

**COMMUNITY HEALTH NETWORK, INC.
& AFFILIATED ENTITIES
Continuing Disclosure Information
As of and for the Six Months Ended June 30, 2020**

Community Health Network, Inc., a 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 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 and ambulatory endoscopy centers.

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)
- Community Physicians of Indiana, Inc. d/b/a Community Physicians Network
- Community Health Network Foundation, Inc.
- Community Home Health Services, Inc.

In February 2019, the Network opened the tower replacement facility on the East Campus.

In March 2019, the State of Indiana opened a new state-of-the-art neuro-diagnostic facility on the East Campus. The Indiana Neuro-Diagnostic Institute is the flagship of the State of Indiana’s network of state-operated mental health facilities and a cornerstone for addressing drug addiction in Indiana.

In August 2019, Community Home Health Services, Inc. (“CHHS”) contributed its home health business to a joint venture with CHI National Home Care (“CHINHC”). CHNw retained a 75% ownership in Community Health at Home, LLC, the new joint venture.

In November 2019, the Network acquired Fairbanks Hospital, Inc. (“Fairbanks”), a drug and alcohol treatment center hospital located on the Network’s North hospital campus in Indianapolis.

In December 2019, the Network formed a shared services joint venture (“Indiana Hospital Shared Services, LLC or IHSS”) with three other health care systems to identify and implement opportunities for joint purchasing and joint provision of products and services.

In January 2020, the CHHS contributed its infusion business to a joint venture with CHINHC. CHNw retained a 50% ownership in the Community Health at Home- Infusion, LLC, the new joint venture.

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 six months ended June 30, 2020 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 2020. The audited consolidated financial statements at December 31, 2019 and 2018 are posted on the Digital Assurance Corporation, 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)	June 30, 2020 (unaudited)	December 31, 2019 (audited)	June 30, 2019 (unaudited)
Assets			
Current assets			
Cash and cash equivalents	\$ 456.1	\$ 363.4	\$ 310.0
Patient accounts receivable, net	274.0	333.1	327.5
Other current assets	103.8	85.4	131.9
Total current assets	833.9	781.9	769.4
Assets limited as to use			
Board designated funds	1,099.9	1,222.5	1,122.3
Reinsurance trust assets	21.4	19.0	17.5
Property, plant and equipment, net	1,032.6	1,039.7	996.8
Capitalized software costs, net	42.0	43.7	43.8
Other assets	308.1	275.6	235.4
Total assets	\$ 3,337.9	\$ 3,382.4	\$ 3,185.2
Liabilities and Net Assets			
Current liabilities			
Current portion of long-term debt	\$ 19.7	\$ 23.0	\$ 23.6
Other current liabilities	441.0	346.3	320.3
Total current liabilities	460.7	369.3	343.9
Other liabilities	173.7	169.8	156.6
Long-term debt, net of current portion	887.7	902.9	908.0
Total liabilities	1,522.1	1,442.0	1,408.5
Net assets			
Without donor restrictions	1,754.9	1,881.4	1,738.7
With donor restrictions	35.6	32.3	18.6
Total net assets before non-controlling interest	1,790.5	1,913.7	1,757.3
Non-controlling interest	25.3	26.7	19.4
Total net assets	1,815.8	1,940.4	1,776.7
Total liabilities and net assets	\$ 3,337.9	\$ 3,382.4	\$ 3,185.2

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

	Six Months Ended June 30,	
	2020	2019
Change in Unrestricted Net Assets		
Total unrestricted revenues and gains	\$ 1,211.4	\$ 1,293.9
Operating expenses		
Salaries, benefits and pension	731.9	695.1
Supplies and other expenses	445.5	452.9
Depreciation and amortization	55.1	52.1
Interest and financing costs	18.6	19.4
Total operating expenses	1,251.1	1,219.5
(Loss) income from operations	(39.7)	74.4
Realized and unrealized (losses) gains on investments, net	(79.3)	113.2
Other, net	-	-
Excess of (expenses over revenues) revenues over expenses before income taxes	(119.0)	187.6
Provision for income taxes	(.7)	2.4
Excess of (expenses over revenues) revenues over expenses	(118.3)	185.2
Less: Excess of revenues attributable to non-controlling interest	(4.9)	(7.9)
Excess of (expenses over revenues) revenues over expenses attributable to Network	(123.2)	177.3
Change in non-controlling interest and other changes	(3.0)	(17.0)
(Decrease) increase in net assets without donor restrictions	(126.2)	160.3
Increase (decrease) in net assets with donor restrictions	1.6	(.2)
(Decrease) increase in net assets	(124.6)	160.1
Net assets, beginning of year	1,940.4	1,616.6
Net assets, end of year	<u>\$1,815.8</u>	<u>\$1,776.7</u>

Management Discussion of Historical Financial Performance

Six Months Ended June 30, 2020

The Network's operating loss for the six months ended June 30, 2020 was (3.3%) as compared to a budgeted operating margin of 5.3% and a prior year margin of 5.7%.

The decrease in operating margin as compared to budget was due to the COVID-19, which was declared a pandemic by the World Health Organization on March 11, 2020. The pandemic impacted all the Network's hospitals. On March 6, 2020, the Governor of the State of Indiana declared a public health emergency after the State of Indiana confirmed its first case of COVID-19, and the Network admitted its first COVID-19 positive patient on March 8, 2020. On March 13, 2020, the President of the United States declared a national emergency as a result of the COVID-19 pandemic. Under guidance from CMS, around March 18, 2020, the Network ceased performing all elective surgeries that were not considered endangerment to life or limb as well as elective procedures such as imaging, physical therapies, sleep studies, etc. On March 23, 2020, the Governor of the State of Indiana implemented a stay at home order. The cessation of elective surgeries and other procedures continued through April 26, 2020.

In mid-April 2020, the Network assembled two teams to navigate the Network's reentry into providing elective surgeries and other procedures. The first team had the responsibility for developing the logistics for the first 90 days of reentry including which services to restart when and where. The second team has the responsibility for revisiting the Network's long-term strategy for 2020 and beyond to assess how patient care should be reinvented including enhancing the Network's virtual platform. Beginning April 27, 2020, as permitted by the Governor of the State of Indiana, the Network restarted its elective surgeries and procedures utilizing a slow ramp up period to ensure personal protective equipment resources and appropriate staffing levels were available. The ramp up of procedures was overseen by the Network's incident command established for the purpose of overseeing the pandemic as well as the Network's joint operations committee. Both groups involved in the reopening decision making were inclusive of operators, clinicians, risk management, finance, human resources and safety and security teams. The Network utilized a tiered approach for reopening, which assessed the Network's clinical personnel availability, bed capacity, personal protective equipment availability and social distancing redesign. The Network began with tier one reopening in late April and migrated to tier three reopening beginning June 29. By July 31, the Network had returned to full operations.

Through June 30, 2020, due to the stoppage of elective surgeries and other procedures due to COVID-19, the Network's net patient revenue decreased by approximately \$262.3 million as compared to budget.

The Network's revenue trends for 2020 in millions were as follows:

	January	February	March	April	May	June
Gross Revenue (excludes revenue deductions)	\$710.2	\$674.9	\$553.5	\$365.5	\$471.3	\$607.7
Net Patient Revenue	\$220.1	\$210.5	\$168.4	\$110.3	\$149.0	\$187.5
Cares Act Funds	-	-	-	\$44.9	\$27.9	\$10.4
Total Operating Revenue	\$228.8	\$221.0	\$177.5	\$165.6	\$187.4	\$231.1

The Network's volume trends for the six months ended June 30, 2020 were as follows as compared to the same period in the prior year:

	Jan.	Feb.	March	April	May	June	June YTD 2020	June YTD 2019	% June 2020 to June 2019
Admissions	5,442	4,935	4,503	3,308	4,144	4,437	26,769	29,341	-8.8%
Adjusted Patient Days	57,759	53,650	49,879	36,597	43,216	48,694	290,537	311,611	-6.8%
Adjusted Admissions	13,595	12,458	11,154	7,555	9,510	11,724	65,981	74,862	-11.9%
ED Visits	24,117	22,261	20,021	13,152	16,773	19,069	115,393	137,234	-15.9%
Outpatient Surgeries	7,498	7,203	4,134	668	2,564	5,784	27,851	42,915	-35.1%
Deliveries	618	594	686	574	662	619	3,753	3,691	1.7%
Inpatient Surgeries	1,092	998	788	370	649	929	4,826	6,000	-19.6%
wRVUs-employed Physicians	395,701	382,164	271,908	144,291	200,988	286,305	1,681,357	2,117,138	-20.6%
Outpatient Visits	289,461	281,775	184,542	83,831	92,009	118,712	1,050,330	1,276,867	-17.7%
Virtual Appts.	297	335	35,080	70,041	72,669	58,819	237,241	737	320.9%

The fluctuation in volumes due to the COVID-19 pandemic was experienced consistently amongst the Network's campuses.

Additionally, the Network recognized \$35.5 million of COVID-19 related expenses through June 30, 2020. Approximately 64.0% of the COVID-19 expenses relate to labor costs with a majority of the remaining costs being associated with supplies, equipment and rental expense for ventilators and beds, creation of negative air flow rooms, and purchase of personal protective equipment. The breakdown of COVID-19 expenses for the six months ended June 30, 2020 in millions were as follows:

Type of Expense	Dollar Amount	% of Total COVID-19 Costs
Employee Costs	\$22.7	64.0%
Supplies Costs	\$5.9	17.0%
Service Expense and Other	\$5.9	17.0%
Facility Expense	\$1.0	3.0%
Total	\$35.5	100.0%*

* Sum may not equal 100% due to rounding.

The COVID expense trends for 2020 in millions were as follows:

	March	April	May	June	Total
Total COVID-19 Expenses	\$2.5	\$13.7	\$13.1	\$6.2	\$35.5

During the COVID-19 pandemic, the Network did not furlough or layoff any personnel and guaranteed all employees' wages and benefits through June 30, 2020. Given the cancellation of elective surgeries and procedures and the slowdown of patients obtaining non-COVID-19 services, at the peak, there were approximately 2,600 employees who were underutilized and were reassigned to a reallocation pool to assist in other needed areas such as personal protective equipment liaisons, screeners, proning teams, COVID-19 call center, additional ICU caregiver support, tent testing, environmental services-cleaning, etc. As of June 30, 2020, all reallocated employees were deployed back to their assigned areas of responsibility, except for certain employees maintaining COVID-19 testing tent locations at each hospital facility.

For its caregivers, the Network provided meal, hotel and childcare programs as well as reimbursement for spring break trips cancelled due the need to retain staffing within the hospitals. These programs ended June 30, 2020. The Network incurred approximately \$0.8 million of expenses associated with those programs. Additionally, the Network provided caregiver services including behavioral health and stress/anxiety services, employee assistance programs, crisis management services and knowledge enhancement services.

Beginning in mid-March, many of the Network's administrative and non-clinical employees shifted to a work from home environment. It is expected this approach will continue through at least December 31, 2020. The Network is currently undertaking a real estate and space assessment to determine the Network's future space requirements.

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 actual data as of June 30, 2020.

Payor Mix	Medicare	Medicaid	Self-Pay	Commercial
CHE	44.3%	23.8%	2.6%	29.3%
CHN	36.8%	22.1%	2.4%	38.7%
CHS	45.5%	18.4%	2.6%	33.5%
CHVH	58.7%	10.8%	1.3%	29.2%
CHA	53.7%	19.1%	2.4%	24.8%
CHRH	49.3%	20.1%	1.9%	28.7%
Fairbanks	8.6%	30.7%	9.4%	51.3%
Total- 2020	45.1%	20.8%	2.4%	31.7%
Total- 2019	46.7%	19.4%	2.4%	31.5%

Revenue deductions (contractual adjustments provided to third-party payers, discounts provided to uninsured patients and implicit price concessions) were 69.1% as compared to a budget of 69.4% and a prior year percentage of 67.9%.

Expenses-

The Network's operating expenses decreased \$55.1 million or 4.2% as compared to budget. The primary drivers of the decrease included lower salaries and wages, medical supplies, service expense and facility expense. Offsetting the decrease was approximately \$35.5 million of COVID-19 costs. The Network expects COVID-19 costs to decrease in the coming weeks as the Network continues to experience lower COVID-19 positive patients as well as lower patients under investigation. During the peak of the COVID-19 pandemic, the Network averaged 101 COVID-19 positive patients per day and 129 patients under investigation.

Factors contributing to the decreased expense include:

- **Salaries and Wages-** The decrease in salaries and wages was driven by a 1.3% decrease in FTEs. The decrease in FTEs was primarily attributed to non-hospital and non-clinical FTE departments.
- **Medical Supplies-** The decrease in medical supplies was due to lower volumes as a result of the cancellation of elective surgeries and procedures which resulted in lower implant costs, patient billable supplies and drug costs.
- **Service Expense-** The decrease in service expenses was due to lab costs due to lower volumes, decreased marketing and web costs, lower consulting fees, lower contract labor and lower collection agency fees as the Network suspended collection agency efforts for a period of time during the peak of COVID-19.
- **Facility Expense-** The decrease in facility costs was driven by lower expenses for utility costs, lower snow and trash removal, lower maintenance and equipment repair and small equipment purchases.

Offsetting the decreases were the following one-time expenses including:

- **Severance Charge-** \$4.7 million- The Network identified reductions in staff associated with identifying corporate overhead administration efficiencies as well as the closure of Network's rehabilitation specialty hospital in Kokomo.
- **Impairment Charge-** \$2.1 million- The Network determined no additional uses existed for the old cancer center on the North campus. It is expected the building will be demolished by December 31, 2020.

Cost Reduction Initiatives-

During the 2020 budget process, the Network identified \$82.9 million of cost reduction initiatives to reduce corporate and clinical administrative overhead. As of June 30, 2020, the Network executed plans totaling \$61.6 million towards achieving the reduction. The initiatives include: 1) a phase one reduction in corporate overhead administrations costs through the reduction of approximately 80 FTEs through both staff and open positions, 2) elimination of the match component of the Network's 401k plan from August 1, 2020 through December 31, 2020, 3) closure and dissolution of the Network's rehabilitation specialty hospital in Kokomo, Indiana, 4) consolidation of functions between the Network and the Network's Anderson hospital facility including revenue cycle, information systems, etc. as the Anderson facility migrates to the Network's electronic medical record on August 29, reducing supply chain costs through standardization of supplies, reduction, etc.

Other-

The Network's net margin for the six months ended June 30, 2020 was (10.2%) as compared to a budgeted margin of 6.7% and a prior year margin of 13.7%. The decrease in net margin was due to lower operating margin performance due to COVID-19 combined with lower earnings on investments due to market performance. The Network recognized net unrealized and realized gains/losses and interest income of (\$79.6) million for the six months ended June 30, 2020. Unrealized losses for the six months ended June 30, 2020 were (\$138.0) million.

The Network's Days Cash on Hand was 237 days at June 30, 2020 as compared to 241 days at December 31, 2019.

The Network received funds from the following sources related to lost revenue and costs incurred associated with COVID-19. No repayment is required for funds received associated with the Cares Acts, but certain requirements must be met in order to retain the funds. The Network believes it is in compliance with those requirements.

April 2020

- **CMS Accelerated Payment Program-** approximately \$131.0 million; repayment of these advanced funds will begin mid-August 2020 and with the final payment being made mid-April 2021.
- **Cares Act Funds- Tranche 1-** approximately \$29.7 million.
- **Cares Act Funds-Tranche 2-** approximately \$16.2 million.
- **State Fiscal Year 2018, 2019 and 2020 Partial Disproportionate Share (“DSH”) Payments-** approximately \$19.9 million; the Network anticipates that a portion of these advanced payments may have to be repaid once the State reconciles the DSH program related to entrants into the program.

May 2020

- **Cares Act Funds- High Impact Areas-** approximately \$27.1 million related to the East and North hospitals.

June 2020

- **Cares Act Funds- Tranches 2 and 3-** approximately \$10.4 million.
- **FCC Telecommunication Grant-** approximately \$0.9 million.

July 2020

- **Cares Act Funds- High Impact Areas- Round 2-** approximately \$11.2 million related to the East, North and South hospitals.

Additionally, beginning in mid-June, the Network opted into the program to defer the payment of the employer portion of Social Security taxes through December 31, 2020. Approximately 50% of the deferred payment must be repaid by December 31, 2021 with the remaining 50% due by December 31, 2022. The Network anticipates that the deferred amount will approximate \$35.7 million. The Network recorded the expense as required in 2020; the program was just a deferral of the payment.

The Network's Days in accounts receivable were 48 days at June 30, 2020 as compared to 48 days at December 31, 2019.

Effective January 1, 2019, the Network adopted FASB Accounting Standards Update (“ASU”) 2016-02 related to the accounting for leases. Specifically, lessees are required to recognize most leases on their balance sheet with a right-of-use asset and a corresponding lease liability. As a result of the adoption of the standard, the Network recognized total right-of-use assets and liabilities of approximately \$180.0 million at January 1, 2019. These amounts are included in other assets and other liabilities in the consolidated balance sheet.

In mid-April 2020, the Network entered into a second line of credit with PNC bank for \$100.0 million. This second line of credit was taken out to continue to support the liquidity of the Network. The Network's existing \$100.0 million line of credit is also with PNC bank. As of June 30, 2020, there have been no draws on either line of credit maintained by the Network.

The data and detail discussed herein regarding the impact of COVID-19 on the Network is being provided voluntarily. The Network cannot predict the full impact that COVID-19 may have on the Network or its financial condition. The Network undertakes no obligation to update this special COVID-19 disclosure or provide similar detail in the future.