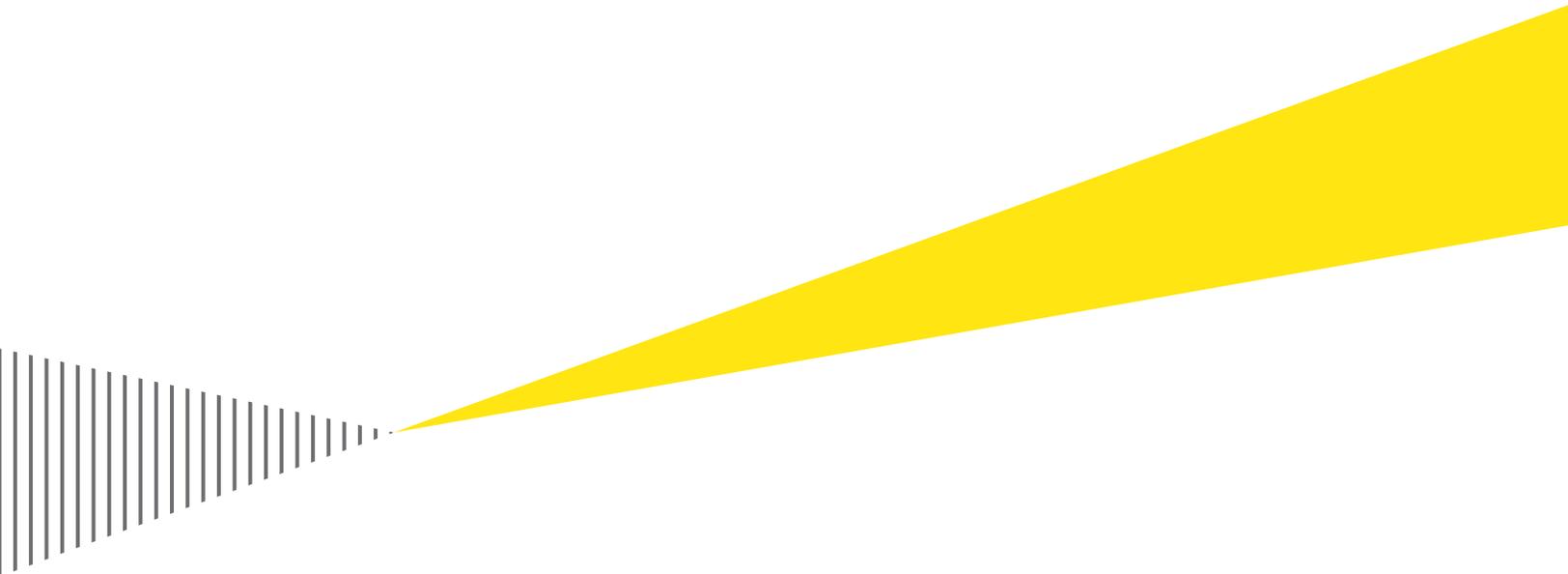


CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

Orlando Health, Inc. and Controlled Affiliates
September 30, 2017 and 2016
With Report of Independent Certified Public Accountants

Ernst & Young LLP



Building a better
working world

Orlando Health, Inc. and Controlled Affiliates
Consolidated Financial Statements and Supplementary Information
September 30, 2017 and 2016

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Report of Independent Certified Public Accountants

The Board of Directors
Orlando Health, Inc. and Controlled Affiliates

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Orlando Health, Inc. and Controlled Affiliates (the System), which comprise the consolidated balance sheet as of September 30, 2017, and the related consolidated statements of operations and changes in net assets and cash flows for the year 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 financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Orlando Health, Inc. and Controlled Affiliates at September 30, 2017, and the consolidated results of their operations and their cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Report of Other Auditors on 2016 Financial Statements

The consolidated financial statements of Orlando Health, Inc. and Controlled Affiliates for the year ended September 30, 2016, were audited by other auditors who expressed an unmodified opinion on those statements on December 7, 2016.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The System's consolidating balance sheet at September 30, 2017, and the related consolidating statement of operations for the year then ended and Orlando Health Central, Inc.'s consolidating balance sheet at September 30, 2017, and the related consolidating statement of operations for the year then ended are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we also have issued our report dated January 22, 2018 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

Ernst & Young LLP

January 22, 2018

Orlando Health, Inc. and Controlled Affiliates

Consolidated Balance Sheets (In Thousands)

	September 30	
	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 358,845	\$ 270,712
Short-term investments	–	100
Assets limited as to use	38,701	36,805
Accounts receivable, less allowances for uncollectible accounts of \$160,404 in 2017 and \$142,734 in 2016	297,845	298,939
Other receivables	40,033	49,132
Inventory	51,355	28,704
Other current assets	36,690	37,349
Total current assets	823,469	721,741
Assets limited as to use:		
Debt service and reserve funds held by bond trustee	43,932	41,668
Interest rate swap contract collateral	14,258	29,395
Malpractice self-insurance	13,428	12,417
	71,618	83,480
Less amount required to meet current obligations	(38,701)	(36,805)
	32,917	46,675
Assets held for sale		
Long-term investments – unrestricted	1,185,747	971,900
Long-term investments – restricted	107,651	83,957
Investments in related parties	37,499	25,274
Other assets	268,259	237,580
Property and equipment, net	1,301,899	1,261,100
Total assets	\$ 3,757,441	\$ 3,356,823
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 256,546	\$ 234,460
Other current liabilities	122,718	108,594
Current portion of long-term debt	23,288	20,860
Total current liabilities	402,552	363,914
Long-term debt, less current portion	959,404	959,618
Accrued malpractice claims	105,178	97,977
Other noncurrent liabilities	96,935	80,413
Total liabilities	1,564,069	1,501,922
Net assets		
Unrestricted:		
Orlando Health, Inc. and Controlled Affiliates	2,018,745	1,671,804
Noncontrolling interests in Controlled Affiliates	(878)	1,060
Total unrestricted	2,017,867	1,672,864
Temporarily restricted	174,122	179,540
Permanently restricted	1,383	2,497
Total net assets	2,193,372	1,854,901
Total liabilities and net assets	\$ 3,757,441	\$ 3,356,823

See accompanying notes.

Orlando Health, Inc. and Controlled Affiliates

Consolidated Statements of Operations and Changes in Net Assets
(In Thousands)

	Year Ended September 30	
	2017	2016
Unrestricted revenues and other support		
Net patient service revenue (net of contractual allowances and discounts)	\$ 2,687,080	\$ 2,507,482
Provision for bad debts	(144,060)	(181,450)
Net patient service revenue less provision for bad debts	2,543,020	2,326,032
Other revenue	130,085	124,794
Net assets released from restrictions	5,784	5,096
Total unrestricted revenues and other support	2,678,889	2,455,922
Expenses		
Salaries and benefits	1,407,648	1,276,382
Supplies and other	846,087	802,197
Professional fees	38,830	39,318
Depreciation and amortization	125,821	119,734
Interest	43,094	45,565
Total expenses	2,461,480	2,283,196
Income from operations	217,409	172,726
Nonoperating gains and (losses)		
Investment income	83,563	63,602
Change in fair value of interest rate swap agreements	15,294	(9,932)
Nonoperating gain	13,576	-
Loss on early extinguishment of debt	-	(16,442)
Nonoperating gains, net	112,433	37,228
Excess of revenues, other support, and gains over expenses and losses	329,842	209,954
Deficit (excess) of revenues, other support, and gains over expenses and losses attributed to noncontrolling interests in Controlled Affiliates	1,849	(448)
Excess of revenues, other support, and gains over expenses and losses attributed to Orlando Health, Inc. and Controlled Affiliates	331,691	209,506

Orlando Health, Inc. and Controlled Affiliates

Consolidated Statements of Operations and Changes in Net Assets (continued)
(In Thousands)

	Year Ended September 30	
	2017	2016
Unrestricted net assets		
Excess of revenues, other support, and gains over expenses and losses	\$ 329,842	\$ 209,954
Other changes in unrestricted net assets:		
Net assets released from restrictions for property and equipment	15,449	22,895
Deconsolidation of controlling interest in OH/USP Surgery Centers	–	(3,679)
Other	(288)	290
Increase in unrestricted net assets	<u>345,003</u>	<u>229,460</u>
Temporarily restricted net assets		
Contributions	13,345	93,948
Net assets released from restrictions	(21,233)	(27,991)
Net realized and unrealized gains on investments	2,716	1,401
Other	(246)	(191)
(Decrease) increase in temporarily restricted net assets	<u>(5,418)</u>	<u>67,167</u>
Permanently restricted net assets		
Contributions	–	2
Other	(1,116)	–
Net realized and unrealized gains on investments	2	1
(Decrease) increase in permanently restricted net assets	<u>(1,114)</u>	<u>3</u>
Increase in net assets	338,471	296,630
Net assets at beginning of year	1,854,901	1,558,271
Net assets at end of year	<u>\$ 2,193,372</u>	<u>\$ 1,854,901</u>

See accompanying notes.

Orlando Health, Inc. and Controlled Affiliates

Consolidated Statements of Cash Flows (In Thousands)

	Year Ended September 30	
	2017	2016
Operating activities		
Increase in net assets	\$ 338,471	\$ 296,630
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	125,821	119,734
Change in value of interest rate swap agreements	(15,294)	9,932
Net unrealized gains on investments	(50,228)	(33,089)
Loss on early extinguishment of debt	–	16,442
Gain on sale of Lucerne	(1,900)	–
Restricted grant from the District	–	(75,200)
Deconsolidation of OH/USP Surgery Centers	–	3,679
Restricted contributions and investment income	(14,701)	(19,961)
Sales of short-term trading securities, net	–	241,800
Changes in operating assets and liabilities:		
Accounts receivable, net	1,094	(7,165)
Other operating assets	(8,853)	(2,559)
Accounts payable and accrued expenses	22,086	15,203
Other operating liabilities	28,654	35,761
Net cash provided by operating activities	425,150	601,207
Investing activities		
Purchases of property, equipment, and other noncurrent assets	(135,124)	(154,344)
Proceeds from sale of group purchasing organization	11,676	–
Decrease (increase) in assets limited as to use	11,675	(16,207)
Purchase of trading securities, net of sales	(187,203)	(281,146)
Other investing activities	(29,916)	(1,371)
Net cash used in investing activities	(328,892)	(453,068)
Financing activities		
Proceeds from issuance of long-term debt	–	350,661
Refunding and repayments of long-term debt	(22,826)	(396,157)
Proceeds from debt service reserve fund liquidation	–	17,424
Bond proceeds used for loan costs	–	(2,731)
Restricted contributions and investment income	14,701	19,961
Net cash used in financing activities	(8,125)	(10,842)
Increase in cash and cash equivalents	88,133	137,297
Cash and cash equivalents at beginning of year	270,712	133,415
Cash and cash equivalents at end of year	\$ 358,845	\$ 270,712
Noncash investing and financing transactions		
Capital lease obligation incurred for property	\$ 21,000	\$ –

See accompanying notes.

Orlando Health, Inc. and Controlled Affiliates

Notes to Consolidated Financial Statements

September 30, 2017 and 2016

1. Organization

Orlando Health, Inc. (Orlando Health) and Orlando Health Central, Inc. (Health Central) comprise the Obligated Group. Orlando Health is a tax-exempt organization pursuant to Section 501(c)(3) of the Internal Revenue Code, which controls a diversified health care delivery system headquartered in Orlando, Florida. Orlando Health includes the following hospitals operating in Central Florida: Orlando Regional Medical Center (ORMC), Dr. P. Phillips Hospital, Arnold Palmer Hospital for Children (APH), Winnie Palmer Hospital for Women and Babies (WPH), South Seminole Hospital and Health Central Hospital. APH and WPH are jointly referred to as the Arnold Palmer Medical Center (APMC). Health Central includes a hospital and Health Central Park, a skilled nursing facility. Orlando Health also has a home health services division and eight medical residency programs.

Controlled Affiliates are those entities Orlando Health controls as the sole or majority member, sole shareholder, or through board appointment and approval of all major transactions. Controlled Affiliates operate a variety of health care-related services, including physician practice groups (Orlando Health Physician Group, Inc., Orlando Physician Network, Inc., Orlando Cancer Center, Inc., Physician Associates, LLC (PAL), ORHI, LLC (ORHI), which operates five imaging centers, a fund-raising organization (Orlando Health Foundation, Inc.) and other health care-related services). Healthnet Services, Inc. and its subsidiaries are taxable corporations and are a part of the Controlled Affiliates. The Obligated Group, together with its Controlled Affiliates, is collectively referred to herein as the "System." These consolidated financial statements include the consolidated accounts of Orlando Health, Orlando Health Central, and their Controlled Affiliates. Significant transactions between entities have been eliminated.

The System owns a 20% interest in OsceolaSC, LLC (OsceolaSC), a for-profit limited liability corporation. The remaining 80% is owned by Central Florida HMA Holdings, LLC, a subsidiary of Community Health Systems, Inc., a publicly held company. OsceolaSC owns and operates St. Cloud Regional Medical Center, an 84-bed hospital in Osceola County. The System's 20% interest in OsceolaSC is accounted for using the equity method with the accounts of OsceolaSC excluded from these consolidated financial statements.

Orlando Health has a 50% membership in South Lake Hospital, Inc. (South Lake), a not-for-profit acute care hospital. As Orlando Health does not hold a controlling interest in the accounts of South Lake, those accounts are excluded from these consolidated financial statements.

Orlando Health, Inc. and Controlled Affiliates

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies

Pending Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, to clarify the principles for recognizing revenue and improve financial reporting by creating common revenue recognition guidance for U.S. generally accepted accounting principles (GAAP) and International Financial Reporting Standards. The core principle of the new guidance is that an entity should 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 these goods and services. This standard is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The System is evaluating the guidance in ASU 2014-09 and the impact that the adoption of this update will have on its consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements – Going Concern (Subtopic 205-40)*. ASU 2014-15 provides guidance on management's responsibility in evaluating whether there is substantial doubt about a company's ability to continue as a going concern and about related footnotes disclosures. For each reporting period, management will be required to evaluate whether there are conditions or events that raise substantial doubt about a company's ability to continue as a going concern within one year from the date the financial statements are issued. The System adopted ASU 2014-15 on September 30, 2017, determining there are no conditions or events that raise substantial doubt about the System's ability to continue as a going concern.

In May 2015, the FASB issued ASU 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. The amendment removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The amendment also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure fair value using the practical expedient. The System has adopted ASU 2015-07 effective September 30, 2017, and presented changes in reporting retrospectively.

Orlando Health, Inc. and Controlled Affiliates

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

In February 2016, the FASB issued ASU 2016-02, *Leases*, which requires a lessee to recognize a right-of-use asset and a lease liability for both operating and financing leases, whereas previous U.S. GAAP required the asset and liability to be recognized only for capital leases. The amendment also requires qualitative and specific quantitative disclosures. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. The System is evaluating the guidance of ASU 2016-02 and the impact that the adoption of this update will have on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, as an update to Accounting Standards Codification (ASC) Topic 958, *Not-for-Profit Entities*. This update makes several improvements to current reporting requirements that address complexities in the use of the currently required three classes of net assets and enhance required disclosures related to donor restrictions of net assets. The updated guidance will be effective for annual periods beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018. Early adoption is permitted. The new guidance should be applied on a retrospective basis. The updated guidance will result in a change in the classes of net assets reported on the face of the statement of financial position from three classes (unrestricted, temporarily restricted, and permanently restricted) to two classes (net assets without donor restrictions and net assets with donor restrictions). No other material impact is expected. Management is currently evaluating the potential impact of this guidance.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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 and Cash Equivalents

Investments with maturities of three months or less when purchased are classified as cash equivalents. Cash deposits are federally insured in limited amounts.

Orlando Health, Inc. and Controlled Affiliates

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

Investments and Investment Income

Investments in marketable equity securities and all debt securities are stated at fair value in the consolidated balance sheets. All investments have been designated by management as trading securities. Investment income or loss, including realized and unrealized gains and losses, interest, and dividends, is included in excess of revenues, other support, and gains over expenses and losses, unless the income or loss is restricted by donor or law. The system classifies unrestricted investments, regardless of maturity date, as either short-term or long-term based on management's intent and ability to hold or reinvest the investments on a long-term basis.

Investments Without Readily Determinable Values

Investments without readily determinable values consist of funds-of-funds, investments in private equity companies, partnerships, and limited liability companies and are included with investments at fair value. Under U.S. GAAP, a reporting entity is permitted, as a practical expedient, to estimate the fair value of such an investment using the net asset value per share (or its equivalent, such as member units or an ownership interest in partners' capital to which a proportionate share of net assets is attributed) of certain investments, if the net asset value per share of the investment (or its equivalent) is calculated in a manner consistent with the measurement principles of investment funds. At September 30, 2017 and 2016, the net asset value approximates the fair value of the funds as reported by the investment fund managers. Due to the inherent uncertainty of these estimates, these values may differ from the values that would have been used had a ready market of these investments existed, and the differences could be material.

Income Taxes

Orlando Health and its nonprofit affiliates are exempt from federal income taxes under Section 501(a) as organizations described in Sections 501(c)(3) and 501(e) of the Internal Revenue Code of 1986, as amended, and are also exempt from state income taxes. Healthnet Services, Inc. and its subsidiaries are taxable corporations and file a consolidated federal and state return. Healthnet Services, Inc., on a consolidated basis, has not generated taxable income for the years ended September 30, 2017 and 2016.

Orlando Health, Inc. and Controlled Affiliates

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

At September 30, 2017 and 2016, the System has combined net deferred tax assets of \$28,180,000 and \$19,109,000, respectively. Deferred tax assets are primarily composed of federal and state net operating loss carryforwards. The System has combined federal net operating loss carryforwards of \$97,828,000 and \$84,578,000, and state net operating loss carryforwards of \$97,818,000 and \$84,573,000 at September 30, 2017 and 2016, respectively. These net operating losses will expire between 2019 and 2038. A valuation allowance has been provided to offset the full amount of deferred tax asset as of September 30, 2017 and 2016, as management has determined that it is more likely than not that the benefit of the deferred tax asset will not be realized in future periods.

FASB ASC Topic 740, *Income Taxes*, prescribes the accounting for uncertainty in income tax positions recognized in the financial statements. ASC Topic 740 provides guidance and measurement of a tax position taken or expected to be taken in a tax return. There were no material uncertain tax positions as of September 30, 2017 and 2016.

Assets Limited as to Use

Assets limited as to use primarily include assets held by trustees under bond indenture agreement, assets whose use is limited due to statutory requirements of the state of Florida for future malpractice claims and collateral held for an interest rate swap agreement. Amounts required to meet related current liabilities are reported as current.

Restricted Investments

Restricted investments consist of investments held by the Orlando Health Foundation that are restricted as to use by donors for a specific time period or purpose.

Inventory

Inventory which consists primarily of medical and drug supplies, is stated at the lower of cost or market value. Cost is determined using the first-in, first-out method. In 2017, the System revised its accounting for surgical inventory resulting in an increase to the surgical inventory for the initial recognition of such inventory on hand at the beginning of the year, which had previously been expensed as purchased within the Supplies and Other Expense financial statement caption of \$18,372,000. Management believes the impact of such revision is immaterial to the current and prior periods. Inventory was separately reclassified from other current assets in the consolidated balance sheets into its own financial statement caption, and prior year balances have been reclassified to conform to current year presentation.

Orlando Health, Inc. and Controlled Affiliates

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

Property and Equipment

Property and equipment are recorded at cost, except for donated items, which are recorded at fair value at the date of the contribution. Expenditures that materially increase values, change capacities, or extend useful lives are capitalized, as are interest costs during periods of construction. Depreciation is computed utilizing the straight-line method at rates estimated by management to amortize the cost of the various assets within the periods of expected use.

Goodwill and Other Intangible Assets

Goodwill results from the excess of the purchase price over the fair value of net assets of investments accounted for under the equity method and acquisitions accounted for as business combinations. Goodwill amounted to \$76,061,000 at September 30, 2017 and 2016, and is included in other assets on the consolidated balance sheets. The System prepares its annual impairment analysis as of March 31 of each fiscal year. The impairment test results did not identify any impairment in any of the years presented as of September 30, 2017 and 2016, respectively.

Investments in Related Parties

Investments in related parties in which the System owns or controls at least a 20% interest and less than a 50% voting interest are recorded using the equity method. Investments in related parties of less than a 20% interest are recorded using the cost method, and income is recognized only when cash dividends are received. Income or losses from equity investments and cash dividends received from cost method investments are included in other revenue.

Impairment of Long-Lived Assets

If indicators of impairment are present, the System evaluates the financial recoverability of long-lived assets by comparing their carrying value to the expected future undiscounted cash flows. If such evaluations indicate that the carrying value of the assets has been impaired, the assets are adjusted to their fair values. Additionally, long-lived assets held for sale are similarly evaluated by comparison of the carrying value to fair value less costs to sell. If the carrying value exceeds fair value less costs to sell, the assets are adjusted to fair value less costs to sell. Adjustments are reported as impairment expense. There was no impairment of long-lived assets in the years ended September 30, 2017 and 2016.

Orlando Health, Inc. and Controlled Affiliates

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

Unrestricted Gifts

Unconditional promises to give cash and other assets to the System are reported at fair value as of the date the promise is received. Unrestricted gifts are recognized in other revenue.

Donor-Restricted Gifts

Conditional promises to give and indications of intentions to give are reported at fair value as of the date the gift is received. Gifts are reported as either temporarily or permanently restricted contributions if they are received with donor stipulations that limit their use. Temporarily restricted net assets and the income from permanently restricted net assets are generally used for clinical department operational expenses and capital purchases. Permanently restricted net assets have been restricted by donors to be maintained by the System in perpetuity. When a stipulated time restriction ends or a restricted purpose is accomplished, temporarily restricted net assets are released from restrictions. Gifts restricted by time or operating purposes are held in temporarily restricted net assets until the funds are spent or at the end of time restrictions, at which time the funds are released and reported as net assets released from restrictions in the consolidated statement of operations and changes in net assets. Gifts restricted for property and equipment purchases are held in temporarily restricted net assets until spent, at which time they are released and reported as net assets released from restrictions for property and equipment in unrestricted changes in net assets. During the year ended September 30, 2016, the System recorded temporarily restricted grants of approximately \$75,200,000 from the West Orange Healthcare District (the District) to fund certain capital improvements at Health Central.

Orlando Health, Inc. and Controlled Affiliates

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

The following outlines the nature of restricted net assets. For permanently restricted gifts, only income is available to spend:

	September 30	
	2017	2016
	<i>(In Thousands)</i>	
Temporarily restricted net assets		
Operations	\$ 81,693	\$ 76,004
Property and equipment	83,534	94,250
Research, education, and other	8,895	9,286
	\$ 174,122	\$ 179,540
Permanently restricted net assets		
Operations	\$ 836	\$ 1,554
Research, education, and other	547	943
	\$ 1,383	\$ 2,497

Net Patient Service Revenue

The System has agreements with third-party payors that provide for payments to the System at amounts different from its established charges. Payment arrangements include prospectively determined rates per discharge, discounted charges, and percentages of Medicare fee schedules for physician services. The System also provides a 65% discount (75% for Health Central) from established charges to uninsured patients. Net patient service revenue is presented net of such discounts for uninsured patients that totaled approximately \$196,490,000 and \$207,174,000 for the years ended September 30, 2017 and 2016, respectively. The System has determined, based on an assessment at the reporting-entity level, that patient service revenue is primarily recorded prior to assessing the patient's ability to pay, and as such, the entire provision for bad debts is recorded as a deduction from net patient service revenue in the accompanying consolidated statements of operations and changes in net assets.

Net patient service revenue is reported at estimated net realizable amounts due from patients and third-party payors for medical services rendered and includes adjustments resulting from reviews and audits of prior year Medicare and Medicaid cost reports. Such adjustments are considered in the recognition and estimation of revenue in the current and future periods as the adjustments become known or as cost report years are no longer subject to such reviews and audits. The

Orlando Health, Inc. and Controlled Affiliates

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

combined effect from changes of all prior year cost report settlements and adjustments was an increase in net patient service revenue of approximately \$1,363,000 and \$3,538,000 for the years ended September 30, 2017 and 2016, respectively.

The percentage of estimated net patient service revenue (net of contractual allowances and discounts) by payor type based on primary insurance is presented below. Patient deductibles and co-pays, as well as accounts whose qualification for the Medicaid program is pending, are included in third-party payors amounts.

	Year Ended September 30	
	2017	2016
Third-party payors	97%	96%
Patients	3%	4%
	100%	100%

Approximately 24% of net patient service revenue was earned under the Medicare and Medicare HMO programs for the years ended September 30, 2017 and 2016, and 11% earned under state Medicaid and Medicaid HMO programs (including estimated revenue for patients whose qualification for the Medicaid program is pending) for the years ended September 30, 2017 and 2016. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is a reasonable possibility that recorded estimates will change by a material amount in the near term.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, participation requirements of government health care programs, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has continued with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs, together with the imposition of significant fines and penalties, as well as significant repayments for patient services, and could have a material impact on the consolidated financial statements.

Orlando Health, Inc. and Controlled Affiliates

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

The Centers for Medicare and Medicaid Services (CMS) utilizes Recovery Audit Contractors (RAC) to retroactively review the propriety of payments to hospitals and physicians for services rendered. During the RAC demonstration project, CMS began recouping amounts previously paid to the System based upon a review of medical records.

The System was a part of the demonstration project that reviewed claims from 2002 to 2006, and for 2008 claims, and is subject to the RAC program that was made permanent by Section 302 of the Tax Relief and Healthcare Act of 2006. The System considered its history of denied claims and successful appeals of previously denied claims in estimating its valuation allowances for exposure to RAC audits. The complexities of the Medicare program rules and the nature of the RAC audit process provide at least a reasonable possibility that the System's valuation allowances for exposure to the RAC audit may change in the near term. The effect of the RAC's recouping of amounts previously paid to the System, net of estimated amounts due, was a reduction in net patient service revenue of approximately \$7,448,000 for the year ended September 30, 2017 and a reduction in net patient service revenue of \$10,327,000 for the year ended September 30, 2016.

The System received \$1,294,000 and \$2,446,000 during the years ended September 30, 2017 and 2016, respectively, in incentives under the Medicare and Medicaid Electronic Medical Record incentive program as authorized by the Health Information Technology for Clinical Health Act (HITEC). The System adopted the gain contingency income recognition model for HITEC and recognizes income after the System has demonstrated meaningful use of certified electronic health record technology for the applicable compliance period and the cost report period that will be used to determine the final incentive payment has ended. The System defers income on its consolidated balance sheet for any incentive payments received, but not yet earned. All payments received to date have been earned and recognized as other revenue. Income from incentive payments is subject to retrospective adjustment as the incentive payments are calculated using Medicare cost report data that is subject to audit.

Orlando Health, Inc. and Controlled Affiliates

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

The System grants credit without collateral to its patients, most of whom are local residents, insured under third-party payor agreements. The mix of receivables from patients and third-party payors before allowances for doubtful accounts is as follows:

	September 30	
	2017	2016
Medicare	21%	20%
Medicaid	14	13
Other third-party payors	47	51
Patients	18	16

Allowances for Doubtful Accounts

The provision for bad debts is based upon management's assessment of historical and expected collections of accounts receivable considering business and economic conditions, trends in health care coverage, and other collection indicators. Accounts receivable are written off and charged to the provision for bad debts after collection efforts have been followed in accordance with the System's policies. Recoveries are treated as a reduction to the provision for bad debts.

Accounts receivable are reduced by an allowance for doubtful accounts. Periodically, management performs a review and assesses the adequacy of the allowance for uncollectible accounts based upon historical write-off experience by payor category.

Data related to payor sources of revenue and the results of this review are then used to establish an appropriate allowance for uncollectible receivables and provision for bad debts. Additionally, for receivables associated with services provided to patients who have third-party coverage, contractually due amounts are analyzed and compared to actual cash collected over time to enhance the quality of the estimate of the allowance for doubtful accounts and the provision for bad debts (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors 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), a significant allowance for doubtful accounts is recorded on the basis of historical experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible.

Orlando Health, Inc. and Controlled Affiliates

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

An estimate of the difference between contracted rates and amounts actually collected, after all reasonable collection efforts have been exhausted, is charged to the provision for bad debts and credited to the allowance for doubtful accounts.

Allowances for doubtful accounts increased \$17,670,000 during the year ended September 30, 2017, from \$142,734,000 at September 30, 2016, to \$160,404,000 at September 30, 2017. The allowance for doubtful accounts includes \$58,886,000 and \$51,852,000 in amounts due from third-party payors, including the patient responsibility portion included in these accounts at September 30, 2017 and 2016, respectively. The allowance for doubtful accounts for self-pay hospital patients as a percent of related self-pay accounts receivable was 95% and 93% at September 30, 2017 and 2016.

The provision for bad debts decreased from \$181,450,000 for the year ended September 30, 2016, to \$144,060,000 for the year ended September 30, 2017. During the year ended September 30, 2017, the System determined there were a significant number of previously reserved patient accounts that qualified for charity status, and approximately \$30 million was reclassified from the provision for bad debt to charity care. Accordingly, during 2017, the related amounts were reclassified from the provision for bad debts to charity care, resulting in a reduction to the provision for bad debt and an increase in charity care. In addition, the System made policy changes that allowed for additional patient accounts to be reviewed under the System's charity care policy. This change is not expected to have an impact on net patient service revenue less provision for bad debts because charity services are not recorded as revenue.

Charity Care

The System provides care to patients who meet certain criteria under its charity care policy at no charge or at amounts less than its established charges. Because the System does not pursue collection of amounts determined to qualify as charity care, such amounts are excluded from net patient service revenue. Patients are eligible for charity care if their documented household income is less than 200% of the federal poverty level guidelines, or the amount of their medical bill is more than 25% of their annual household income and their household income does not exceed 400% of the federal poverty level guidelines. Charity care is provided to all patients meeting these criteria.

Orlando Health, Inc. and Controlled Affiliates

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

Charity care provided was approximately 5% of total services rendered during the years ended September 30, 2017 and 2016, based on total charges for all services in those years. The estimated cost of charity care delivered was approximately \$105,580,000 and \$92,503,000 during the years ended September 30, 2017 and 2016, respectively. Cost is estimated based on the System's ratio of expenses to established patient service charges.

Estimated Malpractice Costs

The provision for estimated medical malpractice expense is an estimate of the ultimate cost of reported claims and claims incurred, but not reported.

Derivative Instruments and Hedging Activities

The System has entered into derivative transactions in the form of interest rate swap agreements which it uses to manage the relative amounts of fixed and variable rate long-term debt exposure. The interest rate swap agreements are contracts between the System and a third-party (counterparty) that provide for economic payments between the parties based on specified notional amounts and defined interest rates. The interest rate swap agreements are exposed to counterparty credit risk, which is the risk that contractual obligations of the counterparty will not be fulfilled. All realized and unrealized interest rate swap agreement gains and losses are included in nonoperating gains and losses on the consolidated statements of operations and changes in net assets. Collateral posted under interest rate swap contracts is recorded gross of the related asset or liability and classified as assets limited as to use when held by the counterparty and as other noncurrent liability when held by the System.

Functional Expenses

The System does not present expense information by functional classification since substantially all of its activities and resources are derived from the provision of health care services in a manner similar to that of a business enterprise. Other financial indicators included in these consolidated financial statements are important in evaluating how well management has discharged its stewardship responsibilities.

Orlando Health, Inc. and Controlled Affiliates

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

Excess of Revenues, Other Support, and Gains Over Expenses and Losses

The consolidated statements of operations and changes in net assets include excess of revenues, other support, and gains over expenses and losses, which is analogous to income from continuing operations for a for-profit enterprise. Nonoperating gains and losses represent activities peripheral to direct patient care services and include investment income, change in fair value of interest rate swap agreements, and loss on early extinguishment of debt. Changes in unrestricted net assets that are excluded from excess of revenues, other support, and gains over expenses and losses, consistent with industry practice, primarily include contributions of long-lived assets, including assets acquired using contributions, which by donor restriction were to be used for the purposes of acquiring such assets.

3. Fair Value Measurements

The System follows ASC Topic 820, *Fair Value Measurement (ASC 820)*, which provides a framework for measuring the fair value of certain assets and liabilities and disclosures about fair value measurements. As defined in ASC 820, 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. ASC 820 establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement).

Certain of the System's financial assets and financial liabilities are measured at fair value on a recurring basis, including money market, fixed income and equity instruments, and interest rate swap agreements. The three levels of the fair value hierarchy defined by ASC 820 and a description of the valuation methodologies used for instruments measured at fair value are as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities as of the reporting date.

Level 2 – Observable pricing inputs other than quoted prices included within Level 1, including quoted market prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs other than quoted prices that are observable or are derived principally from, or corroborated by, observable market data by correlation or other means.

Orlando Health, Inc. and Controlled Affiliates

Notes to Consolidated Financial Statements (continued)

3. Fair Value Measurements (continued)

Level 3 – Unobservable pricing inputs that are supported by little or no market activity, are significant to the fair value of the assets or liabilities, and reflect our own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument in accordance with the provisions of ASC 820:

Cash and cash equivalents: The carrying amount reported in the consolidated balance sheets approximates fair value.

Short-term investments, long-term investments, and assets limited as to use: The carrying amount reported in the consolidated balance sheets is fair value, based on quoted market prices, or estimated using quoted market prices for similar securities.

Investments in related parties: The fair value of investments in related parties is not practicable to estimate due to the uncertainty regarding the timing of future payments.

Long-term debt: Fair value of fixed rate debt is estimated based on applicable quoted interest rate yield curves applied to the outstanding issues as of the end of each period. The carrying value of variable rate debt approximates its fair value.

Interest rate swap agreements: Assets are included in other assets, and liabilities are included in other noncurrent liabilities. Estimates are based on quoted market prices or estimated based on derivative pricing models that involve adjusting the periodic mid-market values to incorporate nonperformance risk of the System when the financial instrument is a liability or the nonperformance risk of the counterparty when the financial instrument is an asset.

Deferred compensation plans: Investments held in conjunction with the System's 457(b) and 409(a) deferred compensation plans amount to approximately \$28,656,000 as of September 30, 2017, and are included in other assets. These investments are valued using unadjusted quoted prices in active markets and are considered Level 1 assets.

The derivative valuations determined by mid-market quotations are considered Level 2 assets or liabilities since quoted prices can be obtained from a number of dealer counterparties and other independent market sources based on observable interest rates and yield curves for the full term of the asset or liability.

Orlando Health, Inc. and Controlled Affiliates

Notes to Consolidated Financial Statements (continued)

3. Fair Value Measurements (continued)

The estimated fair value of interest rate swap agreements that hedge interest rate fluctuations on variable rate bonds and loans is presented below. These amounts are included in other noncurrent liabilities in the accompanying consolidated balance sheets.

	<u>Asset (Liability)</u>	
	<u>September 30</u>	
	<u>2017</u>	<u>2016</u>
	<i>(In Thousands)</i>	
2011 swaps	\$ (30,559)	\$ (42,964)
2008E swap	(5,358)	(8,247)

The following table represents the fair value hierarchy of the System's financial assets and liabilities measured at fair value using the market approach as of September 30, 2017 (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets				
Mutual funds	\$ 643,316	\$ –	\$ –	\$ 643,316
Equity securities	57,471	–	–	57,471
U.S. corporate bonds	–	132,849	–	132,849
U.S. Treasury and agency obligations	12,182	100,245	–	112,427
International bonds	–	484	–	484
Mortgage-backed obligations	–	36,771	–	36,771
Municipal bonds	–	948	–	948
Cash and cash equivalents	26,191	–	–	26,191
Real estate investment trusts	–	20	–	20
	<u>\$ 739,160</u>	<u>\$ 271,317</u>	<u>\$ –</u>	<u>\$ 1,010,477</u>
Investments measured at net asset value				340,281
Interest rate swap contract collateral				14,258
Total financial assets at fair value				<u>\$ 1,365,016</u>
Financial liabilities				
Interest rate swap agreements	\$ –	\$ 35,917	\$ –	\$ 35,917
	<u>\$ –</u>	<u>\$ 35,917</u>	<u>\$ –</u>	<u>\$ 35,917</u>

Orlando Health, Inc. and Controlled Affiliates

Notes to Consolidated Financial Statements (continued)

3. Fair Value Measurements (continued)

The following table represents the fair value hierarchy of the System's financial assets and liabilities measured at fair value using the market approach as of September 30, 2016 (in thousands):

	Level 1	Level 2	Level 3	Total
Financial assets				
Mutual funds	\$ 535,492	\$ –	\$ –	\$ 535,492
Equity securities	49,855	–	–	49,855
U.S. corporate bonds	–	82,186	–	82,186
U.S. Treasury and agency obligations	1,223	102,995	–	104,218
International bonds	–	–	–	–
Mortgage-backed obligations	–	14,099	–	14,099
Municipal bonds	–	1,107	–	1,107
Cash and cash equivalents	47,208	–	–	47,208
Real estate investment trusts	–	–	–	–
	<u>\$ 633,778</u>	<u>\$ 200,387</u>	<u>\$ –</u>	<u>\$ 834,165</u>
Investments measured at net asset value				275,777
Interest rate swap contract collateral				29,395
Total financial assets at fair value				<u>\$ 1,139,337</u>
Financial liabilities				
Interest rate swap agreements	\$ –	\$ 51,211	\$ –	\$ 51,211
	<u>\$ –</u>	<u>\$ 51,211</u>	<u>\$ –</u>	<u>\$ 51,211</u>

Total financial assets at fair value of \$1,365,000 and \$1,139,000 as of September 30, 2017 and 2016, respectively, is composed of the following financial statement captions within the consolidated balance sheets: Debt service and reserve funds held by bond trustee, Interest rate swap contract collateral, Malpractice self-insurance, Long-term investments – unrestricted and Long-term investments – restricted.

Orlando Health, Inc. and Controlled Affiliates

Notes to Consolidated Financial Statements (continued)

3. Fair Value Measurements (continued)

The following table shows the System's investments in commingled funds by asset class along with commitments and redemption ability as of September 30, 2017 (in thousands):

	Net Asset Value	Redemption Frequency	Redemption Notice Period
Equity Fund – Large Cap Core (a)	\$ 132,252	Daily	2 days
Equity Fund – International Large Cap (b)	11,512	Daily	30 days
Hedge fund – Absolute Return (c)	62,722	Monthly	5 days
Real Estate – Real Assets (d)	27,640	Quarterly	45 days
Real Estate – Real Assets (e)	1,546	Quarterly	60 days
International Small Cap – Ltd Ptnrship (f)	25,486	Monthly	30 days
High Yield Bond Ltd Ptnrship (g)	12,901	Monthly	10 days
Small/Mid-Cap LLC (h)	66,222	Monthly	5 days
	\$ 340,281		

The following table shows the System's investments in commingled funds by asset class along with commitments and redemption ability as of September 30, 2016 (in thousands):

	Net Asset Value	Redemption Frequency	Redemption Notice Period
Equity Fund – Large Cap Core (a)	\$ 108,804	Daily	2 days
Equity Fund – International Large Cap (b)	2,360	Daily	30 days
Hedge fund – Absolute Return (c)	55,457	Monthly	5 days
Real Estate – Real Assets (d)	27,375	Quarterly	45 days
Real Estate – Real Assets (e)	4,733	Quarterly	60 days
International Small Cap – Ltd Ptnrship (f)	21,971	Monthly	30 days
High Yield Bond Ltd Ptnrship (g)	12,082	Monthly	10 days
Small/Mid-Cap LLC (h)	42,995	Monthly	5 days
	\$ 275,777		

(a) This fund provides passive exposure to the U.S. equity market and is a low-cost index replicator. The fair value of the investment in this fund has been estimated using the net asset value of the System's interest in this fund.

Orlando Health, Inc. and Controlled Affiliates

Notes to Consolidated Financial Statements (continued)

3. Fair Value Measurements (continued)

- (b) This fund invests in international large cap equities and seeks to diversify the growth portfolio beyond U.S. macro economic factors. The fair value of the investment in this fund has been estimated using the net asset value of the System's interest in this fund.
- (c) This fund is a global absolute return hedge fund of funds. They provide an absolute return that exceeds that of the fixed income oriented investments with less risk than growth assets. The fair value of the investment in this fund has been estimated using the net asset value of the System's interest in this fund.
- (d) & (e) These real asset funds have holdings including but not limited to apartment building and office building properties. These properties are located throughout the U.S. They are intended to protect the real value of the portfolio. When inflation increases the nominal value of the dollar, assets in this category should also increase in value. The funds portfolio construction makes them a diversifier to other core funds. The fair value of the investments in these groups have been estimated using the net asset values of the System's interest in these funds.
- (f) This international small cap stock limited partnership has a value-aware approach to stock picking. The fair value of the investments in this fund has been estimated using the net asset value of the System's interest in this limited partnership.
- (g) This fund is a high yield bond limited partnership and provides the growth portfolio with return-enhancing characteristics and diversifies by investing in assets with modest correlation to both equity and fixed income. This fund attempts to avoid absolute risk through disciplined credit analysis. The fair value of the investment in this fund has been estimated using the net asset value of the System's interest in this limited partnership.
- (h) This small/mid cap fund enhances returns by focusing on smaller cap U.S. companies. The fair value of the investment in this fund has been estimated using the net asset value of the System's interest in this LLC.

Orlando Health, Inc. and Controlled Affiliates

Notes to Consolidated Financial Statements (continued)

4. Investments

Investment income consists of the following:

	Year Ended September 30	
	2017	2016
	<i>(In Thousands)</i>	
Interest and dividend income	\$ 24,826	\$ 17,717
Change in unrealized gains and losses	50,228	33,089
Net realized gains on sales of securities	8,509	12,796
	<u>\$ 83,563</u>	<u>\$ 63,602</u>

5. Investments in Related Parties

OsceolaSC, LLC

On February 1, 2006, the System sold the property and equipment of St. Cloud Hospital to OsceolaSC partnership, in which the System holds a 20% interest. As a result of this transaction, the property and equipment of St. Cloud Hospital were released from the mortgage securing repayment of Orlando Health's bond issues. The System's equity investment in OsceolaSC is included in investments in related parties and amounted to \$12,628,000 and \$12,800,000 at September 30, 2017 and 2016, respectively. Earnings on the investment before cash distributions are included in other revenue and amounted to \$1,705,000 and \$1,296,000 for the years ended September 30, 2017 and 2016, respectively.

South Lake

Effective October 1, 1995, the System entered into an arrangement with South Lake County Hospital District (the South Lake District), whereby the two entities formed South Lake, a Section 501(c)(3) not-for-profit corporation. Under the terms of the joint venture, the South Lake District leased its hospital assets to South Lake for 99 years. The System invested \$7,400,000 with the South Lake District for the purpose of establishing a new foundation for health and other charitable services to South Lake County and invested \$500,000 with South Lake. In exchange for the cash invested with the South Lake District, the System received an option to purchase the leased assets and transfer them to South Lake at any time throughout the 99-year lease period. These amounts are included in investments in related parties in the consolidated financial statements. The System has no rights to the profits or obligations for the losses of South

Orlando Health, Inc. and Controlled Affiliates

Notes to Consolidated Financial Statements (continued)

5. Investments in Related Parties (continued)

Lake. The System agreed to extend a line of credit, not to exceed \$7,400,000 to South Lake, if needed, with repayments including interest at the prime rate. The System provided management services to South Lake in the amount of \$6,200,000 and \$6,000,000 during 2017 and 2016, respectively, at cost according to the terms of a Management Agreement.

On May 14, 2010, South Lake issued \$34,330,000 of Revenue Bonds, Series 2010 (2010 Bonds), and used the proceeds to refund its Revenue Bonds, Series 1999 (1999 Bonds), for the purpose of reducing future debt service. The System guarantees the 2010 Bonds as it did the 1999 Bonds. As of September 30, 2017, \$29,730,000 of the 2010 Bonds was outstanding. As of January 22, 2018, no payments have ever been made or requested under the line of credit or guaranty, and in the opinion of management of the System, no funding of such guaranteed indebtedness will be necessary.

6. Property and Equipment

Property and equipment consist of the following:

	September 30	
	2017	2016
	<i>(In Thousands)</i>	
Land and improvements	\$ 145,207	\$ 134,725
Buildings	1,002,808	969,294
Equipment	1,803,306	1,669,547
	2,951,321	2,773,566
Less: Accumulated depreciation	(1,700,038)	(1,566,812)
	1,251,283	1,206,754
Construction-in-progress	50,616	54,346
	\$ 1,301,899	\$ 1,261,100

Construction

Construction-in-progress represents numerous construction and renovation projects. Estimated costs to complete these projects as of September 30, 2017, are approximately \$156,177,000, which includes \$12,606,000 for DPH Oncology Regional Care Center, \$5,383,000 for Sunrise

Orlando Health, Inc. and Controlled Affiliates

Notes to Consolidated Financial Statements (continued)

6. Property and Equipment (continued)

Clinical Manager system at Health Central, \$37,691,000 for a free-standing emergency department and medical office building in the Horizon West area, \$22,803,000 for the Health Central Cancer Center, and \$32,985,000 for an on-campus skilled nursing facility at Health Central. Projects will be funded through operating cash flow and pledges received.

Equipment includes approximately \$19,322,000 of costs associated with information system projects-in-progress at September 30, 2017. Estimated costs to complete these projects as of September 30, 2017, are approximately \$14,681,000, and are expected to be paid from future cash flow or unrestricted cash on hand.

Lucerne Facility

During the year ended September 30, 2014, the acute care hospital operations of Lucerne were consolidated into the main buildings of ORMC. The inpatient acute care portion of Lucerne ceased operations, but the remaining building continued operating as a rehabilitation center, and the process for selling the Lucerne facility commenced. In January 2014, a developer began negotiations to purchase the Lucerne facility that involved two closings over approximately two years. During the year ended September 30, 2015, the proposed sale of the Lucerne facility did not occur, but the acute inpatient portion of the property was demolished as planned. As a result, the property was divided into a parcel of vacant land to be held for sale, and a parcel with a building to continue being held and used. In March 2015, the vacant land being held for sale was reclassified to assets held for sale. At September 30, 2016, the fair value of assets held for sale was \$8,596,000. In October 2016, a portion of the land was retained and reclassified to property and equipment for \$1,750,000. The remaining property was sold in November 2016 for \$8,767,000, resulting in a gain of \$1,921,000.

Leases

The System leases property and equipment for a variety of purposes under operating leases. Operating lease expense is classified as supplies and other expenses and amounted to \$29,268,000 and \$23,448,000 for the years ended September 30, 2017 and 2016, respectively.

Assets capitalized under capital leases as reflected in the accompanying consolidated balance sheets were \$21,000,000 and \$0 of buildings and fixed equipment at September 30, 2017 and 2016, respectively. The accumulated depreciation related to assets under capital leases was \$817,000 and \$0 at September 30, 2017 and 2016, respectively. Depreciation of assets under capital leases is included in depreciation expense.

Orlando Health, Inc. and Controlled Affiliates

Notes to Consolidated Financial Statements (continued)

7. Long-Term Debt

Long-term debt consists of the following:

	September 30	
	2017	2016
	<i>(In Thousands)</i>	
Fixed Rate Hospital Revenue Bonds – secured		
Series 2016A – plus net unamortized premium and issuance costs of \$27,338,000 and \$28,864,000 at September 30, 2017 and September 30, 2016, respectively; interest rates from 3.0% to 5.0%, payable through 2041	\$ 201,053	\$ 202,579
Series 2016B (Orlando Health Central) – plus net unamortized premium and issuance costs of \$3,886,000 and \$4,025,000 at September 30, 2017 and September 30, 2016, respectively; interest rates from 4.0% to 5.0%, payable 2045 through 2046	70,461	70,600
Series 2016C (Orlando Health Central) – less unamortized issuance costs of \$1,118,000 and \$1,158,000 at September 30, 2017 and September 30, 2016, respectively; interest rates of 4.416%, payable 2044 through 2045	73,347	73,307
Series 2012A and B – plus net unamortized premium and issuance costs of \$3,238,000 and \$3,368,000 at September 30, 2017 and September 30, 2016, respectively; interest rates from 4.0% to 5.0%, payable through 2043	188,113	188,242
Series 2009 – less net unamortized premium and issuance costs of \$88,000 and \$98,000 at September 30, 2017 and September 30, 2016; respectively; interest rates from 4.5% to 5.375%, payable through 2027	161,221	173,942
Series 2008A and B – less net unamortized premium and issuance costs of \$1,215,000 and \$1,327,000 at September 30, 2017 and September 30, 2016, respectively; interest rates from 4.0% to 5.25%, payable through 2036; Series 2008A and B were partially advance refunded as of April 2016	81,795	83,583
Series 1996A and Series 1996C – plus net unamortized premium and issuance costs of \$130,000 and \$238,000 at September 30, 2017 and September 30, 2016, respectively; interest rate of 6.25%, payable through 2022	41,855	45,448
Variable rate hospital revenue bonds – secured		
Series 2011 – interest rates of 1.6813% and 1.1957% at September 30, 2017 and September 30, 2016, respectively, less unamortized issuance costs of \$252,000 and \$263,000 at September 30, 2017 and September 30, 2016, respectively, payable 2027 through 2041	82,923	82,912
Series 2008E – interest rates of 0.93% and 0.95% at September 30, 2017 and September 30, 2016, respectively, less unamortized issuance costs of \$198,000 and \$220,000 at September 30, 2017 and September 30, 2016, respectively, payable through 2026	49,842	51,710
Notes payable and other indebtedness		
Capital lease obligations and other notes	32,082	8,155
Total debt, net of unamortized premiums, discounts and issuance costs	982,692	980,478
Less current portion	(23,288)	(20,860)
Total long-term debt	\$ 959,404	\$ 959,618

Orlando Health, Inc. and Controlled Affiliates

Notes to Consolidated Financial Statements (continued)

7. Long-Term Debt (continued)

Aggregate principal amounts of long-term debt outstanding, excluding premiums, discounts, and issuance costs, are due during the following years ending September 30: \$23,288,000 in 2018, \$24,977,000 in 2019, \$26,110,000 in 2020, \$27,387,000 in 2021, \$27,558,000 in 2022, and \$817,684,000 thereafter.

Master Trust Indenture

Orlando Health along with Health Central comprise the Obligated Group created under the Master Trust Indenture. The Obligated Group is obligated for the payment of principal and premium, if any, and interest on any outstanding bonds or debt issued under the Master Trust Indenture, and is subject to any other obligation or restriction set forth in any agreement, note, or indenture entered into or issued by the Obligated Group in connection with the issuance of any debt or related obligations issued under the Master Trust Indenture.

An Amended and Restated Master Indenture (Master Indenture), dated as of August 1, 1999, was executed by Orlando Health. All obligations issued under the Master Indenture are equally and ratably secured by (i) a mortgage on substantially all Orlando Health real property and a security interest in certain tangible personal property of the Obligated Group pursuant to a Mortgage and Security Agreement, dated as of August 1, 1999, by the Obligated Group in favor of the Master Trustee, and (ii) a pledge of the accounts (as defined in Article 9 of the Florida Uniform Commercial Code) and the Gross Revenue of the Obligated Group. The Master Indenture provides for specific restrictive covenants, including a debt service coverage requirement. Financial information of the Obligated Group is included in the Supplementary Information appearing on pages 39 and 40.

Hospital Revenue Bonds, Series 2016A, B, and C

On April 27, 2016, the Orange County Health Facilities Authority (Authority) issued \$173,715,000 and \$66,575,000 tax-exempt fixed rate bond obligations on behalf of the Obligated Group through its Series 2016A Bonds and Series 2016B Bonds, respectively. The proceeds of the Series 2016A Bonds were used to currently refund all of the outstanding Series 2006B Bonds, advance refund \$11,635,000 of the outstanding Series 2008A Bonds, advance refund \$43,855,000 of the Series 2008B Bonds, and advance refund all of the Series 2008C Bonds. The proceeds of the Series 2016B Bonds were used by Health Central to refinance \$70,645,000 of the

Orlando Health, Inc. and Controlled Affiliates

Notes to Consolidated Financial Statements (continued)

7. Long-Term Debt (continued)

\$141,120,000 outstanding on the note payable to the West Orange Healthcare District. At the same time, the Obligated Group issued \$74,465,000 of taxable fixed rate bond obligations through its Series 2016C Bonds. The proceeds of this bond obligation issue were used to refinance the remaining balance of the note payable to the West Orange Healthcare District. The System recorded a loss from early extinguishment of debt of \$16,442,000, which is included in nonoperating gains and losses in the consolidated statement of operations and changes in net assets.

Hospital Revenue Bonds, Series 2008E

The Series 2008E bonds are supported by an irrevocable letter of credit with Branch Banking and Trust Company, which has an expiration date of June 18, 2020.

Hospital Revenue Bonds, Series 2011

On September 15, 2011, the Orange County Health Facilities Authority (Authority) issued \$83,175,000 of variable rate Hospital Revenue Bonds (2011 Bonds) on behalf of Orlando Health. The proceeds from the sale of the 2011 Bonds and \$7,239,000 of remaining 2007A Bonds debt service reserve funds were used to currently refund the 2007A Bonds and pay the costs of issuance of the 2011 Bonds. The 2011 Bonds were issued as tax-exempt, multi-modal bonds, initially operating in bank purchase mode, and privately placed with SunTrust Bank (Bank). As initially issued, the 2011 Bonds bear interest at a variable index interest rate which approximates 68% of 30-day LIBOR, plus 84 basis points.

The initial interest rate may be adjusted due to changes in the maximum individual federal income tax rate, and other regulatory changes affecting the cost of the loan to the Bank. On September 22, 2015, the Bank notified Orlando Health and the trustee that it elected not to tender the bonds on the Scheduled Mandatory Purchase Date in September 2016, and the next Mandatory Purchase Date will be the First Business Day of September 2019. Upon mandatory tender for purchase, Orlando Health may convert to another available interest rate mode.

During the initial interest rate period, the 2011 Bonds are subject to optional redemption at the direction of Orlando Health at par on each interest payment date. Interest is payable monthly.

Orlando Health, Inc. and Controlled Affiliates

Notes to Consolidated Financial Statements (continued)

7. Long-Term Debt (continued)

Note Payable to the District

On April 1, 2012, Orlando Health Central, Inc. (OHC) issued an \$181,300,000 note payable to the District to finance the acquisition of Health Central. Payment of the note payable was guaranteed by Orlando Health. The guaranty is secured by a note under the Master Trust Indenture which was secured by a mortgage on Orlando Health's real property. This note was refinanced by the Series 2016B and Series 2016C Bonds.

Capital Lease Obligations

Capital lease obligations account for \$24,837,000 and \$0 of Capital lease obligations and other notes at September 30, 2017 and 2016, respectively. During 2017, the System recognized a capital lease commitment for a new ambulatory building.

Interest Rate Swap Agreements

In an effort to reduce costs of issuance and take advantage of low interest rates in effect at various times, Orlando Health has entered into interest rate swap arrangements that fix the interest rate on portions of variable rate bonds. The notional amounts under interest rate swap agreements hedging bonds are substantially the same as the principal maturities of the respective outstanding bond series. The construction loan swap hedged the majority of the construction loan at the maximum loan amount. Net interest receipts and payments are recognized as an adjustment to interest expense or as capitalized interest during periods of construction. The interest rate swap agreements are not accounted for under hedge accounting criteria. Therefore, changes in the value of these swaps are included in changes in fair value of interest rate swap agreements on the consolidated statements of operations and changes in net assets.

Collateral was required and posted on the 2011 swaps in the amount of \$14,258,000 and \$29,395,000 at September 30, 2017 and 2016, respectively, and is included in the interest rate swap contract collateral in assets limited as to use.

Orlando Health, Inc. and Controlled Affiliates

Notes to Consolidated Financial Statements (continued)

7. Long-Term Debt (continued)

The following summarizes outstanding swap positions as of September 30, 2017:

	2008E Swap	2011 Swaps
	<i>(Dollars in Thousands)</i>	
Initial notional amount	\$ 55,000	\$ 90,000
Notional amount at September 30, 2017	\$ 50,040	\$ 90,000
Current bond or loan hedged	2008E Bonds	2011 Bonds
Original bond or loan hedged	2006A Bonds	2007A1A2 Bonds
Maturity date	10/1/2026	10/1/2041
Fixed rate paid	3.425%	3.860%
Floating rate received	68% 30-day USD-LIBOR-BBA	68% 30-day USD-LIBOR-BBA

The following summarizes swap liability positions held during each year recorded within other noncurrent liabilities in the accompanying consolidated balance sheets:

	2008E Swap	2011 Swap	Total
	<i>(In Thousands)</i>		
Cumulative position at September 30, 2015	\$ (7,956)	\$ (33,323)	\$ (41,279)
Net losses during the year ended September 30, 2016	(291)	(9,641)	(9,932)
Cumulative position at September 30, 2016	(8,247)	(42,964)	(51,211)
Net gains during the year ended September 30, 2017	2,889	12,405	15,294
Cumulative position at September 30, 2017	\$ (5,358)	\$ (30,559)	\$ (35,917)

Orlando Health, Inc. and Controlled Affiliates

Notes to Consolidated Financial Statements (continued)

7. Long-Term Debt (continued)

Interest Costs

During periods of construction, interest costs on construction borrowings are capitalized to the respective property accounts. Capitalized interest is reduced by earnings on the investments held by the bond trustee for construction. Capitalized interest costs amounted to \$1,016,000 and \$1,696,000 for the years ended September 30, 2017 and 2016, respectively. The total of interest cost expensed and capitalized approximates interest paid.

Fair Value

The estimated fair value of the System's long-term debt was approximately \$1,014,104 and \$1,035,338 at September 30, 2017 and 2016, respectively. The following tables provide information about long-term debt.

At September 30, 2017, the fair values are as follows:

	Fair Value	Carrying Value
	<i>(In Thousands)</i>	
Fixed rate hospital revenue bonds – secured	\$ 843,920	\$ 817,845
Variable rate hospital revenue bonds – secured	133,215	132,765
Notes payable and other indebtedness	36,969	32,082
	\$ 1,014,104	\$ 982,692

At September 30, 2016, the fair values are as follows:

	Fair Value	Carrying Value
	<i>(In Thousands)</i>	
Fixed rate hospital revenue bonds – secured	\$ 893,350	\$ 837,701
Variable rate hospital revenue bonds – secured	133,215	134,622
Notes payable and other indebtedness	8,773	8,155
	\$ 1,035,338	\$ 980,478

Orlando Health, Inc. and Controlled Affiliates

Notes to Consolidated Financial Statements (continued)

8. Lines of Credit

During the year ended September 30, 2015, a new line of credit of \$4,500,000 was provided by a local bank to OHRI, LLC, a new Controlled Affiliate described below, of which the System guarantees 51%. Interest on the line of credit is variable based on the bank's prime rate. The loan matures and is due March 2, 2018. As of September 30, 2017, \$3,748,000 of the line had been drawn and is classified as other current liabilities.

9. Employee Retirement Plans

The System has defined contribution retirement plans. Certain employees of the System are eligible to participate in 401(a) and 403(b) plans, and certain PAL employees are eligible to participate in a 401(k) plan. Most plan participants may elect to contribute up to the lesser of \$18,000 or 50% of their annual compensation. For most plan participants, upon completion of one year of continuous service and having worked 1,000 hours or more, the System contributes 1.25% of the participants' compensation plus 50% of the participants' contributions up to 3% of the participants' compensation. The System's expense under the employee retirement plans amounted to \$28,059,000 and \$26,337,000 for the years ended September 30, 2017 and 2016, respectively.

The System maintains deferred compensation plans for key management or highly compensated employees. The plans are intended to be nonqualified and unfunded and provide for the deferral of salary and through additional discretionary system matching contributions. In 2017, the System revised its accounting for its 457(b) and 409(a) deferred compensation plans resulting in an increase in other assets and other noncurrent liabilities in the amounts of \$16,800,000 and \$4,900,000, respectively, as of the beginning of the year. These amounts were not previously recognized in the consolidated balance sheet, and management believes the impact of such revision is immaterial to prior and current periods.

10. Malpractice Insurance

The System is self-insured for medical malpractice risk not covered under a commercial malpractice policy. Losses are accrued based on estimates provided by an independent actuary, and are based on actuarial assumptions that incorporate the System's past experience and other considerations, including the nature of each claim or incident, and relevant trends. The accrued liability for self-insured claims amounted to \$131,472,000 and \$122,471,000 at September 30, 2017 and 2016, respectively, of which \$26,294,000 and \$24,494,000 are included in other

Orlando Health, Inc. and Controlled Affiliates

Notes to Consolidated Financial Statements (continued)

10. Malpractice Insurance (continued)

current liabilities. The System has on deposit, in a revocable trust, cash and investments totaling \$13,428,000 and \$12,417,000 at September 30, 2017 and 2016, respectively, to be used for the payment of self-insured claims in the future. The System does not have any claims that are discounted.

For claims occurring after April 1, 2012, Health Central is covered under the System's medical malpractice policy and self-insured malpractice fund. Any liabilities associated with the operations of Health Central subsequent to April 1, 2012, are included in the amounts noted above. The West Orange Healthcare District (District) has retained the medical malpractice liability for Health Central events occurring prior to closing of the Health Central transaction. The District is a governmental entity and is protected to a large extent by sovereign immunity protection against liability claims. The System is not liable for any Health Central-related events occurring prior to April 1, 2012.

11. Commitments

The System leases equipment and space under operating leases with various lease terms. Aggregate future minimum lease payments, anticipated future lease payments on optional renewals, and estimated variable costs under these leases total \$146,222,000 and are payable during the following years ending September 30: \$23,457,000 in 2018, \$23,093,000 in 2019, \$22,205,000 in 2020, \$22,437,000 in 2021, \$22,512,000 in 2022, and \$32,518,000 thereafter.

On September 1, 2011, the System employed a group of physicians and entered into employment agreements with the physicians for a period of seven years. On September 30, 2014, there was a remaining commitment of \$25,380,000 to be paid on these contracts. On September 30, 2015, notice of termination was issued, with an effective date of March 31, 2016, for termination of the employment agreements. As a result, the System accrued the remaining commitment and recorded salary expense of \$15,887,000 in 2015. The System made payments of \$7,944,000 to the physicians during 2017. Approximately \$3,972,000 is outstanding as of September 30, 2017, all of which is a current liability. The liability will be paid over the remaining six months.

On March 18, 2015, Orlando Health entered into an agreement to purchase a medical office building for \$6,538,000, of which \$538,000 was paid on March 20, 2015. The transaction is not expected to close until May 1, 2019, at which time, the remaining \$6,000,000 will be paid.

Orlando Health, Inc. and Controlled Affiliates

Notes to Consolidated Financial Statements (continued)

12. Acquisitions

Imaging Centers

On November 21, 2014, the System and an unrelated party created OHRI, whose purpose is to operate imaging centers. The System holds a 51% interest in OHRI. Effective December 1, 2014, the System invested \$1,530,000 and its minority owner invested \$1,470,000 toward the \$11,209,000 purchase price of five imaging centers. In order to finance the remaining balance and fund initial operations, OHRI received an \$8,500,000 seven-year bank loan, of which 51% is guaranteed by the System. The new entity also received a bank line of credit of \$4,500,000, of which the System guarantees 51%. Since the System owns a controlling interest in OHRI, all of its assets, liabilities, net assets, and results are included in these consolidated financial statements. The purchase resulted in the addition of \$11,500,000 in total assets (of which \$291,000 was cash, \$1,650,000 fixed assets, and \$9,559,000 goodwill), \$8,500,000 in long-term debt, and \$3,000,000 of unrestricted net assets.

Surgical Center

On June 11, 2014, the System invested approximately \$1,410,000 in Orlando Health/USP Surgery Centers, LLC (OHUSP), an entity formed in December 2013, in which the System held a 50.1% interest. OHUSP then purchased a 51.0% interest in University Surgical Center, Ltd (UCS). UCS is the owner of an outpatient surgery center, which is its only operation. The System effectively owned a 25.6% interest in the outpatient surgery center. Since the System owned a controlling interest in OHUSP, all of its assets, liabilities, net assets, and operations were included in these consolidated financial statements through October 1, 2015. The adjusted opening balance sheet of OHUSP includes \$5,240,000 in total assets (of which \$4,064,000 is goodwill), \$1,417,000 of liabilities (including \$1,017,000 of redeemable noncontrolling interest), and \$3,823,000 of unrestricted net assets (of which \$1,009,000 is non-redeemable noncontrolling interest).

On October 1, 2015, an amended operating agreement was executed that provided for the sale of 0.2% of the System's interest in OHUSP and termination of the management subcontract, thereby reducing its interest in OHUSP to a noncontrolling 49.9%. Accordingly, the accounts of OHUSP, including \$5,052,000 of total assets, of which \$4,064,000 was goodwill, are no longer consolidated in the financial statements of the System as of September 30, 2017.

Orlando Health, Inc. and Controlled Affiliates

Notes to Consolidated Financial Statements (continued)

13. Subsequent Events

In preparing these consolidated financial statements, the System has evaluated events and transactions for potential recognition and disclosure through January 22, 2018, the date the consolidated financial statements were available to be issued.

Effective October 1, 2017, the System completed a transaction with Lakeland Regional Health Systems, Inc. (LRHS) to create an integrated regional health care system. The System obtained control through a member substitution arrangement whereby the System became the sole corporate member of LRHS without the transfer of consideration. LRHS is a private not-for-profit health system located in Lakeland, Florida, consisting of Lakeland Regional Medical Center (849 beds), the Hollis Cancer Center, and outpatient service locations.

The determination of the fair value of the underlying assets acquired and liabilities assumed and any inherent contribution or goodwill is subject to a formal valuation process, which has not yet been completed. The major classes of assets and liabilities acquired will include cash, investments, patient receivables, property, equipment, trade payables, and debt. LRHS has consolidated revenue of \$759,000,000 (unaudited) for the year ended September 30, 2017, and consolidated net assets of \$854,000,000 (unaudited) as of September 30, 2017. The System's first quarter fiscal 2018 operating results will include the results from LRHS following the date of acquisition. Based on the timing of the acquisition and lack of available information, the System has determined it to be impracticable to disclose a preliminary fair value allocation or pro forma financial information at this time.

Supplementary Information

Orlando Health, Inc. and Controlled Affiliates

Consolidating Balance Sheet

(In Thousands)

September 30, 2017

	Consolidated	Eliminations	Controlled Affiliates	Combined Obligated Group	Obligated Group Eliminations	Orlando Health	Orlando Health Central Obligated Group Component
Assets							
Current assets:							
Cash and cash equivalents	\$ 358,845	\$ –	\$ 18,358	\$ 340,487	\$ –	\$ 336,148	\$ 4,339
Assets limited as to use	38,701	–	–	38,701	–	38,701	–
Accounts receivable, net	297,845	–	28,488	269,357	–	242,949	26,408
Other receivables	40,033	(24,766)	16,893	47,906	(2,783)	37,853	12,836
Inventory	51,355	–	2,094	49,261	–	48,184	1,077
Other current assets	36,690	–	651	36,039	–	34,054	1,985
Total current assets	823,469	(24,766)	66,484	781,751	(2,783)	737,889	46,645
Assets limited as to use:							
Debt service and reserve funds held by bond trustee	43,932	–	–	43,932	–	40,869	3,063
Interest rate swap contract collateral receivable	14,258	–	–	14,258	–	14,258	–
Malpractice self-insurance	13,428	–	–	13,428	–	13,428	–
	71,618	–	–	71,618	–	68,555	3,063
Less amount required to meet current obligation	(38,701)	–	–	(38,701)	–	(38,701)	–
	32,917	–	–	32,917	–	29,854	3,063
Long-term investments – unrestricted	1,185,747	–	–	1,185,747	–	1,103,758	81,989
Long-term investments – restricted	107,651	–	107,651	–	–	–	–
Investments in related parties	37,499	(55,922)	81,526	11,895	–	11,895	–
Other assets	268,259	(134,690)	98,171	304,778	–	239,974	64,804
Property and equipment, net	1,301,899	–	23,012	1,278,887	–	1,090,846	188,041
Total assets	\$ 3,757,441	\$ (215,378)	\$ 376,844	\$ 3,595,975	\$ (2,783)	\$ 3,214,216	\$ 384,542
Liabilities and net assets							
Current liabilities							
Accounts payable and accrued expenses	\$ 256,546	\$ –	\$ 32,261	\$ 224,285	\$ –	\$ 209,387	\$ 14,898
Other current liabilities	122,718	(23,684)	27,856	118,546	(2,783)	108,091	13,238
Current portion of long-term debt	23,288	–	1,284	22,004	–	22,004	–
Total current liabilities	402,552	(23,684)	61,401	364,835	(2,783)	339,482	28,136
Long-term debt, less current portion	959,404	–	5,692	953,712	–	809,904	143,808
Accrued malpractice claims	105,178	–	–	105,178	–	105,178	–
Other noncurrent liabilities	96,935	(31,057)	46,527	81,465	–	81,305	160
Total liabilities	1,564,069	(54,741)	113,620	1,505,190	(2,783)	1,335,869	172,104
Net assets							
Unrestricted:							
Orlando Health, Inc. and Controlled Affiliates	2,018,745	(55,923)	148,602	1,926,066	–	1,778,683	147,383
Noncontrolling interest in Controlled Affiliates	(878)	–	(878)	–	–	–	–
Total unrestricted	2,017,867	(55,923)	147,724	1,926,066	–	1,778,683	147,383
Temporarily restricted	174,122	(103,718)	113,877	163,963	–	98,908	65,055
Permanently restricted	1,383	(996)	1,623	756	–	756	–
Total net assets	2,193,372	(160,637)	263,224	2,090,785	–	1,878,347	212,438
Total liabilities and net assets	\$ 3,757,441	\$ (215,378)	\$ 376,844	\$ 3,595,975	\$ (2,783)	\$ 3,214,216	\$ 384,542

Orlando Health, Inc. and Controlled Affiliates

Consolidating Statement of Operations
(In Thousands)

Year Ended September 30, 2017

	Consolidated	Eliminations	Controlled Affiliates	Combined Obligated Group	Obligated Group Eliminations	Orlando Health	Orlando Health Central Obligated Group Component
Unrestricted revenues and other support							
Net patient service revenue (net of contractual allowances and discounts)	\$ 2,687,080	\$ –	\$ 322,326	\$ 2,364,754	\$ –	\$ 2,138,491	\$ 226,263
Provision for bad debts	(144,060)	–	(18,634)	(125,426)	–	(100,277)	(25,149)
Net patient service revenue less provision for bad debts	2,543,020	–	303,692	2,239,328	–	2,038,214	201,114
Other revenue	130,085	(67,543)	83,951	113,677	(1,819)	109,827	5,669
Net assets released from restrictions	5,784	(6,247)	6,262	5,769	–	5,769	–
Total unrestricted revenues and other support	2,678,889	(73,790)	393,905	2,358,774	(1,819)	2,153,810	206,783
Expenses							
Salaries and benefits	1,407,648	–	388,663	1,018,985	–	914,504	104,481
Supplies and other	846,087	(60,903)	101,949	805,041	(1,819)	737,654	69,206
Professional fees	38,830	(6,469)	10,474	34,825	–	31,257	3,568
Depreciation and amortization	125,821	–	6,594	119,227	–	107,452	11,775
Interest	43,094	–	478	42,616	–	36,588	6,028
Total expenses	2,461,480	(67,372)	508,158	2,020,694	(1,819)	1,827,455	195,058
Income (loss) from operations	217,409	(6,418)	(114,253)	338,080	–	326,355	11,725
Nonoperating gains and losses							
Investment income	83,563	–	6,803	76,760	–	71,170	5,590
Change in fair value of interest rate swap agreements	15,294	–	–	15,294	–	15,294	–
Nonoperating gain	13,576	–	–	13,576	–	13,576	–
Nonoperating gains, net	112,433	–	6,803	105,630	–	100,040	5,590
Excess (deficiency) of revenues, other support, and gains over expenses and losses	\$ 329,842	\$ (6,418)	\$ (107,450)	\$ 443,710	\$ –	\$ 426,395	\$ 17,315

Orlando Health, Inc. and Controlled Affiliates

Orlando Health Central, Inc. Consolidating Balance Sheet

(In Thousands)

September 30, 2017

	Orlando Health Central	Health Central	Health Central Park	Other Non- Hospital Health Services
Assets				
Current assets:				
Cash and cash equivalents	\$ 4,271	\$ (59)	\$ 4,398	\$ (68)
Accounts receivable, net	26,803	23,723	2,684	396
Other receivables	12,835	12,749	86	–
Inventory	1,077	1,077	–	–
Other current assets	2,015	1,943	42	30
Total current assets	47,001	39,433	7,210	358
Long-term investments – unrestricted	81,989	81,989	–	–
Other assets	67,867	67,867	–	–
Property and equipment, net	188,041	179,529	8,512	–
Total assets	\$ 384,898	\$ 368,818	\$ 15,722	\$ 358
Liabilities and net assets				
Current liabilities:				
Accounts payable and accrued expenses	\$ 17,371	\$ 16,433	\$ 751	\$ 187
Other current liabilities	10,951	10,843	108	–
Current portion of long-term debt	–	–	–	–
Total current liabilities	28,322	27,276	859	187
Long-term debt, less current portion	143,808	143,808	–	–
Other noncurrent liabilities	160	160	–	–
Total liabilities	172,290	171,244	859	187
Net assets:				
Unrestricted	147,553	132,620	14,762	171
Temporarily restricted	65,055	64,954	101	–
Total net assets	212,608	197,574	14,863	171
Total liabilities and net assets	\$ 384,898	\$ 368,818	\$ 15,722	\$ 358

Orlando Health, Inc. and Controlled Affiliates

Orlando Health Central, Inc. Consolidating Statement of Operations
(In Thousands)

Year Ended September 30, 2017

	Orlando Health Central	Health Central	Health Central park	Other Non- Hospital Health Services
Unrestricted revenues and other support				
Net patient service revenue (net of contractual allowances and discounts)	\$ 233,483	\$ 196,101	\$ 22,556	\$ 14,826
Provision for bad debts	(25,028)	(24,000)	(745)	(283)
Net patient service revenue less provision for bad debts	208,455	172,101	21,811	14,543
Other revenue	6,173	5,307	118	748
Total unrestricted revenues and other support	214,628	177,408	21,929	15,291
Expenses				
Salaries and benefits	111,159	89,629	13,422	8,108
Supplies and other	72,257	58,915	6,915	6,427
Professional fees	3,750	2,283	30	1,437
Depreciation and amortization	12,104	11,056	425	623
Interest	6,028	6,028	-	-
Total expenses	205,298	167,911	20,792	16,595
Income (loss) from operations	9,330	9,497	1,137	(1,304)
Nonoperating gains				
Investment income	5,590	5,589	1	-
Nonoperating gains, net	5,590	5,589	1	-
Excess (deficit) of revenues other support, and gains over expenses and losses	\$ 14,920	\$ 15,086	\$ 1,138	\$ (1,304)

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