COMMUNITY HEALTH NETWORK, INC.
& AFFILIATED ENTITIES
Continuing Disclosure Information
As of and for the Year Ended December 31, 2016

Community Health Network, Inc., an Indiana non-profit corporation and its non-profit and for-profit affiliates (collectively the "Network") comprises a full-service integrated health delivery system in central Indiana. The Network is a central Indiana health system consisting of acute care and/or specialty hospitals, immediate care centers, primary care and specialty employed physicians, ambulatory care centers, freestanding surgery centers, outpatient imaging centers, ambulatory endoscopy centers, nursing homes and assisted living facilities.

The principal operating subsidiaries consist of the following:

- Community Health Network, Inc. -(Credit Group member)
- Visionary Enterprises, Inc. -(Credit Group member)
- Community Howard Regional Health, Inc.- (Credit Group member)
- Community Hospital of Anderson and Madison County, Inc.- (Credit Group member)
- Indiana Osteopathic Hospital, Inc. and Affiliates d/b/a Community Westview Hospital
- Community Physicians of Indiana, Inc. d/b/a Community Physicians Network
- Community Health Network Foundation, Inc.
- Community Home Health Services, Inc.

Effective September 18, 2014, the Network acquired a hotel business and related assets. On December 23, 2014, the Network ceased operations of the hotel.

Effective October 1, 2014, the Indiana Heart Hospital, LLC ("TIHH") was merged into Community Health Network, Inc. ("CHNw"). Thus, TIHH's financial results are combined with CHNw's financial results beginning October 1, 2014.

Effective December 19, 2014, the Network ceased operations of Midwest Racquetball, Inc. a wholly owned subsidiary of Community Howard Regional Health, Inc. Midwest Racquetball, Inc. was legally dissolved December 22, 2014.

Effective August 1, 2015, the Network made a contribution in return for a 50% ownership in Primaria Health, LLC ("Primaria"). Primaria is a management services organization that providers certain population health management services for physician practices. The Network accounts for its investment under the joint venture equity method of accounting.

Effective September 30, 2016, the Network acquired Alpha Home Physical Therapy ("Alpha"), a home health company located on the South side of Indianapolis. Alpha's business merged into the Network's existing home health business.

Effective December 16, 2016, the Network closed its Community Westview Hospital and adjoining medical office building. The Healthplex facility remains open and will be put up for sale as a going concern. Disposition of the property will depend on the market.

The financial data provided in the historical financial information section represents the consolidated financial statements of the Network. The operating data provided below is for the Network's inpatient facilities. The facilities include:

- Community Health Network, Inc. (East ("CHE"), North ("CHN") and South ("CHS") campuses)
- Indiana Heart Hospital, LLC d/b/a Community Heart and Vascular Hospital ("CHVH")
- Community Howard Regional Health, Inc. ("CHRH")
- Community Hospital of Anderson and Madison County, Inc. ("CHA")
- Community Westview Hospital ("Westview")

Historical Inpatient Utilization

Historical inpatient utilization of the Network is presented in the following table.

	Operated Beds	Discharges	Patient Days	Length of Stay (Days)	Occupancy %
2014:					
CHN	415	20,463	96,227	4.7	63.5
CHE	163	9,296	36,446	3.9	61.3
CHS	158	8,595	30,830	3.6	53.5
CHVH	56	2,593	10,641	4.1	52.1
CHA	140	5,754	21,091	3.7	41.3
CHRH/CHRSC	90	5,391	23,719	4.4	72.2
Westview	13	961	4,109	4.3	86.6
Totals	1,035	53,053	223,063	4.2	59.0
2015:					
CHN	429	20,711	98,045	4.7	62.6
CHE	163	9,099	34,892	3.8	58.6
CHS	158	9,374	34,718	3.7	60.2
CHVH	56	2,732	11,527	4.2	56.4
CHA	140	6,210	22,124	3.6	43.3
CHRH/CHRSC	90	5,017	21,713	4.3	66.1
Westview	13	433	1,342	3.1	28.3
Totals	1,049	53,576	224,361	4.2	58.6
2016:					
CHN	442	20,883	101,656	4.9	63.0
CHE	163	8,923	34,193	3.8	57.5
CHS	158	9,545	34,646	3.6	60.1
CHVH	56	2,783	11,654	4.2	57.0
CHA	140	6,201	23,384	3.8	45.8
CHRH/CHRSC	97	5,063	20,512	4.1	57.9
Westview	13	180	353	2.0	7.4
Totals	1,069	53,578	226,398	4.2	58.0

Note- The CHRH line includes Community Howard Regional Specialty Care, LLC (“CHRSC”), a 20 bed rehabilitation hospital.

Case Mix Index ("CMI")

The CMI measures the relative intensity for inpatient cases. A higher CMI reflects a more complicated case and usually results in higher charge, longer length of stay, and higher cost. The overall CMI is a weighted average of all services at a hospital. This may include non-medical services such as mental health or labor and delivery services. These services may have a very low CMI and drive the overall CMI lower as these services are expanded. The overall CMIs, excluding newborns, are shown in the following table:

CMI	2016	2015
CHE	1.48	1.47
CHN	1.52	1.48
CHS	1.49	1.46
CHVH	2.90	2.86
CHA	1.61	1.56
CHRH	1.43	1.43
Westview	2.15	1.72
Network- Total	1.54	1.50

The increase in the case mix index for Westview is due to an orthopedic strategy implemented at the campus in mid-July 2015.

Historical Financial Information

The following summary financial data should be read in conjunction with the consolidated financial statements and the related notes thereto of Community Health Network, Inc. and Affiliates. The audited consolidated financial statements at December 31, 2016 and 2015 are posted on the Digital Assurance Certification, L.C.C. ("DAC") website at www.dac-ey.com. The Network currently participates in the DAC disclosure system.

Community Health Network, Inc. and Affiliates
Summary Financial Information
Consolidated Balance Sheets

($ in millions)	2016	December 31 2015	2014
Assets			
Current assets			
Cash and cash equivalents	$ 259.3	$ 260.3	$ 230.7
Patient accounts receivable, net	263.2	273.7	221.9
Other current assets	199.8	134.5	120.8
Total current assets	722.3	668.5	573.4
Assets limited as to use			
Board designated funds	656.7	592.5	599.2
Funds held by trustee, net of current portion	44.7	100.6	65.5
Reinsurance trust assets	16.7	13.8	13.6
Property, plant and equipment, net	852.8	822.5	809.0
Capitalized software costs, net	67.7	77.5	63.7
Other assets	51.3	39.7	46.0
Total assets	$ 2,412.2	$ 2,315.1	$ 2,170.4
Liabilities and Net Assets			
Current liabilities			
Current portion of long-term debt	$ 21.9	$ 21.5	$ 22.4
Other current liabilities	303.0	340.1	246.9
Total current liabilities	324.9	361.6	269.3
Accrued pension benefit cost	-	5.0	235.0
Other liabilities	11.8	16.0	13.3
Long-term debt, net of current portion	771.6	782.5	612.3
Total liabilities	1,108.3	1,165.1	1,129.9
Net assets			
Unrestricted	1,267.3	1,117.9	1,010.9
Temporarily restricted	8.7	6.8	8.1
Permanently restricted	6.8	5.1	4.5
Total net assets before non-controlling interest	1,282.8	1,129.8	1,023.5
Non-controlling interest	21.1	20.2	17.0
Total net assets	1,303.9	1,150.0	1,040.5
Total liabilities and net assets	$ 2,412.2	$ 2,315.1	$ 2,170.4

Community Health Network, Inc. and Affiliates
Summary Financial Information
Consolidated Statements of Operations and Changes in Net Assets

($ in millions)	Year Ended December 31 2016	2015	2014
Change in Unrestricted Net Assets			
Total unrestricted revenues and gains	$ 2,169.4	$ 2,076.5	$ 1,942.1
Operating expenses			
Salaries, benefits and pension	1,128.5	1,056.4	1,007.1
Defined Benefit Retirement Plan Settlement Charge	221.9	-	-
Supplies and other expenses	783.7	734.3	670.1
Loss Contract on Shared Services Agreement	4.0	-	-
Closing Charge- West Campus	4.7	-	-
Depreciation and amortization	86.8	84.7	82.1
Impairment Charge for Assets	33.5	-	-
Provision for bad debts	.4	.5	.1
Interest and financing costs	29.1	24.8	20.8
Total operating expenses	2,292.6	1,900.7	1,780.2
(Loss) Income from operations	(123.2)	175.8	161.9
Realized and unrealized gains (losses) on investments, net	50.4	(34.9)	18.3
Other, net	(1.6)	(.9)	(.4)
Excess of revenues over expenses before income taxes	(74.4)	140.0	179.8
Provision for income taxes	7.8	4.8	7.2
Excess of revenues over expenses	(82.2)	135.2	172.6
Less: Excess of expenses over revenues for discontinued operations	-	-	(.4)
Less: Divestiture of discontinued operations	-	-	(11.3)
Loss from discontinued operations	-	-	(11.7)
Less: Excess of revenues attributable to non-controlling interest	(20.5)	(20.1)	(17.4)
Excess of revenues over expenses attributable to Network	(102.7)	115.1	143.5
Change in over (under) funding of pension liability	255.0	(8.3)	(144.5)
Change in non-controlling interest and other changes	(2.0)	3.4	(.8)
Increase (decrease) in unrestricted net assets	150.3	110.2	(1.8)
Increase (decrease) in temporarily restricted net assets	1.9	(1.3)	.9
Increase (decrease) in permanently restricted net assets	1.7	.6	-
Increase (decrease) in net assets	153.9	109.5	(.9)
Net assets, beginning of year	1,150.0	1,040.5	1,041.4
Net assets, end of year	$1,303.9	$1,150.0	$1,040.5

Management Discussion of Historical Financial Performance

Year Ended December 31, 2016
Overview-

The Network's operating margin adjusted for non recurring items for the year ended December 31, 2016 was 6.3% as compared to a planned operating margin of 7.0% and a prior year margin of 8.5%. The nonrecurring items included:

Defined Benefit Retirement Plan Settlement Charge	$221.9 million
Write-Off of Electronic Medical System at Howard	$ 12.2 million
Impaired Assets and Closing Charge for West Campus	$ 26.0 million
Total	$260.1 million

The defined benefit retirement plan settlement charge reflects the termination of the plan in June 2015 with asset distribution completed in December 2016. The plan assets were distributed either via lump sum payments to participants or the purchase of annuities on behalf of plan participants. The Network has no further obligations related to the plan.

Effective February 1, 2017, the Network implemented its EPIC electronic medical record system in its Kokomo Region. As a result, during 2016, accelerated depreciation of $12.2 million was recognized on the write-off of the existing electronic medical record.

Effective December 16, 2016, the Network closed it West hospital and adjacent medical office building. As a result an impairment charge of $21.3 million was recognized on the buildings and equipment. The Healthplex facility remains open and in operation. In addition to the impairment charge, the Network also recognized $4.7 million of charges related to closing the hospital and medical office building. The Network will put the campus us for sale in Q2 2017.

During 2016, the Network achieved various objectives and made significant investments in long-term strategies.

1) The termination of the defined benefit retirement plan in December 2016.
2) The refinancing and extension of debt maturity dates related to the Series 2000AB, Series 2005AB and Series 2009A bonds to direct placement debt. As a result of the refunding, the Network has no letters of credit outstanding. The refunding did result in an approximate $1.0 million write-off of old deferred financing costs.
3) The Network terminated the two interest rate swaps associated with the Series 2005AB debt. The termination and settlement resulted in a cash payment by the Network for approximately $8.5 million.
4) The sale of the Network's for profit Wellspring pharmacies to Walgreens in December 2016 which resulted in a $2.4 million gain on the sale.
5) The acquisition of Alpha Physical Therapy on the south side of Indianapolis in September 2016.
6) The Network entered into its first shared services agreement to implement and maintain its EPIC Connect electronic medical record at a health system in Indiana. The installation will be complete in late 2017.
7) During 2016, to remain market competitive, the Network invested in merit adjustments for various Network employees. The Network anticipates the investment to reduce turnover and increase overall employee engagement, ultimately improving patient satisfaction.

Volumes-

While inpatient volumes declined as compared to budget, overall gross inpatient revenue was up by .4% driven by the increase in acuity as indicated in the case mix index section above. Gross outpatient revenue increased 2.6% over budget and was driven by the increase in outpatient volume including: ED visits, outpatient surgeries and outpatient visits.

A decline in deliveries was experienced across all markets in the Network. The Network experienced physician capacity changes during 2016 as a result of physicians retiring from practice as well as no longer performing deliveries to focus on GYN patients only.

Below is a summary of keys volumes for 2016:

	2016	**Budget**	**2015**	**% of Budget**	**% to Actual**
Admissions	53,578	54,121	53,576	(1.0%)	-
Adjusted Patient Days	529,155	527,555	516,533	.03%	2.4%
Adjusted Admissions	130,567	129,246	128,421	1.0%	1.7%
ED Visits	284,381	280,341	273,941	1.4%	3.8%
Outpatient Surgeries	87,277	86,854	84,274	.5%	3.6%
Deliveries	7,606	7,968	7,899	(4.5%)	(3.7%)
Inpatient Surgeries	12,245	12,487	12,662	(1.9%)	(3.3%)

Payor Mix and Revenue Deductions-

The payor mix is a significant factor in determining net patient services revenues. The summary baseline payor mix (% gross charges) in the table below is based on FY 2016 actual data.

Payor Mix	**Medicare**	**Medicaid**	**Self-Pay**	**Commercial**	**Total**
CHE	43.2%	24.4%	3.5%	28.9%	100.0%
CHN	36.1%	19.4%	2.5%	42.0%	100.0%
CHS	43.8%	16.7%	3.1%	36.4%	100.0%
CHVH	60.4%	8.5%	1.0%	30.1%	100.0%
CHA	50.9%	17.4%	1.7%	30.0%	100.0%
CHRH	50.6%	17.2%	3.0%	29.2%	100.0%
Westview	27.6%	17.6%	3.8%	51.0%	100.0%
Total	44.1%	19.3%	2.8%	33.8%	100.0%

During 2016, the Network experienced an unbudgeted negative shift in payor mix from Commercial to Governmental. This negative shift in payor mix impacted the Network’s operating margin by approximately $36.0 million. The negative trend towards Governmental payor mix began mid-year 2016 and continued through the beginning of 2017. The Network believes the increase in Governmental payor mix is due to the following:

1) More Baby Boomers are now eligible for Medicare and are obtaining services. This is a trend the Network expects to continue for several years;
2) The enrollment and the impact on the Network from the State of Indiana's HIP 2.0 program was larger than anticipated. Thus more people have coverage due to the program and are obtaining services.

Revenue deductions as a percentage of gross revenue was 64.9% for the year ended December 31, 2016 as compared to a budget of 63.7%. The increase is a reflection of higher Governmental payor mix offset by unbudgeted 2015 and 2016 disproportionate share dollars of approximately $21.0 million.

Uncompensated care (i.e. charity and bad debts) as a percentage of gross revenue declined from a budgeted amount of 3.2% to 2.0%. The Network believes that a portion of that shift is related to more individuals being covered by insurance products such as HIP 2.0 and/or Medicaid.

Expenses

Excluding the nonrecurring items outlined above, the Network's operating expenses increased $24.1 million or 1.2% over budget and 5.7% over prior year. Operating expense per CMI adjusted admissions- adjusted for the nonrecurring items was $10,141 versus a budget of $10,389 and prior year of $9,867. Operating expense per CMI adjusted patient days- adjusted for non-recurring items was $2,511 versus a budget of $2,538 and a prior year of $2,453. The improvement over budget was largely driven by higher acuity patients combined with higher than budgeted outpatient volumes and adjusted patient days.

While labors costs increased for the unbudgeted market adjustments during the year, the Network did manage its FTE levels which ended the year at 3.3% under budget at 11,719 FTEs. FTEs per CMI adjusted admissions were 21.3 as compared to a budget of 22.9 and a prior year of 21.2.

During 2016, the Network continued to be challenged with higher than anticipated medical supplies especially drug costs. Overall, supplies as a percentage of net patient service revenue increased from a budgeted 16% to an actual increase of 18%. A portion of the drug cost increase is directly related to volume increases in the Network's cancer centers as well as the general increase in new cancer drugs. Additionally, the Network experienced unbudgeted price increases for drugs to treat diabetes. The Network is implementing various cost reduction initiatives in place for 2017 to address the rising costs.

Other

The Network's net margin for the year before non-recurring items was 7.2% as compared to 5.5% in the prior year and a budgeted total margin of 6.5%. The primary driver for the increase over budget is driven by a strong investment performance on the Network's board designated funds. Net realized and unrealized gains were $50.4 million for the year ended December 31, 2016.

Year Ended December 31, 2015
Revenues

The Network's operating margin for the year ended December 31, 2015 was 8.5% or $175.8 million as compared to a budgeted operating margin of 6.0% or $118.6 million and a prior year margin of 8.3% or $161.9 million. The 2015 operating performance is a reflection of the Network's increase in volumes for many services combined with an increase in acuity of services as well as a reduction in uncompensated care and self-pay payor mix due to many individuals having insurance coverage either under the exchanges programs and/or the State of Indiana Healthy Indiana Plan 2.0 ("HIP 2.0").

Overall, the Network's gross patient revenue increased 11% as compared to prior year and 4% as compared to budget. The increase in gross patient revenue was driven by both inpatient and outpatient volumes/rates. Inpatient revenue grew 9% as compared to prior year while outpatient revenue grew 12%. The increase in gross revenues was driven by an increase in volumes combined with a 6.0% annual rate increase.

The Network experienced the following fluctuations in utilization during 2015 as compared to budget and prior year:

	Budget	**Prior Year**
Inpatient Admissions	.5%	1.0%
Adjusted Admissions	2.3%	2.0%
Emergency Room Visits	7.0%	6.4%
Outpatient Surgeries	4.4%	2.2%
Births	3.1%	1.5%
Inpatient Surgeries	(3.2%)	1.8%

The Network's revenue deductions including bad debts as a percentage of gross patient revenues was 66% as compared to prior year of 64% and budget of 66%. The Network's uncompensated care as a percentage of gross patient revenues was 3% as compared to prior year of 4% and budget of 5%. The decrease in uncompensated care was due to many patients obtaining insurance coverage through Exchange programs and HIP 2.0 which resulted in a decrease in self-pay payor mix as well as.

Reflected in the Network's financial statements are favorable settlements from the State of Indiana's Disproportionate Share ("DSH") program. Specifically, the Network's recognized $19.9 million and $29.5 million of State DSH for the years ended December 31, 2015 and 2014, respectively.

Beginning in June 2012, the State of Indiana offered voluntary participation in the State of Indiana's Hospital Assessment Fee ("HAF") program. The State of Indiana implemented this program to utilize supplemental reimbursement programs for the purpose of providing reimbursement to providers to offset a portion of the cost of providing care to Medicaid and indigent patients. This program is designed with input from Centers for Medicare and Medicaid Services and is funded with a combination of state and federal resources, including fees or taxes levied on the providers.

The Network recognizes revenues and related fees associated with the HAF program in the period in which amounts are estimable and collection of payment is reasonably assured. Reimbursement under the program is reflected within net patient service revenue and the fees paid for participation in the HAF program are recorded in supplies and other expenses within the consolidated statements of operations and changes in net assets. The fees and reimbursements are settled monthly. Revenue recognized related to the HAF program was $71.9 million and $85.6 million for the years ended December 31, 2015 and 2014, respectively. Expenses for fees related to the HAF program was $41.0 million and $48.7 million for the years ended December 31, 2015 and 2014, respectively.

During 2015, the Network also qualified for additional meaningful use dollars under the America Recovery and Reinvestment Act of 2009. The Network recognized $3.9 million and $7.8 million of electronic health records incentive payments/meaningful use dollars for the years ended December 31, 2015 and 2014, respectively.

Expenses

Total operating expenses were 7% higher than prior year and 2% higher than budget. During this period, total operating revenue increased 7% as compared to prior year and 5% as compared to budget. Overall, total operating expense per adjusted admissions was consistent with budget.

- Salaries, benefits and pension costs increased 5% as compared to prior year and decreased 1% as compared to budget. The increase as compared to prior year is primarily driven by employee and provider costs associated with our continued investment in physician practices. The decrease as compared to budget is a reflection of initiatives put into place related to clinical efficiency and productivity improvements.
    - Salaries, benefits and pension costs as a percentage of net patient revenue was 54% as compared to a budget of 58% and a prior year percentage of 55%.
    - Total FTEs were 11,168 as compared to a budget of 11,735 and prior year of 10,875. The decrease as compared to budget was driven by both clinical and non clinical areas. The increase in FTEs from prior year was driven by non clinical areas with corporate FTEs experiencing the largest increase. Overall, the clinical areas decreased FTEs by 8% as compared to prior year.

- Medical supplies costs increased 11% from prior year and 11% as compared to budget. The increase is primarily driven by increased utilization combined with significant increases in drug costs over both prior year and the budget due to unanticipated drug cost price increases. Drug costs at the Indianapolis hospitals increased over 25% as compared to budget and prior year.

Other

The Network's total margin for the year ended December 31, 2015 was 6% as compared to 7% in the prior year and a budgeted total margin of 8%. The primary driver of the decrease in total margin was the Network's recognition of $55 million of unrealized losses for the year ended December 31, 2015 due to market performance on the Network's board designated funds.

The Network experienced a decline in Network Cash to Long-Term Debt and an increase in the Capitalization Ratio due to the issuance of $200 million of taxable bonds in June 2015. The impact was anticipated. The funds were utilized to pay down the $150 million bridge line of credit for the defined benefit retirement plan pension contribution as well as to fund various capital projects in the Network. During 2015, the Network began works on its $175 million East revitalization project as well as its $72 million North Campus Center and Connector project. Additionally, the Network broke ground on a new medical pavilion in the Anderson region.

The net days in accounts receivable for the hospitals was 51 days as of December 31, 2015 compared to 44 days as of December 31, 2014. The increase in days is primarily driven by the implementation of ICD-10 on October 1, 2015. The days started to increase prior to October 1, 2015 due to the ICD-10 training that began for the coders in July 2015.

Year Ended December 31, 2014
Revenues

The Network's operating margin for the year ended December 31, 2014 was 8.3% or $161.9 million as compared to a planned operating margin of 4.3% or $78.9 million and a prior year margin of 3.1% or $54.2 million.

Overall, the Network's gross patient revenue increased 10.8% as compared to prior year and 3.0% as compared to forecast. The increase in gross patient revenue was driven by inpatient and outpatient revenue as well as physician revenue. The increase in gross revenues was driven by a 6.0% annual rate increase combined with increases in utilization. The Network experienced the following fluctuations in utilization during 2014 as compared to prior year:

- .7% decrease in inpatient admissions
- 7.1% increase in adjusted admissions
- 3.0% increase in adjusted patient days
- 2.7% decrease in average length of stay
- 4.2% increase in case mix index
- 5.9% increase in emergency room visits
- 22.8% increase in employed physicians wRVUs
- 4.1% increase in imaging scans
- 3.0% decrease in outpatient surgeries
- .3% increase in inpatient surgeries
- 6.4% increase in births

The Network's revenue deductions including bad debts as a percentage of gross patient revenues was 64.6% as compared to a prior year of 63.9% and a forecast of 65.7%. The Network's uncompensated care as a percentage of gross patient revenues was 4.4% as compared to prior year of 5.7% and a forecast of 5.7%. The improvement in uncompensated care is a reflection of the revisions made to the Network's charity care policy effective January 1, 2014. Changes were made to the policy to more properly reflect the care we provide to align with the areas we provide services. Additionally, during 2014, many patients became eligible for coverage with other payers including the Exchange programs which resulted in a decrease in self-pay payor mix as well as a decrease in uncompensated care.

Reflected in the Network's financial statements are accrued favorable settlements from the State of Indiana's Disproportionate Share ("DSH") program. Specifically, the Network's recognized $29.5 million and $18.0 million of State DSH for the years ended December 31, 2014 and 2013, respectively.

Beginning in June 2012, the State of Indiana offered voluntary participation in the State of Indiana's Hospital Assessment Fee ("HAF") program. The State of Indiana implemented this program to utilize supplemental reimbursement programs for the purpose of providing reimbursement to providers to offset a portion of the cost of providing care to Medicaid and indigent patients. This program is designed with input from Centers for Medicare and Medicaid Services and is funded with a combination of state and federal resources, including fees or taxes levied on the providers.

The Network recognizes revenues and related fees associated with the HAF program in the period in which amounts are estimable and collection of payment is reasonably assured. Reimbursement under the program is reflected within net patient service revenue and the fees paid for participation in the HAF program are recorded in supplies and other expenses within the consolidated statement of operations and changes in net assets. The fees and reimbursements are settled monthly.

The HAF program runs on an annual cycle from July 1 to June 30 and is effective until June 30, 2017 with a retroactive effective date of July 1, 2013. As a result of the retroactive date of July 1, 2013, the Network accrued both the estimated reimbursement and expense for the period July 1, 2013 through December 31, 2013 in estimated third-party payor settlements on the December 31, 2013 consolidated balance sheet. The consolidated balance sheet at December 31, 2013 includes $46.0 million and $35.2 million in estimated third-party payor settlements receivable and payable, respectively, related to the HAF program.

The net benefit of the HAF program reflected in the consolidated statements of operations for the years ended December 31, 2014 and 2013 is $36.9 million and $31.9 million, respectively.

During 2014, the Network also qualified for additional meaningful use dollars under the America Recovery and Reinvestment Act of 2009. The Network recognized $7.8 million and $13.3 million of electronic health records incentive payments/meaningful use dollars for the years ended December 31, 2014 and 2013, respectively.

Expenses

Total operating expenses were 4.1% higher than prior year and 1.4% higher than forecast. This fluctuation in operating expenses is despite a 10.1% increase in total operating revenue as compared to prior year and a 5.8% increase in total operating revenue as compared to forecast.

- Salaries, benefits and pension costs increased 1.1% as compared to prior year and increased 2.3% as compared to forecast. A portion of the increase is due to an unanticipated increase in defined benefit pension expense of $3.1 million recognized in December 2014 due to the census data clean-up project that was completed in 2014. The remainder of the increase was due to the increased services provided due to the increased utilization.
- FTEs declined 2.4% as compared to forecast (10,875 versus 11,148) Approximately 3.8% of the decrease was associated with the acute care hospitals and related clinical staff which was offset by a 1.8% increase in non-clinical staff with corporate and the physician network recognizing the most significant increases. The physician network increase was driven by the transfer of Westview and Howard physician and related

office staff during 2014 in addition to growth in the primary care and specialty care physicians base.
- Service expense increased 5.4% as compared to prior year and increased 2.0% as compared to forecast. The increase is driven by increased utilization throughout the Network.

Other

The Network's total margin for 2014 was $143.5 million as compared to a prior period total margin of $89.1 million. The increase in total margin is primarily due to the strong operating performance the Network experienced during 2014 primarily driven by acute care services. Additionally, the Network recognized net realized and unrealized gains on investments of $18.3 million on its board designated funds for the year ended December 31, 2014. The Network marks to market its investments on a monthly basis. Offsetting the increase in total margin was the recognition of discontinued operations for the hotel operations and the racquetball club of $11.7 million.

The net days in accounts receivable for the hospitals was 44 days as of December 31, 2014 compared to 45 days as of December 31, 2013.

During 2014, the Network's underfunded status of its defined benefit plan pension liability increased from $112.7 million to $231.9 million. A significant portion of the increase in the underfunded liability is due to the decrease in discount rates effective December 31, 2014. Additionally, effective December 31, 2014, the Network changed its mortality table to the SOA RP-2014 table which increased its benefit obligation by $36.8 million. Also, the Network's actuary performed calculations of accrued benefits for participants as the data was migrated into a single electronic database. As a result of performing the calculations, the benefit obligation increased $39.6 million. Traditionally, the changes in estimates would have been recognized as participants retired. The Network, as plan sponsor, elected to recognize the changes all in one year.

During the fourth quarter of 2014, the Network offered terminated vested participants with balances of $50,000 or less to elect a lump sum payout of their balances. As of December 31, 2014, the Network's defined benefit retirement plan paid out $25.4 million to the participants who elected the payout.

Long-Term Debt

The Network has outstanding debt from a number of bond issues and other debt obligations. The table below outlines the existing outstanding debt and the outstanding principal balances (net of current portion) as of December 31, 2016.

Outstanding Debt	Network Entity	Fixed / Variable	Long Term Balance ($ in millions)	Schedule d Maturity
Series 2012A	CHNw	Fixed	$379.3	2042
Series 2012B	CHNw	Variable	67.5	2039
Series 2015A	CHNw	Fixed	200.9	2045
Series 2016 A & B	CHNw	Variable	112.6	2045
Term Loan	CHNw	Fixed	29.4	2020
Term Loan	CHNw	Variable	6.0	2022
Other debt obligations	Various	Fixed	2.9	Various
Less current portion			(21.9)	
Less deferred financing costs			(5.1)	
Totals			$771.6	
Estimated maximum annual debt service- total Network based on RBI rates			$53.1	

In September 2016, the Network refunded its Series 2000AB, Series 2005AB and Series 2009A with direct placement debt. As a result of the refunding, the Network wrote off approximately $1.0 million in deferred financing costs. Letters of credit are no longer outstanding. In conjunction with refunding the Series 2005AB bonds, the Network also terminated and settled two outstanding interest rate swaps for a final settlement payment of approximately $8.5 million.

The Network has available a $50.0 million line of credit that bears interest at LIBOR plus a spread.

Historical Debt Service Coverage

The following table presents the calculation of debt service coverage for the Network for the years ended December 31, 2016 and 2015.

(in millions of $) **Debt Service Coverage**	**Year Ended December 31,**	
	2016	**2015**
Income Available for Debt Service:		
Excess of revenues over expenses	$(102.7)	$115.1
Unrealized(gain)loss on investments	(52.9)	55.0
Defined Benefit Retirement Plan Settlement Charge	221.9	-
Impairment and Closing Charges	38.2	-
Interest	29.1	24.8
Depreciation and amortization	86.8	84.7
Total Income Available	$ 220.4	$ 279.6
Total Maximum Annual Debt Service	53.1	53.9
Debt Service Coverage Ratio	4.2x	5.2x

Note – the debt service coverage ratio is provided on a total Network basis using variable interest rates.

Liquidity

The Network has established investment policies for the investment of working capital, funded depreciation, insurance reserves and pension funds. Professional money managers are utilized to invest these monies and the Network employs the assistance of an investment advisor in the selection of money managers. The Network conducts a quarterly review of each investment manager's performance. The cash and investment position of the Network as of December 31, 2016 and 2015 is presented in the following table:

(in millions of $) **Liquidity**	**December 31** **2016**	**2015**
Cash and cash equivalents	$ 259.3	$ 260.3
Board designated funds	656.7	592.5
Total Cash and Investments	916.0	852.8
Days Cash and Investments	175.3	171.4
Long-term debt	$ 793.5	$ 804.0
Cash / Long-Term Debt	115.4%	106.1%

Note – the liquidity ratios are provided on a total Network basis. 2016 Days Cash on Hand has been adjusted for non-recurring items.

The net days in accounts receivable was 46 days as of December 31, 2016 compared to 51 days as of December 31, 2015. The increase in days in 2015 was attributable to the implementation of ICD-10 in October 2015.

Capitalization

The following table sets forth the historical capitalization of the Network as of December 31, 2016 and 2015.

(in millions of $) **Debt to Capitalization**	**December 31** **2016**	**2015**
Long-term debt	$793.5	$804.0
Net Assets	1,303.9	1,150.0
Debt to Capitalization Ratio	37.8%	41.1%

Note – the capitalization ratios are provided on a total Network basis.