SENTARA HEALTHCARE AND SUBSIDIARIES

Consolidated Financial Statements and
Supplemental Schedules

December 31, 2009 and 2008

(With Independent Auditors' Report Thereon)

SENTARA HEALTHCARE AND SUBSIDIARIES

Table of Contents

KPMG LLP
Suite 2100
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Norfolk, VA 23510

Independent Auditors' Report

The Board of Directors
Sentara Healthcare:

We have audited the accompanying consolidated balance sheets of Sentara Healthcare and subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of Sentara Healthcare's management. 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 financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Sentara Healthcare's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2009 and 2008, and the results of their operations, the changes in their net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The consolidating information included in schedules 1 through 10 is presented for purposes of additional analysis of the basic consolidated financial statements rather than to present the financial position and results of operations of the individual lines of business and are not a required part of the basic consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

KPMG LLP

April 1, 2010

SENTARA HEALTHCARE AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2009 and 2008

(In thousands)

Assets		**2009**	**2008**
Current assets:			
Cash and cash equivalents	$	469,717	433,624
Receivables, net		275,226	248,798
Investments		84,980	63,290
Inventories		37,499	31,605
Prepaid expenses and other current assets		25,653	21,530
Total current assets		893,075	798,847
Investments		1,113,831	896,098
Property, plant and equipment, net		1,106,937	944,149
Land held for future use, at cost		14,743	6,994
Other assets, net		79,543	76,585
Total assets	$	3,208,129	2,722,673
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued expenses	$	56,782	50,022
Employee compensation and benefits		118,633	98,072
Medical claims accrued and payable		84,028	77,769
Current installments of long-term debt		80,764	62,943
Estimated third-party payor settlements		4,049	1,122
Other current liabilities		73,461	70,401
Total current liabilities		417,717	360,329
Long-term debt, excluding current installments		575,879	540,314
Retirement obligations		109,366	148,528
Other long-term liabilities		210,437	184,141
Total liabilities		1,313,399	1,233,312
Net assets:			
Unrestricted		1,877,549	1,472,217
Temporarily restricted		14,702	15,199
Permanently restricted		2,479	1,945
Total net assets		1,894,730	1,489,361
Total liabilities and net assets	$	3,208,129	2,722,673

See accompanying notes to consolidated financial statements.

SENTARA HEALTHCARE AND SUBSIDIARIES

Consolidated Statements of Operations

Years ended December 31, 2009 and 2008

(In thousands)

	2009	2008
Operating revenues, gains and other support:		
Net patient service revenue	$ 1,808,113	1,725,890
Premium and capitation revenue	1,155,281	999,587
Other operating revenue	48,384	47,650
Net assets released from restrictions for operations	3,530	3,027
Total operating revenues, gains and other support	3,015,308	2,776,154
Operating costs and expenses:		
Salaries and wages	913,568	882,898
Benefits	190,024	169,210
Medical claims expense	758,614	584,191
Other operating expenses	749,463	743,953
Interest expense	13,916	24,379
Provision for bad debts	137,851	134,779
Depreciation and amortization	125,971	121,869
Total operating costs and expenses	2,889,407	2,661,279
Operating income	125,901	114,875
Nonoperating gains (losses), net	221,372	(272,575)
Excess (deficiency) of revenues over expenses	347,273	(157,700)
Net assets released from restricted funds for purchase of equipment	6,517	175
Change in funded status of retirement obligations	56,703	(201,957)
Acquisition of Sentara Potomac Hospital restricted net assets	(5,161)	—
Increase (decrease) in unrestricted net assets	$ 405,332	(359,482)

See accompanying notes to consolidated financial statements.

SENTARA HEALTHCARE AND SUBSIDIARIES

Consolidated Statements of Changes in Net Assets

Years ended December 31, 2009 and 2008

(In thousands)

		2009	2008
Unrestricted net assets:			
Excess (deficiency) of revenues over expenses	$	347,273	(157,700)
Net assets released from restricted funds for purchase of equipment		6,517	175
Change in funded status of pension liability		56,703	(201,957)
Acquisition of Sentara Potomac Hospital restricted net assets		(5,161)	—
Increase (decrease) in unrestricted net assets		405,332	(359,482)
Temporarily restricted net assets:			
Contributions		5,056	2,270
Acquisition of Sentara Potomac Hospital restricted net assets		4,494	—
Net assets released from restrictions		(10,047)	(3,202)
Decrease in temporarily restricted net assets		(497)	(932)
Permanently restricted net assets:			
Contributions		—	419
Investment losses		(133)	—
Acquisition of Sentara Potomac Hospital restricted net assets		667	—
Increase in permanently restricted net assets		534	419
Increase (decrease) increase in net assets		405,369	(359,995)
Net assets, beginning of year		1,489,361	1,849,356
Net assets, end of year	$	1,894,730	1,489,361

See accompanying notes to consolidated financial statements.

SENTARA HEALTHCARE AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2009 and 2008

(In thousands)

		2009	2008
Cash flows from operating activities:			
Increase (decrease) in net assets	$	405,369	(359,995)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:			
Provision for bad debts		137,851	134,779
Depreciation and amortization		125,971	121,869
Net realized and unrealized losses (gains) on investments		(130,991)	236,789
Loss (gain) on disposal of property, plant and equipment		3,389	(703)
Loss on refunding of debt		698	3,035
Change in market value of derivative instruments		(54,071)	66,497
Equity in earnings of limited investment companies		(7,035)	19,256
Equity in earnings of joint ventures		(16,796)	(12,014)
Restricted contributions received		(5,056)	(2,689)
Changes in operating assets and liabilities:			
Receivables, net		(143,226)	(140,017)
Inventories		(2,275)	(2,196)
Prepaid expenses and other current assets		(2,549)	(6,181)
Accounts payable and accrued expenses		(10,131)	(3,999)
Employee compensation and benefits		16,123	350
Medical claims accrued and payable		6,259	20,368
Estimated third-party payor settlements		(2,307)	2,118
Retirement obligations		(66,851)	180,532
Other liabilities		52,528	(10,893)
Net cash provided by operating activities		306,900	246,906
Cash flows from investing activities:			
Capital expenditures		(149,807)	(162,735)
Purchases of investments, net		(82,363)	(48,646)
Net changes in other assets		17,690	13,489
Proceeds from the disposal of property, plant and equipment		28	1,172
Purchase of Sentara Potomac Hospital, net of cash acquired		(38,801)	—
Net cash used in investing activities		(253,253)	(196,720)
Cash flows from financing activities:			
Restricted contributions received		5,056	2,689
Proceeds from issuance of long-term debt		201,370	156,615
Payments on long-term debt		(223,980)	(167,919)
Net cash used in financing activities		(17,554)	(8,615)
Net increase in cash and cash equivalents		36,093	41,571
Cash and cash equivalents at beginning of year		433,624	392,053
Cash and cash equivalents at end of year	$	469,717	433,624
Supplemental disclosures of cash flow information:			
Cash paid during the year for interest	$	13,597	24,997
Cash paid during the year for income taxes		4,111	2,411

See accompanying notes to consolidated financial statements.

(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. To fulfill its corporate purpose, Sentara acts as a parent holding company to the following subsidiaries: Sentara Hospitals, Sentara Enterprises, Sentara Life Care Corporation, Optima Health Plan, Sentara Holdings, Inc., Sentara Medical Group and Sentara Potomac Hospital.

The mission of Sentara is “We improve health every day.” Sentara recognizes that the public trust in the 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.

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 rights and powers provided in the Articles of Incorporation and Bylaws of the subsidiaries, including the power to approve any alteration, amendment or repeal of the Articles of Incorporation and Bylaws or the adoption of new Bylaws.

(b) Principles of Consolidation

For the purposes of consolidation, the financial statements include the subsidiaries of Sentara organized into the following parent company and lines of business:

- Sentara Healthcare Corporate (SHC), which provides overall administration for all Sentara subsidiaries and includes Bay Primex Insurance Company, Ltd., a captive insurance company, which insures professional and general liability risks, and Medical Practice Buildings (MPB), which operates medical office buildings;
- Sentara Hospitals (Hospitals), located in the Hampton Roads area of Virginia, which 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 Bayside Hospital (SBH), Sentara Williamsburg Regional Medical Center (SWRMC), and Sentara Obici Hospital (SOH);
- Sentara Enterprises (SE), which administers various outpatient healthcare programs, including home health services and patient transportation;
- Sentara Life Care Corporation (SLCC), which provides geriatric care services and operates long-term care and assisted living facilities;
- Optima Health Plan (OHP), a health maintenance organization;
- Sentara Holdings, Inc. (SHI), whose subsidiaries include Sentara Health Plans (SHP), Hampton Service Corporation, Sentara Ventures, Inc. (SVI) and Obici Professional Center

(In thousands)

(OPC). SHP provides and administers medical services to subscribers and includes Optima Health Group (OHG), a health maintenance organization, Optima Behavioral Health Services (OBHS), a mental health services company, and Optima Health Insurance Company (OHIC), a health insurance company. Hampton Service Corporation previously housed a fitness center. SVI has been organized to carry on taxable healthcare activities. OPC operates medical office buildings and includes Obici Medical Management Services (OMMS), which owns and operates physician practices and urgent care centers;

- Sentara Medical Group (SMG), which owns and operates physician practices and urgent care centers; and
- Sentara Potomac Hospital (SPH), located in Northern Virginia, which provides acute care hospital and physician services.

All significant intercompany balances and transactions have been eliminated in consolidation.

Effective December 1, 2009, Sentara acquired SPH for a purchase price of $92,000. SPH is a 183-bed facility which opened in 1972 serving eastern Prince William, southern Fairfax and north Stafford Counties in northern and central Virginia. The assets, liabilities, net assets and results of SPH's operations have been included in the consolidated financial statements since that date.

The following table summarized the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition of SPH:

Assets:		
Current assets	$	81,666
Property and equipment		148,141
Other long-term assets		23,340
Total assets	$	253,147
Liabilities:		
Current liabilities	$	28,851
Long-term debt		74,341
Negative goodwill		32,544
Retirement obligation		25,411
Total liabilities		161,147
Net assets acquired:		
Unrestricted		86,839
Temporarily restricted		4,494
Permanently restricted		667
Total net assets		92,000
Total liabilities and net assets	$	253,147

(2) Summary of Significant Accounting Policies

(a) Healthcare Industry Reporting Practices

The consolidated financial statement presentation and significant accounting policies adopted by Sentara conform to general practice within the healthcare industry, as published by the American Institute of Certified Public Accountants (AICPA) in its Audit and Accounting Guide, *Health Care Organizations*.

(b) Cash and Cash Equivalents

Sentara considers all unrestricted investments with original maturities of three months or less from the date of purchase to be cash equivalents.

At December 31, 2009 and 2008, cash and cash equivalents totaling $84,441 and $231,030, respectively, and investments totaling $155,125 and $56,557, respectively, were held by Sentara's insurance subsidiaries, OHP, OHIC and OHG. Transfers of operating cash by these entities to other Sentara affiliates are subject to approval by the Virginia State Corporation Commission Bureau of Insurance.

(c) Investments, Assets Limited as to Use and Investment Income

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

Sentara has invested in joint ventures, limited liability corporations, and other nonpublic entities to provide specialty healthcare services. Investments in the common stock of joint ventures where Sentara has at least a 20% ownership interest are accounted for under the equity method. As these investments are primarily for the purpose of providing healthcare services, Sentara's equity in their earnings, which totaled $16,796 and $12,014 for the years ended December 31, 2009 and 2008, respectively, is included in other operating revenue. The assets associated with these investments are included as a component of other assets, net, in the accompanying consolidated balance sheets and totaled $20,765 and $22,935 at December 31, 2009 and 2008, respectively.

Investments in the common stock of limited investment companies, included in investments, are accounted for under the equity method. Sentara's share of the gains and losses of these investments is included in nonoperating gains (losses), net.

Investments limited as to use by debt agreement, through employee health benefits funding arrangements, through malpractice and workers' compensation funding arrangements, or internally designated as endowment funds are not considered to be donor-restricted assets.

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(d) Inventories

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

(e) Unconditional Promises to Give

Unconditional promises to give cash and other assets to Sentara are reported at fair value at the date the promise is received. Contributions received are reported as either temporarily or permanently restricted assets if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets released from restriction. Donor-restricted contributions whose restrictions are met within the same year as received and contributions received where no restrictions were stipulated are reflected as unrestricted contributions reported in the accompanying consolidated financial statements as other operating revenue.

(f) Property, Plant and Equipment

Property, plant and equipment acquisitions are recorded at cost. Depreciation is computed using the straight-line method over the following estimated useful lives: 3 to 25 years for land improvements; 10 to 40 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 operating income. Repairs and maintenance are expensed as incurred.

Gifts of long-lived assets such as land, buildings, or equipment are reported at fair value as increases in unrestricted net assets, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

(g) Impairment of Long-Lived Assets

The carrying value of long-lived assets is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized to the extent the carrying amount of the asset exceeds its fair value. Assets to be disposed of would be separately presented in the consolidated balance sheet and reported at the lower of the carrying amount or fair value less cost to sell, and would no longer be depreciated. The assets and liabilities of a disposal group classified as held for sale would be presented separately in the appropriate asset and liability sections of the consolidated balance sheets.

(h) Goodwill

Effective October 31, 2002, SWRMC became a wholly owned subsidiary of Sentara. Total goodwill recognized on the acquisition was $19,318 and is being amortized over a 20-year period.

On April 1, 2006, SOH became a wholly owned subsidiary of Sentara. Total goodwill recognized on the acquisition was $9,818 and is being amortized over a 20-year period.

Goodwill is reflected in other assets, net in the accompanying consolidated balance sheets. Accumulated amortization at December 31, 2009 and 2008 for the aforementioned purchases was $8,063 and $6,632, respectively. Sentara assesses the recoverability of these assets by determining if the goodwill balance can be recovered through undiscounted future operating cash flows over its remaining life. The assessment of the recoverability of goodwill will be impacted if estimated future operating cash flows are not achieved

Effective December 1, 2009, SPH became a wholly owned subsidiary of Sentara. Negative goodwill of $32,544 was recognized on the acquisition and is being amortized over a 20-year period. Negative goodwill is reflected in other long-term liabilities in the accompanying consolidated balance sheets.

(i) Deferred Financing Costs

Bond issue costs are amortized over the period the obligation is outstanding and are included in other assets, net in the accompanying consolidated balance sheets.

(j) Medical Claims Accrued and Payable

Claims unpaid by OHP and SHP for inpatient hospital, outpatient surgery, emergency room, specialist, pharmacy and ancillary medical claims 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.

(k) Estimated Malpractice Costs

The provision for estimated medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

(l) Classification of Net Assets

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of Sentara and changes therein are classified and reported as follows:

Unrestricted Net Assets: Unrestricted net assets are those net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets: Temporarily restricted net assets are those whose use by Sentara has been limited by donors to a specific time period or purpose. Temporarily restricted net assets held by Sentara as of December 31, 2009 and 2008 were restricted primarily for healthcare services.

Permanently Restricted Net Assets: Permanently restricted net assets have been restricted by donors to be maintained by Sentara in perpetuity, the income from which is available to support healthcare services. Income is classified as temporarily restricted until expended.

(m) Nonoperating Gains (Losses), Net and Excess of Revenues over Expenses

Sentara's primary mission is to provide quality healthcare. Activities deemed by Sentara to be ongoing, major, or central to the provision of healthcare services are reported as operating revenues and expenses. Other activities which result in gains or losses unrelated to Sentara's primary mission are considered to be nonoperating.

The consolidated statements of operations include excess of revenues and gains over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include cumulative effect of changes in accounting principle, nonperiodic changes in the funded status of defined benefit pension plans and contributions of long-lived assets (including assets acquired using contributions, which by donor restriction were to be used for the purposes of acquiring such assets).

(n) Net Patient Service Revenue

Sentara has agreements with third-party payors that provide for payments to Sentara at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as changes to estimates become known and tentative and final settlement adjustments are determined.

(o) 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, they are not reported as revenue or included in patient accounts receivable.

(p) Premium and Capitation Revenue

Premium and capitation payments received from subscribers of OHP and SHP are recognized as income during the coverage period of the applicable contract. Premium billings are billed to the employer groups or subscribers in the month preceding the coverage period and are recognized as revenue during the period in which services are obligated to the members. The Hospitals are paid under a capitated arrangement for its laboratory business with patients that have insurance coverage under OHP. These amounts are eliminated in consolidation.

(q) Medical Claims Expense

Medical claims expense for subscribers of OHP and SHP 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. Based upon the practices of OHP and SHP, should the coverage of a hospitalized member be terminated prior to his discharge, an accrual is made for an estimate of future costs to complete hospital services under the subscriber agreement. Reinsurance premiums, net of recoveries, are included in medical claims expense in the accompanying consolidated statements of operations.

(r) Income Taxes

Sentara and its nonprofit subsidiary corporations have been recognized by the Internal Revenue Service as tax exempt under Section 501(c)(3) of the Internal Revenue Code of 1986 (the Code), and as public charities under Section 509(a) of the Code. MPB is exempt under Section 501(c)(2) of the Code.

SHI is a for-profit corporation. Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating losses 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.

Bay Primex Insurance Company, Ltd. is incorporated in the Cayman Islands and is generally not subject to income or capital gains taxes in either the United States or the Cayman Islands. Accordingly, no provision for income taxes is made in the accompanying consolidated financial statements for this entity.

Sentara recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is

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greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

(s) Derivative Financial Instruments

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

(t) Use of Estimates

The preparation of the 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 revenues and expenses during the period. Significant items subject to such estimates and assumptions include valuation allowances for receivables, medical claims liabilities, self-insurance liabilities, third-party settlement liabilities, retirement obligations and tax asset valuation allowances. Actual results could differ from those estimates.

(u) Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses reported in the consolidated balance sheets approximate fair value. The fair value of all bonds and commercial paper revenue notes are determined by market quotations.

(v) Reclassifications

Certain reclassifications have been made to the 2008 consolidated financial statements to conform to the 2009 consolidated financial statement presentation. The reclassifications had no effect on net assets, excess of revenues over expenses or cash flows as of and for the year ended December 31, 2008.

(w) New Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued Statement No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*, which codified Generally Accepted Accounting Principles into the Accounting Standards Codification (ASC). The ASC is the single official source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities and is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The adoption of the ASC did not have an effect on Sentara's consolidated financial position or results of operations. Sentara has revised its disclosures where applicable to incorporate references to the ASC topics.

In May 2009, the FASB issued Statement No. 165, *Subsequent Events*, which is included in ASC Topic 855. This guidance establishes general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It alerts all users of financial statements that an entity has not evaluated subsequent events after that date in the set of financial statements being presented. This standard is effective for interim or annual periods ending after June 15, 2009. The adoption of ASC Topic 855 did not have an effect on Sentara's consolidated results of operations or financial position. Sentara has evaluated subsequent events through April 1, 2010.

In December 2008, the FASB issued Staff Position No. FAS 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets*, which is included in ASC Topic 715. ASC Topic 715 requires more detailed disclosures about employers' plan assets in a defined benefit pension or other postretirement plan, including employers' investment strategies, major categories of plan assets, concentrations of risk within plan assets, and inputs and valuation techniques used to measure the fair value of plan assets. ASC Topic 715 also requires, for fair value measurements using significant unobservable inputs, disclosure of the effect of the measurements on changes in plan assets for the period. The disclosures required by ASC Topic 715 must be provided for fiscal years ending after December 15, 2009. Sentara adopted this guidance for the year ended December 31, 2009, and the related disclosures are included in note 9 to the consolidated financial statements.

In January 2010, the FASB issued Accounting Standards Update 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*. The guidance requires additional disclosures regarding fair value measurements. The guidance is effective for interim and annual reporting periods beginning after December 15, 2009. Sentara is evaluating the new guidance and will make additional disclosures as required upon the effective date.

In January 2010, the FASB issued Accounting Standards Update 2010-07, *Not-for-Profit Entities (Topic 958): Not-for-Profit Entities: Mergers and Acquisitions*, intended to improve the financial accounting and reporting for not-for-profit mergers and acquisitions and intangible assets. The guidance amends the accounting literature for business combinations between two or more not-for-profit entities and establishes principles and requirements for how a not-for-profit entity determines whether a combination is a merger or an acquisition, applies the carryover method in accounting for a merger, applies the acquisition method in accounting for an acquisition, including determining which of the combining entities is the acquirer, and determines what information to disclose to enable users of financial statements to evaluate the nature and financial effects of a merger or an acquisition. Additionally, goodwill will no longer be amortized and negative goodwill will be credited to net assets. The guidance is effective for mergers and for acquisitions that take place during fiscal years that begin on or after December 15, 2009. Sentara will apply this guidance to all future business combinations.

(In thousands)

(3) Net Patient Service Revenue

Net patient service revenue is computed as follows for the years ended December 31, 2009 and 2008:

		2009	2008
Gross patient revenue	$	4,636,416	4,268,803
Charity care		258,932	199,253
Adjusted gross patient revenue		4,377,484	4,069,550
Contractual deductions:			
Medicare, Medicaid, State and Local Hospital, and Tricare allowances		1,709,805	1,528,870
Other discounts and allowances		859,566	814,790
Total	$	1,808,113	1,725,890

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 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 higher than the average, providers typically will receive additional “outlier” payments. The majority of outpatient services provided to Medicare beneficiaries are prospectively reimbursed based on service groups called ambulatory payment classifications (APCs). 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 and SPH 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. All Hospitals have final settled with the Medicare program through the 2006 cost report year except for SNGH and SPH. SNGH has settled through the 2005 cost report year and SPH has settled through the 2008 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 and SPH 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 and SPH are reimbursed based on a DRG-based prospective payment system, which is subject to certain limitations and possible retroactive adjustment. All Hospitals have final settled with the Medicaid program through the 2006 cost report year except for SNGH and SPH. SNGH has settled through the 2005 cost report year and SPH has settled through the 2008 cost report year.

(In thousands)

In addition to Medicare and Medicaid discussed above, the Hospitals and SPH also provide 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. In 2009 and 2008, the effect of these settlement adjustments was to decrease net patient service revenue by approximately $1,614 in 2009 and increase net patient service revenue by approximately $11,173 in 2008.

Due to the nature of the governmental cost report settlement process, the complexities of governmental and nongovernmental 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. The establishment of related liabilities is based on a number of factors, including net patient service revenue volumes. Sentara believes that such policy properly provides for Sentara's routine and nonroutine exposures consistent with industry accounting principles and practices. These estimated liabilities are included in other long-term liabilities on the consolidated balance sheets in the amounts of $56,209 and $21,856 as of December 31, 2009 and 2008, respectively.

(4) Receivables, Net

Receivables, net are summarized as follows at December 31:

		2009	2008
Patient accounts receivable	$	610,885	639,441
Less:			
Contractual allowances for third-party payors		310,467	321,141
Allowances for uncollectible accounts		103,858	112,618
Patient accounts receivable, net		196,560	205,682
Premium and capitation receivables, net		42,278	2,701
Estimated third-party payor settlements		11,849	15,862
Other receivables		24,539	24,553
Receivables, net	$	275,226	248,798

(In thousands)

(5) Investments

A summary of investments included in the accompanying December 31 consolidated balance sheets is as follows:

		2009	2008
Total investments at fair value	$	1,127,578	818,645
Total investments accounted for under the equity method		71,233	140,743
Total investments		1,198,811	959,388
Less portion required to pay current liabilities		84,980	63,290
	$	1,113,831	896,098

At December 31, 2009 and 2008, unrestricted cash and cash equivalents totaling $84,441 and $231,030, respectively, and unrestricted investments totaling $155,125 and $56,557, respectively, were held by Sentara's insurance subsidiaries, OHP, OHIC and OHG. Transfers of funds by these entities to other Sentara affiliates are subject to approval by the Virginia State Corporation Commission Bureau of Insurance.

(In thousands)

Investments at fair value are as follows:

		2009	2008
Unrestricted investments:			
Cash and cash equivalents	$	1,919	49,503
Certificates of deposit		10,979	10,689
U.S. government securities		7,578	16,752
Corporate bonds		651,486	462,172
Asset-backed securities		4,054	22,604
Domestic equities		229,892	85,422
International equities		110,715	74,823
Mutual funds		19,797	17,680
Other		—	103
		1,036,420	739,748
Donor-restricted investments:			
Cash and cash equivalents		602	597
Certificates of deposit		458	—
Corporate bonds		1,778	1,525
Domestic equities		2,136	1,841
Mutual funds		71	3,412
Other		—	400
		5,045	7,775
Assets whose use is limited under malpractice funding arrangement held by trustee:			
Cash and cash equivalents		6,848	7,508
U.S. government securities		24,487	23,096
Corporate bonds		21,239	13,047
Asset-backed securities		1,914	4,636
Domestic equities		2,811	2,197
Municipal bonds		—	704
Mutual funds		5,685	5,484
Other		—	118
		62,984	56,790
Assets whose use is limited under workers' compensation funding arrangement held by trustee:			
Cash and cash equivalents		338	265
Mutual fund		2,269	2,211
		2,607	2,476

(In thousands)

		2009	2008
Assets whose use is limited under debt indenture with funding arrangement held by trustee:			
Cash and cash equivalents	$	3,163	—
Guaranteed investment contract		3,408	—
		6,571	—
Assets internally designated as endowment fund:			
Cash and cash equivalents		64	671
Corporate bonds		6,241	6,110
Domestic equities		4,847	3,405
International equities		2,298	1,670
U.S. government securities		406	—
Asset-backed securities		95	—
		13,951	11,856
Total investments at fair value	$	1,127,578	818,645

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC Topic 820 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of input that may be used to measure fair value:

Level 1: Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities that are traded in an active exchange market, as well as U.S. Treasury securities.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted market prices that trade less frequently than exchange-traded instruments. This category generally includes certain U.S. government and agency mortgage-backed debt securities and corporate-debt securities.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies or similar techniques, as well as instruments for which these determinations of fair value requires significant management judgment or estimation. This category generally includes certain private debt and equity instruments.

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial asset, including estimates of timing, amount of expected future cash flows and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets. In addition, the disclosed fair value may not be realized in the immediate settlement of the financial asset and does not reflect any premium or discount that could result from offering for sale at one time an entire holding of a particular financial asset. Potential taxes and other expenses that would be incurred in an actual sale or settlement are not reflected in amounts disclosed.

(In thousands)

The following discussion describes the valuation methodologies used for financial assets measured at fair value. The techniques utilized in estimating the fair values are affected by the assumptions used, including discount rates and estimates of the amount and timing of future cash flows. Care should be exercised in deriving conclusions about Sentara's business, its value, or financial position based on the fair value information of financial assets presented as follows.

Fair values for Sentara's fixed maturity securities are based on prices provided by its investment managers and its custodian bank. Both the investment managers and the custodian bank use a variety of pricing sources to determine market valuations. Each designate specific pricing services or indexes for each sector of the market based upon the provider's expertise. Sentara's fixed maturity securities portfolio is highly liquid, which allows for a high percentage of the portfolio to be priced through pricing services.

Fair values of equity securities have been determined by Sentara from observable market quotations, when available. Private placement securities and other equity securities where a public quotation is not available are valued by using broker quotes.

Short-term investments are comprised of 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.

The following tables present Sentara's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2009 and 2008, respectively:

	Fair value	Fair value measurements at December 31, 2009 using		
		Level 1	**Level 2**	**Level 3**
Investments:				
Fixed maturities	$ 240,650	199,202	41,448	—
Equity securities	805,511	671,664	133,847	—
Short-term investments	81,417	81,417	—	—
Total	$ 1,127,578	952,283	175,295	—

(In thousands)

	Fair value	Fair value measurements at December 31, 2008 using		
		Level 1	Level 2	Level 3
Investments:				
Fixed maturities	$ 402,199	190,603	212,724	(1,128)
Equity securities	268,967	122,563	143,009	3,395
Short-term investments	147,479	102,927	44,552	—
Total	$ 818,645	416,093	400,285	2,267

The following table presents a reconciliation for all Level 3 assets measured at fair value on a recurring basis for the beginning and ending balances:

	Level 3 investments		
	Fixed maturities	Equity securities	Total
Beginning balance, January 1, 2008	$ 7,843	1,690	9,533
Total net gains (losses) unrealized	(5,417)	(1,375)	(6,792)
Purchases, sales, issuances and settlements	(3,554)	3,080	(474)
Ending balance, December 31, 2008	(1,128)	3,395	2,267
Total net gains (losses) unrealized and realized	5,350	(1,800)	3,550
Purchases, sales, issuances and settlements	(333)	3,889	3,556
Transfers to level 2	(3,889)	(5,484)	(9,373)
Ending balance, December 31, 2009	$ —	—	—

(In thousands)

A summary of limited investment companies accounted for under the equity method included in investments in the accompanying December 31 consolidated balance sheets is as follows:

	Percentage (%)		2009	2008
JP Morgan Multi-Strategy Fund	2.1%	$	20,054	18,186
Pointer Offshore LTD LP	1.5		15,959	—
Cadogan Alternative Strategy LTD LP	1.1		15,147	—
OCM Principal Opportunities IV	0.2		6,290	6,987
OCM Real Estate Opportunities Fund IV	2.2		5,241	4,182
Oaktree Capital Management (OCM) - Mezzanine Fund II, L.P.	0.5		4,492	6,586
Austin Capital All Seasons Offshore Fund	3.4		1,538	6,249
Goldman Sachs Relative Value PLC	4.4		919	7,879
Health Enterprise Partners	2.4		863	631
Sante Health Ventures	2.3		730	511
Goldman Sachs Equity Long/Short PLC	—		—	14,348
Goldman Sachs Fundamental Strategies PLC	—		—	8,591
PIMCO Stocks PLUS L.P.	—		—	66,593
Total limited investment companies		$	71,233	140,743

Sentara's limited investment companies are reported on the equity method based on the underlying net asset value of the investment. Due to the nature of the underlying investments held, changes in market conditions and the economic environment may significantly impact the investments' net asset value and the carrying value of Sentara's interest.

Limited investment companies totaling $53,617 at December 31, 2009 are redeemable at their net asset value under the current terms of the subscription agreements, and therefore, their carrying value approximates their estimated fair value. However, it is possible that these redemption rights may be restricted or eliminated by the funds in accordance with the underlying agreements in the future.

Limited investment companies totaling $17,616 at December 31, 2009 are not redeemable at net asset value under the terms of the partnership and/or subscription agreements. Although a secondary market exists for these investments, the market is not active and individual transactions are typically not observable. When transactions do occur in this limited secondary market, they may occur at discounts to the reported net asset value. Depending on the nature of the investment and other investment features such as lock-up periods, redemption fees, future funding commitments, etc., such a discount could be significant.

Sentara has remaining capital commitments of $12,140 at December 31, 2009 for certain limited investment companies.

(In thousands)

Sentara's investment securities are exposed to several risks, such as interest rate, currency, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the consolidated financial statements.

(6) Property, Plant and Equipment

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

		2009	2008
Land	$	75,803	75,277
Land improvements		62,365	50,632
Buildings		782,058	595,554
Fixed equipment		355,702	336,140
Major moveable equipment		1,021,586	913,310
Leasehold improvements		45,478	35,125
		2,342,992	2,006,038
Less accumulated depreciation and amortization		1,379,491	1,145,948
		963,501	860,090
Construction in progress		143,436	84,059
Total	$	1,106,937	944,149

Depreciation and amortization related to property, plant and equipment totaled $123,994 and $121,308 for the years ended December 31, 2009 and 2008, respectively.

Construction projects in progress at December 31, 2009, to which Sentara is contractually committed, are expected to have remaining project costs of approximately $202,689. The commitments include the costs to complete various improvement projects and Sentara Princess Anne Hospital. Capitalized interest of $2,191 and $0 was recorded related to construction in progress in 2009 and 2008, respectively.

(In thousands)

(7) Long-Term Debt

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

		2009	2008
Sentara Healthcare Commercial Paper Revenue Notes	$	123,800	123,800
Sentara Healthcare Hospital Revenue and Refunding Bonds:			
Hospital Revenue and Refunding Bonds Series 2009A-C		201,370	—
Hospital Revenue and Refunding Bonds Series 2008		156,615	156,615
Hospital Revenue Bonds Series 2004A-C		—	200,125
Hospital Revenue and Refunding Bonds Series 1998		55,940	59,250
Hospital Revenue Bond Series – City of Suffolk 1998		5,333	6,000
Hospital Revenue Bond Series – Isle of Wight 1998		5,333	6,000
Hospital Revenue Bond Series – Sussex County 1998		1,867	2,400
Hospital Revenue Bond Series – Surry County 1997		2,333	3,000
Hospital Revenue and Refunding Bonds Series 1997A		7,715	8,820
Hospital Revenue Bonds Series 1993		27,800	30,110
Sentara Potomac Hospital Revenue and Refunding Bonds:			
Hospital Revenue Bond Series 1998		17,786	—
Hospital Revenue Bond Series 2003		48,212	—
Notes payable		1,634	5,646
Capital leases		905	1,491
Total long-term debt outstanding		656,643	603,257
Less current installments		80,764	62,943
	$	575,879	540,314

The fair value of all bonds and commercial paper revenue notes at December 31, 2009 and 2008 was approximately $659,000 and $590,000, respectively.

(a) Commercial Paper Revenue Notes

Issuance of the Sentara Healthcare Commercial Paper Revenue Notes (the Notes) was authorized during 1998 under agreements between Sentara and the Industrial Development Authority (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. It is management's intent to continuously rollover these Notes. However, the outstanding principal amount of all Notes must be repaid by 2028. The Notes bear interest at variable commercial paper rates and are payable at maturity. The weighted average interest rate on the outstanding notes at December 31, 2009 and 2008 was 0.43% and 2.57%, respectively. Each Note will mature between 1 and 270 days after its date of issuance.

In December 2008, Sentara remarketed the Notes in order to modify certain terms pursuant to the Master Trust Indenture. The maximum aggregate principal amount of Notes outstanding at any one time shall not exceed the lesser of $130,000 or the aggregate amount of advances available under a Liquidity Facility Agreement (Liquidity Facility). Under the terms of the current Liquidity Facility, Sentara may borrow, subject to certain conditions, up to $130,000 to pay the principal portion of the Notes that have not been successfully remarketed. Borrowings under the Liquidity Facility bear interest at certain rates under several options granted to Sentara. There was no amount outstanding under the Liquidity Facility as of December 31, 2009 or 2008. The Liquidity Facility expires on December 31, 2012.

(b) Hospital Revenue Bonds and Revenue and Refunding Bonds

The Hospital Revenue Bonds and Revenue and Refunding Bonds were issued under various sales agreements between Sentara and the IDA of the Cities of Norfolk, Chesapeake, Hampton, Suffolk and Virginia Beach, and the Counties of Isle of Wight, Sussex and Surry, (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 SunTrust Bank, as trustee. The interest rates on the Hospital Revenue Bonds and Revenue and Refunding Bonds vary from 0.20% to 6.30% depending on the maturity dates of the individual bonds, and principal and interest payments are due semiannually.

In April 2008, Sentara converted $200,125 of Series 2004A-C auction-rate securities into variable rate demand obligations. The variable rate demand obligations will pay a variable rate of interest, which resets every 7 or 35 days. A loss of $1,066 was recognized on the conversion and is included in nonoperating (losses) gains, net in the accompanying consolidated statements of operations. In conjunction with the conversion, Sentara entered into a line of credit agreement to provide for coverage of $150,000 of the principal amount of the bonds. This line of credit was terminated in March 2009 in conjunction with the refunding of this Series.

In March 2009, Sentara issued $201,370 in Series 2009 A-C Hospital Revenue and Refunding Bonds to refund the outstanding principal amount of Sentara's Hospital Facilities Revenue Bond Series 2004A-C. The long-term interest rate obligations will pay interest semi-annually each May 1 and November 1. Pursuant to the Indenture, Series 2009B and 2009C are subject to mandatory tender on February 3, 2010 and March 3, 2010, respectively. The variable rate demand obligations will pay a variable rate of interest, which resets every 7 days. A loss of $698 was recognized on the refunding and is included in nonoperating (losses) gains, net in the accompanying 2009 consolidated statements of operations. Sentara entered into a line of credit agreement to provide for coverage of $100,000 of the principal amount of the bonds in order to enable Sentara to purchase the bonds that have not been tendered and not remarketed, which expires on March 17, 2010. Sentara maintains a balance of short-term investments equal to the portion of the bonds not covered by the line of credit (self-liquidity).

In March 2010, Sentara issued $132,480 in Series 2010 B-C Hospital Revenue and Refunding Bonds to assist in the current refunding of the outstanding principal balance of the 2009B-C Series Bonds.

In June 2008, Sentara issued $156,615 in Hospital Facilities Revenue and Refunding Bonds primarily to assist in currently refunding the outstanding principal amount of Sentara's Series 2006 Bonds, which were issued to finance and refinance costs of capital improvements and acquisition costs of certain healthcare facilities owned by Sentara and certain corporations affiliated with Sentara. A gain of $779 was recognized on the refunding and is included in nonoperating (losses) gains, net in the accompanying 2008 consolidated statements of operations.

In December 2008, Sentara wrote off the remaining unamortized prepaid insurance balance related to the Series 2004A-C Revenue Bonds provided by Financial Security Assurance, Inc. (FSA) as the result of an impairment analysis. The $2,748 loss as a result of the write-off is included in nonoperating (losses) gains, net in the accompanying 2008 consolidated statements of operations.

The Hospital Revenue Bonds and Revenue and Refunding Bonds are comprised of $65,292 serial bonds, $107,370 term bonds, $152,641 long-term interest rate bonds, $63,595 weekly interest rate bonds, and $156,615 indexed put bonds. The serial bonds mature in graduated annual amounts ranging from $11,313 in 2010 to $1,420 in 2020. The term bonds mature in graduated annual amounts ranging from $6,515 in 2015 to $17,090 in 2036. Sentara is required to make mandatory principal payments ranging from $1,200 in 2011 to $3,230 in 2036 to fund payment of the term bonds. The weekly interest rate securities mature in graduated annual amounts ranging from $310 in 2012 to $5,400 in 2034. The weekly interest rate securities pay a variable rate of interest which resets every 7 days. The interest rates at December 31, 2009 for the 2009A-B Series and C Series were 0.70% and 0.20%, respectively. The indexed put bonds mature in graduated annual amounts ranging from $1,450 in 2014 to $26,860 in 2035. The indexed put bonds are subject to tender at the option of Sentara beginning on May 1, 2010. The indexed put bonds pay a fixed rate of interest equal to 5.75%.

In January 2010, Sentara issued $291,360 in Series 2010A Hospital Revenue and Refunding Bonds to assist in the financing of the development, acquisition, construction and equipping of certain new healthcare facilities and equipment in the City of Virginia Beach, Virginia and in the City of Suffolk, Virginia, the acquisition of certain healthcare assets of Potomac Hospital Corporation in the County of Prince William, Virginia, refinancing the current refunding of the 1993 Series and 1997A Series and the financing of certain costs of issuance relating to the Bonds.

(c) Sentara Potomac Hospital

The 1998 and 2003 Hospital Revenue Bonds were issued under sales agreements between SPH and the Industrial Development Authority of the County of Prince William (the Authority), pursuant to which the Authority will sell certain improvements back to SPH for aggregate installment payments sufficient to enable the Authority to pay the principal and interest on the bonds when due. Principal and interest payments are due semiannually. The 1998 Series bonds are payable in sinking fund installments ranging from $760 to $1,570 from 2010 to 2025 and carry a fixed interest rate of interest ranging from 4.5% to 5.0%. The 2003 Series bonds are payable in sinking fund installments ranging from $895 to $3,230 from 2010 to 2036 and carry a fixed rate of interest ranging from 3.5% to 5.5%.

(In thousands)

Under the terms of the sales agreements, SPH, as the obligated group of the 1998 and 2003 Series Bonds, delivered to the Authority promissory notes, pursuant to a Master Trust Indenture (the Indenture). Under the terms of the Indenture, SPH is required to maintain certain deposits with a trustee, including mandatory sinking fund payments. The Indenture also places limits on the incurrence of additional borrowings and requires that SPH satisfy certain measures of financial performance.

(d) Other

The Hospital Revenue Bonds and Revenue and Refunding Bonds are not secured by any security interest in or lien on any revenues or real property. The Master Trust Indentures place certain restrictions on Sentara and SPH relative to operating ratios and incurrence of additional indebtedness. At December 31, 2009, management believes that Sentara and SPH were in compliance with such restrictions.

Estimated maturities and sinking fund requirements of all long-term indebtedness at December 31, 2009 are as follows:

2010	$	80,764
2011		12,293
2012		13,658
2013		13,557
2014		14,191
Thereafter		522,180
	$	656,643

(8) Derivative Financial Instruments

Sentara has only limited involvement with derivative financial instruments and does not use them for trading purposes. The swap agreements were entered into in order to help offset the volatility of cash flows related to variable rate debt. In January 2004, Sentara entered into four long-term interest rate swap agreements having a total notional amount of $199,781 to reduce interest rate risk on the variable rate Series 2004A-C Hospital Revenue Bonds. Under terms of the swap agreements, Sentara receives amounts based upon 67% of the one-month London Interbank Offered Rate (LIBOR) (approximately 0.16% at December 31, 2009) and makes payments at 3.51% and settles with the counterparty every 35 days. The swap agreements carry a 30-year term, and the agreements provide that the notional amount will be reduced in the same amount and at the same time the principal of the Series 2009A-C Bonds are scheduled to be paid upon redemption or at maturity.

In June 2008, Sentara entered into a total return, fixed-to-variable swap agreement having a total notional amount of $156,615. The 2008 Bonds were issued as enhanced index put bonds. Under the terms of the swap agreement, Sentara receives an amount equal to the coupon of the bonds (5.75%) and makes payments at the Securities Industry and Financial Markets Association Rate (SIFMA) plus 19 basis points (approximately 0.44% at December 31, 2009). Sentara settles with the counterparty semiannually each May and November. The swap agreement carries a 10-year term.

In conjunction with the June 2008 debt refunding, the swap associated with the refunded Series 2006 debt was redeemed. The redemption resulted in a loss of $3,754, which is included in nonoperating (losses) gains, net in the accompanying consolidated statements of operations.

In addition, Sentara assumed a swap agreement from the Sentara Obici merger that matures in 2022 with a notional amount of $9,895. Under the terms of this agreement, Sentara receives 59% of one-month LIBOR plus 35 basis points (approximately 0.49% at December 31, 2009), makes payments at 3.33% and settles with the counterparty on the first of each month. The net cash settlement amounts incurred on the swap agreements are included in interest expense in the accompanying consolidated statements of operations.

The fair value of the interest rate swap agreements is 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 the current creditworthiness of the swap counterparties. 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 securities. At December 31, 2009 and 2008, the aggregate fair value of the interest rate swap agreements was a liability of $15,110 and $69,181, respectively, and was included in other long-term liabilities in the consolidated balance sheets. The change in the fair value of the interest rate swap agreements for the years ended December 31, 2009 and 2008 was a gain of $54,071 and a loss of $66,497, respectively, and is included in nonoperating (losses) gains, net in the consolidated statements of operations. Sentara is exposed to credit loss in the event of nonperformance by the swap counterparties. Sentara monitors the credit standing of its counterparties.

(9) Retirement Obligations

Sentara maintains a noncontributory defined benefit pension plan that covers substantially all employees of Sentara Healthcare and its subsidiaries, except for SPH. Effective December 1, 2009, Sentara assumed responsibility for the plan assets and plan obligations of SPH’s pension plan. SPH plan benefits were frozen effective December 31, 2008. Subsequent to that time, plan benefits are no longer increased for future service cost and compensation and no new participants are eligible for benefits.

The Plans conform to the requirements of the Employee Retirement Income Security Act of 1974 (ERISA). Sentara’s funding policy is to contribute amounts to the Plans sufficient to meet the minimum funding requirements under ERISA.

(In thousands)

The Plans use a December 31 measurement date. The following table sets forth amounts recognized in the consolidated financial statements of Sentara as of and for the years ended December 31, 2009 and 2008 related to the Plans:

		2009	2008
Change in projected benefit obligations:			
Benefit obligation at previous measurement date	$	604,418	572,388
Service cost		34,012	34,313
Interest cost		34,338	32,997
Actuarial gain (loss)		19,926	(13,694)
Acquisition of SPH plan obligation		118,658	—
Benefit payments		(29,156)	(21,586)
Projected benefit obligations at measurement date	$	782,196	604,418
Change in assets:			
Fair value of assets at previous measurement date	$	455,890	604,392
Actual return on assets		104,849	(181,361)
Employer contributions		48,000	54,445
Acquisition of SPH plan assets		93,247	—
Benefit payments		(29,156)	(21,586)
Fair value of assets at measurement date	$	672,830	455,890
Amounts recognized in the consolidated balance sheets at December 31:			
Long-term liabilities	$	(109,366)	(148,528)
Components of net periodic pension cost:			
Service cost	$	34,012	34,313
Interest cost		34,338	32,997
Expected return on plan assets		(39,996)	(42,654)
Prior service cost recognized		949	949
Recognized gains or losses		10,858	2,372
Net periodic pension cost	$	40,161	27,977

For the years ended December 31, 2009 and 2008, Sentara recognized an increase (reduction) in unrestricted net assets of $56,703 and $(201,957), respectively, related to nonperiodic changes in the Plans assets and benefit obligations. The 2009 increase resulted from higher than expected investment earnings on the Plans' assets offset by a reduction in the discount rate used to calculate the liability value. The 2008 decrease resulted primarily from investment losses.

The estimated net loss and prior service cost for the Plans that will be amortized from accumulated other comprehensive loss into net periodic cost over the next year are $13,398 and $949, respectively. No assets of the Plans are expected to be returned to Sentara for the year ending December 31, 2010.

(Continued)

(In thousands)

(a) Assumptions

The following table presents the significant assumptions used to determine benefit obligations for the Plans at December 31, 2009 and 2008:

	2009	2008
Discount rate	5.79%	6.00%
Rate of compensation increase	4.75	4.75

The following table presents the weighted average assumptions used to determine net periodic benefit cost for the Sentara Plan for 2009 and 2008:

	2009	2008
Discount rate	6.00%	6.00%
Expected long-term return on plan assets	7.25	7.25
Rate of compensation increase	4.75	4.75

(b) Determination of Expected Long-Term Rate of Return

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 selection of the 7.25% assumption for the years ended December 31, 2009 and 2008.

(c) Investment Policy and Strategy

The overall financial objectives for the Plans' assets are (1) to provide funds for the timely payment of the Plans' obligations and (2) to produce an investment rate of return that improves the overall funding status of the Plans 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 by the Finance Committee of the Sentara Board of Directors and reviews fund performance at each quarterly meeting. The Plans' targeted asset allocation by asset category is as follows:

Asset category	Target allocation percentage
Equity securities	30% – 60%
Debt securities	20 – 50
Alternative investments	0 – 20
Cash	0 – 10

(In thousands)

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 Plans.

The following tables present the Plans' assets measured at fair value aggregated by the level in the fair value hierarchy within which those measurements fall as of December 31, 2009 and 2008, respectively:

	Fair value	Fair value measurements at December 31, 2009 using Level 1	Level 2	Level 3
Investments:				
Fixed maturities	$ 231,902	208,905	22,958	39
Equity securities	383,490	258,768	124,722	—
Alternative investments	49,977	—	—	49,977
Short-term investments	7,461	7,461	—	—
Total	$ 672,830	475,134	147,680	50,016

	Fair value	Fair value measurements at December 31, 2008 using Level 1	Level 2	Level 3
Investments:				
Fixed maturities	$ 168,314	28,981	141,220	(1,887)
Equity securities	232,360	107,239	122,150	2,971
Alternative investments	33,956	—	—	33,956
Short-term investments	21,260	4,148	17,112	—
Total	$ 455,890	140,368	280,482	35,040

Fair values of fixed maturity securities are based on prices provided by its investment managers and its custodian bank. Both the investment managers and the custodian bank use a variety of pricing sources to determine market valuations. Each designate specific pricing services or indexes for each sector of the market based upon the provider's expertise. Sentara's fixed maturity securities portfolio is highly liquid, which allows for a high percentage of the portfolio to be priced through pricing services.

Fair values of equity securities have been determined from observable market quotations, when available. Private placement securities and other equity securities where a public quotation is not available are valued by using broker quotes.

(In thousands)

Sentara generally uses net asset value per share as provided by external investment managers without further adjustment as the practical expedient estimate of the fair value of its alternative investments consistent with the provisions of Accounting Standards Update 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.

Short-term investments are comprised of 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.

The following table provides a reconciliation for all Level 3 assets measured at fair value on a recurring basis of the beginning and ending balances:

		Level 3 investments			
		Fixed maturities	Equity securities	Alternative investments	Total
Beginning balance, January 1, 2009	$	(1,887)	2,971	33,956	35,040
Total net gains (losses) unrealized and realized		2,323	(1,790)	67	600
Purchases, sales, issuances and settlements		(397)	(1,181)	15,954	14,376
Ending balance, December 31, 2009	$	39	—	49,977	50,016

(d) Contributions

Sentara expects to contribute $49,915 to its Plans for the year ending December 31, 2010.

(e) Estimated Future Benefit Payments

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

2010	$	51,552
2011		52,659
2012		57,370
2013		59,962
2014		61,774
2015 – 2019		357,405

The expected benefits to be paid are based on the same assumptions used to measure Sentara's benefit obligations at December 31, 2009.

(f) Supplemental Executive Retirement Plan

Sentara maintains a supplemental executive retirement plan for certain executives. Compensation expense under the plan was $2,112 and $912 for the years ended December 31, 2009 and 2008, respectively. Accrued benefit liabilities under this plan totaled $12,455 and $13,561 as of December 31, 2009 and 2008, respectively, and are included in other liabilities.

(g) Defined Contribution Retirement Plans

Substantially all of the employees of Sentara, except for SHP employees, participate in a defined contribution retirement plan under Section 403(b) of the Code. Sentara matches a percentage of contributions made by the employees. SHP employees participate in a defined contribution retirement plan under Section 401(k) of the Code, which has the same employer match as the 403(b) plan. Sentara's expense related to these plans for the years ended December 31, 2009 and 2008 was $17,310 and $15,242, respectively, and is included in benefits in the accompanying consolidated statements of operations.

(10) 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 its charity care policy receive services without charge or at amounts less than its established rates. The criterion for charity care considers the 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 are 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.

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 the Sentara 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.

 (Continued)

(In thousands)

- 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 representatives also proactively share with patients estimates of their expenses prior to undergoing significant medical procedures.

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 bad debt expense. Utilization of income and asset information and credit reporting data indicate the vast majority of amounts reported as provision for bad debts represent amounts due from patients that 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 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 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 criteria 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:

		2009	2008
Components of estimated cost of charity and other uncompensated care:			
Charity care	$	83,510	72,327
Medicaid		10,934	17,843
Bad debt		43,395	47,360
Total estimated cost	$	137,839	137,530

(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.

(In thousands)

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, previously known as the Sentara School of Health Professions (the School), in continuous operation since 1892, educates nurses, surgical and cardiovascular technicians needed to provide the community with vital health services.

Sentara estimates community benefits provided in the form of charity and other uncompensated care. The following is a summary of Sentara's community commitment as measured by charity care and community benefit costs:

		2009	2008
Nonreimbursed cost of charity and uncompensated care	$	137,839	137,530
Medical education		17,435	16,637
Direct contributions and sponsorships		1,224	1,611
Community health programs		1,406	2,047
Total community benefits, at cost	$	157,904	157,825

Sentara also recognizes its responsibility to provide other healthcare services and programs for the benefit of the community, at reduced rates or free. This includes the Ambulatory Care clinic, 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.

(11) 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. A breakdown of net patient revenue by significant payor type for the years ended December 31, 2009 and 2008 follows:

	2009	2008
Medicare	35%	37%
Medicaid	9	7
Anthem (Blue Cross)	21	23
SHP – HMO/PPO	11	9
All others (none more than 10%)	24	24
Total	100%	100%

Premium and capitation receivables and premium and capitation revenue consist primarily of amounts earned by Sentara's health plans for providing benefits to subscribers. OHP and SHP have concentrations

(Continued)

(In thousands)

of credit risk with the Federal Government's Office of Personnel Management (OPM) for subscriber benefits provided under the Federal Employee Health Benefits Program (FEHBP), and with the Department of Medical Assistance Services (DMAS) for benefits to Medicaid recipients.

A breakdown of premium and capitation revenue by significant customers for the years ended December 31, 2009 and 2008 follows:

	2009	2008
OPM	6%	6%
DMAS	41	44
Other (none more than 10%)	53	50
Total	100%	100%

(12) Functional Expenses

Sentara provides various healthcare services to patients within its geographic location. Expenses related to providing these services for the years ended December 31, 2009 and 2008 are as follows:

		2009	2008
Healthcare services	$	2,367,397	2,150,758
General and administrative		522,010	510,521
Total operating costs and expenses	$	2,889,407	2,661,279

(13) Commitments and Contingent Liabilities

(a) General Liability and Malpractice Insurance

Sentara insures its professional, general and managed care liability risks through claims-made insurance policies issued by Lexington Insurance Company. Effective July 1, 2008, the professional and managed care liability risks were insured on a claim-made basis and the general liability risks were insured on an occurrence basis under a policy issued by Lexington Insurance Company. Lexington policy limits are $2,000 per occurrence and $23,000 in the aggregate per year for professional and managed care liability and $1,000 per occurrence for general liability. All subsidiaries except OHP, SHI, and SMG have a $1,500 per occurrence self-insured retention (SIR) under the policies for professional liabilities and a $750 per occurrence SIR for general liabilities. The discount rate used to calculate this liability as of December 31, 2009 and 2008 is 4.0%.

Accrued professional liability costs as of December 31, 2009 and 2008 amounted to $82,551 and $73,739, respectively. Cash and investments totaling $62,984 and $56,790 as of December 31, 2009 and 2008, respectively, have been designated by Sentara to settle these claims. Included in estimated professional liability costs are estimated claims incurred but not reported related to Sentara in the amounts of $16,015 and $17,809 as of December 31, 2009 and 2008, respectively. In 2008, the insurance policy coverage for employed physicians was converted from a claims made basis to a

(Continued)

claims incurred basis. The result of this conversion was a reduction of the provision for estimated costs of claims incurred but not reported of $7,140.

The Lexington policies are reinsured by Sentara's wholly owned captive insurance company, Bay Primex Insurance Company, Ltd. The sole activity of Bay Primex Insurance Company Ltd. 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 claims-made excess liability policies through three independent carriers with total annual coverage limits of $60,000 per occurrence and $60,000 in the aggregate for amounts exceeding the primary coverage limits.

The professional liability policies are on a claims-made basis and 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

Effective April 1, 2007, OHP and OHIC carry a stop-loss coverage policy for medical claims expense through HCC Life Insurance Company (HCC). The deductible under the policy is $1,300 per member per policy year for the largest claim and $1,000 per member per policy year for all other claims. Once the deductible is met in a policy year, HCC 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 $648 and $509 for the years ended December 31, 2009 and 2008, respectively.

(c) Employee Medical Insurance

All Sentara entities are self-insured for their employee medical insurance. Under the plan, Sentara pays the claims for each of the participants in the plan. Payments under the plan are limited to $300 per participant per year. The liability associated with claims incurred but not reported was $6,177 and $5,695 at December 31, 2009 and 2008, respectively.

(d) Workers' Compensation Insurance

Sentara is self-insured for workers' compensation insurance using Crawford and Company as the third-party administrator. The liability associated with claims incurred but not reported was $4,197 and $4,346 at December 31, 2009 and 2008, respectively.

(In thousands)

(e) Lease Commitments

Certain of Sentara's subsidiaries are parties to operating leases for property and equipment. Rental expense incurred during the years ended December 31, 2009 and 2008 was approximately $57,400 and $53,859, respectively. The following is a schedule of significant future minimum lease payments expected to be paid in the following years ending December 31:

2010	$	20,580
2011		20,428
2012		18,189
2013		17,461
2014		15,600
Thereafter		75,812
Total future minimum lease payments	$	168,070

(f) Litigation

Sentara is involved in litigation arising in the ordinary course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on Sentara's future financial position or results from operations.

Laws and regulations governing Medicare and Medicaid programs are complex and subject to interpretation. Management believes that Sentara is in material compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations that would, if resulting in a determination of wrongdoing by Sentara, have a material effect on Sentara's consolidated financial statements. 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.

(14) Nonoperating (Losses) Gains, Net

Nonoperating (losses) gains, net for the years ended December 31, 2009 and 2008 is summarized as follows:

		2009	2008
Investment income	$	29,945	48,497
Realized (losses) gains on investments, net		(26,469)	10,103
Unrealized gains (losses) on investments, net		157,593	(246,892)
Equity in earnings of limited investment companies		7,035	(19,256)
Change in market value of derivative instruments		54,071	(66,497)
Other		(803)	1,470
Nonoperating gains (losses), net	$	221,372	(272,575)

(In thousands)

(15) Income Taxes

SHI files consolidated federal and state income tax returns with its subsidiaries. The consolidated federal and state income tax liabilities are allocated among the members of the group under the provisions of a tax sharing agreement entered into by the members of the group.

A reconciliation of the beginning and ending liabilities for unrecognized tax benefits, which is included in other long-term liabilities in the accompanying consolidated balance sheets, is as follows:

		2009	2008
Liability at beginning of year	$	9,048	7,737
Additions based on current year tax positions		697	613
Additions for tax positions of prior years		410	1,140
Reductions for tax positions of prior years		(558)	(442)
Liability at end of year	$	9,597	9,048

As of December 31, 2009, the tax years ended December 31, 2004 through December 31, 2009 remain subject to examination by federal and state authorities.

Income tax expense, which is recorded as a component of other operating expenses, for the years ended December 31, 2009 and 2008 consists of the following:

		2009	2008
Current:			
Federal	$	3,540	3,036
State		573	442
		4,113	3,478
Deferred:			
Federal		385	(82)
State		75	(16)
		460	(98)
Total provision for income taxes	$	4,573	3,380

Deferred income taxes are provided for the temporary differences between the financial reporting bases and the tax bases of SHI's assets and liabilities, operating losses and tax credit carryforwards. The financial and tax bases of assets and liabilities differ primarily due to the timing of deductions related to accounts receivable, fixed assets, deferred compensation, estimated medical claims incurred but not reported and other accrued expenses. At December 31, 2009 and 2008, SHI recognized net deferred tax assets of $2,705 and $2,916, net of a valuation allowance of $9,301 and $6,706, respectively. The recognition of a valuation allowance against the deferred tax assets is made when management believes that it is more likely than not

(Continued)

(In thousands)

that all or a portion of the deferred tax assets will not be realized. In making this determination, management considers the scheduled reversal of any deferred tax liabilities and whether projected future taxable income is sufficient to permit deduction of the deferred tax assets. Based on the level of historical taxable income and projections for future taxable income as of December 31, 2009 and 2008, management believes that it is more likely than not that the deferred tax assets will be realized except for the deferred tax asset resulting from net operating loss carryforwards and minimum tax credit carryforwards of its subsidiaries, SVI and OPC, which are subject to certain limitations.

For the years ended December 31, 2009 and 2008, income tax expense differed from the amounts computed by applying the U.S. federal income tax rate to income before income taxes, for taxable entities, as a result of state income taxes, net of the federal income tax effect, utilization of net operating loss carryforwards, net of the application of federal alternative minimum tax, and nondeductible expenses and the impact of tax expense related to tax uncertainties for nontaxable entities.

As of December 31, 2009, SVI had net operating loss carryforwards for federal income tax purposes that arose in taxable years prior to joining the SHI consolidated group, and whose use is therefore limited. These carryforwards will expire as follows:

2011	$	3,659
2012		3,364
2018		3,533
2019		3,065
2020		3,860
2021		568
	$	18,049

SVI has minimum tax credit carryforwards of $18 that arose in taxable years prior to joining the SHI consolidated group and may be utilized to the extent that the SVI's regular tax liability exceeds its tentative minimum tax, subject to certain limitations. The carryforwards are available indefinitely until utilized.

As of December 31, 2009, OPC had net operating loss carryforwards for federal income tax purposes that arose in taxable years prior to joining the SHI consolidated group, and whose use is therefore limited. These carryforwards will expire as follows:

2010	$	47
2011		470
2012		814
2018		743
2019		1,534
2020 and thereafter		3,630
	$	7,238

(In thousands)

(16) Other Operating Expenses

Other operating expenses for the years ended December 31, 2009 and 2008 are summarized as follows:

		2009	2008
Supplies	$	380,176	380,632
Purchased and contracted services		75,281	65,997
Professional fees		105,343	99,499
Repairs and maintenance		59,247	58,329
Insurance		18,306	12,609
Rent		57,400	59,459
Utilities		23,018	24,868
Marketing		28,105	24,722
Other		2,587	17,838
Other operating expenses	$	749,463	743,953

Schedule 1

SENTARA HEALTHCARE AND SUBSIDIARIES

Consolidating Schedule – Balance Sheet Information

December 31, 2009

(In thousands)

Assets	Sentara Healthcare Corporate	Sentara Hospitals	Sentara Enterprises	Sentara Life Care Corporation	Optima Health Plan	Sentara Holdings, Inc.	Sentara Medical Group	Sentara Potomac Hospital	Eliminations	Consolidated
Current assets:										
Cash and cash equivalents	$ 321,797	12,994	13,119	258	69,321	29,444	657	22,127	—	469,717
Receivables, net	8,570	193,957	13,148	4,999	47,344	3,840	11,288	21,101	(29,021)	275,226
Receivables from affiliated organizations	62,988	180,786	1,153	8,150	—	8,105	1,492	—	(262,674)	—
Investments	71,497	—	—	—	10,979	—	—	2,504	—	84,980
Inventories	—	31,208	931	1,049	—	—	727	3,584	—	37,499
Prepaid expenses and other current assets	3,695	12,601	4	68	—	5,105	2,786	1,394	—	25,653
Total current assets	468,547	431,546	28,355	14,524	127,644	46,494	16,950	50,710	(291,695)	893,075
Due from affiliates	157,706	—	—	—	—	—	—	—	(157,706)	—
Investments	928,915	13,699	—	10	111,365	32,781	—	33,802	(6,741)	1,113,831
Property, plant and equipment, net	103,543	792,318	8,963	25,959	1,794	3,058	31,016	140,286	—	1,106,937
Land held for future use, at cost	445	5,967	—	—	—	598	—	7,733	—	14,743
Other assets, net	22,379	38,162	2,633	578	—	6,729	2,672	6,390	—	79,543
Total assets	$ 1,681,535	1,281,692	39,951	41,071	240,803	89,660	50,638	238,921	(456,142)	3,208,129
Liabilities and Net Assets										
Current liabilities:										
Accounts payable and accrued expenses	$ 17,977	30,986	1,440	845	—	251	1,130	4,153	—	56,782
Employee compensation and benefits	108,010	—	860	34	—	6,491	—	3,238	—	118,633
Medical claims accrued and payable	—	—	—	490	92,051	19,337	—	1,171	(29,021)	84,028
Current installments of long-term debt	73,860	5,238	—	—	—	11	—	1,655	—	80,764
Payables to affiliated organizations	197,953	727	12	19	1,612	3,209	59,139	3	(262,674)	—
Estimated third-party payor settlements	—	2,125	105	1,345	—	—	—	474	—	4,049
Other current liabilities	44,099	18,299	118	226	3,387	6,814	3,393	3,866	(6,741)	73,461
Total current liabilities	441,899	57,375	2,535	2,959	97,050	36,113	63,662	14,560	(298,436)	417,717
Long-term debt, excluding current installments	472,468	38,660	—	—	—	408	—	64,343	—	575,879
Retirement obligations	87,921	—	—	—	—	—	—	21,445	—	109,366
Other long-term liabilities	104,017	45,301	4,179	259	8,585	551	3,795	43,750	—	210,437
Due to affiliates	—	157,706	—	—	—	—	—	—	(157,706)	—
Total liabilities	1,106,305	299,042	6,714	3,218	105,635	37,072	67,457	144,098	(456,142)	1,313,399
Net assets:										
Unrestricted	573,722	972,134	33,135	37,843	135,168	52,588	(16,819)	89,778	—	1,877,549
Temporarily restricted	1,508	8,714	102	—	—	—	—	4,378	—	14,702
Permanently restricted	—	1,802	—	10	—	—	—	667	—	2,479
Total net assets	575,230	982,650	33,237	37,853	135,168	52,588	(16,819)	94,823	—	1,894,730
Total liabilities and net assets	$ 1,681,535	1,281,692	39,951	41,071	240,803	89,660	50,638	238,921	(456,142)	3,208,129

See accompanying independent auditors' report.

SENTARA HOSPITALS

Consolidating Schedule – Balance Sheet Information

December 31, 2009

(In thousands)

Assets	Sentara Norfolk General Hospital	Sentara Leigh Hospital	Sentara Bayside Hospital	Sentara CarePlex Hospital	Sentara Virginia Beach General Hospital	Sentara Williamsburg Regional Medical Center	Sentara Obici Hospital	Total
Current assets:								
Cash and cash equivalents (bank overdraft)	$ (111)	(43)	(21)	(37)	(44)	(25)	13,275	12,994
Receivables, net	65,218	21,411	11,955	22,577	26,862	12,106	16,653	176,782
Other receivables	6,846	2,285	1,245	523	1,943	1,071	3,262	17,175
Receivables from affiliated organizations	67,040	24,783	16,763	26,953	29,084	14,042	2,121	180,786
Inventories	10,362	3,452	1,770	4,789	5,651	2,294	2,890	31,208
Prepaid expenses and other current assets	5,332	1,270	639	1,652	1,737	1,080	891	12,601
Total current assets	154,687	53,158	32,351	56,457	65,233	30,568	39,092	431,546
Investments	3,275	56	76	418	3,857	537	5,480	13,699
Property, plant and equipment, net	208,632	59,468	68,695	113,200	73,341	150,089	118,893	792,318
Land held for future use, at cost	2,657	—	—	—	2,491	819	—	5,967
Other assets, net	5,070	5	1,109	1,844	5,285	12,349	12,500	38,162
Total assets	$ 374,321	112,687	102,231	171,919	150,207	194,362	175,965	1,281,692
Liabilities and Net Assets								
Current liabilities:								
Accounts payable and accrued expenses	$ 11,806	3,698	1,718	4,209	4,445	2,499	2,611	30,986
Current installments of long-term debt	—	249	—	—	2,440	—	2,549	5,238
Payables to affiliated organizations	101	103	61	202	292	60	(92)	727
Estimated third-party payor settlements	982	360	14	138	504	127	—	2,125
Other current liabilities	7,423	1,430	683	1,686	2,249	1,321	3,507	18,299
Total current liabilities	20,312	5,840	2,476	6,235	9,930	4,007	8,575	57,375
Long-term debt, excluding current installments	—	967	—	—	25,360	—	12,333	38,660
Other long-term liabilities	14,962	5,473	3,441	5,922	7,738	3,074	4,691	45,301
Due to (from) affiliates	(65,985)	(120,100)	53,516	61,556	36,413	120,043	72,263	157,706
Total liabilities	(30,711)	(107,820)	59,433	73,713	79,441	127,124	97,862	299,042
Net assets:								
Unrestricted	400,009	220,407	42,661	97,459	70,211	66,887	74,500	972,134
Temporarily restricted	3,241	100	137	747	555	351	3,583	8,714
Permanently restricted	1,782	—	—	—	—	—	20	1,802
Total net assets	405,032	220,507	42,798	98,206	70,766	67,238	78,103	982,650
Total liabilities and net assets	$ 374,321	112,687	102,231	171,919	150,207	194,362	175,965	1,281,692

See accompanying independent auditors' report.

SENTARA HOLDINGS, INC.

Consolidating Schedule – Balance Sheet Information

December 31, 2009

(In thousands)

Assets	Sentara Health Plans, Inc.	Optima Behavioral Health Services	Optima Health Group	Optima Health Insurance Company	Hampton Service Corporation	Sentara Ventures, Inc.	Sentara Holdings, Inc.	Obici Professional Center and Subsidiary	Eliminations	Total
Current assets:										
Cash and cash equivalents	$ 5,603	8,716	2,083	13,037	—	—	5	—	—	29,444
Receivables, net	227	66	—	(145)	—	1,211	2,481	—	—	3,840
Receivables from affiliated organizations	6,395	296	(3)	(1,120)	—	6,124	(574)	255	(3,268)	8,105
Prepaid expenses and other current assets	3,028	1,519	—	509	—	49	—	—	—	5,105
Total current assets	15,253	10,597	2,080	12,281	—	7,384	1,912	255	(3,268)	46,494
Investments	—	—	439	32,342	—	—	—	—	—	32,781
Property, plant and equipment, net	1,052	22	7	196	—	453	—	1,328	—	3,058
Land held for future use, at cost	—	—	—	—	—	598	—	—	—	598
Other assets, net	40,190	—	10	—	—	6,471	—	215	(40,157)	6,729
Total assets	$ 56,495	10,619	2,536	44,819	—	14,906	1,912	1,798	(43,425)	89,660
Liabilities and Net Assets										
Current liabilities:										
Accounts payable and accrued expenses	$ —	248	—	—	—	1	—	2	—	251
Employee compensation and benefits	6,491	—	—	—	—	—	—	—	—	6,491
Medical claims accrued and payable	—	3,447	—	15,890	—	—	—	—	—	19,337
Current installments of long-term debt	—	—	—	—	—	—	—	11	—	11
Payables to affiliated organizations	2,494	672	17	468	(3)	444	2,335	50	(3,268)	3,209
Deferred revenue	—	17	—	744	—	—	—	—	—	761
Other current liabilities	2,872	—	—	90	—	3,091	—	—	—	6,053
Total current liabilities	11,857	4,384	17	17,192	(3)	3,536	2,335	63	(3,268)	36,113
Long-term debt, excluding current installments	—	—	—	—	—	—	—	408	—	408
Other long-term liabilities	356	—	—	195	—	—	—	—	—	551
Total liabilities	12,213	4,384	17	17,387	(3)	3,536	2,335	471	(3,268)	37,072
Net assets:										
Unrestricted	44,282	6,235	2,519	27,432	3	11,370	(423)	1,327	(40,157)	52,588
Temporarily restricted	—	—	—	—	—	—	—	—	—	—
Total net assets	44,282	6,235	2,519	27,432	3	11,370	(423)	1,327	(40,157)	52,588
Total liabilities and net assets	$ 56,495	10,619	2,536	44,819	—	14,906	1,912	1,798	(43,425)	89,660

See accompanying independent auditors' report.

Schedule 4

SENTARA HEALTHCARE AND SUBSIDIARIES

Consolidating Schedule – Operations Information

Year ended December 31, 2009

(In thousands)

	Sentara Healthcare Corporate	Sentara Hospitals	Sentara Enterprises	Sentara Life Care Corporation	Optima Health Plan	Sentara Holdings, Inc.	Sentara Medical Group	Sentara Potomac Hospital	Eliminations	Consolidated
Operating revenues, gains and other support:										
Net patient service revenue	$ —	1,684,115	100,502	65,683	—	—	210,345	15,988	(268,520)	1,808,113
Premium and capitation revenue	1,186	2,567	—	8,217	986,914	179,876	4,537	—	(28,016)	1,155,281
Other operating revenue	11,447	15,542	3,050	660	438	29,824	4,946	201	(17,724)	48,384
Net assets released from restrictions	264	3,017	26	—	—	—	—	223	—	3,530
Total operating revenues, gains and other support	12,897	1,705,241	103,578	74,560	987,352	209,700	219,828	16,412	(314,260)	3,015,308
Operating costs and expenses:										
Salaries and wages	43,712	575,991	47,058	32,629	28,551	13,713	166,415	5,499	—	913,568
Benefits	4,928	132,008	10,963	6,374	3,538	6,176	27,734	2,181	(3,878)	190,024
Medical claims expense	—	—	—	1,507	894,208	154,792	—	—	(291,893)	758,614
Other operating expenses	24,275	609,487	26,845	21,249	44,145	15,721	20,497	5,733	(18,489)	749,463
Interest expense	65	13,264	—	—	112	181	—	294	—	13,916
Provision for bad debts, net	—	121,514	1,932	(32)	520	201	10,806	2,910	—	137,851
Depreciation and amortization	5,916	105,961	2,787	2,777	1,017	596	5,909	1,008	—	125,971
Sentara Healthcare services	(43,800)	9,081	6,999	3,996	—	16,867	6,857	—	—	—
Total operating costs and expenses	35,096	1,567,306	96,584	68,500	972,091	208,247	238,218	17,625	(314,260)	2,889,407
Operating income (loss)	(22,199)	137,935	6,994	6,060	15,261	1,453	(18,390)	(1,213)	—	125,901
Nonoperating (losses) gains, net	215,832	2,078	(1,371)	—	3,498	1,130	18	187	—	221,372
Excess (deficiency) of revenues over expenses	$ 193,633	140,013	5,623	6,060	18,759	2,583	(18,372)	(1,026)	—	347,273

See accompanying independent auditors' report.

Schedule 5

SENTARA HOSPITALS

Consolidating Schedule – Operations Information

Year ended December 31, 2009

(In thousands)

	Sentara Norfolk General Hospital	Sentara Leigh Hospital	Sentara Bayside Hospital	Sentara CarePlex Hospital	Sentara Virginia Beach General Hospital	Sentara Williamsburg Regional Medical Center	Sentara Obici Hospital	Sentara Hospitals Corporate	Total
Operating revenues, gains and other support:									
Net patient service revenue	$ 587,400	213,234	129,392	230,199	246,039	128,833	149,021	(3)	1,684,115
Premium and capitation revenue	2,258	74	54	34	49	46	52	—	2,567
Other operating revenue	6,638	153	1,114	1,234	2,383	1,733	364	1,923	15,542
Net assets released from restrictions	2,207	52	12	314	116	236	56	24	3,017
Total operating revenues, gains and other support	598,503	213,513	130,572	231,781	248,587	130,848	149,493	1,944	1,705,241
Operating costs and expenses:									
Salaries and wages	156,147	59,840	32,742	63,028	72,869	37,404	50,495	103,466	575,991
Benefits	35,621	14,019	7,488	14,318	17,109	8,521	11,366	23,566	132,008
Other operating expenses	231,436	72,917	31,069	79,849	87,148	41,737	46,312	19,019	609,487
Interest expense	4,011	(243)	1,693	283	2,992	3,364	1,117	47	13,264
Provision for bad debts, net	36,752	12,171	15,520	21,003	16,738	9,348	9,971	11	121,514
Depreciation and amortization	27,659	7,527	5,603	10,588	11,439	12,948	9,877	20,320	105,961
Sentara Healthcare services	56,708	24,173	13,941	26,477	26,458	14,508	8,791	(161,975)	9,081
Total operating costs and expenses	548,334	190,404	108,056	215,546	234,753	127,830	137,929	4,454	1,567,306
Operating income (loss)	50,169	23,109	22,516	16,235	13,834	3,018	11,564	(2,510)	137,935
Nonoperating gains, net	306	24	42	126	647	1	700	232	2,078
Excess (deficiency) of revenues over expenses	$ 50,475	23,133	22,558	16,361	14,481	3,019	12,264	(2,278)	140,013

See accompanying independent auditors' report.

SENTARA ENTERPRISES

Consolidating Schedule – Operations Information

Year ended December 31, 2009

(In thousands)

	Home Care Services	DME	Medical Transport, LLC	Divisional Support	Eliminations	Total
Operating revenues, gains and other support:						
Net patient service revenue (expense)	$ 62,597	15,742	24,425	(1,706)	(556)	100,502
Other operating revenue	229	15	1,299	1,507	—	3,050
Net assets released from restrictions	—	—	—	26	—	26
Total operating revenues, gains and other support	62,826	15,757	25,724	(173)	(556)	103,578
Operating costs and expenses:						
Salaries and wages	29,298	3,502	12,442	1,816	—	47,058
Benefits	6,673	810	3,162	318	—	10,963
Other operating expenses (income)	16,711	7,497	3,713	(520)	(556)	26,845
Provision for bad debts, net	716	789	427	—	—	1,932
Depreciation and amortization	485	1,296	996	10	—	2,787
Sentara Healthcare services	—	—	—	6,999	—	6,999
Total operating costs and expenses	53,883	13,894	20,740	8,623	(556)	96,584
Operating income (loss)	8,943	1,863	4,984	(8,796)	—	6,994
Nonoperating gains (losses)	—	—	13	(1,384)	—	(1,371)
Excess (deficiency) of revenues over expenses	$ 8,943	1,863	4,997	(10,180)	—	5,623

See accompanying independent auditors' report.

SENTARA LIFE CARE CORPORATION

Consolidating Schedule – Operations Information

Year ended December 31, 2009

(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
Operating revenues, gains and other support:							
Net patient service revenue	$ 1,456	7,337	12,845	7,020	5,375	6,405	8,710
Premium and capitation revenue	—	—	—	—	—	—	—
Other operating revenue	—	92	240	132	5	6	141
Total operating revenues, gains and other support	1,456	7,429	13,085	7,152	5,380	6,411	8,851
Operating costs and expenses:							
Salaries and wages	748	3,660	6,879	3,691	2,960	3,226	4,422
Benefits	208	699	1,307	716	576	589	779
Medical claims expense	—	—	—	—	—	—	—
Other operating expenses	1,420	1,726	2,988	1,514	1,425	1,690	2,445
Provision for bad debts, net	12	(12)	(182)	(2)	7	87	(29)
Depreciation and amortization	51	253	430	234	190	331	250
Sentara Healthcare services	—	340	651	355	297	328	416
Total operating costs and expenses	2,439	6,666	12,073	6,508	5,455	6,251	8,283
Operating income	(983)	763	1,012	644	(75)	160	568
Excess (deficiency) of revenues over expenses	$ (983)	763	1,012	644	(75)	160	568

(Continued)

Schedule 7

SENTARA LIFE CARE CORPORATION

Consolidating Schedule – Operations Information

Year ended December 31, 2009

(In thousands)

	Sentara Windermere	Sentara Village Chesapeake	Sentara Village Norfolk	Sentara Village Virginia Beach	Sentara Senior Community Care I	Pharmacy Rx	Eliminations	Total
Operating revenues, gains and other support:								
Net patient service revenue	$ 5,489	2,194	2,143	2,600	(41)	10,550	(6,400)	65,683
Premium and capitation revenue	—	—	—	—	8,217	—	—	8,217
Other operating revenue	14	3	88	8	(70)	1	—	660
Total operating revenues, gains and other support	5,503	2,197	2,231	2,608	8,106	10,551	(6,400)	74,560
Operating costs and expenses:								
Salaries and wages	2,552	1,007	1,025	1,133	1,313	13	—	32,629
Benefits	506	241	242	247	264	—	—	6,374
Medical claims expense	—	—	—	—	3,900	—	(2,393)	1,507
Other operating expenses	1,075	656	665	681	924	8,047	(4,007)	21,249
Provision for bad debts, net	24	23	21	15	4	—	—	(32)
Depreciation and amortization	446	188	163	145	96	—	—	2,777
Sentara Healthcare services	263	125	120	125	552	424	—	3,996
Total operating costs and expenses	4,866	2,240	2,236	2,346	7,053	8,484	(6,400)	68,500
Operating income (loss)	637	(43)	(5)	262	1,053	2,067	—	6,060
Excess (deficiency) of revenues over expenses	$ 637	(43)	(5)	262	1,053	2,067	—	6,060

See accompanying independent auditors' report.

Schedule 8

SENTARA HOLDINGS, INC.

Consolidating Schedule – Operations Information

Year ended December 31, 2009

(In thousands)

	Sentara Health Plans, Inc.	Optima Behavioral Health Services	Optima Health Group	Optima Health Insurance Company	Hampton Service Corporation	Sentara Ventures, Inc.	Sentara Holdings, Inc.	Obici Professional Center and Subsidiary	Eliminations	Total
Operating revenues, gains and other support:										
Premium and capitation revenue	$ —	28,188	—	153,523	—	—	—	—	(1,835)	179,876
Other operating revenue	18,372	1,390	—	2,781	—	8,954	—	303	(1,976)	29,824
Total operating revenues, gains and other support	18,372	29,578	—	156,304	—	8,954	—	303	(3,811)	209,700
Operating costs and expenses:										
Salaries and wages	7,768	—	—	5,945	—	—	—	—	—	13,713
Benefits	5,442	—	—	712	—	22	—	—	—	6,176
Medical claims expense (income)	792	23,798	(4)	132,041	—	—	—	—	(1,835)	154,792
Other operating expense (income)	(10,143)	115	58	16,589	(5)	8,933	—	174	—	15,721
Interest expense	16	—	—	38	—	92	—	35	—	181
Provision for bad debts	2	—	—	199	—	—	—	—	—	201
Depreciation and amortization	332	—	15	105	—	—	—	144	—	596
Sentara Healthcare services	11,397	5,470	—	—	—	—	—	—	—	16,867
Total operating costs and expenses	15,606	29,383	69	155,629	(5)	9,047	—	353	(1,835)	208,247
Operating income (loss)	2,766	195	(69)	675	5	(93)	—	(50)	(1,976)	1,453
Nonoperating gains (losses)	(91)	(17)	148	1,044	11	35	—	—	—	1,130
Excess (deficiency) of revenues over expenses	$ 2,675	178	79	1,719	16	(58)	—	(50)	(1,976)	2,583

See accompanying independent auditors' report.

Schedule 9

SENTARA HEALTHCARE AND SUBSIDIARIES

Consolidating Schedule – Fully Allocated Overhead Operations Information

Year ended December 31, 2009

(In thousands)

	Sentara Healthcare Corporate	Sentara Hospitals	Sentara Enterprises	Sentara Life Care Corporation	Optima Health Plan	Sentara Holdings, Inc.	Sentara Medical Group	Sentara Potomac Hospital	Eliminations	Consolidated
Operating revenues, gains and other support:										
Net patient service revenue	$ —	1,684,115	100,502	65,683	—	—	210,345	15,988	(268,520)	1,808,113
Premium and capitation revenue	1,186	2,567	—	8,217	986,914	179,876	4,537	—	(28,016)	1,155,281
Other operating revenue	11,750	15,542	3,050	660	438	29,521	4,946	201	(17,724)	48,384
Net assets released from restrictions	264	3,017	26	—	—	—	—	223	—	3,530
Total operating revenues, gains and other support	13,200	1,705,241	103,578	74,560	987,352	209,397	219,828	16,412	(314,260)	3,015,308
Operating costs and expenses:										
Salaries and wages	43,712	575,991	47,058	32,629	28,551	13,713	166,415	5,499	—	913,568
Benefits	4,928	132,008	10,963	6,374	3,538	6,176	27,734	2,181	(3,878)	190,024
Medical claims expense	—	—	—	1,507	894,208	154,792	—	—	(291,893)	758,614
Other operating expenses	24,449	609,487	26,845	21,249	44,145	15,547	20,497	5,733	(18,489)	749,463
Interest expense	100	13,264	—	—	112	146	—	294	—	13,916
Provision for bad debts, net	—	121,514	1,932	(32)	520	201	10,806	2,910	—	137,851
Depreciation and amortization	6,060	105,961	2,787	2,777	1,017	452	5,909	1,008	—	125,971
Sentara Healthcare services	(66,049)	55,510	2,170	1,277	4,462	—	2,630	—	—	—
Total operating costs and expenses	13,200	1,613,735	91,755	65,781	976,553	191,027	233,991	17,625	(314,260)	2,889,407
Operating income (loss)	—	91,506	11,823	8,779	10,799	18,370	(14,163)	(1,213)	—	125,901
Nonoperating (losses) gains	215,832	2,078	(1,371)	—	3,498	1,130	18	187	—	221,372
Excess (deficiency) of revenues over expenses	$ 215,832	93,584	10,452	8,779	14,297	19,500	(14,145)	(1,026)	—	347,273

See accompanying independent auditors' report.

Schedule 10

SENTARA HOSPITALS

Consolidating Schedule – Fully Allocated Overhead Operations Information

Year ended December 31, 2009

(In thousands)

	Sentara Norfolk General Hospital	Sentara Leigh Hospital	Sentara Bayside Hospital	Sentara CarePlex Hospital	Sentara Virginia Beach General	Sentara Williamsburg Regional Medical Center	Sentara Obici Hospital	Total
Operating revenues, gains and other support:								
Net patient service revenue	$ 587,400	213,234	129,392	230,199	246,039	128,833	149,018	1,684,115
Premium and capitation revenue	2,258	74	54	34	49	46	52	2,567
Other operating revenue	8,878	91	1,076	1,167	2,311	1,695	324	15,542
Net assets released from restrictions	2,231	52	12	314	116	236	56	3,017
Total operating revenues, gains and other support	600,767	213,451	130,534	231,714	248,515	130,810	149,450	1,705,241
Operating costs and expenses:								
Salaries and wages	210,084	69,136	38,017	73,551	84,330	43,645	57,228	575,991
Benefits	48,052	16,109	8,674	16,684	19,685	9,924	12,880	132,008
Other operating expenses	223,575	77,962	33,932	85,561	93,369	45,124	49,964	609,487
Interest expense	4,028	(237)	1,696	289	2,999	3,368	1,121	13,264
Provision for bad debts	36,756	12,173	15,521	21,005	16,740	9,349	9,970	121,514
Depreciation and amortization	34,930	9,976	6,993	13,360	14,458	14,592	11,652	105,961
Sentara Healthcare services	18,643	7,853	4,448	8,467	8,601	4,538	2,960	55,510
Total operating costs and expenses	576,068	192,972	109,281	218,917	240,182	130,540	145,775	1,613,735
Operating income	24,699	20,479	21,253	12,797	8,333	270	3,675	91,506
Nonoperating gains (losses)	389	49	55	(57)	679	15	948	2,078
Excess of revenues over expenses	$ 25,088	20,528	21,308	12,740	9,012	285	4,623	93,584

See accompanying independent auditors' report.