



SENTARA HEALTHCARE AND SUBSIDIARIES

Consolidated Financial Statements and
Supplementary Schedules

December 31, 2019 and 2018

(With Independent Auditors' Report Thereon)

SENTARA HEALTHCARE AND SUBSIDIARIES

Table of Contents

	Page(s)
Independent Auditors' Report	1–2
Consolidated Financial Statements:	
Consolidated Balance Sheets	3
Consolidated Statements of Operations	4
Consolidated Statements of Changes in Net Assets	5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7–43
Supplementary Schedules	
1 Sentara Healthcare and Subsidiaries Consolidating Schedule – Balance Sheet Information, December 31, 2019	44
2 Sentara Hospitals Consolidating Schedule – Balance Sheet Information, December 31, 2019	45
3 Sentara Holdings, Inc. Consolidating Schedule – Balance Sheet Information, December 31, 2019	46
4–8 Consolidating Schedules – Operations Information, Year ended December 31, 2019	47–51
9–10 Consolidating Schedules – Fully Allocated Overhead Operations Information, Year ended December 31, 2019	52–53



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, 2019 and 2018, 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, 2019 and 2018, and the results of their operations and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.



Emphasis of Matter

As discussed in note 3(s) to the consolidated financial statements, Sentara Healthcare and subsidiaries adopted Financial Accounting Standards Board (FASB) Topic 842, *Leases* in 2019. Our opinion is not modified with respect to this matter.

As discussed in note 3(s) to the consolidated financial statements, Sentara Healthcare and subsidiaries adopted FASB ASU No. 2014-09, *Revenue from Contracts with Customers* and ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* in 2018. 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
March 31, 2020

SENTARA HEALTHCARE AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2019 and 2018

(In thousands)

Assets	2019	2018
Current assets:		
Cash and cash equivalents	\$ 988,752	831,060
Receivables, net	912,245	811,142
Investments and assets whose use is limited	324,416	325,762
Inventories	89,305	101,252
Prepaid expenses and other current assets	61,193	48,683
Total current assets	2,375,911	2,117,899
Investments and assets whose use is limited	4,116,446	3,483,121
Property, plant, and equipment, net	2,038,659	2,053,549
Land held for future use, at cost	47,229	40,344
Other assets, net	173,021	84,903
Total assets	\$ <u>8,751,266</u>	<u>7,779,816</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 176,305	159,884
Employee compensation and benefits	215,132	207,982
Medical claims accrued and payable	177,949	229,271
Current installments of long-term debt	20,498	19,465
Long-term debt subject to current remarketing provisions	283,290	292,895
Estimated third-party payor settlements	24,693	17,193
Other current liabilities	281,547	265,917
Total current liabilities	1,179,414	1,192,607
Long-term debt, excluding current installments	1,050,282	1,073,057
Retirement obligations	405,918	257,472
Other long-term liabilities	436,733	295,059
Total liabilities	3,072,347	2,818,195
Net assets:		
Without donor restrictions	5,536,129	4,832,575
With donor restrictions	101,934	95,708
Total net assets attributable to Sentara Healthcare	5,638,063	4,928,283
Without donor restrictions – noncontrolling interest	40,856	33,338
Total net assets	5,678,919	4,961,621
Total liabilities and net assets	\$ <u>8,751,266</u>	<u>7,779,816</u>

See accompanying notes to consolidated financial statements.

SENTARA HEALTHCARE AND SUBSIDIARIES

Consolidated Statements of Operations

Years ended December 31, 2019 and 2018

(In thousands)

	<u>2019</u>	<u>2018</u>
Operating revenue, gains, and other support:		
Net patient service revenue	\$ 4,072,532	3,729,169
Premium and capitation revenue	2,513,846	2,461,511
Other operating revenue	154,118	105,017
Net assets released from restrictions for operations	<u>12,967</u>	<u>10,374</u>
Total operating revenue, gains, and other support	<u>6,753,463</u>	<u>6,306,071</u>
Operating costs and expenses:		
Salaries, wages, and benefits	2,271,312	2,174,647
Medical claims	1,832,164	1,560,768
Other operating	2,073,763	1,978,809
Interest	43,732	40,322
Depreciation and amortization	<u>206,945</u>	<u>208,413</u>
Total operating costs and expenses	<u>6,427,916</u>	<u>5,962,959</u>
Net operating income	325,547	343,112
Nonoperating gains (losses), net	<u>555,630</u>	<u>(141,459)</u>
Excess of revenue over expenses before noncontrolling interest	881,177	201,653
Noncontrolling interest	<u>(14,851)</u>	<u>(9,551)</u>
Excess of revenue over expenses attributable to Sentara Healthcare	866,326	192,102
Net assets released from donor restricted funds for capital purchases	2,483	1,431
Change in funded status of retirement obligations	<u>(165,255)</u>	<u>(32,646)</u>
Increase in net assets without donor restrictions attributable to Sentara Healthcare	\$ <u>703,554</u>	<u>160,887</u>

See accompanying notes to consolidated financial statements.

SENTARA HEALTHCARE AND SUBSIDIARIES

Consolidated Statements of Changes in Net Assets

Years ended December 31, 2019 and 2018

(In thousands)

	Without donor restrictions	With donor restrictions	Without donor restrictions – Noncontrolling interest	Total
Balance at December 31, 2017	\$ 4,671,688	97,560	31,063	4,800,311
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 for operations	—	(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>
Excess of revenue over expenses	866,326	—	14,851	881,177
Net assets released from donor restricted funds for capital purchases	2,483	(2,483)	—	—
Change in funded status of pension liability	(165,255)	—	—	(165,255)
Distribution to noncontrolling interest	—	—	(7,333)	(7,333)
Donor restricted contributions	—	11,002	—	11,002
Net assets released from donor restrictions for operations	—	(12,967)	—	(12,967)
Donor restricted investment gains, net	—	10,674	—	10,674
Change in net assets	<u>703,554</u>	<u>6,226</u>	<u>7,518</u>	<u>717,298</u>
Balance at December 31, 2019	\$ <u>5,536,129</u>	<u>101,934</u>	<u>40,856</u>	<u>5,678,919</u>

See accompanying notes to consolidated financial statements.

SENTARA HEALTHCARE AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2019 and 2018

(In thousands)

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in net assets	\$ 717,298	161,310
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Distribution to noncontrolling interest	7,333	7,280
Depreciation and amortization	206,945	208,413
Net realized and unrealized (gains) losses on investments	(546,560)	207,893
Gain on disposal of property, plant, and equipment	(13,774)	(96)
Amortization of bond premium	(990)	(834)
Amortization of bond issuance costs	283	255
Change in funded status of pension liability	165,255	32,646
Change in fair value of derivative instruments	33,767	(17,053)
Equity in earnings of limited investment companies	(8,649)	(10,289)
Equity in earnings of joint ventures	(3,797)	(2,858)
Impairment of equity and cost method investments	—	26,202
Contributions received donor restricted for capital and long-term investment	(11,002)	(13,268)
Loss on sale of business line	—	2,907
Changes in operating assets and liabilities:		
Receivables, net	(101,103)	(144,546)
Inventories	11,947	(13,280)
Prepaid expenses and other current assets	(12,510)	(2,889)
Accounts payable and accrued expenses	16,421	22,700
Employee compensation and benefits	7,150	4,896
Medical claims accrued and payable	(51,322)	114,749
Estimated third-party payor settlements	7,500	1,719
Retirement obligations	(16,809)	(21,667)
Other liabilities	37,125	79,979
Net cash provided by operating activities	<u>444,508</u>	<u>644,169</u>
Cash flows from investing activities:		
Capital expenditures	(204,969)	(270,710)
Purchases of land held for future use	(6,885)	(5,403)
Purchases of alternative investments	(49,667)	(32,577)
Proceeds from sales of alternative investments	26,585	148,878
Purchases of readily marketable investments, net	(53,688)	(323,133)
Net changes in other assets	2,091	(3,191)
Proceeds from the sale of business line	—	13,233
Proceeds from the disposal of property, plant, and equipment	26,688	2,545
Net cash used in investing activities	<u>(259,845)</u>	<u>(470,358)</u>
Cash flows from financing activities:		
Contributions received donor restricted for capital and long-term investment	11,002	13,268
Distribution to noncontrolling interest	(7,333)	(7,280)
Proceeds from issuance of long-term debt	—	304,550
Repayments on long-term debt	(30,249)	(357,527)
Payments on Finance lease obligations in 2019 and capital lease obligations in 2018	(391)	(383)
Net cash used in financing activities	<u>(26,971)</u>	<u>(47,372)</u>
Net increase in cash and cash equivalents	157,692	126,439
Cash and cash equivalents at beginning of year	<u>831,060</u>	<u>704,621</u>
Cash and cash equivalents at end of year	\$ <u>988,752</u>	\$ <u>831,060</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 44,248	39,040
Cash paid (refunded) during the year for income taxes	401	(439)
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, 2019 and 2018

(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); and Obici Professional Center (OPC). SHP provides and administers medical services to subscribers

SENTARA HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(In thousands)

and includes Optima Health Group (OHG), a health maintenance organization, Optima Behavioral Health Services (OBHS), a mental health services company, Optima Health Insurance Company (OHIC), a health insurance company, and Optima Family Care of North Carolina (OFC of NC), a health maintenance organization. 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. Additionally, in 2019, 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) Affiliation and Joint Venture

(a) Affiliation

In October 2019, Sentara and Virginia Commonwealth University Health System Authority (VCU Health System) entered into a stock purchase agreement whereby Sentara will purchase an 80 percent majority ownership interest of Virginia Premier, Inc., which is the health plan of VCU Health System. VCU Health System will retain a 20 percent minority ownership interest. The purchase is pending regulatory approval and is expected to be finalized during the second quarter of 2020.

(b) 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 \$34,658 and \$14,851 was attributable to Sentara and to the noncontrolling interest, respectively, for the year ended December 31, 2019. 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.

(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.

SENTARA HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(In thousands)

At December 31, 2019 and 2018, unrestricted cash and cash equivalents totaling \$131,457 and \$146,807, respectively, were held by Sentara's insurance subsidiaries, OHP, OHIC, SHIC NC, OFC NC, and OHG. Transfers of funds by these entities to other Sentara affiliates are subject to approval by the state regulatory agencies in which the insured subsidiary resides.

(b) Investments and Assets Whose Use is Limited

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

Sentara invests in alternative investments in the form of limited liability companies or partnerships. Alternative investments are accounted for at net asset value (NAV) per share as a practical expedient for fair value 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 \$3,797 and \$2,858 for the years ended December 31, 2019 and 2018, 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 \$33,151 and \$32,915 at December 31, 2019 and 2018, respectively. During 2018, Sentara recorded impairment charges of \$22,702 for an 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 during 2019.

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.

At December 31, 2019 and 2018, investments and assets whose use is limited totaling \$323,332 and \$380,577, respectively, were held by Sentara's insurance subsidiaries, OHP, OHIC, SHIC NC, OFC NC, and OHG. Transfers of funds by these entities to other Sentara affiliates are subject to approval by the state regulatory agencies in which the insured subsidiary resides.

SENTARA HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(In thousands)

(c) Inventories

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

(d) Property, Plant, and Equipment

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

(Policy applicable beginning January 1, 2019)

Sentara accounts for leases in accordance with ASC Topic 842, *Leases* (see Notes 3(s) and 16(e)). As such, Sentara determines if an arrangement is or contains a lease at contract inception and recognizes a right-of-use (ROU) asset and a lease liability at the lease commencement date.

For operating leases, the lease liability is initially and subsequently measured at the present value of the unpaid lease payments at the lease commencement date. For finance leases, the lease liability is initially measured in the same manner and date as for operating leases, and is subsequently measured at amortized cost using the effective-interest method. Key estimates and judgments include how Sentara determines (1) the discount rate it uses to discount the unpaid lease payments to present value, (2) lease term and (3) lease payments.

- ASC 842 requires a lessee to discount its unpaid lease payments using the interest rate implicit in the lease or, if that rate cannot be readily determined, its incremental borrowing rate. Generally, Sentara cannot determine the interest rate implicit in the lease because it does not have access to the lessor's estimated residual value or the amount of the lessor's deferred initial direct costs. Therefore, Sentara generally uses its incremental borrowing rate as the discount rate for the lease. Sentara's incremental borrowing rate for a lease is the rate of interest it would have to pay on a collateralized basis to borrow an amount equal to the lease payments under similar terms. Because Sentara does not generally borrow on a collateralized basis, it uses the interest rate it pays on its

SENTARA HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(In thousands)

noncollateralized borrowings as an input to deriving an appropriate incremental borrowing rate, adjusted for the amount of the lease payments, the lease term and the effect on that rate of designating specific collateral with a value equal to the unpaid lease payments for that lease.

- The lease term for all of the Sentara's leases includes the noncancellable period of the lease plus any additional periods covered by either an option to extend (or not to terminate) the lease that the Sentara is reasonably certain to exercise.
- Lease payments included in the measurement of the lease liability are comprised of fixed payments, including in-substance fixed payments, owed over the lease term (which includes termination penalties Sentara would owe if the lease term assumes Sentara's exercise of a termination option) and the exercise price of Sentara option to purchase the underlying asset if the Sentara is reasonably certain to exercise the option.

The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for lease payments made at or before the lease commencement date, plus any initial direct costs incurred less any lease incentives received.

For operating leases, the ROU asset is subsequently measured throughout the lease term at the carrying amount of the lease liability, plus initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

For finance leases, the ROU asset is subsequently amortized using the straight-line method from the lease commencement date to the earlier of the end of its useful life or the end of the lease term unless the lease transfers ownership of the underlying asset to Sentara or Sentara is reasonably certain to exercise an option to purchase the underlying asset. In those cases, the ROU asset is amortized over the useful life of the underlying asset. Amortization of the ROU asset is recognized and presented separately from interest expense on the lease liability.

(g) 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 at December 31, 2019 and 2018, respectively, and is included in other assets, net, in the accompanying consolidated balance sheets.

(h) 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.

SENTARA HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(In thousands)

(i) Derivative Financial Instruments

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

(j) 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.

(k) Nonoperating Gains (Losses), 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).

(l) 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.

(m) 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.

(n) 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.

SENTARA HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(In thousands)

Certain insurance subsidiaries participate in the risk adjustment program established by the Affordable Care Act (ACA). Premium revenue of \$75,291 and \$98,549 was estimated and recorded related to this program for the years ended December 31, 2019 and 2018, respectively. At December 31, 2019 and 2018, receivables in the amounts of \$69,001 and \$93,833, 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.

(o) 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.

(p) Income Taxes

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

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

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

(q) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Significant items subject to such estimates and assumptions include explicit and implicit price concessions, recoverability of long-lived assets ROU assets and related lease liabilities, 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, 2019 and 2018

(In thousands)

(r) 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, 2019 and 2018. See note 6 for fair value disclosures related to investments and assets whose use is limited.

(s) Recently Adopted Accounting Pronouncements

In March 2017 the FASB issued ASU No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Benefit Cost*. This ASU provides guidance on the capitalization, presentation and disclosure of net benefit costs. Sentara adopted ASU 2017-07 in 2019 and the 2018 consolidated statement of operations above has been restated to conform to the December 31, 2019 presentation.

February 2016, the FASB issued Topic 842, *Leases*. This guidance supersedes existing guidance on accounting for leases with the main difference being that operating leases are to be recorded in the consolidated balance sheet as right-of-use assets and lease liabilities, initially measured at the present value of the lease payments. For operating leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election not to recognize lease assets and liabilities. Sentara has elected not to record leases with an initial term of twelve months or less on the consolidated balance sheet. In July 2018, ASU 2016-02 was updated by ASU No. 2018-11, *Targeted Improvements to ASC 842*, which provides entities with relief from the costs of implementing certain aspects of the new leasing standard. Specifically, under the amendments in ASU 2018-11, (1) entities may elect not to recast the comparative periods presented when transitioning to ASC 842 (the "optional transition method") and (2) lessors may elect not to separate lease and nonlease components when certain conditions are met. Before ASU 2018-11 was issued, transition to the new lease standard required application of the new guidance at the beginning of the earliest comparative period presented in the financial statements. Sentara adopted Topic 842 on January 1, 2019 using the modified retrospective transition approach allowed under ASU 2018-11, without adjusting the comparative periods presented.

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. 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.

SENTARA HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(In thousands)

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.

(t) Reclassifications

Certain 2018 amounts have been reclassified to conform to the 2019 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, 2018.

(u) Subsequent Events

In February 2020, Sentara issued \$186,970 in fixed Health Care Facilities Refunding Revenue Bonds (Series 2020). The proceeds of the bonds were used to fully refund the Series 2010 Bonds. A premium of \$24,701 was recognized in 2020 related to the issuance of the debt.

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic that continues to spread throughout the United States. The extent of the adverse impact of COVID-19 on Sentara's financial position, operations, and cash flows will depend on future developments that are highly uncertain.

Sentara has evaluated subsequent events for recognition and disclosure through March 31, 2020, 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. 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.

SENTARA HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(In thousands)

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 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, 2019 and 2018, additional revenue of \$43,490 and \$42,205, 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 deemed 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, 2019 and 2018 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

SENTARA HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(In thousands)

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 2015 cost report year, with the exception of SNGH, which has settled through the 2013 cost report year, and SWRMC, which has settled through the 2016 cost report year.
- *Medicaid*: The Medicaid program is administered by the Department of Medical Assistance Services (DMAS) of the Commonwealth of Virginia, pursuant to federal and state laws and regulations. DMAS receives funding for program expenditures from both the federal government and the Commonwealth of Virginia. Federal or state law or regulations may affect limits on Medicaid payment. The majority of Medicaid recipients in Sentara's primary service area are enrolled in health maintenance organizations (HMOs). These HMOs contract with the Medicaid program to provide primary and acute care services to enrolled Medicaid recipients. The Hospitals are paid for substantially all services rendered to Medicaid HMO beneficiaries on a prospective payment basis. There are certain Medicaid patients excluded from the HMO program for which the Hospitals are reimbursed based on a DRG-based PPS, which is subject to certain limitations and possible retroactive adjustment. All Hospitals have final settled with the Medicaid program through the 2018 cost report year, with the exception of SAMC. SAMC has settled through the 2015 cost report year; as well as the 2017 cost report year. However, SAMC's cost report years of 2016 and 2018 are still open. 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 2019 and 2018, the effect of these settlement adjustments was to

SENTARA HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(In thousands)

increase (decrease) net patient service revenue of approximately \$6,006 and \$(2,505), 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 results of historical billing related audits. 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 \$62,775 and \$68,504 as of December 31, 2019 and 2018, respectively. During 2019 and 2018, the effect of the change in these estimates was to increase net patient service revenue by approximately \$5,729 and \$6,581, 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.

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

	<u>2019</u>	<u>2018</u>
Medicare	\$ 1,583,710	1,522,770
Medicaid	576,276	305,311
Anthem (Blue Cross)	996,189	972,715
SHP – HMO/PPO (net of eliminations of \$609,197 and \$620,633, respectively)	62,107	77,739
Uninsured	59,182	72,988
All others (none individually more than 10%)	<u>795,068</u>	<u>777,646</u>
	\$ <u>4,072,532</u>	<u>3,729,169</u>

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

SENTARA HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(In thousands)

(5) Receivables, Net

Receivables, net, are summarized as follows at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Patient accounts receivable	\$ 542,209	467,395
Premium and capitation receivables, net	172,207	151,251
ACA receivables	69,001	93,833
Medicaid supplemental payments	62,815	22,440
Estimated third-party payor settlements	9,765	32,299
Other receivables	<u>56,248</u>	<u>43,924</u>
Receivables, net	\$ <u>912,245</u>	<u>811,142</u>

(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>2019</u>	<u>2018</u>
Unrestricted investments	\$ 4,257,162	3,658,715
Donor-restricted investments	73,964	63,873
Assets whose use is limited under indenture, self-insurance funding arrangement, and derivative financial instrument agreements held by trustee	90,983	68,964
Assets internally designated as endowment fund	<u>18,753</u>	<u>17,331</u>
	4,440,862	3,808,883
Less portion required to pay current liabilities	<u>324,416</u>	<u>325,762</u>
	\$ <u>4,116,446</u>	<u>3,483,121</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

SENTARA HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(In thousands)

table below are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the accompanying consolidated balance sheets.

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, 2019 and 2018, respectively:

		2019			
		Total	Level 1	Level 2	Investments reported at NAV
Investments and assets whose use is limited:					
Fixed maturities	\$	1,033,513	136,232	897,281	—
Equity securities		2,147,016	107,482	2,039,534	—
Multi-asset funds		63,702	63,702	—	—
Alternative investments:					
Hedge funds		583,946	—	316,300	267,646
Private equity		115,411	—	—	115,411
Real estate		278,514	—	—	278,514
Short-term investments		218,760	218,760	—	—
Total	\$	4,440,862	526,176	3,253,115	661,571
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

SENTARA HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(In thousands)

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

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

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 \$87,892 at December 31, 2019 for certain alternative investments.

SENTARA HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(In thousands)

(7) Property, Plant, and Equipment

The components of property, plant, and equipment, at cost, and the related accumulated depreciation at December 31, 2019 and 2018 are summarized as follows:

	<u>2019</u>	<u>2018</u>
Land	\$ 150,867	154,792
Land improvements	136,610	137,879
Buildings	1,484,664	1,486,751
Fixed equipment	704,698	706,066
Major moveable equipment	2,021,475	1,955,495
Leasehold improvements	<u>63,661</u>	<u>62,526</u>
	4,561,975	4,503,509
Less accumulated depreciation and amortization	<u>2,927,929</u>	<u>2,758,763</u>
	1,634,046	1,744,746
Construction in progress	<u>404,613</u>	<u>308,803</u>
Total	<u>\$ 2,038,659</u>	<u>2,053,549</u>

Depreciation and amortization related to property, plant, and equipment totaled \$206,945 and \$208,413 for the years ended December 31, 2019 and 2018, respectively.

Significant construction projects in progress at December 31, 2019 are expected to have remaining project costs of approximately \$112,684 through 2021. The commitments include the costs to complete the Sentara cancer center, SLH orthopedic building, a vertical expansion at SNGH, an expansion at SVBGH, multiple Pharmacy re-design and renovations, and other projects.

SENTARA HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(In thousands)

(8) Medical Claims Accrued and Payable

As of December 31, 2019 and 2018, medical claims accrued and payable were as follows:

	<u>2019</u>	<u>2018</u>
Balance at January 1	\$ 229,271	114,522
Incurred related to:		
Current year	1,838,528	1,579,762
Prior years	<u>(9,754)</u>	<u>(18,994)</u>
Total incurred	<u>1,828,774</u>	<u>1,560,768</u>
Paid related to:		
Current year	1,671,117	1,351,729
Prior years	<u>208,979</u>	<u>94,290</u>
Total paid	<u>1,880,096</u>	<u>1,446,019</u>
Balance at December 31	\$ <u>177,949</u>	<u>229,271</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 2019 and 2018 were attributable to lower than anticipated utilization and lower 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 are not intended to be used for settlement purposes. As of December 31, 2019 and 2018, Sentara recorded \$86,200 and \$111,700, respectively, in estimated rebates related to the individual product and \$12,900 and \$0, respectively, in estimated rebates related to the Large Group product. These estimates are included in other current and long-term liabilities in the accompanying consolidated balance sheets. As of December 31, 2019 Sentara paid \$98,944 of medical loss ratio rebates to individual product members relating to the 2018 plan year.

SENTARA HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(In thousands)

(9) Long-Term Debt

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

	<u>2019</u>	<u>2018</u>
Sentara Healthcare Obligated Group Revenue and Refunding Bonds:		
Series 2018A (Albemarle County), payable in installments ranging from \$780 to \$5,740 through 2048, with interest at a variable rate determined upon remarketing every 7 days (actual interest rates at December 31, 2019 and 2018 were 1.22% and 1.69%, respectively)	\$ 75,470	76,210
Series 2018B (Albemarle County), payable in installments ranging from \$790 to \$5,795 through 2048, with interest at a variable rate determined upon remarketing daily (actual interest rate at December 31, 2019 and 2018 were 1.63% and 1.65%, respectively)	76,140	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	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	88,620
Series 2016A, payable in installments ranging from \$2,660 to \$8,550 through 2034, with interest at a variable rate determined upon remarketing every seven days (actual interest rate at December 31, 2019 and 2018 were 1.70% and 1.68%, respectively)	93,210	95,795
Series 2016B, payable in installments ranging from \$2,660 to \$8,550 through 2034, with interest at a variable rate determined upon remarketing every seven days (actual interest rate at December 31, 2019 and 2018 were 1.67%, respectively)	93,210	95,795
Series 2016C, payable in installments ranging from \$780 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, 2019 and 2018 were 1.59% and 1.97%, respectively)	97,850	98,615
Series 2016D, payable in installments ranging from \$650 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, 2019 and 2018	81,745	82,380

SENTARA HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(In thousands)

	<u>2019</u>	<u>2018</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, 2019 and 2018 were 1.49% and 1.92%, respectively)	\$ 24,000	25,200
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, 2019 and 2018 were 1.54% and 1.97%, respectively)	57,207	59,931
Series 2012B, payable in installments ranging from \$2,655 to \$26,110 through 2043, with fixed interest rates ranging from 3.00% to 5.00% (average interest rate at December 31, 2019 and 2018 were 4.47% and 4.46%, respectively)	130,515	133,100
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 2019 and 2018 was 4.74% and 4.76%, respectively)	209,930	216,880
Series 2008, payable in installments ranging from \$4,820 to \$26,860 through 2035, with a fixed interest rate of 5.75%	141,410	145,625
Notes payable:		
Sentara Healthcare Commercial Paper Note program:		
\$130,000 authorized tax-exempt issue, weighted average maturity and interest rate at December 31, 2019 was 120 days and 1.20%, respectively	24,300	28,800
\$130,000 authorized taxable issue, weighted average maturity and interest rate at December 31, 2019 was 35 days and 1.74%, respectively	71,000	71,000
Finance lease obligation in 2019 and capital lease obligation in 2018	<u>20,917</u>	<u>21,308</u>
	1,335,524	1,366,164
Unamortized bond premium	24,352	25,342
Unamortized bond issuance costs, net	(5,806)	(6,089)
Less amount classified as current	<u>(303,788)</u>	<u>(312,360)</u>
	\$ <u>1,050,282</u>	\$ <u>1,073,057</u>

SENTARA HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(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 Economic Development Authority (EDA) of the Cities of Norfolk, Suffolk, Virginia Beach and Harrisonburg and the Counties of Isle of Wight and Albemarle as well as the Virginia Small Business Financing Authority (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 under the letter of credit as of December 31, 2019 and 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 \$281,720 and \$291,390 as of December 31, 2019 and 2018, 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.

SENTARA HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(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, 2019 are as follows:

2020	\$	27,668
2021		28,196
2022		31,720
2023		32,595
2024		33,560
Thereafter		<u>1,181,785</u>
	\$	<u><u>1,335,524</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, 2019 and 2018, none of which are designated as cash flow hedging instruments:

Interest rate swap	2019						Counterparty	Term
	Fair value	Notional amount outstanding	Rate paid	Rate received	Average rate received in 2019			
2004	\$ (35,000)	185,261	3.51 %	67% of one month (1M) LIBOR	1.49 %	Wells Fargo (75%) and Goldman Sachs	30 Years	
2008	508	141,410	SIFMA + 0.16%	5.75 %	5.75	(25%) Citigroup	10 Years	
Sussex 1998	(209)	7,540	3.33 %	59% of 1M LIBOR + 0.35%	1.67	Bank of America	18 Years	
MJH 2013 (Basis swap)	1,532	76,325	SIFMA	67% of 1M LIBOR + 0.41%	1.90	Barclays	20 Years	
MJH 2013 (Fixed swap)	(14,393)	151,610	1.94 %	67% of 3M LIBOR	1.56	Barclays	35 Years	
RMH 2015	(8,470)	179,610	1.61 %	67% of 1M LIBOR	1.49	Barclays (54%) and Goldman Sachs (46%)	30 Years	
2019 CMS (Basis swap)	(618)	50,000	67% 1M LIBOR	67% of 10Y CMS - 0.37611%	—	Goldman Sachs	20 Years	
2019 CMS (Ratio swap)	(254)	50,000	67% 1M LIBOR	54.4% of 10Y LIBOR	—	Citigroup	20 Years	
	\$ <u>(56,904)</u>							

SENTARA HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(In thousands)

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 3MLIBOR	1.55	Barclays	35 Years
RMH 2015	4,842	181,005	1.61 %	67% of 1MLIBOR	1.35	Barclays (54%) and	
	<u>\$ (23,137)</u>					Goldman Sachs (46%)	30 Years

In order to manage the credit risk of the swap agreements, Sentara and the counterparties are required to provide collateral in the event that the combined fair value of the swap agreements exceeds a predetermined threshold amount. The collateral posting requirements are based upon the rating classification of Sentara's long-term, unsecured, and unsubordinated debt securities as assigned by a relevant rating agency. Sentara posted \$16,630 and \$4,540 in collateral with the counterparties as of December 31, 2019 and 2018, 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, and 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 settlement value of interest rate swap agreements is determined in the same manner except that nonperformance risk is not considered. The change in the fair value of the interest rate swap agreements for the years ended December 31, 2019 and 2018 was \$(33,767) and \$17,053, respectively, and is included in nonoperating gains (losses), 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. On January 1, 2020, the plan was frozen for any new enrollment.

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.

SENTARA HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(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, 2019 and 2018 related to the Plan:

	<u>2019</u>	<u>2018</u>
Accumulated benefit obligation at measurement date	\$ 2,350,767	1,944,865
Change in projected benefit obligations:		
Benefit obligation at previous measurement date	\$ 2,175,270	2,260,611
Service cost	99,996	108,115
Interest cost	82,290	69,611
Actuarial loss (gain)	414,799	(162,062)
Benefit payments	<u>(109,169)</u>	<u>(101,005)</u>
Projected benefit obligation at measurement date	<u>\$ 2,663,186</u>	<u>2,175,270</u>
Change in assets:		
Fair value of assets at previous measurement date	\$ 1,917,798	2,014,118
Actual return (loss) on assets	328,639	(115,315)
Employer contributions	120,000	120,000
Benefit payments	<u>(109,169)</u>	<u>(101,005)</u>
Fair value of assets at measurement date	<u>\$ 2,257,268</u>	<u>1,917,798</u>
Amounts recognized in the consolidated balance sheets at December 31:		
Long-term liabilities	\$ (405,918)	(257,472)
Amounts recognized in net assets without donor restrictions at December 31:		
Net actuarial loss	\$ (866,782)	(701,310)
Prior service cost recognized	(366)	(583)
Components of net periodic pension cost:		
Service cost	\$ 99,996	108,115
Interest cost	82,290	69,611
Expected return on plan assets	(119,881)	(132,297)
Amortization of prior service cost	216	216
Amortization of actuarial loss	<u>40,571</u>	<u>52,688</u>
Net periodic pension cost	<u>\$ 103,192</u>	<u>98,333</u>

The components of net periodic pension cost, other than the service cost component of \$99,996 and \$108,115, are included in nonoperating gains (losses), net, for the years ended December 31, 2019 and 2018, respectively. The service cost component is included in salaries, wages and benefits expense.

SENTARA HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(In thousands)

For the years ended December 31, 2019 and 2018, Sentara recognized a change in net assets without donor restrictions of \$(165,255) and \$(32,646), respectively, related to nonperiodic changes in the Plan's assets and benefit obligations.

The estimated actuarial net loss and prior service cost for the Plan that will be amortized from accumulated net assets without donor restrictions into net periodic cost over the next year are \$64,381 and \$216, respectively.

The assumptions used to determine benefit obligations for the Plan at December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Discount rate	3.22 %	4.20 %
Rate of compensation increase	4.00	4.00

Weighted average assumptions used to determine net periodic benefit cost for the Plan for 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Discount rate in effect for determining service cost	4.27 %	3.68 %
Discount rate in effect for determining interest cost	3.88	3.16
Expected long-term return on plan assets	6.00	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, 2019 and 2018.

(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

SENTARA HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(In thousands)

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:

Asset category	Target allocation percentage
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, 2019 and 2018, respectively:

	Fair value measurements at December 31, 2019 using			
	Total	Level 1	Level 2	Investments reported at NAV
Investments:				
Fixed maturities	\$ 474,625	204,585	270,040	—
Equity securities	1,170,314	—	1,170,314	—
Multi-asset funds	77,736	77,736	—	—
Short-term investments	61,885	61,885	—	—
Alternative investments	472,708	—	148,480	324,228
Total	\$ 2,257,268	344,206	1,588,834	324,228

SENTARA HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(In thousands)

	Fair value measurements at December 31, 2018 using			
	Total	Level 1	Level 2	Investments reported at NAV
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'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 \$39,866 at December 31, 2019 for certain alternative investments.

(b) Contributions

Sentara expects to contribute \$120,000 to the Plan during the year ending December 31, 2020.

SENTARA HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(In thousands)

(c) *Estimated Future Benefit Payments*

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

2020	\$	149,857
2021		140,299
2022		149,760
2023		154,900
2024		160,112
2025–2029		827,123

The expected benefits to be paid are based on the same assumptions used to measure the Plan's benefit obligations at December 31, 2019.

(d) *Supplemental Executive Retirement Plan*

Sentara maintains a supplemental executive retirement plan for certain executives. Compensation expense under the plan was \$2,058 and \$2,451 for the years ended December 31, 2019 and 2018, respectively. Accrued benefit liabilities under this plan totaled \$26,427 and \$24,850 as of December 31, 2019 and 2018, 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, 2019 and 2018 was \$40,376 and \$38,674, 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.

SENTARA HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(In thousands)

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

- Financial assistance brochures and other information are posted at each point of service. When patients have questions or concerns, they are encouraged to call a toll-free number to reach customer service representatives during the business day. Financial assistance programs are also published on 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:

	2019	2018
Components of estimated cost of charity and other uncompensated care:		
Charity care	\$ 138,811	183,741
Medicaid	11,249	59,939
Implicit price concessions	89,191	110,441
Total estimated cost	\$ 239,251	354,121

SENTARA HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(In thousands)

(b) Medical Education and Other Community Benefits

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

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

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

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

	<u>2019</u>	<u>2018</u>
Nonreimbursed cost of charity and uncompensated care	\$ 239,251	354,121
Medical education	45,011	12,586
Direct contributions and sponsorships	22,533	20,677
Community health programs	<u>2,729</u>	<u>2,591</u>
Total community benefits, at cost	<u>\$ 309,524</u>	<u>389,975</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.

(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.

SENTARA HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(In thousands)

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

	<u>2019</u>	<u>2018</u>
Medicare	32 %	32 %
Medicaid	10	11
Anthem (Blue Cross)	27	25
All others (none individually more than 10%)	31	32
	<u>100 %</u>	<u>100 %</u>
Total		

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.

(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:

	<u>Year ended December 31, 2019</u>						<u>Total</u>
	<u>Healthcare services</u>					<u>Support services</u>	
	<u>Hospitals</u>	<u>Physician</u>	<u>Post acute</u>	<u>Specialty pharmacy</u>	<u>Health plan</u>	<u>Management & general</u>	
Salaries and benefits	\$ 1,132,289	454,503	99,171	3,650	50,916	530,783	2,271,312
Medical claims	—	—	7,870	—	1,830,163	(5,869)	1,832,164
Other operating expenses:							
Supplies	807,757	15,192	42,734	153,707	1,026	36,986	1,057,402
Professional fees	98,097	19,540	2,229	73	5,077	40,255	165,271
Professional fee allocations	134,041	(134,679)	638	—	—	—	—
Purchased and contracted services	106,264	9,573	10,806	837	14,651	118,903	261,034
Repairs and maintenance	56,763	898	483	37	4,461	100,559	163,201
Rent	40,080	16,059	3,536	89	1,596	38,140	99,500
Insurance	8,444	8,289	1,840	—	508	6,634	25,715
Marketing	159	364	40	5	10,984	21,901	33,453
Utilities	991	594	138	11	114	40,227	42,075
Contributions	14,162	8	—	—	15	12,440	26,625
Telecommunications	1,537	1,340	421	2	462	9,884	13,646
Taxes and licenses	79,787	980	292	(28)	8,054	56,067	145,152
Other/expense recoveries	17,655	25,559	11,867	288	6,040	(20,720)	40,689
Other operating expenses	1,365,737	(36,283)	75,024	155,021	52,988	461,276	2,073,763

SENTARA HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(In thousands)

Year ended December 31, 2019							
	Healthcare services					Support services	Total
	Hospitals	Physician	Post acute	Specialty pharmacy	Health plan	Management & general	
Interest	\$ 25,414	—	—	—	632	17,686	43,732
Depreciation and Amortization	111,615	3,783	1,554	266	1,327	88,400	206,945
Sentara Healthcare services	38,341	32,909	692	—	5,026	(76,968)	—
	\$ 2,673,396	454,912	184,311	158,937	1,941,052	1,015,308	6,427,916
Year ended December 31, 2018							
	Healthcare services					Support services	Total
	Hospitals	Physician	Post acute	Specialty pharmacy	Health plan	Management & general	
Salaries and benefits	\$ 1,092,329	432,878	104,484	3,419	40,140	501,397	2,174,647
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)	—
	\$ 2,505,444	430,136	191,667	153,364	1,678,308	1,004,040	5,962,959

SENTARA HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(In thousands)

(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, 2019 and 2018, are as follows:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 988,752	831,060
Receivables, net	912,245	811,142
Current investments and assets whose use is limited	324,416	325,762
Long-term investments and assets whose use is limited	<u>4,116,446</u>	<u>3,483,121</u>
Total financial assets available within one year	<u>6,341,859</u>	<u>5,451,085</u>
Less:		
Amounts unavailable for general expenditures within one year due to:		
Restricted by donors with purpose restrictions	78,210	73,290
Restricted by donors in perpetuity	23,724	22,418
Restricted for payment of current liabilities	324,416	325,762
Restricted by state regulatory agencies in which insured subsidiary resides	454,789	527,384
Restricted for swap collateral	16,630	4,540
Deferred compensation plan	56,803	45,655
Bay Primex Insurance Captive	82,717	68,178
Assets internally designated as endowment fund	18,753	17,331
Private equity alternative investments	<u>115,411</u>	<u>86,547</u>
Total amounts unavailable for general expenditures within one year	<u>1,171,453</u>	<u>1,171,105</u>
Total financial assets available to management for general expenditure within one year	\$ <u>5,170,406</u>	<u>4,279,980</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 \$2,400 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, 2019 and 2018 totaled \$99,790 and \$90,288, respectively, and are included in other current liabilities and other long-term liabilities in the accompanying consolidated balance sheets. Cash and investments totaling

SENTARA HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(In thousands)

\$82,717 and \$68,178 as of December 31, 2019 and 2018, 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 \$17,157 and \$17,615 as of December 31, 2019 and 2018, respectively.

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

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

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

(b) Stop-Loss Coverage

OHP and OHIC carry a stop-loss coverage policy for medical claims expense through Reinsurance Group of America, Incorporated (RGA). The deductible under the policy is \$1,500 per member per policy year. Once the deductible is met in a policy year, RGA will reimburse 90% of eligible medical expenses up to a maximum of \$5,000 per member per policy year. This stop-loss coverage does not relieve OHP and OHIC of its primary obligation to its members. Stop-loss expense related to the policy was \$2,865 and \$3,526 for the years ended December 31, 2019 and 2018, respectively.

(c) Employee Health Benefits

Sentara is self-insured for employee health benefits. The liabilities associated with these claims totaled \$20,724 and \$21,905 at December 31, 2019 and 2018, 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 \$18,455 and \$17,606 at December 31, 2019 and 2018, 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, 2019 and 2018

(In thousands)

(e) Lease Commitments

Information as of and for the year ended December 31, 2019:

Sentara leases property under both finance and operating leases. Leases with terms greater than 12 months are recorded with the related right-of-use assets and right-of-use obligations at the present value of lease payments over the term. Sentara uses an estimated incremental borrowing rate to discount lease payments based on information available at lease commencement, as most leases do not provide a readily determinable implicit interest rate. The incremental borrowing rate for the year ending December 31, 2019 was 4.0%. Leases that include rental escalation clauses and renewal options are factored into the determination of lease payments when appropriate.

The following table presents our lease-related assets and liabilities at December 31, 2019:

	<u>Balance sheet classification</u>	<u>December 31, 2019</u>
Assets:		
Operating leases	Other assets, net	\$ 86,412
Finance lease	Property, plant, and equipment, net	<u>33,561</u>
Total lease assets		\$ <u><u>119,973</u></u>
Liabilities:		
Current:		
Operating leases	Other current liabilities	\$ 23,974
Finance lease	Current installments of long-term debt	408
Noncurrent:		
Operating leases	Other long-term liabilities	63,698
Finance lease	Long-term debt, excluding current installments	<u>20,509</u>
Total lease liabilities		\$ <u><u>108,589</u></u>
Weighted average remaining term – operating leases		14.24 years
Remaining term – finance lease		24 years

SENTARA HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(In thousands)

The following table presents certain information related to lease expenses for finance and operating leases at December 31, 2019. All expenses related to operating leases and short term and variable lease expense are included in other operating expenses:

Finance lease expense:		
Amortization of leased assets	\$	194
Interest on lease liability		948
Operating leases		29,901
Short term and variable lease expenses		<u>69,599</u>
Total expenses	\$	<u><u>100,642</u></u>

The following table presents supplemental cash flow information for the year ending December 31, 2019:

Cash paid for amounts included in the measurement of lease liabilities:

Operating cash flows for operating leases	\$	28,642
Operating cash flows for finance lease		1,142
Financing cash flows for finance lease		391

The following table reconciles the undiscounted cash flows to the finance lease liabilities and operating lease liabilities recorded on the balance sheet at December 31, 2019:

	<u>Operating leases</u>	<u>Finance lease</u>
2020	\$ 29,600	1,339
2021	23,655	1,339
2022	16,526	1,339
2023	9,769	1,339
2024	5,802	1,339
Thereafter	<u>31,259</u>	<u>28,672</u>
Total minimum lease payments	116,611	35,367
Less amount of lease payments representing interest	<u>(28,939)</u>	<u>(14,450)</u>
Present value of future minimum lease payments	87,672	20,917
Less current obligations under leases	<u>(23,974)</u>	<u>(408)</u>
Long-term lease obligations	\$ <u><u>63,698</u></u>	<u><u>20,509</u></u>

SENTARA HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(In thousands)

Rental expense incurred during the year ended December 31, 2018 was \$86,910.

(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 place, which are intended to ensure future compliance at these subsidiaries.

(17) **Nonoperating Gains (Losses), Net**

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

	<u>2019</u>	<u>2018</u>
Investment income	\$ 42,287	33,002
Realized gains on investments, net	11,148	19,406
Unrealized gains (losses) on investments, net	535,412	(227,299)
Equity in earnings of limited investment companies	8,649	10,289
Change in fair value of derivative instruments	(33,767)	17,053
Net periodic pension cost (components other than service cost)	3,196	9,782
Other	(11,295)	(3,692)
	<u>\$ 555,630</u>	<u>(141,459)</u>

SENTARA HEALTHCARE AND SUBSIDIARIES

Consolidating Schedule – Balance Sheet Information

December 31, 2019

(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	\$ 658,247	173,801	749	1,368	125,897	27,905	785	—	988,752
Receivables, net	19,872	613,928	40,357	9,006	258,763	13,593	17,719	(60,993)	912,245
Receivables from affiliated organizations	128,223	31,809	181	24	1,134	25,339	1,441	(188,151)	—
Investments and assets whose use is limited	324,416	—	—	—	—	—	—	—	324,416
Inventories	—	69,678	19,048	579	—	—	—	—	89,305
Prepaid expenses and other current assets	20,507	24,767	142	45	8,787	3,491	3,454	—	61,193
Total current assets	1,151,265	913,983	60,477	11,022	394,581	70,328	23,399	(249,144)	2,375,911
Notes receivable from affiliated organizations	134,318	—	—	—	—	—	—	(134,318)	—
Investments and assets whose use is limited	3,716,193	76,921	—	—	308,618	14,714	—	—	4,116,446
Property, plant, and equipment, net	288,211	1,674,327	10,558	31,704	7,883	9,134	17,312	(470)	2,038,659
Land held for future use, at cost	15,582	31,049	—	—	—	598	—	—	47,229
Other assets, net	29,353	153,377	9,886	1,431	—	19,906	61,850	(102,782)	173,021
Total assets	\$ 5,334,922	2,849,657	80,921	44,157	711,082	114,680	102,561	(486,714)	8,751,266
Liabilities and Net Assets									
Current liabilities:									
Accounts payable and accrued expenses	\$ 46,344	121,385	1,813	878	1,147	2,128	2,610	—	176,305
Employee compensation and benefits	192,330	9,254	652	—	—	12,896	—	—	215,132
Medical claims accrued and payable	—	—	—	1,052	219,491	9,393	—	(51,987)	177,949
Current installments of long-term debt	20,090	5,514	—	—	—	—	—	(5,106)	20,498
Long-term debt subject to current remarketing provisions	283,290	—	—	—	—	—	—	—	283,290
Payables to affiliated organizations	4,415	148,238	87	1	26,239	8,941	230	(188,151)	—
Estimated third-party payor settlements	—	22,576	—	2,117	—	—	—	—	24,693
Other current liabilities	74,900	64,279	10,103	1,526	108,452	26,957	13,358	(18,028)	281,547
Total current liabilities	621,369	371,246	12,655	5,574	355,329	60,315	16,198	(263,272)	1,179,414
Long-term debt, excluding current installments	1,029,772	154,828	—	—	—	—	—	(134,318)	1,050,282
Retirement obligations	405,918	—	—	—	—	—	—	—	405,918
Other long-term liabilities	261,689	138,565	7,639	2,731	53,382	8,050	53,331	(88,654)	436,733
Total liabilities	2,318,748	664,639	20,294	8,305	408,711	68,365	69,529	(486,244)	3,072,347
Net assets:									
Without donor restrictions	3,012,202	2,047,342	60,582	35,819	302,371	46,315	31,968	(470)	5,536,129
With donor restrictions	3,972	96,820	45	33	—	—	1,064	—	101,934
Total net assets attributable to Sentara Healthcare	3,016,174	2,144,162	60,627	35,852	302,371	46,315	33,032	(470)	5,638,063
Without donor restrictions – noncontrolling interest	—	40,856	—	—	—	—	—	—	40,856
Total net assets	3,016,174	2,185,018	60,627	35,852	302,371	46,315	33,032	(470)	5,678,919
Total liabilities and net assets	\$ 5,334,922	2,849,657	80,921	44,157	711,082	114,680	102,561	(486,714)	8,751,266

See accompanying independent auditors' report.

SENTARA HOSPITALS

Consolidating Schedule – Balance Sheet Information

December 31, 2019

(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 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
Assets														
Current assets:														
Cash and cash equivalents (bank overdraft)	\$ 9,785	3,866	2,472	2,935	2,119	2,823	94,050	2,812	9,187	4,505	11,054	28,193	—	173,801
Receivables, net	183,927	52,161	40,226	46,750	25,939	38,924	45,957	39,423	63,467	43,472	14,920	18,833	(71)	613,928
Receivables from affiliated organizations	2,411	670	526	612	334	493	2,222	502	7	2,357	25,878	803	(5,006)	31,809
Inventories	22,953	4,727	5,447	5,535	2,763	3,940	4,513	4,079	6,182	4,943	2,325	2,271	—	69,678
Prepaid expenses and other current assets	10,558	2,913	2,298	3,329	962	1,091	199	507	1,214	1,034	85	577	—	24,767
Total current assets	229,634	64,337	50,969	59,161	32,117	47,271	146,941	47,323	80,057	56,311	54,262	50,677	(5,077)	913,983
Investments	1,503	—	—	165	—	—	—	—	37,617	37,636	—	—	—	76,921
Property, plant, and equipment, net	392,341	178,096	87,708	115,493	82,629	105,645	160,484	133,086	134,266	156,317	74,211	56,178	(2,127)	1,674,327
Land held for future use, at cost	—	—	—	2,491	819	—	—	8,882	6,129	12,728	—	—	—	31,049
Other assets, net	25,087	18,532	46,320	28,420	44,936	62,172	5,944	15,204	2,747	10,278	524	5,780	(112,567)	153,377
Total assets	\$ 648,565	260,965	184,997	205,730	160,501	215,088	313,369	204,495	260,816	273,270	128,997	112,635	(119,771)	2,849,657
Liabilities and Net Assets														
Current liabilities:														
Accounts payable and accrued expenses	\$ 38,872	15,576	6,773	12,112	5,862	6,882	5,889	7,621	8,022	6,795	4,851	2,130	—	121,385
Employee compensation and benefits	—	—	—	—	—	—	—	—	1,941	4,701	1,169	1,443	—	9,254
Current installments of long-term debt	—	—	—	—	—	—	5,106	—	—	—	—	408	—	5,514
Payables to affiliated organizations	2,144	279	683	470	306	345	16,839	396	44	2,549	69,337	59,852	(5,006)	148,238
Estimated third-party payor settlements	7,039	(2,602)	4,851	1,399	600	570	1,199	—	1,966	890	271	6,393	—	22,576
Other current liabilities	22,583	2,554	5,920	3,387	3,303	3,775	6,711	3,404	3,084	6,072	883	3,489	(886)	64,279
Total current liabilities	70,638	15,807	18,227	17,368	10,071	11,572	35,744	11,421	15,057	21,007	76,511	73,715	(5,892)	371,246
Long-term debt, excluding current installments	—	—	—	1	—	—	134,318	—	—	—	—	20,509	—	154,828
Other long-term liabilities	16,126	12,616	17,854	9,090	6,850	17,708	7,086	13,865	20,337	9,148	6,213	4,679	(3,007)	138,565
Total liabilities	86,764	28,423	36,081	26,459	16,921	29,280	177,148	25,286	35,394	30,155	82,724	98,903	(8,899)	664,639
Net assets:														
Without donor restrictions	552,947	232,531	148,815	178,754	143,420	183,821	95,337	176,735	185,701	202,026	44,410	13,717	(110,872)	2,047,342
With donor restrictions	8,854	11	101	517	160	1,987	28	2,474	39,721	41,089	1,863	15	—	96,820
Total net assets attributable to Sentara Healthcare	561,801	232,542	148,916	179,271	143,580	185,808	95,365	179,209	225,422	243,115	46,273	13,732	(110,872)	2,144,162
Without donor restrictions – noncontrolling interest	—	—	—	—	—	—	40,856	—	—	—	—	—	—	40,856
Total net assets	561,801	232,542	148,916	179,271	143,580	185,808	136,221	179,209	225,422	243,115	46,273	13,732	(110,872)	2,185,018
Total liabilities and net assets	\$ 648,565	260,965	184,997	205,730	160,501	215,088	313,369	204,495	260,816	273,270	128,997	112,635	(119,771)	2,849,657

See accompanying independent auditors' report.

SENTARA HOLDINGS, INC.

Consolidating Schedule – Balance Sheet Information

December 31, 2019

(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	Optima Family Care of North Carolina	Sentara Ventures, Inc.	Eliminations	Total
Current assets:										
Cash and cash equivalents	\$ 1,443	10,571	50	2,187	662	1,705	1,006	10,281	—	27,905
Receivables, net	220	2,698	(92)	1	6,670	—	1	4,095	—	13,593
Receivables from affiliated organizations	478	26,027	409	—	1,568	—	—	93	(3,236)	25,339
Prepaid expenses and other current assets	—	2,821	—	—	543	—	—	127	—	3,491
Total current assets	2,141	42,117	367	2,188	9,443	1,705	1,007	14,596	(3,236)	70,328
Investments	—	—	—	433	12,876	906	499	—	—	14,714
Property, plant, and equipment, net	—	8,355	—	—	118	—	—	661	—	9,134
Land held for future use, at cost	—	—	—	—	—	—	—	598	—	598
Other assets, net	2,576	27,804	—	1	—	—	—	8,750	(19,225)	19,906
Total assets	\$ 4,717	78,276	367	2,622	22,437	2,611	1,506	24,605	(22,461)	114,680
Liabilities and Net Assets										
Current liabilities:										
Accounts payable and accrued expenses	\$ —	507	9	—	—	—	—	1,612	—	2,128
Employee compensation and benefits	—	12,896	—	—	—	—	—	—	—	12,896
Medical claims accrued and payable	—	—	—	—	9,393	—	—	—	—	9,393
Payables to (from) affiliated organizations	277	11,152	103	12	1,134	31	—	(532)	(3,236)	8,941
Other current liabilities	—	23,221	11	—	2,484	—	—	1,241	—	26,957
Total current liabilities	277	47,776	123	12	13,011	31	—	2,321	(3,236)	60,315
Other long-term liabilities	—	8,050	—	—	—	—	—	—	—	8,050
Total liabilities	277	55,826	123	12	13,011	31	—	2,321	(3,236)	68,365
Net assets:										
Without donor restrictions	4,440	22,450	244	2,610	9,426	2,580	1,506	22,284	(19,225)	46,315
Total liabilities and net assets	\$ 4,717	78,276	367	2,622	22,437	2,611	1,506	24,605	(22,461)	114,680

See accompanying independent auditors' report.

SENTARA HEALTHCARE AND SUBSIDIARIES

Consolidating Schedule – Operations Information

Year ended December 31, 2019

(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)	\$ —	4,116,484	289,605	40,874	(1,510)	(891)	252,706	(624,736)	4,072,532
Premium and capitation revenue	574	4,685	—	21,977	2,436,928	46,901	6,181	(3,400)	2,513,846
Other operating revenue	67,058	39,060	2,992	13,243	(7,111)	91,446	15,898	(68,468)	154,118
Net assets released from restrictions	734	11,373	31	5	—	—	824	—	12,967
Total operating revenue, gains, and other support	68,366	4,171,602	292,628	76,099	2,428,307	137,456	275,609	(696,604)	6,753,463
Operating costs and expenses:									
Salaries, wages, and benefits	97,731	1,750,401	76,309	42,492	105,689	34,059	293,349	(128,718)	2,271,312
Medical claims expense	—	—	—	4,110	2,257,242	64,039	—	(493,227)	1,832,164
Other operating expenses (income)	86,801	1,717,436	203,185	22,088	89,666	54,861	(32,880)	(67,394)	2,073,763
Interest expense	9,724	39,516	—	—	1,717	40	—	(7,265)	43,732
Depreciation and amortization	13,376	181,685	2,317	3,255	3,323	363	2,626	—	206,945
Sentara Healthcare services	(139,621)	96,050	9,650	7,435	23,691	(9,719)	12,514	—	—
Total operating costs and expenses	68,011	3,785,088	291,461	79,380	2,481,328	143,643	275,609	(696,604)	6,427,916
Net operating income (loss)	355	386,514	1,167	(3,281)	(53,021)	(6,187)	—	—	325,547
Nonoperating (losses) gains, net	519,633	(132)	(123)	—	34,643	1,609	—	—	555,630
Excess (deficiency) of revenue over (under) expenses before noncontrolling interest	519,988	386,382	1,044	(3,281)	(18,378)	(4,578)	—	—	881,177
Noncontrolling interest	—	(14,851)	—	—	—	—	—	—	(14,851)
Excess (deficiency) of revenue over (under) expenses attributable to Sentara Healthcare	\$ 519,988	371,531	1,044	(3,281)	(18,378)	(4,578)	—	—	866,326

See accompanying independent auditors' report.

SENTARA HOSPITALS
Consolidating Schedule – Operations Information
Year ended December 31, 2019
(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	\$ 1,049,281	411,624	253,847	334,427	189,556	259,889	—	314,821	248,805	468,406	331,568	125,032	129,228	—	4,116,484
Premium and capitation revenue	2,902	101	71	77	59	48	—	101	—	475	811	—	40	—	4,685
Other operating revenue	10,822	1,141	3,964	3,537	1,828	2,997	1,811	515	3,272	5,233	2,086	2,289	396	(831)	39,060
Net assets released from restrictions	2,399	7	3	125	11	2	—	13	983	3,318	4,260	213	39	—	11,373
Total operating revenue, gains, and other support	1,065,404	412,873	257,885	338,166	191,454	262,936	1,811	315,450	253,060	477,432	338,725	127,534	129,703	(831)	4,171,602
Operating costs and expenses:															
Salaries, wages, and benefits	290,531	128,187	90,144	121,695	67,269	90,796	291,863	102,584	87,984	199,589	149,414	70,250	60,095	—	1,750,401
Other operating expenses	527,924	138,318	97,849	114,274	77,694	89,335	50,661	112,721	105,898	174,766	127,530	51,779	48,758	(71)	1,717,436
Interest expense	10,513	3,091	991	1,327	2,916	1,698	—	7,265	1,668	5,191	3,905	—	951	—	39,516
Depreciation and amortization	32,000	15,106	8,974	10,650	6,991	9,183	32,976	10,926	13,769	17,304	11,041	7,033	6,192	(460)	181,685
Sentara Healthcare services	125,402	41,119	28,559	35,661	22,390	27,692	(373,989)	33,767	29,893	55,223	40,905	13,655	15,773	—	96,050
Total operating costs and expenses	986,370	325,821	226,517	283,607	177,260	218,704	1,511	267,263	239,212	452,073	332,795	142,717	131,769	(531)	3,785,088
Net operating income (loss)	79,034	87,052	31,368	54,559	14,194	44,232	300	48,187	13,848	25,359	5,930	(15,183)	(2,066)	(300)	386,514
Nonoperating (losses) gains, net	(548)	(266)	(199)	(231)	(113)	(122)	445	1,322	(107)	(205)	(64)	51	(95)	—	(132)
Excess (deficiency) of revenue over (under) expenses before non controlling interest	78,486	86,786	31,169	54,328	14,081	44,110	745	49,509	13,741	25,154	5,866	(15,132)	(2,161)	(300)	386,382
Noncontrolling interest	—	—	—	—	—	—	—	(14,851)	—	—	—	—	—	—	(14,851)
Excess (deficiency) of revenue over (under) expenses attributable to Sentara Healthcare	\$ 78,486	86,786	31,169	54,328	14,081	44,110	745	34,658	13,741	25,154	5,866	(15,132)	(2,161)	(300)	371,531

See accompanying independent auditors' report.

SENTARA ENTERPRISES

Consolidating Schedule – Operations Information

Year ended December 31, 2019

(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	\$ 115,233	13,903	160,415	54	—	289,605
Other operating revenue	242	1,445	167	859	279	2,992
Net assets released from restrictions	—	—	—	31	—	31
Total operating revenue, gains, and other support	<u>115,475</u>	<u>15,348</u>	<u>160,582</u>	<u>944</u>	<u>279</u>	<u>292,628</u>
Operating costs and expenses:						
Salaries, wages, and benefits	51,039	12,054	3,672	9,544	—	76,309
Other operating expenses (income)	53,086	3,440	155,027	(8,368)	—	203,185
Interest expense	—	—	—	293	(293)	—
Depreciation and amortization	572	786	266	693	—	2,317
Sentara Healthcare services	—	337	—	9,313	—	9,650
Total operating costs and expenses	<u>104,697</u>	<u>16,617</u>	<u>158,965</u>	<u>11,475</u>	<u>(293)</u>	<u>291,461</u>
Net operating income (loss)	10,778	(1,269)	1,617	(10,531)	572	1,167
Nonoperating gains, net	—	(19)	(5)	194	(293)	(123)
Excess (deficiency) of revenue over (under) expenses	<u>\$ 10,778</u>	<u>(1,288)</u>	<u>1,612</u>	<u>(10,337)</u>	<u>279</u>	<u>1,044</u>

See accompanying independent auditors' report.

SENTARA LIFE CARE CORPORATION
 Consolidating Schedule – Operations Information
 Year ended December 31, 2019
 (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)	\$ —	9,451	3,400	2,365	2,257	6,765	7,347	7,034	1	2,573	(402)	(140)	6,591	(6,368)	40,874
Premium and capitation revenue	—	—	—	—	—	—	—	—	—	—	13,767	8,210	—	—	21,977
Other operating revenue (expense)	(1,105)	24	7,587	2,721	4,707	6	191	9	(1,191)	232	16	46	—	—	13,243
Net assets released from restrictions	—	—	—	—	—	—	—	—	5	—	—	—	—	—	5
Total operating revenue, gains, and other support	(1,105)	9,475	10,987	5,086	6,964	6,771	7,538	7,043	(1,185)	2,805	13,381	8,116	6,591	(6,368)	76,099
Operating costs and expenses:															
Salaries, wages, and benefits	1,818	7,034	3,994	2,326	2,077	5,266	6,359	5,442	3	1,741	3,881	2,551	—	—	42,492
Medical claims expense	—	—	—	—	—	—	—	—	—	—	4,512	3,357	—	(3,759)	4,110
Other operating expenses	659	2,811	2,241	1,657	1,073	2,144	1,951	1,530	79	703	1,977	1,149	6,723	(2,609)	22,088
Depreciation and amortization	116	997	169	130	163	326	326	303	72	189	278	151	35	—	3,255
Sentara Healthcare services	—	1,119	493	311	253	797	892	750	16	272	1,094	746	692	—	7,435
Total operating costs and expenses	2,593	11,961	6,897	4,424	3,566	8,533	9,528	8,025	170	2,905	11,742	7,954	7,450	(6,368)	79,380
Net operating (loss) income	(3,698)	(2,486)	4,090	662	3,398	(1,762)	(1,990)	(982)	(1,355)	(100)	1,639	162	(859)	—	(3,281)
(Deficiency) excess of revenue over (under) expenses	\$ (3,698)	(2,486)	4,090	662	3,398	(1,762)	(1,990)	(982)	(1,355)	(100)	1,639	162	(859)	—	(3,281)

See accompanying independent auditors' report.

SENTARA HOLDINGS, INC.

Consolidating Schedule – Operations Information

Year ended December 31, 2019

(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	Optima Family Care 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)	\$ —	(812)	—	—	(79)	—	—	—	—	—	—	(891)
Premium and capitation revenue	—	—	5,219	—	41,736	—	—	—	—	—	(54)	46,901
Other operating revenue	52	45,036	1,543	—	19,758	—	—	—	19,922	—	5,135	91,446
Total operating revenue, gains, and other support	52	44,224	6,762	—	61,415	—	—	—	19,922	—	5,081	137,456
Operating costs and expenses:												
Salaries, wages, and benefits	—	25,842	3,646	—	4,571	—	—	—	—	—	—	34,059
Medical claims expense	—	464	1,150	—	62,479	—	—	—	—	—	(54)	64,039
Other operating expense (income)	904	31,564	1,930	21	222	31	—	—	20,189	—	—	54,861
Interest expense	—	—	—	—	40	—	—	—	—	—	—	40
Depreciation and amortization	—	300	—	—	63	—	—	—	—	—	—	363
Sentara Healthcare services	—	(11,387)	1,561	—	640	—	—	—	—	—	(533)	(9,719)
Total operating costs and expenses	904	46,783	8,287	21	68,015	31	—	—	20,189	—	(587)	143,643
Net operating (loss) income	(852)	(2,559)	(1,525)	(21)	(6,600)	(31)	—	—	(267)	—	5,668	(6,187)
Nonoperating gains, net	—	490	18	46	973	76	6	—	—	—	—	1,609
(Deficiency) excess of revenue (under) over expenses	\$ (852)	(2,069)	(1,507)	25	(5,627)	45	6	—	(267)	—	5,668	(4,578)

See accompanying independent auditors' report.

SENTARA HEALTHCARE AND SUBSIDIARIES

Consolidating Schedule – Fully Allocated Overhead Operations Information

Year ended December 31, 2019

(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	\$ —	4,116,484	289,605	40,874	(1,510)	(891)	252,706	(624,736)	4,072,532
Premium and capitation revenue	574	4,685	—	21,977	2,436,928	46,901	6,181	(3,400)	2,513,846
Other operating revenue	67,058	39,060	2,992	13,243	(7,111)	91,446	15,898	(68,468)	154,118
Net assets released from restrictions	734	11,373	31	5	—	—	824	—	12,967
Total operating revenue, gains, and other support	68,366	4,171,602	292,628	76,099	2,428,307	137,456	275,609	(696,604)	6,753,463
Operating costs and expenses:									
Salaries, wages, and benefits	97,731	1,750,401	76,309	42,492	105,689	34,059	293,349	(128,718)	2,271,312
Medical claims expense	—	—	—	4,110	2,257,242	64,039	—	(493,227)	1,832,164
Other operating expenses (income)	86,801	1,717,436	203,185	22,088	89,666	54,861	(32,880)	(67,394)	2,073,763
Interest expense	9,724	39,516	—	—	1,717	40	—	(7,265)	43,732
Depreciation and amortization	13,376	181,685	2,317	3,255	3,323	363	2,626	—	206,945
Sentara Healthcare services	(139,266)	95,806	9,625	7,416	23,631	(9,694)	12,482	—	—
Total operating costs and expenses	68,366	3,784,844	291,436	79,361	2,481,268	143,668	275,577	(696,604)	6,427,916
Net operating income (loss)	—	386,758	1,192	(3,262)	(52,961)	(6,212)	32	—	325,547
Nonoperating gains, net	519,633	(132)	(123)	—	34,643	1,609	—	—	555,630
Excess (deficiency) of revenue over (under) expenses before noncontrolling interest	519,633	386,626	1,069	(3,262)	(18,318)	(4,603)	32	—	881,177
Noncontrolling interest	—	(14,851)	—	—	—	—	—	—	(14,851)
Excess (deficiency) of revenue over (under) expenses attributable to Sentara Healthcare	\$ 519,633	371,775	1,069	(3,262)	(18,318)	(4,603)	32	—	866,326

See accompanying independent auditors' report.

SENTARA HOSPITALS
 Consolidating Schedule – Fully Allocated Overhead Operations Information
 Year ended December 31, 2019
 (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	\$ 1,049,281	411,624	253,847	334,427	189,556	259,889	314,821	248,805	468,406	331,568	125,032	129,228	—	4,116,484
Premium and capitation revenue	2,902	101	71	77	59	48	101	—	475	811	—	40	—	4,685
Other operating revenue	11,344	1,196	4,155	3,708	1,916	3,141	515	3,430	5,485	2,187	2,399	415	(831)	39,060
Net assets released from restrictions	2,399	7	3	125	11	2	13	983	3,318	4,260	213	39	—	11,373
Total operating revenue, gains, and other support	<u>1,065,926</u>	<u>412,928</u>	<u>258,076</u>	<u>338,337</u>	<u>191,542</u>	<u>263,080</u>	<u>315,450</u>	<u>253,218</u>	<u>477,684</u>	<u>338,826</u>	<u>127,644</u>	<u>129,722</u>	<u>(831)</u>	<u>4,171,602</u>
Operating costs and expenses:														
Salaries, wages, and benefits	353,067	155,779	109,547	147,889	81,748	110,339	102,584	106,922	242,550	181,575	85,371	73,030	—	1,750,401
Other operating expenses	545,133	142,827	101,039	117,999	80,227	92,247	112,721	109,350	180,463	131,687	53,467	50,347	(71)	1,717,436
Interest expense	10,513	3,091	991	1,327	2,916	1,698	7,265	1,668	5,191	3,905	—	951	—	39,516
Depreciation and amortization	39,633	18,709	11,115	13,190	8,659	11,373	10,926	17,053	21,432	13,675	8,711	7,669	(460)	181,685
Sentara Healthcare services	17,832	5,847	4,061	5,071	3,184	3,938	33,767	4,251	7,853	5,817	1,942	2,243	—	95,806
Total operating costs and expenses	<u>966,178</u>	<u>326,253</u>	<u>226,753</u>	<u>285,476</u>	<u>176,734</u>	<u>219,595</u>	<u>267,263</u>	<u>239,244</u>	<u>457,489</u>	<u>336,659</u>	<u>149,491</u>	<u>134,240</u>	<u>(531)</u>	<u>3,784,844</u>
Net operating income (loss)	99,748	86,675	31,323	52,861	14,808	43,485	48,187	13,974	20,195	2,167	(21,847)	(4,518)	(300)	386,758
Nonoperating gains, net	(423)	(224)	(170)	(195)	(90)	(94)	1,322	(76)	(146)	(20)	62	(78)	—	(132)
Excess (deficiency) of revenue over (under) expenses before noncontrolling interest	99,325	86,451	31,153	52,666	14,718	43,391	49,509	13,898	20,049	2,147	(21,785)	(4,596)	(300)	386,626
Noncontrolling interest	—	—	—	—	—	—	(14,851)	—	—	—	—	—	—	(14,851)
Excess of revenue over (under) expenses attributable to Sentara Healthcare	\$ 99,325	86,451	31,153	52,666	14,718	43,391	34,658	13,898	20,049	2,147	(21,785)	(4,596)	(300)	371,775

See accompanying independent auditors' report.