

QUARTERLY REPORT

ORLANDO HEALTH, INC.

Quarter Ended December 31, 2016

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Interim Condensed Consolidated Financial Statements

Consolidated Balance Sheets (in 000's)

	December 31	September 30
	2016	2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 261,747	\$ 270,712
Short-term investments	100	100
Assets limited as to use	30,021	36,805
Accounts receivable, less allowance for doubtful accounts	315,042	298,939
Other receivables	47,225	49,132
Other current assets	68,954	66,053
Total current assets	<u>723,089</u>	<u>721,741</u>
Assets limited as to use:		
Debt service and reserve funds held by bond trustee	13,004	41,668
Interest rate swap collateral	14,064	29,395
Designated by board for malpractice self-insurance	12,172	12,417
	<u>39,240</u>	<u>83,480</u>
Less amount required to meet current obligations	<u>(30,021)</u>	<u>(36,805)</u>
	9,219	46,675
Assets held for sale	-	8,596
Long-term investments - unrestricted	1,007,218	971,900
Long-term investments - restricted	83,735	83,957
Investments in related parties	25,532	25,274
Other assets	239,884	237,580
Property and equipment, net	1,267,654	1,261,100
Total assets	<u><u>\$ 3,356,331</u></u>	<u><u>\$ 3,356,823</u></u>
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 197,778	\$ 234,460
Other current liabilities	105,450	108,594
Current portion of long-term debt	22,127	20,860
Total current liabilities	<u>325,355</u>	<u>363,914</u>
Long-term debt, less current portion	937,707	959,618
Accrued malpractice claims	102,695	97,977
Other noncurrent liabilities	67,516	80,413
Total liabilities	<u>1,433,273</u>	<u>1,501,922</u>
Net assets:		
Unrestricted		
Orlando Health, Inc. and Controlled Affiliates	1,734,477	1,671,804
Non-controlling interest in Controlled Affiliates	990	1,060
Total unrestricted	<u>1,735,467</u>	<u>1,672,864</u>
Temporarily restricted	185,094	179,540
Permanently restricted	2,497	2,497
Total net assets	<u>1,923,058</u>	<u>1,854,901</u>
Total liabilities and net assets	<u><u>\$ 3,356,331</u></u>	<u><u>\$ 3,356,823</u></u>

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

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Consolidated Statements of Operations and Changes in Net Assets (in 000's)

	Quarter ended December 31	
	2016	2015
Unrestricted revenues and other support		
Net patient service revenue (net of contractual allowances and discounts)	\$ 666,801	\$ 611,203
Provision for bad debts	(64,057)	(46,211)
Net patient service revenue less provision for bad debts	602,744	564,992
Other revenue	29,024	26,717
Net assets released from restrictions	1,142	606
Total unrestricted revenues and other support	632,910	592,315
Expenses		
Salaries and benefits	328,745	309,404
Supplies and other	202,764	195,181
Professional fees	9,375	9,768
Depreciation and amortization	30,273	29,333
Interest	10,577	11,668
Total expenses	581,734	555,354
Income from operations	51,176	36,961
Non-operating gains and losses		
Investment (loss) income	(5,279)	12,008
Gain on interest rate swap agreements	14,956	1,740
Gain on Sale of Assets	1,935	-
Non-operating gains and losses, net	11,612	13,748
Excess of revenues, other support, and gains over expenses and losses	62,788	50,709
Less: Excess of revenues, other support, and gains over expenses and losses attributed to non-controlling interests	(104)	122
Excess of revenues, other support, and gains over expenses and losses attributed to Orlando Health, Inc. and Controlled Affiliates	62,684	50,831

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

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Consolidated Statements of Operations and Changes in Net Assets (in 000's)(continued)

	Quarter ended	
	December 31	
	2016	2015
Unrestricted net assets		
Excess of revenues, other support and gains over expenses and losses	\$ 62,788	\$ 50,709
Other changes in unrestricted net assets:		
Net assets released from restriction for property and equipment	-	3,906
Non-controlling interests and other	(185)	(2,520)
Increase in unrestricted net assets	<u>62,603</u>	<u>52,095</u>
Temporarily restricted net assets		
Contributions	6,922	8,014
Net assets released from restrictions	(1,142)	(4,512)
Net realized and unrealized gains (losses) on investments	(226)	1,235
Other changes	-	-
Increase in temporarily restricted net assets	<u>5,554</u>	<u>4,737</u>
Permanently restricted net assets		
Contributions	-	-
Net realized and unrealized gains on investments	-	-
Increase in permanently restricted net assets	-	-
Increase in net assets	<u>68,157</u>	<u>56,832</u>
Net assets, beginning of period	<u>1,854,901</u>	<u>1,558,271</u>
Net assets, end of period	<u>\$ 1,923,058</u>	<u>\$ 1,615,103</u>

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

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Consolidated Statements of Cash Flows (in 000's)

	Quarter ended	
	December 31	
	2016	2015
Operating activities		
Change in net assets	\$ 68,157	\$ 56,832
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	30,273	29,333
Change in value of interest rate swap agreements	(14,956)	(1,740)
Net unrealized losses (gains) on investments	12,633	(4,972)
Gain on Sale of Lucerne property	(1,935)	-
Restricted contributions and investment income	(6,696)	(9,249)
Changes in operating assets and liabilities:		
Accounts receivable, net	(16,103)	(7,856)
Other operating assets	(994)	(8,651)
Accounts payable and accrued expenses	(36,682)	(27,552)
Other operating liabilities	3,633	(5,337)
Net cash provided by operating activities	37,330	20,808
Investing activities		
Purchases of property, equipment and other assets	(26,296)	(21,571)
Increase in assets limited as to use	43,939	18,199
Purchases of trading securities, net of sales	(47,384)	(8,472)
Other investing activities	(2,606)	(353)
Net cash used in investing activities	(32,347)	(12,197)
Financing activities		
Refunding and repayments of long-term debt	(20,644)	(19,021)
Restricted contributions and investment income	6,696	9,249
Net cash used in financing activities	(13,948)	(9,772)
Decrease in cash and cash equivalents	(8,965)	(1,161)
Cash and cash equivalents at beginning of period	270,712	133,415
Cash and cash equivalents at end of period	\$ 261,747	\$ 132,254

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

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Notes to Interim Condensed Consolidated Financial Statements

1. Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements include the accounts and activity of the Corporation and its Controlled Affiliates. All significant intercompany transactions have been eliminated in consolidation for all periods presented.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information. However, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal and recurring nature. These unaudited interim financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the years ended September 30, 2016, 2015, and 2014.

2. Organization

Orlando Health, Inc. (Corporation) is a not-for-profit Florida corporation and along with Orlando Health Central, Inc. (Health Central) comprises the Obligated Group. Prior to the issuance of the Series 2016A, B and C Bonds the Corporation was the sole member of the Orlando Health Obligated Group. Health Central joined the Orlando Health Obligated Group simultaneously with the issuance of the 2016 Bonds. "Controlled Affiliates" are those entities the Corporation controls as the sole member, shareholder or through board appointment and approval of all major transactions. The Corporation and Controlled Affiliates are collectively referred to as the "System". As of December 31, 2016, the Controlled Affiliates represented approximately 14% of consolidated quarterly revenue and 10% of consolidated total assets of the System.

The Corporation holds a 50% Board membership interest in South Lake Hospital, Inc. (South Lake). Since the Corporation does not have a controlling interest in South Lake, the accounts of South Lake are *not included* in the consolidated financial statements.

3. Net Patient Service Revenue and Allowance for Doubtful Accounts

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 and discounted charges for hospital services, and percentages of Medicare fee schedules for physician services. The System, except for Health Central, provides a 65% discount from established charges to uninsured patients. Health Central provides a 75% discount for such charges. 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.

Allowances for uncollectible accounts increased \$12.8 million or 9% during the quarter, from \$142.7 million at September 30, 2016 to \$155.5 million at December 31, 2016.

During the quarters ended December 31, 2016 and December 31, 2015, the System received \$119,000 and \$145,000, 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 it demonstrates meaningful use of certified electronic health

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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.

4. Fair Value Measurements

The System follows 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 – Quoted prices (unadjusted) in active markets for identical assets or liabilities as of the reporting date. Level 1 primarily consists of financial instruments such as money market securities, certain U.S. Treasury and agency securities, certain U.S. corporate debt securities, and listed equity securities.

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 the Fair Value Topic:

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 valued, 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 (at year-end only) 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 Orlando Health when the financial instrument is a liability or the nonperformance risk of the counterparty when the financial instrument is an asset.

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.

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The following table represents the fair value hierarchy of the System's financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	<i>(In Thousands)</i>			
Financial Assets				
Mutual funds	\$ 716,764	\$ 9,051	\$ -	\$ 725,815
Equity securities	84,466	-	56,049	140,515
U. S. corporate bonds	-	79,430	-	79,430
U.S. Treasury and agency obligations		111,044	-	111,044
Mortgage-backed obligations	-	13,569	-	13,569
Municipal bonds	-	3,158	-	3,158
Cash and cash equivalents	8,418	-	-	8,418
Real Estate investment trusts	-	34,280	-	34,280
	<u>\$ 809,648</u>	<u>\$ 250,532</u>	<u>\$ 56,049</u>	<u>\$ 1,116,229</u>
Financial Liabilities				
Interest rate swap agreements	-	36,255	-	36,255
	<u>\$ -</u>	<u>\$ 36,255</u>	<u>\$ -</u>	<u>\$ 36,255</u>

The following table represents the fair value hierarchy of the System's financial assets and liabilities measured at fair value on a recurring basis as of September 30, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	<i>(In Thousands)</i>			
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
	<u>\$ 813,184</u>	<u>\$ 241,401</u>	<u>\$ 55,457</u>	<u>\$ 1,110,042</u>
Financial Liabilities				
Interest rate swap agreements	-	51,212	-	51,212
	<u>\$ -</u>	<u>\$ 51,212</u>	<u>\$ -</u>	<u>\$ 51,212</u>

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5. Long-term Debt

Long-term debt consists of the following:

	December 31 2016	September 30 2016
	<i>(In Thousands)</i>	
<i>Fixed Rate Hospital Revenue Bonds - secured</i>		
Series 2016A – plus net unamortized premium and issuance costs of \$28,483,000 and \$28,864,000 at December 31, 2016 and September 30, 2016 respectively, interest rates from 3.0% to 5.0%, payable through 2041	\$ 202,198	\$ 202,579
Series 2016B (Orlando Health Central) – plus net unamortized premium and issuance costs of \$3,990,000 and \$4,025,000 at December 31, 2016 and September 30, 2016 respectively, interest rates from 4.0% to 5.0%, payable 2045 through 2046	70,565	70,600
Series 2016C (Orlando Health Central) – less unamortized issuance costs of \$1,148,000 and \$1,158,000 at December 31, 2016 and September 30, 2016 respectively, interest rate of 4.416%, payable 2044 through 2045	73,317	73,307
Series 2012A and B – plus net unamortized premium and issuance costs of \$3,335,000 and \$3,368,000 at December 31, 2016 and September 30, 2016 respectively, interest rates from 4.0% to 5.0%, payable through 2043	188,210	188,242
Series 2009 – less net unamortized premium and issuance costs of \$96,000 and \$98,000 at December 31, 2016 and September 30, 2016 respectively, interest rates from 4.5% to 5.375%, payable through 2027	161,214	173,942
Series 2008A and B – less net unamortized premium and issuance costs of \$1,299,000 and \$1,327,000 at December 31, 2016 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	81,711	83,583
Series 1996A and Series 1996C – plus net unamortized premium and issuance costs of \$211,000 and \$238,000 at December 31, 2016 and September 30, 2016 respectively, interest rate of 6.25%, payable through 2022	41,936	45,448
<i>Variable rate hospital revenue bonds – secured</i>		
Series 2011 – interest rate of 1.2593% and 1.1957% at December 31, 2016 and September 30, 2016 respectively, less unamortized issuance costs of \$260,000 and \$263,000 at December 31, 2016 and September 30, 2016 respectively, payable 2027 through 2041	82,915	82,912
Series 2008E – interest rate of 0.75% and 0.95% at December 31, 2016 and September 30, 2016 respectively, less unamortized issuance costs of \$214,000 and \$225,000 at December 31, 2016 and September 30, 2016 respectively, payable 2016 through 2026	49,826	51,710
<i>Notes payable and other indebtedness</i>		
Note Payable to SunTrust Bank, interest rate of 3.98%, payable through 2022	7,487	7,670
Other	455	485
Total debt, net of unamortized premiums, discounts and issuance costs	959,834	980,478
Less current portion	(22,127)	(20,860)
Total long-term debt	\$ 937,707	\$ 959,618

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6. Derivative Instruments and Hedging Activities

Derivative instruments are recorded at their fair value as either an asset or liability. Accounting for changes in the fair value depends on whether the derivative has been designated as part of a hedging relationship and on the type of hedging relationship. Derivative instruments designated as hedging instruments are further designated as either fair value hedges or cash flow hedges, depending on the exposure being hedged. The System's derivative instruments are limited to cash flow hedging relationships, whose purpose is to hedge the variability in future cash flows attributed to interest rate fluctuations. The change in fair value of those derivative instruments, less any ineffective portion thereof, that meet the criteria of an effective hedge is reported as other changes in unrestricted net assets. The ineffective portion of the derivative instruments that do meet hedge accounting criteria is recognized in excess (deficiency) of revenues, other support, and gains over expenses and losses, as are changes in fair value on derivative instruments not meeting hedge accounting requirements.

Interest Rate Swaps

In an effort to reduce periodic financing costs and to take advantage of low interest rates in effect from time to time, the Corporation has entered into interest rate swap arrangements which hedge the risk of interest rates rising on variable rate bonds and other debt. The only derivatives the System has entered into are the interest rate swap agreements. The System has no other derivative instruments or hedging transactions. All of the swaps are 68% of 30-day LIBOR swaps where Orlando Health pays fixed rates and receives variable rates, and none of the swaps meet hedge accounting requirements. Valuation changes of all interest rate swaps are accounted for in the non-operating gains and losses section of the Consolidated Statements of Operations.

The notional amounts under such interest rate swap agreements hedging debt are substantially the same as the principal maturities of the respective outstanding bond series or loan amounts. Net interest receipts and payments are recognized as an adjustment to interest expense or as capitalized interest during periods of construction. The swap agreements are not accounted for under hedge accounting criteria. Therefore, changes in the value of the swap are included in gain (loss) on interest rate swap agreements.

The following summarizes interest rate swap positions held during the quarter ended December 31, 2016:

	2008 ESwap	2011 Swaps	Total
	<i>(In Thousands)</i>		
Cumulative position at September 30, 2016	\$ (8,247)	\$ (42,964)	\$ (51,211)
Net Gain (Loss) during the quarter ended December 31, 2016	2,236	12,720	14,956
Cumulative position at December 31, 2016	<u>\$ (6,011)</u>	<u>\$ (30,244)</u>	<u>\$ (36,255)</u>

7. Subsequent Events

In preparing these condensed consolidated financial statements, the System has evaluated events and transactions for potential recognition and disclosure through the date these condensed consolidated financial statements were issued.

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Consolidating Balance Sheets as of December 31, 2016 (in 000's)

	Consolidated	Eliminations	Orlando Health Obligated Group	Controlled Affiliates
Assets				
Current Assets:				
Cash and cash equivalents	\$ 261,747	\$ -	\$ 236,364	\$ 25,383
Short-term investments	100	-	100	-
Assets limited as to use	30,021	-	30,021	-
Accounts receivable, less allowance for doubtful accounts	315,042	-	288,258	26,784
Other receivables	47,225	(16,600)	42,661	21,164
Other current assets	68,954	-	65,729	3,225
Total current assets	723,089	(16,600)	663,133	76,556
Assets limited as to use:				
Debt service and reserve funds held by bond trustee	13,004	-	13,004	-
Interest rate swap collateral	14,064	-	14,064	-
Malpractice self-insurance	12,172	-	12,172	-
	39,240	-	39,240	-
Less amount required to meet current obligations	(30,021)	-	(30,021)	-
	9,219	-	9,219	-
Assets held for sale	-	-	-	-
Long-term investments - unrestricted	1,007,218	-	1,007,218	-
Long-term investments - restricted	83,735	-	-	83,735
Investments in related parties	25,532	(58,764)	12,210	72,086
Other assets	239,884	(125,924)	275,850	89,958
Property and equipment, net	1,267,654	-	1,245,312	22,342
Total assets	\$ 3,356,331	\$ (201,288)	\$ 3,212,942	\$ 344,677
Liabilities and net assets				
Current Liabilities:				
Accounts Payable and accrued expenses	\$ 197,778	\$ -	\$ 173,741	\$ 24,037
Other current liabilities	105,450	(14,982)	96,627	23,805
Current portion of long-term debt	22,127	-	21,337	790
Total current liabilities	325,355	(14,982)	291,705	48,632
Long-term debt less current portion	937,707	-	930,870	6,837
Accrued malpractice claims	102,695	-	102,695	-
Other noncurrent liabilities	67,516	(25,350)	66,110	26,756
Total liabilities	1,433,273	(40,332)	1,391,380	82,225
Net assets:				
Unrestricted				
Orlando Health, Inc. and Controlled Affiliates	1,734,477	(58,765)	1,645,609	147,633
Noncontrolling interest in Controlled Affiliates	990	-	-	990
Total unrestricted	1,735,467	(58,765)	1,645,609	148,623
Temporarily restricted	185,094	(100,081)	175,282	109,893
Permanently restricted	2,497	(2,110)	671	3,936
Total net assets	1,923,058	(160,956)	1,821,562	262,452
Total liabilities and net assets	\$ 3,356,331	\$ (201,288)	\$ 3,212,942	\$ 344,677

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

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Consolidating Balance Sheets as of September 30, 2016 (in 000's)

	Consolidated	Eliminations	Orlando Health 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, less allowance for doubtful accounts	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 collateral	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 unrestricted	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

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

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Consolidating Statements of Operations for the Quarter Ended December 31, 2016 (in 000's)

	Consolidated	Eliminations	Orlando Health Obligated Group	Controlled Affiliates
Unrestricted revenues and other support				
Net patient service revenue	\$ 666,801	\$ -	\$ 590,013	\$ 76,788
Provision for bad debts	(64,057)	-	(59,012)	(5,045)
Net patient service revenue less provision for bad debts	602,744	-	531,001	71,743
Other revenue	29,024	(14,652)	25,980	17,696
Net assets released from restrictions	1,142	(1,351)	1,142	1,351
Total unrestricted revenues and other support	632,910	(16,003)	558,123	90,790
Expenses				
Salaries and benefits	328,745	-	239,790	88,955
Supplies and other	202,764	(11,923)	192,488	22,199
Professional fees	9,375	(1,574)	8,600	2,349
Depreciation and amortization	30,273	-	28,685	1,588
Interest	10,577	-	10,483	94
Total expenses	581,734	(13,497)	480,046	115,185
Income (loss) from operations	51,176	(2,506)	78,077	(24,395)
Nonoperating gains and losses				
Investment loss	(5,279)	-	(4,679)	(600)
Gain on interest rate swap agreements	14,956	-	14,956	-
Gain on Sale of Assets	1,935	-	1,935	-
Nonoperating gains and losses, net	11,612	-	12,212	(600)
Excess (deficiency) of revenues, other support and gains over expenses and losses	62,788	(2,506)	90,289	(24,995)
Less noncontrolling interest	(104)	-	-	(104)
Excess (deficiency) of revenues, other support and gains over expenses and losses attributed to Orlando Health, Inc. and Controlled Affiliates	62,684	(2,506)	90,289	(25,099)

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

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Consolidating Statements of Operations for the Quarter Ended December 31, 2015 (in 000's)

	Consolidated	Eliminations	Orlando Health Obligated Group	Controlled Affiliates
Unrestricted revenues and other support				
Net patient service revenue	\$ 611,203	\$ -	\$ 537,427	\$ 73,776
Provision for bad debts	(46,211)	-	(38,820)	(7,391)
Net patient service revenue less provision for bad debts	564,992	-	498,607	66,385
Other revenue	26,717	(12,120)	24,380	14,457
Net assets released from restrictions	606	(1,167)	606	1,167
Total unrestricted revenues and other support	592,315	(13,287)	523,593	82,009
Expenses				
Salaries and benefits	309,404	-	224,809	84,595
Supplies and other	195,181	(9,917)	182,816	22,282
Professional fees	9,768	(1,412)	8,314	2,866
Depreciation and amortization	29,333	-	27,808	1,525
Interest	11,668	-	11,575	93
Total expenses	555,354	(11,329)	455,322	111,361
Income (loss) from operations	36,961	(1,958)	68,271	(29,352)
Nonoperating gains and losses				
Investment income	12,008	-	10,233	1,775
Gain on interest rate swap agreements	1,740	-	1,740	-
Nonoperating gains and losses, net	13,748	-	11,973	1,775
Excess (deficiency) of revenues, other support and gains over expenses and losses	50,709	(1,958)	80,244	(27,577)
Less noncontrolling interest	122	-	-	122
Excess (deficiency) of revenues, other support and gains over expenses and losses attributed to Orlando Health, Inc. and Controlled Affiliates	50,831	(1,958)	80,244	(27,455)

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

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Operating and Statistical Information

Sources of Patient Revenues and Utilization of Patient Services

The table below lists the approximate percentage of gross patient charges for hospital services by payor category and patient services utilization statistics.

	Quarter ended December 31		Year to date December 31	
	2016	2015	2016	2015
<i>Payor Mix</i>				
Medicare (includes HMO's)	34.3%	33.5%	34.3%	33.5%
Medicaid (includes HMO's)	18.1%	18.3%	18.1%	18.3%
Managed Care	34.8%	35.1%	34.8%	35.1%
Commercial	3.3%	3.9%	3.3%	3.9%
Self Pay	7.2%	7.3%	7.2%	7.3%
Other	2.3%	1.9%	2.3%	1.9%
	100.0%	100.0%	100.0%	100.0%
<i>Average Licensed Beds</i>				
	1,921	1,891	1,921	1,891
<i>Average Beds in Service</i>				
	1,873	1,829	1,873	1,829
<i>Average Daily Census</i>				
Adult	1,048	1,053	1,048	1,053
Newborn and neonatal	190	208	190	208
	1,238	1,261	1,238	1,261
<i>Admissions</i>				
Adult	21,067	21,473	21,067	21,473
Newborn and neonatal	3,832	4,056	3,832	4,056
	24,899	25,529	24,899	25,529
<i>Observation Cases</i>				
Adult and neonatal	7,660	6,828	7,660	6,828
<i>Patient Days</i>				
Adult	96,433	96,919	96,433	96,919
Newborn and neonatal	17,495	19,102	17,495	19,102
	113,928	116,021	113,928	116,021
<i>Average Length of Stay (days)</i>				
Adult	4.6	4.5	4.6	4.5
Newborn and neonatal	4.6	4.7	4.6	4.7
<i>Percent Occupancy (beds in service)</i>				
Adult	65.2	67.4	65.2	67.4
Newborn and neonatal	71.8	78.4	71.8	78.4
<i>Outpatient Visits</i>				
Outpatient Visits	167,866	164,551	167,866	164,551
Outpatient Surgery Cases	6,793	6,596	6,793	6,596
Total Outpatient Visits	174,659	171,147	174,659	171,147
<i>Emergency Dept. Patients Treated</i>				
	78,246	77,109	78,246	77,109
<i>Case Mix Index</i>				
Medicare only	1.85	1.73	1.85	1.73
All payors	1.65	1.56	1.65	1.56

Source: Records of the Corporation

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Market Share

The following summarizes inpatient admission market share percentages for the Corporation and the other hospital systems in the Tri-County Area for the nine month period ended June 30, 2016 and years ended September 30, 2015, and 2014.

	Year-to-date June 30 2016	Year ended September 30 2015	2014
<i>All Inpatient Cases (excludes normal newborns)</i>			
Orlando Health (the Corporation)	29.1%	29.4%	29.3%
Health Central	4.0%	4.4%	4.5%
	33.1%	33.8%	33.8%
Florida Hospital	51.0%	50.7%	52.0%
HCA hospitals	13.6%	13.2%	11.9%
Nemours	0.9%	0.9%	0.8%
St. Cloud Regional Medical Center	1.4%	1.4%	1.5%
	100.0%	100.0%	100.0%
<i>Pediatrics (excluding all newborns)</i>			
Orlando Health (the Corporation)	44.7%	42.2%	39.9%
Health Central	0.0%	0.3%	1.5%
	44.7%	42.5%	41.4%
Florida Hospital	38.8%	42.1%	44.2%
HCA hospitals	1.9%	2.9%	1.7%
Nemours	14.6%	12.5%	12.7%
St. Cloud Regional Medical Center	0.0%	0.0%	0.0%
	100.0%	100.0%	100.0%
<i>All Newborns</i>			
Orlando Health (the Corporation)	50.0%	51.0%	50.5%
Health Central	2.5%	2.5%	2.6%
	52.5%	53.5%	53.1%
Florida Hospital	39.9%	37.9%	38.5%
HCA hospitals	7.2%	8.2%	8.1%
Nemours	0.4%	0.4%	0.3%
St. Cloud Regional Medical Center	0.0%	0.0%	0.0%
	100.0%	100.0%	100.0%

Source: Admission data obtained from Agency for Health Care Administration. June 2016 data are the latest available.

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Employed Physicians

As of December 31, 2016, the System (including Health Central) employed 527 physicians, compared to 520 physicians as of September 30, 2016. At December 31, 2016, physicians were employed in these areas:

	<u>Employed Physicians</u>
Primary Care	126
Hospitalists and Intensivists	113
Medical Education Faculty	66
Cardiologists	54
Pediatric Subspecialists at Arnold Palmer Hospital	51
Oncologists	45
All Other Practices	<u>72</u>
	527

Management's Discussion and Analysis

The following discussion and analysis is on a consolidated basis which includes the consolidated operations and financial position of Orlando Health, Inc. and its Controlled Affiliates.

Quarter ended December 31, 2016 Compared to the Same Period of the Prior Year

Excess of revenues, other support and gains over expenses and losses was \$62.8 million for the quarter ended December 31, 2016, a \$12.1 million increase from the prior year period. Income from operations was \$51.2 million for the quarter, a \$14.2 million increase from the prior year period. Total unrestricted revenues increased \$40.6 million from the prior year period, of which \$37.8 million was from patient service revenue.

Revenue, Utilization, and Payor Mix

Net patient service revenue, less the provision for bad debts for the quarter ended December 31, 2016 increased \$37.8 million or 6.7% compared to the prior year period. This was due to increases in patient volumes, increases in rates from contracted managed care plans and an increase in case mix.

Bad debt expense was \$64.1 million for the quarter ended December 31, 2016, an increase of \$17.8 million over the prior year period.

Combined admissions and observation cases increased 0.6% and outpatient visits increased 2.1%. Emergency room visits increased 1.5%. Total case mix index increased from 1.56 to 1.65.

Expenses

Total expenses for the quarter ended December 31, 2016 increased \$26.4 million or 4.8% compared to the prior year period. Increases in supply, drug, and other expenses, and depreciation related to the opening of the ORMC North Tower and other capital additions.

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Changes in Cash, Investments and Accounts Receivable during the Quarter ended December 31, 2016

Unrestricted cash and investments increased \$26.4 million or 2.1% during the current quarter.

Accounts receivable increased \$16.1 million or 5.4% during the current quarter. Days of revenue in accounts receivable, based on one year of net patient service revenue, were 48.3 days at December 31, 2016, compared with 46.7 days at September 30, 2016.

Current liabilities decreased \$38.6 million or 10.6% during the quarter due to normal timing of cash disbursements.

Capital Expenditures

Construction-in-progress represents numerous construction and renovation projects. Estimated costs to complete these projects as of December 31, 2016, are approximately \$179.8 million which includes \$6.6 million for the ORMC expansion and redevelopment project, \$6.8 million for Lucerne Annex Redevelopment, \$8.6 million for Health Central's Sunrise Clinical Manager System, \$35.4 million for the Horizons West campus development, \$25.6 million for an on campus Cancer Center at Health Central and \$34.5 million for an on campus Skilled Nursing Facility at Health Central.