



S E N T A R A[®]

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

March 31, 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.

Three Month Period Ended March 31, 2019

For the three month period ended March 31, 2019, net operating income was \$115.6 million, or 6.9% of total operating revenues versus \$100.0 million, or 6.4%, for the same period in 2018.

Total operating revenues for Sentara increased by \$110.1 million, or 7.1%, to \$1.7 billion for the three months ended March 31, 2019, as compared to the three months ended March 31, 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 \$112.7 million, or 12.5%, for the quarter ended March 31, 2019, as compared to the same period in the prior year. The increase is due primarily to increased volumes for the three months ended March 31, 2019, as compared to the same period in 2018. Admissions, inpatient surgeries, outpatient imaging, and cardiac catheterization volumes increased by 1.2%, 5.4%, 5.5%, and 3.7%, respectively.

The Health Plans experienced a decrease in premium and capitation revenue of \$7.7 million, or 1.2% for the three months ended March 31, 2019, as compared to the same period in 2018. This decrease was primarily driven by a reduction in certain commercial product membership, which was largely offset by membership increases in the Medicaid and Commonwealth Coordinated Care Plus products.

Total operating expenses increased by \$94.6 million, or 6.5%, to \$1.6 billion for the three months ended March 31, 2019, as compared to the same period in 2018. The increase is primarily the result of increases in salaries and benefits, medical and pharmaceutical supplies, and other operating expenses.

SENTARA HEALTHCARE AND SUBSIDIARIES

Consolidated Balance Sheets

(In thousands)

| | (Unaudited) March 31, 2019 | (Audited) December 31, 2018 |
|--|----------------------------------|-----------------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 876,153 | 831,060 |
| Receivables, net | 869,907 | 811,142 |
| Investments and assets whose use is limited | 330,942 | 325,762 |
| Inventories | 95,771 | 101,252 |
| Prepaid expenses and other current assets | 67,344 | 48,683 |
| Total current assets | 2,240,117 | 2,117,899 |
| Investments and assets whose use is limited | 3,741,703 | 3,483,121 |
| Property, plant, and equipment, net | 2,022,940 | 2,053,549 |
| Land held for future use, at cost | 45,637 | 40,344 |
| Other assets, net | 86,206 | 84,903 |
| Total assets | \$ 8,136,603 | 7,779,816 |
| Liabilities and Net Assets | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 125,592 | 159,884 |
| Employee compensation and benefits | 233,762 | 207,982 |
| Medical claims accrued and payable | 196,438 | 229,271 |
| Current installments of long-term debt | 19,482 | 19,465 |
| Long-term debt subject to current remarketing provisions | 292,895 | 292,895 |
| Estimated third-party payor settlements | 17,240 | 17,193 |
| Other current liabilities | 296,055 | 265,917 |
| Total current liabilities | 1,181,464 | 1,192,607 |
| Long-term debt, excluding current installments | 1,072,472 | 1,073,057 |
| Retirement obligations | 252,683 | 257,472 |
| Other long-term liabilities | 304,333 | 295,059 |
| Total liabilities | 2,810,952 | 2,818,195 |
| Net assets: | | |
| Without donor restrictions | 5,193,874 | 4,832,575 |
| With donor restrictions | 95,569 | 95,708 |
| Total net assets attributable to Sentara Healthcare | 5,289,443 | 4,928,283 |
| Noncontrolling interest | 36,208 | 33,338 |
| Total net assets | 5,325,651 | 4,961,621 |
| Total liabilities and net assets | \$ 8,136,603 | 7,779,816 |

SENTARA HEALTHCARE AND SUBSIDIARIES

Consolidated Statements of Operations

(In thousands)

(Unaudited)

| | Three Months Ended March 31, | |
|--|---|------------------|
| | 2019 | 2018 |
| Operating revenues, gains, and other support: | | |
| Net patient service revenue | \$ 1,012,805 | 900,110 |
| Premium and capitation revenue | 619,110 | 626,495 |
| Other operating revenue | 32,583 | 27,969 |
| Net assets released from restrictions for operations | 2,471 | 2,272 |
| Total operating revenues, gains, and other support | <u>1,666,969</u> | <u>1,556,846</u> |
| Operating costs and expenses: | | |
| Salaries, wages and benefits | 569,302 | 535,880 |
| Medical claims | 423,839 | 412,134 |
| Other operating | 495,902 | 449,165 |
| Interest | 10,918 | 9,287 |
| Depreciation and amortization | 51,428 | 50,339 |
| Total operating costs and expenses | <u>1,551,389</u> | <u>1,456,805</u> |
| Net operating income | <u>115,580</u> | <u>100,041</u> |
| Nonoperating gains, net | <u>248,581</u> | <u>13,612</u> |
| Excess of revenues over expenses before noncontrolling interest | 364,161 | 113,653 |
| Noncontrolling interest | <u>(2,861)</u> | <u>(3,013)</u> |
| Excess of revenues over expenses attributable to Sentara Healthcare | <u>\$ 361,300</u> | <u>110,640</u> |

SENTARA HEALTHCARE AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

| | Three Months Ended March 31, | |
|---|---|-------------|
| | 2019 | 2018 |
| Cash flows from operating activities: | | |
| Increase in net assets | \$ 364,030 | 115,191 |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 51,428 | 50,339 |
| Net realized and unrealized (gain) loss on investments | (211,711) | 11,809 |
| Gain on disposal of property, plant, and equipment | (517) | (73) |
| Amortization of bond premium | (177) | (154) |
| Change in market value of derivative instruments | 11,383 | (15,729) |
| Equity in earnings of limited investment companies | (27,388) | (8,500) |
| Equity in earnings of joint ventures | (876) | (179) |
| Restricted contributions received | (2,221) | (3,789) |
| Changes in operating assets and liabilities: | | |
| Receivables, net | (57,603) | (5,758) |
| Inventories | 5,481 | 3,107 |
| Prepaid expenses and other current assets | (18,662) | (21,825) |
| Accounts payable and accrued expenses | (34,291) | (20,827) |
| Employee compensation and benefits | 25,780 | 22,606 |
| Medical claims accrued and payable | (32,833) | 91,698 |
| Estimated third-party payor settlements | (1,115) | (3,145) |
| Retirement obligations | (4,789) | (6,511) |
| Other liabilities | 28,029 | 688 |
| Net cash provided by operating activities | 93,948 | 208,948 |
| Cash flows from investing activities: | | |
| Capital expenditures | (28,135) | (49,987) |
| (Purchases) sale of investments, net | (24,663) | 5,389 |
| Net changes in other assets | (427) | 2,712 |
| Proceeds from the disposal of property, plant, and equipment | 2,540 | 111 |
| Net cash used in investing activities | (50,685) | (41,775) |
| Cash flows from financing activities: | | |
| Restricted contributions received | 2,221 | 3,789 |
| Payments on long-term debt | (391) | (4,121) |
| Net cash provided by (used in) financing activities | 1,830 | (332) |
| Net increase in cash and cash equivalents | 45,093 | 166,841 |
| Cash and cash equivalents at beginning of year | 831,060 | 704,621 |
| Cash and cash equivalents at end of year | \$ 876,153 | 871,462 |
| Supplemental disclosure of cash flow information - | | |
| Cash paid during the year for interest | \$ 4,627 | 4,572 |

SENTARA HEALTHCARE AND SUBSIDIARIES

Self-Liquidity Report

As of March 31, 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 | \$ 660,308 |
| Subtotal | 660,308 |

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

| | |
|--|-----------|
| Fixed Income: Publicly Traded Fixed Income Securities rated at least Aa3 | 27,159 |
| Fixed Income: Publicly Traded Fixed Income Securities rated below Aa3 | 33,843 |
| Fixed Income: Bond Funds | 802,132 |
| Equities: Equity Funds | 1,701,252 |
| Other - Alternative Funds | 310,590 |
| Subtotal | 2,874,976 |

LONGER TERM LIQUIDITY

| | |
|---|---------|
| Funds, vehicles, investments that allow withdrawals with one month notice or longer | 642,666 |
| Subtotal | 642,666 |

| | |
|------------------------|---------------------|
| TOTAL LIQUIDITY | \$ 4,177,950 |
|------------------------|---------------------|

* Note: Excludes Optima Health Plan, insurance captive, and restricted funds.