Grant Thornton

Consolidated Financial Statements and Report of Independent Certified Public Accountants

Orlando Health, Inc. and Controlled Affiliates

September 30, 2016, 2015 and 2014

Contents

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors
Orlando Health, Inc.

Report on the financial statements

We have audited the accompanying consolidated financial statements of Orlando Health, Inc. and Controlled Affiliates (a nonprofit organization) (the "System"), which comprise the consolidated balance sheets as of September 30, 2016, 2015 and 2014, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the System's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Orlando Health, Inc. and Controlled Affiliates as of September 30, 2016, 2015 and 2014, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other matters

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 as of September 30, 2016 and the related consolidating statement of operations for the year then ended and Orlando Health Central, Inc.'s consolidating balance sheet as of September 30, 2016 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 supplementary 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. These additional procedures included comparing and reconciling the 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 of America. In our opinion, the supplementary 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 have also issued our report, dated December 7, 2016, 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 the effectiveness of 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.

Grant Thornton LLP

Orlando, Florida
December 7, 2016

Orlando Health, Inc. and Controlled Affiliates
Consolidated Balance Sheets
(In Thousands)

	September 30, 2016	2015	2014
Assets			
Current assets:			
Cash and cash equivalents	**$ 270,712**	$ 133,415	$ 98,269
Short-term investments	**100**	237,563	198,999
Assets limited as to use	**36,805**	37,048	53,957
Accounts receivable, less allowances for uncollectible accounts of $142,734 in 2016, $162,928 in 2015, and $142,941 in 2014	**298,939**	291,992	265,215
Other receivables	**49,132**	50,766	28,682
Other current assets	**66,053**	62,068	53,080
Total current assets	**721,741**	812,852	698,202
Assets limited as to use:			
Debt service and reserve funds held by bond trustee	**41,668**	54,151	55,560
Interest rate swap contract collateral	**29,395**	18,002	8,793
Malpractice self-insurance	**12,417**	12,029	83,263
	83,480	84,182	147,616
Less amount required to meet current obligations	**(36,805)**	(37,048)	(53,957)
	46,675	47,134	93,659
Assets held for sale	**8,596**	8,596	–
Long-term investments – unrestricted	**971,900**	676,170	574,880
Long-term investments – restricted	**83,957**	70,324	71,997
Investments in related parties	**25,274**	23,319	24,520
Other assets	**237,580**	167,008	150,619
Property and equipment, net	**1,261,100**	1,227,052	1,164,713
Total assets	**$ 3,356,823**	$ 3,032,455	$ 2,778,590
Liabilities and net assets			
Current liabilities:			
Accounts payable and accrued expenses	**$ 234,460**	$ 219,402	$ 196,112
Other current liabilities	**108,594**	76,898	60,398
Current portion of long-term debt	**20,860**	30,133	28,303
Total current liabilities	**363,914**	326,433	284,813
Long-term debt, less current portion	**959,618**	982,278	1,003,854
Accrued malpractice claims	**97,977**	86,735	86,197
Other noncurrent liabilities	**80,413**	78,738	53,750
Total liabilities	**1,501,922**	1,474,184	1,428,614
Net assets:			
Unrestricted			
Orlando Health, Inc. and Controlled Affiliates	**1,671,804**	1,439,659	1,257,067
Non-controlling interest in Controlled Affiliates	**1,060**	3,745	2,473
Total unrestricted	**1,672,864**	1,443,404	1,259,540
Temporarily restricted	**179,540**	112,373	87,971
Permanently restricted	**2,497**	2,494	2,465
Total net assets	**1,854,901**	1,558,271	1,349,976
Total liabilities and net assets	**$ 3,356,823**	$ 3,032,455	$ 2,778,590

The accompanying notes are an integral part of these consolidated financial statements.

Orlando Health, Inc. and Controlled Affiliates
Consolidated Statements of Operations and Changes in Net Assets
(In Thousands)

	Years Ended September 30,		
	2016	**2015**	**2014**
Unrestricted revenues and other support			
Net patient service revenue (net of contractual allowances and discounts)	**$ 2,507,482**	$ 2,311,582	$ 2,130,900
Provision for bad debts	**(181,450)**	(112,793)	(120,019)
Net patient service revenue less provision for bad debts	**2,326,032**	2,198,789	2,010,881
Other revenue	**124,794**	119,622	103,668
Net assets released from restrictions	**5,096**	5,156	4,052
Total unrestricted revenues and other support	**2,455,922**	2,323,567	2,118,601
Expenses			
Salaries and benefits	**1,276,382**	1,202,884	1,112,691
Supplies and other	**802,197**	747,664	695,579
Professional fees	**39,318**	38,098	34,465
Depreciation and amortization	**119,734**	109,650	103,356
Impairment	**–**	–	3,170
Interest	**45,565**	44,422	42,060
Total expenses	**2,283,196**	2,142,718	1,991,321
Income from operations	**172,726**	180,849	127,280
Non-operating gains and losses			
Investment income (loss)	**63,602**	(7,827)	36,494
Change in fair value of interest rate swap agreements	**(9,932)**	(10,592)	(2,514)
Loss on early extinguishment of debt	**(16,442)**	–	–
Non-operating gains (losses), net	**37,228**	(18,419)	33,980
Excess of revenues, other support, and gains over expenses and losses	**209,954**	162,430	161,260
Less: Excess of revenues, other support, and gains over expenses and losses attributed to non-controlling interests in Controlled Affiliates	**(448)**	(550)	(422)
Excess of revenues, other support, and gains over expenses and losses attributed to Orlando Health, Inc. and Controlled Affiliates	**209,506**	161,880	160,838

Continued on next page.

Orlando Health, Inc. and Controlled Affiliates
Consolidated Statements of Operations and Changes in Net Assets (continued)
(In Thousands)

	Years Ended September 30,		
	2016	**2015**	**2014**
Unrestricted net assets			
Excess of revenues, other support, and gains over expenses and losses	**$ 209,954**	$ 162,430	$ 161,260
Other changes in unrestricted net assets:			
Net assets released from restrictions for property and equipment	**22,895**	20,773	12,724
Deconsolidation of controlling interest in OH/USP Surgery Centers	**(3,679)**	-	-
Other	**290**	661	1,987
Increase in unrestricted net assets	**229,460**	183,864	175,971
Temporarily restricted net assets			
Contributions	**93,948**	51,808	16,960
Net assets released from restrictions	**(27,991)**	(25,929)	(16,776)
Net realized and unrealized gains (losses) on investments	**1,401**	(1,282)	1,823
Other	**(191)**	(195)	(415)
Increase in temporarily restricted net assets	**67,167**	24,402	1,592
Permanently restricted net assets			
Contributions	**2**	24	–
Net realized and unrealized gains on investments	**1**	5	1
Increase in permanently restricted net assets	**3**	29	1
Increase in net assets	**296,630**	208,295	177,564
Net assets at beginning of year	**1,558,271**	1,349,976	1,172,412
Net assets at end of year	**$ 1,854,901**	$ 1,558,271	$ 1,349,976

The accompanying notes are an integral part of these consolidated financial statements.

Orlando Health, Inc. and Controlled Affiliates
Consolidated Statements of Cash Flows
(In Thousands)

	Years Ended September 30,		
	2016	**2015**	**2014**
Operating activities			
Increase in net assets	**$ 296,630**	$ 208,295	$ 177,564
Adjustments to reconcile increase in net assets to net cash provided by operating activities:			
Depreciation and amortization	**119,734**	109,650	103,356
Change in value of interest rate swap agreements	**9,932**	10,592	2,514
Net unrealized (gains) losses on investments	**(33,089)**	35,592	(12,221)
Loss on early extinguishment of debt	**16,442**	–	–
Impairment	**–**	–	3,170
Restricted grant from the District	**(75,200)**	(27,538)	–
Deconsolidation of OH/USP Surgery Centers	**3,679**	-	-
Restricted contributions and investment income	**(19,961)**	(22,822)	(18,369)
Sales (purchases) of short-term trading securities, net	**241,800**	(40,419)	27,517
Changes in operating assets and liabilities:			
Accounts receivable, net	**(7,165)**	(26,515)	(6,177)
Other operating assets	**(2,559)**	(10,328)	2,690
Accounts payable and accrued expenses	**15,203**	22,647	32,618
Other operating liabilities	**35,761**	31,360	5,040
Net cash provided by operating activities	**601,207**	290,514	317,702
Investing activities			
Purchases of property, equipment and other noncurrent assets	**(154,344)**	(178,503)	(192,330)
Acquisition of OHRI imaging centers	**–**	(11,209)	–
Acquisition of physician practice	**–**	(1,360)	–
Acquisition of OH/USP Surgery Centers	**–**	–	(1,410)
(Increase) decrease in assets limited as to use	**(16,207)**	62,336	72,282
Purchase of trading securities, net of sales	**(281,146)**	(132,017)	(159,531)
Other investing activities	**(1,371)**	2,853	(8,544)
Net cash used in investing activities	**(453,068)**	(257,900)	(289,533)
Financing activities			
Proceeds from issuance of long-term debt	**350,661**	8,500	–
Refunding and repayments of long-term debt	**(396,157)**	(28,790)	(27,013)
Proceeds from debt service reserve fund liquidation	**17,424**	–	–
Bond proceeds used for loan costs	**(2,731)**	–	–
Restricted contributions and investment income	**19,961**	22,822	18,369
Net cash (used in) provided by financing activities	**(10,842)**	2,532	(8,644)
Increase in cash and cash equivalents	**137,297**	35,146	19,525
Cash and cash equivalents at beginning of year	**133,415**	98,269	78,744
Cash and cash equivalents at end of year	**$ 270,712**	$ 133,415	$ 98,269

The accompanying notes are an integral part of these consolidated financial statements.

1. Organization

Orlando Health, Inc. (Orlando Health) is a not-for-profit corporation and along with Orlando Health Central, Inc. (Health Central) comprise the Obligated Group. Orlando Health is recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code, which controls a diversified healthcare delivery system headquartered in Orlando, Florida. Orlando Health includes the following hospitals operating in Central Florida: Orlando Regional Medical Center (ORMC), which included the Lucerne Pavilion (Lucerne) that closed during 2014, Dr. P. Phillips Hospital, Arnold Palmer Hospital for Children (APH), Winnie Palmer Hospital for Women and Babies (WPH), and South Seminole 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 healthcare-related services, including physician practice groups (Orlando Health Physician Group, Inc., Orlando Physician Network, Inc., Orlando Cancer Center, Inc. (dba UF Health Cancer Center at Orlando Health), Physician Associates, LLC (PAL), OHRI, LLC (OHRI), which operates five imaging centers, a group purchasing organization, a fund-raising organization (Orlando Health Foundation, Inc.) and other healthcare-related services. 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, nor rights and obligations to profits and losses, the accounts of South Lake are excluded from the consolidated financial statements.

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 to improve financial reporting by creating common revenue recognition guidance for US 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, 2018, including interim periods within that reporting period. Early application is not permitted. An entity will apply the amendments in this update using either a full retrospective application, which applies the standard to each prior period presented, or under the modified retrospective application, in which an entity recognizes the cumulative effect of initially applying the new standard as an adjustment to the opening balance sheet of retained earnings at the date of initial application. Revenue in periods presented before that date will continue to be reported under guidance in effect before the change. Currently, the American Institute of Certified Public Accountants Healthcare Revenue Recognition Task Force is interpreting this standard and its effects on the health care industry.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which requires that most leased assets be recognized on the balance sheet as assets and liabilities for the rights and obligations created by these leases. This standard is effective for fiscal years beginning after December 15, 2018. Early application is permitted. An entity is required to apply the

2. Significant Accounting Policies (continued)

amendments in the standard under the modified retrospective transition approach. This approach includes a number of optional practical expedients, which are described in the final standard. Under these practical expedients, an organization will continue to account for leases that commence before the effective date in accordance with current US GAAP, unless the lease is modified. However, lessees are required to recognize on the balance sheet leased assets and liabilities for operating leases at each reporting date.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. This standard intends to make certain improvements to the current reporting requirements for not-for-profit entities including: (1) the presentation for two classes of net assets at the end of the period, rather than the currently required three classes, as well as the annual change in each of the two classes; (2) the removal of the requirement to present or disclose the indirect method (reconciliation) when using the direct method for the statement of cash flows; and (3) the requirement to provide various enhanced disclosures relating to various not-for-profit specific topics. The new standard is effective for annual financial statements beginning after December 15, 2017.

The System has not determined the impact of these new standards at this time.

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 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.

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.

Income Taxes

Orlando Health and substantially all of its Controlled Affiliates are not-for-profit corporations, recognized as tax-exempt under Section 501(a) as an organization described in Sections 501(c)(3) and 501(e) of the Internal Revenue Code of 1986, as amended. Certain of the Controlled Affiliates are organized as for-profit corporations, but have produced net operating losses to date. Accordingly, in accordance with the Income Taxes Topic of the FASB Accounting Standards Codification, these entities have recognized deferred tax assets associated with their net operating losses, along with a full valuation allowance since it is more likely than not that these deferred tax assets will be realized.

Assets Limited as to Use

Assets limited as to use primarily include assets held by trustees under bond indenture agreements, and assets whose use is limited due to statutory requirements of the State of Florida for future malpractice claims. The Board of Directors retains control of, and may use these designated assets for other purposes. Amounts required to meet related current liabilities are reported as current.

2. Significant Accounting Policies (continued)

Restricted Investments

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

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, $80,373,000, and $69,684,000 at September 30, 2016, 2015, and 2014, respectively, 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.

A physician practice acquisition investment during the year ended September 30, 2015 resulted in $1,494,000 of goodwill. The OHRI imaging centers investment during the year ended September 30, 2015 resulted in $9,094,000 of goodwill. The Orlando Health/USP Surgery Centers, LLC (OHUSP) investment during the year ended September 30, 2014 resulted in the recognition of $4,064,000 of goodwill and $139,000 of other intangible assets. 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 non-controlling 49.9%. Accordingly, the accounts of OHUSP, including $5,052,000 of total assets, including goodwill, are no longer consolidated in the financial statements of the System. The PAL acquisition that occurred December 12, 2012 resulted in the recognition of $33,500,000 of goodwill, $5,354,000 of other intangible assets and $9,985,000 of fixed assets. The other intangibles, which include medical records and the PAL trade name, are being amortized over 7 to 10 years.

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. During the year ended September 30, 2014, an impairment charge was recognized related to the Lucerne property, as described in Note 6 below. There was no impairment of long lived assets for the years ended September 30, 2016 or 2015.

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.

2. Significant Accounting Policies (continued)

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 statement of operations. 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 years ended September 30, 2016 and 2015, the System recorded temporarily restricted grants of approximately $75,200,000 and $27,538,000, respectively, from the West Orange Healthcare District (the District) to fund certain capital improvements at Health Central.

The following outlines the nature of restricted net assets. Only income from permanently restricted gifts is available to spend:

	September 30,		
	2016	**2015**	**2014**
		(In Thousands)	
Temporarily Restricted Net Assets			
Operations	**$ 76,004**	$ 63,883	$ 61,999
Property and equipment	**94,250**	39,012	14,170
Research, education and other	**9,286**	9,478	11,802
	179,540	112,373	87,971
Permanently Restricted Net Assets			
Operations	**1,554**	1,556	1,531
Research, education and other	**943**	938	934
	2,497	2,494	2,465
	$ 182,037	$ 114,867	$ 90,436

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. There are some minor per diem arrangements remaining after the Medicaid program moved to a prospective payment arrangement effective July 1, 2013. 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 $207,174,000, $166,470,000, and $141,133,000 for the years ended September 30, 2016, 2015, and 2014, 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

2. Significant Accounting Policies (continued)

periods as the adjustments become known or as cost report years are no longer subject to such reviews and audits. The combined effect from changes of all prior year cost report settlements and adjustments was an increase in net patient service revenue of approximately $3,538,000, $10,480,000, and $355,000 for the years ended September 30, 2016, 2015, and 2014, 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.

	Years Ended September 30,		
	2016	**2015**	**2014**
Third-party payors	**96%**	97%	96%
Patients	**4%**	3%	4%
	100%	100%	100%

Approximately 24%, 25%, and 25% of net patient service revenue was earned under the Medicare and Medicare HMO programs for the years ended September 30, 2016, 2015, and 2014, and 11%, 11%, and 13% was 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, 2016, 2015, and 2014, respectively. 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 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 will be 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 and other adjustments, net of estimated amounts due was a reduction in net patient service revenue of approximately $10,327,000 for the year ended September 30, 2016, an increase in net patient service revenue of $1,020,000 for the year ended September 30, 2015, and a reduction in net patient service revenue of $6,320,000 for the year ended September 30, 2014.

The System received $2,446,000, $4,559,000 and $6,791,000 during the years ended September 30, 2016, 2015 and 2014, 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 when the cash is received and the System has demonstrated meaningful use of certified electronic health record technology for the applicable period. The System defers income on its 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.

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,		
	2016	**2015**	**2014**
Medicare	**20%**	21%	23%
Medicaid	**13**	17	19
Other third-party payors	**51**	46	42
Patients	**16**	16	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 healthcare 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. 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 decreased $20,194,000 during the year ended September 30, 2016, from $162,928,000 at September 30, 2015, to $142,734,000 at September 30, 2016. The decrease in the allowance for doubtful accounts was primarily driven by stronger collections during the year ended September 30, 2016 in addition to less aged patient accounts with balances. The allowance for doubtful accounts includes $51,852,000, $79,087,000, and $67,799,000 in amounts due from third-party payors (including the patient responsibility portion included in these accounts) at September 30, 2016, 2015, and 2014, respectively. The allowance for doubtful accounts for self-pay hospital patients as a percent of related self-pay accounts receivable was 93%, 94%, and 95% at September 30, 2016, 2015, and 2014, respectively.

The provision for bad debts increased from $112,793,000 for the year ended September 30, 2015, to $181,450,000 for the year ended September 30, 2016. During the year ended September 30, 2015, the System determined there were a significant number of previously reserved patient accounts that qualified for charity status. Accordingly, during 2015 the related reserve was reclassified from the allowance for doubtful accounts to the allowance for charity care, resulting in a reduction to the provision for bad debts and a related direct reduction to net patient service revenue.

2. Significant Accounting Policies (continued)

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 (150% for Health Central), 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.

Charity care provided was approximately 5%, 5%, and 6% of total services rendered during the years ended September 30, 2016, 2015, and 2014, respectively, based on total charges for all services in those years. The estimated cost of charity care delivered was approximately $92,503,000, $101,176,000, and $114,898,000 during the years ended September 30, 2016, 2015, and 2014, 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 non-operating gains and losses on the consolidated statement 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 other noncurrent liability when held by the System.

Functional Expenses

The System does not present expense information by functional classification since all of its activities and resources are derived from the provision of healthcare 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.

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. Non-operating 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, 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 820 – *Fair Value Measurements and Disclosures*, 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.

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.

***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.

3. Fair Value Measurements (continued)

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.

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.

	Asset (Liability) September 30,		
	2016	**2015**	**2014**
		(In Thousands)	
2011 Swaps	**$ (42,964)**	$ (33,323)	$ (23,718)
2008E Swap	**(8,247)**	(7,956)	(6,970)

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:

	Level 1	Level 2	Level 3	Total
		(In Thousands)		
Financial Assets				
Mutual funds	$ 687,558	$ 12,082	$ -	$ 699,640
Equity securities	77,196	-	55,457	132,653
U. S. corporate bonds	-	82,186	-	82,186
U.S. Treasury and agency obligations	1,222	102,995	-	104,217
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	-	28,932	-	28,932
	$ 813,184	$ 241,401	$ 55,457	$ 1,110,042
Financial Liabilities				
Interest rate swap agreements	-	51,212	-	51,212
	$ -	$ 51,212	$ -	$ 51,212

The activity in level 3 financial assets during the year ended September 30, 2016 was as follows:

Level 3 Financial Assets *(in thousands)*	**Equity Securities**
Balance, September 30, 2015	$ -
Purchases of equity securities	56,450
Change in fair value	(993)
Balance, September 30, 2016	$ 55,457

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, 2015:

	Level 1	Level 2	Level 3	Total
		(In Thousands)		
Financial Assets				
Mutual Funds	$ 264,594	$ -	$ -	$ 264,594
Equity securities	139,612	-	-	139,612
U. S. corporate bonds	-	216,430	-	216,430
U.S. Treasury and agency obligations	-	231,782	-	231,782
International Bonds	48,222	1,108	-	49,330
Mortgage-backed obligations	-	46,515	-	46,515
Municipal bonds	-	34,890	-	34,890
Cash and cash equivalents	41,392	-	-	41,392
Real Estate investment trusts	-	25,692	-	25,692
	$ 493,820	$ 556,417	$ -	$ 1,050,237
Financial Liabilities				
Interest rate swap agreements	-	41,280	-	41,280
	$ -	$ 41,280	$ -	$ 41,280

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, 2014:

	Level 1	Level 2	Level 3	Total
		(In Thousands)		
Financial Assets				
Mutual Funds	$ 243,943	$ -	$ -	$ 243,943
Equity securities	167,281	-	-	167,281
U. S. corporate bonds	-	199,094	-	199,094
U.S. Treasury and agency obligations	-	251,258	-	251,258
International Bonds	-	6,716	-	6,716
Mortgage-backed obligations	-	43,204	-	43,204
Municipal bonds	-	32,027	-	32,027
Cash and cash equivalents	36,463	-	-	36,463
Real Estate investment trusts	-	4,712	-	4,712
	$ 447,687	$ 537,011	$ -	$ 984,698
Financial Liabilities				
Interest rate swap agreements	-	30,688	-	30,688
	$ -	$ 30,688	$ -	$ 30,688

4. Investments

Investment income (loss) is comprised of the following:

	Years Ended September 30,		
	2016	**2015**	**2014**
	(In Thousands)		
Interest and dividend income	**$ 17,717**	$ 16,321	$ 13,646
Change in unrealized gains and losses	**33,089**	(35,592)	12,221
Net realized gains on sales of securities	**12,796**	11,444	10,627
	$ 63,602	$ (7,827)	$ 36,494

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 $12,800,000, $12,255,000, and $13,448,000 at September 30, 2016, 2015, and 2014, respectively. Earnings on the investment before cash distributions are included in other revenue and amounted to $1,296,000, $1,782,000, and $834,000 for the years ended September 30, 2016, 2015, and 2014, 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 and jointly control 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 contributed $7,400,000 to the South Lake District for the purpose of establishing a new foundation for health and other charitable services to south Lake County and contributed $500,000 to South Lake. In exchange for the cash contribution to 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 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 provides management services to South Lake at cost according to the terms of a Management Agreement. During the years ended September 30, 2015 and 2014, the System amended the Management Agreement to provide that for certain months during those years South Lake would be under no obligation to reimburse the System for the cost of the management services. The cost of services provided, but not reimbursed was $3,161,000 and $3,215,000 for the years ended September 30, 2015 and 2014 respectively.

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, 2016, $30,750,000 of the 2010 Bonds was outstanding. As of December 7, 2016, there have never been any payments 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,		
	2016	**2015**	**2014**
	(In Thousands)		
Land and improvements	**$ 134,725**	$ 133,612	$ 130,544
Buildings	**969,294**	905,935	752,757
Equipment	**1,669,547**	1,579,154	1,398,092
	2,773,566	2,618,701	2,281,393
Less: Accumulated depreciation	**(1,566,812)**	(1,465,305)	(1,369,027)
	1,206,754	1,153,396	912,366
Construction-in-progress	**54,346**	73,656	252,347
	$ 1,261,100	$ 1,227,052	$ 1,164,713

Construction

Construction-in-progress represents numerous construction and renovation projects. Estimated costs to complete these projects as of September 30, 2016, are approximately $181,243,000, which includes $7,177,000 in remaining construction costs associated with the ORMC expansion and redevelopment project (ORMC Project) that is expected to be completed in December 2016, $9,129,000 for Sunrise Clinical Manager system at Health Central, $8,824,000 in remaining costs of a new $19,560,000 outpatient health pavilion construction project located near Health Central, $35,637,000 in remaining costs of $37,000,000 for a free standing emergency department and medical office building in the Horizons West area, $25,800,000 in remaining costs of a $28,000,000 Health Central Cancer Center and $34,621,000 in remaining costs of a $35,000,000 skilled nursing facility at Health Central. Equipment includes approximately $32,397,000 of costs associated with information system projects-in-progress at September 30, 2016. Estimated costs to complete these projects as of September 30, 2016 are approximately $19,052,000, 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. The sale required the System to demolish the acute care inpatient portion of the buildings, and the remaining land was expected to be sold in early 2015. The sale of the remaining Lucerne property was expected to be sold approximately one year later. Since the sale of both buildings was not expected to be completed within one year of the balance sheet date, the assets were not considered held for sale under ASC 360 at that time. The negotiated sale price indicated an impairment event in January 2014, as the proposed sale price was less than book value. An impairment charge of $3,170,000 was recognized at that time, and depreciation continued at a lower rate based on the new book value. At September 30, 2014, $16,453,000 in net book value of Lucerne assets to be sold were included as a component of property and equipment.

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 building to continue being held and used. In March, 2015, the vacant land being held for sale was reclassified to assets held for sale in the amount of $8,596,000, and the buildings and land being held for use has a book value of $7,533,000. At September 30, 2016, the fair value of assets held for sale was $8,596,000, which is based on the latest tentative sales contract with a third party, and assets held for use was $7,425,000. The transaction was consummated on November 30, 2016.

Operating 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 $23,448,000, $22,539,000, and $21,777,000 for the years ended September 30, 2016, 2015, and 2014, respectively.

7. Long-Term Debt

Long-term debt consists of the following:

	September 30, 2016	2015	2014
	(In Thousands)		
Fixed rate hospital revenue bonds – secured			
Series 2016A – plus net unamortized premium and issuance costs of $28,864,000, $0, and $0 at September 30, 2016, 2015, and 2014, respectively, interest rates from 3.0% to 5.0%, payable through 2041	**$ 202,579**	$ –	$ –
Series 2016B (Orlando Health Central) – plus net unamortized premium and issuance costs of $4,025,000, $0, and $0 at September 30, 2016, 2015, and 2014, respectively, interest rates from 4.0% to 5.0%, payable 2045 through 2046	**70,600**	–	–
Series 2016C (Orlando Health Central) – less unamortized issuance costs of $1,158,000, $0, and $0 at September 30, 2016, 2015, and 2014, respectively, interest rate of 4.416%, payable 2044 through 2045	**73,307**	–	–
Series 2012A and B – plus net unamortized premium and issuance costs of $3,368,000, $3,496,000 and $3,625,000 at September 30, 2016, 2015 and 2014, respectively, interest rates from 4.0% to 5.0%, payable through 2043	**188,242**	188,371	188,500
Series 2009 – less net unamortized premium and issuance costs of $98,000, $108,000 and $118,000 at September 30, 2016, 2015 and 2014, respectively, interest rates from 4.5% to 5.375%, payable through 2027	**173,942**	184,982	197,471
Series 2008A and B – less net unamortized premium and issuance costs of $1,327,000, $2,405,000 and $2,577,000 at September 30, 2016, 2015 and 2014, respectively, interest rates from 4.0% to 5.25%, payable through 2036. Series 2008A and B were partially advance refunded during April 2016	**83,583**	139,820	141,473
Series 2008C – less net unamortized discount and issuance costs of $0, $1,998,000, and $2,074,000 at September 30, 2016, 2015 and 2014, respectively, interest rates from 5.25% to 5.375%, payable 2029 through 2042. Series 2008C Bonds were advanced refunded during April 2016	–	78,227	78,151
Series 2006B – plus net unamortized premium and issuance costs of $0, $48,000 and $50,000 at September 30, 2016, 2015 and 2014, respectively, interest rates from 4.75% to 5.125%, payable 2034 through 2040. Series 2006B bonds were currently refunded during April 2016	–	74,698	74,700
Series 1996A and Series 1996C – plus net unamortized premium and issuance costs of $238,000, $357,000 and $485,000 at September 30, 2016, 2015 and 2014, respectively, interest rate of 6.25%, payable through 2022	**45,448**	49,352	53,045
Variable rate hospital revenue bonds – secured			
Series 2011 – interest rate of 1.1957% at September 30, 2016, less unamortized issuance costs of $263,000, $273,000 and $284,000 at September 30, 2016, 2015 and 2014, respectively, payable 2027 through 2041	**82,912**	82,902	82,891
Series 2008E – interest rate of 0.95%, less unamortized issuance costs of $220,000, $242,000 and $263,000 at September 30, 2016, 2015 and 2014, respectively, payable 2015 through 2026	**51,710**	53,888	53,867
Notes payable and other indebtedness			
Note Payable to the West Orange Healthcare District – secured, fixed rate issued at par, less unamortized issuance costs of $0, $458,000 and $498,000 at September 30, 2016, 2015 and 2014, respectively, interest rates from 2.452% to 4.68%, payable through 2027. Note paid in full during April 2016	–	151,012	161,087
Note payable to SunTrust Bank, interest rate of 3.98%, payable through 2022	**7,670**	8,413	–
Other	**485**	746	972
Total debt, net of unamortized premiums, discounts and issuance costs	**980,478**	1,012,411	1,032,157
Less current portion	**(20,860)**	(30,133)	(28,303)
Total long-term debt	**$ 959,618**	$ 982,278	$ 1,003,854

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: $20,860,000 in 2017, $22,691,000 in 2018, $24,231,000 in 2019, $25,280,000 in 2020, $26,469,000 in 2021 and $827,518,000 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 26 and 27.

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 $141,120,000 outstanding on the note payable to the 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 District. The System recorded a loss from early extinguishment of debt of $16,442,000 which is included in non-operating gains and losses in the consolidated statement of operations and changes in net assets.

Hospital Revenue Bonds, Series 1996A and C

As of September 30, 2016, $9,745,000 of the Series 1996A and C bonds remain outstanding, but Orlando Health is no longer the obligor as this portion was advanced refunded.

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, 2018.

Hospital Revenue Bonds, Series 2011

On September 15, 2011, the 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.

7. Long-Term Debt (continued)

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.

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.

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 Statement of Operations and Changes in Net Assets.

Collateral was required and posted on the 2011 swaps in the amount of $29,395,000, $18,002,000 and $8,793,000 at September 30, 2016, 2015 and 2014, respectively, and is included in the interest rate swap contract collateral in assets limited as to use.

The following summarizes outstanding swap positions as of September 30, 2016:

	2008E Swap	**2011 Swaps**
	(Dollars in Thousands)	
Initial notional amount	$ 55,000	$ 90,000
Notional amount at September 30, 2016	$ 51,930	$ 90,000
Current bond or loan hedged	2008E Bonds	2011 Bonds
Original bond or loan hedged	2006A Bonds	2007A1A2Bonds
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

7. Long-Term Debt (continued)

The following summarizes swap liability positions held during each year recorded within other noncurrent liabilities in the accompanying consolidating balance sheets (*dollars in thousands*):

	2008E Swap	2011 Swap	Total
Cumulative position at September 30, 2014	$ (6,970)	$ (23,718)	$ (30,688)
Net losses during the year ended September 30, 2015	(986)	(9,606)	(10,592)
Cumulative position at September 30, 2015	(7,956)	(33,324)	(41,280)
Net losses during the year ended September 30, 2016	**(291)**	**(9,641)**	**(9,932)**
Cumulative position at September 30, 2016	**$ (8,247)**	**$ (42,965)**	**$ (51,212)**

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 $1,696,000, $5,467,000, and $8,533,000 for the years ended September 30, 2016, 2015, and 2014, 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 $1,004,620,000, $1,174,257,000, and $1,190,345,000 at September 30, 2016, 2015, and 2014, respectively.

8. Lines of Credit

The System has a $10,000,000 line of credit with a bank as of September 30, 2016. Interest on the line of credit is based on LIBOR, adjusted monthly and payable quarterly. At September 30, 2016, none of the available line of credit had been drawn.

During the year ended September 30, 2015, a new line of credit of $4,500,000 was provided by a local bank to OHRI, 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 December 2, 2016, and OHRI is in the process of extending the line of credit. As of September 30, 2016, $2,293,000 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 401a and 403b plans, and certain PAL employees are eligible to participate in a 401k 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% (3% for Health Central participants) of the participants' compensation plus 50% of the participants' contributions up to 3% of the participant's compensation. The System's expense under the employee retirement plans amounted to $26,337,000, $24,411,000, and $24,267,000 for the years ended September 30, 2016, 2015, and 2014, respectively.

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 $122,471,000, $108,419,000, and $107,746,000 at September 30, 2016, 2015, and 2014, respectively, of which $24,494,000, $21,684,000, and $21,549,000 are included in other current liabilities. The System has on deposit, in a revocable trust, cash and investments totaling $12,417,000, $12,029,000, and $83,263,000 at September 30, 2016, 2015, and 2014, 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 OHC subsequent to April 1, 2012, are included in the amounts noted above. The District has retained the medical malpractice liability and has funded a self-insured reserve for Health Central events occurring prior to closing of the Health Central transaction and has retained a fund to pay such liabilities. 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 $109,148,000 and are payable during the following years ending September 30: $21,577,000 in 2017, $21,137,000 in 2018, $20,765,000 in 2019, $20,250,000 in 2020, $20,562,000 in 2021, and $4,857,000 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 $3,972,000 to the physicians during 2016. Approximately $11,915,000 is outstanding as of September 30, 2016, of which $7,943,000 is a current liability. The liability will be paid over the remaining 18 months.

On March 18, 2015, the System 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.

On March 23, 2015, the System entered into an agreement to lease a building that will be constructed by the owner and valued at $21,000,000. Construction is expected to be completed by early 2017. The lease is for 15 years beginning at construction completion. At that time, the lease will be capitalized. The building will be used for medical office space and other outpatient services.

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 line of credit with a bank 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 of operations are included in these consolidated financial statements.

12. Acquisitions (continued)

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 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 non-controlling interest), and $3,823,000 of unrestricted net assets (of which $1,009,000 is non-redeemable non-controlling 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 non-controlling 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, 2016.

13. Subsequent Events

In preparing these consolidated financial statements, the System has evaluated events and transactions for potential recognition and disclosure through December 7, 2016, the date the consolidated financial statements were available to be issued.

Supplementary Information

Orlando Health, Inc. and Controlled Affiliates
Consolidating Balance Sheet
September 30, 2016
(In Thousands)

	Consolidated	Eliminations	Obligated Group	Controlled Affiliates
Assets				
Current assets:				
Cash and cash equivalents	**$ 270,712**	$ –	$ 250,391	$ 20,321
Short-term investments	**100**	–	100	–
Assets limited as to use	**36,805**	–	36,805	–
Accounts receivable, net	**298,939**	–	269,445	29,494
Other receivables	**49,132**	(12,302)	37,967	23,467
Other current assets	**66,053**	–	62,490	3,563
Total current assets	**721,741**	(12,302)	657,198	76,845
Assets limited as to use:				
Debt service and reserve funds held by bond trustee	**41,668**	–	41,668	–
Interest rate swap contract collateral receivable	**29,395**	–	29,395	–
Malpractice self-insurance	**12,417**	–	12,417	–
	83,480	–	83,480	–
Less amount required to meet current obligations	**(36,805)**		(36,805)	–
	46,675	–	46,675	–
Assets held for sale	**8,596**	–	8,596	–
Long-term investments – unrestricted	**971,900**	–	971,900	–
Long-term investments – restricted	**83,957**	–	–	83,957
Investments in related parties	**25,274**	(58,066)	11,500	71,840
Other assets	**237,580**	(120,273)	268,410	89,443
Property and equipment, net	**1,261,100**	–	1,237,897	23,203
Total assets	**$ 3,356,823**	$ (190,641)	$ 3,202,176	$ 345,288
Liabilities and net assets				
Current liabilities:				
Accounts payable and accrued expenses	**$ 234,460**	$ –	$ 199,674	$ 34,786
Other current liabilities	**108,594**	(11,594)	101,151	19,037
Current portion of long-term debt	**20,860**	–	20,067	793
Total current liabilities	**363,914**	(11,594)	320,892	54,616
Long-term debt, less current portion	**959,618**	–	952,588	7,030
Accrued malpractice claims	**97,977**	–	97,977	–
Other noncurrent liabilities	**80,413**	(24,067)	79,019	25,461
Total liabilities	**1,501,922**	(35,661)	1,450,476	87,107
Net assets:				
Unrestricted:				
Orlando Health, Inc. and Controlled Affiliates	**1,671,804**	(58,067)	1,581,081	148,790
Noncontrolling interest in Controlled Affiliates	**1,060**	–	–	1,060
Total unresticted	**1,672,864**	(58,067)	1,581,081	149,850
Temporarily restricted	**179,540**	(94,803)	169,948	104,395
Permanently restricted	**2,497**	(2,110)	671	3,936
Total net assets	**1,854,901**	(154,980)	1,751,700	258,181
Total liabilities and net assets	**$ 3,356,823**	$ (190,641)	$ 3,202,176	$ 345,288

Orlando Health, Inc. and Controlled Affiliates
Consolidating Statement of Operations
Year Ended September 30, 2016
(In Thousands)

	Consolidated	Eliminations	Obligated Group	Controlled Affiliates
Unrestricted revenues and other support				
Net patient service revenue (net of contractual allowances and discounts)	**$ 2,507,482**	$ –	$ 2,183,712	$ 323,770
Provision for bad debts	**(181,450)**	–	(150,407)	(31,043)
Net patient service revenue less provision for bad debts	**2,326,032**	–	2,033,305	292,727
Other revenue	**124,794**	(57,192)	107,157	74,829
Net assets released from restrictions	**5,096**	(9,477)	5,096	9,477
Total unrestricted revenues and other support	**2,455,922**	(66,669)	2,145,558	377,033
Expenses				
Salaries and benefits	**1,276,382**	–	917,259	359,123
Supplies and other	**802,197**	(53,115)	756,189	99,123
Professional fees	**39,318**	(5,613)	33,601	11,330
Depreciation and amortization	**119,734**	–	113,402	6,332
Interest	**45,565**	–	45,172	393
Total expenses	**2,283,196**	(58,728)	1,865,623	476,301
Income (loss) from operations	**172,726**	(7,941)	279,935	(99,268)
Nonoperating gains and losses				
Investment income (loss)	**63,602**	–	59,541	4,061
Loss on interest rate swap agreements	**(9,932)**	–	(9,932)	–
Loss on early extinguishment of debt	**(16,442)**	–	(16,442)	–
Nonoperating gains (losses), net	**37,228**	–	33,167	4,061
Excess (deficiency) of revenues, other support, and gains over expenses and losses	**$ 209,954**	$ (7,941)	$ 313,102	$ (95,207)

Orlando Health, Inc. and Controlled Affiliates
Orlando Health Central, Inc. Consolidating Balance Sheet
September 30, 2016
(In Thousands)

	Orlando Health Central	Health Central	Health Central Park	Other Non-Hospital Health Services
Assets				
Current assets:				
Cash and cash equivalents	**$ 4,475**	$ 3,224	$ 1,334	$ (83)
Accounts receivable, net	**27,197**	23,614	2,506	1,077
Other receivables	**13,777**	13,769	8	–
Other current assets	**3,317**	3,227	58	32
Total current assets	**48,766**	43,834	3,906	1,026
Long-term investments – unrestricted	**76,400**	76,400	–	–
Other assets	**77,964**	77,964	–	–
Property and equipment, net	**172,655**	163,924	8,731	–
Total assets	**$ 375,785**	$ 362,122	$ 12,637	$ 1,026
Liabilities and net assets				
Current liabilities:				
Accounts payable and accrued expenses	**$ 20,143**	$ 18,416	$ 1,187	$ 540
Other current liabilities	**18,558**	18,492	66	–
Current portion of long-term debt	**–**	–	–	–
Total current liabilities	**38,701**	36,908	1,253	540
Long-term debt, less current portion	**143,907**	143,907	–	–
Total liabilities	**182,608**	180,815	1,253	540
Net assets:				
Unrestricted	**113,024**	101,154	11,384	486
Temporarily restricted	**80,153**	80,153	–	–
Total net assets	**193,177**	181,307	11,384	486
Total liabilities and net assets	**$ 375,785**	$ 362,122	$ 12,637	$ 1,026

Orlando Health, Inc. and Controlled Affiliates
Orlando Health Central, Inc. Consolidating Statement of Operations
Year Ended September 30, 2016
(In Thousands)

	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)	**$ 232,649**	$ 180,391	$ 21,185	$ 31,073
Provision for bad debts	**(33,737)**	(22,248)	(923)	(10,566)
Net patient service revenue less provision for bad debts	**198,912**	158,143	20,262	20,507
Other revenue	**8,213**	6,003	86	2,124
Total unrestricted revenues and other support	**207,125**	164,146	20,348	22,631
Expenses				
Salaries and benefits	**106,221**	79,778	12,475	13,968
Supplies and other	**71,382**	56,871	6,392	8,119
Professional fees	**2,848**	2,186	26	636
Depreciation and amortization	**9,900**	8,858	453	589
Interest	**6,005**	6,005	–	–
Total expenses	**196,356**	153,698	19,346	23,312
Income from operations	**10,769**	10,448	1,002	(681)
Nonoperating gains and losses				
Investment income	**3,096**	3,095	1	–
Loss on early extinguishment of debt	**(3,257)**	(3,257)	–	–
Nonoperating gains, net	**(161)**	(162)	1	–
Excess of revenues other support, and gains over expenses and losses	**$ 10,608**	$ 10,286	$ 1,003	$ (681)