

AUDITED COMBINED FINANCIAL
STATEMENTS AND OTHER FINANCIAL
INFORMATION

Sharp HealthCare
Years Ended September 30, 2010 and 2009
With Report of Independent Auditors

Ernst & Young LLP



Sharp HealthCare

Combined Financial Statements and Other Financial Information

Years Ended September 30, 2010 and 2009

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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, 2010 and 2009, 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, 2010 and 2009, 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 15, 2010

Sharp HealthCare

Combined Balance Sheets

	September 30	
	2010	2009
	<i>(In Thousands)</i>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 154,749	\$ 150,611
Short-term investments	42,770	75,624
Accounts receivable, net of allowance for doubtful accounts of \$173,026 in 2010 and \$151,361 in 2009	177,397	181,607
Inventories	31,641	31,172
Prepaid expenses and other	33,114	30,317
Total current assets	439,671	469,331
Assets limited as to use:		
Designated for property	519,236	330,092
Under bond indentures	51,774	62,977
Other restricted investments	38,039	30,608
Under self-insurance programs	8,043	7,017
Total assets limited as to use	617,092	430,694
Property and equipment, net	790,670	786,965
Unamortized financing costs	4,448	7,792
Other assets	36,751	40,032
Total assets	<u>\$ 1,888,632</u>	<u>\$ 1,734,814</u>
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 163,687	\$ 145,319
Accrued compensation and benefits	100,623	93,040
Current portion of long-term debt	18,673	19,657
Estimated settlements payable to government programs, net	1,043	9,036
Accrued interest	3,065	3,062
Discontinued operations	996	521
Total current liabilities	288,087	270,635
Long-term liabilities	135,998	135,489
Reserves for professional liability	13,000	13,700
Long-term debt	489,799	508,975
Total liabilities	926,884	928,799
Net assets:		
Unrestricted	906,360	752,484
Temporarily restricted	48,884	47,704
Permanently restricted	6,504	5,827
Total net assets	961,748	806,015
Total liabilities and net assets	<u>\$ 1,888,632</u>	<u>\$ 1,734,814</u>

See accompanying notes.

Sharp HealthCare

Combined Statements of Operations

	September 30	
	2010	2009
	<i>(In Thousands)</i>	
Revenues:		
Net patient service	\$ 1,431,551	\$ 1,313,705
Premium	720,599	684,289
Other	66,667	58,914
Total revenues	2,218,817	2,056,908
Expenses:		
Salaries and wages	863,128	813,551
Employee benefits	200,366	181,011
Medical fees	271,324	244,372
Purchased services	225,828	225,075
Supplies	279,904	271,591
Maintenance, utilities, and rentals	96,358	91,252
Depreciation and amortization	81,899	77,771
Business insurance	7,056	12,840
Interest	24,849	22,011
Provision for doubtful accounts	41,929	33,789
Other	25,669	32,411
Total expenses	2,118,310	2,005,674
Income from operations	100,507	51,234
Other non-operating loss	(4,053)	(3,125)
Investment income	38,460	21,364
Income from continuing operations	134,914	69,473
Income from discontinued operations	132	1,480
Excess of revenues over expenses	135,046	70,953
Net assets transferred from related party	9,344	24,701
Net assets released from restrictions used for purchase of property, plant, and equipment	8,737	6,803
Pension-related changes other than net periodic pension cost	29	(42,499)
Other changes in net assets	720	872
Increase in unrestricted net assets	\$ 153,876	\$ 60,830

See accompanying notes.

Sharp HealthCare

Combined Statements of Changes in Net Assets

	September 30	
	2010	2009
	<i>(In Thousands)</i>	
Unrestricted net assets:		
Excess of revenues over expenses	\$ 135,046	\$ 70,953
Net assets transferred from related party	9,344	24,701
Net assets released from restrictions used for purchase of property, plant, and equipment	8,737	6,803
Pension-related changes other than net periodic pension cost	29	(42,499)
Other	720	872
Increase in unrestricted net assets	<u>153,876</u>	<u>60,830</u>
Temporarily restricted net assets:		
Contributions	10,550	14,014
Investment income	1,146	488
Change in net unrealized gains on investments	1,038	1,241
Net assets released from restrictions	(12,344)	(9,954)
Other	790	(3,330)
Increase in temporarily restricted net assets	<u>1,180</u>	<u>2,459</u>
Permanently restricted net assets:		
Contributions	677	232
Increase in permanently restricted net assets	<u>677</u>	<u>232</u>
Increase in net assets	155,733	63,521
Net assets, beginning of the year	806,015	742,494
Net assets, end of the year	<u><u>\$ 961,748</u></u>	<u><u>\$ 806,015</u></u>

See accompanying notes.

Sharp HealthCare

Combined Statements of Cash Flows

	September 30	
	2010	2009
	(In Thousands)	
Operating activities		
Increase in net assets	\$ 155,733	\$ 63,521
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Income from discontinued operations	(132)	(1,480)
Net assets transferred from related party	(9,344)	(24,701)
Provision for doubtful accounts	41,929	33,789
Non-cash gains	211	(275)
Depreciation and amortization	81,899	77,771
Deferred financing cost and other amortization	2,431	2,927
Change in fair value of interest and basis rate swaps	311	655
Restricted contributions and investment income, net	(12,373)	(14,734)
Pension-related changes other than net periodic pension cost	(29)	42,499
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(37,719)	(47,198)
Inventories	(469)	(2,196)
Short-term investments	32,854	19,287
Assets limited to use	(186,398)	(153,956)
Prepaid expenses and other	(2,797)	(5,159)
Increase (decrease) in:		
Accounts payable and accrued liabilities, long-term liabilities, and other liabilities	18,209	19,527
Accrued compensation and benefits	7,583	11,607
Estimated settlements payable to government programs, net	(7,993)	10,499
Net cash provided by operating activities of continued operations	83,906	32,383
Net cash provided by operating activities of discontinued operations	607	1,297
Net cash provided by operating activities	84,513	33,680
Investing activities		
Acquisition of property and equipment, net of retirements	(75,842)	(115,359)
Decrease in other assets	2,624	2,691
Net cash used in investing activities	(73,218)	(112,668)
Financing activities		
Current maturities and payments on long-term debt	(19,323)	(18,448)
Payments under capital lease obligations	(207)	(305)
Extinguishment of long-term debt	–	(17,225)
Proceeds from the issuance of long-term debt	–	124,766
Restricted contributions and investment income, net	12,373	14,734
Net cash (used in) provided by financing activities	(7,157)	103,522
Net increase in cash and cash equivalents	4,138	24,534
Cash and cash equivalents, beginning of the year	150,611	126,077
Cash and cash equivalents, end of the year	\$ 154,749	\$ 150,611

Sharp HealthCare

Combined Statements of Cash Flows (continued)

	September 30	
	2010	2009
	<i>(In Thousands)</i>	
Supplemental disclosures of cash flow information		
Capital lease obligations for building and equipment	\$ (20)	\$ 201
Cash paid for interest	\$ 24,491	\$ 15,583
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	\$ 9,344	\$ 24,701
Purchase of medical office building by assumption of mortgage	\$ –	\$ 8,652

See accompanying notes.

Sharp HealthCare

Notes to Combined Financial Statements

September 30, 2010

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 Stephen Birch Healthcare Center, Sharp Mary Birch Hospital for Women & Newborns, Sharp Cabrillo (closed in April 2009), 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.

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 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 an improved cash position through the term of the contract (see Note 6).

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 – \$28,429,000 at September 30, 2010, and \$33,753,000 at September 30, 2009, 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 for other purposes.

Under self-insurance programs – Certain cash and investments are restricted under Sharp's professional liability self-insurance program.

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 effective 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 using 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. No impairments were recorded in 2010 or 2009.

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 from the foundations.

Sharp HealthCare

Notes to Combined Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Excess of Revenues over Expenses

The accompanying combined statements of operations include 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 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 \$294,604,000 in 2010 and \$269,642,000 in 2009.

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.

Sharp recognizes tax benefits from any uncertain tax positions only if it is more likely than not the tax position will be sustained, based solely on its technical merits, with the taxing authority having full knowledge of all relevant information. Sharp records a liability for unrecognized tax benefits from uncertain tax positions as discrete tax adjustments in the first interim period that the more likely than not threshold is not met. Sharp recognizes deferred tax assets and liabilities for temporary differences between the financial reporting basis and the tax basis of its assets and liabilities along with net operating loss and tax credit carryovers only for tax positions that meet the more likely than not recognition criteria. At September 30, 2010 and 2009, no such assets or liabilities were recorded.

Recent Accounting Pronouncements

In May 2009, the Financial Accounting Standards Board (FASB) established the framework for financial accounting and reporting for not-for-profit mergers and acquisitions, and amended the guidance for FASB Accounting Standards Codification (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 any goodwill recorded in connection with mergers and acquisitions, but will be subject to an annual impairment test. FASB ASC 350 will be effective for Sharp for the year ending September 30, 2011. Sharp does not anticipate the adoption of FASB ASC 350 to have a material effect on the combined financial statements.

In August 2010, the FASB issued Accounting Standards Update (ASU) 2010-23, *Healthcare Entities (Topic 954), Measuring Charity Care for Disclosures*, which requires that cost be used as a measurement for charity care disclosure purposes and that cost can be identified as the direct and indirect costs of providing the charity care. It also requires disclosure of the method used to identify or determine such costs. The adoption of ASU 2010-23 is required for Sharp on October 1, 2011, and is not expected to have a material impact on Sharp's combined financial statements.

Sharp HealthCare

Notes to Combined Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

In August 2010, the FASB issued ASU 2010-24, *Healthcare Entities (Topic 954), Presentation of Insurance Claims and Related Insurance Recoveries*, which clarifies that a health care entity should not net insurance recoveries against a related claim liability. Additionally, the amount of the claim liability should be determined without consideration of insurance recoveries. The adoption of ASU 2010-24 is effective for Sharp beginning September 1, 2011, and management is currently evaluating the effect of this guidance on its combined financial statements.

Reclassifications

Certain 2009 amounts in the combined financial statements have been reclassified to conform to the 2010 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:

- 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 corporate bonds, U.S. government agency securities, commercial paper, fixed income funds, mortgage-backed securities, interest rate swaps, and commingled plan trust funds.

Sharp HealthCare

Notes to Combined Financial Statements (continued)

2. Fair Value Measurements (continued)

- 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.

Sharp's investments in partnerships, limited liability companies, and similarly structured entities amounting to approximately \$6,703,000 and \$5,397,000 as of September 30, 2010 and 2009, respectively, are accounted for using the equity method of accounting, which is not a fair value measurement.

Sharp HealthCare

Notes to Combined Financial Statements (continued)

2. Fair Value Measurements (continued)

The following table provides the composition of certain investment assets as of September 30, 2010. Only assets and liabilities measured at fair value are shown in the three-tier fair value hierarchy.

	September 30, 2010	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	<i>(In Thousands)</i>			
Cash and cash equivalents	\$ 154,749	\$ 154,749	\$ –	\$ –
Short-term investments:				
U.S. Treasury obligations	\$ 23,131	\$ 23,131	\$ –	\$ –
Corporate bonds	6,590	–	6,590	–
U.S. government agencies	5,603	–	5,603	–
Commercial paper	5,979	–	5,979	–
Interest receivable	1,467	–	1,467	–
	<u>\$ 42,770</u>	<u>\$ 23,131</u>	<u>\$ 19,639</u>	<u>\$ –</u>
Assets limited as to use:				
Designated for property:				
Cash and cash equivalents	\$ 3,802	\$ 3,802	\$ –	\$ –
Equities	147,383	147,383	–	–
U.S. Treasury obligations	69,284	69,284	–	–
Corporate bonds	209,660	–	209,660	–
U.S. government agencies	86,793	–	86,793	–
Interest receivable	2,314	–	2,314	–
	<u>\$ 519,236</u>	<u>\$ 220,469</u>	<u>\$ 298,767</u>	<u>\$ –</u>

Sharp HealthCare

Notes to Combined Financial Statements (continued)

2. Fair Value Measurements (continued)

	September 30, 2010	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	<i>(In Thousands)</i>			
Under bond indentures:				
Cash and cash equivalents	\$ 661	\$ 661	\$ —	\$ —
U.S. Treasury obligations	26,304	26,304	—	—
Corporate bonds	1,178	—	1,178	—
U.S. government agencies	15,644	—	15,644	—
Commercial paper	7,765	—	7,765	—
Interest receivable	222	—	222	—
	<u>\$ 51,774</u>	<u>\$ 26,965</u>	<u>\$ 24,809</u>	<u>\$ —</u>
Other restricted investments:				
Cash and cash equivalents	\$ 2,858	\$ 2,858	\$ —	\$ —
Equities	19,331	19,331	—	—
U.S. Treasury obligations	3,938	3,938	—	—
Corporate bonds	6,083	—	6,083	—
U.S. government agencies	2,353	—	2,353	—
Fixed income funds	2,779	—	2,779	—
Mortgage-backed securities	697	—	697	—
	<u>\$ 38,039</u>	<u>\$ 26,127</u>	<u>\$ 11,912</u>	<u>\$ —</u>

Sharp HealthCare

Notes to Combined Financial Statements (continued)

2. Fair Value Measurements (continued)

	September 30, 2010	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	<i>(In Thousands)</i>			
Under self-insurance programs:				
U.S. Treasury obligations	\$ 2,141	\$ 2,141	\$ —	\$ —
Corporate bonds	3,894	—	3,894	—
U.S. government agencies	2,008	—	2,008	—
	<u>\$ 8,043</u>	<u>\$ 2,141</u>	<u>\$ 5,902</u>	<u>\$ —</u>
Interest rate swaps	\$ 3,850	\$ —	\$ 3,850	\$ —
	<u>\$ 3,850</u>	<u>\$ —</u>	<u>\$ 3,850</u>	<u>\$ —</u>

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)
	<i>(In Thousands)</i>			
Cash and cash equivalents	\$ 150,611	\$ 150,611	\$ —	\$ —
Short-term investments:				
Cash and cash equivalents	\$ 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	—
	<u>\$ 75,624</u>	<u>\$ 47,023</u>	<u>\$ 28,601</u>	<u>\$ —</u>

Sharp HealthCare

Notes to Combined Financial Statements (continued)

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)
	<i>(In Thousands)</i>			
Assets limited as to use:				
Designated for property:				
Cash and cash equivalents	\$ 9,364	\$ 9,364	\$ —	\$ —
Equities	63,926	63,926	—	—
U.S. Treasury obligations	55,472	55,472	—	—
Corporate bonds	130,757	—	130,757	—
U.S. government agencies	69,172	—	69,172	—
Commercial paper	495	—	495	—
Interest receivable	906	—	906	—
	<u>\$ 330,092</u>	<u>\$ 128,762</u>	<u>\$ 201,330</u>	<u>\$ —</u>
Under bond indentures:				
Cash and cash equivalents	\$ 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	—
	<u>\$ 62,977</u>	<u>\$ 21,831</u>	<u>\$ 41,146</u>	<u>\$ —</u>
Other restricted investments:				
Cash and cash equivalents	\$ 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	—
	<u>\$ 30,608</u>	<u>\$ 23,581</u>	<u>\$ 7,027</u>	<u>\$ —</u>

Sharp HealthCare

Notes to Combined Financial Statements (continued)

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)
	<i>(In Thousands)</i>			
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	—
	<u>\$ 7,017</u>	<u>\$ 1,933</u>	<u>\$ 5,084</u>	<u>\$ —</u>
Interest rate swaps	\$ 3,513	\$ —	\$ 3,513	\$ —
	<u>\$ 3,513</u>	<u>\$ —</u>	<u>\$ 3,513</u>	<u>\$ —</u>

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.

Sharp HealthCare

Notes to Combined Financial Statements (continued)

3. Net Patient Service Revenue (continued)

Revenue from the Medicare and Medi-Cal programs accounted for approximately 31% and 19%, respectively, of Sharp's gross patient charges for the year ended September 30, 2010, and 31% and 18%, respectively, of Sharp's gross patient charges for the year ended September 30, 2009. 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 increased revenue by \$13,618,000 in 2010 and decreased revenue by \$6,484,000 in 2009 which includes the impact of settlements of prior years' reimbursement from Medicare, Medi-Cal, and Champus programs. The 2010 change in estimate above is primarily the result of the impact of Medicare appeal settlements. 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 \$5,400,000 for 2007 and \$5,900,000 for 2008 which were recorded in 2009 and are included in the disclosed net prior year settlement amounts for 2009.

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	
	2010	2009
Medicare	14%	13%
Medi-Cal	15%	16%
Private Pay	28%	25%

Sharp HealthCare

Notes to Combined Financial Statements (continued)

4. Investment Income

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

	Year Ended September 30	
	2010	2009
	<i>(In Thousands)</i>	
Interest income	\$ 12,580	\$ 11,063
Unrealized gains, net	22,389	7,284
Realized gains, net	3,491	3,017
	<u>\$ 38,460</u>	<u>\$ 21,364</u>

5. Property and Equipment

Property and equipment consists of the following:

	September 30	
	2010	2009
	<i>(In Thousands)</i>	
Land and improvements	\$ 50,309	\$ 50,119
Buildings and improvements	896,935	837,952
Equipment and furniture	716,752	662,147
Construction-in-progress	53,527	97,820
	<u>1,717,523</u>	<u>1,648,038</u>
Less accumulated depreciation and amortization	<u>(926,853)</u>	<u>(861,073)</u>
	<u>\$ 790,670</u>	<u>\$ 786,965</u>

Depreciation and amortization expense for the years ended September 30, 2010 and 2009, amounted to approximately \$81,250,000 and \$77,752,000, respectively. Included in these amounts is amortization for buildings and equipment under capital lease obligations. Sharp has approximately \$8,160,000 and \$7,971,000 at September 30, 2010 and 2009, respectively, of buildings and equipment under capital lease, at cost. Sharp has outstanding commitments to complete construction-in-progress totaling approximately \$62,244,000 at September 30, 2010.

Sharp HealthCare

Notes to Combined Financial Statements (continued)

5. 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. Unless extended, the 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 of the GO bonds is expected in 2011. Sharp considers the District to be a related party based upon these relationships between Sharp and the District.

The Hospital is not 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 2010 and 2009, the Hospital recorded \$9,344,000 and \$24,701,000, 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	
	2010	2009
	<i>(In Thousands)</i>	
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 semiannually at rates ranging from 6.000% to 6.375%. The borrowing amount is net of the unamortized original issue discount of \$2,614,000 at September 30, 2010. The bonds include issuer call features totaling \$30,025,000 and \$109,975,000 in 2014 and 2019, respectively.	\$ 137,386	\$ 137,291

Sharp HealthCare

Notes to Combined Financial Statements (continued)

6. Long-Term Debt (continued)

	September 30	
	2010	2009
	<i>(In Thousands)</i>	
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 a bank. 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 (0.25% at September 30, 2010).	\$ 99,880	\$ 99,880
County of San Diego Certificates of Participation issued in 1998 collateralized by revenues of the Obligated Group. Principal due in annual installments ranging from \$3,695,000 in 2011 to \$5,705,000 in 2028. Interest payable semiannually at rates ranging from 4.70% to 5.25% through 2028. The borrowing amount is net of the unamortized original issue discount of \$767,000 at September 30, 2010.	82,408	86,700
Series 2001A Revenue Bonds collateralized by revenues of the Obligated Group. Principal due in annual amounts ranging from \$4,235,000 in 2011 to \$7,225,000 in 2020. Interest payable annually at rates ranging from 5.500% to 6.125% through 2020. The borrowing amount is net of the unamortized original issue discount of \$24,000 at September 30, 2010.	56,086	60,100
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 a bank. Principal due in annual amounts ranging from \$3,125,000 in 2011 to \$5,360,000 in 2024. Letter of Credit is renewable in 2012. Interest is payable monthly at a variable rate (0.26% at September 30, 2010).	54,010	57,065

Sharp HealthCare

Notes to Combined Financial Statements (continued)

6. Long-Term Debt (continued)

	September 30	
	2010	2009
	<i>(In Thousands)</i>	
Series 2003C Revenue Bonds collateralized by revenues of the Obligated Group. Principal due in annual amounts ranging from \$580,000 in 2011 to \$16,265,000 in 2021. Interest payable annually at rates ranging from 5.125% to 5.375% through 2021. The borrowing amount is net of the unamortized original issue discount of \$71,000 at September 30, 2010.	\$ 26,449	\$ 27,145
Reverse Repurchase Agreement collateralized by U.S. Treasury securities. Principal due in February 2013. Interest payable quarterly at a variable rate (0.637% at September 30, 2010).	15,500	15,500
Series 1988A Insured Hospital Revenue Bonds collateralized by revenues of the Obligated Group. Principal due in annual amounts ranging from \$1,200,000 in 2011 to \$1,900,000 in 2018. Interest payable every 35 days at a variable rate (0.486% at September 30, 2010).	12,300	13,400
Tax-Exempt Financing collateralized by equipment. Interest and principal paid in monthly installments at a rate of 3.86% through 2011.	5,422	12,412
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.	8,388	8,549
Capital lease obligations at a 6.00% imputed rate of interest collateralized by leased building or equipment.	6,698	6,924
Other debt including the fair value of interest rate swaps	3,945	3,666
Total	508,472	528,632
Less current portion	(18,673)	(19,657)
	<u>\$ 489,799</u>	<u>\$ 508,975</u>

Sharp HealthCare

Notes to Combined Financial Statements (continued)

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 are being 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 in the 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, 2010 and 2009.

Sharp HealthCare

Notes to Combined Financial Statements (continued)

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
2011	\$ 18,478	\$ 195
2012	13,680	208
2013	29,782	220
2014	22,601	226
2015	15,435	205
Thereafter	401,425	5,644

A summary of interest cost on borrowed funds follows:

	Year Ended September 30 2010	2009
	<i>(In Thousands)</i>	
Interest cost:		
Capitalized	\$ 579	\$ 1,920
Charged to operations	24,849	22,011
	\$ 25,428	\$ 23,931

Interest Rate Swaps

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 \$2,314,000 in 2010 and \$2,084,000 in 2009, which increased Sharp's overall cost of borrowing and was included in 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

Sharp HealthCare

Notes to Combined Financial Statements (continued)

6. Long-Term Debt (continued)

\$1,221,000 favorable adjustment. The change in fair value of the swap decreased non-operating income by \$2,326,000 in 2010 and \$3,882,000 in 2009.

During 2004, Sharp entered into a fixed-spread basis swap with a bank. 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 \$399,000 in 2010 and \$201,000 in 2009, which reduced Sharp's overall cost of borrowing and was offset against interest expense. The change in fair value of the swap increased non-operating income by \$265,000 in 2010 and \$725,000 in 2009.

During 2006, Sharp entered into a fixed-spread yield curve swap with a bank. 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 \$1,309,000 in 2010 and \$940,000 in 2009, which reduced Sharp's overall cost of borrowing and was offset against interest expense. The change in fair value of the swap increased non-operating income by \$1,750,000 in 2010 and \$2,397,000 in 2009.

7. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	September 30	
	2010	2009
	<i>(In Thousands)</i>	
Purchase of equipment	\$ 13,961	\$ 16,394
Hospital programs	13,353	11,845
Hospital departments	9,954	8,973
Health education	6,718	6,052
Research	4,088	3,915
Indigent care	810	525
Total	<u>\$ 48,884</u>	<u>\$ 47,704</u>

Sharp HealthCare

Notes to Combined Financial Statements (continued)

7. Temporarily and Permanently Restricted Net Assets (continued)

Permanently restricted net assets of \$6,504,000 and \$5,827,000 at September 30, 2010 and 2009, respectively, represent investments to be held in perpetuity, the income from which is expendable to support health care services.

8. Endowments

Sharp's endowments consist of 44 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 Sharp's affiliated 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 Uniform Prudent Management of Institutional Funds Act (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 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.

Sharp HealthCare

Notes to Combined Financial Statements (continued)

8. Endowments (continued)

The endowment net asset composition as of September 30, 2010, by fund type was as follows:

	Temporarily Restricted	Permanently Restricted	Total
	<i>(In Thousands)</i>		
Board-designated endowment funds	\$ 607	\$ –	\$ 607
Donor-restricted endowment funds	3,845	6,504	10,349
Total funds	<u>\$ 4,452</u>	<u>\$ 6,504</u>	<u>\$ 10,956</u>

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

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

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.

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).

Sharp HealthCare

Notes to Combined Financial Statements (continued)

8. Endowments (continued)

	Temporarily Restricted	Permanently Restricted	Total
	<i>(In Thousands)</i>		
Endowment net assets, October 1, 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
Investment return:			
Investment income (loss)	453	(3)	450
Net appreciation (realized and unrealized)	785	—	785
Total investment return	1,238	(3)	1,235
Contributions	150	680	830
Appropriation of endowment asset for expenditure	(66)	—	(66)
Endowment net assets, September 30, 2010	<u>\$ 4,452</u>	<u>\$ 6,504</u>	<u>\$ 10,956</u>

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	
	2010	2009
	<i>(In Thousands)</i>	
Hospital patient services	\$ 1,514,132	\$ 1,430,285
Clinic patient services	317,887	295,406
General and administrative	174,008	167,351
Purchased services under capitated agreements	112,283	112,632
	<u>\$ 2,118,310</u>	<u>\$ 2,005,674</u>

Sharp HealthCare

Notes to Combined Financial Statements (continued)

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 \$12,368,000 in 2010 and \$10,626,000 in 2009.

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

	2010	2009
	<i>(In Thousands)</i>	
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 202,292	\$ 147,742
Service cost	8,173	3,727
Interest cost	10,960	11,441
Actuarial loss	21,131	48,536
Benefits paid	(9,592)	(9,154)
Benefit obligation at end of year	<u>232,964</u>	<u>202,292</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	128,190	113,692
Actual return on plan assets	15,784	4,304
Plan participants' contributions	5,154	4,802
Employer contributions	19,128	14,546
Benefits paid	(9,592)	(9,154)
Fair value of plan assets at end of year	<u>158,664</u>	<u>128,190</u>
Funded status	<u>\$ (74,300)</u>	<u>\$ (74,102)</u>

The net liability, recognized in the balance sheet in long-term liabilities, was \$74,300,000 and \$74,102,000 at September 30, 2010 and 2009, respectively.

Sharp HealthCare

Notes to Combined Financial Statements (continued)

10. Pension Plans (continued)

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

	2010	2009
	<i>(In Thousands)</i>	
Prior service cost	\$ 5,581	\$ 6,826
Net actuarial loss	97,456	96,233
	\$ 103,037	\$ 103,059

Additional information for the plan:

	September 30	
	2010	2009
	<i>(In Thousands)</i>	
Projected benefit obligation	\$ 232,964	\$ 202,292
Accumulated benefit obligation	214,251	185,587
Fair value of plan assets	158,664	128,190

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

	2010	2009
	<i>(In Thousands)</i>	
Service cost	\$ 8,173	\$ 3,727
Interest cost	10,960	11,441
Expected return on plan assets	(10,805)	(9,610)
Recognized net actuarial loss	9,774	5,299
Amortization of prior service cost	1,245	1,245
Net periodic pension cost	\$ 19,347	\$ 12,102

Sharp HealthCare

Notes to Combined Financial Statements (continued)

10. Pension Plans (continued)

Weighted-average assumptions used to determine benefit obligations were:

	September 30	
	2010	2009
Discount rate	4.89%	5.63%
Rate of compensation increase	4.50%	5.00%

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

	September 30	
	2010	2009
Discount rate	5.63%	7.87%
Expected return on plan assets	8.00%	8.00%
Rate of compensation increase	4.50%	5.00%

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.

Plan Assets

The Plan's assets are invested in an institutional trust company commingled employee benefit plan trust (Commingled Plan Trust). As of September 30, 2010 and 2009, the Plan's target allocation and the allocation of investments in the Commingled Plan Trust were as follows:

	Target allocation	2010	2009
Asset category:			
Equity securities	61% – 69%	64%	66%
Fixed income	31% – 39%	36	34
Total		100%	100%

Sharp HealthCare

Notes to Combined Financial Statements (continued)

10. Pension Plans (continued)

Plan assets are managed according to an investment policy adopted by Sharp's Retirement Committee. Professional investment managers are retained to manage plan assets. The primary objective of the Plan is to generate a consistent total investment return sufficient to pay present and future Plan benefits to retirees. The investment policy includes an asset allocation that includes equities and fixed income instruments. The target mix represents a long-term asset allocation strategy for the Plan. Although the Retirement Committee will seek to maintain the target mix over the long-term, short-term deviations may occur due to market impact and cash flow. The timing and degree of rebalancing of the actual portfolio will be determined by the Retirement Committee.

Financial assets and financial liabilities measured at fair value are grouped in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to estimate fair value. These levels and associated valuation methodologies are described in Note 2. All of the Plan's investments in the Commingled Plan Trust are in the Level 2 fair value group at September 30, 2010 and 2009.

Contributions

Sharp expects to contribute \$7,114,000 to the Plan in 2011.

Estimated Future Benefit Payments

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

2011	\$ 12,268
2012	13,823
2013	14,688
2014	15,140
2015	16,233
2016 – 2020	100,048

Sharp HealthCare

Notes to Combined Financial Statements (continued)

11. Commitments and Contingencies

Leases

Sharp leases various equipment and facilities under operating leases expiring at various dates through 2023. Total rental expense in 2010 and 2009 for all operating leases was \$27,659,000 and \$26,362,000, respectively.

The following is a schedule by year of future minimum lease payments (in thousands) under operating leases as of September 30, 2010, that have initial or remaining lease terms in excess of one year.

2011	\$ 20,971
2012	17,180
2013	14,435
2014	11,144
2015	10,179
Thereafter	21,340
	<u>\$ 95,249</u>

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. 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 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.

Sharp HealthCare

Notes to Combined Financial Statements (continued)

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. Sharp has obtained excess loss insurance covering claims above these amounts 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, 2010 and 2009.

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, 2010. In management's opinion, however, the estimated liability accrued at September 30, 2010, 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, 2010 and 2009, SHP was required to maintain tangible net equity totaling \$7,031,000 and \$6,968,000, respectively. SHP's tangible net equity was \$30,385,000 at September 30, 2010, and \$26,294,000 at September 30, 2009. Management believes they are in compliance with these requirements at September 30, 2010 and 2009.

Sharp HealthCare

Notes to Combined Financial Statements (continued)

11. Commitments and Contingencies (continued)

Unemployment Claims and Workers' Compensation

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 purchased high deductible insurance policies and has been responsible for workers' compensation claims up to amounts covered by these insurance policies (Sharp was responsible for individual claims up to \$1,000,000 in 2010 and 2009). 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 2.2% and 1.90% at September 30, 2010 and 2009, respectively.

Seismic Standards (Unaudited)

Sharp has made significant progress toward meeting earthquake retrofit requirements for its health care facilities under a State of California law. The new Stephen Birch tower at SMH meets all new code requirements. In addition, many of the other hospitals have been further assessed and reclassified, and have received extensions for compliance until 2030. Only two of the remaining hospital buildings in the Sharp system require additional seismic improvements. These two hospital buildings received an extension for compliance with seismic standards through January 1, 2015, and expect to apply for additional extensions as permitted by law.

Credit Facilities

Sharp has a \$50,000,000 line of credit with a bank which expires on September 30, 2011, of which \$17,600,000 and \$16,100,000 was available at September 30, 2010 and 2009, respectively. 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 \$32,400,000 and \$33,900,000 as of September 30, 2010 and 2009, respectively. These letters of credit are each considered a decrease in the available \$50,000,000 line of credit with the bank. There are no amounts outstanding as of September 30, 2010 and 2009.

Sharp has a bank liquidity facility to provide credit enhancement and liquidity support for the \$60,000,000 of Series 2009A Bonds. The bank liquidity facility was executed in February 2009 by a bank letter of credit that expires in February 2012. The letter of credit used as collateral totaled \$54,631,000 at September 30, 2010.

Sharp HealthCare

Notes to Combined Financial Statements (continued)

11. Commitments and Contingencies (continued)

Sharp has a bank liquidity facility to provide credit enhancement and liquidity support for the \$99,880,000 of Series 2009C and D Bonds. The bank liquidity facility was executed in September 2009 by a bank letter of credit that expires in September 2012. The total letters of credit used as collateral totaled \$101,391,000 at September 30, 2010.

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.

Sharp HealthCare

Notes to Combined Financial Statements (continued)

12. Fair Value of Financial Instruments (continued)

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

	September 30, 2010		September 30, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	\$ 154,749	\$ 154,749	\$ 150,611	\$ 150,611
Short-term investments	42,770	42,770	75,624	75,624
Estimated settlements payable to government programs, net	(1,043)	(1,043)	(9,036)	(9,036)
Assets limited as to use	617,092	617,092	430,694	430,694
Accounts payable and accrued liabilities	163,687	163,687	145,319	145,319
Accrued compensation and benefits	100,623	100,623	93,040	93,040
Long-term debt	508,472	502,626	528,632	549,970

13. Discontinued Operations

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

As of September 30, 2010 and 2009, 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 combined 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. Sharp recorded changes in estimate of \$132,000 and \$1,480,000 in 2010 and 2009, respectively, as gains on discontinued operations related to previous years' operations of SMP.

14. Subsequent Events

In preparing these combined financial statements, management has evaluated and disclosed all material subsequent events up to December 15, 2010, which is the date that the combined financial statements were issued.

Other Financial Information

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 15, 2010

Sharp HealthCare

Combining Balance Sheet (In Thousands)

September 30, 2010

	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	\$ 110,936	\$ 1,019	\$ 1,521	\$ 20,708	\$ 709	\$ 15,160	\$ 417	\$ 1,924	\$ 2,355	\$ 154,749	\$ –	\$ 154,749
Short-term investments	29,893	–	–	11,769	–	–	–	1,108	–	42,770	–	42,770
Accounts receivable, net	9,688	87,558	25,420	43,728	6,596	1,634	75	4,691	218	179,608	(2,211)	177,397
Intercompany receivables	–	543,546	94,452	3,046	–	–	–	–	47	641,091	(641,091)	–
Inventories	4,159	11,951	5,038	9,056	1,437	–	–	–	–	31,641	–	31,641
Prepaid expenses and other	24,980	3,100	1,542	2,640	422	396	4	26	4	33,114	–	33,114
Total current assets	179,656	647,174	127,973	90,947	9,164	17,190	496	7,749	2,624	1,082,973	(643,302)	439,671
Assets limited as to use:												
Designated for property	390,738	–	–	102,584	–	25,914	–	–	–	519,236	–	519,236
Under bond indentures	28	40,233	9,155	2,358	–	–	–	–	–	51,774	–	51,774
Other restricted investments	–	–	–	–	–	1,010	–	28,533	8,496	38,039	–	38,039
Under self-insurance programs	–	–	–	–	–	–	8,043	–	–	8,043	–	8,043
Total assets limited as to use	390,766	40,233	9,155	104,942	–	26,924	8,043	28,533	8,496	617,092	–	617,092
Property and equipment, net	148,908	371,737	50,603	205,226	13,667	498	–	31	–	790,670	–	790,670
Unamortized financing costs	93	3,048	732	575	–	–	–	–	–	4,448	–	4,448
Other assets	16,054	42	1,860	983	199	94	652	23,725	1,534	45,143	(8,392)	36,751
Beneficial interest in foundations	47,120	–	–	12,136	–	–	–	–	–	59,256	(59,256)	–
Total assets	\$ 782,597	\$ 1,062,234	\$ 190,323	\$ 414,809	\$ 23,030	\$ 44,706	\$ 9,191	\$ 60,038	\$ 12,654	\$ 2,599,582	\$ (710,950)	\$ 1,888,632

Sharp HealthCare

Combining Balance Sheet (continued) (In Thousands)

September 30, 2010

	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	\$ 111,528	\$ 18,875	\$ 7,430	\$ 13,020	\$ 1,970	\$ 12,462	\$ 52	\$ 130	\$ 4	\$ 165,471	\$ (1,784)	\$ 163,687
Intercompany payable	631,590	—	—	—	8,503	356	19	594	—	641,062	(641,062)	—
Accrued compensation and benefits	27,875	32,797	12,136	22,749	3,681	1,047	—	335	55	100,675	(52)	100,623
Current portion of long-term debt	2,058	10,224	3,295	2,902	194	—	—	—	—	18,673	—	18,673
Estimated settlements payable to government programs, net	—	(488)	2,240	(2,636)	1,927	—	—	—	—	1,043	—	1,043
Accrued interest	156	2,335	447	127	—	—	—	—	—	3,065	—	3,065
Discontinued operations	996	—	—	—	—	—	—	—	—	996	—	996
Total current liabilities	774,203	63,743	25,548	36,162	16,275	13,865	71	1,059	59	930,985	(642,898)	288,087
Long-term liabilities	66,461	24,225	6,733	29,634	1,943	456	—	11,859	459	141,770	(5,772)	135,998
Reserves for professional liability	4,000	—	—	—	—	—	9,000	—	—	13,000	—	13,000
Long-term debt	38,019	337,165	66,208	48,388	424	—	—	—	—	490,204	(405)	489,799
Total liabilities	882,683	425,133	98,489	114,184	18,642	14,321	9,071	12,918	518	1,575,959	(649,075)	926,884
Net assets:												
Unrestricted net (deficit) assets	(145,967)	637,101	91,834	290,314	4,191	30,385	120	2,239	1,826	912,043	(5,683)	906,360
Temporarily restricted net assets	41,348	—	—	8,339	197	—	—	40,348	8,339	98,571	(49,687)	48,884
Permanently restricted net assets	4,533	—	—	1,972	—	—	—	4,533	1,971	13,009	(6,505)	6,504
Total net (deficit) assets	(100,086)	637,101	91,834	300,625	4,388	30,385	120	47,120	12,136	1,023,623	(61,875)	961,748
Total liabilities and net assets	\$ 782,597	\$ 1,062,234	\$ 190,323	\$ 414,809	\$ 23,030	\$ 44,706	\$ 9,191	\$ 60,038	\$ 12,654	\$ 2,599,582	\$ (710,950)	\$ 1,888,632

Sharp HealthCare

Combining Statement of Operations (In Thousands)

September 30, 2010

	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	\$ 100,179	\$ 794,142	\$ 253,060	\$ 486,181	\$ 71,069	\$ –	\$ –	\$ –	\$ –	\$ 1,704,631	\$ (273,080)	\$ 1,431,551
Premium	617,392	–	–	–	–	193,710	–	–	–	811,102	(90,503)	720,599
Other	203,367	9,556	3,612	7,290	3,147	–	3,024	–	–	229,996	(163,329)	66,667
Total revenues	920,938	803,698	256,672	493,471	74,216	193,710	3,024	–	–	2,745,729	(526,912)	2,218,817
Expenses:												
Salaries and wages	212,586	299,024	109,133	203,601	33,220	5,564	–	–	–	863,128	–	863,128
Employee benefits	54,509	66,476	23,229	47,300	7,599	1,253	–	–	–	200,366	–	200,366
Medical fees	173,911	11,427	3,927	9,080	560	173,957	–	–	–	372,862	(101,538)	271,324
Purchased services	98,123	51,406	22,726	45,704	5,750	5,375	181	–	–	229,265	(3,437)	225,828
Supplies	25,777	125,211	40,771	76,595	11,416	134	–	–	–	279,904	–	279,904
Maintenance, utilities, and rentals	48,595	24,682	5,969	16,059	3,077	726	–	–	–	99,108	(2,750)	96,358
Depreciation and amortization	32,629	33,570	10,245	22,035	3,289	455	9	–	–	102,232	(20,333)	81,899
Business insurance	574	2,869	894	2,352	267	100	3,280	–	–	10,336	(3,280)	7,056
Interest	1,956	18,982	4,923	2,192	3	1	–	–	–	28,057	(3,208)	24,849
Provision for doubtful accounts	3,531	13,224	8,029	16,263	882	–	–	–	–	41,929	–	41,929
Purchased services from affiliate	268,328	65,756	24,708	45,173	6,676	1,842	82	–	–	412,565	(412,565)	–
Other	12,777	4,474	2,144	3,931	641	1,650	52	–	–	25,669	–	25,669
Total expenses	933,296	717,101	256,698	490,285	73,380	191,057	3,604	–	–	2,665,421	(547,111)	2,118,310
(Loss) income from operations	(12,358)	86,597	(26)	3,186	836	2,653	(580)	–	–	80,308	20,199	100,507
Other non-operating (loss) income	(3,390)	(224)	15	(1,059)	17	45	–	(31)	497	(4,130)	77	(4,053)
Investment income	24,317	15,433	7,217	7,018	1,260	1,714	580	1,115	82	58,736	(20,276)	38,460
Income from continuing operations	8,569	101,806	7,206	9,145	2,113	4,412	–	1,084	579	134,914	–	134,914
Gain on discontinued operations, net	132	–	–	–	–	–	–	–	–	132	–	132
Excess of revenues over expenses	8,701	101,806	7,206	9,145	2,113	4,412	–	1,084	579	135,046	–	135,046
Net assets transferred from related party	–	–	–	9,344	–	–	–	–	–	9,344	–	9,344
Net assets released from restrictions used for purchase of property, plant, and equipment	555	4,878	1,620	1,684	–	–	–	–	–	8,737	–	8,737
Pension related changes other than net periodic pension cost	855	555	(667)	(593)	(55)	(66)	–	–	–	29	–	29
Other	(197)	30	–	614	1,935	–	–	(1,282)	–	1,100	(380)	720
Increase (decrease) in unrestricted net assets	\$ 9,914	\$ 107,269	\$ 8,159	\$ 20,194	\$ 3,993	\$ 4,346	\$ –	\$ (198)	\$ 579	\$ 154,256	\$ (380)	\$ 153,876

Sharp HealthCare

Combining Statement of Changes in Net Assets (In Thousands)

September 30, 2010

	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:												
Excess of revenues over expenses	\$ 8,701	\$ 101,806	\$ 7,206	\$ 9,145	\$ 2,113	\$ 4,412	\$ –	\$ 1,084	\$ 579	\$ 135,046	\$ –	\$ 135,046
Net assets transferred from related party	–	–	–	9,344	–	–	–	–	–	9,344	–	9,344
Net assets released from restrictions used for purchase of property, plant, and equipment	555	4,878	1,620	1,684	–	–	–	–	–	8,737	–	8,737
Pension related changes other than net periodic pension cost	855	555	(667)	(593)	(55)	(66)	–	–	–	29	–	29
Other	(197)	30	–	614	1,935	–	–	(1,282)	–	1,100	(380)	720
Increase (decrease) in unrestricted net assets	9,914	107,269	8,159	20,194	3,993	4,346	–	(198)	579	154,256	(380)	153,876
Temporarily restricted net assets:												
Contributions	–	–	–	–	–	–	–	8,229	2,321	10,550	–	10,550
Investment income	–	–	–	–	–	–	–	740	406	1,146	–	1,146
Change in net realized gains (losses) on investments	–	–	–	–	–	–	–	571	467	1,038	–	1,038
Net assets released from restrictions	–	–	–	–	–	–	–	(9,458)	(2,886)	(12,344)	–	(12,344)
Other	1,363	–	–	309	(492)	–	–	1,282	–	2,462	(1,672)	790
Increase (decrease) in temporarily restricted net assets	1,363	–	–	309	(492)	–	–	1,364	308	2,852	(1,672)	1,180
Permanently restricted net assets:												
Contributions	–	–	–	–	–	–	–	5	672	677	–	677
Other	5	–	–	672	–	–	–	–	–	677	(677)	–
Increase in permanently restricted net assets	5	–	–	672	–	–	–	5	672	1,354	(677)	677
Increase in net assets	11,282	107,269	8,159	21,175	3,501	4,346	–	1,171	1,559	158,462	(2,729)	155,733
Net (deficit) assets, beginning of year	(111,368)	529,832	83,675	279,450	887	26,039	120	45,949	10,577	865,161	(59,146)	806,015
Net (deficit) assets, end of year	<u>\$ (100,086)</u>	<u>\$ 637,101</u>	<u>\$ 91,834</u>	<u>\$ 300,625</u>	<u>\$ 4,388</u>	<u>\$ 30,385</u>	<u>\$ 120</u>	<u>\$ 47,120</u>	<u>\$ 12,136</u>	<u>\$ 1,023,623</u>	<u>\$ (61,875)</u>	<u>\$ 961,748</u>

Sharp HealthCare

Combining Balance Sheet – Obligated Group (In Thousands)

September 30, 2010

	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	\$ 110,936	\$ 1,019	\$ 1,521	\$ 20,708	\$ 134,184	\$ –	\$ 134,184
Short-term investments	29,893	–	–	11,769	41,662	–	41,662
Accounts receivable, net	9,688	87,558	25,420	43,728	166,394	(1,584)	164,810
Intercompany receivables	(631,302)	543,546	94,452	–	6,696	3,051	9,747
Estimated settlements receivable from government programs, net	–	488	(2,240)	2,636	884	–	884
Inventories	4,159	11,951	5,038	9,056	30,204	–	30,204
Prepaid expenses and other	24,980	3,100	1,542	2,640	32,262	–	32,262
Total current assets	(451,646)	647,662	125,733	90,537	412,286	1,467	413,753
Assets limited as to use:							
Designated for property	390,738	–	–	102,584	493,322	–	493,322
Under bond indentures	28	40,233	9,155	2,358	51,774	–	51,774
Total assets limited as to use	390,766	40,233	9,155	104,942	545,096	–	545,096
Property and equipment, net	148,908	371,737	50,603	205,226	776,474	–	776,474
Unamortized financing costs	93	3,048	732	575	4,448	–	4,448
Other assets	16,054	42	1,860	983	18,939	–	18,939
Beneficial interest in foundations	47,120	–	–	12,136	59,256	–	59,256
Total assets	<u>\$ 151,295</u>	<u>\$ 1,062,722</u>	<u>\$ 188,083</u>	<u>\$ 414,399</u>	<u>\$ 1,816,499</u>	<u>\$ 1,467</u>	<u>\$ 1,817,966</u>

Sharp HealthCare

Combining Balance Sheet – Obligated Group (continued) (In Thousands)

September 30, 2010

	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	\$ 111,816	\$ 18,875	\$ 7,430	\$ 13,020	\$ 151,141	\$ (1,584)	\$ 149,557
Intercompany payable	—	—	—	(3,046)	(3,046)	3,051	5
Accrued compensation and benefits	27,875	32,797	12,136	22,749	95,557	—	95,557
Current portion of long-term debt	2,058	10,224	3,295	2,902	18,479	—	18,479
Accrued interest	156	2,335	447	127	3,065	—	3,065
Discontinued operations	996	—	—	—	996	—	996
Total current liabilities	142,901	64,231	23,308	35,752	266,192	1,467	267,659
Long-term liabilities	66,461	24,225	6,733	29,634	127,053	—	127,053
Reserves for professional liability	4,000	—	—	—	4,000	—	4,000
Long-term debt	38,019	337,165	66,208	48,388	489,780	—	489,780
Total liabilities	251,381	425,621	96,249	113,774	887,025	1,467	888,492
Net assets:							
Unrestricted net (deficit) assets	(145,967)	637,101	91,834	290,314	873,282	—	873,282
Temporarily restricted net assets	41,348	—	—	8,339	49,687	—	49,687
Permanently restricted net assets	4,533	—	—	1,972	6,505	—	6,505
Total net (deficit) assets	(100,086)	637,101	91,834	300,625	929,474	—	929,474
Total liabilities and net assets	\$ 151,295	\$ 1,062,722	\$ 188,083	\$ 414,399	\$ 1,816,499	\$ 1,467	\$ 1,817,966

Sharp HealthCare

Combining Statement of Operations – Obligated Group (In Thousands)

September 30, 2010

	Sharp HealthCare	Sharp Memorial Hospital	Sharp Chula Vista Medical Center	Grossmont Hospital Corporation	Combined Totals	Combining Eliminations	Totals
Revenues:							
Net patient service	\$ 100,179	\$ 794,142	\$ 253,060	\$ 486,181	\$ 1,633,562	\$ (263,538)	\$ 1,370,024
Premium	617,392	—	—	—	617,392	—	617,392
Other	203,367	9,556	3,612	7,290	223,825	(152,641)	71,184
Total revenues	920,938	803,698	256,672	493,471	2,474,779	(416,179)	2,058,600
Expenses:							
Salaries and wages	212,586	299,024	109,133	203,601	824,344	—	824,344
Employee benefits	54,509	66,476	23,229	47,300	191,514	—	191,514
Medical fees	173,911	11,427	3,927	9,080	198,345	(7,211)	191,134
Purchased services	98,123	51,406	22,726	45,704	217,959	(2,672)	215,287
Supplies	25,777	125,211	40,771	76,595	268,354	—	268,354
Maintenance, utilities, and rentals	48,595	24,682	5,969	16,059	95,305	(2,750)	92,555
Depreciation and amortization	32,629	33,570	10,245	22,035	98,479	(21,159)	77,320
Business insurance	574	2,869	894	2,352	6,689	—	6,689
Interest	1,956	18,982	4,923	2,192	28,053	(3,456)	24,597
Provision for doubtful accounts	3,531	13,224	8,029	16,263	41,047	—	41,047
Purchased services from affiliate	268,328	65,756	24,708	45,173	403,965	(398,610)	5,355
Other	12,777	4,474	2,144	3,931	23,326	—	23,326
Total expenses	933,296	717,101	256,698	490,285	2,397,380	(435,858)	1,961,522
(Loss) income from operations	(12,358)	86,597	(26)	3,186	77,399	19,679	97,078
Other nonoperating (losses) gains, net	(3,390)	(224)	15	(1,059)	(4,658)	—	(4,658)
Investment income	24,317	15,433	7,217	7,018	53,985	(19,679)	34,306
Income from continuing operations	8,569	101,806	7,206	9,145	126,726	—	126,726
Gain on discontinued operations, net	132	—	—	—	132	—	132
Excess of revenues over expenses	8,701	101,806	7,206	9,145	126,858	—	126,858
Net assets transferred from related party	—	—	—	9,344	9,344	—	9,344
Net assets released from restrictions used for purchase of property, plant, and equipment	555	4,878	1,620	1,684	8,737	—	8,737
Pension-related changes other than net periodic pension cost	855	555	(667)	(593)	150	—	150
Other	(197)	30	—	614	447	—	447
Increase in unrestricted net assets	\$ 9,914	\$ 107,269	\$ 8,159	\$ 20,194	\$ 145,536	\$ —	\$ 145,536

Sharp HealthCare

Combining Statement of Changes in Net Assets – Obligated Group (In Thousands)

September 30, 2010

	Sharp HealthCare	Sharp Memorial Hospital	Sharp Chula Vista Medical Center	Grossmont Hospital Corporation	Combined Totals	Combining Eliminations	Totals
Unrestricted net assets:							
Excess of revenues over expenses	\$ 8,701	\$ 101,806	\$ 7,206	\$ 9,145	\$ 126,858	\$ –	\$ 126,858
Net assets transferred from related party	–	–	–	9,344	9,344	–	9,344
Net assets released from restrictions used for purchase of property, plant, and equipment	555	4,878	1,620	1,684	8,737	–	8,737
Pension related changes other than net periodic pension cost	855	555	(667)	(593)	150	–	150
Other	(197)	30	–	614	447	–	447
Increase in unrestricted net assets	9,914	107,269	8,159	20,194	145,536	–	145,536
Temporarily restricted net assets:							
Beneficial interest in foundations	1,363	–	–	309	1,672	–	1,672
Increase in temporarily restricted net assets	1,363	–	–	309	1,672	–	1,672
Permanently restricted net assets:							
Beneficial interest in foundations	5	–	–	672	677	–	677
Increase in permanently restricted net assets	5	–	–	672	677	–	677
Increase in net assets	11,282	107,269	8,159	21,175	147,885	–	147,885
Net (deficit) assets, beginning of year	(111,368)	529,832	83,675	279,450	781,589	–	781,589
Net (deficit) assets, end of year	\$ (100,086)	\$ 637,101	\$ 91,834	\$ 300,625	\$ 929,474	\$ –	\$ 929,474

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