



**S E N T A R A<sup>®</sup>**

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

**June 30, 2020**

# SENTARA HEALTHCARE AND SUBSIDIARIES

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## 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 three managed care 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, 2020

For the six month period ended June 30, 2020, net operating income was \$159.4 million, or 4.1% of total operating revenues versus \$230.5 million, or 6.9%, for the same period in 2019.

Total operating revenues for Sentara increased by \$551.1 million, or 16.5%, to \$3.9 billion for the six months ended June 30, 2020, as compared to the six months ended June 30, 2019. The increase in operating revenues was primarily driven by an increase in premium and capitation revenue, which was partially offset by a significant decrease in net patient service revenue.

Net patient service revenue decreased by \$186.6 million, or 9.2%, for the six months ended June 30, 2020, as compared to the same period in the prior year. The decrease is the result of the outbreak of the novel coronavirus (COVID-19), which was declared a pandemic by the World Health Organization during March 2020. In response to COVID-19, federal and state officials issued guidelines to avoid hospitalization for non-emergency issues, and Sentara temporarily stopped performing elective surgeries and non-emergent procedures through April 2020 that resulted in a significant decline in revenue. Although non-emergent procedures resumed in May 2020, volumes continue to be affected while the threat of COVID-19 persists. The CARES Act provided relief assistance to Sentara to offset lost revenue associated with COVID-19. These funds are included in net assets released from restrictions for operations. The ultimate 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.

The Health Plans experienced an increase in premium and capitation revenue of \$168.7 million and a corresponding increase in medical claims and capitation expense of \$129.0 million for the six months ended June 30, 2020, as compared to the same period in 2019. These increases were primarily driven by an increase in membership in 2020 compared to 2019. Individual product membership increased 14,000 members and total Medicaid membership increased 36,000 members. The Medicaid membership growth is primarily due to the membership growth experienced throughout 2019 and continued into 2020. The Medical claims increase due to membership growth was partially offset by reduced utilization due to COVID-19.

On April 8, 2020, Sentara purchased 80% of Virginia Premier Health Plan Inc.'s (Virginia Premier) common stock from Virginia Commonwealth University Health System. Virginia Premier is a managed care organization licensed to offer insurance products in the Individual, Medicaid, CCC+, Medicare and DSNP markets in Virginia. The acquisition resulted in an increase in premium and capitation revenue of \$486.1 million and a corresponding increase in medical claims expense of \$411.2 million from the date of acquisition through June 30, 2020.

Total operating expenses increased by \$622.2 million, or 20.0%, to \$3.7 billion for the six months ended June 30, 2020, as compared to the same period in 2019. The increase is primarily the result of increases in medical claims expense noted above and costs associated with COVID-19.

**SENTARA HEALTHCARE AND SUBSIDIARIES**

Consolidated Balance Sheets

(In thousands)

<b>Assets</b>	(Unaudited) <b>June 30, 2020</b>	(Audited) <b>December 31, 2019</b>
	<u>          </u>	<u>          </u>
Current assets:		
Cash and cash equivalents	\$ 1,529,262	988,752
Receivables, net	1,121,390	912,245
Investments and assets whose use is limited	318,957	324,416
Inventories	110,051	89,305
Prepaid expenses and other current assets	120,240	61,193
Total current assets	<u>3,199,900</u>	<u>2,375,911</u>
Investments and assets whose use is limited	4,182,294	4,116,446
Property, plant, and equipment, net	2,061,559	2,038,659
Land held for future use, at cost	40,488	47,229
Other assets, net	163,736	173,021
Total assets	<u>\$ 9,647,977</u>	<u>8,751,266</u>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 212,284	176,305
Employee compensation and benefits	236,301	215,132
Medical claims accrued and payable	391,275	177,949
Current installments of long-term debt	22,381	20,498
Long-term debt subject to current remarketing provisions	283,290	283,290
Estimated third-party payor settlements	437,555	24,693
Other current liabilities	358,657	281,547
Total current liabilities	<u>1,941,743</u>	<u>1,179,414</u>
Long-term debt, excluding current installments	1,045,140	1,050,282
Retirement obligations	413,669	405,918
Other long-term liabilities	541,261	436,733
Total liabilities	<u>3,941,813</u>	<u>3,072,347</u>
Net assets:		
Without donor restrictions	5,498,859	5,536,129
With donor restrictions	109,366	101,934
Total net assets attributable to Sentara Healthcare	<u>5,608,225</u>	<u>5,638,063</u>
Noncontrolling interest	97,939	40,856
Total net assets	<u>5,706,164</u>	<u>5,678,919</u>
Total liabilities and net assets	<u>\$ 9,647,977</u>	<u>8,751,266</u>

**SENTARA HEALTHCARE AND SUBSIDIARIES**

Consolidated Statements of Operations

(In thousands)

(Unaudited)

	<b>Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2020</b>	<b>2019</b>
Operating revenues, gains, and other support:		
Net patient service revenue	\$ 1,845,111	2,031,694
Premium and capitation revenue	1,894,097	1,240,260
Other operating revenue	56,255	70,644
Net assets released from restrictions for operations	104,530	6,288
Total operating revenues, gains, and other support	<u>3,899,993</u>	<u>3,348,886</u>
Operating costs and expenses:		
Salaries, wages and benefits	1,166,406	1,127,253
Medical claims	1,400,073	872,627
Other operating	1,053,738	993,763
Interest	18,875	21,918
Depreciation and amortization	101,513	102,835
Total operating costs and expenses	<u>3,740,605</u>	<u>3,118,396</u>
Net operating income	159,388	230,490
Nonoperating (losses) gains, net	<u>(185,023)</u>	<u>345,066</u>
(Deficiency) excess of revenues over expenses before noncontrolling interest	(25,635)	575,556
Noncontrolling interest	<u>(13,083)</u>	<u>(6,187)</u>
(Deficiency) excess of revenues over expenses attributable to Sentara Healthcare	<u>\$ (38,718)</u>	<u>569,369</u>

**SENTARA HEALTHCARE AND SUBSIDIARIES**

Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	<b>Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2020</b>	<b>2019</b>
Cash flows from operating activities:		
Increase in net assets	\$ 27,245	567,388
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Distribution to noncontrolling interest	—	7,334
Depreciation and amortization	101,513	102,835
Minority interest in Virginia Premier	(44,000)	—
Net realized and unrealized loss (gain) on investments	116,633	(293,346)
Loss (gain) on disposal of property, plant, and equipment	46	(460)
Amortization of bond premium, net	(789)	(354)
Change in market value of derivative instruments	34,990	30,636
Equity in earnings of limited investment companies	48,718	(52,684)
Equity in earnings of joint ventures	(422)	(2,556)
Restricted contributions received	(113,520)	(5,180)
Changes in operating assets and liabilities:		
Receivables, net	7,198	(203,458)
Inventories	(20,746)	9,075
Prepaid expenses and other current assets	(51,056)	(21,440)
Accounts payable and accrued expenses	(25,980)	(31,974)
Employee compensation and benefits	8,140	(20,251)
Medical claims accrued and payable	33,233	(26,175)
Estimated third-party payor settlements	(5,913)	2,542
Retirement obligations	7,751	(9,577)
Other liabilities	45,449	127,317
Net cash provided by operating activities	168,490	179,672
Cash flows from investing activities:		
Capital expenditures	(106,676)	(71,934)
Purchases of investments, net	(133,294)	(79,318)
Purchase of Virginia Premier, net of cash acquired	(14,095)	—
Net changes in other assets	90,036	1,457
Proceeds from the disposal of property, plant, and equipment	6,224	2,589
Net cash used in investing activities	(157,805)	(147,206)
Cash flows from financing activities:		
Medicare accelerated payments	418,775	—
Distribution to noncontrolling interest	—	(7,334)
Restricted contributions received	113,520	5,180
Proceeds from the issuance of long term-debt	208,458	—
Principal payments on long-term debt	(210,928)	(1,591)
Net cash provided by (used in) financing activities	529,825	(3,745)
Net increase in cash and cash equivalents	540,510	28,721
Cash and cash equivalents at beginning of year	988,752	831,060
Cash and cash equivalents at end of year	\$ 1,529,262	859,781

**Sentara Healthcare and Subsidiaries**

Self-Liquidity Report

As of June 30, 2020

(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	\$ 1,067,246
<i>Subtotal</i>	<u>1,067,246</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	32,544
Fixed Income: Publicly Traded Fixed Income Securities rated below Aa3	41,391
Fixed Income: Bond Funds	879,446
Equities: Equity Funds	1,832,827
Other - Alternative Funds	186,916
<i>Subtotal</i>	<u>2,973,124</u>

***LONGER TERM LIQUIDITY***

Funds, vehicles, investments that allow withdrawals with one month notice or longer	789,165
<i>Subtotal</i>	<u>789,165</u>

<b>TOTAL LIQUIDITY</b>	<u><u>\$ 4,829,535</u></u>
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\* Note: Excludes Optima Health Plan, Virginia Premier, insurance captive, and restricted funds.