

**COMMUNITY HEALTH NETWORK, INC.  
& AFFILIATED ENTITIES  
Continuing Disclosure Information  
As of and for the Year Ended December 31, 2014**

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 eight acute care and/or specialty hospitals, seven immediate care centers, over 500 primary care and specialty employed physicians, forty ambulatory care centers, nine freestanding surgery centers, seven outpatient imaging centers, two ambulatory endoscopy centers, four nursing homes and assisted living facilities.

The principal operating subsidiaries consist of the following:

- Community Health Network, Inc. -(Credit Group member)
- Indiana Heart Hospital, LLC d/b/a Community Heart and Vascular Hospital- (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.
- Indiana ProHealth Network, LLC

Effective July 1, 2012, the Network affiliated with Howard Regional Health System, Inc. Subsequently, Howard was renamed Community Howard Regional Health, Inc. Community Howard’s profits and losses are reflected in the Network’s consolidated statement of operations beginning July 1, 2012.

Effective June 2013, the Network contributed its Hook Rehabilitation business to a rehabilitation hospital joint venture in return for a 51% ownership interest. The Network accounts for its investment under the joint venture equity method of accounting.

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.

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.

	<b>Operated Beds</b>	<b>Discharges</b>	<b>Patient Days</b>	<b>Length of Stay (Days)</b>	<b>Occupancy %</b>
<b>2012:</b>					
CHN	420	19,533	98,192	5.0	63.9
CHE	186	9,953	48,456	4.9	71.2
CHS	127	8,356	29,154	3.5	62.7
CHVH	56	2,835	11,457	4.0	55.9
CHA	137	6,015	22,048	3.7	44.0
CHRH	90	2,940	11,971	4.1	72.3
Westview	68	1,579	11,124	7.0	44.7
<b>Totals</b>	<b>1,084</b>	<b>51,211</b>	<b>232,402</b>	<b>4.5</b>	<b>58.6</b>
<b>2013:</b>					
CHN	420	19,992	94,324	4.7	61.5
CHE	163	9,540	41,253	4.3	69.3
CHS	158	8,572	30,538	3.6	53.0
CHVH	56	2,880	11,358	3.9	55.6
CHA	140	5,572	20,602	3.7	40.3
CHRH/CHRSC	90	5,356	22,996	4.3	70.0
Westview	68	1,490	9,770	6.6	39.4
<b>Totals</b>	<b>1,095</b>	<b>53,402</b>	<b>230,841</b>	<b>4.3</b>	<b>57.8</b>
<b>2014:</b>					
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
<b>Totals</b>	<b>1,035</b>	<b>53,053</b>	<b>223,063</b>	<b>4.2</b>	<b>59.0</b>

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

## Payor Mix

The payor mix is a significant factor in determining net patient services revenues. The payor mix presented below is based upon the most recent actual payor mix. The summary baseline payor mix (% gross charges) in the table below is based on FY 2014 actual data.

Payor Mix	Medicare	Medicaid	Self-Pay	Commercial	Total
CHE	42.2%	21.0%	7.0%	29.8%	100.0%
CHN	34.7%	14.6%	3.9%	46.8%	100.0%
CHS	41.6%	12.2%	6.0%	40.2%	100.0%
CHVH	59.7%	6.4%	2.5%	31.4%	100.0%
CHA	49.0%	12.2%	4.4%	34.4%	100.0%
CHRH	51.0%	11.8%	6.3%	30.9%	100.0%
Westview	34.0%	9.6%	5.4%	51.0%	100.0%
Total	43.1%	14.6%	5.3%	37.0%	100.0%

## 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	2014	2013
CHE	1.43	1.41
CHN	1.46	1.43
CHS	1.45	1.42
CHVH	2.92	2.72
CHA	1.57	1.32
CHRH	1.46	1.33
Westview	1.31	1.40
Network- Total	1.50	1.44

## 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, 2014 and 2013 are posted on the Digital Assurance Certification, L.C.C. (“DAC”) website at [www.dac-ey.com](http://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)	<b>2014</b>	<b>December 31 2013</b>	<b>2012</b>
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ 230.7	\$ 253.5	\$ 190.0
Patient accounts receivable, net	221.9	204.7	228.1
Other current assets	120.8	165.8	174.2
Total current assets	<u>573.4</u>	<u>624.0</u>	<u>592.3</u>
Assets limited as to use			
Board designated funds	599.2	540.2	475.0
Funds held by trustee, net of current portion	65.5	65.5	36.9
Reinsurance trust assets	13.6	11.9	13.7
Property, plant and equipment, net	809.0	792.1	789.1
Capitalized software costs, net	63.7	59.7	56.4
Deferred financing costs, net	6.5	6.8	7.1
Due to unconsolidated affiliates and related parties	(1.0)	(8)	(3)
Other assets	40.5	44.2	33.7
Total assets	<u>\$ 2,170.4</u>	<u>\$ 2,143.6</u>	<u>\$ 2,003.9</u>
<b>Liabilities and Net Assets</b>			
Current liabilities			
Current portion of long-term debt	\$ 22.4	\$ 27.2	\$ 16.2
Short-term borrowings	-	50.0	50.0
Other current liabilities	246.9	263.9	214.7
Total current liabilities	<u>269.3</u>	<u>341.1</u>	<u>280.9</u>
Accrued postretirement benefit cost	-	-	5.0
Accrued pension benefit cost	(14.3)	11.1	25.7
Other liabilities	13.3	12.4	28.7
Pension underfunded liability- long-term	249.3	104.8	191.8
Long-term debt, net of current portion	612.3	632.8	609.5
Total liabilities	<u>1,129.9</u>	<u>1,102.2</u>	<u>1,141.6</u>
Net assets			
Unrestricted	1,010.9	1,011.6	835.3
Temporarily restricted	8.1	7.2	5.8
Permanently restricted	4.5	4.4	4.4
Total net assets before non-controlling interest	<u>1,023.5</u>	<u>1,023.2</u>	<u>845.5</u>
Non-controlling interest	17.0	18.2	16.8
Total net assets	<u>1,040.5</u>	<u>1,041.4</u>	<u>862.3</u>
Total liabilities and net assets	<u>\$ 2,170.4</u>	<u>\$ 2,143.6</u>	<u>\$ 2,003.9</u>

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

(\$ in millions)	<b>Year Ended December 31</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>Change in Unrestricted Net Assets</b>			
Total unrestricted revenues and gains	\$ 1,942.1	\$ 1,763.4	\$ 1,666.8
Operating expenses			
Salaries, benefits and pension	1,007.1	999.6	931.3
Supplies and other expenses	670.1	608.4	579.7
Depreciation and amortization	82.1	81.0	75.4
Provision for bad debts	.1	.1	.3
Interest and financing costs	20.8	20.1	32.4
Total operating expenses	<u>1,780.2</u>	<u>1,709.2</u>	<u>1,619.1</u>
Income from operations	161.9	54.2	47.7
Realized and unrealized gains (losses) on investments, net	18.3	61.4	65.5
Excess of net assets acquired in Howard Acquisition	-	-	87.3
Other, net	(.4)	(1.1)	1.2
Excess of revenues over expenses before income taxes	<u>179.8</u>	<u>114.5</u>	<u>201.7</u>
Provision (benefit) for income taxes	7.2	7.5	5.2
Excess of revenues over expenses	<u>172.6</u>	<u>107.0</u>	<u>196.5</u>
Less: Excess of expenses over revenues for discontinued operations	(.4)	-	-
Less: Divestiture of discontinued operations	(11.3)	-	-
Loss from discontinued operations	<u>(11.7)</u>	<u>-</u>	<u>-</u>
Less: Excess of revenues attributable to non-controlling interest	(17.4)	(17.9)	(15.6)
Excess of revenues over expenses attributable to Network	<u>143.5</u>	<u>89.1</u>	<u>180.9</u>
Change in (under) over funding of pension liability	(144.5)	86.9	(60.4)
Change in non-controlling interest and other changes	<u>(.8)</u>	<u>1.7</u>	<u>4.2</u>
Increase (decrease) in unrestricted net assets	(1.8)	177.7	124.7
Increase (decrease) in temporarily restricted net assets	.9	1.4	1.1
Increase (decrease) in permanently restricted net assets	-	-	.1
Increase (decrease) in net assets	<u>(.9)</u>	<u>179.1</u>	<u>125.9</u>
Net assets, beginning of year	1,041.4	862.3	736.4
Net assets, end of year	<u>\$1,040.5</u>	<u>\$1,041.4</u>	<u>\$ 862.3</u>

## Management Discussion of Historical Financial Performance

### *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 \$12.8 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 1.4% as compared to forecast (10,995 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 41.2 days as of December 31, 2014 compared to 44.6 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.

### ***Year Ended December 31, 2013***

#### ***Revenues***

The Network's operating margin for the year ended December 31, 2013 was 3.1% or \$54.2 million as compared to a planned operating margin of 5.0% or \$90.8 million and a prior year margin of 2.9% or \$47.7 million. The Network's 2012 operating margin was approximately 4.0% as adjusted for the extraordinary loss the Network incurred as a result of the bond refinancing in November 2012.

Overall, the Network's gross patient revenue increased 18.0% as compared to prior year and 2.6% as compared to forecast. The increase in gross patient revenue was primarily driven by outpatient revenue as well as physician revenue. The increase in gross revenues was primarily driven by a 6.25% annual rate increase combined with increases in utilization. The Network experienced the following increases in utilization during 2013 as compared to prior year and as adjusted for the Community Howard affiliation effective July 1, 2012:

- 4.6% increase in inpatient admissions
- 10.9% increase in emergency room visits
- 16.6% increase in employed physicians wRVUs
- 13.9% increase in imaging scans
- .4% increase in outpatient surgeries
- 8.8% increase in inpatient surgeries
- 10.5% increase in births

During 2013, the Network experienced a significant increase in charity care provided. The Network's charity care provided was \$182.0 million as compared to prior year charity care of \$116.0 million and forecasted charity care of \$131.1 million. As a result, the Network's revenue deductions as a percentage of gross patient revenues was 62.1% as compared to a prior year of 57.8% and a forecast of 60.5%. The Network's uncompensated care as a percentage of gross patient revenues was 5.8% as compared to prior year of 4.9% and a forecast of 4.7%. As a result of the significant increase in charity care levels during 2013, the Network has implemented a new charity care policy effective January 1, 2014 to align with the Network's mission to be deeply committed to the communities we serve, we enhance health and well-being.

In addition to the favorable inpatient and outpatient utilization, the Network recognized favorable settlements from the State of Indiana's Disproportionate Share ("DSH") program. Specifically, the Network's East and Anderson facilities recognized \$4.3 million and \$1.7 million, respectively related to the State's 2012 DSH program. Additionally, the Network's East and Anderson facilities recognized \$6.3 million and \$2.1 million, respectively related to the State's 2013 DSH program.

In June 2012, the Network began voluntary participation in the State of Indiana's Hospital Assessment Fee ("HAF") program. The Office of Medicaid Planning and Policy deemed the program to be effective retroactive to July 1, 2011. The HAF program was effective until June 30, 2013 with options to renew the program. As a result of the HAF program, the Network was required to pay retroactive fees of approximately \$43.4 million for the period from July 1, 2011 through June 30, 2012. In return for participation in the HAF program, the Network receives increased fee for service and managed care program reimbursement. The Network received reimbursement of approximately \$78.2 million for the period from July 1, 2011 through June 30, 2012. Going forward, the fees and the reimbursements are settled monthly. No cash physically changes hands. Instead, fees owed are netted against future reimbursements. In March 2014, the HAF program was renewed retroactive to July 1, 2013. The Statute associated with the HAF program is effective through June 30, 2017. The bulletin issued by the State addresses rates for State fiscal years 2014 and 2015. As a result of the retroactive date of July 1, 2013, the Network has 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 \$46,036 and \$35,240 in estimated third-party payor settlements receivables and payables, respectively, related to the HAF program.

During 2013, the Network also qualified for additional meaningful use dollars under the America Recovery and Reinvestment Act of 2009. The Network recognized \$13.3 million and \$10.4 million of electronic health records incentive payments/meaningful use dollars for the years ended December 31, 2013 and 2012, respectively.

### ***Expenses***

The Network's total operating expenses increased during 2013 due to the following reasons:

- Affiliation with Community Howard Regional Health on July 1, 2012 (added approximately 1,100 employees);
- Increased supply costs due to increase volumes combined with enhanced service mix;
- Increase employee costs and facility costs due to increased employment of both primary care and specialty physicians;
- Those increases were offset by a \$5.8 million gain recognized in August 2013 related to the termination of the Network's postretirement medical plan that was no longer being utilized by employees.

### ***Other***

The Network's total margin for 2013 was \$89.1 million as compared to a prior period total margin of \$182.6 million. The decrease in total margin is primarily due to the recognition of \$87.3 million of contribution income associated with the acquisition of Community Howard Regional Health not being repeated in 2013. The Network recognized unrealized gains of \$26.4 million and \$35.0 million of realized gains on its board designated funds for the year ended December 31, 2013. The Network marks to market its investments on a monthly basis.

The net days in accounts receivable for the hospitals was 44.6 days as of December 31, 2013 compared to 51.9 days as of December 31, 2012.

In connection with the preparation of our consolidated financial statements, the Network made an adjustment to its December 31, 2012 balance sheet to reflect the proper classification of the pension underfunded liability. Previously, we reported \$20.7 million as a current liability. This amount has been adjusted to be appropriately classified as a long-term liability. The adjustment was immaterial to our consolidated statement of operations and changes in net assets.

### ***Year Ended December 31, 2012***

#### ***Revenues***

The Network's operating margin for the year ended December 31, 2012 is 2.9% or \$47.7 million as compared to a planned operating margin of 4.2% or \$63.0 million and a prior year margin of 5.6% or \$75.7 million. The Network's 2012 operating margin was approximately 4.0% as adjusted for the extraordinary loss the Network incurred as a result of the bond refinancing in November 2012. Overall, the Network experienced strong growth in utilization during 2012. The Network experienced the following favorable increases in inpatient activity during 2012 as compared to 2011:

- 9.7% increase in inpatient admissions with the Network's east and north hospitals increasing admissions by 7.5% and 4.1%, respectively.
- 11.1% increase in inpatient surgeries with the Network's north and Anderson hospitals increasing surgeries by 6.2% and 13.5%, respectively
- 4.7% increase in births with the Network's east and south hospitals increasing births by 6.5% and 24.8%, respectively

The Network also experienced growth in outpatient services in 2012 as compared to 2011 as follows:

- 25.3% increase in employed physician office visits
- 18.1% increase in emergency room visits
- 3.0% increase in imaging scans

In addition to the favorable inpatient and outpatient utilization, the Network recognized favorable settlements from some long term initiatives it had been working on. The Network received favorable cost report settlements from CMS related to periods from 1999 through 2006. Additionally, in June 2012, the Network was notified that the Anderson hospital was eligible for State Disproportionate Share (“DSH”) monies for 2010 and 2011 and the east hospital was eligible for State DSH for 2012.

In June 2012, the Network began voluntary participation in the State of Indiana’s Hospital Assessment Fee (“HAF”) program. The Office of Medicaid Planning and Policy deemed the program to be effective retroactive to July 1, 2011. The HAF program is effective until June 30, 2013 with options to renew the program. As a result of the HAF program, the Network was required to pay retroactive fees of approximately \$43.4 million for the period from July 1, 2011 through June 30, 2012. In return for participation in the HAF program, the Network receives increased fee for service and managed care program reimbursement. The Network received reimbursement of approximately \$78.2 million for the period from July 1, 2011 through June 30, 2012. Going forward, the fees and the reimbursements will be settled monthly. No cash physically changes hands. Instead, fees owed are netted against future reimbursements.

During 2012, the Network also qualified for additional meaningful use dollars under the America Recovery and Reinvestment Act of 2009. The Network recognized \$10.4 million and \$12.6 million of electronic health records incentive payments/meaningful use dollars for the years ended December 31, 2012 and 2011, respectively.

Deductions from revenue (excluding bad debts) were 57.8% of total gross patient revenue for the year ended December 31, 2012 as compared to 60.0% for the year ended December 31, 2011. Included within deductions from revenue are charity care charges of \$116.0 million and \$78.8 million for the years ended December 31, 2012 and 2011, respectively. The increase in charity care is primarily due to an increase in self-pay payor mix combined with an increase in the Federal Poverty guidelines used by the Network for its financial assistance policy.

### *Expenses*

The Network’s total operating expenses increased during 2012 due to the following reasons:

- Affiliation with Community Howard Regional Health on July 1, 2012 (\$78.5 million) (added approximately 1,100 employees);
- Implementation of new clinical information system throughout 2012 (\$38.2 million)(implementation completed on time and on budget);
- Extraordinary loss associated with 2012 bond financing (\$17.9 million);
- Recognition of retroactive hospital assessment fees (\$42.1 million);
- Increased supply costs due to increase volumes;
- Increase employee costs due to increased employment of both primary care and specialty physicians (14.1% increase in employed physician FTEs during 2012);
- Write-off of clinical information system for physician practices (\$3.6 million)

***Other***

The Network's total margin for 2012 was \$182.6 million as compared to a prior period total margin of \$81.9 million. The increase in total margin is due to the favorable operating margin experienced during 2012 combined with favorable investment performance on the Network's board designated funds, as well as recognition of \$87.3 million of contribution income associated with the acquisition of Community Howard Regional Health. The Network recognized unrealized gains of \$41.3 million and \$24.2 million of realized gains on its board designated funds for the year ended December 31, 2012. The Network marks to market its investments on a monthly basis.

The net days in accounts receivable for the hospitals was 51.2 days as of December 31, 2012 compared to 52.9 days as of December 31, 2011.

## 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, 2014.

Outstanding Debt	Network Entity	Fixed / Variable	Rate	Long Term Balance (\$ in millions)	Scheduled Maturity
Series 2000 A & B	CHNw	Variable	.01%	\$32.1	2028
Series 2005 A and B	CHRH	Variable	.04%	43.5	2035
Series 2009 A	CHNw	Variable	.01%	36.4	2039
Series 2012A	CHNw	Fixed	4.75%	391.4	2042
Series 2012B	CHNw	Variable	1.04%	71.0	2039
Term Loan	CHNw	Fixed	1.33%/3.27%	43.0	2020
Term Loan	CHNw	Variable	1.02%	8.0	2022
Other debt obligations	Various	Fixed	Various	9.3	Various
Less current portion				22.4	
Totals				\$612.3	
Estimated maximum annual debt service- total Network based on RBI rates				\$43.9	
<i>Note –long-term debt is provided on a total Network basis.</i>					

The Series 2000 and 2009 Bonds are backed by letters of credit with a remaining term of approximately 3 years and effective rates of SIFMA plus a spread. The 2005A and B Bonds are backed by letters of credit with a remaining term of approximately 4 years and effective rates of SIFMA plus a spread.

The Network has available a \$50.0 million line of credit that bears interest at LIBOR plus a spread. There have been no drawdowns on the line of credit during 2014.

## Historical Debt Service Coverage

The following table presents the calculation of debt service coverage for the Network for the years ended December 31, 2014 and 2013.

(in millions of \$)	Year Ended December 31,	
	2014	2013
<b>Debt Service Coverage</b>		
Income Available for Debt Service:		
Excess of revenues over expenses	\$143.5	\$ 89.1
Less: unrealized gain on investments	(.2)	(26.4)
Plus: interest	20.8	20.1
Plus: depreciation and amortization	82.1	81.0
Total Income Available	\$ 246.2	\$ 163.8
Total Maximum Annual Debt Service	43.9	33.5
Debt Service Coverage Ratio	5.6x	4.9x

*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, 2014 and 2013 is presented in the following table:

(in millions of \$)	December 31	
	2014	2013
<b>Liquidity</b>		
Cash and cash equivalents	\$ 230.7	\$ 253.5
Board designated funds	599.2	540.2
Total Cash and Investments	829.9	793.7
Days Cash and Investments	178.4	177.9
Long-term debt	\$ 634.7	\$ 710.0
Cash / Long-Term Debt	130.7%	111.8%

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

## Capitalization

The following table sets forth the historical capitalization of the Network as of December 31, 2014 and 2013.

(in millions of \$) <b>Debt to Capitalization</b>	<b>December 31</b>	
	<b>2014</b>	<b>2013</b>
Long-term debt	\$634.7	\$710.0
Net Assets	1,040.5	1,041.4
Debt to Capitalization Ratio	37.9%	40.5%

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