
McLaren Health Care Corporation and Subsidiaries

**Consolidated Financial Report
with Additional Information
September 30, 2017**

Independent Auditor's Report	1
Consolidated Financial Statements	
Balance Sheet	2
Statement of Operations	3
Statement of Changes in Net Assets	4
Statement of Cash Flows	5
Notes to Consolidated Financial Statements	6-29
Additional Information	30
Independent Auditor's Report on Additional Information	31
Consolidating Balance Sheet - Credit Group	32
Consolidating Statement of Operations - Credit Group	33

Independent Auditor's Report

To the Board of Directors
McLaren Health Care Corporation
and Subsidiaries

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, 2017 and 2016 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.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of McLaren Health Care Corporation and Subsidiaries as of September 30, 2017 and 2016 and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

January 5, 2018

McLaren Health Care Corporation and Subsidiaries

Consolidated Balance Sheet

September 30, 2017 and 2016
(in thousands)

	2017	2016
Assets		
Current Assets		
Cash and cash equivalents	\$ 615,234	\$ 553,423
Collateral from securities lending (Note 7)	6,784	4,698
Accounts receivable (Note 3)	227,896	219,870
Assets limited as to use for payment of current liabilities (Note 7)	1,569	1,619
Other current assets	101,972	113,947
Total current assets	953,455	893,557
Investments, Including Internally Designated (Note 7)	1,022,052	910,068
Other Assets (Note 7)	454,734	442,009
Property and Equipment - Net (Note 6)	1,094,900	1,024,843
Total assets	\$ 3,525,141	\$ 3,270,477
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 303,880	\$ 285,896
Current portion of long-term debt (Note 9)	32,455	25,681
Third-party payor settlements payable (Note 4)	28,667	44,883
Accrued and other liabilities (Note 11)	199,630	186,783
Total current liabilities	564,632	543,243
Long-term Debt - Net of current portion (Note 9)	744,528	778,603
Fair Value of Interest Rate Swap Agreements (Note 9)	22,005	37,517
Other Liabilities		
Accrued defined benefit pension cost (Note 13)	219,845	352,989
Accrued postretirement benefit cost (Note 13)	14,622	24,803
Accrued professional liability claims (Note 14)	83,855	79,716
Other long-term liabilities	69,176	71,624
Total liabilities	1,718,663	1,888,495
Net Assets		
Unrestricted	1,674,591	1,262,814
Temporarily restricted	58,208	49,173
Permanently restricted	73,679	69,995
Total net assets	1,806,478	1,381,982
Total liabilities and net assets	\$ 3,525,141	\$ 3,270,477

McLaren Health Care Corporation and Subsidiaries

Consolidated Statement of Operations

Years Ended September 30, 2017 and 2016

(in thousands)

	2017	2016
Unrestricted Revenue, Gains, and Other Support		
Patient service revenue	\$ 7,765,737	\$ 7,255,167
Revenue deductions	(4,988,472)	(4,558,781)
Net patient service revenue	2,777,265	2,696,386
Provision for bad debts	(105,334)	(120,284)
Net patient service revenue less provision for bad debts	2,671,931	2,576,102
Premium revenue	1,008,875	999,066
Other	134,595	122,818
Net assets released from restrictions used for operations	13,300	12,501
Total unrestricted revenue, gains, and other support	3,828,701	3,710,487
Expenses		
Salaries and wages	1,136,273	1,080,909
Employee benefits and payroll taxes	223,916	229,478
Supplies	570,663	547,645
Purchased services and other	921,411	942,967
Professional and other liability costs	22,496	18,392
Healthcare claims expense	655,623	620,395
Depreciation and amortization	110,973	108,690
Interest expense	17,253	17,772
Total expenses (Note 16)	3,658,608	3,566,248
Operating Income - Before nonrecurring impairment loss	170,093	144,239
Nonrecurring Impairment Loss	12,192	-
Operating Income	157,901	144,239
Nonoperating Income (Loss)		
Investment income (Note 7)	49,015	19,273
Change in interest rate swap agreements (Note 9)	15,512	(5,544)
Change in unrealized gains and losses on investments (Note 7)	77,001	58,297
Other (Note 15)	1,322	9,644
Total nonoperating income	142,850	81,670
Excess of Revenue Over Expenses	300,751	225,909
Contributions for Capital	2,400	-
Other Changes in Net Assets	3,211	(3,220)
Pension-related Changes Other Than Net Periodic Benefit Cost	101,096	(102,050)
Net Assets Released from Restriction	4,319	5,196
Increase in Unrestricted Net Assets	\$ 411,777	\$ 125,835

McLaren Health Care Corporation and Subsidiaries

Consolidated Statement of Changes in Net Assets

Years Ended September 30, 2017 and 2016

(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net Assets - October 1, 2015	\$ 1,136,979	\$ 59,226	\$ 66,802	\$ 1,263,007
Excess of revenue over expenses	225,909	-	-	225,909
Restricted contributions	-	15,391	533	15,924
Change in unrealized gains and losses on investments	-	471	-	471
Increase in fair value of perpetual trust	-	-	1,593	1,593
Pension-related changes other than net periodic benefit cost	(102,050)	-	-	(102,050)
Other changes in net assets	(3,220)	(8,717)	1,035	(10,902)
Net assets released from restriction	5,196	(17,697)	-	(12,501)
Restricted investment income	-	499	32	531
Increase (decrease) in net assets	125,835	(10,053)	3,193	118,975
Net Assets - September 30, 2016	1,262,814	49,173	69,995	1,381,982
Excess of revenue over expenses	300,751	-	-	300,751
Capital contributions	2,400	-	-	2,400
Restricted contributions	-	27,099	991	28,090
Change in unrealized gains and losses on investments	-	1,617	-	1,617
Increase in fair value of perpetual trust	-	-	3,164	3,164
Pension-related changes other than net periodic benefit cost	101,096	-	-	101,096
Other changes in net assets	3,211	(4,636)	(495)	(1,920)
Net assets released from restriction	4,319	(17,619)	-	(13,300)
Restricted investment income	-	2,574	24	2,598
Increase in net assets	411,777	9,035	3,684	424,496
Net Assets - September 30, 2017	\$ 1,674,591	\$ 58,208	\$ 73,679	\$ 1,806,478

McLaren Health Care Corporation and Subsidiaries

Consolidated Statement of Cash Flows

Years Ended September 30, 2017 and 2016

(in thousands)

	2017	2016
Cash Flows from Operating Activities		
Increase in net assets	\$ 424,496	\$ 118,975
Adjustments to reconcile increase in net assets to net cash and cash equivalents from operating activities:		
Depreciation	110,973	108,690
Loss on disposal of equipment	3,318	608
Net change in unrealized gains and losses on investments	(78,618)	(58,768)
Realized gains on investments	(57,403)	(24,853)
Income from unconsolidated subsidiaries	(4,288)	(1,301)
Pension-related changes other than periodic benefit costs	(101,096)	102,050
Increase in fair value of perpetual trusts	(3,164)	(1,593)
Change in fair value of interest rate swap agreement	(15,512)	5,544
Temporarily and permanently restricted contributions	(28,090)	(15,924)
Contributions for capital	(2,400)	-
Amortization of bond premium	(2,442)	(2,757)
Nonrecurring impairment loss	12,192	-
Changes in operating assets and liabilities which (used) provided cash and cash equivalents:		
Accounts receivable, net of provision for bad debt	(8,026)	(2,700)
Other current assets	9,888	12,325
Cost report settlements	(16,216)	(593)
Other assets	(8,719)	(2,540)
Accounts payable	8,672	14,066
Accrued and other liabilities	12,847	(28,079)
Other liabilities	(40,538)	(2,998)
Net cash and cash equivalents provided by operating activities	215,874	220,152
Cash Flows from Investing Activities		
Purchase of property and equipment	(183,794)	(147,544)
Proceeds from disposition of property and equipment	312	1,426
Purchases of investments	(656,185)	(223,254)
Proceeds from sales and maturities of investments	638,853	243,202
Cash paid for intangible assets	(968)	(4,234)
Cash paid to joint ventures	(526)	-
Cash received from joint ventures	8,637	649
Net cash and cash equivalents used in investing activities	(193,671)	(129,755)
Cash Flows from Financing Activities		
Change in funds held by trustee under bond indenture	36,715	(131,549)
Proceeds from issuance of debt obligations	-	154,610
Principal payments on long-term debt	(25,197)	(30,828)
Payments on bond financing	-	(630)
Temporarily and permanently restricted contributions	28,090	15,924
Net cash and cash equivalents provided by financing activities	39,608	7,527
Net Increase in Cash and Cash Equivalents	61,811	97,924
Cash and Cash Equivalents - Beginning of year	553,423	455,499
Cash and Cash Equivalents - End of year	\$ 615,234	\$ 553,423
Supplemental Cash Flow Information - Cash paid for interest	\$ 20,658	\$ 19,583
Significant Noncash Transactions - Noncash purchases of property and equipment	14,234	4,921

September 30, 2017 and 2016

Note 1 - Nature of Business

McLaren Health Care Corporation and Subsidiaries (the "Corporation"), a not-for-profit corporation, is a major provider of healthcare services to residents of southeast Michigan and the Cities of Flint, Lansing, Bay City, Lapeer, Mt. Pleasant, Petoskey, 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 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)

Barbara Ann Karmanos Cancer Institute (Karmanos)

McLaren Medical Group (MMG)

McLaren High Performance Network (ACO)

McLaren Homecare Group (MHG)

McLaren Health Plan (MHP)

McLaren Bay Special Care (BSC)

McLaren Insurance Company, LTD (MICOL)

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 purchased with an original maturity of three months or less, excluding those amounts included in assets limited as to use by board designation or other arrangements under trust agreements (see Note 7).

The Corporation routinely invests 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 U.S. government agencies and instrumentalities. 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.

Notes to Consolidated Financial Statements

September 30, 2017 and 2016

Note 2 - Significant Accounting Policies (Continued)

Accounts Receivable

Accounts receivable for 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).

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Corporation records 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 discounted rates 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. 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.

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.

Note 2 - Significant Accounting Policies (Continued)

Assets Limited as to Use

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

Property and Equipment

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

Impairment of Long-lived Assets

The Corporation evaluates the recoverability of long-lived assets and the related estimated remaining lives when indicators of impairment are present. For the purpose of impairment analysis, assets are grouped with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. The Corporation records an impairment charge or changes the useful life if events or changes in circumstances indicate that the carrying amount may not be recoverable or the useful life has changed. An impairment loss of approximately \$12,192,000 was recognized in 2017, and no impairment loss was recognized in 2016.

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.

No impairment charge was recognized during the years ended September 30, 2017 and 2016.

Intangible Assets

The recorded amount of intangible assets results primarily from the acquisition of plan members and provider networks by MHP 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 7, 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 in 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 income (loss) on the consolidated statement of operations (see Note 9).

Classification of Net Assets

Net assets of the Corporation are classified based 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.

Notes to Consolidated Financial Statements

September 30, 2017 and 2016

Note 2 - Significant Accounting Policies (Continued)

Temporarily restricted net assets consist of 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.

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 Expenses

The consolidated statement of operations includes excess of revenue over expenses. Changes in unrestricted net assets, which are excluded from excess of revenue over 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, contributions for capital, 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.

Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period from these major payor sources as percentages, is as follows:

	2017	2016
Medicare	46 %	46 %
Medicaid	15	16
Blue Cross	20	21
Commercial and other	16	15
Total third party	97	98
Self-pay	3	2
Total	100 %	100 %

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. Final determination of compliance of such laws and regulations is subject to future government review and interpretation. Violations may result in significant regulatory action including fines, penalties, and exclusions from the Medicare and Medicaid programs. Management is not aware of any potential noncompliance with laws and regulations that they believe will be material to the consolidated financial statements.

Note 2 - Significant Accounting Policies (Continued)

Contributions

The Corporation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, 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.

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 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 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 14). 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, 2014.

Note 2 - Significant Accounting Policies (Continued)

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.

Electronic Health Records Incentive Payments

The American Recovery and Reinvestment Act of 2009 (AARA) 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 ERH 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. The Corporation recorded incentive payments totaling approximately \$5.0 million and \$10.9 million for the years ended September 30, 2017 and 2016, respectively. The incentive payments received during 2017 and 2016 were the result of meeting specific requirements related to its meaningful use of EHR technology.

Upcoming Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (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. Management does not expect that this standard will have a significant impact on the timing and recognition pattern of the Corporation's main revenue streams.

In February 2016, the FASB issued ASU No. 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 new lease standard is expected to have a significant effect on the Corporation's consolidated balance sheet as a result of the leases disclosed in Note 17, which are currently classified as operating leases. The effects on the results of operations are not expected to be significant, as recognition and measurement of expenses and cash flows for leases will be substantially the same under the new standard.

Notes to Consolidated Financial Statements

September 30, 2017 and 2016

Note 2 - Significant Accounting Policies (Continued)

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 requires significant changes to the financial reporting model of organizations that 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 year ending September 30, 2019 and thereafter and must be applied on a retrospective basis. The standard is expected to have an impact on the presentation of net assets and to result in enhanced disclosures related to liquidity and availability.

Subsequent Events

The consolidated financial statements and related disclosures include evaluation of events up through and including January 5, 2018, which is the date the consolidated financial statements were available to be issued.

Note 3 - Patient Accounts Receivable

The details of patient accounts receivable are set forth below (in thousands):

	2017	2016
Patient accounts receivable	\$ 1,250,624	\$ 1,141,853
Less:		
Allowance for uncollectible accounts	105,688	117,158
Allowance for contractual adjustments	941,459	830,060
Net patient accounts receivable	203,477	194,635
Other	24,419	25,235
Total accounts receivable	<u>\$ 227,896</u>	<u>\$ 219,870</u>

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

	2017	2016
Medicare	32 %	36 %
Blue Cross/Blue Shield of Michigan	11	12
Medicaid	16	15
Commercial insurance and HMOs	31	29
Self-pay	10	8
Total	<u>100 %</u>	<u>100 %</u>

Note 4 - Third-party Payor Settlements

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

Medicare

Inpatient, acute care, psychiatric, 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 that is based on clinical, diagnostic, and other factors. Outpatient, physician, and homecare services related to Medicare beneficiaries are reimbursed based on a prospectively determined amount per episode of care or on an established fee-for-service methodology.

Medicaid

Inpatient, acute-care services rendered to Medicaid program beneficiaries are also paid at prospectively determined rates per discharge. The Corporation is reimbursed for outpatient and physician services on an established fee-for-service methodology.

Blue Cross/Blue Shield of Michigan

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.

Health Maintenance Organizations

Services rendered to HMO beneficiaries are paid at predetermined rates or at a percentage of hospital charges.

Third-party payor settlements result from the adjustment of interim payments to final reimbursement under the Medicare, Medicaid, and Blue Cross/Blue Shield of Michigan programs and are subject to audit by fiscal intermediaries. Although these audits may result in some changes in previously recorded amounts, they are not expected to have a material effect on the accompanying consolidated financial statements.

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 whereby 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, whereby 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 care to charity patients. The ratio of cost to charges is calculated based on the Corporation's total expenses divided by gross patient service revenue. An estimate of charity and other uncompensated care for the medical centers is as follows (in thousands):

McLaren Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2017 and 2016

Note 5 - Community Benefit (Continued)

	2017	2016
Charity care cost	\$ 11,482	\$ 10,535
Cost in excess of reimbursement for county health plans (unaudited)	128	457
Cost in excess of reimbursement from government programs (unaudited)	195,238	185,808
Cost in excess of reimbursement for graduate medical education (unaudited)	20,952	17,467
Cost of community programs (unaudited)	18,481	15,902
Cost of bad debt	31,656	39,124
Total	<u>\$ 277,937</u>	<u>\$ 269,293</u>

Note 6 - Property and Equipment

Property and equipment and depreciable lives are summarized as follows (dollar amounts in thousands):

	2017	2016	Depreciable Life - Years
Land	\$ 80,626	\$ 77,976	-
Land improvements	48,301	47,800	5-35
Buildings	995,847	975,180	20-40
Equipment	1,186,308	1,168,994	5-15
Construction in progress	294,848	191,217	-
Total cost	2,605,930	2,461,167	
Accumulated depreciation	1,511,030	1,436,324	
Net property and equipment	<u>\$ 1,094,900</u>	<u>\$ 1,024,843</u>	

Construction in progress consists primarily of the construction of a facility to provide proton beam therapy, a new patient care tower at McLaren Port Huron, and various other new construction and renovation projects, equipment purchases not placed into service at year end, and the implementation of information technology projects at the medical centers and MHC. At September 30, 2017, the Corporation had commitments of approximately \$83,720,000 related to various construction projects and financial and clinical information technology applications.

McLaren Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2017 and 2016

Note 7 - Other Assets

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

	2017	2016
Assets limited as to use and permanently or temporarily restricted assets:		
Funds held by trustees under bond indentures	\$ 102,059	\$ 140,545
Funds held in trust for payment of professional and other liability claims (Note 14)	89,115	81,558
Funds held in trust for the benefit of MHC and funds restricted by donors for specific purpose	123,598	98,792
Funds held in trust for payment of employee benefits	32,256	25,924
Amount for payment of current liabilities	(1,569)	(1,619)
Total assets limited as to use and permanently or temporarily restricted assets	345,459	345,200
Investment in joint ventures	19,401	28,327
Intangible assets	16,246	17,253
Goodwill	23,231	22,522
Pledges receivable	15,931	7,663
Other	34,466	21,044
Total other assets	\$ 454,734	\$ 442,009

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

	2017	2016
Money market investments	\$ 120,320	\$ 155,351
Certificates of deposit and cash equivalents	26,825	25,338
Government securities	30,312	32,053
Mortgage-backed securities	215	191
Mutual funds	931,295	709,996
Corporate bonds	39,367	36,632
Common and preferred stocks	176,502	254,519
Due from trusts (Note 12)	42,206	39,042
Other investments	2,038	-
Total	\$ 1,369,080	\$ 1,253,122

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 and losses are comprised of the following for the years ended September 30, 2017 and 2016 (in thousands):

	2017	2016
Unrestricted investment income	\$ 49,015	\$ 19,273
Investment income on temporarily and permanently restricted investments	2,598	531
Change in net unrealized gains and losses on unrestricted investments	77,001	58,297
Change in net unrealized gains and losses on restricted investments	1,617	471
Total investment income	\$ 130,231	\$ 78,572

Note 7 - Other Assets (Continued)

The Corporation participates in the JPMorgan Chase Bank, N.A. Security Lending Program for its U.S. and non-U.S. securities held in custody at JPMorgan Chase Bank, N.A. (JPMorgan Chase). These securities are loaned to certain unrelated third-party brokers in exchange for collateral, usually in the form of cash. Both the collateral and the securities loaned are marked-to-market on a daily basis so that all loaned securities are more than fully collateralized at all times. Collateral received is invested in a segregated account managed by JPMorgan Chase, which consists of high-quality short-term investments. In the event that the loaned securities are not returned by the borrower, JPMorgan Chase will, at its own expense, either replace the loaned securities or, if unable to purchase those securities on the open market, credit the Corporation's accounts with cash equal to the fair value of the loaned securities.

The Corporation receives 40 percent of any residual income earned on the securities held as collateral. JPMorgan Chase receives the remainder of the income.

Although the Corporation's securities lending activities are collateralized as described above, and although the terms of the securities lending agreement with JPMorgan Chase require JPMorgan Chase to comply with government rules and regulations related to the lending of securities held by the Corporation, the securities lending program involves both market and credit risk. In this context, market risk refers to the possibility that the borrower of securities will be unable to collateralize its loan upon a sudden material change in the fair value of the loaned securities or the collateral, or that JPMorgan Chase's investment of collateral received from the borrowers of the Corporation's securities may be subject to unfavorable market fluctuations. Credit risk refers to the possibility that counterparties involved in the securities lending program may fail to perform in accordance with the terms of their contracts.

At September 30, 2017 and 2016, the fair value of securities loaned in the portfolio was approximately \$6,958,000 and \$4,853,000, respectively, while the collateral held was approximately \$6,784,000 and \$4,698,000, respectively. Collateral received consists of cash and fixed-income securities. The value of the collateral held and a corresponding liability to return the collateral have been reported on the accompanying consolidated balance sheet.

The Corporation has recognized intangible assets of approximately \$16,246,000 and \$17,253,000 at September 30, 2017 and 2016, respectively. The Corporation has recorded approximately \$12,996,000 and \$14,003,000 of net intangible assets for plan members and provider networks that is being amortized over 18 years at September 30, 2017 and 2016, respectively. In addition, the Corporation recognized intangible assets related to Medicare Advantage contracts of approximately \$3,250,000 at September 30, 2017 and 2016. 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.

Note 8 - 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, 2017 and 2016 and the valuation techniques used by the Corporation to determine those fair values.

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

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

McLaren Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2017 and 2016

Note 8 - Fair Value Measurements (Continued)

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 whereby 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.

The Corporation's policy is to recognize transfers between levels of the fair value hierarchy as of the actual date of the event of change in circumstances that caused the transfer. There were no significant transfers between levels of the fair value hierarchy during 2017 and 2016.

	Assets and Liabilities Measured at Fair Value on a Recurring Basis at September 30, 2017 (in thousands)			
	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, 2017
Assets				
Mutual funds:				
Fixed-income investments	\$ 109,759	\$ 22,820	\$ -	\$ 132,579
Equity investments	742,795	46,100	-	788,895
Balanced investments	4,297	-	-	4,297
Short-term investments	5,524	-	-	5,524
Total mutual funds	862,375	68,920	-	931,295
Common stocks:				
U.S. securities	138,144	1	-	138,145
Foreign securities	38,321	9	-	38,330
Short-term investments	-	27	-	27
Total common stocks	176,465	37	-	176,502
Debt securities:				
U.S. government and agencies	1,001	29,061	-	30,062
Corporate bonds and notes	-	39,367	-	39,367
Residential mortgage-backed securities	-	215	-	215
Foreign government and agencies	-	250	-	250
Total debt securities	1,001	68,893	-	69,894
Money market investments:				
Short-term investments	114,403	4,320	-	118,723
Fixed-income investments	315	-	-	315
Equity investments	1,282	-	-	1,282
Total money market investments	116,000	4,320	-	120,320
Other	2,038	-	-	2,038
Collateral on securities lending arrangements	-	6,784	-	6,784
Due from trusts	-	42,206	-	42,206
Total assets	\$ 1,157,879	\$ 191,160	\$ -	\$ 1,349,039
Liabilities				
Obligations on secured lending arrangements	\$ -	\$ 6,958	\$ -	\$ 6,958
Interest rate swap agreements	-	22,005	-	22,005
Total liabilities	\$ -	\$ 28,963	\$ -	\$ 28,963

McLaren Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2017 and 2016

Note 8 - Fair Value Measurements (Continued)

	Assets and Liabilities Measured at Fair Value on a Recurring Basis at September 30, 2016 (in thousands)			
	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, 2016
Assets				
Mutual funds:				
Fixed-income investments	\$ 207,721	\$ 25,999	\$ -	\$ 233,720
Equity investments	451,114	-	-	451,114
Balanced investments	7,250	-	-	7,250
Short-term investments	17,912	-	-	17,912
Total mutual funds	683,997	25,999	-	709,996
Common and preferred stocks:				
U.S. securities	200,477	-	-	200,477
Foreign securities	48,402	-	-	48,402
Preferred stocks	-	5,613	-	5,613
Short-term investments	-	27	-	27
Total common and preferred stocks	248,879	5,640	-	254,519
Debt securities:				
U.S. government and agencies	1,086	30,767	-	31,853
Corporate bonds and notes	-	36,632	-	36,632
Residential mortgage-backed securities	-	191	-	191
Foreign government and agencies	-	200	-	200
Total debt securities	1,086	67,790	-	68,876
Money market investments:				
Short-term investments	153,794	-	-	153,794
Fixed-income investments	403	-	-	403
Equity investments	1,154	-	-	1,154
Total money market investments	155,351	-	-	155,351
Collateral on securities lending arrangements	-	4,698	-	4,698
Due from trusts	-	39,042	-	39,042
Total assets	\$ 1,089,313	\$ 143,169	\$ -	\$ 1,232,482
Liabilities				
Obligations on secured lending arrangements	\$ -	\$ 4,853	\$ -	\$ 4,853
Interest rate swap agreements	-	37,517	-	37,517
Total liabilities	\$ -	\$ 42,370	\$ -	\$ 42,370

Collateral from securities lending, assets whose use is limited or restricted, and investments on the consolidated balance sheet, as further discussed in Note 7, at September 30, 2017 and 2016 included cash and certificates of deposit of approximately \$26,825,000 and \$25,338,000, respectively.

The Corporation holds fixed-income and equity mutual funds, common stocks, debt securities, money market investments, securities lending, due from trusts, and interest rate swap agreements at September 30, 2017 and 2016 in which the fair value 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.

McLaren Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2017 and 2016

Note 9 - Long-term Debt

The following is the detail of long-term debt (in thousands):

	2017	2016
McLaren Health Care Series 2016A	\$ 154,140	\$ 154,140
McLaren Health Care Series 2015A	96,700	99,375
McLaren Health Care Series 2015B	66,430	67,220
McLaren Health Care Series 2015C	90,190	93,255
McLaren Health Care Series 2015D-1	74,880	76,925
McLaren Health Care Series 2015D-2	75,420	75,420
McLaren Health Care Series 2014A	25,161	28,783
McLaren Health Care Series 2012A	77,750	83,805
McLaren Health Care Series 2010	67,125	67,125
Promissory notes	29,252	36,195
Unamortized premium	23,780	26,391
Less bond issuance cost	(3,845)	(4,350)
Long-term debt and unamortized discount/premium less debt issuance costs	776,983	804,284
Less current portion	32,455	25,681
Long-term portion	<u>\$ 744,528</u>	<u>\$ 778,603</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 Cancer Institute, Karmanos Cancer Center, 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 2016, the Michigan Finance Authority issued Hospital Revenue Bonds, Series 2016 totaling \$154,140,000. The term bonds have annual redemption requirements ranging from \$17,945,000 to \$24,735,000 beginning in 2040 through 2046 with interest at 4.40 percent. The bonds are secured by the gross revenue of the Credit Group.

During 2015, the Michigan Finance Authority issued Hospital Revenue Refunding Bonds, Series 2015A, 2015B, 2015C, 2015D-1, and 2015D-2, as described below. The proceeds of the bonds were used to refund the following outstanding bonds: Michigan Finance Authority Revenue and Refunding Bonds McLaren Health Care Series 2005C, 2008A, and 2008B. The series 2015 bonds are secured by gross revenue of the Credit Group.

In May 2015, the Michigan Finance Authority issued Hospital Revenue Refunding Bonds, Series 2015A, totaling \$101,995,000. The 2015A bonds consist of serial bonds with interest ranging from 4 percent to 5 percent and annual maturities ranging from \$2,805,000 to \$5,850,000 through May 15, 2035 and a term bond in the amount of \$19,960,000, with interest at 5 percent and annual redemption requirements ranging from \$6,370,000 to \$6,940,000 through May 15, 2038.

In March 2015, the Michigan Finance Authority issued Hospital Revenue Refunding Bonds, Series 2015B, totaling \$67,950,000. The 2015B bonds consist of serial bonds with interest ranging from 3 percent to 5 percent and annual maturities ranging from \$825,000 to \$14,095,000, through May 15, 2035.

Note 9 - Long-term Debt (Continued)

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 1.96 percent to 4.23 percent and annual maturities ranging from \$3,100,000 in 2018 to \$4,805,000 in 2032 and a term bond in the amount of \$41,495,000, due on May 15, 2038, with interest at 4.534 percent. The bonds also have mandatory sinking fund payments ranging from \$4,070,000 in 2028 to \$6,085,000 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 \$154,160,000. The 2015D bonds consist of floating rate notes that bear interest at a floating rate that varies on a weekly basis, based on the one-month LIBOR. The bonds are secured by the gross revenue of the Credit Group. The 2015D-1 bonds have mandatory sinking fund payments ranging from \$2,215,000 in October 2017 to \$12,765,000 in 2030. The 2015D-2 bonds also have mandatory sinking fund payments ranging from \$2,915,000 in 2034 to \$20,295,000 in 2038. The 2015D-1 and 2015D-2 bonds shall be subject to a mandatory purchase date on October 15, 2018 and October 15, 2020, respectively. The Credit Group has entered into a remarketing agreement that requires the remarketing agent to utilize best efforts to offer for sale all of the 2015D bonds required to be purchased beginning on the mandatory purchase date. In the event the bonds cannot be remarketed, the Credit Group will be responsible for repurchasing the bonds.

In September 2014, the Michigan Finance Authority issued the Hospital Revenue Refunding Bonds, Series 2014A. The bonds bear interest at 1.99 percent with annual principal of \$3,622,000 through 2024.

In June 2012, the Michigan Finance Authority issued the Hospital Revenue Refunding Bonds, Series 2012A. The 2012A bonds consist of serial bonds with interest at 5.0 percent and annual maturities ranging from \$6,375,000 to \$7,385,000 through June 1, 2028, and term bonds in the amount of \$10,285,000 and \$660,000. The term bonds have annual redemption requirements ranging from \$100,000 to \$2,655,000, due on June 1, 2035, with interest at 5.0 percent and 4.0 percent, respectively. The bonds are secured by the gross revenue of the Credit Group.

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 beginning on December 1, 2021 of \$3,356,250, plus interest. The remaining outstanding principal is due on December 1, 2040. The bonds bear interest at 3.25 percent per annum until the initial optional tender date on December 1, 2020.

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, 2017, management believes that the Corporation was in compliance with financial covenants.

Karmanos has various promissory notes that are due to a financial institution, of which a portion of the promissory notes is guaranteed by various donors. Donors have committed to support and guarantee various components of donor-collateralized debt. These pledges are reflected as other assets in the consolidated balance sheet and follow the maturity schedules of the debt instruments. Interest is payable quarterly at an interest rate of 3.00 percent over the LIBOR-based rate, for an effective rate of 4.23 and 3.52 percent at September 30, 2017 and 2016, respectively. The promissory notes mature in July 2018.

Notes to Consolidated Financial Statements

September 30, 2017 and 2016

Note 9 - Long-term Debt (Continued)

Scheduled minimum principal payments on long-term debt to maturity as of September 30, 2017 are as follows (in thousands):

Years Ending	Amount
2018	\$ 32,455
2019	21,770
2020	28,279
2021	21,794
2022	23,256
Thereafter	629,494
Bond issue costs	(3,845)
Unamortized premium	23,780
Total	<u>\$ 776,983</u>

Derivatives

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

(a) 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.

(b) 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, as well as 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.

Note 9 - Long-term Debt (Continued)

(c) 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. The Corporation was not required to post collateral at September 30, 2017 or 2016. The Corporation's accounting policy is to not offset collateral amounts against fair value amounts recognized for derivative instrument obligations. Accordingly, any posted collateral would be included in cash and cash equivalents in the accompanying consolidated balance sheet.

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

The second swap agreement is for a notional amount of \$72,900,000 and \$75,680,000 at September 30, 2017 and 2016, respectively. Under the terms of the agreement, MHC pays the counterparty a fixed rate of 3.355 percent and receives in exchange 65 percent of LIBOR plus 0.12 percent.

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

The fourth swap agreement is for a notional amount of \$154,140,000. Under the terms of the agreement, MHC pays the counterparty a fixed rate of 1.996 percent and receives in exchange the USD SIFMA Municipal Swap Index rate through August 15, 2021. MHC will receive 68 percent of LIBOR beginning on September 15, 2021.

The fifth swap agreement is for a notional amount of \$154,140,000. Under the terms of the agreement, MHC pays the counterparty a variable rate of the USD SIFMA Municipal Swap Index plus 0.55 percent and receives in exchange a fixed rate of 4.40 percent.

These swap agreements are recorded on the consolidated balance sheet at their fair value. Changes in the fair value of the swap agreements are reported as a component of excess of revenue over expenses, as well as any settlements on the interest rate swaps. There were no settlements in 2017 or 2016.

The Corporation's interest rate swap liability was approximately \$22,005,000 and \$37,517,000 at September 30, 2017 and 2016, respectively. The amount of gain (loss) recognized in the consolidated statement of operations attributable to derivative instruments as changes in fair market value of interest rate swap agreements was approximately \$15,512,000 and \$(5,544,000) for the years ended September 30, 2017 and 2016, respectively.

Note 10 - Notes Payable

MHC negotiated, on behalf of the Corporation, a revolving line of credit agreement, secured by the gross revenue of the Credit Group, with a bank in the amount of \$200,000,000. The line of credit agreement expires on May 31, 2019.

There was no outstanding balance on the line of credit as of September 30, 2017 and 2016.

McLaren Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2017 and 2016

Note 11 - Accrued and Other Liabilities

The following is the detail of accrued liabilities (in thousands):

	2017	2016
Payroll and related items	\$ 85,139	\$ 83,139
Compensated absences	54,599	46,108
Professional liability claims - Current portion (Note 14)	6,821	11,780
Interest	6,821	8,044
Obligations under securities lending (Note 7)	6,958	4,853
Amounts due to others	10,614	12,433
Other	28,678	20,426
Total accrued liabilities	<u>\$ 199,630</u>	<u>\$ 186,783</u>

Note 12 - Due from Trusts

McLaren Foundation is the sole beneficiary of the income from the Minnie I. Ballenger Trust and the William S. Ballenger Trust (collectively, the "Trusts"). The amount due from these 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 unrestricted net assets. Changes in the fair value of the investments in the Trusts are recorded as changes in permanently restricted net assets by McLaren Foundation.

The amounts receivable, representing the fair value of the trust assets, are as follows (in thousands):

	2017	2016
Minnie I. Ballenger Trust	\$ 41,192	\$ 38,081
William S. Ballenger Trust	1,014	961
Total	<u>\$ 42,206</u>	<u>\$ 39,042</u>

Note 13 - Pension and Other Postretirement Benefit Obligation

MHC, Flint, MHP, MHG, MMG, and Northern 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.

The Bay and Macomb plans merged into the consolidated plan noted above, effective December 31, 2016. As of the effective dates of the mergers, it was determined that a remeasurement was not necessary.

The 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:

Notes to Consolidated Financial Statements

September 30, 2017 and 2016

Note 13 - Pension and Other Postretirement Benefit Obligation (Continued)

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. Benefits have been 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.

Obligations and Funded Status (in thousands)

	Pension Benefits		Other Postretirement Benefits	
	2017	2016	2017	2016
Change in benefit obligation:				
Benefit obligation at beginning of year	\$ 1,379,827	\$ 1,264,853	\$ 24,803	\$ 31,786
Service cost	2,183	2,336	330	623
Interest cost	51,295	55,598	916	1,288
Plan participants' contributions	-	-	419	520
Amendments	-	-	-	(6,425)
Actuarial (gain) loss	(41,648)	126,400	(10,675)	(1,282)
Inflationary effect	-	-	-	185
Benefits and expenses	(73,754)	(69,360)	(1,171)	(1,892)
Benefit obligation at end of year	1,317,903	1,379,827	14,622	24,803
Change in plan assets:				
Fair value of plan assets at beginning of year	1,026,838	983,107	-	-
Actual return on plan assets	115,417	86,788	-	-
Employer contributions	29,557	26,303	752	1,372
Plan participants' contributions	-	-	419	520
Benefits paid	(73,754)	(69,360)	(1,171)	(1,892)
Fair value of plan assets at end of year	1,098,058	1,026,838	-	-
Funded status and accrued benefit obligation at end of year	\$ (219,845)	\$ (352,989)	\$ (14,622)	\$ (24,803)

Notes to Consolidated Financial Statements

September 30, 2017 and 2016

Note 13 - Pension and Other Postretirement Benefit Obligation (Continued)

The accumulated benefit obligation for all defined benefit pension plans was approximately \$1,314,471,000 and \$1,375,909,000 at September 30, 2017 and 2016, respectively.

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

	Pension Benefits		Other Postretirement Benefits	
	2017	2016	2017	2016
Net Periodic Benefit Cost				
Service cost	\$ 2,183	\$ 2,336	\$ 330	\$ 623
Interest cost	51,295	55,598	916	1,288
Expected return on plan assets	(80,076)	(79,922)	-	-
Amortization of prior service cost (credits)	16,145	12,512	(2,865)	(2,751)
Total net periodic benefit cost	<u>\$ (10,453)</u>	<u>\$ (9,476)</u>	<u>\$ (1,619)</u>	<u>\$ (840)</u>
Other Changes in Plan Assets and Benefit Obligations				
Net loss (gain)	\$ 557,728	\$ 650,687	\$ (13,509)	\$ (3,009)
Amortization of transition asset	(2)	(2)	-	-
Prior service credit	(47)	(97)	(11,808)	(14,121)
Total other changes in plan assets and benefit obligations	<u>\$ 557,679</u>	<u>\$ 650,588</u>	<u>\$ (25,317)</u>	<u>\$ (17,130)</u>

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

	Pension Benefits		Other Postretirement Benefits	
	2017	2016	2017	2016
Discount rate	4.00%	3.80%	4.00%	3.80%

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

	Pension Benefits		Other Postretirement Benefits	
	2017	2016	2017	2016
Discount rate	3.80%	4.50%	4.00%	3.80%
Expected long-term return on plan assets	7.25%	7.50%	-	-

The actuarial assumption for rate of compensation increase is age graded for the benefit obligation at September 30, 2017 and 2016. The rate of compensation increase assumption for the net periodic benefit cost is age graded for 2017 and 2016.

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

McLaren Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2017 and 2016

Note 13 - Pension and Other Postretirement Benefit Obligation (Continued)

Pension Plan Assets

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

The target allocation asset categories are 60 percent global equity, 30 percent global fixed income, 5 percent real assets, and 5 percent diversifying strategies.

The fair values of the Corporation's pension plan assets at September 30, 2017 and 2016 by major asset classes are as follows (in thousands):

	Fair Value Measurements at September 30, 2017			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Asset Classes				
Mutual funds:				
Equity investments	\$ 545,627	\$ 141,604	\$ -	\$ 687,231
Fixed-income investments	124,394	83,479	-	207,873
Equity investments:				
Common stock	187,711	-	-	187,711
Foreign	3,469	-	-	3,469
Other:				
Money market fund	-	11,217	-	11,217
Fund of funds	557	-	-	557
Total	\$ 861,758	\$ 236,300	\$ -	\$ 1,098,058

	Fair Value Measurements at September 30, 2016			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Asset Classes				
Mutual funds:				
Equity investments	\$ 418,881	\$ 71,918	\$ -	\$ 490,799
Fixed-income investments	107,046	188,224	-	295,270
Balanced investments	4,194	-	-	4,194
Equity investments:				
Common stock	199,610	-	-	199,610
Preferred stock	-	5,601	-	5,601
Foreign	18,764	-	-	18,764
Other:				
Money market fund	-	12,174	-	12,174
Fund of funds	426	-	-	426
Total	\$ 748,921	\$ 277,917	\$ -	\$ 1,026,838

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

Notes to Consolidated Financial Statements

September 30, 2017 and 2016

Note 13 - Pension and Other Postretirement Benefit Obligation (Continued)

The Corporation's policy is to recognize transfers between levels of the fair value hierarchy as of the actual date of the event of change in circumstances that caused the transfer. There were no significant transfers between levels of the fair value hierarchy during 2017 and 2016.

Cash Flow

Contributions

The Corporation expects to contribute approximately \$29,850,000 to its pension plan and approximately \$1,012,000 to its other postretirement benefit plan in 2018.

Estimated Future Benefit Payments

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

Year	Pension Benefits	Postretirement Benefits
2018	\$ 62,812	\$ 1,012
2019	63,508	996
2020	66,643	986
2021	68,696	944
2022	70,829	940
Thereafter	373,221	4,528

Note 14 - Professional Liability Insurance

The Corporation's professional malpractice liability coverage is provided by a multiprovider offshore captive insurance company (MICOL) on a retrospectively rated claims-made policy.

Effective October 1, 2009, MICOL entered into agreements with various reinsurers to fully reinsure losses in excess of \$6 million per claim on a first-year claims-made basis. MICOL has renewed this coverage annually and currently reinsures the layer \$30 million excess of \$6 million per claim.

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

The detail of accrued professional liability for the self-insurance plans and the MICOL claims is as follows (in thousands):

	2017	2016
Total professional liability claims	\$ 90,676	\$ 91,496
Less current portion (Note 11)	6,821	11,780
Long-term portion	\$ 83,855	\$ 79,716

McLaren Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2017 and 2016

Note 15 - Investment in Anthelio Healthcare Solutions, Inc.

The Corporation had an investment in Anthelio Healthcare Solutions, Inc. (Anthelio), along with other healthcare providers and investors. Anthelio provides outsourced information technology services, system support, and other services such as transcription and communications to healthcare providers, including the Corporation and its subsidiaries.

During September 2016, Anthelio was acquired by Atos, a global leader in digital services, including acquisition of shares owned by the Corporation. As a result of the acquisition of Anthelio by Atos, the Corporation recognized a nonoperating gain of approximately \$1,300,000 and \$9,600,000 for the years ended September 30, 2017 and 2016, respectively. As part of the acquisition agreement, the Corporation extended the contract for services provided by Anthelio/Atos through February 28, 2021. In exchange, the Corporation was paid approximately \$12,000,000 for the contract extension. A deferred liability has been recorded corresponding to the payment received, and is being recognized as a reduction to purchased services over the contract period.

Note 16 - Functional Expenses

The Corporation provides general healthcare services to residents within its geographic locations. Operating expenses, before nonrecurring impairment loss, related to providing these services are as follows (in thousands):

	2017	2016
Healthcare services	\$ 2,830,814	\$ 2,741,460
General and administrative	827,794	824,788
Total	<u>\$ 3,658,608</u>	<u>\$ 3,566,248</u>

Note 17 - Operating Leases

The Corporation is obligated under certain operating leases, primarily for facilities and medical equipment. Total rent expense under these leases was approximately \$21,126,000 and \$22,304,000 for 2017 and 2016, respectively.

Future minimum annual commitments under operating leases that have initial or remaining lease terms in excess of one year are as follows (in thousands):

Years Ending September 30	Amount
2018	\$ 19,016
2019	14,735
2020	12,405
2021	10,401
2022	9,314
Thereafter	17,505
Total	<u>\$ 83,376</u>

Note 18 - Subsequent Events

Subsequent to the year ended September 30, 2017, the Corporation signed a definitive agreement to acquire MDwise, a nonprofit HMO that serves more than 360,000 individuals in the state of Indiana. The transaction, which is subject to state and federal regulatory review and other closing conditions, is expected to be complete by December 31, 2017. The Corporation has agreed to purchase MDwise for approximately \$169,000,000. The Corporation has increased the revolving line of credit amount to \$250,000,000.

Notes to Consolidated Financial Statements

September 30, 2017 and 2016

Note 18 - Subsequent Events (Continued)

The Corporation expects to maintain MDwise's current operations. MDwise will continue to offer Medicaid HMO coverage that is currently available under its existing plans. The Corporation is required to disclose the impact of the acquisition on the results of operations of the Corporation; however, this information is not available at the time of issuance.

The Corporation purchased land from the Michigan State University Foundation subsequent to year end, expanding the existing partnership with the university. The land was purchased with the intention of combining two of the Corporation's existing Lansing medical centers into a new facility to be built on this property.

Subsequent to year end, the Corporation acquired Caro Community Hospital, which is a critical access hospital in Caro, Michigan. In addition, the Corporation has an exclusive letter of intent to acquire Huron Medical Center, which is an acute care hospital in Bad Axe, Michigan, serving residents of Huron, Sanilac, and Tuscola Counties.

Additional Information

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, 2017 and 2016 and have issued our report thereon dated January 5, 2018, 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 5, 2018

McLaren Health Care Corporation and Subsidiaries

Consolidating Balance Sheet - Credit Group

September 30, 2017

(in thousands)

	McLaren Credit Group	Non-Credit Group Members	Eliminating Entries	Total
Assets				
Current Assets				
Cash and cash equivalents	\$ 349,246	\$ 265,988	\$ -	\$ 615,234
Collateral from securities lending	6,784	-	-	6,784
Accounts receivable	180,588	47,308	-	227,896
Third-party payor settlements receivable	9,342	-	(9,342)	-
Assets limited as to use for payment of current liabilities	1,569	-	-	1,569
Other current assets	132,732	33,466	(64,226)	101,972
Total current assets	680,261	346,762	(73,568)	953,455
Investments, Including Internally Designated	926,848	95,204	-	1,022,052
Other Assets	308,123	173,290	(26,679)	454,734
Property and Equipment - Net	1,033,987	60,913	-	1,094,900
Total assets	\$ 2,949,219	\$ 676,169	\$ (100,247)	\$ 3,525,141
Liabilities and Net Assets				
Current Liabilities				
Accounts payable	\$ 148,602	\$ 155,278	\$ -	\$ 303,880
Current portion of long-term debt	31,581	874	-	32,455
Third-party payor settlements payable	36,704	1,305	(9,342)	28,667
Accrued liabilities and other liabilities	193,665	77,485	(71,520)	199,630
Total current liabilities	410,552	234,942	(80,862)	564,632
Long-term Debt - Net of current portion	740,412	4,116	-	744,528
Fair Value of Interest Rate Swap Agreements	22,005	-	-	22,005
Other Liabilities - Other long-term liabilities	304,630	93,105	(10,237)	387,498
Total liabilities	1,477,599	332,163	(91,099)	1,718,663
Net Assets				
Unrestricted	1,379,013	304,726	(9,148)	1,674,591
Temporarily restricted	30,772	27,436	-	58,208
Permanently restricted	61,835	11,844	-	73,679
Total net assets	1,471,620	344,006	(9,148)	1,806,478
Total liabilities and net assets	\$ 2,949,219	\$ 676,169	\$ (100,247)	\$ 3,525,141

McLaren Health Care Corporation and Subsidiaries

Consolidating Statement of Operations - Credit Group

Year Ended September 30, 2017

(in thousands)

	McLaren Credit Group	Non-Credit Group Members	Eliminating Entries	Total
Unrestricted Revenue, Gains, and Other Support				
Patient service revenue	\$ 7,809,310	\$ 286,219	\$ (329,792)	\$ 7,765,737
Revenue deductions	(5,190,321)	(86,268)	288,117	(4,988,472)
Net patient service revenue	2,618,989	199,951	(41,675)	2,777,265
Provision for bad debts	(100,072)	(5,262)	-	(105,334)
Net patient service revenue less provision for bad debts	2,518,917	194,689	(41,675)	2,671,931
Premium revenue	-	1,009,905	(1,030)	1,008,875
Other	302,745	63,918	(232,068)	134,595
Net assets released from restrictions used for operations	8,102	5,198	-	13,300
Total unrestricted revenue, gains, and other support	2,829,764	1,273,710	(274,773)	3,828,701
Expenses				
Salaries and wages	1,025,157	148,025	(36,909)	1,136,273
Employee benefits and payroll taxes	215,896	24,928	(16,908)	223,916
Supplies	524,324	48,103	(1,764)	570,663
Purchased services and other	737,422	340,983	(156,994)	921,411
Professional and other liability costs	13,228	14,708	(5,440)	22,496
Healthcare claims expense	-	696,504	(40,881)	655,623
Depreciation and amortization	115,843	10,609	(15,479)	110,973
Interest expense	17,365	286	(398)	17,253
Total expenses	2,649,235	1,284,146	(274,773)	3,658,608
Operating Income - Before nonrecurring impairment loss	180,529	(10,436)	-	170,093
Nonrecurring Impairment Loss	12,192	-	-	12,192
Operating Income (Loss)	168,337	(10,436)	-	157,901
Other Income				
Investment income	44,204	4,811	-	49,015
Change in interest rate swap agreements	15,512	-	-	15,512
Change in unrealized gains and losses on investments	61,968	15,033	-	77,001
Other	1,322	-	-	1,322
Total other income	123,006	19,844	-	142,850
Excess of Revenue Over Expenses	291,343	9,408	-	300,751
Contributions for Capital	2,303	97	-	2,400
Net Assets Transferred (to) from Affiliate	(22,486)	22,486	-	-
Other Changes in Net Assets	2,675	536	-	3,211
Pension-related Changes Other Than Net Periodic Benefit Cost	95,837	5,259	-	101,096
Net Assets Released from Restriction	2,440	1,879	-	4,319
Increase in Unrestricted Net Assets	\$ 372,112	\$ 39,665	\$ -	\$ 411,777