



S E N T A R A[®]

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

June 30, 2017

SENTARA HEALTHCARE AND SUBSIDIARIES

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Management's Discussion and Analysis

Sentara Healthcare (the "System") 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 System includes over 100 sites of care, including 12 acute care hospitals to provide inpatient services, and outpatient facilities including emergency and urgent care, senior services, home care, physical therapy and rehabilitation services, as well as mental health services.

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

Six Month Period Ended June 30, 2017

For the six month period ended June 30, 2017, net operating income was \$163.6 million, or 6.2% of total operating revenues versus \$147.5 million, or 5.9%, for the same period in 2016.

Total operating revenues for the System increased by \$109.6 million, or 4.4%, to \$2.6 billion for the six months ended June 30, 2017, as compared to the six months ended June 30, 2016. This increase in operating revenues was primarily driven by the increase in net patient service revenue noted below.

Net patient service revenue increased by \$116.3 million, or 6.8%, for the six month period ended June 30, 2017, as compared to the same period in the prior year. The increase is primarily attributed to increased volumes for the six months ended June 30, 2017, as compared to the six months ended June 30, 2016. Admissions, inpatient surgeries and outpatient imaging volumes increased by 3.4%, 4.9% and 1.5%, respectively.

Total operating expenses increased by \$93.4 million, or 3.9%, to \$2.46 billion for the six months ended June 30, 2017 as compared to the same period in 2016. Salaries, wages and benefits increased by \$20.8 million, or 2.1%, primarily due to annual merit increases. Other operating expenses increased by \$85.8 million, or 11.5%. This increase was a result of overall increases in medical supplies, purchased labor, repairs and maintenance, and rent expense.

SENTARA HEALTHCARE AND SUBSIDIARIES

Consolidated Balance Sheets

(In thousands)

(Unaudited)

| Assets | June 30, 2017 | December 31, 2016 |
|--|--------------------------|------------------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 669,910 | 642,786 |
| Receivables, net | 667,581 | 652,827 |
| Investments and assets whose use is limited | 408,657 | 407,635 |
| Inventories | 75,160 | 73,670 |
| Prepaid expenses and other current assets | 45,731 | 38,197 |
| Total current assets | 1,867,039 | 1,815,115 |
| Investments and assets whose use is limited | 2,988,919 | 2,837,229 |
| Property, plant, and equipment, net | 1,890,160 | 1,883,820 |
| Land held for future use, at cost | 24,568 | 24,568 |
| Other assets, net | 98,206 | 96,811 |
| Total assets | \$ 6,868,892 | 6,657,543 |
| Liabilities and Net Assets | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 108,349 | 125,108 |
| Employee compensation and benefits | 164,721 | 193,195 |
| Medical claims accrued and payable | 86,120 | 86,326 |
| Current installments of long-term debt | 24,211 | 23,397 |
| Long-term debt subject to current remarketing provisions | 303,650 | 303,650 |
| Estimated third-party payor settlements | 8,637 | 21,042 |
| Other current liabilities | 123,926 | 151,249 |
| Total current liabilities | 819,614 | 903,967 |
| Long-term debt, excluding current installments | 982,703 | 988,415 |
| Retirement obligations | 228,143 | 251,161 |
| Other long-term liabilities | 299,790 | 303,879 |
| Total liabilities | 2,330,250 | 2,447,422 |
| Net assets: | | |
| Unrestricted | 4,420,978 | 4,091,364 |
| Temporarily restricted | 70,267 | 68,577 |
| Permanently restricted | 20,767 | 20,711 |
| Total net assets attributable to Sentara Healthcare | 4,512,012 | 4,180,652 |
| Noncontrolling interest | 26,630 | 29,469 |
| Total net assets | 4,538,642 | 4,210,121 |
| Total liabilities and net assets | \$ 6,868,892 | 6,657,543 |

SENTARA HEALTHCARE AND SUBSIDIARIES

Consolidated Statements of Operations

(In thousands)

(Unaudited)

| | Six Months Ended June 30, | |
|---|------------------------------|-----------|
| | 2017 | 2016 |
| Operating revenues, gains, and other support: | | |
| Net patient service revenue (net of contractual allowances and discounts) | \$ 2,021,278 | 1,857,730 |
| Provision for bad debts | (197,332) | (150,091) |
| Net patient service revenue less provision for bad debts | 1,823,946 | 1,707,639 |
| Premium and capitation revenue | 735,067 | 734,913 |
| Other operating revenue | 63,084 | 71,093 |
| Net assets released from restrictions for operations | 4,803 | 3,653 |
| Total operating revenues, gains, and other support | 2,626,900 | 2,517,298 |
| Operating costs and expenses: | | |
| Salaries, wages and benefits | 1,009,849 | 989,006 |
| Medical claims | 498,501 | 509,327 |
| Other operating | 833,396 | 747,575 |
| Interest | 18,583 | 20,768 |
| Depreciation and amortization | 102,945 | 103,164 |
| Total operating costs and expenses | 2,463,274 | 2,369,840 |
| Net operating income | 163,626 | 147,458 |
| Nonoperating gains (losses), net | 169,274 | (18,297) |
| Excess of revenues over expenses before noncontrolling interest | 332,900 | 129,161 |
| Noncontrolling interest | (5,286) | (5,139) |
| Excess of revenues over expenses attributable to Sentara Healthcare | \$ 327,614 | 124,022 |

SENTARA HEALTHCARE AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

| | Six Months Ended June 30, | |
|---|------------------------------|-----------|
| | 2017 | 2016 |
| Cash flows from operating activities: | | |
| Increase in net assets | \$ 328,521 | 118,864 |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities: | | |
| Distribution to noncontrolling interest | 8,125 | 11,336 |
| Provision for bad debts | 197,332 | 150,091 |
| Depreciation and amortization | 102,945 | 103,164 |
| Net realized and unrealized (gains) losses on investments | (137,630) | 3,997 |
| Gain on disposal of property, plant, and equipment | (84) | (437) |
| Amortization of bond (premium) discount | (308) | 81 |
| Change in market value of derivative instruments | (981) | 43,157 |
| Equity in earnings of limited investment companies | (18,400) | (22,098) |
| Equity in earnings of joint ventures | (3,855) | (3,408) |
| Restricted contributions received | (7,766) | (4,836) |
| Changes in operating assets and liabilities: | | |
| Receivables, net | (236,572) | (182,633) |
| Inventories | (1,490) | (45) |
| Prepaid expenses and other current assets | (7,534) | (14,769) |
| Accounts payable and accrued expenses | (16,759) | (62,864) |
| Employee compensation and benefits | (28,474) | (879) |
| Medical claims accrued and payable | (206) | 61 |
| Estimated third-party payor settlements | (12,405) | (6,035) |
| Retirement obligations | (23,018) | (34,696) |
| Other liabilities | (5,945) | (27,302) |
| Net cash provided by operating activities | 135,496 | 70,749 |
| Cash flows from investing activities: | | |
| Capital expenditures | (109,273) | (76,837) |
| Purchases (sales) of investments, net | 3,318 | (980) |
| Net changes in other assets | 2,942 | (1,159) |
| Proceeds from the disposal of property, plant, and equipment | 201 | 857 |
| Net cash used in investing activities | (102,812) | (78,119) |
| Cash flows from financing activities: | | |
| Restricted contributions received | 7,766 | 4,836 |
| Distribution to noncontrolling interest | (8,125) | (11,336) |
| Payments on long-term debt | (5,201) | (4,999) |
| Net cash used in financing activities | (5,560) | (11,499) |
| Net increase (decrease) in cash and cash equivalents | 27,124 | (18,869) |
| Cash and cash equivalents at beginning of year | 642,786 | 741,533 |
| Cash and cash equivalents at end of year | \$ 669,910 | 722,664 |

SENTARA HEALTHCARE AND SUBSIDIARIES

Self-Liquidity Report

As of June 30, 2017

(In thousands)

(Unaudited)

ASSETS *

DAILY LIQUIDITY-includes investments which can be liquidated on a same day basis; does not include securities held by third party LP or LLCs

| | |
|-------------------------------|----------------|
| Checking and deposit accounts | 546,070 |
| <i>Subtotal</i> | <u>546,070</u> |

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

| | |
|--|------------------|
| Fixed Income: Publicly Traded Fixed Income Securities rated at least Aa3 | 20,042 |
| Fixed Income: Publicly Traded Fixed Income Securities rated below Aa3 | 37,570 |
| Fixed Income: Bond Funds | 729,810 |
| Equities: Equity Funds | 1,339,228 |
| Other - Alternative Funds | 252,410 |
| <i>Subtotal</i> | <u>2,379,060</u> |

LONGER TERM LIQUIDITY

| | |
|---|----------------|
| Funds, vehicles, investments that allow withdrawals with one month notice or longer | 686,763 |
| <i>Subtotal</i> | <u>686,763</u> |

| | |
|------------------------|----------------------------|
| TOTAL LIQUIDITY | <u><u>\$ 3,611,893</u></u> |
|------------------------|----------------------------|

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