



Continuing Disclosure:
Quarterly report for the period ended March 31, 2017

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McLaren Health Care Corporation and Subsidiaries

Management's Discussion of Recent Performance For the period ended March 31, 2017

Statement of Operations:

McLaren Health Care Corporation ("McLaren" or "the Corporation") recorded improved operating results for the six-month period ended March 31, 2017 as compared to the same period in fiscal year 2016. Operating income totaled \$67.8 million and \$65.3 million for the six-month period ended March 31, 2017 and 2016, respectively. Total operating revenue increased by \$80.6 million or 4.5% for the period ended March 31, 2017 compared to the same period in the prior year. Within this change, net patient service revenue increased by \$88.7 million or 7.1%.

McLaren continues to experience growth in outpatient activity as visits and outpatient charges grew from the second quarter of fiscal year 2016 to 2017. Discharges and observation stays increased by 2.5% and 5.2%, respectively, for the six months of fiscal year 2017 compared to the same period in fiscal year 2016.

The State of Michigan unexpectedly reduced Medicaid premium rates to Health Plans effective October 1, 2016. This has resulted in revenue growth below expectations for McLaren Health Plan for the six-month period ended March 31, 2017. Therefore, although membership has increased by 3.7%, premium revenue has increased by \$11.76 million or 2.4% from the second quarter of fiscal year 2016 to 2017.

Total operating expenses for the period ended March 31, 2017 were approximately \$1.8 million, which represents an increase of \$78.1 million or 4.5% compared to the second quarter of fiscal year 2016. Major contributors to the period-over-period change were inflationary and volume related increases in wage and supplies expenses.

Non-operating income for the period ended March 31, 2017 was approximately \$75 million, which is an increase of \$54.1 million from the prior period ended March 31, 2016. This increase is mainly due to unrealized investment gains recognized in fiscal year 2017 as well as improvements in the fair value of interest rate swap agreements. The Excess of Revenue over Expenses for the period ended March 31, 2017 was \$142.9 million, which is an increase of \$56.7 million compared to the prior period ended March 31, 2016.

McLaren Health Care Corporation and Subsidiaries

Management's Discussion of Recent Performance For the period ended March 31, 2017

Balance Sheet:

During the period ended March 31, 2017, total cash and unrestricted investments increased by approximately \$57.9 million to approximately \$1.5 billion.

Total long-term debt has decreased by approximately \$8.3 million from September 30, 2016 to March 31, 2017 due to payments of scheduled principal maturities. Net pension liabilities decreased by approximately \$21.2 million from September 30, 2016 to March 31, 2017, primarily due to contributions and income recognition.

Unrestricted net assets improved by approximately \$146.4 million to \$1.4 billion from September 30, 2016 to March 31, 2017. This includes the excess of revenue over expenses of \$142.9 million.

Other:

During February 2017, McLaren Central Michigan announced it had earned The Joint Commission's Gold Seal of Approval® for Hospital Accreditation by demonstrating continuous compliance with its performance standards. Also during February 2017, McLaren Bay Region was granted an additional three-year term of accreditation by the Intersocietal Accreditation Commission (IAC) in Echocardiography in the area of Adult Transthoracic medicine. This latest accreditation awarded to McLaren Bay Region demonstrates the facility's ongoing commitment to providing quality patient care in echocardiography. Echocardiography is used to assess different areas of the heart and can detect heart disease or signs of serious conditions. During March 2017, McLaren Bay Special Care announced it had earned The Joint Commission's Gold Seal of Approval® for Hospital Accreditation by demonstrating continuous compliance with its performance standards. The Gold Seal of Approval® is a symbol of quality that reflects an organization's commitment to providing safe and effective patient care.

McLaren Health Care Corporation and Subsidiaries

Consolidated Balance Sheet

March 31, 2017

(In Thousands)

	(Unaudited) March 31, 2017	September 30, 2016
Assets		
Current Assets		
Cash and cash equivalents	\$ 535,319	\$ 553,423
Net patient accounts receivable	217,203	186,629
Other accounts receivable	34,609	33,241
Collateral from securities lending	3,068	4,698
Other current assets	124,987	115,566
Total current assets	915,186	893,557
Other Assets		
Investments	962,705	886,701
Trustee held funds	124,280	140,545
Investment in unconsolidated subsidiaries	24,726	31,971
Limited as to use or restricted	201,254	208,903
Other assets	100,692	83,957
Total other assets	1,413,657	1,352,077
Property and Equipment, Net		
	1,049,009	1,024,843
Total Assets	\$ 3,377,852	\$ 3,270,477
Liabilities and Net Assets		
Current Liabilities		
Current portion of long-term debt	\$ 23,495	\$ 25,681
Accounts payable	270,656	285,896
Third party payor settlements	56,509	44,883
Obligations under securities lending	3,223	4,853
Salaries, wages and withholdings	125,490	129,247
Pension	3,174	3,553
Interest	7,442	8,044
Professional and other liability claims	15,326	11,780
Other	38,439	29,306
Total current liabilities	543,754	543,243
Long-Term Debt		
	772,480	778,603
Fair Value of Interest Rate Swap Agreements		
	22,900	37,517
Other Liabilities		
Accrued pension cost	331,755	352,989
Accrued postretirement cost	26,321	24,803
Accrued professional and other liability claims	75,489	79,716
Other	69,105	71,624
Total liabilities	1,841,804	1,888,495
Net Assets		
Unrestricted	1,409,208	1,262,814
Temporarily restricted	55,717	49,173
Permanently restricted	71,123	69,995
Total Net Assets	1,536,048	1,381,982
Total liabilities and net assets	\$ 3,377,852	\$ 3,270,477

McLaren Health Care Corporation and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets

For the six-month period ended March 31, 2017

(In Thousands)

	(Unaudited) March 31, 2017	March 31, 2016
Unrestricted Revenue, Gains, and Other Support		
Total patient service revenue	3,859,969	3,554,549
Revenue deductions	2,483,888	2,262,632
Net patient service revenue	1,376,081	1,291,917
Provision for bad debts	44,483	49,010
Net patient service revenue less provision for bad debts	1,331,598	1,242,907
Net assets released from restrictions	4,130	5,131
Premium revenue	497,542	485,783
Other revenue	53,717	72,531
Total unrestricted revenue, gains, and other support	1,886,987	1,806,352
Expenses		
Salaries	565,645	536,404
Employee benefits and payroll taxes	119,447	113,084
Supplies	287,676	273,764
Other	440,411	433,794
Healthcare service costs	340,756	323,604
Depreciation and amortization	56,449	51,541
Interest expense	8,760	8,843
Total expenses	1,819,144	1,741,034
Operating Income	67,843	65,318
Nonoperating Income (Loss)		
Investment income	13,529	11,301
Change in interest swap agreements	14,617	(2,933)
Change in unrealized gains and losses on investments	45,501	12,552
Gain on sale of Anthelio Health Care Solutions, Inc.	1,321	-
Other	74	-
Total nonoperating income (loss)	75,042	20,920
Excess of Revenue Over (Under) Expense	142,885	86,238
Other Changes in Net Assets	3,509	6,144
Increase (Decrease) in Unrestricted Net Assets	<u>\$ 146,394</u>	<u>\$ 92,382</u>

McLaren Health Care Corporation and Subsidiaries

Notes to the Consolidated Financial Statements (Unaudited) For the period ended March 31, 2017

Note 1 - Nature of Business and Significant Accounting Policies

Unaudited Financial Statements

The accompanying financial statements of McLaren Health Care and McLaren Health Care Credit Group for the six-month period ended March 31, 2017 are unaudited, and subject to audit and fiscal year-end adjustments, including but not limited to pension related changes other than net periodic benefit costs.

Reporting Entity and Corporate Structure

McLaren Health Care Corporation and Subsidiaries (the "Corporation" or "MHC"), a not-for-profit corporation, is a major provider of healthcare services to residents of Flint, Lansing, Bay City, Lapeer, Macomb, Oakland, Mt. Pleasant, Petoskey, Detroit, and Port Huron, Michigan and surrounding communities.

The consolidated financial statements include the corporations listed below, as well as their subsidiaries and related foundations, of which 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)

Barbara Ann Karmanos Cancer Institute (Karmanos)

McLaren Medical Group (MMG)

McLaren Homecare Group (MHG)

McLaren Health Plan (MHP)

McLaren Bay Special Care (BSC)

McLaren Insurance Company, LTD (MICOL)

McLaren Health Care Corporation and Subsidiaries

Notes to the Consolidated Financial Statements (Unaudited) For the period ended March 31, 2017

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Significant accounting policies include the following:

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of McLaren Health Care Corporation and its subsidiaries. Intercompany transactions and balances have been eliminated in consolidation.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less, excluding amounts limited as to use by board designation or other arrangements under trust agreements.

The Corporation routinely invests its surplus 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 issued or guaranteed by the U.S. government or by the U.S. government and agencies and instrumentalities. The bank deposits, backed by the full faith and credit of 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 from patients, insurance companies, and governmental agencies are based on gross charges. An allowance for contractual adjustments and interim payment advances is based on expected payment rates from payors based on current reimbursement methodologies. This amount also includes amounts received as interim payments against unpaid claims by certain payors.

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Corporation analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Corporation analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely).

McLaren Health Care Corporation and Subsidiaries

Notes to the Consolidated Financial Statements (Unaudited) For the period ended March 31, 2017

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Accounts Receivable (Continued)

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 a significant provision for bad debts 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 difference between the standard rates (or the discounted rates, if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts in the period they are determined to be uncollectible.

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. Investments in equity securities with readily determinable fair values and all investments in debt securities are stated at fair market value. Investments in other equity securities or privately held companies are recorded at cost. 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 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.

Securities Lending Arrangements

The Corporation engages in transactions whereby certain securities in its portfolio are loaned to other institutions, generally for a short period of time. The Corporation records the fair value of the collateral received as a current asset and a current liability since the Corporation is obligated to return the collateral upon the return of the borrowed securities.

McLaren Health Care Corporation and Subsidiaries

Notes to the Consolidated Financial Statements (Unaudited) For the period ended March 31, 2017

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Pooled Funds

The Corporation has authorized investment pools for flexibility in investing its assets and maximizing its rate of return. Realized and unrealized gains or losses and income on unallocated investments are allocated to the unrestricted and temporarily restricted net assets participating in the pool based upon the average balance of the respective net assets.

Assets Limited as to Use

Assets limited as to use also 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 self-insurance trust arrangements.

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.

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. Annually, the Corporation assesses goodwill for impairment. No impairment charge was recognized for the period ended March 31, 2017 and 2016.

McLaren Health Care Corporation and Subsidiaries

Notes to the Consolidated Financial Statements (Unaudited) For the period ended March 31, 2017

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Intangible Assets

The recorded amount of intangible assets results primarily from the acquisition of plan members and provider networks related to MHP's acquisition of CareSource Michigan 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. 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 for the period ended March 31, 2017 and 2016.

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 (loss) income on the consolidated statement of operations.

Classification of Net Assets

Net assets of the Corporation are classified as permanently restricted, temporarily restricted, or unrestricted depending on the presence and characteristics of donor-imposed restrictions limiting the Corporation's ability to use or dispose of contributed assets or the economic benefits embodied in those assets. Donor-imposed restrictions that expire with the passage of time or that can be removed by meeting certain requirements result in temporarily restricted net assets. Permanently restricted net assets result from donor-imposed restrictions that limit the use of net assets in perpetuity. Earnings, gains, and losses on restricted net assets are classified as unrestricted unless specifically restricted by the donor or by applicable state law.

Temporarily Restricted Net Assets

Temporarily restricted net assets reflect assets contributed or pledged to the Corporation and its subsidiaries, the use of which is restricted by the donor. Temporarily restricted net assets are restricted for medical education, research, clinical and outreach programs, indigent care, and property and equipment purchases. Investment earnings on temporarily restricted investments are restricted by donors for specific purposes.

McLaren Health Care Corporation and Subsidiaries

Notes to the Consolidated Financial Statements (Unaudited) For the period ended March 31, 2017

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Permanently Restricted Net Assets

Permanently restricted net assets are comprised of the estimated present value of the future cash receipts from certain trust assets and restricted investments held in perpetuity for research, clinical, and outreach programs. The present value of the future receipts from the trusts is recorded at the fair value of the assets of the trusts, net of liabilities.

Excess of Revenue Over (Under) Expenses

The consolidated statement of operations includes excess of revenue over (under) expenses. Changes in unrestricted net assets, which are excluded from excess of revenue over (under) expenses, consistent with industry practice, include net assets released from restrictions for the acquisition of long-lived assets, pension-related changes other than net periodic benefit cost, net assets transferred to (from) affiliates, and other.

Net Patient Service Revenue

The Corporation recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Corporation recognizes revenue on the basis of its discounted rates, provided by policy. On the basis of historical experience, a significant portion of the Corporation's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Corporation records a significant provision for bad debts related to uninsured patients in the period the services are provided.

Retroactively calculated adjustments arising under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Violations may result in significant regulatory action including fines, penalties, or exclusions from the Medicare and/or Medicaid programs. Management is not aware of any potential non-compliance with laws and regulations that they believe will be material to the financial statements.

McLaren Health Care Corporation and Subsidiaries

Notes to the Consolidated Financial Statements (Unaudited) For the period ended March 31, 2017

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Contributions

The Corporation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of operations and the consolidated statement of changes in net assets as net assets released from restrictions. The Corporation reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Corporation reports the expiration of donor restrictions when the assets are placed in service.

Premium Revenue

MHP recognizes premium revenue in the period the subscribers are entitled to related healthcare services. Premium revenue is reported in other revenue in the consolidated statement of operations and was approximately \$497.5 million and \$485.8 million for the periods ended March 31, 2017 and 2016, respectively.

Healthcare Claims Expense

MHP contracts with various healthcare providers for the provision of certain medical services to its members. Healthcare claims expense includes all amounts incurred under capitation payment agreements and services rendered under fee-for-service arrangements, including an estimate of costs incurred but not reported at each year end.

Professional and Other Liability Insurance

All 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 which is wholly owned by the Corporation. The Corporation and its subsidiaries accrue an estimate of the ultimate expense, including litigation and settlement expense, for incidents of potential improper professional service and other 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. The expected amount of insurance recoveries is recorded as a receivable, net of allowance for uncollectible receivables.

McLaren Health Care Corporation and Subsidiaries

Notes to the Consolidated Financial Statements (Unaudited) For the period ended March 31, 2017

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

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.

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.

The accounting standard that refers to accounting for uncertainty in income taxes addresses the determination of how tax benefits claimed or expected to be claimed on a tax return should be recorded on the consolidated financial statements. Companies must recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The standard also provides guidance on derecognition, classification, interest and penalties on income taxes, and accounting in interim periods, and requires increased disclosures. The evaluated potential exposure related to uncertain tax positions was found to be immaterial. Management believes the Corporation is not subject to federal tax examinations for years prior to September 30, 2012.

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.

McLaren Health Care Corporation and Subsidiaries

Notes to the Consolidated Financial Statements (Unaudited) For the period ended March 31, 2017

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Electronic Health Records Incentive Payments

The American Recovery and Reinvestment Act of 2009 (ARRA) established funding in order to provide incentive payments to hospitals and physicians that implement the use of electronic health record (EHR) technology by 2014. The Corporation has received incentive payments, which may continue for up to four years, provided the Corporation demonstrates meaningful use of certified EHR technology during the EHR reporting period. The revenue from the incentive payments is recognized ratably over the EHR reporting period when there is reasonable assurance that the Corporation will comply with eligibility requirements during the EHR reporting period and an incentive payment will be received. The amounts are recorded within other operating revenue, as the incentive payments are related to the Corporation's ongoing and central activities, yet not directly linked to the delivery of patient service. McLaren Health Care remains eligible for incentive payments, provided the Corporation demonstrates meaningful use of certified EHR technology during the EHR reporting period. The Corporation recorded incentive payments totaling \$0 and \$10.9 million for the period ended March 31, 2017 and 2016, respectively. The incentive payments received during 2016 were the result of meeting specific requirements related to its meaningful use of EHR technology.

Recent Accounting Pronouncements

New Accounting Pronouncement - In April 2015, the FASB issued ASU 2015-03, Interest - Imputation of Interest (Subtopic 835-30) - Simplifying the Presentation of Debt Issuance Costs. The accounting guidance requires that debt issuance costs related to a recognized debt liability be reported in the balance sheet as a direct deduction from the carrying amount of that debt liability. The updated guidance was adopted by the Corporation for the fiscal year ended September 30, 2016, and has been applied on a retrospective basis for the fiscal year ended September 30, 2015. As a result of implementing this guidance, the other assets and long-term debt balances were reduced by \$4,123,000 for the year ended September 30, 2015.

Upcoming Accounting Pronouncements - In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606), which will supersede the current revenue recognition requirements in Topic 605, Revenue Recognition. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for the Corporation's year ending September 30, 2019. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods. The Corporation has not yet determined which application method it will use or the potential effects of the new standard, if any.

McLaren Health Care Corporation and Subsidiaries

Notes to the Consolidated Financial Statements (Unaudited) For the period ended March 31, 2017

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

In February 2016, the Financial Accounting Standards Board issued ASU 2016-02, Leases, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right of use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Corporation's year ending September 30, 2020, and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The effect of applying the new lease guidance on the financial statements as not yet been determined.

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities, in August 2016. ASU No. 2016-14 requires significant changes to the financial reporting model of organizations who follow FASB not-for-profit rules, including changing from three classes of net assets to two classes, net assets with donor restrictions and net assets without donor restrictions. The ASU will also require changes in the way certain information is aggregated and reported by the Corporation, including required disclosures about the liquidity and availability of resources. The new standard is effective for the Corporation's fiscal year ending September 30, 2019 and thereafter, and must be applied on a retrospective basis. The Corporation is currently evaluating the impact this standard will have on the financial statements.

Note 2 – Cash and Cash Equivalents, Investments and Assets Whose Use Is Limited

Cash and investments are reported in the accompanying consolidated balance sheets as presented in the following table as of March 31, 2017 and September 30, 2016 (in thousands):

	3/31/2017	9/30/2016
Cash and cash equivalents	\$ 535,319	\$ 553,423
Collateral from securities lending	3,068	4,698
Investments	962,705	886,701
Trustee held funds	124,280	140,545
Limited as to use or restricted	201,254	178,731
Obligations under securities lending	(3,223)	(4,853)
Total	\$ 1,823,403	\$ 1,759,245

McLaren Health Care Corporation and Subsidiaries

Notes to the Consolidated Financial Statements (Unaudited) For the period ended March 31, 2017

Note 3 - Pension and Other Postretirement Benefit Plans

MHC, Flint, MHP, MHG, Northern and MMG participate in a single defined benefit pension plan. Bay, Lapeer, Oakland, Macomb and Port Huron have separate noncontributory defined benefit pension plans covering certain employees. The Corporation intends to annually contribute amounts deemed necessary, if any, to maintain the plans on a sound actuarial basis.

Effective May 1, 2015, the Lansing plan merged into the consolidated plan noted above. Effective September 1, 2016, the Northern plan also merged into the consolidated plan noted above. As of the effective date of the mergers, it was determined that a remeasurement was not necessary.

The various defined benefit pension plans have taken steps to freeze accrual of future benefits or participation in the plans by new hires. Essentially all the defined benefit plans have been frozen for future benefit accruals.

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

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

MHC and Flint - The plan includes substantially all employees who have a minimum of 10 years of service after the age of 45. Employees who elect for early retirement can purchase benefits at the group rate through the plan. MHC and Flint currently fund the cost of these benefits as they are incurred. The retiree healthcare plan requires participant contributions and deductibles. Effective November 1, 2015 certain employees will no longer receive an employer subsidy for post-65 benefits under the plan. Additional plan changes occurred during the period ended September 30, 2016, which eliminated pre-65 subsidies for many current retirees.

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

Bay - The plan provides certain health care and prescription drugs for employees who retired prior to October 1994. Bay funds the cost of these benefits as they are incurred. During 2014, benefits were frozen for certain employee groups under this plan.

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

McLaren Health Care Corporation and Subsidiaries

Notes to the Consolidated Financial Statements (Unaudited) For the period ended March 31, 2017

Note 3 - Pension and Other Postretirement Benefit Plans (Continued)

Components of net periodic benefit cost (benefit) and other changes in plan assets and benefit obligations are as follows for the six-month period ended March 31, 2017 and March 31, 2016 (in thousands):

	Pension Benefits		Other Postretirement Benefits	
	3/31/2017	3/31/2016	3/31/2017	3/31/2016
Net Periodic Benefit Cost				
Service cost	\$ 117	\$ 124	\$ 165	\$ 311
Interest cost	25,341	27,475	458	644
Expected return on plan assets	(40,038)	(39,961)	-	-
Amortization of prior service cost (credits)	7,990	6,098	(1,433)	(1,376)
Settlement and curtailment change	-	-	-	-
Total net periodic benefit cost (benefit)	<u><u>\$ (6,590)</u></u>	<u><u>\$ (6,264)</u></u>	<u><u>\$ (810)</u></u>	<u><u>\$ (421)</u></u>

Cash Flow

Contributions

The Corporation expects to contribute approximately \$29.8 million to its pension plans and \$1.4 million to its other postretirement benefit plans in 2017.

Composition of the Credit Group

McLaren Health Care Corporation

McLaren Flint Hospital

McLaren Bay Region Hospital

McLaren Lapeer Region Hospital

McLaren Greater Lansing Hospital

McLaren Macomb Hospital

McLaren Oakland Hospital

McLaren Central Michigan Hospital

McLaren Northern Michigan Hospital

McLaren Port Huron Hospital

Barbara Ann Karmanos Cancer Institute (Karmanos)

McLaren Foundation (Flint)

McLaren Lapeer Region Foundation

McLaren Macomb Hospital Foundation

McLaren Health Care Corporation and Subsidiaries

Consolidating Balance Sheet (Unaudited)

March 31, 2017

(In Thousands)

	McLaren Credit Group	Non-Credit Group Members	Elimination	Total
Assets				
Current Assets				
Cash and cash equivalents	\$ 295,350	\$ 239,969	\$ -	\$ 535,319
Net patient accounts receivable	185,069	36,993	(4,859)	217,203
Other accounts receivable	21,931	12,678	-	34,609
Collateral from securities lending	3,068	-	-	3,068
Other current assets	131,351	27,000	(33,364)	124,987
Total current assets	636,769	316,640	(38,223)	915,186
Other Assets				
Investments	852,556	107,113	3,036	962,705
Trustee held funds	124,264	16	-	124,280
Investment in unconsolidated subsidiaries	40,810	145	(16,229)	24,726
Limited as to use or restricted	104,837	103,508	(7,091)	201,254
Other assets	(632)	48,902	52,422	100,692
Total other assets	1,121,835	259,684	32,138	1,413,657
Property and Equipment - Net	974,112	74,897	-	1,049,009
Total Assets	\$ 2,732,716	\$ 651,221	\$ (6,085)	\$ 3,377,852
Liabilities and Net Assets				
Current Liabilities				
Current portion of long-term debt	\$ 22,402	\$ 1,093	\$ -	\$ 23,495
Accounts payable	151,858	168,213	(49,415)	270,656
Cost report settlements payable	54,901	1,608	-	56,509
Obligations under securities lending	3,223	-	-	3,223
Salaries, wages and withholdings	95,261	30,230	(1)	125,490
Pension	3,118	56	-	3,174
Interest	7,442	-	-	7,442
Professional and other liability claims	14,803	523	-	15,326
Other	(2,687)	29,933	11,193	38,439
Total current liabilities	350,321	231,656	(38,223)	543,754
Long-Term Debt	765,901	6,579	-	772,480
Fair Value of Interest Rate Swap Agreements	22,900	-	-	22,900
Other Liabilities				
Accrued pension cost	319,007	12,748	-	331,755
Accrued postretirement cost	26,321	-	-	26,321
Accrued professional and other liability claims	20,229	55,260	-	75,489
Other	(6,454)	23,136	52,423	69,105
Total liabilities	1,498,225	329,379	14,200	1,841,804
Net Assets				
Unrestricted	1,136,471	285,931	(13,194)	1,409,208
Temporarily restricted	38,141	24,667	(7,091)	55,717
Permanently restricted	59,879	11,244	-	71,123
Total Net Assets	1,234,491	321,842	(20,285)	1,536,048
Total liabilities and net assets	\$ 2,732,716	\$ 651,221	\$ (6,085)	\$ 3,377,852

McLaren Health Care Corporation and Subsidiaries

Consolidating Statement of Operations (Unaudited)

For the six-month period ended March 31, 2017
(In Thousands)

	McLaren Credit Group	Non-Credit Group Members	Elimination	Total
Unrestricted Revenue, Gains, and Other Support				
Inpatient Services	\$ 1,652,398	\$ 29,936	\$ (91,582)	\$ 1,590,752
Outpatient Services	2,231,588	111,859	(74,230)	2,269,217
Total patient service revenue	3,883,986	141,795	(165,812)	3,859,969
Revenue deductions	2,585,403	43,100	(144,615)	2,483,888
Net patient service revenue	1,298,583	98,695	(21,197)	1,376,081
Provision for bad debts	43,268	1,215	-	44,483
Net patient service revenue less provision for bad debts	1,255,315	97,480	(21,197)	1,331,598
Net assets released from restrictions	3,402	1,283	(555)	4,130
Premium revenue	-	497,542	-	497,542
Other revenue	67,702	16,491	(30,476)	53,717
Total unrestricted revenue, gains, and other support	1,326,419	612,796	(52,228)	1,886,987
Expenses				
Salaries	498,762	69,805	(2,922)	565,645
Employee benefits and payroll taxes	108,210	15,287	(4,050)	119,447
Supplies	262,614	25,199	(137)	287,676
Other	322,724	161,451	(43,764)	440,411
Healthcare service costs	117	340,639	-	340,756
Depreciation and amortization	51,270	6,502	(1,323)	56,449
Interest expense	8,663	129	(32)	8,760
Total expenses	1,252,360	619,012	(52,228)	1,819,144
Operating Income Before Nonrecurring Impairment Charges	74,059	(6,216)	-	67,843
Nonrecurring Impairment Charges	-	-	-	-
Operating Income	74,059	(6,216)	-	67,843
Nonoperating Income (Loss)				
Investment income	12,060	1,469	-	13,529
Change in interest swap agreements	14,617	-	-	14,617
Change in unrealized gains and losses on investments	38,076	7,425	-	45,501
Gain on sale of Anthelio Health Care Solutions, Inc.	1,321	-	-	1,321
Other	-	74	-	74
Total nonoperating income (loss)	66,074	8,968	-	75,042
Excess of Revenue Over (Under) Expense	140,133	2,752	-	142,885

McLaren Health Care Corporation and Subsidiaries

Credit Group Supplemental Information For the period ended March 31, 2017

Maximum Annual Debt Service Coverage Ratio – Consolidated and Credit Group

The following tables are calculations of the maximum annual debt service coverage ratio for the Corporation and Credit Group for fiscal quarter ending March 31, 2017.

McLaren Credit Group	FYE	Less	Plus	
	9/30/2016	10/1/2015 3/31/2016	10/1/2016 3/31/2017	4/1/2016 3/31/2017
Required	1.10			1.10
Credit group excess of revenue over expenses	\$ 217,644	\$ 79,063	\$ 140,133	\$ 278,714
Plus:				
Depreciation and Amortization	114,318	44,732	51,270	120,856
Interest	17,708	8,474	8,663	17,897
Change in interest swap agreements	5,544	2,933	(14,617)	(12,006)
Change in unrealized gains and losses on investments	(48,264)	(9,438)	(38,076)	(76,902)
Available for debt service	\$ 306,950	\$ 125,764	\$ 147,373	\$ 328,559
Maximum Annual Debt Service	\$ 50,563			\$ 50,563
Maximum Annual Debt Service Coverage Ratio	6.07			6.50

McLaren Health Care Corporation	FYE	Less	Plus	
	9/30/2016	10/1/2015 3/31/2016	10/1/2016 3/31/2017	4/1/2016 3/31/2017
Credit group excess of revenue over expenses	\$ 225,909	\$ 86,238	\$ 142,885	\$ 282,556
Plus:				
Depreciation and Amortization	108,690	51,541	56,449	113,598
Interest	17,772	8,843	8,760	17,689
Change in interest swap agreements	5,544	2,933	(14,617)	(12,006)
Change in unrealized gains and losses on investments	(58,297)	(12,552)	(45,501)	(91,246)
Available for debt service	\$ 299,618	\$ 137,003	\$ 147,976	\$ 310,591
Maximum Annual Debt Service	\$ 50,563			\$ 50,563
Maximum Annual Debt Service Coverage Ratio	5.93			6.14

McLaren Health Care Corporation and Subsidiaries

Credit Group Supplemental Information For the period ended March 31, 2017

Days Cash on Hand – Consolidated and Credit Group

The following table is the days cash on hand calculation for the Corporation and Credit Group as of March 31, 2017 and September 30, 2016.

McLaren Credit Group	3/31/2017	9/30/2016
Cash and cash equivalents	\$295,350	\$341,391
General fund investments including funded depreciation	852,556	789,284
	<u>\$1,147,906</u>	<u>1,130,675</u>
Annual Expense	\$2,504,718	\$2,530,277
Depreciation and amortization	102,540	114,318
Annual cash expenses	<u>\$2,402,178</u>	<u>\$2,415,959</u>
Days cash on hand	<u>174</u>	<u>171</u>
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McLaren Health Care Corporation	3/31/2017	9/30/2016
Cash and cash equivalents	\$535,319	\$553,423
General fund investments including funded depreciation	962,705	886,701
	<u>\$1,498,024</u>	<u>\$1,440,124</u>
Annual Expense	\$3,638,288	\$3,566,248
Depreciation and amortization	112,898	108,690
Annual cash expenses	<u>\$3,525,390</u>	<u>\$3,457,558</u>
Less:		
McLaren Health Plan Passthrough Expenses	<u>\$236,582</u>	<u>\$224,343</u>
Days cash on hand	<u>167</u>	<u>163</u>

Credit Group Supplemental Information
For the period ended March 31, 2017

The following table summarizes certain historical utilization information for the Corporation and Credit Group collectively for periods ended March 31, 2015 through 2017.

* Skilled beds are included in the statistics.
 ** Surgical procedures exclude volumes from ASC joint ventures.
 2015 and 2016 Credit Group data includes Karmanos for comparative purposes.

The following table provides the percentage of patient services revenues by payor source for the Corporation and Credit Group for periods ended March 31, 2015 through 2017.

	McLaren Health Care Corporation			McLaren Health Care Corporation		
	Six Months Ended March 31,			Six Months Ended March 31,		
Payor	2017	2016	2015	2017	2016	2015
Medicare	51%	50%	50%	51%	50%	50%
Medicaid	17%	17%	16%	17%	17%	16%
Blue Cross	17%	18%	18%	17%	18%	18%
Commercial	9%	9%	10%	9%	8%	10%
Managed Care	5%	5%	5%	5%	6%	5%
Self Pay	1%	1%	1%	1%	1%	1%
Total	100%	100%	100%	100%	100%	100%