

**COMMUNITY HEALTH NETWORK, INC.
& AFFILIATED ENTITIES
Continuing Disclosure Information
As of and for the Nine Months Ended September 30, 2014 and 2013**

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, ten 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. (formerly Community Hospitals of Indiana, 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 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.

Historical Financial Information

The unaudited consolidated financial statements include all adjustments, consisting of normal recurring and other accruals, which the management of the Network considers necessary for a fair presentation of financial position and results of operations and changes in net assets for these periods. Operating results for the quarter ended September 30, 2014 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 2014. The audited consolidated financial statements at December 31, 2013 and 2012 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

	<u>September 30,</u> <u>2014</u> <u>(unaudited)</u>	<u>December 31,</u> <u>2013</u> <u>(audited)</u>	<u>September 30,</u> <u>2013</u> <u>(unaudited)</u>
Assets			
Current assets			
Cash and cash equivalents	\$ 202.4	\$ 253.5	\$ 164.2
Restricted cash	-	-	-
Patient accounts receivable, net	222.6	204.7	212.3
Other current assets	125.1	165.8	187.1
Total current assets	<u>550.1</u>	<u>624.0</u>	<u>563.6</u>
Assets limited as to use			
Board designated funds	587.6	540.2	520.5
Funds held by trustee, net of current portion	65.5	65.5	36.9
Reinsurance trust assets	13.3	11.9	12.5
Property, plant and equipment, net	813.2	792.1	788.3
Capitalized software costs, net	62.8	59.7	59.1
Deferred financing costs, net	6.8	6.8	6.9
Due to unconsolidated affiliates and related parties	1.3	(8)	1.9
Prepaid pension and postretirement assets	-	-	-
Other assets	45.6	44.2	37.9
Total assets	<u>\$ 2,146.2</u>	<u>\$ 2,143.6</u>	<u>\$ 2,027.6</u>
Liabilities and Net Assets			
Current liabilities			
Current portion of long-term debt	\$ 21.9	\$ 27.2	\$ 15.4
Short-term borrowings	-	50.0	50.0
Other current liabilities	234.8	263.9	254.8
Total current liabilities	<u>256.7</u>	<u>341.1</u>	<u>320.2</u>
Accrued postretirement benefit cost	-	-	-
Accrued pension benefit cost	(16.5)	11.1	12.9
Other liabilities	14.0	12.4	20.4
Pension underfunded liability- long-term	104.8	104.8	171.1
Long-term debt, net of current portion	614.3	632.8	596.0
Total liabilities	<u>973.3</u>	<u>1,102.2</u>	<u>1,120.6</u>
Net assets			
Unrestricted	1,145.4	1,011.6	879.9
Temporarily restricted	7.4	7.2	6.1
Permanently restricted	4.4	4.4	4.4
Total net assets before non-controlling interest	<u>1,157.2</u>	<u>1,023.2</u>	<u>890.4</u>
Non-controlling interest	15.7	18.2	16.6
Total net assets	<u>1,172.9</u>	<u>1,041.4</u>	<u>907.0</u>
Total liabilities and net assets	<u>\$ 2,146.2</u>	<u>\$ 2,143.6</u>	<u>\$ 2,027.6</u>

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

(\$ in millions)	Three Months Ended September 30,	
	2014	2013
Change in Unrestricted Net Assets		
Total unrestricted revenues and gains	\$ 489.1	\$ 438.7
Operating expenses		
Salaries, benefits and pension	253.5	243.3
Other expenses	161.5	151.8
Depreciation and amortization	23.7	20.2
Provision for bad debts	-	-
Interest	5.1	4.9
Total operating expenses	443.8	420.2
(Loss) income from operations	45.3	18.5
Investment income- realized/unrealized	(16.9)	21.8
Other, net	-	-
Excess of revenues over expenses before federal income taxes	28.4	40.3
Provision for income taxes	2.8	.9
Excess of revenues over expenses	25.6	39.4
Less: Excess of revenues over expenses attributable to non-controlling interest	(3.8)	(4.4)
Excess of revenues over expenses attributable to Network	21.8	35.0
Change in non-controlling interest	(.2)	.8
Other changes	(.2)	2.5
	21.4	38.3
Change in Temporarily Restricted Net Assets		
(Decrease) increase in temporarily restricted net assets	.2	-
Change in Permanently Restricted Net Assets		
Increase in permanently restricted net assets	-	-
Increase in net assets	21.6	38.3
Net assets, beginning of period	1,151.3	868.7
Net assets, end of period	\$1,172.9	\$ 907.0

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

(\$ in millions)	Nine Months ended September 30,	
	2014	2013
Change in Unrestricted Net Assets		
Total unrestricted revenues and gains	\$ 1,433.0	\$1,293.1
Operating expenses		
Salaries, benefits and pension	745.5	745.8
Other expenses	475.1	451.1
Depreciation and amortization	64.0	60.6
Provision for bad debts	-	-
Interest	15.6	14.9
Total operating expenses	1,300.2	1,272.4
(Loss) income from operations	132.8	20.7
Investment income- realized/unrealized	22.4	39.9
Other, net	-	(1.6)
Excess of revenues over expenses before federal income taxes	155.2	59.0
Provision for income taxes	10.5	5.9
Excess of revenues over expenses	144.7	53.1
Less: Excess of revenues over expenses attributable to non-controlling interest	(11.8)	(12.4)
Excess of revenues over expenses attributable to Network	132.9	40.7
Change in non-controlling interest	(2.5)	(.2)
Other changes	.9	2.2
	131.3	42.7
Change in Temporarily Restricted Net Assets		
Increase in temporarily restricted net assets	.2	.3
Change in Permanently Restricted Net Assets		
Increase in permanently restricted net assets	-	-
Increase in net assets	131.5	43.0
Net assets, beginning of period	1,041.4	864.0
Net assets, end of period	\$1,172.9	\$ 907.0

Management Discussion of Historical Financial Performance

Nine Months Ended September 30, 2014 *Revenues*

The Network's operating margin for the nine months ended September 30, 2014 was an operating margin of 9.3% or \$132.8 million as compared to a planned operating margin of 4.0% or \$55.0 million and a prior year operating margin of 1.6% or \$20.7 million.

The Network's operating margin was impacted by the following as compared to prior period:

- Inpatient
 - Inpatient admissions decreased 1.9%. All Network inpatient facilities experienced a decrease in inpatient admissions except for the Network's North, Anderson and Kokomo hospitals which experienced a 2.6%, .8% and .1% increase in admissions, respectively;
 - Inpatient surgeries increased by 1.0%. All Network facilities experienced an increase in inpatient surgeries except for the Network's South, Kokomo and West hospitals which experienced a 4.3%, 5.7% and 27.6% decrease in surgeries, respectively;
 - Births increased 6.3%. All Network facilities experienced an increase in births except for the Network's East and Anderson hospitals. The Network's South and Kokomo hospitals experienced the largest increase at 12.4% and 17.8%, respectively over the prior period.

- Outpatient
 - Emergency room visits increased 4.5%. All Network facilities experienced an increase;
 - Employed physician wRVUs increased 23.0%;
 - Imaging scans increased 4.0%. All Network facilities experienced an increase except for the Network's West hospital; The primary growth related to outpatient scans;
 - Outpatient surgeries decreased 2.7%. The Network's free standing surgery centers experienced a 2.9% decrease while the Network's hospital based surgeries decreased 1.7% primarily due to the Network's West and Kokomo hospitals. The Network's North and South hospitals experienced a 14.4% and 7.4% increase, respectively.

- Uncompensated Care , Payor Mix and Case Mix Index
 - As a result of the significant increase in charity care levels during 2013, the Network 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. As a result of the implementation of the policy, the Network experienced an improvement in uncompensated care (i.e. charity and bad debts) as a percentage of total patient revenue. Uncompensated care as a percentage of total patient revenue was 4.5% for the nine months ended September 30, 2014 as compared to 5.8% for the nine months ended September 30, 2013 and a forecasted percentage of 5.7%.
 - The Network's Case Mix Index improved from 1.42 as September 30, 2013 to 1.48 at September 30, 2014. During 2014, the Network continues to implement process improvement surrounding its clinical documentation program.
 - Comparing Q3 2014 to Q3 2013, the Network experienced a favorable shift in both governmental and self-pay payor mix. The Network's payer mix is as follows:

Payer Mix	September 30, 2014	September 30, 2013
Medicare	43.5%	44.3%
Medicaid	14.7%	14.1%
Wellpoint	19.4%	18.6%
Self-pay	5.4%	6.6%
Other commercial	17.0%	16.4%

- The Network's revenue deductions including bad debts as a percentage of total patient revenue increased from 64.5% for the nine months ended September 30, 2013 to 64.7% for the nine months ended September 30, 2014.

The Network's total margin for the nine months ended September 30, 2014 was 9.3% as compared to a prior period total margin of 3.2%. The Network's total margin was favorably impacted by gains recognized on the Network's board designated funds as well as the favorable operating margin performance. The Network recognized unrealized gains of \$10.8 million and \$4.8 million of realized gains on its board designated funds for the nine months ended September 30, 2014. The Network marks to market its investments on a monthly basis.

The net days in accounts receivable was 42 days for the Network at September 30, 2014 as compared to 48 days at September 30, 2013. The Network's days cash on hand was 175 days at September 30, 2014 as compared to 153 days at September 30, 2013. The Network's days cash on hand remained strong despite the following cash payments made during September 2014: \$25.3 million of contribution payments related to the Network's defined benefit retirement plan and approximately \$11.0 million of payments related to the acquisition of a local hotel that resides on the Network's north hospital campus. The Network's Foundation owns the land on which the hotel resides. It is the Network's intent to operate the hotel until approximately December 23, 2014 and then close hotel operations. The Network recognized approximately \$2.7 million of accelerated depreciation related to the hotel in the September 2014 consolidated financial statements. Upon the closure of the hotel in December 2014, the accounting for the hotel will be treated as discontinued operations.