



S E N T A R A[®]

**Consolidated Financial Statements
and Self-Liquidity Report**

September 30, 2017

SENTARA HEALTHCARE AND SUBSIDIARIES

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Management's Discussion and Analysis

Sentara Healthcare (the "System") 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 System includes over 100 sites of care, including 12 acute care hospitals to provide inpatient services, and outpatient facilities including emergency and urgent care, senior services, home care, physical therapy and rehabilitation services, as well as mental health services.

The following discussion and analysis provides information that System management believes is relevant to an assessment and understanding of the System's results of operations and financial position.

Nine Month Period Ended September 30, 2017

For the nine month period ended September 30, 2017, net operating income was \$215.2 million, or 5.5% of total operating revenues versus \$196.4 million, or 5.2%, for the same period in 2016.

Total operating revenues for the System increased by \$173.6 million, or 4.6%, to \$3.9 billion for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016. This increase in operating revenues was primarily driven by the increase in net patient service revenue noted below.

Net patient service revenue increased by \$167.8 million, or 6.6%, for the nine month period ended September 30, 2017, as compared to the same period in the prior year. The increase is primarily attributed to increased volumes for the nine months ended September 30, 2017, as compared to the same period in 2016. Admissions, inpatient surgeries and outpatient imaging volumes increased by 3.2%, 3.8% and 1.1%, respectively.

The Health Plans experienced an increase in premium and capitation revenue of \$17.9 million in the nine months ended September 30, 2017, as compared to 2016. This increase was primarily driven by the launch of two regions of the new Optima Health Community Care product combined with membership and rate increases in the HMO and Medicaid products. These increases were partially offset by a membership reduction in the Individual product. The corresponding medical claims expense decreased \$10.7 million primarily due to the reduction of HMO individual membership mostly offset by the launch of Optima Health Community Care product and the increased Medicaid and HMO membership mentioned above.

Total operating expenses increased by \$154.8 million, or 4.3%, to \$3.7 billion for the nine months ended September 30, 2017 as compared to the same period in 2016. Salaries, wages and benefits increased by \$46.1 million, or 3.1%, primarily due to annual merit increases. Other operating expenses increased by \$119.4 million, or 9.1% for the nine months ended September 30, 2017 as compared to the same period in 2016, primarily due to increased supply costs.

SENTARA HEALTHCARE AND SUBSIDIARIES

Consolidated Balance Sheets

(In thousands)

(Unaudited)

Assets	September 30, 2017	December 31, 2016
Current assets:		
Cash and cash equivalents	\$ 781,907	642,786
Receivables, net	631,829	652,827
Investments and assets whose use is limited	405,117	407,635
Inventories	76,899	73,670
Prepaid expenses and other current assets	47,207	38,197
Total current assets	1,942,959	1,815,115
Investments and assets whose use is limited	3,101,494	2,837,229
Property, plant, and equipment, net	1,902,836	1,883,820
Land held for future use, at cost	24,568	24,568
Other assets, net	99,943	96,811
Total assets	\$ 7,071,800	6,657,543
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 114,575	125,108
Employee compensation and benefits	215,026	193,195
Medical claims accrued and payable	103,797	86,326
Current installments of long-term debt	22,350	23,397
Long-term debt subject to current remarketing provisions	299,650	303,650
Estimated third-party payor settlements	10,605	21,042
Other current liabilities	134,803	151,249
Total current liabilities	900,806	903,967
Long-term debt, excluding current installments	961,346	988,415
Retirement obligations	217,547	251,161
Other long-term liabilities	295,253	303,879
Total liabilities	2,374,952	2,447,422
Net assets:		
Unrestricted	4,577,596	4,091,364
Temporarily restricted	69,942	68,577
Permanently restricted	20,903	20,711
Total net assets attributable to Sentara Healthcare	4,668,441	4,180,652
Noncontrolling interest	28,407	29,469
Total net assets	4,696,848	4,210,121
Total liabilities and net assets	\$ 7,071,800	6,657,543

SENTARA HEALTHCARE AND SUBSIDIARIES

Consolidated Statements of Operations

(In thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2017	2016
Operating revenues, gains, and other support:		
Net patient service revenue (net of contractual allowances and discounts)	\$ 3,039,325	2,798,008
Provision for bad debts	(336,040)	(262,544)
Net patient service revenue less provision for bad debts	2,703,285	2,535,464
Premium and capitation revenue	1,128,650	1,110,730
Other operating revenue	91,312	104,468
Net assets released from restrictions for operations	7,876	6,845
Total operating revenues, gains, and other support	3,931,123	3,757,507
Operating costs and expenses:		
Salaries, wages and benefits	1,527,888	1,481,798
Medical claims	756,169	766,847
Other operating	1,250,725	1,125,725
Interest	27,675	30,468
Depreciation and amortization	153,501	156,281
Total operating costs and expenses	3,715,958	3,561,119
Net operating income	215,165	196,388
Nonoperating gains, net	275,874	56,004
Excess of revenues over expenses before noncontrolling interest	491,039	252,392
Noncontrolling interest	(7,062)	(8,214)
Excess of revenues over expenses attributable to Sentara Healthcare	\$ 483,977	244,178

SENTARA HEALTHCARE AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2017	2016
Cash flows from operating activities:		
Increase in net assets	\$ 486,727	241,954
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Distribution to noncontrolling interest	8,125	11,336
Provision for bad debts	336,040	262,544
Depreciation and amortization	153,501	156,281
Loss on refunding of debt	-	23,364
Net realized and unrealized gains on investments	(214,044)	(71,090)
Gain on disposal of property, plant, and equipment	(43)	(366)
Amortization of bond premium, net	(462)	(8)
Change in market value of derivative instruments	(1,249)	43,137
Loss (equity) in earnings of limited investment companies	42,135	(40,601)
Equity in earnings of joint ventures	(6,056)	(5,171)
Restricted contributions received	(11,056)	(7,697)
Gain on sale of business line	-	(84)
Changes in operating assets and liabilities:		
Receivables, net	(339,518)	(303,212)
Inventories	(3,229)	(2,135)
Prepaid expenses and other current assets	(9,010)	(19,756)
Accounts payable and accrued expenses	(10,533)	(60,260)
Employee compensation and benefits	21,831	27,300
Medical claims accrued and payable	17,471	5,890
Estimated third-party payor settlements	(10,437)	(1,392)
Retirement obligations	(33,614)	(44,355)
Other liabilities	655	(11,920)
Net cash provided by operating activities	427,234	203,759
Cash flows from investing activities:		
Capital expenditures	(172,503)	(166,401)
(Purchases) sales of investments, net	(89,838)	20,072
Proceeds from sale of business line	-	5,190
Net changes in other assets	3,411	829
Proceeds from the disposal of property, plant, and equipment	208	5,482
Net cash used in investing activities	(258,722)	(134,828)
Cash flows from financing activities:		
Restricted contributions received	11,056	7,697
Proceeds from the issuance of long-term debt	-	381,205
Distribution to noncontrolling interest	(8,125)	(11,336)
Payments on long-term debt	(32,322)	(392,725)
Net cash used in financing activities	(29,391)	(15,159)
Net increase in cash and cash equivalents	139,121	53,772
Cash and cash equivalents at beginning of year	642,786	741,533
Cash and cash equivalents at end of year	\$ 781,907	795,305

SENTARA HEALTHCARE AND SUBSIDIARIES

Self-Liquidity Report

As of September 30, 2017

(In thousands)

(Unaudited)

ASSETS *

DAILY LIQUIDITY-includes investments which can be liquidated on a same day basis; does not include securities held by third party LP or LLCs

Checking and deposit accounts	\$	601,748
<i>Subtotal</i>		<u>601,748</u>

WEEKLY LIQUIDITY- does not include securities held by third party LP or LLCs

Fixed Income: Publicly Traded Fixed Income Securities rated at least Aa3	20,945
Fixed Income: Publicly Traded Fixed Income Securities rated below Aa3	36,897
Fixed Income: Bond Funds	737,714
Equities: Equity Funds	1,408,181
Other - Alternative Funds	<u>260,920</u>
<i>Subtotal</i>	<u>2,464,657</u>

LONGER TERM LIQUIDITY

Funds, vehicles, investments that allow withdrawals with one month notice or longer	<u>703,613</u>
<i>Subtotal</i>	<u>703,613</u>

TOTAL LIQUIDITY	<u><u>\$</u></u>	<u><u>3,770,018</u></u>
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* Note: Excludes Optima Health Plan, insurance captive, and restricted funds.