



S E N T A R A[®]

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

June 30, 2019

SENTARA HEALTHCARE AND SUBSIDIARIES

Table of Contents

	Page
Management's Discussion and Analysis	2
Consolidated Financial Statements:	
Consolidated Balance Sheets	3
Consolidated Statements of Operations	4
Consolidated Statements of Cash Flows	5
Self-Liquidity Report	6

Management's Discussion and Analysis

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. Sentara operates a total of 12 hospitals, as well as skilled and intermediate nursing and assisted living facilities, numerous diagnostic and rehabilitative programs, physician offices and clinics, neighborhood medical centers, home health services and two health maintenance organizations.

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

Six Month Period Ended June 30, 2019

For the six month period ended June 30, 2019, net operating income was \$230.5 million, or 6.9% of total operating revenues versus \$284.8 million, or 9.1%, for the same period in 2018.

Total operating revenues for Sentara increased by \$211.0 million, or 6.7%, to \$3.3 billion for the six months ended June 30, 2019, as compared to the six months ended June 30, 2018. This increase in operating revenues was primarily driven by an increase in net patient service revenue, partially offset by a marginal decrease in premium and capitation revenue noted below.

Net patient service revenue increased by \$221.0 million, or 12.2%, for the six months ended June 30, 2019, as compared to the same period in the prior year. The increase is due primarily to increased volumes and rates for certain payors for the six months ended June 30, 2019, as compared to the same period in 2018. Admissions, inpatient surgeries, outpatient imaging, and cardiac catheterization volumes increased by 1.4%, 3.4%, 6.3%, and 4.2%, respectively.

The Health Plans experienced a decrease in premium and capitation revenue of \$34.8 million in the six months ended June 30, 2019, as compared to the same period in 2018. This decrease was primarily driven by the reduction in HMO Individual Membership of 46,000 members, mostly offset by an increase in Medicaid and CCC+ membership of 43,000 and 5,000, respectively. The Medicaid and CCC+ membership increase is due to Medicaid expansion going live January 1, 2019. These changes resulted in an overall increase in medical claims expense of \$91.3 million.

Total operating expenses increased by \$265.3 million, or 9.3%, to \$3.1 billion for the six months ended June 30, 2019, as compared to the same period in 2018. The increase is primarily the result of increases in medical claims expense, salaries and benefits, medical and pharmaceutical supplies, and other operating expenses.

SENTARA HEALTHCARE AND SUBSIDIARIES

Consolidated Balance Sheets

(In thousands)

Assets	(Unaudited) June 30, 2019	(Audited) December 31, 2018
Current assets:		
Cash and cash equivalents	\$ 859,781	831,060
Receivables, net	1,014,600	811,142
Investments and assets whose use is limited	327,151	325,762
Inventories	92,177	101,252
Prepaid expenses and other current assets	70,123	48,683
Total current assets	2,363,832	2,117,899
Investments and assets whose use is limited	3,907,080	3,483,121
Property, plant, and equipment, net	2,015,225	2,053,549
Land held for future use, at cost	45,637	40,344
Other assets, net	86,002	84,903
Total assets	\$ 8,417,776	7,779,816
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 127,910	159,884
Employee compensation and benefits	187,731	207,982
Medical claims accrued and payable	203,096	229,271
Current installments of long-term debt	19,483	19,465
Long-term debt subject to current remarketing provisions	292,895	292,895
Estimated third-party payor settlements	19,735	17,193
Other current liabilities	376,669	265,917
Total current liabilities	1,227,519	1,192,607
Long-term debt, excluding current installments	1,071,095	1,073,057
Retirement obligations	247,895	257,472
Other long-term liabilities	342,258	295,059
Total liabilities	2,888,767	2,818,195
Net assets:		
Without donor restrictions	5,403,966	4,832,575
With donor restrictions	92,852	95,708
Total net assets attributable to Sentara Healthcare	5,496,818	4,928,283
Noncontrolling interest	32,191	33,338
Total net assets	5,529,009	4,961,621
Total liabilities and net assets	\$ 8,417,776	7,779,816

SENTARA HEALTHCARE AND SUBSIDIARIES

Consolidated Statements of Operations

(In thousands)

(Unaudited)

	Six Months Ended	
	June 30,	
	2019	2018
Operating revenues, gains, and other support:		
Net patient service revenue	\$ 2,031,694	1,810,689
Premium and capitation revenue	1,240,260	1,273,555
Other operating revenue	70,644	48,722
Net assets released from restrictions for operations	6,288	4,902
Total operating revenues, gains, and other support	<u>3,348,886</u>	<u>3,137,868</u>
Operating costs and expenses:		
Salaries, wages and benefits	1,127,253	1,068,181
Medical claims	872,627	749,277
Other operating	993,763	915,876
Interest	21,918	19,096
Depreciation and amortization	102,835	100,633
Total operating costs and expenses	<u>3,118,396</u>	<u>2,853,063</u>
Net operating income	230,490	284,805
Nonoperating gains, net	<u>345,066</u>	<u>34,484</u>
Excess of revenues over expenses before noncontrolling interest	575,556	319,289
Noncontrolling interest	<u>(6,187)</u>	<u>(5,150)</u>
Excess of revenues over expenses attributable to Sentara Healthcare	<u>\$ 569,369</u>	<u>314,139</u>

SENTARA HEALTHCARE AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Six Months Ended	
	June 30,	
	2019	2018
Cash flows from operating activities:		
Increase in net assets	\$ 567,388	313,848
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Distribution to noncontrolling interest	7,334	7,281
Depreciation and amortization	102,835	100,633
Net realized and unrealized (gains) losses on investments	(293,346)	7,580
Gain on disposal of property, plant, and equipment	(460)	(383)
Amortization of bond premium	(354)	(308)
Change in market value of derivative instruments	30,636	(22,267)
Equity in earnings of limited investment companies	(52,684)	(16,577)
Equity in earnings of joint ventures	(2,556)	73
Restricted contributions received	(5,180)	(6,509)
Changes in operating assets and liabilities:		
Receivables, net	(203,458)	(82,569)
Inventories	9,075	4,060
Prepaid expenses and other current assets	(21,440)	(12,877)
Accounts payable and accrued expenses	(31,974)	(2,938)
Employee compensation and benefits	(20,251)	(31,562)
Medical claims accrued and payable	(26,175)	85,087
Estimated third-party payor settlements	2,542	(7,760)
Retirement obligations	(9,577)	(13,022)
Other liabilities	127,317	102
Net cash provided by operating activities	<u>179,672</u>	<u>321,892</u>
Cash flows from investing activities:		
Capital expenditures	(71,934)	(114,411)
Purchases of investments, net	(79,318)	(86,446)
Net changes in other assets	1,457	(32,774)
Proceeds from the disposal of property, plant, and equipment	2,589	2,313
Net cash used in investing activities	<u>(147,206)</u>	<u>(231,318)</u>
Cash flows from financing activities:		
Distribution to noncontrolling interest	(7,334)	(7,281)
Restricted contributions received	5,180	6,509
Payments on long-term debt	(1,591)	(5,357)
Net cash used in financing activities	<u>(3,745)</u>	<u>(6,129)</u>
Net increase in cash and cash equivalents	28,721	84,445
Cash and cash equivalents at beginning of year	831,060	704,621
Cash and cash equivalents at end of year	<u>\$ 859,781</u>	<u>789,066</u>

Sentara Healthcare and Subsidiaries

Self-Liquidity Report

As of June 30, 2019

(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	\$ 654,954
<i>Subtotal</i>	<u>654,954</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	28,631
Fixed Income: Publicly Traded Fixed Income Securities rated below Aa3	33,064
Fixed Income: Bond Funds	828,098
Equities: Equity Funds	1,815,209
Other - Alternative Funds	315,765
<i>Subtotal</i>	<u>3,020,767</u>

LONGER TERM LIQUIDITY

Funds, vehicles, investments that allow withdrawals with one month notice or longer	649,540
<i>Subtotal</i>	<u>649,540</u>

TOTAL LIQUIDITY	<u><u>\$ 4,325,261</u></u>
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* Note: Excludes Optima Health Plan, insurance captive, and restricted funds.