Audited Combined Financial Statements and Other Financial Information

Sharp HealthCare
Years Ended September 30, 2009 and 2008

Ernst & Young

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Contents

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Report of Independent Auditors

Board of Directors
Sharp HealthCare

We have audited the accompanying combined balance sheets of Sharp HealthCare (the Company) as of September 30, 2009 and 2008, and the related combined statements of operations, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined financial position of Sharp HealthCare at September 30, 2009 and 2008, and the combined results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

December 18, 2009

Sharp HealthCare

Combined Balance Sheets

	September 30 2009	September 30 2008
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 150,611**	$ 126,077
Short-term investments	**75,624**	94,911
Accounts receivable, net of allowance for doubtful accounts of $151,361 in 2009 and $130,063 in 2008	**177,443**	164,535
Estimated settlements receivable from government programs, net	**–**	1,463
Inventories	**31,172**	28,976
Prepaid expenses and other	**30,317**	25,158
Total current assets	**465,167**	441,120
Assets limited as to use:		
Designated for property	**321,333**	220,206
Under bond indentures	**62,977**	11,149
Other restricted investments	**30,608**	29,832
Under self-insurance programs	**7,017**	6,946
Total assets limited as to use	**421,935**	268,133
Property and equipment, net	**786,965**	715,529
Unamortized financing costs	**7,792**	10,714
Other assets	**52,955**	55,015
Total assets	**$ 1,734,814**	$ 1,490,511
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 145,319**	$ 131,467
Accrued compensation and benefits	**93,040**	81,433
Current portion of long-term debt	**19,657**	20,199
Estimated settlements payable to government programs, net	**9,036**	–
Accrued interest	**3,062**	1,861
Discontinued operations	**521**	704
Total current liabilities	**270,635**	235,664
Long-term liabilities	**135,489**	89,116
Reserves for professional liability	**13,700**	13,100
Long-term debt	**508,975**	410,137
Total liabilities	**928,799**	748,017
Net assets:		
Unrestricted	**752,484**	691,654
Temporarily restricted	**47,704**	45,245
Permanently restricted	**5,827**	5,595
Total net assets	**806,015**	742,494
Total liabilities and net assets	**$ 1,734,814**	$ 1,490,511

See accompanying notes.

Sharp HealthCare

Combined Statements of Operations

	September 30 2009	September 30 2008
	(In Thousands)	
Revenues:		
Net patient service	**$ 1,313,705**	$ 1,228,538
Premium	**684,289**	646,427
Other	**58,914**	60,092
Total revenues	**2,056,908**	1,935,057
Expenses:		
Salaries and wages	**813,551**	756,880
Employee benefits	**181,011**	155,945
Medical fees	**244,372**	222,118
Purchased services	**225,075**	238,945
Supplies	**271,591**	247,789
Maintenance, utilities and rentals	**91,252**	85,795
Depreciation and amortization	**77,771**	70,634
Business insurance	**12,840**	13,913
Interest	**22,011**	12,528
Provision for doubtful accounts	**33,789**	35,080
Other	**32,411**	27,257
Total expenses	**2,005,674**	1,866,884
Income from operations	**51,234**	68,173
Other non-operating loss	**(3,125)**	(7,245)
Investment income (loss)	**21,364**	(1,024)
Income from continuing operations	**69,473**	59,904
Income from discontinued operations	**1,480**	7,703
Excess of revenues over expenses	**70,953**	67,607
Net assets transferred from related party	**24,701**	22,021
Net assets released from restrictions used for purchase of property, plant and equipment	**6,803**	8,615
Pension-related changes other than net periodic pension cost	**(42,499)**	(23,419)
Other changes in net assets	**872**	1,082
Increase in unrestricted net assets	**$ 60,830**	$ 75,906

See accompanying notes.

Sharp HealthCare

Combined Statements of Changes in Net Assets

	September 30	
	2009	**2008**
	(In Thousands)	
Unrestricted net assets:		
Excess of revenues over expenses	**$ 70,953**	$ 67,607
Net assets transferred from related party	**24,701**	22,021
Net assets released from restrictions used for purchase of property, plant and equipment	**6,803**	8,615
Pension-related changes other than net periodic pension cost	**(42,499)**	(23,419)
Other changes in net assets	**872**	1,082
Increase in unrestricted net assets	**60,830**	75,906
Temporarily restricted net assets:		
Contributions	**14,014**	19,580
Investment income	**488**	939
Change in net unrealized gains (losses) on investments	**1,241**	(4,370)
Net assets released from restrictions	**(9,954)**	(11,702)
Other	**(3,330)**	223
Increase in temporarily restricted net assets	**2,459**	4,670
Permanently restricted net assets:		
Contributions	**232**	1,141
Increase in permanently restricted net assets	**232**	1,141
Increase in net assets	**63,521**	81,717
Net assets, beginning of the year	**742,494**	660,777
Net assets, end of the year	**$ 806,015**	$ 742,494

See accompanying notes.

Sharp HealthCare

Combined Statements of Cash Flows

	September 30 2009	2008
	(In Thousands)	
Operating activities		
Increase in net assets	**$ 63,521**	$ 81,717
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Income from discontinued operations	**(1,480)**	(7,703)
Foundation capital conversions for discontinued operations	**–**	(72)
Net assets transferred from related party	**(24,701)**	(22,021)
Provision for doubtful accounts	**33,789**	35,080
Non-cash gains	**(275)**	(2,432)
Depreciation of operating and nonoperating facilities	**77,776**	70,584
Amortization, including deferred financing costs	**2,922**	743
Change in fair value of interest and basis rate swaps	**655**	5,451
Restricted contributions and investment income, net	**(14,734)**	(21,660)
Pension-related changes other than net periodic pension cost	**42,499**	23,419
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	**(46,697)**	(36,340)
Inventories	**(2,196)**	(1,679)
Short-term investments	**19,287**	35,175
Assets limited to use	**(153,802)**	(20,309)
Prepaid expenses and other	**(5,159)**	(9,057)
Increase in:		
Accounts payable and accrued liabilities, long-term liabilities and other liabilities	**19,527**	9,437
Accrued compensation and benefits	**11,607**	1,754
Estimated settlements payable to government programs, net	**10,499**	14,338
Net cash provided by operating activities of continued operations	**33,038**	156,425
Net cash provided by operating activities of discontinued operation:	**1,297**	4,088
Net cash provided by operating activities	**34,335**	160,513
Investing activities		
Acquisition of property and equipment, net of retirements	**(115,359)**	(127,137)
Decrease (increase) in other assets	**2,036**	(4,888)
Net cash used in investing activities of continued operations	**(113,323)**	(132,025)
Net cash provided by investing activities of discontinued operations	**–**	3,041
Net cash used in investing activities	**(113,323)**	(128,984)
Financing activities		
Current maturities and payments on long-term debt	**(18,448)**	(19,131)
Payments under capital lease obligations	**(305)**	(764)
Extinguishment of long-term debt	**(17,225)**	–
Proceeds from the issuance of long-term debt	**124,766**	–
Restricted contributions and investment income, net	**14,734**	21,660
Net cash provided by financing activities of continued operations	**103,522**	1,765
Net increase in cash and cash equivalents	**24,534**	33,294
Cash and cash equivalents, beginning of the year	**126,077**	92,783
Cash and cash equivalents, end of the year	**$ 150,611**	$ 126,077
Supplemental disclosures of cash flow information:		
Capital lease obligations for building and equipment	**$ 201**	$ –
Cash paid for interest	**$ 15,583**	$ 19,750
Repayment of Series 2007 A and B Variable Rate Revenue Refunding Bonds by incurring Series 2009 C and D Variable Rate Revenue Refunding Bonds	**$ 99,880**	$ –
Repayment of Series 2003 A and B Insured Hospital Revenue Bonds by incurring Series 2009 A Variable Rate Revenue Refunding Bonds and 2009 B Revenue Bonds	**$ 72,500**	$ –
Net assets transferred from related party	**$ 24,701**	$ 22,021
Purchase of medical office building by assumption of mortgage	**$ 8,652**	$ –

See accompanying notes.

1. Summary of Significant Accounting Policies

Organization

Sharp HealthCare (SHC) is a California nonprofit public benefit corporation with corporate offices in San Diego, California. SHC, together with its affiliated entities (collectively Sharp), constitute a regional integrated health care delivery system which does business as Sharp HealthCare, primarily serving the residents of San Diego County. The combined financial statements of Sharp include the accounts of the following:

- Sharp Memorial Hospital (SMH), including Sharp Mary Birch Hospital for Women & Newborns, Sharp Cabrillo, Sharp Outpatient Pavilion, Sharp Mesa Vista Hospital, and Sharp Vista Pacifica
- Sharp Chula Vista Medical Center (SCVMC)
- Sharp Grossmont Hospital (SGH)
- Sharp Coronado Hospital and HealthCare Center (SCHHC)
- Sharp Health Plan (SHP)
- Continuous Quality Insurance SPC (CQI SPC)
- Sharp HealthCare Foundation (SHF)
- Grossmont Hospital Foundation (GHF)

SHC, SMH, SCVMC and SGH are collectively the “Obligated Group” under certain bond indentures (see Note 6).

SHC has certain contractual obligations with its affiliates that govern its operations and the use of certain assets. All significant transactions among Sharp’s combined entities have been eliminated in the accompanying combined financial statements.

Use of Estimates

The preparation of Sharp’s combined financial statements in conformity with accounting principles generally accepted in the United States (GAAP) 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 combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

1. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with original maturities of three months or less. Sharp routinely invests its surplus operating funds in money market mutual funds. These funds generally invest in highly liquid U.S. government and agency obligations.

Short-Term Investments

Short-term investments are classified as trading and include corporate and government obligation securities, which are included in professionally managed portfolios, and are measured at fair value in the balance sheet. The maturities of these securities do not exceed one year. Investment income or loss (including unrealized and realized gains and losses) is included in the combined excess of revenues over expenses.

Inventories

Inventories, consisting principally of supplies, are stated at the lower of average cost or market value.

Derivative and Hedging Instruments

Sharp recognizes all derivatives on its combined balance sheets at fair value. Derivatives that are not hedges are adjusted to fair value through the combined statements of operations. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair values of the derivatives are offset against either the change in fair value of assets or liabilities. The ineffective portion of a derivative's change in fair value, if any, is immediately recognized in the combined excess of revenues over expenses.

In 2003, Sharp entered into a floating-to-fixed interest rate swap which is designed to hedge the variability of the cash flows for Sharp's variable rate revenue bonds. In 2004, Sharp entered into a fixed-spread basis swap. The interest rate swap is designed to improve Sharp's cash position through the term of the contract. In 2006, Sharp entered into a fixed-spread yield curve swap. The yield curve swap is designed to hedge the variability of cash flows on Sharp's variable rate bonds and variable rate swap agreements in exchange for improved cash position through the term of the contract. Refer to Note 6.

1. Summary of Significant Accounting Policies (continued)

Assets Limited as to Use

Assets limited as to use invested in equity securities with readily determined fair values and investments in debt securities are measured at fair value in the balance sheet and are classified as trading. Investment income or loss (including unrealized and realized gains and losses) is included in the combined excess of revenues over expenses unless the income or loss is restricted by donor or law.

Assets limited as to use primarily include amounts held by trustees under indenture agreements and designated assets set aside by Sharp's Board of Directors (the Board) for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes. Assets limited as to use consist of the following:

Designated for property – The Board has designated cash resources not required for operations as funded depreciation to be used for future capital improvements. With Board approval, this designation may be changed and such funds used for other purposes – $33,753,000 at September 30, 2009 and $26,474,000 at September 30, 2008, of such assets are pledged as collateral for notes payable and other liabilities.

Under bond indentures **–** In accordance with the terms of Sharp's various bond indentures, certain bond proceeds and principal and interest payments have been deposited with a trustee and are limited as to use in accordance with the related indentures.

Other restricted investments **–** Certain cash and investments are limited as to use for future community benefit and under Sharp's professional liability self-insurance program and for other purposes.

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset from three to 40 years and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the combined financial statements. 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.

1. Summary of Significant Accounting Policies (continued)

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

Unamortized Financing Costs

Costs incurred in obtaining long-term financing are amortized over the terms of the related obligations using the interest method.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by Sharp has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by Sharp in perpetuity.

Accounting for the Impairment or Disposal of Long-Lived Assets

Sharp accounts for the impairment or disposal of long-lived assets under FASB ASC 360, *Property, Plant, and Equipment,* which uses a future cash flow model to determine whether assets have been impaired. Sharp regularly reviews long-lived assets for circumstances which could indicate carrying values may not be recoverable.

Income from Operations

Sharp's primary purpose is to provide diversified health care services to the community served by its affiliates. Only those activities directly associated with the furtherance of this purpose are considered operating activities and classified as operating revenues and expenses. Items excluded from income from operations consist of investment income, gains and losses on disposition of property and equipment, changes in the fair value of interest rate swaps, and net income (loss) from the foundations.

1. Summary of Significant Accounting Policies (continued)

Excess of Revenues over Expenses

The accompanying combined statement of operations includes excess of revenues over expenses and other changes in unrestricted net assets. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include permanent transfers of assets to and from affiliates for other than goods and services, long-lived assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets, and pension-related changes other than net periodic pension cost.

Net Patient Service Revenues

Sharp has agreements with third-party payors that provide for payments to Sharp at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined. In the opinion of management, adequate provision has been made for such adjustments.

Premium Revenues

Sharp has agreements with various employers and health maintenance organizations to provide medical services to subscribing participants. Under these agreements, Sharp receives monthly capitation payments based on the number of participants who have selected Sharp, regardless of services actually performed by Sharp.

Other Revenues

Other revenues include unrestricted donations, retail pharmacy gross profits, management services and joint venture income.

1. Summary of Significant Accounting Policies (continued)

Health Care Service Costs

Sharp contracts with certain health care providers for the provision of medical services to eligible members. These services include primary care and specialty physician services, inpatient and outpatient facility services, pharmacy, and other medical services. Providers are paid on capitated, per diem, and structured fee-for-service bases.

Health care service costs (included in medical fees and purchased services in the accompanying combined statements of operations) are accrued in the period in which the services are provided to enrollees, based in part on estimates, including estimates of medical services provided but not yet reported to Sharp.

Charity Care

Sharp provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because Sharp does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as revenue. Net patient service revenue reported is net of charity care charges foregone of approximately $269,642,000 in 2009 and $208,571,000 in 2008.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets to Sharp are reported at fair value at the date the promise is received. Conditional promises to give and indications or intentions to give are reported at fair value at the date the gift becomes unconditional. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the combined statements of operations as other operating revenues. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the combined financial statements.

Income Taxes

The principal operations of Sharp are exempt from taxation pursuant to Section 501(c)(3) of the Internal Revenue Code and related California provisions.

1. Summary of Significant Accounting Policies (continued)

Adoption of New Accounting Pronouncements

Sharp adopted the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740, *Income Taxes*, in 2008. FASB ASC 740 clarifies the accounting for uncertainty in income taxes and prescribes a recognition threshold and measurement attribute for combined financial statement recognition threshold and measurement of a tax position taken or expected to be taken in a tax return. Based on guidance in FASB ASC 740, management of Sharp believes that the outcome of these uncertainties should not have a material adverse effect on the financial condition, cash flows, or operating results of Sharp and accordingly, the adoption of FASB ASC 740 had no impact on the 2009 and 2008 combined financial statements. No liability has been recorded at September 30, 2009 and 2008.

Effective October 1, 2008, Sharp adopted FASB ASC 820, *Fair Value Measurements and Disclosures*. FASB ASC 820 defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. FASB ASC 820 applies under other accounting pronouncements that require or permit fair value measurements and, accordingly, FASB ASC 820 does not require any new fair value measurements. The adoption of FASB ASC 820 did not have a material effect on the combined financial statements of Sharp.

Effective October 1, 2008, Sharp adopted FASB ASC 825, *Financial Instruments*. FASB ASC 825 permits entities to choose to measure many financial instruments and certain other items at fair value. The adoption of FASB ASC 825 did not have a material effect on the combined financial statements of Sharp, as management chose not to measure any financial instruments and certain other items at fair value that are not already required to be reported at fair value.

The FASB issued FASB ASC 958, *Not for Profit Entities*, which provides guidance on the net asset classification of donor-restricted endowment funds for the not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). FASB ASC 958 also improves disclosures about an organization’s endowment funds, both donor-restricted and board-designated, whether or not the organization is subject to the UPMIFA. FASB ASC 958 was adopted by Sharp in the fiscal year ending September 30, 2009, and the adoption did not have a material effect on the combined financial statements.

Sharp adopted FASB ASC 855, *Subsequent Events,* which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before combined financial statements are issued or are available to be issued. It requires the disclosure

1. Summary of Significant Accounting Policies (continued)

of the date through which an entity has evaluated subsequent events and the basis for selecting that date, that is, whether that date represents the date the combined financial statements were issued or were available to be issued. FASB ASC 855 is effective for interim or annual periods ending after June 15, 2009. The adoption of FASB ASC 855 did not have a material effect on the combined financial statements of Sharp.

In June 2009, the FASB issued ASC 105, *Generally Accepted Accounting Principles.* FASB ASC 105 establishes the single source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. FASB ASC 105 is effective for combined financial statements issued for interim and annual periods ending after September 15, 2009. The adoption of FASB ASC 105 did not have a material effect on the combined financial statements of Sharp.

Recent Accounting Pronouncements

In May 2009, the FASB established the framework for financial accounting and reporting for not-for-profit mergers and acquisitions and amended the guidance for FASB ASC 350, *Intangibles-Goodwill and Other*, to make it applicable to not-for-profit entities. The accounting for mergers and acquisitions is effective for mergers and acquisitions on or after December 15, 2009. Further, in connection with the adoption of FASB ASC 350, Sharp will no longer amortize goodwill, but will be subject to an annual impairment test. Sharp is currently evaluating the effect of this guidance on its combined financial statements.

Reclassifications

Certain 2008 amounts in the combined financial statements have been reclassified to conform to the 2009 presentation.

2. Fair Value Measurements

FASB ASC 820 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, FASB ASC 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

2. Fair Value Measurements (continued)

- Level 1: Pricing is based on observable inputs such as quoted prices in active markets. Financial assets and liabilities in Level 1 include U.S. Treasury securities and listed equities.

- Level 2: Pricing inputs are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Financial assets and liabilities in this category generally include asset-backed securities, corporate bonds and loans, municipal bonds, forward contracts, future contracts, interest and credit swap agreements, options and interest rate swaps.

- Level 3: Pricing inputs are generally unobservable and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require management's judgment or estimation of assumptions that market participants would use in pricing the assets or liabilities. The fair values are therefore determined using factors that involve considerable judgment and interpretations, including not but limited to private and public comparables, third party appraisals, discounted cash flow models, and fund manager estimates. Sharp does not hold any financial assets that would be included in this category.

Assets and liabilities measured at fair value are based on one or more of three valuation techniques noted in FASB ASC 820 as identified below. The valuation techniques are as follows:

(a) Market approach. Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. This technique was utilized for all Level 1 investments.

(b) Cost approach. Amount that would be required to replace the service capacity of an asset (replacement cost.). This technique was utilized for all Level 2 investments except for the interest rate swaps.

(c) Income approach. Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing and excess earnings model.). This technique was utilized for the interest rate swaps.

2. Fair Value Measurements (continued)

Sharp's investments in partnerships, limited liability companies and similarly structured entities amounting to approximately $5,397,000 as of September 30, 2009, are accounted for using the equity method of accounting, which is not a fair value measurement.

The following table provides the composition of certain investment assets as of September 30, 2009. Only assets and liabilities measured at fair value are shown in the three-tier fair value hierarchy.

	September 30, 2009	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In Thousands)			
Cash and cash equivalents	$ 150,611	$ 150,611	$ –	$ –
Short-term investments:				
Cash and short-term investments	$ 3,400	$ 3,400	$ –	$ –
U.S. Treasury obligations	43,623	43,623	–	–
Corporate bonds	19,025	–	19,025	–
U.S. government agencies	1,533	–	1,533	–
Commercial paper	5,893	–	5,893	–
Interest receivable	2,150	–	2,150	–
	$ 75,624	$ 47,023	$ 28,601	$ –
Assets limited as to use:				
Designated for property:				
Cash and short-term investments	$ 9,364	$ 9,364	$ –	$ –
Equities	60,100	60,100	–	–
U.S. Treasury obligations	54,309	54,309	–	–
Corporate bonds	128,153	–	128,153	–
U.S. government agencies	68,062	–	68,062	–
Commercial paper	495	–	495	–
Interest receivable	850	–	850	–
	$ 321,333	$ 123,773	$ 197,560	$ –
Under bond indentures:				
Cash and short-term investments	$ 18,115	$ 18,115	$ –	$ –
U.S. Treasury obligations	3,716	3,716	–	–
Corporate bonds	875	–	875	–
U.S. government agencies	32,134	–	32,134	–
Commercial paper	7,802	–	7,802	–
Interest receivable	335	–	335	–
	$ 62,977	$ 21,831	$ 41,146	$ –

2. Fair Value Measurements (continued)

	September 30, 2009	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In Thousands)			
Other restricted investments:				
Cash and short-term investments	$ 2,558	$ 2,558	$ –	$ –
Equities	17,724	17,724	–	–
U.S. Treasury obligations	3,299	3,299	–	–
Corporate bonds	4,533	–	4,533	–
U.S. government agencies	1,947	–	1,947	–
Mortgage-backed securities	547	–	547	–
	$ 30,608	$ 23,581	$ 7,027	$ –
Under self-insurance programs:				
U.S. Treasury obligations	$ 1,933	$ 1,933	$ –	$ –
Corporate bonds	3,293	–	3,293	–
U.S. government agencies	1,791	–	1,791	–
	$ 7,017	$ 1,933	$ 5,084	$ –
Other assets:				
Equities	$ 3,826	$ 3,826	$ –	$ –
U.S. Treasury obligations	1,163	1,163	–	–
Corporate bonds	2,604	–	2,604	–
U.S. government agencies	1,110	–	1,110	–
Interest receivable	56	–	56	–
	$ 8,759	$ 4,989	$ 3,770	$ –
Long-term debt:				
Interest rate swaps	$ 3,513	$ –	$ 3,513	$ –
	$ 3,513	$ –	$ 3,513	$ –

3. Net Patient Service Revenue

Sharp has agreements with third-party payors that provide for payments to Sharp at amounts different from its established rates.

The Medicare program reimburses Sharp at prospectively determined rates for the major portion of inpatient and outpatient services rendered to patients, primarily on the basis of Medicare Severity Diagnosis Related Groups (MS-DRGs) and Ambulatory Payment Classification Groups (APCs), respectively.

Nonacute inpatient services, defined capital costs, and certain outpatient costs are paid based on a cost reimbursement methodology. When paid under cost reimbursement, Sharp is reimbursed at the interim rate with final settlement determined after submission of annual cost reports and audits by the fiscal intermediaries. The Medi-Cal program reimburses Sharp primarily on prospectively determined rates for inpatient and outpatient services.

Revenue from the Medicare and Medi-Cal programs accounted for approximately 31% and 18%, respectively, of Sharp's gross patient charges for the year ended September 30, 2009, and 31% and 17%, respectively, of Sharp's gross patient charges for the year ended September 30, 2008. Laws and regulations governing Medicare and Medi-Cal programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Net patient service revenue includes changes in estimate which decreased revenue by $6,989,000 in 2009 and increased revenue by $10,216,000 in 2008 which includes the impact of settlements of prior years' reimbursement from Medicare, Medi-Cal and Champus programs. Included in the 2009 amount above is the impact to disproportionate share (DSH) reimbursement based on the Supplemental Security Income (SSI) ratio for 2007 published in the Federal Register during 2009. The most current year published results are used by both the Centers for Medicare and Medicaid Services (CMS) and Sharp to estimate the DSH payments for the applicable year and all future years. The 2007 results showed a decrease in Sharp's SSI percentages, ranging from -4.2% to -6.0% for the three Sharp hospitals that qualify for DSH reimbursement. This decrease equates to an estimated reduction in total DSH payments of $5,200,000 for 2007 and $4,600,000 for 2008 which are included in the disclosed net prior year settlement amounts in 2009.

3. Net Patient Service Revenue (continued)

Sharp also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to Sharp under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Sharp grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from significant payors was as follows:

	September 30	
	2009	**2008**
Medicare	**13%**	14%
Medi-Cal	**16%**	15%
Private Pay	**25%**	25%

4. Investment Income (Losses)

Investment income (losses) for assets limited as to use, short-term investments and cash equivalents are comprised of the following:

	Year Ended September 30	
	2009	**2008**
	(In Thousands)	
Interest income	**$ 11,063**	$ 17,989
Unrealized gains (losses)	**7,284**	(19,981)
Realized gains	**3,017**	968
Investment income (losses)	**$ 21,364**	$ (1,024)

5. Property and Equipment

Property and equipment consists of the following:

	September 30 2009	2008
	(In Thousands)	
Land and improvements	**$ 50,119**	$ 49,005
Buildings and improvements	**837,952**	585,524
Equipment and furniture	**662,147**	626,380
Construction-in-progress	**97,820**	252,474
	1,648,038	1,513,383
Less accumulated depreciation and amortization	**(861,073)**	(797,854)
	$ 786,965	$ 715,529

Depreciation and amortization expense for the years ended September 30, 2009 and 2008 amounted to approximately $77,771,000 and $70,634,000, respectively. Included in these amounts is amortization for buildings and equipment under capital lease obligations. Sharp has approximately $7,971,000 and $7,711,000 at September 30, 2009 and 2008, respectively of buildings and equipment under capital lease, at cost. Sharp has outstanding commitments to complete construction-in-progress totaling approximately $11,531,000 at September 30, 2009.

On May 29, 1991, Sharp leased the Grossmont Hospital (the Hospital) existing campus land, buildings and equipment from the Grossmont Healthcare District (the District). The lease provides for a 30-year term ending May 29, 2021, at $1 per year. Buildings, improvements and equipment acquired by the Hospital since the inception of the lease will revert to the District at the end of the lease term.

The Hospital and the District initiated, in 2006, a project for the construction of three shelled floors in the Emergency and Critical Care Center, central plant upgrades, infrastructure improvements, and facility renovations (the Project). The Project is funded using the proceeds of general obligation (GO) bonds. In July 2007, $85,500,000 in GO bonds were issued by the District. The next offering is expected in 2011.

5. Property and Equipment (continued)

The Hospital will not be required to make any payments to the District with respect to the contribution to the Project of assets constructed using the GO bond proceeds. Therefore, the GO bonds have not been included in the combined financial statements as a liability of Sharp. The portion of the Project funded with the GO bonds is being recognized as a transfer of net assets from the District as the Project is completed. In fiscal 2009 and 2008, the Hospital recorded $24,701,000 and $22,021,000, respectively, of construction in progress and a related transfer of net assets for the portion of the Project completed during the year with proceeds of the GO bonds.

6. Long-Term Debt

Long-term debt consists of the following:

	September 30	
	2009	**2008**
	(In Thousands)	
Series 2009B Revenue Bonds (Series 2009B Bonds) collateralized by revenues of the Obligated Group. Principal due in annual amounts ranging from $1,640,000 in 2022 to $24,900,000 in 2039. Interest payable semi-annually at rates ranging from 6.000% to 6.375%. The borrowing amount is net of the unamortized original issue discount of $2,709,000 at September 30, 2009. The bonds include issuer call features totaling $30,025,000 and $109,975,000 in 2014 and 2019,	**$ 137,291**	$ –
Series 2009C and Series D Variable Rate Revenue Bonds (Series 2009C and D Bonds), collateralized by a three-year direct-pay letter of credit reimbursement agreement between Obligated Group and Citibank. Principal is due in annual amounts ranging from $145,000 in 2022 to $11,805,000 in 2035. Letter of Credit is renewable in 2012. Interest is payable monthly at a variable rate (0.27% at September 30, 2009).	**99,880**	–

6. Long-Term Debt (continued)

	September 30	
	2009	**2008**
	(In Thousands)	
County of San Diego Certificates of Participation issued in 1998 collateralized by revenues of the Obligated Group. Principal due in annual installments ranging from $3,525,000 in 2010 to $5,705,000 in 2028. Interest payable semiannually at rates ranging from 4.70% to 5.25% through 2028.	**$ 86,700**	$ 90,045
Series 2001A Revenue Bonds collateralized by revenues of the Obligated Group. Principal due in annual amounts ranging from $3,990,000 in 2010 to $7,225,000 in 2020. Interest payable annually at rates ranging from 5.500% to 6.125% through 2020.	**60,100**	63,880
Series 2009A Variable Rate Revenue Bonds (Series 2009A Bonds) collateralized by a three-year direct-pay letter of credit reimbursement agreement between Obligated Group and Bank of America. Principal due in annual amounts ranging from $3,055,000 in 2010 to $5,360,000 in 2024. Letter of Credit is renewable in 2012. Interest is payable monthly at a variable rate (0.27% at September 30, 2009).	**57,065**	–
Series 2003C Revenue Bonds collateralized by revenues of the Obligated Group. Principal due in annual amounts ranging from $625,000 in 2010 to $16,265,000 in 2021. Interest payable annually at rates ranging from 5.125% to 5.375% through 2021.	**27,145**	27,820
Citigroup Reverse Repurchase Agreement collateralized by U.S. Treasury securities. Principal due in October 2010. Interest payable quarterly at a variable rate (0.759% at September 30, 2009).	**15,500**	15,500

6. Long-Term Debt (continued)

	September 30	
	2009	**2008**
	(In Thousands)	
Series 1988A Insured Hospital Revenue Bonds collateralized by revenues of the Obligated Group. Principal due in annual amounts ranging from $1,100,000 in 2010 to $1,900,000 in 2018. Interest payable every 35 days at a variable rate (0.666% at September 30, 2009).	**$ 13,400**	$ 14,400
CitiCapital Tax-Exempt Financing collateralized by equipment. Interest and principal paid in monthly installments at a rate of 3.86% through 2011.	**12,412**	19,138
Medical office building mortgage collateralized by the building. Interest and principal paid in monthly installments at a rate of 5.390% through 2014 when a final principal payment of $7,735,000 is due.	**8,549**	–
Series 2007A and B Variable Rate Revenue Refunding Bonds (Series 2007A and B Bonds), Statewide Easy Equipment Program (SWEEP) collateralized by a three-year direct-pay letter of credit reimbursement agreement between Obligated Group and Citibank. These Series 2007A and B Bonds were refunded with the proceeds from the Series 2009C and D Bonds.	**–**	99,880
Series 2003A and 2003B Insured Hospital Revenue Bonds (Series 2003A and B Bonds) collateralized by revenues of the Obligated Group. These Series 2003A and B Bonds were refunded with the proceeds from the Series 2009A Bonds and the Series 2009B Bonds.	**–**	89,725
Capital lease obligations at a 6.00% imputed rate of interest collateralized by leased building or equipment.	**6,924**	7,028
Other debt including the fair value of interest rate swaps	**3,666**	2,920
Total	**528,632**	430,336
Less current portion	**(19,657)**	(20,199)
	$ 508,975	$ 410,137

6. Long-Term Debt (continued)

In 2009, Sharp issued Series 2009A Bonds in the amount of $60,000,000. The Series 2009A Bonds proceeds were used to redeem the line of credit that was utilized to refund the Series 2003A and B Bonds in the amounts of $44,900,000 and $15,100,000 respectively. The Series 2009A Bonds are variable rate revenue bonds priced weekly by bid with interest paid monthly computed on the basis of a 365- or 366-day year for the actual number of days elapsed.

In 2009, Sharp issued Series 2009B Bonds in the amount of $140,000,000 that had an original issue discount of $2,734,000. The Series 2009B Bonds proceeds will be utilized to reimburse construction projects at SMH, fund ongoing capital project expenditures, redeem the $12,500,000 line of credit used to refund the Series 2003A and B Bonds and to fund a debt service reserve fund in the amount of approximately $12,393,000.

In 2009, Sharp issued Series 2009C and D Bonds in the amounts of $50,000,000 and $49,880,000, respectively. The proceeds were utilized to refinance the Series 2007A and B Bonds amounts of $57,065,000 and $42,815,000, respectively. The Series 2009C and D Bonds are variable rate revenue bonds priced weekly by bid with interest paid monthly computed on the basis of a 365- or 366-day year for the actual number of days elapsed.

On January 30, 2009, Sharp purchased a medical office building and assumed the $8,652,000 mortgage collateralized by the building.

Under the terms of the 2001A, 2003C and 2009B Revenue Bonds, Sharp is required to maintain certain deposits with a trustee. Such deposits are included with assets limited as to use. Sharp's loan agreements include, among other things, certain financial covenants, limitations on additional indebtedness, and limitations on sales/leaseback transactions. Sharp was in compliance with such covenants and limitations at September 30, 2009 and 2008.

6. Long-Term Debt (continued)

Scheduled principal payments on long-term debt and payments on capital lease obligations for years ending September 30 are as follows (in thousands):

	Long-Term Debt	Capital Lease Obligations
2010	$ 19,446	$ 211
2011	33,927	199
2012	13,648	211
2013	14,269	224
2014	22,601	230
Thereafter	414,304	5,849

A summary of interest cost on borrowed funds follows:

	Year Ended September 30	
	2009	**2008**
	(In Thousands)	
Interest cost:		
Capitalized	**$ 1,920**	$ 7,386
Charged to operations	**22,011**	12,528
	$ 23,931	$ 19,914

Interest Rate Swaps

During 2002, Sharp entered into a fixed-to-floating interest rate swap on the County of San Diego Certificates of Participation. The swap agreement hedges an initial notional amount of $80,000,000 at a fixed receiver rate of 4.66% for the entire swap term which expires on August 15, 2028. The swap agreement initially paid a fixed Bond Market Association (BMA) rate of 1.15% through December 31, 2002. Subsequent to December 31, 2002, the swap agreement pays the current Securities Industry and Financial Markets Association (SIFMA) rate for the remaining term of the swap. Settlements are made monthly. Cash received on the interest rate swap was $1,601,000 in 2008, which reduced Sharp’s overall cost of borrowing and was offset against interest expense. The change in fair value of the swap was included in non-operating income and was an increase of $342,000 in 2008. This swap was terminated on September 25, 2008. The termination of the swap did not result in any significant gain or loss.

6. Long-Term Debt (continued)

During 2003, Sharp entered into a floating-to-fixed interest rate swap on the Series 2003A and B Bonds which were refunded in 2009. The swap agreement hedges an initial notional amount of $109,650,000 at a fixed payer rate of 3.01% for the entire swap term which expires on August 1, 2024, and will receive 59% of one-month LIBOR plus 0.14%, for the remaining term of the swap. Settlements are made weekly. Cash paid on the interest rate swap was $2,084,000 in 2009 and $782,000 in 2008, which reduced Sharp's overall cost of borrowing and was offset against interest expense. In September 2008, Sharp HealthCare voluntarily discontinued the use of shortcut accounting on its floating-to-fixed interest rate swap on the Series 2003A and B Bonds. The historical mark to market activity was to be amortized into non-operating income over the term of the bonds. Due to refunding of the Series 2003A and B Bonds that occurred in 2009, the historical mark to market activity was reclassified to non-operating income in 2009 resulting in a $1,221,000 favorable adjustment. The change in fair value of the swap was included in non-operating income and was a decrease of $3,882,000 in 2009 and $3,005,000 in 2008.

During 2004, Sharp entered into a fixed-spread basis swap with Citibank. The swap arrangement hedges an initial notional amount of $80,000,000 at a fixed payer rate of one-month BMA for the entire swap term which expires on February 3, 2024, and will receive 67% of one-month LIBOR plus 0.55%. Settlements are made quarterly. Cash received on the interest rate swap was $201,000 in 2009 and $456,000 in 2008, which reduced Sharp's overall cost of borrowing and was offset against interest expense. The change in fair value of the swap was included in non-operating income and was an increase of $725,000 in 2009 and a decrease of $3,060,000 in 2008.

During 2006, Sharp entered into a fixed-spread yield curve swap with Citibank. The yield curve transaction entails Sharp paying Citibank 67% of one-month LIBOR and receiving 67% of ten-year LIBOR less a market determined fixed spread. Under the terms of the agreement, Sharp may terminate the swap at any time. Cash received on the interest rate swap was $940,000 in 2009 and cash paid was $177,000 in 2008, which reduced Sharp's overall cost of borrowing in 2009 and increased Sharp's overall cost of borrowing in 2008 and was included in interest expense. The change in fair value of the swap was included in non-operating income and was an increase of $2,397,000 in 2009 and $272,000 in 2008.

7. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	September 30 2009	September 30 2008
	(In Thousands)	
Purchase of equipment	**$ 16,394**	$ 21,148
Hospital programs	**11,845**	6,691
Hospital departments	**8,973**	8,395
Health education	**6,052**	5,344
Research	**3,915**	3,565
Indigent care	**525**	102
Total	**$ 47,704**	$ 45,245

Permanently restricted net assets of $5,827,000 and $5,595,000 at September 30, 2009 and 2008, respectively, represent investments to be held in perpetuity, the income from which is expendable to support health care services.

8. Endowments

Sharp's endowment consist of 42 separate endowment funds included in assets limited as to use established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors of the foundations to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

On September 30, 2008, California Senate Bill No. 1329 was signed into law which enacted the UPMIFA for California. California also adopted one of the "optional" provisions of the act, creating a rebuttable presumption of imprudence for spending more than 7% of the value of an endowment fund in one year (based on a three-year rolling average). The Board has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Sharp classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in

8. Endowments (continued)

accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Sharp in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, Sharp considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purposes of Sharp and the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of Sharp, and (7) the investment policies of Sharp.

The endowment net asset composition as of September 30, 2009 by fund type was as follows:

	Temporarily Restricted	Permanently Restricted	Total
	(In Thousands)		
Board-designated endowment funds	$ 547	$ –	$ 547
Donor-restricted endowment funds	2,583	5,827	8,410
Total funds	$ 3,130	$ 5,827	$ 8,957

Sharp has adopted investment and spending policies for endowment assets that attempt to provide a stream of funding to programs supported by its endowment while balancing the risk of investment loss with long-term preservation of purchasing power. Endowment assets include those assets of donor-restricted funds that Sharp must hold in perpetuity or for a donor-specified period as well as board-designated funds.

8. Endowments (continued)

Sharp targets a diversified asset allocation that places greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints. Sharp's spending policy is to annually appropriate for distribution no more than 4% per year of each endowment fund's average fair value (based on a two-year rolling average).

	Temporarily Restricted	**Permanently Restricted**	**Total**
		(In Thousands)	
Endowment net assets, September 30, 2007	$ 3,406	$ 4,454	$ 7,860
Investment return:			
Investment income	369	–	369
Net depreciation (realized and unrealized)	(787)	–	(787)
Total investment return	(418)	–	(418)
Contributions	174	1,141	1,315
Appropriation of endowment asset for expenditure	(48)	–	(48)
Endowment net assets, September 30, 2008	3,114	5,595	8,709
Investment return:			
Investment income	**135**	**–**	**135**
Net depreciation (realized and unrealized)	**(85)**	**–**	**(85)**
Total investment return	**50**	**–**	**50**
Contributions	**75**	**232**	**307**
Appropriation of endowment asset for expenditure	**(109)**	**–**	**(109)**
Endowment net assets, September 30, 2009	**$ 3,130**	**$ 5,827**	**$ 8,957**

9. Functional Expenses

Sharp provides general health care services to residents within its geographic locations. Expenses related to providing these services are as follows:

	Year Ended September 30	
	2009	**2008**
	(In Thousands)	
Hospital patient services	**$ 1,366,185**	$ 1,253,762
Clinic patient services	**291,377**	265,612
General and administrative	**235,480**	224,944
Purchased services under capitated agreements	**112,632**	122,566
	$ 2,005,674	$ 1,866,884

10. Pension Plans

Sharp sponsors a voluntary retirement plan (the Plan) which consists of a defined benefit cash balance plan and a defined contribution plan. Under the defined contribution element of the Plan, Sharp made matching contributions of $10,626,000 in 2009 and $10,336,000 in 2008.

The following sets forth the funded status of the Sharp's defined benefit pension plan at September 30:

	2009	**2008**
	(In Thousands)	
Change in benefit obligation:		
Benefit obligation at beginning of year	**$ 147,742**	$ 145,874
Service cost	**3,727**	5,722
Interest cost	**11,441**	9,597
Actuarial loss (gain)	**48,536**	(4,379)
Benefits paid	**(9,154)**	(9,072)
Benefit obligation at end of year	**202,292**	147,742

10. Pension Plans (continued)

	2009	2008
	(In Thousands)	
Change in plan assets:		
Fair value of plan assets at beginning of year	**$ 113,692**	$ 140,122
Actual return (loss) on plan assets	**4,304**	(24,574)
Plan participants' contributions	**4,802**	4,771
Employer contributions	**14,546**	2,445
Benefits paid	**(9,154)**	(9,072)
Fair value of plan assets at end of year	**128,190**	113,692
Funded status	**$ (74,102)**	$ (34,050)

The net liability, recognized in the balance sheet in long-term liabilities, was $74,102,000 and $34,050,000 at September 30, 2009 and 2008, respectively.

Included in unrestricted net assets at September 30 are the following amounts that have not yet been recognized in net periodic pension cost:

	2009	2008
	(In Thousands)	
Prior service cost	**$ 6,826**	$ 8,070
Net actuarial loss	**96,233**	52,492
	$ 103,059	$ 60,562

Additional information for the plan:

	September 30 2009	2008
	(In Thousands)	
Projected benefit obligation	**$ 202,292**	$ 147,742
Accumulated benefit obligation	**185,587**	132,887
Fair value of plan assets	**128,190**	113,692

10. Pension Plans (continued)

Net periodic pension cost includes the following components for the years ended September 30:

	2009	**2008**
	(In Thousands)	
Service cost	**$ 3,727**	$ 5,722
Interest cost	**11,441**	9,597
Expected return on plan assets	**(9,610)**	(10,959)
Amortization of transition asset	**–**	(397)
Recognized net actuarial loss	**5,299**	2,515
Amortization of prior service cost	**1,245**	893
Net periodic pension cost	**$12,102**	$ 7,371

Weighted-average assumptions used to determine benefit obligations were:

	September 30	
	2009	**2008**
Discount rate	**5.63%**	7.87%
Rate of compensation increase	**5.00%**	5.00%

Weighted-average assumptions used to determine net periodic pension cost were:

	September 30	
	2009	**2008**
Discount rate	**7.87%**	6.40%
Expected return on plan assets	**8.00%**	8.00%
Rate of compensation increase	**5.00%**	3.50%

The expected rate of return on plan assets is updated annually, taking into consideration the plan’s asset allocation, historical returns on the types of assets held in the pension trust, and the current economic environment.

10. Pension Plans (continued)

Plan Assets

The plan's asset allocations by asset category are as follows:

	September 30	
	2009	**2008**
Asset category:		
Equity securities	**66%**	64%
Debt securities	**34%**	36%
Total	**100%**	100%

Contributions

Sharp expects to contribute $9,600,000 to the plan in fiscal 2010.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid (in thousands):

2010	$ 11,409
2011	13,087
2012	15,602
2013	15,315
2014	15,474
2015 – 2019	90,551

11. Commitments and Contingencies

Leases

Sharp leases various equipment and facilities under operating leases expiring at various dates through 2023. Total rental expense in 2009 and 2008 for all operating leases was $26,362,000 and $29,740,000, respectively.

The following is a schedule by year of future minimum lease payments (in thousands) under operating leases as of September 30, 2009, that have initial or remaining lease terms in excess of one year.

2010	$ 13,894
2011	11,088
2012	8,959
2013	8,630
2014	8,050
Thereafter	21,101
	$ 71,722

Legal Matters

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations are subject to ongoing government review and interpretations, and include matters such as licensure, accreditation, and reimbursement for patient services. Compliance with these laws and regulations is required for participation in government health care programs. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of regulations by health care providers, which could result in the imposition of significant fines and penalties as well as significant repayment of previously billed and collected revenues for patient services. Sharp believes it is in compliance with current laws and regulations.

In the normal course of business, Sharp is involved in legal proceedings. Sharp accrues for a liability for such matters when it is probable that a liability has been incurred and the amount can be reasonably estimated. The accrual for a litigation loss contingency might include, for example, estimates of potential damages, outside legal fees, interest penalties, and other directly related costs expected to be incurred.

11. Commitments and Contingencies (continued)

Professional Liability and Stop-Loss Insurance

CQI SPC is a wholly owned captive insurance company which insures a portion of the medical malpractice (professional liability) claims of certain affiliates of Sharp. Malpractice losses are accrued based on estimates of the ultimate costs for both reported claims and claims incurred but not reported. Sharp's liability is limited to $3,000,000 per individual claim and $13,500,000 in the aggregate each year, as Sharp has obtained excess loss insurance covering claims up to $40,000,000.

General and professional liability costs have been accrued based upon an actuarial determination. Accrued malpractice losses have been discounted at 3.0% at September 30, 2009 and 2008.

Claims, including alleged malpractice, have been asserted against Sharp and are currently in various stages of litigation. Additional claims may be asserted against Sharp arising from services provided to patients through September 30, 2009. In management's opinion, however, the estimated liability accrued at September 30, 2009 is adequate to provide for potential losses resulting from pending or threatened litigation. It is management's opinion that the ultimate disposition of such litigation will not have a material adverse effect on the combined financial position, results of operations, or cash flows of Sharp.

Sharp Health Plan

SHP is required to meet certain financial responsibility regulations of the California Department of Managed Healthcare (DMHC). Pursuant to these regulations, SHP maintains a reserve totaling $300,000 on deposit with various financial institutions. In addition, SHP is required to maintain two times the normal requirement of tangible net equity, as defined in regulations of the DMHC. At September 30, 2009 and 2008, SHP was required to maintain tangible net equity totaling $6,968,000 and $6,154,000, respectively. SHP's tangible net equity was $26,039,000 at September 30, 2009 and $22,922,000 at September 30, 2008. Management believes they are in compliance with these requirements at September 30, 2009 and 2008.

11. Commitments and Contingencies (continued)

Other Self-Insurance Programs

Sharp has elected to self-insure for unemployment claims through various group plans. Prior to January 1, 1996, Sharp was also self-insured for workers' compensation claims. Since 1996, Sharp has been responsible for workers' compensation claims up to amounts covered by insurance policies (Sharp was responsible for claims up to $1,000,000 in 2009 and 2008). For workers' compensation, Sharp accrues for the unpaid portion of claims that have been reported and estimates of claims that have been incurred but not reported, based on an actuarial study. Accrued workers' compensation losses have been discounted at 1.90% and 2.35% at September 30, 2009 and 2008, respectively.

Seismic Standards

Sharp is assessing, and has made progress toward meeting, earthquake retrofit requirements for its health care facilities under a State of California law. Sharp received an extension for compliance with seismic standards for its hospitals through January 1, 2013 and expects to apply for additional extensions as permitted by law. In addition to amounts already expended or committed to, management expects that Sharp will make significant additional capital expenditures through 2013 on infrastructure improvements that will address operational issues and seismic standards.

Credit Facilities

Sharp has a $50,000,000 line of credit with a bank which expires on September 30, 2011, of which $16,100,000 and $12,500,000 was available at September 30, 2009 and 2008, respectively. There are no amounts outstanding as of September 30, 2009 and 2008.

As part of the workers' compensation insurance agreement, letters of credit have been provided as collateral. The total letters of credit used as collateral totaled $33,900,000 and $37,500,000 as of September 30, 2009 and 2008, respectively. These letters of credit are each considered a decrease in the available $50,000,000 line of credit with the bank.

12. Fair Value of Financial Instruments

The following methods and assumptions were used by Sharp in estimating fair value of its financial instruments:

Cash and cash equivalents: The carrying amount reported in the balance sheet for cash and cash equivalents approximates fair value.

Estimated settlements payable to government programs: The carrying amount reported in the balance sheet for estimated third-party payor settlements approximates its fair value.

Short-term investments and assets limited as to use: Fair values, which are the amounts reported in the balance sheet, are based on quoted market prices.

Accounts payable and accrued expenses: The carrying amount reported in the balance sheet for accounts payable and accrued expenses approximates its fair value.

Accrued compensation and benefits: The carrying amount reported in the balance sheet for accrued compensation and benefits approximates its fair value.

Long-term debt: Fair values are computed using an estimated pricing analysis based on the individual bond terms.

The carrying amounts and fair values of Sharp's financial instruments are as follows (in thousands):

	September 30, 2009		**September 30, 2008**	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
Cash and cash equivalents	**$ 150,611**	**$ 150,611**	$ 126,077	$ 126,077
Short-term investments	**75,624**	**75,624**	94,911	94,911
Estimated settlements (payable to) receivable from government programs, net	**(9,036)**	**(9,036)**	1,463	1,463
Assets limited as to use	**421,935**	**421,935**	268,133	268,133
Accounts payable and accrued liabilities	**145,319**	**145,319**	131,467	131,467
Accrued compensation and benefits	**93,040**	**93,040**	81,433	81,433
Long-term debt	**528,632**	**549,970**	430,336	432,573

13. Discontinued Operations

On July 31, 2008, Sharp sold Sharp Mission Park Medical Centers (SMP) to Scripps Health (Scripps), an unrelated healthcare provider. Scripps paid Sharp $10,000,000 related to the sale.

As of September 30, 2009 and 2008, SMP qualified for treatment as discontinued operations under FASB ASC 360 and ASC 205. Accordingly, the operating results and gain on disposal of SMP have been classified as discontinued operations in the statements of operations for all years presented. In addition, net assets and liabilities of SMP were considered discontinued operations in the balance sheet and have been segregated into "discontinued operations" in the current liabilities section of the balance sheet. In fiscal 2009, Sharp recorded a change in estimate of $1,480,000 as a gain on discontinued operations related to previous years' operations of SMP.

Assets and liabilities of SMP are presented in the following table (in thousands):

	September 30	
	2009	**2008**
Assets of discontinued operations	**$ 559**	$ 279
Liabilities of discontinued operations	**(1,080)**	(983)
Total net liabilities	**$ (521)**	$ (704)

Operating results of SMP are presented in the following table (in thousands):

	Year Ended September 30, 2008
Premium revenue	$ 62,817
Other revenue	12,306
Total revenues	$ 75,123
Medical fees	$ 40,573
Salaries	14,452
Other expense	14,479
Total expenses	$ 69,504

13. Discontinued Operations (continued)

	Year Ended September 30, 2008
Income from discontinued operations:	
Operating gain of discontinued operations	$ 5,619
Gain on sale of discontinued operations	1,643
Total income from discontinued operations	$ 7,262

On November 22, 2004, Molina Healthcare of California (Molina) and SHP executed definitive agreements to sell certain SHP's contracts (Medi-Cal, Healthy Families and AIM collectively known as the Government Lines of Business) to Molina, a leading California managed care organization. The DMHC approved the transaction in February 2005, and the transaction became effective on June 1, 2005. In connection with the sale to Molina, the Government Lines of Business qualified as discontinued operations under FASB ASC 360 and ASC 205. At September 30, 2007, SHP had a liability for discontinued operations of approximately $433,000 with no related assets. During 2008, Sharp recorded a change in estimate to eliminate the remaining liability and recorded income from discontinued operations of $441,000 as management believes that there are no longer any significant remaining liabilities related to these operations.

14. Subsequent Events

In preparing these combined financial statements, management has evaluated and disclosed all material subsequent events up to December 18, 2009 which is the date that the combined financial statements were available to be issued.

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Report of Independent Auditors on Other Financial Information

Board of Directors
Sharp HealthCare

Our audit was conducted for the purpose of forming an opinion on the combined financial statements taken as a whole. The combining balance sheet, combining statement of operations, combining statement of changes in net assets, combining balance sheet – obligated group, combining statement of operations – obligated group, and combining statement of changes in net assets – obligated group are presented for the purpose of additional analysis and are not a required part of the combined financial statements. Such information has been subjected to the auditing procedures applied in our audit of the combined financial statements and, in our opinion, is fairly presented in all material respects in relation to the combined financial statements taken as a whole.

Ernst & Young LLP

December 18, 2009

Sharp HealthCare
Combining Balance Sheet
As of September 30, 2009
(In Thousands)

	Sharp HealthCare	Sharp Memorial Hospital	Sharp Chula Vista Medical Center	Grossmont Hospital Corporation	Sharp Coronado Hospital and HealthCare Center	Sharp Health Plan	Continuous Quality Insurance	Sharp HealthCare Foundation	Grossmont Hospital Foundation	Combined Totals	Combining Eliminations	Totals
Assets:												
Current assets:												
Cash and cash equivalents	$ 93,581	$ 1,043	$ 1,112	$ 20,795	$ 317	$ 26,287	$ 876	$ 4,253	$ 2,347	$ 150,611	$ –	$ 150,611
Short-term investments	58,163	–	–	16,456	–	–	–	1,005	–	75,624	–	75,624
Accounts receivable, net	6,643	91,755	24,790	46,074	6,963	1,329	81	42	459	178,136	(693)	177,443
Intercompany receivables	–	445,473	91,306	–	–	–	–	–	30	536,809	(536,809)	–
Inventories	4,088	11,698	5,070	9,127	1,189	–	–	–	–	31,172	–	31,172
Prepaid expenses and other	22,865	2,937	1,262	2,564	418	242	6	23	–	30,317	–	30,317
Total current assets	185,340	552,906	123,540	95,016	8,887	27,858	963	5,323	2,836	1,002,669	(537,502)	465,167
Assets limited as to use:												
Designated for property	236,312	–	–	85,021	–	–	–	–	–	321,333	–	321,333
Under bond Indentures	(522)	48,495	10,819	4,185	–	–	–	–	–	62,977	–	62,977
Other restricted investments	–	–	–	–	–	1,060	–	22,618	6,930	30,608	–	30,608
Under self-insurance programs	–	–	–	–	–	–	7,017	–	–	7,017	–	7,017
Total assets limited as to use	235,790	48,495	10,819	89,206	–	1,060	7,017	22,618	6,930	421,935	–	421,935
Property and equipment, net	152,104	371,656	50,730	198,454	13,374	633	–	14	–	786,965	–	786,965
Unamortized financing costs	1,866	4,485	849	591	1	–	–	–	–	7,792	–	7,792
Other assets	15,785	682	1,575	841	692	8,857	3,008	30,727	1,243	63,410	(10,455)	52,955
Beneficial interest in foundations	45,949	–	–	10,576	–	–	–	–	–	56,525	(56,525)	–
Total assets	$ 636,834	$ 978,224	$ 187,513	$ 394,684	$ 22,954	$ 38,408	$ 10,988	$ 58,682	$ 11,009	$ 2,339,296	$ (604,482)	$ 1,734,814

Sharp HealthCare
Combining Balance Sheet (continued)
As of September 30, 2009
(In Thousands)

	Sharp HealthCare	Sharp Memorial Hospital	Sharp Chula Vista Medical Center	Grossmont Hospital Corporation	Sharp Coronado Hospital and HealthCare Center	Sharp Health Plan	Continuous Quality Insurance	Sharp HealthCare Foundation	Grossmont Hospital Foundation	Combined Totals	Combining Eliminations	Totals
Liabilities and net assets:												
Current liabilities:												
Accounts payable and accrued liabilities	$ 86,061	$ 25,045	$ 8,004	$ 14,152	$ 1,484	$ 10,500	$ 54	$ 216	$ 3	$ 145,519	$ (200)	$ 145,319
Intercompany payable	523,237	–	–	711	12,411	299	14	113	–	536,785	(536,785)	–
Accrued compensation and benefits	26,539	29,791	11,120	20,753	3,481	919	–	356	58	93,017	23	93,040
Current portion of long-term debt	2,568	10,249	3,317	3,320	203	–	–	–	–	19,657	–	19,657
Estimated settlements payable to government programs, net	–	5,607	4,144	(2,440)	1,725	–	–	–	–	9,036	–	9,036
Accrued interest	82	2,396	447	137	–	–	–	–	–	3,062	–	3,062
Discontinued operations	521	–	–	–	–	–	–	–	–	521	–	521
Total current liabilities	639,008	73,088	27,032	36,633	19,304	11,718	68	685	61	807,597	(536,962)	270,635
Long-term liabilities	69,262	25,013	6,796	27,117	2,065	651	–	12,048	371	143,323	(7,834)	135,489
Reserves for professional liability	2,900	–	–	–	–	–	10,800	–	–	13,700	–	13,700
Long-term debt	37,032	350,291	70,010	51,484	698	–	–	–	–	509,515	(540)	508,975
Total liabilities	748,202	448,392	103,838	115,234	22,067	12,369	10,868	12,733	432	1,474,135	(545,336)	928,799
Net assets:												
Unrestricted net (deficit) assets	(155,881)	529,832	83,675	270,120	198	26,039	120	2,437	1,247	757,787	(5,303)	752,484
Temporarily restricted net assets	39,985	–	–	8,030	689	–	–	38,984	8,031	95,719	(48,015)	47,704
Permanently restricted net assets	4,528	–	–	1,300	–	–	–	4,528	1,299	11,655	(5,828)	5,827
Total net (deficit) assets	(111,368)	529,832	83,675	279,450	887	26,039	120	45,949	10,577	865,161	(59,146)	806,015
Total liabilities and net assets	$ 636,834	$ 978,224	$ 187,513	$ 394,684	$ 22,954	$ 38,408	$ 10,988	$ 58,682	$ 11,009	$ 2,339,296	$ (604,482)	$ 1,734,814

Sharp HealthCare
Combining Statement of Operations
As of September 30, 2009
(In Thousands)

	Sharp HealthCare	Sharp Memorial Hospital	Sharp Chula Vista Medical Center	Grossmont Hospital Corporation	Sharp Coronado Hospital and HealthCare Center	Sharp Health Plan	Continuous Quality Insurance	Sharp HealthCare Foundation	Grossmont Hospital Foundation	Combined Totals	Combining Eliminations	Totals
Revenues:												
Net patient service	$ 86,451	$ 720,196	$ 245,305	$ 460,369	$ 62,616	$ –	$ –	$ –	$ –	$ 1,574,937	$ (261,232)	$ 1,313,705
Premium	592,096	–	–	–	–	171,252	–	–	–	763,348	(79,059)	684,289
Other	201,715	7,051	2,994	7,294	2,993	–	8,663	–	–	230,710	(171,796)	58,914
Total revenues	880,262	727,247	248,299	467,663	65,609	171,252	8,663	–	–	2,568,995	(512,087)	2,056,908
Expenses:												
Salaries and wages	198,588	286,049	103,669	189,941	30,445	4,859	–	–	–	813,551	–	813,551
Employee benefits	48,854	60,728	21,225	42,246	6,703	1,255	–	–	–	181,011	–	181,011
Medical fees	158,142	11,137	3,895	8,108	442	151,739	–	–	–	333,463	(89,091)	244,372
Purchased services	103,947	51,070	22,764	40,332	5,267	4,969	116	–	–	228,465	(3,390)	225,075
Supplies	28,992	116,441	41,279	74,067	10,738	74	–	–	–	271,591	–	271,591
Maintenance, utilities and rentals	46,235	23,745	5,626	14,910	2,883	722	–	–	–	94,121	(2,869)	91,252
Depreciation and amortization	34,566	32,074	10,551	20,170	3,027	445	5	–	–	100,838	(23,067)	77,771
Business insurance	853	5,428	1,686	4,230	542	101	9,170	–	–	22,010	(9,170)	12,840
Interest	2,933	13,577	4,218	4,803	–	1	–	–	–	25,532	(3,521)	22,011
Provision for doubtful accounts	–	11,710	8,277	12,331	1,471	–	–	–	–	33,789	–	33,789
Purchased services from affiliate	257,452	61,879	23,280	42,775	5,846	1,591	40	–	–	392,863	(392,863)	–
Other	12,769	11,428	1,833	2,911	323	3,113	34	–	–	32,411	–	32,411
Total expenses	893,331	685,266	248,303	456,824	67,687	168,869	9,365	–	–	2,529,645	(523,971)	2,005,674
(Loss) income from operations	(13,069)	41,981	(4)	10,839	(2,078)	2,383	(702)	–	–	39,350	11,884	51,234
Other non-operating (loss) income	(3,692)	523	80	(457)	13	6	–	288	34	(3,205)	80	(3,125)
Investment income	14,530	7,814	3,363	5,066	755	983	702	108	7	33,328	(11,964)	21,364
(Loss) income from continuing operations	(2,231)	50,318	3,439	15,448	(1,310)	3,372	–	396	41	69,473	–	69,473
Gain on discontinued operations, net	1,480	–	–	–	–	–	–	–	–	1,480	–	1,480
(Deficit) excess of revenues over expenses	(751)	50,318	3,439	15,448	(1,310)	3,372	–	396	41	70,953	–	70,953
Net assets transferred from related party	–	–	–	24,701	–	–	–	–	–	24,701	–	24,701
Net assets released from restrictions used for purchase of property, plant and equipment	300	3,477	335	2,691	–	–	–	–	–	6,803	–	6,803
Pension related changes other than net periodic pension cost	(12,490)	(14,007)	(4,666)	(9,698)	(1,383)	(255)	–	–	–	(42,499)	–	(42,499)
Other changes in net assets	458	(532)	(61)	(424)	1,868	–	–	–	–	1,309	(437)	872
(Decrease) increase in unrestricted net assets	$ (12,483)	$ 39,256	$ (953)	$ 32,718	$ (825)	$ 3,117	$ –	$ 396	$ 41	$ 61,267	$ (437)	$ 60,830

Sharp HealthCare
Combining Statement of Changes in Net Assets
As of September 30, 2009
(In Thousands)

	Sharp HealthCare	Sharp Memorial Hospital	Sharp Chula Vista Medical Center	Grossmont Hospital Corporation	Sharp Coronado Hospital and HealthCare Center	Sharp Health Plan	Continuous Quality Insurance	Sharp HealthCare Foundation	Grossmont Hospital Foundation	Combined Totals	Combining Eliminations	Totals
Unrestricted net assets:												
(Deficit) excess of revenues over expenses	$ (751)	$ 50,318	$ 3,439	$ 15,448	$ (1,310)	$ 3,372	$ –	$ 396	$ 41	$ 70,953	$ –	$ 70,953
Net assets transferred from related party	–	–	–	24,701	–	–	–	–	–	24,701	–	24,701
Net assets released from restrictions used for purchase of property, plant and equipment	300	3,477	335	2,691	–	–	–	–	–	6,803	–	6,803
Pension related changes other than net periodic pension cost	(12,490)	(14,007)	(4,666)	(9,698)	(1,383)	(255)	–	–	–	(42,499)	–	(42,499)
Other changes in net assets	458	(532)	(61)	(424)	1,868	–	–	–	–	1,309	(437)	872
(Decrease) increase in unrestricted net assets	(12,483)	39,256	(953)	32,718	(825)	3,117	–	396	41	61,267	(437)	60,830
Temporarily restricted net assets:												
Contributions	–	–	–	–	–	–	–	10,225	3,789	14,014	–	14,014
Investment income	–	–	–	–	–	–	–	253	235	488	–	488
Change in net unrealized gains (losses) on investments	–	–	–	–	–	–	–	1,275	(34)	1,241	–	1,241
Net assets released from restrictions	–	–	–	–	–	–	–	(6,329)	(3,625)	(9,954)	–	(9,954)
Other	5,424	–	–	365	(3,330)	–	–	–	–	2,459	(5,789)	(3,330)
Increase (decrease) in temporarily restricted net assets	5,424	–	–	365	(3,330)	–	–	5,424	365	8,248	(5,789)	2,459
Permanently restricted net assets:												
Contributions	–	–	–	–	–	–	–	232	–	232	–	232
Other	232	–	–	–	–	–	–	–	–	232	(232)	–
Increase in permanently restricted net assets	232	–	–	–	–	–	–	232	–	464	(232)	232
(Decrease) increase in net assets	(6,827)	39,256	(953)	33,083	(4,155)	3,117	–	6,052	406	69,979	(6,458)	63,521
Net (deficit) assets, beginning of year	(104,541)	490,576	84,628	246,367	5,042	22,922	120	39,897	10,171	795,182	(52,688)	742,494
Net (deficit) assets, end of year	$ (111,368)	$ 529,832	$ 83,675	$ 279,450	$ 887	$ 26,039	$ 120	$ 45,949	$ 10,577	$ 865,161	$ (59,146)	$ 806,015

Sharp HealthCare
Combining Balance Sheet – Obligated Group
As of September 30, 2009
(In Thousands)

	Sharp HealthCare	Sharp Memorial Hospital	Sharp Chula Vista Medical Center	Grossmont Hospital Corporation	Combined Totals	Combining Eliminations	Totals
Assets:							
Current assets:							
Cash and cash equivalents	$ 93,581	$ 1,043	$ 1,112	$ 20,795	$ 116,531	$ –	$ 116,531
Short-term investments	58,163	–	–	16,456	74,619	–	74,619
Accounts receivable, net	6,643	91,755	24,790	46,074	169,262	–	169,262
Intercompany receivables	(522,966)	445,473	91,306	–	13,813	(690)	13,123
Inventories	4,088	11,698	5,070	9,127	29,983	–	29,983
Prepaid expenses and other	22,865	2,937	1,262	2,564	29,628	–	29,628
Total current assets	(337,626)	552,906	123,540	95,016	433,836	(690)	433,146
Assets limited as to use:							
Designated for property	236,312	–	–	85,021	321,333	–	321,333
Under bond indentures	(522)	48,495	10,819	4,185	62,977	–	62,977
Total assets limited as to use	235,790	48,495	10,819	89,206	384,310	–	384,310
Property and equipment, net	152,104	371,656	50,730	198,454	772,944	–	772,944
Unamortized financing costs	1,866	4,485	849	591	7,791	–	7,791
Other assets	15,785	682	1,575	841	18,883	–	18,883
Beneficial interest in foundations	45,949	–	–	10,576	56,525	–	56,525
Total assets	$ 113,868	$ 978,224	$ 187,513	$ 394,684	$ 1,674,289	$ (690)	$ 1,673,599

Sharp HealthCare
Combining Balance Sheet – Obligated Group (continued)
As of September 30, 2009
(In Thousands)

	Sharp HealthCare	Sharp Memorial Hospital	Sharp Chula Vista Medical Center	Grossmont Hospital Corporation	Combined Totals	Combining Eliminations	Totals
Liabilities and net assets:							
Current liabilities:							
Accounts payable and accrued liabilities	$ 86,332	$ 25,045	$ 8,004	$ 14,152	$ 133,533	$ –	$ 133,533
Intercompany payable	–	–	–	711	711	(690)	21
Accrued compensation and benefits	26,539	29,791	11,120	20,753	88,203	–	88,203
Current portion of long-term debt	2,568	10,249	3,317	3,320	19,454	–	19,454
Estimated settlements payable to government programs, net	–	5,607	4,144	(2,440)	7,311	–	7,311
Accrued interest	82	2,396	447	137	3,062	–	3,062
Discontinued operations	521	–	–	–	521	–	521
Total current liabilities	116,042	73,088	27,032	36,633	252,795	(690)	252,105
Long-term liabilities	69,262	25,013	6,796	27,117	128,188	–	128,188
Reserves for professional liability	2,900	–	–	–	2,900	–	2,900
Long-term debt	37,032	350,291	70,010	51,484	508,817	–	508,817
Total liabilities	225,236	448,392	103,838	115,234	892,700	(690)	892,010
Net assets:							
Unrestricted net (deficit) assets	(155,881)	529,832	83,675	270,120	727,746	–	727,746
Temporarily restricted net assets	39,985	–	–	8,030	48,015	–	48,015
Permanently restricted net assets	4,528	–	–	1,300	5,828	–	5,828
Total net (deficit) assets	(111,368)	529,832	83,675	279,450	781,589	–	781,589
Total liabilities and net assets	$ 113,868	$ 978,224	$ 187,513	$ 394,684	$ 1,674,289	$ (690)	$ 1,673,599

Sharp HealthCare

Combining Statement of Operations – Obligated Group

As of September 30, 2009

(In Thousands)

	Sharp HealthCare	Sharp Memorial Hospital	Sharp Chula Vista Medical Center	Grossmont Hospital Corporation	Combined Totals	Combining Eliminations	Totals
Revenues:							
Net patient service	$ 86,451	$ 720,196	$ 245,305	$ 460,369	$ 1,512,321	$ (252,711)	$ 1,259,610
Premium	592,096	–	–	–	592,096	–	592,096
Other	201,715	7,051	2,994	7,294	219,054	(154,380)	64,674
Total revenues	880,262	727,247	248,299	467,663	2,323,471	(407,091)	1,916,380
Expenses:							
Salaries and wages	198,588	286,049	103,669	189,941	778,247	–	778,247
Employee benefits	48,854	60,728	21,225	42,246	173,053	–	173,053
Medical fees	158,142	11,137	3,895	8,108	181,282	(6,734)	174,548
Purchased services	103,947	51,070	22,764	40,332	218,113	(2,579)	215,534
Supplies	28,992	116,441	41,279	74,067	260,779	–	260,779
Maintenance, utilities and rentals	46,235	23,745	5,626	14,910	90,516	(2,869)	87,647
Depreciation and amortization	34,566	32,074	10,551	20,170	97,361	(22,026)	75,335
Business Insurance	853	5,428	1,686	4,230	12,197	–	12,197
Interest	2,933	13,577	4,218	4,803	25,531	(3,495)	22,036
Provision for doubtful accounts	–	11,710	8,277	12,331	32,318	–	32,318
Purchased services from affiliate	257,452	61,879	23,280	42,775	385,386	(380,591)	4,795
Other	12,769	11,428	1,833	2,911	28,941	–	28,941
Total expenses	893,331	685,266	248,303	456,824	2,283,724	(418,294)	1,865,430
(Loss) income from operations	(13,069)	41,981	(4)	10,839	39,747	11,203	50,950
Other nonoperating (losses) gains, net	(3,692)	523	80	(457)	(3,546)	–	(3,546)
Investment income	14,530	7,814	3,363	5,066	30,773	(11,203)	19,570
(Loss) income from continuing operations	(2,231)	50,318	3,439	15,448	66,974	–	66,974
Gain on discontinued operations, net	1,480	–	–	–	1,480	–	1,480
(Deficit) excess of revenues over expenses	(751)	50,318	3,439	15,448	68,454	–	68,454
Net assets transferred from related party	–	–	–	24,701	24,701	–	24,701
Net assets released from restrictions used for purchase of property, plant and equipment	300	3,477	335	2,691	6,803	–	6,803
Pension-related changes other than net periodic pension cost	(12,490)	(14,007)	(4,666)	(9,698)	(40,861)	–	(40,861)
Other changes in net assets	458	(532)	(61)	(424)	(559)	–	(559)
(Decrease) increase in unrestricted net assets	$ (12,483)	$ 39,256	$ (953)	$ 32,718	$ 58,538	$ –	$ 58,538

Sharp HealthCare

Combining Statement of Changes in Net Assets – Obligated Group

As of September 30, 2009

(In Thousands)

	Sharp HealthCare	Sharp Memorial Hospital	Sharp Chula Vista Medical Center	Grossmont Hospital Corporation	Combined Totals	Combining Eliminations	Totals
Unrestricted net assets:							
(Deficit) excess of revenues over expenses	$ (751)	$ 50,318	$ 3,439	$ 15,448	$ 68,454	$ –	$ 68,454
Net assets transferred from related party	–	–	–	24,701	24,701	–	24,701
Net assets released from restrictions used for purchase of property, plant and equipment	300	3,477	335	2,691	6,803	–	6,803
Pension-related changes other than net periodic pension cost	(12,490)	(14,007)	(4,666)	(9,698)	(40,861)	–	(40,861)
Other changes in net assets	458	(532)	(61)	(424)	(559)	–	(559)
(Decrease) increase in unrestricted net assets	(12,483)	39,256	(953)	32,718	58,538	–	58,538
Temporarily restricted net assets:							
Beneficial interest in foundations	5,424	–	–	365	5,789	–	5,789
Increase in temporarily restricted net assets	5,424	–	–	365	5,789	–	5,789
Permanently restricted net assets:							
Beneficial interest in foundations	232	–	–	–	232		232
Increase in permanently restricted net assets	232	–	–	–	232	–	232
(Decrease) increase in net assets	(6,827)	39,256	(953)	33,083	64,559	–	64,559
Net (deficit) assets, beginning of year	(104,541)	490,576	84,628	246,367	717,030	–	717,030
Net (deficit) assets, end of year	$ (111,368)	$ 529,832	$ 83,675	$ 279,450	$ 781,589	$ –	$ 781,589

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