

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

Sharp HealthCare
Years Ended September 30, 2020 and 2019
With Report of Independent Auditors

Ernst & Young LLP



Sharp HealthCare

Consolidated Financial Statements and Supplementary Information

Years Ended September 30, 2020 and 2019

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Report of Independent Auditors

The Board of Directors
Sharp HealthCare

We have audited the accompanying consolidated financial statements of Sharp HealthCare, which comprise the consolidated balance sheets as of September 30, 2020 and 2019, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sharp HealthCare at September 30, 2020 and 2019, and the consolidated results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Change in Accounting Principle

Adoption of ASU No. 2016-02, Leases (Topic 842)

As discussed in Note 1 to the Sharp HealthCare consolidated financial statements, Sharp HealthCare changed its method of accounting for leases as a result of the adoption of the amendments to the Financial Accounting Standards Board Accounting Standards Codification resulting from Accounting Standards Update (ASU) 2016-02, *Leases* (Topic 842), effective October 1, 2019. Our opinion is not modified with respect to this matter.

Supplementary Information

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

Ernst + Young LLP

December 18, 2020

Sharp HealthCare

Consolidated Balance Sheets (In Thousands)

	September 30	
	2020	2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 485,989	\$ 374,987
Short-term investments	59,281	36,087
Accounts receivable, net	608,679	443,984
Inventories	59,431	50,782
Prepaid expenses and other	59,931	55,384
Total current assets	1,273,311	961,224
Long-term investments	370,357	350,419
Assets limited as to use:		
Designated for property	2,827,842	2,515,079
Under bond indentures	11,182	43,221
Other restricted investments	79,670	67,832
Under self-insurance programs	12,111	11,256
Total assets limited as to use	2,930,805	2,637,388
Property and equipment, net	1,700,020	1,543,190
Leased assets-operating	160,094	-
Other assets	163,897	156,218
Total assets	\$ 6,598,484	\$ 5,648,439
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 500,642	\$ 332,560
Accrued compensation and benefits	200,637	163,692
Operating lease obligations	17,358	-
Short-term debt	121,500	-
Current portion of long-term debt	15,979	17,958
Estimated settlements payable to government programs, net	3,384	2,736
Accrued interest	3,314	3,708
Total current liabilities	862,814	520,654
Long-term liabilities	241,566	149,960
Reserves for professional and general liabilities (Note 12)	18,565	9,649
Long-term debt	673,060	729,954
Operating lease obligation	163,718	-
Total liabilities	1,959,723	1,410,217
Net assets:		
Without donor restrictions	4,544,173	4,152,799
With donor restrictions	94,588	85,423
Total net assets	4,638,761	4,238,222
Total liabilities and net assets	\$ 6,598,484	\$ 5,648,439

See accompanying notes.

Sharp HealthCare

Consolidated Statements of Operations (In Thousands)

	Year Ended September 30	
	2020	2019
Revenues:		
Patient service	\$ 2,037,063	\$ 2,066,201
Provider tax	337,975	189,841
Net patient service	2,375,038	2,256,042
Premium	1,534,871	1,478,138
Other	241,327	111,415
Total revenues	4,151,236	3,845,595
Expenses:		
Salaries and wages	1,496,105	1,414,918
Employee benefits	380,840	352,981
Medical fees	667,699	632,279
Purchased services	411,048	385,203
Supplies	455,685	459,585
Provider tax	184,470	100,809
Maintenance, utilities and rentals	144,279	134,996
Depreciation and amortization	129,539	124,806
Business insurance	17,461	13,519
Interest	20,770	19,566
Other	55,115	50,576
Total expenses	3,963,011	3,689,238
Income from operations	188,225	156,357
Other non-operating income (loss)	6,115	(1,622)
Investment income	277,754	131,820
Excess of revenues over expenses	472,094	286,555
Net assets transferred from related-party	–	3,727
Net assets released from restrictions used for purchase of property and equipment	3,856	4,714
Pension-related changes other than net periodic pension cost	(87,623)	(62,241)
Other changes in net assets without donor restrictions	3,047	3,145
Increase in net assets without donor restrictions	\$ 391,374	\$ 235,900

See accompanying notes.

Sharp HealthCare

Consolidated Statements of Changes in Net Assets (In Thousands)

	Year Ended September 30	
	2020	2019
Net assets without donor restrictions:		
Excess of revenues over expenses	\$ 472,094	\$ 286,555
Net assets transferred from related party	–	3,727
Net assets released from restrictions used for purchase of property and equipment	3,856	4,714
Pension-related changes other than net periodic pension cost	(87,623)	(62,241)
Other changes in net assets without donor restrictions	3,047	3,145
Increase in net assets without donor restrictions	391,374	235,900
Net assets with donor restrictions:		
Contributions	17,572	18,999
Investment income	612	635
Change in net unrealized gains on other than trading securities	1,017	186
Net assets released from restrictions	(13,079)	(13,098)
Other changes in net assets with donor restrictions	3,043	2,680
Increase in net assets with donor restrictions	9,165	9,402
Increase in net assets	400,539	245,302
Net assets, beginning of the year	4,238,222	3,992,920
Net assets, end of the year	\$ 4,638,761	\$ 4,238,222

See accompanying notes.

Sharp HealthCare

Consolidated Statements of Cash Flows (In Thousands)

	Year Ended September 30	
	2020	2019
Operating activities		
Increase in net assets	\$ 400,539	\$ 245,302
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Net assets transferred from related party	–	(3,841)
Other non-operating gains (loss), net	(667)	(507)
Depreciation and amortization of operating and non-operating facilities	129,539	124,806
Amortization of deferred financing costs and bond premium/discount	(879)	(911)
Change in fair value of swaps	6,192	12,553
Changes in operating lease ROU assets	19,889	–
Restricted contributions and investment income, net	(18,184)	(19,634)
Pension-related changes other than net periodic pension cost	87,623	62,241
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable, net	(164,695)	10,173
Inventories	(8,649)	(1,709)
Short-term investments	(23,194)	12,079
Assets limited to use and long-term investments	(313,357)	(281,417)
Prepaid expenses and other	(18,423)	11,876
Increase (decrease) in:		
Payable to government programs, net	648	3,129
Accounts payable and accrued liabilities, long-term liabilities, and other liabilities	200,059	(59,589)
Operating lease obligation	(18,341)	–
Accrued compensation and benefits	36,945	(10,210)
Net cash provided by operating activities	315,045	104,341
Investing activities		
Acquisition of property and equipment, net of retirements	(310,461)	(176,436)
Investments in joint ventures	–	(3,292)
Other investing activities	5	(126)
Net cash used in investing activities	(310,456)	(179,854)

Sharp HealthCare

Consolidated Statements of Cash Flows (continued) (In Thousands)

	Year Ended September 30	
	2020	2019
Financing activities		
Payments on long-term debt	\$ (13,075)	\$ (12,709)
Payments under capital lease and finance lease obligations	(4,698)	(4,737)
Proceeds from the issuance of debt, net	106,000	–
Restricted contributions and investment income, net	18,184	19,634
Net cash provided by financing activities	106,411	2,188
Net increase (decrease) in cash and cash equivalents and restricted cash	111,000	(73,325)
Cash and cash equivalents and restricted cash, beginning of year ⁽¹⁾	375,541	448,866
Cash and cash equivalents and restricted cash, end of year ⁽¹⁾	\$ 486,541	\$ 375,541
Supplemental disclosures of cash flow information		
Right-of-use assets obtained in exchange for new finance lease liabilities	\$ 3,078	\$ –
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 8,289	\$ –
Net right-of-use remeasurement to operating and finance leases, net	\$ 18,246	\$ –
Initial recognition of right-of-use assets and operating lease obligations upon adoption of new accounting pronouncements	\$ 177,358	\$ –
Cash paid for interest, net of capitalized interest	\$ 24,920	\$ 28,080
Accrued obligations for property and equipment	\$ 29,517	\$ 29,376
Net assets transferred from related party	\$ –	\$ 3,841

⁽¹⁾Cash and cash equivalents and restricted cash includes \$552, \$554, \$555 of restricted cash on September 30, 2020, 2019, and 2018, respectively.

See accompanying notes.

Sharp HealthCare

Notes to Consolidated Financial Statements

September 30, 2020

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), constitutes a regional integrated health care delivery system, primarily serving the residents of San Diego County. The consolidated financial statements of Sharp include following:

- SHC, including shared corporate services and Medical Foundation activities consisting of Sharp Rees-Stealy Medical Centers, SharpCare, Sharp Cardiovascular & Thoracic Center, and Sharp Kidney & Pancreas Transplant Center
- Sharp Memorial Hospital (SMH), including Stephen Birch Healthcare Center, Sharp Mary Birch Hospital for Women and Newborns, Sharp Outpatient Pavilion, Sharp Mesa Vista Hospital, and Sharp McDonald Center
- 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 7).

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of Sharp's consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recently Adopted Accounting Standards

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*, which establishes a new lease accounting model for lessees. ASU 2016-02 requires the rights and obligations arising from all lease contracts to be recognized as assets and liabilities on the balance sheet. The adoption of the new accounting standard resulted in an increase in assets and liabilities on the balance sheet to recognize the right to use lease assets and the financing obligation. Sharp adopted ASU 2016-02 on October 1, 2019. Upon adoption, Sharp recognized a \$177,358,000 increase in assets and liabilities for leases previously classified as "operating". Sharp elected a practical expedient to apply the new standard prospectively. Therefore, prior periods have not been restated to reflect the change in accounting. The new lease standard did not have a significant impact to the Sharp consolidated statement of operations or statement of cash flows.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which assists not-for-profit and other entities in (1) evaluating whether transactions should be accounted for as contributions (i.e., non-reciprocal transactions) within the scope of the FASB Accounting Standards Codification (ASC) Topic 958, *Not-for-Profit Entities*, or as exchange (i.e., reciprocal) transactions subject to other guidance (e.g., FASB ASC 606, *Revenue from Contracts with Customers*), and (2) distinguishing between conditional and unconditional contributions. The adoption of ASU 2018-08 on October 1, 2019 did not have a significant impact to the Sharp consolidated financial statements.

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

In August 2018, the FASB issued ASU 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract*, which requires an entity (customer) in a hosting arrangement that is a service contract to capitalize certain costs incurred during the application development stage depending on the nature of the costs. Costs incurred during the preliminary project and post implementation stages are expensed as the activities are performed. Costs capitalized pursuant to this guidance are to be amortized over the term of the hosting arrangement in the same line item in the statement of operations where the non-capital hosting fees are expensed. The capitalized implementation costs are required to be presented in the statement of cash flows in the same manner as fees associated with the hosting element (operating activities), and in the balance sheet in the same line item that a prepayment of fees associated with the hosting element would be presented. The adoption of ASU 2018-15 on October 1, 2019, did not have a significant impact to the Sharp consolidated financial statements.

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.

Net Patient Accounts Receivable

Net patient accounts receivable and net patient service revenue have been adjusted to the estimated amounts expected to be received based on contractual rates for services rendered, inclusive of the estimated price concession.

Inventories

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

Short-Term Investments

Short-term investments include corporate and government obligation securities, which are included in professionally managed portfolios, and are measured at fair value in the consolidated balance sheets. 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 consolidated statements of operations.

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Long-Term Investments

Long-term investments, which are included in professionally managed portfolios, are measured at fair value in the consolidated balance sheets. The maturities of these securities are in excess of one year or are investments in equities that are not expected to be liquidated over the next year. Investment income or loss (including unrealized and realized gains and losses) is included in the consolidated statements of operations.

Assets Limited as to Use

Assets limited as to use invested in debt and equity securities with readily determined fair values are measured at fair value in the consolidated balance sheets. Investment income or loss (including unrealized and realized gains and losses) is included in the consolidated statements of operations unless the income or loss is restricted by donor or law.

Alternative investments represent ownership interests in a private equity limited partnership. The limited partnership has a general manager with full discretionary authority over investment decisions. The private equity limited partnership invests in companies operating in segments within the health care sector. Alternative investments are accounted for using the net asset value (NAV) expedient, which is determined using investment valuations provided by the general partner, and approximates fair value. Alternative investments generally are not marketable and have underlying investments that may not have quoted market values. The estimated value of such investments is subject to uncertainty and could have differed had a ready market existed. See further discussion in Note 3.

Assets limited as to use primarily include 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 designate for other purposes, and amounts held by trustees under indenture agreements. Assets limited as to use consist of the following:

Designated for property – Cash resources not required for operations have been designated as funded depreciation to be used for future capital improvements. This designation may be changed and such funds used for other purposes. At September 30, 2020 and 2019, \$49,962,000 and \$37,866,000, respectively, of such assets are pledged as collateral for notes payable and other liabilities.

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

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.

Derivative Instruments

Sharp recognizes all derivatives in its consolidated balance sheets at fair value, with changes in fair value recorded in the consolidated statements of operations (see Note 7).

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 3 to 40 years and is computed using the straight-line method. In 2020 property and equipment under finance lease obligations were amortized on a straight-line basis over the shorter of the lease term or the estimated useful life of an asset, unless a triggering event occurs where Sharp becomes reasonably certain to exercise an option to purchase the underlying asset, in which case it will be amortized to the remaining useful life of the asset. In 2019, property and equipment under capital lease obligations were amortized on a straight-line method over the shorter of lease term or the estimated useful life of an asset. Such amortization is included in depreciation and amortization in the consolidated statements of operations.

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.

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

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

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.

Net Assets

Net assets, revenues, gains, and losses are classified on the existence or absence of donor or grantor-imposed restrictions. Net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions – Net assets available for use in general operations and not subject to donor restrictions. Board-designated funds to be used in the future for specific projects are included in Net assets without donor restrictions

Net assets with donor restrictions – Net assets whose use by Sharp has been limited by donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as to a specific time period or purpose. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for the resource was restricted has been fulfilled, or both.

Impairment or Disposal of Long-Lived Assets

Sharp reviews long-lived assets for impairments when events or changes in business conditions indicate that their carrying values may not be recoverable. Sharp considers assets to be impaired and writes them down to fair value if expected undiscounted cash flows are less than the carrying amounts. No impairments were recorded in 2020 or 2019.

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

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 SHF and GHF.

Excess of Revenues Over Expenses

The accompanying consolidated statements of operations include excess of revenues over expenses (not-for-profit performance indicator) and other changes in net assets without donor restrictions. Changes in net assets without donor restrictions that 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 that 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. Sharp's patient service revenues are reported at the amount that reflects the consideration to which Sharp expects to be paid for providing patient care based on the terms of the contractual agreement with the payor, Sharp's historical settlement activity and other information. These amounts are due from patients and third-party payors, including health insurers and government programs. Patients who meet Sharp's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue. Generally, Sharp bills the patients and third-party payors after services are performed.

Patient service revenues are recognized as performance obligations are satisfied. Inpatient services are performance obligations satisfied over time and revenue is recognized based on actual charges incurred in the reporting period. Unsatisfied or partially unsatisfied performance obligations relate to inpatient acute care services not completed by the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

generally occurs within days or weeks of the end of the reporting period. Outpatient services are performance obligations satisfied at a point in time and revenue is recognized when goods or services are provided, and Sharp does not believe it is required to provide additional goods or services.

Sharp uses a portfolio approach to account for categories of patient contracts as a collective group, rather than recognizing revenue on an individual contract basis. The portfolios consist of major payor classes for inpatient and outpatient revenue. Based on historical collection trends, Sharp believes that revenue recognized by utilizing the portfolio approach approximates the revenue that would have been recognized if an individual contract approach was used.

Settlements with third-party payors for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of patient service revenues when information becomes available. The impact of revenue arising from a change in the estimate of transaction price concessions for performance obligations satisfied was \$5,107,000 and \$(2,393,000) in years ended September 30, 2020 and 2019, respectively.

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 revenue includes unrestricted donations, retail pharmacy gross revenue, management services, leases and rentals, parking, and others. Revenue is recognized when obligations under the terms of the contract are satisfied. Revenues from these services are measured at the amount of consideration Sharp expects to receive for those services.

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.

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Health care service costs (included in medical fees and purchased services on the accompanying consolidated 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's policy is to accept all patients regardless of their ability to pay. In assessing a patient's ability to pay, Sharp utilizes financial eligibility requirements or criteria. Sharp provides charity care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Charity care is not reported as revenue because Sharp does not pursue collection of amounts determined to qualify as charity care.

Charity care costs are calculated using a ratio of cost to gross charge methodology by department. Direct revenues and costs of each department were included in the calculation, in addition to an allocation of overhead costs.

The cost of charity care is summarized as follows:

	Year Ended September 30	
	2020	2019
	<i>(In Thousands)</i>	
Charity care, at cost	\$ 27,169	\$ 23,865

Contributions

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 support with restrictions 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, net assets with restrictions are reclassified as net assets without restrictions and reported on the consolidated statements of operations as other operating revenues.

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions and included in other non-operating income (loss) gain in the consolidated statements of operations.

Contributions Received by Related Parties

Sharp recognizes an interest in the net assets of related-party fundraising organizations when Sharp is the sole beneficiary and has the ability to influence or control the financial and operating decisions of such organizations. For the years ended September 30, 2020 and 2019, Sharp held an interest in the net assets of Coronado Hospital Foundation (CHF), a philanthropic organization dedicated to supporting the programs and services of SCHHC. Sharp's interest in the total net assets of CHF totaled \$17,574,000 and \$11,680,000 as of September 30, 2020 and 2019, respectively, and is included in other assets on the accompanying consolidated balance sheets. Changes in Sharp's interest in the net assets without donor restrictions of CHF are included on the consolidated statements of operations as a component of the total change in net assets without donor restrictions separate from excess revenues over expenses, and totaled \$2,850,000 and \$1,504,000 for the years ended September 30, 2020 and 2019, respectively. Changes in Sharp's interest in CHF's net assets that are subject to donor restrictions are included on the consolidated statements of changes in net assets as a component of other changes in net assets with donor restrictions, and totaled \$3,043,000 and \$2,680,000 for the years ended September 30, 2020 and 2019, respectively.

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, 2020 and 2019, no such assets or liabilities were recorded.

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Accounting Standards Issued But Not Yet Adopted

In January 2020, the FASB issued ASU 2020-01, *Investments–Equity Securities (Topic 321), Investments–Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815)*: Clarifying the Interactions between Topic 321, Topic 323, and Topic 815, a consensus of the Emerging Issues Task Force, to clarify the interaction in accounting for (1) equity securities under FASB ASC 321, *Investments–Equity Securities*, (2) investments under the equity method in FASB ASC 323, *Investments–Equity Method and Joint Ventures*, and (3) certain types of forward contracts and purchased options pursuant to FASB ASC 815, *Derivatives and Hedging*. The adoption of ASU 2020-01 is required for Sharp on October 1, 2021, and management is currently evaluating the effect of this guidance, if any, on its consolidated financial statements.

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958)*, which requires a not for profit entity receiving contributed nonfinancial assets to present the contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets. Additionally, entities must identify in the disclosures each category of nonfinancial asset recognized, and provide additional information by category. The adoption of ASU 2020-07 is required for Sharp on October 1, 2021, and management is currently evaluating the effect of this guidance, on its consolidated financial statements.

In October 2020, the FASB issued ASU 2020-10, *Codification Improvements*, which presents amendments to the Disclosure Sections of the Codification presents other codification improvements. The adoption of ASU 2020-10 is required for Sharp on October 1, 2021, and management is currently evaluating the effect of this guidance, if any, on its consolidated financial statements.

2. COVID-19 Pandemic

In December 2019, a respiratory disease caused by a novel strain of coronavirus, known as COVID-19, has spread around the world, including in the State of California. The World Health Organization has declared it a pandemic and, since the Centers for Disease Control and Prevention confirmed the spread of the disease to the United States in February 2020, federal and state governments (including California) have declared a state of emergency.

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

2. COVID-19 Pandemic (continued)

CARES Act Funding

The Coronavirus Aid, Relief, and Economic Security Act (the CARES Act) provides stimulus in the form of financial aid to cover extensive emergency funding to hospitals and providers to prevent, prepare for, and respond to COVID-19. The following is a summary of the funding, collectively referred to as “CARES Act funding”:

- CARES Act: On March 27, 2020 President Trump signed into law the CARES Act. The CARES Act provides a temporary and limited relief to hospitals during the COVID-19 pandemic, including the appropriation of \$100 billion under the Public Health and Social Services Emergency Fund (Provider Relief Fund) to reimburse providers for expenses and lost revenue associated with the treatment of COVID-19 patients, expand the Medicare Advanced and Accelerated Payment Program, provide employee retention tax credits to employers affected by COVID-19, eliminate the 2% reduction on Medicare payments from sequestration during the period of May 1, 2020 through December 31, 2020, create an add on payment for inpatient hospitals treating COVID-19 patients, and delaying the \$4 billion reduction on Medicaid funding for Medicare disproportionate share hospitals from May 2020 until November 2020.
- Paycheck Protection Program and Health Care Enhancement Act: On April 24, 2020 President Trump signed the Paycheck Protection Program and Health Care Enhancement Act, which amends the CARES Act to increase the amount authorized for the Paycheck Protection Program and authorizes an additional \$75 billion in funding for the Provider Relief Fund for reimbursement to eligible health care providers for health care-related expense or lost revenue that are attributable to COVID-19. It also appropriates \$25 billion to the Provider Relief Fund for necessary expenses to research, develop, validate, manufacture, purchase, administer, and expand capacity for COVID-19 tests.

Payments received under CARES Act funding are recognized as earned. CARES Act mandated rate increases are recorded as net patient service revenue and all other CARES Act funding is recognized in other revenue. Sharp received \$162,279,000 of CARES Act funding, including an estimated payroll tax employer retention credit, in the year ended September 30, 2020. Sharp recognized \$128,151,000 in the consolidated statement of operations (\$119,578,000 included in other operating revenue and \$8,573,000 included in net patient service revenue), and the remaining amount, \$34,129,000 was deferred and included in accounts payable and accrued liabilities on the consolidated balance sheets as of September 30 2020. Sharp will continue to monitor the terms

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

2. COVID-19 Pandemic (continued)

and conditions of the CARES Act funding and the impact of the pandemic on revenue and expenses. If Sharp is unable to attest or comply with current or future terms and conditions, the ability to retain some or all of the distributions received may be impacted. The amount of revenue recognized, and the deferred revenue, reflects management's best estimate of the lost revenues and expenses incurred that will satisfy the HHS reporting requirements through September 30, 2020.

Sharp has not pursued collection of accelerated Medicare payments under the Accelerated and Advance Payment Program. Sharp did not defer payment of the employer's share of Social Security taxes.

3. Fair Value Measurements

Sharp accounts for certain assets at fair value. A fair value hierarchy for valuation inputs has been established to prioritize the valuation inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of the three levels, which is determined by the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

- Level 1 – Pricing is based on observable inputs such as quoted prices for identical assets in active markets. Financial assets 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, supranational bonds, negotiable certificates of deposit, fixed-income funds, mortgage-backed securities, interest rate swaps, and commingled plan trust funds.

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

3. 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, but not 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 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 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 swaps.

Sharp’s investments in partnerships, limited liability companies, and similarly structured entities amounting to \$14,507,000 and \$13,983,000 as of September 30, 2020 and 2019, respectively, are accounted for using the equity method of accounting, which is not a fair value measurement, and are included in other assets on the consolidated balance sheets.

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

3. Fair Value Measurements (continued)

The following table provides the composition of certain investment assets and liabilities held at fair value as of September 30, 2020. Only assets and liabilities measured at fair value on a recurring basis are shown in the three-tier fair value hierarchy.

	Total		Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)		NAV Practical Expedient
<i>(In Thousands)</i>							
September 30, 2020							
Short-term investments:							
U.S. treasury obligations	\$ 11,304	\$	11,304	\$	–	\$	–
Corporate bonds	29,764		–		29,764		–
U.S. government agencies	8,511		–		8,511		–
Mortgage-backed securities and collateralized mortgage obligations	1,657		–		1,657		–
Asset-backed securities	352		–		352		–
Supranational	7,435		–		7,435		–
Interest receivable	258		–		258		–
	<u>\$ 59,281</u>	<u>\$</u>	<u>11,304</u>	<u>\$</u>	<u>47,977</u>	<u>\$</u>	<u>–</u>
Long-term investments:							
Equities	\$ 53,178	\$	53,178	\$	–	\$	–
U.S. treasury obligations	94,237		94,237		–		–
Corporate bonds	113,063		–		113,063		–
U.S. government agencies	64,072		–		64,072		–
Mortgage-backed securities and collateralized mortgage obligations	12,192		–		12,192		–
Asset-backed securities	27,053		–		27,053		–
Supranational	5,255		–		5,255		–
Interest receivable	1,307		–		1,307		–
	<u>\$ 370,357</u>	<u>\$</u>	<u>147,415</u>	<u>\$</u>	<u>222,942</u>	<u>\$</u>	<u>–</u>

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

3. Fair Value Measurements (continued)

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	NAV Practical Expedient
	<i>(In Thousands)</i>			
September 30, 2020				
Assets limited as to use:				
Designated for property:				
Money market funds	\$ 7,319	\$ 7,319	\$ —	\$ —
Equities	1,653,266	1,653,266	—	—
U.S. treasury obligations	445,378	445,378	—	—
Corporate bonds	449,811	—	449,811	—
U.S. government agencies	126,946	—	126,946	—
Mortgage-backed securities and collateralized mortgage obligations	45,932	—	45,932	—
Asset-backed securities	58,503	—	58,503	—
Supranational	35,603	—	35,603	—
Interest receivable	5,084	—	5,084	—
	\$ 2,827,842	\$ 2,105,963	\$ 721,879	\$ —
Under bond indentures:				
Money market funds	\$ 84	\$ 84	\$ —	\$ —
U.S. treasury obligations	9,277	9,277	—	—
U.S. government agencies	1,750	—	1,750	—
Asset-backed securities	64	—	64	—
Interest receivable	7	—	7	—
	\$ 11,182	\$ 9,361	\$ 1,821	\$ —

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

3. Fair Value Measurements (continued)

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	NAV Practical Expedient
	<i>(In Thousands)</i>			
September 30, 2020				
Assets limited as to use (continued):				
Other restricted investments:				
Money market funds	\$ 1,865	\$ 1,865	\$ —	\$ —
Equities	44,602	44,602	—	—
U.S. treasury obligations	13,498	13,498	—	—
Fixed income funds	1,567	1,520	47	—
Corporate bonds	9,617	—	9,617	—
U.S. government agencies	2,963	—	2,963	—
Mortgage-backed securities and collateralized mortgage obligations	1,068	—	1,068	—
Asset-backed securities	1,193	—	1,193	—
Supranational	780	—	780	—
Private equity	2,405	—	—	2,405
Interest receivable	112	—	112	—
	\$ 79,670	\$ 61,485	\$ 15,780	\$ 2,405

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

3. Fair Value Measurements (continued)

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	NAV Practical Expedient
<i>(In Thousands)</i>				
September 30, 2020				
Assets limited as to use (continued):				
Under self-insurance programs:				
Cash and cash equivalents	\$ 61	\$ 61	\$ —	\$ —
Equities	2,711	2,711	—	—
U.S. treasury obligations	3,261	3,261	—	—
Corporate bonds	3,655	—	3,655	—
U.S. government agencies	1,263	—	1,263	—
Mortgage-backed securities and collateralized mortgage obligations	437	—	437	—
Asset-backed securities	393	—	393	—
Supranational	288	—	288	—
Interest receivable	42	—	42	—
	\$ 12,111	\$ 6,033	\$ 6,078	\$ —
 Net swap payables	 \$ 10,979	 \$ —	 \$ 10,979	 \$ —
	\$ 10,979	\$ —	\$ 10,979	\$ —

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

3. Fair Value Measurements (continued)

The following table provides the composition of certain investment assets as of September 30, 2019. Only assets and liabilities measured at fair value on a recurring basis are shown in the three-tier fair value hierarchy.

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	NAV Practical Expedient
<i>(In Thousands)</i>				
September 30, 2019				
Short-term investments:				
U.S. treasury obligations	\$ 14,758	\$ 14,758	\$ —	\$ —
Corporate bonds	8,981	—	8,981	—
U.S. government agencies	5,238	—	5,238	—
Mortgage-backed securities and collateralized mortgage obligations	—	—	—	—
Asset-backed securities	—	—	—	—
Supranational	—	—	—	—
Commercial paper	5,909	—	5,909	—
Negotiable certificates of deposit	1,050	—	1,050	—
Interest receivable	151	—	151	—
	<u>\$ 36,087</u>	<u>\$ 14,758</u>	<u>\$ 21,329</u>	<u>\$ —</u>
Long-term investments:				
Equities	\$ 43,489	\$ 43,489	\$ —	\$ —
U.S. treasury obligations	80,786	80,786	—	—
Corporate bonds	124,897	—	124,897	—
U.S. government agencies	48,161	—	48,161	—
Mortgage-backed securities and collateralized mortgage obligations	14,613	—	14,613	—
Asset-backed securities	23,973	—	23,973	—
Supranational	13,010	—	13,010	—
Interest receivable	1,490	—	1,490	—
	<u>\$ 350,419</u>	<u>\$ 124,275</u>	<u>\$ 226,144</u>	<u>\$ —</u>

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

3. Fair Value Measurements (continued)

		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	NAV Practical Expedient
Total				
<i>(In Thousands)</i>				
September 30, 2019				
Assets limited as to use:				
Designated for property:				
Cash and cash equivalents	\$ 18,011	\$ 18,011	\$ —	\$ —
Equities	1,324,367	1,324,367	—	—
U.S. treasury obligations	461,623	461,623	—	—
Corporate bonds	440,736	—	440,736	—
U.S. government agencies	81,421	—	81,421	—
Mortgage-backed securities and collateralized mortgage obligations	68,358	—	68,358	—
Commercial paper	17,759	—	17,759	—
Asset-backed securities	68,372	—	68,372	—
Supranational	27,465	—	27,465	—
Private equity	1,474	—	—	1,474
Interest receivable	5,493	—	5,493	—
	\$ 2,515,079	\$ 1,804,001	\$ 709,604	\$ 1,474
Under bond indentures:				
Cash and cash equivalents	\$ 1,260	\$ 1,260	\$ —	\$ —
U.S. treasury obligations	27,944	27,944	—	—
Corporate bonds	3,552	—	3,552	—
U.S. government agencies	3,001	—	3,001	—
Commercial paper	5,045	—	5,045	—
Asset-backed securities	1,024	—	1,024	—
Supranational	1,249	—	1,249	—
Interest receivable	146	—	146	—
	\$ 43,221	\$ 29,204	\$ 14,017	\$ —

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

3. Fair Value Measurements (continued)

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	NAV Practical Expedient
<i>(In Thousands)</i>				
September 30, 2019				
Assets limited as to use (continued):				
Other restricted investments:				
Cash and cash equivalents	\$ 1,592	\$ 1,592	\$ —	\$ —
Equities	35,053	35,053	—	—
U.S. treasury obligations	14,170	14,170	—	—
Fixed income funds	1,178	1,148	30	—
Corporate bonds	9,968	—	9,968	—
U.S. government agencies	2,168	—	2,168	—
Mortgage-backed securities and collateralized mortgage obligations	1,606	—	1,606	—
Commercial paper	263	—	263	—
Asset-backed securities	1,106	—	1,106	—
Supranational	603	—	603	—
Interest receivable	125	—	125	—
	\$ 67,832	\$ 51,963	\$ 15,869	\$ —

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

3. Fair Value Measurements (continued)

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	NAV Practical Expedient
	<i>(In Thousands)</i>			
September 30, 2019				
Assets limited as to use (continued):				
Under self-insurance programs:				
Cash and cash equivalents	\$ 44	\$ 44	\$ —	\$ —
Equities	2,164	2,164	—	—
U.S. treasury obligations	2,869	2,869	—	—
Corporate bonds	3,773	—	3,773	—
U.S. government agencies	917	—	917	—
Mortgage-backed securities and collateralized mortgage obligations	627	—	627	—
Commercial paper	134	—	134	—
Asset-backed securities	459	—	459	—
Supranational	226	—	226	—
Interest receivable	43	—	43	—
	\$ 11,256	\$ 5,077	\$ 6,179	\$ —
Net swap payables	\$ 4,788	\$ —	\$ 4,788	\$ —
	\$ 4,788	\$ —	\$ 4,788	\$ —

The nature and risk of investments for which fair value is determined using a calculated NAV is that there is no provision for redemption of funds during the term of the fund. Distribution from the fund will be received at the end of the charter term, which is estimated to be over the next 10 years. The unfunded commitments were \$2,592,000 and \$3,319,000 at September 30, 2020 and 2019, respectively.

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

3. Fair Value Measurements (continued)

Liquidity Management

As part of its liquidity management, Sharp's strategy is to structure its financial assets to be available to satisfy general operating expenses, current liabilities, and other obligations as they come due. Sharp invests cash in excess of daily requirements in short-term investments and has a line of credit, as discussed in Note 7 to help manage unanticipated liquidity needs. Additionally, board designated funds may be utilized if necessary.

Sharp's financial assets available for general operating expenses within one year of September 30, are as follows:

	<u>2020</u>	<u>2019</u>
	<i>(In Thousands)</i>	
Cash and cash equivalents	\$ 485,989	\$ 374,987
Short-term investments	59,281	36,087
Accounts receivable, net	608,679	443,984
Total	<u>\$ 1,153,949</u>	<u>\$ 855,058</u>

4. Net Patient Service Revenues

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 are as follows:

Medicare: Inpatient acute care services and outpatient services provided to Medicare program beneficiaries are paid at prospectively determined rates per diagnosis. Sharp is paid for cost-reimbursable items at a tentative rate. Physician services are paid based upon established fee schedules. Amounts received from the Medicare programs for hospital services are subject to audit and final settlement by a Medicare Administrative Contractor after submission of annual hospital cost reports. Sharp's Medicare cost reports have been audited generally through September 30, 2017. The estimated net settlement payables are \$4,679,000 and \$3,885,000 and adjustments pertaining to prior-year cost reports resulted in additional revenue of \$3,561,000 and \$1,206,000 at September 30, 2020 and 2019, respectively.

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

4. Net Patient Service Revenues (continued)

Medi-Cal: Inpatient and outpatient services provided to Medi-Cal program beneficiaries are paid either under contracted rates or cost-reimbursable items at a tentative rate. Services are generally paid at prospectively determined rates per discharge, per occasion of service, or per covered member. Amounts received from Medi-Cal programs are subject to audit and final settlement by the California Department of Health Care Services after submission of annual cost reports. Sharp's Medi-Cal cost reports have been audited generally through September 30, 2018. The estimated net settlement payables were \$412,000 and \$430,000 at September 30 and 2019, respectively. Adjustments pertaining to prior-year cost reports resulted in additional revenue of \$5,496,000 and \$(454,000) at September 30, 2020 and 2019, respectively.

Commercial: Inpatient and outpatient services provided to patients covered under commercial insurance policies are paid using a variety of payment methodologies based on contractual agreements. The transaction price for commercial payors is reduced by explicit contractual adjustments, and implicit price concessions based on collection history with this portfolio of patients.

Other: Inpatient and outpatient services provided to patients not covered by third-party payors are paid based on Sharp's policies and the patient's ability to pay. Sharp reduces the transaction price by implicit price concessions to uninsured patients and patients with uninsured balances, such as copays and deductibles. The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts Sharp expects to collect based on its collection history with this portfolio of patients. Subsequent changes to the estimates are considered variable consideration and are included in patient service revenue when information becomes available.

As part of its patient service revenue analysis, Sharp examines the fluctuations in payor and entity type as each factor represents a varying degree of uncertainty regarding the nature, timing and extent of payments.

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

4. Net Patient Service Revenues (continued)

The composition of patient service revenues by payor is as follows:

	Year Ended September 30	
	2020	2019
	<i>(In Thousands)</i>	
Medicare	\$ 585,316	\$ 585,147
Medi-Cal	436,265	416,797
Commercial	1,005,950	1,051,490
Other	9,532	12,767
Total	\$ 2,037,063	\$ 2,066,201

The composition of patient service revenues by entity type is as follows:

	Year Ended September 30	
	2020	2019
	<i>(In Thousands)</i>	
Hospital	\$ 1,809,064	\$ 1,813,876
Medical Foundation	172,654	196,484
Other	62,773	62,099
Eliminations	(7,428)	(6,258)
Total	\$ 2,037,063	\$ 2,066,201

Provider Tax Revenue

California legislation established a program (the program) that imposes a fee (provider tax expense) on certain general acute care hospitals in order to make supplemental and grant payments (provider tax revenues) to hospitals serving the Medi-Cal population. Some of these payments will be made directly by the state, while others will be made by the Medi-Cal managed care plans, which will receive increased rates from the state. Outside of this legislation, the California Hospital Association has created a private program, operated by the California Health Foundation and Trust (CHFT), which was established to alleviate disparities potentially resulting from the implementation of the program. Private hospitals that are profitable under the program contribute pledge amounts (Pledge Fee) to CHFT. These funds are used to provide grants to hospitals that may not be profitable under the Program.

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

4. Net Patient Service Revenues (continued)

Sharp recognizes revenue over the period to which the program relates as long as collection is probable and estimable. Collection is deemed probable and estimable once the model has been published and the tax waiver, which establishes the program, has been approved by CMS.

CMS approval of a new program cycle at the expiration of the prior cycle ending July 1, 2019 was delayed. As a result, Sharp recognized a catch up for the program in fiscal 2020 related to the period July 1, 2019 to September 30, 2019 upon CMS approval in February 2020. The new program cycle will span 30 months, covering the period July 1, 2019 to December 31, 2021.

The program activity is included on the consolidated statements of operations and consolidated balance sheets as of and for the year ended September 30:

	2020	2019
	<i>(In Thousands)</i>	
Provider tax revenue	\$ 337,975	\$ 189,841
Provider tax expense	(184,470)	(100,809)
Income from operations from provider tax	\$ 153,505	\$ 89,032
Accounts receivable, net	\$ 247,247	\$ 116,068
Other assets	66,507	68,033
Accounts payable and accrued liabilities	104,756	34,578
Long-term liabilities	25,368	9,510

Premium Revenues

Sharp's premium revenue is reported at an amount that reflects the consideration to which Sharp expects to be paid.

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

4. Net Patient Service Revenues (continued)

The composition of premium revenues based on Sharp's entity type is as follows:

	Year Ended September 30	
	2020	2019
	<i>(In Thousands)</i>	
Hospital	\$ 622,487	\$ 599,219
Medical Foundation	486,829	476,582
Insurance	842,212	786,117
Eliminations	(416,657)	(383,780)
Total	<u>\$ 1,534,871</u>	<u>\$ 1,478,138</u>

5. Investment Income

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

	Year Ended September 30	
	2020	2019
	<i>(In Thousands)</i>	
Interest income	\$ 73,147	\$ 74,165
Unrealized gains, net	196,141	50,635
Realized gains, net	8,466	7,020
Total	<u>\$ 277,754</u>	<u>\$ 131,820</u>

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

6. Property and Equipment

Property and equipment, net consist of the following:

	September 30	
	2020	2019
	<i>(In Thousands)</i>	
Land and improvements	\$ 133,165	\$ 112,627
Buildings and improvements	2,099,061	1,740,976
Equipment and furniture	590,503	535,662
Software cost	153,424	147,250
Construction-in-progress	170,233	359,366
Subtotal	3,146,386	2,895,881
Less accumulated depreciation and amortization	(1,446,366)	(1,352,691)
Total	\$ 1,700,020	\$ 1,543,190

Depreciation and amortization expense for the years ended September 30, 2020 and 2019, amounted to \$129,539,000 and \$124,806,000, respectively. Included in these amounts is amortization and depreciation for buildings and equipment under financing and capital lease obligations. Upon adoption of ASU 2016-02, *Leases*, on October 1, 2019, Sharp derecognized assets under capital leases and related liabilities and also recognized certain right-of-use assets under finance leases and related liabilities (see Note 1, Recently Adopted Accounting Standards). Included in Property and Equipment, Sharp had \$27,095,000 of buildings and equipment under finance leases at September 30, 2020 and \$71,685,000 of buildings and equipment under capital leases at September 30, 2019, at cost. Accumulated amortization for buildings and equipment under finance leases was \$9,387,000 at September 30, 2020 and accumulated depreciation for buildings and equipment under capital leases was \$34,595,000 at September 30, 2019. Sharp recorded amortization of \$3,795,000 in year ending September 30, 2020 relating to buildings and equipment under finance leases and recorded depreciation of \$4,565,000 in year ending September 30, 2019 relating to buildings and equipment under capital leases. Sharp has outstanding commitments to complete construction-in-progress totaling \$64,976,000 at September 30, 2020.

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

6. 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 provided for an original 30-year term ending May 29, 2021, at \$1 per year. In 2014, the lease was extended for an additional 30-year term ending on May 29, 2051. 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 being funded using the proceeds of general obligation (GO) bonds. In July 2007 and February 2011, \$85,500,000 and \$136,860,000, respectively, in GO bonds were issued by the District. In May 2015, \$24,500,000 in GO bonds were issued by the District, which was the third and final series of GO bonds. 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 consolidated 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 year ending September 30, 2019, the Hospital recorded \$3,841,000 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; in the year ended September 30, 2020, there was no related transfers of net assets for the GO bonds.

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

7. Debt and Finance Lease Obligations

Long-Term Debt

Long-term debt consists of the following:

	September 30	
	2020	2019
	<i>(In Thousands)</i>	
Long-term borrowings		
Fixed rate debt – revenue bonds (collateralized by the obligated group) ⁽¹⁾ :		
Series 2011a ⁽²⁾ ; interest payable semiannually (rates range 5.00% to 6.00%)	\$ 54,490	\$ 54,735
Series 2012a ⁽³⁾ ; interest payable semiannually (rates range 4.00% to 5.00%)	34,365	37,855
Series 2014a ⁽⁴⁾ ; interest payable semiannually (rates range 4.50% to 5.00%)	147,685	151,790
Series 2017a ⁽⁵⁾ ; interest payable semiannually (rates range 3.00% to 5.00%)	141,840	141,840
Total fixed rate debt	378,380	386,220
Variable rate debt – revenue bonds:		
Series 2009A ⁽⁶⁾ ; Interest payable monthly (variable rate, 0.12% at September 30, 2020)	17,410	21,625
Series 2009C and Series 2009D ⁽⁷⁾ ; Interest payable monthly (variable rate, 0.12% at September 30, 2020)	99,880	99,880
Series 2010A ⁽⁸⁾ ; Interest payable quarterly (variable rate, 0.52% at September 30, 2020)	21,170	22,190
Series 2017B and Series C ⁽⁹⁾ ; Interest payable monthly (variable rate, 0.11% at September 30, 2020)	149,075	149,075
Total variable rate debt	287,535	292,770
Other:		
Reverse repurchase agreement collateralized by U.S. Treasury securities; interest payable quarterly (variable rate, 0.67% at September 30, 2020)	–	15,500
Finance lease obligations; interest payable monthly and quarterly (rates range 0.91% to 6.00%)	6,546	35,964
Total other debt	6,546	51,464
Total long-term debt	672,461	730,454
Less current portion	(15,979)	(17,958)
Unamortized debt issuance costs	(4,478)	(4,839)
Unamortized premiums, net	21,056	22,297
Total debt, net of current portion	\$ 673,060	\$ 729,954

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

7. Debt and Finance Lease Obligations (continued)

- (1) Revenue Bond collateralized by revenues of the Obligated Group
- (2) Principal due in annual amounts ranging from \$3,435,000 in 2022 to \$8,180,000 in 2030. The bonds include issuer call features totaling \$54,490,000 in 2021.
- (3) Principal due in annual amounts ranging from \$3,630,000 in 2021 to \$5,055,000 in 2028. The bonds include issuer call features totaling \$30,735,000 in 2022.
- (4) Principal due in annual amounts ranging from \$7,565,000 in 2021 to \$32,300,000 in 2043. The bonds include issuer call features totaling \$140,120,000 in 2023.
- (5) Principal due in annual amounts ranging from \$1,640,000 in 2031 to \$34,030,000 in 2047. The bonds include issuer call features totaling \$141,840,000 in 2028.
- (6) Principal due in annual amounts ranging from \$1,855,000 in 2021 to \$5,360,000 in 2024.
- (7) Principal is due in annual amounts ranging from \$145,000 in 2022 to \$11,805,000 in 2035.
- (8) Collateralized by revenues of the Obligated Group. Principal is due in quarterly amounts ranging from \$265,000 to \$450,000 through 2035.
- (9) Principal is due in annual amounts ranging from \$1,455,000 in 2022 to \$10,380,000 in 2052.

Scheduled principal payments on long-term debt and payments on finance lease obligations for years ending September 30 are as follows:

	Long-Term Debt	Finance Lease Obligations
	<i>(In Thousands)</i>	
2021	\$ 14,110	\$ 1,869
2022	14,910	884
2023	16,015	2,872
2024	16,910	616
2025	18,085	305
Thereafter	585,885	—
Total	\$ 665,915	\$ 6,546

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

7. Debt and Finance Lease Obligations (continued)

Scheduled interest payments Sharp is obligated to make on finance lease obligations referenced in the table noted above total to \$362,000.

A summary of interest cost on borrowed funds follows:

	Year Ended September 30	
	2020	2019
	<i>(In Thousands)</i>	
Interest cost:		
Capitalized	\$ 3,850	\$ 7,121
Charged to operations ⁽¹⁾	20,770	19,566
Total	<u>\$ 24,620</u>	<u>\$ 26,687</u>

⁽¹⁾Charged to operations refers to the interest line item on the consolidated statement of operations

See Note 13, Subsequent Events, for additional long-term debt activity.

Interest Rate Swaps

Sharp has multiple interest rate swaps to manage its exposure to fluctuations in interest rates on variable rate debt. Sharp recognizes all derivatives in its consolidated balance sheets at fair value, with changes in fair value recorded in the consolidated statements of operations. For the years ended September 30, 2020 and 2019, \$6,192,000 and \$12,553,000 losses were recognized in other non-operating income on the consolidated statement of operations, respectively.

During 2020, Sharp entered into a forward-starting floating-to-fixed rate swap with a bank. The swap arrangement hedges a notional amount of \$146,155,000. Sharp pays a fixed rate of 0.83% for the entire swap term and receives 80% of Federal Funds. The swap expires on August 1, 2054.

During 2020, Sharp entered into a variable basis swap with a bank. The swap arrangement hedges a notional amount of \$80,000,000. Sharp pays the Securities Industry and Financial Markets Association Municipal Swap Index for the entire swap term and receives 106.5% of one-month LIBOR minus 0.08%. The swap expires on June 1, 2040.

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

7. Debt and Finance Lease Obligations (continued)

During 2018, Sharp entered into a fixed-spread yield curve swap with a bank. The swap arrangement hedges an initial notional amount of \$80,000,000. Sharp pays 67% of one-month LIBOR and receives 67% of ten-year International Swaps and Derivative Association less 0.375% for the entire swap term, which expires on February 2, 2034.

During 2016, Sharp entered into a floating-to-fixed interest rate swap on the Series 2003A and B Bonds that were refunded in 2009. The swap agreement hedges an initial notional amount of \$50,175,000. Sharp receives at a fixed payor rate of 3.01% for the entire swap term and pays 59% of the one-month LIBOR plus 0.14%. The swap expires on August 1, 2024.

During 2016, Sharp entered into a forward-starting floating-to-fixed interest rate on the Series 2009B Bonds that were refunded in 2018. The forward swap replaced fixed rates for the 2009B Bonds ranging from 6.00% to 6.25% with synthetic fixed rate debt. The swap agreement hedges an initial notional amount of \$99,075,000. Sharp pays a fixed rate of 1.51% for the entire swap term and receives 67% of one-month LIBOR. The swap expires on August 1, 2039.

During 2014, Sharp entered into a fixed-spread basis swap with a bank. The swap arrangement hedges an initial notional amount of \$80,000,000. Sharp pays the Securities Industry and Financial Markets Association Municipal Swap Index for the entire swap term and receives 67% of one-month LIBOR plus 0.733%. The swap expires on February 2, 2034.

Short-Term Debt

In 2005, Grossmont Hospital Corporation executed a Reverse Repurchase Agreement in the amount of \$15.5 million to acquire Grossmont Medical Plaza. Interest-only payments are made quarterly with a variable interest rate of 0.67% at September 30, 2020. The agreement is fully secured and collateralized by U.S. Treasury securities. The principal is due in April 2021.

On June 25, 2020, Sharp executed a 364-day, \$106.0 million term loan with an interest rate of 1.95% to finance the purchase of medical office buildings.

See Note 13, Subsequent Events, for pay off of short-term debt in October 2020.

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

7. Debt and Finance Lease Obligations (continued)

Credit Facilities

Sharp had a \$50,000,000 line of credit as of September 30, 2019, of which \$29,399,000 was available at September 30, 2019. Effective September 1, 2020 Sharp reduced the line of credit to \$25,000,000 which expires on September 1, 2021, of which \$7,017,000 was available at September 30, 2020. 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 \$17,983,000 and \$20,601,000 as of September 30, 2020 and 2019, respectively. These letters of credit are each considered a decrease in the available line of credit with the bank. There were no amounts outstanding as of September 30, 2020 or 2019.

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 April 2022. The letter of credit used as collateral totaled \$17,610,000 and \$21,874,000 at September 30, 2020 and 2019, respectively.

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 December 2020. The letters of credit used as collateral totaled \$101,391,000 and \$101,391,000 at September 30, 2020 and 2019, respectively.

Sharp has a bank liquidity facility to provide credit enhancement and liquidity support for the \$149,075,000 of Series 2017B and C Bonds. The bank liquidity facility was executed in December 2017 by a bank letter of credit that expires in December 2021. The letters of credit used as collateral totaled \$151,967,000 and \$151,967,000 at September 30, 2020 and 2019, respectively.

SHP has a bank credit facility that provides for the issuance of up to an aggregate of \$2,400,000 at September 30, 2020 and 2019, under letters of credit. Such letters of credit are under irrevocable standby letters of credit. At September 30, 2020 and 2019, none of these letters have been drawn upon.

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

8. Net Assets and Contributions

Net assets with donor restrictions are available for the following purposes:

	September 30	
	2020	2019
	<i>(In Thousands)</i>	
Hospital programs	\$ 24,840	\$ 21,963
Hospital department	23,576	20,544
Health education	7,277	8,052
Research	6,600	6,597
Purchase of capital assets	4,644	2,130
Indigent care	556	834
Total	67,493	60,120
Subject to passage of time	17,892	16,265
Subject to donor restrictions in conjunction with Sharp spending policy:		
Investment in perpetuity – endowment	9,203	9,038
Total	\$ 94,588	\$ 85,423

Net assets with restrictions of \$9,203,000 and \$9,038,000 at September 30, 2020 and 2019, respectively, represent investments to be held in perpetuity, the income from which is expendable to support health care services.

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

8. Net Assets and Contributions (continued)

From time to time, the Board will designate certain unrestricted funds to be used in the future for specific projects. Board-designated funds included in net assets without donor restrictions were maintained for the following purposes:

	September 30	
	2020	2019
	<i>(In Thousands)</i>	
Hospital departments	\$ 4,250	\$ 3,808
Hospital programs	1,258	1,130
Research	623	451
Health education	355	357
Purchase of capital assets	33	30
Indigent care	10	7
Total	<u>\$ 6,529</u>	<u>\$ 5,783</u>

As of September 30, 2020, Sharp's pledges receivable, which is included in other receivables and other non-current assets, consisted of the following unconditional promises to give:

	Amount
	<i>(In Thousands)</i>
Pledges due in 2021	\$ 3,258
Pledges due in 2022-2025	6,410
Pledges due after 2025	15,121
Less: Discount on pledges receivable	<u>(6,897)</u>
Total	<u>\$ 17,892</u>

Endowments

Sharp's endowments consist of 57 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. 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.

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

8. Net Assets and Contributions (continued)

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 net assets with donor restriction (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. 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 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 fair value.

If the fair market value of assets associated with individual endowment funds fall below the corpus, Sharp management assesses facts and circumstances to determine whether to suspend appropriation activities until the corpus has recovered or to continue to withdraw funds in compliance with UPMIFA in order to fund critical initiatives. Deficiencies of this nature reported in Net assets with donor restrictions were a result of unfavorable investment market fluctuations and were not material as of September 30, 2020 and 2019.

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

8. Net Assets and Contributions (continued)

The endowment net asset composition by fund type was as follows:

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
<i>(In Thousands)</i>			
September 30, 2020			
Board-designated endowment funds	\$ 6,232	\$ 4,134	\$ 10,366
Donor-restricted endowment funds	–	17,062	17,062
Total funds	<u>\$ 6,232</u>	<u>\$ 21,196</u>	<u>\$ 27,428</u>
September 30, 2019			
Board-designated endowment funds	\$ 4,925	\$ 3,813	\$ 8,738
Donor-restricted endowment funds	–	16,094	16,094
Total funds	<u>\$ 4,925</u>	<u>\$ 19,907</u>	<u>\$ 24,832</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 Consolidated Financial Statements (continued)

8. Net Assets and Contributions (continued)

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
<i>(In Thousands)</i>			
Endowment net assets, September 30, 2018	\$ 4,572	\$ 19,318	\$ 23,890
Investment return:			
Investment income	248	268	516
Net appreciation (realized and unrealized)	137	165	302
Total investment return	385	433	818
Contributions	–	225	225
Appropriation of endowment assets for expenditure	(32)	(69)	(101)
Endowment net assets, September 30, 2019	4,925	19,907	24,832
Investment return:			
Investment income	266	390	656
Net appreciation (realized and unrealized)	1,160	186	1,346
Total investment return	1,426	576	2,002
Contributions	–	1,017	1,017
Appropriation of endowment assets for expenditure	(119)	(304)	(423)
Endowment net assets, September 30, 2020	\$ 6,232	\$ 21,196	\$ 27,428

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

9. Functional Expenses

Sharp provides general health care services to residents within its geographic locations. Expenses related to providing these services in the year ended September 30, 2020, are as follows:

	Patient Services	General and Administrative	Purchased Services Under Capitated Agreements	Total
<i>(In Thousands)</i>				
Salaries and wages	\$ 1,283,909	\$ 212,196	\$ –	\$ 1,496,105
Employee benefits	327,423	53,417	–	380,840
Medical fees	600,367	986	66,346	667,699
Purchased services	191,538	66,218	153,292	411,048
Supplies	441,541	14,144	–	455,685
Provider tax	184,470	–	–	184,470
Maintenance, utilities, and rentals	118,818	25,461	–	144,279
Depreciation and amortization	115,174	14,365	–	129,539
Business insurance	15,156	2,305	–	17,461
Interest	19,804	966	–	20,770
Other	40,283	14,832	–	55,115
Total	\$ 3,338,483	\$ 404,890	\$ 219,638	\$ 3,963,011

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

9. Functional Expenses (continued)

Expenses related to providing these services in the year ended September 30, 2019, were as follows:

	Patient Services	General and Administrative	Purchased Services Under Capitated Agreements	Total
<i>(In Thousands)</i>				
Salaries and wages	\$ 1,219,876	\$ 195,042	\$ —	\$ 1,414,918
Employee benefits	303,829	49,152	—	352,981
Medical fees	586,041	1,907	44,331	632,279
Purchased services	182,707	53,676	148,820	385,203
Supplies	443,651	15,934	—	459,585
Provider tax	100,809	—	—	100,809
Maintenance, utilities, and rentals	110,435	24,561	—	134,996
Depreciation and amortization	110,755	14,051	—	124,806
Business insurance	11,140	2,379	—	13,519
Interest	18,445	1,121	—	19,566
Other	33,399	17,177	—	50,576
Total	\$ 3,121,087	\$ 375,000	\$ 193,151	\$ 3,689,238

The financial statements report certain expense categories that are attributable to more than one healthcare service or support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, including depreciation, amortization, interest, and other occupancy costs, are allocated to a functional region based on a square-footage or units-of-service basis. Allocated healthcare services costs not allocated on a units-of-service basis are otherwise allocated based on revenue.

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

10. Pension Plans

Sharp sponsors a voluntary retirement plan (the Plan), which consists of defined benefit cash balance plans and a defined contribution plan. Under the defined benefit cash balance plans, Sharp made contributions of \$26,267,000 and \$29,520,000 in 2020 and 2019, respectively.

The following sets forth the funded status of Sharp's defined benefit pension plans:

	September 30	
	2020	2019
	<i>(In Thousands)</i>	
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 607,537	\$ 491,438
Service cost	31,078	23,839
Interest cost	17,387	19,309
Actuarial loss	136,192	90,126
Plan participant contributions	10,615	9,715
Benefits paid	<u>(27,722)</u>	<u>(26,890)</u>
Benefit obligation at end of year	775,087	607,537
Change in plan assets:		
Fair value of plan assets at beginning of year	554,596	487,783
Actual gain on plan assets	71,909	54,468
Plan participant contributions	10,615	9,715
Employer contributions	26,267	29,520
Benefits paid	<u>(27,722)</u>	<u>(26,890)</u>
Fair value of plan assets at end of year	<u>635,665</u>	<u>554,596</u>
Funded status	<u>\$ (139,422)</u>	<u>\$ (52,941)</u>

The accumulated benefit obligation was \$740,375,000 and \$577,861,000 as of September 30, 2020 and 2019, respectively.

The net liabilities at September 30, 2020 and 2019, are included on the consolidated balance sheet in long-term liabilities.

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

10. Pension Plans (continued)

Included in unrestricted net assets without donor restriction are the following amounts that have not yet been recognized in net periodic pension cost:

	Year Ended September 30	
	2020	2019
	<i>(In Thousands)</i>	
Net actuarial loss	\$ 264,356	\$ 177,109
Total	\$ 264,356	\$ 177,109

Net periodic pension cost includes the following components:

	Year Ended September 30	
	2020	2019
	<i>(In Thousands)</i>	
Employee benefits:		
Service cost	\$ 31,078	\$ 23,839
Other nonoperating gain:		
Interest cost	17,387	19,309
Expected return on plan assets	(34,546)	(30,378)
Recognized net actuarial loss	11,582	5,931
Net periodic pension cost	\$ 25,501	\$ 18,701

Weighted average assumptions used to determine benefit obligations were as follows:

	September 30	
	2020	2019
Discount rate	2.86%	3.31%
Rate of compensation increase	3.00	3.00

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

10. Pension Plans (continued)

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

	September 30	
	2020	2019
Discount rate	3.31%	4.33%
Expected return on plan assets, net of expenses	6.25	6.25
Rate of compensation increase	3.00	3.00

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.

The estimated net actuarial loss for the defined benefit pension plans that will be amortized from net assets into net periodic pension cost during the 2021 fiscal year is \$17,408,000.

Plan Assets

The Plan's assets are invested in an institutional trust company commingled employee benefit plan trust (Commingled Plan Trust). The Plan's asset allocation utilizes a long-range asset allocation strategy. The target asset allocation gradually shifts as the funded ratio increases from an initial mix of 52% equity securities and 48% fixed income when the Plan's funded ratio is less than 100% to an ultimate target of 46% equity securities and 54% fixed income when the Plan's funded ratio reaches 110%.

As of September 30, based on the Plan's funded ratio, the Plan's allocation of investments in the Commingled Plan Trust was as follows:

	2020	2019
Asset category:		
Equity securities	53%	50%
Fixed income	47	50
Total	100%	100%

Sharp HealthCare

Notes to Consolidated 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 measured at fair value are grouped in three levels, based on the markets in which the assets are traded and the reliability of the assumptions used to estimate fair value. These levels and associated valuation methodologies are described in Note 3. All of the Plan's investments in the Commingled Plan Trust are measured using net asset value in accordance with the practical expedient offered by ASU 2015-07 as of September 30, 2020 and 2019.

Contributions

Sharp expects to contribute \$32,700,000 to the Plan in 2021.

Estimated Future Benefit Payments

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

	<u>Amount</u> <i>(In Thousands)</i>
2021	\$ 33,871
2022	35,439
2023	36,927
2024	40,582
2025	46,300
2026–2030	216,800

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

11. Long-Term Liabilities

Long-term liabilities consist of the following:

	September 30	
	2020	2019
	<i>(In Thousands)</i>	
Defined benefit pension plan unfunded liability	\$ 139,422	\$ 52,941
Workers' compensation	49,966	45,595
Deferred income	6,659	27,890
Provider tax payable	25,368	9,510
Swap payable	10,979	4,788
Other	9,172	9,236
Total	<u>\$ 241,566</u>	<u>\$ 149,960</u>

12. Commitments and Contingencies

Leases

Sharp HealthCare enters into operating and finance leases primarily for buildings and equipment and determines if an arrangement is a lease at inception of the contract. Sharp records the related right-of-use asset (ROU) and lease liability at the present value of lease payments over the contract term using the risk-free interest rate for leases with terms greater than 12 months, subject to certain adjustments. For certain building lease agreements, Sharp pays common area maintenance (CAM), repairs, property taxes, insurance costs, and other miscellaneous expenses that are variable amounts based on actual costs incurred during each applicable period. For Sharp's equipment leases, sales tax is considered variable, as well as rent payments that are not fixed or based on a known index or rate. Lease costs also include escalating rent payments that are not fixed at commencement but are based on the Consumer Price Index or other measure of cost inflation. Future changes in the indices are included within variable lease costs. Such costs are not included in the determination of the ROU asset or lease liability. Certain leases include one or more options to renew the lease at the end of the initial term, with renewal terms that generally extend the lease at the then market rate of rental payment. Certain leases also include an option to buy the

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

12. Commitments and Contingencies (continued)

underlying asset at a short time prior to the termination of the lease. All such options are at Sharp's discretion and are evaluated at the commencement date of the lease, for all new leases after the date of transition, or upon a triggering event as needed. Only those options that are deemed reasonably certain of exercise are included in determining the appropriate lease term and lease type.

The table below summarizes the components of lease cost by lease type for the periods ending September 30, 2020, and 2019, followed by disclosure of weighted average remaining lease term and weighted average discount rate by type. Operating leases expire at various dates through 2041. Total rental expense in 2020 and 2019 for all operating leases was \$37,505,000 and \$33,774,000, respectively.

	Year Ended September 30, 2020 <i>(In Thousands)</i>
Finance lease cost:	
Amortization of right-of-use asset	\$ 3,795
Interest on lease liabilities	1,388
Operating lease cost	21,984
Short-term lease cost	8,785
Variable lease cost	6,736
Sublease income	(2)
Total lease cost	\$ 42,686
Weighted-Average remaining lease term-finance leases (years)	6.83
Weighted-Average remaining lease term-operating leases (years)	28.69
Weighted-Average discount rate-finance leases	2.9%
Weighted-Average discount rate-operating leases	1.9%

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

12. Commitments and Contingencies (continued)

The following table reconciles the undiscounted cash flows to the finance lease liabilities and operating lease liabilities recorded on the balance sheet at September 30, 2020:

	Operating Leases	Finance Leases
	<i>(In Thousands)</i>	
2021	\$ 19,801	\$ 2,033
2022	19,102	1,030
2023	18,220	2,921
2024	16,594	619
2025	15,364	304
Thereafter	148,159	—
Total minimum lease payments	237,240	6,907
Less: interest portion of lease payments	(56,164)	(361)
Present value of future minimum lease payments	181,076	6,546
Less: current obligations under leases	(17,358)	(1,869)
Long-term lease obligations	\$ 163,718	\$ 4,677

Commitments

Effective October 1, 2018, Sharp entered into a strategic information technology agreement to purchase a suite of software subscriptions, support, and services. The agreement is effective through 2026 and Sharp will make quarterly payments over the term of the agreement. The original commitment totaled \$145,064,000, with 2020 purchases totaling \$18,117,000. As of September 30, 2020, the remaining contracted commitment expected to be paid as follows:

	Amount
	<i>(In Thousands)</i>
2021	\$ 18,101
2022	19,306
2023	19,018
2024	18,678
2025	16,731
Thereafter	19,405
Total	\$ 111,239

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

12. Commitments and Contingencies (continued)

Legal Matters

The health care industry is subject to numerous complex federal, state and local laws and regulations. These laws and regulations are subject to ongoing government review, interpretations and regulatory actions, and include matters such as licensure, accreditation, controlled substances, privacy, government program participation, government reimbursement for patient services, antitrust, anti-kickback, prohibited referrals by physicians, false claims, and, in the case of tax exempt organizations, the requirements for tax exemption. Compliance with these laws and regulations is required for participation in government health care programs. Government continues to increase the activities with respect to investigations and allegations concerning possible violations of laws and regulations by health care providers, some of which could result in the imposition of significant civil and/or criminal fines and/or penalties, repayment of previously billed and collected revenues for patient services, and exclusion from Medicare, Medi-Cal or other government programs.

In addition to the regulatory matters described above, in the normal course of business, Sharp is involved in legal proceedings. Management assesses the probable outcome of unresolved litigation or investigations, and accrues a contingent 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 loss contingency might include, for example, estimates of potential damages, interest penalties, and other directly related costs expected to be incurred. As of September 30, 2020, and 2019, there were no material losses recorded for probable legal liabilities.

In January 2017, a class action complaint was filed in the Superior Court of California for the County of San Diego against Sharp HealthCare and Sharp Grossmont Hospital, seeking damages associated with alleged privacy violations in connection with video recordings conducted in operating rooms at Sharp Grossmont Hospital's Women's Center as part of an investigation into missing drugs and equipment. In March 2018, the Superior Court determined not to grant class certification for the action, although the issue remains outstanding. Since then, a number of individual lawsuits on behalf of approximately 450 women have been filed that mirror the allegations in the original class action lawsuit. While the timing and outcome of these cases remains uncertain, and Sharp HealthCare and Sharp Grossmont Hospital continue the vigorous defense of these actions, there can be no assurance that the final resolution of these matters against Sharp HealthCare and Sharp Grossmont Hospital will not have a material effect on the consolidated financial statements of Sharp HealthCare.

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

12. Commitments and Contingencies (continued)

Sharp has been served with a lawsuit seeking class action status on behalf of non-exempt employees of the Corporation and Sharp Memorial alleging wage and hour law violations. The Members of the Obligated Group believe they comply with applicable wage and hour laws and are vigorously defending the lawsuit. The lawsuit is new and the claims are under investigation. If there is ultimately an adverse decision against the Corporation, such adverse decision could be material.

Labor Matters

Not-for-profit health care providers and their employees are under the jurisdiction of the National Labor Relations Board. As of September 30, 2020, 26.1% of Sharp employees were represented by unions. Such unionized employees are represented by the Sharp Professional Nurses Network/United Nurses Association of California. The collective bargaining agreement with the union expires in 2022.

Professional Liability

CQI SPC is a wholly owned captive insurance company that 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. As of September 30, 2020 and 2019, Sharp's liability was limited in the aggregate each year to \$25,000,000 and \$16,000,000, respectively. Sharp has obtained excess loss insurance covering claims above these amounts up to \$40,000,000. CQI SPC also provides professional and general liability insurance to the physicians employed by Sharp Rees-Stealy Medical Group and SharpCare Medical Group with per claim coverage of \$1,000,000 and a \$3,000,000 annual aggregate.

Professional and general liability costs have been accrued based upon an actuarial determination. Accrued malpractice losses have been discounted at 3.0% at September 30, 2020 and 2019. The current portion of professional liability costs is included in accounts payable and accrued liabilities on the consolidated balance sheets.

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

12. Commitments and Contingencies (continued)

Included on the consolidated balance sheets are the following amounts related to professional and general liability:

	September 30	
	2020	2019
	<i>(In Thousands)</i>	
Reserves for professional and general liabilities	\$ 18,565	\$ 9,649
Accounts payable and accrued liabilities	8,899	11,745
Total	\$ 27,464	\$ 21,394

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, 2020. In management's opinion, however, the estimated liability accrued at September 30, 2020, 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 consolidated 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 \$500,000 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, 2020 and 2019, SHP was required to maintain tangible net equity totaling \$31,390,000 and \$23,870,000, respectively. SHP's tangible net equity was \$134,028,000 and \$110,882,000 at September 30, 2020 and 2019, respectively. Management believes it is in compliance with these requirements at September 30, 2020 and 2019.

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

12. 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 2020 and 2019). 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 have been discounted at 1.0% and 2.4% at September 30, 2020 and 2019, respectively. Workers' compensation liabilities of \$63,777,000 and \$59,768,000 at September 30, 2020 and 2019, respectively, are included in other current liabilities and long-term liabilities on the consolidated balance sheets.

13. Subsequent Events

Debt

In October 2020 Sharp issued Series 2020AB taxable bonds totaling \$340,620,000. Sharp used the proceeds of the Series 2020AB bonds for general corporate purposes, including to refinance all or a portion of the prior debt described as follows.

A portion of the proceeds of the Series 2020AB bonds was used to refund all of the (i) ABAG Finance Authority for Nonprofit Corporations Revenue Bonds (Sharp HealthCare), Series 2011A (\$54.5 million) and most of the (ii) ABAG Finance Authority for Nonprofit Corporations Revenue Bonds (Sharp HealthCare), Series 2012A (\$30.7 million).

Additionally, \$15.5 million of the Series 2020 bond proceeds were used to refinance the Reverse Repurchase Agreement due April 2021. Another \$106.0 million was used to refinance a term loan used to finance the purchase of previously leased medical office buildings located across from SMH.

The remaining \$128.5 million will be used to fund planned capital initiatives at Sharp.

In preparing these consolidated financial statements, management has evaluated and disclosed all material subsequent events up to December 18, 2020, which is the date that the accompanying consolidated financial statements were issued.

Supplementary Information

Sharp HealthCare

Consolidating Balance Sheet
(In Thousands)

September 30, 2020

	Sharp HealthCare	Sharp Memorial Hospital	Sharp Chula Vista Medical Center	Sharp Grossmont Hospital	Sharp Coronado Hospital and HealthCare Center	Sharp Health Plan	Continuous Quality Insurance	Sharp HealthCare Foundation	Grossmont Hospital Foundation	Combined Totals	Eliminations	Totals
Assets												
Current assets:												
Cash and cash equivalents	\$ 300,423	\$ 1,161	\$ 382	\$ 71,035	\$ 124	\$ 95,364	\$ 3,460	\$ 1,617	\$ 12,423	\$ 485,989	\$ -	\$ 485,989
Short-term investments	43,239	-	-	13,457	-	2,585	-	-	-	59,281	-	59,281
Accounts receivable, net	57,588	219,178	102,525	183,419	24,161	39,757	125	2,463	1,235	630,451	(21,772)	608,679
Intercompany receivables	-	2,798,795	190,480	-	45,330	-	-	5,393	263	3,040,261	(3,040,261)	-
Inventories	15,226	18,638	8,511	14,345	2,711	-	-	-	-	59,431	-	59,431
Prepaid expenses and other	38,814	6,806	4,715	5,199	710	3,101	5	28	553	59,931	-	59,931
Total current assets	455,290	3,044,578	306,613	287,455	73,036	140,807	3,590	9,501	14,474	4,335,344	(3,062,033)	1,273,311
Long-term investments	270,133	-	-	12,073	-	88,151	-	-	-	370,357	-	370,357
Assets limited as to use:												
Designated for property	2,321,848	-	-	505,994	-	-	-	-	-	2,827,842	-	2,827,842
Under bond indentures	427	252	9,904	599	-	-	-	-	-	11,182	-	11,182
Other restricted investments	2,406	-	-	-	-	552	-	59,776	16,936	79,670	-	79,670
Under self-insurance programs	-	-	-	-	-	-	12,111	-	-	12,111	-	12,111
Total assets limited as to use	2,324,681	252	9,904	506,593	-	552	12,111	59,776	16,936	2,930,805	-	2,930,805
Property and equipment, net	494,020	404,646	335,722	424,404	40,526	518	-	184	-	1,700,020	-	1,700,020
Leaded assets-operating	115,888	10,956	4,852	9,760	18,638	1,938	-	-	-	162,032	(1,938)	160,094
Other assets	60,546	19,581	20,607	30,358	18,656	289	35,146	44,589	9,419	239,191	(75,294)	163,897
Beneficial interest in foundations	90,274	-	-	40,384	-	-	-	-	-	130,658	(130,658)	-
Total assets	\$ 3,810,832	\$ 3,480,013	\$ 677,698	\$ 1,311,027	\$ 150,856	\$ 232,255	\$ 50,847	\$ 114,050	\$ 40,829	\$ 9,868,407	\$ (3,269,923)	\$ 6,598,484
Liabilities and net assets												
Current liabilities:												
Accounts payable and accrued liabilities	\$ 201,181	\$ 78,155	\$ 46,382	\$ 81,489	\$ 12,569	\$ 89,468	\$ 12,645	\$ 569	\$ 14	\$ 522,472	\$ (21,830)	\$ 500,642
Intercompany payable	3,027,778	-	-	10,821	-	1,513	105	-	-	3,040,217	(3,040,217)	-
Accrued compensation and benefits	65,664	57,230	26,110	40,301	6,553	3,963	-	644	157	200,622	15	200,637
Operating lease obligations	10,669	2,424	906	2,655	704	909	-	-	-	18,267	(909)	17,358
Short-term debt	106,000	-	-	15,500	-	-	-	-	-	121,500	-	121,500
Current portion of long-term debt	430	8,223	3,035	4,248	43	-	-	-	-	15,979	-	15,979
Estimated settlements payable to government programs, net	-	2,612	492	382	(102)	-	-	-	-	3,384	-	3,384
Accrued interest	212	1,769	899	434	-	-	-	-	-	3,314	-	3,314
Total current liabilities	3,411,934	150,413	77,824	155,830	19,767	95,853	12,750	1,213	171	3,925,755	(3,062,941)	862,814
Long-term liabilities	137,103	57,140	20,373	47,658	3,919	1,215	23,993	22,563	277	314,241	(72,675)	241,566
Reserves for professional and general liabilities	6,500	-	-	-	-	-	12,065	-	-	18,565	-	18,565
Long-term debt	33,499	314,050	268,742	56,614	155	-	-	-	-	673,060	-	673,060
Operating lease obligations	124,938	8,650	3,995	7,845	18,159	1,160	-	-	-	164,747	(1,029)	163,718
Total liabilities	3,713,974	530,253	370,934	267,947	42,000	98,228	48,808	23,776	448	5,096,368	(3,136,645)	1,959,723
Net assets:												
Without donor restrictions	21,154	2,949,760	306,764	1,016,089	110,962	134,027	2,039	14,569	13,392	4,568,756	(24,583)	4,544,173
With donor restrictions	75,704	-	-	26,991	(2,106)	-	-	75,705	26,989	203,283	(108,695)	94,588
Total net assets	96,858	2,949,760	306,764	1,043,080	108,856	134,027	2,039	90,274	40,381	4,772,039	(133,278)	4,638,761
Total liabilities and net assets	\$ 3,810,832	\$ 3,480,013	\$ 677,698	\$ 1,311,027	\$ 150,856	\$ 232,255	\$ 50,847	\$ 114,050	\$ 40,829	\$ 9,868,407	\$ (3,269,923)	\$ 6,598,484

Sharp HealthCare

Consolidating Statement of Operations
(In Thousands)

Year Ended September 30, 2020

	Sharp HealthCare	Sharp Memorial Hospital	Sharp Chula Vista Medical Center	Sharp Grossmont Hospital	Sharp Coronado Hospital and HealthCare Center	Sharp Health Plan	Continuous Quality Insurance	Sharp HealthCare Foundation	Grossmont Hospital Foundation	Combined Totals	Eliminations	Totals
Revenues:												
Patient service	\$ 172,787	\$ 1,153,664	\$ 371,032	\$ 661,882	\$ 99,178	\$ -	\$ -	\$ -	\$ -	\$ 2,458,543	\$ (421,480)	\$ 2,037,063
Provider tax	-	124,470	69,797	125,595	18,113	-	-	-	-	337,975	-	337,975
Net patient service	172,787	1,278,134	440,829	787,477	117,291	-	-	-	-	2,796,518	(421,480)	2,375,038
Premium	1,109,315	-	-	-	-	842,213	-	-	-	1,951,528	(416,657)	1,534,871
Other	289,585	55,178	47,736	55,687	5,075	68	13,017	-	-	466,346	(225,019)	241,327
Total revenues	1,571,687	1,333,312	488,565	843,164	122,366	842,281	13,017	-	-	5,214,392	(1,063,156)	4,151,236
Expenses:												
Salaries and wages	429,336	459,785	202,105	329,943	52,271	22,665	-	-	-	1,496,105	-	1,496,105
Employee benefits	120,100	115,535	47,502	80,137	12,583	4,983	-	-	-	380,840	-	380,840
Medical fees	349,469	18,474	11,445	15,866	1,668	729,273	-	-	-	1,126,195	(458,496)	667,699
Purchased services	227,332	76,243	36,501	56,356	10,618	32,023	193	-	-	439,266	(28,218)	411,048
Supplies	98,876	170,936	64,494	105,210	15,626	551	-	-	-	455,693	(8)	455,685
Provider tax	-	76,432	35,930	68,942	3,166	-	-	-	-	184,470	-	184,470
Maintenance, utilities and rentals	74,781	32,770	13,127	23,748	5,536	1,363	-	-	-	151,325	(7,046)	144,279
Depreciation and amortization	33,623	45,989	19,561	37,345	4,998	547	5	-	-	142,068	(12,529)	129,539
Business insurance	3,492	6,891	2,497	3,960	665	205	14,164	-	-	31,874	(14,413)	17,461
Interest	2,804	11,455	5,191	2,915	-	5	-	-	-	22,370	(1,600)	20,770
Purchased services from affiliate	402,848	136,276	54,408	90,426	13,059	6,463	146	-	-	703,626	(703,626)	-
Other	15,291	8,230	2,757	4,768	1,110	24,950	9	-	-	57,115	(2,000)	55,115
Total expenses	1,757,952	1,159,016	495,518	819,616	121,300	823,028	14,517	-	-	5,190,947	(1,227,936)	3,963,011
Income (loss) from operations	(186,265)	174,296	(6,953)	23,548	1,066	19,253	(1,500)	-	-	23,445	164,780	188,225
Other non-operating income (loss)	(8,974)	2,647	778	405	222	63	-	(882)	1,842	(3,899)	10,014	6,115
Investment income (loss)	213,267	122,101	45,351	45,261	10,671	8,533	862	3,051	1,451	450,548	(172,794)	277,754
Excess (deficit) of revenues over expenses	18,028	299,044	39,176	69,214	11,959	27,849	(638)	2,169	3,293	470,094	2,000	472,094
Adoption of new accounting pronouncements	(188)	(129)	-	317	-	-	-	-	-	-	-	-
Assets released from restriction used for purchase of property and equipment	-	1,067	871	1,918	-	-	-	-	-	3,856	-	3,856
Transfer to Parent	-	-	-	-	-	(4,000)	-	-	-	(4,000)	4,000	-
Pension related changes other than net periodic pension cost	(24,328)	(27,376)	(9,110)	(24,040)	(2,065)	(704)	-	-	-	(87,623)	-	(87,623)
Other changes in net assets without donor restrictions	2,169	-	-	3,294	3,047	-	-	-	-	8,510	(5,463)	3,047
Increase (decrease) in net assets without restrictions	\$ (4,319)	\$ 272,606	\$ 30,937	\$ 50,703	\$ 12,941	\$ 23,145	\$ (638)	\$ 2,169	\$ 3,293	\$ 390,837	\$ 537	\$ 391,374

Sharp HealthCare

Consolidating Statement of Changes in Net Assets
(In Thousands)

Year Ended September 30, 2020

	Sharp HealthCare	Sharp Memorial Hospital	Sharp Chula Vista Medical Center	Sharp Grossmont Hospital	Sharp Coronado Hospital and HealthCare Center	Sharp Health Plan	Continuous Quality Insurance	Sharp HealthCare Foundation	Grossmont Hospital Foundation	Combined Totals	Eliminations	Totals
Net assets without donor restrictions:												
Excess (deficit) of revenues over expenses	\$ 18,028	\$ 299,044	\$ 39,176	\$ 69,214	\$ 11,959	\$ 27,849	\$ (638)	\$ 2,169	\$ 3,293	\$ 470,094	\$ 2,000	\$ 472,094
Adoption of new accounting pronouncements	(188)	(129)	–	317	–	–	–	–	–	–	–	–
Net assets released from restrictions used for purchase of property and equipment	–	1,067	871	1,918	–	–	–	–	–	3,856	–	3,856
Transfer to Parent	–	–	–	–	–	(4,000)	–	–	–	(4,000)	4,000	–
Pension related changes other than net periodic pension cost	(24,328)	(27,376)	(9,110)	(24,040)	(2,065)	(704)	–	–	–	(87,623)	–	(87,623)
Other changes in net assets without donor restrictions	2,169	–	–	3,294	3,047	–	–	–	–	8,510	(5,463)	3,047
Increase (decrease) in net assets without donor restrictions	(4,319)	272,606	30,937	50,703	12,941	23,145	(638)	2,169	3,293	390,837	537	391,374
Net assets with donor restrictions:												
Contributions	–	–	–	–	–	–	–	17,908	5,664	23,572	(6,000)	17,572
Investment income	–	–	–	–	–	–	–	539	73	612	–	612
Change in net unrealized gains (losses) on other than trading securities	–	–	–	–	–	–	–	835	182	1,017	–	1,017
Net assets released from restrictions	–	–	–	–	–	–	–	(8,667)	(4,412)	(13,079)	–	(13,079)
Other changes in net assets with donor restrictions	10,613	–	–	1,509	3,043	–	–	–	–	15,165	(12,122)	3,043
Increase in net assets with donor restrictions	10,613	–	–	1,509	3,043	–	–	10,615	1,507	27,287	(18,122)	9,165
Increase (decrease) in net assets	6,294	272,606	30,937	52,212	15,984	23,145	(638)	12,784	4,800	418,124	(17,585)	400,539
Net assets, beginning of the year	90,564	2,677,154	275,827	990,868	92,872	110,882	2,677	77,490	35,581	4,353,915	(115,693)	4,238,222
Net assets, end of the year	\$ 96,858	\$ 2,949,760	\$ 306,764	\$ 1,043,080	\$ 108,856	\$ 134,027	\$ 2,039	\$ 90,274	\$ 40,381	\$ 4,772,039	\$ (133,278)	\$ 4,638,761

Sharp HealthCare

Consolidating Balance Sheet – Obligated Group (In Thousands)

September 30, 2020

	Sharp HealthCare	Sharp Memorial Hospital	Sharp Chula Vista Medical Center	Sharp Grossmont Hospital	Combined Totals	Eliminations	Totals
Assets							
Current assets:							
Cash and cash equivalents	\$ 300,423	\$ 1,161	\$ 382	\$ 71,035	\$ 373,001	\$ –	\$ 373,001
Short-term investments	43,239	–	–	13,457	56,696	–	56,696
Accounts receivable, net	57,588	219,178	102,525	183,419	562,710	(2,512)	560,198
Intercompany receivables	–	2,798,795	190,480	–	2,989,275	(2,988,497)	778
Inventories	15,226	18,638	8,511	14,345	56,720	–	56,720
Prepaid expenses and other	38,814	6,806	4,715	5,199	55,534	–	55,534
Total current assets	455,290	3,044,578	306,613	287,455	4,093,936	(2,991,009)	1,102,927
Long-term investments	270,133	–	–	12,073	282,206	–	282,206
Assets limited as to use:							
Designated for property	2,321,848	–	–	505,994	2,827,842	–	2,827,842
Under bond indentures	2,833	252	9,904	599	13,588	–	13,588
Total assets limited as to use	2,324,681	252	9,904	506,593	2,841,430	–	2,841,430
Property and equipment, net	494,020	404,646	335,722	424,404	1,658,792	–	1,658,792
Leased assets-operating	115,888	10,956	4,852	9,760	141,456	–	141,456
Other assets	60,546	19,581	20,607	30,358	131,092	–	131,092
Beneficial interest in foundations	90,274	–	–	40,384	130,658	–	130,658
Total assets	\$ 3,810,832	\$ 3,480,013	\$ 677,698	\$ 1,311,027	\$ 9,279,570	\$ (2,991,009)	\$ 6,288,561

Sharp HealthCare

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

September 30, 2020

	Sharp HealthCare	Sharp Memorial Hospital	Sharp Chula Vista Medical Center	Sharp Grossmont Hospital	Combined Totals	Eliminations	Totals
Liabilities and net assets							
Current liabilities:							
Accounts payable and accrued liabilities	\$ 203,392	\$ 78,155	\$ 46,382	\$ 81,489	\$ 409,418	\$ (2,512)	\$ 406,906
Intercompany payable	3,025,567	–	–	10,821	3,036,388	(2,988,497)	47,891
Accrued compensation and benefits	65,664	57,230	26,110	40,301	189,305	–	189,305
Operating lease obligations	10,669	2,424	906	2,655	16,654	–	16,654
Short-term debt	106,000	–	–	15,500	121,500	–	121,500
Current portion of long-term debt	430	8,223	3,035	4,248	15,936	–	15,936
Estimated settlements payable to government programs, net	–	2,612	492	382	3,486	–	3,486
Accrued interest	212	1,769	899	434	3,314	–	3,314
Total current liabilities	3,411,934	150,413	77,824	155,830	3,796,001	(2,991,009)	804,992
Long-term liabilities	137,103	57,140	20,373	47,658	262,274	–	262,274
Reserves for professional and general liabilities	6,500	–	–	–	6,500	–	6,500
Long-term debt	33,499	314,050	268,742	56,614	672,905	–	672,905
Operating lease obligations	124,938	8,650	3,995	7,845	145,428	–	145,428
Total liabilities	3,713,974	530,253	370,934	267,947	4,883,108	(2,991,009)	1,892,099
Net assets:							
Without donor restrictions	21,154	2,949,760	306,764	1,016,089	4,293,767	–	4,293,767
With donor restrictions	75,704	–	–	26,991	102,695	–	102,695
Total net assets	96,858	2,949,760	306,764	1,043,080	4,396,462	–	4,396,462
Total liabilities and net assets	\$ 3,810,832	\$ 3,480,013	\$ 677,698	\$ 1,311,027	\$ 9,279,570	\$ (2,991,009)	\$ 6,288,561

Sharp HealthCare

Consolidating Statement of Operations – Obligated Group (In Thousands)

Year Ended September 30, 2020

	Sharp HealthCare	Sharp Memorial Hospital	Sharp Chula Vista Medical Center	Sharp Grossmont Hospital	Combined Totals	Eliminations	Totals
Revenues:							
Patient service revenue	\$ 172,787	\$ 1,153,664	\$ 371,032	\$ 661,882	\$ 2,359,365	\$ (390,263)	\$ 1,969,102
Provider tax revenue	–	124,470	69,797	125,595	319,862	–	319,862
Net patient service	172,787	1,278,134	440,829	787,477	2,679,227	(390,263)	2,288,964
Premium	1,109,315	–	–	–	1,109,315	–	1,109,315
Other	289,585	55,178	47,736	55,687	448,186	(187,220)	260,966
Total revenues	1,571,687	1,333,312	488,565	843,164	4,236,728	(577,483)	3,659,245
Expenses:							
Salaries and wages	429,336	459,785	202,105	329,943	1,421,169	–	1,421,169
Employee benefits	120,100	115,535	47,502	80,137	363,274	–	363,274
Medical fees	349,469	18,474	11,445	15,866	395,254	(28,489)	366,765
Purchased services	227,332	76,243	36,501	56,356	396,432	(24,502)	371,930
Supplies	98,876	170,936	64,494	105,210	439,516	(8)	439,508
Provider tax	–	76,432	35,930	68,942	181,304	–	181,304
Maintenance, utilities and rentals	74,781	32,770	13,127	23,748	144,426	(5,924)	138,502
Depreciation and amortization	33,623	45,989	19,561	37,345	136,518	(11,499)	125,019
Business insurance	3,492	6,891	2,497	3,960	16,840	–	16,840
Interest	2,804	11,455	5,191	2,915	22,365	(1,576)	20,789
Purchased services from affiliate	402,848	136,276	54,408	90,426	683,958	(668,500)	15,458
Other	15,291	8,230	2,757	4,768	31,046	–	31,046
Total expenses	1,757,952	1,159,016	495,518	819,616	4,232,102	(740,498)	3,491,604
Income (loss) from operations	(186,265)	174,296	(6,953)	23,548	4,626	163,015	167,641
Other non-operating income (loss)	(8,974)	2,647	778	405	(5,144)	(891)	(6,035)
Investment income	213,267	122,101	45,351	45,261	425,980	(162,124)	263,856
Excess (deficit) of revenues over expenses	18,028	299,044	39,176	69,214	425,462	–	425,462

Sharp HealthCare

Consolidating Statement of Operations – Obligated Group (continued) (In Thousands)

Year Ended September 30, 2020

	Sharp HealthCare	Sharp Memorial Hospital	Sharp Chula Vista Medical Center	Sharp Grossmont Hospital	Combined Totals	Eliminations	Totals
Adoption of new accounting pronouncements	\$ (188)	\$ (129)	\$ –	\$ 317	\$ –	\$ –	–
Net assets released from restrictions used for purchase of property, plant and equipment	–	1,067	871	1,918	3,856	–	3,856
Pension-related changes other than net periodic pension cost	(24,328)	(27,376)	(9,110)	(24,040)	(84,854)	–	(84,854)
Other changes in net assets without donor restrictions	2,169	–	–	3,294	5,463	–	5,463
Increase (decrease) in net assets without donor restrictions	<u>\$ (4,319)</u>	<u>\$ 272,606</u>	<u>\$ 30,937</u>	<u>\$ 50,703</u>	<u>\$ 349,927</u>	<u>\$ –</u>	<u>\$ 349,927</u>

Sharp HealthCare

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

Year Ended September 30, 2020

	Sharp HealthCare	Sharp Memorial Hospital	Sharp Chula Vista Medical Center	Sharp Grossmont Hospital	Combined Totals	Combining Eliminations	Totals
Net assets without donor restrictions:							
Excess (deficit) of revenues over expenses	\$ 18,028	\$ 299,044	\$ 39,176	\$ 69,214	\$ 425,462	\$ –	\$ 425,462
Adoption of new accounting pronouncements	(188)	(129)	–	317	–	–	–
Net assets released from restrictions used for purchase of property and equipment	–	1,067	871	1,918	3,856	–	3,856
Pension-related changes other than net periodic pension cost	(24,328)	(27,376)	(9,110)	(24,040)	(84,854)	–	(84,854)
Other changes in net assets without donor restrictions	2,169	–	–	3,294	5,463	–	5,463
Increase (decrease) in net assets without donor restrictions	(4,319)	272,606	30,937	50,703	349,927	–	349,927
Net assets with donor restrictions:							
Other changes in net assets with donor restrictions	10,613	–	–	1,509	12,122	–	12,122
Increase in net assets with donor restrictions	10,613	–	–	1,509	12,122	–	12,122
Increase (decrease) in net assets	6,294	272,606	30,937	52,212	362,049	–	362,049
Net assets, beginning of the year	90,564	2,677,154	275,827	990,868	4,034,413	–	4,034,413
Net assets, end of the year	\$ 96,858	\$ 2,949,760	\$ 306,764	\$ 1,043,080	\$ 4,396,462	\$ –	\$ 4,396,462

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