, 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, 2024 and 2023 was \$24,517 and \$24,042, respectively. Total operating cash flows relating to operating leases during the years ended September 30, 2024 and 2023 were \$24,334 and \$23,453, 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 made a policy election not to 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 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 \$7,305 and \$11,762 for the years ended September 30, 2024 and 2023, respectively.

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

Years Ending September 30	Amount
2025	\$ 20,970
2026	19,074
2027	17,091
2028	16,073
2029	14,908
Thereafter	<u>59,742</u>
Total	147,858
Less amount representing interest	<u>27,511</u>
Present value of net minimum lease payments	120,347
Less current obligations	<u>15,988</u>
Long-term obligations under operating leases	<u><u>\$ 104,359</u></u>

McLaren Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

(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, 2024 and 2023, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the consolidated balance sheet date:

	2024	2023
Cash and cash equivalents	\$ 691,529	\$ 709,954
Accounts receivable	414,791	313,589
Health care insurance receivable	498,195	435,853
Investments and assets limited as to use	2,177,587	1,805,093
Other current assets and other assets	576,084	568,622
	<u>4,358,186</u>	<u>3,833,111</u>
Financial assets - At year end		
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)	30,987	29,816
Funds held in trust for payment of professional and other liability claims (Note 7)	128,858	131,160
Funds held in trust for benefit of MHC and funds restricted by donors for specific purposes (Note 7)	121,082	104,331
Funds held in trust for payment of employee benefits (Note 7)	78,215	62,697
Pledges receivable - Net (Note 7)	4,397	4,140
	<u>3,994,647</u>	<u>3,500,967</u>
Financial assets available to meet cash needs for general expenditures within one year		

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 - Discontinued Operations

The major classes of revenue and expenses of St. Luke's included in discontinued operations for the years ended September 30, 2024 and 2023 are as follows:

	2024	2023
Net patient service revenue	\$ -	\$ 70,884
Other expense	-	(155,282)
	<u>-</u>	<u>(84,398)</u>
Loss from operations		
Loss on disposal of fixed assets (Note 1)	-	(45,341)
Impairment of goodwill (Note 8)	-	(71,747)
Distributions of foundation assets	(18,606)	-
Other income	-	4,256
	<u>(18,606)</u>	<u>(197,230)</u>
Total loss from discontinued operations		

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, 2024 and 2023 and have issued our report thereon dated January 7, 2025, 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 7, 2025

McLaren Health Care Corporation and Subsidiaries

Consolidating Balance Sheet

September 30, 2024

(in thousands)

	MHC	Flint	Bay	Lapeer	Lansing	Macomb	Oakland	Central	Northern	Port Huron	Caro	Thumb	St. Luke's
Assets													
Current Assets													
Cash and cash equivalents	\$ 184	\$ 997	\$ 61	\$ 22,995	\$ 17,142	\$ 462	\$ 36,079	\$ 859	\$ 1	\$ 48,530	\$ 6,975	\$ 15,052	\$ -
Accounts receivable - Net	(85)	57,488	34,694	15,348	50,243	48,835	31,429	10,171	31,495	37,076	3,380	5,573	-
Due from related parties	253,809	12,032	12,258	5,345	-	8,376	11,381	-	9,200	6,244	229	573	-
Health care insurance receivables	-	-	-	-	-	-	-	-	-	-	-	-	-
Third-party payor settlements receivable	-	-	-	-	-	-	1,670	-	-	-	-	-	-
Other current assets	28,075	18,296	11,460	6,979	18,808	15,121	7,369	4,213	11,248	12,154	530	1,459	-
Total current assets	281,983	88,813	58,473	50,667	86,193	72,794	87,928	15,243	51,944	104,004	11,114	22,657	-
Investments - Including internally designated	174,033	212,959	207,241	85,049	184,506	405,354	43,945	19,806	45,787	182,682	-	-	-
Property and Equipment - Net	163,094	266,959	108,416	42,525	481,547	142,624	74,451	25,769	231,712	163,948	4,330	11,714	-
Right-of-use Operating Lease Assets	9,100	771	16,238	40	12,513	23,963	1,915	1,165	15,332	2,412	-	-	-
Goodwill	-	3,428	848	63	1,496	326	3,868	7,685	-	156	-	-	-
Intangible Assets	-	-	150	-	-	-	175	-	-	-	-	-	-
Fair Value of Interest Rate Swap Agreements	8,805	-	-	-	-	-	-	-	-	-	-	-	-
Other Assets	113,544	26,783	17,523	2,006	58,164	30,221	13,426	6,219	15,845	10,833	1,187	1,676	-
Total assets	<u>\$ 750,559</u>	<u>\$ 599,713</u>	<u>\$ 408,889</u>	<u>\$ 180,350</u>	<u>\$ 824,419</u>	<u>\$ 675,282</u>	<u>\$ 225,708</u>	<u>\$ 75,887</u>	<u>\$ 360,620</u>	<u>\$ 464,035</u>	<u>\$ 16,631</u>	<u>\$ 36,047</u>	<u>\$ -</u>

McLaren Health Care Corporation and Subsidiaries

Consolidating Balance Sheet (Continued)

September 30, 2024

(in thousands)

	Karmanos	MMG	ACO	MHMG	MHP	MIG	MDwise	BSC	MICOL	Foundations	Eliminating Entries	Total
Assets												
Current Assets												
Cash and cash equivalents	\$ 125,447	\$ 1	\$ 258	\$ 14,179	\$ 300,472	\$ 4,338	\$ 225,069	\$ 4,510	\$ 28,721	\$ 8,230	\$ (169,033)	\$ 691,529
Accounts receivable - Net	61,041	(1,521)	-	27,195	-	-	-	1,172	-	-	(2,376)	411,158
Due from related parties	6,714	4,394	-	-	-	-	-	-	-	-	(330,555)	-
Health care insurance receivables	-	-	-	-	159,227	-	338,968	-	-	-	-	498,195
Third-party payor settlements receivable	-	-	-	-	-	-	-	173	-	-	(1,843)	-
Other current assets	45,955	5,590	8	4,250	2,628	11	3,857	60	9,704	4,843	(4,478)	208,140
Total current assets	239,157	8,464	266	45,624	462,327	4,349	567,894	5,915	38,425	13,073	(508,285)	1,809,022
Investments - Including internally designated	55,528	585	-	29,954	202,864	-	77,656	42,719	-	65,795	141,124	2,177,587
Property and Equipment - Net	86,727	14,260	-	9,790	3,758	-	1,549	838	-	8,121	-	1,842,132
Right-of-use Operating Lease Assets	9,148	15,683	1,996	1,224	111	-	5,563	-	-	-	-	117,174
Goodwill	-	5,887	-	-	5,550	28,312	-	-	-	-	-	57,619
Intangible Assets	-	14	-	-	9,195	63,895	-	-	-	-	-	73,429
Fair Value of Interest Rate Swap Agreements	-	-	-	-	-	-	-	-	-	-	-	8,805
Other Assets	66,190	54,255	185	54,447	3,750	765	72	23	73,853	72,549	(71,493)	552,023
Total assets	<u>\$ 456,750</u>	<u>\$ 99,148</u>	<u>\$ 2,447</u>	<u>\$ 141,039</u>	<u>\$ 687,555</u>	<u>\$ 97,321</u>	<u>\$ 652,734</u>	<u>\$ 49,495</u>	<u>\$ 112,278</u>	<u>\$ 159,538</u>	<u>\$ (438,654)</u>	<u>\$ 6,637,791</u>

McLaren Health Care Corporation and Subsidiaries

Consolidating Balance Sheet (Continued)

September 30, 2024

(in thousands)

	MHC	Flint	Bay	Lapeer	Lansing	Macomb	Oakland	Central	Northern	Port Huron	Caro	Thumb	St. Luke's
Liabilities and Net Assets (Deficiency in Net Assets)													
Current Liabilities													
Due to related parties	\$ -	\$ -	\$ -	\$ -	\$ 9,061	\$ -	\$ -	\$ 3,080	\$ -	\$ -	\$ -	\$ -	\$ 3,390
Accounts payable	99,331	20,470	10,933	3,875	30,157	9,523	12,530	2,745	12,005	9,190	443	932	38,567
Current portion of long-term debt	763	6,939	1,350	1,034	8,956	4,967	1,130	200	1,974	-	-	891	-
Current portion of lease liabilities - Operating	1,885	92	1,729	40	660	1,631	1,017	301	1,993	431	-	-	-
Medical and other claims payable	-	-	-	-	-	-	-	-	-	-	-	-	-
Third-party payor settlements payable	-	15,521	4,907	5,148	11,409	4,898	-	6,514	483	8,616	3,057	7,984	-
Accrued liabilities and other	70,466	13,851	10,264	4,512	12,661	9,764	9,925	3,536	9,754	8,324	874	2,056	-
Total current liabilities	172,445	56,873	29,183	14,609	72,904	30,783	24,602	16,376	26,209	26,561	4,374	11,863	41,957
Long-term Debt - Net of current portion	381,544	139,753	37,504	44,583	632,496	157,641	26,123	632	143,418	49,561	-	4,395	-
Lease Liabilities - Operating	7,674	675	14,711	-	11,782	22,609	985	865	14,203	1,978	-	-	-
Fair Value of Interest Rate Swap Agreements	11,406	-	-	-	-	-	-	-	-	-	-	-	-
Other Liabilities	162,663	11,539	4,716	-	5,219	3,237	6,303	2,110	4,041	7,765	771	1,308	-
Total liabilities	735,732	208,840	86,114	59,192	722,401	214,270	58,013	19,983	187,871	85,865	5,145	17,566	41,957
Net Assets (Deficiency in Net Assets)													
Without donor restrictions	8,090	388,906	322,269	121,097	102,017	460,131	167,016	55,260	172,749	378,166	11,486	18,481	(44,189)
With donor restrictions	6,737	1,967	506	61	1	881	679	644	-	4	-	-	2,232
Total net assets (deficiency in net assets)	14,827	390,873	322,775	121,158	102,018	461,012	167,695	55,904	172,749	378,170	11,486	18,481	(41,957)
Total liabilities and net assets (deficiency in net assets)	\$ 750,559	\$ 599,713	\$ 408,889	\$ 180,350	\$ 824,419	\$ 675,282	\$ 225,708	\$ 75,887	\$ 360,620	\$ 464,035	\$ 16,631	\$ 36,047	\$ -

McLaren Health Care Corporation and Subsidiaries

Consolidating Balance Sheet (Continued)

September 30, 2024

(in thousands)

	Karmanos	MMG	ACO	MHMG	MHP	MIG	MDwise	BSC	MICOL	Foundations	Eliminating Entries	Total
Liabilities and Net Assets (Deficiency in Net Assets)												
Current Liabilities												
Due to related parties	\$ -	\$ -	\$ 9,842	\$ 48,734	\$ 11,568	\$ 236,485	\$ 4,423	\$ 7	\$ -	\$ 5,318	\$ (331,908)	\$ -
Accounts payable	40,061	4,550	61	9,118	125,436	877	15,361	96	44	288	(1,023)	445,570
Current portion of long-term debt	-	-	-	-	-	-	-	-	-	-	-	28,204
Current portion of lease liabilities - Operating	976	3,257	214	619	111	-	1,032	-	-	-	-	15,988
Medical and other claims payable	-	-	-	-	116,150	-	133,245	-	-	-	-	249,395
Third-party payor settlements payable	7,820	-	-	-	-	-	-	-	-	-	(1,843)	74,514
Accrued liabilities and other	66,638	27,948	6	10,335	23,846	6,118	179,639	238	9,700	603	-	481,058
Total current liabilities	115,495	35,755	10,123	68,806	277,111	243,480	333,700	341	9,744	6,209	(334,774)	1,294,729
Long-term Debt - Net of current portion	34,936	-	-	-	-	(1,662)	-	-	-	-	-	1,650,924
Lease Liabilities - Operating	8,399	12,873	1,844	615	-	-	5,146	-	-	-	-	104,359
Fair Value of Interest Rate Swap Agreements	-	-	-	-	-	-	-	-	-	-	-	11,406
Other Liabilities	8,597	33,542	-	9,689	31,465	765	-	23	80,309	-	(102,680)	271,382
Total liabilities	167,427	82,170	11,967	79,110	308,576	242,583	338,846	364	90,053	6,209	(437,454)	3,332,800
Net Assets (Deficiency in Net Assets)												
Without donor restrictions	246,469	16,978	(9,520)	61,929	378,979	(145,262)	313,888	49,131	22,225	45,146	(1,200)	3,140,242
With donor restrictions	42,854	-	-	-	-	-	-	-	-	108,183	-	164,749
Total net assets (deficiency in net assets)	289,323	16,978	(9,520)	61,929	378,979	(145,262)	313,888	49,131	22,225	153,329	(1,200)	3,304,991
Total liabilities and net assets (deficiency in net assets)	\$ 456,750	\$ 99,148	\$ 2,447	\$ 141,039	\$ 687,555	\$ 97,321	\$ 652,734	\$ 49,495	\$ 112,278	\$ 159,538	\$ (438,654)	\$ 6,637,791

McLaren Health Care Corporation and Subsidiaries

Consolidating Statement of Operations

Year Ended September 30, 2024

(in thousands)

	MHC	Flint	Bay	Lapeer	Lansing	Macomb	Oakland	Central	Northern	Port Huron	Caro	Thumb	St. Luke's
Unrestricted Revenue, Gains, and Other Support													
Patient service revenue	\$ -	\$ 519,202	\$ 306,769	\$ 148,773	\$ 460,596	\$ 388,640	\$ 278,174	\$ 123,978	\$ 293,663	\$ 278,341	\$ 21,132	\$ 49,401	\$ -
Premium revenue	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	359,106	16,388	6,099	2,348	33,811	11,094	25,332	17,906	986	3,977	197	1,783	-
Net assets released from restrictions used for operations	-	1,218	-	-	-	(86)	83	15	-	-	-	-	-
Total unrestricted revenue, gains, and other support	359,106	536,808	312,868	151,121	494,407	399,648	303,589	141,899	294,649	282,318	21,329	51,184	-
Expenses													
Salaries and wages	143,503	220,394	141,691	63,913	170,387	168,290	100,109	81,802	106,895	117,010	9,213	21,935	-
Employee benefits and payroll taxes	35,108	45,995	30,491	13,127	36,741	33,084	20,432	14,405	21,091	23,945	1,751	4,405	-
Supplies	(684)	112,739	78,349	20,879	122,547	67,875	68,158	24,159	79,598	52,670	1,372	8,238	-
Purchased services and other	149,750	96,202	81,815	33,480	101,667	106,056	66,116	44,118	70,285	63,708	6,890	13,703	-
Medical claims expense	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation and amortization	23,660	23,096	12,504	5,728	36,097	19,421	8,983	4,233	16,848	14,951	868	1,847	-
Interest expense	4,430	5,047	1,815	1,859	21,563	4,997	1,346	246	5,851	1,576	36	159	-
Total expenses	355,767	503,473	346,665	138,986	489,002	399,723	265,144	168,963	300,568	273,860	20,130	50,287	-
Operating Income (Loss)	3,339	33,335	(33,797)	12,135	5,405	(75)	38,445	(27,064)	(5,919)	8,458	1,199	897	-
Nonoperating Income (Loss)													
Investment income (loss)	4,138	8,421	8,290	4,376	7,759	15,565	4,069	679	2,894	9,751	359	755	-
Change in interest rate swap agreements	5,073	-	-	-	-	-	-	-	-	-	-	-	-
Change in unrealized investment gains	30,495	36,454	45,520	12,120	26,368	63,338	5,442	3,576	10,986	26,974	-	1	-
Other	(1,406)	2,210	293	212	(2,539)	256	196	26	304	809	-	3	-
Total nonoperating income (loss)	38,300	47,085	54,103	16,708	31,588	79,159	9,707	4,281	14,184	37,534	359	759	-
Excess of Revenue Over (Under) Expenses	41,639	80,420	20,306	28,843	36,993	79,084	48,152	(22,783)	8,265	45,992	1,558	1,656	-
Net Assets Transferred (to) from Affiliate	(5,918)	(5,387)	(6,305)	(2,568)	950	(11,383)	(16,154)	23,243	(14,742)	7,575	(197)	2,261	9,394
Loss on Discontinued Operations	-	-	-	-	-	-	-	-	-	-	-	-	(18,606)
Other Changes in Net Assets	-	(1,129)	-	150	(244)	-	-	-	-	-	-	-	-
Net Assets Released from Restrictions	-	72	-	78	-	-	5	252	-	-	-	-	-
Increase (Decrease) in Net Assets without Donor Restrictions	\$ 35,721	\$ 73,976	\$ 14,001	\$ 26,503	\$ 37,699	\$ 67,701	\$ 32,003	\$ 712	\$ (6,477)	\$ 53,567	\$ 1,361	\$ 3,917	\$ (9,212)

McLaren Health Care Corporation and Subsidiaries

Consolidating Statement of Operations (Continued)

Year Ended September 30, 2024

(in thousands)

	Karmanos	MMG	ACO	MHMG	MHP	MIG	MDwise	BSC	MICOL	Foundations	Eliminating Entries	Total
Unrestricted Revenue, Gains, and Other Support												
Patient service revenue	\$ 408,143	\$ 56,479	\$ -	\$ 101,837	\$ -	\$ -	\$ -	\$ 5,635	\$ -	\$ -	\$ (47,101)	\$ 3,393,662
Premium revenue	-	-	-	-	1,154,465	-	1,780,433	-	-	-	(9,405)	2,925,493
Other	158,002	44,325	(3,331)	8,328	-	-	-	1	35,122	5,595	(394,464)	332,605
Net assets released from restrictions used for operations	2,653	-	-	-	-	-	-	-	-	3,110	-	6,993
Total unrestricted revenue, gains, and other support	568,798	100,804	(3,331)	110,165	1,154,465	-	1,780,433	5,636	35,122	8,705	(450,970)	6,658,753
Expenses												
Salaries and wages	128,919	70,506	934	53,787	22,767	-	28,928	3,923	-	2,384	(141,562)	1,515,728
Employee benefits and payroll taxes	24,537	9,978	228	11,861	6,261	-	6,044	707	-	307	(44,230)	296,268
Supplies	182,320	3,214	-	27,441	1,455	-	922	604	-	361	574	852,791
Purchased services and other	170,679	38,969	2,500	15,837	36,297	-	141,508	1,325	35,122	9,873	(191,015)	1,094,885
Medical claims expense	-	-	-	-	1,074,110	-	1,560,674	-	-	-	(47,101)	2,587,683
Depreciation and amortization	12,076	2,421	-	1,412	1,813	-	8,069	136	-	216	(23,281)	171,098
Interest expense	2,109	252	-	87	55	-	10,502	-	-	-	(4,355)	57,575
Total expenses	520,640	125,340	3,662	110,425	1,142,758	-	1,756,647	6,695	35,122	13,141	(450,970)	6,576,028
Operating Income (Loss)	48,158	(24,536)	(6,993)	(260)	11,707	-	23,786	(1,059)	-	(4,436)	-	82,725
Nonoperating Income (Loss)												
Investment income (loss)	7,400	(100)	26	2,168	21,100	-	9,074	1,795	7,080	3,324	-	118,923
Change in interest rate swap agreements	-	-	-	-	-	-	-	-	-	-	-	5,073
Change in unrealized investment gains	6,462	3	-	3,845	15,117	-	5,817	6,415	(1,884)	9,494	-	306,543
Other	-	14	-	(2,546)	17	-	-	-	-	-	-	(2,151)
Total nonoperating income (loss)	13,862	(83)	26	3,467	36,234	-	14,891	8,210	5,196	12,818	-	428,388
Excess of Revenue Over (Under) Expenses	62,020	(24,619)	(6,967)	3,207	47,941	-	38,677	7,151	5,196	8,382	-	511,113
Net Assets Transferred (to) from Affiliate	717	22,934	-	-	-	(5,110)	5,109	(364)	-	(4,055)	-	-
Loss on Discontinued Operations	-	-	-	-	-	-	-	-	-	-	-	(18,606)
Other Changes in Net Assets	-	-	1	-	1	-	-	-	(1)	2	120	(1,100)
Net Assets Released from Restrictions	67	-	-	-	-	-	-	-	-	3,159	-	3,633
Increase (Decrease) in Net Assets without Donor Restrictions	\$ 62,804	\$ (1,685)	\$ (6,966)	\$ 3,207	\$ 47,942	\$ (5,110)	\$ 43,786	\$ 6,787	\$ 5,195	\$ 7,488	\$ 120	\$ 495,040

McLaren Health Care Corporation and Subsidiaries

Consolidating Balance Sheet - Credit Group

September 30, 2024

(in thousands)

	McLaren Credit Group	Non-Credit Group Members	Eliminating Entries	Total
Assets				
Current Assets				
Cash and cash equivalents	\$ 76,460	\$ 615,069	\$ -	\$ 691,529
Accounts receivable - Net	374,077	39,457	(2,376)	411,158
Due from related parties	303,520	-	(303,520)	-
Health care insurance receivables	-	498,195	-	498,195
Third-party payor settlements receivable	1,670	173	(1,843)	-
Other current assets	182,274	30,344	(4,478)	208,140
Total current assets	938,001	1,183,238	(312,217)	1,809,022
Investments - Including internally designated	1,765,825	411,762	-	2,177,587
Property and Equipment - Net	1,785,518	56,614	-	1,842,132
Right-of-use Operating Lease Assets	92,597	24,577	-	117,174
Goodwill	17,870	39,749	-	57,619
Intangible Assets	150	73,279	-	73,429
Fair Value of Interest Rate Swap Agreements	8,805	-	-	8,805
Other Assets - Other noncurrent assets	341,897	223,399	(13,273)	552,023
Total assets	\$ 4,950,663	\$ 2,012,618	\$ (325,490)	\$ 6,637,791
Liabilities and Net Assets				
Current Liabilities				
Due to related parties	\$ -	\$ 304,873	\$ (304,873)	\$ -
Accounts payable	249,260	197,333	(1,023)	445,570
Medical and other claims payable	-	249,395	-	249,395
Current portion of long-term debt	27,276	928	-	28,204
Current portion of lease liabilities - Operating	10,755	5,233	-	15,988
Third-party payor settlements payable	64,931	11,426	(1,843)	74,514
Accrued liabilities and other	219,985	261,073	-	481,058
Total current liabilities	572,207	1,030,261	(307,739)	1,294,729
Long-term Debt - Net of current portion	1,648,191	2,733	-	1,650,924
Lease Liabilities - Operating	83,881	20,478	-	104,359
Fair Value of Interest Rate Swap Agreements	11,406	-	-	11,406
Other Liabilities	135,473	149,045	(13,136)	271,382
Total liabilities	2,451,158	1,202,517	(320,875)	3,332,800
Net Assets				
Without donor restrictions	2,386,825	758,032	(4,615)	3,140,242
With donor restrictions	112,680	52,069	-	164,749
Total net assets	2,499,505	810,101	(4,615)	3,304,991
Total liabilities and net assets	\$ 4,950,663	\$ 2,012,618	\$ (325,490)	\$ 6,637,791

McLaren Health Care Corporation and Subsidiaries

Consolidating Statement of Operations - Credit Group

Year Ended September 30, 2024

(in thousands)

	McLaren Credit Group	Non-Credit Group Members	Eliminating Entries	Total
Unrestricted Revenue, Gains, and Other Support				
Patient service revenue	\$ 3,160,630	\$ 280,133	\$ (47,101)	\$ 3,393,662
Premium revenue	-	2,934,898	(9,405)	2,925,493
Other	551,796	92,136	(311,327)	332,605
Net assets released from restrictions used for operations	4,249	2,744	-	6,993
Total unrestricted revenue, gains, and other support	3,716,675	3,309,911	(367,833)	6,658,753
Expenses				
Salaries and wages	1,384,050	241,721	(110,043)	1,515,728
Employee benefits and payroll taxes	285,467	47,222	(36,421)	296,268
Supplies	803,841	48,527	423	852,791
Professional services and other	944,075	304,058	(153,248)	1,094,885
Medical claims expense	-	2,634,784	(47,101)	2,587,683
Depreciation and amortization	171,212	17,951	(18,065)	171,098
Interest expense	49,759	11,194	(3,378)	57,575
Total expenses	3,638,404	3,305,457	(367,833)	6,576,028
Operating Income	78,271	4,454	-	82,725
Nonoperating Income (Loss)				
Investment income	72,921	46,002	-	118,923
Change in interest rate swap agreements	5,073	-	-	5,073
Change in unrealized investment gains	269,780	36,763	-	306,543
Other	360	(2,511)	-	(2,151)
Total nonoperating income	348,134	80,254	-	428,388
Excess of Revenue Over Expenses	426,405	84,708	-	511,113
Net Assets Transferred (to) from Affiliate	(32,218)	32,218	-	-
Loss on Discontinued Operations	-	(18,606)	-	(18,606)
Other Changes in Net Assets	(997)	(223)	120	(1,100)
Net Assets Released from Restrictions	1,479	2,154	-	3,633
Increase in Net Assets without Donor Restrictions	\$ 394,669	\$ 100,251	\$ 120	\$ 495,040

McLaren Health Care Corporation and Subsidiaries

Federal Awards Supplemental Information
September 30, 2024

Independent Auditor's Reports

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Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Independent Auditor's Report

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 year ended September 30, 2024 and have issued our report thereon dated January 7, 2025, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. We have not performed any procedures with respect to the audited consolidated financial statements subsequent to January 7, 2025.

The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis, as required by the Uniform Guidance, 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Plante & Moran, PLLC

June 9, 2025

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

To Management and the Board of Directors
McLaren Health Care Corporation and Subsidiaries

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of McLaren Health Care Corporation and Subsidiaries (the "Corporation"), which comprise the consolidated balance sheet as of September 30, 2024 and the related consolidated statements of operations, changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements and have issued our report thereon dated January 7, 2025.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Corporation's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Corporation's consolidated financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

To Management and the Board of Directors
McLaren Health Care Corporation and Subsidiaries

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Plante & Moran, PLLC

January 7, 2025

Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance
Required by the Uniform Guidance

Independent Auditor's Report

To the Board of Directors
McLaren Health Care Corporation and Subsidiaries

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited McLaren Health Care Corporation and Subsidiaries' (the "Corporation") compliance with the types of compliance requirements identified as subject to audit in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on the Corporation's major federal program for the year ended September 30, 2024. The Corporation's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Corporation complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended September 30, 2024.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Our responsibilities under those standards and the Uniform Guidance are further described in the *Auditor's Responsibilities for the Audit of Compliance* section of our report.

We are required to be independent of the Corporation and to meet our other ethical responsibilities in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Corporation's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Corporation's federal program.

To the Board of Directors
McLaren Health Care Corporation and Subsidiaries

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Corporation's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Corporation's compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Corporation's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Corporation's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the *Auditor's Responsibilities for the Audit of Compliance* section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

To the Board of Directors
McLaren Health Care Corporation and Subsidiaries

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Plante & Moran, PLLC

June 9, 2025

McLaren Health Care Corporation and Subsidiaries

Schedule of Expenditures of Federal Awards

Year Ended September 30, 2024

Federal Agency/Pass-through Agency/Program Title	Assistance Listing Number	Award IDs and Pass-through Entity Identifying Number	Total Amount Provided to Subrecipients	Federal Expenditures
Clusters - Research and Development Cluster - U.S. Department of Health and Human Services - National Institute of Health - Passed through The University of Cincinnati - Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	1U01NS095869, 1U01NS100699, 1U01NS102289, 1U01NS099043, 1U01NS117450, 1U01NS106513	\$ -	\$ 13,095
Other federal awards:				
U.S. Department of Health and Human Services:				
Congressional Directives	93.493	CE147374	-	13,089
Passed through The Hemophilia Foundation of Michigan:				
Blood Disorder Program - Prevention, Surveillance, and Research	93.080	NU27DD000020	-	17,206
Maternal and Child Health Federal Consolidated Programs	93.110	H30MC24047	-	21,258
Total passed through The Hemophilia Foundation of Michigan			-	38,464
Passed through Grand Valley State University:				
Nursing Workforce Diversity	93.178	1D19HP42032	-	34,158
Advanced Nursing Education Grant Program	93.247	2T94HP32899	-	33,491
Total passed through Grand Valley State University			-	67,649
Total U.S. Department of Health and Human Services			-	119,202
Department of Homeland Security - Passed through the Michigan Department of State Police - COVID-19 Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	150854, 737649, 151323, 151438, 698677, 737647, 737519, 737640, 737652	-	3,158,381
Total expenditures			\$ -	\$ 3,290,678

Notes to Schedule of Expenditures of Federal Awards

Year Ended September 30, 2024

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of McLaren Health Care Corporation and Subsidiaries (the "Corporation") under programs of the federal government for the year ended September 30, 2024. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the Corporation, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Corporation.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported in the Schedule are reported on the same basis of accounting as the consolidated financial statements. Such expenditures are recognized following the cost principles contained in Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The pass-through entity identifying numbers are presented where available.

The Corporation has elected not to use the 10 percent *de minimis* indirect cost rate to recover indirect costs, as allowed under the Uniform Guidance. No indirect costs are charged to the grants presented on the Schedule.

Note 3 - Disaster Grants Public Assistance Program (ALN 97.036)

Included in the Schedule for the year ended September 30, 2024 is \$3,158,381 of expenditures incurred, under the COVID-19 Disaster Grants - Public Assistance grant (ALN 97.036) in a previous fiscal year. The project worksheet for these expenditures was approved in the current fiscal year, and these expenditures have been reported in the current fiscal year in accordance with the reporting requirements outlined in the 2024 *Compliance Supplement*.

Schedule of Findings and Questioned Costs

McLaren Health Care Corporation and Subsidiaries

Schedule of Findings and Questioned Costs

Year Ended September 30, 2024

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X None reported
- Noncompliance material to financial statements noted? _____ Yes X None reported

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X None reported
- Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a)? _____ Yes X No

Identification of major programs:

Assistance Listing Number	Name of Federal Program or Cluster	Opinion
97.036	COVID-19: Disaster Grants - Public Assistance (Presidentially Declared Disasters)	Unmodified

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? _____ Yes X No

Section II - Financial Statement Audit Findings

Current Year None

Section III - Federal Program Audit Findings

Current Year None