

CoxHealth

Independent Auditor's Report and Consolidated Financial Statements

September 30, 2017 and 2016

CoxHealth
September 30, 2017 and 2016

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Independent Auditor's Report

Board of Directors
CoxHealth
Springfield, Missouri

We have audited the accompanying consolidated financial statements of CoxHealth (the "Health System"), which comprise the consolidated balance sheets as of September 30, 2017 and 2016, and the related consolidated statements of operations and 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 Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

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

Supplementary Information

Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

Springfield, Missouri
January 30, 2018

CoxHealth
Consolidated Balance Sheets
September 30, 2017 and 2016
(In Thousands)

Assets

	2017	2016
Current Assets		
Cash and cash equivalents	\$ 226,367	\$ 183,050
Short-term investments	41,657	57,594
Assets limited as to use – current	15,601	11,362
Patient accounts receivable, net of allowance; 2017 – \$168,320, 2016 – \$162,722	171,751	162,520
Estimated amounts due from third-party payers	360	731
Other receivables	6,715	6,528
Contributions receivable – current	213	413
Supplies	17,586	17,443
Prepaid expenses	11,446	8,510
Total current assets	491,696	448,151
Assets Limited As To Use		
Investments		
Internally designated		
Building fund investments and other	282,010	257,406
Donated investments	207,439	183,340
Externally restricted		
Donor restricted	42,310	38,018
Under deferred compensation agreement	14,536	12,615
Required statutory reserves	12,080	10,801
Held by trustees		
Self-insurance trust investments	26,472	34,301
Under bond indenture agreements	10,391	5,822
	595,238	542,303
Less amount required to meet current obligations	15,601	11,362
	579,637	530,941
Contributions receivable	1,723	2,063
	581,360	533,004
Long-Term Receivables	1,563	1,582
Property and Equipment, At Cost	1,299,534	1,253,227
Less accumulated depreciation	748,424	700,856
	551,110	552,371
Goodwill and Intangible Assets	25,930	25,949
Other Assets	6,385	8,593
Total assets	\$ 1,658,044	\$ 1,569,650

See Notes to Consolidated Financial Statements

Liabilities and Net Assets

	<u>2017</u>	<u>2016</u>
Current Liabilities		
Current maturities of long-term debt	\$ 12,513	\$ 12,077
Current amortization of deferred financing costs	1,332	1,335
Accounts payable	52,010	48,178
Accrued payroll and vacation pay	53,565	46,830
Accrued interest	6,778	6,801
Other accrued expenses	35,646	30,706
Estimated amounts due to third-party payers	8,790	9,665
Estimated insurance costs – current	19,752	18,948
Deferred revenue – current	10,746	9,262
	<u>201,132</u>	<u>183,802</u>
Estimated Insurance Costs	<u>18,628</u>	<u>19,276</u>
Deferred Compensation	<u>14,627</u>	<u>12,717</u>
Accrued Pension Liability	<u>79,647</u>	<u>108,381</u>
Other Long-Term Liabilities	<u>364</u>	<u>350</u>
Long-Term Debt		
Long-term debt	510,533	512,119
Deferred financing costs	19,628	20,801
	<u>530,161</u>	<u>532,920</u>
Total liabilities	<u>844,559</u>	<u>857,446</u>
Net Assets		
Unrestricted	772,979	673,861
Temporarily restricted	20,633	19,563
Permanently restricted	19,873	18,780
	<u>813,485</u>	<u>712,204</u>
Total net assets	<u>813,485</u>	<u>712,204</u>
Total liabilities and net assets	<u>\$ 1,658,044</u>	<u>\$ 1,569,650</u>

CoxHealth
Consolidated Statements of Operations and Changes in Net Assets
Years Ended September 30, 2017 and 2016
(In Thousands)

	2017	2016
Unrestricted Revenues, Gains and Other Support		
Patient service revenue (net of contractual discounts and allowances)	\$ 1,350,996	\$ 1,280,463
Provision for uncollectible accounts	(119,476)	(131,247)
Net patient service revenue less provision for uncollectible accounts	1,231,520	1,149,216
Premium revenue	135,422	125,119
Other revenue	57,119	51,138
Net assets released from restrictions used for operations	2,546	4,011
Total unrestricted revenues, gains and other support	1,426,607	1,329,484
Expenses		
Salaries and wages	578,607	540,739
Employee benefits	125,566	114,421
Purchased services and professional fees	193,441	180,140
Supplies and other	371,965	344,069
State provider tax program	55,587	50,704
Depreciation	50,942	49,252
Interest	21,050	21,417
Total expenses	1,397,158	1,300,742
Operating Income	29,449	28,742
Other Income (Expense)		
Contributions	670	629
Investment return	27,346	25,219
Change in unrealized gains and losses on trading securities, fair value of interest rate basis swap and fair value option of Topic 825	18,758	18,153
Other	(926)	(74)
Total other income	45,848	43,927
Excess of Revenues Over Expenses	75,297	72,669

CoxHealth
Consolidated Statements of Operations and Changes in Net Assets
Years Ended September 30, 2017 and 2016
(In Thousands)

	<u>2017</u>	<u>2016</u>
Unrestricted Net Assets		
Excess of revenues over expenses	\$ 75,297	\$ 72,669
Investment return – change in unrealized gains and losses on other than trading securities	(75)	98
Net assets released from restriction used for purchase of property and equipment	1,583	1,089
Change in defined benefit pension plan gains and losses	<u>22,313</u>	<u>(27,302)</u>
Increase in unrestricted net assets	<u>99,118</u>	<u>46,554</u>
Temporarily Restricted Net Assets		
Contributions	4,737	5,443
Investment return	724	675
Change in interest in net assets of Skaggs Foundation	(262)	206
Net assets released from restrictions	<u>(4,129)</u>	<u>(5,100)</u>
Increase in temporarily restricted net assets	<u>1,070</u>	<u>1,224</u>
Permanently Restricted Net Assets		
Contributions	493	220
Investment return	<u>600</u>	<u>291</u>
Increase in permanently restricted net assets	<u>1,093</u>	<u>511</u>
Change in Net Assets	101,281	48,289
Net Assets, Beginning of Year	<u>712,204</u>	<u>663,915</u>
Net Assets, End of Year	<u>\$ 813,485</u>	<u>\$ 712,204</u>

CoxHealth
Consolidated Statements of Cash Flows
Years Ended September 30, 2017 and 2016
(In Thousands)

	2017	2016
Operating Activities		
Change in net assets	\$ 101,281	\$ 48,289
Items not requiring (providing) operating cash flow		
Depreciation	50,942	49,252
Amortization of deferred financing costs	(992)	(877)
Provision for uncollectible accounts	119,476	131,247
Loss (gain) on sale of property and equipment, net	(156)	680
Loss on investment in equity investees	19	65
Appreciation of Series H Capital Appreciation Bonds	2,115	2,395
Net gain on investments	(37,009)	(27,975)
Change in defined benefit pension plan gains and losses	(22,313)	27,302
Restricted contributions and investment income received	(6,292)	(6,835)
Change in fair value of interest rate basis swap	-	(3,279)
Changes in		
Receivables	(128,354)	(139,824)
Estimated third-party settlements	(504)	6,376
Accrued self-insurance costs	156	(6,665)
Other assets and liabilities	8,509	4,072
Net cash provided by operating activities	86,878	84,223
Investing Activities		
Proceeds from sales (purchases of) short-term investments, net	15,937	(10,152)
Purchase of investments	(297,592)	(185,281)
Proceeds from sale of investments	283,578	188,163
Purchase of property and equipment	(47,246)	(69,425)
Proceeds from sale of property and equipment	45	234
Advances and repayments of long-term notes receivable, net	12	239
Other	2,515	(174)
Net cash used in investing activities	(42,751)	(76,396)

CoxHealth
Consolidated Statements of Cash Flows
Years Ended September 30, 2017 and 2016
(In Thousands)

	<u>2017</u>	<u>2016</u>
Financing Activities		
Proceeds from restricted contributions and investment income received	\$ 6,292	\$ 6,835
Proceeds from issuance of long-term debt	5,692	-
Principal payments on long-term debt	<u>(12,794)</u>	<u>(17,859)</u>
Net cash used in financing activities	<u>(810)</u>	<u>(11,024)</u>
Change in Cash and Cash Equivalents	43,317	(3,197)
Cash and Cash Equivalents, Beginning of Year	<u>183,050</u>	<u>186,247</u>
Cash and Cash Equivalents, End of Year	<u>\$ 226,367</u>	<u>\$ 183,050</u>
Supplemental Cash Flows Information		
Purchase of property and equipment in accounts payable	\$ 2,156	\$ 3,603
Interest paid (net of capitalized interest)	\$ 21,073	\$ 21,818
Capital lease obligation incurred for property and equipment	\$ 3,774	\$ 2,669

CoxHealth
Notes to Consolidated Financial Statements
September 30, 2017 and 2016
(In Thousands)

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

CoxHealth is the parent of Lester E. Cox Medical Centers and its wholly owned subsidiaries plus certain affiliated not-for-profit entities and is collectively referred to as CoxHealth. CoxHealth (the “Health System”) operates as an integrated delivery system including four hospitals, a surgical center, an inpatient rehabilitation facility, home care companies, physician services, mental health services, insurance companies and a foundation. The Health System primarily earns revenues by providing inpatient, outpatient, emergency care, inpatient rehabilitation, home care, physician services and health insurance products to patients and employers in Springfield, Missouri, and the surrounding southwest Missouri area.

Principles of Consolidation

The consolidated financial statements include the consolidated financial statements of CoxHealth and its wholly owned subsidiaries:

Lester E. Cox Medical Centers

Cox Health Systems HMO, Inc. is the sole owner of Cox Health Systems Insurance Company and Cox Health Plans, LLC

Medical Developments, Inc.

Insurance Company of Springfield, Inc.

Cox College

Cox Medical Group

Cox Taxable Close Corporation

Ferrell-Duncan Clinic, Inc.

The consolidated financial statements also include the following not-for-profit entities for which the Boards are appointed by the Lester E. Cox Medical Centers:

The Skaggs Community Hospital Association d/b/a Cox Medical Center Branson

Cox-Monett Hospital

CoxHealth Foundation

Cox HPS of the Ozarks, Inc.

CoxHealth
Notes to Consolidated Financial Statements
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(In Thousands)

Cox Alternative Care of the Ozarks, Inc., Healthcare Services of the Ozarks, Inc. and Cox Healthcare Services of the Midwest, Inc. collectively referred to as Oxford Home Health Care

Primrose Place, Inc.

Cox Health Systems Insurance Company

Cox Health Systems HMO, Inc.

Medical Developments, Inc., Cox HPS of the Ozarks, Inc., Oxford Home Health Care, Insurance Company of Springfield, Inc., Primrose Place, Inc. and Cox College are collectively referred to as Other CoxHealth Entities.

All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Health System considers all liquid investments, other than those limited as to use, with original maturities of three months or less to be cash equivalents. At September 30, 2017 and 2016, cash equivalents consisted primarily of money market accounts with brokers, repurchase agreement accounts and certificates of deposit.

At September 30, 2017, the Health System's cash accounts exceeded federally insured limits by approximately \$44,376.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Investments in equity investees are reported on the equity method of accounting and are included with long-term receivables on the consolidated balance sheets. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. Investments also include investments in alternative assets, such as hedge funds structured as limited liability corporations or partnerships. These funds are carried at net asset value. The estimated fair value of these alternative investments is based on the most recent valuations provided by external investment managers.

CoxHealth
Notes to Consolidated Financial Statements
September 30, 2017 and 2016
(In Thousands)

Management has reviewed and evaluated the values provided by the managers and agrees with the valuation methods and assumptions used to determine those fair values, and believes the carrying amount of these investments is a reasonable estimate of fair value. The amount at which the Health System may be able to sell the investments may be different than the estimated carrying value.

Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments. Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the consolidated statements of operations and changes in net assets as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

Health Claims Incurred and Reserved

Cox Health Systems Insurance Company and Cox Health Systems HMO, Inc. contract with various healthcare providers for the provision of hospitalization and other medical services to their members. These companies compensate the providers based upon negotiated discounts from established rates or at predetermined rates based upon diagnosis.

Accrued medical claims and related expenses (hospitalization and other medical services) include amounts billed and not paid, an estimate of costs incurred for unbilled services and an estimate of costs to be incurred for hospitalizations in progress at period end. The costs to be incurred of \$19,000 and \$14,300 at September 30, 2017 and 2016, respectively, are included within current liabilities in other accrued expenses. Substantially all of the estimate of costs to be incurred will be paid within the next 12 months. Management believes such estimates to be adequate; however, the actual amount paid may be more or less than the amounts provided. Adjustments to these estimates are included in current operations.

All claims paid to CoxHealth from its consolidated insurance companies have been eliminated in consolidation.

Assets Limited As To Use

Assets limited as to use include assets set aside by the Board of Directors and management for future capital improvements, major contingencies and debt service over which the Board and management retains control and may at its discretion subsequently use the assets for other purposes; assets externally restricted by donors, deferred compensation agreements and required statutory reserves for Cox Health Systems Insurance Company and Cox Health Systems HMO, Inc.; assets held by trustees under indenture agreements; self-insurance trust arrangements and certain contributions receivable. Amounts required to meet current liabilities of the Health System are included in current assets. Donated investments are limited to the purpose of paying bonded or lienable indebtedness under the Health System's Articles of Association.

CoxHealth
Notes to Consolidated Financial Statements
September 30, 2017 and 2016
(In Thousands)

Patient Accounts Receivable

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectibility of accounts receivable, the Health System analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for uncollectible accounts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

For receivables associated with services provided to patients who have third-party coverage, the Health System analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for uncollectible accounts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payer has not yet paid, or for payers who are known to be having financial difficulties that make the realization of amounts due unlikely).

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Health System records a significant provision for uncollectible accounts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated or provided by policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The Health System's allowance for doubtful accounts for self-pay patients was 94% of self-pay accounts receivable at September 30, 2017 and 2016. In addition, the Health System's write-offs decreased approximately \$21,400 from approximately \$146,200 for the year ended September 30, 2016, to approximately \$124,800 for the year ended September 30, 2017. The change was the result of trends experienced in the collection of amounts from self-pay patients and increase in charity care granted in fiscal year 2017.

Supplies

The Health System states supply inventories at the lower of cost, determined using the first-in, first-out method, or market.

Property and Equipment

Property and equipment acquisitions are recorded at cost and are depreciated on a straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

CoxHealth
Notes to Consolidated Financial Statements
September 30, 2017 and 2016
(In Thousands)

Donations of property and equipment are reported at fair value as an increase in unrestricted net assets unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in unrestricted net assets when the donated asset is placed in service.

Long-Lived Assets Impairment

The Health System evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No impairment was recorded in 2017 or 2016.

Interest in Net Assets of Skaggs Foundation

Skaggs Foundation holds certain restricted net assets on behalf of the Health System. The Health System accounts for its interest in the net assets of Skaggs Foundation (Interest) in a manner similar to the equity method. Interest in the net assets of the Skaggs Foundation was \$7,442 and \$6,393 at September 30, 2017 and 2016, respectively, which is included in Donor Restricted Assets Limited As To Use. Changes in the Interest are included in change in net assets. Transfers of assets between the Skaggs Foundation and the Health System are recognized as increases or decreases in the Interest.

Goodwill

Goodwill is evaluated annually for impairment or more frequently if impairment indicators are present. A qualitative assessment is performed to determine whether the existence of events or circumstances leads to a determination that it is more likely than not the fair value is less than the carrying amount, including goodwill. If, based on the evaluation, it is determined to be more likely than not that the fair value is less than the carrying value, then goodwill is tested further for impairment. If the implied fair value of goodwill is lower than its carrying amount, a goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the consolidated financial statements. No impairment was recorded in 2017 and 2016.

Deferred Financing Costs

Deferred financing costs represent debt issuance costs, premiums and discounts incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the interest method of amortization. Other loan costs are being amortized on a straight-line basis over the term of the loan.

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Notes to Consolidated Financial Statements
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(In Thousands)

Other Assets

The Health System funds life insurance policies for certain key executives. Upon termination of the policies all premiums advanced to the policyholder will be returned to the Health System.

Deposits of various amounts are on account with certain vendors which provides for additional discounts on purchases made.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Health System has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Health System in perpetuity.

The governing Board of the Health System treats any appreciation in endowment funds as permanently restricted unless specified otherwise by the donor. Interest and dividends from permanently restricted investments are recorded as unrestricted net assets unless donor stipulations restrict such earnings.

Net Patient Service Revenue

The Health System has agreements with third-party payers that provide for payments to the Health System at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Premium Revenue

The Health System receives premium revenue through Cox Health Systems Insurance Company and Cox Health Systems HMO, Inc., resulting from the sale of health insurance policies. Premiums are reported as earned in the period in which members are entitled to receive healthcare services. Premiums received prior to such period are recorded as deferred revenue and reflected as a liability in the accompanying balance sheets.

Charity Care

The Health System provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Health System does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

CoxHealth
Notes to Consolidated Financial Statements
September 30, 2017 and 2016
(In Thousands)

Contributions Receivable

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Gifts received with donor stipulations are reported as either temporarily or permanently restricted support. When a donor restriction expires, that is, when a time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified and reported as an increase in unrestricted net assets. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions. Conditional contributions are reported as liabilities until the condition is eliminated or the contributed assets are returned to the donor.

Estimated Insurance Costs and Professional Liability Claims

An annual estimated provision is accrued for professional liability claims, comprehensive general liabilities, employee healthcare and worker's compensation claims and includes an estimate of the ultimate costs, including estimated costs to defend the claims, for both reported claims and claims incurred but not reported. The estimated liability for claims not expected to be settled within the next year is included in long-term liabilities.

The Health System recognizes an accrual for claim liabilities based on estimated ultimate losses and costs associated with settling claims and a receivable to reflect the estimated insurance recoveries, if any. Professional liability claims are described more fully in *Note 7*.

Income Taxes

The following organizations are exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the organizations are subject to federal income tax on any unrelated business taxable income.

- CoxHealth
- Lester E. Cox Medical Centers
- Cox Alternative Care of the Ozarks, Inc.
- Healthcare Services of the Ozarks, Inc.
- Cox Healthcare Services of the Midwest, Inc.
- Cox HPS of the Ozarks, Inc.
- Cox-Monett Hospital
- Cox Medical Center Branson
- Cox Health Systems Insurance Company

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(In Thousands)

Cox Health System HMO, Inc.
Primrose Place, Inc.
CoxHealth Foundation
Cox Medical Group
Cox College

Medical Developments, Inc., Insurance Company of Springfield, Inc., Cox Taxable Close Corporation and Ferrell-Duncan Clinic, Inc. are for-profit entities and subject to federal and state income tax.

The Health System files tax returns in the U.S. federal jurisdiction. With a few exceptions, the Health System is no longer subject to U.S. federal examinations by tax authorities for years before 2014.

Deferred Revenue

The Health System receives payment in advance of services being provided for home care services, nursing education tuition and insurance policy premiums. These advance payments are recorded as deferred revenue and recognized as revenue as services are provided.

The Health System has entered into certain shared savings payment arrangements with insurance providers to improve outcomes and reduce costs. The Health System receives payments from insurance providers in advance of final outcomes and cost measurements. Therefore, the Health System has deferred revenue recognition of shared savings payments until final outcomes and costs have been determined by the insurance providers.

Excess of Revenues Over Expenses

The consolidated statements of operations and changes in net assets include excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, accrued pension liability adjustments and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

Transfers Between Fair Value Hierarchy Levels

Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the period-end date.

CoxHealth
Notes to Consolidated Financial Statements
September 30, 2017 and 2016
(In Thousands)

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. Payment under both programs are contingent on the Health System continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Health System recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

The Health System recognized revenue of approximately \$400 and \$1,600 during 2017 and 2016, respectively, which is included in other revenue within operating revenues in the statements of operations and changes in net assets.

Reclassifications

Certain reclassifications have been made to the 2016 consolidated financial statements, including the adoption of Accounting Standards Update 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, that were deemed to be immaterial, and to conform to the 2017 consolidated financial statements presentation. These reclassifications had no effect on the change in net assets.

Subsequent Events

Subsequent events have been evaluated through January 30, 2018, which is the date the consolidated financial statements were issued.

CoxHealth
Notes to Consolidated Financial Statements
September 30, 2017 and 2016
(In Thousands)

Note 2: Net Patient Service Revenue

The Health System recognizes patient service revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Health System recognizes revenue on the basis of its standard rates for services provided. On the basis of historical experience, a significant portion of the Health System's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Health System records a significant provision for uncollectible accounts related to uninsured patients in the period the services are provided. This provision for uncollectible accounts is presented on the statement of operations as a component of net patient service revenue.

The Health System has agreements with third-party payers that provide for payments to the Health System at amounts different from its established rates. These payment arrangements include:

Medicare. Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Certain outpatient services and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. Cox-Monett Hospital is a critical access hospital. As such, it is paid on a cost basis for most inpatient and outpatient services. The Health System is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Health System and audits thereof by the Medicare administrative contractor.

Medicaid. Inpatient services rendered to Medicaid program beneficiaries are reimbursed based on a prospectively established per diem rate. Medicaid outpatient reimbursement is based on a prospective percentage rate determined from prior cost reports regressed forward.

The Health System participates in the Missouri state provider tax program which provides for additional reimbursement from the Medicaid program in relation to the percentage of Medicaid and indigent population the Health System serves. The Health System paid assessments of \$55,587 and \$50,704 in state provider tax during 2017 and 2016, respectively, which is presented in operating expenses within the accompanying consolidated financial statements.

Funding received in excess of costs to provide services to the Medicaid and indigent population may be refunded to the state for reallocation to other healthcare systems. The Health System received \$66,328 and \$62,942 in 2017 and 2016, respectively, which is recorded in net patient service revenue in the accompanying consolidated financial statements. Currently, no funds are expected to be repaid to the state, however, it is reasonably possible that circumstances could change materially in the near term.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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The Health System has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and/or preferred provider organizations. The basis for payment to the Health System under these agreements includes prospectively determined rates per discharge, discounts from established charges and/or prospectively determined daily rates.

Patient service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized in the years ended September 30, 2017 and 2016, respectively, is approximately:

	2017	2016
Medicare	\$ 459,818	\$ 447,785
Medicaid	158,840	146,157
Commercial insurance	641,090	600,754
Patients	91,248	85,767
	<u>\$ 1,350,996</u>	<u>\$ 1,280,463</u>

Note 3: Concentrations of Credit Risk

The Health System grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. The mix of net receivables from patients and third-party payers at September 30, 2017 and 2016, is:

	2017	2016
Medicare	17.7%	17.4%
Medicaid	5.7%	6.3%
Commercial insurance	65.1%	63.8%
Patients	11.5%	12.5%
	<u>100.0%</u>	<u>100.0%</u>

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Note 4: Investments and Investment Return

Investments, at September 30, include:

	2017	2016
Cash	\$ 855	\$ 904
Money market funds	33,121	14,188
Guaranteed investment contract	39,179	36,028
Certificates of deposit	16,882	17,131
Governmental obligations	87,579	94,772
Corporate obligations	77,418	95,439
Equity securities	11,202	53,990
Mutual funds – equity securities	203,663	130,214
Mutual funds – debt securities	4,782	972
Alternative investments	142,755	138,316
Assets under perpetual trusts	10,754	10,153
Other	8,705	7,790
	<u>\$ 636,895</u>	<u>\$ 599,897</u>

The guaranteed investment contract is primarily concentrated with one company in the financial guaranty insurance business. The insurance company is not required to maintain certain ratings by nationally recognized rating agencies. However, at September 30, 2017 and 2016, this insurance company was rated AA- and A1 by Standard & Poor's and Moody's, respectively.

Investments are included on the balance sheets as follows:

	2017	2016
Short-term investments	\$ 41,657	\$ 57,594
Assets limited as to use		
Internally designated	489,449	440,746
Externally restricted	68,926	61,434
Held by trustees	36,863	40,123
	<u>\$ 636,895</u>	<u>\$ 599,897</u>

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Investment Return

Total investment return is comprised of the following:

	2017	2016
Interest and dividend income	\$ 13,300	\$ 15,160
Realized gains and losses on securities and investments accounted for under the fair value option of Topic 825	17,726	5,621
Realized gain on settlement of interest rate basis swap	-	7,090
Unrealized gains on trading securities	10,535	14,991
Unrealized gains (losses) on other than trading securities	(75)	98
Change in beneficial interest in perpetual trust	600	291
Change in fair value of interest rate basis swap	-	3,279
Change in fair value of investments accounted for under the fair value option of Topic 825	8,223	(116)
	<u>\$ 50,309</u>	<u>\$ 46,414</u>

Total investment return is reflected in the statements of operations and changes in net assets as follows:

	2017	2016
Unrestricted net assets		
Unrestricted revenues, gains and other support	\$ 2,956	\$ 1,978
Other income		
Investment return	27,346	25,219
Change in unrealized gains and losses on trading securities, fair value of interest basis swap and fair value option of Topic 825	18,758	18,153
Change in unrealized gains and losses on other than trading securities	(75)	98
Temporarily restricted net assets	724	675
Permanently restricted net assets	600	291
	<u>\$ 50,309</u>	<u>\$ 46,414</u>

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Investment return of \$2,956 and \$1,978 on unexpended debt proceeds limited as to use under bond indenture agreements, self-insurance trust earnings and short-term investments have been included in unrestricted revenues, gains and other support for the years ended September 30, 2017 and 2016, respectively.

Alternative Investments

Except as described below, the alternative investments have been estimated using the net asset value per share of the investments. Alternative investments held at September 30 consist of the following:

	September 30, 2017			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private equity (A)	\$ 15,202	\$ 29,670	None	None
Emerging markets all cap (B)	18,022	-	Monthly	30 days
Risk parity (C)	21,497	-	Monthly	15 days
Real assets (D)	13,455	-	Monthly	30 days
International small cap (E)	8,373	-	Daily	10 days
Emerging markets local currency debt (F)	11,904	-	Monthly	5 days
Real estate (G)	17,214	-	Quarterly	45 days
Real return (H)	9,552	-	Monthly	30 days
Hedge fund of funds (I)	27,536	-	**	**

	September 30, 2016			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private equity (A)	\$ 7,237	\$ 12,616	None	None
Emerging markets all cap (B)	14,834	-	Monthly	30 days
Risk parity (C)	19,846	-	Monthly	15 days
Real assets (D)	14,094	-	Monthly	30 days
International small cap (E)	6,937	-	Daily	10 days
Emerging markets local currency debt (F)	8,482	-	Monthly	5 days
Real estate (G)	16,100	-	Quarterly	45 days
Real return (H)	9,945	-	Monthly	30 days
Hedge fund of funds (I)	40,841	-	**	**

** Subject to underlying funds redemption policy ranging from 15 to 90 days and underlying manager liquidity.

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- (A) The objectives of the fund are to deliver superior risk-adjusted returns proactively sourcing attractive investments from across a broad spectrum of global private equity funds (primaries and secondaries) and co-investment opportunities and to achieve, over the life of the fund, long-term compounded net returns in excess of public equities as measured by the MSCI World Index. The fund has a lock-up period of 13 years as of the initial closing, with up to two one-year extensions and the interest in the fund is nonredeemable.
- (B) The objectives of the fund are to achieve attractive benchmark-relative returns through investment in an emerging markets portfolio of primarily publicly traded equity securities and over-the-counter equity swaps. The fund also seeks to benefit from a broad universe of investment candidates including large-, mid- and small-cap stocks from which to make its selections and from exposure to markets which tend to be less efficient, both which offer potential for enhanced returns.
- (C) The objectives of the fund are to efficiently deliver exposure to a broadly diversified set of global risk premia covering equities, government bonds, commodities and credit. These include exposure to global developed and emerging stocks, developed government bonds, emerging market fixed income and emerging currencies, global inflation protected bonds, high-yield and investment grade credit spreads, mortgage spreads and commodities, among other exposures.
- (D) The objectives of the fund are to seek absolute total return by investing in income-generating publicly traded master limited partnerships, either directly or via equity swaps, with a particular focus on energy sector master limited partnerships and other C-Corporation energy infrastructure companies.
- (E) The objectives of the fund are to achieve long-term growth primarily from a diversified portfolio of small and mid-capitalization equity securities of companies located in any country other than the United States and Canada. The fund has defined small- and mid-capitalization equity securities to be equity securities of companies with a market capitalization less than \$15 billion at time of their initial purchase.
- (F) The objectives of the fund are to seek current revenue and capital appreciation by investing in a diversified portfolio of emerging country debt, other securities linked to emerging country debt and money market instruments denominated in emerging country currencies. Emerging countries are defined as those designated, at the time the fund invests, as industrially developing countries by the International Monetary Fund, the World Bank, the International Finance Corporation or one of the leading investment banks or countries identified by the adviser that have similar characteristics to these countries.

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- (G) The objectives of the fund are to generate attractive investment returns from a portfolio of equity investments in income producing real property. The fund offers a commingled fund vehicle with an established portfolio of high quality real estate investments, including active management of stable, well-located properties among the four primary real estate sectors – apartment, industrial, office and retail – in major metropolitan markets throughout the continental United States.
- (H) The objectives of the fund are to seek to generate a total return in the long-term through investments in commodity related instruments globally. The fund may be exposed to a range of commodity sectors from time to time but anticipates that under current market conditions the fund will be primarily invested in the energy, agriculture and metals sectors. The fund may invest in a range of commodity related investments including, for example, futures contracts, swaps, options, forward contracts and structured notes and, to a lesser extent, equities, debt securities, convertible securities and warrants of issuers in commodity related industries.
- (I) The objectives of the fund are to provide consistent, superior capital appreciation through the use of a multi-manager investment strategy. To achieve this objective, the fund will allocate its assets primarily among private investment vehicles and/or separate investment accounts (Portfolio Funds) which, in turn, are expected to invest primarily in publicly traded equity securities of United States and foreign issuers. Portfolio Funds may also invest in other securities, including debt securities, options and other derivative instruments. Portfolio Funds will be managed by U.S. and foreign-based professional investment managers selected for their specialized expertise and significant investment histories and/or prospects.

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Note 5: Property and Equipment

Property and equipment are stated at cost. A summary of cost by category and the related total accumulated depreciation follows:

	<u>2017</u>	<u>2016</u>
Land	\$ 33,178	\$ 33,178
Land improvements	28,174	27,295
Buildings	481,267	468,268
Fixed equipment	297,200	292,209
Major movable equipment	443,915	421,323
Construction in progress	15,800	10,954
	<u>1,299,534</u>	<u>1,253,227</u>
Less accumulated depreciation	<u>748,424</u>	<u>700,856</u>
	<u>\$ 551,110</u>	<u>\$ 552,371</u>

At September 30, 2017, construction in progress represents costs incurred in connection with the Cox South construction and construction on various clinics, down payments on assets and other assets not yet placed in service. The total cost of the projects in progress at September 30, 2017, is estimated to be approximately \$17,350 representing an additional commitment to complete the projects of approximately \$9,250, which will be funded by operations.

Note 6: Beneficial Interest in Perpetual Trusts

The Health System is an income beneficiary of perpetual trusts controlled by unrelated third-party trustees. The beneficial interest in the assets of these trusts are included in the Health System's consolidated financial statements as an asset externally restricted by a donor and part of permanently restricted net assets. Income is distributed in accordance with the individual trust documents and is included in contributions. The estimated value of the expected future cash flows are approximately \$10,754 and \$10,153, which represents the fair value of the trust assets at September 30, 2017 and 2016, respectively.

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Note 7: Professional Liability Claims

The Health System is primarily insured for professional liability claims, comprehensive general liabilities, employee healthcare and worker’s compensation. The Health System purchases a claims-made policy for malpractice claims in excess of self-insured limits that covers individual claims in excess of \$4 million or \$40 million total policy limits. Losses from asserted and unasserted claims identified under the Health System’s incident reporting system are accrued based on estimates that incorporate the Health System’s past experience, as well as other considerations, including the nature of each claim or incident and relevant trend factors.

Based upon the Health System’s claims experience, an accrual has been made for the Health System’s estimated malpractice costs, including costs associated with litigating or settling claims, under its malpractice insurance policy, amounting to approximately \$22,700 and \$25,100 as of September 30, 2017 and 2016, respectively. Management is vigorously contesting the current claims and believes the accrued liability for self-insured claims is sufficient to cover probable losses. However, given the nature of the claims and the uncertainties involved, it is possible that management’s estimate of ultimate losses for self-insured claims may change materially in the near term.

Activity in the Health System’s accrued self-insurance liabilities during 2017 and 2016 is summarized as follows:

	2017	2016
Balance, beginning of year	\$ 38,224	\$ 44,889
Current year claims incurred and change in estimates for claims incurred in prior years	64,483	50,278
Claims and expenses paid	<u>(64,327)</u>	<u>(56,943)</u>
Balance, end of year	<u>\$ 38,380</u>	<u>\$ 38,224</u>

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Note 8: Long-Term Debt

Long-term debt consists of the following:

	2017	2016
Health Facilities Revenue Bonds Series H 1992 (A)	\$ 27,141	\$ 31,577
Health Facilities Revenue Bonds Series 2008A (B)	32,500	32,500
Health Facilities Revenue Bonds Series 2008B (C)	70,000	70,000
Health Facilities Revenue Bonds Series 2008C (D)	34,145	34,245
Health Facilities Revenue Bonds Series 2013A (E)	200,735	201,475
Health Facilities Revenue Bonds Series 2015A (F)	126,485	126,485
Health Facilities Revenue Note (G)	-	504
Health Facilities Revenue Note (H)	4,692	-
Capital leases (I)	15,034	15,472
Purchase agreement (J)	2,184	2,237
Note payable (K)	5,405	5,463
Notes payable (L)	4,725	4,238
	<u>523,046</u>	<u>524,196</u>
Unamortized bond premium (discount), net	24,967	26,303
Unamortized deferred issuance costs	(4,007)	(4,167)
	<u>544,006</u>	<u>546,332</u>
Less current maturities of deferred financing costs	1,332	1,335
Less current maturities	12,513	12,077
	<u>\$ 530,161</u>	<u>\$ 532,920</u>

- (A) Series H bonds issued in 1992 in the original amount of \$20,347, which are capital appreciation bonds bearing interest at 4.25% to 6.7%. The bonds were to accrete to a peak amount of \$61,128, but a portion of the proceeds from the Series 2002 Variable Rate Demand Bonds was used to extinguish the Current Interest Serial Bonds and the Current Interest Term Bonds associated with the Series H Bonds. The total amount extinguished with proceeds from the Series 2002 Variable Rate Demand Bonds was \$5,755. During 2008, the Health System defeased 37.9% or \$13,685 of the Series H bonds maturing in years 2016 through 2022 using existing cash and investments. The defeasance will result in a reduction in annual debt service of approximately \$4 million in each of the years in which such Series H bonds mature. With the 2008 defeasance, the bonds will now accrete to a peak amount of \$45,849 in 2022. Unamortized debt issuance costs were \$104 and \$143 at September 30, 2017 and 2016, respectively.

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- (B) Series 2008A bonds, issued on September 10, 2008, in the original amount of \$162,500, with an original issue discount of \$5,421. These bonds bear interest rates at 5.0% to 5.5% and mature between November 15, 2022, and November 15, 2039. The proceeds of the 2008A bonds were used to redeem the 1997, 2002 Variable Rate Demand Bonds, a portion of the 1992 Series H bonds and fund certain construction and remodeling projects. A portion of these bonds were refunded in advance with the issuance of the Series 2015A bonds in the amount of \$130,000. Unamortized debt issuance costs were \$212 and \$221 at September 30, 2017 and 2016, respectively.
- (C) Variable Rate Demand Revenue Bonds, Series 2008B, issued on October 15, 2008, in the original amount of \$70,000. The interest rate was 1.4414% and 0.9556% at September 30, 2017 and 2016, respectively. The bonds are due in graduated installments from November 15, 2023, through November 15, 2044. The proceeds of the 2008B bonds were used to fund certain construction and remodeling projects. Unamortized debt issuance costs were \$372 and \$387 at September 30, 2017 and 2016, respectively.

The Series 2008B Bonds are directly placed with a financial institution, bearing interest at 68% of the 30-day LIBOR rate plus 60 basis points through the initial indexed put period ending December 3, 2018. At such time, the Health System may enter into a new indexed put-rate period with the current or a replacement financial institution or seek other mode conversion options.

- (D) Variable Rate Demand Revenue Bonds, Series 2008C, issued on October 15, 2008, in the original amount of \$35,000. The interest rate was 1.4314% and 0.9458% at September 30, 2017 and 2016, respectively. The bonds are due in graduated installments from November 15, 2012, through November 15, 2043. The proceeds of the 2008C bonds were used to fund certain construction and remodeling projects. Unamortized debt issuance costs were \$202 and \$210 at September 30, 2017 and 2016, respectively.

The Series 2008C Bonds are directly placed with a financial institution, bearing interest at 70% of the 30-day LIBOR rate plus 65 basis points through the indexed put period ending September 1, 2021. At such time, the Health System may enter into a new indexed put-rate period with the current or a replacement financial institution or seek other mode conversion options.

- (E) Series 2013A bonds, issued on April 17, 2013, in the original amount of \$201,475, with an original issue premium of \$14,290. These bonds bear interest rates at 5.0% to 5.5% and mature between November 15, 2016, and November 15, 2048. The proceeds of the 2013A bonds were used to redeem The Skaggs Community Hospital Association, d/b/a Skaggs Regional Medical Center, Series 1998 and 2005 Hospital Revenue Bonds and fund certain construction and remodeling projects. Unamortized debt issuance costs were \$1,896 and \$1,972 at September 30, 2017 and 2016, respectively.

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- (F) Series 2015A bonds, issued on April 22, 2015, in the original amount of \$126,485, with an original issue premium of \$15,725. These bonds bear interest rates at 4.0% to 5.0% and mature between November 15, 2022, and November 15, 2039. The proceeds of the 2015A bonds were used to refund in advance a portion of the 2008A bonds. Unamortized debt issuance costs were \$1,156 and \$1,233 at September 30, 2017 and 2016, respectively.

The Medical Center's Health Facilities Revenue Bonds, Series H 1992 are insured by a municipal bond guaranty policy which insures payment of interest and principal at stated maturity or pursuant to scheduled mandatory redemption provisions subject to certain restrictions.

The Medical Center's bonds are secured by all tangible personal property of the institution, including all fixtures, furnishings, machinery and equipment constituting part of the south facility and certain equipment located at the north facility. The bonds are also secured by all revenue and proceeds of the operations of the facilities excluding only gifts, grants, bequests, donations and contributions to the Medical Centers and the income and gains derived therefrom which are specifically restricted by the donor or grantor to a particular purpose other than payment of the bonds.

The Obligated Group members for all the outstanding bonds at September 30, 2017, is CoxHealth, Lester E. Cox Medical Centers, Cox Medical Center Branson, Cox-Monett Hospital, Cox College and Cox Medical Groups Clinics. Cox Medicare Groups Clinics had no activity in 2017 or 2016. The indenture agreements require that certain funds be established with the trustees. Accordingly, these funds are included as assets limited as to use held by trustee in the financial statements. The bond indenture agreements require the Obligated Group to comply with certain restrictive covenants including minimum insurance coverage, maintaining financial ratios above specified levels and restrictions on incurrence of additional indebtedness. The maximum annual debt service for the Obligated Group, as of September 30, 2017, was approximately \$35,234.

- (G) Revenue note issued in 2007 in the original amount of \$5,000, bearing interest at 4.32%. The note is payable in monthly installments of \$51 beginning August 2007 through July 2017 and secured by the equipment purchased. Unamortized debt issuance costs were \$0 and \$1 at September 30, 2017 and 2016, respectively.
- (H) Revenue note issued in 2017 in the original amount of \$4,692, bearing interest at 1.99%. The note is payable in monthly installments of \$59 beginning October 2017 through September 2024 and secured by the equipment purchased. Unamortized debt issuance costs were \$65 at September 30, 2017.
- (I) Capital leases for various equipment, payable in monthly installments through 2025. The capital leases bear imputed interest rates between 0% to 8% and are secured by the equipment.
- (J) Purchase agreement notes payable dated September 1, 1997, payable in annual installments ranging from \$52 to \$2,964 through September 2035. The notes bear interest at 8% annually.

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- (K) Promissory note in connection with the purchase of a specialty clinic in the original amount of \$5,750, dated January 5, 2011, bearing interest at 2.5%. The note is payable in annual installments ranging from \$58 to \$2,013 through December 2030.
- (L) Notes payable in monthly installments through 2027. The notes payable bear interest rates between 0% to 3% and are secured by the equipment.

Aggregate annual maturities of long-term debt, excluding amortization of bond discounts and premiums, at September 30, 2017, are:

Year Ending September 30,	Total to be Paid	Principal	Interest
2018	\$ 32,986	\$ 12,513	\$ 20,473
2019	35,234	14,575	20,659
2020	31,228	10,378	20,850
2021	31,874	10,835	21,039
2022	30,021	9,008	21,013
Thereafter	<u>778,298</u>	<u>465,737</u>	<u>312,561</u>
	<u>\$ 939,641</u>	<u>\$ 523,046</u>	<u>\$ 416,595</u>

Advanced Refunding

The proceeds from certain bond offerings were used to advance refund portions of bonds previously issued. Proceeds sufficient to cover repayment of the bond offerings were placed in escrow with a bond trustee and upon making the advance refunding deposits with the bond trustee, the Health System has no further obligation under the financing documents and has been released from the liability. Accordingly, the outstanding obligations related to this bond offering and the related escrow deposit are not reflected in the accompanying consolidated financial statements.

The proceeds from the 2008A bond offering by the Health System were used to advance refund a portion of the 1992 Series H bonds. The outstanding obligations and escrow deposit related to this bond offering is \$16,482 and \$18,997, respectively, at September 30, 2017.

The proceeds from the 2015A bond offering by the Health System were used to advance refund a portion of the 2008A Series bonds. The outstanding obligations and escrow deposit related to this bond offering is \$130,000 and \$138,472, respectively, at September 30, 2017.

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Note 9: Interest Rate Basis Swap

The Medical Centers entered into an interest rate basis swap agreement which was not designated as a hedging instrument. The swap agreement provides for the Medical Centers to receive variable rates of interest from and to pay variable rates of interest to the counterparty on the notional amount of \$200,000. The pay rate on the notional amount is SIFMA (Securities Industry and Financial Markets Association Municipal Swap Index), and the Medical Centers receives 67% of three-month USD-LIBOR-BBA plus 0.445%. Under the agreement, the Medical Centers pays or receives the net interest amount monthly with the monthly settlements included in investment return.

The interest rate basis swap agreement was carried at fair value based on quoted market prices and changes in fair value are included in excess of revenues over expenses. As of August 2016, the swap was terminated, realizing a gain of \$7,090, included in investment return on the consolidated statement of operations.

Note 10: Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	2017	2016
Health care services		
Health education	\$ 3,746	\$ 3,582
Indigent care	8,482	7,810
Health services	3,845	4,399
Construction projects	3,826	2,636
Research and other	734	1,136
	\$ 20,633	\$ 19,563

During 2017 and 2016, net assets were released from donor restrictions by incurring expenses, satisfying the restricted purposes in the amounts of \$2,546 and \$4,011, respectively. During 2017 and 2016, net assets of \$1,583 and \$1,089, respectively, were released to purchase property and equipment.

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Permanently restricted net assets are restricted to:

	2017	2016
Investments to be held in perpetuity, the income is restricted to be spent only for the donor's intended purpose	\$ 19,873	\$ 18,780

Note 11: Charity Care

The estimated cost of charity care provided under the Health System's charity care policy was approximately \$45,768 and \$43,116 for 2017 and 2016, respectively. The cost of charity care is estimated by applying the ratio of cost to charges to the gross uncompensated care charges.

Note 12: Functional Expenses

The Health System provides healthcare services to residents within its service area. Expenses related to providing these services are as follows:

	2017	2016
Health care services	\$ 1,039,091	\$ 976,087
General and administrative	279,208	252,351
Cox Health Systems Insurance Company and HMO health claims expense	78,859	72,304
	\$ 1,397,158	\$ 1,300,742

Note 13: Operating Leases

Rental expense under operating lease agreements for various physician clinic buildings and equipment totaled approximately \$17,500 for the years ended September 30, 2017 and 2016.

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Noncancellable operating leases for various physician clinic buildings and equipment expire in various years through 2024. Future minimum payments at September 30, 2017, are summarized as follows:

2018	\$ 6,920
2019	6,693
2020	3,051
2021	1,295
2022	416
Thereafter	<u>278</u>
	<u>\$ 18,653</u>

Note 14: Significant Commitments

During the year ended September 30, 2012, the Health System and Cerner formed a strategic alignment, Si3 – The Star Initiative for Information and Innovation, dedicated to transforming health information in the region, enhancing clinical processes and healthcare delivery capabilities and positioning the Health System for future growth and advancement. With this alignment, Cerner will assume operational and administrative responsibilities for the Health System’s information technology environment and services, including remote hosting, monitoring and system performance capabilities. The agreement is effective as of October 2012 for an initial term of 10 years. The agreement was amended in 2017, effective April 1, 2017, with a 10-year term ending March 31, 2027. At the end of the term, the agreement will automatically renew in one-year increments. The payments on these agreements are recognized as expense when incurred.

Future minimum payments required under these agreements at September 30, 2017, are summarized as follows:

2018	\$ 29,513
2019	30,078
2020	31,177
2021	31,891
2022	33,124
Thereafter	<u>143,911</u>
	<u>\$ 299,694</u>

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Note 15: Pension Plans

Defined Benefit Pension Plan

The Health System has a noncontributory defined benefit pension plan covering all employees who meet the eligibility requirements. Effective April 25, 2009, an amendment was enacted to freeze the plan, whereby no further benefits will be accrued under the plan. The Health System makes contributions to the plan in conformity with the required level of funding determined by the plan's actuary. The Health System expects to contribute approximately \$16,000 to the plan in 2018.

The Health System uses a September 30 measurement date for the plan. Information about the plan's funded status follows:

	<u>2017</u>	<u>2016</u>
Change in benefit obligation		
Beginning of year	\$ 349,108	\$ 316,887
Interest cost	12,277	13,317
Actuarial (gain) loss	(13,338)	29,168
Benefits paid	<u>(11,068)</u>	<u>(10,264)</u>
End of year	<u>336,979</u>	<u>349,108</u>
Change in fair value of plan assets		
Beginning of year	240,727	229,227
Actual return on plan assets	21,673	15,764
Employer contribution	6,000	6,000
Benefits paid	<u>(11,068)</u>	<u>(10,264)</u>
End of year	<u>257,332</u>	<u>240,727</u>
Funded status at end of year	<u>\$ (79,647)</u>	<u>\$ (108,381)</u>
Amounts recognized in the balance sheets		
Noncurrent accrued pension liability	<u>\$ (79,647)</u>	<u>\$ (108,381)</u>

Amounts recognized in unrestricted net assets not yet recognized as components of net periodic benefit cost consist of:

	<u>2017</u>	<u>2016</u>
Net loss	<u>\$ (134,326)</u>	<u>\$ (156,639)</u>

CoxHealth
Notes to Consolidated Financial Statements
September 30, 2017 and 2016
(In Thousands)

Information for pension plans with an accumulated benefit obligation in excess of plan assets:

	2017	2016
Projected benefit obligation	\$ 336,979	\$ 349,108
Accumulated benefit obligation	\$ 336,979	\$ 349,108
Fair value of plan assets	\$ 257,332	\$ 240,727
Components of net periodic benefit cost		
Interest cost	\$ 12,277	\$ 13,317
Expected return on plan assets	(16,625)	(16,979)
Amortization of net loss	3,927	3,081
Net periodic benefit cost	\$ (421)	\$ (581)

Other changes in plan assets and benefit obligations recognized in change in unrestricted net assets:

	2017	2016
Net (gain) loss	\$ (18,386)	\$ 30,383
Amortization of net loss	(3,927)	(3,081)
Total recognized in change in unrestricted net assets	\$ (22,313)	\$ 27,302

The estimated net loss for the defined benefit pension plan that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year is \$3,393.

Significant assumptions include:

	2017	2016
Weighted average assumptions used to determine benefit obligations		
Discount rate	3.78%	3.58%
Rate of compensation increase	0.00%	0.00%
Weighted average assumptions used to determine benefit costs		
Discount rate	3.58%	4.28%
Expected return on plan assets	7.00%	7.50%
Rate of compensation increase	N/A	N/A

CoxHealth
Notes to Consolidated Financial Statements
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(In Thousands)

The Health System has estimated the long-term rate of return on plan assets based primarily on historical returns on plan assets, adjusted for changes in target portfolio allocations and recent changes in long-term interest rates based on publicly available information.

Asset allocation is primarily based on a strategy to provide stable earnings while still permitting the plan to recognize potentially higher returns through a limited investment in equity securities. The target asset allocation percentages for 2017 and 2016 are as follows:

Growth	50-70%
Income	20-40%
Diversification	0-20%

Growth assets include: Domestic equity, international equity, emerging market debt, high-yield bonds, energy-related master limited partnerships, private equity/debt, hedge fund-growth and risk parity investments.

Income assets include: Core fixed income, senior loans, core real estate and hedge funds-income investments.

Diversification assets include: Inflation-linked bonds (TIPS), long-term Treasury bonds, commodities, hedge funds-diversification and cash investments.

Pension Plan Assets

Following is a description of the valuation methodologies used for pension plan assets measured at fair value on a recurring basis, as well as the general classification of pension plan assets pursuant to the valuation hierarchy.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

CoxHealth

Notes to Consolidated Financial Statements

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(In Thousands)

	Fair Value Measurements Using				
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at NAV ^(A)
September 30, 2017					
Money market	\$ 19,632	\$ 19,632	\$ -	\$ -	\$ -
Governmental obligations	23,053	-	23,053	-	-
Corporate bonds	13,805	-	13,805	-	-
Alternative investments	106,731	-	-	-	106,731
Equity securities					
Materials and industrial	1,638	1,638	-	-	-
Consumer discretionary	1,281	1,281	-	-	-
Financial industry	2,055	2,055	-	-	-
Health care	1,182	1,182	-	-	-
Information technology	1,401	1,401	-	-	-
Other industries	1,615	1,615	-	-	-
Mutual funds - equity					
Domestic equity	54,070	54,070	-	-	-
International funds	30,869	30,869	-	-	-
Total pension investments	<u>\$ 257,332</u>				

CoxHealth
Notes to Consolidated Financial Statements
September 30, 2017 and 2016
(In Thousands)

	Fair Value Measurements Using				
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at NAV^(A)
September 30, 2016					
Money market	\$ 1,840	\$ 1,840	\$ -	\$ -	-
Governmental obligations	20,798	-	20,798	-	-
Corporate bonds	14,414	-	14,414	-	-
Alternative investments	117,896	-	-	-	117,896
Equity securities					
Materials and industrial	3,523	3,523	-	-	-
Consumer discretionary	3,693	3,693	-	-	-
Financial industry	6,231	6,231	-	-	-
Health care	2,970	2,970	-	-	-
Information technology	5,423	5,423	-	-	-
Other industries	3,130	3,130	-	-	-
Mutual funds - equity					
Domestic equity	33,374	33,374	-	-	-
International funds	27,435	27,435	-	-	-
	<u>\$ 240,727</u>				
Total pension investments	<u>\$ 240,727</u>				

(A) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheets.

CoxHealth
Notes to Consolidated Financial Statements
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Plan assets are held by a bank-administered trust fund, which invests the plan assets in accordance with the provisions of the plan agreement. The plan agreement permits investment in common stocks, corporate bonds and debentures, U.S. government obligations, alternative investments and other specified investments, based on certain target allocation percentages.

The following benefit payments expected to be paid as of September 30, 2017:

2018	\$	13,130
2019		14,417
2020		15,380
2021		16,190
2022		16,920
2023 - 2027		94,493

Defined Contribution Plans

The Health System has a 403(b) retirement plan which covers eligible employees. Contributions to the plan are made by the Health System and participants. The Health System matches up to 5% of the participant's qualifying compensation and discretionary contributions, as approved by the Health System's Board of Directors. The Health System's contributions to the plan were \$16,903 and \$16,922 for the years ended September 30, 2017 and 2016, respectively. The Health System accrued an additional discretionary contribution of \$0 and \$1,000 in 2017 and 2016, respectively.

The Health System provides certain employees of Ferrell-Duncan Clinic a defined contribution retirement plan. The Health System contributes a percentage of wages for each eligible employee. The Health System's contributions to the plan were \$716 and \$766 for the years ended September 30, 2017 and 2016, respectively.

The Health System also provides 457(b) and 457(f) deferred compensation plans. The plans are eligible to full-time physicians and management of the Health System. The plans consist of salary reduction only and there are no contributions by the Health System. Under the terms of the plans, the deferred compensation liability and related assets limited as to use are recorded by the Health System and are subject to the general creditors of the Health System. At September 30, 2017 and 2016, the investment balance in these plans is \$14,536 and \$12,615, respectively.

CoxHealth
Notes to Consolidated Financial Statements
September 30, 2017 and 2016
(In Thousands)

Note 16: Related Party Transactions

The Health System has two lease agreements with an employed physician group under a contractual arrangement for approximately 200,000 square feet of building clinical space. The lease payments are adjusted annually based on the increase in the Consumer Price Index and expire on January 2020. CoxHealth has rental expense with this group of \$5,039 and \$4,932 in 2017 and 2016, respectively.

Note 17: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities.
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Recurring Measurements

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2017 and 2016:

CoxHealth
Notes to Consolidated Financial Statements
September 30, 2017 and 2016
(In Thousands)

	Fair Value Measurements Using				Investments Measured at NAV^(A)
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
September 30, 2017	Total				
Cash (B)	\$ 855	\$ -	\$ -	\$ -	\$ -
Money market funds	33,121	33,121	-	-	-
Governmental obligations	87,579	-	87,579	-	-
Corporate obligations	77,418	-	77,418	-	-
Equity securities					
Materials and industrial	2,049	2,049	-	-	-
Consumer discretionary	1,483	1,483	-	-	-
Financial industry	2,397	2,397	-	-	-
Health care	1,862	1,862	-	-	-
Information technology	1,618	1,618	-	-	-
Other industries	1,793	1,793	-	-	-
Mutual funds - equity					
Domestic equity	127,670	127,670	-	-	-
International funds	75,993	75,993	-	-	-
Mutual funds - fixed income	4,782	4,782	-	-	-
Beneficial interest in					
perpetual trusts	10,754	-	10,754	-	-
Alternative investments	142,755	-	-	-	142,755
Guaranteed investment contract (B)	39,179	-	-	-	-
Certificates of deposit (B)	16,882	-	-	-	-
Other (B)	8,705	-	-	-	-
Total investments	<u>\$ 636,895</u>				

CoxHealth
Notes to Consolidated Financial Statements
September 30, 2017 and 2016
(In Thousands)

	<u>Fair Value Measurements Using</u>				
	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	<u>Investments Measured at NAV^(A)</u>
September 30, 2016					
Cash (B)	\$ 904	\$ -	\$ -	\$ -	\$ -
Money market funds	14,188	14,188	-	-	-
Governmental obligations	94,772	-	94,772	-	-
Corporate obligations	95,439	-	95,439	-	-
Equity securities					
Materials and industrial	7,716	7,716	-	-	-
Consumer discretionary	8,018	8,018	-	-	-
Financial industry	14,009	14,009	-	-	-
Health care	6,131	6,131	-	-	-
Information technology	12,112	12,112	-	-	-
Other industries	6,004	6,004	-	-	-
Mutual funds - equity					
Domestic equity	66,315	66,315	-	-	-
International funds	63,899	63,899	-	-	-
Mutual funds - fixed income	972	972	-	-	-
Beneficial interest in					
perpetual trusts	10,153	-	10,153	-	-
Alternative investments	138,316	-	-	-	138,316
Guaranteed investment					
contract (B)	36,028	-	-	-	-
Certificates of deposit (B)	17,131	-	-	-	-
Other (B)	7,790	-	-	-	-
Total investments	<u>\$ 599,897</u>				

(A) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheets.

(B) Certain assets limited as to use that are recorded at other than fair value (as fair value is described in ASC 820), are included above to permit reconciliation of the fair value hierarchy to the total investments presented in the consolidated balance sheets. As these assets are carried at other than fair value, they have not been classified in the fair value hierarchy.

CoxHealth
Notes to Consolidated Financial Statements
September 30, 2017 and 2016
(In Thousands)

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

Beneficial Interest in Perpetual Trusts

Fair value is estimated at the present value of the future distributions expected to be received over the term of the agreement. Due to the nature of the valuation inputs, the interest is classified within Level 2 of the hierarchy.

Note 18: The Fair Value Option

As permitted by Topic 825, the Health System has elected to measure alternative investments at fair value. Management has elected the fair value option for these items because it more accurately reflects the portfolio returns and financial position of the Health System.

See *Note 17* for additional disclosures regarding fair value of each of the consolidated balance sheet line items listed in the preceding paragraph.

Changes in Fair Value

Changes in fair value for items for which the fair value option has been elected are reported as changes in unrealized gains and losses on fair value option of Topic 825 in the financial statements. The change for 2017 and 2016 was \$8,223 and \$(116), respectively, which reflects the unrealized gains and losses of the alternative investments for which the fair value option has been elected. Realized gains and losses of alternative investments are recognized as a component of investment return.

CoxHealth
Notes to Consolidated Financial Statements
September 30, 2017 and 2016
(In Thousands)

Note 19: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerability due to certain concentrations. Those matters include the following:

Allowance for Net Patient Service Revenue Adjustments

Estimates of allowances for adjustments included in net patient service revenue are described in *Notes 1* and *2*.

Self-Insurance Claims

Estimates related to the accrual for self-insurance claims are described in *Notes 1* and *7*.

Legal Contingencies

In the normal course of business, the Health System is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Health System's self-insurance program or by commercial insurance; for example, allegations regarding employment practices, billing arrangements or performance of contracts. The Health System evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel, management records an estimate of the amount of the ultimate expected loss, if any, for each of these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Pension Benefit Obligation

The Health System has a noncontributory defined benefit pension plan whereby it agrees to provide certain postretirement benefits to eligible employees. The benefit obligation is the actuarial present value of all benefits attributed to service rendered prior to the valuation date based on the projected unit credit cost method. It is reasonably possible that events could occur that would change the estimate of this liability materially in the near term.

Investments

The Health System invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying consolidated balance sheets.

CoxHealth
Notes to Consolidated Financial Statements
September 30, 2017 and 2016
(In Thousands)

Note 20: 340B Outpatient Drug Discount Program

The Health System participates in the 340B outpatient drug discount program administered by the Office of Pharmacy Affairs of the Health Resources and Services Administration (HRSA). Under this program, the Health System received approximately \$20,400 and \$13,700 in benefits generated from purchases of outpatient pharmaceuticals in 2017 and 2016, respectively. The benefit is presented as a reduction of supplies and other expenses within the consolidated statement of operations.

The Health System also contracts with certain local pharmacies to assist them in providing outpatient drugs to the Health System's patients. The Health System purchases outpatient drugs at 340B outpatient drug discount prices to replenish those dispensed to outpatients on the Health System's behalf. The Health System recognized revenue from these contracts of \$7,995 and \$6,759, with associated costs of goods sold of \$3,833 and \$3,172, in 2017 and 2016, respectively.

Medicare's 2018 Outpatient Prospective Payment System (OPPS) Rule was finalized on November 1, 2017, which became effective January 1, 2018. The OPPS rule included regulations that reduced the reimbursement rate hospitals receive for drugs purchased under the 340B Outpatient Drug Discount Program by 28.5%. Regulations associated with this program are complex and eligibility for the program is determined annually. These regulation changes may have a significant impact on the operations of the Health System in future years.

Note 21: Subsequent Events

Lease of Barton County Memorial Hospital

Subsequent to September 30, 2017, CoxHealth entered into an operating agreement and lease with Barton County Memorial Hospital. Upon closing, Barton County Memorial Hospital will assign and lease certain assets to a new CoxHealth-controlled entity. The initial term of the agreement commences on January 1, 2018, through December 31, 2048, with three optional renewal terms of 10 years each. Rent payments each year will be equal to the debt service requirements of Barton County Memorial Hospital for that year.

Defined Benefit Pension Plans

Subsequent to September 30, 2017, the Health System offered a voluntary lump sum pay-out to certain vested participants of this plan. As part of this offering, the Health System transitioned certain participants into new plans and then terminated the original plan through lump sum payouts and purchase of annuity contracts for participants of this plan amounting to \$52,398. This resulted in a settlement charge of \$21,158 recorded subsequent to the year ended September 30, 2017.

CoxHealth
Notes to Consolidated Financial Statements
September 30, 2017 and 2016
(In Thousands)

Note 22: Future Changes in Accounting Principles

Revenue Recognition (ASU 2014-09)

The Financial Accounting Standards Board amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption effective for the Health System for annual periods beginning after December 15, 2017, and any interim periods within annual reporting periods that begin after December 15, 2018. The Health System is in the process of evaluating the impact the amendment will have on the consolidated financial statements.

Leases (ASU 2016-02)

The Financial Accounting Standards Board amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use asset and a liability. The standard has two types of leases for income statement recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for the Health System for annual periods beginning after December 15, 2018, and any interim periods within annual reporting periods that begin after December 15, 2018. The Health System is evaluating the impact the standard will have on the consolidated financial statements; however, the standard is expected to have a material impact on the consolidated financial statements due to the recognition of additional assets and liabilities for operating leases.

Supplementary Information

CoxHealth

Consolidating Schedule – Balance Sheet Information

September 30, 2017

(In Thousands)

Assets

	CoxHealth	Medical Centers	Cox-Branson	Cox-Monett Hospital	Health Systems HMO, Inc.	CoxHealth Foundation	Cox Medical Group	Other CoxHealth Entities	Eliminations	Total
Current Assets										
Cash and cash equivalents	\$ -	\$ 145,510	\$ 31,352	\$ 3,426	\$ 22,043	\$ 2,193	\$ 3,681	\$ 18,162	\$ -	\$ 226,367
Short-term investments	-	32,413	-	-	9,244	-	-	-	-	41,657
Assets limited as to use – current	-	15,601	-	-	-	-	-	-	-	15,601
Patient accounts receivable, net of allowance	-	144,715	24,832	5,115	-	-	-	5,857	(8,768)	171,751
Estimated amounts due from third-party payers	-	177	183	-	-	-	-	-	-	360
Due from affiliates	-	9,987	13,842	575	694	-	-	966	(26,064)	-
Other receivables	-	862	132	(2)	3,220	84	189	2,552	(322)	6,715
Contributions receivable – current	-	-	-	-	-	213	-	-	-	213
Supplies	-	12,490	2,777	402	-	53	-	1,864	-	17,586
Prepaid expenses	-	11,587	170	7	323	-	-	566	(1,207)	11,446
Total current assets	-	373,342	73,288	9,523	35,524	2,543	3,870	29,967	(36,361)	491,696
Assets Limited As To Use										
Investments										
Internally designated										
Building fund investments and other	-	238,308	21,178	-	6,574	-	-	15,950	-	282,010
Donated investments	-	205,183	-	-	-	2,256	-	-	-	207,439
Externally restricted										
Donor restricted	-	4,951	16,268	-	-	19,905	-	1,186	-	42,310
Under deferred compensation agreement	-	14,536	-	-	-	-	-	-	-	14,536
Required statutory reserves	-	-	-	-	12,080	-	-	-	-	12,080
Held by trustees										
Self-insurance trust investments	-	26,472	-	-	-	-	-	-	-	26,472
Under bond indenture agreements	-	10,391	-	-	-	-	-	-	-	10,391
	-	499,841	37,446	-	18,654	22,161	-	17,136	-	595,238
Less amount required to meet current obligations	-	15,601	-	-	-	-	-	-	-	15,601
	-	484,240	37,446	-	18,654	22,161	-	17,136	-	579,637
Contributions receivable	-	-	-	-	-	1,723	-	-	-	1,723
	-	484,240	37,446	-	18,654	23,884	-	17,136	-	581,360
Long-Term Receivables	-	5,976	-	-	-	-	-	-	(4,413)	1,563
Interest in Net Assets of Subsidiaries	814,304	231,240	-	-	-	-	-	4,894	(1,050,438)	-
Property and Equipment, At Cost	-	1,111,006	134,651	29,172	7,578	-	98	17,029	-	1,299,534
Less accumulated depreciation	-	673,226	37,754	19,525	7,314	-	98	10,507	-	748,424
	-	437,780	96,897	9,647	264	-	-	6,522	-	551,110
Goodwill and Intangible Assets	-	25,264	552	-	-	-	14	100	-	25,930
Other Assets	-	4,440	508	149	-	-	-	1,288	-	6,385
Total assets	\$ 814,304	\$ 1,562,282	\$ 208,691	\$ 19,319	\$ 54,442	\$ 26,427	\$ 3,884	\$ 59,907	\$ (1,091,212)	\$ 1,658,044

CoxHealth

Consolidating Schedule – Balance Sheet Information

September 30, 2017

(In Thousands)

Liabilities and Net Assets

	CoxHealth	Medical Centers	Cox-Branson	Cox-Monett Hospital	Health Systems HMO, Inc.	CoxHealth Foundation	Cox Medical Group	Other CoxHealth Entities	Eliminations	Total
Current Liabilities										
Current maturities of long-term debt	\$ -	\$ 10,494	\$ 1,851	\$ 168	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12,513
Current amortization of deferred financing costs	-	1,202	130	-	-	-	-	-	-	1,332
Accounts payable	-	41,553	1,713	512	6,414	-	-	2,140	(322)	52,010
Accrued payroll and vacation pay	-	44,314	6,141	1,560	-	-	220	1,330	-	53,565
Accrued interest	-	5,766	1,012	-	-	-	-	-	-	6,778
Other accrued expenses	-	22,701	827	178	20,243	-	-	465	(8,768)	35,646
Estimated amounts due to third-party payers	-	5,830	1,353	1,607	-	-	-	-	-	8,790
Due to affiliates	819	16,078	-	-	-	473	4,557	4,137	(26,064)	-
Estimated insurance costs – current	-	19,093	943	250	-	-	-	310	(844)	19,752
Deferred revenue – current	-	3,355	-	-	3,686	497	-	3,571	(363)	10,746
Total current liabilities	819	170,386	13,970	4,275	30,343	970	4,777	11,953	(36,361)	201,132
Estimated Insurance Costs	-	18,628	-	-	-	-	-	-	-	18,628
Deferred Compensation	-	14,627	-	-	-	-	-	-	-	14,627
Accrued Pension Liability	-	79,647	-	-	-	-	-	-	-	79,647
Other Long-Term Liabilities	-	11	-	-	-	353	-	-	-	364
Long-Term Debt										
Long-term debt	-	446,805	63,095	632	2,940	-	-	1,474	(4,413)	510,533
Deferred financing costs	-	16,981	2,647	-	-	-	-	-	-	19,628
	-	463,786	65,742	632	2,940	-	-	1,474	(4,413)	530,161
Total liabilities	819	747,085	79,712	4,907	33,283	1,323	4,777	13,427	(40,774)	844,559
Net Assets										
Unrestricted	772,979	774,691	118,959	14,412	21,159	866	(893)	40,269	(969,463)	772,979
Temporarily restricted	20,633	20,633	1,195	-	-	15,623	-	1,418	(38,869)	20,633
Permanently restricted	19,873	19,873	8,825	-	-	8,615	-	4,793	(42,106)	19,873
Total net assets	813,485	815,197	128,979	14,412	21,159	25,104	(893)	46,480	(1,050,438)	813,485
Total liabilities and net assets	\$ 814,304	\$ 1,562,282	\$ 208,691	\$ 19,319	\$ 54,442	\$ 26,427	\$ 3,884	\$ 59,907	\$ (1,091,212)	\$ 1,658,044

CoxHealth

Consolidating Schedule – Statement of Operations Information

Year Ended September 30, 2017

(In Thousands)

	CoxHealth	Medical Centers	Cox-Branson	Cox-Monett Hospital	Health Systems HMO, Inc.	CoxHealth Foundation	Cox Medical Group	Other CoxHealth Entities	Eliminations	Total
Unrestricted Revenues, Gains and Other Support										
Patient service revenue (net of contractual discounts and allowances)	\$ 1	\$ 1,122,652	\$ 202,139	\$ 46,385	\$ -	\$ -	\$ -	\$ 47,843	\$ (68,024)	\$ 1,350,996
Provision for uncollectible accounts	-	(90,316)	(23,831)	(4,870)	-	-	-	(459)	-	(119,476)
Net patient service revenue less provision for uncollectible accounts	1	1,032,336	178,308	41,515	-	-	-	47,384	(68,024)	1,231,520
Premium revenue	-	-	-	-	135,422	-	-	1,107	(1,107)	135,422
Other revenue	2,863	27,197	3,993	489	3,094	70	51	23,389	(4,027)	57,119
Net assets released from restrictions used for operations	-	1,298	-	-	-	1,248	-	-	-	2,546
	<u>2,864</u>	<u>1,060,831</u>	<u>182,301</u>	<u>42,004</u>	<u>138,516</u>	<u>1,318</u>	<u>51</u>	<u>71,880</u>	<u>(73,158)</u>	<u>1,426,607</u>
Expenses										
Salaries and wages	46,379	342,388	63,193	18,970	4,143	-	74,301	29,233	-	578,607
Employee benefits	14,547	89,930	12,738	4,091	1,416	-	-	5,967	(3,123)	125,566
Purchased services and professional fees	(72,545)	293,003	39,690	6,137	1,074	-	(74,290)	2,379	(2,007)	193,441
Supplies and other	9,741	211,273	38,464	6,725	139,968	1,349	788	31,655	(67,998)	371,965
State provider tax program	-	45,635	8,263	1,689	-	-	-	-	-	55,587
Depreciation	4,673	36,027	7,678	1,483	256	-	-	825	-	50,942
Interest	29	18,037	2,976	8	30	-	-	-	(30)	21,050
	<u>2,824</u>	<u>1,036,293</u>	<u>173,002</u>	<u>39,103</u>	<u>146,887</u>	<u>1,349</u>	<u>799</u>	<u>70,059</u>	<u>(73,158)</u>	<u>1,397,158</u>
Operating Income (Loss)	<u>40</u>	<u>24,538</u>	<u>9,299</u>	<u>2,901</u>	<u>(8,371)</u>	<u>(31)</u>	<u>(748)</u>	<u>1,821</u>	<u>-</u>	<u>29,449</u>
Other Income (Expense)										
Contributions	-	16	276	12	-	319	-	47	-	670
Investment return	-	25,230	1,263	-	376	-	-	477	-	27,346
Change in unrealized gains and losses on trading securities and fair value option of Topic 825	-	17,158	1,699	-	(51)	68	-	(116)	-	18,758
Other	(450)	(491)	-	-	-	-	-	15	-	(926)
Change in interest in net assets of subsidiaries	99,527	12,109	-	-	-	-	-	-	(111,636)	-
	<u>99,077</u>	<u>54,022</u>	<u>3,238</u>	<u>12</u>	<u>325</u>	<u>387</u>	<u>-</u>	<u>423</u>	<u>(111,636)</u>	<u>45,848</u>
Excess (Deficiency) of Revenues Over Expenses	<u>99,117</u>	<u>78,560</u>	<u>12,537</u>	<u>2,913</u>	<u>(8,046)</u>	<u>356</u>	<u>(748)</u>	<u>2,244</u>	<u>(111,636)</u>	<u>75,297</u>
Contributed (return of) capital	-	(6)	-	-	6	-	-	-	-	-
Investment return – change in unrealized gains and losses on other than trading securities	-	(75)	-	-	-	-	-	-	-	(75)
Net assets released from restriction used for purchase of property and equipment	-	291	-	-	-	1,292	-	-	-	1,583
Change in defined benefit pension plan gains and losses and prior service costs	-	22,313	-	-	-	-	-	-	-	22,313
Change in interest in net assets of subsidiary	-	(2,100)	2,100	-	-	-	-	-	-	-
Transfer from (to) affiliates	-	1,292	-	-	-	(1,292)	-	-	-	-
Increase (Decrease) in Unrestricted Net Assets	<u>\$ 99,117</u>	<u>\$ 100,275</u>	<u>\$ 14,637</u>	<u>\$ 2,913</u>	<u>\$ (8,040)</u>	<u>\$ 356</u>	<u>\$ (748)</u>	<u>\$ 2,244</u>	<u>\$ (111,636)</u>	<u>\$ 99,118</u>

CoxHealth
Consolidating Schedule – Statement of Cash Flows Information
Year Ended September 30, 2017
(In Thousands)

	CoxHealth	Medical Centers	Cox-Branson	Cox-Monett Hospital	Health Systems HMO, Inc.	CoxHealth Foundation	Cox Medical Group	Other CoxHealth Entities	Eliminations	Total
Operating Activities										
Change in net assets	\$ 101,280	\$ 102,438	\$ 14,881	\$ 2,913	\$ (8,040)	\$ 1,673	\$ (748)	\$ 2,315	\$ (115,431)	\$ 101,281
Items not requiring (providing) operating cash flow										
Depreciation	4,673	36,027	7,678	1,483	256	-	-	825	-	50,942
Amortization of deferred financing costs	-	(882)	(110)	-	-	-	-	-	-	(992)
Provision for uncollectible accounts	-	90,316	23,831	4,870	-	-	-	459	-	119,476
(Gain) loss on sale of property and equipment	-	(157)	-	1	-	-	-	-	-	(156)
Loss on investment in equity investees	-	19	-	-	-	-	-	-	-	19
Appreciation of Series H Capital Appreciation Bonds	-	2,115	-	-	-	-	-	-	-	2,115
Net (gain) loss on investments	-	(34,717)	(2,205)	-	42	(195)	-	66	-	(37,009)
Change in defined benefit pension plan gains and losses	-	(22,313)	-	-	-	-	-	-	-	(22,313)
Change in interest in net assets of subsidiaries	(101,690)	(13,737)	-	-	-	-	-	(4)	115,431	-
Restricted contributions and investment income received	-	(2,124)	(244)	-	-	(3,857)	-	(67)	-	(6,292)
Changes in										
Receivables	410	(92,231)	(29,220)	(4,545)	265	954	(5,669)	(1,171)	2,853	(128,354)
Estimated third-party settlements	-	(519)	365	(350)	-	-	-	-	-	(504)
Accrued self-insurance costs	-	598	28	29	-	-	-	29	(528)	156
Other assets and liabilities	-	4,157	(446)	94	7,339	529	(133)	(706)	(2,325)	8,509
Net cash provided by (used in) operating activities	4,673	68,990	14,558	4,495	(138)	(896)	(6,550)	1,746	-	86,878

CoxHealth
Consolidating Schedule – Statement of Cash Flows Information
Year Ended September 30, 2017
(In Thousands)

	CoxHealth	Medical Centers	Cox-Branson	Cox-Monett Hospital	Health Systems HMO, Inc.	CoxHealth Foundation	Cox Medical Group	Other CoxHealth Entities	Eliminations	Total
Investing Activities										
Proceeds from sales (purchases of) short-term investments, net	\$ -	\$ 18,681	\$ -	\$ -	\$ (2,744)	\$ -	\$ -	\$ -	\$ -	\$ 15,937
Purchase of investments	-	(265,905)	(4,588)	-	(21,119)	(3,191)	-	(2,789)	-	(297,592)
Proceeds from sale of investments	-	253,668	2,748	-	23,839	1,011	-	2,312	-	283,578
Purchase of property and equipment	(4,673)	(37,126)	(3,647)	(1,324)	(69)	-	-	(407)	-	(47,246)
Proceeds from sale of property and equipment	-	45	-	-	-	-	-	-	-	45
Property and equipment transferred to an affiliate	-	(14)	-	-	-	-	-	14	-	-
Advances and repayments of long-term notes receivable, net	-	(18)	-	-	-	-	-	-	30	12
Other	-	2,515	-	-	-	-	-	-	-	2,515
Net cash provided by (used in) investing activities	(4,673)	(28,154)	(5,487)	(1,324)	(93)	(2,180)	-	(870)	30	(42,751)
Financing Activities										
Proceeds from restricted contributions and investment income received	-	2,124	244	-	-	3,857	-	67	-	6,292
Proceeds from issuance of long-term debt	-	4,692	1,000	-	30	-	-	-	(30)	5,692
Principal payments on long-term debt	-	(10,794)	(1,872)	(128)	-	-	-	-	-	(12,794)
Net cash provided by (used in) financing activities	-	(3,978)	(628)	(128)	30	3,857	-	67	(30)	(810)
Change in Cash and Cash Equivalents	-	36,858	8,443	3,043	(201)	781	(6,550)	943	-	43,317
Cash and Cash Equivalents, Beginning of Year	-	108,652	22,909	383	22,244	1,412	10,231	17,219	-	183,050
Cash and Cash Equivalents, End of Year	\$ -	\$ 145,510	\$ 31,352	\$ 3,426	\$ 22,043	\$ 2,193	\$ 3,681	\$ 18,162	\$ -	\$ 226,367

CoxHealth
Consolidating Schedule – Balance Sheet Information – Other Entities
September 30, 2017
(In Thousands)

Assets

	Oxford Home Health Care	HPS of the Ozarks, Inc.	Medical Developments, Inc.	Insurance Company of Springfield	Primrose Place, Inc.	Cox College	Total
Current Assets							
Cash and cash equivalents	\$ 6,649	\$ 4,078	\$ 1,343	\$ 180	\$ 77	\$ 5,835	\$ 18,162
Patient accounts receivable, net of allowance	3,186	2,671	-	-	-	-	5,857
Due from affiliates	-	-	-	-	966	-	966
Other receivables	323	-	1,124	-	47	1,058	2,552
Supplies	-	406	1,411	-	-	47	1,864
Prepaid expenses	176	-	-	356	-	34	566
Total current assets	<u>10,334</u>	<u>7,155</u>	<u>3,878</u>	<u>536</u>	<u>1,090</u>	<u>6,974</u>	<u>29,967</u>
Assets Limited As To Use							
Investments							
Internally designated							
Building fund investments and other	4,693	11,257	-	-	-	-	15,950
Externally restricted							
Donor restricted	-	-	-	-	1,186	-	1,186
	<u>4,693</u>	<u>11,257</u>	<u>-</u>	<u>-</u>	<u>1,186</u>	<u>-</u>	<u>17,136</u>
Interest in Net Assets of Subsidiaries	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,894</u>	<u>4,894</u>
Property and Equipment, At Cost	6,648	6,548	1,280	-	719	1,834	17,029
Less accumulated depreciation	6,015	1,795	978	-	287	1,432	10,507
	<u>633</u>	<u>4,753</u>	<u>302</u>	<u>-</u>	<u>432</u>	<u>402</u>	<u>6,522</u>
Goodwill and Intangible Assets	<u>100</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>100</u>
Other Assets	<u>15</u>	<u>1,020</u>	<u>253</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,288</u>
Total assets	<u>\$ 15,775</u>	<u>\$ 24,185</u>	<u>\$ 4,433</u>	<u>\$ 536</u>	<u>\$ 2,708</u>	<u>\$ 12,270</u>	<u>\$ 59,907</u>

CoxHealth
Consolidating Schedule – Balance Sheet Information – Other Entities
September 30, 2017
(In Thousands)

Liabilities and Net Assets

	Oxford Home Health Care	HPS of the Ozarks, Inc.	Medical Developments, Inc.	Insurance Company of Springfield	Primrose Place, Inc.	Cox College	Total
Current Liabilities							
Accounts payable	\$ 338	\$ 724	\$ 440	\$ -	\$ -	\$ 638	\$ 2,140
Accrued payroll and vacation pay	786	470	11	-	-	63	1,330
Other accrued expenses	406	38	3	13	-	5	465
Due to affiliates	142	519	1,779	-	-	1,697	4,137
Estimated insurance costs – current	146	72	-	-	-	92	310
Deferred revenue – current	-	-	-	363	-	3,208	3,571
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total current liabilities	1,818	1,823	2,233	376	-	5,703	11,953
Long-Term Debt							
Long-term debt	729	745	-	-	-	-	1,474
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	2,547	2,568	2,233	376	-	5,703	13,427
Net Assets							
Unrestricted	13,097	21,617	2,200	160	1,522	1,673	40,269
Temporarily restricted	131	-	-	-	-	1,287	1,418
Permanently restricted	-	-	-	-	1,186	3,607	4,793
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total net assets	13,228	21,617	2,200	160	2,708	6,567	46,480
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities and net assets	\$ 15,775	\$ 24,185	\$ 4,433	\$ 536	\$ 2,708	\$ 12,270	\$ 59,907
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CoxHealth

Consolidating Schedule – Statement of Operations Information – Other Entities Year Ended September 30, 2017 (In Thousands)

	Oxford Home Health Care	HPS of the Ozarks, Inc.	Medical Developments, Inc.	Insurance Company of Springfield	Primrose Place, Inc.	Cox College	Total
Unrestricted Revenues, Gains and Other Support							
Patient service revenue (net of contractual discounts and allowances)	\$ 20,148	\$ 27,695	\$ -	\$ -	\$ -	\$ -	\$ 47,843
Provision for uncollectible accounts	6	(465)	-	-	-	-	(459)
Net patient service revenue less provision for uncollectible accounts	20,154	27,230	-	-	-	-	47,384
Premium revenue	-	-	-	1,107	-	-	1,107
Other revenue	6	17	12,415	-	-	10,951	23,389
	<u>20,160</u>	<u>27,247</u>	<u>12,415</u>	<u>1,107</u>	<u>-</u>	<u>10,951</u>	<u>71,880</u>
Expenses							
Salaries and wages	16,147	5,115	2,209	-	-	5,762	29,233
Employee benefits	2,891	1,214	442	-	-	1,420	5,967
Purchased services and professional fees	1,011	299	21	23	3	1,022	2,379
Supplies and other	(304)	19,175	9,993	1,081	49	1,661	31,655
Depreciation	302	258	69	-	67	129	825
Interest	-	-	-	-	-	-	-
	<u>20,047</u>	<u>26,061</u>	<u>12,734</u>	<u>1,104</u>	<u>119</u>	<u>9,994</u>	<u>70,059</u>
Operating Income (Loss)	<u>113</u>	<u>1,186</u>	<u>(319)</u>	<u>3</u>	<u>(119)</u>	<u>957</u>	<u>1,821</u>
Other Income (Expense)							
Contributions	-	-	-	-	46	1	47
Investment return	138	339	-	-	-	-	477
Change in unrealized gains and losses on trading securities, fair value of interest rate basis swap and fair value option of Topic 825	-	(116)	-	-	-	-	(116)
Loss on extinguishment of debt	-	-	-	-	-	-	-
Other	-	(5)	-	-	20	-	15
	<u>138</u>	<u>218</u>	<u>-</u>	<u>-</u>	<u>66</u>	<u>1</u>	<u>423</u>
Excess (Deficiency) of Revenues Over Expenses	<u>251</u>	<u>1,404</u>	<u>(319)</u>	<u>3</u>	<u>(53)</u>	<u>958</u>	<u>2,244</u>
Increase (Decrease) in Unrestricted Net Assets	<u>\$ 251</u>	<u>\$ 1,404</u>	<u>\$ (319)</u>	<u>\$ 3</u>	<u>\$ (53)</u>	<u>\$ 958</u>	<u>\$ 2,244</u>

CoxHealth
Consolidating Schedule – Statement of Cash Flows Information – Other Entities
Year Ended September 30, 2017
(In Thousands)

	Oxford Home Health Care	HPS of the Ozarks, Inc.	Medical Developments, Inc.	Insurance Company of Springfield	Primrose Place, Inc.	Cox College	Total
Operating Activities							
Change in net assets	\$ 268	\$ 1,404	\$ (319)	\$ 3	\$ (3)	\$ 962	\$ 2,315
Items not requiring (providing) operating cash flow							
Depreciation	302	258	69	-	67	129	825
Provision for uncollectible accounts	(6)	465	-	-	-	-	459
Net (gain) loss on investments	-	116	-	-	(50)	-	66
Change in interest in net assets of subsidiaries	-	-	-	-	-	(4)	(4)
Restricted contributions and investment income received	(17)	-	-	-	(50)	-	(67)
Changes in							
Receivables	(776)	(447)	404	-	(458)	106	(1,171)
Accrued self-insurance costs	9	18	-	-	-	2	29
Other assets and liabilities	(175)	(606)	109	1	-	(35)	(706)
Net cash provided by (used in) operating activities	(395)	1,208	263	4	(494)	1,160	1,746

CoxHealth
Consolidating Schedule – Statement of Cash Flows Information – Other Entities
Year Ended September 30, 2017
(In Thousands)

	Oxford Home Health Care	HPS of the Ozarks, Inc.	Medical Developments, Inc.	Insurance Company of Springfield	Primrose Place, Inc.	Cox College	Total
Investing Activities							
Purchase of investments	\$ (138)	\$ (2,651)	\$ -	\$ -	\$ -	\$ -	\$ (2,789)
Proceeds from sale of investments	-	2,312	-	-	-	-	2,312
Purchase of property and equipment	(49)	(138)	(2)	-	-	(218)	(407)
Property and equipment transferred to an affiliate	-	-	-	-	14	-	14
Net cash provided by (used in) investing activities	<u>(187)</u>	<u>(477)</u>	<u>(2)</u>	<u>-</u>	<u>14</u>	<u>(218)</u>	<u>(870)</u>
Financing Activities							
Proceeds from restricted contributions and investment income received	<u>17</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>50</u>	<u>-</u>	<u>67</u>
Net cash provided by (used in) financing activities	<u>17</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>50</u>	<u>-</u>	<u>67</u>
Change in Cash and Cash Equivalents	(565)	731	261	4	(430)	942	943
Cash and Cash Equivalents, Beginning of Year	<u>7,214</u>	<u>3,347</u>	<u>1,082</u>	<u>176</u>	<u>507</u>	<u>4,893</u>	<u>17,219</u>
Cash and Cash Equivalents, End of Year	<u>\$ 6,649</u>	<u>\$ 4,078</u>	<u>\$ 1,343</u>	<u>\$ 180</u>	<u>\$ 77</u>	<u>\$ 5,835</u>	<u>\$ 18,162</u>

CoxHealth
Obligated Group Schedule – Balance Sheet Information
September 30, 2017
(In Thousands)

Assets

	CoxHealth	Medical Centers	Cox- Branson	Cox- Monett Hospital	Cox College	Eliminations	Total
Current Assets							
Cash and cash equivalents	\$ -	\$ 145,510	\$ 31,352	\$ 3,426	\$ 5,835	\$ -	\$ 186,123
Short-term investments	-	32,413	-	-	-	-	32,413
Assets limited as to use – current	-	15,601	-	-	-	-	15,601
Patient accounts receivable, net of allowance	-	144,715	24,832	5,115	-	-	174,662
Estimated amounts due from third-party payers	-	177	183	-	-	-	360
Due from affiliates	-	9,987	13,842	575	-	(16,932)	7,472
Other receivables	-	862	132	(2)	1,058	-	2,050
Supplies	-	12,490	2,777	402	47	-	15,716
Prepaid expenses	-	11,587	170	7	34	-	11,798
Total current assets	-	373,342	73,288	9,523	6,974	(16,932)	446,195
Assets Limited As To Use							
Investments							
Internally designated							
Building fund investments and other	-	238,308	21,178	-	-	-	259,486
Donated investments	-	205,183	-	-	-	-	205,183
Externally restricted							
Donor restricted	-	4,951	16,268	-	-	-	21,219
Under deferred compensation agreement	-	14,536	-	-	-	-	14,536
Held by trustees							
Self-insurance trust investments	-	26,472	-	-	-	-	26,472
Under bond indenture agreements	-	10,391	-	-	-	-	10,391
	-	499,841	37,446	-	-	-	537,287
Less amount required to meet current obligations							
	-	15,601	-	-	-	-	15,601
	-	484,240	37,446	-	-	-	521,686
Long-Term Receivables	-	5,976	-	-	-	-	5,976
Interest in Net Assets of Subsidiaries	814,304	231,240	-	-	4,894	(965,155)	85,283
Property and Equipment, At Cost	-	1,111,006	134,651	29,172	1,834	-	1,276,663
Less accumulated depreciation	-	673,226	37,754	19,525	1,432	-	731,937
	-	437,780	96,897	9,647	402	-	544,726
Goodwill and Intangible Assets	-	25,264	552	-	-	-	25,816
Other Assets	-	4,440	508	149	-	-	5,097
Total assets	\$ 814,304	\$ 1,562,282	\$ 208,691	\$ 19,319	\$ 12,270	\$ (982,087)	\$ 1,634,779

CoxHealth
Obligated Group Schedule – Balance Sheet Information
September 30, 2017
(In Thousands)

Liabilities and Net Assets

	CoxHealth	Medical Centers	Cox-Branson	Cox-Monett Hospital	Cox College	Eliminations	Total
Current Liabilities							
Current maturities of long-term debt	\$ -	\$ 10,494	\$ 1,851	\$ 168	\$ -	\$ -	\$ 12,513
Current amortization of deferred financing costs	-	1,202	130	-	-	-	1,332
Accounts payable	-	41,553	1,713	512	638	-	44,416
Accrued payroll and vacation pay	-	44,314	6,141	1,560	63	-	52,078
Accrued interest	-	5,766	1,012	-	-	-	6,778
Other accrued expenses	-	22,701	827	178	5	-	23,711
Estimated amounts due to third-party payers	-	5,830	1,353	1,607	-	-	8,790
Due to affiliates	819	16,078	-	-	1,697	(16,932)	1,662
Estimated self-insurance costs – current	-	19,093	943	250	92	-	20,378
Deferred revenue – current	-	3,355	-	-	3,208	-	6,563
Total current liabilities	819	170,386	13,970	4,275	5,703	(16,932)	178,221
Estimated Self-Insurance Costs	-	18,628	-	-	-	-	18,628
Deferred Compensation	-	14,627	-	-	-	-	14,627
Accrued Pension Liability	-	79,647	-	-	-	-	79,647
Other Long-Term Liabilities	-	11	-	-	-	-	11
Long-Term Debt							
Long-term debt	-	446,805	63,095	632	-	-	510,532
Deferred financing costs	-	16,981	2,647	-	-	-	19,628
	-	463,786	65,742	632	-	-	530,160
Total liabilities	819	747,085	79,712	4,907	5,703	(16,932)	821,294
Net Assets							
Unrestricted	772,979	774,691	118,959	14,412	1,673	(909,735)	772,979
Temporarily restricted	20,633	20,633	1,195	-	1,287	(23,115)	20,633
Permanently restricted	19,873	19,873	8,825	-	3,607	(32,305)	19,873
Total net assets	813,485	815,197	128,979	14,412	6,567	(965,155)	813,485
Total liabilities and net assets	\$ 814,304	\$ 1,562,282	\$ 208,691	\$ 19,319	\$ 12,270	\$ (982,087)	\$ 1,634,779

CoxHealth
Obligated Group Schedule – Statement of Operations Information
Year Ended September 30, 2017
(In Thousands)

	CoxHealth	Medical Centers	Cox-Branson	Cox-Monett Hospital	Cox College	Eliminations	Total
Unrestricted Revenues, Gains and Other Support							
Patient service revenue (net of contractual discounts and allowances)	\$ 1	\$ 1,122,652	\$ 202,139	\$ 46,385	\$ -	\$ (3,591)	\$ 1,367,586
Provision for uncollectible accounts	-	(90,316)	(23,831)	(4,870)	-	-	(119,017)
Net patient service revenue less provision for uncollectible accounts	1	1,032,336	178,308	41,515	-	(3,591)	1,248,569
Other revenue	2,863	27,197	3,993	489	10,951	-	45,493
Net assets released from restrictions used for operations	-	1,298	-	-	-	-	1,298
	<u>2,864</u>	<u>1,060,831</u>	<u>182,301</u>	<u>42,004</u>	<u>10,951</u>	<u>(3,591)</u>	<u>1,295,360</u>
Expenses							
Salaries and wages	46,379	342,388	63,193	18,970	5,762	-	476,692
Employee benefits	14,547	89,930	12,738	4,091	1,420	-	122,726
Purchased services and professional fees	(72,545)	293,003	39,690	6,137	1,022	-	267,307
Supplies and other	9,741	211,273	38,464	6,725	1,661	(3,591)	264,273
State provider tax program	-	45,635	8,263	1,689	-	-	55,587
Depreciation	4,673	36,027	7,678	1,483	129	-	49,990
Interest	29	18,037	2,976	8	-	-	21,050
	<u>2,824</u>	<u>1,036,293</u>	<u>173,002</u>	<u>39,103</u>	<u>9,994</u>	<u>(3,591)</u>	<u>1,257,625</u>
Operating Income (Loss)	<u>40</u>	<u>24,538</u>	<u>9,299</u>	<u>2,901</u>	<u>957</u>	<u>-</u>	<u>37,735</u>
Other Income (Expense)							
Contributions	-	16	276	12	1	-	305
Investment return	-	25,230	1,263	-	-	-	26,493
Change in unrealized gains and losses on trading securities, fair value of interest rate basis swap, and fair value option of Topic 825	-	17,158	1,699	-	-	-	18,857
Other	(450)	(491)	-	-	-	-	(941)
Change in interest in net assets of subsidiaries	99,527	12,109	-	-	-	(118,783)	(7,147)
	<u>99,077</u>	<u>54,022</u>	<u>3,238</u>	<u>12</u>	<u>1</u>	<u>(118,783)</u>	<u>37,567</u>
Excess (Deficiency) of Revenues Over Expenses	<u>99,117</u>	<u>78,560</u>	<u>12,537</u>	<u>2,913</u>	<u>958</u>	<u>(118,783)</u>	<u>75,302</u>
Contributed (return of) capital	-	(6)	-	-	-	-	(6)
Investment return – change in unrealized gains and losses on other than trading securities	-	(75)	-	-	-	-	(75)
Net assets released from restriction used for purchase of property and equipment	-	291	-	-	-	-	291
Change in defined benefit pension plan gains and losses	-	22,313	-	-	-	-	22,313
Change in interest in net assets of subsidiary	-	(2,100)	2,100	-	-	-	-
Transfer from (to) affiliates	-	1,292	-	-	-	-	1,292
Increase (Decrease) in Unrestricted Net Assets	<u>\$ 99,117</u>	<u>\$ 100,275</u>	<u>\$ 14,637</u>	<u>\$ 2,913</u>	<u>\$ 958</u>	<u>\$ (118,783)</u>	<u>\$ 99,117</u>

CoxHealth

Obligated Group Schedule – Balance Sheet Information

Year Ended September 30, 2016

(In Thousands)

Assets

	CoxHealth	Medical Centers	Cox-Branson	Cox-Monett Hospital	Cox College	Eliminations	Total
Current Assets							
Cash and cash equivalents	\$ -	\$ 108,652	\$ 22,909	\$ 383	\$ 4,893	\$ -	\$ 136,837
Short-term investments	-	51,094	-	-	-	-	51,094
Assets limited as to use – current	-	11,362	-	-	-	-	11,362
Patient accounts receivable, net of allowance	-	133,045	25,169	5,128	-	-	163,342
Estimated amounts due from third-party payers	-	154	577	-	-	-	731
Due from affiliates	-	14,193	8,122	887	-	(10,962)	12,240
Other receivables	-	495	126	(3)	1,011	-	1,629
Supplies	-	12,336	2,894	441	-	-	15,671
Prepaid expenses	-	7,812	231	16	33	-	8,092
Total current assets	-	339,143	60,028	6,852	5,937	(10,962)	400,998
Assets Limited As To Use							
Investments							
Internally designated							
Building fund investments and other	-	212,513	18,688	-	-	-	231,201
Donated investments	-	181,315	-	-	-	-	181,315
Externally restricted							
Donor restricted	-	4,409	14,712	-	-	-	19,121
Under deferred compensation agreement	-	12,615	-	-	-	-	12,615
Held by trustees							
Self-insurance trust investments	-	34,301	-	-	-	-	34,301
Under bond indenture agreements	-	5,822	-	-	-	-	5,822
	-	450,975	33,400	-	-	-	484,375
Less amount required to meet current obligations	-	11,362	-	-	-	-	11,362
	-	439,613	33,400	-	-	-	473,013
Long-Term Receivables	-	5,966	-	-	-	-	5,966
Interest in Net Assets of Subsidiaries	712,614	217,504	-	-	4,890	(843,961)	91,047
Property and Equipment, At Cost	-	1,067,419	130,292	28,420	1,613	-	1,227,744
Less accumulated depreciation	-	632,572	29,201	19,323	1,300	-	682,396
	-	434,847	101,091	9,097	313	-	545,348
Goodwill and Intangible Assets	-	25,284	552	-	-	-	25,836
Other Assets	-	7,333	582	59	-	-	7,974
Total assets	\$ 712,614	\$ 1,469,690	\$ 195,653	\$ 16,008	\$ 11,140	\$ (854,923)	\$ 1,550,182

CoxHealth
Obligated Group Schedule – Balance Sheet Information
Year Ended September 30, 2016
(In Thousands)

Liabilities and Net Assets

	CoxHealth	Medical Centers	Cox- Branson	Cox- Monett Hospital	Cox College	Eliminations	Total
Current Liabilities							
Current maturities of long-term debt	\$ -	\$ 10,204	\$ 1,814	\$ 59	\$ -	\$ -	\$ 12,077
Current amortization of premium/discount on long-term debt	-	1,204	131	-	-	-	1,335
Accounts payable	-	38,209	3,131	556	691	-	42,587
Accrued payroll and vacation pay	-	37,954	5,522	1,546	330	-	45,352
Accrued interest	-	5,789	1,012	-	-	-	6,801
Other accrued expenses	-	19,980	889	171	-	-	21,040
Estimated amounts due to third-party payers	-	6,327	1,381	1,957	-	-	9,665
Due to affiliates	409	10,160	-	-	1,544	(10,962)	1,151
Estimated self-insurance costs – current	-	17,858	906	220	90	-	19,074
Deferred revenue – current	-	2,716	-	-	2,880	-	5,596
Total current liabilities	409	150,401	14,786	4,509	5,535	(10,962)	164,678
Estimated Self-Insurance Costs	-	19,267	9	-	-	-	19,276
Deferred Compensation	-	12,717	-	-	-	-	12,717
Accrued Pension Liability	-	108,381	-	-	-	-	108,381
Other Long-Term Liabilities	-	7	-	-	-	-	7
Long-Term Debt							
Long-term debt	-	448,114	64,004	-	-	-	512,118
Premium/discount on long-term debt	-	18,044	2,756	-	-	-	20,800
	-	466,158	66,760	-	-	-	532,918
Total liabilities	409	756,931	81,555	4,509	5,535	(10,962)	837,977
Net Assets							
Unrestricted	673,862	674,416	104,322	11,499	715	(790,952)	673,862
Temporarily restricted	19,563	19,563	1,457	-	1,296	(22,316)	19,563
Permanently restricted	18,780	18,780	8,319	-	3,594	(30,693)	18,780
Total net assets	712,205	712,759	114,098	11,499	5,605	(843,961)	712,205
Total liabilities and net assets	\$ 712,614	\$ 1,469,690	\$ 195,653	\$ 16,008	\$ 11,140	\$ (854,923)	\$ 1,550,182

CoxHealth
Obligated Group Schedule – Statement of Operations Information
Year Ended September 30, 2016
(In Thousands)

	CoxHealth	Medical Centers	Cox-Branson	Cox-Monett Hospital	Cox College	Eliminations	Total
Unrestricted Revenues, Gains and Other Support							
Patient service revenue (net of contractual discounts and allowances)	\$ (5)	\$ 1,060,387	\$ 186,350	\$ 39,896	\$ -	\$ (3,524)	\$ 1,283,104
Provision for uncollectible accounts	-	(106,481)	(19,646)	(4,617)	-	-	(130,744)
Net patient service revenue less provision for uncollectible accounts	(5)	953,906	166,704	35,279	-	(3,524)	1,152,360
Premium revenue	-	-	-	-	-	-	-
Other revenue	2,234	26,479	3,016	466	9,432	-	41,627
Net assets released from restrictions used for operations	-	1,063	-	-	-	-	1,063
	<u>2,229</u>	<u>981,448</u>	<u>169,720</u>	<u>35,745</u>	<u>9,432</u>	<u>(3,524)</u>	<u>1,195,050</u>
Expenses							
Salaries and wages	42,078	317,884	58,854	15,992	5,377	-	440,185
Employee benefits	9,449	86,162	12,226	3,637	1,159	-	112,633
Purchased services and professional fees	(62,514)	269,014	40,061	5,319	1,050	-	252,930
Supplies and other	9,681	192,936	37,124	5,771	1,020	(3,524)	243,008
State provider tax program	-	42,194	6,942	1,567	-	-	50,703
Depreciation	4,014	34,682	8,001	1,269	111	-	48,077
Interest	2	18,405	3,009	4	-	-	21,420
	<u>2,710</u>	<u>961,277</u>	<u>166,217</u>	<u>33,559</u>	<u>8,717</u>	<u>(3,524)</u>	<u>1,168,956</u>
Operating Income (Loss)	<u>(481)</u>	<u>20,171</u>	<u>3,503</u>	<u>2,186</u>	<u>715</u>	<u>-</u>	<u>26,094</u>
Other Income (Expense)							
Contributions	-	21	294	3	-	-	318
Investment return	-	21,844	2,497	-	-	-	24,341
Change in unrealized gains and losses on trading securities, fair value of interest rate basis swap, and fair value option of Topic 825	-	18,308	(331)	-	-	-	17,977
Loss on extinguishment of debt	-	-	-	-	-	-	-
Other	-	(74)	-	-	-	-	(74)
Change in interest in net assets of subsidiaries	47,035	15,020	-	-	-	(57,989)	4,066
	<u>47,035</u>	<u>55,119</u>	<u>2,460</u>	<u>3</u>	<u>-</u>	<u>(57,989)</u>	<u>46,628</u>
Excess (Deficiency) of Revenues Over Expenses	<u>46,554</u>	<u>75,290</u>	<u>5,963</u>	<u>2,189</u>	<u>715</u>	<u>(57,989)</u>	<u>72,722</u>
Contributed (return of) capital	-	(52)	-	-	-	-	(52)
Investment return – change in unrealized gains and losses on other than trading securities	-	98	-	-	-	-	98
Net assets released from restriction used for purchase of property and equipment	-	223	-	-	-	-	223
Change in defined benefit pension plan gains and losses	-	(27,302)	-	-	-	-	(27,302)
Change in interest in net assets of subsidiary	-	(2,100)	2,100	-	-	-	-
Transfer from (to) affiliates	-	865	-	-	-	-	865
Increase (Decrease) in Unrestricted Net Assets	<u>\$ 46,554</u>	<u>\$ 47,022</u>	<u>\$ 8,063</u>	<u>\$ 2,189</u>	<u>\$ 715</u>	<u>\$ (57,989)</u>	<u>\$ 46,554</u>