

CoxHealth

Independent Auditor's Report and Consolidated Financial Statements

September 30, 2018 and 2017

CoxHealth
September 30, 2018 and 2017

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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, 2018 and 2017, 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 consolidated financial position of the Health System as of September 30, 2018 and 2017, and the results of its operations, changes in net assets and 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 conducted 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 audit of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

Springfield, Missouri
February 4, 2019

CoxHealth
Consolidated Balance Sheets
September 30, 2018 and 2017
(In Thousands)

Assets

	<u>2018</u>	<u>2017</u>
Current Assets		
Cash and cash equivalents	\$ 264,344	\$ 226,367
Short-term investments	10,304	41,657
Assets limited as to use – current	10,390	15,601
Patient accounts receivable, net of allowance; 2018 – \$168,318, 2017 – \$168,320	182,814	171,751
Estimated amounts due from third-party payers	376	360
Other receivables	7,295	6,715
Contributions receivable – current	130	213
Supplies	20,542	17,586
Prepaid expenses	12,247	11,446
Total current assets	<u>508,442</u>	<u>491,696</u>
Assets Limited As To Use		
Investments		
Internally designated		
Building fund investments and other	313,270	282,010
Donated investments	220,250	207,439
Externally restricted		
Donor restricted	45,727	42,310
Under deferred compensation agreement	16,252	14,536
Required statutory reserves	13,442	12,080
Held by trustees		
Self-insurance trust investments and other	28,969	26,472
Under bond indenture agreements	5,141	10,391
	<u>643,051</u>	<u>595,238</u>
Less amount required to meet current obligations	<u>10,390</u>	<u>15,601</u>
	632,661	579,637
Contributions receivable	1,476	1,723
	<u>634,137</u>	<u>581,360</u>
Long-Term Receivables	<u>2,239</u>	<u>1,563</u>
Property and Equipment, At Cost	1,352,961	1,299,534
Less accumulated depreciation	796,574	748,424
	<u>556,387</u>	<u>551,110</u>
Goodwill and Intangible Assets	<u>25,930</u>	<u>25,930</u>
Other Assets	<u>6,701</u>	<u>6,385</u>
Total assets	<u>\$ 1,733,836</u>	<u>\$ 1,658,044</u>

See Notes to Consolidated Financial Statements

Liabilities and Net Assets

	<u>2018</u>	<u>2017</u>
Current Liabilities		
Current maturities of long-term debt	\$ 14,175	\$ 12,513
Current bond premiums and other	1,330	1,332
Accounts payable	53,912	52,010
Accrued payroll and vacation pay	60,679	53,565
Accrued interest	6,777	6,778
Other accrued expenses	41,309	35,646
Estimated amounts due to third-party payers	9,737	8,790
Estimated insurance costs – current	18,016	19,752
Deferred revenue – current	12,030	10,746
	<u>217,965</u>	<u>201,132</u>
Estimated Insurance Costs	17,396	18,628
Deferred Compensation	16,332	14,627
Accrued Pension Liability	41,208	79,647
Other Long-Term Liabilities	622	364
Long-Term Debt		
Long-term debt	517,793	510,533
Bond premiums and other	18,526	19,628
	<u>536,319</u>	<u>530,161</u>
Total liabilities	<u>829,842</u>	<u>844,559</u>
Net Assets		
Unrestricted	860,735	772,979
Temporarily restricted	22,759	20,633
Permanently restricted	20,500	19,873
	<u>903,994</u>	<u>813,485</u>
Total net assets	<u>903,994</u>	<u>813,485</u>
Total liabilities and net assets	<u>\$ 1,733,836</u>	<u>\$ 1,658,044</u>

CoxHealth
Consolidated Statements of Operations and Changes in Net Assets
Years Ended September 30, 2018 and 2017
(In Thousands)

	2018	2017
Unrestricted Revenues, Gains and Other Support		
Patient service revenue (net of contractual discounts and allowances)	\$ 1,437,759	\$ 1,350,996
Provision for uncollectible accounts	(127,589)	(119,476)
Net patient service revenue less provision for uncollectible accounts	1,310,170	1,231,520
Premium revenue	146,915	135,422
Other revenue	63,923	57,119
Net assets released from restrictions used for operations	2,374	2,546
Total unrestricted revenues, gains and other support	1,523,382	1,426,607
Expenses		
Salaries and wages	627,501	578,607
Employee benefits	129,433	125,566
Purchased services and professional fees	203,037	193,441
Supplies and other	399,090	371,965
State provider tax program	52,535	55,587
Depreciation	52,226	50,942
Interest	22,160	21,050
Total expenses	1,485,982	1,397,158
Operating Income	37,400	29,449
Other Income (Expense)		
Contributions	144	670
Investment return	28,173	46,104
Loss on pension settlement	(21,024)	-
Other	477	(926)
Total other income	7,770	45,848
Excess of Revenues Over Expenses	45,170	75,297

CoxHealth
Consolidated Statements of Operations and Changes in Net Assets
Years Ended September 30, 2018 and 2017
(In Thousands)

	2018	2017
Unrestricted Net Assets		
Excess of revenues over expenses	\$ 45,170	\$ 75,297
Investment return – change in unrealized gains and losses on other than trading securities	(80)	(75)
Net assets released from restriction used for purchase of property and equipment	653	1,583
Change in defined benefit pension plans gains and losses	42,013	22,313
Increase in unrestricted net assets	87,756	99,118
Temporarily Restricted Net Assets		
Contributions	4,489	4,737
Investment return	718	724
Change in interest in net assets of Skaggs Foundation	(54)	(262)
Net assets released from restrictions	(3,027)	(4,129)
Increase in temporarily restricted net assets	2,126	1,070
Permanently Restricted Net Assets		
Contributions	371	493
Investment return	256	600
Increase in permanently restricted net assets	627	1,093
Change in Net Assets	90,509	101,281
Net Assets, Beginning of Year	813,485	712,204
Net Assets, End of Year	\$ 903,994	\$ 813,485

CoxHealth
Consolidated Statements of Cash Flows
Years Ended September 30, 2018 and 2017
(In Thousands)

	2018	2017
Operating Activities		
Change in net assets	\$ 90,509	\$ 101,281
Items not requiring (providing) operating cash flow		
Depreciation	52,226	50,942
Amortization of deferred financing costs	(1,020)	(992)
Provision for uncollectible accounts	127,589	119,476
Loss (gain) on sale of property and equipment, net	71	(156)
Loss on investment in equity investees	73	19
Appreciation of Series H Capital Appreciation Bonds	1,812	2,115
Net gain on investments	(18,585)	(37,009)
Change in defined benefit pension plan gains and losses	(42,013)	(22,313)
Restricted contributions and investment income received	(5,780)	(6,292)
Changes in		
Receivables	(135,695)	(128,354)
Estimated third-party settlements	181	(504)
Accrued self-insurance costs	(2,968)	156
Other assets and liabilities	11,364	8,509
Net cash provided by operating activities	77,764	86,878
Investing Activities		
Purchase of short-term investments	(13,614)	(148,214)
Proceeds from sale of short-term investments	44,967	164,151
Purchase of investments	(369,655)	(297,592)
Proceeds from sale of investments	342,130	283,578
Purchase of property and equipment	(36,586)	(47,246)
Proceeds from sale of property and equipment	-	45
Cash received from Cox Barton County Hospital	484	-
Other	863	2,527
Net cash used in investing activities	(31,411)	(42,751)

CoxHealth
Consolidated Statements of Cash Flows
Years Ended September 30, 2018 and 2017
(In Thousands)

	<u>2018</u>	<u>2017</u>
Financing Activities		
Proceeds from restricted contributions and investment income received	\$ 5,780	\$ 6,292
Proceeds from issuance of long-term debt	-	5,692
Principal payments on long-term debt	<u>(14,156)</u>	<u>(12,794)</u>
Net cash used in financing activities	<u>(8,376)</u>	<u>(810)</u>
Change in Cash and Cash Equivalents	37,977	43,317
Cash and Cash Equivalents, Beginning of Year	<u>226,367</u>	<u>183,050</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 264,344</u></u>	<u><u>\$ 226,367</u></u>
Supplemental Cash Flows Information		
Purchase of property and equipment in accounts payable	\$ 3,184	\$ 2,156
Interest paid	\$ 22,161	\$ 21,073
Capital lease obligation incurred for property and equipment	\$ 20,637	\$ 3,774

CoxHealth
Notes to Consolidated Financial Statements
September 30, 2018 and 2017
(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/controlled subsidiaries:

CoxHealth – is the sole corporate member of the following entities:

Lester E. Cox Medical Centers

Cox Medical Group

 Ferrell-Duncan Clinic, Inc. (FDCI) – CMG as the sole shareholder of FDCI.

Cox Barton County Hospital

CBCH, LLC

Cox Taxable Close Corporation

Cox Medical Group Clinics

CoxHealth Accountable Care, LLC

Lester E. Cox Medical Centers – is the sole corporate member of the following entities:

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

Cox-Monett Hospital

Cox Health Systems HMO, Inc.

 Cox Health Systems Insurance Company – HMO is the sole shareholder of Cox Health Systems Insurance Company

 Cox HealthPlans, LLC – HMO is the sole member of Cox HealthPlans, LLC

CoxHealth
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(In Thousands)

CoxHealth Foundation

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

Cox HPS of the Ozarks, Inc.

Medical Developments, Inc.

Insurance Company of Springfield, Inc.

Primrose Place, Inc.

Cox College

CoxHealth Innovations, LLC

Health Enrichment Services, Inc.

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

CBCH, LLC, Cox Taxable Close Corporation, Cox Medical Group Clinics, CoxHealth Accountable Care, LLC, CoxHealth Innovations, LLC and Health Enrichment Services, Inc. had no financial statement activity in 2018 and 2017.

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, 2018 and 2017, cash equivalents consisted primarily of money market accounts with brokers, repurchase agreement accounts and certificates of deposit.

At September 30, 2018, the Health System's cash accounts exceeded federally insured limits by approximately \$63,300.

CoxHealth
Notes to Consolidated Financial Statements
September 30, 2018 and 2017
(In Thousands)

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 measured at fair value using net asset value (NAV), as a practical expedient. The estimated fair value of these alternative investments is based on the most recent valuations provided by external investment managers.

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. The 2017 consolidated statement of cash flows was revised to increase purchase of short-term investments and proceeds from sale of short-term investments by \$148,214.

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, less external and direct internal investment expense. 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 \$20,200 and \$19,000 at September 30, 2018 and 2017, 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.

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Notes to Consolidated Financial Statements
September 30, 2018 and 2017
(In Thousands)

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.

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 decreased from 94 percent of self-pay accounts receivable at September 30, 2017, to 90 percent of self-pay accounts receivable at September 30, 2018. In addition, the Health System's write-offs increased approximately \$15,100 from approximately \$124,600 for the year ended September 30, 2017, to approximately \$139,700 for the year ended September 30, 2018. The change was the result of changes in the composition and aging of accounts receivable in fiscal year 2018.

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Notes to Consolidated Financial Statements
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(In Thousands)

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.

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 2018 or 2017.

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 \$9,175 and \$7,442 at September 30, 2018 and 2017, 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.

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Notes to Consolidated Financial Statements
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(In Thousands)

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 of the reporting unit 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 of the reporting unit 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. Goodwill resulting from the acquisitions of physician clinics was \$25,378 at September 30, 2018 and 2017, which is included in goodwill and intangible assets. No impairment was recorded in 2018 and 2017.

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.

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 or temporarily restricted net assets according to donor stipulations.

CoxHealth
Notes to Consolidated Financial Statements
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(In Thousands)

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.

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 received are reported as liabilities until the condition is eliminated or the contributed assets are returned to the donor. No conditional contributions existed at September 30, 2018 and 2017.

CoxHealth
Notes to Consolidated Financial Statements
September 30, 2018 and 2017
(In Thousands)

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 Barton County
Cox Health Systems Insurance Company
Cox Health System HMO, Inc.
Primrose Place, Inc.
CoxHealth Foundation
Cox Medical Group
Cox College

CoxHealth

Notes to Consolidated Financial Statements

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(In Thousands)

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 2015.

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, change in defined benefit pension plans gains and losses and net assets released from restriction used for purchase of property and equipment.

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. There were no such transfers in 2018 or 2017.

Reclassifications

Certain reclassifications have been made to the 2017 consolidated financial statements to conform to the 2018 consolidated financial statements presentation. These reclassifications had no effect on the change in net assets.

Subsequent Events

Subsequent events have been evaluated through February 4, 2019, which is the date the consolidated financial statements were issued.

CoxHealth
Notes to Consolidated Financial Statements
September 30, 2018 and 2017
(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 \$52,535 and \$55,587 in state provider tax during 2018 and 2017, 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 \$61,640 and \$66,328 in 2018 and 2017, 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, 2018 and 2017, respectively, is approximately:

	2018	2017
Medicare	\$ 516,906	\$ 459,818
Medicaid	175,776	158,840
Commercial insurance	660,599	641,299
Patients	84,478	91,039
	<u>\$ 1,437,759</u>	<u>\$ 1,350,996</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, 2018 and 2017, is:

	2018	2017
Medicare	27.1%	27.3%
Medicaid	8.9%	8.1%
Commercial insurance	53.8%	53.1%
Patients	10.2%	11.5%
	<u>100.0%</u>	<u>100.0%</u>

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Note 4: Investments and Investment Return

Investments, at September 30, include:

	2018	2017
Cash	\$ 1,266	\$ 855
Money market funds	28,842	33,121
Stable value fund	40,640	39,179
Certificates of deposit	12,925	16,882
Governmental obligations	62,009	87,579
Corporate obligations	58,970	77,418
Equity securities	19,492	11,202
Mutual funds – equity securities	228,973	203,663
Mutual funds – debt securities	4,929	4,782
Alternative investments	174,222	142,755
Assets under perpetual trusts	11,009	10,754
Interest in net assets of foundation	9,175	7,443
Other	903	1,262
	<u>\$ 653,355</u>	<u>\$ 636,895</u>
Total investments	<u>\$ 653,355</u>	<u>\$ 636,895</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, 2018 and 2017, 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:

	2018	2017
Short-term investments	\$ 10,304	\$ 41,657
Assets limited as to use		
Internally designated	533,520	489,449
Externally restricted	75,421	68,926
Held by trustees	34,110	36,863
	<u>\$ 653,355</u>	<u>\$ 636,895</u>

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Investment Return

Total investment return is comprised of the following:

	2018	2017
Interest and dividend income	\$ 12,354	\$ 13,300
Realized gains and losses on securities and investments accounted for under the fair value option of Topic 825	9,695	17,726
Unrealized gains on trading securities	6,492	10,535
Unrealized losses on other than trading securities	(80)	(75)
Change in beneficial interest in perpetual trust	255	600
Change in fair value of investments accounted for under the fair value option of Topic 825	2,223	8,223
	<u>\$ 30,939</u>	<u>\$ 50,309</u>

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

	2018	2017
Unrestricted net assets		
Unrestricted revenues, gains and other support	\$ 1,872	\$ 2,956
Other income		
Investment return	28,173	46,104
Change in unrealized gains and losses on other than trading securities	(80)	(75)
Temporarily restricted net assets	718	724
Permanently restricted net assets	256	600
	<u>\$ 30,939</u>	<u>\$ 50,309</u>

Investment return of \$1,872 and \$2,956 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, 2018 and 2017, respectively.

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Alternative Investments

The alternative investments that have been estimated using the net asset value per share as a practical expedient consist of the following at September 30:

	September 30, 2018			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private equity (A)	\$ 19,087	\$ 27,703	None	None
Emerging markets all cap (B)	-	-	Monthly	30 days
Risk parity (C)	22,222	-	Monthly	15 days
Real assets (D)	27,810	-	Monthly	30 days
International small cap (E)	8,010	-	Daily	10 days
Emerging markets local currency debt (F)	-	-	Monthly	5 days
Real estate (G)	18,846	-	Quarterly	45 days
Real return (H)	23,737	-	Monthly	30 days
Hedge fund of funds (I)	-	-	**	**
Hedge fund of funds (J)	27,710	-	Quarterly	65 days
Emerging markets equity (K)	16,834	-	Monthly	7 days
Emerging markets local currency debt (L)	9,966	-	Daily	5 days

	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	-	**	**

** 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 funds 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 funds have a lock-up period of 13 years as of the initial closing in December 2013, 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.
- (J) The objective of the funds are to grow the value of investors' capital. The funds attempt to deliver attractive risk-adjusted returns to investors with limited exposure to broad market risk factors. The funds attempt to meet the investment objective by allocating the master fund's capital directly or indirectly to investment vehicles, managed accounts, derivatives, co-investments and other public and private investment instruments (Portfolio Funds). The Portfolio Funds may consist of commingled investment vehicles or may take the form of non-traditional investments. The funds will invest in Portfolio Funds employing various investment strategies. These strategies can involve the purchase and sale of various financial instruments, including but not limited to stocks, bonds, options, futures contracts, derivative instruments, insurance- and reinsurance-related products and cash and cash equivalents.

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- (K) The objective of the fund is to outperform the MSCI Emerging Markets Index, including dividends net of withholding taxes, by investing in a portfolio of non-U.S., emerging market equities. The fund will typically invest substantially all of its assets in the equity securities of emerging market companies; cash (including U.S. dollars and/or foreign currencies) and cash equivalents (denominated in U.S. dollars and/or foreign currencies and including commingled short-term investment vehicles). 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.
- (L) The objective of the fund is to achieve long term total returns primarily through investment in public sector, sovereign and corporate bonds issued by emerging market borrowers or that derive a predominant part of their economic activity from emerging market countries. The fund will primarily invest in strategic investment opportunities in a portfolio of investment grade debt, non-investment grade debt and debt which is not rated either issued by companies which have their registered office in emerging markets and/or which are issued or guaranteed by governments, government agencies or supranational bodies of those countries. In addition, the fund may use derivatives (including but not limited to futures, currency forwards, interest rate swaps, total return swaps and credit default swaps) and forward transactions for investment, hedging purposes and/or efficient portfolio management. The fund will adopt net short duration positions and may have net short currency positions.

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:

	2018	2017
Land	\$ 33,410	\$ 33,178
Land improvements	28,434	28,174
Buildings	496,126	481,267
Fixed equipment	305,650	297,200
Major movable equipment	476,182	443,915
Construction in progress	13,159	15,800
	<u>1,352,961</u>	<u>1,299,534</u>
Less accumulated depreciation	<u>796,574</u>	<u>748,424</u>
	<u>\$ 556,387</u>	<u>\$ 551,110</u>

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At September 30, 2018, 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, 2018, is estimated to be approximately \$44,370 representing an additional commitment to complete the projects of approximately \$34,280, 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 \$11,009 and \$10,754, which represents the fair value of the trust assets at September 30, 2018 and 2017, respectively.

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 \$19,400 and \$22,700 as of September 30, 2018 and 2017, 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.

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Activity in the Health System's accrued self-insurance liabilities during 2018 and 2017 is summarized as follows:

	2018	2017
Balance, beginning of year	\$ 38,380	\$ 38,224
Current year claims incurred and change in estimates for claims incurred in prior years	63,900	64,483
Claims and expenses paid	<u>(66,868)</u>	<u>(64,327)</u>
Balance, end of year	<u>\$ 35,412</u>	<u>\$ 38,380</u>

Note 8: Long-Term Debt

Long-term debt consists of the following:

	2018	2017
Health Facilities Revenue Bonds Series H 1992 (A)	\$ 22,404	\$ 27,141
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)	34,045	34,145
Health Facilities Revenue Bonds Series 2013A (E)	199,410	200,735
Health Facilities Revenue Bonds Series 2015A (F)	126,485	126,485
Health Facilities Revenue Note (G)	4,061	4,692
Capital leases (H)	16,994	15,034
Cox Barton County capital lease (I)	14,378	-
Purchase agreement (J)	2,108	2,184
Note payable (K)	5,348	5,405
Notes payable (L)	4,235	4,725
	<u>531,968</u>	<u>523,046</u>
Unamortized bond premiums and discounts, net	23,636	24,967
Unamortized deferred issuance costs	<u>(3,780)</u>	<u>(4,007)</u>
	551,824	544,006
Less current bond premiums and other	1,330	1,332
Less current maturities	<u>14,175</u>	<u>12,513</u>
	<u>\$ 536,319</u>	<u>\$ 530,161</u>

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- (A) Series H bonds issued in 1992 in the original amount of \$20,347, which are capital appreciation bonds bearing interest at 4.25 percent to 6.7 percent. 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 percent 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 \$70 and \$104 at September 30, 2018 and 2017, 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.

- (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 percent to 5.5 percent and mature between November 15, 2022, and November 15, 2039. The proceeds of the 2008A bonds were used to redeem the Series 1997 Bonds, Series 2002 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 \$202 and \$212 at September 30, 2018 and 2017, respectively. Subsequent to September 30, 2018, the Series 2008A Bonds were redeemed by entering into a one year bridge loan maturing on November 14, 2019.
- (C) Variable Rate Demand Revenue Bonds, Series 2008B, issued on October 15, 2008, in the original amount of \$70,000. The interest rate was 2.4397 percent and 1.4414 percent at September 30, 2018 and 2017, 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 \$358 and \$372 at September 30, 2018 and 2017, respectively.

The Series 2008B Bonds are directly placed with a financial institution, bearing interest at 68 percent 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. Subsequent to September 30, 2018, a new indexed put period agreement was entered into ending October 21, 2021.

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- (D) Variable Rate Demand Revenue Bonds, Series 2008C, issued on October 15, 2008, in the original amount of \$35,000. The interest rate was 2.4397 percent and 1.4314 percent at September 30, 2018 and 2017, 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 \$194 and \$202 at September 30, 2018 and 2017, respectively.

The Series 2008C Bonds are directly placed with a financial institution, bearing interest at 70 percent 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. Subsequent to September 30, 2018, a new indexed put period agreement was entered into ending October 21, 2021.

- (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 percent to 5.5 percent 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 \$1,822 and \$1,896 at September 30, 2018 and 2017, respectively.
- (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 percent to 5.0 percent 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 \$1,078 and \$1,156 at September 30, 2018 and 2017, respectively.

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, 2018, is CoxHealth, Lester E. Cox Medical Centers, Cox Medical Center Branson, Cox-Monett Hospital, Cox College and Cox Medical Groups Clinics. Cox Medical Groups Clinics had no activity in 2018 or 2017. 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, 2018, was approximately \$35,131.

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- (G) Revenue note issued in 2017 in the original amount of \$4,692, bearing interest at 1.99 percent. 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 \$56 and \$65 at September 30, 2018 and 2017, respectively.
- (H) Capital leases for various equipment, payable in monthly installments through 2024. The capital leases bear imputed interest rates between 0 percent to 8.82 percent and are secured by the equipment.
- (I) Capital lease for property and equipment associated with Cox Barton County Hospital, payable through 2048. The capital lease bears imputed interest at 3.58 percent secured by the property and equipment. Upon the expiration of the initial term, the lease can be renewed for three additional ten year terms.
- (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 percent annually.
- (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 percent. 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 percent to 3 percent and are secured by the equipment. Subsequent to September 30, 2018, the maturity date on one of these notes was extended through January 18, 2024.

Aggregate annual maturities of long-term debt, excluding amortization of bond discounts and premiums, at September 30, 2018, are:

Year Ending September 30,	Total to be Paid	Principal	Interest
2019	\$ 36,506	\$ 14,175	\$ 22,331
2020	35,434	12,956	22,478
2021	35,937	13,318	22,619
2022	33,009	10,455	22,554
2023	32,063	11,513	20,550
Thereafter	786,599	469,551	317,048
	<u>\$ 959,548</u>	<u>\$ 531,968</u>	<u>\$ 427,580</u>

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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 \$13,605 and \$15,014, respectively, at September 30, 2018.

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 \$133,177, respectively, at September 30, 2018.

Note 9: Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	2018	2017
Health care services		
Health education	\$ 3,757	\$ 3,746
Indigent care	9,332	8,482
Health services	4,040	3,845
Construction projects	4,840	3,826
Research and other	790	734
	<u>\$ 22,759</u>	<u>\$ 20,633</u>

During 2018 and 2017, net assets were released from donor restrictions by incurring expenses, satisfying the restricted purposes in the amounts of \$2,374 and \$2,546, respectively. During 2018 and 2017, net assets of \$653 and \$1,583, respectively, were released to purchase property and equipment.

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Permanently restricted net assets are restricted to:

	2018	2017
Investments to be held in perpetuity, the income is restricted to be spent only for the donor's intended purpose	<u>\$ 20,500</u>	<u>\$ 19,873</u>

Note 10: Charity Care

The estimated cost of charity care provided under the Health System's charity care policy was approximately \$47,029 and \$45,768 for the years ended September 30, 2018 and 2017, respectively. The cost of charity care is estimated by applying the ratio of cost to charges to the gross uncompensated care charges.

Note 11: Functional Expenses

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

	2018	2017
Health care services	\$ 1,100,582	\$ 1,039,091
General and administrative	295,114	279,208
Cox Health Systems Insurance Company and HMO health claims expense	<u>90,286</u>	<u>78,859</u>
	<u>\$ 1,485,982</u>	<u>\$ 1,397,158</u>

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Note 12: Operating Leases

Rental expense under operating lease agreements for various physician clinic buildings and equipment totaled approximately \$17,600 and \$17,500 for the years ended September 30, 2018 and 2017, respectively.

Noncancellable operating leases for various physician clinic buildings and equipment expire in various years through 2024. Future minimum payments at September 30, 2018, are summarized as follows:

2019	\$	7,094
2020		3,435
2021		1,654
2022		689
2023		158
Thereafter		126
		<hr/>
	\$	<u><u>13,156</u></u>

Note 13: 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 unless either party gives notice to terminate the arrangement. The payments on these agreements are recognized as expense when incurred.

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Future minimum payments required under these agreements at September 30, 2018, are summarized as follows:

2019	\$ 30,078
2020	31,177
2021	31,891
2022	33,124
2023	28,518
Thereafter	<u>115,393</u>
	<u>\$ 270,181</u>

Note 14: Pension Plans

Defined Benefit Pension Plan

The Health System had a noncontributory defined benefit pension plan covering all employees who met 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.

Effective December 1, 2017, the plan terminated, and all remaining participants became fully vested. The plan sponsor applied for and received approval for the termination from the Internal Revenue Service. To satisfy a portion of the pension obligation, the Health System purchased annuities totaling \$23,917 and all payment of future benefits will be paid by the insurance company. All of the plan's assets were either distributed or transferred by December 31, 2017, and were sufficient to provide for the plan's accumulated benefit obligation.

Effective October 3, 2017, the Health System established two noncontributory defined benefit pension plans, the Pension Plan A and the Pension Plan B, and all participants ceased to be covered by the terminating plan and started participating in either Plan A or Plan B, subject to certain eligibility factors, unless covered by the purchased annuities. The accrued benefits of the participants were transferred to either Plan A or Plan B. Concurrently, the plan assets were transferred to a master trust account. 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 \$6,000 to the plan in 2019.

CoxHealth
Notes to Consolidated Financial Statements
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The Health System uses a September 30 measurement date for the plans. Information about the combined plans' funded status follows:

	2018	2017
Change in projected benefit obligation		
Beginning of year	\$ 336,979	\$ 349,108
Interest cost	11,862	12,277
Actuarial gain	(24,768)	(13,338)
Annuity purchase	(23,917)	-
Benefits paid	(39,733)	(11,068)
End of year	<u>260,423</u>	<u>336,979</u>
Change in fair value of plan assets		
Beginning of year	257,332	240,727
Actual return on plan assets	9,533	21,673
Employer contribution	16,000	6,000
Annuity purchase	(23,917)	-
Benefits paid	(39,733)	(11,068)
End of year	<u>219,215</u>	<u>257,332</u>
Funded status at end of year	<u>\$ (41,208)</u>	<u>\$ (79,647)</u>
Amounts recognized in the balance sheets:		
Noncurrent accrued pension liability	<u>\$ (41,208)</u>	<u>\$ (79,647)</u>

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

	2018	2017
Unrecognized net actuarial loss	<u>\$ (92,313)</u>	<u>\$ (134,326)</u>

CoxHealth
Notes to Consolidated Financial Statements
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(In Thousands)

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

	2018	2017
Projected benefit obligation	\$ 260,423	\$ 336,979
Accumulated benefit obligation	\$ 260,423	\$ 336,979
Fair value of plan assets	\$ 219,215	\$ 257,332
Components of net periodic benefit cost		
Interest cost	\$ 11,862	\$ 12,277
Expected return on plan assets	(16,534)	(16,625)
Amortization of net actuarial loss	3,222	3,927
Net periodic benefit cost	\$ (1,450)	\$ (421)

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

	2018	2017
Current year actuarial gain	\$ (17,767)	\$ (18,386)
Loss on pension settlement	(21,024)	-
Amortization of net actuarial loss	(3,222)	(3,927)
Total recognized in change in unrestricted net assets	\$ (42,013)	\$ (22,313)

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 \$2,501.

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Significant assumptions include:

	2018	2017
Weighted average assumptions used to determine benefit obligations		
Discount rate	4.22%	3.78%
Weighted average assumptions used to determine benefit costs		
Discount rate	3.78%	3.58%
Expected return on plan assets	7.00%	7.00%

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 2018 and 2017 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.

CoxHealth
Notes to Consolidated Financial Statements
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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.

	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, 2018	Total				
Money market	\$ 7,879	\$ 7,879	\$ -	\$ -	\$ -
Governmental obligations	19,580	-	19,580	-	-
Corporate bonds	10,342	-	10,342	-	-
Alternative investments	82,116	-	-	-	82,116
Equity securities					
Materials and industrial	1,686	1,686	-	-	-
Consumer discretionary	1,852	1,852	-	-	-
Financial industry	2,082	2,082	-	-	-
Health care	1,615	1,615	-	-	-
Information technology	1,723	1,723	-	-	-
Other industries	1,706	1,706	-	-	-
Mutual funds - equity					
Domestic equity	64,785	64,785	-	-	-
International funds	23,849	23,849	-	-	-
Total pension investments	\$ 219,215				

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Notes to Consolidated Financial Statements
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	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	\$ 257,332				

(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 total fair value of plan assets as disclosed in the footnotes to the consolidated financial statements.

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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:

2019	\$ 11,795
2020	12,682
2021	13,318
2022	13,930
2023	14,651
2024 - 2028	79,156

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 percent of the participant’s qualifying compensation and discretionary contributions, as approved by the Health System’s Board of Directors. The Health System’s discretionary contributions to the plan were \$22,528 and \$19,071 for the years ended September 30, 2018 and 2017, respectively. The Health System accrued an additional discretionary contribution of \$1,000 and \$0 in 2018 and 2017, 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 \$749 and \$716 for the years ended September 30, 2018 and 2017, 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, 2018 and 2017, the investment balance in these plans and the corresponding accrued deferred compensation liability is \$16,252 and \$14,536, respectively.

CoxHealth
Notes to Consolidated Financial Statements
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(In Thousands)

Note 15: 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 \$5,107 and \$5,039 in 2018 and 2017, respectively.

Note 16: 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.

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Notes to Consolidated Financial Statements
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Recurring Measurements

The following tables present 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, 2018 and 2017:

	Fair Value Measurements Using				Investments Measured at NAV^(A)
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
September 30, 2018					
Cash (B)	\$ 1,266	\$ -	\$ -	\$ -	\$ -
Money market funds	28,842	28,842	-	-	-
Governmental obligations	62,009	-	62,009	-	-
Corporate obligations	58,970	-	58,970	-	-
Equity securities					
Materials and industrial	3,339	3,339	-	-	-
Consumer discretionary	3,274	3,274	-	-	-
Financial industry	3,729	3,729	-	-	-
Health care	3,325	3,325	-	-	-
Information technology	3,022	3,022	-	-	-
Other industries	2,803	2,803	-	-	-
Mutual funds - equity					
Domestic equity	155,893	155,893	-	-	-
International funds	73,080	73,080	-	-	-
Mutual funds - fixed income	4,929	4,929	-	-	-
Beneficial interest in					
perpetual trusts	11,009	-	11,009	-	-
Alternative investments	174,222	-	-	-	174,222
Stable value fund	40,640	-	-	40,640	-
Certificates of deposit (B)	12,925	-	-	-	-
Interest in net assets of					
foundation (B)	9,175	-	-	-	-
Other (B)	903	-	-	-	-
	<u>903</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$ 653,355</u>				

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Notes to Consolidated Financial Statements
September 30, 2018 and 2017
(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					
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
Stable value fund	39,179	-	-	39,179	-
Certificates of deposit (B)	16,882	-	-	-	-
Interest in net assets of					
foundation (B)	7,443	-	-	-	-
Other (B)	1,262	-	-	-	-
	<u>636,895</u>				
Total investments	<u>\$ 636,895</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 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.

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Notes to Consolidated Financial Statements
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(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 consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended September 30, 2018. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

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. The 2017 information was revised to increase the Level 3 investments by \$39,179. See the table below for inputs and valuation techniques used for Level 3 securities.

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.

Interest in Net Assets of Foundation

Fair value is estimated by discounting the cash flows of the future distributions expected to be received over the term of the agreement using rates of return on assets with similar cash flows.

CoxHealth
Notes to Consolidated Financial Statements
September 30, 2018 and 2017
(In Thousands)

Level 3 Reconciliation

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying consolidated balance sheets using significant unobservable (Level 3) inputs:

	Stable Value Fund	
	2018	2017
Balance, October 1	\$ 39,179	\$ 36,028
Purchases	200	2,050
Investment return	1,261	1,101
Balance, September 30	\$ 40,640	\$ 39,179
Total investment return included in change in net assets	\$ 1,261	\$ 1,101

Unobservable (Level 3) Inputs

The following tables present quantitative information about unobservable inputs used in recurring Level 3 fair value measurements at September 30, 2018 and 2017.

	Fair Value at 9/30/2018	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Stable Value Fund	\$ 40,640	Discounted cash flow	Risk-adjusted discount rate	3.926% based on corporate credits, adjusted for liquidity
		Discounted cash flow	Investment term	3 years based on insurance co. typical assets
		Discounted cash flow and theoretical transfer (exit value)	Crediting rate	3.05% base rate as observed from manager statement

CoxHealth
Notes to Consolidated Financial Statements
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(In Thousands)

	Fair Value at 9/30/2017	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Stable Value Fund	\$ 39,179	Discounted cash flow	Risk-adjusted discount rate	3.926% based on corporate credits, adjusted for liquidity
		Discounted cash flow	Investment term	3 years based on insurance co. typical assets
		Discounted cash flow and theoretical transfer (exit value)	Crediting rate	3.05% base rate as observed from manager statement

Sensitivity of Significant Unobservable Inputs

The following is a discussion of the sensitivity of significant unobservable inputs, the interrelationships between those inputs and other unobservable inputs used in recurring fair value measurement and of how those inputs might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement.

Stable Value Fund

The significant unobservable inputs used in the fair value measurement are risk-adjusted discount rate, investment term and crediting rate.

Note 17: 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 16* 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 2018 and 2017 was \$2,223 and \$8,223, 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.

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Notes to Consolidated Financial Statements
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(In Thousands)

Note 18: 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, 2018 and 2017
(In Thousands)

Note 19: 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 \$24,900 and \$20,400 in benefits generated from purchases of outpatient pharmaceuticals in 2018 and 2017, respectively. The benefit is presented as a reduction of supplies and other expenses within the consolidated statement of operations and changes in net assets.

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 \$10,400 and \$7,995, with associated costs of goods sold of \$6,087 and \$3,833, in 2018 and 2017, respectively.

Note 20: Future Change in Accounting Principle

In February 2016, the FASB issued ASU 2016-02, *Leases*. ASU 2016-02 requires an entity to move most leases to the balance sheet. This guidance was issued to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities and increasing disclosure requirements about leasing arrangements. The guidance will be effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2018. The Health System is evaluating the effect this guidance may have on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. This guidance outlines a single comprehensive model for entities to account for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. ASU 2014-09 also requires expanded disclosures regarding an entity's revenue recognition policies and significant judgements used in the determination of revenue.

The requirements of ASU 2014-09 will result in changes to the presentation and disclosure of revenue from services to patients. Currently, a significant portion of the Health System's provision for doubtful accounts relates to uninsured patients or deductibles and co-payments due from patients with insurance. Under ASU 2014-09, the estimated uncollectible amounts due from patients are generally considered an implicit price concession, which is a direct reduction of net patient service revenue, with a corresponding significant reduction in the amounts presented separately as provision for doubtful accounts. Although the adoption of ASU 2014-09 may have significant impact on the amounts presented in certain categories of the Health System's consolidated statements of operations and changes in net assets, it will not materially impact the Health System's financial position, results of operations, or cash flows. The Health System adopted the standard effective October 1, 2019, using the full retrospective method.

Supplementary Information

CoxHealth

Consolidating Schedule – Balance Sheet Information

September 30, 2018

(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	\$ -	\$ 151,190	\$ 46,161	\$ 7,076	\$ 30,932	\$ 3,510	\$ 2,536	\$ 22,939	\$ -	\$ 264,344
Short-term investments	-	6,047	-	-	4,257	-	-	-	-	10,304
Assets limited as to use – current	-	10,390	-	-	-	-	-	-	-	10,390
Patient accounts receivable, net of allowance	-	150,413	25,869	5,560	-	-	-	9,177	(8,205)	182,814
Estimated amounts due from third-party payers	-	193	183	-	-	-	-	-	-	376
Due from affiliates	-	16,839	13,874	937	779	-	-	932	(33,361)	-
Other receivables	-	797	116	(2)	2,741	197	-	3,787	(341)	7,295
Contributions receivable – current	-	-	-	-	-	130	-	-	-	130
Supplies	-	13,737	2,877	386	-	37	-	3,505	-	20,542
Prepaid expenses	-	11,733	178	8	210	-	-	1,038	(920)	12,247
Total current assets	-	361,339	89,258	13,965	38,919	3,874	2,536	41,378	(42,827)	508,442
Assets Limited As To Use										
Investments										
Internally designated										
Building fund investments and other	-	268,637	22,942	-	5,368	-	-	16,323	-	313,270
Donated investments	-	217,866	-	-	-	2,384	-	-	-	220,250
Externally restricted										
Donor restricted	-	5,841	18,226	-	-	20,465	-	1,195	-	45,727
Under deferred compensation agreement	-	16,252	-	-	-	-	-	-	-	16,252
Required statutory reserves	-	-	-	-	13,442	-	-	-	-	13,442
Held by trustees										
Self-insurance trust investments and other	-	28,969	-	-	-	-	-	-	-	28,969
Under bond indenture agreements	-	5,141	-	-	-	-	-	-	-	5,141
	-	542,706	41,168	-	18,810	22,849	-	17,518	-	643,051
Less amount required to meet current obligations	-	10,390	-	-	-	-	-	-	-	10,390
	-	532,316	41,168	-	18,810	22,849	-	17,518	-	632,661
Contributions receivable	-	-	-	-	-	1,476	-	-	-	1,476
	-	532,316	41,168	-	18,810	24,325	-	17,518	-	634,137
Long-Term Receivables	-	10,747	-	-	-	-	-	-	(8,508)	2,239
Interest in Net Assets of Subsidiaries	904,951	250,687	-	-	-	-	-	4,946	(1,160,584)	-
Property and Equipment, At Cost	-	1,147,575	136,688	29,632	7,663	-	-	31,403	-	1,352,961
Less accumulated depreciation	-	711,155	45,180	20,605	7,501	-	-	12,133	-	796,574
	-	436,420	91,508	9,027	162	-	-	19,270	-	556,387
Goodwill and Intangible Assets	-	25,264	552	-	-	-	14	100	-	25,930
Other Assets	-	4,628	576	154	-	-	-	1,343	-	6,701
Total assets	\$ 904,951	\$ 1,621,401	\$ 223,062	\$ 23,146	\$ 57,891	\$ 28,199	\$ 2,550	\$ 84,555	\$ (1,211,919)	\$ 1,733,836

CoxHealth

Consolidating Schedule – Balance Sheet Information

September 30, 2018

(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, net	\$ -	\$ 11,771	\$ 1,771	\$ 172	\$ -	\$ -	\$ -	\$ 461	\$ -	\$ 14,175
Current bond premiums and other	-	1,200	130	-	-	-	-	-	-	1,330
Accounts payable	-	41,407	1,899	304	8,113	18	-	2,512	(341)	53,912
Accrued payroll and vacation pay	-	49,333	6,622	1,825	-	-	318	2,581	-	60,679
Accrued interest	-	5,765	1,012	-	-	-	-	-	-	6,777
Other accrued expenses	-	26,267	1,115	220	21,206	-	-	706	(8,205)	41,309
Estimated amounts due to third-party payers	-	5,477	1,953	1,557	-	-	-	750	-	9,737
Due to affiliates	957	16,522	-	-	-	337	4,642	10,903	(33,361)	-
Estimated insurance costs – current	-	17,075	939	263	-	-	-	297	(558)	18,016
Deferred revenue – current	-	4,470	-	-	3,780	378	-	3,764	(362)	12,030
Total current liabilities	957	179,287	15,441	4,341	33,099	733	4,960	21,974	(42,827)	217,965
Estimated Insurance Costs	-	17,396	-	-	-	-	-	-	-	17,396
Deferred Compensation	-	16,332	-	-	-	-	-	-	-	16,332
Accrued Pension Liability	-	41,208	-	-	-	-	-	-	-	41,208
Other Long-Term Liabilities	-	9	-	-	-	363	-	250	-	622
Long-Term Debt										
Long-term debt	-	441,634	61,346	460	7,034	-	-	15,827	(8,508)	517,793
Bond premiums and other	-	15,988	2,538	-	-	-	-	-	-	18,526
	-	457,622	63,884	460	7,034	-	-	15,827	(8,508)	536,319
Total liabilities	957	711,854	79,325	4,801	40,133	1,096	4,960	38,051	(51,335)	829,842
Net Assets										
Unrestricted	860,735	866,288	133,545	18,345	17,758	1,173	(2,410)	40,218	(1,074,917)	860,735
Temporarily restricted	22,759	22,759	1,141	-	-	17,042	-	1,466	(42,408)	22,759
Permanently restricted	20,500	20,500	9,051	-	-	8,888	-	4,820	(43,259)	20,500
Total net assets	903,994	909,547	143,737	18,345	17,758	27,103	(2,410)	46,504	(1,160,584)	903,994
Total liabilities and net assets	\$ 904,951	\$ 1,621,401	\$ 223,062	\$ 23,146	\$ 57,891	\$ 28,199	\$ 2,550	\$ 84,555	\$ (1,211,919)	\$ 1,733,836

CoxHealth

Consolidating Schedule – Statement of Operations Information

Year Ended September 30, 2018

(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)	\$ 154	\$ 1,174,841	\$ 209,820	\$ 49,407	\$ -	\$ -	\$ -	\$ 67,107	\$ (63,570)	\$ 1,437,759
Provision for uncollectible accounts	-	(97,687)	(22,103)	(5,331)	-	-	-	(2,468)	-	(127,589)
Net patient service revenue less provision for uncollectible accounts	154	1,077,154	187,717	44,076	-	-	-	64,639	(63,570)	1,310,170
Premium revenue	-	-	-	-	146,915	-	-	1,087	(1,087)	146,915
Other revenue	5,179	28,004	4,833	662	3,216	37	65	26,258	(4,331)	63,923
Net assets released from restrictions used for operations	-	1,189	-	-	-	1,185	-	-	-	2,374
Total unrestricted revenues, gains and other support	5,333	1,106,347	192,550	44,738	150,131	1,222	65	91,984	(68,988)	1,523,382
Expenses										
Salaries and wages	62,262	352,355	66,081	19,765	4,219	-	85,850	36,969	-	627,501
Employee benefits	14,553	88,007	13,624	4,231	1,344	-	2,518	8,384	(3,228)	129,433
Purchased services and professional fees	(81,743)	316,752	44,051	7,660	963	-	(87,403)	5,025	(2,268)	203,037
Supplies and other	5,076	222,231	40,413	6,163	146,969	1,262	617	39,755	(63,396)	399,090
State provider tax program	-	42,840	7,531	1,533	-	-	-	631	-	52,535
Depreciation	5,204	36,088	7,579	1,454	187	-	-	1,714	-	52,226
Interest	121	18,645	2,944	15	95	-	-	435	(95)	22,160
Total expenses	5,473	1,076,918	182,223	40,821	153,777	1,262	1,582	92,913	(68,987)	1,485,982
Operating Income (Loss)	(140)	29,429	10,327	3,917	(3,646)	(40)	(1,517)	(929)	(1)	37,400
Other Income (Expense)										
Contributions	2	22	(239)	16	-	301	-	42	-	144
Investment return	-	25,086	2,398	-	241	46	-	402	-	28,173
Loss on pension settlement	-	(21,024)	-	-	-	-	-	-	-	(21,024)
Other	-	43	-	-	-	-	-	434	-	477
Change in interest in net assets of subsidiaries	87,894	17,559	-	-	-	-	-	-	(105,453)	-
Total other income	87,896	21,686	2,159	16	241	347	-	878	(105,453)	7,770
Excess (Deficiency) of Revenues Over Expenses	87,756	51,115	12,486	3,933	(3,405)	307	(1,517)	(51)	(105,454)	45,170
Contributed (return of) capital	-	(4)	-	-	4	-	-	-	-	-
Investment return – change in unrealized gains and losses on other than trading securities	-	(80)	-	-	-	-	-	-	-	(80)
Net assets released from restriction used for purchase of property and equipment	-	257	-	-	-	396	-	-	-	653
Change in defined benefit pension plans gains and losses	-	42,013	-	-	-	-	-	-	-	42,013
Change in interest in net assets of subsidiary	-	(2,100)	2,100	-	-	-	-	-	-	-
Transfer from (to) affiliates	-	396	-	-	-	(396)	-	-	-	-
Increase (Decrease) in Unrestricted Net Assets	\$ 87,756	\$ 91,597	\$ 14,586	\$ 3,933	\$ (3,401)	\$ 307	\$ (1,517)	\$ (51)	\$ (105,454)	\$ 87,756

CoxHealth
Consolidating Schedule – Statement of Cash Flows Information
Year Ended September 30, 2018
(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	\$ 90,509	\$ 94,350	\$ 14,758	\$ 3,933	\$ (3,401)	\$ 1,999	\$ (1,517)	\$ 24	\$ (110,146)	\$ 90,509
Items not requiring (providing) operating cash flow										
Depreciation	5,204	36,088	7,579	1,454	187	-	-	1,714	-	52,226
Amortization of deferred financing costs	-	(910)	(110)	-	-	-	-	-	-	(1,020)
Provision for uncollectible accounts	-	97,687	22,103	5,331	-	-	-	2,468	-	127,589
Loss on sale of property and equipment	-	71	-	-	-	-	-	-	-	71
Loss on investment in equity investees	-	73	-	-	-	-	-	-	-	73
Appreciation of Series H Capital Appreciation Bonds	-	1,812	-	-	-	-	-	-	-	1,812
Net (gain) loss on investments	-	(17,729)	(1,050)	-	209	(103)	-	88	-	(18,585)
Change in defined benefit pension plan gains and losses	-	(42,013)	-	-	-	-	-	-	-	(42,013)
Change in interest in net assets of subsidiaries	(90,647)	(19,447)	-	-	-	-	-	(52)	110,146	-
Restricted contributions and investment income received	-	(2,312)	(172)	-	-	(3,273)	-	(23)	-	(5,780)
Changes in										
Receivables	138	(109,726)	(23,156)	(6,137)	394	80	274	2,983	(545)	(135,695)
Estimated third-party settlements	-	(369)	600	(50)	-	-	-	-	-	181
Accrued self-insurance costs	-	(3,250)	(4)	13	-	-	-	(13)	286	(2,968)
Other assets and liabilities	-	8,602	895	161	2,869	(73)	98	(1,447)	259	11,364
Net cash provided by (used in) operating activities	5,204	42,927	21,443	4,705	258	(1,370)	(1,145)	5,742	-	77,764

CoxHealth
Consolidating Schedule – Statement of Cash Flows Information
Year Ended September 30, 2018
(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										
Purchase of short-term investments	\$ -	\$ (9,351)	\$ -	\$ -	\$ (4,263)	\$ -	\$ -	\$ -	\$ -	\$ (13,614)
Proceeds from sale of short-term investments	-	35,717	-	-	9,250	-	-	-	-	44,967
Purchase of investments	-	(348,168)	(6,124)	-	(15,722)	(1,853)	-	2,212	-	(369,655)
Proceeds from sale of investments	-	324,736	3,452	-	15,356	1,267	-	(2,681)	-	342,130
Purchase of property and equipment	(5,204)	(27,502)	(2,305)	(887)	(85)	-	-	(603)	-	(36,586)
Cash received from Cox Barton County Hospital	-	-	-	-	-	-	-	484	-	484
Other	-	(3,232)	-	-	-	-	-	-	4,095	863
Net cash provided by (used in) investing activities	(5,204)	(27,800)	(4,977)	(887)	4,536	(586)	-	(588)	4,095	(31,411)
Financing Activities										
Proceeds from restricted contributions and investment income received	-	2,312	172	-	-	3,273	-	23	-	5,780
Proceeds from issuance of long-term debt	-	-	-	-	4,095	-	-	-	(4,095)	-
Principal payments on long-term debt	-	(11,759)	(1,829)	(168)	-	-	-	(400)	-	(14,156)
Net cash provided by (used in) financing activities	-	(9,447)	(1,657)	(168)	4,095	3,273	-	(377)	(4,095)	(8,376)
Change in Cash and Cash Equivalents	-	5,680	14,809	3,650	8,889	1,317	(1,145)	4,777	-	37,977
Cash and Cash Equivalents, Beginning of Year	-	145,510	31,352	3,426	22,043	2,193	3,681	18,162	-	226,367
Cash and Cash Equivalents, End of Year	\$ -	\$ 151,190	\$ 46,161	\$ 7,076	\$ 30,932	\$ 3,510	\$ 2,536	\$ 22,939	\$ -	\$ 264,344

CoxHealth
Consolidating Schedule – Balance Sheet Information – Other Entities
September 30, 2018
(In Thousands)

Assets

	Oxford Home Health Care	Cox- Barton County Hospital	HPS of the Ozarks, Inc.	Medical Developments, Inc.	Insurance Company of Springfield	Primrose Place, Inc.	Cox College	Total
Current Assets								
Cash and cash equivalents	\$ 7,167	\$ 3,337	\$ 3,057	\$ 1,136	\$ 191	\$ 91	\$ 7,960	\$ 22,939
Patient accounts receivable, net of allowance	3,138	2,712	3,327	-	-	-	-	9,177
Due from affiliates	-	-	-	-	-	932	-	932
Other receivables	342	659	-	1,672	-	45	1,069	3,787
Supplies	-	310	1,085	2,060	-	-	50	3,505
Prepaid expenses	137	64	-	-	355	-	482	1,038
Total current assets	<u>10,784</u>	<u>7,082</u>	<u>7,469</u>	<u>4,868</u>	<u>546</u>	<u>1,068</u>	<u>9,561</u>	<u>41,378</u>
Assets Limited As To Use								
Investments								
Internally designated								
Building fund investments and other	4,825	-	11,498	-	-	-	-	16,323
Externally restricted								
Donor restricted	-	-	-	-	-	1,195	-	1,195
	<u>4,825</u>	<u>-</u>	<u>11,498</u>	<u>-</u>	<u>-</u>	<u>1,195</u>	<u>-</u>	<u>17,518</u>
Interest in Net Assets of Subsidiaries	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,946</u>	<u>4,946</u>
Property and Equipment, At Cost	6,815	14,068	6,679	1,272	-	719	1,850	31,403
Less accumulated depreciation	6,249	957	2,016	1,021	-	339	1,551	12,133
	<u>566</u>	<u>13,111</u>	<u>4,663</u>	<u>251</u>	<u>-</u>	<u>380</u>	<u>299</u>	<u>19,270</u>
Goodwill and Intangible Assets	<u>100</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>100</u>
Other Assets	<u>15</u>	<u>-</u>	<u>1,035</u>	<u>293</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,343</u>
Total assets	<u>\$ 16,290</u>	<u>\$ 20,193</u>	<u>\$ 24,665</u>	<u>\$ 5,412</u>	<u>\$ 546</u>	<u>\$ 2,643</u>	<u>\$ 14,806</u>	<u>\$ 84,555</u>

CoxHealth
Consolidating Schedule – Balance Sheet Information – Other Entities
September 30, 2018
(In Thousands)

Liabilities and Net Assets

	Oxford Home Health Care	Cox- Barton County Hospital	HPS of the Ozarks, Inc.	Medical Developments, Inc.	Insurance Company of Springfield	Primrose Place, Inc.	Cox College	Total
Current Liabilities								
Current maturities of long-term debt	\$ -	\$ 461	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 461
Accounts payable	279	418	706	542	-	-	567	2,512
Accrued payroll and vacation pay	894	999	580	6	-	-	102	2,581
Other accrued expenses	589	58	38	4	13	-	4	706
Estimated amounts due to third-party payers	-	750	-	-	-	-	-	750
Due to affiliates	105	5,204	541	2,697	-	-	2,356	10,903
Estimated insurance costs – current	157	-	64	-	-	-	76	297
Deferred revenue – current	-	(114)	-	-	362	-	3,516	3,764
Total current liabilities	2,024	7,776	1,929	3,249	375	-	6,621	21,974
Other Long-Term Liabilities	-	250	-	-	-	-	-	250
Long-Term Debt								
Long-term debt	729	14,353	745	-	-	-	-	15,827
Total liabilities	2,753	22,379	2,674	3,249	375	-	6,621	38,051
Net Assets								
Unrestricted	13,392	(2,186)	21,991	2,163	171	1,448	3,239	40,218
Temporarily restricted	145	-	-	-	-	-	1,321	1,466
Permanently restricted	-	-	-	-	-	1,195	3,625	4,820
Total net assets	13,537	(2,186)	21,991	2,163	171	2,643	8,185	46,504
Total liabilities and net assets	\$ 16,290	\$ 20,193	\$ 24,665	\$ 5,412	\$ 546	\$ 2,643	\$ 14,806	\$ 84,555

CoxHealth
Consolidating Schedule – Statement of Operations Information – Other Entities
Year Ended September 30, 2018
(In Thousands)

	Oxford Home Health Care	Cox- Barton County Hospital	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)	\$ 18,916	\$ 14,761	\$ 33,430	\$ -	\$ -	\$ -	\$ -	\$ 67,107
Provision for uncollectible accounts	3	(1,620)	(851)	-	-	-	-	(2,468)
Net patient service revenue less provision for uncollectible accounts	18,919	13,141	32,579	-	-	-	-	64,639
Premium revenue	-	-	-	-	1,087	-	-	1,087
Other revenue	7	661	32	13,587	-	-	11,971	26,258
Total unrestricted revenues, gains and other support	18,926	13,802	32,611	13,587	1,087	-	11,971	91,984
Expenses								
Salaries and wages	15,582	7,602	5,579	2,155	-	-	6,051	36,969
Employee benefits	2,597	2,603	1,319	439	-	-	1,426	8,384
Purchased services and professional fees	1,018	2,608	271	213	23	4	888	5,025
Supplies and other	(684)	1,612	25,052	10,753	1,053	48	1,921	39,755
State provider tax program	-	631	-	-	-	-	-	631
Depreciation	250	957	257	64	-	67	119	1,714
Interest	-	435	-	-	-	-	-	435
Total expenses	18,763	16,448	32,478	13,624	1,076	119	10,405	92,913
Operating Income (Loss)	163	(2,646)	133	(37)	11	(119)	1,566	(929)
Other Income (Expense)								
Contributions	-	(3)	-	-	-	45	-	42
Investment return	132	29	241	-	-	-	-	402
Other	-	434	-	-	-	-	-	434
Total other income	132	460	241	-	-	45	-	878
Excess (Deficiency) of Revenues Over Expenses	295	(2,186)	374	(37)	11	(74)	1,566	(51)
Increase (Decrease) in Unrestricted Net Assets	\$ 295	\$ (2,186)	\$ 374	\$ (37)	\$ 11	\$ (74)	\$ 1,566	\$ (51)

CoxHealth
Consolidating Schedule – Statement of Cash Flows Information – Other Entities
Year Ended September 30, 2018
(In Thousands)

	Oxford Home Health Care	Cox- Barton County Hospital	HPS of the Ozarks, Inc.	Medical Developments, Inc.	Insurance Company of Springfield	Primrose Place, Inc.	Cox College	Total
Operating Activities								
Change in net assets	\$ 309	\$ (2,186)	\$ 374	\$ (37)	\$ 11	\$ (65)	\$ 1,618	\$ 24
Items not requiring (providing) operating cash flow								
Depreciation	250	957	257	64	-	67	119	1,714
Provision for uncollectible accounts	(3)	1,620	851	-	-	-	-	2,468
Net (gain) loss on investments	-	-	96	-	-	(8)	-	88
Change in interest in net assets of subsidiaries	-	-	-	-	-	-	(52)	(52)
Restricted contributions and investment income received	(14)	-	-	-	-	(9)	-	(23)
Changes in								
Receivables	(5)	3,420	(1,484)	370	-	35	647	2,983
Accrued self-insurance costs	11	-	(8)	-	-	-	(16)	(13)
Other assets and liabilities	310	(389)	(603)	(590)	-	-	(175)	(1,447)
	<u>858</u>	<u>3,422</u>	<u>(517)</u>	<u>(193)</u>	<u>11</u>	<u>20</u>	<u>2,141</u>	<u>5,742</u>
Net cash provided by (used in) operating activities								

CoxHealth
Consolidating Schedule – Statement of Cash Flows Information – Other Entities
Year Ended September 30, 2018
(In Thousands)

	Oxford Home Health Care	Cox- Barton County Hospital	HPS of the Ozarks, Inc.	Medical Developments, Inc.	Insurance Company of Springfield	Primrose Place, Inc.	Cox College	Total
Investing Activities								
Purchase of investments	\$ (132)	\$ -	\$ 2,344	\$ -	\$ -	\$ -	\$ -	\$ 2,212
Proceeds from sale of investments	-	-	(2,681)	-	-	-	-	(2,681)
Purchase of property and equipment	(222)	(169)	(167)	(14)	-	(15)	(16)	(603)
Cash received from Cox Barton County Hospital	-	484	-	-	-	-	-	484
Net cash provided by (used in) investing activities	(354)	315	(504)	(14)	-	(15)	(16)	(588)
Financing Activities								
Proceeds from restricted contributions and investment income received	14	-	-	-	-	9	-	23
Principal payments on long-term debt	-	(400)	-	-	-	-	-	(400)
Net cash provided by (used in) financing activities	14	(400)	-	-	-	9	-	(377)
Change in Cash and Cash Equivalents	518	3,337	(1,021)	(207)	11	14	2,125	4,777
Cash and Cash Equivalents, Beginning of Year	6,649	-	4,078	1,343	180	77	5,835	18,162
Cash and Cash Equivalents, End of Year	\$ 7,167	\$ 3,337	\$ 3,057	\$ 1,136	\$ 191	\$ 91	\$ 7,960	\$ 22,939

CoxHealth
Obligated Group Schedule – Balance Sheet Information
September 30, 2018
(In Thousands)

Assets

	CoxHealth	Medical Centers	Cox-Branson	Cox-Monett Hospital	Cox College	Eliminations	Total
Current Assets							
Cash and cash equivalents	\$ -	\$ 151,190	\$ 46,161	\$ 7,076	\$ 7,960	\$ -	\$ 212,387
Short-term investments	-	6,047	-	-	-	-	6,047
Assets limited as to use – current	-	10,390	-	-	-	-	10,390
Patient accounts receivable, net of allowance	-	150,413	25,869	5,560	-	-	181,842
Estimated amounts due from third-party payers	-	193	183	-	-	-	376
Due from affiliates	-	16,839	13,874	937	-	(18,124)	13,526
Other receivables	-	797	116	(2)	1,069	-	1,980
Supplies	-	13,737	2,877	386	50	-	17,050
Prepaid expenses	-	11,733	178	8	482	-	12,401
Total current assets	-	361,339	89,258	13,965	9,561	(18,124)	455,999
Assets Limited As To Use							
Investments							
Internally designated							
Building fund investments and other	-	268,637	22,942	-	-	-	291,579
Donated investments	-	217,866	-	-	-	-	217,866
Externally restricted							
Donor restricted	-	5,841	18,226	-	-	-	24,067
Under deferred compensation agreement	-	16,252	-	-	-	-	16,252
Held by trustees							
Self-insurance trust investments	-	28,969	-	-	-	-	28,969
Under bond indenture agreements	-	5,141	-	-	-	-	5,141
	-	542,706	41,168	-	-	-	583,874
Less amount required to meet current obligations	-	10,390	-	-	-	-	10,390
	-	532,316	41,168	-	-	-	573,484
Long-Term Receivables	-	10,747	-	-	-	-	10,747
Interest in Net Assets of Subsidiaries	904,951	250,687	-	-	4,946	(1,079,814)	80,770
Property and Equipment, At Cost	-	1,147,575	136,688	29,632	1,850	-	1,315,745
Less accumulated depreciation	-	711,155	45,180	20,605	1,551	-	778,491
	-	436,420	91,508	9,027	299	-	537,254
Goodwill and Intangible Assets	-	25,264	552	-	-	-	25,816
Other Assets	-	4,628	576	154	-	-	5,358
Total assets	\$ 904,951	\$ 1,621,401	\$ 223,062	\$ 23,146	\$ 14,806	\$ (1,097,938)	\$ 1,689,428

CoxHealth
Obligated Group Schedule – Balance Sheet Information
September 30, 2018
(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, net	\$ -	\$ 11,771	\$ 1,771	\$ 172	\$ -	\$ -	\$ 13,714
Current bond premiums and other	-	1,200	130	-	-	-	1,330
Accounts payable	-	41,407	1,899	304	567	-	44,177
Accrued payroll and vacation pay	-	49,333	6,622	1,825	102	-	57,882
Accrued interest	-	5,765	1,012	-	-	-	6,777
Other accrued expenses	-	26,267	1,115	220	4	-	27,606
Estimated amounts due to third-party payers	-	5,477	1,953	1,557	-	-	8,987
Due to affiliates	957	16,522	-	-	2,356	(18,124)	1,711
Estimated self-insurance costs – current	-	17,075	939	263	76	-	18,353
Deferred revenue – current	-	4,470	-	-	3,516	-	7,986
Total current liabilities	957	179,287	15,441	4,341	6,621	(18,124)	188,523
Estimated Self-Insurance Costs	-	17,396	-	-	-	-	17,396
Deferred Compensation	-	16,332	-	-	-	-	16,332
Accrued Pension Liability	-	41,208	-	-	-	-	41,208
Other Long-Term Liabilities	-	9	-	-	-	-	9
Long-Term Debt							
Long-term debt	-	441,634	61,346	460	-	-	503,440
Deferred financing costs	-	15,988	2,538	-	-	-	18,526
	-	457,622	63,884	460	-	-	521,966
Total liabilities	957	711,854	79,325	4,801	6,621	(18,124)	785,434
Net Assets							
Unrestricted	860,735	866,288	133,545	18,345	3,239	(1,021,417)	860,735
Temporarily restricted	22,759	22,759	1,141	-	1,321	(25,221)	22,759
Permanently restricted	20,500	20,500	9,051	-	3,625	(33,176)	20,500
Total net assets	903,994	909,547	143,737	18,345	8,185	(1,079,814)	903,994
Total liabilities and net assets	\$ 904,951	\$ 1,621,401	\$ 223,062	\$ 23,146	\$ 14,806	\$ (1,097,938)	\$ 1,689,428

CoxHealth
Obligated Group Schedule – Statement of Operations Information
Year Ended September 30, 2018
(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)	\$ 154	\$ 1,174,841	\$ 209,820	\$ 49,407	\$ -	\$ (3,639)	\$ 1,430,583
Provision for uncollectible accounts	-	(97,687)	(22,103)	(5,331)	-	-	(125,121)
Net patient service revenue less provision for uncollectible accounts	154	1,077,154	187,717	44,076	-	(3,639)	1,305,462
Other revenue	5,179	28,004	4,833	662	11,971	-	50,649
Net assets released from restrictions used for operations	-	1,189	-	-	-	-	1,189
Total unrestricted revenues, gains and other support	5,333	1,106,347	192,550	44,738	11,971	(3,639)	1,357,300
Expenses							
Salaries and wages	62,262	352,355	66,081	19,765	6,051	-	506,514
Employee benefits	14,553	88,007	13,624	4,231	1,426	-	121,841
Purchased services and professional fees	(81,743)	316,752	44,051	7,660	888	-	287,608
Supplies and other	5,076	222,231	40,413	6,163	1,921	(3,639)	272,165
State provider tax program	-	42,840	7,531	1,533	-	-	51,904
Depreciation	5,204	36,088	7,579	1,454	119	-	50,444
Interest	121	18,645	2,944	15	-	-	21,725
Total expenses	5,473	1,076,918	182,223	40,821	10,405	(3,639)	1,312,201
Operating Income (Loss)	(140)	29,429	10,327	3,917	1,566	-	45,099
Other Income (Expense)							
Contributions	2	22	(239)	16	-	-	(199)
Investment return	-	25,086	2,398	-	-	-	27,484
Loss on pension settlement	-	(21,024)	-	-	-	-	(21,024)
Other	-	43	-	-	-	-	43
Change in interest in net assets of subsidiaries	87,894	17,559	-	-	-	(111,682)	(6,229)
Total other income	87,896	21,686	2,159	16	-	(111,682)	75
Excess (Deficiency) of Revenues Over Expenses	87,756	51,115	12,486	3,933	1,566	(111,682)	45,174
Contributed (return of) capital	-	(4)	-	-	-	-	(4)
Investment return – change in unrealized gains and losses on other than trading securities	-	(80)	-	-	-	-	(80)
Net assets released from restriction used for purchase of property and equipment	-	257	-	-	-	-	257
Change in defined benefit pension plans gains and losses	-	42,013	-	-	-	-	42,013
Change in interest in net assets of subsidiary	-	(2,100)	2,100	-	-	-	-
Transfer from (to) affiliates	-	396	-	-	-	-	396
Increase (Decrease) in Unrestricted Net Assets	\$ 87,756	\$ 91,597	\$ 14,586	\$ 3,933	\$ 1,566	\$ (111,682)	\$ 87,756

CoxHealth
Obligated Group Schedule – Balance Sheet Information
Year Ended 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
Year Ended 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, net	\$ -	\$ 10,494	\$ 1,851	\$ 168	\$ -	\$ -	\$ 12,513
Current bond premiums and other	-	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
Bond premiums and other	-	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
Total unrestricted revenues, gains and other support	2,864	1,060,831	182,301	42,004	10,951	(3,591)	1,295,360
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
Total expenses	2,824	1,036,293	173,002	39,103	9,994	(3,591)	1,257,625
Operating Income (Loss)	40	24,538	9,299	2,901	957	-	37,735
Other Income (Expense)							
Contributions	-	16	276	12	1	-	305
Investment return	-	42,388	2,962	-	-	-	45,350
Other	(450)	(491)	-	-	-	-	(941)
Change in interest in net assets of subsidiaries	99,527	12,109	-	-	-	(118,783)	(7,147)
Total other income	99,077	54,022	3,238	12	1	(118,783)	37,567
Excess (Deficiency) of Revenues Over Expenses	99,117	78,560	12,537	2,913	958	(118,783)	75,302
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	\$ 99,117	\$ 100,275	\$ 14,637	\$ 2,913	\$ 958	\$ (118,783)	\$ 99,117