



SENTARA HEALTHCARE AND SUBSIDIARIES

Consolidated Financial Statements and
Supplementary Schedules

December 31, 2018 and 2017

(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, 2018 and 2017, 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, 2018 and 2017, and the results of their operations and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.



Emphasis of Matter

As discussed in note 3(r) to the consolidated financial statements, Sentara Healthcare and subsidiaries adopted Financial Accounting Standards Board Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* and ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

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
April 1, 2019

SENTARA HEALTHCARE AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2018 and 2017

(In thousands)

Assets	2018	2017
Current assets:		
Cash and cash equivalents	\$ 831,060	704,621
Receivables, net	811,142	666,596
Investments and assets whose use is limited	325,762	718,622
Inventories	101,252	87,972
Prepaid expenses and other current assets	48,683	45,794
Total current assets	2,117,899	2,223,605
Investments and assets whose use is limited	3,483,121	3,081,033
Property, plant, and equipment, net	2,053,549	1,980,944
Land held for future use, at cost	40,344	34,941
Other assets, net	84,903	112,500
Total assets	\$ 7,779,816	7,433,023
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 159,884	137,184
Employee compensation and benefits	207,982	203,086
Medical claims accrued and payable	229,271	114,522
Current installments of long-term debt	19,465	327,006
Long-term debt subject to current remarketing provisions	292,895	297,410
Estimated third-party payor settlements	17,193	15,474
Other current liabilities	265,917	196,603
Total current liabilities	1,192,607	1,291,285
Long-term debt, excluding current installments	1,073,057	793,487
Retirement obligations	257,472	246,493
Other long-term liabilities	295,059	301,447
Total liabilities	2,818,195	2,632,712
Net assets:		
Without donor restrictions	4,832,575	4,671,688
With donor restrictions	95,708	97,560
Total net assets attributable to Sentara Healthcare	4,928,283	4,769,248
Noncontrolling interest	33,338	31,063
Total net assets	4,961,621	4,800,311
Total liabilities and net assets	\$ 7,779,816	7,433,023

See accompanying notes to consolidated financial statements.

SENTARA HEALTHCARE AND SUBSIDIARIES

Consolidated Statements of Operations

Years ended December 31, 2018 and 2017

(In thousands)

	<u>2018</u>	<u>2017</u>
Operating revenue, gains, and other support:		
Net patient service revenue	\$ 3,729,169	3,595,204
Premium and capitation revenue	2,461,511	1,571,261
Other operating revenue	105,017	119,593
Net assets released from restrictions for operations	<u>10,374</u>	<u>11,803</u>
Total operating revenue, gains, and other support	<u>6,306,071</u>	<u>5,297,861</u>
Operating costs and expenses:		
Salaries, wages, and benefits	2,164,865	2,055,511
Medical claims	1,560,768	1,064,541
Other operating	1,978,809	1,689,856
Interest	40,322	37,672
Depreciation and amortization	<u>208,413</u>	<u>206,149</u>
Total operating costs and expenses	<u>5,953,177</u>	<u>5,053,729</u>
Net operating income	352,894	244,132
Nonoperating (losses) gains, net	<u>(151,241)</u>	<u>381,869</u>
Excess of revenue over expenses before noncontrolling interest	201,653	626,001
Noncontrolling interest	<u>(9,551)</u>	<u>(9,714)</u>
Excess of revenue over expenses attributable to Sentara Healthcare	192,102	616,287
Net assets released from donor restricted funds for capital purchases	1,431	3,580
Change in funded status of retirement obligations	<u>(32,646)</u>	<u>(39,543)</u>
Increase in net assets without donor restrictions	<u>\$ 160,887</u>	<u>580,324</u>

See accompanying notes to consolidated financial statements.

SENTARA HEALTHCARE AND SUBSIDIARIES

Consolidated Statements of Changes in Net Assets

Years ended December 31, 2018 and 2017

(In thousands)

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Noncontrolling interest</u>	<u>Total</u>
Balance at December 31, 2016	\$ 4,091,364	89,288	29,469	4,210,121
Excess of revenue over expenses	616,287	—	9,714	626,001
Net assets released from donor 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)
Donor restricted contributions	—	16,535	—	16,535
Net assets released from restrictions	—	(11,803)	—	(11,803)
Donor restricted investment earnings, net	—	7,123	—	7,123
Change in net assets	<u>580,324</u>	<u>8,272</u>	<u>1,594</u>	<u>590,190</u>
Balance at December 31, 2017	<u>4,671,688</u>	<u>97,560</u>	<u>31,063</u>	<u>4,800,311</u>
Excess of revenue over expenses	192,102	—	9,551	201,653
Net assets released from donor restricted funds for capital purchases	1,431	(1,435)	4	—
Change in funded status of pension liability	(32,646)	—	—	(32,646)
Distribution to noncontrolling interest	—	—	(7,280)	(7,280)
Donor restricted contributions	—	13,268	—	13,268
Net assets released from donor restrictions	—	(10,374)	—	(10,374)
Donor restricted investment losses, net	—	(3,311)	—	(3,311)
Change in net assets	<u>160,887</u>	<u>(1,852)</u>	<u>2,275</u>	<u>161,310</u>
Balance at December 31, 2018	\$ <u>4,832,575</u>	<u>95,708</u>	<u>33,338</u>	<u>4,961,621</u>

See accompanying notes to consolidated financial statements.

SENTARA HEALTHCARE AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2018 and 2017

(In thousands)

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Change in net assets	\$ 161,310	590,190
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Distribution to noncontrolling interest	7,280	8,123
Depreciation and amortization	208,413	206,149
Net realized and unrealized losses (gains) on investments	207,893	(295,831)
(Gain) loss on disposal of property, plant, and equipment	(96)	291
Amortization of bond premium	(834)	(581)
Amortization of bond issuance costs	255	—
Change in funded status of pension liability	32,646	39,543
Change in fair value of derivative instruments	(17,053)	(5,428)
Equity in earnings of limited investment companies	(10,289)	(57,550)
Equity in earnings of joint ventures	(2,858)	(5,203)
Impairment of equity and cost method investments	26,202	—
Contributions received donor restricted for capital and long-term investment	(13,268)	(16,535)
Loss on sale of business line	2,907	—
Changes in operating assets and liabilities:		
Receivables, net	(144,546)	(8,330)
Inventories	(13,280)	(14,302)
Prepaid expenses and other current assets	(2,889)	(7,597)
Accounts payable and accrued expenses	22,700	12,076
Employee compensation and benefits	4,896	9,891
Medical claims accrued and payable	114,749	28,196
Estimated third-party payor settlements	1,719	(5,568)
Retirement obligations	(21,667)	(44,211)
Other liabilities	79,979	42,911
Net cash provided by operating activities	<u>644,169</u>	<u>476,234</u>
Cash flows from investing activities:		
Capital expenditures	(270,710)	(303,598)
Purchases of land held for future use	(5,403)	(10,373)
Purchases of alternative investments	(32,577)	(18,396)
Proceeds from sales of alternative investments	148,878	25,586
Purchases of readily marketable investments, net	(323,133)	(208,600)
Net changes in other assets	(3,191)	(10,486)
Proceeds from the sale of business line	13,233	—
Proceeds from the disposal of property, plant, and equipment	2,545	755
Net cash used in investing activities	<u>(470,358)</u>	<u>(525,112)</u>
Cash flows from financing activities:		
Contributions received donor restricted for capital and long-term investment	13,268	16,535
Distribution to noncontrolling interest	(7,280)	(8,123)
Proceeds from issuance of long-term debt	304,550	150,000
Repayments on long-term debt	(357,527)	(47,346)
Payments on capital lease obligations	(383)	(353)
Net cash (used in) provided by financing activities	<u>(47,372)</u>	<u>110,713</u>
Net increase in cash and cash equivalents	126,439	61,835
Cash and cash equivalents at beginning of year	<u>704,621</u>	<u>642,786</u>
Cash and cash equivalents at end of year	\$ <u>831,060</u>	\$ <u>704,621</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 39,040	37,755
Cash (refunded) paid during the year for income taxes	(439)	51
Supplemental disclosures of noncash flow information:		
Purchase of property, plant and equipment through assumption of long-term debt	\$ 23,448	—

See accompanying notes to consolidated financial statements.

SENTARA HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

(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 MPB Inc., 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 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

SENTARA HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

(In thousands)

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. During 2018, Sentara entered into a joint venture with OhioHealth Corporation, and as a result, SHP OH was contributed to the joint venture and is no longer consolidated. Additionally, in 2018, the parent company for OPC was changed from SHI to SVI.

- 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 174-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 \$22,287 and \$9,551 was attributable to Sentara and to the noncontrolling interest, respectively, for the year ended December 31, 2018. 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.

(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, 2018 and 2017, unrestricted cash and cash equivalents totaling \$146,807 and \$121,846, respectively, and investments and assets whose use is limited totaling \$380,577 and \$202,613, 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, 2018 and 2017

(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 (losses) gains, 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 (losses) 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 healthcare related 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 \$2,858 and \$5,203 for the years ended December 31, 2018 and 2017, 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 \$32,915 and \$48,588 at December 31, 2018 and 2017, respectively. During 2018, Sentara recorded impairment charges of \$22,702 for an equity method investment and \$3,500 for a cost method investment, which are included in other operating expenses in the accompanying consolidated statement of operations. No impairment charges were recorded in 2017.

Assets limited as to use include those under indenture, self-insurance funding arrangements, derivative financial instrument agreements held by trustee, 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.

SENTARA HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

(In thousands)

(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 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. Sentara tests the carrying value of goodwill annually for impairment. Total goodwill recognized on acquisitions, less accumulated amortization was \$31,453 and \$35,867 at December 31, 2018 and 2017, respectively, 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 (losses) gains, net. Net cash settlement amounts are included in interest expense.

SENTARA HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

(In thousands)

(i) Net Assets with Donor Restrictions

Net assets with donor restrictions are subject to donor-imposed restrictions as to how, when, and/or if the net assets are available for expenditure. Certain net assets with donor restrictions are held in perpetuity and the corpus may never be spent. Generally, the donors of these net assets permit Sentara to use all or part of the income earned and capital gains, if any, on related investments for general or specific purposes, or are based upon donor restrictions that expire upon the passage of a prescribed time period, or upon the occurrence of a stated event as specified by the donors.

(j) Nonoperating (Losses) 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 net assets without donor restrictions, which are excluded from excess of revenue over expenses, consistent with industry practice, include changes in the funded status of defined-benefit pension plans, and contributions of long-lived assets (including assets acquired using donor-restricted contributions).

(k) Net Patient Service Revenue

Net patient service revenue is reported at the amount that reflects the consideration to which Sentara expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others, and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations.

(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 and OHP are eliminated in consolidation.

Certain insurance subsidiaries participate in the risk adjustment program established by the Affordable Care Act (ACA). Premium revenue of \$98,549 and \$52,757 was estimated and recorded related to this program for the years ended December 31, 2018 and 2017, respectively. At December 31, 2018 and 2017, receivables in the amounts of \$93,833 and \$52,757, respectively, were outstanding related to this program. The laws and regulations governing this program are complex and subject to interpretation and change. As a result, there is a reasonable possibility that recorded estimates may change in the near term.

SENTARA HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

(In thousands)

(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. 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.

On December 22, 2017, the President signed into law H.R. 1, originally known as the Tax Cuts and Jobs Act. The new law includes several provisions that result in substantial changes to the tax treatment of tax-exempt organizations and their donors. Sentara has reviewed these provisions and the potential impact and concluded the enactment of H.R. 1 will not have a material effect on the operations of the organization.

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

(p) Use of Estimates

The preparation of the 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 collectability of receivables, recoverability of long-lived assets and goodwill, medical claims liabilities, derivatives, alternative investments, ACA risk adjustment receivable, self-insurance accruals, medical loss ratio rebates, third-party payor settlements, and retirement obligations. Actual results could differ from those estimates.

SENTARA HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

(In thousands)

(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 (classified as Level 1), in all significant respects, at December 31, 2018 and 2017. See note 6 for fair value disclosures related to investments and assets whose use is limited.

(r) Recently Adopted Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (ASC Topic 606). This ASU outlines a single comprehensive model for recognizing revenue as performance obligations, defined in a contract with a customer as goods or services transferred to the customer in exchange for consideration, are satisfied. As a result, what was previously classified as the provision for bad debts in the consolidated statement of operations is now reflected as implicit price concessions and, therefore, included as a reduction to net operating revenues. For the years ended December 31, 2018 and 2017, Sentara recorded approximately \$429,381 and \$430,869, respectively, in implicit price concessions as a direct reduction of net patient service revenue that would have been recorded as provision for bad debt prior to the adoption of ASC Topic 606. At December 31, 2018 and 2017, Sentara recorded approximately \$304,333 and \$302,713, respectively, as a direct reduction of patient accounts receivable that would have been reflected as allowance for uncollectable accounts prior to the adoption of ASC Topic 606. The standard also requires expanded disclosures regarding Sentara's revenue recognition policies and significant judgments employed in the determination of revenue. Sentara adopted ASC Topic 606 with a retrospective approach in 2018. Other than these changes in presentation, the adoption of ASC Topic 606 did not have a material impact on the consolidated balance sheets or consolidated statements of operations for the years ended December 31, 2018 and 2017.

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (ASC Topic 958). This ASU reduces the number of classes of net assets from three to two, requires the presentation of expenses in both natural and functional classification, and requires quantitative disclosures about management of liquid resources and availability of financial assets. Sentara adopted ASC Topic 958 with a retrospective approach in 2018.

(s) Reclassifications

Certain 2017 amounts have been reclassified to conform to the 2018 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, 2017.

SENTARA HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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(In thousands)

(f) Subsequent Events

Sentara has evaluated subsequent events for recognition and disclosure through April 1, 2019, the date the consolidated financial statements were issued.

(4) Net Patient Service Revenue

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

Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges, which depicts the transfer of health care services over the duration of the performance obligation. Generally, performance obligations satisfied over time relate to patients in Sentara's hospitals receiving inpatient acute care services, services in outpatient centers, long-term care facilities, or in the patient's home (home care). Sentara measures the performance obligation from admission into the hospital or long-term care facility, or the commencement of an outpatient service, to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to Sentara's patients and customers in a retail setting (e.g., pharmaceuticals and medical equipment) and Sentara does not believe the patient requires additional services.

Unsatisfied or partially unsatisfied performance obligations are primarily related to inpatient acute care services where patients have been admitted to one of Sentara's hospitals but have not yet been discharged at the end of the reporting period. The performance obligations for these contracts are typically satisfied when the patients are discharged, which generally occurs within five days of admission. Because these performance obligations are part of a contract that is expected to have a duration of one year or less, Sentara has elected to apply the optional exemption provided in FASB ASC Paragraph 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied as of the period end.

Sentara determines the transaction price based on gross charges for services provided, reduced by contractual adjustments to third-party payors, discounts provided to uninsured patients in accordance with Sentara's policy, and implicit price concessions provided to uninsured patients. Sentara determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount.

Consistent with Sentara's mission, care is provided to patients regardless of their ability to pay. Therefore, Sentara has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (e.g., copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the

SENTARA HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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(In thousands)

amounts Sentara expects to collect based on its collections history with those patients and current market conditions. Sentara estimates contractual adjustments, discounts and implicit price concessions utilizing a portfolio approach as a practical expedient to account for patient contracts with similar characteristics as a collective group rather than individually. The financial statement effects of using this practical expedient are not materially different from an individual contract approach.

Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. For the years ended December 31, 2018 and 2017, additional revenue of \$42,205 and \$44,417, respectively, was recognized due to changes in its estimates of implicit price concessions, discounts, and contractual adjustments for performance obligations satisfied in prior years. The additional revenue primarily represents patient account recoveries that were previously written off as uncollectible.

Subsequent adjustments to the transaction price that are determined to be the result of an adverse change in a patient or payor's ability to pay, for example, bankruptcy, are recognized as bad debt expense. With the adoption of ASC Topic 606, bad debt expense is included within other operating expenses in the consolidated statements of operations, rather than as a deduction of patient service revenue. Bad debt expense for the years ended December 31, 2018 and 2017, was not material to Sentara.

Sentara has elected the practical expedient allowed under FASB ASC Paragraph 606-10-32-18 and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to Sentara's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less. However, Sentara does, in certain instances enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

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 their 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. The remainder of outpatient services are paid on a cost basis or based on a fee schedule. Educational 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 SAMC, SNGH, and SHRH, which have all settled through the 2013 cost report year, and SWRMC, which has settled through the 2015 cost report year.

SENTARA HEALTHCARE AND SUBSIDIARIES

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(In thousands)

- *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 2017 cost report year, with the exception of SAMC. SAMC has settled through the 2015 cost report year. During 2018, SNGH received supplemental payments from DMAS totaling \$34,636 related to 2017 and \$51,886 related to 2018.

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 2018 and 2017, the effect of these settlement adjustments was to (decrease) increase net patient service revenue by approximately \$(2,505) and \$2,959, respectively, related to activity from previous periods.

Due to the nature of the government cost report settlement process, the complexities of government and nongovernment 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 \$68,504 and \$76,620 as of December 31, 2018 and 2017, respectively. During 2018 and 2017, the effect of the change in these estimates was to increase net patient service revenue by approximately \$6,581 and \$16,837, respectively, related to activity from previous periods.

Sentara has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by the following factors: payors, geography, service lines, method of reimbursement, and timing of when revenue is recognized. Tables providing details of these factors are presented below.

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(In thousands)

The composition of net patient service revenue by payor for the years ended December 31 is as follows:

	<u>2018</u>	<u>2017</u>
Medicare	\$ 1,522,770	1,535,417
Medicaid	305,311	286,364
Anthem (Blue Cross)	972,715	970,881
SHP – HMO/PPO (net of eliminations of \$620,633 and \$444,912, respectively)	77,739	82,161
Uninsured	72,988	57,983
All others (none individually more than 10%)	<u>777,646</u>	<u>662,398</u>
	<u>\$ 3,729,169</u>	<u>3,595,204</u>

Revenue from patient's deductibles and coinsurance are included in the categories presented above based on the primary payor.

The composition of net patient service revenue based on key operating regions, its lines of business, method of reimbursement for the years ended December 31, 2018 and 2017 are as follows:

	<u>2018</u>					
	<u>Hampton Roads</u>	<u>Blue Ridge</u>	<u>Northern Virginia</u>	<u>North Carolina</u>	<u>Eliminations</u>	<u>Total</u>
Line of business:						
Hospital	\$ 2,543,648	761,707	221,153	114,906	(446,486)	3,194,928
Physician services	232,699	93,843	18,946	9,029	(34,702)	319,815
Post acute	158,654	40,259	5,340	8,735	(51,454)	161,534
Specialty pharmacy	<u>155,555</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(102,663)</u>	<u>52,892</u>
	<u>\$ 3,090,556</u>	<u>895,809</u>	<u>245,439</u>	<u>132,670</u>	<u>(635,305)</u>	<u>3,729,169</u>
Method of reimbursement:						
Fee for service	\$ 2,935,001	895,809	245,439	132,670	(532,642)	3,676,277
Retail sales	<u>155,555</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(102,663)</u>	<u>52,892</u>
	<u>\$ 3,090,556</u>	<u>895,809</u>	<u>245,439</u>	<u>132,670</u>	<u>(635,305)</u>	<u>3,729,169</u>

SENTARA HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

(In thousands)

	2017					
	<u>Hampton Roads</u>	<u>Blue Ridge</u>	<u>Northern Virginia</u>	<u>North Carolina</u>	<u>Eliminations</u>	<u>Total</u>
Line of business:						
Hospital	\$ 2,326,148	709,277	223,590	108,690	(315,295)	3,052,410
Physician services	237,181	90,403	24,296	10,424	(30,672)	331,632
Post acute	157,021	40,508	4,693	9,388	(37,268)	174,342
Specialty pharmacy	113,004	—	—	—	(76,184)	36,820
	<u>\$ 2,833,354</u>	<u>840,188</u>	<u>252,579</u>	<u>128,502</u>	<u>(459,419)</u>	<u>3,595,204</u>
Method of reimbursement:						
Fee for service	\$ 2,720,350	840,188	252,579	128,502	(383,235)	3,558,384
Retail sales	113,004	—	—	—	(76,184)	36,820
	<u>\$ 2,833,354</u>	<u>840,188</u>	<u>252,579</u>	<u>128,502</u>	<u>(459,419)</u>	<u>3,595,204</u>

(5) Receivables, Net

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

	<u>2018</u>	<u>2017</u>
Patient accounts receivable	\$ 467,395	451,453
Premium and capitation receivables, net	151,251	111,157
Estimated third-party payor settlements	32,299	10,015
ACA receivables	93,833	52,757
Other receivables	66,364	41,214
Receivables, net	<u>\$ 811,142</u>	<u>666,596</u>

SENTARA HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

(In thousands)

(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>2018</u>	<u>2017</u>
Unrestricted investments	\$ 3,658,715	3,596,215
Donor-restricted investments	63,873	67,147
Assets whose use is limited under indenture, self-insurance funding arrangement, and derivative financial instrument agreements held by trustee	68,964	117,444
Assets internally designated as endowment fund	<u>17,331</u>	<u>18,849</u>
	3,808,883	3,799,655
Less portion required to pay current liabilities	<u>325,762</u>	<u>718,622</u>
	<u>\$ 3,483,121</u>	<u>3,081,033</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 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.

SENTARA HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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(In thousands)

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, 2018 and 2017, respectively:

		2018			
		Total	Level 1	Level 2	Investments reported at NAV
Investments and assets whose use is limited:					
Fixed maturities	\$	1,039,546	160,926	878,620	—
Equity securities		1,551,363	83,430	1,467,933	—
Multi-asset funds		58,860	58,860	—	—
Alternative investments:					
Hedge funds		517,535	—	276,271	241,264
Private equity		86,547	—	—	86,547
Real estate		281,679	—	—	281,679
Short-term investments		273,353	273,353	—	—
Total	\$	3,808,883	576,569	2,622,824	609,490

		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

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.

SENTARA HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

(In thousands)

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.

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 consistent with the provisions of ASU No. 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 alternative investments reported at NAV include redemption restrictions. Hedge fund investments include interests in funds that actively maintain an investment portfolio of long term returns, with low volatility and downside protection qualities. These funds have a redemption notice period of 95 days, a semiannual redemption frequency, and may be subject to a 12 to 36 month lockup period. Private equity investments primarily includes interests in funds or partnerships that hold illiquid investments in venture capital, buyouts and credit. These funds have variable liquidity after the lock up period expires, and are distributed by the fund on a discretionary basis as restrictions are met and capital permits. Real estate investments include interests in funds or partnerships whose primary objective is to invest in established core real estate with a diversified portfolio of high quality buildings in the most liquid markets in the United States. These investments can be redeemed quarterly and require written notice of intent to withdraw and are subject to the capital requirements of the fund manager.

Sentara has remaining capital commitments of \$93,327 at December 31, 2018 for certain alternative investments.

SENTARA HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

(In thousands)

(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:

	<u>2018</u>	<u>2017</u>
Land	\$ 154,792	152,802
Land improvements	137,879	137,431
Buildings	1,486,751	1,395,981
Fixed equipment	706,066	695,431
Major moveable equipment	1,955,495	1,856,966
Leasehold improvements	<u>62,526</u>	<u>61,920</u>
	4,503,509	4,300,531
Less accumulated depreciation and amortization	<u>2,758,763</u>	<u>2,571,956</u>
	1,744,746	1,728,575
Construction in progress	<u>308,803</u>	<u>252,369</u>
Total	<u>\$ 2,053,549</u>	<u>1,980,944</u>

Depreciation and amortization related to property, plant, and equipment totaled \$208,051 and \$205,428 for the years ended December 31, 2018 and 2017, respectively.

Significant construction projects in progress at December 31, 2018 are expected to have remaining project costs of approximately \$130,995 through 2020. The commitments include the costs to complete the Sentara cancer center, SLH orthopedic building, a vertical expansion at SNGH, an expansion at SVBGH, and other projects.

SENTARA HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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(In thousands)

(8) Medical Claims Accrued and Payable

As of December 31, 2018 and 2017, medical claims accrued and payable were as follows:

	<u>2018</u>	<u>2017</u>
Balance at January 1	\$ 114,522	86,326
Incurred related to:		
Current year	1,579,762	1,069,255
Prior years	<u>(18,994)</u>	<u>(4,714)</u>
Total incurred	<u>1,560,768</u>	<u>1,064,541</u>
Paid related to:		
Current year	1,351,729	955,133
Prior years	<u>94,290</u>	<u>81,212</u>
Total paid	<u>1,446,019</u>	<u>1,036,345</u>
Balance at December 31	\$ <u>229,271</u>	<u>114,522</u>

Sentara uses actuarial techniques based principally on historical payment patterns to estimate incurred claims. Changes in payment patterns and claims trends can result in adjustments to prior years' claims estimates and are recorded in current operations. Changes in estimates of incurred claims for prior years recognized in 2018 and 2017 were attributable to lower than anticipated utilization partially offset by higher costs of medical services.

Sentara estimated a medical loss ratio rebate, as required by the ACA, with the incurred and unpaid liability amounts based on its underwriting experience; actuarial, tax, and accounting estimates and assumptions at the consolidated financial statement date; as well as regulations and guidance available that is not final and subject to change prior to settlement. Accordingly, Sentara's use of estimates and assumptions associated with its medical loss ratio rebate accrued in the preparation of the consolidated financial statements and related footnote disclosures may differ from actual results. The amounts reported herein are for financial reporting purposes solely and not intended to be used for settlement purposes. As of December 31, 2018 and 2017, Sentara recorded \$111,700 and \$0, respectively, in estimated rebates related to the individual product and is included in other current and long-term liabilities in the accompanying consolidated balance sheets.

SENTARA HEALTHCARE AND SUBSIDIARIES

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(In thousands)

(9) Long-Term Debt

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

	<u>2018</u>	<u>2017</u>
Sentara Healthcare Obligated Group Revenue and Refunding Bonds:		
Series 2018A (Albemarle County), payable in installments ranging from \$740 to \$5,740 through 2048, with interest at a variable rate determined upon remarketing every 7 days (actual interest rate at December 31, 2018 was 1.69%)	\$ 76,210	—
Series 2018B (Albemarle County), payable in installments ranging from \$765 to \$5,795 through 2048, with interest at a variable rate determined upon remarketing daily (actual interest rate at December 31, 2018 was 1.65%)	76,905	—
Series 2018A (Norfolk), payable in installments ranging from \$7,405 to \$14,000 through 2048, with a fixed interest rate of 5.00%	50,000	—
Series 2018B (Norfolk), payable in installments ranging from \$12,230 to \$24,000 through 2048, with a fixed interest rate of 4.00%	88,620	—
Series 2017, refunded by Series 2018A/B Norfolk	—	150,000
Series 2016A, payable in installments ranging from \$2,585 to \$8,550 through 2034, with interest at a variable rate determined upon remarketing every seven days (actual interest rate at December 31, 2018 was 1.68%)	95,795	96,805
Series 2016B, payable in installments ranging from \$2,585 to \$8,550 through 2034, with interest at a variable rate determined upon remarketing every seven days (actual interest rate at December 31, 2018 was 1.67%)	95,795	96,805
Series 2016C, payable in installments ranging from \$765 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, 2018 was 1.97%)	98,615	99,310
Series 2016D, payable in installments ranging from \$635 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, 2018 was 1.93%)	82,380	82,960

SENTARA HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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(In thousands)

	<u>2018</u>	<u>2017</u>
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, 2018 was 1.92%)	\$ 25,200	26,400
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, 2018 was 1.97%)	59,931	62,655
Series 2013A-B, refunded by Series 2018A-B (Albemarle County)	—	154,550
Series 2012B, payable in installments ranging from \$450 to \$26,110 through 2043, with fixed interest rates ranging from 3.00% to 5.00% (average interest rate at December 31, 2018 was 4.46%)	133,100	135,590
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 2018 was 4.76%)	216,880	223,480
Series 2008, payable in installments ranging from \$4,215 to \$26,860 through 2035, with a fixed interest rate of 5.75%	145,625	149,635
Series 1993, payable in installments ranging from \$3,585 to \$3,775 through 2018, with a fixed interest rate of 5.13%	—	3,775
Notes payable:		
Sentara Healthcare Commercial Paper Note program:		
\$130,000 authorized tax-exempt issue, weighted average maturity and interest rate at December 31, 2018 was 109 days and 1.80%, respectively	28,800	32,800
\$125,000 authorized taxable issue, weighted average maturity and interest rate at December 31, 2018 was 71 days and 2.69%, respectively	71,000	71,000
Capital lease obligations	<u>21,308</u>	<u>21,691</u>
	1,366,164	1,407,456
Unamortized bond premium	25,342	14,796
Unamortized bond issuance costs, net	(6,089)	(4,349)
Less amount classified as current	<u>(312,360)</u>	<u>(624,416)</u>
	\$ <u>1,073,057</u>	<u>793,487</u>

SENTARA HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

(In thousands)

(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 Counties of Isle of Wight and Albemarle (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 May 2018, Sentara issued \$150,000 in fixed Hospital Facilities Revenue and Refunding Bonds (Series 2018A and 2018B Norfolk). The proceeds of the bonds were used to fully refund the Series 2017 Bonds. A premium of \$11,380 was recognized related to the issuance of the debt.

In May 2018, Sentara issued \$154,550 in variable rate Hospital Facilities Revenue and Refunding Bonds (Series 2018A and 2018B Albemarle County). The proceeds of the bonds were used to fully refund the Series 2013AB bonds. Sentara maintains a letter of credit equal to the Series 2018A and 2018B Bonds (Albemarle County). No balances were outstanding as of December 31, 2018.

Sentara maintains a balance of short-term investments equal to the Series' 2016A and 2016B bonds and the commercial paper issuances (note 9(b)) 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 \$291,390 and \$601,960 as of December 31, 2018 and 2017, 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.

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(In thousands)

(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, 2018 are as follows:

2019	\$	26,140
2020		27,668
2021		28,196
2022		31,720
2023		32,595
Thereafter		<u>1,219,845</u>
	\$	<u><u>1,366,164</u></u>

(10) 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, 2018 and 2017, none of which are designated as cash flow hedging instruments:

2018							
Interest rate swap	Fair value	Notional amount outstanding	Rate paid	Rate received	Average rate received in 2018	Counterparty	Term
2004	\$ (28,181)	190,368	3.51 %	67% of one month (1M) LIBOR	1.35 %	Wells Fargo (75%) and Goldman Sachs 25%	30 Years
2008	457	145,625	SIFMA + 0.16%	5.75 %	5.75	Citigroup	10 Years
Sussex 1998	(277)	9,825	3.33 %	59% of 1M LIBOR + 0.35%	1.54	Bank of America	18 Years
MJH 2013 (Basis sw ap)	1,069	76,325	SIFMA	67% of 1M LIBOR + 0.41%	1.76	Barclays	20 Years
MJH 2013 (Fixed sw ap)	(1,047)	153,115	1.94 %	67% of 3M LIBOR	1.55	Barclays	35 Years
RMH 2015	4,842	181,005	1.61 %	67% of 1M LIBOR	1.35	Barclays (54%) and Goldman Sachs (46%)	30 Years

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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%) and Goldman Sachs 25%	30 Years
2008	463	149,635	SIFMA + 0.16%	5.75 %		5.75	Citigroup	10 Years
Sussex 1998	(492)	9,895	3.33 %	59% of 1M LIBOR + 0.35%		1.01	Bank of America	18 Years
MJH 2013 (Basis swap)	782	76,325	SIFMA	67% of 1M LIBOR + 0.41%		1.20	Barclays	20 Years
MJH 2013 (Fixed sw ap)	(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%) and 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 held \$4,540 and posted \$10,733 in collateral with the counterparties as of December 31, 2018 and 2017, respectively, which is included in investments and current assets whose use is limited in the accompanying consolidated balance sheets.

Interest rate swap agreements are recorded at the estimated amount that Sentara would receive or pay to terminate the swap agreements at the reporting date, taking into account current interest rates, which approximates fair value. 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, 2018 and 2017 was \$17,053 and \$5,428, respectively, and is included in nonoperating (losses) gains, net in the accompanying consolidated statements of operations. Sentara is exposed to 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.

(11) Retirement Obligations

Sentara maintains a noncontributory defined-benefit pension plan that covers substantially all employees of Sentara 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.

Sentara utilizes a full yield curve approach in the estimation of the service and interest components of net periodic benefit cost for pension and other postretirement benefits by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to the relevant projected cash flows.

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(In thousands)

The following table sets forth amounts recognized in the accompanying consolidated financial statements of Sentara as of and for the years ended December 31, 2018 and 2017 related to the Plan:

	<u>2018</u>	<u>2017</u>
Accumulated benefit obligation at measurement date	\$ 1,944,865	2,012,600
Change in projected benefit obligations:		
Benefit obligation at previous measurement date	\$ 2,260,611	1,991,807
Service cost	108,115	90,045
Interest cost	69,611	65,111
Actuarial (gain) loss	(162,062)	206,154
Benefit payments	<u>(101,005)</u>	<u>(92,506)</u>
Projected benefit obligation at measurement date	<u>\$ 2,175,270</u>	<u>2,260,611</u>
Change in assets:		
Fair value of assets at previous measurement date	\$ 2,014,118	1,740,646
Actual (loss) return on assets	(115,315)	245,978
Employer contributions	120,000	120,000
Benefit payments	<u>(101,005)</u>	<u>(92,506)</u>
Fair value of assets at measurement date	<u>\$ 1,917,798</u>	<u>2,014,118</u>
Amounts recognized in the consolidated balance sheets at December 31:		
Long-term liabilities	\$ (257,472)	(246,493)
Amounts recognized in net assets without donor restrictions at December 31:		
Net actuarial loss	\$ (701,310)	(668,448)
Prior service cost recognized	(583)	(799)
Components of net periodic pension cost:		
Service cost	\$ 108,115	90,045
Interest cost	69,611	65,111
Expected return on plan assets	(132,297)	(121,002)
Amortization of prior service cost	216	215
Amortization of actuarial loss	<u>52,688</u>	<u>41,420</u>
Net periodic pension cost	<u>\$ 98,333</u>	<u>75,789</u>

For the years ended December 31, 2018 and 2017, Sentara recognized a change in net assets without donor restrictions of \$(32,646) and \$(39,543), respectively, related to nonperiodic changes in the Plan's assets and benefit obligations.

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(In thousands)

The estimated actuarial net loss and prior service cost for the Plan that will be amortized from accumulated net assets without donor restrictions into net periodic cost over the next year are \$38,848 and \$216, respectively.

The assumptions used to determine benefit obligations for the Plan at December 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Discount rate	4.20 %	3.56 %
Rate of compensation increase	4.00	4.00

Weighted average assumptions used to determine net periodic benefit cost for the Plan for 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Discount rate in effect for determining service cost	3.68 %	4.30 %
Discount rate in effect for determining interest cost	3.16	3.35
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, 2018 and 2017.

(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:

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(In thousands)

<u>Asset category</u>	<u>Target allocation percentage</u>
Equity securities	25%–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.

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, 2018 and 2017, respectively:

		<u>Fair value measurements at December 31, 2018 using</u>			
		<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Investments reported at NAV</u>
Investments:					
Fixed maturities	\$	469,715	172,584	297,131	—
Equity securities		877,505	—	877,505	—
Multi-asset funds		71,827	71,827	—	—
Short-term investments		64,622	64,622	—	—
Alternative investments		434,129	—	132,996	301,133
Total	\$	<u>1,917,798</u>	<u>309,033</u>	<u>1,307,632</u>	<u>301,133</u>

SENTARA HEALTHCARE AND SUBSIDIARIES

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	Fair value measurements at December 31, 2017 using			Investments reported at NAV
	Total	Level 1	Level 2	
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>

Sentara's alternative investments reported at NAV include redemption restrictions. Hedge fund investments include interests in funds that actively maintain an investment portfolio of long-term returns, with low volatility and downside protection qualities. These funds have a redemption notice period of 95 days, a semiannual redemption frequency, and may be subject to a 12 to 36 month lockup period. Private equity investments primarily includes interests in funds or partnerships that hold illiquid investments in venture capital, buyouts and credit. These funds have variable liquidity after the lock-up period expires, and are distributed by the fund on a discretionary basis as restrictions are met and capital permits. Real estate investments include interests in funds or partnerships whose primary objective is to invest in established core real estate with a diversified portfolio of high quality buildings in the most liquid markets in the United States. These investments can be redeemed quarterly and require written notice of intent to withdraw and are subject to the capital requirements of the fund manager.

Sentara has remaining capital commitments of \$36,824 at December 31, 2018 for certain alternative investments.

(b) Contributions

Sentara expects to contribute \$120,000 to the Plan during the year ending December 31, 2019.

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(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:

2019	\$	132,639
2020		129,340
2021		137,094
2022		142,946
2023		146,208
2024–2028		773,911

The expected benefits to be paid are based on the same assumptions used to measure the Plan's benefit obligations at December 31, 2018.

(d) *Supplemental Executive Retirement Plan*

Sentara maintains a supplemental executive retirement plan for certain executives. Compensation expense under the plan was \$2,451 and \$3,270 for the years ended December 31, 2018 and 2017, respectively. Accrued benefit liabilities under this plan totaled \$24,850 and \$22,451 as of December 31, 2018 and 2017, respectively, and are included in other current and 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, 2018 and 2017 was \$38,674 and \$35,256, respectively, and is included in salaries, wages, and benefits expense in the accompanying consolidated statements of operations.

(12) **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 is 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.

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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 Sentara's website 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 implicit price concessions. Utilization of income and asset information and credit reporting data indicate the majority of amounts reported as implicit price concessions 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:

	2018	2017
Components of estimated cost of charity and other uncompensated care:		
Charity care	\$ 183,741	163,587
Medicaid	59,939	48,849
Implicit price concessions (previously recorded as provision for bad debt)	110,441	112,760
Total estimated cost	\$ 354,121	325,196

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(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>2018</u>	<u>2017</u>
Nonreimbursed cost of charity and uncompensated care	\$ 354,121	325,196
Medical education	12,586	21,418
Direct contributions and sponsorships	20,677	15,591
Community health programs	<u>2,591</u>	<u>2,750</u>
Total community benefits, at cost	<u>\$ 389,975</u>	<u>364,955</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.

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(13) 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.

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

	<u>2018</u>	<u>2017</u>
Medicare	32 %	30 %
Medicaid	11	8
Anthem (Blue Cross)	25	28
All others (none individually more than 10%)	<u>32</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 has concentrations of credit risk primarily with the Virginia DMAS for benefits to Medicaid recipients and with the U.S. Government's Office of Personnel Management for subscriber benefits provided under the Federal Employee Health Benefits Program.

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(14) Functional Expenses

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

	Year ended December 31, 2018						Total
	Healthcare services					Support services	
	Hospitals	Physician	Post acute	Specialty pharmacy	Health plan	Management & general	
Salaries and benefits	\$ 1,082,547	432,878	104,484	3,419	40,140	501,397	2,164,865
Medical claims	—	—	5,405	—	1,555,284	79	1,560,768
Other operating expenses:							
Supplies	759,232	16,763	47,434	147,964	768	32,654	1,004,815
Professional fees	88,412	26,858	2,088	199	4,145	40,171	161,873
Professional fee allocations	145,966	(146,796)	830	—	—	—	—
Purchased and contracted services	95,829	9,742	12,011	969	11,559	113,277	243,387
Repairs and maintenance	53,229	1,974	413	21	3,422	92,315	151,374
Rent	38,444	15,077	3,314	87	1,236	28,752	86,910
Insurance	8,553	8,309	1,819	—	482	6,958	26,121
Marketing	121	450	29	14	10,656	21,548	32,818
Utilities	1,295	628	142	11	97	39,742	41,915
Contributions	42,805	15	—	—	2,047	41,378	86,245
Telecommunications	1,470	1,707	408	2	377	10,175	14,139
Taxes and licenses	15,645	1,271	238	138	37,045	19,456	73,793
Other/expense recoveries	(2,495)	26,681	10,591	278	4,873	15,491	55,419
Other operating expenses	1,248,506	(37,321)	79,317	149,683	76,707	461,917	1,978,809
Interest	21,623	—	—	—	1,155	17,544	40,322
Depreciation and amortization	111,170	4,274	1,755	262	620	90,332	208,413
Sentara Healthcare services	31,816	30,305	706	—	4,402	(67,229)	—
	<u>\$ 2,495,662</u>	<u>430,136</u>	<u>191,667</u>	<u>153,364</u>	<u>1,678,308</u>	<u>1,004,040</u>	<u>5,953,177</u>

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	Year ended December 31, 2017						Total
	Healthcare services					Support services	
	Hospitals	Physician	Post acute	Specialty pharmacy	Health plan	Management & general	
Salaries and benefits	\$ 1,029,817	413,064	102,352	2,495	31,811	475,972	2,055,511
Medical claims	—	—	4,480	—	1,060,011	50	1,064,541
Other operating expenses:							
Supplies	721,270	17,549	38,243	108,853	792	38,105	924,812
Professional fees	78,933	33,971	2,741	31	3,785	36,044	155,505
Professional fee allocations	131,443	(132,593)	1,150	—	—	—	—
Purchased and contracted services	84,060	6,694	11,944	777	3,333	96,633	203,441
Repairs and maintenance	54,283	2,994	572	72	2,708	90,865	151,494
Rent	38,699	14,735	3,334	80	1,089	23,277	81,214
Insurance	7,808	8,046	1,614	—	458	7,593	25,519
Marketing	256	508	34	—	9,214	19,055	29,067
Utilities	1,831	606	146	5	81	38,248	40,917
Contributions	488	13	—	—	23	4,562	5,086
Telecommunications	1,481	1,669	443	2	302	10,279	14,176
Taxes and licenses	1,119	1,015	235	219	3,224	6,585	12,397
Other/expense recoveries	(2,168)	34,344	11,222	298	2,616	(84)	46,228
Other operating expenses	1,119,503	(10,449)	71,678	110,337	27,625	371,162	1,689,856
Interest	20,213	—	441	—	75	16,943	37,672
Depreciation and amortization	109,353	3,820	1,670	266	517	90,523	206,149
Sentara Healthcare services	28,027	32,400	659	—	4,279	(65,365)	—
	<u>\$ 2,306,913</u>	<u>438,835</u>	<u>181,280</u>	<u>113,098</u>	<u>1,124,318</u>	<u>889,285</u>	<u>5,053,729</u>

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(15) Liquidity and Availability of Resources

Sentara's financial assets available to management for general expenditure within one year of the financial reporting date, or December 31, 2018 and 2017, are as follows:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 831,060	704,621
Receivables, net	811,142	666,596
Current investments and assets whose use is limited	325,762	718,622
Long-term investments and assets whose use is limited	<u>3,483,121</u>	<u>3,081,033</u>
Total financial assets available within one year	<u>5,451,085</u>	<u>5,170,872</u>
Less:		
Amounts unavailable for general expenditures within one year due to:		
Restricted by donors with purpose restrictions	73,290	74,879
Restricted by donors in perpetuity	22,418	22,681
Restricted for payment of current liabilities	325,762	718,622
Restricted by Virginia State Corporation Commission Bureau of Insurance	527,384	324,459
Restricted for swap collateral	4,540	10,733
Deferred compensation plan	45,655	46,697
Bay Primex Insurance Captive	68,178	72,480
Assets internally designated as endowment fund	17,331	18,849
Private equity alternative investments	86,547	82,100
Trusted funds	<u>—</u>	<u>34,230</u>
Total amounts unavailable for general expenditures within one year	<u>1,171,105</u>	<u>1,405,730</u>
Total financial assets available to management for general expenditure within one year	<u>\$ 4,279,980</u>	<u>3,765,142</u>

(16) 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. Lexington policy limits are \$2,350 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, 2018 and 2017 totaled \$90,288 and \$98,336, respectively, and are included in other current liabilities and other

SENTARA HEALTHCARE AND SUBSIDIARIES

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(In thousands)

long-term liabilities in the accompanying consolidated balance sheets. Cash and investments totaling \$68,178 and \$72,480 as of December 31, 2018 and 2017, 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 \$17,615 and \$17,908 as of December 31, 2018 and 2017, 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 \$3,526 and \$2,696 for the years ended December 31, 2018 and 2017, respectively.

(c) Employee Health Benefits

Sentara is self-insured for employee health benefits. The liabilities associated with these claims totaled \$21,905 and \$26,795 at December 31, 2018 and 2017, respectively, which are included in other current liabilities in the accompanying consolidated balance sheets.

(d) Workers' Compensation Insurance

Sentara is self-insured for workers' compensation insurance. The net liability associated with these claims totaled \$17,606 and \$15,510 at December 31, 2018 and 2017, respectively, which is included in other current liabilities and other long-term liabilities in the accompanying consolidated balance sheets.

SENTARA HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

(In thousands)

(e) Lease Commitments

Certain Sentara subsidiaries are parties to operating leases for property and equipment. Rental expense incurred during the years ended December 31, 2018 and 2017 was \$86,910 and \$81,214, respectively. Future minimum lease payments under the aforementioned operating leases at December 31, 2018 are as follows:

2019	\$	34,430
2020		29,971
2021		25,102
2022		16,821
2023		7,457
Thereafter		<u>33,937</u>
Total future minimum lease payments		\$ <u>147,718</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's 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, 2018 and 2017

(In thousands)

(17) Nonoperating (Losses) Gains, Net

Nonoperating (losses) gains, net are summarized as follows:

	<u>2018</u>	<u>2017</u>
Investment income	\$ 33,002	26,569
Realized gains on investments, net	19,406	21,083
Unrealized (losses) gains on investments, net	(227,299)	274,748
Equity in earnings of limited investment companies	10,289	57,550
Change in fair value of derivative instruments	17,053	5,428
Other	(3,692)	(3,509)
	<u> </u>	<u> </u>
Nonoperating (losses) gains, net	\$ <u>(151,241)</u>	<u>381,869</u>

SENTARA HEALTHCARE AND SUBSIDIARIES

Consolidating Schedule – Balance Sheet Information

December 31, 2018

(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	\$ 536,841	126,167	459	345	138,448	27,083	1,717	—	831,060
Receivables, net	21,282	528,499	39,446	13,408	272,075	13,401	11,410	(88,379)	811,142
Receivables from affiliated organizations	90,917	5,434	179	13	1,416	26,132	1,501	(125,592)	—
Investments and assets whose use is limited	325,762	—	—	—	—	—	—	—	325,762
Inventories	—	70,125	30,379	748	—	—	—	—	101,252
Prepaid expenses and other current assets	5,371	27,993	125	92	8,567	3,246	3,289	—	48,683
Total current assets	980,173	758,218	70,588	14,606	420,506	69,862	17,917	(213,971)	2,117,899
Notes receivable from affiliated organizations	144,024	—	—	—	—	—	—	(144,024)	—
Investments and assets whose use is limited	3,034,850	66,788	—	—	366,226	15,257	—	—	3,483,121
Property, plant, and equipment, net	272,417	1,692,683	11,581	43,057	5,920	10,827	17,536	(472)	2,053,549
Land held for future use, at cost	10,289	29,457	—	—	—	598	—	—	40,344
Other assets, net	13,260	58,903	2,621	577	—	7,840	1,702	—	84,903
Total assets	\$ 4,455,013	2,606,049	84,790	58,240	792,652	104,384	37,155	(358,467)	7,779,816
Liabilities and Net Assets									
Current liabilities:									
Accounts payable and accrued expenses	\$ 41,393	104,911	557	975	4,279	4,001	3,768	—	159,884
Employee compensation and benefits	191,869	3,811	673	—	—	11,629	—	—	207,982
Medical claims accrued and payable	—	—	—	1,563	297,731	8,791	—	(78,814)	229,271
Current installments of long-term debt	19,074	6,941	—	—	—	—	—	(6,550)	19,465
Long-term debt subject to current remarketing provisions	292,895	—	—	—	—	—	—	—	292,895
Payables to affiliated organizations	5,637	93,339	99	1	21,880	4,327	309	(125,592)	—
Estimated third-party payor settlements	—	15,242	—	1,951	—	—	—	—	17,193
Other current liabilities	68,929	37,689	11,252	2,215	119,930	26,240	2,677	(3,015)	265,917
Total current liabilities	619,797	261,933	12,581	6,705	443,820	54,988	6,754	(213,971)	1,192,607
Long-term debt, excluding current installments	1,052,140	164,941	—	—	—	—	—	(144,024)	1,073,057
Retirement obligations	257,472	—	—	—	—	—	—	—	257,472
Other long-term liabilities	190,303	72,784	1,381	1,669	28,081	—	841	—	295,059
Total liabilities	2,119,712	499,658	13,962	8,374	471,901	54,988	7,595	(357,995)	2,818,195
Net assets:									
Without donor restrictions	2,331,441	1,982,057	70,720	49,831	320,751	49,396	28,851	(472)	4,832,575
With donor restrictions	3,860	90,996	108	35	—	—	709	—	95,708
Total net assets attributable to Sentara Healthcare	2,335,301	2,073,053	70,828	49,866	320,751	49,396	29,560	(472)	4,928,283
Noncontrolling interest	—	33,338	—	—	—	—	—	—	33,338
Total net assets	2,335,301	2,106,391	70,828	49,866	320,751	49,396	29,560	(472)	4,961,621
Total liabilities and net assets	\$ 4,455,013	2,606,049	84,790	58,240	792,652	104,384	37,155	(358,467)	7,779,816

See accompanying independent auditors' report.

SENTARA HOSPITALS

Consolidating Schedule – Balance Sheet Information

December 31, 2018

(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)	\$ (442)	(142)	(97)	(130)	(67)	(92)	85,087	2,892	5,840	3,498	8,003	21,817	—	126,167
Receivables, net	148,094	50,109	31,637	44,297	22,694	31,339	39,265	29,589	58,583	43,332	13,476	16,084	—	528,499
Receivables from affiliated organizations	2,074	665	453	606	312	431	178	617	11	81	—	6	—	5,434
Inventories	22,123	4,620	5,756	5,764	3,032	4,580	4,648	4,729	5,689	4,551	2,510	2,123	—	70,125
Prepaid expenses and other current assets	12,734	2,657	2,377	2,964	1,230	2,047	344	650	843	461	1,080	606	—	27,993
Total current assets	184,583	57,909	40,126	53,501	27,201	38,305	129,522	38,477	70,966	51,923	25,069	40,636	—	758,218
Investments	1,432	—	—	165	—	—	—	—	32,443	32,748	—	—	—	66,788
Property, plant, and equipment, net	390,764	166,279	88,586	105,652	86,475	110,157	167,225	141,529	140,030	162,238	77,958	58,377	(2,587)	1,692,683
Land held for future use, at cost	—	—	—	2,491	819	—	—	8,882	4,537	12,728	—	—	—	29,457
Other assets, net	2,057	—	12,508	31,404	60,865	60,195	—	8,076	2,089	2,722	423	3,621	(125,057)	58,903
Total assets	\$ 578,836	224,188	141,220	193,213	175,360	208,657	296,747	196,964	250,065	262,359	103,450	102,634	(127,644)	2,606,049
Liabilities and Net Assets														
Current liabilities:														
Accounts payable and accrued expenses	\$ 32,776	11,015	6,328	12,673	4,979	6,169	6,175	5,324	7,657	7,005	1,730	3,080	—	104,911
Employee compensation and benefits	—	—	—	—	—	—	—	—	1,807	—	1,122	882	—	3,811
Current installments of long-term debt	—	—	—	—	—	—	6,550	—	—	—	—	391	—	6,941
Payables to affiliated organizations	1,083	229	126	244	131	125	20,647	664	31	269	30,296	39,494	—	93,339
Estimated third-party payor settlements	3,159	568	60	492	534	314	503	452	2,281	1,244	567	5,068	—	15,242
Other current liabilities	15,821	1,592	1,077	1,517	1,174	843	4,388	2,019	2,539	3,421	1,375	1,923	—	37,689
Total current liabilities	52,839	13,404	7,591	14,926	6,818	7,451	38,263	8,459	14,315	11,939	35,090	50,838	—	261,933
Long-term debt, excluding current installments	—	—	—	—	—	—	144,024	—	—	—	—	—	—	164,941
Other long-term liabilities	8,902	4,996	3,382	4,338	2,260	2,954	3,300	9,292	19,862	4,284	5,279	3,935	—	72,784
Total liabilities	61,741	18,400	10,973	19,264	9,078	10,405	185,587	17,751	34,177	16,223	40,369	75,690	—	499,658
Net assets:														
Without donor restrictions	508,304	205,777	130,145	173,626	166,116	196,374	77,791	176,176	179,940	207,261	61,301	26,890	(127,644)	1,982,057
With donor restrictions	8,791	11	102	323	166	1,878	31	3,037	35,948	38,875	1,780	54	—	90,996
Total net assets attributable to Sentara Healthcare	517,095	205,788	130,247	173,949	166,282	198,252	77,822	179,213	215,888	246,136	63,081	26,944	(127,644)	2,073,053
Noncontrolling interest	—	—	—	—	—	—	33,338	—	—	—	—	—	—	33,338
Total net assets	517,095	205,788	130,247	173,949	166,282	198,252	111,160	179,213	215,888	246,136	63,081	26,944	(127,644)	2,106,391
Total liabilities and net assets	\$ 578,836	224,188	141,220	193,213	175,360	208,657	296,747	196,964	250,065	262,359	103,450	102,634	(127,644)	2,606,049

See accompanying independent auditors' report.

SENTARA HOLDINGS, INC.

Consolidating Schedule – Balance Sheet Information

December 31, 2018

(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 Ventures, Inc.	Eliminations	Total
Current assets:									
Cash and cash equivalents	\$ 2,314	386	2,156	2,151	6,208	1,634	12,234	—	27,083
Receivables, net	217	2,877	72	1	7,871	—	2,363	—	13,401
Receivables from affiliated organizations	1,717	27,617	45	—	209	—	2,283	(5,739)	26,132
Prepaid expenses and other current assets	—	3,013	—	3	93	—	137	—	3,246
Total current assets	4,248	33,893	2,273	2,155	14,381	1,634	17,017	(5,739)	69,862
Investments	—	—	—	431	13,920	906	—	—	15,257
Property, plant, and equipment, net	—	9,999	—	—	147	—	681	—	10,827
Land held for future use, at cost	—	—	—	—	—	—	598	—	598
Other assets, net	2,524	26,429	—	—	—	2	8,779	(29,894)	7,840
Total assets	\$ 6,772	70,321	2,273	2,586	28,448	2,542	27,075	(35,633)	104,384
Liabilities and Net Assets									
Current liabilities:									
Accounts payable and accrued expenses	\$ —	2,480	14	—	—	—	1,507	—	4,001
Employee compensation and benefits	—	11,629	—	—	—	—	—	—	11,629
Medical claims accrued and payable	—	—	—	—	8,791	—	—	—	8,791
Payables to (from) affiliated organizations	1,480	5,201	495	—	1,414	8	1,468	(5,739)	4,327
Other current liabilities	—	21,489	13	—	3,190	—	1,548	—	26,240
Total current liabilities	1,480	40,799	522	—	13,395	8	4,523	(5,739)	54,988
Net assets:									
Without donor restrictions	5,292	29,522	1,751	2,586	15,053	2,534	22,552	(29,894)	49,396
Total liabilities and net assets	\$ 6,772	70,321	2,273	2,586	28,448	2,542	27,075	(35,633)	104,384

See accompanying independent auditors' report.

SENTARA HEALTHCARE AND SUBSIDIARIES

Consolidating Schedule – Operations Information

Year ended December 31, 2018

(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 (expense)	\$ 958	3,775,900	285,934	56,124	(5,339)	(748)	251,645	(635,305)	3,729,169
Premium and capitation revenue	214	5,296	—	21,436	2,385,811	49,771	6,041	(7,058)	2,461,511
Other operating revenue	54,569	38,683	3,196	378	(6,377)	71,729	10,140	(67,301)	105,017
Net assets released from restrictions	663	8,837	60	8	—	—	806	—	10,374
Total operating revenue, gains, and other support	56,404	3,828,716	289,190	77,946	2,374,095	120,752	268,632	(709,664)	6,306,071
Operating costs and expenses:									
Salaries, wages, and benefits	90,655	1,668,713	74,370	51,275	82,102	27,911	285,408	(115,569)	2,164,865
Medical claims expense	—	—	—	5,405	2,021,263	55,456	—	(521,356)	1,560,768
Other operating expenses (income)	73,317	1,587,173	201,231	21,876	124,782	68,464	(32,063)	(65,971)	1,978,809
Interest expense	9,969	33,909	—	—	3,157	55	—	(6,768)	40,322
Depreciation and amortization	13,739	183,579	2,482	3,682	1,384	330	3,217	—	208,413
Sentara Healthcare services	(115,426)	74,723	8,974	7,431	10,636	1,592	12,070	—	—
Total operating costs and expenses	72,254	3,548,097	287,057	89,669	2,243,324	153,808	268,632	(709,664)	5,953,177
Net operating (loss) income	(15,850)	280,619	2,133	(11,723)	130,771	(33,056)	—	—	352,894
Nonoperating (losses) gains, net	(156,949)	2,305	—	—	2,969	434	—	—	(151,241)
(Deficiency) excess of revenue (under) over expenses before noncontrolling interest	(172,799)	282,924	2,133	(11,723)	133,740	(32,622)	—	—	201,653
Noncontrolling interest	—	(9,551)	—	—	—	—	—	—	(9,551)
(Deficiency) excess of revenue (under) over expenses attributable to Sentara Healthcare	\$ (172,799)	273,373	2,133	(11,723)	133,740	(32,622)	—	—	192,102

See accompanying independent auditors' report.

SENTARA HOSPITALS
 Consolidating Schedule – Operations Information
 Year ended December 31, 2018
 (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	\$ 1,000,434	356,458	230,105	303,678	178,929	213,990	—	265,184	221,153	451,463	308,446	122,125	123,935	—	3,775,900
Premium and capitation revenue	3,733	74	98	103	72	70	—	126	—	411	563	—	46	—	5,296
Other operating revenue	9,777	536	4,011	3,754	269	2,786	24,398	1,710	4,003	4,076	2,712	1,731	429	(21,509)	38,683
Net assets released from restrictions	2,145	—	120	144	53	63	—	1	118	2,904	3,098	128	63	—	8,837
Total operating revenue, gains, and other support	1,016,089	357,068	234,334	307,679	179,323	216,909	24,398	267,021	225,274	458,854	314,819	123,984	124,473	(21,509)	3,828,716
Operating costs and expenses:															
Salaries, wages, and benefits	272,595	122,211	87,572	117,041	65,892	83,083	259,650	96,829	86,390	201,097	148,501	69,653	58,199	—	1,668,713
Other operating expenses	511,341	122,227	90,888	109,642	69,185	77,142	52,627	93,851	106,723	152,314	108,084	47,250	45,899	—	1,587,173
Interest expense	4,831	3,113	961	1,369	2,999	1,756	—	6,770	1,697	4,925	4,521	—	967	—	33,909
Depreciation and amortization	30,610	15,554	9,589	10,093	7,219	8,607	35,582	10,284	14,874	17,158	11,501	7,101	5,867	(460)	183,579
Sentara Healthcare services	123,180	35,832	25,741	32,434	19,787	23,258	(344,508)	28,292	26,798	44,727	32,638	12,300	14,244	—	74,723
Total operating costs and expenses	942,557	298,937	214,751	270,579	165,082	193,846	3,351	236,026	236,482	420,221	305,245	136,304	125,176	(460)	3,548,097
Net operating income (loss)	73,532	58,131	19,583	37,100	14,241	23,063	21,047	30,995	(11,208)	38,633	9,574	(12,320)	(703)	(21,049)	280,619
Nonoperating (losses) gains, net	(46)	—	—	—	—	215	783	843	26	53	368	63	—	—	2,305
Excess (deficiency) of revenue over (under) expenses before non controlling interest	73,486	58,131	19,583	37,100	14,241	23,278	21,830	31,838	(11,182)	38,686	9,942	(12,257)	(703)	(21,049)	282,924
Noncontrolling interest	—	—	—	—	—	—	—	(9,551)	—	—	—	—	—	—	(9,551)
Excess of revenue over (under) expenses attributable to Sentara Healthcare	\$ 73,486	58,131	19,583	37,100	14,241	23,278	21,830	22,287	(11,182)	38,686	9,942	(12,257)	(703)	(21,049)	273,373

See accompanying independent auditors' report.

SENTARA ENTERPRISES

Consolidating Schedule – Operations Information

Year ended December 31, 2018

(In thousands)

	<u>Home Care Services</u>	<u>Medical Transport, LLC</u>	<u>Specialty Pharmacy</u>	<u>Divisional Support</u>	<u>Eliminations</u>	<u>Total</u>
Operating revenue, gains, and other support:						
Net patient service revenue	\$ 115,175	15,116	155,555	88	—	285,934
Other operating revenue	124	1,385	448	1,060	179	3,196
Net assets released from restrictions	—	—	—	60	—	60
Total operating revenue, gains, and other support	<u>115,299</u>	<u>16,501</u>	<u>156,003</u>	<u>1,208</u>	<u>179</u>	<u>289,190</u>
Operating costs and expenses:						
Salaries, wages, and benefits	49,489	12,522	3,419	8,940	—	74,370
Other operating expenses (income)	55,933	3,655	149,683	(8,040)	—	201,231
Interest expense	—	—	—	358	(358)	—
Depreciation and amortization	609	915	262	696	—	2,482
Sentara Healthcare services	—	314	—	8,660	—	8,974
Total operating costs and expenses	<u>106,031</u>	<u>17,406</u>	<u>153,364</u>	<u>10,614</u>	<u>(358)</u>	<u>287,057</u>
Net operating income (loss)	9,268	(905)	2,639	(9,406)	537	2,133
Nonoperating gains, net	—	—	—	358	(358)	—
Excess (deficiency) of revenue over (under) expenses	<u>\$ 9,268</u>	<u>(905)</u>	<u>2,639</u>	<u>(9,048)</u>	<u>179</u>	<u>2,133</u>

See accompanying independent auditors' report.

SENTARA LIFE CARE CORPORATION
 Consolidating Schedule – Operations Information
 Year ended December 31, 2018
 (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	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)	\$ 34	9,826	10,278	5,797	5,391	7,238	7,593	6,897	(45)	2,716	(263)	(74)	8,021	(7,285)	56,124
Premium and capitation revenue	—	—	—	—	—	—	—	—	—	—	13,957	7,479	—	—	21,436
Other operating revenue (expense)	—	26	17	58	6	3	(7)	7	99	134	—	35	—	—	378
Net assets released from restrictions	—	—	—	—	—	—	—	—	8	—	—	—	—	—	8
Total operating revenue, gains, and other support	34	9,852	10,295	5,855	5,397	7,241	7,586	6,904	62	2,850	13,694	7,440	8,021	(7,285)	77,946
Operating costs and expenses:															
Salaries, wages, and benefits	1,464	6,763	9,521	5,080	4,358	5,408	6,284	5,167	—	1,552	3,397	2,281	—	—	51,275
Medical claims expense	—	—	—	—	—	—	—	—	—	—	5,675	3,894	—	(4,164)	5,405
Other operating expenses	570	2,360	2,685	1,508	1,267	1,809	1,677	1,453	126	518	1,673	1,085	8,266	(3,121)	21,876
Depreciation and amortization	176	891	318	260	279	309	331	302	149	187	264	181	35	—	3,682
Sentara Healthcare services	—	852	1,066	583	502	641	706	589	24	192	937	633	706	—	7,431
Total operating costs and expenses	2,210	10,866	13,590	7,431	6,406	8,167	8,998	7,511	299	2,449	11,946	8,074	9,007	(7,285)	89,669
Net operating (loss) income	(2,176)	(1,014)	(3,295)	(1,576)	(1,009)	(926)	(1,412)	(607)	(237)	401	1,748	(634)	(986)	—	(11,723)
(Deficiency) excess of revenue over (under) expenses	\$ (2,176)	(1,014)	(3,295)	(1,576)	(1,009)	(926)	(1,412)	(607)	(237)	401	1,748	(634)	(986)	—	(11,723)

See accompanying independent auditors' report.

SENTARA HOLDINGS, INC.

Consolidating Schedule – Operations Information

Year ended December 31, 2018

(In thousands)

	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
Operating revenue, gains, and other support:											
Net patient service revenue (expense)	\$ —	(311)	(1)	—	(18)	—	(418)	—	—	—	(748)
Premium and capitation revenue	—	—	4,674	—	45,144	—	—	—	—	(47)	49,771
Other operating revenue	(1,037)	34,051	1,619	—	12,903	—	2,922	17,186	18	4,067	71,729
Total operating revenue, gains, and other support	(1,037)	33,740	6,292	—	58,029	—	2,504	17,186	18	4,020	120,752
Operating costs and expenses:											
Salaries, wages, and benefits	—	19,494	2,858	—	3,201	—	2,358	—	—	—	27,911
Medical claims expense	—	2,237	944	—	52,590	—	(268)	—	—	(47)	55,456
Other operating expense (income)	(216)	19,500	1,891	—	3,726	(1)	625	43,465	—	(526)	68,464
Interest expense	—	—	1	—	50	—	—	—	4	—	55
Depreciation and amortization	—	288	—	—	38	—	4	—	—	—	330
Sentara Healthcare services	—	944	463	—	123	—	62	—	—	—	1,592
Total operating costs and expenses	(216)	42,463	6,157	—	59,728	(1)	2,781	43,465	4	(573)	153,808
Net operating (loss) income	(821)	(8,723)	135	—	(1,699)	1	(277)	(26,279)	14	4,593	(33,056)
Nonoperating gains (losses), net	—	209	6	32	164	23	—	—	—	—	434
(Deficiency) excess of revenue (under) over expenses	\$ (821)	(8,514)	141	32	(1,535)	24	(277)	(26,279)	14	4,593	(32,622)

See accompanying independent auditors' report.

SENTARA HEALTHCARE AND SUBSIDIARIES

Consolidating Schedule – Fully Allocated Overhead Operations Information

Year ended December 31, 2018

(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	\$ 958	3,775,900	285,934	56,124	(5,339)	(748)	251,645	(635,305)	3,729,169
Premium and capitation revenue	214	5,296	—	21,436	2,385,811	49,771	6,041	(7,058)	2,461,511
Other operating revenue	54,569	38,683	3,196	378	(6,377)	71,729	10,140	(67,301)	105,017
Net assets released from restrictions	663	8,837	60	8	—	—	806	—	10,374
Total operating revenue, gains, and other support	56,404	3,828,716	289,190	77,946	2,374,095	120,752	268,632	(709,664)	6,306,071
Operating costs and expenses:									
Salaries, wages, and benefits	90,655	1,668,713	74,370	51,275	82,102	27,911	285,408	(115,569)	2,164,865
Medical claims expense	—	—	—	5,405	2,021,263	55,456	—	(521,356)	1,560,768
Other operating expenses (income)	73,317	1,587,173	201,231	21,876	124,782	68,464	(32,063)	(65,971)	1,978,809
Interest expense	9,969	33,909	—	—	3,157	55	—	(6,768)	40,322
Depreciation and amortization	13,739	183,579	2,482	3,682	1,384	330	3,217	—	208,413
Sentara Healthcare services	(131,276)	84,984	10,206	8,451	12,097	1,811	13,727	—	—
Total operating costs and expenses	56,404	3,558,358	288,289	90,689	2,244,785	154,027	270,289	(709,664)	5,953,177
Net operating income (loss)	—	270,358	901	(12,743)	129,310	(33,275)	(1,657)	—	352,894
Nonoperating gains, net	(156,949)	2,305	—	—	2,969	434	—	—	(151,241)
Excess (deficiency) of revenue over (under) expenses before noncontrolling interest	(156,949)	272,663	901	(12,743)	132,279	(32,841)	(1,657)	—	201,653
Noncontrolling interest	—	(9,551)	—	—	—	—	—	—	(9,551)
Excess (deficiency) of revenue over (under) expenses attributable to Sentara Healthcare	\$ (156,949)	263,112	901	(12,743)	132,279	(32,841)	(1,657)	—	192,102

See accompanying independent auditors' report.

SENTARA HOSPITALS
 Consolidating Schedule – Fully Allocated Overhead Operations Information
 Year ended December 31, 2018
 (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	\$ 1,000,434	356,458	230,105	303,678	178,929	213,990	265,184	221,153	451,463	308,446	122,125	123,935	—	3,775,900
Premium and capitation revenue	3,733	74	98	103	72	70	126	—	411	563	—	46	—	5,296
Other operating revenue	16,776	920	6,882	6,441	462	4,780	1,710	6,868	6,994	4,653	2,970	736	(21,509)	38,683
Net assets released from restrictions	2,145	—	120	144	53	63	1	118	2,904	3,098	128	63	—	8,837
Total operating revenue, gains, and other support	<u>1,023,088</u>	<u>357,452</u>	<u>237,205</u>	<u>310,366</u>	<u>179,516</u>	<u>218,903</u>	<u>267,021</u>	<u>228,139</u>	<u>461,772</u>	<u>316,760</u>	<u>125,223</u>	<u>124,780</u>	<u>(21,509)</u>	<u>3,828,716</u>
Operating costs and expenses:														
Salaries, wages, and benefits	326,531	146,393	104,900	140,200	78,930	99,523	96,829	103,484	240,888	177,885	83,435	69,715	—	1,668,713
Other operating expenses	530,020	126,692	94,208	113,647	71,712	79,960	93,851	110,621	157,878	112,032	48,976	47,576	—	1,587,173
Interest expense	4,831	3,113	961	1,369	2,999	1,756	6,770	1,697	4,925	4,521	—	967	—	33,909
Depreciation and amortization	38,494	19,559	12,058	12,692	9,078	10,823	10,284	18,704	21,576	14,463	8,930	7,378	(460)	183,579
Sentara Healthcare services	17,863	5,196	3,733	4,703	2,869	3,373	28,292	3,886	6,486	4,733	1,784	2,066	—	84,984
Total operating costs and expenses	<u>917,739</u>	<u>300,953</u>	<u>215,860</u>	<u>272,611</u>	<u>165,588</u>	<u>195,435</u>	<u>236,026</u>	<u>238,392</u>	<u>431,753</u>	<u>313,634</u>	<u>143,125</u>	<u>127,702</u>	<u>(460)</u>	<u>3,558,358</u>
Net operating income (loss)	105,349	56,499	21,345	37,755	13,928	23,468	30,995	(10,253)	30,019	3,126	(17,902)	(2,922)	(21,049)	270,358
Nonoperating gains, net	189	70	52	64	37	261	843	80	156	439	83	31	—	2,305
Excess (deficiency) of revenue over (under) expenses before noncontrolling interest	105,538	56,569	21,397	37,819	13,965	23,729	31,838	(10,173)	30,175	3,565	(17,819)	(2,891)	(21,049)	272,663
Noncontrolling interest	—	—	—	—	—	—	(9,551)	—	—	—	—	—	—	(9,551)
Excess of revenue over (under) expenses attributable to Sentara Healthcare	<u>\$ 105,538</u>	<u>56,569</u>	<u>21,397</u>	<u>37,819</u>	<u>13,965</u>	<u>23,729</u>	<u>22,287</u>	<u>(10,173)</u>	<u>30,175</u>	<u>3,565</u>	<u>(17,819)</u>	<u>(2,891)</u>	<u>(21,049)</u>	<u>263,112</u>

See accompanying independent auditors' report.