

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

Sharp HealthCare
Years Ended September 30, 2022 and 2021
With Report of Independent Auditors

Ernst & Young LLP



Sharp HealthCare

Consolidated Financial Statements and Supplementary Information

Years Ended September 30, 2022 and 2021

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Report of Independent Auditors

The Board of Directors
Sharp HealthCare

Opinion

We have audited the consolidated financial statements of Sharp HealthCare (Sharp), which comprise the consolidated balance sheets as of September 30, 2022 and 2021, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended, and the related notes (collectively referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Sharp at September 30, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Sharp and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Sharp’s ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Sharp's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Sharp's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

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

Ernst + Young LLP

December 20, 2022

Sharp HealthCare

Consolidated Balance Sheets (In Thousands)

	September 30	
	2022	2021
Assets		
Current assets:		
Cash and cash equivalents	\$ 502,615	\$ 521,699
Short-term investments	25,476	37,725
Accounts receivable, net	677,447	625,178
Inventories	69,514	62,534
Prepaid expenses and other	86,695	75,730
Total current assets	1,361,747	1,322,866
Long-term investments	389,111	448,081
Assets limited as to use:		
Designated for property	2,837,212	3,397,108
Other restricted investments	103,998	107,496
Under self-insurance programs	11,146	12,813
Total assets limited as to use	2,952,356	3,517,417
Property and equipment, net	1,795,921	1,710,678
Leased assets-operating	139,586	155,714
Other assets	320,654	287,384
Total assets	\$ 6,959,375	\$ 7,442,140
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 520,209	\$ 451,823
Accrued compensation and benefits	223,233	239,256
Operating lease obligations	17,819	18,595
Current portion of long-term debt	15,974	12,973
Estimated settlements payable to government programs, net	763	8,653
Accrued interest	4,040	3,656
Total current liabilities	782,038	734,956
Long-term liabilities	136,840	201,132
Reserves for professional and general liabilities (Note 12)	20,389	16,853
Long-term debt	896,882	910,761
Operating lease obligations	143,142	158,943
Total liabilities	1,979,291	2,022,645
Net assets:		
Controlling interests	4,862,181	5,319,263
Non-controlling interests in subsidiaries	1,918	-
Without donor restrictions	4,864,099	5,319,263
With donor restrictions	115,985	100,232
Total net assets	4,980,084	5,419,495
Total liabilities and net assets	\$ 6,959,375	\$ 7,442,140

See accompanying notes.

Sharp HealthCare

Consolidated Statements of Operations (In Thousands)

	Year Ended September 30	
	2022	2021
Revenues:		
Patient service	\$ 2,415,965	\$ 2,348,176
Provider tax	263,242	279,081
Net patient service	2,679,207	2,627,257
Premium	1,635,193	1,564,016
Other	165,774	201,216
Total revenues	4,480,174	4,392,489
Expenses:		
Salaries and wages	1,713,248	1,642,392
Employee benefits	395,136	393,587
Medical fees	703,668	665,123
Purchased services	511,494	470,610
Supplies	555,583	530,490
Provider tax	146,156	152,855
Maintenance, utilities, and rentals	145,246	144,917
Depreciation and amortization	139,674	137,576
Business insurance	19,356	16,335
Interest	18,525	22,209
Other	55,934	52,593
Total expenses	4,404,020	4,228,687
Income from operations	76,154	163,802
Other non-operating income	45,232	33,814
Investment (loss) income	(637,195)	500,748
(Deficit) excess of revenues over expenses	(515,809)	698,364
Loss from non-controlling interests	80	-
(Deficit) excess of revenues over expenses from controlling interests	(515,729)	698,364
Net assets released from restrictions used for purchase of property and equipment	18,127	8,697
Pension-related changes other than net periodic pension cost	43,766	63,179
Other changes in net assets without donor restrictions	(3,246)	4,850
(Decrease) increase in net assets without donor restrictions attributable to controlling interests	(457,082)	775,090
Non-controlling interest of acquired entities	1,998	-
Deficit of revenues over expenses attributable to non-controlling interests	(80)	-
Increase in non-controlling interests	1,918	-
(Decrease) increase in net assets without donor restrictions	\$ (455,164)	\$ 775,090

See accompanying notes.

Sharp HealthCare

Consolidated Statements of Changes in Net Assets (In Thousands)

	Year Ended September 30	
	2022	2021
Net assets without donor restrictions:		
(Deficit) excess of revenues over expenses	\$ (515,729)	\$ 698,364
Net assets released from restrictions used for purchase of property and equipment	18,127	8,697
Pension-related changes other than net periodic pension cost	43,766	63,179
Other changes in net assets without donor restrictions	(3,246)	4,850
(Decrease) increase in net assets without donor restrictions attributable to controlling interests	(457,082)	775,090
Non-Controlling interest of acquired entities	1,998	–
Deficit of revenues over expenses attributable to non-controlling interests	(80)	–
Increase in non-controlling interests	1,918	–
(Decrease) increase in net assets without donor restrictions	(455,164)	775,090
Net assets with donor restrictions:		
Contributions	42,079	13,938
Investment income	916	2,116
Change in net unrealized (losses) gains on other than trading securities	(5,207)	1,545
Net assets released from restrictions	(21,722)	(13,012)
Other changes in net assets with donor restrictions	(313)	1,057
Increase in net assets with donor restrictions	15,753	5,644
(Decrease) increase in net assets	(439,411)	780,734
Net assets, beginning of the year	5,419,495	4,638,761
Net assets, end of the year	\$ 4,980,084	\$ 5,419,495

See accompanying notes.

Sharp HealthCare

Consolidated Statements of Cash Flows (In Thousands)

	Year Ended September 30	
	2022	2021
Operating activities		
(Decrease) increase in net assets	\$ (439,411)	\$ 780,734
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Other non-operating (gains) losses, net	(552)	2,586
Depreciation and amortization of operating and non-operating facilities	139,674	137,579
Amortization of bond premium and deferred financing costs	(508)	(635)
Change in fair value of swaps	(30,200)	(26,959)
Changes in operating lease right-of-use assets	14,648	17,945
Restricted contributions and investment income, net	(42,995)	(16,054)
Change in non-controlling interest	(1,918)	–
Pension-related changes other than net periodic pension cost	(43,766)	(63,179)
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable, net	(51,655)	(16,499)
Inventories	(6,662)	(3,103)
Short-term investments	12,249	21,556
Assets limited to use and long-term investments	624,033	(664,261)
Prepaid expenses and other	(9,075)	(112,332)
Increase (decrease) in:		
Estimated settlements payable to government programs, net	(7,890)	5,269
Accounts payable and accrued liabilities, long-term liabilities, and other liabilities	41,647	(12,016)
Accrued compensation and benefits	(16,116)	38,619
Changes in operating lease obligations	(15,179)	(17,103)
Net cash provided by operating activities	166,324	72,147
Investing activities		
Acquisition of property, equipment and other assets, net of retirements	(213,335)	(161,834)
Investments in joint ventures and subsidiaries, net of cash acquired	(1,708)	–
Other investing activities	–	5
Net cash used in investing activities	(215,043)	(161,829)

Sharp HealthCare

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

	Year Ended September 30	
	2022	2021
Financing activities		
Payments on long-term debt	\$ (12,016)	\$ (15,015)
Repayment of debt	–	(211,294)
Payments under capital lease and finance lease obligations	(1,342)	(1,820)
Proceeds from the issuance of debt, net	–	337,542
Restricted contributions and investment income, net	42,995	16,054
Net cash provided by financing activities	29,637	125,467
Net (decrease) increase in cash and cash equivalents	(19,082)	35,785
Cash and cash equivalents and restricted cash, beginning of year ⁽¹⁾	522,326	486,541
Cash and cash equivalents and restricted cash, end of year ⁽¹⁾	\$ 503,244	\$ 522,326
Supplemental disclosures of cash flow information		
Right-of-use assets obtained in exchange for new finance lease liabilities	\$ 1,204	\$ 737
Right-of-use assets obtained in exchange for new operating lease liabilities	1,873	7,196
Net right-of-use remeasurement to operating and finance leases, net	153	6,657
Cash paid for interest, net of capitalized interest	24,356	23,940
Accrued obligations for property and equipment	22,961	13,582

(1) Cash and cash equivalents and restricted cash includes \$629 and \$627 of restricted cash (included in other restricted investments on the consolidated balance sheets) at September 30, 2022 and 2021, respectively.

See accompanying notes.

Sharp HealthCare

Notes to Consolidated Financial Statements

September 30, 2022

1. Summary of Significant Accounting Policies

Organization

Sharp HealthCare (SHC) is a California nonprofit public benefit corporation with corporate offices in San Diego, California. SHC, together with its affiliated entities (collectively, Sharp), constitutes a regional integrated health care delivery system, primarily serving the residents of San Diego County. The consolidated financial statements of Sharp include 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 Freestanding Surgery, LLC, including Coast Surgery Center (Surgery Centers)
- Sharp HealthCare Foundation (SHF)
- Grossmont Hospital Foundation (GHF)

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

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of Sharp's consolidated financial statements in conformity with accounting principles generally accepted in the United States (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the 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, 2022 and 2021, \$29,296,000 and \$32,022,000, 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 \$- and \$16,011,000 in 2022 and 2021, 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)

(Deficit) Excess of Revenues Over Expenses

The accompanying consolidated statements of operations include (deficit) 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 \$22,243,000 and a decrease of \$5,736,000 for the years ended September 30, 2022 and 2021, 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	
	2022	2021
	<i>(In Thousands)</i>	
Charity care, at cost	\$ 16,390	\$ 24,791

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, 2022 and 2021, 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 \$19,738,000 and \$23,266,000 as of September 30, 2022 and 2021, 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, 2022 and 2021, no such assets or liabilities were recorded.

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Recently Adopted Accounting Standard

In January 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 on October 1, 2021 did not have a significant impact to Sharp's 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 on October 1, 2021 did not have a significant impact to Sharp's consolidated financial statements.

In November 2021, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2021-09, *Leases (Topic 842): Discount Rate for Lessees That Are Not Public Business Entities*, allowing lessees that are not public business entities to use a risk-free discount rate for leases instead of its incremental borrowing rate as an accounting policy election made by class of underlying asset as opposed to at the entity level. Sharp has elected to early adopt this guidance effective September 30, 2022 with no material impact.

Accounting Standards Issued But Not Yet Adopted

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.

In June 2022, the FASB issued ASU 2022-03, Fair Value Measurement (Topic 820), which clarifies that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. The amendments require the following disclosures for equity securities subject to contractual sale restrictions: (1) the fair value of equity securities subject to contractual sale restrictions reflected in the balance sheet, (2) the nature and remaining duration of the restriction(s), and (3) the circumstances that could cause a lapse in the restriction(s). The adoption of ASU 2022-03 is required for Sharp on October 1, 2024, 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. The pandemic has disrupted the normal operations of many businesses and organizations. It is not possible for Sharp to reasonably predict the duration of the disruption or the complete magnitude on operations or financial condition at this time.

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

2. COVID-19 Pandemic (continued)

CARES Act Funding

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

- **CARES Act:** On March 27, 2020, President Trump signed into law the CARES Act. The CARES Act provides a temporary and limited relief to hospitals during the COVID-19 pandemic, including the appropriation of \$100 billion under the Public Health and Social Services Emergency Fund (Provider Relief Fund) to reimburse providers for expenses and lost revenue associated with the treatment of COVID-19 patients, expand the Medicare Advanced and Accelerated Payment Program, provide employee retention tax credits to employers affected by COVID-19, 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).
- **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.

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

2. COVID-19 Pandemic (continued)

- 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.

CARES Act funding, all of which was received, is comprised of the following:

	Program to		
	Year Ended September 30		Date
	2022	2021	2022
	<i>(In Thousands)</i>		
Recognized:			
Net patient service	\$ 14,572	\$ 20,115	\$ 41,061
Premium	3,779	6,175	12,626
Other	37,391	62,948	219,454
Total revenues	\$ 55,742	\$ 89,238	\$ 273,141

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

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.
- 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.

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

3. Fair Value Measurements (continued)

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 and Level 2 investments.
- b) Cost approach: Amount that would be required to replace the service capacity of an asset (replacement cost).
- 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 \$16,307,000 and \$16,993,000 as of September 30, 2022 and 2021, 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, 2022. 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, 2022				
Short-term investments:				
U.S. treasury obligations	\$ 4,940	\$ 4,940	\$ –	\$ –
Corporate bonds	7,125	–	7,125	–
U.S. government agencies	4,645	–	4,645	–
Mortgage-backed securities and collateralized mortgage obligations	3,473	–	3,473	–
Asset-backed securities	46	–	46	–
Supranational	558	–	558	–
Commercial paper	1,142	–	1,142	–
Negotiable certificates of deposit	3,435	–	3,435	–
Interest receivable	112	–	112	–
	\$ 25,476	\$ 4,940	\$ 20,536	\$ –
Long-term investments:				
Equities	\$ 51,285	\$ 51,285	\$ –	\$ –
U.S. treasury obligations	108,450	108,450	–	–
Corporate bonds	132,097	–	132,097	–
U.S. government agencies	43,703	–	43,703	–
Mortgage-backed securities and collateralized mortgage obligations	4,318	–	4,318	–
Asset-backed securities	37,852	–	37,852	–
Supranational	10,027	–	10,027	–
Interest receivable	1,379	–	1,379	–
	\$ 389,111	\$ 159,735	\$ 229,376	\$ –

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, 2022				
Assets limited as to use:				
Designated for property:				
Money market funds	\$ 4,125	\$ 4,125	\$ —	\$ —
Equities	1,654,517	1,654,517	—	—
U.S. treasury obligations	480,320	480,320	—	—
Corporate bonds	429,984	—	429,984	—
U.S. government agencies	101,153	—	101,153	—
Mortgage-backed securities and collateralized mortgage obligations	16,571	—	16,571	—
Asset-backed securities	111,693	—	111,693	—
Supranational	33,354	—	33,354	—
Interest receivable	5,495	—	5,495	—
	\$ 2,837,212	\$ 2,138,962	\$ 698,250	\$ —

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, 2022				
Assets limited as to use (continued):				
Other restricted investments:				
Money market funds	\$ 4,443	\$ 4,443	\$ —	\$ —
Equities	55,937	55,937	—	—
U.S. treasury obligations	17,686	17,686	—	—
Fixed income funds	2,666	2,648	18	—
Corporate bonds	10,145	—	10,145	—
U.S. government agencies	1,714	—	1,714	—
Mortgage-backed securities and collateralized mortgage obligations	2,238	—	2,238	—
Asset-backed securities	1,668	—	1,668	—
Supranational	635	—	635	—
Private equity	6,722	—	—	6,722
Interest receivable	144	—	144	—
	\$ 103,998	\$ 80,714	\$ 16,562	\$ 6,722

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, 2022				
Assets limited as to use (continued):				
Under self-insurance programs:				
Money market funds	\$ 57	\$ 57	\$ —	\$ —
Equities	2,748	2,748	—	—
U.S. treasury obligations	3,427	3,427	—	—
Corporate bonds	3,018	—	3,018	—
U.S. government agencies	722	—	722	—
Mortgage-backed securities and collateralized mortgage obligations	170	—	170	—
Asset-backed securities	695	—	695	—
Supranational	268	—	268	—
Interest receivable	41	—	41	—
	\$ 11,146	\$ 6,232	\$ 4,914	\$ —
 Net swap receivables	 \$ 46,180	 \$ —	 \$ 46,180	 \$ —
	\$ 46,180	\$ —	\$ 46,180	\$ —

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, 2021. 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, 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
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	\$ –

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 eight years. The unfunded commitments were \$871,000 and \$1,933,000 at September 30, 2022 and 2021, 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, 2022 are as follows:

	September 30	
	2022	2021
	<i>(In Thousands)</i>	
Cash and cash equivalents	\$ 502,615	\$ 521,699
Short-term investments	25,476	37,725
Accounts receivable, net	677,447	625,178
Total	<u>\$ 1,205,538</u>	<u>\$ 1,184,602</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, 2018. The estimated net settlement payables are \$3,171,000 and \$10,419,000

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 revenue of \$5,718,000 and additional loss of \$398,000 for the years ended September 30, 2022 and 2021, 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, 2020. The estimated net settlement payables were \$1,475,000 and \$346,000 at September 30, 2022 and 2021, respectively. Adjustments pertaining to prior-year cost reports resulted in additional revenue of \$1,659,000 and \$2,398,000 for the years ended September 30, 2022 and 2021, 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	
	2022	2021
	<i>(In Thousands)</i>	
Medicare	\$ 647,473	\$ 653,997
Medi-Cal	515,755	509,402
Commercial	1,241,692	1,173,679
Other	11,045	11,098
Total	\$ 2,415,965	\$ 2,348,176

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

	Year Ended September 30	
	2022	2021
	<i>(In Thousands)</i>	
Hospital	\$ 2,133,871	\$ 2,079,821
Medical Foundation	224,718	207,602
Other	67,090	68,408
Eliminations	(9,714)	(7,655)
Total	\$ 2,415,965	\$ 2,348,176

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.

The old program cycle spans 30 months, covering the period July 1, 2019 to December 31, 2021. The new program cycle spans 12 months, covering the period January 1, 2022 to December 31, 2022.

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	
	2022	2021
	<i>(In Thousands)</i>	
Provider tax revenue	\$ 263,242	\$ 279,081
Provider tax expense	(146,156)	(152,855)
Income from operations from provider tax	117,086	126,226
Accounts receivable, net	226,769	166,999
Other assets	124,443	165,058
Accounts payable and accrued liabilities	127,232	84,130
Long-term liabilities	42,756	56,966

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	
	2022	2021
	<i>(In Thousands)</i>	
Hospital	\$ 675,500	\$ 641,106
Medical Foundation	507,261	494,193
Insurance	914,887	867,887
Eliminations	(462,455)	(439,170)
Total	<u>\$ 1,635,193</u>	<u>\$ 1,564,016</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	
	2022	2021
	<i>(In Thousands)</i>	
Interest income	\$ 77,033	\$ 69,316
Unrealized (loss) gains, net	(740,609)	246,441
Realized gains, net	26,381	184,991
Total investment (loss) income	<u>\$ (637,195)</u>	<u>\$ 500,748</u>

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

6. Property and Equipment

Property and equipment, net consist of the following:

	September 30	
	2022	2021
	<i>(In Thousands)</i>	
Land and improvements	\$ 133,334	\$ 133,332
Buildings and improvements	2,204,812	2,151,894
Equipment and furniture	676,478	646,445
Software cost	171,902	160,007
Construction-in-progress	316,156	184,952
Subtotal	3,502,682	3,276,630
Less accumulated depreciation and amortization	(1,706,761)	(1,565,952)
Total	<u>\$ 1,795,921</u>	<u>\$ 1,710,678</u>

Depreciation and amortization expense for the years ended September 30, 2022 and 2021 amounted to \$139,674,000 and \$137,576,000, respectively. Included in these amounts is amortization and depreciation for buildings and equipment under financing lease obligations. Sharp had \$12,972,000 and \$11,831,000 of buildings and equipment under finance leases at September 30, 2022 and 2021, respectively, at cost. Accumulated amortization for buildings and equipment under finance leases was \$6,860,000 and \$5,540,000 at September 30, 2022 and 2021, respectively. Sharp recorded amortization of \$1,362,000 and \$1,780,000 for the years ended September 30, 2022 and 2021, respectively, relating to buildings and equipment under finance leases. Sharp has outstanding commitments to complete construction-in-progress and intangible assets totaling \$356,713,000 at September 30, 2022.

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, 2022 and 2021, 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	
	2022	2021
	<i>(In Thousands)</i>	
Long-term borrowings		
Fixed rate debt – revenue bonds (collateralized by the Obligated Group)		
Series 2014A ¹ ; Interest payable semiannually (rates range 4.50% to 5.00%)	\$ 140,120	\$ 140,120
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 0.65% to 2.68%)	335,540	339,715
Total fixed rate debt	617,500	621,675
Variable rate debt – revenue bonds		
Series 2009A ⁴ ; Interest payable monthly (variable rate, 2.26% at Sep 30, 2022)	10,560	15,555
Series 2009C and Series 2009D ⁵ ; interest payable monthly (variable rate, 2.20% at Sep 30, 2022)	99,735	99,880
Series 2010A ⁶ ; interest payable quarterly (variable rate, 2.33% at Sep 30, 2022)	19,005	20,110
Series 2017B and Series 2017C ⁷ ; interest payable monthly (variable rate, 0.40% at Sep 30, 2022)	147,620	149,075
Total variable rate debt	276,920	284,620
Other		
Finance lease obligations; interest payable monthly and quarterly (rates range 0.92% to 6.00%)	5,463	5,555
Promissory Notes; Interest payable monthly and annually (fixed rate of 2.70%)	1,598	–
Total other debt	7,061	5,555
Total long-term debt	901,481	911,850
Less current portion	(15,974)	(12,973)
Unamortized debt issuance costs	(6,247)	(6,569)
Unamortized premiums, net	17,622	18,453
Total debt, net of current portion	\$ 896,882	\$ 910,761

⁽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 \$4,340,000 in 2023 to \$300,000,000 in 2050.

⁽⁴⁾ Principal due in annual amounts ranging from \$5,200,000 in 2023 to \$5,360,000 in 2024.

⁽⁵⁾ Principal due in annual amounts ranging from \$210,000 in 2023 to \$11,805,000 in 2035.

⁽⁶⁾ Principal due in quarterly amounts ranging from \$285,000 in 2023 to \$450,000 through 2035.

⁽⁷⁾ Principal is due in annual amounts ranging from \$1,500,000 in 2023 to \$10,380,000 in 2052.

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

7. Debt and Finance Lease Obligations (continued)

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>	
2023	\$ 12,664	\$ 3,310
2024	13,051	1,046
2025	12,939	676
2026	13,311	263
2027	13,640	168
Thereafter	830,413	—
Total	\$ 896,018	\$ 5,463

Scheduled interest payments Sharp is obligated to make on finance lease obligations referenced in the table noted above total to \$95,000.

A summary of interest cost on borrowed funds follows:

	Year Ended September 30	
	2022	2021
	<i>(In Thousands)</i>	
Interest cost:		
Capitalized	\$ 6,351	\$ 2,389
Charged to operations ¹	18,525	22,209
Total	\$ 24,876	\$ 24,598

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, 2022 and 2021, \$30,200,000 and \$26,959,000 gains 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. This was amended and restated during 2022. The swap arrangement hedges an initial notional amount of \$80,000,000. Sharp pays the Securities Industry and Financial Markets Association Municipal Swap Index and receives 78% of the Secured Overnight Financing Rate 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 \$7,370,000 and \$7,270,000 was available at September 30, 2022 and 2021, respectively. As part of the workers' compensation insurance agreement, letters of credit have been provided as collateral. The total letters of credit used as collateral totaled \$17,630,000 and \$17,730,000 as of September 30, 2022 and 2021, 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, 2022 or 2021.

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 \$10,682,000 and \$15,734,000 at September 30, 2022 and 2021, 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 September 7, 2029. The letters of credit used as collateral totaled \$101,538,000 and \$101,391,000 at September 30, 2022 and 2021, 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 31, 2024. The letters of credit used as collateral totaled \$150,483,000 and \$151,967,000 at September 30, 2022 and 2021, respectively.

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	
	2022	2021
	<i>(In Thousands)</i>	
Hospital programs	\$ 25,645	\$ 27,495
Purchase of capital assets	21,675	8,721
Hospital department	18,638	21,785
Health education	7,153	7,606
Research	5,991	7,080
Indigent care	394	411
Total	79,496	73,098
Subject to passage of time	25,927	17,689
Subject to donor restrictions in conjunction with Sharp pending policy:		
Investment in perpetuity – endowment	10,562	9,445
Total	\$ 115,985	\$ 100,232

Net assets with donor restrictions of \$10,562,000 and \$9,445,000 at September 30, 2022 and 2021, 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	
	2022	2021
	<i>(In Thousands)</i>	
Hospital departments	\$ 4,690	\$ 5,371
Hospital programs	1,206	1,581
Research	556	841
Health education	434	432
Purchase of capital assets	39	42
Indigent care	44	19
Total	\$ 6,969	\$ 8,286

As of September 30, 2022, 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 2023	\$ 6,019
Pledges due in 2024-2027	9,376
Pledges due after 2027	19,437
Less: discount on pledges receivable	(8,905)
Total	\$ 25,927

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

8. Net Assets and Contributions (continued)

Endowments

Sharp's endowments consist of 60 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, average fair value (based on a two-year rolling average).

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, 2022 and 2021.

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, 2022			
Board-designated endowment funds	\$ 6,000	\$ 4,134	\$ 10,134
Donor-restricted endowment funds		16,885	16,885
Total funds	\$ 6,000	\$ 21,019	\$ 27,019
 September 30, 2021			
Board-designated endowment funds	\$ 8,057	\$ 4,134	\$ 12,191
Donor-restricted endowment funds	–	19,157	19,157
Total funds	\$ 8,057	\$ 23,291	\$ 31,348

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, 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
Investment return:			
Investment income	220	351	572
Net (depreciation) appreciation (realized and unrealized)	(2,090)	(3,494)	(5,584)
Total investment return	(1,870)	(3,143)	(5,012)
Contributions	–	1,060	1,060
Appropriation of endowment assets for expenditure	(187)	(189)	(376)
Endowment net assets, September 30, 2022	\$ 6,000	\$ 21,019	\$ 27,019

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, 2022 are as follows:

	Patient Services	General and Administrative	Purchased Services Under Capitated Agreements	Total
	<i>(In Thousands)</i>			
Salaries and wages	\$ 1,497,795	\$ 215,453	\$ –	\$ 1,713,248
Employee benefits	341,206	53,930	–	395,136
Medical fees	658,321	1,546	43,801	703,668
Purchased services	224,414	82,695	204,385	511,494
Supplies	541,581	14,002	–	555,583
Provider tax	146,156	–	–	146,156
Maintenance, utilities, and rentals	122,945	22,301	–	145,246
Depreciation and amortization	124,648	15,026	–	139,674
Business insurance	14,449	4,907	–	19,356
Interest	17,105	1,420	–	18,525
Other	38,635	17,299	–	55,934
Total	\$ 3,727,255	\$ 428,579	\$ 248,186	\$ 4,404,020

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

9. Functional Expenses (continued)

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

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 \$29,200,000 and \$34,650,000 in 2022 and 2021, respectively.

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

	September 30	
	2022	2021
	<i>(In Thousands)</i>	
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 802,854	\$ 775,087
Service cost	39,399	39,958
Interest cost	18,899	16,524
Actuarial gain	(265,207)	(8,838)
Plan participant contributions	11,424	11,100
Benefits paid	(33,856)	(30,977)
Benefit obligation at end of year	573,513	802,854
Change in plan assets:		
Fair value of plan assets at beginning of year	727,775	635,665
Actual return on plan assets	(191,285)	77,337
Plan participant contributions	11,424	11,100
Employer contributions	29,200	34,650
Benefits paid	(33,856)	(30,977)
Fair value of plan assets at end of year	543,258	727,775
Funded status	\$ (30,255)	\$ (75,079)

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

	September 30	
	2022	2021
	<i>(In Thousands)</i>	
Accumulated benefit obligation	\$ 551,384	\$ 765,716
Fair value of plan assets	543,258	727,775

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	
	2022	2021
	<i>(In Thousands)</i>	
Projected benefit obligation	\$ 573,513	\$ 802,854
Fair value of plan assets	543,258	727,775

The net liabilities at September 30, 2022 and 2021 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	
	2022	2021
	<i>(In Thousands)</i>	
Net actuarial loss	\$ 156,235	\$ 200,001
Total	\$ 156,235	\$ 200,001

Net periodic pension cost includes the following components:

	Year Ended September 30	
	2022	2021
	<i>(In Thousands)</i>	
Employee benefits:		
Service cost	\$ 39,399	\$ 39,958
Other non-operating gain:		
Interest cost	18,899	16,524
Expected return on plan assets	(41,481)	(38,195)
Recognized net actuarial loss	11,325	16,374
Net periodic pension cost	\$ 28,142	\$ 34,661

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	
	2022	2021
Discount rate	5.50%	3.05%
Rate of compensation increase	3.00	3.00

At September 30, 2022, the benefit obligation experienced a net actuarial gain which was primarily attributable to the discount rate increasing to 5.50%, compared to 3.05% in the prior year. 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.

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

	September 30	
	2022	2021
Discount rate	3.05%	2.86%
Expected return on plan assets, net of expenses	5.75	6.00
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>2022</u>	<u>2021</u>
Asset category:		
Equity securities	51%	51%
Fixed income	49	49
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, 2022 and 2021.

Contributions

Sharp does not expect to make contributions to the Plan in 2023.

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>
2023	\$ 37,641
2024	36,675
2025	37,061
2026	40,772
2027	46,066
2028–2032	204,519

11. Long-Term Liabilities

Long-term liabilities consist of the following:

	September 30	
	2022	2021
	<i>(In Thousands)</i>	
Defined benefit pension plan unfunded liability	\$ 30,255	\$ 75,079
Workers' compensation	45,972	50,039
Deferred income	6,535	6,859
Provider tax payable	42,757	56,966
Other	11,321	12,189
Total	\$ 136,840	\$ 201,132

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, 2022 and 2021, 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 2022 and 2021 for all operating leases was \$35,768,000 and \$36,891,000, respectively.

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

12. Commitments and Contingencies (continued)

	Year Ended September 30, 2022
	<i>(In Thousands)</i>
Finance lease cost:	
Amortization of right-of-use asset	\$ 1,362
Interest on lease liabilities	159
Operating lease cost	21,182
Short-term lease cost	8,830
Variable lease cost	4,945
Low value lease cost	1,070
Total lease cost	\$ 37,548
Weighted-average remaining lease term-finance leases (years)	4.78
Weighted-average remaining lease term-operating leases (years)	29.37
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, 2022:

	Operating Leases	Finance Leases
	<i>(In Thousands)</i>	
2023	\$ 19,493	\$ 3,377
2024	17,888	1,062
2025	16,641	685
2026	16,458	266
2027	13,338	169
Thereafter	129,546	—
Total minimum lease payments	213,364	5,559
Less: interest portion of lease payments	(52,403)	(96)
Present value of future minimum lease payments	160,961	5,463
Less: current obligations under leases	(17,819)	(3,310)
Long-term lease obligations	\$ 143,142	\$ 2,153

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

12. Commitments and Contingencies (continued)

Commitments

Sharp entered into a number of strategic information technology agreements to purchase suites of software subscriptions, support, implementation, and other related services. The longest of these agreements are effective through 2028 and Sharp has committed to making payments over the terms of these agreements. As of September 30, 2022, the remaining contracted commitments expected to be paid are as follows:

	<u>Amount</u> <i>(In Thousands)</i>
2023	\$ 69,126
2024	65,428
2025	62,658
2026	50,817
2027	31,720
Thereafter	4,804
Total	<u>\$ 284,553</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 legislative and government or regulatory agency changes, updates, review, interpretations and actions, and include matters such as licensure, accreditation, controlled substances, privacy and security, 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 many of these laws and regulations is required for participation in government health care programs. Governments continue to increase their activities related 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 potential exclusion from Medicare, Medi-Cal or other government health care 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, 2022 and September 30, 2021, there were no material losses recorded for probable legal liabilities.

On January 12, 2017, a class action complaint, entitled *Jones v. Sharp HealthCare and Sharp Grossmont Hospital* (“*Jones*”), was filed in the Superior Court of California for the County of San Diego (the “Court”) seeking damages associated with alleged privacy violations in connection with video recordings made in the operating rooms at the Women’s Center of Sharp Grossmont Hospital as part of an investigation during 2012 and 2013 into missing drugs and equipment. During March 2018, the Court determined not to grant class certification for the action, but did not dismiss it. Technically, the putative class action has remained open since 2018 and there has been little ongoing activity in the case. However, on July 8, 2022, the Court granted the named plaintiff’s motion for leave to amend the complaint to remove the class allegations and convert it to an individual action, but postponed the filing of an amended complaint until after a notice of the elimination of the class allegations is provided to potential class members. As of September 30, 2022, the notice has not been sent to the potential class members and an amended complaint has not been filed with the Court.

Since the Superior Court’s denial of class certification in March 2018, fourteen individual lawsuits on behalf of approximately 485 women have been filed against Sharp and Sharp Grossmont Hospital in the Court that mirror the allegations in the original class action complaint in *Jones*. Substantially all of these individual cases have been related and consolidated for judicial management and administration with a single judge. Because of the large number of plaintiffs, the Court 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 and their cases will be the first to be taken to trial. The parties have identified the 25 plaintiffs and are engaged in the discovery process to obtain the information needed to better understand the claims and to help further narrow down the group to the six bellwether plaintiffs. 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 as well as other delays associated with the pre-trial administration of the cases, and is currently scheduled for February 17, 2023. While the ultimate timing and outcome of these cases remains uncertain, and Sharp and Sharp Grossmont Hospital

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

12. Commitments and Contingencies (continued)

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 Sharp's consolidated financial statements.

Sharp and its affiliates are defendants in one or more lawsuits (Sharp HealthCare – two; Sharp Memorial Hospital – two; Sharp Chula Vista Medical Center – one; and Grossmont Hospital Corporation - one) seeking class action status on behalf of its non-exempt employees or a subset thereof alleging numerous California wage and hour law violations, including claims related to meal and rest periods, wage statements, overtime, timely payment of wages, and expense reimbursements. All of the lawsuits demand damages for the alleged wage and hour violations and pursue civil penalties under the Private Attorney General Act of 2004 (PAGA). The lawsuits contain claims and relate to time periods that are not covered by or resolved in prior wage and hour actions against the Sharp Obligated Group Members. Sharp, Sharp Memorial Hospital, Sharp Chula Vista Medical Center and Grossmont Hospital Corporation believe that their wage and hour and other related human resources policies and practices comply with applicable California law, and are vigorously defending all of these lawsuits. However, if there is ultimately an adverse decision against an entity or entities in any one or more of these lawsuits, there can be no assurance that the final resolution will not have a material effect on Sharp's consolidated financial statements.

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, 2022, 26.0% 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 2025.

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, Sharp's liability was limited in the aggregate to \$25,000,000. There was no aggregate limit as of September 30, 2022. Sharp has obtained excess loss insurance covering claims above these

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

12. Commitments and Contingencies (continued)

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, 2022 and 2021. The current portion of professional liability costs is included in accounts payable and accrued liabilities on the consolidated balance sheets.

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

	September 30	
	2022	2021
	<i>(In Thousands)</i>	
Reserves for professional and general liabilities	\$ 20,389	\$ 16,853
Accounts payable and accrued liabilities	10,568	12,595
Total	\$ 30,957	\$ 29,448

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, 2022. In management's opinion, however, the estimated liability accrued at September 30, 2022 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, 2022 and 2021, SHP was required to maintain tangible net equity totaling

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

12. Commitments and Contingencies (continued)

\$28,223,000 and \$24,908,000, respectively. SHP's tangible net equity was \$ 162,451,000 and \$164,570,000 at September 30, 2022 and 2021, respectively. Management believes it is in compliance with these requirements at September 30, 2022 and 2021.

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 2022 and 2021.) 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 2.5% and 1.0% at September 30, 2022 and 2021, respectively. Workers' compensation liabilities of \$60,839,000 and \$64,418,000 at September 30, 2022 and 2021, 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 20, 2022, which is the date that the accompanying consolidated financial statements were issued.

Supplementary Information

Sharp HealthCare

Consolidating Balance Sheet (In Thousands)

September 30, 2022

	Sharp HealthCare	Sharp Memorial Hospital	Sharp Chula Vista Medical Center	Sharp Grossmont Hospital	Sharp Coronado Hospital and HealthCare Center	Sharp Health Plan	Surgery Centers	Continuous Quality Insurance	Sharp HealthCare Foundation	Grossmont Hospital Foundation	Combined Totals	Combining Eliminations	Totals
Assets													
Current assets:													
Cash and cash equivalents	\$ 284,039	\$ 1,500	\$ 532	\$ 64,215	\$ 85	\$ 140,817	\$ 341	\$ 5,239	\$ 1,344	\$ 4,503	\$ 502,615	\$ -	\$ 502,615
Short-term investments	16,272	-	-	7,847	-	1,357	-	-	-	-	25,476	-	25,476
Accounts receivable, net	56,877	261,412	117,622	198,910	23,510	34,605	899	7	5,371	323	699,536	(22,089)	677,447
Intercompany receivables	-	2,885,014	87,502	-	19,138	-	-	-	-	145	2,991,799	(2,991,799)	-
Inventories	20,215	22,157	9,050	14,621	3,152	-	319	-	-	-	69,514	-	69,514
Prepaid expenses and other	64,071	8,147	3,985	6,935	814	2,004	103	5	82	549	86,695	-	86,695
Total current assets	441,474	3,178,230	218,691	292,528	46,699	178,783	1,662	5,251	6,797	5,520	4,375,635	(3,013,888)	1,361,747
Long-term investments	289,444	-	-	13,272	-	86,395	-	-	-	-	389,111	-	389,111
Assets limited as to use:													
Designated for property	2,348,411	-	-	488,801	-	-	-	-	-	-	2,837,212	-	2,837,212
Other restricted investments	6,723	-	-	-	-	626	-	-	71,739	24,910	103,998	-	103,998
Under self-insurance programs	-	-	-	-	-	-	-	11,146	-	-	11,146	-	11,146
Total assets limited as to use	2,355,134	-	-	488,801	-	626	-	11,146	71,739	24,910	2,952,356	-	2,952,356
Property and equipment, net	538,182	462,551	312,788	422,955	58,439	353	475	-	178	-	1,795,921	-	1,795,921
Leased assets-operating	97,561	7,154	3,360	15,655	16,937	118	-	-	-	-	140,785	(1,199)	139,586
Other assets	149,416	37,316	28,877	56,125	27,538	377	4,119	39,641	56,837	9,682	409,928	(89,274)	320,654
Beneficial interest in foundations	105,733	-	-	39,038	-	-	-	-	-	-	144,771	(144,771)	-
Total assets	\$ 3,976,944	\$ 3,685,251	\$ 563,716	\$ 1,328,374	\$ 149,613	\$ 266,652	\$ 6,256	\$ 56,038	\$ 135,551	\$ 40,112	\$ 10,208,507	\$ (3,249,132)	\$ 6,959,375
Liabilities and net assets													
Current liabilities:													
Accounts payable and accrued liabilities	\$ 201,751	\$ 96,938	\$ 44,054	\$ 79,463	\$ 7,376	\$ 99,685	\$ 952	\$ 11,991	\$ 285	\$ 94	\$ 542,589	\$ (22,380)	\$ 520,209
Intercompany payable	2,948,397	-	-	35,456	-	4,560	-	2,548	838	-	2,991,799	(2,991,799)	-
Accrued compensation and benefits	222,783	-	-	-	-	-	157	-	-	-	222,940	293	223,233
Operating lease obligations	11,118	2,504	998	2,577	834	129	-	-	-	-	18,160	(341)	17,819
Current portion of long-term debt	5,832	4,726	2,507	2,559	86	-	264	-	-	-	15,974	-	15,974
Estimated settlements payable to government programs, net	-	(1,275)	1,003	709	326	-	-	-	-	-	763	-	763
Accrued interest	1,132	1,523	977	400	-	-	8	-	-	-	4,040	-	4,040
Total current liabilities	3,391,013	104,416	49,539	121,164	8,622	104,374	1,381	14,539	1,123	94	3,796,265	(3,014,227)	782,038
Long-term liabilities	95,774	30,642	12,489	23,930	1,698	(176)	-	27,810	28,696	983	221,846	(85,006)	136,840
Reserves for professional and general liabilities (Note 12)	9,200	-	-	-	-	-	-	11,189	-	-	20,389	-	20,389
Long-term debt	277,343	303,269	262,711	52,004	221	-	1,334	-	-	-	896,882	-	896,882
Operating lease obligations	105,812	5,033	2,475	13,835	16,845	-	-	-	-	-	144,000	(858)	143,142
Total liabilities	3,879,142	443,360	327,214	210,933	27,386	104,198	2,715	53,538	29,819	1,077	5,079,382	(3,100,091)	1,979,291
Net assets:													
Controlling interests	(2,344)	3,241,891	236,502	1,090,239	123,589	162,454	1,623	2,500	5,585	11,835	4,873,874	(11,693)	4,862,181
Non-controlling interests in subsidiaries	-	-	-	-	-	-	1,918	-	-	-	1,918	-	1,918
Without donor restrictions	(2,344)	3,241,891	236,502	1,090,239	123,589	162,454	3,541	2,500	5,585	11,835	4,875,792	(11,693)	4,864,099
With donor restrictions	100,146	-	-	27,202	(1,362)	-	-	-	100,147	27,200	253,333	(137,348)	115,985
Total net assets	97,802	3,241,891	236,502	1,117,441	122,227	162,454	3,541	2,500	105,732	39,035	5,129,125	(149,041)	4,980,084
Total liabilities and net assets	\$ 3,976,944	\$ 3,685,251	\$ 563,716	\$ 1,328,374	\$ 149,613	\$ 266,652	\$ 6,256	\$ 56,038	\$ 135,551	\$ 40,112	\$ 10,208,507	\$ (3,249,132)	\$ 6,959,375

Sharp HealthCare

Consolidating Statement of Operations (In Thousands)

Year Ended September 30, 2022

	Sharp HealthCare	Sharp Memorial Hospital	Sharp Chula Vista Medical Center	Sharp Grossmont Hospital	Sharp Coronado Hospital and HealthCare Center	Sharp Health Plan	Surgery Centers	Continuous Quality Insurance	Sharp HealthCare Foundation	Grossmont Hospital Foundation	Combined Totals	Combining Eliminations	Totals
Revenues:													
Patient service revenue	\$ 224,998	\$ 1,264,690	\$ 465,553	\$ 769,856	\$ 126,145	\$ –	\$ 5,405	\$ –	\$ –	\$ –	\$ 2,856,647	\$ (440,682)	\$ 2,415,965
Provider tax revenue	–	92,924	53,503	102,177	14,638	–	–	–	–	–	263,242	–	263,242
Net patient service	224,998	1,357,614	519,056	872,033	140,783	–	5,405	–	–	–	3,119,889	(440,682)	2,679,207
Premium	1,182,761	–	–	–	–	914,887	–	–	–	–	2,097,648	(462,455)	1,635,193
Other	878,928	28,648	14,024	66,317	5,597	–	–	12,467	–	–	1,005,981	(840,207)	165,774
Total revenues	2,286,687	1,386,262	533,080	938,350	146,380	914,887	5,405	12,467	–	–	6,223,518	(1,743,344)	4,480,174
Expenses:													
Salaries and wages	464,310	515,764	243,065	395,915	66,815	25,956	1,423	–	–	–	1,713,248	–	1,713,248
Employee benefits	122,259	117,107	52,303	84,329	13,388	5,450	300	–	–	–	395,136	–	395,136
Medical fees	360,031	20,289	11,495	17,899	2,794	806,435	66	–	–	–	1,219,009	(515,341)	703,668
Purchased services	306,618	88,971	43,132	53,667	11,625	31,651	534	203	–	–	536,401	(24,907)	511,494
Supplies	113,115	207,259	80,293	134,460	18,190	111	2,155	–	–	–	555,583	–	555,583
Provider tax	–	60,966	28,767	53,802	2,621	–	–	–	–	–	146,156	–	146,156
Maintenance, utilities and rentals	70,712	34,930	14,491	24,459	5,555	1,265	752	–	–	–	152,164	(6,918)	145,246
Depreciation and amortization	38,695	44,463	24,319	40,066	6,526	556	101	16	–	–	154,742	(15,068)	139,674
Business Insurance	5,922	6,233	2,392	3,841	617	279	72	10,431	–	–	29,787	(10,431)	19,356
Interest	6,047	6,407	5,431	1,528	–	21	38	1	–	–	19,473	(948)	18,525
Purchased services from affiliate	427,404	151,217	60,523	101,158	16,102	7,218	–	169	–	–	763,791	(763,791)	–
Other	14,478	9,089	2,808	6,523	1,432	21,477	122	5	–	–	55,934	–	55,934
Total expenses	1,929,591	1,262,695	569,019	917,647	145,665	900,419	5,563	10,825	–	–	5,741,424	(1,337,404)	4,404,020
Income (loss) from operations	357,096	123,567	(35,939)	20,703	715	14,468	(158)	1,642	–	–	482,094	(405,940)	76,154
Other non-operating income (loss)	27,466	4,534	1,507	2,235	391	146	4	–	(2,766)	(614)	32,903	12,329	45,232
Investment (loss) income	(493,796)	(266,185)	(111,720)	(100,158)	(27,261)	(17,178)	7	(1,667)	(8,835)	(4,013)	(1,030,806)	393,611	(637,195)
(Deficit) excess of revenues over expenses	(109,234)	(138,084)	(146,152)	(77,220)	(26,155)	(2,564)	(147)	(25)	(11,601)	(4,627)	(515,809)	–	(515,809)
Loss from non-controlling interests	–	–	–	–	–	–	80	–	–	–	80	–	80
(Deficit) excess of revenue over expense from controlling interests	(109,234)	(138,084)	(146,152)	(77,220)	(26,155)	(2,564)	(67)	(25)	(11,601)	(4,627)	(515,729)	–	(515,729)
Net assets released from restrictions used for purchase of property, plan and equipment	2,279	6,568	1,021	3,329	4,930	–	–	–	–	–	18,127	–	18,127
Pension related changes other than net periodic pension cost	14,596	16,726	5,765	4,937	1,294	448	–	–	–	–	43,766	–	43,766
Controlling interest of acquired entities	(67)	–	–	–	–	–	1,717	–	–	–	1,650	(1,650)	–
Other changes in net assets without donor restrictions	(11,605)	–	–	(4,627)	(3,214)	–	(27)	–	–	–	(19,473)	16,227	(3,246)
(Decrease) increase in net assets without donor restrictions attributable to controlling interests	(104,031)	(114,790)	(139,366)	(73,581)	(23,145)	(2,116)	1,623	(25)	(11,601)	(4,627)	(471,659)	14,577	(457,082)
Non-Controlling interest of acquired entities	–	–	–	–	–	–	1,998	–	–	–	–	–	1,998
Deficit of revenues over expenses attributable to non-controlling interests	–	–	–	–	–	–	(80)	–	–	–	(80)	–	(80)
Increase in non-controlling interests	–	–	–	–	–	–	1,918	–	–	–	1,918	–	1,918
(Decrease) increase in net assets without donor restrictions	\$ (104,031)	\$ (114,790)	\$ (139,366)	\$ (73,581)	\$ (23,145)	\$ (2,116)	\$ 3,541	\$ (25)	\$ (11,601)	\$ (4,627)	\$ (469,741)	\$ 14,577	\$ (455,164)

Sharp HealthCare

Consolidating Statement of Changes in Net Assets (In Thousands)

Year Ended September 30, 2022

	Sharp HealthCare	Sharp Memorial Hospital	Sharp Chula Vista Medical Center	Sharp Grossmont Hospital	Sharp Coronado Hospital and HealthCare Center	Sharp Health Plan	Surgery Centers	Continuous Quality Insurance	Sharp HealthCare Foundation	Grossmont Hospital Foundation	Combined Totals	Combining Eliminations	Totals
Net assets without donor restrictions:													
(Deficit) excess of revenues over expenses	\$ (109,234)	\$ (138,084)	\$ (146,152)	\$ (77,220)	\$ (26,155)	\$ (2,564)	\$ (67)	\$ (25)	\$ (11,601)	\$ (4,627)	\$ (515,729)	\$ -	\$ (515,729)
Net assets released from restrictions used for purchase of property, plan and equipment	2,279	6,568	1,021	3,329	4,930	-	-	-	-	-	18,127	-	18,127
Pension related changes other than net periodic pension cost	14,596	16,726	5,765	4,937	1,294	448	-	-	-	-	43,766	-	43,766
Controlling interest of acquired entities	(67)	-	-	-	-	-	1,717	-	-	-	1,650	(1,650)	-
Other changes in net assets without donor restrictions	(11,605)	-	-	(4,627)	(3,214)	-	(27)	-	-	-	(19,473)	16,227	(3,246)
(Decrease) increase in net assets without donor restrictions attributable to controlling interests	(104,031)	(114,790)	(139,366)	(73,581)	(23,145)	(2,116)	1,623	(25)	(11,601)	(4,627)	(471,659)	14,577	(457,082)
Non-controlling interest of acquired entities	-	-	-	-	-	-	1,998	-	-	-	1,998	-	1,998
(Deficit) of revenues over expenses attributable to non-controlling interests	-	-	-	-	-	-	(80)	-	-	-	(80)	-	(80)
Increase in non-controlling interests	-	-	-	-	-	-	1,918	-	-	-	1,918	-	1,918
(Decrease) increase in net assets without donor restrictions	(104,031)	(114,790)	(139,366)	(73,581)	(23,145)	(2,116)	3,541	(25)	(11,601)	(4,627)	(469,741)	14,577	(455,164)
Net assets with donor restrictions:													
Contributions	-	-	-	-	-	-	-	-	34,859	7,220	42,079	-	42,079
Investment income	-	-	-	-	-	-	-	-	865	51	916	-	916
Change in net unrealized gains (losses) on other than trading securities	-	-	-	-	-	-	-	-	(4,625)	(582)	(5,207)	-	(5,207)
Net assets released from restrictions	-	-	-	-	-	-	-	-	(14,908)	(6,814)	(21,722)	-	(21,722)
Other changes in net assets with donor restrictions	16,191	-	-	(125)	(313)	-	-	-	-	-	15,753	(16,066)	(313)
Increase in net assets with donor restrictions	16,191	-	-	(125)	(313)	-	-	-	16,191	(125)	31,819	(16,066)	15,753
(Decrease) increase in net assets	(87,840)	(114,790)	(139,366)	(73,706)	(23,458)	(2,116)	3,541	(25)	4,590	(4,752)	(437,922)	(1,489)	(439,411)
Net assets, beginning 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
Net assets, end of the year	\$ 97,802	\$ 3,241,891	\$ 236,502	\$ 1,117,441	\$ 122,227	\$ 162,454	\$ 3,541	\$ 2,500	\$ 105,732	\$ 39,035	\$ 5,129,125	\$ (149,041)	\$ 4,980,084

Sharp HealthCare

Consolidating Balance Sheet – Obligated Group (In Thousands)

September 30, 2022

	Sharp HealthCare	Sharp Memorial Hospital	Sharp Chula Vista Medical Center	Sharp Grossmont Hospital	Combined Totals	Combining Eliminations	Totals
Assets							
Current assets:							
Cash and cash equivalents	\$ 284,039	\$ 1,500	\$ 532	\$ 64,215	\$ 350,286	\$ –	\$ 350,286
Short-term investments	16,272	–	–	7,847	24,119	–	24,119
Accounts receivable, net	56,877	261,412	117,622	198,910	634,821	(3,693)	631,128
Intercompany receivables	–	2,885,014	87,502	–	2,972,516	(2,972,012)	504
Inventories	20,215	22,157	9,050	14,621	66,043	–	66,043
Prepaid expenses and other	64,071	8,147	3,985	6,935	83,138	–	83,138
Total current assets	441,474	3,178,230	218,691	292,528	4,130,923	(2,975,705)	1,155,218
Long-term investments	289,444	–	–	13,272	302,716	–	302,716
Assets limited as to use:							
Designated for property	2,348,411	–	–	488,801	2,837,212	–	2,837,212
Other restricted investments	6,723	–	–	–	6,723	–	6,723
Total assets limited as to use	2,355,134	–	–	488,801	2,843,935	–	2,843,935
Property and equipment, net	538,182	462,551	312,788	422,955	1,736,476	–	1,736,476
Leased assets-operating	97,561	7,154	3,360	15,655	123,730	–	123,730
Other assets	149,416	37,316	28,877	56,125	271,734	–	271,734
Beneficial interest in foundations	105,733	–	–	39,038	144,771	–	144,771
Total assets	\$ 3,976,944	\$ 3,685,251	\$ 563,716	\$ 1,328,374	\$ 9,554,285	\$ (2,975,705)	\$ 6,578,580
Liabilities and net assets							
Current liabilities:							
Accounts payable and accrued liabilities	\$ 201,751	\$ 96,938	\$ 44,054	\$ 79,463	\$ 422,206	\$ (3,548)	\$ 418,658
Intercompany payable	2,948,397	–	–	35,456	2,983,853	(2,972,157)	11,696
Accrued compensation and benefits	222,783	–	–	–	222,783	–	222,783
Operating lease obligations	11,118	2,504	998	2,577	17,197	–	17,197
Current portion of long-term debt	5,832	4,726	2,507	2,559	15,624	–	15,624
Estimated settlements payable to government programs, net	–	(1,275)	1,003	709	437	–	437
Accrued interest	1,132	1,523	977	400	4,032	–	4,032
Total current liabilities	3,391,013	104,416	49,539	121,164	3,666,132	(2,975,705)	690,427
Long-term liabilities	95,774	30,642	12,489	23,930	162,835	–	162,835
Reserves for professional and general liabilities	9,200	–	–	–	9,200	–	9,200
Long-term debt	277,343	303,269	262,711	52,004	895,327	–	895,327
Operating lease obligations	105,812	5,033	2,475	13,835	127,155	–	127,155
Total liabilities	3,879,142	443,360	327,214	210,933	4,860,649	(2,975,705)	1,884,944
Net assets:							
Without donor restrictions	(2,344)	3,241,891	236,502	1,090,239	4,566,288	–	4,566,288
With donor restrictions	100,146	–	–	27,202	127,348	–	127,348
Total net assets	97,802	3,241,891	236,502	1,117,441	4,693,636	–	4,693,636
Total liabilities and net assets	\$ 3,976,944	\$ 3,685,251	\$ 563,716	\$ 1,328,374	\$ 9,554,285	\$ (2,975,705)	\$ 6,578,580

Sharp HealthCare

Consolidating Statement of Operations – Obligated Group (In Thousands)

Year Ended September 30, 2022

	Sharp HealthCare	Sharp Memorial Hospital	Sharp Chula Vista Medical Center	Sharp Grossmont Hospital	Combined Totals	Combining Eliminations	Totals
Revenues:							
Patient service revenue	\$ 224,998	\$ 1,264,690	\$ 465,553	\$ 769,856	\$ 2,725,097	\$ (410,376)	\$ 2,314,721
Provider tax revenue	–	92,924	53,503	102,177	248,604	–	248,604
Net patient service	224,998	1,357,614	519,056	872,033	2,973,701	(410,376)	2,563,325
Premium	1,182,761	–	–	–	1,182,761	–	1,182,761
Other	878,928	28,648	14,024	66,317	987,917	(760,164)	227,753
Total revenues	2,286,687	1,386,262	533,080	938,350	5,144,379	(1,170,540)	3,973,839
Expenses:							
Salaries and wages	464,310	515,764	243,065	395,915	1,619,054	–	1,619,054
Employee benefits	122,259	117,107	52,303	84,329	375,998	–	375,998
Medical fees	360,031	20,289	11,495	17,899	409,714	(40,396)	369,318
Purchased services	306,618	88,971	43,132	53,667	492,388	(20,969)	471,419
Supplies	113,115	207,259	80,293	134,460	535,127	–	535,127
Provider tax	–	60,966	28,767	53,802	143,535	–	143,535
Maintenance, utilities and rentals	70,712	34,930	14,491	24,459	144,592	(5,945)	138,647
Depreciation and amortization	38,695	44,463	24,319	40,066	147,543	(13,835)	133,708
Business Insurance	5,922	6,233	2,392	3,841	18,388	–	18,388
Interest	6,047	6,407	5,431	1,528	19,413	(336)	19,077
Purchased services from affiliate	427,404	151,217	60,523	101,158	740,302	(724,201)	16,101
Other	14,478	9,089	2,808	6,523	32,898	–	32,898
Total expenses	1,929,591	1,262,695	569,019	917,647	4,678,952	(805,682)	3,873,270
Income (loss) from operations	357,096	123,567	(35,939)	20,703	465,427	(364,858)	100,569
Other non-operating income (loss)	27,466	4,534	1,507	2,235	35,742	(1,491)	34,251
Investment (loss) income	(493,796)	(266,185)	(111,720)	(100,158)	(971,859)	366,349	(605,510)
(Deficiency) excess of revenues over expenses	(109,234)	(138,084)	(146,152)	(77,220)	(470,690)	–	(470,690)
Net assets released from restrictions used for purchase of property, plant and equipment	2,279	6,568	1,021	3,329	13,197	–	13,197
Pension-related changes other than net periodic pension cost	14,596	16,726	5,765	4,937	42,024	–	42,024
Controlling interest of acquired entities	(67)	–	–	–	(67)	–	(67)
Other changes in net assets without donor restrictions	(11,605)	–	–	(4,627)	(16,232)	–	(16,232)
Decrease in net assets without donor restrictions	\$ (104,031)	\$ (114,790)	\$ (139,366)	\$ (73,581)	\$ (431,768)	\$ –	\$ (431,768)

Sharp HealthCare

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

Year Ended September 30, 2022

	Sharp HealthCare	Sharp Memorial Hospital	Sharp Chula Vista Medical Center	Sharp Grossmont Hospital	Combined Totals	Combining Eliminations	Totals
(Deficiency) of revenues over expenses	\$ (109,234)	\$ (138,084)	\$ (146,152)	\$ (77,220)	\$ (470,690)	\$ –	\$ (470,690)
Net assets released from restrictions used for purchase of property, plant and equipment	2,279	6,568	1,021	3,329	13,197	–	13,197
Pension-related changes other than net periodic pension cost	14,596	16,726	5,765	4,937	42,024	–	42,024
Controlling interest of acquired entities	(67)	–	–	–	(67)	–	(67)
Other changes in net assets without donor restrictions	(11,605)	–	–	(4,627)	(16,232)	–	(16,232)
Increase in net assets without donor restrictions	(104,031)	(114,790)	(139,366)	(73,581)	(431,768)	–	(431,768)
Net assets with donor restrictions: Other changes in net assets with donor restrictions	16,191	–	–	(125)	16,066	–	16,066
Increase (decrease) in net assets with donor restrictions	16,191	–	–	(125)	16,066	–	16,066
Decrease in net assets	(87,840)	(114,790)	(139,366)	(73,706)	(415,702)	–	(415,702)
Net assets, beginning of the year	185,642	3,356,681	375,868	1,191,147	5,109,338	–	5,109,338
Net assets, end of the year	\$ 97,802	\$ 3,241,891	\$ 236,502	\$ 1,117,441	\$ 4,693,636	\$ –	\$ 4,693,636

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