SENTARA HEALTHCARE AND SUBSIDIARIES

Consolidated Financial Statements and
Supplemental Schedules

December 31, 2012 and 2011

(With Independent Auditors' Report Thereon)

SENTARA HEALTHCARE AND SUBSIDIARIES

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KPMG LLP
Suite 1900
440 Monticello Avenue
Norfolk, VA 23510

Independent Auditors' Report

The Board of Directors
Sentara Healthcare:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Sentara Healthcare and subsidiaries, which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to Sentara Healthcare's preparation and fair presentation of the consolidated financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2012 and 2011, and the results of their operations and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

As discussed in note 3(r) to the consolidated financial statements, Sentara Healthcare changed its presentation of provision for bad debts as a result of the adoption of Accounting Standards Update No. 2011-07, *Health Care Entities: Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and Allowance for Doubtful Accounts for Certain Health Care Entities*.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The supplementary information included in schedules 1 through 10 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and the other additional procedures in accordance with the auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Norfolk, Virginia
March 29, 2013

SENTARA HEALTHCARE AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2012 and 2011

(In thousands)

Assets		**2012**	**2011**
Current assets:			
Cash and cash equivalents	$	857,447	860,920
Receivables, net		460,629	416,796
Investments and assets whose use is limited		396,182	336,436
Inventories		52,838	53,211
Prepaid expenses and other current assets		43,146	42,137
Total current assets		1,810,242	1,709,500
Investments and assets whose use is limited		1,790,040	1,483,639
Property, plant, and equipment, net		1,545,665	1,520,026
Land held for future use, at cost		13,605	15,201
Other assets, net		147,349	116,890
Total assets	$	5,306,901	4,845,256
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued expenses	$	96,898	77,567
Employee compensation and benefits		177,464	171,837
Medical claims accrued and payable		85,058	100,001
Current installments of long-term debt		23,283	21,496
Long-term debt subject to current remarketing provisions		380,926	325,170
Estimated third-party payor settlements		3,339	5,089
Other current liabilities		130,374	130,859
Total current liabilities		897,342	832,019
Long-term debt, excluding current installments		960,224	988,063
Retirement obligations		388,145	291,822
Other long-term liabilities		344,284	327,582
Total liabilities		2,589,995	2,439,486
Net assets:			
Unrestricted		2,608,041	2,300,297
Temporarily restricted		65,276	66,640
Permanently restricted		18,639	18,358
Total net assets attributable to Sentara Healthcare		2,691,956	2,385,295
Noncontrolling interest		24,950	20,475
Total net assets		2,716,906	2,405,770
Total liabilities and net assets	$	5,306,901	4,845,256

See accompanying notes to consolidated financial statements.

SENTARA HEALTHCARE AND SUBSIDIARIES

Consolidated Statements of Operations

Years ended December 31, 2012 and 2011

(In thousands)

		2012	2011
Operating revenues, gains, and other support:			
Net patient service revenue (net of contractual allowances and discounts)	$	2,844,943	2,478,786
Provision for bad debts		(249,044)	(225,369)
Net patient service revenue less provision for bad debts		2,595,899	2,253,417
Premium and capitation revenue		1,354,516	1,371,761
Other operating revenue		110,339	73,808
Net assets released from restrictions for operations		7,474	6,063
Total operating revenues, gains, and other support		4,068,228	3,705,049
Operating costs and expenses:			
Salaries and wages		1,308,386	1,180,732
Benefits		313,226	259,759
Medical claims expense		847,351	827,018
Other operating expenses		1,120,928	1,000,932
Interest expense		46,720	37,013
Depreciation and amortization		167,819	155,087
Total operating costs and expenses		3,804,430	3,460,541
Net operating income		263,798	244,508
Nonoperating gains, net		167,572	77,770
Excess of revenues over expenses before noncontrolling interest		431,370	322,278
Noncontrolling interest		(4,475)	474
Excess of revenues over expenses attributable to Sentara Healthcare		426,895	322,752
Net assets released from restricted funds for capital purchases		5,945	8,730
Change in funded status of retirement obligations		(125,096)	(206,606)
Capital contribution of noncontrolling interest		—	(20,942)
Increase in unrestricted net assets	$	307,744	103,934

See accompanying notes to consolidated financial statements.

SENTARA HEALTHCARE AND SUBSIDIARIES

Consolidated Statements of Changes in Net Assets

Years ended December 31, 2012 and 2011

(In thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Noncontrolling interest	Total
Balance at December 31, 2010	$ 2,196,363	12,548	2,586	—	2,211,497
Excess of revenues over expenses	322,752	—	—	(474)	322,278
Net assets released from restricted funds for capital purchases	8,730	(8,730)	—	—	—
Change in funded status of pension liability	(206,606)	—	—	—	(206,606)
Contribution of Rockingham Memorial restricted net assets	—	14,993	15,240	—	30,233
Contribution of Martha Jefferson Hospital restricted net assets	—	41,325	582	—	41,907
Capital contribution of noncontrolling interest	(20,942)	—	—	20,942	—
Contributions	—	12,654	73	7	12,734
Net assets released from restrictions	—	(6,063)	—	—	(6,063)
Investment losses	—	(87)	(123)	—	(210)
Change in net assets	103,934	54,092	15,772	20,475	194,273
Balance at December 31, 2011	2,300,297	66,640	18,358	20,475	2,405,770
Excess of revenues over expenses	426,895	—	—	4,475	431,370
Net assets released from restricted funds for capital purchases	5,945	(5,945)	—	—	—
Change in funded status of pension liability	(125,096)	—	—	—	(125,096)
Contributions	—	8,596	64	—	8,660
Net assets released from restrictions	—	(7,474)	—	—	(7,474)
Investment earnings	—	3,459	217	—	3,676
Change in net assets	307,744	(1,364)	281	4,475	311,136
Balance at December 31, 2012	$ 2,608,041	65,276	18,639	24,950	2,716,906

See accompanying notes to consolidated financial statements.

SENTARA HEALTHCARE AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2012 and 2011

(In thousands)

		2012	2011
Cash flows from operating activities:			
Increase in net assets	$	311,136	194,273
Adjustments to reconcile increase in net assets to net cash provided by operating activities:			
Capital contribution by noncontrolling interest		—	(20,942)
Contribution of RMH net assets		—	(140,825)
Contribution of MJH net assets		—	(61,375)
Provision for bad debts		249,044	225,369
Depreciation and amortization		167,819	155,087
Net realized and unrealized (losses) gains on investments		(108,867)	30,600
Loss on disposal of property, plant, and equipment		101	4,880
Loss on refunding of debt		5,920	232
Amortization of bond premiums		321	(640)
Change in market value of derivative instruments		(349)	57,017
Equity in earnings of limited investment companies		(21,128)	4,449
Equity in earnings of joint ventures		(20,122)	(16,698)
Restricted contributions received		(8,660)	(12,734)
Changes in operating assets and liabilities:			
Receivables, net		(292,877)	(258,418)
Inventories		373	(5,017)
Prepaid expenses and other current assets		(1,009)	1,690
Accounts payable and accrued expenses		19,331	(14,830)
Employee compensation and benefits		5,627	20,065
Medical claims accrued and payable		(14,943)	3,576
Estimated third-party payor settlements		(1,750)	4
Retirement obligations		96,323	193,315
Other liabilities		16,566	(40,973)
Net cash provided by operating activities		402,856	318,105
Cash flows from investing activities:			
Capital expenditures		(195,635)	(235,751)
Purchases of investments, net		(244,534)	(67,029)
Contribution of RMH cash		—	65,151
Contribution of MJH cash		—	73,818
Net changes in other assets		(11,470)	29,753
Proceeds from the disposal of property, plant, and equipment		4,439	9,044
Net cash used in investing activities		(447,200)	(125,014)
Cash flows from financing activities:			
Restricted contributions received		8,660	12,734
Capital contribution by noncontrolling interest		—	20,695
Proceeds from issuance of long-term debt		303,053	—
Payments on long-term debt		(270,842)	(36,745)
Net cash provided by (used in) financing activities		40,871	(3,316)
Net (decrease) increase in cash and cash equivalents		(3,473)	189,775
Cash and cash equivalents at beginning of year		860,920	671,145
Cash and cash equivalents at end of year	$	857,447	860,920
Supplemental disclosures of cash flow information:			
Cash paid during the year for interest	$	46,753	24,117
Cash refunded during the year for income taxes		(860)	(1,079)

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.

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

(b) Principles of Consolidation

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 provided in the subsidiaries Articles of Incorporation and Bylaws. All significant intercompany balances and transactions have been eliminated in consolidation. Noncontrolling interests have been recorded to recognize the portion of the net assets and operating results of affiliates not wholly owned by Sentara.

The consolidated financial statements include the subsidiaries of Sentara organized into the following lines of business:

- Sentara Healthcare Corporate (SHC) 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, Northern Virginia, and Blue Ridge areas of Virginia, 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 Williamsburg Regional Medical Center (SWRMC), Sentara Obici Hospital (SOH), Sentara Princess Anne Hospital (SPAH), Sentara Northern Virginia Medical Center (SNVMC), Rockingham Memorial Hospital (RMH), and Martha Jefferson Hospital (MJH).
- Sentara Enterprises (SE) administers various outpatient healthcare programs, including home health services and patient transportation.
- Sentara Life Care Corporation (SLCC) provides geriatric care services and operates long-term care and assisted living facilities.
- Optima Health Plan (OHP) is a health maintenance organization.
- Sentara Holdings, Inc. (SHI) includes the subsidiaries Sentara Health Plans, Inc. (SHP), Sentara Ventures, Inc. (SVI), and Obici Professional Center (OPC). SHP provides and

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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. 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) owns and operates physician practices and urgent care centers. SMG Innovations (SMGI) is a subsidiary of SMG and owns and operates specialized physician practices.

(2) Affiliations and Joint Ventures

(a) Affiliations

On December 6, 2010, Sentara executed an Amended and Restated Affiliation Agreement (the RHC Agreement) with Rockingham Health Care Inc. (RHC) and RMH providing for an affiliation between Sentara and RMH, the Valley Wellness Center, RMH Medical Group, LLC, and Rockingham Health Services (collectively referred to as RMH Healthcare). The governing documents of RHC were amended and restated such that effective May 1, 2011, the closing date of affiliation, Sentara became the sole member of RMH Healthcare. RHC remained a separate, unaffiliated legal entity. RMH Healthcare primarily consists of RMH, a 238-bed community hospital that provides services to a seven-county area surrounding Harrisonburg, Virginia. RMH Healthcare also provides preventative healthcare and rehabilitation services and operates physician practices. The transaction brings together two healthcare organizations, each of whom is firmly committed to providing high-quality care, ensuring patient safety, and delivering exceptional customer service by achieving best practices in healthcare delivery, acquiring cutting edge technology and integrated information systems and providing a higher level of medical care to the community. During 2011, Sentara contributed $6,000 to the Foundation of RMH designated for exclusive use in RMH's primary and secondary service areas.

Pursuant to the RHC Agreement, Sentara has committed to expend a total investment of $269,000 over a 20-year period to support expansion and enhancement of medical services for the communities served. Such amounts will be expended pursuant to plans and budgets approved by RMH Healthcare's Board of Directors and Sentara.

On April 1, 2011, Sentara executed an Affiliation Agreement (the MJHSC Agreement) with Martha Jefferson Health Services Corporation (MJHSC) and its subsidiaries providing for an affiliation between Sentara and MJH, Martha Jefferson Hospital Foundation (MJH Foundation), Martha Jefferson Medical Enterprises, Inc., and Martha Jefferson Medical Group, LLC (collectively referred to as Martha Jefferson). The governing documents of MJHSC were amended and restated such that effective June 1, 2011, the closing date of affiliation, Sentara became the sole member of Martha Jefferson. MJHSC remained a separate, unaffiliated legal entity. Martha Jefferson primarily consists of MJH, a 176-bed, acute inpatient, outpatient, and emergency care provider to residents of Charlottesville, Virginia and its surrounding area. The transaction brings together two healthcare organizations, each of whom is firmly committed to providing high-quality care, ensuring patient safety, and delivering exceptional customer service by achieving best practices in healthcare delivery, acquiring cutting edge technology and integrated information systems and providing a higher level of medical care to the community.

Pursuant to the MJHSC Agreement, Sentara has committed to expend a total investment of $266,000 over a 15-year period to support expansion and enhancement of medical services for the communities served. Such amounts will be expended pursuant to plans and budgets approved by Martha Jefferson's Board of Directors and Sentara.

No consideration was paid to MJHSC or RHC as a result of the Agreements. Sentara applied the business combination accounting guidance in Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2010-07, *Not-for-Profit Entities* (Topic 958-805): *Mergers and Acquisitions*, to account for the transactions. The guidance primarily characterizes business combinations between not-for-profit entities as nonreciprocal transfers of assets resulting in the contribution of the fair value of the acquiree's net assets to the acquirer. Accounting Standards Codification (ASC) 958-805 prescribes that the acquirer recognize an excess of the fair value of the acquisition date unrestricted net assets acquired over the fair value of the consideration transferred as a separate credit in its consolidated statement of operations. Accordingly, Sentara recognized, as a component of nonoperating gains, net, contribution income related to the unrestricted net assets acquired in the transactions of $130,060 in its consolidated statements of operations for the year ended December 31, 2011. Sentara also recorded an increase in restricted net assets of $72,140 in its statements of changes in net assets for the year ended December 31, 2011 as a result of the affiliations.

(Continued)

(In thousands)

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed as of the date of the affiliations:

		RMH Healthcare	Martha Jefferson	Total
Assets:				
Current assets	$	144,409	130,963	275,372
Property and equipment		134,022	154,649	288,671
Other long-term assets		139,916	188,767	328,683
Total assets	$	418,347	474,379	892,726
Liabilities:				
Current liabilities	$	31,091	52,654	83,745
Long-term debt		265,841	228,692	494,533
Other long-term liabilities		60,040	52,208	112,248
Total liabilities		356,972	333,554	690,526
Net assets acquired:				
Unrestricted		31,142	98,918	130,060
Temporarily restricted		14,993	41,325	56,318
Permanently restricted		15,240	582	15,822
Total net assets		61,375	140,825	202,200
Total liabilities and net assets	$	418,347	474,379	892,726

The following tables summarize the activity attributable to RMH Healthcare and Martha Jefferson since the dates of affiliation through December 31, 2011, and Sentara's pro forma combined results as though the affiliation date occurred at the beginning of fiscal year 2011:

		RMH Healthcare	Martha Jefferson	Total
Since affiliation date:				
Operating revenues	$	247,660	137,887	385,547
Net operating income		13,022	2,065	15,087
Changes in net assets:				
Unrestricted	$	(15,063)	(49,989)	(65,052)
Temporarily restricted		3,967	(2,865)	1,102
Permanently restricted		(506)	373	(133)
Total changes in net assets	$	(11,602)	(52,481)	(64,083)

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(In thousands)

		Sentara pro forma combined
Beginning of fiscal year 2011:		
Operating revenues	$	4,152,370
Net operating income		252,958
Changes in net assets:		
Unrestricted	$	(304,638)
Temporarily restricted		22,586
Permanently restricted		458
Total changes in net assets	$	(281,594)

(b) Joint Venture

SPAH opened on August 4, 2011 as a 160-bed acute care hospital that serves southern Virginia Beach, as well as neighboring Chesapeake and northeastern North Carolina communities. SPAH is a joint venture between Sentara and Bon Secours Health System, Inc. (Bon Secours) (collectively, the Members) pursuant to an Amended and Restated Master Agreement executed on August 3, 2011. Approximately 80% of the project costs for the new hospital were financed by Sentara, the borrowings of which were assumed by the joint venture. The remaining project costs plus working capital were funded 70% by Sentara and 30% by Bon Secours. Distributions to the Members will occur in accordance with the respective membership interests following the accumulation of days cash on hand above certain thresholds. Sentara Bayside Hospital was converted to an ambulatory campus of SVBGH on the same date as a result of the transaction and was considered replaced by SPAH in terms of Medicare reimbursement.

The financial position and results of operations of SPAH are included in the consolidated financial statements of Sentara. Bon Secours' interest is reflected as a noncontrolling interest in the consolidated statements of changes in net assets. An excess of revenues over expenses of $10,455 and $4,475 was attributable to Sentara and to the noncontrolling interest, respectively, for the year ended December 31, 2012. A deficiency of revenues over expenses of $1,107 and $474 was attributable to Sentara and to the noncontrolling interest, respectively, for the five-month period ended December 31, 2011.

(3) Summary of Significant Accounting Policies

(a) Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with original maturities of three months or less, excluding amounts held in investments.

At December 31, 2012 and 2011, unrestricted cash and cash equivalents totaling $81,570 and $141,323, respectively, and unrestricted investments totaling $204,809 and $198,628, 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.

(b) Investments and Assets Limited as to Use

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

Sentara invests in alternative investments in the form of limited liability companies or partnerships. Alternative investments are accounted for under the equity method based on Sentara's interest in their underlying net assets. Alternative investments are typically not readily marketable, accordingly, their fair value may be different from their carrying value and that difference could be material. Sentara's share of alternative investment gains and losses is included in nonoperating gains, net. Alternative investments are included in investments in the consolidated balance sheets.

Sentara's investments are exposed to several risks, including interest rate, currency, market, and credit risks. It is at least reasonably possible that changes in the values of investment securities will occur in the near term due to these risks and such changes could materially affect the amounts reported in the consolidated financial statements.

Sentara has invested in a number of joint ventures, limited liability corporations, and other nonpublic entities that provide specialty healthcare services or engage in other activities. Investments where Sentara has between a 20% and up to a 50% ownership interest are accounted for using the equity method. Sentara's equity in their earnings, which totaled $20,122 and $16,698 for the years ended December 31, 2012 and 2011, respectively, is included in other operating revenue. These investments are included in other assets, net, in the consolidated balance sheets and totaled $36,079 and $39,342 at December 31, 2012 and 2011, respectively.

Assets limited as to use include assets held by trustees under debt agreements, malpractice funding arrangements, derivative financial instrument agreements, or internally designated as endowment funds.

(c) Property, Plant, and Equipment

Property, plant, and equipment are recorded at cost at the date of acquisition or fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the life of the lease, or the useful life of the asset, whichever is shorter. Estimated useful lives range from 3 to 25 years for land improvements; 10 to 50 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.

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(d) Impairment of Long-Lived Assets

Sentara assesses long-lived assets for impairment by determining whether their carrying value can be recovered through the undiscounted future operating cash flows generated by the assets. The amount of impairment, if any, is measured by comparison of the fair value of the assets to their carrying value. Fair value is determined using market data or projected discounted future operating cash flows using a discount rate reflecting Sentara's weighted average cost of capital.

(e) Goodwill

Goodwill represents the excess or deficiency of the purchase price over the fair value of the net assets of acquired companies. In accordance with ASU 2010-07, Sentara no longer amortizes goodwill, but tests the carrying value of goodwill annually for impairment. Total goodwill recognized on acquisitions, less accumulated amortization, was $25,037 and $23,743 as of December 31, 2012 and 2011, respectively, and is included in other assets, net.

(f) Medical Claims Accrued and Payable

Claims unpaid by Sentara's insurance subsidiaries 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.

(g) 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. Sentara has elected not to use hedge accounting with respect to any of its derivative financial instruments. Accordingly, the change in fair value of these instruments is included in nonoperating income, net. Net cash settlement amounts are included in interest expense.

(h) Temporarily and Permanently Restricted Net Assets

Net assets and their related changes are classified based on the existence or absence of donor-imposed restrictions. Temporarily restricted net assets have been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained in perpetuity. Related income is classified as temporarily restricted until expended. Net assets have been restricted primarily for the provision of various healthcare services.

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

Activities related to the provision of healthcare services are reported as operating revenues and expenses. Activities, which result in gains or losses unrelated to Sentara's primary mission are considered to be nonoperating.

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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 nonperiodic changes in the funded status of defined-benefit pension plans, contributions of long-lived assets (including assets acquired using donor-restricted contributions), and capital contributions from noncontrolling interests.

(j) Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts, 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.

(k) 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, related charges are not reported as revenue or included in accounts receivable.

(l) Premium and Capitation Revenue

Premium and capitation payments are recognized as revenue during the coverage period Sentara's insurance subsidiaries are obligated to provide healthcare services. Premium billings are billed in the month preceding the coverage period and are recorded as unearned revenue until earned. Payments received by the Hospitals from SHP are eliminated in consolidation.

(m) Medical Claims Expense

Medical claims expense for Sentara's insurance subsidiaries 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. Reinsurance premiums, net of recoveries, are included in medical claims expense in the accompanying consolidated statements of operations.

(n) Income Taxes

Sentara and its not-for-profit subsidiaries have been recognized by the Internal Revenue Service as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code. SHI, its incorporated subsidiaries, and SMGI account for income taxes in accordance with FASB ASC Topic 740, *Income Taxes*. Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss 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

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a change in tax rates is recognized in the period that includes the enactment date. Any changes to the valuation allowance on the deferred tax asset are reflected in the year of the change. Sentara accounts for uncertain tax positions in accordance with ASC Topic 740.

(o) 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 reporting period. Significant items subject to such estimates and assumptions include valuation allowances for receivables, recoverability of long-lived assets and goodwill, medical claims liabilities, self-insurance accruals, third-party payor settlements, and retirement obligations. Actual results could differ from those estimates.

(p) Fair Value of Financial Instruments

The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FASB ASC Topic 820, *Fair Value Measurements*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted market prices in active markets for identical assets (Level 1) and the lowest priority to unobservable inputs (Level 3).

The carrying amounts of cash and cash equivalents, patient accounts receivable, other receivables, accounts payable and accrued expenses, employee compensation and benefits, estimated third-party payor settlements, and other liabilities reported in the consolidated balance sheets approximate fair value because of the short maturity of these instruments.

(q) Subsequent Events

Sentara has evaluated subsequent events for recognition and disclosure through March 29, 2013, the date the consolidated financial statements were issued.

On October 4, 2012, Sentara signed a letter of intent to affiliate with Halifax Regional Health System (HRHS), which is located in South Boston, Virginia. HRHS includes a 192-bed community hospital, three long-term care facilities comprising 348 beds, Halifax Home Health and Halifax Regional Hospice and the Physician Hospital Enterprise. HRHS provides healthcare services to Halifax, Charlotte and Mecklenburg counties and surrounding communities. The affiliation is expected to be finalized during 2013.

(r) Newly Issued and Adopted Accounting Pronouncements

On January 1, 2011, Sentara adopted ASU 2010-23, *Health Care Entities* (Topic 954): *Measuring Charity Care for Disclosure*. ASU 2010-23 is intended to reduce the diversity in practice regarding the measurement basis used in the disclosure of charity care across healthcare entities that provide it. ASU 2010-23 requires that cost be used as the measurement basis for charity care disclosure purposes and that cost be defined as the direct or indirect cost of providing the charity care, and requires disclosure of the method used to identify or determine such costs. These disclosures are included in note 11 to the consolidated financial statements.

(In thousands)

On December 31, 2011, Sentara adopted ASU 2011-08, *Intangibles-Goodwill and Other* (Topic 350), *Testing Goodwill for Impairment*, which permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. The more likely than not threshold is defined as having a likelihood of more than 50%. Sentara determined that it was not more likely than not that the fair value of its reporting unit was less than its carrying amount. Accordingly, Sentara concluded that goodwill was not impaired as of December 31, 2012 without having to perform the two-step impairment test.

On January 1, 2012, Sentara adopted ASU 2011-07, *Health Care Entities* (Topic 954), *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*, which, among other things, requires certain healthcare entities to present the provision for bad debts associated with patient service revenue as a deduction from patient service revenue (net of contractual allowances and discounts) rather than an operating expense. Additionally, enhanced disclosures about an entity's policies for recognizing revenue, assessing contra revenue line items and qualitative and quantitative information about changes in the allowance for bad debts are required. These disclosures are included in note 5 to the consolidated financial statements.

(4) Net Patient Service Revenue

Net patient service revenue, before provision for bad debts, is computed as follows for the years ended December 31:

		2012	2011
Gross patient charges	$	7,476,941	6,357,193
Charity care		443,435	377,475
Gross patient service revenue		7,033,506	5,979,718
Deductions:			
Medicare, Medicaid, and Tricare contractual deductions		2,801,631	2,374,377
Other discounts and adjustments		1,386,932	1,126,555
Total	$	2,844,943	2,478,786

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 is as 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. RMH is considered a sole-community service provider by Medicare and its prospective payment rates may be adjusted for inpatient operating costs. 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 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 2007 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 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 are reimbursed based on a DRG-based PPS, which is subject to certain limitations and possible retroactive adjustment. All hospitals have final settled with the Medicaid program through the 2011 cost report year.

In addition to Medicare and Medicaid discussed above, Sentara also provides 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 2012 and 2011, the effect of these settlement adjustments was to increase net patient service revenue by approximately $4,792 and $5,864, respectively.

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 $80,822 and $90,872 as of December 31, 2012 and 2011, respectively.

The Health Information Technology for Economic and Clinical Health (HITECH) Act that was enacted as part of the American Recovery and Reinvestment Act of 2009 was signed into law in February 2009. In the

(Continued)

(In thousands)

context of the HITECH Act, certain healthcare entities must implement a certified Electronic Health Record (EHR) in an effort to promote the adoption and "meaningful use" of health information technology (HIT). Understanding the strategic importance of an EHR system, Sentara invested in a certified EHR system prior to the HITECH Act. The HITECH Act includes significant monetary incentives meant to encourage the adaptation of an EHR system. During 2012 and 2011, Sentara recognized incentive payments totaling $22,104 and $12,814, respectively, which are included in other operating revenue in the consolidated statements of operations.

The general healthcare industry environment is increasingly uncertain, especially with respect to the impact of Federal healthcare reform legislation, which was passed in 2010 and largely upheld by the U.S. Supreme Court in June 2012. Potential impacts of ongoing healthcare industry transformation include, but are not limited to (1) significant capital investments in healthcare information technology, (2) continuing volatility in the state and federal government reimbursement programs, (3) lack of clarity related to the health benefit exchange framework mandated by reform legislation, including important open questions regarding exchange reimbursement levels, changes in disproportionate share payments, and impact on the healthcare "demand curve" as the previously uninsured enter the insurance system, and (4) effective management of multiple major regulatory mandates, including the transition to ICD-10.

(5) Receivables, Net

Receivables, net are summarized as follows at December 31:

		2012	2011
Patient accounts receivable	$	1,052,901	1,006,470
Less:			
Contractual allowances for third-party payors		546,445	542,276
Allowances for bad debts		170,172	144,925
Patient accounts receivable, net		336,284	319,269
Premium and capitation receivables, net		58,833	53,973
Estimated third-party payor settlements		31,406	14,432
Other receivables		34,106	29,122
Receivables, net	$	460,629	416,796

Patient accounts receivable are reduced by an allowance for bad debts. In evaluating the collectibility of accounts receivable, Sentara analyzes historical collections and write-offs and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for bad debts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for bad debts. For receivables associated with services provided to patients who have third-party coverage, Sentara analyzes contractually due amounts and provides an allowance for bad debts, allowance for contractual adjustments, provision for bad debts, and contractual adjustments on accounts for which the third-party payor has not yet paid or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely. For receivables associated with self-pay patients or with balances remaining after the third-party coverage has already paid, Sentara records a significant provision for bad debts in the period of service on the basis of its historical collections, which indicates that many patients are unwilling to pay the portion of their bill for which they are financially responsible. The difference between the discounted rates and the amounts collected after all reasonable collection efforts have been exhausted is charged off against the allowance for bad debts.

(In thousands)

The activity in the allowance for bad debts is summarized as follows for the years ended December 31:

		2012	2011
Beginning balance as of January 1	$	144,925	104,863
Provision for bad debts		249,044	225,396
Less: writeoffs		(223,797)	(185,334)
Ending balance as of December 31	$	170,172	144,925

The change in the allowance for bad debts during 2012 is attributable to increased self-pay patient volumes and trends experienced in the collection of the related patient receivables.

(6) Investments and Assets Whose Use is Limited

A summary of investments and assets whose use is limited included in the accompanying December 31 consolidated balance sheets is as follows:

		2012	2011
Investments at fair value	$	1,888,855	1,577,715
Investment companies accounted for under the equity method		297,367	242,360
Total investments		2,186,222	1,820,075
Less portion required to pay current liabilities		396,182	336,436
	$	1,790,040	1,483,639

Investments at estimated fair value are comprised of the following:

		2012	2011
Unrestricted investments	$	1,966,938	1,628,342
Donor-restricted investments		65,127	61,497
Assets whose use is limited under indenture, self-insurance funding arrangement and derivative financial instrument agreements held by trustee		139,510	116,453
Assets internally designated as endowment fund		14,647	13,783
Total investments at estimated fair value	$	2,186,222	1,820,075

The three levels of the fair value hierarchy are as follows:

Level 1 – Quoted prices for identical assets or liabilities in active markets.

Level 2 – Quoted prices for similar instruments in active markets; for identical instruments in markets that are not active; and model-driven valuations whose inputs are observable either indirectly or directly.

Level 3 – Unobservable inputs that are significant to the fair value of the assets or liabilities.

Short-term investments are comprised of cash equivalents and 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.

Fair values for Sentara's fixed maturity securities are based on prices provided by its investment managers and its custodian bank, which use a variety of pricing sources to determine market valuations. 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. Equity securities where a public quotation is not available are valued by using broker quotes.

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 ASU 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.

(In thousands)

The following tables present Sentara's fair value hierarchy for those assets measured at estimated fair value on a recurring basis as of December 31, 2012 and 2011, respectively:

			Fair value measurements at December 31, 2012 using		
		Total	**Level 1**	**Level 2**	**Level 3**
Investments:					
Fixed maturities:					
Domestic	$	778,714	448,671	330,043	—
International		7,717	358	7,359	—
Equity securities:					
Domestic		847,363	847,363	—	—
International		5,390	954	4,436	
Multiasset funds		89,345	89,345	—	—
Alternative investments:					
Hedge funds		173,568	—	137,014	36,554
Private equity		40,255	—	—	40,255
Real estate		116,579	—	—	116,579
Short-term investments		127,291	127,291	—	—
Total	$	2,186,222	1,513,982	478,852	193,388

			Fair value measurements at December 31, 2011 using		
		Total	**Level 1**	**Level 2**	**Level 3**
Investments:					
Fixed maturities:					
Domestic	$	633,693	427,049	206,644	—
International		7,732	316	7,416	—
Equity securities:					
Domestic		596,047	596,047	—	—
International		15,972	14,187	1,785	—
Multiasset funds		25,732	25,732	—	—
Alternative investments:					
Hedge funds		158,805	—	123,931	34,874
Private equity		41,458	—	—	41,458
Real estate		53,196	—	—	53,196
Commingled funds		14,063	—	14,063	—
Short-term investments		273,377	273,377	—	—
Total	$	1,820,075	1,336,708	353,839	129,528

(Continued)

(In thousands)

For the years ended December 31, 2012 and 2011, the reconciliation of investments with estimated fair value measurements using significant unobservable inputs (Level 3) is as follows:

		2012	2011
Beginning balance, as of January 1	$	129,528	91,217
Addition of RMH and MJH investments		—	38,408
Total net gains (losses) unrealized and realized		11,604	(97)
Purchases, sales, issuances and settlements		49,347	—
Net transfers from Level 2		2,909	—
Ending balance, December 31	$	193,388	129,528

Sentara's limited investment companies are reported on the equity method based on the underlying net asset value of the investments. 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.

Sentara's limited investment companies include redemption restrictions. Hedge fund investments may require 65 to 105 day written notice of intent to withdraw and may be subject to a 12 to 36 month lock up period. Private equity investments do not include provisions for redemption, and are distributed by the fund on a discretionary basis as restrictions are met and capital permits. Level 3 real estate investments require written notice of intent to withdraw and are subject to the capital requirements of the fund manager.

Sentara has remaining capital commitments of $28,538 at December 31, 2012 for certain limited investment companies.

(In thousands)

(7) Property, Plant, and Equipment

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

		2012	2011
Land	$	123,356	123,103
Land improvements		89,873	84,511
Buildings		1,038,880	1,042,247
Fixed equipment		552,183	500,088
Major moveable equipment		1,328,123	1,234,169
Leasehold improvements		45,413	44,495
		3,177,828	3,028,613
Less accumulated depreciation and amortization		1,723,910	1,569,322
		1,453,918	1,459,291
Construction in progress		91,747	60,735
Total	$	1,545,665	1,520,026

Depreciation and amortization related to property, plant, and equipment totaled $167,052 and $150,632 for the years ended December 31, 2012 and 2011, respectively.

Construction projects in progress at December 31, 2012 are expected to have remaining project costs of approximately $115,654. The commitments include the costs to complete a new bed tower at SLH, an outpatient facility for SNVMC and other projects.

(In thousands)

(8) Long-Term Debt

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

	2012	2011
Sentara Healthcare Obligated Group Revenue and Refunding Bonds:		
Series 2012A, payable in installments ranging from $390 to $5,850 from 2013 through 2034, with interest at a variable rate of SIFMA plus 0.08% (actual interest rate at December 31, 2012 was 0.21%)	$ 68,580	—
Series 2012B, payable in installments ranging from $2,150 to $26,110 through 2043, with fixed interest rates ranging from 2.0% to 5.0% (average interest rate at December 31, 2012 was 4.57%)	146,810	—
Series RMH 2011A-C, payable in installments of $1,200 from 2015 through 2039, with interest at a variable rate of 67.0% of one-month LIBOR plus 0.40% (actual interest rate at December 31, 2012 was 0.54%)	30,000	10,000
Series RMH 2010A-C, payable in installments ranging from $1,724 to $2,724 through 2040, with interest at a variable rate of 67.0% of one-month LIBOR plus 0.40% (actual interest rate at December 31, 2012 was 0.54%)	73,276	75,000
Series 2010, payable in installments ranging from $1,600 to $37,160 through 2040, with fixed interest rates ranging from 4.0% to 5.0% (average interest rate for 2012 was 4.77%)	264,305	272,970
Series 2010B-C, payable in installments ranging from $425 to $11,250 through 2034, with interest at a variable rate of SIFMA plus 0.12% (actual interest rate at December 31, 2012 was 0.25%)	131,860	132,480
Series 2009A, refunded by Series 2012A	—	68,890
Series MJH 2008A-D, payable in installments ranging from $1,135 to $11,535 through 2048, with interest at a variable rate set daily or weekly (actual interest rates at December 31, 2012 were 0.07% and 0.14%)	160,795	160,795
Series 2008, payable in installments ranging from $1,450 to $26,860 through 2035, with a fixed interest rate of 5.75%	156,615	156,615
Series RMH 2006, payable in installments ranging from $1,140 to $11,670 through 2046, with fixed interest rates ranging from 4.0% to 5.0% (average interest rate for 2012 was 4.77%)	188,005	189,050

(In thousands)

		2012	2011
City of Suffolk 1998, payable in annual installments of $667 through 2017, with a fixed interest rate of 4.71%	$	3,333	4,000
Isle of Wight 1998, payable in annual installments of $667 through 2017, with a fixed interest rate of 4.76%		3,333	4,000
Sussex County 1998, payable in annual installments of $267 through 2013 with a fixed interest rate of 4.69%		267	800
Surry County 1997, repaid in 2012		—	1,000
Series 1993, payable in installments ranging from $2,915 to $3,775 through 2018, with fixed interest rates of 5.13% and 6.00% (average interest rate for 2012 was 6.00%)		20,015	22,765
Sentara Northern Virginia Medical Center Hospital Revenue Bonds -			
Series 2003, advance refunded by Series 2012B		—	46,660
Rockingham Memorial Hospital Revenue and Refunding Bonds -			
Series 2009, restructured in 2012		—	20,000
Martha Jefferson Hospital Revenue and Refunding Bonds:			
Series 2003, repaid in 2012		—	21,030
Series 2002, advance refunded by Series 2012B		—	44,580
Notes Payable:			
Sentara Healthcare Commercial Paper Note program:			
$130,000 authorized tax-exempt issue, weighted average maturity and interest rate at December 31, 2012 was 85.0 days and 0.18%, respectively		52,800	123,800
$125,000 authorized taxable issue, weighted average maturity and interest rate at December 31, 2012 was 53.3 days and 0.26%, respectively		71,000	—
Note payable due 2014 with a fixed rate of interest of 7.00%		416	700
Note payable due 2017 with a fixed rate of Prime, adjusted every five years (actual interest rate at December 31, 2012 was 5.75%)		247	272
Capital lease obligations		1,121	1,823
		1,372,778	1,357,230
Unamortized bond discount, net		(8,345)	(22,501)
Less amount classified as current		(404,209)	(346,666)
	$	960,224	988,063

(a) Obligated Group Revenue and Refunding Bonds

The Sentara Healthcare Obligated Group Revenue and Refunding Bonds were issued under various sales agreements between Sentara and the Industrial Development Authority (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 U.S. Bank, NA, as trustee.

In April 2012, Sentara issued $68,890 in variable rate Hospital Facilities Revenue and Refunding Bonds. The proceeds of the bonds were used to fully refund the Series 2009A Bonds.

In May 2012, Sentara issued $148,740 in fixed rate Health Care Facilities Revenue and Refunding Bonds. A portion of the proceeds are being used to substantially replace the existing SLH through the construction of a new bed tower, as well as other ongoing and planned major infrastructure renovations and replacements. The remaining proceeds were used to fully refund the Series 2003 SNVMC Revenue Bonds and the Series 2002 MJH Revenue Bonds. A total loss of $5,920 was recognized on the refundings and is included in nonoperating gains, net in the 2012 consolidated statement of operations. A premium of $14,423 was recognized related to the issuance of the debt and is recognized in long-term debt, excluding current portion in the 2012 consolidated balance sheet.

In November 2011, the Sentara Board of Directors approved an amendment to the Master Trust Indenture to include RMH and MJH as affiliates to the Sentara Obligated Group. Sentara, RMH, and MJH subsequently initiated debt restructures whereby the promissory notes securing a portion of the debt of RMH and MJH were substituted with the credit of promissory notes issued under the Sentara Master Trust Indenture. The substitution of the promissory notes transfers the primary obligation under the debt from RMH and MJH to Sentara. As of December 31, 2011, the restructures of the RMH Series 2010 and 2009A Bonds for $75,000 and $10,000, respectively, were complete and thus were included as part of the Sentara Obligated Group's debt as Series RMH 2010 A-C Bonds and Series RMH 2011A Bonds, respectively. The remaining debt of RMH, Series 2009B-C Bonds and Series 2006 Bonds of $20,000 and $189,050, respectively, was restructured in January of 2012. Additionally, the MJH Series 2008 A-D Bonds were restructured in January of 2012 for $160,795.

Sentara maintains a balance of short-term investments equal to the Series 2012A Bonds (formerly 2009A Bonds), Series 2010B-C Bonds, MJH 2008 A-D Bonds and a portion of commercial paper issuances, which are not covered by a letter of credit (self-liquidity) and also for debt backed by lines of credit that expire in less than one year. Long-term debt subject to current remarketing provisions and covered by self-liquidity totaled $380,926 and $325,170 as of December 31, 2012 and 2011, respectively, and is classified as a current liability.

(b) Commercial Paper Revenue Notes

Issuance of the tax-exempt Sentara Healthcare Commercial Paper Revenue Notes (the Notes) was authorized during 1998 under agreements between Sentara and the 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. Each Note will mature between 1 and

(In thousands)

270 days after its date of issuance. The maximum aggregate principal amount of the 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).

During 2012, Sentara entered into an agreement with a commercial finance company that authorizes the issuance of up to $125,000 of taxable commercial paper (the Commercial Paper). The Commercial Paper will be issued from time to time for general corporate purposes and to refund a portion of certain Notes previously issued. It is management's intent to continuously rollover the Commercial Paper; however, the outstanding principal amount of all the Commercial Paper must be repaid by 2028. Each Commercial Paper will mature between 1 and 270 days after its date of issuance.

Under the terms of the current Liquidity Facility, Sentara may borrow, subject to certain conditions, up to $100,000 to pay the principal portion of the Notes or the Commercial Paper 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, 2012 or 2011. The Liquidity Facility expires on June 5, 2015.

(c) Other

The Revenue and Refunding Bonds are not secured by any security interest in or lien on any revenues or real property. The Master Trust Indenture places certain restrictions on Sentara relative to operating ratios and incurrence of additional indebtedness.

At December 31, 2012, management believes that Sentara was in compliance with all such restrictions.

The fair value of all bonds and commercial paper revenue notes are determined by market quotations using Level 1 criteria. The fair value of all bonds and commercial paper revenue notes at December 31, 2012 and 2011 was approximately $1,425,000 and $1,345,000, respectively.

Estimated maturities and sinking fund requirements of all long-term indebtedness at December 31, 2012 are as follows:

2013	$	23,283
2014		17,871
2015		19,489
2016		20,981
2017		21,626
Thereafter		1,269,528
	$	1,372,778

(In thousands)

(9) Derivative Financial Instruments

Sentara uses interest rate swaps as a part of its risk management strategy to manage exposure to fluctuations in interest rates and to manage the overall cost of its debt. The interest rate swaps are not used for speculative purposes and are measured at fair value in the consolidated balance sheets.

The following table provides details regarding Sentara's fair value of derivative instruments currently classified as other long-term liabilities, and none of which are designated as cash flow hedging instruments:

Interest rate swap	Fair value	Notional amount outstanding	Rate paid	Rate received	Average rate received in 2012	Counterparty	Term
2004	$ (52,109)	198,906	3.51%	67% of One month (1M) LIBOR	0.24%	Wells Fargo (75%) & Goldman Sachs (25%)	30 years
2008	438	156,615	SIFMA + 0.19	5.75%	5.75	Citigroup	10 years
Sussex 1998	(1,680)	267	3.33%	59% of 1M LIBOR	0.14	Bank of America	25 years
RMH 2009 (Fixed Swap)	(583)	30,000	3.28%	67% of 1M LIBOR + 1.67%	1.83	SunTrust	5 years
MJH 2007 (Basis Swap)	(473)	76,325	SIFMA	67% of 1M LIBOR + 0.41%	0.63	UBS	20 years
MJH 2008 (Fixed Swap)	(52,154)	160,795	4.13%	SIFMA	0.18	UBS	40 years

In order to manage the credit risk of the swap agreements, Sentara and the counterparties are required to provide collateral in the event that the combined fair value of the swap agreements exceeds a predetermined threshold amount. The collateral posting requirements are based upon the rating classification of Sentara's long-term, unsecured, and unsubordinated debt securities as assigned by a relevant rating agency. As of December 31, 2012, Sentara posted $32,637 in collateral with counterparties, which is included in noncurrent assets whose use is limited in the 2012 consolidated balance sheet.

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. The change in the fair value of the interest rate swap agreements for the years ended December 31, 2012 and 2011 was $349 and $(58,001), respectively, and is included in nonoperating gains, net in the consolidated statements of operations. Sentara is exposed to credit loss in the event of nonperformance by the swap counterparties. Sentara manages this risk through the monitoring of the credit standing of its counterparties.

(10) Retirement Obligations

Sentara maintains a noncontributory defined-benefit pension plan that covers substantially all employees of Sentara Healthcare and its subsidiaries (Sentara Plan), except for SNVH and those entities that maintain separate plans, RMH (RMH Plan) and MJH (MJH Plan, collectively referred to as the Plans). MJH and RMH plan benefits were frozen effective December 31, 2005 and January 1, 2008, respectively.

(In thousands)

Accordingly, plan benefits are no longer increased for future service cost and compensation and no new participants are eligible for benefits subsequent to the frozen plan effective dates.

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. 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, 2012 and 2011 related to the Sentara Plan:

		2012	2011
Accumulated benefit obligation at measurement date	$	1,142,228	966,498
Change in projected benefit obligations:			
Benefit obligation at previous measurement date	$	1,081,612	880,997
Service cost		49,089	39,028
Interest cost		48,105	45,174
Actuarial loss		173,140	147,668
Benefit payments		(39,435)	(31,255)
Projected benefit obligations at measurement date	$	1,312,511	1,081,612
Change in assets:			
Fair value of assets at previous measurement date	$	841,568	783,654
Actual return on assets		102,418	17,170
Employer contributions		72,000	72,000
Benefit payments		(39,435)	(31,255)
Fair value of assets at measurement date	$	976,551	841,569
Amounts recognized in the consolidated balance sheets at December 31:			
Long-term liabilities	$	(335,960)	(240,043)
Amounts recognized in unrestricted net assets at December 31:			
Net actuarial loss	$	(496,779)	(393,132)
Prior service cost		69	(111)
Components of net periodic pension cost:			
Service cost	$	49,089	39,028
Interest cost		48,105	45,174
Expected return on plan assets		(61,918)	(54,513)
Prior service cost recognized		180	930
Amortization of actuarial loss		28,996	17,241
Net periodic pension cost	$	64,452	47,860

(Continued)

(In thousands)

The following table sets forth amounts recognized in the consolidated financial statements of Sentara as of and for the years ended December 31, 2012 and 2011 related to the MJH Plan:

		2012	2011
Accumulated benefit obligation at measurement date	$	88,916	76,576
Change in projected benefit obligations:			
Benefit obligation at previous measurement date and affiliation date	$	81,907	70,021
Service cost		1,398	671
Interest cost		3,635	2,111
Actuarial loss		8,736	10,162
Benefit payments		(1,941)	(1,058)
Projected benefit obligations at measurement date	$	93,735	81,907
Change in assets:			
Fair value of assets at previous measurement date and affiliation date	$	65,481	49,564
Actual return on assets		4,138	(638)
Employer contributions		16,000	17,613
Benefit payments		(1,941)	(1,058)
Fair value of assets at measurement date	$	83,678	65,481
Amounts recognized in the consolidated balance sheets at December 31:			
Long-term liabilities	$	(10,057)	(16,426)
Amounts recognized in unrestricted net assets at December 31:			
Net actuarial loss	$	(21,720)	(12,928)
Components of net periodic pension cost:			
Service cost	$	1,398	671
Interest cost		3,635	2,111
Expected return on plan assets		(4,667)	(2,129)
Amortization of actuarial loss		473	—
Net periodic pension cost	$	839	653

(Continued)

(In thousands)

The following table sets forth amounts recognized in the consolidated financial statements of Sentara as of and for the years ended December 31, 2012 and 2011 related to the RMH Plan:

		2012	2011
Accumulated benefit obligation at measurement date	$	127,716	105,669
Change in projected benefit obligations:			
Benefit obligation at previous measurement date and affiliation date	$	130,567	107,432
Service cost		4,530	2,887
Interest cost		5,684	3,962
Actuarial loss		10,339	18,064
Benefit payments		(2,930)	(1,778)
Projected benefit obligations at measurement date	$	148,190	130,567
Change in assets:			
Fair value of assets at previous measurement date and affiliation date	$	95,214	74,946
Actual return on assets		4,275	(4,354)
Employer contributions		9,503	26,400
Benefit payments		(2,930)	(1,778)
Fair value of assets at measurement date	$	106,062	95,214
Amounts recognized in the consolidated balance sheets at December 31:			
Long-term liabilities	$	(42,128)	(35,353)
Amounts recognized in unrestricted net assets at December 31:			
Net actuarial loss	$	(39,385)	(26,249)
Components of net periodic pension cost:			
Service cost	$	4,530	2,887
Interest cost		5,684	3,963
Expected return on plan assets		(7,293)	(3,831)
Amortization of actuarial loss		221	—
Net periodic pension cost	$	3,142	3,019

For the years ended December 31, 2012 and 2011, Sentara recognized a reduction in unrestricted net assets of $125,096 and $206,606, respectively, related to nonperiodic changes in the Plans assets and benefit obligations.

The estimated actuarial loss and prior service credit for the Plans that will be amortized from accumulated other comprehensive loss into net periodic cost over the next year are $39,683 and $28,610, respectively. No assets of the Plans are expected to be returned to Sentara for the year ending December 31, 2013.

(In thousands)

The assumptions used to determine benefit obligations for the Plans at December 31, 2012 and 2011 are as follows:

	2012		
	Sentara Plan	**RMH Plan**	**MJH Plan**
Discount rate	3.75%	3.75%	3.75%
Rate of compensation increase	4.00%	4.00%	3.50%
		2011	
Discount rate	4.51%	4.65%	4.50%
Rate of compensation increase	4.75%	5.00%	3.50%

Weighted average assumptions used to determine net periodic benefit cost for the Plans for 2012 and 2011 are as follows:

	2012		
	Sentara Plan	**RMH Plan**	**MJH Plan**
Discount rate	4.51%	4.65%	4.50%
Expected long-term return on plan assets	7.25%	7.25%	7.25%
Rate of compensation increase	4.00%	4.00%	3.50%
		2011	
Discount rate	5.32%	5.61%	5.25%
Expected long-term return on plan assets	7.25%	7.50%	7.25%
Rate of compensation increase	4.75%	5.00%	3.50%

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 selections listed above for the years ended December 31, 2012 and 2011.

(a) 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 Plans seeks to strike a balance between higher returns and controlling funding status volatility. To achieve its objectives, the Plans' assets are allocated based on a target allocation established by the Sentara Finance Committee and approved by the Sentara Board of Directors. Effective April 1, 2012 and

(In thousands)

October 1, 2012, RMH and MJH, respectively, adopted Sentara's investment target allocation. 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%

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 estimated fair value aggregated by the level in the fair value hierarchy within which those measurements fall as of December 31, 2012 and 2011, respectively:

		Fair value measurements at December 31, 2012 using		
	Total	Level 1	Level 2	Level 3
Investments:				
Fixed maturities:				
Domestic	$ 325,270	268,917	26,886	29,467
International	10,542	4,768	5,774	—
Equity securities:				
Domestic	513,726	483,908	28,557	1,261
International	9,692	5,760	3,932	—
Multiasset	50,032	50,032	—	—
Alternative investments	139,879	—	103,750	36,129
Short-term investments	117,150	117,150	—	—
Total	$ 1,166,291	930,535	168,899	66,857

(In thousands)

	Total	Fair value measurements at December 31, 2011 using Level 1	Level 2	Level 3
Investments:				
Fixed maturities:				
Domestic	$ 291,310	247,544	43,766	—
International	9,071	7,746	1,325	—
Equity securities:				
Domestic	438,098	424,546	11,873	1,679
International	9,627	9,627	—	—
Alternative investments	102,244	—	33,264	68,980
Short-term investments	151,914	151,914	—	—
Total	$ 1,002,264	841,377	90,228	70,659

For the years ended December 31, 2012 and 2011, the reconciliation of the Plans' assets with estimated fair value measurements using significant unobservable inputs (Level 3) was as follows:

	2012	2011
Beginning balance, as of January 1	$ 70,659	53,176
Addition of RMH and MJH investments	—	5,232
Total net gains unrealized and realized	9,051	4,362
Purchases, sales, issuances, and settlements	26,339	7,889
Net transfers to Level 2	(39,192)	—
Ending balance, December 31	$ 66,857	70,659

(b) Contributions

Sentara expects to contribute $124,500 to its Plans for the year ending December 31, 2013.

(In thousands)

(c) Estimated Future Benefit Payments

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

2013	$	69,644
2014		74,419
2015		80,247
2016		84,844
2017		93,231
2018-2022		539,349

The expected benefits to be paid are based on the same assumptions used to measure the Plans' benefit obligations at December 31, 2012.

(d) Supplemental Executive Retirement Plan

Sentara maintains a supplemental executive retirement plan for certain executives. Compensation expense under the plan was $2,202 and $2,098 for the years ended December 31, 2012 and 2011, respectively. Accrued benefit liabilities under this plan totaled $9,444 and $8,356 as of December 31, 2012 and 2011, respectively, and are included in other long-term liabilities in the consolidated balance sheets.

(e) Defined Contribution Retirement Plans

Substantially all of the employees of Sentara participate in defined-contribution retirement plans under Sections 403(b) and 401(k) of the Code. Sentara matches a percentage of contributions made by the employees. Sentara's contribution expense related to these plans for the years ended December 31, 2012 and 2011 was $20,075 and $21,589, respectively, and is included in benefits in the consolidated statements of operations.

(11) 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. The charity care policies of the new affiliates are generally consistent with that of Sentara's policy.

(In thousands)

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.
- 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 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 criterion 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:

		2012	2011
Components of estimated cost of charity and other uncompensated care:			
Charity care	$	135,680	115,616
Medicaid		40,557	21,921
Bad debt		81,694	73,917
Total estimated cost	$	257,931	211,454

(In thousands)

(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.

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 (the School), in continuous operation since 1892, educates nurses, surgical and cardiovascular technicians needed to provide the community with vital health services.

The following is a summary of Sentara's community commitment as measured by charity care and community benefit costs:

		2012	2011
Nonreimbursed cost of charity and uncompensated care	$	257,931	211,454
Medical education		19,866	16,187
Direct contributions and sponsorships		1,715	16,051
Community health programs		2,715	951
Total community benefits, at cost	$	282,227	244,643

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.

(In thousands)

(12) 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 receivables by significant payor type is as follows:

	2012	2011
Medicare	29%	32%
Medicaid	8	9
Anthem (Blue Cross)	19	17
SHP – HMO/PPO	8	9
All others (none more than 10%)	36	33
Total	100%	100%

Premium and capitation receivables consist primarily of amounts earned by Sentara's health plans for providing benefits to subscribers. OHP and SHP have concentrations of credit risk with the U.S. Government's Office of Personnel Management (OPM) for subscriber benefits provided under the Federal Employee Health Benefits Program (FEHBP), and with the Virginia DMAS for benefits to Medicaid recipients.

A breakdown of premium and capitation receivables by significant customers is as follows:

	2012	2011
OPM	13%	14%
DMAS	74	76
Other (none more than 10%)	13	10
Total	100%	100%

(13) Functional Expenses

Sentara provides various healthcare services to patients within its geographic region. Expenses related to providing these services are as follows:

		2012	2011
Healthcare services	$	2,929,411	2,643,328
General and administrative		875,019	817,213
Total operating costs and expenses	$	3,804,430	3,460,541

(14) Commitments and Contingent Liabilities

(a) General Liability and Malpractice Insurance

Sentara insures its professional, general, and managed care liability risks through insurance policies issued by Lexington Insurance Company. Professional and managed care liability risks are primarily insured on a claims-made basis and general liability risks are insured on a claims-incurred basis. 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. For the period July 1, 2003 through July 1, 2011, all subsidiaries except OHP, SHI, and SMG had a $1,500 per occurrence self-insured retention (SIR) under the policies for professional liabilities and a $750 per occurrence SIR for general liabilities. Effective July 1, 2011, the SIR was eliminated and all new exposures were assumed by Sentara’s wholly owned captive insurance company, Bay Primex.

Accrued professional liability costs on an undiscounted basis as of December 31, 2012 and 2011 amounted to $84,679 and $84,012, respectively. Cash and investments totaling $55,762 and $46,884 as of December 31, 2012 and 2011, respectively, have been designated by Sentara to settle these claims. Included in accrued professional liability costs are estimated claims incurred but not reported in the amounts of $23,339 and $28,552 as of December 31, 2012 and 2011, respectively.

The Lexington policies are fully reinsured by Bay Primex. The sole activity of Bay Primex 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 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.

Professional liability policies entered into on a claims-made basis 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

OHP and OHIC carry a stop-loss coverage policy for medical claims expense through Reinsurance Group of America, Incorporated (RGA). The deductible under the policy is $1,400 per member per policy year. Once the deductible is met in a policy year, RGA will reimburse 90% of eligible medical expenses up to a maximum of $5,000 per member per policy year for commercial members and up to a maximum of $2,000 per member per policy year for Medicaid members. 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 $858 and $656 for the years ended December 31, 2012 and 2011, respectively.

(In thousands)

(c) Employee Health Benefits

Sentara is self-insured for employee health benefits. Payments under the plan are limited to $300 per participant per year. The liabilities associated with these claims totaled $11,386 and $12,264 at December 31, 2012 and 2011, respectively.

(d) Workers' Compensation Insurance

Sentara is self-insured for workers' compensation insurance. The liability associated with these claims totaled $5,913 and $4,522 at December 31, 2012 and 2011, respectively.

(e) Lease Commitments

Certain Sentara subsidiaries are parties to operating leases for property and equipment. Rental expense incurred during the years ended December 31, 2012 and 2011 was approximately $53,135 and $50,000, respectively.

2013	$	28,029
2014		26,593
2015		24,902
2016		23,447
2017		18,935
Thereafter		58,292
Total future minimum lease payments	$	180,198

(f) Litigation

Sentara is subject to various legal proceedings and claims that are inherent to the provision of healthcare services. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on Sentara's consolidated financial position.

Laws and regulations governing Medicare and Medicaid programs are complex and subject to interpretation. Sentara, through its compliance program, seeks to ensure compliance with such laws and regulations and to rectify instances of noncompliance. 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.

(In thousands)

Sentara identified potential compliance violations during due diligence on recent acquisitions and has self-disclosed these potential violations to relevant regulatory authorities. Sentara is working collaboratively with these authorities to determine what, if any, fines and penalties might be appropriate. Although it is probable that some payments will have to be made by Sentara subsidiaries to relevant regulatory authorities, management believes, based on the information available to date, that the ultimate outcome to these matters will not have a material effect on Sentara's consolidated financial position or results of operations. Sentara is not aware of any ongoing violations, and policies and procedures have been put in effect, which are intended to ensure future compliance at these subsidiaries.

(15) Nonoperating Gains, Net

Nonoperating gains, net are summarized as follows:

		2012	2011
Investment income	$	43,904	38,665
Realized gains on investments, net		59,898	28,595
Unrealized gains (losses) on investments, net		48,969	(55,180)
Equity in earnings (losses) of limited investment companies		21,128	(4,449)
Change in market value of derivative instruments		349	(58,001)
Excess of fair value of net assets acquired over consideration paid		—	130,060
Other		(6,676)	(1,920)
Nonoperating gains, net	$	167,572	77,770

(16) Other Operating Expenses

Other operating expenses are summarized as follows:

		2012	2011
Supplies	$	544,685	496,734
Professional fees		166,671	142,017
Purchased and contracted services		152,942	123,375
Repairs and maintenance		96,761	84,408
Rent		53,136	50,413
Insurance		16,917	10,582
Marketing		32,563	30,832
Utilities		34,029	32,105
Other		23,224	30,466
Other operating expenses	$	1,120,928	1,000,932

Schedule 1

SENTARA HEALTHCARE AND SUBSIDIARIES

Consolidating Schedule – Balance Sheet Information

December 31, 2012

(In thousands)

Assets	**Sentara Healthcare Corporate**	**Sentara Hospitals**	**Sentara Enterprises**	**Sentara Life Care Corporation**	**Optima Health Plan**	**Sentara Holdings, Inc.**	**Sentara Medical Group**	**Eliminations**	**Consolidated**
Current assets:									
Cash and cash equivalents	$ 623,382	133,059	650	464	78,728	20,149	1,015	—	857,447
Receivables, net	9,599	380,674	20,704	8,808	61,281	1,596	16,639	(38,672)	460,629
Receivables from affiliated organizations	69,593	20,666	638	159	79	16,589	1,542	(109,266)	—
Investments and assets whose use is limited	384,830	—	—	—	11,352	—	—	—	396,182
Inventories	—	50,724	1,115	999	—	—	—	—	52,838
Prepaid expenses and other current assets	3,949	33,786	120	75	29	3,720	1,467	—	43,146
Total current assets	1,091,353	618,909	23,227	10,505	151,469	42,054	20,663	(147,938)	1,810,242
Notes receivable from affiliated organizations	630,662	—	—	—	—	—	—	(630,662)	—
Investments and assets whose use is limited	1,246,945	349,638	—	—	154,354	39,103	—	—	1,790,040
Property, plant, and equipment, net	120,843	1,358,497	19,498	25,994	1,894	1,055	18,354	(470)	1,545,665
Land held for future use, at cost	445	12,562	—	—	—	598	—	—	13,605
Other assets, net	61,245	69,882	3,315	577	—	10,621	1,709	—	147,349
Total assets	$ 3,151,493	2,409,488	46,040	37,076	307,717	93,431	40,726	(779,070)	5,306,901
Liabilities and Net Assets									
Current liabilities:									
Accounts payable and accrued expenses	$ 19,745	72,677	1,782	662	(1)	461	1,572	—	96,898
Employee compensation and benefits	142,287	26,371	1,597	—	—	7,209	—	—	177,464
Medical claims accrued and payable	—	—	—	1,455	105,509	13,581	—	(35,487)	85,058
Current installments of long-term debt	18,040	9,399	—	—	—	32	—	(4,188)	23,283
Long-term debt subject to current remarketing provisions	380,926	—	—	—	—	—	—	—	380,926
Payables to affiliated organizations	5,084	81,567	1,262	3	3,720	11,330	2,089	(105,055)	—
Estimated third-party payor settlements	—	2,570	315	454	—	—	—	—	3,339
Other current liabilities	44,649	66,316	1,698	950	6,691	10,327	2,951	(3,208)	130,374
Total current liabilities	610,731	258,900	6,654	3,524	115,919	42,940	6,612	(147,938)	897,342
Long-term debt, excluding current installments	936,742	174,306	—	—	—	215	—	(151,039)	960,224
Retirement obligations	335,961	52,184	—	—	—	—	—	—	388,145
Other long-term liabilities	213,862	106,264	4,918	1,970	11,170	—	6,100	—	344,284
Payables to affiliated organizations	—	479,623	—	—	—	—	—	(479,623)	—
Total liabilities	2,097,296	1,071,277	11,572	5,494	127,089	43,155	12,712	(778,600)	2,589,995
Net assets:									
Unrestricted	1,052,498	1,231,227	34,326	31,572	180,628	50,257	28,003	(470)	2,608,041
Temporarily restricted	1,699	63,405	142	—	—	19	11	—	65,276
Permanently restricted	—	18,629	—	10	—	—	—	—	18,639
Total net assets attributable to Sentara Healthcare	1,054,197	1,313,261	34,468	31,582	180,628	50,276	28,014	(470)	2,691,956
Noncontrolling interest	—	24,950	—	—	—	—	—	—	24,950
Total net assets	1,054,197	1,338,211	34,468	31,582	180,628	50,276	28,014	(470)	2,716,906
Total liabilities and net assets	$ 3,151,493	2,409,488	46,040	37,076	307,717	93,431	40,726	(779,070)	5,306,901

See accompanying independent auditors' report.

Schedule 2

SENTARA HOSPITALS

Consolidating Schedule – Balance Sheet Information

December 31, 2012

(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	Sentara Princess Anne Hospital	Sentara Northern Virginia Medical Center	Rockingham Memorial Hospital	Martha Jefferson Hospital	Eliminations	Total
Current assets:													
Cash and cash equivalents (bank overdraft)	$ (2,026)	(715)	(6)	(596)	(705)	(408)	(437)	39,827	17,762	46,419	33,944	—	133,059
Receivables, net	88,244	28,517	(1)	26,723	33,434	17,712	17,889	25,012	22,751	39,563	26,746	—	326,590
Other receivables	16,071	4,629	100	2,551	5,638	2,286	2,573	2,019	2,292	7,879	8,046	—	54,084
Receivables from affiliated organizations	2,558	807	—	921	947	526	2,234	12,437	167	—	69	—	20,666
Inventories	14,847	3,509	—	4,608	5,845	2,499	3,252	3,035	3,693	5,655	3,781	—	50,724
Prepaid expenses and other current assets	5,787	1,808	30	2,163	1,917	1,357	1,283	355	594	4,740	13,752	—	33,786
Total current assets	125,481	38,555	123	36,370	47,076	23,972	26,794	82,685	47,259	104,256	86,338	—	618,909
Investments	1,628	—	—	—	4,428	—	145	—	—	192,633	150,804	—	349,638
Property, plant, and equipment, net	199,924	99,478	—	108,921	70,830	129,078	98,309	177,928	148,817	139,175	191,385	(5,348)	1,358,497
Land held for future use, at cost	2,657	—	—	—	2,491	819	—	—	6,196	—	399	—	12,562
Other assets, net	3,449	9	—	3,660	6,113	12,298	12,735	—	10,315	12,579	8,724	—	69,882
Total assets	$ 333,139	138,042	123	148,951	130,938	166,167	137,983	260,613	212,587	448,643	437,650	(5,348)	2,409,488
Liabilities and Net Assets													
Current liabilities:													
Accounts payable and accrued expenses	$ 17,924	9,090	69	5,919	4,436	4,314	3,757	1,862	2,700	8,551	14,055	—	72,677
Employee compensation and benefits	—	—	—	—	—	—	—	—	—	14,996	11,375	—	26,371
Current installments of long-term debt	—	308	—	—	2,915	—	1,600	4,188	—	—	388	—	9,399
Payables to affiliated organizations	2,566	1,275	—	1,396	911	1,652	2,064	13,441	1,800	9,263	47,199	—	81,567
Estimated third-party payor settlements	—	—	—	—	—	—	165	—	5	1,901	499	—	2,570
Other current liabilities	18,651	1,978	111	2,302	8,113	1,134	1,734	4,457	6,149	9,893	11,794	—	66,316
Total current liabilities	39,141	12,651	180	9,617	16,375	7,100	9,320	23,948	10,654	44,604	85,310	—	258,900
Long-term debt, excluding current installments	—	107	—	—	17,100	—	5,333	151,040	—	—	726	—	174,306
Retirement obligations	—	—	—	—	—	—	—	—	—	42,127	10,057	—	52,184
Other long-term liabilities	17,098	6,613	2,325	5,850	7,574	3,978	5,736	2,459	10,332	31,066	13,233	—	106,264
Payables to (from) affiliated organizations	(102,723)	(133,959)	(80,260)	63,978	35,082	113,948	45,852	—	—	260,782	218,841	58,082	479,623
Total liabilities	(46,484)	(114,588)	(77,755)	79,445	76,131	125,026	66,241	177,447	20,986	378,579	328,167	58,082	1,071,277
Net assets:													
Unrestricted	375,184	252,572	77,878	68,980	54,521	40,908	70,550	58,208	189,017	35,725	71,114	(63,430)	1,231,227
Temporarily restricted	2,484	58	—	526	286	233	1,150	8	1,917	19,487	37,256	—	63,405
Permanently restricted	1,955	—	—	—	—	—	42	—	667	14,852	1,113	—	18,629
Total net assets attributable to Sentara Healthcare	379,623	252,630	77,878	69,506	54,807	41,141	71,742	58,216	191,601	70,064	109,483	(63,430)	1,313,261
Noncontrolling interest	—	—	—	—	—	—	—	24,950	—	—	—	—	24,950
Total net assets	379,623	252,630	77,878	69,506	54,807	41,141	71,742	83,166	191,601	70,064	109,483	(63,430)	1,338,211
Total liabilities and net assets	$ 333,139	138,042	123	148,951	130,938	166,167	137,983	260,613	212,587	448,643	437,650	(5,348)	2,409,488

See accompanying independent auditors' report.

Schedule 3

SENTARA HOLDINGS, INC.

Consolidating Schedule – Balance Sheet Information

December 31, 2012

(In thousands)

Assets	**Sentara Holdings, Inc.**	**Sentara Health Plans, Inc.**	**Optima Behavioral Health Services**	**Optima Health Group**	**Optima Health Insurance Company**	**Sentara Ventures, Inc.**	**Obici Professional Center and Subsidiary**	**Eliminations**	**Total**
Current assets:									
Cash and cash equivalents	$ 5	14,318	2,984	2,092	750	—	—	—	20,149
Receivables, net	1,137	(2,246)	74	—	1,021	1,611	—	(1)	1,596
Receivables from affiliated organizations	1,507	13,946	76	—	—	442	2,034	(1,416)	16,589
Prepaid expenses and other current assets	—	1,246	1,707	—	724	43	—	—	3,720
Total current assets	2,649	27,264	4,841	2,092	2,495	2,096	2,034	(1,417)	42,054
Investments	—	—	—	433	38,670	—			39,103
Property, plant, and equipment, net	—	552	—	—	226	277	—	—	1,055
Land held for future use, at cost	—	—	—	—	—	598	—	—	598
Other assets, net	—	34,125	—	4	4,843	5,774	—	(34,125)	10,621
Total assets	$ 2,649	61,941	4,841	2,529	46,234	8,745	2,034	(35,542)	93,431
Liabilities and Net Assets									
Current liabilities:									
Accounts payable and accrued expenses	$ (1)	211	251	1	1	(1)	—	(1)	461
Employee compensation and benefits	—	7,209	—	—	—	—	—	—	7,209
Medical claims accrued and payable	—	—	4,080	—	9,501	—	—	—	13,581
Current installments of long-term debt	—	—	—	—	—	—	32	—	32
Payables to (from) affiliated organizations	3,069	2,188	592	—	1,624	3,651	1,622	(1,416)	11,330
Deferred revenue	—	—	20	—	2,954	—	—	—	2,974
Other current liabilities	—	4,626	3	—	452	2,270	2	—	7,353
Total current liabilities	3,068	14,234	4,946	1	14,532	5,920	1,656	(1,417)	42,940
Long-term debt, excluding current installments	—	—	—	—	—	—	215	—	215
Other long-term liabilities	—	—	—	—	—	—	—	—	—
Total liabilities	3,068	14,234	4,946	1	14,532	5,920	1,871	(1,417)	43,155
Net assets:									
Unrestricted	(419)	47,688	(105)	2,528	31,702	2,825	163	(34,125)	50,257
Temporarily restricted	—	19	—	—	—	—	—		19
Total net assets	(419)	47,707	(105)	2,528	31,702	2,825	163	(34,125)	50,276
Total liabilities and net assets	$ 2,649	61,941	4,841	2,529	46,234	8,745	2,034	(35,542)	93,431

See accompanying independent auditors' report.

Schedule 4

SENTARA HEALTHCARE AND SUBSIDIARIES

Consolidating Schedule – Operations Information

Year ended December 31, 2012

(In thousands)

	Sentara Healthcare Corporate	Sentara Hospitals	Sentara Enterprises	Sentara Life Care Corporation	Optima Health Plan	Sentara Holdings, Inc.	Sentara Medical Group	Eliminations	Consolidated
Operating revenues, gains, and other support:									
Net patient service revenue	$ —	2,796,588	121,511	70,638	—	—	220,090	(363,884)	2,844,943
Provision for bad debts, net	75	(233,043)	(2,666)	(1,397)	(59)	(87)	(11,867)	—	(249,044)
Net patient service revenue less provision for bad debts	75	2,563,545	118,845	69,241	(59)	(87)	208,223	(363,884)	2,595,899
Premium and capitation revenue	1,974	3,742	—	13,767	1,238,451	124,291	6,474	(34,183)	1,354,516
Other operating revenue	23,756	67,016	2,948	586	726	39,371	6,934	(30,998)	110,339
Net assets released from restrictions	532	6,903	37	—	—	—	2	—	7,474
Total operating revenues, gains, and other support	26,337	2,641,206	121,830	83,594	1,239,118	163,575	221,633	(429,065)	4,068,228
Operating costs and expenses:									
Salaries and wages	51,883	939,251	58,198	38,048	29,541	14,934	176,531	—	1,308,386
Benefits	11,336	237,668	16,333	8,631	8,015	4,146	32,031	(4,934)	313,226
Medical claims expense	—	—	—	3,016	1,126,674	108,691	—	(391,030)	847,351
Other operating expenses	44,271	973,556	33,308	24,065	48,098	20,662	2,041	(25,073)	1,120,928
Interest expense	11,366	42,395	—	—	316	201	—	(7,558)	46,720
Depreciation and amortization	7,224	148,257	4,001	2,845	742	269	4,481	—	167,819
Sentara Healthcare services	(71,595)	37,691	8,837	5,068	—	13,450	6,549	—	—
Total operating costs and expenses	54,485	2,378,818	120,677	81,673	1,213,386	162,353	221,633	(428,595)	3,804,430
Net operating income (loss)	(28,148)	262,388	1,153	1,921	25,732	1,222	—	(470)	263,798
Nonoperating gains, net	139,224	19,937	3	—	7,044	1,364	—	—	167,572
Excess of revenues over expenses before noncontrolling interest	111,076	282,325	1,156	1,921	32,776	2,586	—	(470)	431,370
Noncontrolling interest	—	(4,475)	—	—	—	—	—	—	(4,475)
Excess of revenues over expenses attributable to Sentara Healthcare	$ 111,076	277,850	1,156	1,921	32,776	2,586	—	(470)	426,895

See accompanying independent auditors' report.

Schedule 5

SENTARA HOSPITALS

Consolidating Schedule – Operations Information

Year ended December 31, 2012

(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	Sentara Princess Anne Hospital	Sentara Northern Virginia Medical Center	Rockingham Memorial Hospital	Martha Jefferson Hospital	Eliminations	Total
Operating revenues, gains, and other support:														
Net patient service revenue	$ 680,193	270,631	210	239,779	270,932	154,274	167,959	—	190,401	216,195	362,441	243,573	—	2,796,588
Provision for bad debt, net	(44,478)	(19,724)	2,840	(26,628)	(26,498)	(11,013)	(15,746)	—	(19,864)	(29,338)	(28,548)	(14,046)	—	(233,043)
Net patient service revenue less provision for bad debts	635,715	250,907	3,050	213,151	244,434	143,261	152,213	—	170,537	186,857	333,893	229,527	—	2,563,545
Premium and capitation revenue	3,465	61	—	60	49	28	30	—	49	—	—	—	—	3,742
Other operating revenue	12,836	3,145	—	5,190	4,883	3,849	4,854	12,639	4,538	5,138	10,776	9,612	(10,444)	67,016
Net assets released from restrictions	1,458	11	—	37	71	19	245	1	13	928	564	3,556	—	6,903
Total operating revenues, gains, and other support	653,474	254,124	3,050	218,438	249,437	147,157	157,342	12,640	175,137	192,923	345,233	242,695	(10,444)	2,641,206
Operating costs and expenses:														
Salaries and wages	163,232	70,373	—	59,671	72,576	41,710	49,423	125,348	53,641	68,096	137,699	97,482	—	939,251
Benefits	42,846	19,376	—	15,689	20,082	10,394	13,010	33,484	14,650	14,858	31,826	21,453	—	237,668
Other operating expenses	270,085	78,244	7	75,430	83,419	51,875	51,411	24,760	51,651	65,786	134,109	86,779	—	973,556
Interest expense	3,578	782	—	430	2,397	3,180	1,330	—	7,785	1,940	11,381	9,592	—	42,395
Depreciation and amortization	26,864	9,461	—	11,529	10,951	9,570	10,782	20,995	12,377	13,227	11,442	11,519	(460)	148,257
Sentara Healthcare services	74,490	29,996	—	34,220	33,551	21,455	24,092	(202,984)	20,246	2,625	—	—	—	37,691
Total operating costs and expenses	581,095	208,232	7	196,969	222,976	138,184	150,048	1,603	160,350	166,532	326,457	226,825	(460)	2,378,818
Net operating income	72,379	45,892	3,043	21,469	26,461	8,973	7,294	11,037	14,787	26,391	18,776	15,870	(9,984)	262,388
Nonoperating gains, net	130	—	—	1	722	—	397	(55)	143	(5,008)	11,011	12,596	—	19,937
Excess of revenues over expenses before non controlling interest	72,509	45,892	3,043	21,470	27,183	8,973	7,691	10,982	14,930	21,383	29,787	28,466	(9,984)	282,325
Noncontrolling interest	—	—	—	—	—	—	—	—	(4,475)	—	—	—	—	(4,475)
Excess of revenues over expenses attributable to Sentara Healthcare	$ 72,509	45,892	3,043	21,470	27,183	8,973	7,691	10,982	10,455	21,383	29,787	28,466	(9,984)	277,850

See accompanying independent auditors' report.

Schedule 6

SENTARA ENTERPRISES

Consolidating Schedule – Operations Information

Year ended December 31, 2012

(In thousands)

	Home Care Services	DME	Medical Transport, LLC	Divisional Support	Eliminations	Total
Operating revenues, gains, and other support:						
Net patient service revenue	$ 72,705	17,189	31,830	246	(459)	121,511
Provision for bad debts, net	(1,096)	(852)	(718)	—	—	(2,666)
Net patient service revenue less provision for bad debts	71,609	16,337	31,112	246	(459)	118,845
Other operating revenue	290	—	1,379	765	514	2,948
Net assets released from restrictions	—	—	—	37	—	37
Total operating revenues, gains, and other support	71,899	16,337	32,491	1,048	55	121,830
Operating costs and expenses:						
Salaries and wages	38,819	4,038	16,900	(1,559)	—	58,198
Benefits	10,239	1,024	5,103	(33)	—	16,333
Other operating expenses	19,402	9,134	5,195	505	(928)	33,308
Interest expense	—	—	—	388	(388)	—
Depreciation and amortization	803	1,586	937	675	—	4,001
Sentara Healthcare services	—	—	—	8,837	—	8,837
Total operating costs and expenses	69,263	15,782	28,135	8,813	(1,316)	120,677
Net operating income (loss)	2,636	555	4,356	(7,765)	1,371	1,153
Nonoperating gains	—	—	—	427	(424)	3
Excess (deficiency) of revenues over expenses	$ 2,636	555	4,356	(7,338)	947	1,156

See accompanying independent auditors' report.

Schedule 7

SENTARA LIFE CARE CORPORATION

Consolidating Schedule – Operations Information

Year ended December 31, 2012

(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	Sentara Windermere
Operating revenues, gains, and other support:								
Net patient service revenue (expense)	$ 557	7,825	13,929	7,980	6,065	7,452	9,026	7,906
Provision for bad debt, net	(23)	(134)	(237)	(120)	(259)	(169)	(244)	(73)
Net patient service revenue less provision for bad debts	534	7,691	13,692	7,860	5,806	7,283	8,782	7,833
Premium and capitation revenue	—	—	—	—	—	—	—	—
Other operating revenue	1	63	59	140	—	5	160	15
Total operating revenues, gains, and other support	535	7,754	13,751	8,000	5,806	7,288	8,942	7,848
Operating costs and expenses:								
Salaries and wages	1,450	3,918	7,311	3,984	3,220	3,629	4,697	3,747
Benefits	228	808	1,737	927	757	749	1,040	781
Medical claims expense	—	—	—	—	—	—	—	—
Other operating expenses	1,412	1,695	3,607	1,606	1,631	1,924	2,628	1,869
Depreciation and amortization	56	229	358	203	208	299	252	295
Sentara Healthcare services	—	426	743	452	356	391	526	403
Total operating costs and expenses	3,146	7,076	13,756	7,172	6,172	6,992	9,143	7,095
Net operating income (loss)	(2,611)	678	(5)	828	(366)	296	(201)	753
Excess (deficiency) of revenues over expenses	$ (2,611)	678	(5)	828	(366)	296	(201)	753

(Continued)

Schedule 7

SENTARA LIFE CARE CORPORATION

Consolidating Schedule – Operations Information

Year ended December 31, 2012

(In thousands)

		Sentara Village Chesapeake	Sentara Village Norfolk	Sentara Village Virginia Beach	Sentara Senior Community Care I	Sentara Senior Community Care II	Pharmacy Rx	Eliminations	Total
Operating revenues, gains, and other support:									
Net patient service revenue (expense)	$	2,338	2,312	2,412	(346)	(49)	10,996	(7,765)	70,638
Provision for bad debt, net		(57)	(45)	(17)	(11)	(8)	—	—	(1,397)
Net patient service revenue less provision for bad debts		2,281	2,267	2,395	(357)	(57)	10,996	(7,765)	69,241
Premium and capitation revenue		—	—	—	9830	3,937	—	—	13,767
Other operating revenue		4	89	43	—	7	—	—	586
Total operating revenues, gains, and other support		2,285	2,356	2,438	9,473	3,887	10,996	(7,765)	83,594
Operating costs and expenses:									
Salaries and wages		1,203	1,120	1,253	1,513	958	45	—	38,048
Benefits		325	347	338	387	204	3	—	8,631
Medical claims expense		—	—	—	3,603	2,069	—	(2,656)	3,016
Other operating expenses		660	702	594	1,147	703	8,996	(5,109)	24,065
Depreciation and amortization		258	198	178	93	179	39	—	2,845
Sentara Healthcare services		155	142	141	444	293	596	—	5,068
Total operating costs and expenses		2,601	2,509	2,504	7,187	4,406	9,679	(7,765)	81,673
Net operating income (loss)		(316)	(153)	(66)	2,286	(519)	1,317	—	1,921
Excess (deficiency) of revenues over expenses	$	(316)	(153)	(66)	2,286	(519)	1,317	—	1,921

See accompanying independent auditors' report.

Schedule 8

SENTARA HOLDINGS, INC.

Consolidating Schedule – Operations Information

Year ended December 31, 2012

(In thousands)

		Sentara Holdings, Inc.	Sentara Health Plans, Inc.	Optima Behavioral Health Services	Optima Health Insurance Company	Sentara Ventures, Inc.	Obici Professional Center and Subsidiary	Eliminations	Total
Operating revenues, gains, and other support:									
Provision for bad debt, net	$	—	(6)	—	(81)	—	—	—	(87)
Net patient service revenue less provision for bad debts		—	(6)	—	(81)	—	—	—	(87)
Premium and capitation revenue (expense)		—	—	33,552	92,693	—	—	(1,954)	124,291
Other operating revenue		—	19,416	1,467	2,435	15,010	—	1,043	39,371
Total operating revenues, gains, and other support		—	19,410	35,019	95,047	15,010	—	(911)	163,575
Operating costs and expenses:									
Salaries and wages		—	10,923	—	4,011	—	—	—	14,934
Benefits		—	3,374	—	772	—	—	—	4,146
Medical claims expense (income)		—	362	28,579	81,704	—	—	(1,954)	108,691
Other operating expense (income)		—	(3,442)	366	11,307	12,441	(10)	—	20,662
Interest expense		—	27	—	53	101	20	—	201
Depreciation and amortization		—	183	—	86	—	—	—	269
Sentara Healthcare services		—	7,901	5,549	—	—	—	—	13,450
Total operating costs and expenses		—	19,328	34,494	97,933	12,542	10	(1,954)	162,353
Net operating income (loss)		—	82	525	(2,886)	2,468	(10)	1,043	1,222
Nonoperating gains (losses)		—	51	(2)	1,315	—	—	—	1,364
Excess (deficiency) of revenues over expenses	$	—	133	523	(1,571)	2,468	(10)	1,043	2,586

See accompanying independent auditors' report.

Schedule 9

SENTARA HEALTHCARE AND SUBSIDIARIES

Consolidating Schedule – Fully Allocated Overhead Operations Information

Year ended December 31, 2012

(In thousands)

	Sentara Healthcare Corporate	Sentara Hospitals	Sentara Enterprises	Sentara Life Care Corporation	Optima Health Plan	Sentara Holdings, Inc.	Sentara Medical Group	Eliminations	Consolidated
Operating revenues, gains, and other support:									
Net patient service revenue	$ —	2,796,588	121,511	70,638	—	—	220,090	(363,884)	2,844,943
Provision for bad debt, net	75	(233,043)	(2,666)	(1,397)	(59)	(87)	(11,867)	—	(249,044)
Net patient service revenue less provision for bad debts	75	2,563,545	118,845	69,241	(59)	(87)	208,223	(363,884)	2,595,899
Premium and capitation revenue	1,974	3,742	—	13,767	1,238,451	124,291	6,474	(34,183)	1,354,516
Other operating revenue	23,756	67,016	2,948	586	726	39,371	6,934	(30,998)	110,339
Net assets released from restrictions	532	6,903	37	—	—	—	2	—	7,474
Total operating revenues, gains, and other support	26,337	2,641,206	121,830	83,594	1,239,118	163,575	221,633	(429,065)	4,068,228
Operating costs and expenses:									
Salaries and wages	51,883	939,251	58,198	38,048	29,541	14,934	176,531	—	1,308,386
Benefits	11,336	237,668	16,333	8,631	8,015	4,146	32,031	(4,934)	313,226
Medical claims expense	—	—	—	3,016	1,126,674	108,691	—	(391,030)	847,351
Other operating expenses	44,271	973,556	33,308	24,065	48,098	20,662	2,041	(25,073)	1,120,928
Interest expense	11,366	42,395	—	—	316	201	—	(7,558)	46,720
Depreciation and amortization	7,224	148,257	4,001	2,845	742	269	4,481	—	167,819
Sentara Healthcare services	(99,743)	87,486	3,199	1,836	4,906	—	2,316	—	—
Total operating costs and expenses	26,337	2,428,613	115,039	78,441	1,218,292	148,903	217,400	(428,595)	3,804,430
Net operating income	—	212,593	6,791	5,153	20,826	14,672	4,233	(470)	263,798
Nonoperating gains, net	139,224	19,937	3		7,044	1,364	—	—	167,572
Excess of revenues over expenses before noncontrolling interest	139,224	232,530	6,794	5,153	27,870	16,036	4,233	(470)	431,370
Noncontrolling interest	—	(4,475)	—	—	—	—	—	—	(4,475)
Excess of revenues over expenses attributable to Sentara Healthcare	$ 139,224	228,055	6,794	5,153	27,870	16,036	4,233	(470)	426,895

See accompanying independent auditors' report.

Schedule 10

SENTARA HOSPITALS

Consolidating Schedule – Fully Allocated Overhead Operations Information

Year ended December 31, 2012

(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	Sentara Princess Anne Hospital	Sentara Northern Virginia Hospital	Rockingham Memorial Hospital	Martha Jefferson Hospital	Eliminations	Total
Operating revenues, gains, and other support:													
Net patient service revenue	$ 680,193	270,631	210	239,779	270,932	154,274	167,959	190,401	216,195	362,441	243,573	—	2,796,588
Provision for bad debt, net	(44,479)	(19,724)	2,840	(26,628)	(26,498)	(11,013)	(15,746)	(19,863)	(29,338)	(28,548)	(14,046)	—	(233,043)
Net patient service revenue less provision for bad debts	635,714	250,907	3,050	213,151	244,434	143,261	152,213	170,538	186,857	333,893	229,527	—	2,563,545
Premium and capitation revenue	3,465	61	—	60	49	28	30	49	—	—	—	—	3,742
Other operating revenue	16,772	4,689	1	6,572	6,439	4,741	5,830	5,638	6,391	10,776	9,612	(10,445)	67,016
Net assets released from restrictions	1,469	11	—	37	71	19	245	2	928	564	3,557	—	6,903
Total operating revenues, gains, and other support	657,420	255,668	3,051	219,820	250,993	148,049	158,318	176,227	194,176	345,233	242,696	(10,445)	2,641,206
Operating costs and expenses:													
Salaries and wages	202,152	84,556	(176)	73,583	88,083	50,993	59,741	64,855	80,283	137,699	97,482	—	939,251
Benefits	53,243	23,165	(47)	19,405	24,224	12,874	15,766	17,645	18,114	31,826	21,453	—	237,668
Other operating expenses	277,970	81,046	(28)	78,178	86,240	53,709	53,487	53,868	68,198	134,109	86,779	—	973,556
Interest expense	3,578	782	—	430	2,397	3,180	1,330	7,785	1,940	11,381	9,592	—	42,395
Depreciation and amortization	33,384	11,837	(30)	13,859	13,548	11,125	12,510	14,255	15,268	11,442	11,518	(459)	148,257
Sentara Healthcare services	27,086	11,026	—	12,262	12,305	7,606	8,898	7,358	945	—	—	—	87,486
Total operating costs and expenses	597,413	212,412	(281)	197,717	226,797	139,487	151,732	165,766	184,748	326,457	226,824	(459)	2,428,613
Net operating income	60,007	43,256	3,332	22,103	24,196	8,562	6,586	10,461	9,428	18,776	15,872	(9,986)	212,593
Nonoperating gains (losses), net	282	11	—	(8)	485	(7)	427	143	(5,003)	11,011	12,596	—	19,937
Excess of revenues over expenses before noncontrolling interest	60,289	43,267	3,332	22,095	24,681	8,555	7,013	10,604	4,425	29,787	28,468	(9,986)	232,530
Noncontrolling interest	—	—	—	—	—	—	—	(4,475)	—	—	—	—	(4,475)
Excess of revenues over expenses attributable to Sentara Healthcare	$ 60,289	43,267	3,332	22,095	24,681	8,555	7,013	6,129	4,425	29,787	28,468	(9,986)	228,055

See accompanying independent auditors' report.