



SENTARA HEALTHCARE AND SUBSIDIARIES

Consolidated Financial Statements and
Supplementary Schedules

December 31, 2017 and 2016

(With Independent Auditors' Report Thereon)

SENTARA HEALTHCARE AND SUBSIDIARIES

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KPMG LLP
Suite 1900
440 Monticello Avenue
Norfolk, VA 23510

Independent Auditors' Report

The Board of Directors
Sentara Healthcare:

We have audited the accompanying consolidated financial statements of Sentara Healthcare and subsidiaries, which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of operations, 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 U.S. generally accepted accounting principles; 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.

Auditors' 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 auditor considers 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 Sentara Healthcare and subsidiaries as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.



Other Matters

Our audits were performed for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The supplementary information included in schedules 1 through 10 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, this information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

KPMG LLP

Norfolk, Virginia
March 30, 2018

SENTARA HEALTHCARE AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2017 and 2016

(In thousands)

Assets	2017	2016
Current assets:		
Cash and cash equivalents	\$ 704,621	642,786
Receivables, net	666,596	652,827
Investments and assets whose use is limited	718,622	407,635
Inventories	87,972	73,670
Prepaid expenses and other current assets	45,794	38,197
Total current assets	<u>2,223,605</u>	<u>1,815,115</u>
Investments and assets whose use is limited	3,081,033	2,837,229
Property, plant, and equipment, net	1,980,944	1,883,820
Land held for future use, at cost	34,941	24,568
Other assets, net	112,500	96,811
Total assets	<u>\$ 7,433,023</u>	<u>6,657,543</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 137,184	125,108
Employee compensation and benefits	203,086	193,195
Medical claims accrued and payable	114,522	86,326
Current installments of long-term debt	327,006	23,397
Long-term debt subject to current remarketing provisions	297,410	303,650
Estimated third-party payor settlements	15,474	21,042
Other current liabilities	196,603	151,249
Total current liabilities	<u>1,291,285</u>	<u>903,967</u>
Long-term debt, excluding current installments	793,487	988,415
Retirement obligations	246,493	251,161
Other long-term liabilities	301,447	303,879
Total liabilities	<u>2,632,712</u>	<u>2,447,422</u>
Net assets:		
Unrestricted	4,671,688	4,091,364
Temporarily restricted	74,879	68,577
Permanently restricted	22,681	20,711
Total net assets attributable to Sentara Healthcare	<u>4,769,248</u>	<u>4,180,652</u>
Noncontrolling interest	31,063	29,469
Total net assets	<u>4,800,311</u>	<u>4,210,121</u>
Total liabilities and net assets	<u>\$ 7,433,023</u>	<u>6,657,543</u>

See accompanying notes to consolidated financial statements.

SENTARA HEALTHCARE AND SUBSIDIARIES

Consolidated Statements of Operations

Years ended December 31, 2017 and 2016

(In thousands)

	<u>2017</u>	<u>2016</u>
Operating revenue, gains, and other support:		
Net patient service revenue (net of contractual allowances and discounts)	\$ 4,026,073	3,807,059
Provision for bad debts	<u>(430,869)</u>	<u>(343,411)</u>
Net patient service revenue less provision for bad debts	3,595,204	3,463,648
Premium and capitation revenue	1,571,261	1,479,174
Other operating revenue	119,593	132,947
Net assets released from restrictions for operations	<u>11,803</u>	<u>7,640</u>
Total operating revenue, gains, and other support	<u>5,297,861</u>	<u>5,083,409</u>
Operating costs and expenses:		
Salaries, wages, and benefits	2,055,511	1,993,855
Medical claims	1,064,541	1,078,759
Other operating	1,689,856	1,526,651
Interest	37,672	40,136
Depreciation and amortization	<u>206,149</u>	<u>210,196</u>
Total operating costs and expenses	<u>5,053,729</u>	<u>4,849,597</u>
Net operating income	244,132	233,812
Nonoperating gains, net	<u>381,869</u>	<u>135,746</u>
Excess of revenue over expenses before noncontrolling interest	626,001	369,558
Noncontrolling interest	<u>(9,714)</u>	<u>(10,574)</u>
Excess of revenue over expenses attributable to Sentara Healthcare	616,287	358,984
Net assets released from restricted funds for capital purchases	3,580	3,335
Change in funded status of retirement obligations	<u>(39,543)</u>	<u>(32,825)</u>
Increase in unrestricted net assets	<u>\$ 580,324</u>	<u>329,494</u>

See accompanying notes to consolidated financial statements.

SENTARA HEALTHCARE AND SUBSIDIARIES

Consolidated Statements of Changes in Net Assets

Years ended December 31, 2017 and 2016

(In thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Noncontrolling interest</u>	<u>Total</u>
Balance at December 31, 2015	\$ 3,761,870	67,335	19,911	30,150	3,879,266
Excess of revenue over expenses	358,984	—	—	10,574	369,558
Net assets released from restricted funds for capital purchases	3,335	(3,417)	—	82	—
Change in funded status of pension liability	(32,825)	—	—	—	(32,825)
Distribution to noncontrolling interest	—	—	—	(11,337)	(11,337)
Restricted contributions	—	9,331	513	—	9,844
Net assets released from restrictions	—	(7,640)	—	—	(7,640)
Restricted investment earnings, net	—	2,968	287	—	3,255
Change in net assets	<u>329,494</u>	<u>1,242</u>	<u>800</u>	<u>(681)</u>	<u>330,855</u>
Balance at December 31, 2016	<u>4,091,364</u>	<u>68,577</u>	<u>20,711</u>	<u>29,469</u>	<u>4,210,121</u>
Excess of revenue over expenses	616,287	—	—	9,714	626,001
Net assets released from restricted funds for capital purchases	3,580	(3,583)	—	3	—
Change in funded status of pension liability	(39,543)	—	—	—	(39,543)
Distribution to noncontrolling interest	—	—	—	(8,123)	(8,123)
Restricted contributions	—	15,440	1,095	—	16,535
Net assets released from restrictions	—	(11,803)	—	—	(11,803)
Restricted investment earnings, net	—	6,248	875	—	7,123
Change in net assets	<u>580,324</u>	<u>6,302</u>	<u>1,970</u>	<u>1,594</u>	<u>590,190</u>
Balance at December 31, 2017	\$ <u>4,671,688</u>	<u>74,879</u>	<u>22,681</u>	<u>31,063</u>	<u>4,800,311</u>

See accompanying notes to consolidated financial statements.

SENTARA HEALTHCARE AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2017 and 2016

(In thousands)

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ 590,190	330,855
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Distribution to noncontrolling interest	8,123	11,337
Provision for bad debts	430,869	343,411
Depreciation and amortization	206,149	210,196
Loss on refunding of debt	—	24,417
Net realized and unrealized gains on investments	(295,831)	(89,843)
Loss (gain) on disposal of property, plant, and equipment	291	(120)
Amortization of bond premium, net	(581)	(162)
Change in funded status of pension liability	39,543	32,825
Change in fair value of derivative instruments	(5,428)	(3,950)
Equity in earnings of limited investment companies	(57,550)	(52,055)
Equity in earnings of joint ventures	(5,203)	(6,383)
Restricted contributions received	(16,535)	(9,844)
Gain on sale of business line	—	(84)
Changes in operating assets and liabilities:		
Receivables, net	(439,199)	(416,701)
Inventories	(14,302)	(2,429)
Prepaid expenses and other current assets	(7,597)	(5,652)
Accounts payable and accrued expenses	12,076	(32,389)
Employee compensation and benefits	9,891	21,639
Medical claims accrued and payable	28,196	7,763
Estimated third-party payor settlements	(5,568)	179
Retirement obligations	(44,211)	(63,515)
Other liabilities	42,911	(20,588)
Net cash provided by operating activities	<u>476,234</u>	<u>278,907</u>
Cash flows from investing activities:		
Capital expenditures	(303,598)	(245,888)
Purchases of land held for future use	(10,373)	—
Purchases of investments, net	(201,410)	(117,333)
Net changes in other assets	(10,486)	9,910
Proceeds from the sale of business line	—	5,190
Proceeds from the disposal of property, plant, and equipment	755	3,145
Net cash used in investing activities	<u>(525,112)</u>	<u>(344,976)</u>
Cash flows from financing activities:		
Restricted contributions received	16,535	9,844
Distribution to noncontrolling interest	(8,123)	(11,337)
Proceeds from issuance of long-term debt	150,000	474,184
Repayments on long-term debt	(47,346)	(505,026)
Payments on capital lease obligations	(353)	(343)
Net cash provided by (used in) financing activities	<u>110,713</u>	<u>(32,678)</u>
Net increase (decrease) in cash and cash equivalents	61,835	(98,747)
Cash and cash equivalents at beginning of year	<u>642,786</u>	<u>741,533</u>
Cash and cash equivalents at end of year	\$ <u>704,621</u>	\$ <u>642,786</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 37,755	43,466
Cash paid during the year for income taxes	51	1,052

See accompanying notes to consolidated financial statements.

SENTARA HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

(In thousands)

(1) Description of Organization

(a) Corporate Organization and Mission

Sentara Healthcare (Sentara) is a nonstock, nonprofit, 501(c)(3) tax-exempt Virginia Corporation formed to coordinate, promote, and plan for the provision of health services, medical education, and the economic development of Virginia and North Carolina.

The mission of Sentara is “We improve health every day.” Sentara recognizes that the public trust in its hospitals and services represents both a privilege and a commitment. As the region’s not-for-profit health partner, Sentara is recognized as a leader in providing high quality healthcare regardless of a patient’s ability to pay.

(b) Principles of Consolidation

Sentara is affiliated with its subsidiaries through the legal relationship of sole “member” or sole “stockholder.” As sole member/stockholder, Sentara has those rights and powers prescribed by law and provided in the subsidiaries’ Articles of Incorporation and Bylaws. All significant intercompany balances and transactions have been eliminated in consolidation. Noncontrolling interests have been recorded to recognize the portion of the net assets and operating results of affiliates not wholly owned by Sentara.

The consolidated financial statements include the subsidiaries of Sentara organized into the following lines of business:

- Sentara Healthcare Corporate (SHC) provides overall administration for all Sentara subsidiaries and includes Bay Primex Insurance Company, Ltd. (Bay Primex), a captive insurance company, which insures professional and general liability risks, and Medical Practice Buildings (MPB), which operates medical office buildings.
- Sentara Hospitals (Hospitals), located in the Hampton Roads, Northern Virginia, Blue Ridge, and South Boston areas of Virginia, as well as the Elizabeth City area of North Carolina, provides acute care hospital services and operates Sentara Norfolk General Hospital (SNGH), Sentara Virginia Beach General Hospital (SVBGH), Sentara Leigh Hospital (SLH), Sentara CarePlex Hospital (SCPH), Sentara Williamsburg Regional Medical Center (SWRMC), Sentara Obici Hospital (SOH), Sentara Princess Anne Hospital (SPAH), Sentara Northern Virginia Medical Center (SNVMC), Sentara RMH Medical Center (SRMH), Sentara Martha Jefferson Hospital (SMJH), Sentara Halifax Regional Hospital (SHRH), and Sentara Albemarle Regional Medical Center (SAMC).
- Sentara Enterprises (SE) administers various outpatient healthcare programs, including home health services and patient transportation.
- Sentara Life Care Corporation (SLCC) provides geriatric care services and operates long-term care and assisted living facilities.
- Optima Health Plan (OHP) is a health maintenance organization.

SENTARA HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

(In thousands)

- Sentara Holdings, Inc. (SHI) includes the subsidiaries Sentara Health Plans, Inc. (SHP), Sentara Ventures, Inc. (SVI), Sentara Health Insurance Company of North Carolina, Inc. (SHIC NC), Sentara Health Plans of Ohio, Inc. (SHP OH), and Obici Professional Center (OPC). SHP provides and administers medical services to subscribers and includes Optima Health Group (OHG), a health maintenance organization, Optima Behavioral Health Services (OBHS), a mental health services company, and Optima Health Insurance Company (OHIC), a health insurance company. SVI has been organized to carry on taxable healthcare activities. SHIC NC is licensed to provide health insurance in the state of North Carolina. OPC operates medical office buildings and includes Obici Medical Management Services (OMMS), which owns and operates physician practices and urgent care centers.
- Sentara Medical Group (SMG) owns and operates physician practices and urgent care centers. SMG Innovations (SMGI) is a subsidiary of SMG and owns and operates specialized physician practices.

(2) Joint Venture

SPAH is a 160-bed acute care hospital that serves southern Virginia Beach, as well as neighboring Chesapeake and northeastern North Carolina communities. SPAH commenced operations in August 2011 as a joint venture between Sentara and Bon Secours Health System, Inc. (Bon Secours) (collectively, the Members). Pursuant to the joint venture agreement, Sentara and Bon Secours hold ownership interests in SPAH of 70% and 30%, respectively. Distributions to the Members occur in accordance with the respective membership interests based on an accumulation of days cash on hand above certain thresholds.

The financial position and results of operations of SPAH are included in the consolidated financial statements of Sentara. Bon Secours' interest is reflected as a noncontrolling interest in the consolidated financial statements. An excess of revenue over expenses related to SPAH of \$22,666 and \$9,714 was attributable to Sentara and to the noncontrolling interest, respectively, for the year ended December 31, 2017. An excess of revenue over expenses related to SPAH of \$24,674 and \$10,574 was attributable to Sentara and to the noncontrolling interest, respectively, for the year ended December 31, 2016.

(3) Summary of Significant Accounting Policies

(a) Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with original maturities of three months or less, excluding amounts held in investments.

At December 31, 2017 and 2016, unrestricted cash and cash equivalents totaling \$121,846 and \$47,438, respectively, and unrestricted investments totaling \$202,613 and \$177,551, respectively, were held by Sentara's insurance subsidiaries, OHP, OHIC, and OHG. Transfers of funds by these entities to other Sentara affiliates are subject to approval by the Virginia State Corporation Commission Bureau of Insurance.

SENTARA HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

(In thousands)

(b) Investments and Assets Whose Use is Limited

Investments in readily marketable debt and equity securities are carried at fair value. All investments, except for the portion required for payment of current liabilities, are classified as noncurrent assets. Readily marketable investments are deemed to be trading securities; therefore, investment income or loss (including realized and unrealized gains and losses) is included in nonoperating gains (losses), net, in the accompanying consolidated statements of operations unless restricted as to use by donor or law.

Sentara invests in alternative investments in the form of limited liability companies or partnerships. Alternative investments are accounted for at net asset value (NAV) per share as a practical expedient based on Sentara's interest in their underlying net assets. Alternative investments are typically not readily marketable and, accordingly, their fair value may be different from NAV and that difference could be material. Sentara's share of alternative investment gains and losses is included in nonoperating gains, net in the accompanying consolidated statements of operations. Alternative investments are included in investments and assets whose use is limited in the accompanying consolidated balance sheets.

Sentara's investments are exposed to several risks, including interest rate, currency, market, and credit risks. It is at least reasonably possible that changes in the values of investment securities will occur in the near term due to these risks and such changes could materially affect the amounts reported in the consolidated financial statements.

Sentara has invested in a number of joint ventures, limited liability corporations, and other nonpublic entities that provide specialty healthcare services or engage in other activities. Investments where Sentara has between a 20% and up to a 50% ownership interest are accounted for using the equity method. Sentara's equity in their earnings, which totaled \$5,203 and \$6,383 for the years ended December 31, 2017 and 2016, respectively, is included in other operating revenue in the accompanying consolidated statements of operations. These investments are included in other assets, net, in the accompanying consolidated balance sheets and totaled \$48,588 and \$39,820 at December 31, 2017 and 2016, respectively.

Assets limited as to use include assets held by trustees under debt agreements, malpractice funding arrangements, derivative financial instrument agreements, or internally designated as endowment funds.

(c) Inventories

Inventories consist primarily of pharmaceutical and medical supplies and are carried at the lower of cost (first-in, first-out basis) or market.

(d) Property, Plant, and Equipment

Property, plant, and equipment are recorded at cost at the date of acquisition or fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the life of the lease, or the useful life of the asset, whichever is shorter. Estimated useful lives range from 3 to 25 years for land improvements; 10 to

SENTARA HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

(In thousands)

50 years for buildings, fixed equipment, and leasehold improvements; and 3 to 20 years for major movable equipment. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Gains or losses on disposal of property, plant, and equipment are included in net operating income. Repairs and maintenance costs are expensed as incurred.

(e) Impairment of Long-Lived Assets

Sentara assesses long-lived assets for impairment by determining whether their carrying values can be recovered through the undiscounted future operating cash flows generated by the assets. The amount of impairment, if any, is measured by comparison of the fair value of the assets to their carrying value. Fair value is determined using market data or projected discounted future operating cash flows using a discount rate reflecting Sentara's weighted average cost of capital.

(f) Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net assets of acquired companies. In accordance with Accounting Standards Update (ASU) 2010-07, *Not-for-Profit Entities: Mergers and Acquisitions*, Sentara no longer amortizes goodwill, but rather tests the carrying value of goodwill annually for impairment. Total goodwill recognized on acquisitions, less accumulated amortization, was \$35,867 as of each period ended December 31, 2017 and 2016, and is included in other assets, net in the accompanying consolidated balance sheets.

(g) Medical Claims Accrued and Payable

Claims unpaid by Sentara's insurance subsidiaries include amounts billed and not paid and an estimate of costs incurred for unbilled services provided. The estimated liability for unbilled services is based principally on historical payment patterns using actuarial techniques. Unpaid claims adjustment expenses are accrued based on an estimate of the costs necessary to process unpaid claims. Claims unpaid are reviewed and adjusted periodically and, as adjustments are made, differences are included in current operations.

(h) Derivative Financial Instruments

Sentara recognizes the fair value of derivative financial instruments, currently consisting of interest rate swap agreements in the accompanying consolidated balance sheets. Sentara has elected not to use hedge accounting with respect to any of its derivative financial instruments. Accordingly, the change in fair value of these instruments is included in nonoperating gains, net. Net cash settlement amounts are included in interest expense.

(i) Temporarily and Permanently Restricted Net Assets

Net assets and their related changes are classified based on the existence or absence of donor-imposed restrictions. Temporarily restricted net assets have been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained in perpetuity as endowments. Related income on endowment assets is classified as temporarily restricted until appropriated for expenditure. Temporarily restricted net assets have been restricted primarily for the provision of various healthcare services.

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Notes to Consolidated Financial Statements

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(In thousands)

(j) Nonoperating Gains, Net and Excess of Revenue over Expenses

Activities that result in gains or losses unrelated to the provision of healthcare services are considered to be nonoperating.

The consolidated statements of operations include excess of revenue over expenses. Changes in unrestricted net assets, which are excluded from excess of revenue over expenses, consistent with industry practice, include changes in the funded status of defined-benefit pension plans, contributions of long-lived assets (including assets acquired using donor-restricted contributions), and capital contributions from noncontrolling interests.

(k) Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as changes to estimates become known and tentative and final settlement adjustments are determined.

(l) Charity Care

Sentara provides care to patients that meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because Sentara does not pursue collection of amounts determined to qualify as charity care, related charges are not reported as revenue or included in receivables.

(m) Premium and Capitation Revenue

Premium and capitation payments are recognized as revenue during the coverage period during which Sentara's insurance subsidiaries are obligated to provide healthcare services. Premium billings are billed in the month preceding the coverage period and are recorded as unearned revenue until earned. Payments received by the Hospitals from SHP are eliminated in consolidation.

Certain insurance subsidiaries participate in the risk adjustment, reinsurance, and risk corridor programs, established by the Affordable Care Act (ACA). 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 \$52,757 and \$71,326 were estimated and recorded related to these programs for the years ended December 31, 2017 and 2016, respectively. The reinsurance and risk adjustment programs ended in 2016. 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.

(n) Medical Claims Expense

Medical claims expense for Sentara's insurance subsidiaries 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.

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(In thousands)

Reinsurance premiums, net of recoveries, are included in medical claims expense in the accompanying consolidated statements of operations.

(o) Income Taxes

Sentara and its not-for-profit subsidiaries have been recognized by the Internal Revenue Service as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code, and therefore, related income is generally not subject to federal and or state income taxes.

SHI, its incorporated subsidiaries, and SMGI account for income taxes in accordance with Financial Accounting Standards Board (FASB), Accounting Standards Codification (ASC) Topic 740, *Income Taxes*, whereby income taxes are accounted for under the asset-and-liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. Any changes to the valuation allowance on the deferred tax asset are reflected in the year of the change.

Sentara accounts for uncertain tax positions in accordance with ASC Topic 740.

(p) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles 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. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Significant items subject to such estimates and assumptions include valuation allowances for receivables, recoverability of long-lived assets and goodwill, medical claims liabilities, derivatives, alternative investments, ACA receivables, self-insurance accruals, third-party payor settlements, and retirement obligations. Actual results could differ from those estimates.

(q) Fair Value of Financial Instruments

The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FASB ASC Topic 820, *Fair Value Measurement*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted market prices in active markets for identical assets (Level 1) and the lowest priority to unobservable inputs (Level 3).

The carrying amounts of cash and cash equivalents, receivables, accounts payable and accrued expenses, accrued employee compensation and benefits, estimated third-party payor settlements, and other liabilities reported in the accompanying consolidated balance sheets approximate fair value

SENTARA HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

(In thousands)

(classified as Level 1), in all significant respects, at December 31, 2017 and 2016. See note 6 for fair value disclosures related to investments and assets whose use is limited.

(r) Recently Adopted Accounting Pronouncements

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Liabilities*. This ASU, among other provisions, removes the requirement to disclose the fair value of financial instruments that are measured at amortized cost. Sentara adopted this provision of ASU 2016-01 in 2016.

In May 2015, the FASB issued ASU 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. This ASU removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share as a practical expedient. Sentara adopted ASU 2015-07 in 2016 and removed these investments from the summary of levels within the fair value hierarchy note disclosure from note 6.

In April 2015, the FASB issued ASU 2015-03, *Interest-Imputation of Interest (Subtopic 835-30) Simplifying the Presentation of Debt Issuance Costs*. This ASU requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the debt liability, consistent with debt discounts. Sentara adopted ASU 2015-03 in 2016.

(s) Reclassifications

Certain 2016 amounts have been reclassified to conform to the 2017 presentation. The reclassifications had no effect on net operating income, excess of revenues over expenses or net assets as of and for the year ended December 31, 2016.

(t) Subsequent Events

Sentara has evaluated subsequent events for recognition and disclosure through March 30, 2018, the date the consolidated financial statements were issued.

(4) Net Patient Service Revenue

Sentara has agreements with third-party payors that provide for payments at amounts different from its established rates. A summary of payment arrangements with major third-party payors is as follows:

Medicare: Under the Medicare program, Sentara receives reimbursement under a prospective payment system (PPS) for inpatient services. Under the hospital inpatient PPS, fixed payment amounts per inpatient discharge are established based on the patient's assigned diagnosis related group (DRG). When the estimated cost of treatment for certain patients is significantly higher than the average, providers typically will receive additional "outlier" payments. SRMH and SAMC are considered sole-community service providers by Medicare and its prospective payment rates may be adjusted for inpatient operating costs. The majority of outpatient services provided to Medicare beneficiaries are prospectively reimbursed based on service groups called ambulatory payment classifications (APCs). The remainder of outpatient services are paid on a cost basis or based on a fee schedule. Educational

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(In thousands)

costs are reimbursed by the Medicare program on a reasonable cost basis. The Hospitals are paid for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. The Hospitals have final settled with the Medicare program through the 2014-cost report year, with the exception of SNGH, SRMH, and SHRH, which have all settled through the 2013-cost report year, and SAMC, which has settled through the 2012-cost report year.

Medicaid: The Medicaid program is administered by the Department of Medical Assistance Services (DMAS) of the Commonwealth of Virginia, pursuant to federal and state laws and regulations. DMAS receives funding for program expenditures from both the federal government and the Commonwealth of Virginia. Federal or state law or regulations may affect limits on Medicaid payment. The majority of Medicaid recipients in Sentara's primary service area are enrolled in health maintenance organizations (HMOs). These HMOs contract with the Medicaid program to provide primary and acute care services to enrolled Medicaid recipients. The Hospitals are paid for substantially all services rendered to Medicaid HMO beneficiaries on a prospective payment basis. There are certain Medicaid patients excluded from the HMO program for which the Hospitals are reimbursed based on a DRG-based PPS, which is subject to certain limitations and possible retroactive adjustment. All Hospitals have final settled with the Medicaid program through the 2016-cost report year, with the exception of SAMC and SHRH. SAMC has settled through the 2014-cost report year, while SHRH has settled through the 2013-cost report year.

In addition to Medicare and Medicaid discussed above, Sentara also provides services to beneficiaries of numerous other third-party payors. These payors pay based on negotiated contractual rates, which include prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is a reasonable possibility that recorded estimates will change by a material amount in the near term. During 2017 and 2016, the effect of these settlement adjustments was to increase net patient service revenue by approximately \$2,959 and \$5,395, respectively, related to activity from previous periods.

Due to the nature of the governmental cost report settlement process, the complexities of governmental and nongovernmental patient billing and other financial statement exposures that are inherent in the provision of healthcare services, Sentara has established financial accounting and reporting policies that formally govern the establishment of associated liability estimates beyond those related to specifically identifiable events containing a high level of uncertainty. The establishment of related liabilities is based on a number of factors, including net patient service revenue volumes. Sentara believes that such policy properly provides for Sentara's routine and nonroutine exposures. These estimated liabilities are included in other long-term liabilities in the accompanying consolidated balance sheets in the amounts of \$76,620 and \$94,536 as of December 31, 2017 and 2016, respectively. During 2017 and 2016, the effect of the change in these estimates was to increase net patient service revenue by approximately \$16,837 and \$10,430, respectively, related to activity from previous periods.

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(In thousands)

(5) Receivables, Net

Receivables, net, are summarized as follows at December 31:

	<u>2017</u>	<u>2016</u>
Patient accounts receivable	\$ 1,667,757	1,539,723
Less:		
Contractual allowances for third-party payors	913,591	835,359
Allowance for bad debts	<u>302,713</u>	<u>263,022</u>
Patient accounts receivable, net	451,453	441,342
Premium and capitation receivables, net	111,157	81,338
Estimated third-party payor settlements	10,015	16,981
ACA receivables	52,757	71,326
Other receivables	<u>41,214</u>	<u>41,840</u>
Receivables, net	\$ <u>666,596</u>	<u>652,827</u>

Patient accounts receivable are reduced by an allowance for bad debts. In evaluating the collectibility of accounts receivable, Sentara analyzes historical collections and write-offs and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for bad debts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for bad debts. For receivables associated with services provided to patients who have third-party coverage, Sentara analyzes contractually due amounts and provides an allowance for bad debts, allowance for contractual adjustments, provision for bad debts, and contractual adjustments on accounts for which the third-party payor has not yet paid or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely. For receivables associated with self-pay patients or with balances remaining after third-party coverage, Sentara records a provision for bad debts in the period of service on the basis of its historical collections, which indicates that many patients are unwilling or unable to pay the portion of their bill for which they are financially responsible. The difference between the discounted rates and the amounts collected after all reasonable collection efforts have been exhausted is charged off against the allowance for bad debts.

The activity in the allowance for bad debts is summarized as follows for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Beginning balance as of January 1	\$ 263,022	242,564
Provision for bad debts	430,869	343,411
Less write-offs, net of recoveries	<u>(391,178)</u>	<u>(322,953)</u>
Ending balance as of December 31	\$ <u>302,713</u>	<u>263,022</u>

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The change in the allowance for bad debts during 2017 is attributable to increased self-pay patient volumes and trends experienced in the collection of the related patient receivables.

(6) Investments and Assets Whose Use is Limited

Investments and assets whose use is limited at December 31 at estimated fair value and NAV comprise the following:

	<u>2017</u>	<u>2016</u>
Unrestricted investments	\$ 3,596,215	3,079,123
Donor-restricted investments	67,147	68,251
Assets whose use is limited under indenture, self-insurance funding arrangement, and derivative financial instrument agreements held by trustee	117,444	76,074
Assets internally designated as endowment fund	<u>18,849</u>	<u>21,416</u>
	3,799,655	3,244,864
Less portion required to pay current liabilities	<u>718,622</u>	<u>407,635</u>
	<u>\$ 3,081,033</u>	<u>2,837,229</u>

The three levels of the fair value hierarchy are as follows:

Level 1 – Quoted prices for identical assets or liabilities in active markets

Level 2 – Quoted prices for similar instruments in active markets; for identical instruments in markets that are not active; and model-driven valuations whose inputs are observable either indirectly or directly

Level 3 – Unobservable inputs that are significant to the fair value of the assets or liabilities

Certain investments that are measured at fair value using the net asset value (NAV) per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in the table below are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the accompanying consolidated balance sheets.

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The following tables present Sentara's fair value hierarchy for those assets measured at estimated fair value on a recurring basis as of December 31, 2017 and 2016, respectively:

		2017			
		Total	Level 1	Level 2	Investments reported at NAV
Investments and assets whose use is limited:					
Fixed maturities	\$	859,884	114,304	745,580	—
Equity securities		1,621,567	74,275	1,547,292	—
Multi-asset funds		63,122	63,122	—	—
Alternative investments:					
Hedge funds		646,057	—	272,152	373,905
Private equity		82,100	—	—	82,100
Real estate		261,779	—	—	261,779
Short-term investments		265,146	265,146	—	—
Total	\$	3,799,655	516,847	2,565,024	717,784

		2016			
		Total	Level 1	Level 2	Investments reported at NAV
Investments and assets whose use is limited:					
Fixed maturities	\$	749,241	82,689	666,552	—
Equity securities		1,315,705	61,947	1,253,758	—
Multi-asset funds		58,150	58,150	—	—
Alternative investments:					
Hedge funds		563,967	—	231,641	332,326
Private equity		79,650	—	—	79,650
Real estate		248,258	—	—	248,258
Short-term investments		229,893	229,893	—	—
Total	\$	3,244,864	432,679	2,151,951	660,234

Short-term investments comprise cash equivalents and short-term fixed-income securities. Because of the nature of these assets, carrying amounts approximate fair values, which have been determined from public quotations, when available.

Fair values for Sentara's fixed maturity securities are based on prices provided by its investment managers and its custodian bank, which use a variety of pricing sources to determine market valuations.

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Fair values of equity securities and multi-asset funds have been determined by Sentara from observable market quotations, when available. Equity securities and multi-asset funds where a public quotation is not available are valued by using broker quotes.

Sentara generally uses NAV per share as provided by external investment managers without further adjustment as a practical expedient estimate of the fair value of its alternative investments and limited investment companies consistent with the provisions of ASU 2009-12, *Fair Value Measurements and Disclosures (Topic 820): Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)*. Accordingly, such values may differ from values that would have been used had an active market for the investments existed.

Sentara's limited investment companies include redemption restrictions. Hedge fund investments may require a 65- to 105-day written notice of intent to withdraw and may be subject to a 12- to 36-month lockup period. Private equity investments do not include provisions for redemption, and are distributed by the fund on a discretionary basis as restrictions are met and capital permits. Real estate investments require written notice of intent to withdraw and are subject to the capital requirements of the fund manager.

Sentara has remaining capital commitments of \$46,610 at December 31, 2017 for certain limited investment companies.

(7) Property, Plant, and Equipment

The components of property, plant, and equipment, at cost, and the related accumulated depreciation at December 31 are summarized as follows:

	2017	2016
Land	\$ 152,802	150,700
Land improvements	137,431	129,730
Buildings	1,395,981	1,342,276
Fixed equipment	695,431	679,458
Major moveable equipment	1,856,966	1,785,180
Leasehold improvements	61,920	60,746
	4,300,531	4,148,090
Less accumulated depreciation and amortization	2,571,956	2,391,745
	1,728,575	1,756,345
Construction in progress	252,369	127,475
Total	\$ 1,980,944	1,883,820

Depreciation and amortization related to property, plant, and equipment totaled \$205,428 and \$209,641 for the years ended December 31, 2017 and 2016, respectively.

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Significant construction projects in progress at December 31, 2017 are expected to have remaining project costs of approximately \$171,733 through 2020. The commitments include the costs to complete a vertical expansion at SNGH, an expansion at SVBGH, the implementation of EPIC billing and registration modules, and other projects.

(8) Long-Term Debt

Long-term debt and capital lease obligations at December 31 are summarized as follows:

	<u>2017</u>	<u>2016</u>
Sentara Healthcare Obligated Group Revenue and Refunding Bonds:		
Series 2017, payable in installments ranging from \$23,430 to \$41,490 through 2048, with interest at a variable rate determined upon SIFMA plus 0.225% (actual interest rate at December 31, 2017 was 1.94%)	\$ 150,000	—
Series 2016A, payable in installments ranging from \$1,010 to \$8,550 through 2034, with interest at a variable rate determined upon remarketing every seven days (actual interest rate at December 31, 2017 was 1.80%)	96,805	97,925
Series 2016B, payable in installments ranging from \$1,010 to \$8,550 through 2034, with interest at a variable rate determined upon remarketing every seven days (actual interest rate at December 31, 2017 was 1.74%)	96,805	97,925
Series 2016C, payable in installments ranging from \$695 to \$6,350 through 2046, with interest at a variable rate of 67% of one-month LIBOR plus 0.40% (actual interest rate at December 31, 2017 was 1.45%)	99,310	100,000
Series 2016D, payable in installments ranging from \$580 to \$5,300 through 2046, with interest at a variable rate of 67% of one-month LIBOR plus 0.36% (actual interest rate at December 31, 2017 was 1.41%)	82,960	83,535
Series 2016E, payable in installments of \$1,200 through 2039, with interest at a variable rate of 67% of one-month LIBOR plus 0.35% (actual interest rate at December 31, 2017 was 1.40%)	26,400	27,600
Series 2016F, payable in installments of \$2,724 through 2040, with interest at a variable rate of 67% of one-month LIBOR plus 0.40% (actual interest rate at December 31, 2017 was 1.45%)	62,655	65,379

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	<u>2017</u>	<u>2016</u>
Series 2013A-B, payable in installments ranging from \$1,435 to \$11,535 through 2048, with interest at a variable rate of 67% of one-month LIBOR plus 0.40% (actual interest rate at December 31, 2017 was 1.45%)	\$ 154,550	155,920
Series 2012B, payable in installments ranging from \$2,490 to \$26,110 through 2043, with fixed interest rates ranging from 3.00% to 5.00% (average interest rate at December 31, 2017 was 4.69%)	135,590	137,875
Series 2010, payable in installments ranging from \$1,600 to \$37,160 through 2040, with fixed interest rates ranging from 4.00% to 5.00% (average interest rate for 2017 was 4.74%)	223,480	231,150
Series 2008, payable in installments ranging from \$1,765 to \$26,860 through 2035, with a fixed interest rate of 5.75%	149,635	151,400
City of Suffolk 1998, payable in annual installments of \$667 through 2017, with a fixed interest rate of 4.71%	—	667
Isle of Wight 1998, payable in annual installments of \$667 through 2017, with a fixed interest rate of 4.76%	—	667
Series 1993, payable in installments ranging from \$3,585 to \$3,775 through 2018, with a fixed interest rate of 5.13%	3,775	7,360
SHRH Revenue Bonds – Series 2007, payable in installments ranging from \$505 to \$1,320 through 2037, with fixed interest rates ranging from 4.38% to 5.04% (average interest rate for 2017 was 4.93%)	—	17,800
Notes payable:		
Sentara Healthcare Commercial Paper Note program:		
\$130,000 authorized tax-exempt issue, weighted average maturity and interest rate at December 31, 2017 was 81 days and 1.08%, respectively	32,800	36,800
\$125,000 authorized taxable issue, weighted average maturity and interest rate at December 31, 2017 was 101 days and 1.43%, respectively	71,000	71,000

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	<u>2017</u>	<u>2016</u>
Note payable due 2017 with a fixed rate of Prime, adjusted every five years	\$ —	108
Capital lease obligations	<u>21,691</u>	<u>22,044</u>
	1,407,456	1,305,155
Unamortized bond premium (discount), net	14,796	15,377
Unamortized bond issuance costs, net	(4,349)	(5,070)
Less amount classified as current	<u>(624,416)</u>	<u>(327,047)</u>
	<u>\$ 793,487</u>	<u>988,415</u>

(a) Obligated Group Revenue and Refunding Bonds

The Sentara Healthcare Obligated Group Revenue and Refunding Bonds were issued under various sales agreements between Sentara and the Industrial Development Authority (IDA) of the Cities of Norfolk, Suffolk, Virginia Beach and Harrisonburg and the County of Isle of Wight (the Authorities), pursuant to which the Authorities will sell certain improvements back to Sentara for aggregate installment payments sufficient to enable the Authorities to pay the principal and interest on the bonds when due. Under the terms of the sales agreements, Sentara delivered to the Authorities promissory notes, pursuant to a Master Trust Indenture, between Sentara and U.S. Bank, NA, as trustee.

In December 2017, Sentara issued \$150,000 in variable rate Hospital Facilities Revenue Bonds (Series 2017). The proceeds of the bonds were used to partially fund a vertical expansion and other ongoing and planned major infrastructure renovations and replacements at SNGH.

In May 2016, Sentara issued \$197,670 in variable rate Hospital Facilities Revenue and Refunding Bonds (Series 2016A and 2016B). The proceeds of the bonds were used to fully refund the Series 2010B-C and 2012A Bonds. A loss of \$1,053 was recognized on the refunding and is included in nonoperating gains, net in the accompanying 2016 consolidated statement of operations.

In August 2016, Sentara issued \$183,535 in variable rate Hospital Facilities Revenue and Refunding Bonds (Series 2016C and 2016D). The proceeds of the bonds were used to fully refund the RMH Series 2006 Bonds. A loss of \$23,364 was recognized on the refunding and is included in nonoperating gains, net in the accompanying 2016 consolidated statement of operations.

In October 2016, Sentara issued \$27,600 in variable rate Hospital Facilities Revenue and Refunding Bonds (Series 2016E). The proceeds of the bonds were used to fully refund the RMH Series 2011A-C Bonds.

In November 2016, Sentara issued \$65,379 in variable rate Hospital Facilities Revenue and Refunding Bonds (Series 2016F). The proceeds of the bonds were used to fully refund the RMH Series 2010A-C Bonds.

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Sentara maintains a balance of short-term investments equal to the Series' 2016A and 2016B Bonds, the commercial paper issuances (note 8(b)) and the Series' 2013A-B and 2017 Bonds that include put options due back to Sentara in 2018, which are not covered by a letter of credit (self-liquidity). Current installments of long-term debt and long-term debt subject to current remarketing provisions and covered by self-liquidity totaled \$601,960 and \$303,650 as of December 31, 2017 and 2016, respectively, and are classified as a current liabilities in the accompanying consolidated balance sheets.

(b) Commercial Paper Revenue Notes

Issuance of the tax-exempt Sentara Healthcare Commercial Paper Revenue Notes (the Notes) was authorized during 1998 under agreements between Sentara and the IDA of the City of Norfolk (the Authority). The Notes will be issued from time to time by the Authority as part of a pooled financing program to provide loans to Sentara to finance the cost of certain capital improvements, to refinance outstanding revenue, and refunding bonds and to pay costs associated with the issuance of the Notes. The outstanding principal amount of all Notes must be repaid by 2027. Each Note will mature between 1 and 270 days after its date of issuance. The maximum aggregate principal amount of the Notes outstanding at any one time shall not exceed \$130,000.

During 2012, Sentara entered into an agreement with a commercial finance company that authorizes the issuance of up to \$125,000 of taxable commercial paper (the Commercial Paper). The Commercial Paper will be issued from time to time for general corporate purposes and to refund a portion of certain Notes previously issued. The outstanding principal amount of all the Commercial Paper must be repaid by 2042. Each Commercial Paper will mature between 1 and 270 days after its date of issuance.

(c) Other

The Revenue and Refunding Bonds are not secured by any security interest in or lien on any revenue or real property. The Master Trust Indenture places certain restrictions on Sentara relative to operating ratios and incurrence of additional indebtedness.

Estimated maturities and sinking fund requirements of all long-term indebtedness, including a portion of long-term debt subject to current remarketing provisions, at December 31, 2017 are as follows:

2018	\$	24,468
2019		24,635
2020		26,098
2021		26,551
2022		29,995
Thereafter		<u>971,159</u>
	\$	<u><u>1,102,906</u></u>

Also included in current installments of long-term debt are the Series 2013A-B in the amount of \$154,550 and the Series 2017 in the amount of \$150,000, which include put options due back to Sentara in 2018 and will be refinanced.

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(9) Derivative Financial Instruments

Sentara uses interest rate swaps as a part of its risk management strategy to manage exposure to fluctuations in interest rates and to manage the overall cost of its debt. The interest rate swaps are not used for speculative purposes and are measured at fair value in the accompanying consolidated balance sheets.

The following table provides details regarding the fair value of Sentara's derivative instruments currently classified as other long-term liabilities in the accompanying consolidated balance sheets at December 31, 2017 and 2016, none of which are designated as cash flow hedging instruments:

2017							
Interest rate swap	Fair value	Notional amount outstanding	Rate paid	Rate received	Average rate received in 2017	Counterparty	Term
2004	\$ (34,697)	192,429	3.51 %	67% of one month (1M) LIBOR	0.75 %	Wells Fargo (75%)	30 years
2008	463	149,635	SIFMA + 0.16%	5.75 %	5.75	& Goldman Sachs 25%	10 years
Sussex 1998	(492)	9,895	3.33 %	59% of 1M LIBOR + 0.35%	1.01	Citigroup	18 years
MJH 2013 (Basis Swap)	782	76,325	SIFMA	67% of 1M LIBOR + 0.41%	1.20	Bank of America	20 years
MJH 2013 (Fixed Swap)	(6,406)	154,550	1.94 %	67% of 3M LIBOR	0.85	Barclays	35 years
RMH 2015	160	182,275	1.61 %	67% of 1M LIBOR	0.75	Barclays (54%) & Goldman Sachs (46%)	30 years

2016							
Interest rate swap	Fair value	Notional amount outstanding	Rate paid	Rate received	Average rate received in 2016	Counterparty	Term
2004	\$ (39,036)	194,528	3.51 %	67% of one month (1M) LIBOR	0.33 %	Wells Fargo (75%)	30 years
2008	439	151,400	SIFMA + 0.16%	5.75 %	5.75	& Goldman Sachs 25%	10 years
Sussex 1998	(752)	9,895	3.33 %	59% of 1M LIBOR + 0.35%	0.64	Citigroup	18 years
MJH 2013 (Basis Swap)	88	76,325	SIFMA	67% of 1M LIBOR + 0.41%	0.74	Bank of America	20 years
MJH 2013 (Fixed Swap)	(6,340)	155,920	1.94 %	67% of 3M LIBOR	0.50	Barclays	35 years
RMH 2015	(17)	183,535	1.61 %	67% of 1M LIBOR	0.39	Barclays (54%) & Goldman Sachs (46%)	30 years

In order to manage the credit risk of the swap agreements, Sentara and the counterparties are required to provide collateral in the event that the combined fair value of the swap agreements exceeds a predetermined threshold amount. The collateral posting requirements are based upon the rating classification of Sentara's long-term, unsecured, and unsubordinated debt securities as assigned by a relevant rating agency. Sentara posted \$10,733 and \$10,640 in collateral with the counterparties as of December 31, 2017 and 2016, respectively, which is included in current assets whose use is limited in the accompanying consolidated balance sheets.

The fair value of the interest rate swap agreements is the estimated amount that Sentara would receive or pay to terminate the swap agreements at the reporting date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The swap agreements are valued based on readily observable market parameters for all substantial terms of the contracts and are, therefore, categorized as Level 2 financial instruments. The change in the fair value of the interest rate swap agreements for the years ended December 31, 2017 and 2016 was \$5,428 and \$3,950, respectively, and is included in nonoperating gains, net in the accompanying consolidated statements of operations. Sentara is exposed to

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credit loss in the event of nonperformance by the swap counterparties. Sentara manages this risk through the monitoring of the credit standing of its counterparties.

(10) Retirement Obligations

Sentara maintains a noncontributory defined-benefit pension plan that covers substantially all employees of Sentara Healthcare and its subsidiaries (the Plan). The Plan conforms to the requirements of the Employee Retirement Income Security Act of 1974 (ERISA). Sentara's funding policy is to contribute amounts to the Plan sufficient to meet the minimum funding requirements under ERISA. The Plan uses a December 31 measurement date.

In 2016, Sentara changed the method used to estimate the service and interest components of net periodic benefit cost for pension and other postretirement benefits. Historically, Sentara estimated these service and interest cost components utilizing a single weighted average discount rate derived from the yield curve used to measure the benefit obligation at the beginning of the period. Sentara elected to utilize a full yield curve approach in the estimation of these components by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to the relevant projected cash flows. This change was made in order to provide a more precise measurement of service and interest costs by improving the correlation between projected benefit cash flows to the corresponding spot yield curve rates. This change does not affect the measurement of the total benefit obligations or the annual net periodic benefit cost as the change in the service and interest costs is completely offset in the actuarial loss reported. Sentara has accounted for this change as a change in accounting estimate that is inseparable from a change in accounting principle and accordingly has accounted for it prospectively.

The following table sets forth amounts recognized in the accompanying consolidated financial statements of Sentara as of and for the years ended December 31, 2017 and 2016 related to the Plan:

	<u>2017</u>	<u>2016</u>
Accumulated benefit obligation at measurement date	\$ 2,012,600	1,787,754
Change in projected benefit obligations:		
Benefit obligation at previous measurement date	\$ 1,991,807	1,876,804
Service cost	90,045	85,002
Interest cost	65,111	62,385
Actuarial loss	206,154	55,496
Benefit payments	<u>(92,506)</u>	<u>(87,880)</u>
Projected benefit obligation at measurement date	\$ <u>2,260,611</u>	<u>1,991,807</u>

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	<u>2017</u>	<u>2016</u>
Change in assets:		
Fair value of assets at previous measurement date	\$ 1,740,646	1,594,953
Actual return on assets	245,978	103,573
Employer contributions	120,000	130,000
Benefit payments	<u>(92,506)</u>	<u>(87,880)</u>
Fair value of assets at measurement date	\$ <u>2,014,118</u>	<u>1,740,646</u>
Amounts recognized in the consolidated balance sheets at December 31:		
Long-term liabilities	\$ (246,493)	(251,161)
Amounts recognized in unrestricted net assets at December 31:		
Net actuarial loss	\$ (668,448)	(628,690)
Prior service credit	(799)	(1,014)
Components of net periodic pension cost:		
Service cost	\$ 90,045	85,002
Interest cost	65,111	62,385
Expected return on plan assets	(121,002)	(114,284)
Prior service cost recognized	215	215
Amortization of actuarial loss	<u>41,420</u>	<u>33,167</u>
Net periodic pension cost	\$ <u>75,789</u>	<u>66,485</u>

For the years ended December 31, 2017 and 2016, Sentara recognized a change in unrestricted net assets of \$(39,543) and \$(32,825), respectively, related to nonperiodic changes in the Plan's assets and benefit obligations.

The estimated actuarial net loss and prior service cost for the Plan that will be amortized from accumulated unrestricted net assets into net periodic cost over the next year are \$50,370 and \$215, respectively.

The assumptions used to determine benefit obligations for the Plan at December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Discount rate	3.56 %	4.08 %
Rate of compensation increase	4.00	4.00

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Weighted average assumptions used to determine net periodic benefit cost for the Plan for 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Discount rate in effect for determining service cost	4.30 %	4.46 %
Discount rate in effect for determining interest cost	3.35	3.44
Expected long-term return on plan assets	6.85	6.85
Rate of compensation increase	4.00	4.00

In developing the expected long-term rate of return on assets assumption, Sentara considered the current level of expected returns on risk-free investments (primarily, government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested, and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target allocation to develop the expected long-term rate of return on assets assumption for the portfolio. This resulted in the selections listed above for the years ended December 31, 2017 and 2016.

(a) Investment Policy and Strategy

The overall financial objectives for the Plan's assets are (1) to provide funds for the timely payment of the Plan's obligations and (2) to produce an investment rate of return that improves the overall funding status of the Plan consistent with the first objective. The investment objective of the Plan seeks to strike a balance between higher returns and controlling funding status volatility. To achieve its objectives, the Plan's assets are allocated based on a target allocation established by the Sentara Finance Committee and approved by the Sentara board of directors. A registered investment manager has been approved by the Finance Committee of the Sentara board of directors and reviews fund performance at each quarterly meeting. The Plan's targeted asset allocation by asset category is as follows:

<u>Asset category</u>	<u>Target allocation percentage</u>
Equity securities	0%–65%
Debt securities	20%–50%
Alternative investments	0%–25%
Cash	0%–10%

The allocation to fixed-income investments is structured to match the expected stream of future benefit payments in order to minimize funding volatility risk. Other investments are also diversified within asset classes (e.g., within equities by economic sector, industry, quality, and size) in order to provide assurance that no single security or class of securities will have a disproportionate impact on the Plan.

SENTARA HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

(In thousands)

The following tables present the Plan's assets measured at estimated fair value aggregated by the level in the fair value hierarchy within which those measurements fall as of December 31, 2017 and 2016, respectively:

	Fair value measurements at December 31, 2017 using			
	Total	Level 1	Level 2	Investments reported at NAV
Investments:				
Fixed maturities	\$ 405,885	168,783	237,102	—
Equity securities	1,008,979	—	1,008,979	—
Multi-asset funds	77,027	77,027	—	—
Short-term investments	44,507	44,507	—	—
Alternative investments	477,720	—	142,968	334,752
Total	<u>\$ 2,014,118</u>	<u>290,317</u>	<u>1,389,049</u>	<u>334,752</u>

	Fair value measurements at December 31, 2016 using			
	Total	Level 1	Level 2	Investments reported at NAV
Investments:				
Fixed maturities	\$ 358,313	149,965	208,348	—
Equity securities	847,348	—	847,348	—
Multi-asset funds	71,103	71,103	—	—
Short-term investments	32,906	32,906	—	—
Alternative investments	430,976	—	118,428	312,548
Total	<u>\$ 1,740,646</u>	<u>253,974</u>	<u>1,174,124</u>	<u>312,548</u>

Sentara has remaining capital commitments of \$28,064 at December 31, 2017 for certain limited investment companies.

(b) Contributions

Sentara expects to contribute \$120,000 to the Plan during the year ending December 31, 2018.

SENTARA HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

(In thousands)

(c) Estimated Future Benefit Payments

The following benefit payments, which reflect expected future employee service, as appropriate, are expected to be paid by the Plan in the following years ending December 31:

2018	\$	143,570
2019		133,831
2020		140,890
2021		145,848
2022		151,818
2023–2027		786,939

The expected benefits to be paid are based on the same assumptions used to measure the Plan's benefit obligations at December 31, 2017.

(d) Supplemental Executive Retirement Plan

Sentara maintains a supplemental executive retirement plan for certain executives. Compensation expense under the plan was \$3,270 and \$3,156 for the years ended December 31, 2017 and 2016, respectively. Accrued benefit liabilities under this plan totaled \$22,451 and \$19,234 as of December 31, 2017 and 2016, respectively, and are included in other long-term liabilities in the accompanying consolidated balance sheets.

(e) Defined-Contribution Retirement Plans

Substantially all of the employees of Sentara participate in defined-contribution retirement plans under Sections 403(b) and 401(k) of the Internal Revenue Code. Sentara matches a percentage of contributions made by the employees. Sentara's contribution expense related to these plans for the years ended December 31, 2017 and 2016 was \$35,256 and \$33,525, respectively, and is included in salaries, wages, and benefits expense in the accompanying consolidated statements of operations.

(11) Charity Care and Other Community Benefits

(a) Charity

Sentara is committed to providing quality healthcare to all, regardless of their ability to pay. Patients who meet the criteria of Sentara's charity care policy receive services without charge or at amounts less than its established rates. The criterion for charity care considers the patient's household income in relation to the federal poverty guidelines and the equity value of real property and/or other assets. Sentara provides services without charge for patients with adjusted gross income equal to or less than 200% of the federal poverty guidelines. For uninsured patients with adjusted gross income greater than 200% of the federal poverty guidelines, a sliding scale discount is applied. Income and asset information obtained from patient and credit reporting data are used to determine patients' ability to pay. Sentara maintains records to identify and monitor the level of charity care it furnishes under its charity care policy.

SENTARA HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

(In thousands)

Due to the complexity of the eligibility process, Sentara provides eligibility services to patients free of charge to assist in the qualification process. These eligibility services include, but are not limited to, the following:

- Financial assistance brochures and other information are posted at each point of service. When patients have questions or concerns, they are encouraged to call a toll-free number to reach customer service representatives during the business day. Financial assistance programs are also published on the Sentara Web site and included on the statements provided to patients.
- Sentara employs financial counselors who are available to help patients complete applications for Medicaid or other government payment assistance programs, or apply for care under Sentara's charity care policy, if applicable. Sentara also employs an external firm to assist in the eligibility process.
- Any patient, whether covered by insurance or not, may meet with a Sentara representative and receive financial counseling from Sentara's dedicated financial assistance unit.

Sentara recognizes that a large number of uninsured and insured patients meet the charity care guidelines but do not respond to Sentara's attempts to obtain necessary financial information. In these instances, Sentara uses credit reporting data to properly classify these unpaid balances as charity care as opposed to bad debt expense. Utilization of income and asset information and credit reporting data indicate the majority of amounts reported as provision for bad debts represent amounts due from patients who would otherwise qualify for charity benefits but do not respond to Sentara's attempts to obtain the necessary financial information. In these cases, reasonable collection efforts are pursued, but generally yield few collections. Finally, management believes that the net loss associated with providing care to Medicaid patients is a component of providing charity care.

Costs incurred relative to charity care are estimated based on the cost-to-charge ratio for each hospital and applied to charity care charges. Since Sentara does not pursue collections of amounts determined to meet the criterion under the charity care policy, such amounts are not reported as net patient service revenue. The amounts reported as charity care represent the cost of rendering such services. The following information measures the level of charity and uncompensated care costs provided for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Components of estimated cost of charity and other uncompensated care:		
Charity care	\$ 163,587	185,085
Medicaid	48,849	33,629
Bad debt	<u>112,760</u>	<u>91,409</u>
Total estimated cost	<u>\$ 325,196</u>	<u>310,123</u>

SENTARA HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

(In thousands)

(b) Medical Education and Other Community Benefits

In addition to charity and uncompensated care, Sentara provides other community benefits. These benefits include, among other items, educational activities, health services, and donations sponsored by Sentara in the communities served.

Sentara provides support to other charitable organizations through direct contributions and sponsorships as well as free community health screenings and health education throughout the Hampton Roads community. Expenses for community health programs represent Sentara's dedicated Community Health and Prevention Department. Additional costs for similar activities carried out across the Sentara system are not specifically accumulated and include salaries and other operating expenses.

Sentara also underwrites much of the cost of training allied health professionals, physicians, and residents in its emergency rooms, clinics, and inpatient facilities. Sentara maintains a dynamic partnership with Eastern Virginia Medical School to support medical education. The Sentara College of Health Sciences, in continuous operation since 1892, educates nurses, surgical, and cardiovascular technicians needed to provide the community with vital health services.

The following is a summary of Sentara's community commitment as measured by charity care and community benefit costs:

	<u>2017</u>	<u>2016</u>
Nonreimbursed cost of charity and uncompensated care	\$ 325,196	310,123
Medical education	21,418	18,923
Direct contributions and sponsorships	15,591	9,398
Community health programs	<u>2,750</u>	<u>2,701</u>
Total community benefits, at cost	<u>\$ 364,955</u>	<u>341,145</u>

Sentara also recognizes its responsibility to provide other healthcare services and programs for the benefit of the community, at reduced rates or free of charge. This includes the Ambulatory Care Center, a clinic designed to offer primary and specialized outpatient services to members of the Norfolk community who are either uninsured or under insured. Sentara also operates an emergency medical helicopter service and both Level 1 and Level 3 Trauma Centers.

(12) Concentration of Credit Risk

Patient receivables and patient service revenue consist of amounts earned for patient care. Payments are made either directly by patients or by third-party payors, including the federal (Medicare) and state (Medicaid) governments and private insurance carriers. Services are generally provided without requiring collateral from patients or third-party payors.

SENTARA HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

(In thousands)

A breakdown of net patient receivables by significant payor type is as follows:

	<u>2017</u>	<u>2016</u>
Medicare	27 %	28 %
Medicaid	7	7
Anthem (Blue Cross)	25	24
SHP – HMO/PPO	10	7
All others (none individually more than 10%)	<u>31</u>	<u>34</u>
Total	<u>100 %</u>	<u>100 %</u>

Premium and capitation receivables consist primarily of amounts earned by OHP and SHP for providing benefits to subscribers. OHP and SHP have concentrations of credit risk with the U.S. Government's Office of Personnel Management (OPM) for subscriber benefits provided under the Federal Employee Health Benefits Program (FEHBP), and with the Virginia DMAS for benefits to Medicaid recipients.

A breakdown of premium and capitation receivables by significant customers is as follows:

	<u>2017</u>	<u>2016</u>
DMAS	92 %	90 %
OPM	1	3
Other	<u>7</u>	<u>7</u>
Total	<u>100 %</u>	<u>100 %</u>

(13) Functional Expenses

Sentara provides various healthcare services to patients within its geographic region. Expenses related to providing these services presented on a functional basis are as follows:

	<u>2017</u>	<u>2016</u>
Healthcare services	\$ 3,987,591	3,783,263
General and administrative	<u>1,066,138</u>	<u>1,066,334</u>
Total operating costs and expenses	<u>\$ 5,053,729</u>	<u>4,849,597</u>

(14) Commitments and Contingent Liabilities

(a) General Liability and Malpractice Insurance

Sentara insures its professional, general, and managed care liability risks through insurance policies issued by Lexington Insurance Company. Professional and managed care liability risks are primarily insured on a claims-made basis and general liability risks are insured on a claims-incurred basis.

SENTARA HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

(In thousands)

Lexington policy limits are \$2,300 per occurrence and \$23,000 in the aggregate per year for professional and managed care liability and \$1,000 per occurrence for general liability.

Accrued professional liability costs on an undiscounted basis as of December 31, 2017 and 2016 totaled \$98,336 and \$90,791, respectively, and are included in other current liabilities and other long-term liabilities in the accompanying consolidated balance sheets. Cash and investments totaling \$72,480 and \$64,047 as of December 31, 2017 and 2016, respectively, have been designated by Sentara to settle these claims and are included in assets whose use is limited in the accompanying consolidated balance sheets. Included in accrued professional liability costs are estimated claims incurred but not reported in the amounts of \$17,908 and \$18,347 as of December 31, 2017 and 2016, respectively.

The Lexington policies are fully reinsured by Bay Primex. The sole activity of Bay Primex is reinsurance, on a facultative basis, of the claims-made professional and managed care liability insurance policies, and the occurrence based general liability policy issued by Lexington Insurance Company to Sentara and its related entities.

All Sentara entities are covered by the same excess liability policies through four independent carriers with total annual coverage limits of \$80,000 per occurrence and \$80,000 in the aggregate for amounts exceeding the primary coverage limits.

Professional liability policies entered into on a claims-made basis must be renewed or replaced with equivalent insurance if claims incurred during their term but asserted after their expiration are to be insured. The estimated liability for professional and general liability claims will be significantly affected if current and future claims differ from historical trends. While management monitors reported claims closely and considers potential outcomes as estimated by its actuaries when determining its professional and liability accruals, the complexity of the claims, the extended period of time to settle the claims, and the wide range of potential outcomes complicate the estimation. In the opinion of management, adequate provision has been made for the related risk.

(b) Stop-Loss Coverage

OHP and OHIC carry a stop-loss coverage policy for medical claims expense through Reinsurance Group of America, Incorporated (RGA). The deductible under the policy is \$1,500 per member per policy year. Once the deductible is met in a policy year, RGA will reimburse 90% of eligible medical expenses up to a maximum of \$5,000 per member per policy year. This stop-loss coverage does not relieve OHP and OHIC of its primary obligation to its members. Stop-loss expense related to the policy was \$2,696 and \$2,332 for the years ended December 31, 2017 and 2016, respectively.

(c) Employee Health Benefits

Sentara is self-insured for employee health benefits. The liabilities associated with these claims totaled \$26,795 and \$14,729 at December 31, 2017 and 2016, respectively, which are included in other current liabilities in the accompanying consolidated balance sheets.

SENTARA HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

(In thousands)

(d) *Workers' Compensation Insurance*

Sentara is self-insured for workers' compensation insurance. The net liability associated with these claims totaled \$15,510 and \$14,310 at December 31, 2017 and 2016, respectively, which is included in other current liabilities and other long-term liabilities in the accompanying consolidated balance sheets.

(e) *Lease Commitments*

Certain Sentara subsidiaries are parties to operating leases for property and equipment. Rental expense incurred during the years ended December 31, 2017 and 2016 was \$81,214 and \$74,723, respectively. Future minimum lease payments under the aforementioned operating leases at December 31, 2017 are as follows:

2018	\$	32,336
2019		28,334
2020		22,842
2021		17,966
2022		11,677
Thereafter		<u>16,562</u>
Total future minimum lease payments		\$ <u>129,717</u>

(f) *Litigation*

Sentara 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 Sentara's consolidated financial position.

Laws and regulations governing Medicare and Medicaid programs are complex and subject to interpretation. Sentara, through its compliance program, seeks to ensure compliance with such laws and regulations and to rectify instances of noncompliance. Compliance with such laws and regulations is subject to future government review and interpretation as well as significant regulatory action, which can include fines, penalties, and exclusion from the Medicare and Medicaid programs.

Sentara identified potential compliance violations during due diligence on recent acquisitions and has self-disclosed these potential violations to relevant regulatory authorities. Sentara is working collaboratively with these authorities to determine what, if any, fines and penalties might be appropriate. Although it is probable that some payments from Sentara subsidiaries to relevant regulatory authorities will be required, management believes, based on the information available to date, that the ultimate outcome to these matters will not have a material effect on Sentara's consolidated financial position or results of operations. Sentara is not aware of any ongoing violations, and policies and procedures have been put in effect, which are intended to ensure future compliance at these subsidiaries.

SENTARA HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

(In thousands)

(15) Nonoperating Gains, Net

Nonoperating gains, net are summarized as follows:

	<u>2017</u>	<u>2016</u>
Investment income	\$ 26,569	18,143
Realized losses on investments, net	21,083	(16,533)
Unrealized gains on investments, net	274,748	106,376
Equity in earnings of limited investment companies	57,550	52,055
Change in fair value of derivative instruments	5,428	3,950
Loss on refunding of debt	—	(24,417)
Other	(3,509)	(3,828)
	<u>381,869</u>	<u>135,746</u>
Nonoperating gains, net	\$ 381,869	135,746

(16) Other Operating Expenses

Other operating expenses are summarized as follows:

	<u>2017</u>	<u>2016</u>
Supplies	\$ 924,817	779,312
Professional fees	155,509	141,237
Purchased and contracted services	203,440	215,516
Repairs and maintenance	151,495	139,182
Rent	81,214	74,723
Insurance	25,519	23,316
Marketing	29,066	29,140
Utilities	40,917	37,072
Contributions	5,086	4,129
Telecommunications	14,174	13,294
Taxes and licenses	14,129	15,677
Other	44,490	54,053
	<u>1,689,856</u>	<u>1,526,651</u>
Other operating expenses	\$ 1,689,856	1,526,651

SENTARA HEALTHCARE AND SUBSIDIARIES

Consolidating Schedule – Balance Sheet Information

December 31, 2017

(In thousands)

Assets	Sentara Healthcare Corporate	Sentara Hospitals	Sentara Enterprises	Sentara Life Care Corporation	Optima Health Plan	Sentara Holdings, Inc.	Sentara Medical Group	Eliminations	Consolidated
Current assets:									
Cash and cash equivalents	\$ 442,004	129,043	407	449	112,184	18,949	1,585	—	704,621
Receivables, net	21,575	475,619	37,061	13,006	163,792	13,352	14,812	(72,621)	666,596
Receivables from affiliated organizations	69,168	13,114	172	4	4,876	25,115	2,337	(114,786)	—
Investments and assets whose use is limited	718,622	—	—	—	—	—	—	—	718,622
Inventories	—	74,119	12,930	923	—	—	—	—	87,972
Prepaid expenses and other current assets	5,377	27,157	35	142	6,975	3,043	3,065	—	45,794
Total current assets	1,256,746	719,052	50,605	14,524	287,827	60,459	21,799	(187,407)	2,223,605
Notes receivable from affiliated organizations	122,574	—	—	—	—	—	—	(122,574)	—
Investments and assets whose use is limited	2,807,263	70,256	—	—	188,401	15,113	—	—	3,081,033
Property, plant, and equipment, net	213,240	1,678,726	13,497	44,193	3,077	10,030	18,651	(470)	1,980,944
Land held for future use, at cost	8,800	25,543	—	—	—	598	—	—	34,941
Other assets, net	12,138	62,786	2,590	577	—	30,518	3,891	—	112,500
Total assets	\$ 4,420,761	2,556,363	66,692	59,294	479,305	116,718	44,341	(310,451)	7,433,023
Liabilities and Net Assets									
Current liabilities:									
Accounts payable and accrued expenses	\$ 39,242	88,272	2,654	1,354	421	457	4,784	—	137,184
Employee compensation and benefits	186,525	5,491	618	—	—	10,452	—	—	203,086
Medical claims accrued and payable	—	—	—	790	171,218	7,021	—	(64,507)	114,522
Current installments of long-term debt	322,857	9,563	—	—	—	—	—	(5,414)	327,006
Long-term debt subject to current remarketing provisions	297,410	—	—	—	—	—	—	—	297,410
Payables to affiliated organizations	6,125	76,398	105	17	23,864	7,950	328	(114,787)	—
Estimated third-party payor settlements	—	13,347	281	1,846	—	—	—	—	15,474
Other current liabilities	67,138	51,052	15,287	2,233	34,697	26,386	2,510	(2,700)	196,603
Total current liabilities	919,297	244,123	18,945	6,240	230,200	52,266	7,622	(187,408)	1,291,285
Long-term debt, excluding current installments	772,179	143,882	—	—	—	—	—	(122,574)	793,487
Retirement obligations	246,493	—	—	—	—	—	—	—	246,493
Other long-term liabilities	212,619	81,848	1,570	1,809	2,090	—	1,511	—	301,447
Total liabilities	2,150,588	469,853	20,515	8,049	232,290	52,266	9,133	(309,982)	2,632,712
Net assets:									
Unrestricted	2,266,530	1,961,979	46,031	51,205	247,015	64,452	34,945	(469)	4,671,688
Temporarily restricted	3,643	70,797	146	30	—	—	263	—	74,879
Permanently restricted	—	22,671	—	10	—	—	—	—	22,681
Total net assets attributable to Sentara Healthcare	2,270,173	2,055,447	46,177	51,245	247,015	64,452	35,208	(469)	4,769,248
Noncontrolling interest	—	31,063	—	—	—	—	—	—	31,063
Total net assets	2,270,173	2,086,510	46,177	51,245	247,015	64,452	35,208	(469)	4,800,311
Total liabilities and net assets	\$ 4,420,761	2,556,363	66,692	59,294	479,305	116,718	44,341	(310,451)	7,433,023

See accompanying independent auditors' report.

SENTARA HOSPITALS

Consolidating Schedule – Balance Sheet Information

December 31, 2017

(In thousands)

Assets	Sentara Norfolk General Hospital	Sentara Leigh Hospital	Sentara CarePlex Hospital	Sentara Virginia Beach General Hospital	Sentara Williamsburg Regional Medical Center	Sentara Obici Hospital	Sentara Princess Anne Hospital	Sentara Northern Virginia Medical Center	Sentara Rockingham Memorial Hospital	Sentara Martha Jefferson Hospital	Sentara Halifax Regional Health System	Sentara Albemarle Medical Center	Eliminations	Total
Current assets:														
Cash and cash equivalents (bank overdraft)	\$ (380)	(120)	(88)	(123)	(58)	(76)	76,893	6,489	6,865	7,393	14,943	17,305	—	129,043
Receivables, net	120,869	40,806	27,878	40,199	19,014	23,444	31,612	32,620	51,720	34,281	12,488	16,319	—	451,250
Other receivables	5,245	1,874	1,138	1,386	671	3,189	1,656	940	3,227	2,551	253	2,239	—	24,369
Receivables from affiliated organizations	3,710	1,168	858	1,202	565	745	109	1,855	(6)	(30)	3,017	(79)	—	13,114
Inventories	24,922	4,682	6,070	6,931	3,189	4,528	4,175	4,968	6,071	4,133	2,719	1,731	—	74,119
Prepaid expenses and other current assets	11,210	1,161	1,610	3,810	1,171	3,648	200	735	480	1,176	1,261	695	—	27,157
Total current assets	165,576	49,571	37,466	53,405	24,552	35,478	114,645	47,607	68,357	49,504	34,681	38,210	—	719,052
Investments	1,485	—	—	159	—	22	—	—	34,143	34,447	—	—	—	70,256
Property, plant, and equipment, net	359,393	181,257	93,987	85,717	91,063	97,606	151,303	167,556	145,114	170,726	80,756	57,295	(3,047)	1,678,726
Land held for future use, at cost	2,657	—	—	2,491	819	—	—	8,882	—	10,694	—	—	—	25,543
Other assets, net	2,016	—	12,640	29,823	59,720	57,447	—	12,927	2,099	2,582	532	3,536	(120,536)	62,786
Total assets	\$ 531,127	230,828	144,093	171,595	176,154	190,553	265,948	236,972	249,713	267,953	115,969	99,041	(123,583)	2,556,363
Liabilities and Net Assets														
Current liabilities:														
Accounts payable and accrued expenses	\$ 32,108	9,515	5,381	5,136	5,485	5,248	5,795	3,276	5,795	5,846	2,279	2,408	—	88,272
Employee compensation and benefits	—	—	—	—	—	—	—	—	2,549	—	1,105	1,837	—	5,491
Current installments of long-term debt	—	—	—	3,775	—	—	5,414	—	—	—	—	374	—	9,563
Payables to affiliated organizations	738	180	118	335	125	120	19,392	2,355	15	86	30,162	22,772	—	76,398
Estimated third-party pavor settlements	690	460	8	1,084	587	255	538	545	1,037	1,975	226	5,942	—	13,347
Other current liabilities	16,288	2,958	2,388	2,965	1,942	2,184	5,133	3,572	4,927	4,425	1,124	3,146	—	51,052
Total current liabilities	49,824	13,113	7,895	13,295	8,139	7,807	36,272	9,748	14,323	12,332	34,896	36,479	—	244,123
Long-term debt, excluding current installments	—	—	—	1	—	—	122,574	—	—	—	—	21,307	—	143,882
Other long-term liabilities	13,705	5,060	3,428	4,794	2,716	3,272	3,532	10,304	20,543	4,298	6,016	4,180	—	81,848
Total liabilities	63,529	18,173	11,323	18,090	10,855	11,079	162,378	20,052	34,866	16,630	40,912	61,966	—	469,853
Net assets:														
Unrestricted	459,755	212,644	132,550	153,015	165,085	177,641	72,481	214,253	178,317	209,416	73,433	36,972	(123,583)	1,961,979
Temporarily restricted	5,822	11	220	490	214	1,788	26	2,000	19,864	38,635	1,624	103	—	70,797
Permanently restricted	2,021	—	—	—	—	45	—	667	16,666	3,272	—	—	—	22,671
Total net assets attributable to Sentara Healthcare	467,598	212,655	132,770	153,505	165,299	179,474	72,507	216,920	214,847	251,323	75,057	37,075	(123,583)	2,055,447
Noncontrolling interest	—	—	—	—	—	—	31,063	—	—	—	—	—	—	31,063
Total net assets	467,598	212,655	132,770	153,505	165,299	179,474	103,570	216,920	214,847	251,323	75,057	37,075	(123,583)	2,086,510
Total liabilities and net assets	\$ 531,127	230,828	144,093	171,595	176,154	190,553	265,948	236,972	249,713	267,953	115,969	99,041	(123,583)	2,556,363

See accompanying independent auditors' report.

SENTARA HOLDINGS, INC.

Consolidating Schedule – Balance Sheet Information

December 31, 2017

(In thousands)

Assets	Sentara Holdings, Inc.	Sentara Health Plans, Inc.	Optima Behavioral Health Services	Optima Health Group	Optima Health Insurance Company	Optima Health Insurance Company of North Carolina	Sentara Health Plan of Ohio, Inc.	Sentara Ventures, Inc.	Obici Professional Center and Subsidiary	Eliminations	Total
Current assets:											
Cash and cash equivalents	\$ 4	3,216	1,415	2,122	7,540	1,617	1,357	1,678	—	—	18,949
Receivables, net	216	3,218	(29)	—	7,712	—	42	2,157	36	—	13,352
Receivables from affiliated organizations	19	33,814	475	—	90	—	827	438	251	(10,799)	25,115
Prepaid expenses and other current assets	—	2,807	—	3	141	—	—	92	—	—	3,043
Total current assets	239	43,055	1,861	2,125	15,483	1,617	2,226	4,365	287	(10,799)	60,459
Investments	—	—	—	433	13,779	901	—	—	—	—	15,113
Property, plant, and equipment, net	—	9,069	—	—	170	—	40	751	—	—	10,030
Land held for future use, at cost	—	—	—	—	—	—	—	598	—	—	598
Other assets, net	2,501	20,983	—	—	—	—	—	30,460	—	(23,426)	30,518
Total assets	\$ 2,740	73,107	1,861	2,558	29,432	2,518	2,266	36,174	287	(34,225)	116,718
Liabilities and Net Assets											
Current liabilities:											
Accounts payable and accrued expenses	\$ —	448	(11)	—	—	—	—	20	—	—	457
Employee compensation and benefits	—	10,452	—	—	—	—	—	—	—	—	10,452
Medical claims accrued and payable	—	—	195	—	6,826	—	—	—	—	—	7,021
Payables to (from) affiliated organizations	166	11,517	5,050	4	719	7	1,509	(318)	95	(10,799)	7,950
Other current liabilities	(1)	17,664	17	—	5,301	—	1,541	1,864	—	—	26,386
Total current liabilities	165	40,081	5,251	4	12,846	7	3,050	1,566	95	(10,799)	52,266
Net assets:											
Unrestricted	2,575	33,026	(3,390)	2,554	16,586	2,511	(784)	34,608	192	(23,426)	64,452
Total liabilities and net assets	\$ 2,740	73,107	1,861	2,558	29,432	2,518	2,266	36,174	287	(34,225)	116,718

See accompanying independent auditors' report.

SENTARA HEALTHCARE AND SUBSIDIARIES

Consolidating Schedule – Operations Information

Year ended December 31, 2017

(In thousands)

	Sentara Healthcare Corporate	Sentara Hospitals	Sentara Enterprises	Sentara Life Care Corporation	Optima Health Plan	Sentara Holdings, Inc.	Sentara Medical Group	Eliminations	Consolidated
Operating revenue, gains, and other support:									
Net patient service revenue	\$ 3,348	3,901,174	233,627	66,036	—	—	281,307	(459,419)	4,026,073
Provision for bad debts, net	704	(400,467)	(237)	(1,919)	(8,083)	(1,036)	(19,831)	—	(430,869)
Net patient service revenue less provision for bad debts	4,052	3,500,707	233,390	64,117	(8,083)	(1,036)	261,476	(459,419)	3,595,204
Premium and capitation revenue	696	4,695	—	21,097	1,494,238	50,829	5,533	(5,827)	1,571,261
Other operating revenue	43,538	38,361	2,783	446	11,050	68,321	10,309	(55,215)	119,593
Net assets released from restrictions	682	10,413	69	4	—	—	635	—	11,803
Total operating revenue, gains, and other support	48,968	3,554,176	236,242	85,664	1,497,205	118,114	277,953	(520,461)	5,297,861
Operating costs and expenses:									
Salaries, wages, and benefits	90,858	1,576,139	70,920	51,242	59,366	27,779	290,332	(111,125)	2,055,511
Medical claims expense	—	—	—	4,481	1,356,013	52,434	—	(348,387)	1,064,541
Other operating expenses (income)	64,691	1,442,003	153,902	25,528	59,226	31,274	(32,410)	(54,358)	1,689,856
Interest expense	10,124	33,376	441	—	194	128	—	(6,591)	37,672
Depreciation and amortization	11,191	183,440	2,521	3,576	976	452	3,993	—	206,149
Sentara Healthcare services	(102,821)	60,818	7,636	6,442	9,559	2,328	16,038	—	—
Total operating costs and expenses	74,043	3,295,776	235,420	91,269	1,485,334	114,395	277,953	(520,461)	5,053,729
Net operating (loss) income	(25,075)	258,400	822	(5,605)	11,871	3,719	—	—	244,132
Nonoperating gains, net	368,269	6,057	—	—	6,933	610	—	—	381,869
Excess (deficiency) of revenue over (under) expenses before noncontrolling interest	343,194	264,457	822	(5,605)	18,804	4,329	—	—	626,001
Noncontrolling interest	—	(9,714)	—	—	—	—	—	—	(9,714)
Excess (deficiency) of revenue over (under) expenses attributable to Sentara Healthcare	\$ 343,194	254,743	822	(5,605)	18,804	4,329	—	—	616,287

See accompanying independent auditors' report.

SENTARA HOSPITALS
Consolidating Schedule – Operations Information
Year ended December 31, 2017
(In thousands)

	Sentara Norfolk General Hospital	Sentara Leigh Hospital	Sentara CarePlex Hospital	Sentara Virginia Beach General Hospital	Sentara Williamsburg Regional Medical Center	Sentara Obici Hospital	Sentara Hospitals Corporate	Sentara Princess Anne Hospital	Sentara Northern Virginia Medical Center	Sentara Rockingham Memorial Hospital	Sentara Martha Jefferson Hospital	Sentara Halifax Regional Health System	Sentara Albemarle Medical Center	Eliminations	Total
Operating revenue, gains, and other support:															
Net patient service revenue	\$ 958,000	376,739	256,314	346,563	179,767	231,012	—	273,942	271,627	446,969	301,134	128,173	130,934	—	3,901,174
Provision for bad debt, net	(95,459)	(38,772)	(38,413)	(44,738)	(17,110)	(28,432)	—	(28,177)	(48,037)	(23,630)	(15,965)	(9,914)	(11,820)	—	(400,467)
Net patient service revenue less provision for bad debts	862,541	337,967	217,901	301,825	162,657	202,580	—	245,765	223,590	423,339	285,169	118,259	119,114	—	3,500,707
Premium and capitation revenue	3,185	74	61	56	30	33	—	67	—	455	717	—	17	—	4,695
Other operating revenue	9,577	410	3,669	3,339	207	3,002	12,351	1,808	3,886	4,981	3,284	2,627	402	(11,182)	38,361
Net assets released from restrictions	2,517	58	164	166	27	61	—	16	56	2,644	4,203	311	190	—	10,413
Total operating revenue, gains, and other support	877,820	338,509	221,795	305,386	162,921	205,676	12,351	247,656	227,532	431,419	293,373	121,197	119,723	(11,182)	3,554,176
Operating costs and expenses:															
Salaries, wages, and benefits	259,666	111,602	84,649	110,783	62,307	78,500	231,224	90,519	86,645	184,219	145,063	68,368	62,594	—	1,576,139
Other operating expenses	408,477	117,087	87,649	103,448	61,395	72,849	68,137	82,262	100,233	148,645	95,985	45,867	49,699	—	1,442,003
Interest expense	4,603	2,923	660	1,639	3,413	1,490	—	6,591	1,708	3,939	4,842	585	983	—	33,376
Depreciation and amortization	26,843	16,418	10,930	10,107	7,402	9,484	36,202	9,567	15,823	17,043	11,667	6,822	5,592	(460)	183,440
Sentara Healthcare services	115,122	35,136	26,047	32,008	19,054	22,993	(333,934)	26,762	27,466	37,807	27,622	12,138	12,597	—	60,818
Total operating costs and expenses	814,711	283,166	209,935	257,985	153,571	185,316	1,629	215,701	231,875	391,653	285,179	133,780	131,735	(460)	3,295,776
Net operating income (loss)	63,109	55,343	11,860	47,401	9,350	20,360	10,722	31,955	(4,343)	39,766	8,194	(12,583)	(12,012)	(10,722)	258,400
Nonoperating gains (losses), net	(18)	—	—	1	—	260	214	425	118	11	466	4,580	—	—	6,057
Excess (deficiency) of revenue over (under) expenses before non controlling interest	63,091	55,343	11,860	47,402	9,350	20,620	10,936	32,380	(4,225)	39,777	8,660	(8,003)	(12,012)	(10,722)	264,457
Noncontrolling interest	—	—	—	—	—	—	—	(9,714)	—	—	—	—	—	—	(9,714)
Excess of revenue over (under) expenses attributable to Sentara Healthcare	\$ 63,091	55,343	11,860	47,402	9,350	20,620	10,936	22,666	(4,225)	39,777	8,660	(8,003)	(12,012)	(10,722)	254,743

See accompanying independent auditors' report.

SENTARA ENTERPRISES

Consolidating Schedule – Operations Information

Year ended December 31, 2017

(In thousands)

	Home Care Services	DME	Medical Transport, LLC	Specialty Pharmacy	Divisional Support	Eliminations	Total
Operating revenue, gains, and other support:							
Net patient service revenue	\$ 107,257	(1)	13,325	113,004	42	—	233,627
Provision for bad debts, net	(185)	57	(109)	—	—	—	(237)
Net patient service revenue less provision for bad debts	107,072	56	13,216	113,004	42	—	233,390
Other operating revenue	278	—	1,504	—	753	248	2,783
Net assets released from restrictions	—	—	—	—	69	—	69
Total operating revenue, gains, and other support	107,350	56	14,720	113,004	864	248	236,242
Operating costs and expenses:							
Salaries, wages, and benefits	47,048	14	12,334	2,495	9,029	—	70,920
Other operating expenses (income)	48,447	60	3,344	110,337	(8,180)	(106)	153,902
Interest expense	—	—	441	—	310	(310)	441
Depreciation and amortization	551	—	868	266	836	—	2,521
Sentara Healthcare services	—	—	370	—	7,266	—	7,636
Total operating costs and expenses	96,046	74	17,357	113,098	9,261	(416)	235,420
Net operating income (loss)	11,304	(18)	(2,637)	(94)	(8,397)	664	822
Nonoperating gains, net	—	—	—	—	310	(310)	—
Excess (deficiency) of revenue over (under) expenses	\$ 11,304	(18)	(2,637)	(94)	(8,087)	354	822

See accompanying independent auditors' report.

SENTARA LIFE CARE CORPORATION

Consolidating Schedule – Operations Information

Year ended December 31, 2017

(In thousands)

	Sentara Life Care Administration	Sentara Nursing Center Chesapeake	Sentara Nursing Center Norfolk	Sentara Nursing Center Portsmouth	Sentara Nursing Center Currituck	Sentara Nursing Center Hampton	Sentara Nursing Center Virginia Beach	Sentara Windermere
Operating revenue, gains, and other support:								
Net patient service revenue (expense)	\$ —	9,353	14,375	7,125	6,221	7,906	8,148	8,163
Provision for bad debt, net	—	(256)	(491)	(392)	(88)	(274)	(73)	(262)
Net patient service revenue less provision for bad debts	—	9,097	13,884	6,733	6,133	7,632	8,075	7,901
Premium and capitation revenue	—	—	—	—	—	—	—	—
Other operating revenue	—	19	5	61	3	5	104	8
Net assets released from restrictions	—	—	—	—	—	—	—	—
Total operating revenue, gains, and other support	—	9,116	13,889	6,794	6,136	7,637	8,179	7,909
Operating costs and expenses:								
Salaries, wages, and benefits	1,519	6,209	9,284	5,113	4,603	5,254	6,086	5,317
Medical claims expense	—	—	—	—	—	—	—	—
Other operating expenses	754	2,222	4,093	2,244	1,598	2,084	1,823	2,100
Depreciation and amortization	101	958	356	241	250	286	283	288
Sentara Healthcare services	—	664	971	537	456	539	578	544
Total operating costs and expenses	2,374	10,053	14,704	8,135	6,907	8,163	8,770	8,249
Net operating (loss) income	(2,374)	(937)	(815)	(1,341)	(771)	(526)	(591)	(340)
(Deficiency) excess of revenue over (under) expenses	\$ (2,374)	(937)	(815)	(1,341)	(771)	(526)	(591)	(340)

See accompanying independent auditors' report.

SENTARA LIFE CARE CORPORATION

Consolidating Schedule – Operations Information

Year ended December 31, 2017

(In thousands)

	Sentara Village Chesapeake	Sentara Village Norfolk	Sentara Village Virginia Beach	Sentara Senior Community Care I	Sentara Senior Community Care II	Pharmacy Rx	Eliminations	Total
Operating revenue, gains, and other support:								
Net patient service revenue (expense)	\$ —	1,209	2,342	(214)	(101)	10,169	(8,660)	66,036
Provision for bad debt, net	—	(9)	(46)	(26)	(2)	—	—	(1,919)
Net patient service revenue less provision for bad debts	—	1,200	2,296	(240)	(103)	10,169	(8,660)	64,117
Premium and capitation revenue	—	—	—	13,289	7,808	—	—	21,097
Other operating revenue	—	115	93	3	30	—	—	446
Net assets released from restrictions	—	4	—	—	—	—	—	4
Total operating revenue, gains, and other support	—	1,319	2,389	13,052	7,735	10,169	(8,660)	85,664
Operating costs and expenses:								
Salaries, wages, and benefits	—	1,335	1,373	2,854	2,295	—	—	51,242
Medical claims expense	—	—	—	5,194	3,861	—	(4,574)	4,481
Other operating expenses	9	449	442	1,422	1,089	9,285	(4,086)	25,528
Depreciation and amortization	—	149	167	278	183	36	—	3,576
Sentara Healthcare services	—	137	142	689	525	660	—	6,442
Total operating costs and expenses	9	2,070	2,124	10,437	7,953	9,981	(8,660)	91,269
Net operating (loss) income	(9)	(751)	265	2,615	(218)	188	—	(5,605)
(Deficiency) excess of revenue over (under) expenses	\$ (9)	(751)	265	2,615	(218)	188	—	(5,605)

See accompanying independent auditors' report.

SENTARA HOLDINGS, INC.

Consolidating Schedule – Operations Information

Year ended December 31, 2017

(In thousands)

	Sentara Holdings, Inc.	Sentara Health Plans, Inc.	Optima Behavioral Health Services	Optima Health Insurance Company	Optima Health Insurance Company of North Carolina	Sentara Health Plan of Ohio, Inc.	Sentara Ventures, Inc.	Obici Professional Center and Subsidiary	Eliminations	Total
Operating revenue, gains, and other support:										
Provision for bad debt, net	\$ —	(231)	(1)	(4)	—	(800)	—	—	—	(1,036)
Net patient service revenue less provision for bad debts	—	(231)	(1)	(4)	—	(800)	—	—	—	(1,036)
Premium and capitation revenue	—	—	4,273	46,609	—	—	—	—	(53)	50,829
Other operating revenue	—	29,903	1,631	7,978	—	6,400	25,403	46	(3,040)	68,321
Total operating revenue, gains, and other support	—	29,672	5,903	54,583	—	5,600	25,403	46	(3,093)	118,114
Operating costs and expenses:										
Salaries, wages, and benefits	—	17,944	3,314	2,553	—	3,968	—	—	—	27,779
Medical claims expense	—	397	1,118	50,825	—	147	—	—	(53)	52,434
Other operating expense (income)	—	8,125	1,772	3,468	6	1,984	16,520	(2)	(599)	31,274
Interest expense	—	—	—	14	—	—	109	5	—	128
Depreciation and amortization	—	368	20	54	—	10	—	—	—	452
Sentara Healthcare services	—	1,493	410	222	—	203	—	—	—	2,328
Total operating costs and expenses	—	28,327	6,634	57,136	6	6,312	16,629	3	(652)	114,395
Net operating income (loss)	—	1,345	(731)	(2,553)	(6)	(712)	8,774	43	(2,441)	3,719
Nonoperating gains (losses), net	—	66	2	535	15	(8)	—	—	—	610
Excess (deficiency) of revenue over (under) expenses	\$ —	1,411	(729)	(2,018)	9	(720)	8,774	43	(2,441)	4,329

See accompanying independent auditors' report.

SENTARA HEALTHCARE AND SUBSIDIARIES

Consolidating Schedule – Fully Allocated Overhead Operations Information

Year ended December 31, 2017

(In thousands)

	Sentara Healthcare Corporate	Sentara Hospitals	Sentara Enterprises	Sentara Life Care Corporation	Optima Health Plan	Sentara Holdings, Inc.	Sentara Medical Group	Eliminations	Consolidated
Operating revenue, gains, and other support:									
Net patient service revenue	\$ 3,348	3,901,174	233,627	66,036	—	—	281,307	(459,419)	4,026,073
Provision for bad debt, net	704	(400,467)	(237)	(1,919)	(8,083)	(1,036)	(19,831)	—	(430,869)
Net patient service revenue less provision for bad debts	4,052	3,500,707	233,390	64,117	(8,083)	(1,036)	261,476	(459,419)	3,595,204
Premium and capitation revenue	696	4,695	—	21,097	1,494,238	50,829	5,533	(5,827)	1,571,261
Other operating revenue	43,538	38,361	2,783	446	11,050	68,321	10,309	(55,215)	119,593
Net assets released from restrictions	682	10,413	69	4	—	—	635	—	11,803
Total operating revenue, gains, and other support	48,968	3,554,176	236,242	85,664	1,497,205	118,114	277,953	(520,461)	5,297,861
Operating costs and expenses:									
Salaries, wages, and benefits	90,858	1,576,139	70,920	51,242	59,366	27,779	290,332	(111,125)	2,055,511
Medical claims expense	—	—	—	4,481	1,356,013	52,434	—	(348,387)	1,064,541
Other operating expenses (income)	64,691	1,442,003	153,902	25,528	59,226	31,274	(32,410)	(54,358)	1,689,856
Interest expense	10,124	33,376	441	—	194	128	—	(6,591)	37,672
Depreciation and amortization	11,191	183,440	2,521	3,576	976	452	3,993	—	206,149
Sentara Healthcare services	(127,896)	75,650	9,498	8,013	11,890	2,896	19,949	—	—
Total operating costs and expenses	48,968	3,310,608	237,282	92,840	1,487,665	114,963	281,864	(520,461)	5,053,729
Net operating income (loss)	—	243,568	(1,040)	(7,176)	9,540	3,151	(3,911)	—	244,132
Nonoperating gains, net	368,269	6,057	—	—	6,933	610	—	—	381,869
Excess (deficiency) of revenue over (under) expenses before noncontrolling interest	368,269	249,625	(1,040)	(7,176)	16,473	3,761	(3,911)	—	626,001
Noncontrolling interest	—	(9,714)	—	—	—	—	—	—	(9,714)
Excess (deficiency) of revenue over (under) expenses attributable to Sentara Healthcare	\$ 368,269	239,911	(1,040)	(7,176)	16,473	3,761	(3,911)	—	616,287

See accompanying independent auditors' report.

SENTARA HOSPITALS

Consolidating Schedule – Fully Allocated Overhead Operations Information

Year ended December 31, 2017

(In thousands)

	Sentara Norfolk General Hospital	Sentara Leigh Hospital	Sentara CarePlex Hospital	Sentara Virginia Beach General	Sentara Williamsburg Regional Medical Center	Sentara Obici Hospital	Sentara Princess Anne Hospital	Sentara Northern Virginia Hospital	Sentara Rockingham Memorial Hospital	Sentara Martha Jefferson Hospital	Sentara Halifax Regional Health System	Sentara Albemarle Medical Center	Eliminations	Total
Operating revenue, gains, and other support:														
Net patient service revenue	\$ 958,000	376,739	256,314	346,563	179,767	231,012	273,942	271,627	446,969	301,134	128,173	130,934	—	3,901,174
Provision for bad debt, net	(95,459)	(38,772)	(38,413)	(44,738)	(17,110)	(28,432)	(28,177)	(48,037)	(23,630)	(15,965)	(9,914)	(11,820)	—	(400,467)
Net patient service revenue less provision for bad debts	862,541	337,967	217,901	301,825	162,657	202,580	245,765	223,590	423,339	285,169	118,259	119,114	—	3,500,707
Premium and capitation revenue	3,185	74	61	56	30	33	67	—	455	717	—	17	—	4,695
Other operating revenue	15,432	661	5,913	5,380	334	4,835	1,808	3,886	4,981	3,284	2,627	402	(11,182)	38,361
Net assets released from restrictions	2,517	58	164	166	27	61	16	56	2,644	4,203	311	190	—	10,413
Total operating revenue, gains, and other support	883,675	338,760	224,039	307,427	163,048	207,509	247,656	227,532	431,419	293,373	121,197	119,723	(11,182)	3,554,176
Operating costs and expenses:														
Salaries, wages, and benefits	344,518	148,082	112,315	146,994	82,665	104,157	90,519	86,645	184,219	145,063	68,368	62,594	—	1,576,139
Other operating expenses	441,186	126,463	94,668	111,732	66,311	78,682	82,262	100,233	148,645	95,985	45,867	49,969	—	1,442,003
Interest expense	4,603	2,923	660	1,639	3,413	1,490	6,591	1,708	3,939	4,842	585	983	—	33,376
Depreciation and amortization	38,814	23,739	15,804	14,613	10,703	13,713	9,567	15,823	17,043	11,667	6,822	5,592	(460)	183,440
Sentara Healthcare services	(31,609)	(9,647)	(7,152)	(8,789)	(5,232)	(6,313)	26,762	27,466	37,807	27,622	12,138	12,597	—	75,650
Total operating costs and expenses	797,512	291,560	216,295	266,189	157,860	191,729	215,701	231,875	391,653	285,179	133,780	131,735	(460)	3,310,608
Net operating income (loss)	86,163	47,200	7,744	41,238	5,188	15,780	31,955	(4,343)	39,766	8,194	(12,583)	(12,012)	(10,722)	243,568
Nonoperating gains, net	79	29	23	29	17	280	425	118	11	466	4,580	—	—	6,057
Excess (deficiency) of revenue over (under) expenses before noncontrolling interest	86,242	47,229	7,767	41,267	5,205	16,060	32,380	(4,225)	39,777	8,660	(8,003)	(12,012)	(10,722)	249,625
Noncontrolling interest	—	—	—	—	—	—	(9,714)	—	—	—	—	—	—	(9,714)
Excess of revenue over (under) expenses attributable to Sentara Healthcare	\$ 86,242	47,229	7,767	41,267	5,205	16,060	22,666	(4,225)	39,777	8,660	(8,003)	(12,012)	(10,722)	239,911

See accompanying independent auditors' report.