

AUDITED COMBINED FINANCIAL
STATEMENTS
AND OTHER FINANCIAL INFORMATION

Sharp HealthCare
Years Ended September 30, 2008 and 2007

Sharp HealthCare

Combined Financial Statements and Other Financial Information

Years Ended September 30, 2008 and 2007

Contents

Report of Independent Auditors.....	1
Audited Combined Financial Statements	
Combined Balance Sheets.....	2
Combined Statements of Operations	3
Combined Statements of Changes in Net Assets.....	4
Combined Statements of Cash Flows	5
Notes to Combined Financial Statements	6
Other Financial Information	
Report of Independent Auditors on Other Financial Information	34
Combining Balance Sheet.....	35
Combining Statement of Operations.....	37
Combining Statement of Changes in Net Assets	38
Combining Balance Sheet – Obligated Group.....	39
Combining Statement of Operations – Obligated Group.....	41
Combining Statement of Changes in Net Assets – Obligated Group	42

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, 2008 and 2007, 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, 2008 and 2007, 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.

As discussed in Note 8 to the combined financial statements, as of September 30, 2007, the Company changed its method of accounting for its defined benefit pension plan.

Ernst & Young LLP

December 18, 2008

Sharp HealthCare

Combined Balance Sheets

	September 30	
	2008	2007
	<i>(In Thousands)</i>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 126,077	\$ 92,783
Short-term investments	94,911	130,086
Accounts receivable, net of allowance for doubtful accounts of \$130,063,000 in 2008 and \$136,334,000 in 2007	164,535	163,275
Estimated settlements receivable from government programs, ne	1,463	15,801
Inventories	28,976	27,297
Prepaid expenses and other	25,158	16,101
Total current assets	441,120	445,343
Assets limited as to use:		
Designated for property	220,206	201,159
Under bond indentures	11,149	11,123
Other restricted investments	29,832	28,969
Under self-insurance programs	6,946	6,573
Total assets limited as to use	268,133	247,824
Property and equipment, net	715,529	634,523
Unamortized financing costs	10,714	11,407
Other assets	55,015	50,177
Total assets	<u>\$ 1,490,511</u>	<u>\$ 1,389,274</u>
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 131,467	\$ 135,424
Accrued compensation and benefits	81,433	79,679
Current portion of long-term deb	20,199	19,843
Accrued interest	1,861	1,698
Discontinued operations	704	1,350
Total current liabilities	235,664	237,994
Long-term liabilities	89,116	56,566
Reserves for professional liability	13,100	9,000
Long-term debt	410,137	424,937
Total liabilities	748,017	728,497
Net assets:		
Unrestricted	691,654	615,748
Temporarily restricted	45,245	40,575
Permanently restricted	5,595	4,454
Total net assets	742,494	660,777
Total liabilities and net assets	<u>\$ 1,490,511</u>	<u>\$ 1,389,274</u>

See accompanying notes.

Sharp HealthCare

Combined Statements of Operations

	Years Ended September 30	
	2008	2007
	<i>(In Thousands)</i>	
Revenues:		
Net patient service	\$ 1,228,538	\$ 1,162,896
Premium	646,427	606,280
Other	60,092	49,279
Total revenues	<u>1,935,057</u>	<u>1,818,455</u>
Expenses:		
Salaries and wages	756,880	700,916
Employee benefits	155,945	133,101
Medical fees	222,118	216,158
Purchased services	238,945	211,530
Supplies	247,789	225,889
Maintenance, utilities and rentals	85,795	76,407
Depreciation and amortization	70,634	69,935
Business insurance	13,913	8,313
Interest	12,528	16,579
Provision for doubtful accounts	35,080	77,995
Other	27,257	27,732
Total expenses	<u>1,866,884</u>	<u>1,764,555</u>
Income from operations	68,173	53,900
Other non-operating loss	(7,245)	(1,570)
Investment (loss) income	(1,024)	33,810
Income from continuing operations	59,904	86,140
Income from discontinued operations	7,703	6,314
Excess of revenues over expenses	67,607	92,454
Net assets transferred from related party	22,021	937
Net assets released from restrictions used for purchase of property, plant and equipment	8,615	8,290
Pension-related changes other than net periodic pension cost	(23,419)	—
Change in minimum pension liability	—	9,666
Cumulative effect of a change in accounting principle	—	(7,979)
Other changes in net assets	1,082	1,306
Increase in unrestricted net assets	<u>\$ 75,906</u>	<u>\$ 104,674</u>

See accompanying notes.

Sharp HealthCare

Combined Statements of Changes in Net Assets

	Years Ended September 30	
	2008	2007
	<i>(In Thousands)</i>	
Unrestricted net assets:		
Excess of revenues over expenses	\$ 67,607	\$ 92,454
Net assets transferred from related party	22,021	937
Net assets released from restrictions used for purchase of property, plant and equipment	8,615	8,290
Pension-related changes other than net periodic pension cost	(23,419)	—
Change in minimum pension liability	—	9,666
Cumulative effect of a change in accounting principle	—	(7,979)
Other changes in net assets	1,082	1,306
Increase in unrestricted net assets	75,906	104,674
Temporarily restricted net assets:		
Contributions	19,580	15,060
Investment income	939	1,375
Change in net unrealized (losses) gain on investments	(4,370)	1,178
Net assets released from restrictions	(11,702)	(11,404)
Other	223	442
Increase in temporarily restricted net assets	4,670	6,651
Permanently restricted net assets:		
Contributions	1,141	400
Increase in permanently restricted net assets	1,141	400
Increase in net assets	81,717	111,725
Net assets, beginning of the year	660,777	549,052
Net assets, end of the year	\$ 742,494	\$ 660,777

See accompanying notes.

Sharp HealthCare

Combined Statements of Cash Flows

	Years Ended September 30	
	2008	2007
	<i>(In Thousands)</i>	
Operating activities		
Increase in net assets	\$ 81,717	\$ 111,725
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Income from discontinued operations	(7,703)	(6,314)
Foundation capital conversions for discontinued operations	(72)	(9)
Net assets transferred from related party	(22,021)	(937)
Cumulative effect of a change in accounting principle	–	7,979
Provision for doubtful accounts	35,080	77,995
Non-cash (gains) losses	(2,432)	3
Depreciation of operating and nonoperating facilities	70,584	69,920
Amortization, including deferred financing costs	743	1,102
Change in fair value of interest and basis rate swaps	5,451	(1,253)
Restricted contributions and investment income, net	(21,660)	(16,835)
Change in minimum pension liability	–	(9,666)
Pension-related changes other than net periodic pension cost	23,419	–
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(36,340)	(82,892)
Inventories	(1,679)	(2,669)
Estimated settlements receivable from government programs, net	14,338	(3,867)
Short-term investments	35,175	(82,394)
Assets limited to use	(20,309)	(3,017)
Prepaid expenses and other	(9,057)	181
Increase (decrease) in:		
Accounts payable and accrued liabilities, long-term liabilities and other liabilities	9,437	(3,910)
Accrued compensation and benefits	1,754	10,532
Net cash provided by operating activities of continued operations	156,425	65,674
Net cash provided by operating activities of discontinued operations	4,088	7,380
Net cash provided by operating activities	160,513	73,054
Investing activities		
Acquisition of property and equipment, net of retirements	(127,137)	(138,047)
Increase in other assets	(4,888)	(9,338)
Net cash used in investing activities of continued operations	(132,025)	(147,385)
Net cash provided by (used in) investing activities of discontinued operations	3,041	(1,543)
Net cash used in investing activities	(128,984)	(148,928)
Financing activities		
Current maturities and payments on long-term debt	(19,131)	(18,476)
Payments under capital lease obligations	(764)	(1,301)
Restricted contributions and investment income, net	21,660	16,835
Net cash provided by (used in) financing activities of continued operations	1,765	(2,942)
Net increase (decrease) in cash and cash equivalents	33,294	(78,816)
Cash and cash equivalents, beginning of the year	92,783	171,599
Cash and cash equivalents, end of the year	\$ 126,077	\$ 92,783
Supplemental disclosures of cash flow information:		
Capital lease obligations for building and equipment	\$ –	\$ 700
Cash paid for interest	\$ 19,750	\$ 22,126
Repayment of Series 2005 A and B Sweep Commercial Paper:		
Revenue Notes by incurring Series 2007 A and B Sweep Debt	\$ –	\$ 99,880
Net assets transferred from related party	\$ 22,021	\$ 937

See accompanying notes.

Sharp HealthCare

Notes to Combined Financial Statements

September 30, 2008

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, 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 5).

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 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Sharp HealthCare

Notes to Combined Financial Statements (continued)

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 excess of revenues over expenses.

In 2003, Sharp entered into a floating-to-fixed interest rate swap on the 2003A and 2003B Insured Hospital Revenue Bonds (see Note 5). The interest rate swap is designed to hedge the variability of the cash flows under the Bonds. In 2004, Sharp entered into a fixed-spread basis swap (see Note 5). 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 (see Note 5). 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.

Sharp HealthCare

Notes to Combined Financial Statements (continued)

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 – \$26,474,000 at September 30, 2008 and \$42,930,000 at September 30, 2007, 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.

Sharp HealthCare

Notes to Combined Financial Statements (continued)

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 Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, for long-lived assets other than goodwill (FAS 144), and SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of* (FAS 121), for goodwill. Both FAS 121 and FAS 144 use 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, plant and equipment, changes in the fair value of interest rate swaps, and net income (loss) from the foundations.

Sharp HealthCare

Notes to Combined Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Excess of Revenues over Expenses

The 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.

Sharp HealthCare

Notes to Combined Financial Statements (continued)

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 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.

Effective October 1, 2007, Sharp re-evaluated and refined its charity care policy and the process it uses to determine the amounts of charity care it provides. As a result of these efforts, prospective changes were made in the classifications of unpaid care which increased charity care and decreased the provision for doubtful accounts in 2008 compared to the classifications that would have resulted from the Sharp charity care policy and process in effect in 2007.

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.

Sharp HealthCare

Notes to Combined Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

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.

Adoption of New Accounting Pronouncements

In September 2006, SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R)* (FAS 158) was issued. FAS 158 requires plan sponsors of defined benefit pensions to recognize the funded status of their defined benefit plans in the balance sheets, measure fair value of plan assets and benefit obligations as of the date of the fiscal year-end balance sheets, and provide additional disclosures. FAS 158 was adopted by Sharp in 2007 and the effect of adoption has been included in the accompanying financial statements.

The Company adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* (FIN 48) in 2008. FIN 48 clarifies the accounting for uncertainty in income taxes and prescribes a recognition threshold and measurement attribute for financial statement recognition threshold and measurement of a tax position taken or expected to be taken in a tax return. Based on guidance in FIN 48, management of the Company 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 FIN 48 had no impact on the 2008 financial statements. No liability has been recorded at September 30, 2008.

New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, *Fair Value Measurements* (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. FAS 157 applies under other accounting pronouncements that require or permit fair value measurements and, accordingly, FAS 157 does not require any new fair value measurements. FAS 157 is effective for fiscal years beginning after November 15, 2007. Sharp is currently evaluating the impact that adopting this standard will have on the financial statements.

Sharp HealthCare

Notes to Combined Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (FAS 159). FAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. FAS 159 is effective for the fiscal years beginning after November 15, 2007. Sharp is currently evaluating the impact that adopting this standard will have on the financial statements.

Reclassifications

Certain 2007 amounts in the combined financial statements have been reclassified to conform to the 2008 presentation.

2. 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 29% and 13%, respectively, of Sharp's gross patient charges for the year ended September 30, 2008, and 28% and 13%, respectively, of Sharp's gross patient charges for the year ended September 30, 2007. 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 \$10,216,000 in 2008 and \$7,619,000 in 2007 relating to favorable settlements of prior years' reimbursement from Medicare, Medi-Cal and Champus programs.

Sharp HealthCare

Notes to Combined Financial Statements (continued)

2. 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	
	2008	2007
Medicare	14%	13%
Medi-Cal	15%	15%
Blue Cross	15%	16%
Private Pay	25%	25%

3. Assets Limited as to Use

The composition of assets limited as to use at September 30, 2008 and 2007, is set forth in the following table. Investments are stated at fair value.

	September 30	
	2008	2007
	<i>(In Thousands)</i>	
Designated for property:		
Cash and short-term investments	\$ 696	\$ 1,206
Equities	52,692	60,581
U.S. Treasury obligations	82,975	82,142
Corporate bonds	48,945	32,996
U.S. government agencies	31,952	22,026
Commercial paper	1,873	1,270
Interest receivable	1,073	938
Total	220,206	201,159

Sharp HealthCare

Notes to Combined Financial Statements (continued)

3. Assets Limited as to Use (continued)

	September 30	
	2008	2007
	<i>(In Thousands)</i>	
Under bond indentures:		
Cash and short-term investments	\$ 110	\$ 285
U.S. Treasury obligations	1,389	1,859
Corporate bonds	672	774
U.S. government agencies	841	441
Commercial paper	8,109	7,679
Interest receivable	28	85
Total	11,149	11,123
Other restricted investments:		
Cash and short-term investments	3,640	4,406
Equities	17,148	15,987
U.S. Treasury obligations	2,136	3,903
Corporate bonds	4,103	2,365
U.S. government agencies	1,620	1,363
Mortgage-backed securities	508	449
Asset-backed securities	92	59
Interest receivable	585	437
Total	29,832	28,969
Under self-insurance programs:		
Cash and short-term investments	100	—
U.S. Treasury obligations	2,137	3,783
Corporate bonds	3,196	—
U.S. government agencies	1,513	2,790
Total	6,946	6,573
	\$ 268,133	\$ 247,824

Sharp HealthCare

Notes to Combined Financial Statements (continued)

3. Assets Limited as to Use (continued)

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

	Years Ended September 30	
	2008	2007
	<i>(In Thousands)</i>	
Interest income	\$ 17,989	\$ 20,909
Unrealized (losses) gains	(19,981)	11,896
Realized gains	968	1,005
Investment (loss) income	<u>\$ (1,024)</u>	<u>\$ 33,810</u>

4. Property and Equipment

Property and equipment consists of the following:

	September 30	
	2008	2007
	<i>(In Thousands)</i>	
Land and improvements	\$ 49,005	\$ 48,747
Buildings and improvements	585,524	551,664
Equipment and furniture	626,380	572,769
Construction-in-progress	252,474	196,320
	<u>1,513,383</u>	<u>1,369,500</u>
Less accumulated depreciation and amortization	<u>(797,854)</u>	<u>(734,977)</u>
	<u>\$ 715,529</u>	<u>\$ 634,523</u>

Depreciation and amortization expense for the years ended September 30, 2008 and 2007 amounted to approximately \$70,634,000 and \$69,935,000, respectively. Included in these amounts is amortization for buildings and equipment under capital lease obligations. Sharp has approximately \$7,711,000 at September 30, 2008 and 2007 of buildings and equipment under capital lease, at cost. Sharp has outstanding commitments to complete construction-in-progress totaling approximately \$22,809,000 at September 30, 2008.

Sharp HealthCare

Notes to Combined Financial Statements (continued)

4. Property and Equipment (continued)

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. The next offering is expected in 2010.

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 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 2008 and 2007, the Hospital recorded \$22,021,000 and \$937,000, 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.

5. Long-Term Debt

Long-term debt consists of the following:

	September 30	
	2008	2007
	<i>(In Thousands)</i>	
Series 2007A and B Variable Rate Revenue Refunding Bonds (Series 2007A and B Bonds), Statewide Easy Equipment Program (SWEET) collateralized by a three-year direct-pay letter of credit reimbursement agreement between Obligated Group and Citibank. Principal due in 2035. Letter of Credit is renewable in 2010. Interest payable weekly at a variable rate (7.66% at September 30, 2008).	\$ 99,880	\$ 99,880

Sharp HealthCare

Notes to Combined Financial Statements (continued)

5. Long-Term Debt (continued)

	September 30	
	2008	2007
	<i>(In Thousands)</i>	
County of San Diego Certificates of Participation issued in 1998 collateralized by revenues of the Obligated Group. Principal due in annual installments ranging from \$3,345,000 in 2009 to \$5,705,000 in 2028. Interest payable semiannually at rates ranging from 4.70% to 5.25% through 2028.	\$ 90,045	\$ 93,230
Series 2003A and 2003B Insured Hospital Revenue Bonds collateralized by revenues of the Obligated Group. Principal due in annual amounts ranging from \$4,375,000 in 2009 to \$8,025,000 in 2024. Interest payable weekly at a variable rate (7.85% at September 30, 2008). (Note 12)	89,725	93,975
Series 2001A Revenue Bonds collateralized by revenues of the Obligated Group. Principal due in annual amounts ranging from \$3,780,000 in 2009 to \$7,225,000 in 2020. Interest payable annually at rates ranging from 5.50% to 6.125% through 2020.	63,880	67,465
Series 2003C Revenue Bonds collateralized by revenues of the Obligated Group. Principal due in annual amounts ranging from \$675,000 in 2009 to \$16,265,000 in 2021. Interest payable annually at rates ranging from 5.125% to 5.375% through 2021.	27,820	28,445
CitiCapital Tax-Exempt Financing collateralized by equipment. Interest and principal paid in monthly installments at a rate of 3.86% through 2011.	19,138	25,610
Citigroup Reverse Repurchase Agreement collateralized by U.S. Treasury securities. Principal due in October 2010. Interest payable quarterly at a variable rate (3.17% at September 30, 2008).	15,500	15,500

Sharp HealthCare

Notes to Combined Financial Statements (continued)

5. Long-Term Debt (continued)

	September 30	
	2008	2007
	<i>(In Thousands)</i>	
Series 1988A Insured Hospital Revenue Bonds collateralized by revenues of the Obligated Group. Principal due in annual amounts ranging from \$1,000,000 in 2009 to \$1,900,000 in 2018. Interest payable every 35 days at a variable rate (2.72% at September 30, 2008).	\$ 14,400	\$ 15,400
Capital lease obligations at a 6.00% imputed rate of interest collateralized by leased building or equipment.	7,028	7,792
Other debt including the fair value of interest rate swaps	2,920	(2,517)
Total	430,336	444,780
Less current portion	(20,199)	(19,843)
	<u>\$ 410,137</u>	<u>\$ 424,937</u>

In 2007, Sharp entered into a SWEEP financing transaction to refund the Series 2005A and Series 2005B Sweep Commercial Paper Revenue Notes (the Bonds). In 2007, the SWEEP provided \$99,880,000 in financing to Sharp through two series of debt, Series A in the amount of \$57,065,000 and Series B totaling \$42,815,000. The interest rates on the Bonds are established weekly by the Remarketing Agent (Citigroup) and interest is computed on the basis of a 365- or 366-day year for the actual number of days elapsed.

Under the terms of the 2001A and 2003C 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, 2008 and 2007.

Sharp HealthCare

Notes to Combined Financial Statements (continued)

5. 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
2009	\$ 19,901	\$ 298
2010	20,755	175
2011	35,332	161
2012	15,060	171
2013	15,740	182
Thereafter	316,520	6,041
Total	<u>\$ 423,308</u>	<u>\$ 7,028</u>

A summary of interest cost on borrowed funds follows:

	Years Ended September 30	
	2008	2007
	<i>(In Thousands)</i>	
Interest cost:		
Capitalized	\$ 7,386	\$ 5,492
Charged to operations	12,528	16,579
	<u>\$ 19,914</u>	<u>\$ 22,071</u>

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 and \$799,000 in 2007, 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 and a decrease of \$233,000 in 2007. This swap was terminated on September 25, 2008. The termination of the swap did not result in any significant gain or loss.

Sharp HealthCare

Notes to Combined Financial Statements (continued)

5. Long-Term Debt (continued)

During 2003, Sharp entered into a floating-to-fixed interest rate swap on the 2003A and 2003B Insured Hospital Revenue Bonds. 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 \$782,000 in 2008 and cash received was \$328,000 in 2007, 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 a decrease of \$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 payor 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 \$456,000 in 2008 and \$496,000 in 2007, 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 a decrease of \$3,060,000 in 2008 and an increase of \$597,000 in 2007.

During 2006, Sharp entered into 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. During 2006, Sharp executed a forward agreement to delay the start of the cash flows from the swap transaction to August 3, 2007, to avoid the potentially negative cash flows from market conditions. Under the terms of the agreement, Sharp may terminate the swap at any time. Cash received on the interest rate swap was \$177,000 in 2008 and cash paid was \$23,000 in 2007, 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 \$272,000 in 2008 and \$999,000 in 2007.

Sharp HealthCare

Notes to Combined Financial Statements (continued)

6. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	September 30	
	2008	2007
	<i>(In Thousands)</i>	
Purchase of equipment	\$ 21,148	\$ 12,654
Hospital programs	6,691	10,979
Hospital departments	8,395	8,478
Research	3,565	3,743
Health education	5,344	4,637
Indigent care	102	84
Total	<u>\$ 45,245</u>	<u>\$ 40,575</u>

Permanently restricted net assets of \$5,595,000 and \$4,454,000 at September 30, 2008 and 2007, respectively, represent investments to be held in perpetuity, the income from which is expendable to support health care services.

7. Functional Expenses

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

	Years Ended September 30	
	2008	2007
	<i>(In Thousands)</i>	
Hospital patient services	\$ 1,253,762	\$ 1,195,894
Clinic patient services	265,612	240,365
General and administrative	224,944	215,689
Purchased services under capitated agreements	122,566	112,607
	<u>\$ 1,866,884</u>	<u>\$ 1,764,555</u>

Sharp HealthCare

Notes to Combined Financial Statements (continued)

8. Pension Plans

Sharp sponsors a defined benefit cash balance plan, The Sharp Saver Retirement Plan (the Plan), which covers substantially all employees of Sharp. Under the defined contribution element of the Plan, Sharp made matching contributions of \$10,336,000 in 2008 and \$9,464,000 in 2007.

On September 30, 2007, Sharp adopted the recognition and disclosure provisions of FAS 158. FAS 158 required Sharp to recognize the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligation) of its defined benefit plan in the balance sheet, with a corresponding adjustment to net assets. The adjustment to net assets at adoption represents the net unrecognized actuarial losses and unrecognized prior service costs, which were previously netted against the plan's funded status in Sharp's balance sheet pursuant to the provisions of SFAS No. 87, *Employers' Accounting for Pensions* (FAS 87). These amounts will be subsequently recognized as net periodic pension cost pursuant to Sharp's historical accounting policy for amortizing such amounts. Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic pension cost in the same periods will be recognized as a component of net assets. Those amounts will be subsequently recognized as a component of net periodic pension cost on the same basis as the amounts recognized in net assets upon adoption of FAS 158. The cumulative effect of the adoption of FAS 158 was to increase unrestricted net assets at September 30, 2007 by \$7,979,000.

The adoption of FAS 158 had no effect on Sharp's excess of revenue over expenses for any period presented, and it will not affect Sharp's operating results in future periods. Had Sharp not adopted FAS 158 at September 30, 2007, it would have recognized an additional minimum liability pursuant to the provisions of FAS 87.

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

	2008	2007
	<i>(In Thousands)</i>	
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 145,874	\$ 134,269
Service cost	5,722	4,029
Interest cost	9,597	9,111
Actuarial (gain) loss	(4,379)	8,539
Benefits paid	(9,072)	(10,074)
Benefit obligation at end of year	147,742	145,874

Sharp HealthCare

Notes to Combined Financial Statements (continued)

8. Pension Plans (continued)

	2008	2007
	<i>(In Thousands)</i>	
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 140,122	\$ 111,891
Actual (loss) return on plan assets	(24,574)	18,527
Plan participants' contributions	4,771	3,412
Employer contributions	2,445	16,366
Benefits paid	(9,072)	(10,074)
Fair value of plan assets at end of year	<u>113,692</u>	<u>140,122</u>
Funded status	<u>\$ (34,050)</u>	<u>\$ (5,752)</u>

The net liability, recognized in the balance sheet in long-term liabilities, was \$34,050,000 and \$5,752,000 at September 30, 2008 and 2007, respectively.

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

	2008	2007
	<i>(In Thousands)</i>	
Prior service cost	\$ 8,070	\$ 8,963
Transition asset	—	(397)
Net actuarial loss	52,492	28,633
	<u>\$ 60,562</u>	<u>\$ 37,199</u>

Additional information for the plan:

	September 30	
	2008	2007
	<i>(In Thousands)</i>	
Projected benefit obligation	\$ 147,742	\$ 145,874
Accumulated benefit obligation	132,887	142,127
Fair value of plan assets	113,692	140,122

Sharp HealthCare

Notes to Combined Financial Statements (continued)

8. Pension Plans (continued)

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

	2008	2007
	<i>(In Thousands)</i>	
Service cost	\$ 5,722	\$ 4,029
Interest cost	9,597	9,111
Expected return on plan assets	(10,959)	(9,111)
Amortization of transition asset	(397)	(376)
Recognized net actuarial loss	2,515	3,184
Amortization of prior service cost	893	595
Net periodic pension cost	<u>\$ 7,371</u>	<u>\$ 7,432</u>

Weighted-average assumptions used to determine benefit obligations were:

	September 30	
	2008	2007
Discount rate	7.87%	6.40%
Rate of compensation increase	5.00%	3.50%

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

	September 30	
	2008	2007
Discount rate	6.40%	6.40%
Expected return on plan assets	8.00%	8.00%
Rate of compensation increase	3.50%	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.

Sharp HealthCare

Notes to Combined Financial Statements (continued)

8. Pension Plans (continued)

Plan Assets

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

	September 30	
	2008	2007
Asset category:		
Equity securities	64%	66%
Debt securities	36%	34%
Total	100%	100%

Contributions

Sharp expects to contribute \$7,335,000 to the plan in 2009.

Estimated Future Benefit Payments

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

2009	\$ 12,822
2010	11,386
2011	12,070
2012	14,731
2013	15,039
2014 – 2018	92,300

9. Commitments and Contingencies

Leases

Sharp leases various equipment and facilities under operating leases expiring at various dates through 2017. Total rental expense in 2008 and 2007 for all operating leases was \$29,740,000 and \$30,432,000, respectively.

Sharp HealthCare

Notes to Combined Financial Statements (continued)

9. Commitments and Contingencies (continued)

The following is a schedule by year of future minimum lease payments (in thousands) under operating leases as of September 30, 2008, that have initial or remaining lease terms in excess of one year.

2009	\$ 16,612
2010	15,055
2011	11,731
2012	10,509
2013	10,159
Thereafter	36,519
	<u>\$ 100,585</u>

Legal Matters

On December 5, 2008 a San Diego County Superior Court jury issued a verdict against Sharp Mary Birch Hospital for Women (a licensed acute care hospital operated by Sharp Memorial Hospital) (Mary Birch) in connection with a lawsuit filed on behalf of two parents seeking damages related to the death of their child at birth against Mary Birch and two physicians. The jury determined that an independent contractor physician was an ostensible agent of Mary Birch, and awarded the mother \$16.0 million in damages against Mary Birch on claims that that physician had misrepresented and concealed important facts from her in connection with an autopsy of the child that was performed by the physician (the Ostensible Agency Claims). A judgment based on the jury's verdict is expected to be entered in the near future.

The Company, based in part on advice from trial counsel strongly believes that the jury's findings and award of damages with respect to the Ostensible Agency Claims were erroneous. At such time as the judgment on the jury's verdict is entered, the Company will file post trial motions seeking to have the court (i) vacate the jury's findings, (ii) grant a new trial or (iii) reduce the jury's damage award. In the event the trial court does not grant the Company's post trial motions, the Company will appeal the matter to the California Court of Appeal. Should the matter be appealed, the Company will be obligated to post an appeal bond equal to 150% of the amount of the judgment against the Company. Interest at the legal rate of 10% will accrue on the judgment amount during the appeal period.

Sharp HealthCare

Notes to Combined Financial Statements (continued)

9. Commitments and Contingencies (continued)

Although the ultimate outcome of this litigation is subject to the inherent uncertainties of any legal proceedings, based on the Company's analysis of the facts and circumstances in this case and the advice of trial counsel, management believes that it is probable that the Company's ultimate liability for damages associated with the Ostensible Agency Claims will not exceed \$1.0 million. Accordingly, the Company has not accrued any liability associated with this litigation. However, management's and trial counsel's evaluation of the likely outcome of this litigation could change in the future and if the verdict is upheld at the trial court level or on appeal, such an unfavorable outcome could have an adverse impact on the Company's results of operations or cash flows of a future period.

During 2003, SHC, SGH and SMH (collectively, the CIA Parties) entered into a Corporate Integrity Agreement (CIA) with the Office of Inspector General (OIG). The CIA expired in February 2008. Sharp continues to support an active Compliance Program. Management believes the Compliance Program is effective.

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.

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% and 4.5% at September 30, 2008 and 2007 respectively.

Sharp HealthCare

Notes to Combined Financial Statements (continued)

9. Commitments and Contingencies (continued)

Sharp is involved in litigation arising in the ordinary course of business. 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, 2008. In management's opinion, however, the estimated liability accrued at September 30, 2008 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, 2008 and 2007, SHP was required to maintain tangible net equity totaling \$6,154,000 and \$5,719,000, respectively. SHP's tangible net equity was \$22,922,000 at September 30, 2008 and \$21,165,000 at September 30, 2007. Management believes they are in compliance with these requirements at September 30, 2008 and 2007.

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 2008 and 2007). 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 2.35% and 4.5% at September 30, 2008 and 2007 respectively.

Sharp HealthCare

Notes to Combined Financial Statements (continued)

9. Commitments and Contingencies (continued)

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 (see Note 4), management expects that Sharp will make significant additional capital expenditures through 2013 on infrastructure improvements that will address operational issues and seismic standards.

Line of Credit

Sharp has a \$50,000,000 line of credit with Sharp's bank which expires on September 30, 2011, of which \$12,500,000 and \$26,800,000 was available at September 30, 2008 and 2007, respectively. There are no amounts outstanding as of September 30, 2008 and 2007.

Letter of Credit

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 \$37,500,000 and \$23,200,000 as of September 30, 2008 and 2007, respectively. These letters of credit are each considered a decrease in the available \$50,000,000 line of credit with Sharp's bank.

10. 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 receivable from 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.

Sharp HealthCare

Notes to Combined Financial Statements (continued)

10. Fair Value of Financial Instruments (continued)

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, 2008		September 30, 2007	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	\$ 126,077	\$ 126,077	\$ 92,783	\$ 92,783
Short-term investments	94,911	94,911	130,086	130,086
Estimated settlements receivable from government programs, net	1,463	1,463	15,801	15,801
Assets limited as to use	268,133	268,133	247,824	247,824
Accounts payable and accrued liabilities	131,467	131,467	135,424	135,424
Accrued compensation and benefits	81,433	81,433	79,679	79,679
Long-term debt	430,336	429,653	444,780	453,669

11. 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. Scripps and Sharp agreed to a purchase price reconciliation related to various components to be mutually agreed. The gain recorded as of September 30, 2008 reflects Sharp's estimate of the purchase price reconciliation. Sharp will record any additional purchase price reconciliation as an adjustment to gain/loss on the sale at the time of adjustment. However, any such adjustments are not expected to be material to Sharp's operations.

Sharp HealthCare

Notes to Combined Financial Statements (continued)

11. Discontinued Operations (continued)

As of September 30, 2008, SMP qualified for treatment as discontinued operations under FAS 144. 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.

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

	September 30	
	2008	2007
Assets of discontinued operations	\$ 279	\$ 4,037
Liabilities of discontinued operations	(983)	(5,387)
Total net liabilities	<u>\$ (704)</u>	<u>\$ (1,350)</u>

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

	Years Ended September 30	
	2008	2007
Premium revenue	\$ 62,817	\$ 73,849
Other revenue	12,306	12,382
Total revenues	<u>\$ 75,123</u>	<u>\$ 86,231</u>
Medical fees	\$ 40,573	\$ 47,080
Salaries	14,452	16,286
Other expense	14,479	16,551
Total expenses	<u>\$ 69,504</u>	<u>\$ 79,917</u>

Sharp HealthCare

Notes to Combined Financial Statements (continued)

11. Discontinued Operations (continued)

	September 30	
	2008	2007
Income from discontinued operations:		
Operating gain of discontinued operations	\$ 5,619	\$ 6,314
Gain on sale of discontinued operations	1,643	—
Total Income from discontinued operations	<u>\$ 7,262</u>	<u>\$ 6,314</u>

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 FAS 144. At September 30, 2007, SHP had a liability of 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.

12. Subsequent Events

On October 7, 2008, Sharp HealthCare drew \$60.0 million from a new term loan, with an expiration of January 1, 2010, to refund the 2003A Insured Hospital Revenue Bonds and a portion of the 2003B Insured Hospital Revenue Bonds. Sharp refunded the remaining portion of the 2003B Bonds with the proceeds of a \$12,500,000 draw on Sharp's line of credit and with \$17,225,000 of cash. Due to the refunding of the 2003A and B Insured Hospital Revenue Bonds, Sharp wrote-off \$5,400,000 of unamortized costs of issuance.

As of December 9, 2008, the fair value of plan assets of Sharp's defined benefit pension plan decreased \$21,432,000 from September 30, 2008.

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, 2008

Sharp HealthCare

Combining Balance Sheet

As of September 30, 2008
(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	\$ 81,278	\$ 467	\$ 156	\$ 20,570	\$ 92	\$ 20,121	\$ 220	\$ 1,009	\$ 2,164	\$ 126,077	\$ –	\$ 126,077
Short-term investments	66,702	–	–	27,174	–	–	–	1,035	–	94,911	–	94,911
Accounts receivable, net	7,020	83,532	24,615	40,122	7,794	1,518	100	42	431	165,174	(639)	164,535
Estimated settlements receivable from government programs, net	–	1,426	(1,271)	3,369	(2,061)	–	–	–	–	1,463	–	1,463
Intercompany receivables	–	364,950	91,683	–	–	–	–	26	34	456,693	(456,693)	–
Inventories	4,021	10,856	5,251	7,763	1,085	–	–	–	–	28,976	–	28,976
Prepaid expenses and other	19,307	2,384	983	1,904	324	221	4	31	–	25,158	–	25,158
Total current assets	178,328	463,615	121,417	100,902	7,234	21,860	324	2,143	2,629	898,452	(457,332)	441,120
Assets limited as to use:												
Designated for property	147,216	–	–	72,990	–	–	–	–	–	220,206	–	220,206
Under bond indentures	2	9,207	1,913	27	–	–	–	–	–	11,149	–	11,149
Other restricted investments	–	–	–	–	–	3,207	–	19,940	6,685	29,832	–	29,832
Under self-insurance programs	–	–	–	–	–	–	6,946	–	–	6,946	–	6,946
Total assets limited as to use	147,218	9,207	1,913	73,017	–	3,207	6,946	19,940	6,685	268,133	–	268,133
Property and equipment, net	160,642	328,336	40,963	171,891	12,837	845	–	15	–	715,529	–	715,529
Unamortized financing costs	289	6,802	1,164	2,457	2	–	–	–	–	10,714	–	10,714
Other assets	16,790	672	1,107	632	4,020	8,720	4,416	28,217	1,356	65,930	(10,915)	55,015
Beneficial interest in foundations	39,897	–	–	10,170	–	–	–	–	–	50,067	(50,067)	–
Total assets	\$ 543,164	\$ 808,632	\$ 166,564	\$ 359,069	\$ 24,093	\$ 34,632	\$ 11,686	\$ 50,315	\$ 10,670	\$ 2,008,825	\$ (518,314)	\$ 1,490,511

Sharp HealthCare

Combining Balance Sheet (continued)

As of September 30, 2008

(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	\$ 84,293	\$ 15,039	\$ 8,566	\$ 11,738	\$ 1,716	\$ 9,776	\$ 56	\$ 279	\$ 4	\$ 131,467	\$ –	\$ 131,467
Intercompany payable	440,650	–	–	3,296	12,196	508	10	–	–	456,660	(456,660)	–
Accrued compensation and benefits	22,139	26,915	10,001	18,272	3,035	774	–	243	51	81,430	3	81,433
Current portion of long-term debt	2,511	10,541	3,093	3,835	219	–	–	–	–	20,199	–	20,199
Accrued interest	172	1,244	345	100	–	–	–	–	–	1,861	–	1,861
Discontinued operations	704	–	–	–	–	–	–	–	–	704	–	704
Total current liabilities	550,469	53,739	22,005	37,241	17,166	11,058	66	522	55	692,321	(456,657)	235,664
Long-term liabilities	53,736	11,513	2,742	17,577	850	652	–	9,896	444	97,410	(8,294)	89,116
Reserves for professional liability	1,600	–	–	–	–	–	11,500	–	–	13,100	–	13,100
Long-term debt	41,900	252,804	57,189	57,884	1,035	–	–	–	–	410,812	(675)	410,137
Total liabilities	647,705	318,056	81,936	112,702	19,051	11,710	11,566	10,418	499	1,213,643	(465,626)	748,017
Net assets (deficit):												
Unrestricted net assets (deficit)	(143,398)	490,576	84,628	237,402	1,023	22,922	120	2,041	1,206	696,520	(4,866)	691,654
Temporarily restricted net assets	34,561	–	–	7,665	4,019	–	–	33,560	7,666	87,471	(42,226)	45,245
Permanently restricted net assets	4,296	–	–	1,300	–	–	–	4,296	1,299	11,191	(5,596)	5,595
Total net assets (deficit)	(104,541)	490,576	84,628	246,367	5,042	22,922	120	39,897	10,171	795,182	(52,688)	742,494
Total liabilities and net assets	<u>\$ 543,164</u>	<u>\$ 808,632</u>	<u>\$ 166,564</u>	<u>\$ 359,069</u>	<u>\$ 24,093</u>	<u>\$ 34,632</u>	<u>\$ 11,686</u>	<u>\$ 50,315</u>	<u>\$ 10,670</u>	<u>\$ 2,008,825</u>	<u>\$ (518,314)</u>	<u>\$ 1,490,511</u>

Sharp HealthCare

Combining Statement of Operations

As of September 30, 2008

(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	\$ 76,861	\$ 658,950	\$ 238,443	\$ 428,892	\$ 59,025	\$ –	\$ –	\$ –	\$ –	\$ 1,462,171	\$ (233,633)	\$ 1,228,538
Premium	558,927	–	–	–	–	151,517	–	–	–	710,444	(64,017)	646,427
Other	199,332	7,737	2,536	6,526	2,823	–	11,469	–	–	230,423	(170,331)	60,092
Total revenues	835,120	666,687	240,979	435,418	61,848	151,517	11,469	–	–	2,403,038	(467,981)	1,935,057
Expenses:												
Salaries and wages	182,790	265,545	96,839	178,627	28,484	4,595	–	–	–	756,880	–	756,880
Employee benefits	41,284	52,827	18,607	36,126	6,015	1,086	–	–	–	155,945	–	155,945
Medical fees	138,244	9,468	3,756	8,294	393	134,923	–	–	–	295,078	(72,960)	222,118
Purchased services	124,276	47,105	21,939	37,779	5,237	5,088	119	–	–	241,543	(2,598)	238,945
Supplies	23,738	105,015	38,519	70,000	10,419	98	–	–	–	247,789	–	247,789
Maintenance, utilities and rentals	42,904	21,882	6,961	13,650	2,608	727	–	–	–	88,732	(2,937)	85,795
Depreciation and amortization	34,995	26,343	10,382	19,788	2,812	409	4	–	–	94,733	(24,099)	70,634
Business insurance	831	5,706	2,303	4,321	632	120	11,461	–	–	25,374	(11,461)	13,913
Interest	564	6,150	2,960	3,109	23	2	–	–	–	12,808	(280)	12,528
Provision for doubtful accounts	–	7,943	11,155	14,973	1,009	–	–	–	–	35,080	–	35,080
Purchased services from affiliate	231,658	52,359	19,759	37,554	5,290	1,565	27	–	–	348,212	(348,212)	–
Other	12,283	6,539	2,023	3,971	895	1,503	43	–	–	27,257	–	27,257
Total expenses	833,567	606,882	235,203	428,192	63,817	150,116	11,654	–	–	2,329,431	(462,547)	1,866,884
Income (loss) from operations	1,553	59,805	5,776	7,226	(1,969)	1,401	(185)	–	–	73,607	(5,434)	68,173
Other non-operating income (loss)	(5,591)	(1,247)	(20)	(944)	922	59	–	(329)	(243)	(7,393)	148	(7,245)
Investment income (loss)	939	123	(1,416)	(1,487)	247	(26)	185	148	(110)	(1,397)	373	(1,024)
Income (loss) from continuing operations	(3,099)	58,681	4,340	4,795	(800)	1,434	–	(181)	(353)	64,817	(4,913)	59,904
Income from discontinued operations	2,349	–	–	–	–	441	–	–	–	2,790	4,913	7,703
Excess (deficit) of revenues over expenses	(750)	58,681	4,340	4,795	(800)	1,875	–	(181)	(353)	67,607	–	67,607
Net assets transferred from related party	–	–	–	22,021	–	–	–	–	–	22,021	–	22,021
Net assets released from restrictions used for purchase of property, plan and equipment	97	5,019	903	2,596	–	–	–	–	–	8,615	–	8,615
Pension-related changes other than net periodic pension cost	(6,530)	(9,104)	(2,253)	(4,723)	(691)	(118)	–	–	–	(23,419)	–	(23,419)
Other changes in net assets	(94)	52	–	(353)	943	–	–	–	–	548	534	1,082
Increase (decrease) in unrestricted net assets	\$ (7,277)	\$ 54,648	\$ 2,990	\$ 24,336	\$ (548)	\$ 1,757	\$ –	\$ (181)	\$ (353)	\$ 75,372	\$ 534	\$ 75,906

Sharp HealthCare

Combining Statement of Changes in Net Assets

Year Ended September 30, 2008

(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 (deficit) of revenues over expenses	\$ (750)	\$ 58,681	\$ 4,340	\$ 4,795	\$ (800)	\$ 1,875	\$ –	\$ (181)	\$ (353)	\$ 67,607	\$ –	\$ 67,607
Net assets transferred from related party	–	–	–	22,021	–	–	–	–	–	22,021	–	22,021
Net assets released from restrictions used for purchase of property, plan and equipment	97	5,019	903	2,596	–	–	–	–	–	8,615	–	8,615
Pension-related changes other than net periodic pension cost	(6,530)	(9,104)	(2,253)	(4,723)	(691)	(118)	–	–	–	(23,419)	–	(23,419)
Other changes in net assets	(94)	52	–	(353)	943	–	–	–	–	548	534	1,082
Increase (decrease) in unrestricted net assets	(7,277)	54,648	2,990	24,336	(548)	1,757	–	(181)	(353)	75,372	534	75,906
Temporarily restricted net assets:												
Contributions	–	–	–	–	–	–	–	15,658	3,922	19,580	–	19,580
Investment income	–	–	–	–	–	–	–	545	394	939	–	939
Change in net unrealized gains (losses) on other than trading securities	–	–	–	–	–	–	–	(3,135)	(1,235)	(4,370)	–	(4,370)
Net assets released from restrictions	–	–	–	–	–	–	–	(8,304)	(3,398)	(11,702)	–	(11,702)
Other	4,764	–	–	(317)	223	–	–	–	–	4,670	(4,447)	223
Increase (decrease) in temporarily restricted net assets	4,764	–	–	(317)	223	–	–	4,764	(317)	9,117	(4,447)	4,670
Permanently restricted net assets:												
Contributions	–	–	–	–	–	–	–	944	197	1,141	–	1,141
Other	944	–	–	197	–	–	–	–	–	1,141	(1,141)	–
Increase in permanently restricted net assets	944	–	–	197	–	–	–	944	197	2,282	(1,141)	1,141
Increase (decrease) in net assets	(1,569)	54,648	2,990	24,216	(325)	1,757	–	5,527	(473)	86,771	(5,054)	81,717
Net assets (deficit), beginning of the year	(102,972)	435,928	81,638	222,151	5,367	21,165	120	34,370	10,644	708,411	(47,634)	660,777
Net assets (deficit), end of the year	\$ (104,541)	\$ 490,576	\$ 84,628	\$ 246,367	\$ 5,042	\$ 22,922	\$ 120	\$ 39,897	\$ 10,171	\$ 795,182	\$ (52,688)	\$ 742,494

Sharp HealthCare

Combining Balance Sheet – Obligated Group

Year Ended September 30, 2008

(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	\$ 81,278	\$ 467	\$ 156	\$ 20,570	\$ 102,471	\$ —	\$ 102,471
Short-term investments	66,702	—	—	27,174	93,876	—	93,876
Accounts receivable, net	7,020	83,532	24,615	40,122	155,289	—	155,289
Estimated settlements receivable from government programs, net	—	1,426	(1,271)	3,369	3,524	—	3,524
Intercompany receivables	—	364,950	91,683	—	456,633	(443,917)	12,716
Inventories	4,021	10,856	5,251	7,763	27,891	—	27,891
Prepaid expenses and other	19,307	2,384	983	1,904	24,578	—	24,578
Total current assets	178,328	463,615	121,417	100,902	864,262	(443,917)	420,345
Assets limited as to use:							
Designated for property	147,216	—	—	72,990	220,206	—	220,206
Under bond indentures	2	9,207	1,913	27	11,149	—	11,149
Other restricted investments	—	—	—	—	—	—	—
Under self-insurance programs	—	—	—	—	—	—	—
Total assets limited as to use	147,218	9,207	1,913	73,017	231,355	—	231,355
Property and equipment, net	160,642	328,336	40,963	171,891	701,832	—	701,832
Unamortized financing costs	289	6,802	1,164	2,457	10,712	—	10,712
Other assets	16,790	672	1,107	632	19,201	—	19,201
Beneficial interest in foundations	39,897	—	—	10,170	50,067	—	50,067
Total assets	\$ 543,164	\$ 808,632	\$ 166,564	\$ 359,069	\$ 1,877,429	\$ (443,917)	\$ 1,433,512

Sharp HealthCare

Combining Balance Sheet – Obligated Group (continued)

Year Ended September 30, 2008

(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	\$ 84,293	\$ 15,039	\$ 8,566	\$ 11,738	\$ 119,636	\$ –	\$ 119,636
Intercompany payable	440,650	–	–	3,296	443,946	(443,917)	29
Accrued compensation and benefits	22,139	26,915	10,001	18,272	77,327	–	77,327
Current portion of long-term debt	2,511	10,541	3,093	3,835	19,980	–	19,980
Accrued interest	172	1,244	345	100	1,861	–	1,861
Discontinued operations	704	–	–	–	704	–	704
Total current liabilities	550,469	53,739	22,005	37,241	663,454	(443,917)	219,537
Long-term liabilities	53,736	11,513	2,742	17,577	85,568	–	85,568
Reserves for professional liability	1,600	–	–	–	1,600	–	1,600
Long-term debt	41,900	252,804	57,189	57,884	409,777	–	409,777
Total liabilities	647,705	318,056	81,936	112,702	1,160,399	(443,917)	716,482
Net assets (deficit):							
Unrestricted net assets (deficit)	(143,398)	490,576	84,628	237,402	669,208	–	669,208
Temporarily restricted net assets	34,561	–	–	7,665	42,226	–	42,226
Permanently restricted net assets	4,296	–	–	1,300	5,596	–	5,596
Total net assets (deficit)	(104,541)	490,576	84,628	246,367	717,030	–	717,030
Total liabilities and net assets	\$ 543,164	\$ 808,632	\$ 166,564	\$ 359,069	\$ 1,877,429	\$ (443,917)	\$ 1,433,512

Sharp HealthCare

Combining Statement of Operations – Obligated Group

Year Ended September 30, 2008

(In Thousands)

	Sharp HealthCare	Sharp Memorial Hospital	Sharp Chula Vista Medical Center	Grossmont Hospital Corporation	Combined Totals	Combining Eliminations	Totals
Revenues:							
Net patient service	\$ 76,861	\$ 658,950	\$ 238,443	\$ 428,892	\$ 1,403,146	\$ (224,811)	\$ 1,178,335
Premium	558,927	—	—	—	558,927	—	558,927
Other	199,332	7,737	2,536	6,526	216,131	(150,628)	65,503
Total revenues	835,120	666,687	240,979	435,418	2,178,204	(375,439)	1,802,765
Expenses:							
Salaries and wages	182,790	265,545	96,839	178,627	723,801	—	723,801
Employee benefits	41,284	52,827	18,607	36,126	148,844	—	148,844
Medical fees	138,244	9,468	3,756	8,294	159,762	(5,233)	154,529
Purchased services	124,276	47,105	21,939	37,779	231,099	(1,946)	229,153
Supplies	23,738	105,015	38,519	70,000	237,272	—	237,272
Maintenance, utilities and rentals	42,904	21,882	6,961	13,650	85,397	(2,937)	82,460
Depreciation and amortization	34,995	26,343	10,382	19,788	91,508	(22,976)	68,532
Business insurance	831	5,706	2,303	4,321	13,161	—	13,161
Interest	564	6,150	2,960	3,109	12,783	(233)	12,550
Provision for doubtful accounts	—	7,943	11,155	14,973	34,071	—	34,071
Purchased services from affiliate	231,658	52,359	19,759	37,554	341,330	(336,513)	4,817
Other	12,283	6,539	2,023	3,971	24,816	—	24,816
Total expenses	833,567	606,882	235,203	428,192	2,103,844	(369,838)	1,734,006
Income (loss) from operations	1,553	59,805	5,776	7,226	74,360	(5,601)	68,759
Other non-operating income (loss)	(5,591)	(1,247)	(20)	(944)	(7,802)	67	(7,735)
Investment income (loss)	939	123	(1,416)	(1,487)	(1,841)	621	(1,220)
Income (loss) from continuing operations	(3,099)	58,681	4,340	4,795	64,717	(4,913)	59,804
Income from discontinued operations	2,349	—	—	—	2,349	4,913	7,262
Excess (deficit) of revenues over expenses	(750)	58,681	4,340	4,795	67,066	—	67,066
Net assets transferred from related party	—	—	—	22,021	22,021	—	22,021
Net assets released from restrictions used for purchase of property, plant and equipment	97	5,019	903	2,596	8,615	—	8,615
Pension-related changes other than net periodic pension cost	(6,530)	(9,104)	(2,253)	(4,723)	(22,610)	—	(22,610)
Other changes in net assets	(94)	52	—	(353)	(395)	—	(395)
Increase (decrease) in unrestricted net assets:	\$ (7,277)	\$ 54,648	\$ 2,990	\$ 24,336	\$ 74,697	\$ —	\$ 74,697

Sharp HealthCare

Combining Statement of Changes in Net Assets – Obligated Group

Year Ended September 30, 2008

(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 (deficit) of revenues over expenses	\$ (750)	\$ 58,681	\$ 4,340	\$ 4,795	\$ 67,066	\$ –	\$ 67,066
Net assets transferred from related party	–	–	–	22,021	22,021		22,021
Net assets released from restrictions used for purchase of property, plant and equipment	97	5,019	903	2,596	8,615	–	8,615
Pension-related changes other than net periodic pension cost	(6,530)	(9,104)	(2,253)	(4,723)	(22,610)	–	(22,610)
Other changes in net assets	(94)	52	–	(353)	(395)	–	(395)
Increase (decrease) in unrestricted net assets	(7,277)	54,648	2,990	24,336	74,697	–	74,697
Temporarily restricted net assets:							
Other	4,764	–	–	(317)	4,447	–	4,447
Increase (decrease) in temporarily restricted net assets	4,764	–	–	(317)	4,447	–	4,447
Permanently restricted net assets:							
Other	944	–	–	197	1,141		1,141
Increase in permanently restricted net assets	944	–	–	197	1,141	–	1,141
Increase (decrease) in net assets	(1,569)	54,648	2,990	24,216	80,285	–	80,285
Net assets (deficit), beginning of the year	(102,972)	435,928	81,638	222,151	636,745	–	636,745
Net assets (deficit), end of the year	\$ (104,541)	\$ 490,576	\$ 84,628	\$ 246,367	\$ 717,030	\$ –	\$ 717,030