

**McLEOD HEALTH**

**FINANCIAL INFORMATION FOR THE CONSOLIDATED &  
OBLIGATED GROUP UNDER THE AMENDED AND RESTATED  
MASTER TRUST INDENTURE DATED JANUARY 15, 1998**

**SECOND QUARTER REPORT**

**SIX MONTHS ENDING MARCH 31, 2017 AND 2016**

*Note: These unaudited financial statements have been prepared in accordance with generally accepted accounting procedures for interim financial information. They do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals and estimates) considered necessary for a fair presentation have been included. The year-to-date operating results reflected on these financial statements are not necessarily indicative of the results that may be expected for the entire fiscal year.*

**McLeod Health**  
**Second Quarter Report**  
**Six Months Ending March 31, 2017 and 2016**

**Summary of Utilization and Financial Performance**

***Six Months Ending March 31, 2017 compared to Six Months Ending March 31, 2016***

An affiliation agreement between 81-bed Clarendon Hospital District d/b/a Clarendon Health System ("Clarendon") and McLeod Health became effective July 12, 2016. On such date Clarendon began leasing its assets (excluding the nursing homes) to McLeod Health Clarendon ("MHCL"), a South Carolina non-profit corporation of which McLeod Health is the sole member. Upon entering the agreement, McLeod Health paid off all existing Clarendon debt. Effective July 12, 2016 MHCL was added as a "Member of the Obligated Group" under the Amended and Restated Master Trust Indenture dated January 15, 1998 by and between McLeod Regional Medical Center of the Pee Dee, Inc. and US Bank, N.A. (formerly First Union National Bank) as Master Trustee. As of September 30, 2016, valuations are complete and are reflected in the accompanying unaudited financial statements.

The Obligated Group had 17,970 admissions (consisting of 16,868 acute care, 224 swing bed, 432 hospice and 446 behavioral health admissions) and 96,000 days (consisting of 83,230 acute care, 6,961 swing bed, 2,542 hospice and 3,267 behavioral health days), an 11.5% increase in admissions and 7.5% increase in patient days from the same period in 2016, respectively. Inpatient surgeries increased to 4,066 (up 6.6%). Emergency room visits increased to 78,396 (up 20.6%) and outpatient surgeries increased to 7,744 (up 14.7%) from the same period last year. The addition of Clarendon is partially responsible for inpatient growth; however, exclusive of them admissions and days were up 4.3% and 1.7%, respectively. Surgeries and emergency room visits were up 5.0% and 1.9%, respectively, exclusive of them.

Total System operating revenue was \$552.2M including \$60.6M from McLeod Loris Seacoast Hospital ("MLSH"), which is not part of the Obligated Group under the Amended and Restated Master Trust Indenture dated January 15, 1998. This amount was up 13.7% from \$485.8M (including \$61.1M from MLSH) and operating income of \$33.8M (including -\$0.2M from MLSH) was up 3.3% from \$32.8M (including \$3.1M from MLSH) during the same period in 2016. The System experienced a net unrealized gain of \$1.4M and a net realized gain of \$37.9M on investments. Unrestricted cash and investments of \$892.3M (including \$10.6M from MLSH) at March 31, 2017 were up 1.8% from \$876.2M (including \$7.9M from MLSH) held at March 31, 2016.

**FINANCIAL PERFORMANCE**

**Summary of Consolidated Statements of Operations (Unaudited)**

(in Thousands of Dollars)	Six Months Ending March 31,	
	2017	2016
<b>Revenue, Gains, and Other Support</b>		
Net Patient Service Revenue	\$526,499	\$464,383
Other Operating Revenues	<u>25,726</u>	<u>21,459</u>
Total Revenue, Gains, and Other Support	552,225	485,842
<b>Expenses</b>		
Personnel	297,842	256,928
Other	185,173	163,138
Interest	7,014	7,068
Depreciation and Amortization	<u>28,375</u>	<u>25,956</u>
Subtotal	<u>518,405</u>	<u>453,090</u>
<b>Income from Operations</b>	33,820	32,752
<b>Other Revenues (Expenses)</b>		
Investment Management Fees	(778)	(1,092)
Investment Income (Loss)	42,902	3,859
Other Revenues (Expenses)	822	2,079
Unrealized Gains (Losses)	<u>1,402</u>	<u>14,817</u>
<b>Increase (Decrease) in Total Net Assets</b>	<b><u>\$78,168</u></b>	<b><u>\$52,414</u></b>

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**UTILIZATION**

	<b>Six Months Ending March 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>McLeod Regional Medical Center</b>		
Acute Admissions (excludes newborns)	13,517	12,879
Hospice Admissions	432	401
Acute Days (excludes newborns)	71,930	72,401
Hospice Days	2,542	2,240
Acute Length of Stay (excludes newborns)	5.32	5.62
Hospice Length of Stay	5.88	5.59
Emergency Department Visits	38,485	38,296
Inpatient Surgery Procedures	3,294	3,297
Outpatient Surgery Procedures	6,436	6,003
Open Heart Procedures	186	177
Newborn Deliveries	984	1,083
Medicare Case Mix Index	1.86	1.82
<b>McLeod Medical Center - Dillon</b>		
Acute Admissions (excludes newborns)	1,209	1,348
Swing Bed Admissions	17	0
Acute Days (excludes newborns)	3,873	4,248
Swing Bed Days	700	0
Acute Length of Stay (excludes newborns)	3.20	3.15
Swing Bed Length of Stay	41.18	0.00
Emergency Department Visits	17,694	17,435
Inpatient Surgery Procedures	227	201
Outpatient Surgery Procedures	438	414
Newborn Deliveries	150	149
Medicare Case Mix Index	1.37	1.27
<b>McLeod Medical Center - Darlington</b>		
Acute Admissions	39	58
Swing Bed Admissions	94	66
Behavioral Health Admissions	446	441
Acute Days	159	277
Swing Bed Days	3,666	3,569
Behavioral Health Days	3,267	3,153
Acute Length of Stay	4.08	4.78
Swing Bed Length of Stay	39.00	54.08
Behavioral Health Length of Stay	7.33	7.15
Medicare Case Mix Index	1.08	1.07
<b>McLeod Health Cheraw</b>		
Acute Admissions	1,037	917
Swing Bed Admissions	25	12
Acute Days	3,648	3,181
Swing Bed Days	1,008	216
Acute Length of Stay	3.52	3.47
Swing Bed Length of Stay	40.32	18.00
Emergency Department Visits	10,072	9,254
Inpatient Surgery Procedures	143	141
Outpatient Surgery Procedures	373	335
Newborn Deliveries	101	109
Medicare Case Mix Index	1.22	1.19

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**UTILIZATION *Continued...***

	<b>Six Months Ending March 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>McLeod Health Clarendon</b>		
Acute Admissions	1,066	0
Swing Bed Admissions	88	0
Acute Days	3,620	0
Swing Bed Days	1,587	0
Acute Length of Stay	3.40	0.00
Swing Bed Length of Stay	18.03	0.00
Emergency Department Visits	12,145	0
Inpatient Surgery Procedures	216	0
Outpatient Surgery Procedures	497	0
Newborn Deliveries	198	0
Medicare Case Mix Index	1.34	0.00
<b>McLeod Loris/Seacoast Hospital (Non-Obligated Group*)</b>		
Acute Admissions (excludes newborns)	2,764	2,660
Acute Days (excludes newborns)	10,316	9,190
Acute Length of Stay (excludes newborns)	3.73	3.45
Emergency Department Visits	27,374	26,369
Inpatient Surgery Procedures	1,153	828
Outpatient Surgery Procedures	1,720	1,706
Newborn Deliveries	218	216
Medicare Case Mix Index	1.50	1.44

*\*See Note at bottom of Page 5*

**Sources of Revenue**

Payments to the Obligated Group are made on behalf of certain patients by third-party payors, including Federal and State governments under the Medicare and Medicaid programs, commercial indemnity insurance providers and managed care providers.

The percentage distribution of the Obligated Group's total gross patient service revenue by source of payment for the six months ending March 31, 2017 and 2016 is set forth in the following table.

**Percentage of Total Obligated Group Gross Revenues by Payor Categories**

	<b>Six Months Ending March 31,</b>	
	<b>2017</b>	<b>2016</b>
Medicare	49.17%	48.87%
Medicaid	15.49%	17.02%
Contracted Payors	26.52%	25.85%
<u>Self Pay</u>	<u>8.82%</u>	<u>8.26%</u>
Total	100.00%	100.00%

Source: Internal Records

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**Current Indebtedness of the Obligated Group**

**Long-term Debt.** Long-term debt of the Obligated Group includes the following indebtedness secured by Master Trust Indenture Obligations as of March 31, 2017.

<b>Bonds Outstanding</b>	<b>Master Trust Indenture Obligation Securing Debt</b>	<b>March 31, 2017</b>
Hospital Revenue Bonds (McLeod Regional Medical Center Project), Series 2010A, final maturity November 1, 2037	Obligation No. 12	\$105,765,000
Hospital Revenue Bonds (McLeod Regional Medical Center Project), Series 2010B, final maturity November 1, 2040	Obligation No. 13	\$46,770,000
Hospital Revenue Bonds (McLeod Regional Medical Center Project), Series 2014, final maturity November 1, 2034	Obligation No. 14	\$60,780,000
Unamortized Premiums/Discounts on Above Bond Obligations		\$8,265,815
<b>TOTAL</b>		<b>\$221,580,815</b>

As of March 31, 2017, the members of the Obligated Group have indebtedness of \$10,127,282 that is not secured by a Master Trust Indenture Obligation but is a guarantee issued by the Borrower in respect of a commercial loan to McLeod Medical Partners, LLC. The Borrower also has guaranteed the amounts payable by McLeod Medical Partners, LLC under the terms of an adjusted LIBOR rate swap agreement related to such commercial loan.

**Short-term Debt.** McLeod Health has an unsecured line of credit with Wells Fargo Bank, National Association in the amount of \$20,000,000. Outstanding balances from draws on the line of credit bear interest at LIBOR plus 1.25% (2.23% at March 31, 2017), and interest is payable monthly. There were no outstanding balances at March 31, 2017.

**Current Indebtedness of the Non-Obligated Group\***

As mentioned previously, McLeod Medical Partners, LLC has a commercial loan outstanding in the amount of \$10,127,282. In addition, MLSH has outstanding indebtedness in the amount of \$65,446,359 consisting primarily of a Federal Housing Administration insured mortgage note payable. The mortgage is secured by all current or future properties and revenues of MLSH.

*\*Note: Although MLSH is obligated under a Federal Housing Administration insured mortgage note payable, for purposes of this document it is considered part of the "Non-Obligated Group" under the Amended and Restated Master Trust Indenture dated January 15, 1998.*

**McLEOD HEALTH**  
**OBLIGATED GROUP UNAUDITED BALANCE SHEET**

	<u>03/31/17</u>	<u>03/31/16</u>
<b>ASSETS:</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$8,749,324	\$32,607,660
Investments	0	0
Receivables		
Net Patient Receivables	129,395,358	99,477,727
Other	53,492,366	23,206,816
Inventories	10,668,658	8,447,296
Prepaid expenses	12,391,386	10,304,382
<b>Total Current Assets</b>	<u>214,697,092</u>	<u>174,043,881</u>
<b>Assets whose use is limited</b>	861,736,985	826,886,321
<b>Net property and equipment</b>	561,551,882	482,821,819
<b>Other assets</b>		
Net Bond issue costs	2,301,151	2,395,624
Net certificates of need and goodwill	3,261,544	3,261,544
Other assets	25,178,389	21,796,313
<b>TOTAL ASSETS:</b>	<u><u>\$1,668,727,043</u></u>	<u><u>\$1,511,205,502</u></u>
<b>LIABILITIES AND NET ASSETS:</b>		
<b>Current Liabilities</b>		
Current portion of long term debt	5,077,548	4,887,548
Accounts payable	32,328,004	37,381,788
Accrued expenses and other liabilities	55,808,642	48,716,281
Estimated third-party payor settlements	45,856,697	46,317,143
<b>Total Current Liabilities</b>	<u>139,070,891</u>	<u>137,302,760</u>
<b>Long-term debt less current maturities</b>	<u>216,503,267</u>	<u>221,580,815</u>
<b>Total Liabilities</b>	355,574,158	358,883,575
<b>Non-Owned Interest in Net Assets</b>	0	0
<b>Owned Interest in Net Assets</b>		
Unrestricted	1,313,152,885	1,152,321,927
Temporarily restricted	0	0
Permanently restricted	0	0
<b>Total Net Assets</b>	<u>1,313,152,885</u>	<u>1,152,321,927</u>
<b>TOTAL LIABILITIES AND NET ASSETS:</b>	<u><u>\$1,668,727,043</u></u>	<u><u>\$1,511,205,502</u></u>

<p style="text-align: center;"><b>McLEOD HEALTH</b></p> <p style="text-align: center;"><b>OBLIGATED GROUP UNAUDITED OPERATING STATEMENT</b></p>
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	Six Months Ending March 31,	
	2017	2016
<b>REVENUES AND EXPENSES:</b>		
Patient Revenue:		
Inpatient Revenue	\$903,476,191	\$844,156,009
Outpatient Revenue	780,957,820	663,834,741
Physician Fees	209,783,948	173,377,402
Total Patient Revenue	1,894,217,959	1,681,368,152
Revenue Deductions:		
Contractual Allowances	1,246,244,525	1,105,237,959
Bad Debts	122,386,766	136,017,344
Provision for Charity Care	58,557,472	35,441,875
Total Deductions from Revenue	1,427,188,763	1,276,697,178
Net patient services revenue	467,029,196	404,670,974
Other operating revenue	23,554,119	20,760,802
Total Operating Revenue	490,583,315	425,431,776
Operating Expenses:		
Salaries	218,811,671	190,225,735
Employee Benefits	46,426,499	40,183,312
Contract Labor	4,247,510	1,568,628
Physician Fees	9,172,349	4,909,155
Professional Fees	(1,441,419)	(1,557,455)
Medical Supplies and Drugs	78,920,257	65,731,146
Other Supplies	8,536,315	6,768,431
Purchased Services	28,360,124	26,781,636
Facility Related Costs	13,719,021	11,821,375
Insurance	3,524,287	3,047,444
Depreciation, Amortization	25,214,541	23,056,756
Interest	4,365,425	4,366,195
Other Expenses	19,190,764	18,948,947
Total Operating Expenses	459,047,344	395,851,305
Income from Operations	31,535,971	29,580,471
Non-Operating Revenues (Expenses)		
Interest and Dividends	4,818,355	5,852,735
Realized Gains (Losses)	37,619,094	(2,043,701)
Unrealized Gains (Losses)	1,745,711	14,684,793
Management Fees	(766,574)	(1,078,226)
Other	1,049,909	1,777,708
Net Non-Operating Revenues (Expenses)	44,466,495	19,193,309
Increase in Net Assets	\$76,002,466	\$48,773,780

**McLEOD HEALTH**  
**CONSOLIDATED UNAUDITED BALANCE SHEET**

	<u>03/31/17</u>	<u>03/31/16</u>
<b>ASSETS:</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$28,167,513	\$46,232,930
Investments	6,622,223	6,171,607
Receivables		
Net Patient Receivables	144,832,355	113,801,383
Other	7,208,239	3,979,111
Inventories	13,750,618	10,795,984
Prepaid expenses	14,550,708	11,922,566
<b>Total Current Assets</b>	<u>215,131,656</u>	<u>192,903,581</u>
<b>Assets whose use is limited</b>	869,088,760	832,939,194
<b>Net property and equipment</b>	693,913,744	592,179,963
<b>Other assets</b>		
Net Bond issue costs	2,301,151	2,395,624
Net certificates of need and goodwill	3,261,544	3,261,544
Other assets	<u>12,958,865</u>	<u>11,270,089</u>
<b>TOTAL ASSETS:</b>	<u><u>\$1,796,655,720</u></u>	<u><u>\$1,634,949,995</u></u>
<b>LIABILITIES AND NET ASSETS:</b>		
<b>Current Liabilities</b>		
Current portion of long term debt	7,082,662	6,763,188
Accounts payable	36,141,978	40,466,049
Accrued expenses and other liabilities	61,388,489	55,038,185
Estimated third-party payor settlements	55,905,970	49,909,806
<b>Total Current Liabilities</b>	<u>160,519,099</u>	<u>152,177,228</u>
<b>Long-term debt less current maturities</b>	<u>290,071,794</u>	<u>297,128,295</u>
<b>Total Liabilities</b>	450,590,893	449,305,523
<b>Non-Owned Interest in Net Assets</b>	3,789,575	3,220,728
<b>Owned Interest in Net Assets</b>		
Unrestricted	1,335,184,252	1,175,703,744
Temporarily restricted	6,349,000	5,978,000
Permanently restricted	742,000	742,000
<b>Total Net Assets</b>	<u>1,342,275,252</u>	<u>1,182,423,744</u>
<b>TOTAL LIABILITIES AND NET ASSETS:</b>	<u><u>\$1,796,655,720</u></u>	<u><u>\$1,634,949,995</u></u>



<p style="text-align: center;"><b>McLEOD HEALTH</b>  <b>CONSOLIDATED UNAUDITED OPERATING STATEMENT</b></p>
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	Six Months Ending March 31,	
	2017	2016
<b>REVENUES AND EXPENSES:</b>		
Patient Revenue:		
Inpatient Revenue	\$1,015,315,417	\$938,740,467
Outpatient Revenue	959,643,639	825,816,528
Physician Fees	215,490,592	178,327,114
Total Patient Revenue	2,190,449,648	1,942,884,109
Revenue Deductions:		
Contractual Allowances	1,455,300,608	1,282,803,003
Bad Debts	144,396,558	157,924,116
Provision for Charity Care	64,253,550	37,774,110
Total Deductions from Revenue	1,663,950,716	1,478,501,229
Net patient services revenue	526,498,932	464,382,880
Other operating revenue	25,726,258	21,459,083
Total Operating Revenue	552,225,190	485,841,963
Operating Expenses:		
Salaries	241,515,093	209,909,162
Employee Benefits	51,646,073	44,954,638
Contract Labor	4,681,327	2,063,832
Physician Fees	12,775,555	11,385,500
Professional Fees	4,431,642	3,900,490
Medical Supplies and Drugs	89,171,716	73,878,276
Other Supplies	9,513,545	7,726,900
Purchased Services	34,179,641	32,191,578
Facility Related Costs	10,100,168	9,120,322
Insurance	4,254,481	3,757,082
Depreciation, Amortization	28,374,989	25,956,370
Interest	7,014,401	7,067,774
Other Expenses	20,746,360	21,177,701
Total Operating Expenses	518,404,991	453,089,625
Income from Operations	33,820,199	32,752,338
Non-Operating Revenues (Expenses)		
Interest and Dividends	5,025,016	5,902,084
Realized Gains (Losses)	37,877,296	(2,043,361)
Unrealized Gains (Losses)	1,401,987	14,816,742
Management Fees	(778,296)	(1,092,402)
Other	822,244	2,078,956
Net Non-Operating Revenues (Expenses)	44,348,247	19,662,019
Increase in Net Assets	\$78,168,446	\$52,414,357