



# Centra Health, Inc. and Subsidiaries

## Consolidated Financial Statements and Supplementary Information

As of and for the Years Ended  
December 31, 2019 and 2018

The report accompanying these financial statements was issued by BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of BDO International Limited, a UK company limited by guarantee.



## **Centra Health, Inc. and Subsidiaries**

---

Consolidated Financial Statements and Supplementary Information  
As of and for the Years Ended December 31, 2019 and 2018

# Centra Health, Inc. and Subsidiaries

## Contents

---

<b>Independent Auditor's Report</b>	1-2
<b>Consolidated Financial Statements</b>	
Consolidated Balance Sheets	3
Consolidated Statements of Operations and Changes in Net Assets	4-5
Consolidated Statements of Cash Flows	6
Notes to the Consolidated Financial Statements	7-42
<b>Supplementary Information</b>	
Independent Auditor's Report on Supplementary Information	43
Consolidating Balance Sheet Information	44-45
Consolidating Statement of Operations Information	46-47



Tel: 703-893-0600  
Fax: 703-893-2766  
www.bdo.com

8401 Greensboro Drive  
Suite 800  
McLean, VA 22102

## **Independent Auditor's Report**

The Board of Directors  
Centra Health, Inc. and Subsidiaries

We have audited the accompanying consolidated financial statements of Centra Health, Inc. and Subsidiaries (Centra), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Centra Health, Inc. and Subsidiaries as of December 31, 2019 and 2018, and the results of their operations and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

***Adoption of New Accounting Pronouncement***

As discussed in Note 15 to the consolidated financial statements, effective January 1, 2019, Centra adopted amendments to the Financial Accounting Standards Board Accounting Standards Codification resulting from Accounting Standards Update No. 2016-02, *Leases (Topic 842)*. Our opinion is not modified with respect to this matter.

BDO USA, LLP

May 22, 2020

## **Consolidated Financial Statements**

---

# Centra Health, Inc. and Subsidiaries

## Consolidated Balance Sheets

(Amounts in thousands unless otherwise stated)

<i>December 31,</i>	2019	2018
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 99,385	\$ 86,877
Patient accounts receivable, net	208,307	225,555
Third-party settlements	12,294	3,547
Inventories	27,472	24,658
Other current assets	56,299	51,156
<b>Total current assets</b>	<b>403,757</b>	<b>391,793</b>
Investments and assets whose use is limited	492,392	442,372
Investments in joint ventures	6,442	5,271
Property and equipment, net	464,132	479,246
Right of use asset - leases	17,073	—
Other assets	15,802	15,589
<b>Total assets</b>	<b>\$ 1,399,598</b>	<b>\$ 1,334,271</b>
<b>Liabilities and Net Assets</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 114,603	\$ 82,353
Employee compensation and benefits	52,830	46,852
Third-party settlements and reserves	18,329	13,373
Current portion of long-term obligations	8,661	6,002
Current portion of future lease obligations	4,369	—
Line-of-credit	—	25,000
Other current liabilities	6,978	6,663
<b>Total current liabilities</b>	<b>205,770</b>	<b>180,243</b>
Long-term obligations, net of current portion	405,092	414,068
Future lease obligations, net of current portion	12,824	—
Interest rate swap agreements	15,846	12,796
Accrued pension obligations	24,587	30,563
Other long-term liabilities	36,684	37,095
<b>Total liabilities</b>	<b>700,803</b>	<b>674,765</b>
<b>Commitments and Contingencies</b>		
<b>Net assets:</b>		
Without donor restrictions	626,323	596,938
With donor restrictions	72,472	62,568
<b>Total net assets</b>	<b>698,795</b>	<b>659,506</b>
<b>Total liabilities and net assets</b>	<b>\$ 1,399,598</b>	<b>\$ 1,334,271</b>

*See accompanying notes to the consolidated financial statements.*

## Centra Health, Inc. and Subsidiaries

### Consolidated Statements of Operations and Changes in Net Assets (Amounts in thousands unless otherwise stated)

<i>Years Ended December 31,</i>	2019	2018
<b>Operating revenue and other support:</b>		
Net patient service revenue	\$ 1,005,631	\$ 941,514
Premium revenue	89,342	208,891
Net assets released from restrictions for operations	3,463	2,305
Other operating revenue	94,108	72,716
<b>Total operating revenue</b>	<b>1,192,544</b>	<b>1,225,426</b>
<b>Operating expenses:</b>		
Salaries and wages	516,964	492,107
Benefits	115,649	109,031
Medical supplies and drugs	181,956	172,432
Professional services	66,348	55,942
Medical claims expense	17,381	99,732
Other purchased services	182,896	170,930
Other operating expenses	78,378	72,927
Depreciation and amortization	51,359	50,509
Interest	16,554	14,119
Loss on early extinguishment of debt	—	90
<b>Total operating expenses</b>	<b>1,227,485</b>	<b>1,237,819</b>
Operating loss	(34,941)	(12,393)
<b>Nonoperating gains (losses):</b>		
Investment income (loss), net	60,538	(15,779)
Change in value of interest rate swap agreements	(3,050)	3,159
Net periodic pension costs	(5,877)	(5,205)
Other	(236)	49
Net nonoperating gains (losses)	51,375	(17,776)
<b>Discontinued operations:</b>		
Income (loss) from discontinued operations	6,272	(4,197)
<b>Deficiency of revenue over expenses</b>	<b>\$ 22,706</b>	<b>\$ (34,366)</b>

## Centra Health, Inc. and Subsidiaries

### Consolidated Statements of Operations and Changes in Net Assets

(Amounts in thousands unless otherwise stated)

Years Ended December 31,	2019	2018
<b>Net assets without donor restriction:</b>		
Deficiency of revenue over expenses	\$ 22,706	\$ (34,366)
Change in funded status of defined-benefit plan	5,753	1,434
Net assets released from restrictions for capital acquisitions	926	83
Change in net assets without donor restriction	29,385	(32,849)
<b>Net assets with donor restriction:</b>		
Gifts and bequests	2,411	3,603
Net unrealized gains (losses) on investments	9,685	(5,490)
Net investment income and realized gains on investments	2,198	710
Net assets released from restrictions	(4,390)	(2,388)
Change in net assets with donor restriction	9,904	(3,565)
Change in net assets	39,289	(36,414)
Net assets at beginning of year	659,506	695,920
Net assets at end of year	\$ 698,795	\$ 659,506

*See accompanying notes to the consolidated financial statements.*

# Centra Health, Inc. and Subsidiaries

## Consolidated Statements of Cash Flows (Amounts in thousands unless otherwise stated)

Years Ended December 31,	2019	2018
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 39,289	\$ (36,414)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operations:		
Depreciation and amortization expense	51,359	50,509
Amortization of financing costs included with interest expense	674	314
Amortization of bond discounts and premiums	(346)	(372)
Loss on early extinguishment of debt	—	90
Net (appreciation) depreciation in fair value of investments and assets	(70,443)	20,559
Change in funded status of defined-benefit plan	(5,753)	(1,434)
Net periodic pension costs	5,877	5,205
Change in fair value of interest rate swap agreement	3,050	(3,159)
Gains on equity investments in joint ventures	(4,114)	(4,210)
Losses (gains) on sale of property and equipment	7	(48)
Proceeds from advance fees	3,133	2,123
Contributions received restricted for capital acquisitions	(318)	(422)
Changes in operating assets and liabilities:		
Patient accounts receivable	17,247	(82,673)
Estimated settlements with third-party payors	(3,791)	244
Inventories	(2,813)	(456)
Other current assets	(5,143)	(15,554)
Other assets	(219)	(419)
Accounts payable and other current liabilities	32,162	21,391
Employee compensation and benefits	5,978	5,161
Accrued pension obligations	(6,100)	(3,200)
Other long-term liabilities	(1,461)	(1,103)
Net cash provided by (used in) operating activities	58,275	(43,868)
<b>Cash flows from investing activities:</b>		
Proceeds from sales of investments and assets whose use is limited	290,932	163,391
Purchases of investments and assets whose use is limited	(270,510)	(100,155)
Acquisition of property and equipment	(35,851)	(83,807)
Proceeds on sale of property and equipment	3	48
Distributions from joint ventures	2,943	3,654
Net cash (used in) provided by investing activities	(12,483)	(16,869)
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of long-term obligations	—	100,877
Principal payments on long-term obligations	(6,002)	(5,958)
Financing costs	(643)	(925)
Proceeds from line-of-credit	—	42,000
Principal payments on line-of-credit	(25,000)	(27,000)
Resident refunds	(1,957)	(1,084)
Contributions received restricted for capital acquisitions	318	422
Net cash (used in) provided by financing activities	(33,284)	108,332
Net increase in cash and cash equivalents	12,508	47,595
Cash and cash equivalents at beginning of year	86,877	39,282
Cash and cash equivalents at end of year	\$ 99,385	\$ 86,877
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid for interest, net of amount capitalized	\$ 14,305	\$ 11,673
Property and equipment purchases included in accounts payable	\$ 404	\$ 841
<b>Schedule of noncash investing and financing activities:</b>		
Adoption of leases standard	\$ 21,234	\$ -

*See accompanying notes to the consolidated financial statements.*

# Centra Health, Inc. and Subsidiaries

## Notes to the Consolidated Financial Statements (Amounts in thousands unless otherwise stated)

---

### 1. Organization and Summary of Significant Accounting Policies

#### Organization

Centra Health, Inc. and subsidiaries' (Centra) operations include four acute care hospitals, a long-term acute care hospital, four nursing homes, a continuing care retirement community, a residential children and adolescent psychiatric facility, 12 specialty education facilities, additional outpatient treatment facilities, a foundation, a medical insurance company and an indemnity insurance company. Centra is a not-for-profit (NFP) corporation with a commitment to promote and develop healthcare services and the general well being of the community. Centra also coordinates the activities and interactions of related entities.

#### Principles of Consolidation

The consolidated financial statements include the accounts of Centra Health, Inc., its wholly owned taxable subsidiaries, General Business Concerns, Inc. (GBC), PCHP Holding, Inc., and Piedmont Community Health Plan, Inc. (PCHP). The consolidated financial statements also include the tax-exempt organizations of Centra Health Foundation (Foundation), Centra Medical Group, LLC, Central Virginia Hospital for Restorative and Rehabilitative Care, LLC (Centra Specialty Hospital), Southside Community Hospital, Inc. (Southside), Centra Health Indemnity Company, LLC (CHIC), Bedford Memorial Hospital (Bedford), HealthWorks Clinic, LLC (HealthWorks), Central Virginia Quality Care Network, LLC (CVQCN), Centra Outpatient Rehabilitation Services, LLC (Outpatient Rehab), and CCRC, Inc., a majority owned (91%) subsidiary of Centra. All significant intercompany transactions and account balances have been eliminated in consolidation.

#### Reclassifications

Certain reclassifications have been made to the 2018 consolidated financial statements to conform with classifications used in 2019. The reclassifications had no significant effect on total assets, total liabilities, total revenue, or total deficiency of revenue over expenses previously reported.

#### Use of Estimates

The preparation of these consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include valuation allowances for patient accounts receivable, third-party reimbursement settlements, self-insurance liabilities, retirement obligations, carrying amounts of property, equipment, investments, and interest rate swap agreements. Actual results could materially differ from those estimates.

#### Cash and Cash Equivalents

Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less when purchased. Centra will routinely invest its surplus funds in money market accounts. At various times throughout the year, Centra maintains deposits at financial institutions in excess of amounts covered by Federal Deposit Insurance Corporation limits. Amounts on deposit in excess of federally insured limits at December 31, 2019 and 2018

# Centra Health, Inc. and Subsidiaries

## Notes to the Consolidated Financial Statements (Amounts in thousands unless otherwise stated)

---

approximated \$94,048 and \$81,479, respectively. As of December 31, 2019 and 2018, cash and cash equivalents did not include any donor-imposed restrictions.

### **Patient Accounts Receivable**

Patient accounts receivable include charges for amounts due from all patients or third-party payors less estimated contractual adjustments provided to third-party payors and discounts and implicit price concessions provided to uninsured patients relating to allowances for the excess of established charges over the payments to be received by or on behalf of patients. Centra determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. Centra determines its estimate of implicit price concessions based on its historical collection experience with this class of patients.

### **Investments and Assets Whose Use Is Limited**

Assets whose use is limited include assets set aside by the board of directors for future capital improvements, assets held by the trustee under the Master Trust Indenture, assets restricted by donors and funds designated for construction projects.

Investments are recorded in the consolidated financial statements at estimated fair value. For investments made directly by Centra whose values are based on quoted market prices in active markets, the market price of the investment is used to report fair value. Centra's interest in alternative investment funds, such as real assets, are generally reported at the net asset value (NAV) reported by the fund manager. Unless it is probable that all or a portion of the investment will be sold for an amount other than NAV, Centra has concluded, as a practical expedient, that NAV approximates fair value.

Realized gains and losses on sales on investments are included in deficiency of revenue over expenses. Unrealized gains and losses are included in change in net assets without donor restrictions. Should realized or unrealized gains and losses be restricted by donor or law, they are included with change in net assets with donor restriction as appropriate.

### **Perpetual and Charitable Remainder Trusts**

The Foundation has entered into several types of agreements with donors under which the Foundation will receive future benefits. The Foundation has two types of agreements: perpetual trusts held by a third party and charitable remainder trusts. Under the perpetual trusts, a donor establishes and funds a perpetual trust administered by a trustee other than the Foundation. The Foundation has the irrevocable right to receive the income earned on the trust assets in perpetuity but never receives the assets held in trust. Distributions received by the Foundation may be restricted by the donor. Under the charitable remainder trusts, the donor establishes and funds a trust with specified distributions to be made to a designated beneficiary or beneficiaries over the trust's term. Upon termination of the trust, the Foundation receives the assets remaining in the trust. The Foundation may ultimately have use of those assets without donor restrictions, or the donor may place restrictions on their use. The Foundation's beneficial interest in trusts is recorded at fair value within assets whose use is limited and other assets.

# Centra Health, Inc. and Subsidiaries

## Notes to the Consolidated Financial Statements (Amounts in thousands unless otherwise stated)

---

### Interest Rate Swap Agreements

Investments in interest rate swap agreements are carried at fair value, estimated using a discounted cash flow method at a rate commensurate with the risk involved. As these derivative instruments are not designated as hedges, changes in the fair value of the interest rate swap agreements are reported as nonoperating gains (losses) in the consolidated statements of operations and changes in net assets. Net cash settlements are included in interest expense.

### Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method, except for leasehold improvements. Leasehold improvements are depreciated over the life of the related lease or the useful life of the asset, whichever is shorter. Costs associated with the development and installation of internal-use software may be capitalized or expensed. These costs are expensed if they are incurred in the preliminary or post-implementation/operation stages and capitalized if they are incurred in the application development stage and meet certain capitalization requirements.

The following useful lives are used in computing depreciation:

Building and land improvements	20 - 40 years
Equipment	3 - 20 years
Computer software	3 - 10 years

Interest incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the costs of acquiring those assets. Gain or losses on disposal of property and equipment are included in other operating revenue. Routine repairs and maintenance costs are expensed as incurred.

Gifts of long-lived operating assets such as land, buildings, or equipment are reported as an increase in net assets without donor restrictions, and excluded from deficiency of revenue over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted gifts.

### Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net assets of acquired companies. In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 350, *Intangibles - Goodwill and Other*, Centra does not amortize goodwill, rather the carrying value of goodwill is tested annually for impairment. Total goodwill recorded was approximately \$11,723 as of December 31, 2019 and 2018 and is included in other assets in the accompanying consolidated balance sheets. There was no impairment recognized in 2019 or 2018.

### Inventories

Inventories are valued at the lower of cost (first in, first out method) or net realizable value.

# Centra Health, Inc. and Subsidiaries

## Notes to the Consolidated Financial Statements (Amounts in thousands unless otherwise stated)

---

### Deferred Financing Costs

Costs of obtaining financing are deferred and amortized over the terms of the related indebtedness to which they apply, and are netted against the carrying value of the related indebtedness on the consolidated balance sheets.

### Advance Fees and Deposits

Under the CCRC, Inc. Residency Agreement, the reservation fee is refundable in full if, before the occupancy date, (i) the applicant terminates the Residency Agreement within seven days of either signing the Residency Agreement or making the reservation deposit, (ii) the applicant is not admitted or dies, or (iii) CCRC, Inc. terminates the Residency Agreement; otherwise, the reservation fee is refundable to the applicant net of a \$500 administrative fee.

The Residency Agreement provides for partial refunds of the advance fee under the circumstances outlined below. CCRC, Inc. offers residents a choice of one of the following two options:

1. Declining Refund Advance Fee - After the occupancy date, if the Residency Agreement is terminated for any reason, all fees are refundable less an amount equal to 2% of such fees per month of occupancy until the balance is zero.

Advance fees received under declining refund resident contracts are amortized into revenue over the actuarially determined life expectancy of each individual resident or couple, adjusted annually.

2. Guaranteed Refund Advance Fee - After the occupancy date, if the Residency Agreement is terminated for any reason, the fee is refundable less an amount equal to 2% of such fee per month of occupancy until the balance is equal to 90% of the fee.
  - All refunds are contingent upon reoccupancy of the resident's unit.
  - The nonrefundable portion of the advance fee is amortized into revenue over the actuarially determined life expectancy of each individual resident or couple, adjusted annually. The refundable portion of the 90% Guaranteed Refund Advance Fee is not amortized.

The portion of advance fees subject to refund provisions amounted to approximately \$11,439 and \$11,513 at December 31, 2019 and 2018, respectively, and is included in other long-term liabilities on the accompanying consolidated balance sheets.

### Net Assets

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets of Centra and changes therein are classified and reported as follows:

- Net assets without donor restrictions - Net assets available for use in general operations and not subject to donor restrictions.
- Net assets with donor restrictions - Net assets with donor restrictions are those whose use by Centra has been limited by donors to a specific time period, purpose or in perpetuity. Annual changes in fair value are reported as increases or decreases in net assets with donor restrictions.

# Centra Health, Inc. and Subsidiaries

## Notes to the Consolidated Financial Statements (Amounts in thousands unless otherwise stated)

---

Revenues are reported as increases in net assets without donor restrictions unless use of the related asset is limited by donor imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses are reported as increases or decreases in net assets without donor restrictions unless use of the related asset is limited by donor imposed restrictions or law. Expiration of donor restrictions of net assets (i.e., the donor stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets if used to acquire capital assets; otherwise, they are recorded as operating revenue without donor restrictions. Related income on donor restricted net assets is classified based on donor restriction until the restriction is met and the funds are appropriated for expenditure.

### Premium Revenue

Premium receipts are recognized as revenue during the coverage period Centra's medical insurance subsidiary is obligated to provide healthcare services. Premium billings are billed in the month preceding the coverage period and are recorded as contract liabilities until earned. Payments received from Centra's medical insurance subsidiary are eliminated in consolidation.

Certain insurance subsidiaries participate in the risk adjustment programs established by the Affordable Care Act. The overall goal of these programs is to provide certainty and protect against adverse insurance plan selection while stabilizing premiums as exchanges launched in 2014. Premium revenue and a corresponding receivable of \$6,710 was estimated and recorded related to these programs as of and for the year ended December 31, 2019. Premium revenue and a corresponding receivable of approximately \$900 and \$1,252 were estimated and recorded related to these programs as of and for the year ended December 31, 2018. The laws and regulations governing these programs are complex and subject to interpretation. As a result, there is a reasonable possibility that recorded estimates may change in the near term.

### Medical Claims Expense

Medical claims expense for Centra's insurance subsidiary is recognized as services are provided, including estimated amounts for claims incurred but not yet reported. These expenses are reported net of subscriber copay and deductible amounts and net of reimbursement from coordination of benefits. Reinsurance premiums, net of recoveries, are included in medical claims expense in the accompanying consolidated statements of operations and changes in net assets.

### Donor Restricted Gifts

Unconditional promises to give cash and other assets to Centra are reported at net present value on the date the promise is received. Conditional promises to give and indications of intentions to give are reported at net present value at the date the gift is received. The gifts are reported as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions. Donor restricted contributions whose restrictions are met within the same year as received are reported as contributions without donor restrictions in the accompanying consolidated financial statements.

# Centra Health, Inc. and Subsidiaries

## Notes to the Consolidated Financial Statements (Amounts in thousands unless otherwise stated)

---

### Mission Statement and Nonoperating Gains and Losses

Centra's primary mission is to provide excellent care for life. Only those activities directly associated with the furtherance of this purpose are considered to be operating activities.

Other activities that result in gains or losses unrelated to Centra's primary mission are considered to be nonoperating. Nonoperating gains and losses include investment income and expenses, realized gains and losses on sales of investments, change in value of interest rate swap agreements that are not designated as hedges, net periodic pension costs and other nonrecurring items that are considered extraordinary or unusual in nature.

Other changes in net assets without donor restrictions, which are excluded from excess of revenue and other support over expenses include contributions of long term assets, unrealized gains and losses on investments, changes in funding status of the defined benefit plan, and net assets released from restrictions for capital acquisitions.

### Recently Adopted Accounting Standards

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, where an entity is required to recognize assets and liabilities for the rights and obligations created by leases on the entity's balance sheet for both finance and operating leases. Centra adopted ASU 2016-02 effective January 1, 2019, using a modified retrospective approach. Centra also elected the package of practical expedients permitted under the new standard that allowed Centra to carry forward historical lease classification. Upon adoption, Centra recognized \$21,234 of right-to-use (ROU) asset and lease liabilities for operating leases on the consolidated balance sheet.

### Recently Issued Accounting Standards Not Yet Adopted

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326)*, Measurement of Credit Losses on Financial Instruments. ASU 2016-13 changes the impairment model for most financial assets that are measured at amortized cost and certain other instruments from an incurred loss model to an expected loss model. Entities will be required to estimate credit losses over the entire contractual term of an instrument. ASU 2016-13 is effective for fiscal years beginning after December 15, 2020. Early adoption may be elected. Centra must apply the amendments in ASU 2016-13 through a cumulative-effect adjustment to net assets as of the beginning of the first reporting period in which the guidance is effective except for certain exclusions. Management is evaluating the potential impact of this guidance on its consolidated financial statements.

In August 2017, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*. The update modifies certain disclosure requirements in Topic 820, *Fair Value Measurement*. ASU 2018-13 is effective for Centra's consolidated financial statements for fiscal years beginning after December 15, 2019. Management is evaluating the potential impact of this guidance on its consolidated financial statements.

# Centra Health, Inc. and Subsidiaries

## Notes to the Consolidated Financial Statements (Amounts in thousands unless otherwise stated)

---

### 2. Net Patient Service Revenue and Accounts Receivable for Services to Patients

Effective January 1, 2018, Centra adopted FASB ASU 2014-09, Revenue from Contracts with Customers (Topic 606), using the full retrospective method of transition. Adoption of ASC 606 did not materially impact these consolidated financial statements and there was no cumulative effect of a change in accounting principle recorded related to the adoption effective January 1, 2018.

Net patient service revenue is reported at the amount that reflects the consideration to which Centra expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, Centra bills the patients and third-party payors several days after the services are performed or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by Centra. Revenue for performance obligations satisfied over time is recognized as the services are provided. Centra believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in Centra facilities receiving inpatient acute care services or patients receiving services in outpatient centers or in their homes (home care). Centra measures the performance obligation from admission into the hospital, or the commencement of an outpatient service, to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services.

Because all of its performance obligations relate to contracts with a duration of less than one year, Centra has elected to apply the practical expedient provided in FASB ASC 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period. However, Centra occasionally enters into payment arrangements in excess of one year with patients. For those arrangements, a financing component is not deemed to be significant to the contract. Centra has elected to take advantage of the practical expedient exception in accordance with ASC 606-10-32-18.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. Centra also provides services to uninsured patients, and offers those uninsured patients a discount from standard charges. Centra estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Implicit price concessions relate primarily to amounts due directly from patients. Estimated price concessions are recorded for all uninsured accounts, regardless of the age of those accounts. Accounts are written off when all reasonable internal and external collection efforts have been made. There have been no significant changes in the current year to the underlying

# Centra Health, Inc. and Subsidiaries

## Notes to the Consolidated Financial Statements (Amounts in thousands unless otherwise stated)

---

assumptions used by Centra to estimate the allowance for uncollectible accounts. Significant changes in payor mix, economic conditions or trends in federal and state governmental healthcare coverage could affect the nature, amount, timing and uncertainty of these revenues and cash flows. Adjustments to previous reimbursement estimates are reported in net patient service revenues in the periods that such adjustments become known. For the years ended December 31, 2019 and 2018, the impact of changes to previous transaction price estimates was considered immaterial to the current period.

Centra determines the transaction price based on standard charges for services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with Centra's policy, and implicit price concessions provided to uninsured patients. Centra determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. Centra determines its estimate of implicit price concessions based on its historical collection experience with classes of patients using a portfolio approach as a practical expedient to account for patient contracts as a group rather than individually. The financial statement effects of using this practical expedient are not materially different from an individual contract approach. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as provision for doubtful accounts in other operating expenses in the accompanying consolidated statements of operations and changes in net assets. The provision for doubtful accounts was not material for the years ended December 31, 2019 and 2018.

Agreements with third-party payors typically provide for payments at amounts less than established charges. Management continually reviews the contractual estimation process to incorporate updates to laws and regulations and frequent changes in managed care contractual terms resulting from contract renegotiations and renewals. A summary of the payment arrangements with major third-party payors follows:

- **Medicare.** Certain inpatient acute care services are paid at prospectively determined rates per discharge based on clinical, diagnostic, and other factors. Certain services are paid based on cost-reimbursement methodologies subject to certain limits. Physician services are paid based upon established fee schedules. Outpatient services are paid using prospectively determined rates. Centra is reimbursed for cost reimbursable items at a tentative rate with final settlements determined after submission of annual cost reports by Centra and audits thereof by the Medicare fiscal intermediary. Centra's Medicare cost reports have been audited by the Medicare fiscal intermediary through December 31, 2013.
- **Medicaid.** Reimbursements for Medicaid services are generally paid at prospectively determined rates per discharge, per occasion of service, or per covered member. Centra is reimbursed for at a tentative rate with final settlements determined after submission of annual cost reports by Centra and audits thereof by Medicaid. Centra's Medicaid cost reports have been desk settled by Medicaid through December 31, 2018.
- **Commercial Insurance and Other.** Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

# Centra Health, Inc. and Subsidiaries

## Notes to the Consolidated Financial Statements (Amounts in thousands unless otherwise stated)

---

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various healthcare organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge Centra's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon Centra. In addition, the contracts Centra has with commercial payors also provide for retroactive audit and review of claims.

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the Organization's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known, or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from a change in the transaction price were not significant in 2019 or 2018.

Consistent with Centra's mission, services are provided to patients regardless of their ability to pay. Therefore, Centra has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts Centra expects to collect based on its collection history with those patients.

Patients who meet Centra's criteria for charity care are provided care without charge or at amounts substantially less than established rates in accordance with Centra's financial assistance policy. Since Centra does not pursue collection of these amounts, they are determined to qualify as charity care and are not reported as revenue. While charity care is excluded from net patient service revenue, Centra maintains records to identify and monitor the level of charity care it provides. This includes the amount of charges foregone and the estimated costs incurred for services and supplies furnished under its charity care policy. Costs incurred are estimated based on the ratio of total operating expense to gross charges. The estimated cost to provide charity care was approximately \$23,821 and \$47,350 for 2019 and 2018, respectively.

# Centra Health, Inc. and Subsidiaries

## Notes to the Consolidated Financial Statements (Amounts in thousands unless otherwise stated)

Centra has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected various factors. The composition of patient care service revenue by primary payor for the years ended December 31 is as follows:

	2019	2018
Medicare	\$ 448,647	\$ 436,894
Medicaid	173,080	109,106
Anthem	244,258	211,903
Other commercial and managed care	134,957	130,710
Self-pay and other	4,689	52,901
	\$ 1,005,631	\$ 941,514

It is Centra's practice to assign a patient to the primary payor and not reflect other uninsured balances as self-pay. Therefore, revenue from patient's deductibles and coinsurance are included in the categories presented above based on the primary payor.

The composition of patient care service revenue based on Centra's lines of business for the years ended December 31 is as follows:

	2019	2018
Inpatient	\$ 480,589	\$ 529,295
Outpatient	404,861	299,860
Physicians	120,181	112,359
	\$ 1,005,631	\$ 941,514

### 3. Liquidity and Available Resources

Financial assets available for general expenditure within one year of the consolidated balance sheet date, consist of the following as of December 31:

	2019	2018
Cash and cash equivalents	\$ 99,385	\$ 86,877
Patient accounts receivable, net	208,307	225,555
Investments	410,705	355,193
	\$ 718,397	\$ 667,625

As part of Centra's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Centra has certain internally designated and donor-restricted assets limited as to use which are available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included in the amounts above. Centra has other assets limited as to use for donor-restricted purposes, which are not available for general expenditure within the next year and are not reflected in the amounts above. However, the board-designated amounts could be made available, if necessary. In addition, Centra maintains a line-of-credit to supplement immediate cash needs (see Note 15).

# Centra Health, Inc. and Subsidiaries

## Notes to the Consolidated Financial Statements (Amounts in thousands unless otherwise stated)

### 4. Investments and Assets Whose Use Is Limited

Investments and assets whose use is limited at December 31 are invested for the following purposes:

	2019	2018
Internally designated by the board of directors for operations and capital acquisition	\$ 378,061	\$ 333,223
Internally designated for self-insurance	9,222	10,065
Restricted by Trustee - construction and costs of issuance funds	73	14,411
With donor restrictions	71,473	61,783
Without donor restrictions - designated as endowment	920	920
Without donor restrictions	32,437	21,788
Other	206	182
	\$ 492,392	\$ 442,372

Investment income in 2019 and 2018 consists of the following:

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Investment income	\$ 5,305	\$ 1,105	\$ 6,410
Net realized gains	21,366	1,568	22,934
Net unrealized gains	35,661	9,685	45,346
Investment fees	(1,794)	(475)	(2,269)
	\$ 60,538	\$ 11,883	\$ 72,421
	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Investment income	\$ 6,215	\$ 787	\$ 7,002
Net realized gains	123	413	536
Net unrealized losses	(20,256)	(5,490)	(25,746)
Investment fees	(1,861)	(490)	(2,351)
	\$ (15,779)	\$ (4,780)	\$ (20,559)

All securities are classified as available-for-sale. In accordance with accounting standards, Centra periodically evaluates whether any declines in the fair value of investments that are not classified as trading securities are other-than-temporary. This evaluation consists of a review of several factors, including but not limited to: the length of time and extent that a security has been in an unrealized loss position; the existence of an event that would impair the issuer's future earnings

# Centra Health, Inc. and Subsidiaries

## Notes to the Consolidated Financial Statements (Amounts in thousands unless otherwise stated)

potential; the near term prospects for recovery of the fair value of a security; and the intent and ability of Centra to hold the security until the fair value recovers. Declines in fair value below cost that are deemed to be other-than-temporary are included in the accompanying consolidated statements of operations and changes in net assets as nonoperating losses.

The following tables show the gross unrealized losses and fair value of Centra's investments with unrealized losses that are not deemed to be other than temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2019 and 2018:

2019 Description of securities	Less than 12 months		More than 12 months		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Private pooled investments	\$ 24	\$ -	\$ 39	\$ (6)	\$ 63	\$ (6)

  

2018 Description of securities	Less than 12 months		More than 12 months		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Private pooled investments	\$ 120,147	\$ (7,512)	\$ 65	\$ (9)	\$ 120,212	\$ (7,521)

Unrealized losses on Centra's private pooled investments are related to economic conditions experienced in prior years. Investment returns continue to improve in relation to improved market and economic activity as indicated with the investments' gains over the past year. As of December 31, 2019 and 2018, Centra has the ability to hold such investments until recovery of their fair value and intends to do so, and does not consider the investments to be other than temporarily impaired.

### 5. Fair Values of Assets and Liabilities

The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer or settle a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820, *Fair Value Measurements*, establishes a three-level fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The classification of an investment within the hierarchy is based upon the pricing transparency or ability to redeem the investment and does not necessarily correspond to the perceived risk of that investment. Inputs are used in applying various valuation techniques that are assumptions, which market participants use to make valuation decisions, including assumptions about risk. Inputs may include pricing information, volatility statistics, operating statistics, specific and broad credit data, liquidity statistics, recent transactions, earnings forecasts, future cash flows, market multiples discount rates, and other factors.

# Centra Health, Inc. and Subsidiaries

## Notes to the Consolidated Financial Statements (Amounts in thousands unless otherwise stated)

---

Assets and liabilities measured and reported at fair value are classified within their fair value hierarchy as follows:

**Level 1:** Valuations based on quoted market prices in active markets.

**Level 2:** Investments that trade in markets that are considered to be active, but are based on dealer quotations or alternative pricing sources supported by observable inputs or investments that trade in markets that are not considered to be active, but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs.

**Level 3:** Investments classified within Level 3 have significant unobservable inputs, as they trade infrequently or not at all.

Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Centra's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value of assets and liabilities and their placement within the fair value hierarchy levels.

### *Assets and Liabilities at Fair Value on a Recurring Basis*

Level 1 investments include common stocks, mutual funds, corporate bonds, and U.S. Treasury obligations, which are valued based on prices readily available in the active markets in which those securities are traded and money market funds, which are based on their transacted values. Level 2 investments include private pooled investments, government debt obligations, municipal bonds, hedge funds, charitable remainder trust receivables, and interest rate swap agreements, which are valued on a recurring basis based on inputs that are readily available in public markets or can be derived from information available in publicly quoted markets. Level 3 investments include beneficial interest in perpetual trusts. Private pooled investments in real estate are based on the NAV reported by the fund manager. There were no transfers into or out of Level 3 during 2019 or 2018.

# Centra Health, Inc. and Subsidiaries

## Notes to the Consolidated Financial Statements (Amounts in thousands unless otherwise stated)

The tables below present the balances of assets and liabilities measured at fair value on a recurring basis:

	December 31, 2019				
	Total	Level 1	Level 2	Level 3	NAV*
<b>Assets:</b>					
Investments and assets whose use is limited:					
Cash and cash equivalents	\$ 1,792	\$ 1,792	\$ -	\$ -	-
Money markets	647	647	-	-	-
Common stocks	4,227	4,227	-	-	-
Mutual funds	5,052	5,052	-	-	-
Private pooled investments	456,346	-	436,968	-	19,378
Debt securities	148	148	-	-	-
Beneficial interest in trusts	24,181	-	-	24,181	-
Other assets					
Trust receivables	-	-	-	-	-
<b>Total assets</b>	<b>\$ 492,393</b>	<b>\$ 11,866</b>	<b>\$ 436,968</b>	<b>\$ 24,181</b>	<b>\$ 19,378</b>

<b>Liabilities:</b>					
Interest rate swap agreements	\$ 15,846	\$ -	\$ 15,846	\$ -	-

	December 31, 2018				
	Total	Level 1	Level 2	Level 3	NAV*
<b>Assets:</b>					
Investments and assets whose use is limited:					
Cash and cash equivalents	\$ 16,897	\$ 16,897	\$ -	\$ -	-
Money markets	792	792	-	-	-
Common stocks	3,763	3,763	-	-	-
Mutual funds	3,895	3,895	-	-	-
Private pooled investments	395,581	-	371,663	-	23,918
Debt securities	138	138	-	-	-
Beneficial interest in trusts	21,306	-	-	21,306	-
Other assets					
Trust receivables	789	-	789	-	-
<b>Total assets</b>	<b>\$ 443,161</b>	<b>\$ 25,485</b>	<b>\$ 372,452</b>	<b>\$ 21,306</b>	<b>\$ 23,918</b>

<b>Liabilities:</b>					
Interest rate swap agreements	\$ 12,796	\$ -	\$ 12,796	\$ -	-

\* Investments reported at NAV as a practical expedient estimate of fair value at December 31, 2019 and 2018.

# Centra Health, Inc. and Subsidiaries

## Notes to the Consolidated Financial Statements (Amounts in thousands unless otherwise stated)

### Net Asset Value (NAV) Per Share

In accordance with ASU 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, Centra expanded disclosures to include the category, fair value, redemption frequency, and redemption notice period for those assets whose fair value is estimated using the net asset value per share or its equivalent for which fair value is not readily determinable, as of December 31, 2019 and 2018.

Centra's investments in the private pooled investments in real estate based reported at NAV, have no unfunded commitments as of December 31, 2019 and 2018. These investments can be redeemed daily.

### Changes Level 3

The changes in Level 3 instruments measured on a recurring basis for the years ended December 31, 2019 and 2018 are as follows:

	2019	2018
Beginning balance	\$ 21,306	\$ 23,983
Total gains (losses) (realized/unrealized) included in change in net assets	2,875	(2,677)
Ending balance	\$ 24,181	\$ 21,306

## 6. Property and Equipment

Property and equipment at December 31 consist of the following:

	2019	2018
Land	\$ 31,511	\$ 31,410
Land improvements	18,966	18,964
Buildings and leasehold improvements	606,520	593,980
Equipment	573,257	566,942
	1,230,254	1,211,296
Less: accumulated depreciation and amortization	795,855	764,340
	434,399	446,956
Construction in progress	29,733	32,290
	\$ 464,132	\$ 479,246

Depreciation and amortization expense for the years ended December 31, 2019 and 2018 is approximately \$51,359 and \$50,509, respectively.

# Centra Health, Inc. and Subsidiaries

## Notes to the Consolidated Financial Statements (Amounts in thousands unless otherwise stated)

Construction in progress primarily consists of various in-house construction projects including the renovation and relocation of the Centra Pharmacy and the Women’s Center. The estimated cost to complete these projects as of December 31, 2019 is approximately \$2,636.

### 7. Long-Term Obligations

Long-term obligations at December 31 consist of the following:

Issuing Body	2019	2018
Economic Development Authority of the City of Lynchburg, Virginia (Series 2017 A/B/C/D)	\$ 217,555	\$ 222,900
Economic Development Authority of the City of Lynchburg, Virginia (Series 2014 A/B)	65,607	65,732
Centra Health, Inc. Taxable Bonds (Series 2018)	101,455	101,455
<b>Total bonds</b>	<b>384,617</b>	<b>390,087</b>
Other long-term obligations:		
Taxable promissory note (2014)	20,025	20,057
Notes payable to Carilion Clinic	3,761	4,262
<b>Total other long-term obligations</b>	<b>23,786</b>	<b>24,319</b>
Plus: unamortized bond premiums	8,687	9,074
Less: unamortized bond discounts	(1,102)	(1,144)
Less: unamortized debt issuance costs	(2,235)	(2,266)
Less: current portion	(8,661)	(6,002)
<b>Total long-term obligations, net of current portion</b>	<b>\$ 405,092</b>	<b>\$ 414,068</b>

The Obligated Group is comprised of Centra Health, Inc., Southside, Bedford, Centra Medical Group, LLC and CCRC, Inc. In July 2018, Centra issued \$101,455 in taxable bonds (Series 2018). Interest is payable semi-annually and principal is due in full in 2048. The proceeds of the bonds provided working capital for members of the Obligated Group, will finance other corporate needs and strategic initiatives of the Obligated Group and paid certain expenses incurred in connection with issuing the bonds.

Series 2018 was issued with the par amount of \$101,455 and an underwriter’s discount totaling \$578. The Series 2018 bond bears interest at a fixed rate of 4.70% per annum. Issuance costs related to the Series 2018 bonds were \$632.

In July 2017, Centra issued Hospital Revenue and Refunding Bonds (Centra Health Obligated Group), Series 2017A, Series 2017B, Series 2017C and Series 2017D (collectively, the Series 2017 bonds) in the aggregate par amount of \$228,285. Proceeds from the Series 2017 bonds were used to refund in full the Series 2004, Series 2007, Series 2010, Series 2011 and Series 2012 bonds, pay certain issuance costs for the Series 2017 bonds, and to finance various capital additions and improvements within the Obligated Group. The Series 2017A bonds were issued at a premium of \$9,353. The Series 2017A, Series 2017B and Series 2017C bonds were issued with an underwriter’s discount totaling \$601. The

# Centra Health, Inc. and Subsidiaries

## Notes to the Consolidated Financial Statements (Amounts in thousands unless otherwise stated)

---

Series 2017 bonds issuance resulted in a loss on extinguishment of debt of approximately \$2,570 representing the write-off of unamortized bond issuance costs on outstanding bonds refunded through this transaction. Unused funds to finance capital additions and improvements are held with the Trustee until requisitioned for reimbursement after expenditures are made. Funds held by Trustee restricted for capital expenditures were \$73 and \$14,411 at December 31, 2019 and 2018, respectively.

Each Series 2017A bond bears interest at fixed rates between approximately 3.13% and 5.00% per annum (5.00% at December 31, 2019) and is payable semi-annually. Interest rates on the Series 2017B, 2017C and 2017D bonds are variable and payable monthly. Interest rates on the Series 2017B, 2017C and 2017D bonds were approximately 1.63%, 1.46% and 1.95% per annum at December 31, 2019, respectively.

The Series 2017B and 2017C bonds require issuance of an irrevocable direct-pay letter of credit (credit facility), which was issued by a bank for each series. Each credit facility is scheduled to expire on July 25, 2022.

In September 2014, the Series 2014A and B Hospital Revenue Bonds were issued in the aggregate amount of \$79,895. The Series 2014A bonds bear interest at a fixed rate of 3.85% per annum and Series 2014B bonds bear interest at a variable rate both payable quarterly (1.92% at December 31, 2019). Proceeds of the sale of the bonds were used for acquisition, construction, and equipment for various capital projects including new medical centers, a 24-hour outpatient emergency room, and a new pulmonary unit.

In September 2014, Centra Health issued a taxable promissory note in the amount of \$20,105, variable interest rate payable quarterly (2.76% at December 31, 2019). Proceeds of the sale of the bonds were used for the acquisition, construction, equipment, and supplementing costs of various ambulatory surgery centers.

On June 30, 2014, Bedford and Centra Health, Inc. entered into a Debt Service Agreement with Carilion Clinic (Carilion) to provide for the payment of debt service for Carilion's Bedford portion of its Series 2005C Hospital Revenue Bonds and the Series 2012 Hospital Revenue Bonds. Bedford makes debt service payments to Carilion based on the terms set forth in the Debt Service Agreement. Interest rates range from 4.00% to 5.00% with final payment in 2022. Bedford was formerly a joint venture with Carilion until Centra acquired Carilion's membership interest in 2014.

Centra is obligated to make payments of principal and interest that correspond its debt obligation agreements. The aggregate annual maturities of indebtedness for each of the five years subsequent to December 31, 2019 and thereafter are as follows:

<i>Years Ending December 31,</i>	
2020	\$ 8,661
2021	6,531
2022	7,534
2023	7,108
2024	7,413
Thereafter	371,156
	<hr/>
	\$ 408,403

# Centra Health, Inc. and Subsidiaries

## Notes to the Consolidated Financial Statements (Amounts in thousands unless otherwise stated)

Centra must remain compliance with certain covenants and restrictions required by the master trust indenture underlying its revenue bonds. The covenants include maintaining a required debt service coverage ratio, debt to capitalization ratio, a specific liquidity target, as well as other nonfinancial restrictions. As of December 31, 2019 and 2018, Centra is in compliance with these covenants. Through the Master Trust Indenture, long-term obligations are collateralized through a security interest in certain real estate, other property and equipment, and other interests of Centra.

### 8. Interest Rate Swap Agreements

Centra entered into various interest rate swap agreements with certain investment companies to reduce the exposure of volatility in interest rates on variable rate debt. As such, Centra pays a fixed rate of interest, as noted in the following table, while the investment company pays based on a monthly floating LIBOR rate plus a spread. The difference between the fixed and floating rates is accrued and recorded in interest expense in the accompanying consolidated statements of operations and changes in net assets beginning on the effective date.

The following summarizes the general terms for each of Centra's interest rate swap agreements:

<i>Description</i>	Notional Amount <sup>(1)</sup>	Effective Date	Termination Date	Centra Pays	Centra Receives
Fixed payor	\$ 33,650	12/26/2012	1/1/2028	3.349%	61% of one-month LIBOR + 0.24%
Fixed payor	\$ 39,200	5/19/2016	1/1/2035	3.475%	61% of one-month LIBOR + 0.24%
Fixed payor	\$ 26,325	5/20/2016	1/1/2035	3.371%	61% of one-month LIBOR + 0.24%
Fixed payor	\$ 2,528	6/30/2011	12/15/2022	2.890%	68% of one-month LIBOR + 0.81%

(1) As of December 31, 2019

The fair value of each interest rate swap is the estimated amount Centra would receive or pay to terminate the agreement at the reporting date, taking into account current interest rates and the current creditworthiness of the interest rate swap counterparties. The fair value of these derivative instruments is included as a noncurrent liability in the accompanying consolidated balance sheets. The change in fair value is included with net nonoperating gains on the consolidated statements of operations and changes in net assets as changes in fair value of interest rate swap agreements.

The related financial information on each of these interest rate swap agreements at December 31 is as follows:

<i>Description</i>	Termination date	Fair value 12/31/17	Gain (loss) recognized	Fair value 12/31/18	Gain (loss) recognized	Fair value 12/31/19 <sup>(1)</sup>
Fixed payor	1/1/2028	\$ (3,452)	\$ 863	\$ (2,589)	\$ (295)	\$ (2,884)
Fixed payor	1/1/2035	(8,364)	1,417	(6,947)	(1,956)	(8,903)
Fixed payor	1/1/2035	(4,065)	832	(3,233)	(786)	(4,019)
Fixed payor	12/15/2022	(74)	47	(27)	(13)	(40)
		\$ (15,955)	\$ 3,159	\$ (12,796)	\$ (3,050)	\$ (15,846)

(1) Balances are classified as noncurrent interest rate swap agreement liabilities as of December 31, 2019 and 2018.

Centra is exposed to financial loss in the event of underperformance by a counterparty to any of the interest rate swap agreements described above. General market conditions could impact the

# Centra Health, Inc. and Subsidiaries

## Notes to the Consolidated Financial Statements (Amounts in thousands unless otherwise stated)

---

credit standing of the counterparties and, therefore, potentially impact the value of the instruments on Centra's consolidated balance sheets. Centra controls this counterparty risk by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

### **9. Retirement Plans**

Centra and its NFP subsidiaries (except Bedford, Southside, and PCHP) have a frozen defined-benefit pension plan (the Plan). The benefits are based on years of service and the average compensation during the highest five consecutive calendar years of service. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future. Centra elected to freeze the Plan as of December 31, 2009 to new participants and no future accruals will be earned.

In accordance with generally accepted accounting principles, Centra is required to: (a) recognize in its consolidated balance sheets an asset for the Plan's overfunded status or a liability for the Plan's underfunded status; (b) measure the Plan's assets and its obligations that determine its funded status as of the end of Centra's fiscal year (with limited exceptions); and (c) recognize changes in the funded status the Plan in the year in which the changes occur. Those changes are reported with changes in unrestricted net assets in the consolidated statements of operations and changes in net assets.

## Centra Health, Inc. and Subsidiaries

### Notes to the Consolidated Financial Statements (Amounts in thousands unless otherwise stated)

A summary of the projected benefit obligation, change in Plan assets, and net periodic pension cost is as follows:

<i>December 31,</i>	2019	2018
Change in benefit obligation:		
Projected benefit obligation, beginning of year	\$ 246,734	\$ 267,379
Interest cost	9,885	9,577
Actuarial loss (gain)	29,017	(19,848)
Benefits paid	(27,772)	(10,374)
Projected benefit obligation, end of year	257,864	246,734
Change in plan assets:		
Fair value of plan assets, beginning of year	216,171	237,387
Actual return on plan assets	38,778	(14,042)
Employer contributions	6,100	3,200
Benefits paid	(27,772)	(10,374)
Fair value of plan assets, end of year	233,277	216,171
Funded status of the Plan (unfunded)	\$ (24,587)	\$ (30,563)
Reconciliation of accrued pension costs:		
Prepaid pension costs	\$ 10,373	\$ 12,378
Employer contributions	6,100	3,200
Net periodic pension costs	(3,294)	(5,205)
Settlement/curtailment expense	(2,583)	-
Prepaid pension costs, end of year	10,596	10,373
Accumulated amounts recognized as other change in net assets	(35,183)	(40,936)
Funded status of the Plan (underfunded)	\$ (24,587)	\$ (30,563)
Components of net periodic benefit cost:		
Interest cost	\$ 9,885	\$ 9,577
Expected return on plan assets	(12,306)	(12,191)
Amortization of net actuarial loss	5,715	7,819
Net periodic pension cost	3,294	5,205
Settlement/curtailment expense	2,583	-
Total ASC 715 Expense	\$ 5,877	\$ 5,205

# Centra Health, Inc. and Subsidiaries

## Notes to the Consolidated Financial Statements (Amounts in thousands unless otherwise stated)

	2019	2018
Other changes in plan assets and benefit obligations recognized in other changes in net assets:		
Net actuarial loss	\$ (2,544)	\$ (6,385)
Amortization of net actuarial loss & settlement/curtailment expense	8,297	7,819
<b>Total recognized in other changes in net assets</b>	<b>\$ 5,753</b>	<b>\$ 1,434</b>

Weighted average assumptions used to determine benefit obligations:

	2019	2018
Discount rate	3.20%	4.25%
Expected long-term return on assets	4.50	5.50
Compensation rate increase	N/A	N/A

Weighted average assumptions used to determine net periodic benefit cost:

	2019	2018
Discount rate	4.25%	3.65%
Expected long-term return on assets	5.50	5.50
Compensation rate increase	N/A	N/A

The expected long-term rate of return for the Plan's total assets is based on an analysis of anticipated returns for equity and fixed-income investments for the portfolio allocation.

### *Plan Assets*

The asset allocation for Centra's funded retirement plan at December 31, 2019 and 2018, and the target allocation for 2020 by asset category are as follows:

	Target allocation 2020	Percentage of plan assets at year-end	
		2019	2018
Equity securities	35.0%	35.5%	35.7%
Fixed-income securities	65.0	64.5	64.3
	100.0%	100.0%	100.0%

The policy, as established by Centra's Investment Committee, is to provide for growth of capital with a moderate level of volatility by investing assets per the target allocations stated above. The assets will be reallocated quarterly to meet the above target allocations. The investment policy is reviewed on a quarterly basis, under the advisement of a certified investment adviser to determine if the policy should be changed.

# Centra Health, Inc. and Subsidiaries

## Notes to the Consolidated Financial Statements (Amounts in thousands unless otherwise stated)

As disclosed in note 5, generally accepted accounting principles establish a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. Prices for certain common collective trusts are determined on a recurring basis based on inputs that are readily available in public markets or can be derived from information available in publicly quoted markets and are categorized as Level 2.

The following tables set forth by level the fair value hierarchy the Plan's financial assets accounted for at fair value as of December 31, 2019 and 2018, respectively. Investments are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Centra's assessment of the significance of a particular input to the fair value measurement for plan assets requires judgment, and may affect the valuation of fair value of plan investments and their placement within the fair value hierarchy levels.

December 31, 2019					
	Total	Level 1	Level 2	Level 3	NAV*
Common collective trusts:					
Equity securities	\$ 82,873	\$ -	\$ 82,873	\$ -	-
Fixed income	150,404	-	150,404	-	-
	\$ 233,277	\$ -	\$ 233,277	\$ -	-

December 31, 2018					
	Total	Level 1	Level 2	Level 3	NAV*
Common collective trusts:					
Equity securities	\$ 77,632	\$ -	\$ 77,632	\$ -	-
Fixed income	138,539	-	138,539	-	-
	\$ 216,171	\$ -	\$ 216,171	\$ -	-

### **Cash Flows**

Centra expects to make contributions of \$5,100 to the Plan during 2020.

Estimated future benefit payments - the following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

<i>Years Ending December 31,</i>	
2020	\$ 11,167
2021	11,676
2022	12,256
2023	12,705
2024-2029	82,590

# Centra Health, Inc. and Subsidiaries

## Notes to the Consolidated Financial Statements (Amounts in thousands unless otherwise stated)

### *Section 403(b) Plan*

Centra and its NFP subsidiaries have a tax sheltered annuity program qualified under Section 403(b) of the Internal Revenue Code covering all employees meeting age and service requirements. Centra matches up to 3% on eligible employee contributions. The program also allows Centra to make discretionary contributions, subject to certain limitations. For 2019, Centra provided an additional discretionary contribution of 2% of base pay into each eligible employee's personal retirement savings account of \$7,643. Centra elected not to make a discretionary contribution in 2018.

### **10. Net Assets with Donor Restrictions**

Net assets with donor restrictions at December 31:

	2019	2018
Indigent care	\$ 2,150	\$ 2,015
Capital acquisitions	3,872	3,945
Program services	61,175	51,332
General purpose	5,275	5,276
	<b>\$ 72,472</b>	<b>\$ 62,568</b>

During 2019 and 2018, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes of indigent care, capital acquisitions, and program expenses, which totaled approximately \$4,389 and \$2,388, respectively.

### **11. Endowment Funds**

The Foundation's endowment consists of approximately 45 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Foundation's board of directors to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Foundation's board of directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

#### *Interpretation of Relevant Law*

The board of directors of the Foundation has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) of Virginia as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

## Centra Health, Inc. and Subsidiaries

### Notes to the Consolidated Financial Statements (Amounts in thousands unless otherwise stated)

In accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Foundation and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

Endowment net asset composition by type of fund as of December 31, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment funds:			
Donor restricted	\$ -	\$ 45,625	\$ 45,625
Board designated	920	-	920
	\$ 920	\$ 45,625	\$ 46,545

Changes in endowment net assets for the year ended December 31, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 920	\$ 39,718	\$ 40,638
Investment returns:			
Investment income	-	634	634
Net appreciation	-	5,907	5,907
Appropriation of endowment assets for expenditure	-	(634)	(634)
Endowment net assets, end of year	\$ 920	\$ 45,625	\$ 46,545

## Centra Health, Inc. and Subsidiaries

### Notes to the Consolidated Financial Statements (Amounts in thousands unless otherwise stated)

Endowment net asset composition by type of fund as of December 31, 2018:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment funds:			
Donor restricted	\$ -	\$ 39,718	\$ 39,718
Board designated	920	-	920
	<b>\$ 920</b>	<b>\$ 39,718</b>	<b>\$ 40,638</b>

Changes in endowment net assets for the year ended December 31, 2018:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 920	\$ 43,904	\$ 44,824
Investment returns:			
Investment income	-	683	683
Net depreciation	-	(4,371)	(4,371)
Appropriation of endowment assets for expenditure	-	(498)	(498)
Endowment net assets, end of year	<b>\$ 920</b>	<b>\$ 39,718</b>	<b>\$ 40,638</b>

#### ***Return Objectives and Risk Parameters***

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity as well as board-designated funds. Under this policy, as approved by the Foundation's board of directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The Foundation expects its endowment funds, overtime, to provide an average rate of return on equity investments of 6% and a fixed-income yield of 2% annually. Actual returns in any given year may vary from this amount.

#### ***Strategies Employed for Achieving Objectives***

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

# Centra Health, Inc. and Subsidiaries

## Notes to the Consolidated Financial Statements (Amounts in thousands unless otherwise stated)

---

### *Spending Policy and How the Investment Objectives Relate to Spending Policy*

The Foundation has a policy of requesting for distribution each year either net income of the asset or a percentage of the assets average fair value, which results in an average net cash distribution of 2.4% of total assets. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of 4.3% annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Foundation has interpreted SPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At December 31, 2019 and 2018 there were no funds in a deficient position where the original gift values that exceed the fair values

### **12. Tax Status**

Centra Health, Inc., CCRC, Inc., Foundation, Southside, and Bedford are exempt from income tax under Section 501 (a) of the Internal Revenue Code. Accordingly, no income taxes have been provided for these entities in the accompanying consolidated financial statements except for taxes related to certain unrelated business income engaged in by Centra.

Centra Medical Group, LLC, CHIC, Centra Specialty Hospital, Healthworks, CVQCN, and Outpatient Rehab are disregarded for federal income tax purposes and, therefore, are included under Centra's tax return.

Centra has adopted relevant accounting standards related to taxes for its subsidiaries, GBC, PCHP Holding, Inc. and PCHP. Under the asset-and-liability method for these standards, deferred tax assets and liabilities are recognized for the temporary differences between the financial statement carrying amounts and the tax basis of the subsidiary's assets and liabilities at income tax rates expected to be in effect when such amounts are realized or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date.

CHIC is wholly owned by Centra Health, Inc. Any liability for taxes is passed through to Centra Health, Inc. A provision will be made when operations of this subsidiary indicates a liability for taxes.

Centra has determined that it does not have any material unrecognized tax benefits or obligations as of December 31, 2019. Centra believes they are no longer subject to income tax examinations for years prior to December 31, 2016.

### **13. Functional Expenses**

Centra provides a broad range of healthcare services to residents within its primary and secondary service areas. The consolidated financial statements report expenses that are attributable to both healthcare services and supporting functions. Expenses can be identified either as healthcare services or general and administrative and are charged directly according to their natural expense

## Centra Health, Inc. and Subsidiaries

### Notes to the Consolidated Financial Statements (Amounts in thousands unless otherwise stated)

classifications. Expenses that are allocated include certain benefits, which are allocated on the basis of time and effort. Expenses related to providing these services for 2019 and 2018 are as follows:

	2019		
	Healthcare Services	General and Administrative	Total Expenses
Salaries and wages	\$ 476,856	\$ 40,108	\$ 516,964
Benefits	105,421	10,228	115,649
Medical supplies and drugs	181,929	27	181,956
Professional services	65,860	488	66,348
Medical claims expenses	17,381	-	17,381
Other purchased services	126,596	56,300	182,896
Other operating expenses	52,934	25,444	78,378
Depreciation and amortization	32,721	18,638	51,359
Interest	16,511	43	16,554
Loss on early extinguishment of debt	-	-	-
<b>Total operating expenses</b>	<b>\$ 1,076,209</b>	<b>\$ 151,276</b>	<b>\$ 1,227,485</b>

	2018		
	Healthcare Services	General and Administrative	Total Expenses
Salaries and wages	\$ 456,392	\$ 35,715	\$ 492,107
Benefits	99,513	9,518	109,031
Medical supplies and drugs	172,423	9	172,432
Professional services	55,487	455	55,942
Medical claims expenses	99,732	-	99,732
Other purchased services	122,540	48,390	170,930
Other operating expenses	50,072	22,855	72,927
Depreciation and amortization	34,423	16,086	50,509
Interest	14,057	62	14,119
Loss on early extinguishment of debt	-	90	90
<b>Total operating expenses</b>	<b>\$ 1,104,639</b>	<b>\$ 133,180</b>	<b>\$ 1,237,819</b>

#### 14. Investments in Joint Ventures

##### *Central Virginia Imaging LLC*

Central Virginia Imaging LLC (CVI) is a Virginia limited liability company established June 8, 1998. The company has two members, Centra Health, Inc. (50%), and Radiology Consultants of Lynchburg, Inc. (50%). The company was established to provide computed tomography scanning and magnetic resonance imaging services. Centra Health, Inc.'s investment in CVI is accounted for under the

# Centra Health, Inc. and Subsidiaries

## Notes to the Consolidated Financial Statements (Amounts in thousands unless otherwise stated)

---

equity method. At December 31, 2019 and 2018, CVI had total net assets of approximately \$429 and \$319, respectively.

### *The Surgery Center of Lynchburg, LLC*

The Surgery Center of Lynchburg, LLC (Surgery Center) is a Virginia limited liability company organized on January 29, 1999 to provide outpatient surgical services in the central Virginia area. Centra Health, Inc. owns 50% of the Surgery Center and the remaining 50% is owned by individual physicians. Centra Health, Inc.'s investment in the Surgery Center is accounted for under the equity method. At December 31, 2019 and 2018, the Surgery Center had total net assets of approximately \$7,339 and \$5,648, respectively.

### *The Halifax Centra Venture*

Effective June 16, 2003, Centra Health, Inc. and Halifax Regional Hospital (Halifax) located in South Boston, Virginia, entered into a joint venture to construct and operate a cardiac catheterization laboratory at Halifax. Centra Health, Inc. and Halifax each have a 50% interest in the venture. Centra Health, Inc.'s investment in The Halifax Centra Venture is accounted for under the equity method. The cardiac catheterization laboratory is a department of Halifax. Net income for The Halifax Centra Venture in 2019 and 2018 was \$227 and \$794, respectively.

## 15. Commitments and Contingencies

### *Leases*

Total lease expense in 2019 and 2018 for all operating leases was \$5,707 and \$5,206, respectively.

Centra leases facilities and equipment under long-term operating leases that are non-cancelable and expire on various dates. At the lease commencement date, lease right-of-use (ROU) assets and lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term, which includes all fixed obligations arising from the lease contract. If an interest rate is not implicit in a lease, Centra utilizes its incremental borrowing rate for a period that closely matches the lease term.

The following summarizes net future minimum lease payments due under noncancelable operation leases at December 31, 2019:

<i>Years Ending December 31,</i>		
2020	\$	5,009
2021		3,616
2022		2,825
2023		2,120
2024		1,694
Thereafter		4,103
	\$	19,367

---

**Centra Health, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**(Amounts in thousands unless otherwise stated)**

---

Average operating lease terms and discount rates at December 31, 2019 were as follows:

Weighted-average remaining lease term (years):	
Operating leases	6.3
Weighted-average discount rate:	
Operating leases	4.2%

***Compliance***

Centra self-reported to the United States Department of Justice (DOJ) certain conduct relating to potential violations of the Stark Law and/or the False Claims Act (Disclosure). While negotiating a resolution to the Disclosure with the DOJ and other governmental entities, Centra and the DOJ became aware of additional acts or omissions by Centra that potentially violated the Stark Law, the Anti-Kickback Statute and/or the False Claims Act. Centra adequately reserved for the matter in the accompanying consolidated financial statements and an agreement for settlement was finalized subsequent to year-end.

***Litigation***

Centra is subject to various legal proceedings and claims that are inherent to the provision of healthcare services. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on Centra's consolidated financial statements. Management believe that Centra is adequately insured for any current legal proceedings and claims.

***Line-of-Credit***

In March 2018, Centra entered into an agreement with a commercial bank for a line-of-credit providing advances of up to \$25,000. The loan is secured by the same collateral provided to holders of other parity obligations under the master trust indenture. The interest rate is variable and computed based on one-month LIBOR plus 50 basis points (2.24% as of December 31, 2019). Interest is payable monthly, and all principal and interest is due in full three years from the closing date. As of December 31, 2019, and 2018, there was \$0 and \$25,000 outstanding, respectively.

# Centra Health, Inc. and Subsidiaries

## Notes to the Consolidated Financial Statements (Amounts in thousands unless otherwise stated)

### 16. Concentration of Credit Risk

Centra grants credit without collateral to its patients, most of whom are area residents insured under third-party payor agreements. The mix of net receivables from patients and third-party payors is as follows as of December 31:

	2019	2018
Medicare	33%	41%
Medicaid	13	19
Anthem	21	12
Other commercial and managed care	20	18
Self-pay and other	13	10
	100%	100%

### 17. Insurance Activity

#### *CHIC*

CHIC provides claims-made healthcare facilities commercial general liability, professional liability, employee benefits liability, and excess liability coverages to Centra and its affiliates. CHIC provides commercial general liability up to \$52,000 per event and \$56,750 annually in the aggregate (\$56,500 in 2018). CHIC provides professional liability up to a limit of \$32,400 per person or batch event (\$32,400 in 2018) and \$36,750 annually in the aggregate (\$36,500 in 2018). CHIC provides employee benefit liability up to a limit of \$51,000 per event and \$53,000 annually in the aggregate. Other limits apply for other coverages. CHIC provided various limits prior to January 1, 2018.

Pursuant to reinsurance agreements with unaffiliated reinsurers, CHIC retains \$2,000 per event for general liability coverage and \$2,400 per person or batch event (\$2,350 in 2018) for professional liability and \$6,750 annually in the aggregate combined for both coverages (\$6,500 in 2018). For employee benefits liability, CHIC retains \$1,000 per event and \$3,000 annually in the aggregate. The first \$10,000 in excess of the primary layer of coverage also includes an additional self-insured retention of \$50 each event after CHIC's aggregate limit has been reached. Other limits apply for other coverages. Reinsured limits varied prior to January 1, 2018.

A reconciliation of direct net premiums, on both a written and an earned basis is as follows:

	2019		2018	
Direct	\$	6,105	\$	4,674
Ceded		(1,193)		(473)
Net premiums earned	\$	4,912	\$	4,201

## Centra Health, Inc. and Subsidiaries

### Notes to the Consolidated Financial Statements (Amounts in thousands unless otherwise stated)

The components of the gross liability for losses and loss adjustment expenses and related reinsurance recoverable as of December 31 are as follows:

	2019		2018	
	Gross Liability	Reinsurance Recoverable	Gross Liability	Reinsurance Recoverable
Case basis reserves	\$ 5,657	\$ -	\$ 6,268	\$ -
IBNR reserves	6,612	565	5,119	573
Discounting	(674)	-	(610)	-
Total	\$ 11,595	\$ 565	\$ 10,777	\$ 573

Discounted losses and loss adjustment expense activity, net of reinsurance, is as follows:

	2019	2018
Net liability at the beginning of the year, discounted	\$ 10,204	\$ 9,997
Incurred related to:		
Current year - professional and general liability	5,350	4,456
Current year - excess medical stop loss	187	-
Development of prior years - professional and general liability	(1,851)	(556)
Change in discounting	(64)	195
Total incurred during the year	3,622	4,095
Paid related to:		
Current year - professional and general liability	287	154
Current year - excess medical stop loss	183	-
Prior years - professional and general liability	2,326	3,734
Total paid during the year	2,796	3,888
Net liability at the end of the year, discounted	\$ 11,030	\$ 10,204

Prior year favorable development recorded in 2019 related primarily to the 2015, 2017 and 2018 policy years.

Prior year favorable development recorded in 2018 related primarily to the 2013 and 2015 to 2017 policy years.

## Centra Health, Inc. and Subsidiaries

### Notes to the Consolidated Financial Statements (Amounts in thousands unless otherwise stated)

The reconciliation of the net incurred and paid losses development tables to the liability for losses and loss adjustment expenses on the consolidated balance sheet as of December 31, 2019 is as follows:

Net outstanding liabilities:	
Professional and general liability	\$ 11,701
Reinsurance recoverable:	
Professional and general liability	565
Other	3
Discounting	(674)
<hr/>	
Total gross liability for unpaid losses and loss adjustment expenses, discounted	\$ 11,595

The following is information about incurred and cumulative paid losses and loss adjustment expenses, net of reinsurance, and total IBNR liabilities plus expected development on reported claims, net of reinsurance and the cumulative number of reported claims as of December 31, 2019 for the years presented:

Professional and general liability:

Accident Year	Incurred	Cumulative Paid	Total IBNR Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
2010	\$ 4,567	4,567	\$ -	8
2011	2,225	2,225	-	18
2012	1,376	1,376	-	14
2013	1,424	1,256	7	13
2014	4,612	4,496	38	12
2015	3,336	3,336	-	12
2016	3,978	2,324	207	11
2017	3,959	2,289	522	23
2018	3,335	305	1,959	20
2019	5,350	287	3,311	14
	<hr/>			
	\$ 34,162	\$ 22,461	\$ 6,044	

CHIC determines the number of reported claims by tracking the number of claims at the claimant level. Each claim has a claim number and claimant. Claims are not included in the analysis until they have been asserted or reported by a claimant.

## Centra Health, Inc. and Subsidiaries

### Notes to the Consolidated Financial Statements (Amounts in thousands unless otherwise stated)

Discounted liability, discount rate, discounts and change in discounting as of and for the years ended December 31, 2019 and 2018, are as follows for professional and general liability:

Discounted Liabilities for Unpaid Losses and Loss Adjustment Expenses		Discount Rate		Amount of Discount		Change in Discounting	
2019	2018	2019	2018	2019	2018	2019	2018
\$ 11,030	\$ 10,204	3.00%	3.00%	\$ 674	\$ 610	\$ 64	\$ (194)

CHIC received written approval from the Department to discount its professional and general liabilities. Commercial umbrella liabilities and the related reinsurance recoverable have not been discounted. The change in discounting is included in losses and loss adjustment expenses, net.

#### **PCHP**

PCHP, through its two subsidiaries Piedmont Community HealthCare and Piedmont Community Healthcare HMO (collectively, PCHC), offers fully insured network product options to local employers, Medicare Advantage beneficiaries and individuals on the Federally Facilitated Market Place.

Certain benefits are ceded to an unaffiliated insurance company under a stop loss insurance policy. The ceded reinsurance agreement provides PCHC with increased capacity to maintain its exposure to loss within its capital resources. This contract provides for payments to PCHC when certain medical and pharmacy claims exceed \$600 per member for 2019 and \$450 per member for 2018, subject to certain limitations. For 2019 there is there is an unlimited limit per agreement period per member and a limit of \$5,000 per agreement periods and an unlimited lifetime limit per member for 2018.

A reconciliation of direct net premiums, on both a written and an earned basis is as follows:

	2019	2018
Direct	\$ 129,106	\$ 264,016
Ceded	(2,462)	(5,233)
Net premiums earned	\$ 126,644	\$ 258,783

Claims unpaid represent management's best estimate of ultimate net cost of all reported and unreported claims incurred through December 31. The liability for unpaid claims is computed in accordance with generally accepted actuarial practices and is based upon authorized health care services and past claims payment experience, together with current factors which, in management's judgement, require recognition in the calculation. These accruals are continually monitored and reviewed. Changes in assumptions for medical benefits, as well as changes in actual experience, could cause these estimates to change in the near term. Such changes are reflected in current operations when known and could be material.

## Centra Health, Inc. and Subsidiaries

### Notes to the Consolidated Financial Statements (Amounts in thousands unless otherwise stated)

The following table provides a reconciliation of the beginning and ending balances of claims payable and related accounts for the years ended December 31:

	2019	2018
Balance at January 1	\$ 16,684	\$ 3,898
Add provision for claims occurring in:		
Current year	109,507	224,886
Prior year	(1,651)	688
Total incurred losses	107,856	225,574
Deduct payments for claims related to:		
Current year	103,609	206,636
Prior year	14,568	8,232
Total claims payments	118,177	214,868
Change in healthcare receivables for nonadmitted pharmacy rebates	(3,441)	2,081
Balance at December 31	\$ 2,922	\$ 16,684

The ending balances reflected above are included in the consolidated balance sheets:

	2019	2018
Claims unpaid	\$ 7,962	\$ 24,464
Amounts recoverable from reinsurers	(2,169)	(93)
Pharmacy rebates receivable	(2,871)	(7,687)
	\$ 2,922	\$ 16,684

#### ***Self-Insurance***

Centra is self-insured for employee health benefits. The liabilities associated with these claims were approximately \$10,475 and \$8,617 at December 31, 2019 and 2018, respectively. Centra is also self-insured for workers' compensation insurance. The liability associated with these claims was approximately \$659 and \$884 at December 31, 2019 and 2018, respectively.

#### **18. Discontinued Operations**

Effective October 1, 2019, with approval from the Centers of Medicare and Medicaid Services (CMS), PCHP's Medicare Advantage insurance plan segment was sold to another insurance plan provider. Under the sales agreement, the purchaser will provide all continuing coverage for health benefits to the enrollees of the Medicare Advantage insurance plan and assumes all premiums, reinsurance payments, risk adjustments and other subsidies from CMS. The results of operations of PCHP's Medicare Advantage insurance plan segment are presented in the accompanying consolidated statement of operations and changes in net assets as discontinued operations.

## Centra Health, Inc. and Subsidiaries

### Notes to the Consolidated Financial Statements (Amounts in thousands unless otherwise stated)

A summary of the operating components of the gain (loss) from discontinued operations for PCHP for the years ended December 31, 2019 and 2018 is as follows:

	2019	2018
Operating revenue		
Premium and capitation and revenue	\$ 42,743	\$ 54,847
Operating expenses		
Medical claims	41,867	53,794
Salaries	484	284
Benefits	122	72
Professional fees	1,674	1,120
Other purchased services	2,616	3,097
Other operating (income) expenses	(292)	677
Total operating expenses	46,471	59,044
	(3,728)	(4,197)
Proceeds from sale	10,000	-
Income (loss) from discontinued operations	\$ 6,272	\$ (4,197)

Carrying amounts of major classes of assets and liabilities included as part of discontinued operations were as follows as of December 31, 2019 and 2018:

	2019	2018
<b>Assets</b>		
Other current assets	\$ 5,439	\$ 5,724
<b>Liabilities</b>		
Accounts payable	2,379	8,271
Net assets	\$ 3,060	\$ (2,547)

### 19. Subsequent Events

Management has evaluated subsequent events through May 22, 2020, the date at which the consolidated financial statements were issued. There were no material subsequent events, other than as described below, that required recognition or additional disclosure in the consolidated financial statements.

On March 11, 2020 the World Health Organization declared the novel coronavirus (COVID-19) a global pandemic. As of the date of issuance, this public health emergency stands to substantially impact the global economy, including significant volatility in the financial markets. The coronavirus pandemic and government responses are creating disruption in global supply chains and adversely impacting many industries. The outbreak could have a continued material adverse impact on economic and market conditions and trigger a period of global economic slowdown. The rapid development and fluidity of this situation precludes any prediction as to the ultimate material adverse impact of the novel coronavirus. Nevertheless, the novel coronavirus presents material

# Centra Health, Inc. and Subsidiaries

## Notes to the Consolidated Financial Statements

(Amounts in thousands unless otherwise stated)

---

uncertainty and risk with respect to Centra, its performance, and its financial results. Nationally, COVID-19 has unfavorably impacted patient revenues as non-emergent services have been delayed ensuring appropriate care for COVID-19 patients, which are fewer than expected locally and have a less favorable reimbursement.

On March 27, 2020, President Trump signed into law the “Coronavirus Aid, Relief, and Economic Security (CARES) Act.” The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer side social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations, increased limitations on qualified charitable contributions, and technical corrections to tax depreciation methods for qualified improvement property. To date, Centra has received \$24,225 of payments from the U.S. Department of Health and Human services (HHS), \$140,471 of advances from the Medicare Advanced Payment Program and will have the ability to defer approximately \$19,200 of payroll taxes from 2020. The funds received from HHS are subject to specific terms, conditions and audit by HHS. Noncompliance with any of the terms or conditions is grounds for HHS to recoup some or all of the payments received by Centra. Management believes it has complied with the terms and conditions.

## Supplementary Information

---



Tel: 703-893-0600  
Fax: 703-893-2766  
www.bdo.com

8401 Greensboro Drive  
Suite 800  
McLean, VA 22102

## Independent Auditor's Report on Supplementary Information

The Board of Directors  
Centra Health, Inc. and Subsidiaries:

Our audit of the consolidated financial statements included in the preceding section of this report were conducted for the purpose of forming an opinion on those statements as a whole. The supplementary information presented in the following section of this report is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*BDO USA, LLP*

May 22, 2020

# Centra Health, Inc. and Subsidiaries

## Consolidating Balance Sheet Information - Obligated Group

December 31, 2019

(Amounts in thousands unless otherwise stated)

	Centra Health	Southside Community Hospital	Bedford Memorial Hospital	CCRC	Centra Medical Group	Eliminations	Subtotal Obligated Group
<b>Assets</b>							
<b>Current assets:</b>							
Cash and cash equivalents	\$ 23,265	\$ 5,506	\$ 3,055	\$ 1,086	\$ 7,049	\$ -	\$ 39,961
Patient accounts receivable, net	157,395	18,360	12,261	-	19,000	(494)	206,521
Third-party settlements	9,758	2,009	527	-	-	-	12,294
Inventories	23,455	2,922	972	-	78	-	27,427
Other current assets	34,425	111	36	204	1,920	-	36,697
<b>Total current assets</b>	<b>248,298</b>	<b>28,908</b>	<b>16,851</b>	<b>1,290</b>	<b>28,047</b>	<b>(494)</b>	<b>322,900</b>
Investments and assets whose use is limited	378,134	2,814	-	15,393	-	-	396,340
Investments in joint ventures	6,442	-	-	-	-	-	6,442
Property and equipment, net	377,772	26,216	26,192	7,538	22,488	-	460,206
Right of use asset - leases	12,571	1,228	20	-	2,691	-	16,510
Invested capital, controlled entities	279,549	-	-	-	-	(135,212)	144,336
Due from related parties	(4,176)	15	9	-	19,206	(396)	14,658
Other assets	6,277	-	3,137	-	-	-	9,414
<b>Total assets</b>	<b>\$ 1,304,867</b>	<b>\$ 59,181</b>	<b>\$ 46,209</b>	<b>\$ 24,221</b>	<b>\$ 72,432</b>	<b>(136,102)</b>	<b>\$ 1,370,807</b>
<b>Liabilities and Net Assets (Deficit)</b>							
<b>Current liabilities:</b>							
Accounts payable	\$ 93,680	\$ 1,921	\$ 707	\$ 1,683	\$ 5,444	\$ (495)	\$ 102,939
Employee compensation and benefits	29,215	2,278	1,527	68	18,442	-	51,530
Third-party settlements and reserves	17,116	565	648	-	-	-	18,329
Current portion of long-term obligations	5,952	-	2,709	-	-	-	8,661
Current portion of future lease obligations	2,832	193	20	-	1,100	-	4,146
Due to related parties	(687)	(25,585)	26,529	99	(9)	(397)	(50)
Other current liabilities	6,502	266	-	-	-	-	6,768
<b>Total current liabilities</b>	<b>154,610</b>	<b>(20,362)</b>	<b>32,141</b>	<b>1,849</b>	<b>24,978</b>	<b>(892)</b>	<b>192,323</b>
Long-term obligations, net of current portion	395,782	-	1,129	8,181	-	-	405,092
Future lease obligations, net of current portion	9,841	1,033	-	-	1,602	-	12,476
Interest rate swap agreements	15,807	39	-	-	-	-	15,846
Accrued pension obligations	24,587	-	-	-	-	-	24,587
Other long-term liabilities	5,195	815	405	15,020	-	2	21,437
<b>Total liabilities</b>	<b>605,822</b>	<b>(18,474)</b>	<b>33,674</b>	<b>25,051</b>	<b>26,579</b>	<b>(890)</b>	<b>671,761</b>
<b>Net assets (deficit):</b>							
Without donor restrictions	626,572	77,655	12,535	(830)	45,853	(135,213)	626,573
With donor restrictions	72,473	-	-	-	-	-	72,473
<b>Total net assets (deficit)</b>	<b>699,045</b>	<b>77,655</b>	<b>12,535</b>	<b>(830)</b>	<b>45,853</b>	<b>(135,213)</b>	<b>699,046</b>
<b>Total liabilities and net assets (deficit)</b>	<b>\$ 1,304,867</b>	<b>\$ 59,181</b>	<b>\$ 46,209</b>	<b>\$ 24,221</b>	<b>\$ 72,432</b>	<b>\$ (136,102)</b>	<b>\$ 1,370,807</b>

**Centra Health, Inc. and Subsidiaries**  
**Consolidating Balance Sheet Information**  
**December 31, 2019**  
(Amounts in thousands unless otherwise stated)

	Subtotal Obligated Group	PCHP Consolidated	General Business Concerns	Centra Health Foundation	Centra Specialty Hospital	Centra Health Indemnity Company	Healthworks Clinic	Central VA Quality Care Network	Centra Outpatient Rehab	PCHP Holding	Eliminations	Consolidated
<b>Assets</b>												
Current assets:												
Cash and cash equivalents	\$ 39,961	\$ 51,074	\$ 577	\$ 350	\$ 703	\$ 5,355	\$ 603	\$ 58	\$ 617	\$ 87	\$ -	\$ 99,385
Patient accounts receivable, net	206,521	-	-	-	2,637	-	561	-	297	-	(1,709)	208,307
Third-party settlements	12,294	-	-	-	-	-	-	-	-	-	-	12,294
Inventories	27,427	-	-	-	37	-	7	-	-	-	-	27,472
Other current assets	36,697	18,914	17	-	28	567	9	-	-	3	65	56,299
<b>Total current assets</b>	<b>322,900</b>	<b>69,988</b>	<b>594</b>	<b>350</b>	<b>3,405</b>	<b>5,922</b>	<b>1,180</b>	<b>58</b>	<b>914</b>	<b>90</b>	<b>(1,644)</b>	<b>403,757</b>
Investments and assets whose use is limited	396,340	-	-	73,428	-	22,624	-	-	-	-	-	492,392
Investments in joint ventures	6,442	-	-	-	-	-	-	-	-	-	-	6,442
Property and equipment, net	460,206	2,117	1,117	-	344	-	288	-	60	-	-	464,132
Right of use asset - leases	16,510	563	-	-	-	-	-	-	-	-	-	17,073
Invested capital, controlled entities	144,336	-	-	-	-	-	-	-	-	7,277	(151,613)	-
Due from related parties	14,658	12	-	-	(9)	-	(11)	-	-	-	(14,650)	-
Other assets	9,414	7,304	-	1,904	-	-	2,135	-	-	-	(4,955)	15,802
<b>Total assets</b>	<b>\$ 1,370,807</b>	<b>\$ 79,984</b>	<b>\$ 1,711</b>	<b>\$ 75,682</b>	<b>\$ 3,740</b>	<b>\$ 28,546</b>	<b>\$ 3,592</b>	<b>\$ 58</b>	<b>\$ 974</b>	<b>\$ 7,367</b>	<b>\$ (172,863)</b>	<b>\$ 1,399,598</b>
<b>Liabilities and Net Assets (Deficit)</b>												
Current liabilities:												
Accounts payable	\$ 102,939	\$ 13,024	\$ 18	\$ 21	\$ 179	\$ 68	\$ 53	\$ -	\$ 10	\$ -	\$ (1,709)	\$ 114,603
Employee compensation and benefits	51,530	543	-	28	428	-	42	25	234	-	-	52,830
Third-party settlements and reserves	18,329	-	-	-	-	-	-	-	-	-	-	18,329
Current portion of long-term obligations	8,661	-	-	-	401	-	-	-	-	-	(401)	8,661
Current portion of future lease obligations	4,146	223	-	-	-	-	-	-	-	-	-	4,369
Due to related parties	(49,752)	149	54	300	2,072	-	1,548	5,257	4,621	12	(13,963)	-
Other current liabilities	6,768	-	-	-	-	-	145	-	-	-	65	6,978
<b>Total current liabilities</b>	<b>192,323</b>	<b>13,940</b>	<b>73</b>	<b>349</b>	<b>3,080</b>	<b>68</b>	<b>1,789</b>	<b>5,282</b>	<b>4,865</b>	<b>12</b>	<b>(16,008)</b>	<b>205,770</b>
Long-term obligations, net of current portion	405,092	-	-	-	3,701	-	-	-	-	-	(3,701)	405,092
Future lease obligations, net of current portion	12,476	348	-	-	-	-	-	-	-	-	-	12,824
Interest rate swap agreements	15,846	-	-	-	-	-	-	-	-	-	-	15,846
Accrued pension obligations	24,587	-	-	-	-	-	-	-	-	-	-	24,587
Other long-term liabilities	21,437	1,215	-	45	-	12,319	-	-	-	2,356	(688)	36,684
<b>Total liabilities</b>	<b>671,761</b>	<b>15,502</b>	<b>72</b>	<b>394</b>	<b>6,781</b>	<b>12,387</b>	<b>1,788</b>	<b>5,282</b>	<b>4,865</b>	<b>2,368</b>	<b>(20,398)</b>	<b>700,803</b>
Net assets (deficit):												
Without donor restrictions	626,573	64,482	1,639	2,815	(3,041)	16,159	1,804	(5,224)	(3,891)	4,999	(79,993)	626,322
With donor restrictions	72,473	-	-	72,473	-	-	-	-	-	-	(72,473)	72,473
<b>Total net assets (deficit)</b>	<b>699,046</b>	<b>64,482</b>	<b>1,639</b>	<b>75,288</b>	<b>(3,041)</b>	<b>16,159</b>	<b>1,804</b>	<b>(5,224)</b>	<b>(3,891)</b>	<b>4,999</b>	<b>(152,466)</b>	<b>698,795</b>
<b>Total liabilities and net assets (deficit)</b>	<b>\$ 1,370,807</b>	<b>\$ 79,984</b>	<b>\$ 1,711</b>	<b>\$ 75,682</b>	<b>\$ 3,740</b>	<b>\$ 28,546</b>	<b>\$ 3,592</b>	<b>\$ 58</b>	<b>\$ 974</b>	<b>\$ 7,367</b>	<b>\$ (172,863)</b>	<b>\$ 1,399,598</b>

# Centra Health, Inc. and Subsidiaries

## Consolidating Statement of Operations Information - Obligated Group Year Ended December 31, 2019

(Amounts in thousands unless otherwise stated)

	Centra Health	Southside Community Hospital	Bedford Memorial Hospital	CCRC	Centra Medical Group	Eliminations	Subtotal Obligated Group
<b>Unrestricted revenue and other support:</b>							
Net patient service revenue	\$ 779,689	\$ 94,699	\$ 44,594	\$ -	\$ 120,181	\$ (865)	\$ 1,038,298
Net assets released from restrictions for operations	-	-	-	-	-	-	-
Other operating revenue	107,187	1,630	651	4,780	74,778	(87,998)	101,026
<b>Total unrestricted revenue</b>	<b>886,875</b>	<b>96,329</b>	<b>45,245</b>	<b>4,780</b>	<b>194,959</b>	<b>(88,863)</b>	<b>1,139,324</b>
<b>Expenses:</b>							
Salaries and wages	303,363	27,398	18,320	759	150,332	-	500,171
Benefits	76,381	7,150	4,742	194	27,368	-	115,835
Medical supplies and drugs	158,914	14,227	3,645	-	5,232	(516)	181,502
Professional services	12,682	1,296	592	-	55,737	(3,971)	66,336
Medical claims expense	-	-	-	-	-	-	-
Other purchased services	175,560	22,756	10,619	1,347	42,071	(84,347)	168,006
Other operating expenses	65,526	4,237	2,657	873	2,429	(29)	75,692
Depreciation and amortization	41,008	3,809	2,746	934	2,382	-	50,879
Interest	16,310	15	111	118	-	-	16,554
<b>Total expenses</b>	<b>849,744</b>	<b>80,888</b>	<b>43,432</b>	<b>4,225</b>	<b>285,551</b>	<b>(88,863)</b>	<b>1,174,975</b>
<b>Operating income (loss)</b>	<b>37,131</b>	<b>15,441</b>	<b>1,813</b>	<b>555</b>	<b>(90,592)</b>	<b>-</b>	<b>(35,651)</b>
<b>Nonoperating gains (losses):</b>							
Investment income (loss), net	54,277	389	26	2,299	-	-	56,990
Income from controlled entities	(60,127)	-	-	-	-	70,057	9,930
Change in value of interest rate swap agreements	(3,039)	(11)	-	-	-	-	(3,050)
Net periodic pension costs	(5,877)	-	-	-	-	-	(5,877)
Other	(258)	23	-	-	-	-	(236)
<b>Total net nonoperating gains (losses)</b>	<b>(15,024)</b>	<b>401</b>	<b>26</b>	<b>2,299</b>	<b>-</b>	<b>70,057</b>	<b>57,757</b>
<b>Excess (deficiency) of unrestricted revenue over expenses</b>	<b>\$ 22,107</b>	<b>\$ 15,842</b>	<b>\$ 1,839</b>	<b>\$ 2,854</b>	<b>\$ (90,592)</b>	<b>\$ 70,057</b>	<b>\$ 22,106</b>

**Centra Health, Inc. and Subsidiaries**  
**Consolidating Statement of Operations Information**  
**Year Ended December 31, 2019**  
(Amounts in thousands unless otherwise stated)

	Subtotal Obligated Group	PCHP Consolidated	General Business Concerns	Centra Health Foundation	Centra Specialty Hospital	Centra Health Indemnity Company	Healthworks Clinic	Central VA Quality Care Network	Centra Outpatient Rehab	PCHP Holding	Eliminations	Consolidated
<b>Unrestricted revenue and other support:</b>												
Net patient service revenue	\$ 1,038,298	\$ -	\$ -	\$ -	\$ 9,727	\$ -	\$ 1,469	\$ -	\$ 5,418	\$ -	(49,281)	\$ 1,005,631
Premium revenue	-	89,342	-	-	-	-	-	-	-	-	-	89,342
Net assets released from restrictions for operations	-	-	-	3,463	-	-	-	-	-	-	-	3,463
Other operating revenue	101,026	-	524	1,345	13	4,912	1,302	47	19	-	(15,080)	94,108
<b>Total unrestricted revenue</b>	<b>1,139,324</b>	<b>89,342</b>	<b>524</b>	<b>4,808</b>	<b>9,740</b>	<b>4,912</b>	<b>2,771</b>	<b>47</b>	<b>5,437</b>	<b>-</b>	<b>(64,361)</b>	<b>1,192,544</b>
<b>Expenses:</b>												
Salaries and wages	500,171	6,201	-	584	5,076	-	1,197	725	3,010	-	-	516,964
Benefits	115,835	1,613	-	149	1,308	-	307	188	769	-	(4,520)	115,649
Medical supplies and drugs	181,502	-	-	-	651	-	75	-	28	-	(300)	181,956
Professional services	66,336	-	-	-	-	-	367	143	-	-	(498)	66,348
Medical claims expense	-	66,062	-	-	-	-	-	-	-	-	(48,681)	17,381
Other purchased services	168,006	14,771	197	267	2,241	3,950	753	132	973	1	(8,395)	182,896
Other operating expenses	75,692	280	153	3,814	302	-	53	3	50	-	(1,968)	78,378
Depreciation and amortization	50,879	188	100	-	97	-	65	-	30	-	-	51,359
Interest	16,554	-	-	-	255	-	-	-	-	-	(255)	16,554
<b>Total expenses</b>	<b>1,174,975</b>	<b>89,115</b>	<b>450</b>	<b>4,814</b>	<b>9,930</b>	<b>3,950</b>	<b>2,817</b>	<b>1,191</b>	<b>4,860</b>	<b>1</b>	<b>(64,617)</b>	<b>1,227,485</b>
Operating income (loss)	(35,651)	228	74	(6)	(190)	962	(46)	(1,144)	577	(1)	256	(34,941)
<b>Nonoperating gains (losses):</b>												
Investment income (loss), net	56,990	680	-	(11)	9	3,125	-	-	-	-	(255)	60,538
Income from controlled entities	9,930	-	-	-	-	-	-	-	-	-	(9,930)	-
Change in value of interest rate swap agreements	(3,050)	-	-	-	-	-	-	-	-	-	-	(3,050)
Net periodic pension costs	(5,877)	-	-	-	-	-	-	-	-	-	-	(5,877)
Other	(236)	-	-	-	-	-	-	-	-	-	-	(236)
<b>Total net nonoperating gains (losses)</b>	<b>57,757</b>	<b>680</b>	<b>-</b>	<b>-</b>	<b>9</b>	<b>3,125</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(10,184)</b>	<b>51,375</b>
Income (loss) from discontinued operations	-	6,272	-	-	-	-	-	-	-	-	-	6,272
<b>Excess (deficiency) of unrestricted revenue over expenses</b>	<b>\$ 22,106</b>	<b>\$ 7,179</b>	<b>\$ 74</b>	<b>\$ (6)</b>	<b>\$ (181)</b>	<b>\$ 4,087</b>	<b>\$ (46)</b>	<b>\$ (1,144)</b>	<b>\$ 577</b>	<b>\$ (1)</b>	<b>\$ (9,928)</b>	<b>\$ 22,706</b>

## NO-DEFAULT CERTIFICATE

In accordance with Section 3.10(b)(ii) of the Amended and Restated Master Trust Indenture dated as of July 1, 2017 (the "Indenture"), by and among Centra Health, Inc., Bedford Memorial Hospital, Southside Community Hospital, Inc., CCRC, Inc., Centra Medical Group, LLC, and U.S. Bank National Association, as Master Trustee, Centra Health, Inc., as "Obligated Group Agent" (as defined in the Indenture), provides this Certificate.

The Obligated Group Agent has made a review of the activities of each Member (as defined in the Indenture) during the Fiscal Year ending December 31, 2019 for the purpose of determining whether or not the Members have complied with all of the terms, provisions and conditions of the Indenture. Each Member has kept, observed, performed and fulfilled in all material respects each and every covenant, provision and condition of the Indenture on its part to be performed and is not in default in any material respect in the performance or observance of any of the terms, covenants, provisions or conditions of the Indenture.

By: 

Senior Vice President & CFO  
Centra Health, Inc.

Date: May 29, 2020