

**McLEOD HEALTH**

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

**THIRD QUARTER REPORT**

**NINE MONTHS ENDING JUNE 30, 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**  
**Third Quarter Report**  
**Nine Months Ending June 30, 2017 and 2016**

**Summary of Utilization and Financial Performance**

*Nine Months Ending June 30, 2017 compared to Nine Months Ending June 30, 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 26,734 admissions (consisting of 25,032 acute care, 346 swing bed, 692 hospice and 664 behavioral health admissions) and 143,021 days (consisting of 123,913 acute care, 10,499 swing bed, 3,627 hospice and 4,982 behavioral health days), an 11.4% increase in admissions and 8.6% increase in patient days from the same period in 2016, respectively. Inpatient surgeries increased to 6,076 (up 7.6%). Emergency room visits increased to 118,974 (up 21.6%) and outpatient surgeries increased to 11,703 (up 13.5%) 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 4.5% and 2.9%, respectively. Surgeries and emergency room visits were up 4.7% and 2.4%, respectively, exclusive of them.

Total System operating revenue was \$829.4M including \$91.0M 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 13.0% from \$734.2M (including \$91.1M from MLSH) and operating income of \$45.0M (including -\$1.3M from MLSH) was up 0.4% from \$44.8M (including \$2.8M from MLSH) during the same period in 2016. The System experienced a net unrealized gain of \$27.1M and a net realized gain of \$40.1M on investments. Unrestricted cash and investments of \$916.5M (including \$8.0M from MLSH) at June 30, 2017 were up 2.3% from \$895.6M (including \$5.2M from MLSH) held at June 30, 2016.

**FINANCIAL PERFORMANCE**

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

(in Thousands of Dollars)	Nine Months Ending June 30,	
	2017	2016
<b>Revenue, Gains, and Other Support</b>		
Net Patient Service Revenue	\$786,898	\$698,440
Other Operating Revenues	<u>42,532</u>	<u>35,762</u>
Total Revenue, Gains, and Other Support	829,430	734,202
<b>Expenses</b>		
Personnel	452,479	387,753
Other	278,797	251,741
Interest	10,560	10,603
Depreciation and Amortization	<u>42,634</u>	<u>39,321</u>
Subtotal	<u>784,470</u>	<u>689,417</u>
<b>Income from Operations</b>	44,960	44,785
<b>Other Revenues (Expenses)</b>		
Investment Management Fees	(765)	(1,525)
Investment Income (Loss)	47,222	7,658
Other Revenues (Expenses)	706	1,930
Unrealized Gains (Losses)	<u>27,126</u>	<u>29,485</u>
<b>Increase (Decrease) in Total Net Assets</b>	<b><u>\$119,249</u></b>	<b><u>\$82,332</u></b>

**McLeod Health**  
**Third Quarter Report**  
**Nine Months Ending June 30, 2017 and 2016**

**UTILIZATION**

	<b>Nine Months Ending June 30,</b>	
	<b>2017</b>	<b>2016</b>
<b>McLeod Regional Medical Center</b>		
Acute Admissions (excludes newborns)	20,155	19,250
Hospice Admissions	692	605
Acute Days (excludes newborns)	107,570	106,298
Hospice Days	3,627	3,249
Acute Length of Stay (excludes newborns)	5.34	5.52
Hospice Length of Stay	5.24	5.37
Emergency Department Visits	57,896	57,405
Inpatient Surgery Procedures	4,965	4,873
Outpatient Surgery Procedures	9,721	9,221
Open Heart Procedures	294	281
Newborn Deliveries	1,474	1,607
Medicare Case Mix Index	1.87	1.84
<b>McLeod Medical Center - Dillon</b>		
Acute Admissions (excludes newborns)	1,763	1,967
Swing Bed Admissions	24	6
Acute Days (excludes newborns)	5,590	6,119
Swing Bed Days	1,024	89
Acute Length of Stay (excludes newborns)	3.17	3.11
Swing Bed Length of Stay	42.67	14.83
Emergency Department Visits	26,576	26,360
Inpatient Surgery Procedures	326	288
Outpatient Surgery Procedures	633	616
Newborn Deliveries	211	206
Medicare Case Mix Index	1.34	1.25
<b>McLeod Medical Center - Darlington</b>		
Acute Admissions	55	79
Swing Bed Admissions	147	91
Behavioral Health Admissions	664	655
Acute Days	274	404
Swing Bed Days	5,553	5,349
Behavioral Health Days	4,982	4,823
Acute Length of Stay	4.98	5.11
Swing Bed Length of Stay	37.78	58.78
Behavioral Health Length of Stay	7.50	7.36
Medicare Case Mix Index	1.08	1.09
<b>McLeod Health Cheraw</b>		
Acute Admissions	1,544	1,326
Swing Bed Admissions	38	23
Acute Days	5,464	4,569
Swing Bed Days	1,469	783
Acute Length of Stay	3.54	3.45
Swing Bed Length of Stay	38.66	34.04
Emergency Department Visits	15,724	14,087
Inpatient Surgery Procedures	204	205
Outpatient Surgery Procedures	570	472
Newborn Deliveries	154	147
Medicare Case Mix Index	1.27	1.20

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**McLeod Health**  
**Third Quarter Report**  
**Nine Months Ending June 30, 2017 and 2016**

**UTILIZATION *Continued...***

	<b>Nine Months Ending June 30,</b>	
	<b>2017</b>	<b>2016</b>
<b>McLeod Health Clarendon</b>		
Acute Admissions	1,515	0
Swing Bed Admissions	137	0
Acute Days	5,015	0
Swing Bed Days	2,453	0
Acute Length of Stay	3.31	0.00
Swing Bed Length of Stay	17.91	0.00
Emergency Department Visits	18,778	0
Inpatient Surgery Procedures	287	0
Outpatient Surgery Procedures	779	0
Newborn Deliveries	267	0
Medicare Case Mix Index	1.33	0.00
<b>McLeod Loris/Seacoast Hospital (Non-Obligated Group*)</b>		
Acute Admissions (excludes newborns)	4,137	3,980
Acute Days (excludes newborns)	15,448	13,662
Acute Length of Stay (excludes newborns)	3.73	3.43
Emergency Department Visits	41,369	40,668
Inpatient Surgery Procedures	1,766	1,377
Outpatient Surgery Procedures	2,715	2,591
Newborn Deliveries	322	332
Medicare Case Mix Index	1.51	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 nine months ending June 30, 2017 and 2016 is set forth in the following table.

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

	<b>Nine Months Ending June 30,</b>	
	<b>2017</b>	<b>2016</b>
Medicare	48.85%	48.53%
Medicaid	15.63%	16.80%
Contracted Payors	26.57%	26.30%
<u>Self Pay</u>	<u>8.95%</u>	<u>8.37%</u>
Total	100.00%	100.00%

Source: Internal Records

**McLeod Health**  
**Third Quarter Report**  
**Nine Months Ending June 30, 2017 and 2016**

**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 June 30, 2017.

<b>Bonds Outstanding</b>	<b>Master Trust Indenture Obligation Securing Debt</b>	<b>June 30, 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		\$8,190,178
<b>TOTAL</b>		<b>\$221,505,178</b>

As of June 30, 2017, the members of the Obligated Group have indebtedness of \$10,017,349 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% (2.48% at June 30, 2017), and interest is payable monthly. There were no outstanding balances at June 30, 2017.

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

As mentioned previously, McLeod Medical Partners, LLC has a commercial loan outstanding in the amount of \$10,017,349. In addition, MLSH has outstanding indebtedness in the amount of \$65,063,691 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>06/30/17</u>	<u>06/30/16</u>
<b>ASSETS:</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$6,146,656	\$22,395,196
Investments	0	0
Receivables		
Net Patient Receivables	138,575,711	94,064,591
Other	59,024,700	31,081,372
Inventories	11,366,234	8,580,872
Prepaid expenses	10,924,029	12,094,073
<b>Total Current Assets</b>	<u>226,037,330</u>	<u>168,216,104</u>
<b>Assets whose use is limited</b>	891,061,175	858,886,108
<b>Net property and equipment</b>	567,666,304	488,285,686
<b>Other assets</b>		
Net Bond issue costs	2,277,533	2,372,006
Net certificates of need and goodwill	3,261,544	3,261,544
Other assets	<u>25,659,240</u>	<u>22,240,667</u>
<b>TOTAL ASSETS:</b>	<u><u>\$1,715,963,126</u></u>	<u><u>\$1,543,262,115</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	38,062,631	38,189,999
Accrued expenses and other liabilities	53,854,237	45,692,134
Estimated third-party payor settlements	48,743,140	49,909,670
<b>Total Current Liabilities</b>	<u>145,737,556</u>	<u>138,679,351</u>
<b>Long-term debt less current maturities</b>	<u>216,427,630</u>	<u>221,505,178</u>
<b>Total Liabilities</b>	362,165,186	360,184,529
<b>Non-Owned Interest in Net Assets</b>	0	0
<b>Owned Interest in Net Assets</b>		
Unrestricted	1,353,797,940	1,183,077,586
Temporarily restricted	0	0
Permanently restricted	0	0
<b>Total Net Assets</b>	<u>1,353,797,940</u>	<u>1,183,077,586</u>
<b>TOTAL LIABILITIES AND NET ASSETS:</b>	<u><u>\$1,715,963,126</u></u>	<u><u>\$1,543,262,115</u></u>

<p style="text-align: center;"><b>M c L E O D   H E A L T H</b></p> <p style="text-align: center;"><b>OBLIGATED GROUP UNAUDITED OPERATING STATEMENT</b></p>
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	Nine Months Ending June 30,	
	2017	2016
<b>REVENUES AND EXPENSES:</b>		
Patient Revenue:		
Inpatient Revenue	\$1,353,750,386	\$1,256,564,860
Outpatient Revenue	1,195,166,010	1,018,564,674
Physician Fees	330,341,646	263,619,623
Total Patient Revenue	2,879,258,042	2,538,749,157
Revenue Deductions:		
Contractual Allowances	1,895,499,083	1,675,969,495
Bad Debts	163,300,653	186,345,314
Provision for Charity Care	122,753,338	66,384,821
Total Deductions from Revenue	2,181,553,074	1,928,699,630
Net patient services revenue	697,704,968	610,049,527
Other operating revenue	39,401,002	33,505,201
Total Operating Revenue	737,105,970	643,554,728
Operating Expenses:		
Salaries	331,390,183	287,058,913
Employee Benefits	70,766,626	59,953,347
Contract Labor	7,396,897	2,917,968
Physician Fees	14,243,874	8,760,052
Professional Fees	(1,592,101)	(1,927,357)
Medical Supplies and Drugs	118,844,458	102,672,594
Other Supplies	12,313,704	10,401,013
Purchased Services	44,170,528	41,383,069
Facility Related Costs	21,108,998	18,085,130
Insurance	5,053,601	4,601,235
Depreciation, Amortization	37,858,503	34,929,586
Interest	6,608,381	6,561,157
Other Expenses	27,082,249	26,262,240
Total Operating Expenses	695,245,901	601,658,947
Income from Operations	41,860,069	41,895,781
Non-Operating Revenues (Expenses)		
Interest and Dividends	6,918,625	9,321,480
Realized Gains (Losses)	39,736,363	(1,730,546)
Unrealized Gains (Losses)	27,493,586	29,428,887
Management Fees	(747,402)	(1,504,940)
Other	1,059,360	2,118,772
Net Non-Operating Revenues (Expenses)	74,460,532	37,633,653
Increase in Net Assets	\$116,320,601	\$79,529,434

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

	<b>06/30/17</b>	<b>06/30/16</b>
<b>ASSETS:</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$22,091,625	\$33,486,351
Investments	7,578,267	6,303,599
Receivables		
Net Patient Receivables	154,109,835	109,733,397
Other	7,463,432	3,636,111
Inventories	14,354,720	10,911,731
Prepaid expenses	12,913,468	13,531,824
<b>Total Current Assets</b>	<b>218,511,347</b>	<b>177,603,013</b>
<b>Assets whose use is limited</b>	<b>898,721,624</b>	<b>865,284,051</b>
<b>Net property and equipment</b>	<b>705,786,610</b>	<b>604,478,254</b>
<b>Other assets</b>		
Net Bond issue costs	2,277,533	2,372,006
Net certificates of need and goodwill	3,261,544	3,261,544
Other assets	13,437,354	11,712,081
<b>TOTAL ASSETS:</b>	<b><u>\$1,841,996,012</u></b>	<b><u>\$1,664,710,949</u></b>
<b>LIABILITIES AND NET ASSETS:</b>		
<b>Current Liabilities</b>		
Current portion of long term debt	7,116,510	6,797,797
Accounts payable	41,988,374	42,271,195
Accrued expenses and other liabilities	58,490,842	51,020,066
Estimated third-party payor settlements	57,889,065	52,360,006
<b>Total Current Liabilities</b>	<b>165,484,791</b>	<b>152,449,064</b>
<b>Long-term debt less current maturities</b>	<b>289,469,708</b>	<b>296,557,223</b>
<b>Total Liabilities</b>	<b>454,954,499</b>	<b>449,006,287</b>
<b>Non-Owned Interest in Net Assets</b>	<b>3,914,929</b>	<b>3,362,927</b>
<b>Owned Interest in Net Assets</b>		
Unrestricted	1,376,035,584	1,205,621,735
Temporarily restricted	6,349,000	5,978,000
Permanently restricted	742,000	742,000
<b>Total Net Assets</b>	<b>1,383,126,584</b>	<b>1,212,341,735</b>
<b>TOTAL LIABILITIES AND NET ASSETS:</b>	<b><u>\$1,841,996,012</u></b>	<b><u>\$1,664,710,949</u></b>



<p style="text-align: center;"><b>McLEOD HEALTH</b>  <b>CONSOLIDATED UNAUDITED OPERATING STATEMENT</b></p>
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	Nine Months Ending June 30,	
	2017	2016
<b>REVENUES AND EXPENSES:</b>		
Patient Revenue:		
Inpatient Revenue	\$1,520,453,933	\$1,400,183,570
Outpatient Revenue	1,472,223,971	1,272,120,577
Physician Fees	339,305,125	271,308,281
Total Patient Revenue	3,331,983,029	2,943,612,428
Revenue Deductions:		
Contractual Allowances	2,215,714,747	1,953,936,209
Bad Debts	189,814,149	221,606,716
Provision for Charity Care	139,556,015	69,629,495
Total Deductions from Revenue	2,545,084,911	2,245,172,420
Net patient services revenue	786,898,118	698,440,008
Other operating revenue	42,532,080	35,761,971
Total Operating Revenue	829,430,198	734,201,979
Operating Expenses:		
Salaries	365,704,929	316,971,641
Employee Benefits	78,731,352	67,100,238
Contract Labor	8,042,422	3,680,923
Physician Fees	19,679,618	18,526,562
Professional Fees	7,220,242	6,478,568
Medical Supplies and Drugs	135,070,487	115,614,856
Other Supplies	13,697,267	11,870,844
Purchased Services	52,237,013	50,268,868
Facility Related Costs	15,663,102	13,961,414
Insurance	6,120,436	5,674,049
Depreciation, Amortization	42,634,115	39,321,117
Interest	10,560,077	10,602,757
Other Expenses	29,108,640	29,345,639
Total Operating Expenses	784,469,700	689,417,476
Income from Operations	44,960,498	44,784,503
Non-Operating Revenues (Expenses)		
Interest and Dividends	7,159,678	9,391,941
Realized Gains (Losses)	40,061,855	(1,733,861)
Unrealized Gains (Losses)	27,125,758	29,485,443
Management Fees	(765,310)	(1,525,288)
Other	706,341	1,929,597
Net Non-Operating Revenues (Expenses)	74,288,322	37,547,832
Increase in Net Assets	\$119,248,820	\$82,332,335