

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

Sharp HealthCare
Years Ended September 30, 2021 and 2020
With Report of Independent Auditors

Ernst & Young LLP



Sharp HealthCare

Consolidated Financial Statements and Supplementary Information

Years Ended September 30, 2021 and 2020

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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, 2021 and 2020, 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, 2021 and 2020, 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.

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 17, 2021

Sharp HealthCare

Consolidated Balance Sheets (In Thousands)

	September 30	
	2021	2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 521,699	\$ 485,989
Short-term investments	37,725	59,281
Accounts receivable, net	625,178	608,679
Inventories	62,534	59,431
Prepaid expenses and other	75,730	59,931
Total current assets	1,322,866	1,273,311
Long-term investments	448,081	370,357
Assets limited as to use:		
Designated for property	3,397,108	2,827,842
Under bond indentures	–	11,182
Other restricted investments	107,496	79,670
Under self-insurance programs	12,813	12,111
Total assets limited as to use	3,517,417	2,930,805
Property and equipment, net	1,710,678	1,700,020
Leased assets-operating	155,714	160,094
Other assets	287,384	163,897
Total assets	\$ 7,442,140	\$ 6,598,484
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 451,823	\$ 500,642
Accrued compensation and benefits	239,256	200,637
Operating lease obligations	18,595	17,358
Short-term debt	–	121,500
Current portion of long-term debt	12,973	15,979
Estimated settlements payable to government programs, net	8,653	3,384
Accrued interest	3,656	3,314
Total current liabilities	734,956	862,814
Long-term liabilities	201,132	241,566
Reserves for professional and general liabilities (Note 12)	16,853	18,565
Long-term debt	910,761	673,060
Operating lease obligations	158,943	163,718
Total liabilities	2,022,645	1,959,723
Net assets:		
Without donor restrictions	5,319,263	4,544,173
With donor restrictions	100,232	94,588
Total net assets	5,419,495	4,638,761
Total liabilities and net assets	\$ 7,442,140	\$ 6,598,484

See accompanying notes.

Sharp HealthCare

Consolidated Statements of Operations (In Thousands)

	Year Ended September 30	
	2021	2020
Revenues:		
Patient service	\$ 2,348,176	\$ 2,037,063
Provider tax	279,081	337,975
Net patient service	2,627,257	2,375,038
Premium	1,564,016	1,534,871
Other	201,216	241,327
Total revenues	4,392,489	4,151,236
Expenses:		
Salaries and wages	1,642,392	1,496,105
Employee benefits	393,587	380,840
Medical fees	665,123	667,699
Purchased services	470,610	411,048
Supplies	530,490	455,685
Provider tax	152,855	184,470
Maintenance, utilities, and rentals	144,917	144,279
Depreciation and amortization	137,576	129,539
Business insurance	16,335	17,461
Interest	22,209	20,770
Other	52,593	55,115
Total expenses	4,228,687	3,963,011
Income from operations	163,802	188,225
Other non-operating income	33,814	6,115
Investment income	500,748	277,754
Excess of revenues over expenses	698,364	472,094
Net assets released from restrictions used for purchase of property and equipment	8,697	3,856
Pension-related changes other than net periodic pension cost	63,179	(87,623)
Other changes in net assets without donor restrictions	4,850	3,047
Increase in net assets without donor restrictions	\$ 775,090	\$ 391,374

See accompanying notes.

Sharp HealthCare

Consolidated Statements of Changes in Net Assets (In Thousands)

	Year Ended September 30	
	2021	2020
Net assets without donor restrictions:		
Excess of revenues over expenses	\$ 698,364	\$ 472,094
Net assets released from restrictions used for purchase of property and equipment	8,697	3,856
Pension-related changes other than net periodic pension cost	63,179	(87,623)
Other changes in net assets without donor restrictions	4,850	3,047
Increase in net assets without donor restrictions	775,090	391,374
Net assets with donor restrictions:		
Contributions	13,938	17,572
Investment income	2,116	612
Change in net unrealized gains on other than trading securities	1,545	1,017
Net assets released from restrictions	(13,012)	(13,079)
Other changes in net assets with donor restrictions	1,057	3,043
Increase in net assets with donor restrictions	5,644	9,165
Increase in net assets	780,734	400,539
Net assets, beginning of the year	4,638,761	4,238,222
Net assets, end of the year	\$ 5,419,495	\$ 4,638,761

See accompanying notes.

Sharp HealthCare

Consolidated Statements of Cash Flows (In Thousands)

	Year Ended September 30	
	2021	2020
Operating activities		
Increase in net assets	\$ 780,734	\$ 400,539
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Other non-operating (gains) losses, net	2,586	(667)
Depreciation and amortization of operating and non-operating facilities	137,579	129,539
Amortization of deferred financing costs	(635)	(879)
Change in fair value of swaps	(26,959)	6,192
Changes in operating lease right-of-use assets	17,945	19,889
Restricted contributions and investment income, net	(16,054)	(18,184)
Pension-related changes other than net periodic pension cost	(63,179)	87,623
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable, net	(16,499)	(164,695)
Inventories	(3,103)	(8,649)
Short-term investments	21,556	(23,194)
Assets limited to use and long-term investments	(664,261)	(313,357)
Prepaid expenses and other	(112,332)	(18,423)
Increase (decrease) in:		
Estimated settlements payable to government programs, net	5,269	648
Accounts payable and accrued liabilities, long-term liabilities, and other liabilities	(12,016)	200,059
Accrued compensation and benefits	38,619	36,945
Changes in operating lease obligations	(17,103)	(18,341)
Net cash provided by operating activities	72,147	315,045
Investing activities		
Acquisition of property and equipment, net of retirements	(161,834)	(310,461)
Other investing activities	5	5
Net cash used in investing activities	(161,829)	(310,456)

Sharp HealthCare

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

	Year Ended September 30	
	2021	2020
Financing activities		
Payments on long-term debt	\$ (15,015)	\$ (13,075)
Repayment of debt	(211,294)	–
Payments under capital lease and finance lease obligations	(1,820)	(4,698)
Proceeds from the issuance of debt, net	337,542	106,000
Restricted contributions and investment income, net	16,054	18,184
Net cash provided by financing activities	125,467	106,411
Net increase in cash and cash equivalents	35,785	111,000
Cash and cash equivalents and restricted cash, beginning of year ⁽¹⁾	486,541	375,541
Cash and cash equivalents and restricted cash, end of year ⁽¹⁾	\$ 522,326	\$ 486,541
Supplemental disclosures of cash flow information		
Right-of-use assets obtained in exchange for new finance lease liabilities	\$ 737	\$ 3,078
Right-of-use assets obtained in exchange for new operating lease liabilities	7,196	8,289
Net right-of-use remeasurement to operating and finance leases, net	6,657	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	23,940	24,920
Accrued obligations for property and equipment	13,582	29,517

(1) Cash and cash equivalents and restricted cash includes \$627 and \$552 of restricted cash (included in other restricted investments on the consolidated balance sheets) at September 30, 2021 and 2020, respectively.

See accompanying notes.

Sharp HealthCare

Notes to Consolidated Financial Statements

September 30, 2021

1. Summary of Significant Accounting Policies

Recently Adopted Accounting Standard

In August 2018, Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-14, *Compensation-Retirement Benefits-Defined Benefit Plans-General (Subtopic 715-20): Disclosure Framework-Changes to the Disclosure Requirements for Defined Benefit Plans*, which changes certain disclosure requirements for employers that sponsor defined benefit pension plans by removing certain prior disclosure requirements and requiring certain new disclosures, based on an evaluation of whether the benefits of the entities providing the information justify the costs. The adoption of ASU 2018-14 on October 1, 2020 did not have a significant impact to Sharp's consolidated financial statements.

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 the 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)

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Collectively, SHC, SMH, SCVMC, and SGH are the Obligated Group under certain bond indentures (see Note 7).

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.

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) practical 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. The overall risk is the investment and capital call commitments as discussed 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, 2021 and 2020, \$32,022,000 and \$49,962,000, 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. 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. 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 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.

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

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. Sharp recorded an impairment loss of \$16,011,000 and \$0 in 2021 and 2020, respectively (included in purchased services on the accompanying consolidated statement of operations).

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.

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

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 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.

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

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 a decrease of \$5,736,000 and an increase of \$5,107,000 for the years ended September 30, 2021 and 2020, 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, COVID-19 vaccine administration revenue, COVID-19 related federal or state funding, 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.

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.

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

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	
	2021	2020
	<i>(In Thousands)</i>	
Charity care, at cost	\$ 24,791	\$ 27,169

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.

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 in the consolidated statements of operations.

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

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, 2021 and 2020, 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 \$23,266,000 and \$17,574,000 as of September 30, 2021 and 2020, respectively, and is included in other assets on the accompanying consolidated balance sheets. Changes in Sharp's interest in the net assets of CHF are included on the consolidated statements of operations as a component of the total change in net assets.

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, 2021 and 2020, 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 non-financial 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 non-financial 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, if any, 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. 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.

In October 2021, the FASB issued ASU 2021-08, *Business Combinations (Topic 805)*, which presents amendments to the Master Glossary and Broad Transactions for Business Combinations. The amendments require acquiring entities to apply Topic 606 to recognize and measure contract assets and contract liabilities in a business combination. The adoption of ASU 2021-08 is required for Sharp on October 1, 2023, and management is currently evaluating the effect of this guidance, if any, on its consolidated financial statements.

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

In November 2021, the FASB issued ASU 2021-10, *Government Assistance (Topic 832)*, which attempts to increase transparency by requiring annual disclosures about transactions with a government that are accounted for by applying a grant or contribution accounting model by analogy. The amendment will require disclosures, including the nature of the transactions, the related accounting policy, the line items on the balance sheet and income statement that are affected by the transactions, the amounts applicable to each financial statement line item, and significant terms and conditions of the transactions, including commitments and contingencies. The adoption of ASU 2021-10 is required for Sharp on October 1, 2022, 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. 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.

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, suspend the 2% reduction on Medicare payments from sequestration during the period of May 1, 2020 through December 31, 2020 (and later extended again through December 31, 2021), create an add on payment for inpatient hospitals treating COVID-19 patients, and delay the \$4 billion reduction to Medicaid funding for Medicaid disproportionate share hospitals from May 2020 until November 2020 (and later extended again through fiscal year 2023).

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

2. COVID-19 Pandemic (continued)

- 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.
- The American Rescue Plan Act (the ARP Act): On March 11, 2021, President Biden signed into law the ARP Act. The ARP Act continues many of the programs started by the CARES Act and the Consolidated Appropriations Act by adding new phases, new allocations, and new guidance to address issues related to the continuation of the COVID-19 pandemic. The ARP Act also creates a variety of new programs to address continuing pandemic-related crises, and fund recovery efforts as the United States begins to emerge from the COVID-19 pandemic, including the appropriation of approximately \$70 billion in increased funding for a national vaccination program, COVID-19 testing, contact tracing, scientific research and development, manufacturing of pandemic-related medical supplies, and health department workforce initiatives.

Payments received under CARES Act funding are recognized as earned. Sharp has completed the required attestations and complied with all requirements to recognize the funds received as revenue. CARES Act mandated rate increases are recorded as net patient service revenue and all other CARES Act funding is recognized in other revenue.

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.

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

2. COVID-19 Pandemic (continued)

CARES Act funding is comprised of the following:

	Year Ended September 30		Program to
	2021	2020	Date
	<i>(In Thousands)</i>		
Recognized:			
Net patient service	\$ 20,115	\$ 6,374	\$ 26,489
Premium	6,175	2,672	8,847
Other	62,948	119,115	182,063
Total revenues	\$ 89,238	\$ 128,161	\$ 217,399
 Received	 \$ 55,109	 \$ 162,290	 \$ 217,399
 Deferred	 \$ –	 \$ 34,129	 \$ –

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 of 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 \$16,993,000 and \$14,507,000 as of September 30, 2021 and 2020, 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.

The following tables provide the composition of certain investment assets as of September 30, 2021. Only assets and liabilities measured at fair value on a recurring basis are shown in the three-tier fair value hierarchy.

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, 2021				
Short-term investments:				
U.S. treasury obligations	\$ 8,108	\$ 8,108	\$ —	\$ —
Corporate bonds	8,024	—	8,024	—
U.S. government agencies	9,092	—	9,092	—
Mortgage-backed securities and collateralized mortgage obligations	1,490	—	1,490	—
Asset-backed securities	421	—	421	—
Supranational	3,912	—	3,912	—
Commercial paper	1,024	—	1,024	—
Negotiable certificates of deposit	5,551	—	5,551	—
Interest receivable	103	—	103	—
	\$ 37,725	\$ 8,108	\$ 29,617	\$ —
Long-term investments:				
Equities	\$ 65,305	\$ 65,305	\$ —	\$ —
U.S. treasury obligations	125,583	125,583	—	—
Corporate bonds	145,145	—	145,145	—
U.S. government agencies	60,227	—	60,227	—
Mortgage-backed securities and collateralized mortgage obligations	9,359	—	9,359	—
Asset-backed securities	29,964	—	29,964	—
Supranational	11,173	—	11,173	—
Interest receivable	1,325	—	1,325	—
	\$ 448,081	\$ 190,888	\$ 257,193	\$ —

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, 2021				
Assets limited as to use:				
Designated for property:				
Money market funds	\$ 25,581	\$ 25,581	\$ —	\$ —
Equities	2,094,442	2,094,442	—	—
U.S. treasury obligations	508,271	508,271	—	—
Corporate bonds	497,991	—	497,991	—
U.S. government agencies	115,826	—	115,826	—
Mortgage-backed securities and collateralized mortgage obligations	26,263	—	26,263	—
Asset-backed securities	76,544	—	76,544	—
Supranational	47,210	—	47,210	—
Interest receivable	4,980	—	4,980	—
	\$ 3,397,108	\$ 2,628,294	\$ 768,814	\$ —

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, 2021				
Assets limited as to use (continued):				
Other restricted investments:				
Money market funds	\$ 3,701	\$ 3,701	\$ —	\$ —
Equities	63,934	63,934	—	—
U.S. treasury obligations	12,957	12,957	—	—
Fixed income funds	4,165	4,045	120	—
Corporate bonds	10,903	—	10,903	—
U.S. government agencies	1,964	—	1,964	—
Mortgage-backed securities and collateralized mortgage obligations	2,593	—	2,593	—
Asset-backed securities	1,098	—	1,098	—
Supranational	881	—	881	—
Private equity	5,214	—	—	5,214
Interest receivable	86	—	86	—
	\$ 107,496	\$ 84,637	\$ 17,645	\$ 5,214

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, 2021				
Assets limited as to use (continued):				
Under self-insurance programs:				
Money market funds	\$ 14	\$ 14	\$ —	\$ —
Equities	3,482	3,482	—	—
U.S. treasury obligations	3,313	3,313	—	—
Corporate bonds	3,764	—	3,764	—
U.S. government agencies	1,107	—	1,107	—
Mortgage-backed securities and collateralized mortgage obligations	264	—	264	—
Asset-backed securities	456	—	456	—
Supranational	373	—	373	—
Interest receivable	40	—	40	—
	\$ 12,813	\$ 6,809	\$ 6,004	\$ —
Net swap receivables	\$ 15,980	\$ —	\$ 15,980	\$ —
	\$ 15,980	\$ —	\$ 15,980	\$ —

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

3. Fair Value Measurements (continued)

The following tables provide the composition of certain investment assets 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>\$ 11,304</u>	<u>\$ 47,977</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>\$ 147,415</u>	<u>\$ 222,942</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	—
Private equity	2,405	—	—	2,405
Asset-backed securities	1,193	—	1,193	—
Supranational	780	—	780	—
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:				
Money market funds	\$ 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	\$ –

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 nine years. The unfunded commitments were \$1,933,000 and \$2,592,000 at September 30, 2021 and 2020, 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, 2021 are as follows:

	September 30	
	2021	2020
	<i>(In Thousands)</i>	
Cash and cash equivalents	\$ 521,699	\$ 485,989
Short-term investments	37,725	59,281
Accounts receivable, net	625,178	608,679
Total	<u>\$ 1,184,602</u>	<u>\$ 1,153,949</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 \$10,419,000 and \$4,679,000

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

4. Net Patient Service Revenues (continued)

and adjustments pertaining to prior-year cost reports resulted in additional loss of \$398,000 and additional revenue of \$3,561,000 for the years ended September 30, 2021 and 2020, respectively.

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, 2019. The estimated net settlement payables were \$346,000 and \$412,000 at September 30, 2021 and 2020, respectively. Adjustments pertaining to prior-year cost reports resulted in additional revenue of \$2,398,000 and \$5,496,000 for the years ended September 30, 2021 and 2020, 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	
	2021	2020
	<i>(In Thousands)</i>	
Medicare	\$ 653,997	\$ 585,316
Medi-Cal	509,402	436,265
Commercial	1,173,679	1,005,950
Other	11,098	9,532
Total	\$ 2,348,176	\$ 2,037,063

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

	Year Ended September 30	
	2021	2020
	<i>(In Thousands)</i>	
Hospital	\$ 2,079,821	\$ 1,809,064
Medical Foundation	207,602	172,654
Other	68,408	62,773
Eliminations	(7,655)	(7,428)
Total	\$ 2,348,176	\$ 2,037,063

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 sheet as of and for the year ended September 30:

	As of and for the Year Ended September 30	
	2021	2020
	<i>(In Thousands)</i>	
Provider tax revenue	\$ 279,081	\$ 337,975
Provider tax expense	(152,855)	(184,470)
Income from operations from provider tax	<u>126,226</u>	<u>153,505</u>
Accounts receivable, net	166,999	247,247
Other assets	165,058	66,507
Accounts payable and accrued liabilities	84,130	104,756
Long-term liabilities	\$ 56,966	\$ 25,368

Premium Revenues

As part of its premium revenue analysis, Sharp examines the fluctuations by entity type, as this represents a varying degree of uncertainty regarding the nature, timing and extent of payments.

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	
	2021	2020
	<i>(In Thousands)</i>	
Hospital	\$ 641,106	\$ 622,487
Medical Foundation	494,193	486,829
Insurance	867,887	842,212
Eliminations	(439,170)	(416,657)
Total	<u>\$ 1,564,016</u>	<u>\$ 1,534,871</u>

5. Investment Income

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

	Year Ended September 30	
	2021	2020
	<i>(In Thousands)</i>	
Interest income	\$ 69,316	\$ 73,147
Unrealized gains, net	246,441	196,141
Realized gains, net	184,991	8,466
Total	<u>\$ 500,748</u>	<u>\$ 277,754</u>

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

6. Property and Equipment

Property and equipment, net consist of the following:

	September 30	
	2021	2020
	<i>(In Thousands)</i>	
Land and improvements	\$ 133,332	\$ 133,165
Buildings and improvements	2,151,894	2,099,061
Equipment and furniture	646,445	590,503
Software cost	160,007	153,424
Construction-in-progress	184,952	170,233
Subtotal	3,276,630	3,146,386
Less accumulated depreciation and amortization	(1,565,952)	(1,446,366)
Total	\$ 1,710,678	\$ 1,700,020

Depreciation and amortization expense for the years ended September 30, 2021 and 2020 amounted to \$137,576,000 and \$129,539,000, 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 Standard). Sharp had \$11,831,000 and \$27,095,000 of buildings and equipment under finance leases at September 30, 2021 and 2020, respectively, at cost. Accumulated amortization for buildings and equipment under finance leases was \$5,540,000 and \$9,387,000 at September 30, 2021 and 2020, respectively. Sharp recorded amortization of \$1,780,000 and \$3,795,000 for the years ended September 30, 2021 and 2020, respectively, relating to buildings and equipment under finance leases. Sharp has outstanding commitments to complete construction-in-progress totaling \$130,436,000 at September 30, 2021.

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.

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

6. Property and Equipment (continued)

In 2006, the Hospital and the District initiated 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. For the years ended September 30, 2021 and 2020, there were 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	
	2021	2020
	<i>(In Thousands)</i>	
Long-term borrowings		
Fixed rate debt – revenue bonds (collateralized by the Obligated Group)		
Series 2011A	\$ –	\$ 54,490
Series 2012A	–	34,365
Series 2014A ¹ ; Interest payable semiannually (rates range 4.50% to 5.00%)	140,120	147,685
Series 2017A ² ; Interest payable semiannually (rates range 3.00% to 5.00%)	141,840	141,840
Series 2020A and Series 2020B ³ ; Interest payable semiannually (rates range 0.51% to 2.68%)	339,715	–
Total fixed rate debt	621,675	378,380
Variable rate debt – revenue bonds		
Series 2009A ⁴ ; Interest payable monthly (variable rate, 0.06% at Sep 30, 2021)	15,555	17,410
Series 2009C and Series 2009D ⁵ ; interest payable monthly (variable rate, 0.06% at Sep 30, 2021)	99,880	99,880
Series 2010A ⁶ ; interest payable quarterly (variable rate, 0.48% at Sep 30, 2021)	20,110	21,170
Series 2017B and Series 2017C ⁷ ; interest payable monthly (variable rate, 0.04% at Sep 30, 2021)	149,075	149,075
Total variable rate debt	284,620	287,535
Other		
Finance lease obligations; interest payable monthly and quarterly (rates range 2.09% to 6.00%)	5,555	6,546
Total other debt	5,555	6,546
Total long-term debt	911,850	672,461
Less current portion	(12,973)	(15,979)
Unamortized debt issuance costs	(6,569)	(4,478)
Unamortized premiums, net	18,453	21,056
Total debt, net of current portion	\$ 910,761	\$ 673,060

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

7. Debt and Finance Lease Obligations (continued)

- (1) Principal due in annual amounts ranging from \$5,565,000 in 2031 to \$32,300,000 in 2043. The bonds include issuer call features totaling \$140,120,000 in 2023.
- (2) 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.
- (3) Principal due in annual amounts ranging from \$4,175,000 in 2022 to \$300,000,000 in 2050.
- (4) Principal due in annual amounts ranging from \$4,995,000 in 2022 to \$5,360,000 in 2024.
- (5) Principal due in annual amounts ranging from \$145,000 in 2022 to \$11,805,000 in 2035.
- (6) Principal due in quarterly amounts ranging from \$275,000 in 2022 to \$450,000 through 2035.
- (7) 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 Obligation
	<i>(In Thousands)</i>	
2022	\$ 11,875	\$ 1,097
2023	12,400	3,104
2024	12,780	838
2025	12,660	466
2026	13,025	50
Thereafter	843,555	—
Total	\$ 906,295	\$ 5,555

Scheduled interest payments Sharp is obligated to make on finance lease obligations referenced in the table noted above total to \$218,000.

A summary of interest cost on borrowed funds follows:

	Year Ended September 30	
	2021	2020
	<i>(In Thousands)</i>	
Interest cost:		
Capitalized	\$ 2,389	\$ 3,850
Charged to operations ¹	22,209	20,770
Total	\$ 24,598	\$ 24,620

¹ Charged to operations refers to the interest line item on the consolidated statements of operations.

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

7. Debt and Finance Lease Obligations (continued)

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, 2021 and 2020, \$26,959,000 in gains and \$(6,192,000), respectively, in losses were recognized in other non-operating income (loss) on the consolidated statements of operations.

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.

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.

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

7. Debt and Finance Lease Obligations (continued)

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.

Credit Facilities

Sharp has a \$25,000,000 line of credit which expires on September 1, 2024, of which \$7,270,000 was available at September 30, 2021. 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 \$17,730,000 and \$17,983,000 as of September 30, 2021 and 2020, 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, 2021 or 2020.

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 on August 1, 2024. The letter of credit used as collateral totaled \$15,734,000 and \$17,610,000 at September 30, 2021 and 2020, 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 on December 1, 2022. The letters of credit used as collateral totaled \$101,391,000 and \$101,391,000 at September 30, 2021 and 2020, 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 on December 30, 2022. The letters of credit used as collateral totaled \$151,967,000 and \$151,967,000 at September 30, 2021 and 2020, respectively.

SHP has a bank credit facility that provides for the issuance of up to an aggregate of \$2,400,000 at September 30, 2021 and 2020, under letters of credit. Such letters of credit are under irrevocable standby letters of credit. At September 30, 2021 and 2020, 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	
	2021	2020
	<i>(In Thousands)</i>	
Hospital programs	\$ 27,495	\$ 24,840
Hospital department	21,785	23,576
Purchase of capital assets	8,721	4,644
Health education	7,606	7,277
Research	7,080	6,600
Indigent care	411	556
Total	73,098	67,493
Subject to passage of time	17,689	17,892
Subject to donor restrictions in conjunction with Sharp spending policy:		
Investment in perpetuity – endowment	9,445	9,203
Total	\$ 100,232	\$ 94,588

Net assets with donor restrictions of \$9,445,000 and \$9,203,000 at September 30, 2021 and 2020, 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	
	2021	2020
	<i>(In Thousands)</i>	
Hospital departments	\$ 5,371	\$ 4,250
Hospital programs	1,581	1,258
Research	841	623
Health education	432	355
Purchase of capital assets	42	33
Indigent care	19	10
Total	\$ 8,286	\$ 6,529

As of September 30, 2021, Sharp's pledges receivable, which are 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 2022	\$ 3,987
Pledges due in 2023-2026	5,391
Pledges due after 2026	14,909
Less: discount on pledges receivable	(6,598)
Total	\$ 17,689

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

8. Net Assets and Contributions (continued)

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.

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 UPMIFA, 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 effects 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.

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

8. Net Assets and Contributions (continued)

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, 2021 and 2020.

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, 2021			
Board-designated endowment funds	\$ 8,057	\$ 4,134	\$ 12,191
Donor-restricted endowment funds	–	19,157	19,157
Total funds	<u>\$ 8,057</u>	<u>\$ 23,291</u>	<u>\$ 31,348</u>
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>

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 HealthCare

Notes to Consolidated Financial Statements (continued)

8. Net Assets and Contributions (continued)

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

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
<i>(In Thousands)</i>			
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
Investment return:			
Investment income	2,175	1,537	3,712
Net (depreciation) appreciation (realized and unrealized)	(150)	684	534
Total investment return	2,025	2,221	4,246
Contributions	–	41	41
Appropriation of endowment assets for expenditure	(200)	(167)	(367)
Endowment net assets, September 30, 2021	\$ 8,057	\$ 23,291	\$ 31,348

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, 2021 are as follows:

	Patient Services	General and Administrative	Purchased Services Under Capitated Agreements	Total
<i>(In Thousands)</i>				
Salaries and wages	\$ 1,421,298	\$ 221,094	\$ —	\$1,642,392
Employee benefits	339,538	54,049	—	393,587
Medical fees	622,839	1,345	40,939	665,123
Purchased services	223,314	77,574	169,722	470,610
Supplies	512,862	17,628	—	530,490
Provider tax	152,855	—	—	152,855
Maintenance, utilities, and rentals	123,824	21,093	—	144,917
Depreciation and amortization	123,152	14,424	—	137,576
Business insurance	13,642	2,693	—	16,335
Interest	18,384	3,825	—	22,209
Other	42,681	9,912	—	52,593
Total	\$ 3,594,389	\$ 423,637	\$ 210,661	\$4,228,687

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

9. Functional Expenses (continued)

Expenses related to providing these services in the year ended September 30, 2020 were 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

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 \$34,650,000 and \$26,267,000 in 2021 and 2020, respectively.

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

	September 30	
	2021	2020
	<i>(In Thousands)</i>	
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 775,087	\$ 607,537
Service cost	39,958	31,078
Interest cost	16,524	17,387
Actuarial (gain) loss	(8,838)	136,192
Plan participant contributions	11,100	10,615
Benefits paid	(30,977)	(27,722)
Benefit obligation at end of year	802,854	775,087
Change in plan assets:		
Fair value of plan assets at beginning of year	635,665	554,596
Actual gain on plan assets	77,337	71,909
Plan participant contributions	11,100	10,615
Employer contributions	34,650	26,267
Benefits paid	(30,977)	(27,722)
Fair value of plan assets at end of year	727,775	635,665
Funded status	\$ (75,079)	\$ (139,422)

Information for pension plans with an accumulated benefit obligation in excess of plan assets:

	September 30	
	2021	2020
	<i>(In Thousands)</i>	
Accumulated benefit obligation	\$ 765,716	\$ 740,375
Fair value of plan assets	727,775	635,665

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

10. Pension Plans (continued)

Information for pension plans with a projected benefit obligation in excess of plan assets:

	September 30	
	2021	2020
	<i>(In Thousands)</i>	
Projected benefit obligation	\$ 802,854	\$ 775,087
Fair value of plan assets	727,775	635,665

The net liabilities at September 30, 2021 and 2020 are included on the consolidated balance sheets in long-term liabilities.

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

	Year Ended September 30	
	2021	2020
	<i>(In Thousands)</i>	
Net actuarial loss	\$ 200,001	\$ 264,356
Total	\$ 200,001	\$ 264,356

Net periodic pension cost includes the following components:

	Year Ended September 30	
	2021	2020
	<i>(In Thousands)</i>	
Employee benefits:		
Service cost	\$ 39,958	\$ 31,078
Other non-operating gain:		
Interest cost	16,524	17,387
Expected return on plan assets	(38,195)	(34,546)
Recognized net actuarial loss	16,374	11,582
Net periodic pension cost	\$ 34,661	\$ 25,501

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

10. Pension Plans (continued)

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

	September 30	
	2021	2020
Discount rate	3.05%	2.86%
Rate of compensation increase	3.00	3.00

At September 30, 2021, the benefit obligation experienced a net actuarial gain which was primarily attributable to the discount rate increasing to 3.05%, compared to 2.86% in the prior year. At September 30, 2020, the benefit obligation experienced a net actuarial loss which was primarily attributable to the discount rate decreasing to 2.86%, compared to 3.31% in the prior year.

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

	September 30	
	2021	2020
Discount rate	2.86%	3.31%
Expected return on plan assets, net of expenses	6.00	6.25
Rate of compensation increase	3.00	3.00
Interest crediting rate	6.00	6.00

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

Plan Assets

The Plan's assets are invested in an institutional trust company commingled employee benefit plan trust (Commingled Plan Trust). 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%.

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

10. Pension Plans (continued)

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:

	<u>2021</u>	<u>2020</u>
Asset category:		
Equity securities	51%	53%
Fixed income	49	47
Total	<u>100%</u>	<u>100%</u>

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, 2021 and 2020.

Contributions

Sharp does not expect to make contributions to the Plan in 2022.

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

10. Pension Plans (continued)

Estimated Future Benefit Payments

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

	Amount
	<i>(In Thousands)</i>
2022	\$ 37,925
2023	37,408
2024	37,936
2025	41,536
2026	47,480
2027–2031	223,997

11. Long-Term Liabilities

Long-term liabilities consist of the following:

	September 30	
	2021	2020
	<i>(In Thousands)</i>	
Defined benefit pension plan unfunded liability	\$ 75,079	\$ 139,422
Workers' compensation	50,039	49,966
Deferred income	6,859	6,659
Provider tax payable	56,966	25,368
Unrealized loss on swaps	–	10,979
Other	12,189	9,172
Total	\$ 201,132	\$ 241,566

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

12. Commitments and Contingencies

Leases

Sharp 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 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 years ended September 30, 2021 and 2020, followed by disclosure of weighted average remaining lease term and weighted average discount rate by type. Operating leases expire at various dates through 2077. Total rental expense in 2021 and 2020 for all operating leases was \$36,891,000 and \$37,505,000, respectively.

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

12. Commitments and Contingencies (continued)

	Year Ended September 30, 2021
	<i>(In Thousands)</i>
Finance lease cost:	
Amortization of right-of-use asset	\$ 1,780
Interest on lease liabilities	166
Operating lease cost	21,410
Short-term lease cost	9,613
Variable lease cost	4,868
Low value lease cost	1,000
Sublease income	(2)
Total lease cost	<u>\$ 38,835</u>
Weighted-average remaining lease term-finance leases (years)	5.28
Weighted-average remaining lease term-operating leases (years)	28.63
Weighted-average discount rate-finance leases	2.9%
Weighted-average discount rate-operating leases	1.9%

The following table reconciles the undiscounted cash flows to the finance lease liabilities and operating lease liabilities recorded on the consolidated balance sheets at September 30, 2021:

	Operating Leases	Finance Leases
	<i>(In Thousands)</i>	
2022	\$ 20,147	\$ 1,248
2023	18,920	3,161
2024	17,280	846
2025	16,265	469
2026	16,139	49
Thereafter	143,025	—
Total minimum lease payments	<u>231,776</u>	<u>5,773</u>
Less: interest portion of lease payments	(54,238)	(218)
Present value of future minimum lease payments	177,538	5,555
Less: current obligations under leases	(18,595)	(1,097)
Long-term lease obligations	<u>\$ 158,943</u>	<u>\$ 4,458</u>

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

12. Commitments and Contingencies (continued)

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 2021 purchases totaling \$17,532,000. As of September 30, 2021, the remaining contracted commitment expected to be paid as follows:

	<u>Amount</u>
	<i>(In Thousands)</i>
2022	\$ 19,306
2023	19,018
2024	18,678
2025	16,731
2026	16,032
Thereafter	3,942
Total	<u>\$ 93,707</u>

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.

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

12. Commitments and Contingencies (continued)

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, 2021 and 2020, 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 SHC 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 during 2012 and 2013 into missing drugs and equipment. In March 2018, the Superior Court determined not to grant class certification for the action, but did not dismiss it and, technically, the putative class action remains outstanding. However, since then, a number of individual lawsuits on behalf of approximately 500 women have been filed in the Superior Court (the Court) that mirror the allegations in the original class action complaint. Substantially all of these cases have been consolidated for judicial management and administration with a single judge. The Court has ordered the parties to identify 25 plaintiffs who are representative of all plaintiffs in the individual lawsuits from which an initial pool of six "bellwether" plaintiffs will be selected. Their cases will be the first to be taken to trial. The trial commencement date for these bellwether cases has been deferred multiple times by the Court due to the impact of the COVID-19 pandemic and is currently scheduled for April 22, 2022, but may be extended again due to the backlog of other cases on the Court's docket and the pre-trial administration of the bellwether cases. While the ultimate timing and outcome of these cases remains uncertain, and Sharp 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 and Sharp Grossmont Hospital will not have a material effect on the consolidated financial statements of Sharp.

Sharp is a defendant in two lawsuits seeking class action status on behalf of its non-exempt employees alleging numerous wage and hour law violations that contain claims and relate to time periods that were not covered by or resolved in prior wage and hour legal actions involving Sharp. In addition, Sharp Memorial Hospital is a defendant in two lawsuits seeking class action status on behalf of its non-exempt employees alleging wage and hour law violations that contain claims and cover time periods that were not resolved in prior wage and hour legal actions. As well, Sharp

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

12. Commitments and Contingencies (continued)

Grossmont Hospital has been served with a lawsuit seeking class action status on behalf of its non-exempt respiratory therapists alleging various wage and hour law violations. Sharp, Sharp Memorial Hospital and Grossmont Hospital Corporation believe that their wage and hour policies and practices comply with applicable wage and hour laws and are vigorously defending these lawsuits. However, if there is ultimately an adverse decision against the entity in any of these lawsuits, the outcome 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, 2021, 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, 2021 and 2020, Sharp's liability was limited in the aggregate each year to \$25,000,000 and \$25,000,000, 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, 2021 and 2020. 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	
	2021	2020
	<i>(In Thousands)</i>	
Reserves for professional and general liabilities	\$ 16,853	\$ 18,565
Accounts payable and accrued liabilities	12,595	8,899
Total	<u>\$ 29,448</u>	<u>\$ 27,464</u>

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, 2021. In management's opinion, however, the estimated liability accrued at September 30, 2021 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 \$1,000,000 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, 2021 and 2020, SHP was required to maintain tangible net equity totaling \$24,908,000 and \$31,390,000, respectively. SHP's tangible net equity was \$164,570,000 and \$134,028,000 at September 30, 2021 and 2020, respectively. Management believes it is in compliance with these requirements at September 30, 2021 and 2020.

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 2021 and 2020.) 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 1.0% at September 30, 2021 and 2020, respectively. Workers' compensation liabilities of \$64,418,000 and \$63,777,000 at September 30, 2021 and 2020, respectively, are included in other current liabilities and long-term liabilities on the consolidated balance sheets.

13. Subsequent Events

In preparing these consolidated financial statements, management has evaluated and disclosed all material subsequent events up to December 17, 2021, which is the date that the accompanying consolidated financial statements were issued.

Supplementary Information

Sharp HealthCare

Consolidating Balance Sheet (In Thousands)

September 30, 2021

	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	\$ 326,637	\$ 727	\$ 837	\$ 57,577	\$ 358	\$ 118,894	\$ 4,364	\$ 6,830	\$ 5,475	\$ 521,699	\$ -	\$ 521,699
Short-term investments	26,673	-	-	10,026	-	1,026	-	-	-	37,725	-	37,725
Accounts receivable, net	60,463	245,802	105,577	173,823	22,386	33,546	69	2,676	1,348	645,690	(20,512)	625,178
Intercompany receivables	-	3,119,546	243,147	-	57,182	-	-	-	264	3,420,139	(3,420,139)	-
Inventories	18,859	19,597	7,967	13,373	2,738	-	-	-	-	62,534	-	62,534
Prepaid expenses and other	54,499	7,866	4,348	6,101	931	1,376	6	48	555	75,730	-	75,730
Total current assets	487,131	3,393,538	361,876	260,900	83,595	154,842	4,439	9,554	7,642	4,763,517	(3,440,651)	1,322,866
Long-term investments	328,938	-	-	14,917	-	104,226	-	-	-	448,081	-	448,081
Assets limited as to use:												
Designated for property	2,808,266	-	-	588,842	-	-	-	-	-	3,397,108	-	3,397,108
Other restricted investments	5,214	-	-	-	-	628	-	73,948	27,706	107,496	-	107,496
Under self-insurance programs	-	-	-	-	-	-	12,813	-	-	12,813	-	12,813
Total assets limited as to use	2,813,480	-	-	588,842	-	628	12,813	73,948	27,706	3,517,417	-	3,517,417
Property and equipment, net	487,937	423,344	327,791	423,100	47,890	435	-	181	-	1,710,678	-	1,710,678
Leased assets operating	106,846	9,417	4,148	17,572	17,731	816	-	-	-	156,530	(816)	155,714
Other assets	81,968	46,851	40,462	75,529	30,950	342	37,026	47,343	9,410	369,881	(82,497)	287,384
Beneficial interest in foundations	101,142	-	-	43,789	-	-	-	-	-	144,931	(144,931)	-
Total assets	\$ 4,407,442	\$ 3,873,150	\$ 734,277	\$ 1,424,649	\$ 180,166	\$ 261,289	\$ 54,278	\$ 131,026	\$ 44,758	\$ 11,111,035	\$ (3,668,895)	\$ 7,442,140
Liabilities and net assets												
Current liabilities:												
Accounts payable and accrued liabilities	\$ 212,870	\$ 67,744	\$ 29,883	\$ 53,162	\$ 4,325	\$ 88,256	\$ 16,007	\$ 237	\$ 4	\$ 472,488	\$ (20,665)	\$ 451,823
Intercompany payable	3,396,151	-	-	22,187	-	1,395	258	104	-	3,420,095	(3,420,095)	-
Accrued compensation and benefits	76,552	67,700	31,436	49,336	7,870	5,306	-	772	173	239,145	111	239,256
Operating lease obligations	11,344	2,613	971	2,885	782	766	-	-	-	19,361	(766)	18,595
Current portion of long-term debt	3,604	4,484	2,422	2,421	42	-	-	-	-	12,973	-	12,973
Estimated settlements payable to government programs, net	-	3,675	2,713	1,657	608	-	-	-	-	8,653	-	8,653
Accrued interest	1,100	1,422	739	395	-	-	-	-	-	3,656	-	3,656
Total current liabilities	3,701,621	147,638	68,164	132,043	13,627	95,723	16,265	1,113	177	4,176,371	(3,441,415)	734,956
Long-term liabilities	114,254	53,807	21,612	31,695	3,274	867	25,935	28,771	794	281,009	(79,877)	201,132
Reserves for professional and general liabilities	7,300	-	-	-	-	-	9,553	-	-	16,853	-	16,853
Long-term debt	283,096	307,867	265,366	54,323	109	-	-	-	-	910,761	-	910,761
Operating lease obligations	115,529	7,157	3,267	15,441	17,471	129	-	-	-	158,994	(51)	158,943
Total liabilities	4,221,800	516,469	358,409	233,502	34,481	96,719	51,753	29,884	971	5,543,988	(3,521,343)	2,022,645
Net assets:												
Without donor restrictions	101,687	3,356,681	375,868	1,163,820	146,734	164,570	2,525	17,186	16,462	5,345,533	(26,270)	5,319,263
With donor restrictions	83,955	-	-	27,327	(1,049)	-	-	83,956	27,325	221,514	(121,282)	100,232
Total net assets	185,642	3,356,681	375,868	1,191,147	145,685	164,570	2,525	101,142	43,787	5,567,047	(147,552)	5,419,495
Total liabilities and net assets	\$ 4,407,442	\$ 3,873,150	\$ 734,277	\$ 1,424,649	\$ 180,166	\$ 261,289	\$ 54,278	\$ 131,026	\$ 44,758	\$ 11,111,035	\$ (3,668,895)	\$ 7,442,140

Sharp HealthCare

Consolidating Statement of Operations (In Thousands)

Year Ended September 30, 2021

	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	\$ 207,924	\$ 1,265,657	\$ 446,839	\$ 748,507	\$ 123,150	\$ -	\$ -	\$ -	\$ -	\$ 2,792,077	\$ (443,901)	\$ 2,348,176
Provider tax	-	102,688	56,591	106,094	13,708	-	-	-	-	279,081	-	279,081
Net patient service	207,924	1,368,345	503,430	854,601	136,858	-	-	-	-	3,071,158	(443,901)	2,627,257
Premium	1,135,300	-	-	-	-	867,887	-	-	-	2,003,187	(439,171)	1,564,016
Other	184,283	36,378	20,194	65,490	8,585	10	11,722	-	-	326,662	(125,446)	201,216
Total revenues	1,527,507	1,404,723	523,624	920,091	145,443	867,897	11,722	-	-	5,401,007	(1,008,518)	4,392,489
Expenses:												
Salaries and wages	466,370	495,751	228,434	363,648	62,935	25,254	-	-	-	1,642,392	-	1,642,392
Employee benefits	120,492	118,334	51,612	84,171	13,540	5,438	-	-	-	393,587	-	393,587
Medical fees	343,843	19,376	11,301	16,650	2,404	754,672	-	-	-	1,148,246	(483,123)	665,123
Purchased services	270,307	84,763	42,573	55,638	12,155	33,294	197	-	-	498,927	(28,317)	470,610
Supplies	110,774	199,181	75,414	126,628	18,399	94	-	-	-	530,490	-	530,490
Provider tax	-	63,120	29,757	57,566	2,412	-	-	-	-	152,855	-	152,855
Maintenance, utilities and rentals	71,707	34,108	14,026	25,153	5,995	1,269	-	-	-	152,258	(7,341)	144,917
Depreciation and amortization	35,550	45,703	23,344	38,910	6,007	482	4	-	-	150,000	(12,424)	137,576
Business insurance	4,306	5,955	2,233	3,623	596	211	11,585	-	-	28,509	(12,174)	16,335
Interest	8,122	9,073	5,493	2,869	-	21	1	-	-	25,579	(3,370)	22,209
Purchased services from affiliate	429,595	149,322	58,634	99,906	15,677	6,329	146	-	-	759,609	(759,609)	-
Other	13,628	8,697	2,730	4,609	1,070	25,853	6	-	-	56,593	(4,000)	52,593
Total expenses	1,874,694	1,233,383	545,551	879,371	141,190	852,917	11,939	-	-	5,539,045	(1,310,358)	4,228,687
Income (loss) from operations	(347,187)	171,340	(21,927)	40,720	4,253	14,980	(217)	-	-	(138,038)	301,840	163,802
Other non-operating income (loss)	23,853	(390)	(68)	821	210	66	-	(3,854)	(80)	20,558	13,256	33,814
Investment income	383,024	215,621	84,332	82,961	20,586	14,996	703	6,471	3,150	811,844	(311,096)	500,748
Excess of revenues over expenses	59,690	386,571	62,337	124,502	25,049	30,042	486	2,617	3,070	694,364	4,000	698,364
Net assets released from restriction used for purchase of property and equipment												
	1,173	1,379	785	554	4,806	-	-	-	-	8,697	-	8,697
Pension related changes other than net periodic pension cost												
	17,147	18,877	5,982	19,389	1,283	501	-	-	-	63,179	-	63,179
Other changes in net assets without donor restrictions												
	2,523	94	-	3,286	4,634	-	-	-	-	10,537	(5,687)	4,850
Increase in net assets without restrictions	\$ 80,533	\$ 406,921	\$ 69,104	\$ 147,731	\$ 35,772	\$ 30,543	\$ 486	\$ 2,617	\$ 3,070	\$ 776,777	\$ (1,687)	\$ 775,090

Sharp HealthCare

Consolidating Statement of Changes in Net Assets (In Thousands)

Year Ended September 30, 2021

	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 of revenues over expenses	\$ 59,690	\$ 386,571	\$ 62,337	\$ 124,502	\$ 25,049	\$ 30,042	\$ 486	\$ 2,617	\$ 3,070	\$ 694,364	\$ 4,000	\$ 698,364
Net assets released from restrictions used for purchase of property and equipment	1,173	1,379	785	554	4,806	–	–	–	–	8,697	–	8,697
Pension related changes other than net periodic pension cost	17,147	18,877	5,982	19,389	1,283	501	–	–	–	63,179	–	63,179
Other changes in net assets without donor restrictions	2,523	94	–	3,286	4,634	–	–	–	–	10,537	(5,687)	4,850
Increase in net assets without donor restrictions	80,533	406,921	69,104	147,731	35,772	30,543	486	2,617	3,070	776,777	(1,687)	775,090
Net assets with donor restrictions:												
Contributions	–	–	–	–	–	–	–	13,819	4,119	17,938	(4,000)	13,938
Investment income	–	–	–	–	–	–	–	1,463	653	2,116	–	2,116
Change in net unrealized gains on other than trading securities	–	–	–	–	–	–	–	1,536	9	1,545	–	1,545
Net assets released from restrictions	–	–	–	–	–	–	–	(8,567)	(4,445)	(13,012)	–	(13,012)
Other changes in net assets with donor restrictions	8,251	–	–	336	1,057	–	–	–	–	9,644	(8,587)	1,057
Increase in net assets without donor restrictions	8,251	–	–	336	1,057	–	–	8,251	336	18,231	(12,587)	5,644
Increase in net assets	88,784	406,921	69,104	148,067	36,829	30,543	486	10,868	3,406	795,008	(14,274)	780,734
Net assets, beginning 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
Net assets, end of the year	\$ 185,642	\$ 3,356,681	\$ 375,868	\$ 1,191,147	\$ 145,685	\$ 164,570	\$ 2,525	\$ 101,142	\$ 43,787	\$ 5,567,047	\$ (147,552)	\$ 5,419,495

Sharp HealthCare

Consolidating Balance Sheet – Obligated Group

(In Thousands)

September 30, 2021

	Sharp HealthCare	Sharp Memorial Hospital	Sharp Chula Vista Medical Center	Sharp Grossmont Hospital	Combined Totals	Eliminations	Totals
Assets							
Current assets:							
Cash and cash equivalents	\$ 326,637	\$ 727	\$ 837	\$ 57,577	\$ 385,778	\$ –	\$ 385,778
Short-term investments	26,673	–	–	10,026	36,699	–	36,699
Accounts receivable, net	60,463	245,802	105,577	173,823	585,665	(1,361)	584,304
Intercompany receivables	–	3,119,546	243,147	–	3,362,693	(3,362,197)	496
Inventories	18,859	19,597	7,967	13,373	59,796	–	59,796
Prepaid expenses and other	54,499	7,866	4,348	6,101	72,814	–	72,814
Total current assets	487,131	3,393,538	361,876	260,900	4,503,445	(3,363,558)	1,139,887
Long-term investments	328,938	–	–	14,917	343,855	–	343,855
Assets limited as to use:							
Designated for property	2,808,266	–	–	588,842	3,397,108	–	3,397,108
Under bond indentures	5,214	–	–	–	5,214	–	5,214
Total assets limited as to use	2,813,480	–	–	588,842	3,402,322	–	3,402,322
Property and equipment, net	487,937	423,344	327,791	423,100	1,662,172	–	1,662,172
Leased assets-operating	106,846	9,417	4,148	17,572	137,983	–	137,983
Other assets	81,968	46,851	40,462	75,529	244,810	–	244,810
Beneficial interest in foundations	101,142	–	–	43,789	144,931	–	144,931
Total assets	\$ 4,407,442	\$ 3,873,150	\$ 734,277	\$ 1,424,649	\$ 10,439,518	\$ (3,363,558)	\$ 7,075,960
Liabilities and net assets							
Current liabilities:							
Accounts payable and accrued liabilities	\$ 213,504	\$ 67,744	\$ 29,883	\$ 53,162	\$ 364,293	\$ (1,361)	\$ 362,932
Intercompany payable	3,395,517	–	–	22,187	3,417,704	(3,362,197)	55,507
Accrued compensation and benefits	76,552	67,700	31,436	49,336	225,024	–	225,024
Operating lease obligations	11,344	2,613	971	2,885	17,813	–	17,813
Current portion of long-term debt	3,604	4,484	2,422	2,421	12,931	–	12,931
Estimated settlements payable to government programs, net	–	3,675	2,713	1,657	8,045	–	8,045
Accrued interest	1,100	1,422	739	395	3,656	–	3,656
Total current liabilities	3,701,621	147,638	68,164	132,043	4,049,466	(3,363,558)	685,908
Long-term liabilities	114,254	53,807	21,612	31,695	221,368	–	221,368
Reserves for professional and general liabilities	7,300	–	–	–	7,300	–	7,300
Long-term debt	283,096	307,867	265,366	54,323	910,652	–	910,652
Operating lease obligations	115,529	7,157	3,267	15,441	141,394	–	141,394
Total liabilities	4,221,800	516,469	358,409	233,502	5,330,180	(3,363,558)	1,966,622
Net assets:							
Without donor restrictions	101,687	3,356,681	375,868	1,163,820	4,998,056	–	4,998,056
With donor restrictions	83,955	–	–	27,327	111,282	–	111,282
Total net assets	185,642	3,356,681	375,868	1,191,147	5,109,338	–	5,109,338
Total liabilities and net assets	\$ 4,407,442	\$ 3,873,150	\$ 734,277	\$ 1,424,649	\$ 10,439,518	\$ (3,363,558)	\$ 7,075,960

Sharp HealthCare

Consolidating Statement of Operations – Obligated Group (In Thousands)

Year Ended September 30, 2021

	Sharp HealthCare	Sharp Memorial Hospital	Sharp Chula Vista Medical Center	Sharp Grossmont Hospital	Combined Totals	Eliminations	Totals
Revenues:							
Patient service revenue	\$ 207,924	\$ 1,265,657	\$ 446,839	\$ 748,507	\$ 2,668,927	\$ (414,930)	\$ 2,253,997
Provider tax revenue	–	102,688	56,591	106,094	265,373	–	265,373
Net patient service	207,924	1,368,345	503,430	854,601	2,934,300	(414,930)	2,519,370
Premium	1,135,300	–	–	–	1,135,300	–	1,135,300
Other	184,283	36,378	20,194	65,490	306,345	(93,095)	213,250
Total revenues	1,527,507	1,404,723	523,624	920,091	4,375,945	(508,025)	3,867,920
Expenses:							
Salaries and wages	466,370	495,751	228,434	363,648	1,554,203	–	1,554,203
Employee benefits	120,492	118,334	51,612	84,171	374,609	–	374,609
Medical fees	343,843	19,376	11,301	16,650	391,170	(32,496)	358,674
Purchased services	270,307	84,763	42,573	55,638	453,281	(23,990)	429,291
Supplies	110,774	199,181	75,414	126,628	511,997	–	511,997
Provider tax	–	63,120	29,757	57,566	150,443	–	150,443
Maintenance, utilities and rentals	71,707	34,108	14,026	25,153	144,994	(6,330)	138,664
Depreciation and amortization	35,550	45,703	23,344	38,910	143,507	(11,411)	132,096
Business insurance	4,306	5,955	2,233	3,623	16,117	–	16,117
Interest	8,122	9,073	5,493	2,869	25,557	(3,215)	22,342
Purchased services from affiliate	429,595	149,322	58,634	99,906	737,457	(721,851)	15,606
Other	13,628	8,697	2,730	4,609	29,664	–	29,664
Total expenses	1,874,694	1,233,383	545,551	879,371	4,532,999	(799,293)	3,733,706
Income (loss) from operations	(347,187)	171,340	(21,927)	40,720	(157,054)	291,268	134,214
Other non-operating income (loss)	23,853	(390)	(68)	821	24,216	(758)	23,458
Investment income	383,024	215,621	84,332	82,961	765,938	(290,510)	475,428
Excess of revenues over expenses	59,690	386,571	62,337	124,502	633,100	–	633,100
Net assets released from restrictions used for purchase of property, plant and equipment							
	1,173	1,379	785	554	3,891	–	3,891
Pension-related changes other than net periodic pension cost							
	17,147	18,877	5,982	19,389	61,395	–	61,395
Other changes in net assets without donor restrictions							
	2,523	94	–	3,286	5,903	–	5,903
Increase in net assets without donor restrictions	\$ 80,533	\$ 406,921	\$ 69,104	\$ 147,731	\$ 704,289	\$ –	\$ 704,289

Sharp HealthCare

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

Year Ended September 30, 2021

	Sharp HealthCare	Sharp Memorial Hospital	Sharp Chula Vista Medical Center	Sharp Grossmont Hospital	Combined Totals	Eliminations	Totals
Net assets without donor restrictions:							
Excess of revenues over expenses	\$ 59,690	\$ 386,571	\$ 62,337	\$ 124,502	\$ 633,100	\$ –	\$ 633,100
Net assets released from restrictions used for purchase of property and equipment	1,173	1,379	785	554	3,891	–	3,891
Pension-related changes other than net periodic pension cost	17,147	18,877	5,982	19,389	61,395	–	61,395
Other changes in net assets without donor restrictions	2,523	94	–	3,286	5,903	–	5,903
Increase in net assets without donor restrictions	80,533	406,921	69,104	147,731	704,289	–	704,289
Net assets with donor restrictions:							
Other changes in net assets with donor restrictions	8,251	–	–	336	8,587	–	8,587
Increase in net assets with donor restrictions	8,251	–	–	336	8,587	–	8,587
Increase in net assets	88,784	406,921	69,104	148,067	712,876	–	712,876
Net assets, beginning of the year	96,858	2,949,760	306,764	1,043,080	4,396,462	–	4,396,462
Net assets, end of the year	<u>\$ 185,642</u>	<u>\$ 3,356,681</u>	<u>\$ 375,868</u>	<u>\$ 1,191,147</u>	<u>\$ 5,109,338</u>	<u>\$ –</u>	<u>\$ 5,109,338</u>

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