MCLEOD HEALTH

Consolidated Financial Statements

September 30, 2019 and 2018

(With Independent Auditors' Report Thereon)

MCLEOD HEALTH

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KPMG LLP
Suite 260
40 West Broad Street
Greenville, SC 29601-2610

Independent Auditors' Report

The Board of Trustee
McLeod Health
Florence, South Carolina:

We have audited the accompanying consolidated financial statements of McLeod Health, which comprise the consolidated balance sheets as of September 30, 2019 and 2018, 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 U.S. generally accepted accounting principles; 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.

Auditors' 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 audit 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 auditors' 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 McLeod Health as of September 30, 2019 and 2018, and the results of its operations and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP is a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Emphasis of Matter

As discussed in note 1(q) to the consolidated financial statements, McLeod Health adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, and ASU No. 2014-09, *Revenue from Contracts with Customers* during the year ended September 30, 2019 on a retrospective basis. Our opinion is not modified with respect to these matters.

KPMG LLP

Greenville, South Carolina
December 13, 2019

MCLEOD HEALTH

Consolidated Balance Sheets

September 30, 2019 and 2018

(In thousands)

Assets		2019	2018
Current assets:			
Cash and cash equivalents	$	30,411	22,951
Investments		4,096	4,947
Net patient receivables		151,041	138,244
Other receivables, net		9,064	8,265
Inventories		15,732	18,766
Prepaid expenses		17,966	14,537
Total current assets		228,310	207,710
Assets limited as to use		1,044,410	1,039,850
Property and equipment – net		821,146	773,533
Goodwill		3,262	3,262
Other assets		18,882	15,866
Total assets	$	2,116,010	2,040,221
Liabilities and Net Assets			
Current liabilities:			
Current portion of long-term debt	$	11,824	8,792
Accounts payable		63,625	44,238
Accrued expenses and other liabilities		89,132	78,952
Estimated third-party settlements		25,446	39,767
Total current liabilities		190,027	171,749
Long-term debt – net of current portion		367,196	373,721
Total liabilities		557,223	545,470
Net assets:			
Without donor restrictions – attributable to McLeod Health		1,550,796	1,485,013
Without donor restrictions – noncontrolling interest		2,731	2,775
Total net assets without donor restrictions		1,553,527	1,487,788
With donor restrictions		5,260	6,963
Total net assets		1,558,787	1,494,751
Commitments and contingencies (notes 5, 6, 7, 8, 11 and 13)			
Total liabilities and net assets	$	2,116,010	2,040,221

See accompanying notes to consolidated financial statements.

MCLEOD HEALTH

Consolidated Statements of Operations

Years ended September 30, 2019 and 2018

(In thousands)

		2019	2018
Operating revenues:			
Net patient service revenue	$	1,137,453	1,090,741
Other operating revenue		65,205	50,364
Net assets released from restrictions		4,348	7,655
Total operating revenues		1,207,006	1,148,760
Operating expenses:			
Personnel		659,436	633,326
Professional fees		40,393	39,770
Supplies		219,765	209,303
Purchased services		100,747	89,241
Facility-related costs		19,887	22,396
Insurance		9,821	8,844
Other		36,127	33,449
Interest		13,310	13,661
Depreciation and amortization		69,486	64,265
Loss on disposal of property		730	284
Total operating expenses		1,169,702	1,114,539
Income from operations		37,304	34,221
Other nonoperating revenues, net		25,229	43,185
Excess of revenues over expenses		62,533	77,406
Net assets released from restrictions for purchases of property and equipment		3,564	3,229
Increase in net assets without donor restrictions	$	66,097	80,635

See accompanying notes to consolidated financial statements.

MCLEOD HEALTH

Consolidated Statements of Changes in Net Assets

Years ended September 30, 2019 and 2018

(In thousands)

	Without donor restrictions			
	McLeod Health	Noncontrolling interest	With donor restrictions	Total
Net assets – September 30, 2017	$ 1,404,950	2,526	6,967	1,414,443
Excess of revenues over expenses	76,834	572	—	77,406
Restricted donations and investment income	—	—	10,880	10,880
Distributions to noncontrolling interest	—	(323)	—	(323)
Net assets released from restrictions for operations	—	—	(7,655)	(7,655)
Net assets released from restrictions for property and equipment	3,229	—	(3,229)	—
Change in net assets	80,063	249	(4)	80,308
Net assets – September 30, 2018	1,485,013	2,775	6,963	1,494,751
Excess of revenues over expenses	62,219	314	—	62,533
Restricted donations and investment income	—	—	6,809	6,809
Distributions to noncontrolling interest	—	(358)	—	(358)
Net assets released from restrictions for operations	—	—	(4,948)	(4,948)
Net assets released from restrictions for property and equipment	3,564	—	(3,564)	—
Change in net assets	65,783	(44)	(1,703)	64,036
Net assets – September 30, 2019	$ 1,550,796	2,731	5,260	1,558,787

See accompanying notes to consolidated financial statements.

MCLEOD HEALTH

Consolidated Statements of Cash Flows

Years ended September 30, 2019 and 2018

(In thousands)

		2019	2018
Cash flows from operating activities:			
Change in net assets	$	64,036	80,308
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation		70,183	64,596
Amortization of bond issuance costs and bond premium		(697)	(331)
Change in fair market value of interest rate swap agreement		225	(470)
Loss on disposal of property		730	284
Loss on extinguishment of debt		—	10,299
Unrealized and realized gains on investments		(13,617)	(44,909)
Restricted donations and investment income		(6,809)	(10,880)
Noncontrolling interest distributions		358	323
Changes in operating assets and liabilities:			
Patient receivables		(12,797)	(6,903)
Other receivables		(799)	(3,626)
Inventories		3,034	(3,428)
Prepaid expenses		(3,429)	2,556
Other assets		(3,016)	(1,836)
Accounts payable		15,205	(3,060)
Accrued expenses and other liabilities		9,090	7,956
Estimated third-party settlements		(14,321)	(6,716)
Net cash provided by operating activities		107,376	84,163
Cash flows from investing activities:			
Proceeds from sales of trading securities		161,754	356,035
Purchases of trading securities		(176,823)	(339,520)
Purchase of property and equipment		(107,476)	(114,012)
Other investing activities		851	(498)
Net cash used in investing activities		(121,694)	(97,995)
Cash flows from financing activities:			
Borrowings of long-term debt		—	150,837
Repayments of long-term debt		(8,799)	(72,049)
Restricted donations and investment income		6,809	11,799
Noncontrolling interest distributions		(358)	(323)
Net cash used in financing activities		(2,348)	90,264
Net (decrease) increase in cash and cash equivalents		(16,666)	76,432
Cash, cash equivalents, and restricted cash at beginning of year		109,953	33,521
Cash, cash equivalents and restricted cash – end of year	$	93,287	109,953
Supplemental disclosures of cash flow information:			
Cash paid for interest	$	12,701	13,660
Liabilities accrued for the purchase of property and equipment		4,904	722
Cash and cash equivalents	$	30,411	22,951
Restricted cash included in assets limited as to use		62,876	87,002
Total cash, cash equivalents and restricted cash	$	93,287	109,953

See accompanying notes to consolidated financial statements.

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

McLeod Health is a South Carolina nonprofit corporation and is also an organization as described under Sections 501(c)(3) and 509(a)(3) of the Internal Revenue Code (IRC). McLeod Health serves as the parent corporation and sole member of McLeod Regional Medical Center of the Pee Dee, Inc. (McLeod Regional Medical Center or MRMC), McLeod Medical Center – Dillon, McLeod Health Foundation, McLeod Physician Associates II, McLeod Loris Seacoast Hospital, McLeod Health Cheraw, McLeod Healthcare Network, and McLeod Health Clarendon and is the sole shareholder of McLeod Physician Associates, Inc.

McLeod Health serves the healthcare needs of a 15-county region in eastern South Carolina and North Carolina. The activities of the principal entities comprising McLeod Health are summarized as follows:

McLeod Regional Medical Center is a 565-bed teaching hospital and tertiary care referral center located in Florence, South Carolina.

McLeod Medical Center – Dillon is a 79-bed community hospital located in Dillon, South Carolina.

McLeod Medical Center – Darlington is a division of MRMC and operates a 49-bed community hospital located in Darlington, South Carolina.

McLeod Behavioral Health is a division of MRMC and operates a 23-bed psychiatric facility located in Darlington, South Carolina.

McLeod Hospice House is a division of MRMC and operates a 24-bed inpatient hospice facility located in Florence, South Carolina.

McLeod Home Health is a division of MRMC that provides home healthcare services.

McLeod Health Foundation (the Foundation) is a not-for-profit foundation organized to solicit funds for facilities, research, and general support of McLeod Health.

McLeod Health and Fitness Center is a division of MRMC that operates a health and fitness center.

McLeod Physicians Associates, Inc. is a for-profit corporation that was composed of approximately 30 medical practices located throughout the Pee Dee region prior to October 1, 2006. Effective October 1, 2006, substantially all assets and operations were transferred to McLeod Physician Associates II, which is a not-for-profit corporation (see discussion below).

McLeod Physician Associates II (MPA) is a not-for-profit corporation that comprises approximately 90 medical practices throughout 13 counties in South and North Carolina.

McLeod Medical Partners, LLC (MMP) is a for-profit corporation that owns and operates three medical office buildings adjacent to MRMC. MRMC owns approximately a 63% controlling share in the equity of MMP.

McLeod Loris Seacoast Hospital (MLSH) provides care for residents of northern Horry County in South Carolina and southern Brunswick and Columbus Counties in North Carolina.

McLeod Loris is a division of MLSH and operates a 50-bed community hospital located in Loris, South Carolina.

McLeod Seacoast is a division of MLSH and operates a 105-bed community hospital located in Little River, South Carolina.

McLeod Health Cheraw (MHC) is a 59-bed community hospital with operations that began in June 2015.

McLeod Health Clarendon (MHCL) is an 81-bed community hospital with operations that began in July 2016.

McLeod Healthcare Network (MHN) is a South Carolina limited liability company that was formed in 2018 and operates a Clinically Integrated Network. There are currently over 400 providers participating in the MHN.

(b) Principles of Consolidation

The consolidated financial statements include the accounts of McLeod Health and all wholly owned or controlled subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. The Obligated Group consists of McLeod Health, MRMC, McLeod Medical Center – Dillon, McLeod Physician Associates II, MLSH, MHC, and MHCL. The Nonobligated Group consists of MMP, the Foundation, McLeod Physician Associates, Inc., and MHN.

(c) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions are used for, but not limited to, determination of net patient service revenue; valuation of patient accounts receivable, including contractual allowances and allowances for doubtful accounts; estimated third-party settlements; and accounting for business combinations. Future events and their effects cannot be predicted with certainty; accordingly, management's accounting estimates require the exercise of judgment. The accounting estimates used in the preparation of the accompanying consolidated financial statements will change as new events occur, as more experience is acquired, as additional information is obtained, and as the operating environment changes. Management regularly evaluates the accounting policies and estimates it uses. In general, management relies on historical experience and on other assumptions believed to be reasonable under the circumstances and may employ outside experts to assist in the evaluation, as considered necessary. Although management believes all adjustments considered necessary for fair presentation have been included, actual results may vary from those estimates.

(d) Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with original maturities of three months or less at the time of purchase, which have not been designated as limited as to use.

(e) Investments, Assets Limited as to Use, and Investment Income

Investments, including those recorded as assets limited as to use, are stated at fair value in the accompanying consolidated balance sheets. Investment income or loss, including realized and unrealized gains and losses, is included in excess of revenues over expenses, unless the income or loss is restricted by donor or law.

Assets limited as to use include investments designated by the Board of Trustees of McLeod Health (Board of Trustees) for future capital improvements (over which the Board of Trustees retains control and may, at its discretion, subsequently use for other purposes) and funds held by trustees under bond indenture agreements. Assets limited as to use, if required for settlement of current liabilities, are reported within current assets in the accompanying consolidated balance sheets. Within the investments and assets whose use is limited is also a Construction Fund required by the 2018 Bond documents for which these Construction Fund monies are restricted to construction costs related solely to the 2018 Bond issue. Therefore the bank only releases these earmarked funds as certain construction requirements are met.

(f) Inventories

Inventories are stated at average cost.

(g) Property and Equipment

Property and equipment are recorded at cost, except for donated assets, which are recorded at fair value at the date of receipt. Assets under capital lease obligations are initially recorded at the lesser of fair value or the present value of the minimum lease payments at the inception of the lease. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets, which range from 3 to 40 years. Equipment under capital lease obligations is amortized using the straight-line method over the shorter of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the accompanying consolidated financial statements.

Expenditures that materially extend the useful lives of the related assets are capitalized. Routine maintenance and repair costs are charged to expense.

Interest costs incurred during the construction period for significant qualifying construction projects are capitalized as part of the cost of the constructed asset and amortized over the applicable useful lives.

(h) Bond Issue Costs and Bond Discounts and Premiums

Bond issue costs are amortized over the term of the respective obligation utilizing the straight-line method, which approximates the effective-interest method. Bond discounts and premiums are also amortized over the terms of the outstanding obligations using the straight-line method. Amortization of

bond issue costs, discounts, and premiums is included as a component of depreciation and amortization in the accompanying consolidated financial statements.

(i) Goodwill

McLeod Health applies the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-805, *Business Combinations*, relating to goodwill. Prior to the adoption of ASC 958-805, goodwill associated with the purchase of McLeod Medical Center – Dillon was amortized over a 20-year period using a straight-line method. Beginning October 1, 2010 and upon adoption of ASC 958-805, the goodwill associated with the purchase of McLeod Medical Center – Dillon is no longer amortized. The remaining unamortized balance of goodwill of approximately $3,262 is now subject to an annual assessment for impairment or more frequently if events or circumstances indicate that assets might be impaired by applying a fair-value-based test. There was no impairment of goodwill during the years ended September 30, 2019 and 2018.

(j) Interest Rate Swap Agreement

In May 2005, MMP entered into a nine-year interest rate swap agreement related to its note payable. As part of the refinancing of the associated note payable, the interest rate swap agreement was amended and restated in February 2012. The agreement terminates in February 2022. The terms of the amended and restated agreement do not differ significantly from the terms of the original agreement. The notional amount of the agreement as of September 30, 2019 and 2018 was $8,946 and $9,420, respectively. The agreement requires MMP to pay the counterparty a 4.66% fixed rate of interest on the notional amount. In return, the counterparty will pay MMP interest at a variable rate based on the published London Interbank Offered Rate (LIBOR) index in accordance with the swap agreement. MMP did not designate the derivative as a hedge instrument. The net settlement between the fixed and variable rates is included as a component of interest expense in the accompanying consolidated statements of operations. The fair value of this derivative, which was estimated using Level 2 observable inputs, of $(418) and $(193) as of September 30, 2019 and 2018, respectively, is reported in the accompanying consolidated balance sheets as a component of accrued expenses and other liabilities. Changes in the fair value of the derivative are reflected in other nonoperating revenues, net in the accompanying consolidated statements of operations.

(k) Noncontrolling Interest

Noncontrolling interest represents the minority stockholders' proportionate share of the net assets of MMP. Revenues in excess of expenses are allocated to the noncontrolling interest of MMP in proportion to their ownership percentage and are reflected as income attributable to noncontrolling interest in the consolidated statements of operations.

(l) Net Assets with Donor Restrictions

Net assets with donor restrictions are those net assets whose use has been limited by a donor to a specific time period or purpose. Included in net assets with donor restrictions is $4,518 and $6,221, respectively, as of September 30, 2019 and 2018, available for scholarships, continuing education, and various other health-related programs. These amounts are transferred to net assets without donor restrictions when the donor restrictions have been met. Net assets released from donor restrictions in fiscal years 2019 and 2018 of $8,512 and $10,884, respectively, included $3,564 and $3,229 for the purchase of property and equipment, respectively, and $4,948 and $7,655 for operating activities, respectively.

Net assets with donor restrictions of $742 at both September 30, 2019 and 2018 have been restricted by the donors to be maintained by McLeod Health in perpetuity. The income from net assets restricted by donors in perpetuity is recorded as net assets with donor restrictions and is expendable for scholarships, continuing education, and various other health-related programs.

(m) Net Patient Service Revenues

Net patient service revenue is reported at the amount that reflects the consideration to which McLeod Health expects to be entitled for providing patient care. These amounts are due from patients, third party payers, and others, and includes variable consideration for retroactive revenue adjustments due to settlement of reviews and audits. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by McLeod Health. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected or actual charges. McLeod Health believes that this method provides a reasonable depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients receiving inpatient acute care services and outpatient services. McLeod Health measures the performance obligation from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. These services are considered to be a single performance obligation. Revenue for performance obligations satisfied at a point in time is recognized when services are provided and McLeod Health does not believe it is required to provide additional services to the patient. Generally, performance obligations satisfied at a point in time relate to pharmacy revenue.

Because all of its performance obligations relate to contracts with a duration of less than one year, McLeod Health has elected to apply the optional exemption provided in FASB Accounting Standard Codification (ASC) 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

McLeod Health is utilizing the portfolio approach practical expedient in FASB ASC 606 for contracts related to net patient service revenue. McLeod Health accounts for the contracts within each portfolio as a collective group, rather than individual contracts, based on the payment pattern expected in each portfolio category and the similar nature and characteristics of the patients within each portfolio. The portfolios consist of major payer classes for inpatient revenue and outpatient revenue. Based on historical collection trends and other analyses, McLeod Health has concluded that revenue for a given portfolio would not be materially different than if accounting for revenue on a contract-by-contract basis.

McLeod Health has agreements with third party payers that provide for payments at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. For uninsured patients who do not qualify for charity care, McLeod Health recognizes revenue based on established rates, subject to certain discounts and implicit price concessions as determined by McLeod Health. McLeod Health determines the transaction price based on standard charges for services provided, reduced by explicit price concessions provided to third party payers, discounts provided to uninsured patients in accordance with McLeod Health's policy, and implicit price concessions provided to uninsured patients. Explicit price concessions are based on contractual agreements, discount policies, and historical experience. Implicit price concessions represent differences between amounts billed and the estimated consideration McLeod Health expects to receive from patients, which are determined based on historical collection experience, current market conditions, and other factors.

Generally, patients who are covered by third party payers are responsible for patient responsibility balances, including deductibles and coinsurance, which vary in amount. McLeod Health estimates the transaction price for patients with deductibles and coinsurance based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any explicit price concessions, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Adjustments arising from a change in the transaction price were not significant in fiscal year 2019 or 2018. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

(n) Charity Care

McLeod Health provides care without charge, or at amounts less than its established rates, to patients who meet certain criteria under its charity care policy. Because McLeod Health does not pursue collection of patient accounts determined to qualify as charity care, they are not reported as net patient service revenues. McLeod Health estimates the direct and indirect costs of providing charity care using a calculated ratio of costs to gross charges for each facility. During 2019, McLeod Health continued with its charity care policy to conform to the regulations surrounding the Internal Revenue Service (IRS) Section 501(r) code, whereby McLeod provides a 75% discount for all uninsured patients. This discount is applied at the beginning of the billing process. See note 1(m).

(o) Contributions

Unconditional promises by donors to give cash or other assets are reported at fair value at the date the promises are received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gifts are received or at the time conditions are substantially met. Gifts are reported as donor restricted support if they are received with donor restrictions 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, donor restricted net assets are reclassified as net assets without donor restrictions and reported in the consolidated financial statements as net assets released from donor restrictions. Donor-restricted contributions, whose restrictions are met within the same year that they are received, are reported as contributions without donor restrictions in the accompanying consolidated financial statements. Contributions of property and equipment are recorded as support without donor restrictions in the absence of donor stipulations regarding how long the assets are to be used.

(p) Income Taxes

McLeod Health and its not-for-profit subsidiaries have been recognized by the IRS as exempt from income tax under the provisions of IRC Section 501(a) as entities described under IRC Section 501(c)(3). Accordingly, no provision for income taxes on related income has been recorded in the accompanying consolidated financial statements.

(q) Recently Adopted Accounting Pronouncements

In August 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-14*, Not-for-Profit Entitles (Topic 958).* This ASU changes certain presentation requirements for not-for-profit entities' financial statements to make information more meaningful for users. This ASU removes the requirement to distinguish between resources with temporary and permanent donor restrictions on the face of the financial statements and replaces this with a requirement to present two classes of net assets–with and without donor restrictions. Additionally, the ASU requires expenses to be presented by their natural and functional classifications and requires quantitative disclosures about management of liquid resources and availability of financial assets. The guidance also requires that investment returns be presented net of external and direct internal investment expenses and eliminates the requirements for disclosures of the components of investment return. McLeod Health adopted the standard as of September 30, 2019 on a retrospective basis. There were no material changes to the consolidated balance sheets, statements of operations, and changes in net assets or cash flows as a result of the adoption.

	Without Donor Restrictions	With Donor Restrictions	Total
As previously presented:			
Unrestricted	$ 1,485,013	—	1,485,013
Temporarily restricted	—	6,221	6,221
Permanently restricted	—	742	742
Noncontrolling interest in affiliates	2,775	—	2,775
Total net assets, as restated	$ 1,487,788	6,963	1,494,751

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which replaces most existing revenue recognition guidance in U.S. GAAP and is intended to improve, and converge with international standards, the financial reporting requirements for recognizing revenue from contracts with customers. The core principle of ASU No. 2014-09 is that an entity should recognize revenue for the transfer of goods or services equal to the amount that it expects to be entitled to receive for those goods or services. ASU No. 2014-09 also requires additional disclosures about the nature, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments. Effective October 1, 2018, McLeod Health has elected the full retrospective application for the adoption of the guidance to all contracts under the scope of the guidance and there was no material impact to the organization related to its existing revenue streams. Periods prior to adoption have been displayed to conform to the net presentation of a single net patient service revenue total in the consolidated statements of operations. Previously, the year ended September 30, 2018 included separate lines for patient service revenue prior to provision for bad debts of $1,256,707, provision for bad debts of $165,966, and net patient service revenue less provision for bad debts $1,090,741. The related presentation of "allowances for doubtful accounts" on the consolidated balance sheets has also been eliminated as a result of the adoption of the standard.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230) Restricted Cash*, which addresses the diversity of classification and presentation of changes in restricted cash on the statement of cash flows under *Topic 230, Statement of Cash Flows*. The amendments in this ASU require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Effective for fiscal years beginning after December 15, 2018, McLeod Health elected to early adopt and has applied the retrospective transition method to each period presented.

(r) Excess of Revenues over Expenses

The accompanying consolidated financial statements reflect an excess of revenues over expenses. Changes in net assets without donor restrictions resulting from permanent transfers of assets to and from affiliates for other than goods and services and contributions of long-lived assets (including assets acquired using contributions, which, by donor restriction, were to be used for the purposes of acquiring such assets) are excluded from excess of revenues over expenses.

(s) Subsequent Events

McLeod Health has evaluated events and transactions occurring after September 30, 2019 for potential recognition or disclosure in its consolidated financial statements through December 13, 2019, the date that the consolidated financial statements were issued.

(t) New Accounting Pronouncement

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842).* This ASU requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous U.S. GAAP, which have terms of greater than 12 months. This ASU defines a lease as a contract, or part of a contract, that conveys the right to control the use of identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration. This ASU retains a distinction between finance leases and operating leases. The result of retaining a distinction between finance leases and operating leases in the statement of operations and the statement of cash flows is largely unchanged from previous U.S. GAAP. ASU No. 2016-02 is effective for fiscal year 2020. McLeod Health estimates the amount of right-of-use assets and obligations resulting from the adoption of ASU 2016-02 to be within a range of $3,250 to $4,000.

(u) Fair Value Measurements

Under U.S. GAAP, fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP also prioritizes, for the measurement of fair value, the use of market-based information over entity-specific information and establishes a three-level hierarchy for fair value based on the transparency of inputs used in the valuation of an asset or liability as of the measurement date. The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements).

Financial instruments measured and reported at fair value are classified and disclosed within one of the following categories:

Level 1 – Valuations for financial instruments traded in active exchange markets as of the reporting date. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuations for financial instruments as determined through direct or indirect observations other than quoted market prices

Level 3 – Valuations for financial instruments that are derived from other valuation methodologies including discounted cash flow models and similar techniques, and not based on market exchange, dealer or broker traded transactions. These valuation methodologies are based on unobservable inputs in situations where there is little or no market activity for the asset or liability. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

NAV – Certain investments that are measured at fair value using NAV per share (or its equivalent) as a practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in the table below are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the accompanying consolidated balance sheets.

The following methods and assumptions were used in estimating the fair value of financial instruments:

Cash Equivalents – The carrying amount reported in the accompanying consolidated balance sheets for cash and cash equivalents approximates its fair value.

Investments and Assets Limited as to Use – The carrying amounts reported in the accompanying consolidated balance sheets are based on quoted market prices, if available, or estimated using quoted market prices for similar securities (see notes 4 and 5 for additional information).

Receivables – The carrying amounts reported in the accompanying consolidated balance sheets for receivables approximate their fair value.

Accounts Payable and Accrued Expenses and Other Liabilities – The carrying amounts reported in the accompanying consolidated balance sheets for accounts payable and accrued expenses and other liabilities approximate their fair value.

Estimated Third-Party Settlements – The carrying amount reported in the accompanying consolidated balance sheets for estimated third-party settlements approximates its fair value.

Long-Term Debt – The carrying amount reported in the accompanying consolidated balance sheets for long-term debt approximates its fair value.

(2) Net Patient Service Revenues

Net patient service revenues by major payor source, net of price concessions is as follows for the years ended September 30:

		2019	2018
Medicare	$	431,819	428,989
Medicaid		82,783	53,204
Managed care and other commercial		597,144	582,089
Self-pay		25,707	26,459
Net patient service revenue	$	1,137,453	1,090,741

McLeod Health has agreements with third-party payors that provide for payments at amounts different from its established rates. A summary of the payment arrangements with certain third-party payors is as follows:

Medicare – Inpatient acute care services rendered to Medicare program beneficiaries are generally paid at prospectively determined rates per discharge, which vary according to a patient classification system based on clinical, diagnostic, and other factors. McLeod Health's classification of Medicare patients and the appropriateness of their admissions are subject to review by a Medicare-contracted independent organization. Most outpatient services are also reimbursed at prospectively determined rates. However, final Medicare reimbursement is determined based upon the submission of annual cost reports by McLeod Health and audits thereof by the Medicare Audit Contractor (MAC).

McLeod Health's Medicare cost reports have been audited by Palmetto GBA, the MAC, through September 30, 2015. As of September 30, 2019, McLeod Health's Medicare cost reports have been settled through fiscal year ended September 30, 2015.

Medicaid – Inpatient and outpatient Medicaid services are reimbursed on a reasonable cost basis. Interim payments are made by the state based on each facility's historical costs trended forward. Tentative settlements are made based on actual costs reported on hospital cost reports, but these are subject to further adjustment based on subsequent audits. As of September 30, 2019, final settlements have been determined by the State of South Carolina for fiscal years through 2014. Management has established reserves for potential Medicaid cost settlements and settlement adjustments for fiscal years 2015–2019.

In the state of South Carolina, providers are assessed a quarterly tax and receive periodic Medicaid disproportionate share and upper payment limit funds from the State of South Carolina. The tax assessment was $17,040 and $17,235 for the years ended September 30, 2019 and 2018, respectively, and is recorded as other operating expense in the accompanying consolidated statements of operations. McLeod Health received approximately $38,612 and $35,744 of disproportionate share funds from the state for the years ended September 30, 2019 and 2018, respectively, and recorded the funds as net patient service revenues in the accompanying consolidated statements of operations. Effective January 1, 2003, funds received under the upper payment limit program may be subject to a retroactive settlement process.

McLeod Health continues to evaluate the settlement process related to the upper payment limit program and believes that it has recorded adequate provisions at September 30, 2019 and 2018 in estimated third-party settlements in the accompanying consolidated balance sheets. Funds received under these programs may be subject to a retroactive settlement process and future receipts of funds are not guaranteed. Beginning in fiscal year 2012, states are required to perform audits of hospital disproportionate share data and make adjustments to payments if over or underpayments have occurred based on the results of these audits.

Since final determination of amounts due from or to the Medicare and Medicaid programs is subject to audit and subsequent adjustments, changes resulting from final determinations are reflected as changes in estimates, generally in the year of determination. In the opinion of management, adequate provision has been made for adjustments, if any, that may result from such reviews. Net patient service revenue increased approximately $16,855 and $10,544 for the years ended September 30, 2019 and 2018, respectively, due to changes in third-party estimates and the settlement of third-party cost reports for fiscal years ended September 30, 2015 through September 30, 2019.

Charity Care – In accordance with McLeod Health's mission to improve the health of its communities, McLeod Health facilities accept patients regardless of their ability to pay. McLeod Health offers financial assistance to patients who meet established financial assistance guidelines. Because McLeod Health does not pursue collection of patient accounts determined to qualify as charity care, they are not reported as net patient service revenues. McLeod Health estimates the direct and indirect costs of providing charity care using a calculated ratio of costs to gross charges for each facility. The estimated cost of charity care provided by McLeod Health under its charity care policy was $52,938 and $98,929 for the years ended September 30, 2019 and 2018, respectively.

(3) Liquidity and Availability

Financial assets available for general expenditures within one year of the balance sheet date comprise the following at September 30:

		2019	2018
Cash and cash equivalents	$	30,411	22,951
Other receivables, net		9,064	8,265
Patient receivables, net		151,041	138,244
Investments available to be liquidated		4,096	4,947
Financial assets available within one year	$	194,612	174,407

To help manage unanticipated liquidity needs, McLeod Health has a committed line of credit with a total borrowing capacity of $20,000 at September 30, 2019 and 2018 which it could draw upon. Additionally, McLeod Health has board-designated funds of $1,044 and $1,040 at September 30, 2019 and 2018, respectively. Although McLeod Health does not intend to spend from its board-designated funds other than

amounts appropriated for general expenditures as part of its annual budget approval and appropriation, amounts from its board-designated funds could be made available if necessary.

The asset allocation of McLeod Health's investment portfolio is broadly diversified and is designed to maximize the probability of achieving McLeod Health's long-term investment objectives at an appropriate level of risk, while maintaining a level of liquidity adequate to meet the needs of ongoing portfolio management. The nature of certain investments restricts the liquidity and availability of these investments to be available for the general expenditures of McLeod Health within one year of the consolidated balance sheet date. These investments have been excluded from the amounts above.

(4) Investments

Investments at September 30, 2019 and 2018 are composed of Level 1 investments held by the Foundation and are recorded as follows:

		2019	2018
Investments held by the Foundation	$	13,596	9,285
Less amounts included in assets limited to use		(9,500)	(4,338)
Total investments held as certificates of deposit and money market funds	$	4,096	4,947

McLeod Health has segregated investments maintained by the Foundation into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value as of September 30, 2019 and 2018 as follows:

		Fair value measurement as of September 30, 2019			
		Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Certificates of deposit and money market funds	$	4,096	4,096	—	—
Total	$	4,096	4,096	—	—

	Fair value measurement as of September 30, 2018			
	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Certificates of deposit and money market funds	$ 4,947	4,947	—	—
Total	$ 4,947	4,947	—	—

(5) Assets Limited as to Use

McLeod Health combines its investments in a systemwide investment pool, which includes investments and assets whose use is limited. Assets whose use is limited primarily include assets held by trustees under a master trust indenture agreement and assets designated by the Board of Trustees for future capital improvements, over which the board retains control and may, at its discretion, subsequently use for other purposes.

Assets limited as to use are stated at fair value at September 30, 2019 and 2018 and have been designated as follows:

	2019	2018
By the Board of Trustees for future expansion, purchase of property and equipment, and repayment of debt	$ 1,034,910	1,034,714
Held by trustee for escrow	—	789
Held by the Foundation	9,500	4,338
MRF Trust Fund (note 8)	—	9
Total	$ 1,044,410	1,039,850

The classification of investments in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities. In general, for Level 2, Level 3, and NAV investments, McLeod Health utilizes the investment manager of the asset to provide a valuation estimate based on disclosed techniques and processes, which have been reviewed by McLeod Health's management for propriety and consistency with consideration given to type and investment strategy.

McLeod Health has segregated its investments and assets limited as to use into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value as of September 30, 2019 and 2018 as follows:

	Fair value measurement as of September 30, 2019				
	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Investments reported at NAV
Cash, cash equivalents, and money market funds	$ 62,876	62,876	—	—	—
Mutual funds	185,025	185,025	—	—	—
Domestic equities	84,289	84,289	—	—	—
Fixed income:					
Government bonds and government-backed securities	35,226	—	35,226	—	—
Corporate bonds	33,078	—	33,078	—	—
Mortgage-backed securities	33,621	—	33,621	—	—
Other	629	—	629	—	—
Large-cap commingled funds:					
State Street Global Advisors S&P 500 Index Funds	65,080	65,080	—	—	—
JPMorgan U.S. Large Cap 130/30 Fund LLC	60,658	—	—	—	60,658
International equity commingled funds:					
Blackrock Global ex-US Tilts B	80,081	—	—	—	80,081
State Street Global Advisors MSCI Index Fund	80,494	80,494	—	—	—
Alternative investments:					
Acadian Global Managed Fund	74,281	—	—	—	74,281
Credit Suisse Dollar Senior Loan Fund LTD	38,230	—	—	—	38,230
Blackstone Partners Offshore Fund Ltd.	96,895	—	—	—	96,895
Winton Futures Fund Ltd.	23,564	—	—	—	23,564
Corbin Pinehurst	27,350	—	—	—	27,350
Real Estate (PRISA)	51,043	—	—	—	51,043
Private Equity	2,490	—	—	—	2,490
Investments held by the Foundation (note 4)	9,500	3,981	5,519	—	—
Total	$ 1,044,410	481,745	108,073	—	454,592

	Fair value measurement as of September 30, 2018				
	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Investments reported at NAV
Cash, cash equivalents, and money market funds	$ 87,002	87,002	—	—	—
Mutual funds	179,332	179,332	—	—	—
Domestic equities	92,470	92,470	—	—	—
Fixed income:					
Government bonds and government-backed securities	39,428	—	39,428	—	—
Corporate bonds	23,469	—	23,469	—	—
Mortgage-backed securities	26,926	—	26,926	—	—
Other	733	—	733	—	—
Large-cap commingled funds:					
State Street Global Advisors S&P 500 Index Funds	65,569	65,569	—	—	—
JPMorgan U.S. Large Cap 130/30 Fund LLC	62,986	—	—	—	62,986
International equity commingled funds:					
Blackrock Global ex-US Tilts B	74,556	—	—	—	74,556
State Street Global Advisors MSCI Index Fund	80,740	80,740	—	—	—
Alternative investments:					
Acadian Global Managed Fund	73,876	—	—	—	73,876
Credit Suisse Dollar Senior Loan Fund Ltd.	37,324	—	—	—	37,324
Blackstone Partners Offshore Fund Ltd.	93,775	—	—	—	93,775
Winton Futures Fund Ltd.	23,370	—	—	—	23,370
Standard Life Offshore Feeder Fund	23,194	—	—	—	23,194
Real Estate (PRISA)	48,334	—	—	—	48,334
Private Equity	2,419	—	—	—	2,419
MRF Trust Fund (note 8)	9	9	—	—	—
Investments held by the Foundation (note 4)	4,338	3,634	704	—	—
Total	$ 1,039,850	508,756	91,260	—	439,834

The fair value of fixed-income securities shown in Level 2 above are measured using inputs other than quoted prices that are observable for the assets, including the stated interest rate, maturity, and credit risk.

McLeod Health's commingled funds and alternative investments include the following funds that do not have readily determinable fair values:

JPMorgan U.S. Large Cap 130/30 Fund LLC – A privately held fund that invests primarily in equity securities that trade on a national stock exchange, utilizes an active stock selection with a systematic valuation process, and seeks to invest in a diversified portfolio of U.S. large-cap equities with a target average exposure of 130% long and 30% short. The notification periods required for redemption are 15 days.

Acadian Global Managed Fund – A global large-cap blend equity that aims to achieve a return similar to or better than that of the MSCI World Index but with lower volatility over a full market cycle. The notification periods required for redemption or other limits on redemption is 30 days.

Blackrock Global ex-US Tilts B – A privately held fund that invests primarily in international equity securities that trade on global stock exchanges. This fund provides for redemptions on any dealing day provided that written notice is received three days prior to the relevant dealing date.

Blackstone Partners Offshore Fund Ltd. – A privately held fund that invests primarily in other funds that are not publicly traded and is a fund of funds constructed through a multimanager framework of strategies that collectively are not highly correlated to traditional asset classes. This fund provides for redemptions on a semiannual basis with 95 days' prior written notice.

Winton Futures Fund Ltd. – A privately held fund that seeks to achieve long-term capital appreciation of assets in a variety of changing market conditions using a diversified futures trading program focused on quantitative technical analysis. The fund trades a portfolio of more than 100 international futures, options, and forward contracts. This fund provides for redemptions on any dealing day provided that written notice is received two days prior to the relevant dealing date (first business day of each month).

Real Estate (PRISA) – A domestic commingled property fund that pools investor money to build and invest into commercial, industrial, and residential real estate. The fund seeks to generate a return from property appreciation, as well as lease and rental revenue. The notification periods required for redemption or other limits on redemption is 90 days.

Credit Suisse Dollar Senior Loan Fund Ltd. – A privately held fund that invests primarily in senior secured debt of high yield companies. Bottom-up analysis drives the selection of individual investments and a high level of diversity with strict quality, issuer, and industry concentration criteria. This fund provides for redemptions on the first business day of the following month after a 20-day written notice is provided.

Standard Life Offshore Feeder Fund – The Offshore Feeder Fund is a pooled investment hedge fund incorporated with limited liability in the Cayman Islands. The Feeder Fund's investment objective is to invest substantially all its assets in Standard Life Investments Global Absolute Return Strategies Master Fund Ltd. (the Master Fund). The Master Fund's investment objective is to deliver a positive absolute return in the form of capital growth over the medium to long term in all market conditions. The benchmark is

U.S. one-month The London Interbank Bid Rate and the target is to outperform the benchmark by 5% per annum, on a three-year rolling basis. The Master Fund seeks to maintain a diversified portfolio consisting primarily of listed equity; derivatives; equity-related and debt securities, including exchange-traded funds; other securities; and other pooled investment vehicles whose managers may be affiliated with the investment adviser. The notification period required for redemption or other limits on redemption is five business days. The investment was sold in July 2019.

Corbin Pinehurst – Corbin Pinehurst's investment objective is to achieve a return on capital with limited volatility through investments in a broadly diversified portfolio of securities including, but not limited to, equity and debt securities of the United States, and non-U.S. corporations and other entities, U.S. government securities, non-U.S. government securities, partnership interests, money-market instruments, derivatives on securities, and other derivatives, commodity interests including futures contracts, options, options on futures, swaps, forward contracts, currencies and physical commodities, and other financial instruments. Quarterly redemptions up to 25% are allowed with 100 days' prior written notice.

Private Equity – Mercer Private Investment Partners V, LP was formed to invest in a diversified portfolio of private equity, private debt, and real assets investment funds, which invest in a broad range of private equity, private debt, infrastructure, real estate, energy and other hard-asset oriented investments. The fund selectively targets underlying funds that, in the investment manager's opinion, have above average prospects for generating quality investment performance through investing in equity, equity-related, debt, and debt-related securities of private and public companies in negotiated transactions, or through investing in infrastructure, real estate, natural resources or other hard assets. The fund seeks to assemble a portfolio of underlying funds and investments that present a mix of investment strategies, industries, and geographic locations. The fund invests its assets in underlying funds focused on U.S. and non-U.S. investments. The investment objective of the fund is to achieve a rate of return greater than the performance achievable through investing in listed public markets. Another important feature of the Fund is a commitment to return cash, rather than securities, to the fund's investors. The Investment Manager will manage the in-kind distributions from portfolio partnerships to preserve and enhance value for the Fund's investors. After provision for partnership expenses, sufficient working capital consistent with good fiscal operating policy and management, taxes payable, and such other needs as the General Partner, in its sole discretion, shall deem appropriate, the General Partner may determine the amount, timing and form of the distribution of all funds received by the Partnership. Subject to the Investment Manager's entitlement to a Performance Fee, as discussed below, distributions will be apportioned and distributed among the Limited Partners in respect of each Class in proportion to their relative commitments.

The commingled funds and alternative investments may contain elements of both credit and market risk. Such risks could include, but are not limited to, limited liquidity, absence of oversight, dependence upon key individuals, emphasis on speculative investments (both derivatives and nonmarketable investments), and nondisclosure of portfolio composition. McLeod Health reviews and evaluates the values provided by the investment managers for commingled funds and alternative investments and agrees with the valuation methods and assumptions used in determining the fair value of commingled funds and alternative investments. U.S. GAAP permits, as a practical expedient, a reporting entity to measure the fair value of certain investments without readily determinable fair values by using the reported NAV per share (or its equivalent) of the investment without further adjustment if the investment is in an entity that meets the

description of an investment company whose underlying investments are measured at fair value as set forth in the ASC. Accordingly, McLeod Health generally estimates the fair value of its alternative investments using this approach based on information reported by the respective fund managers or the general partners. Financial instruments, which involve varying degrees of off-balance-sheet risk for the various limited partnerships, limited liability corporations, and offshore investment funds included within alternative investments, may result in a loss due to changes in the market (market risk). Because alternative investments are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investments existed. Such differences could be material.

There were no significant reclassifications between Level 1, Level 2, or Level 3 during the year ended September 30, 2019 or 2018.

Other nonoperating revenue, net for the years ended September 30, 2019 and 2018 are as follows:

		2019	2018
Unrealized gains on investments	$	904	6,605
Realized gains on sales of investments		12,713	38,304
Dividends and interest – net of management fees		10,134	8,105
Change in fair market value of interest rate swap		(225)	470
Loss on extinguishment of debt		—	(10,299)
Other		1,703	—
Total	$	25,229	43,185

(6) Property and Equipment

Property and equipment as of September 30, 2019 and 2018 consist of the following:

		2019	2018
Land and land improvements	$	84,374	80,272
Buildings		945,665	928,047
Fixed and moveable equipment		430,458	369,895
Leasehold improvements		36,513	33,626
Construction in progress		79,316	77,279
Capitalized leases		13,827	—
		1,590,153	1,489,119
Less accumulated depreciation (including amortization of capital leases of $8,805)		(769,007)	(715,586)
Total	$	821,146	773,533

Depreciation expense for the years ended September 30, 2019 and 2018 was $70,183 and $64,596, respectively.

Construction in progress at September 30, 2019 is principally related to projects for facility enhancements and clinical equipment. These projects are expected to be completed during fiscal year 2020 at an estimated total remaining cost to complete of approximately $83,523 to be funded from operations and bond proceeds. McLeod Health capitalized interest for the years ended September 30, 2019 and 2018 of $4,042 and $846, respectively.

(7) Short-Term Borrowings

McLeod Health has a $20,000 unsecured line of credit with a local financial institution. The line of credit bears interest at LIBOR, plus 0.60% (LIBOR was 2.03% as of September 30, 2019). Interest is assessed at a variable interest rate adjusted daily and is payable monthly. There were no outstanding borrowings as of September 30, 2019 or 2018.

(8) Long-Term Debt

Long-term debt as of September 30, 2019 and 2018 consists of the following:

		2019	2018
2010 Series A bonds, plus unamortized premium, due in various installments ranging from $2,420 to $15,215, beginning in 2011 and extending to 2037. Interest is paid semiannually at rates ranging from 3.00% to 5.00%.	$	96,816	101,415
2010 Series B bonds, plus unamortized premium, due in annual installments of $15,375 to $15,805, beginning in 2038 and extending to 2040. Interest is paid monthly based on a variable rate (2.17% at September 30, 2019).		46,770	46,770
Series 2014 bonds plus unamortized premium, due in various installments of $395 to $6,950, beginning in 2017 and extending to 2034. Interest is paid semiannually at rates ranging from 2.00% to 5.00%.		67,444	68,166
Note payable, due in monthly installments ranging from $32 to $44, with the remaining outstanding balance of $7.8 million to be paid in February 2022. Interest is paid monthly according to a swap agreement described in note 1. Collateralized by MMP's land and buildings variable rate on note (3.167% at September 30, 2019).		8,981	9,455
2018 Series bonds, plus unamortized premium, due in annual installments of $200 to $12,160, beginning in 2018 and extending to 2048. Interest is paid semiannually at rates ranging from 4.00% to 5.00%.		156,673	158,989
Total Master Trust Indebtedness		376,684	384,795
Capital leases with various interest rates		5,306	—
Total long-term debt		381,990	384,795
Less current portion of long-term debt		(11,824)	(8,792)
Less unamortized bond issuance costs		(2,970)	(2,282)
Total	$	367,196	373,721

McLeod Health's Series 2014, 2010 A, and 2010 B bonds were issued through the governmental municipality of Florence County, South Carolina. Each member of the Obligated Group is jointly and severally liable for the repayment of the principal and interest as they become due on the bonds under a master indenture agreement. All accounts receivable of the Obligated Group, now owned or hereafter

acquired, and all proceeds thereof are pledged as collateral for the bonds. Also, under the master indenture agreement, McLeod Health is subject to various restrictions as a part of debt covenants for the bonds and other debt. As of September 30, 2019, management believes that McLeod Health was in compliance with its restrictive financial debt covenants under the master indenture agreement.

On June 28, 2018, the South Carolina Jobs-Economic Development Authority issued its $144,275 Hospital Refunding and Improvement Revenue Bonds, Series 2018 Bonds and loaned the proceeds thereof to McLeod Regional and McLeod Loris Seacoast Hospital. In connection with the issuance of the 2018 Bonds, McLeod Loris Seacoast Hospital became a Member of the Obligated Group. Each member of the Obligated Group is jointly and severally liable for the repayment of the principal and interest as they become due on the bonds under a master indenture agreement. All accounts receivable of the Obligated Group, now owned or hereafter acquired, and all proceeds thereof are pledged as collateral for the bonds. McLeod Health is subject to various restrictions as a part of debt covenants for the bonds and other debt. As of September 30, 2019 and 2018, management believes that McLeod Health was in compliance with its restrictive financial debt covenants under the master indenture agreement.

As part of the acquisition of Loris Hospital System (LHS), McLeod Health assumed a secured mortgage fully insured by the U.S. Department of Housing and Urban Development Federal Housing Administration pursuant to Section 242 of the National Housing Act, as amended, related to construction projects, refunding of other long-term debt, and other projects and equipment purchases of LHS. At the date of acquisition, the outstanding principal balance of the mortgage of approximately $71,567 was assigned to the newly formed MLSH. The mortgage called for monthly installments of approximately $522, which included interest at 7.25%. The final payment was originally due in November 2036. However, the mortgage was paid in full in June 2018.

As part of the agreement to the assigned mortgage (the Agreement), MLSH was required to establish a mortgage reserve fund (MRF) with a trustee to provide reserve funds related to the mortgage. MLSH was required to make monthly payments to the MRF, which, when coupled with an assumed investment rate of return of 4%, equaled approximately 12 months and 24 months of mortgage debt service at 5 and 10 years, respectively. Such deposits held by the trustee were included in assets limited to use in the consolidated financial statements. The Agreement also placed limits on the incurrence of additional borrowings and distribution of assets, including cash, and required that certain financial performance measures be satisfied as long as the mortgage was outstanding. The mortgage was paid in full in June 2018, and the MRF is no longer required.

Future aggregate annual principal payments applicable to long-term debt as of September 30, 2019, are as follows:

Year ending September 30:		
2020	$	11,824
2021		10,540
2022		15,312
2023		7,377
2024		7,522
Thereafter		329,415
Total	$	381,990

(9) Employee Benefit Plans

McLeod Health sponsors a 401(k) plan covering substantially all employees of McLeod Health. Annual contributions are based upon a matching of the participant's elective deferrals and amounted to $10,797 and $10,166 in fiscal years 2019 and 2018, respectively.

(10) Concentrations of Credit Risk

McLeod Health provides acute and nonacute healthcare services to residents of the Pee Dee region of South Carolina. While the majority of patient receivables are due from the Medicare and Medicaid programs and various insurance companies, the collectibility of receivable balances is affected by the economic stability of the area. Accordingly, receivables are reflected in the consolidated balance sheet net of valuation allowances based on the anticipated collectibility of the related gross receivables.

The mix of net patient service revenue from patients and third-party payors as of September 30, 2019 and 2018 is as follows:

	2019	2018
Medicare	38 %	39 %
Medicaid	7	5
Managed care and other commercial insurers	53	54
Self-pay patients	2	2
Total	100 %	100 %

The mix of gross receivables from patients and third-party payors as of September 30, 2019 and 2018 is as follows:

	2019	2018
Medicare	41 %	43 %
Medicaid	19	17
Managed care and other commercial insurers	30	30
Self-pay patients	10	10
Total	100 %	100 %

As a result of certain changes required by ASU 2014-09, the majority of amounts previously recorded as a provision for bad debts are currently recorded as a component of net patient service revenue as an implicit price concession instead of being presented as a separate line on the combined statements of operations and changes in net assets. The adoption of ASU 2014-09 has no impact on McLeod Health's net patient receivables, as it was historically recorded net of provision for bad debts and contractual adjustments on the combined balance sheets.

(11) Commitments and Contingencies

McLeod Health has leased a portion of its land for its physical plant through 2076, at which time McLeod Health has the option to purchase the property for a nominal cost. McLeod Health is also contingently responsible for any debt service cost of the landlord, plus any expenses incurred by the landlord in connection with the ownership of the premises. For the years ended September 30, 2019 and 2018, the landlord had incurred no debt service costs or other expenses in connection with the land.

MHC entered an agreement in June 2015 to lease a 59-bed hospital in Cheraw, as well as a hospital in Bennettsville that is currently unoccupied. The initial lease expires in June 2025, but McLeod Health has the option to renew the agreement three times for 5 years per renewal. Lease payments total $1,000 per year. The payments are prorated and paid on a monthly basis. A credit of $2,000 in lease payments was granted by the lessor to fund necessary repairs in order to achieve compliance with the joint commission and other governmental agencies. McLeod Health has the option to purchase the leased facilities after the initial 10-year lease expires. The sales price is prearranged and ranges from $10,000 to $17,750 based on an earnings multiple; any extraordinary renovations or expansions/additions of buildings, structures or other improvements paid for by McLeod Health will be credited at book value against the optional purchase price.

McLeod Health has a claims-made professional liability insurance policy to cover medical malpractice claims in accordance with state-mandated limits for both hospital operations and its physicians. The South Carolina Charitable Immunity Statute allows for recovery against a charitable organization of only the actual damages sustained in an amount not exceeding the limitations of liability imposed in the South Carolina Tort Claims Act (the Tort Claims Act). The Tort Claims Act provides that no person shall recover in any action or claim brought hereunder a sum exceeding $300 per person, per occurrence or a total of $600 per occurrence, except that both the per person and per occurrence amounts are raised to $1,200 for the tort of a licensed physician or dentist employed by such facility. No award for damages under the Tort Claims Act shall include punitive or exemplary damages or interest prior to judgment. While any medical malpractice claims contain an element of uncertainty, management believes that the outcome of any pending lawsuit or claim is covered by insurance and the related claim liability and anticipated insurance recoveries are not material due to the limitations of liability imposed in the Tort Claims Act.

McLeod Health is self-insured with respect to employee health benefits and workers' compensation.

McLeod Health is involved in various litigation, regulatory matters, and administrative proceedings arising in the ordinary course of business, including personnel- and employment-related matters. While any litigation contains an element of uncertainty, management believes that the outcome of any pending lawsuit or claim is covered by insurance and/or has been adequately reflected as accrued expenses and other liabilities in the accompanying consolidated financial statements. McLeod Health believes that the ultimate resolution of these matters will not have a material adverse effect on future financial position, results from consolidated operations, or its cash flows.

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient care services, and Medicare and Medicaid fraud and abuse. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

The health care industry continues to attract much legislative interest and public attention. In March 2010, the President signed into law H.R. 3590, *The Patient Protection and Affordable Care Act*, and companion bill H.R. 4872, *The Health Care and Education Reconciliation Act of 2010*. The reform will be effective over a 10-year period through 2020 and contains low-income subsidies, insurance reforms, and the creation of state-based health insurance exchanges. It is unclear at this time what the net impact of this legislation will be on McLeod Health. Such effects may include material and adverse changes to the amounts of reimbursement received by McLeod Health's facilities.

McLeod Health has committed to contracts with outside parties for various construction projects and equipment purchases with approximately $113,914 remaining to be paid subsequent to September 30, 2019.

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated financial statements.

(12) Related-Party Transactions

Total expenditures for related-party transactions during fiscal years 2019 and 2018 were approximately $23,356 and $18,611, respectively. The most significant related party expenditures totaling $16,085 and $9,721 during 2019 and 2018, respectively, were paid to Rivers Plumbing and Electric, Inc, where a Senior Vice President's brother serves as chief financial officer. The remainder consisted mainly of payments to Pee Dee Pathology, where a member of the Foundation Board and Board of Trustees practices; Santee Cooper, where a member of the Board of Trustees is employed; and medical director and chief of staff fees for several members of the Board of Trustees and community board. In addition, a Board of Trustees member is a key employee of an anesthesiology group that has an exclusive arrangement with McLeod Health for provision of anesthesiology services.

In fiscal years 2019 and 2018, McLeod Health purchased insurance coverage from third-party insurance companies involving premiums totaling approximately $2,515 and $4,142, respectively. This coverage was placed by an insurance broker who serves on the Board of Trustees of the Foundation.

(13) Leases

McLeod Health leases office space to outside parties under lease agreements with varying expiration dates through fiscal year 2028. Portions of the buildings below are used by McLeod Health, and accordingly, no rental income is recognized for that space. The cost and carrying amounts of property covered by these leases as of September 30, 2019 are as follows:

Buildings	$	9,021
Less accumulated depreciation		(3,621)
Total	$	5,400

Aggregate annual rental payments to be received during the remaining terms of these agreements as of September 30, 2019 are as follows:

Year ending September 30:		
2020	$	1,133
2021		1,011
2022		690
2023		426
2024		226
Thereafter		30
Total	$	3,516

Rental income for the years ended September 30, 2019 and 2018 totaled $1,976 and $2,147, respectively.

McLeod Health leases certain equipment and office space used in its operations. Generally, the leases provide for renewal for various periods at stipulated rates. Aggregate future minimum lease payments under noncancelable operating leases as of September 30, 2019 are as follows:

Year ending September 30:		
2020	$	1,270
2021		935
2022		911
2023		855
2024		822
Thereafter		480
Total	$	5,273

Rent expense related to office space for the years ended September 30, 2019 and 2018 was $1,988 and $2,147, respectively. Rent expense related to equipment for the years ended September 30, 2019 and 2018 was $3,267 and $3,031, respectively.

McLeod Health is obligated under a capital lease covering land and buildings for MHCL entered into on July 12, 2016. The gross amount of the land and buildings under capital lease was $23,170 at September 30, 2019 and 2018. Accumulated amortization related to this capital lease was $7,457 and $5,301 at September 30, 2019 and 2018, respectively.

(14) Functional Expenses

McLeod Health considers healthcare services and general and administrative to be its primary functional categories for purposes of expense classification. The functional breakdown of expenses incurred by McLeod Health for the years ended September 30, 2019 and 2018 are as follows:

	2019		
	Healthcare services	General and administrative	Total
Salaries	$ 471,317	64,173	535,490
Employee benefits	100,289	14,568	114,857
Contract labor	8,533	554	9,087
Physician fees	32,409	—	32,409
Medical supplies and drugs	202,171	—	202,171
Other supplies	14,470	3,124	17,594
Professional fees and purchased services	74,947	33,788	108,735
Facility-related costs	17,735	2,152	19,887
Insurance	9,215	607	9,822
Other expenses	11,091	25,034	36,125
Interest	13,309	—	13,309
Depreciation and amortization	69,486	—	69,486
Loss on disposal of property	730	—	730
Total	$ 1,025,702	144,000	1,169,702

	2018		
	Healthcare services	General and administrative	Total
Salaries	$ 452,989	58,502	511,491
Employee benefits	96,042	13,700	109,742
Contract labor	11,611	483	12,094
Physician fees	28,859	30	28,889
Medical supplies and drugs	191,774	—	191,774
Other supplies	14,259	3,271	17,530
Professional fees and purchased services	77,734	22,387	100,121
Facility-related costs	20,604	1,793	22,397
Insurance	8,283	561	8,844
Other expenses	10,978	22,469	33,447
Interest	13,661	—	13,661
Depreciation and amortization	64,265	—	64,265
Loss on disposal of property	284	—	284
Total	$ 991,343	123,196	1,114,539