

**COMMUNITY HEALTH NETWORK, INC.
& AFFILIATED ENTITIES
Continuing Disclosure Information
As of and for the Three Months Ended March 31, 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 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.

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 March 31, 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>March 31,</u> <u>2014</u> <u>(unaudited)</u>	<u>December 31,</u> <u>2013</u> <u>(audited)</u>	<u>March 31,</u> <u>2013</u> <u>(unaudited)</u>
Assets			
Current assets			
Cash and cash equivalents	\$ 209.1	\$ 253.5	\$ 193.5
Restricted cash	-	-	-
Patient accounts receivable, net	209.6	204.7	238.9
Other current assets	194.3	165.8	170.0
Total current assets	<u>613.0</u>	<u>624.0</u>	<u>602.4</u>
Assets limited as to use			
Board designated funds	563.4	540.2	505.1
Funds held by trustee, net of current portion	65.5	65.5	36.9
Reinsurance trust assets	11.2	11.9	13.0
Property, plant and equipment, net	792.2	792.1	786.0
Capitalized software costs, net	61.0	59.7	57.9
Deferred financing costs, net	6.9	6.8	7.2
Due to unconsolidated affiliates and related parties	2.8	(.8)	1.1
Prepaid pension and postretirement assets	-	-	-
Other assets	44.8	44.2	33.0
Total assets	<u>\$ 2,160.8</u>	<u>\$ 2,143.6</u>	<u>\$ 2,042.6</u>
Liabilities and Net Assets			
Current liabilities			
Current portion of long-term debt	\$ 27.3	\$ 27.2	\$ 16.6
Short-term borrowings	-	50.0	50.0
Other current liabilities	307.3	263.9	247.2
Total current liabilities	<u>334.6</u>	<u>341.1</u>	<u>313.8</u>
Accrued postretirement benefit cost	-	-	5.3
Accrued pension benefit cost	11.6	11.1	21.4
Other liabilities	11.9	12.4	22.6
Pension underfunded liability- long-term	104.8	104.8	191.8
Long-term debt, net of current portion	629.7	632.8	607.3
Total liabilities	<u>1,092.6</u>	<u>1,102.2</u>	<u>1,162.2</u>
Net assets			
Unrestricted	1,041.4	1,011.6	854.5
Temporarily restricted	7.0	7.2	5.9
Permanently restricted	4.4	4.4	4.4
Total net assets before non-controlling interest	<u>1,052.8</u>	<u>1,023.2</u>	<u>864.8</u>
Non-controlling interest	15.4	18.2	15.6
Total net assets	<u>1,068.2</u>	<u>1,041.4</u>	<u>880.4</u>
Total liabilities and net assets	<u>\$ 2,160.8</u>	<u>\$ 2,143.6</u>	<u>\$ 2,042.6</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	
	March 31,	
	2014	2013
Change in Unrestricted Net Assets		
Total unrestricted revenues and gains	\$ 446.4	\$ 423.4
Operating expenses		
Salaries, benefits and pension	246.0	256.5
Other expenses	153.4	144.0
Depreciation and amortization	20.1	20.0
Provision for bad debts	-	-
Interest	5.2	5.0
Total operating expenses	424.7	425.5
(Loss) income from operations	21.7	(2.1)
Investment income- realized/unrealized	13.8	26.2
Other, net	-	.2
Excess of revenues over expenses before federal income taxes	35.5	24.3
Provision for income taxes	2.1	2.6
Excess of revenues over expenses	33.4	21.7
Less: Excess of revenues over expenses attributable to non-controlling interest	(3.7)	(4.0)
Excess of revenues over expenses attributable to		
Network	29.7	17.7
Change in non-controlling interest	(2.8)	(1.2)
Other changes	.1	(.2)
Increase in unrestricted net assets	27.0	16.3
Change in Temporarily Restricted Net Assets		
(Decrease) increase in temporarily restricted net assets	(.2)	.1
Change in Permanently Restricted Net Assets		
Increase in permanently restricted net assets	-	-
Increase in net assets	26.8	16.4
Net assets, beginning of period	1,041.4	864.0
Net assets, end of period	\$1,068.2	\$ 880.4

Management Discussion of Historical Financial Performance

Three Months Ended March 31, 2014 *Revenues*

The Network's operating margin for the three months ended March 31, 2014 was an operating margin of 4.9% or \$21.7 million as compared to a planned operating margin of 1.6% or \$7.0 million and a prior year loss of (.5%) or \$2.1 million.

The Network's Q1 2014 operating margin was impacted by the following as compared to prior period:

- Inpatient
 - Inpatient admissions decreased 3.9%. All Network inpatient facilities experienced a decrease in inpatient admissions except for the Network's North and Kokomo hospitals which experienced a 1.1% and .6% increase in admissions, respectively;
 - Inpatient surgeries decreased by 2.3%. All Network facilities experienced a decrease in inpatient surgeries except for the Network's North, East and Heart hospitals which experienced a 5.0%, 5.3% and 1.7% increase in surgeries, respectively;
 - Births increased 12.5%. All Network facilities experienced an increase in births
- Outpatient
 - Emergency room visits decreased 1.2%. All Network facilities experienced a decrease except for the Network's South and West hospitals;
 - Employed physician wRVUs increased 10.7%;
 - Imaging scans increased .4%. All Network facilities experienced an increase except for the Network's North, South and West hospitals;
 - Outpatient surgeries decreased 5.5%. The Network's free standing surgery centers experienced a 7.0% decrease which was offset by the Network's hospital based surgeries which increased 2.0%
- 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 4.4% for the three months ended March 31, 2014 as compared to 5.6% for the three months ended March 31, 2013 and a forecasted percentage of 5.9%.
 - The Network's Case Mix Index improved from 1.38 as March 31, 2013 to 1.49 at March 31, 2014. During 2014, the Network continues to implement process improvement surrounding its clinical documentation program.
 - Comparing Q1 2014 to Q1 2013, the Network experienced an unfavorable shift in governmental payor mix. The Network's payer mix is as follows:

Payer Mix	March 31, 2014	March 31, 2013
Medicare	44.3%	44.4%
Medicaid	14.9%	13.9%
Wellpoint	19.2%	18.7%
Self-pay	6.1%	6.7%
Other commercial	15.5%	16.3%

- The Network's revenue deductions including bad debts as a percentage of total patient revenue increased from 64.1% for the three months ended March 31, 2013 to 65.1% for the three months ended March 31, 2014.

The Network's total margin for the three months ended March 31, 2014 was 6.6% million as compared to a prior period total margin of 4.2%. The Network's total margin was favorably impacted by gains recognized on the Network's board designated funds. The Network recognized unrealized gains of \$11.9 million and \$1.9 million of realized gains on its board designated funds for the three months ended March 31, 2014. The Network marks to market its investments on a monthly basis.

The net days in accounts receivable was 44 days for the Network at March 31, 2014 as compared to 51 days at March 31, 2013. The Network's days cash on hand was 170 days at March 31, 2014 as compared to 154 days at March 31, 2013.