

CONSOLIDATED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION

Sharp HealthCare  
Years Ended September 30, 2023 and 2022  
With Report of Independent Auditors

Ernst & Young LLP



# Sharp HealthCare

## Consolidated Financial Statements and Supplementary Information

Years Ended September 30, 2023 and 2022

### Contents

Report of Independent Auditors .....	1
Consolidated Financial Statements	
Consolidated Balance Sheets .....	4
Consolidated Statements of Operations .....	5
Consolidated Statements of Changes in Net Assets .....	6
Consolidated Statements of Cash Flows .....	7
Notes to Consolidated Financial Statements .....	9
Supplementary Information	
Consolidating Balance Sheet .....	58
Consolidating Statement of Operations.....	59
Consolidating Statement of Changes in Net Assets.....	60
Consolidating Balance Sheet – Obligated Group .....	61
Consolidating Statement of Operations – Obligated Group.....	62
Consolidating Statement of Changes in Net Assets – Obligated Group.....	63



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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, 2023 and 2022, 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 Sharp at September 30, 2023 and 2022, 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 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 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 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 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 consolidating details appearing in conjunction with the consolidated financial statements are 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 22, 2023

# Sharp HealthCare

## Consolidated Balance Sheets (In Thousands)

	September 30	
	2023	2022
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 396,197	\$ 502,615
Short-term investments	33,839	25,476
Accounts receivable, net	768,693	677,447
Inventories	68,491	69,514
Prepaid expenses and other	78,413	86,695
Total current assets	1,345,633	1,361,747
Long-term investments	242,614	389,111
Assets limited as to use:		
Designated for property	3,188,262	2,837,212
Other restricted investments	118,166	103,998
Under self-insurance programs	11,866	11,146
Total assets limited as to use	3,318,294	2,952,356
Property and equipment, net	1,863,067	1,795,921
Leased assets-operating	133,971	139,586
Other assets	534,300	320,654
Total assets	\$ 7,437,879	\$ 6,959,375
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 467,394	\$ 520,209
Accrued compensation and benefits	241,574	223,233
Operating lease obligations	18,352	17,819
Short-term debt	400	-
Current portion of long-term debt	13,145	15,974
Estimated settlements payable to government programs, net	3,658	763
Accrued interest	4,122	4,040
Total current liabilities	748,645	782,038
Long-term liabilities	160,391	136,840
Reserves for professional and general liabilities (Note 12)	23,100	20,389
Long-term debt	866,526	896,882
Operating lease obligations	137,344	143,142
Total liabilities	1,936,006	1,979,291
Net assets:		
Controlling interests	5,385,580	4,862,181
Non-controlling interests in subsidiaries	6,476	1,918
Without donor restrictions	5,392,056	4,864,099
With donor restrictions	109,817	115,985
Total net assets	5,501,873	4,980,084
Total liabilities and net assets	\$ 7,437,879	\$ 6,959,375

See accompanying notes.

# Sharp HealthCare

## Consolidated Statements of Operations (In Thousands)

	<b>Year Ended September 30</b>	
	<b>2023</b>	<b>2022</b>
Revenues:		
Patient service	\$ 2,564,724	\$ 2,415,965
Provider tax	322,577	263,242
Net patient service	2,887,301	2,679,207
Premium	1,705,636	1,635,193
Other	150,160	165,774
Total revenues	4,743,097	4,480,174
Expenses:		
Salaries and wages	1,824,512	1,713,248
Employee benefits	410,258	395,136
Medical fees	738,850	703,668
Purchased services	552,136	511,494
Supplies	586,494	555,583
Provider tax	145,312	146,156
Maintenance, utilities, and rentals	157,682	145,246
Depreciation and amortization	137,500	139,674
Business insurance	19,599	19,356
Interest	15,662	18,525
Other	66,795	55,934
Total expenses	4,654,800	4,404,020
Income from operations	88,297	76,154
Other non-operating income	30,507	45,232
Investment income (loss)	377,080	(637,195)
Excess (deficit) of revenues over expenses	495,884	(515,809)
(Loss) income from non-controlling interests	(184)	80
Excess (deficit) of revenues over expenses from controlling interests	495,700	(515,729)
Net assets released from restrictions used for purchase of property and equipment	14,140	18,127
Pension-related changes other than net periodic pension cost	8,796	43,766
Other changes in net assets without donor restrictions	4,763	(3,246)
Increase (decrease) in net assets without donor restrictions attributable to controlling interests	523,399	(457,082)
Non-controlling interest of acquired entities	4,374	1,998
Excess (deficit) of revenues over expenses attributable to non-controlling interests	184	(80)
Increase in non-controlling interests	4,558	1,918
Increase (decrease) in net assets without donor restrictions	\$ 527,957	\$ (455,164)

*See accompanying notes.*

## Sharp HealthCare

### Consolidated Statements of Changes in Net Assets (In Thousands)

	<b>Year Ended September 30</b>	
	<b>2023</b>	<b>2022</b>
Net assets without donor restrictions:		
Excess (deficit) of revenues over expenses from controlling interests	<b>\$ 495,700</b>	\$ (515,729)
Net assets released from restrictions used for purchase of property and equipment	<b>14,140</b>	18,127
Pension-related changes other than net periodic pension cost	<b>8,796</b>	43,766
Other changes in net assets without donor restrictions	<b>4,763</b>	(3,246)
Increase (decrease) in net assets without donor restrictions attributable to controlling interests	<b>523,399</b>	(457,082)
Non-controlling interest of acquired entities	<b>4,374</b>	1,998
Excess (deficit) of revenues over expenses attributable to non-controlling interests	<b>184</b>	(80)
Increase in non-controlling interests	<b>4,558</b>	1,918
Increase (decrease) in net assets without donor restrictions	<b>527,957</b>	(455,164)
Net assets with donor restrictions:		
Contributions	<b>11,431</b>	42,079
Investment income	<b>412</b>	916
Change in net unrealized gains (losses) on other than trading securities	<b>1,596</b>	(5,207)
Net assets released from restrictions	<b>(22,974)</b>	(21,722)
Other changes in net assets with donor restrictions	<b>3,367</b>	(313)
(Decrease) increase in net assets with donor restrictions	<b>(6,168)</b>	15,753
Increase (decrease) in net assets	<b>521,789</b>	(439,411)
Net assets, beginning of the year	<b>4,980,084</b>	5,419,495
Net assets, end of the year	<b>\$ 5,501,873</b>	\$ 4,980,084

*See accompanying notes.*

# Sharp HealthCare

## Consolidated Statements of Cash Flows (In Thousands)

	<b>Year Ended September 30</b>	
	<b>2023</b>	<b>2022</b>
<b>Operating activities</b>		
Increase (decrease) in net assets	\$ 521,789	\$ (439,411)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Other non-operating gains, net	(4,563)	(552)
Depreciation and amortization of operating and non-operating facilities	137,500	139,674
Amortization of bond premium and deferred financing costs	(415)	(508)
Change in fair value of swaps	28,501	(30,200)
Changes in operating lease right-of-use assets	8,458	14,648
Restricted contributions and investment income, net	(11,843)	(42,995)
Change in non-controlling interest	(4,318)	(1,918)
Pension and other retirement related changes other than net periodic pension cost	(8,796)	(43,766)
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable, net	(90,239)	(51,655)
Inventories	1,023	(6,662)
Short-term investments	(8,363)	12,249
Assets limited to use and long-term investments	(219,117)	624,033
Prepaid expenses and other	(226,491)	(9,075)
Increase (decrease) in:		
Estimated settlements payable to government programs, net	2,895	(7,890)
Accounts payable and accrued liabilities, long-term liabilities, and other liabilities	(13,773)	41,647
Accrued compensation and benefits	18,256	(16,116)
Changes in operating lease obligations	(8,157)	(15,179)
Net cash provided by operating activities	<b>122,347</b>	166,324
<b>Investing activities</b>		
Acquisition of property, equipment and other assets, net of retirements	(213,624)	(213,335)
Investments in joint ventures and subsidiaries, net of cash acquired	(3,692)	(1,708)
Sale of real property	8,580	—
Net cash used in investing activities	<b>(208,736)</b>	(215,043)

## Sharp HealthCare

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

	<b>Year Ended September 30</b>	
	<b>2023</b>	<b>2022</b>
<b>Financing activities</b>		
Payments on long-term debt	\$ (30,546)	\$ (12,016)
Payments under finance lease obligations	(1,401)	(1,342)
Proceeds from a line of credit	400	—
Restricted contributions and investment income, net	11,843	42,995
Net cash (used in) provided by financing activities	(19,704)	29,637
Net decrease in cash and cash equivalents	(106,093)	(19,082)
Cash and cash equivalents and restricted cash, beginning of year <sup>(1)</sup>	503,244	522,326
Cash and cash equivalents and restricted cash, end of year <sup>(1)</sup>	\$ 397,151	\$ 503,244
<b>Supplemental disclosures of cash flow information</b>		
Right-of-use assets obtained in exchange for new finance lease liabilities	\$ 1,250	\$ 1,204
Right-of-use assets obtained in exchange for new operating lease liabilities	8,010	1,873
Right-of-use remeasurement of operating and finance leases, net	(345)	153
Cash paid for interest, net of capitalized interest	24,880	24,356
Accrued obligations for property and equipment	16,629	22,961

(1) Cash and cash equivalents and restricted cash includes \$954 and \$629 of restricted cash (included in other restricted investments on the consolidated balance sheets) at September 30, 2023 and 2022, respectively.

*See accompanying notes.*

# Sharp HealthCare

## Notes to Consolidated Financial Statements

September 30, 2023

### 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 and Grossmont 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 of America (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 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.

#### **Accounts Receivable, Net**

Accounts receivable, net 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 concessions.

#### **Inventories**

Inventories, consisting principally of supplies, are stated at the lower of cost or market value using the first-in, first-out method.

#### **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. 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, 2023 and 2022, \$29,787,000 and \$29,296,000, 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)

*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 are 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 based 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 whenever 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 no impairment losses in 2023 or 2022.

#### Income From Operations

Sharp's primary purpose is to provide diversified health care services to the community served by its affiliates. Only those activities directly associated with the furtherance of this purpose are considered operating activities and classified as operating revenues and expenses. Items excluded from income from operations consist of investment income, gains and losses on disposition of property and equipment, changes in the fair value of interest rate swaps, and net income from SHF and GHF.

# Sharp HealthCare

## Notes to Consolidated Financial Statements (continued)

### **1. Summary of Significant Accounting Policies (continued)**

#### **Excess (Deficit) of Revenues Over Expenses**

The accompanying consolidated statements of operations include excess (deficit) 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 (deficit) 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 \$13,786,000 and a decrease of \$22,243,000 for the years ended September 30, 2023 and 2022, 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, coronavirus disease 2019 (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 are included in the calculation, in addition to an allocation of overhead costs.

The cost of charity care is summarized as follows:

	<b>Year Ended September 30</b>	
	<b>2023</b>	<b>2022</b>
	<i>(In Thousands)</i>	
Charity care, at cost	\$ 18,762	\$ 16,390

#### 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 used for the purchase of property plant and equipment of Sharp are reclassified as net assets without restrictions. Additionally, when a donor restriction expires, net assets with donor restrictions used for the operations of Sharp are recognized as non-operating revenue.

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, 2023 and 2022, 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 \$27,868,000 and \$19,738,000 as of September 30, 2023 and 2022, 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 in the consolidated statements of changes in net assets as other changes in net assets without donor restrictions and other changes in net assets with donor restrictions.

#### 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, 2023 and 2022, no such assets or liabilities were recorded.

#### Accounting Standards Issued But Not Yet Adopted

In October 2021, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update (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 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. 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 CARES Act funding collectively refers to government funding authorized by the CARES Act signed into law on March 21, 2020, the Paycheck Protection Program and Health Care Enhancement Act signed into law on April 24, 2020, and the American Rescue Plan Act (the ARP Act) signed into law on March 11, 2021.

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 revenues and all other CARES Act funding is recognized in other revenues.

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

## Sharp HealthCare

### Notes to Consolidated Financial Statements (continued)

#### 2. CARES Act Funding

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

	<b>Year Ended</b>		<b>Program to</b>
	<b>September 30,</b>		<b>Date -</b>
	<b>2023</b>	<b>2022</b>	<b>September 30,</b>
	<b>2023</b>		
	<i>(In Thousands)</i>		
Recognized:			
Net patient service	\$ 2,079	\$ 14,572	\$ 43,140
Premium	–	3,779	12,626
Other	–	37,391	219,454
Total revenues	\$ 2,079	\$ 55,742	\$ 275,220

#### 3. Fair Value Measurements

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

- Level 1 – Pricing is based on observable inputs, such as quoted prices for identical assets in active markets. Financial assets in Level 1 include U.S. Treasury securities and listed equities.
- Level 2 – Pricing inputs are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Financial assets and liabilities in this category generally include corporate bonds, U.S. government agency securities, commercial paper, supranational bonds, negotiable certificates of deposit, fixed-income funds, mortgage-backed securities, interest rate swaps, and commingled plan trust funds.

# Sharp HealthCare

## Notes to Consolidated Financial Statements (continued)

### 3. Fair Value Measurements (continued)

- Level 3 – Pricing inputs are generally unobservable and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require management’s judgment or estimation of assumptions that market participants would use in pricing the assets or liabilities. The fair values are therefore determined using factors that involve considerable judgment and interpretations including, but not limited to, private and public comparables, third-party appraisals, discounted cash flow models, and fund manager estimates. Sharp does not hold any financial assets that would be included in this category.

Assets and liabilities measured at fair value are based on one or more of three valuation techniques as identified below. The valuation techniques are as follows:

- 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.
- Cost approach: Amount that would be required to replace the service capacity of an asset (replacement cost).
- 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 \$15,275,000 and \$16,307,000 as of September 30, 2023 and 2022, 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, 2023. 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)

	<b>Total</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>NAV Practical Expedient</b>
	<i>(In Thousands)</i>			
<b>September 30, 2023</b>				
Short-term investments:				
U.S. treasury obligations	\$ 20,559	\$ 20,559	\$ –	\$ –
Corporate bonds	8,190	–	8,190	–
U.S. government agencies	3,278	–	3,278	–
Supranational	521	–	521	–
Commercial paper	1,108	–	1,108	–
Interest receivable	183	–	183	–
	\$ 33,839	\$ 20,559	\$ 13,280	\$ –
Long-term investments:				
Equities	\$ 57,852	\$ 57,852	\$ –	\$ –
U.S. treasury obligations	65,290	65,290	–	–
Corporate bonds	75,314	–	75,314	–
U.S. government agencies	18,575	–	18,575	–
Mortgage-backed securities and collateralized mortgage obligations	417	–	417	–
Asset-backed securities	20,168	–	20,168	–
Supranational	3,862	–	3,862	–
Interest receivable	1,136	–	1,136	–
	\$ 242,614	\$ 123,142	\$ 119,472	\$ –

## Sharp HealthCare

### Notes to Consolidated Financial Statements (continued)

#### 3. Fair Value Measurements (continued)

	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>NAV Practical Expedient</b>
<b>Total</b>	<b>(Level 1)</b>	<b>(Level 2)</b>	<b>(Level 2)</b>
<i>(In Thousands)</i>			
<b>September 30, 2023</b>			
Assets limited as to use:			
Designated for property:			
Money market funds	\$ 4,529	\$ 4,529	\$ —
Equities	1,879,916	1,879,916	—
U.S. treasury obligations	585,517	585,517	—
Corporate bonds	486,686	—	486,686
U.S. government agencies	80,536	—	80,536
Mortgage-backed securities and collateralized mortgage obligations	14,167	—	14,167
Asset-backed securities	95,622	—	95,622
Supranational	34,005	—	34,005
Interest receivable	7,284	—	7,284
	<b>\$ 3,188,262</b>	<b>\$ 2,469,962</b>	<b>\$ 718,300</b>
Other restricted investments:			
Money market funds	\$ 2,790	\$ 2,790	\$ —
Equities	62,615	62,615	—
U.S. treasury obligations	18,689	18,689	—
Fixed income funds	2,605	2,538	67
Corporate bonds	12,750	—	12,750
U.S. government agencies	1,293	—	1,293
Mortgage-backed securities and collateralized mortgage obligations	2,418	—	2,418
Asset-backed securities	1,947	—	1,947
Supranational	628	—	628
Private equity	12,239	—	12,239
Interest receivable	192	—	192
	<b>\$ 118,166</b>	<b>\$ 86,632</b>	<b>\$ 19,295</b>
	<b>\$ 118,166</b>	<b>\$ 86,632</b>	<b>\$ 19,295</b>

## Sharp HealthCare

### Notes to Consolidated Financial Statements (continued)

#### 3. Fair Value Measurements (continued)

	<b>Total</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>NAV Practical Expedient</b>
	<i>(In Thousands)</i>			
<b>September 30, 2023</b>				
Assets limited as to use (continued):				
Under self-insurance programs:				
Money market funds	\$ 29	\$ 29	\$ —	\$ —
Equities	2,778	2,778	—	—
U.S. treasury obligations	3,863	3,863	—	—
Corporate bonds	3,463	—	3,463	—
U.S. government agencies	584	—	584	—
Mortgage-backed securities and collateralized mortgage obligations	148	—	148	—
Asset-backed securities	677	—	677	—
Supranational	273	—	273	—
Interest receivable	51	—	51	—
	<b>\$ 11,866</b>	<b>\$ 6,670</b>	<b>\$ 5,196</b>	<b>\$ —</b>
Net swap receivables	<b>\$ 74,681</b>	<b>\$ —</b>	<b>\$ 74,681</b>	<b>\$ —</b>
	<b>\$ 74,681</b>	<b>\$ —</b>	<b>\$ 74,681</b>	<b>\$ —</b>

## 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, 2022. Only assets and liabilities measured at fair value on a recurring basis are shown in the three-tier fair value hierarchy.

	<b>Total</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>NAV Practical Expedient</b>
<i>(In Thousands)</i>				
<b>September 30, 2022</b>				
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	–
	<b>\$ 25,476</b>	<b>\$ 4,940</b>	<b>\$ 20,536</b>	<b>\$ –</b>
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	–
	<b>\$ 389,111</b>	<b>\$ 159,735</b>	<b>\$ 229,376</b>	<b>\$ –</b>

## Sharp HealthCare

### Notes to Consolidated Financial Statements (continued)

#### 3. Fair Value Measurements (continued)

	<b>Total</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>NAV Practical Expedient</b>
<i>(In Thousands)</i>				
<b>September 30, 2022</b>				
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	—
	<u>\$ 2,837,212</u>	<u>\$ 2,138,962</u>	<u>\$ 698,250</u>	<u>\$ —</u>
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	—
	<u>\$ 103,998</u>	<u>\$ 80,714</u>	<u>\$ 16,562</u>	<u>\$ 6,722</u>

## Sharp HealthCare

### Notes to Consolidated Financial Statements (continued)

#### 3. Fair Value Measurements (continued)

	<b>Total</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>NAV Practical Expedient</b>
<i>(In Thousands)</i>				
<b>September 30, 2022</b>				
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	\$ –

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 seven years for Leavitt Equity Partners II, LP and twelve years for A1 Health Ventures I, LP. There were no material unfunded commitments for Leavitt Equity Partners II, LP. The unfunded commitments for A1 Health Ventures I, LP were \$12,063,000 and \$0 at September 30, 2023 and 2022, 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, 2023 are as follows:

	<b>September 30</b>	
	<b>2023</b>	<b>2022</b>
	<i>(In Thousands)</i>	
Cash and cash equivalents	\$ 396,197	\$ 502,615
Short-term investments	33,839	25,476
Accounts receivable, net	768,693	677,447
Total	<u>\$ 1,198,729</u>	<u>\$ 1,205,538</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, 2019. The estimated net settlement payables are \$1,838,000 and \$3,171,000 at

# Sharp HealthCare

## Notes to Consolidated Financial Statements (continued)

### 4. Net Patient Service Revenues (continued)

September 30, 2023 and 2022, respectively, and adjustments pertaining to prior-year cost reports resulted in additional revenue of \$3,819,000 and \$5,718,000 for the years ended September 30, 2023 and 2022, 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, 2021. The estimated net settlement payables were \$4,085,000 and \$1,475,000 at September 30, 2023 and 2022, respectively. Adjustments pertaining to prior-year cost reports resulted in a reduction to revenue of \$218,000 and additional revenue of \$1,659,000 for the years ended September 30, 2023 and 2022, 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 revenues 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:

	<b>Year Ended September 30</b>	
	<b>2023</b>	<b>2022</b>
	<i>(In Thousands)</i>	
Medicare	\$ 676,133	\$ 647,473
Medi-Cal	521,712	515,755
Commercial	1,350,398	1,241,692
Other	16,481	11,045
<b>Total</b>	<b>\$ 2,564,724</b>	<b>\$ 2,415,965</b>

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

	<b>Year Ended September 30</b>	
	<b>2023</b>	<b>2022</b>
	<i>(In Thousands)</i>	
Hospital	\$ 2,278,257	\$ 2,133,871
Medical Foundation	239,906	224,718
Other	57,148	67,090
Eliminations	(10,587)	(9,714)
<b>Total</b>	<b>\$ 2,564,724</b>	<b>\$ 2,415,965</b>

#### 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 12 months, covering the period January 1, 2022 to December 31, 2022. The new program cycle spans 24 months, covering the period January 1, 2023 to December 31, 2024.

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

	<b>As of and for the Year Ended September 30</b>	
	<b>2023</b>	<b>2022</b>
	<i>(In Thousands)</i>	
Provider tax revenue	\$ 322,577	\$ 263,242
Provider tax expense	(145,312)	(146,156)
Income from operations from provider tax	<b>177,265</b>	117,086
Accounts receivable, net	<b>235,722</b>	226,769
Other assets	<b>229,124</b>	124,443
Accounts payable and accrued liabilities	<b>99,282</b>	127,232
Long-term liabilities	<b>74,572</b>	42,756

### 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:

	<b>Year Ended September 30</b>	
	<b>2023</b>	<b>2022</b>
	<i>(In Thousands)</i>	
Hospital	\$ 696,868	\$ 675,500
Medical Foundation	526,048	507,261
Insurance	957,556	914,887
Eliminations	(474,836)	(462,455)
Total	<u>\$ 1,705,636</u>	<u>\$ 1,635,193</u>

#### 5. Investment Income (Loss)

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

	<b>Year Ended September 30</b>	
	<b>2023</b>	<b>2022</b>
	<i>(In Thousands)</i>	
Interest income	\$ 92,383	\$ 77,033
Unrealized gains (losses), net	191,911	(740,609)
Realized gains, net	92,786	26,381
Total investment income (loss)	<u>\$ 377,080</u>	<u>\$ (637,195)</u>

## Sharp HealthCare

### Notes to Consolidated Financial Statements (continued)

#### 6. Property and Equipment

Property and equipment, net consist of the following:

	<b>September 30</b>	
	<b>2023</b>	<b>2022</b>
	<i>(In Thousands)</i>	
Land and improvements	<b>\$ 130,867</b>	\$ 133,334
Buildings and improvements	<b>2,280,982</b>	2,204,812
Equipment and furniture	<b>714,779</b>	676,478
Software cost	<b>149,357</b>	171,902
Construction-in-progress	<b>403,070</b>	316,156
Subtotal	<b>3,679,055</b>	3,502,682
Less accumulated depreciation and amortization	<b>(1,815,988)</b>	(1,706,761)
Total	<b><u>\$ 1,863,067</u></b>	<b><u>\$ 1,795,921</u></b>

Depreciation and amortization expense for the years ended September 30, 2023 and 2022 amounted to \$137,500,000 and \$139,674,000, respectively. Included in these amounts is amortization and depreciation for buildings and equipment under financing lease obligations. Sharp had \$13,258,000 and \$12,972,000 of buildings and equipment under finance leases at September 30, 2023 and 2022, respectively, at cost. Accumulated amortization for buildings and equipment under finance leases was \$7,418,000 and \$6,860,000 at September 30, 2023 and 2022, respectively. Sharp recorded amortization of \$1,523,000 and \$1,362,000 for the years ended September 30, 2023 and 2022, respectively, relating to buildings and equipment under finance leases. Sharp has outstanding commitments to complete construction-in-progress and intangible assets totaling \$371,312,000 at September 30, 2023.

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, 2023 and 2022, 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	
	2023	2022
	<i>(In Thousands)</i>	
<b>Long-term borrowings</b>		
<b>Fixed rate debt – revenue bonds (collateralized by the Obligated Group)</b>		
Series 2014A <sup>1</sup> ; Interest payable semiannually (rates range 4.50% to 5.00%)	\$ 140,120	\$ 140,120
Series 2017A <sup>2</sup> ; Interest payable semiannually (rates range 3.00% to 5.00%)	141,840	141,840
Series 2020A and Series 2020B <sup>3</sup> ; Interest payable semiannually (rates range 0.87% to 2.68%)	331,200	335,540
Total fixed rate debt	613,160	617,500
<b>Variable rate debt – revenue bonds</b>		
Series 2009A <sup>4</sup> ; Interest payable monthly (variable rate, 2.72% at Sep 30, 2023)	5,360	10,560
Series 2009C and Series 2009D <sup>5</sup> ; interest payable monthly (variable rate, 2.10% at September 30, 2023)	99,525	99,735
Series 2010A <sup>6</sup>	–	19,005
Series 2017B and Series 2017C <sup>7</sup> ; interest payable monthly (variable rate, 3.50% at September 30, 2023)	146,120	147,620
Total variable rate debt	251,005	276,920
<b>Other</b>		
Finance lease obligations; interest payable monthly and quarterly (rates range 2.28% to 6.00%)	3,276	5,463
Other; interest payable monthly and annually (average rate of 3.06%)	1,270	1,598
Total other debt	4,546	7,061
Total long-term debt	868,711	901,481
Less current portion	(13,145)	(15,974)
Unamortized debt issuance costs	(5,831)	(6,247)
Unamortized premiums, net	16,791	17,622
Total debt, net of current portion	\$ 866,526	\$ 896,882

<sup>1</sup> Principal due in annual amounts, ranging from \$5,655,000 in 2031 to \$32,300,000 in 2043.

<sup>2</sup> 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.

<sup>3</sup> Principal due in annual amounts, ranging from \$4,340,000 in 2023 to \$300,000,000 in 2050.

<sup>4</sup> Principal due in an annual amount of \$5,360,000 in 2024.

<sup>5</sup> Principal due in annual amounts, ranging from \$225,000 in 2024 to \$11,805,000 in 2035.

<sup>6</sup> Debt was paid in full in April 2023.

<sup>7</sup> Principal is due in annual amounts, ranging from \$1,575,000 in 2024 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:

	<b>Long-Term Debt</b>	<b>Finance Lease Obligation</b>
	<i>(In Thousands)</i>	
2024	\$ 11,797	\$ 1,348
2025	11,699	920
2026	12,021	464
2027	12,299	352
2028	12,696	192
Thereafter	804,923	—
<b>Total</b>	<b>\$ 865,435</b>	<b>\$ 3,276</b>

Scheduled interest payments Sharp is obligated to make on finance lease obligations referenced in the table noted above total to \$127,000.

A summary of interest cost on borrowed funds follows:

	<b>Year Ended September 30</b>	
	<b>2023</b>	<b>2022</b>
	<i>(In Thousands)</i>	
Interest cost:		
Capitalized	\$ 8,618	\$ 6,351
Charged to operations <sup>1</sup>	15,662	18,525
<b>Total</b>	<b>\$ 24,280</b>	<b>\$ 24,876</b>

<sup>1</sup> 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 on its consolidated balance sheets at fair value, with changes in fair value recorded on the consolidated statements of operations. For the years ended September 30, 2023 and 2022, \$28,501,000 and \$30,200,000, respectively, of gains were recognized in other non-operating income 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 Secured Overnight Financing Rate plus 0.11% 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 ten-year 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 2009A and B Bonds that refunded the Series 2003A and B Bonds. 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 Secured Overnight Financing Rate plus 0.11% 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 Secured Overnight Financing Rate plus 0.11%. 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 Secured Overnight Financing Rate plus 0.11% 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 \$7,484,000 and \$7,370,000 were available at September 30, 2023 and 2022, 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 \$17,516,000 and \$17,630,000 as of September 30, 2023 and 2022, 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, 2023 or 2022.

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 \$5,422,000 and \$10,682,000 at September 30, 2023 and 2022, 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 \$101,325,000 and \$101,538,000 at September 30, 2023 and 2022, 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 \$148,954,000 and \$150,483,000 at September 30, 2023 and 2022, 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:

	<b>September 30</b>	
	<b>2023</b>	<b>2022</b>
	<i>(In Thousands)</i>	
Hospital programs	\$ 26,513	\$ 25,645
Purchase of capital assets	20,178	21,675
Hospital department	17,421	18,638
Health education	7,844	7,153
Research	5,319	5,991
Indigent care	707	394
Total	77,982	79,496
Subject to passage of time	21,110	25,927
Subject to donor restrictions in conjunction with Sharp's pending policy		
Investment in perpetuity – endowment	10,725	10,562
Total	\$ 109,817	\$ 115,985

Net assets with donor restrictions of \$10,725,000 and \$10,562,000 at September 30, 2023 and 2022, 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:

	<b>September 30</b>	
	<b>2023</b>	<b>2022</b>
	<i>(In Thousands)</i>	
Hospital departments	\$ 5,094	\$ 4,690
Hospital programs	1,490	1,206
Research	304	556
Health education	493	434
Purchase of capital assets	93	39
Indigent care	52	44
<b>Total</b>	<b>\$ 7,526</b>	<b>\$ 6,969</b>

As of September 30, 2023, Sharp's pledges receivable, which are included in accounts receivable, net and other assets, consisted of the following unconditional promises to give:

	<b>Amount</b>
	<i>(In Thousands)</i>
Pledges due in 2024	\$ 4,576
Pledges due in 2025-2028	6,135
Pledges due after 2028	18,803
Less: discount on pledges receivable	(8,404)
<b>Total</b>	<b>\$ 21,110</b>

# 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. Sharp's 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 average fair value (GHF uses 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, 2023 and 2022.

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

	<b>Net Assets Without Donor Restrictions</b>	<b>Net Assets With Donor Restrictions</b>	<b>Total</b>
<i>(In Thousands)</i>			
<b>September 30, 2023</b>			
Board-designated endowment funds	\$ 6,953	\$ 4,134	\$ 11,087
Donor-restricted endowment funds	–	17,625	17,625
Total funds	<u>\$ 6,953</u>	<u>\$ 21,759</u>	<u>\$ 28,712</u>
<b>September 30, 2022</b>			
Board-designated endowment funds	\$ 6,000	\$ 4,134	\$ 10,134
Donor-restricted endowment funds	–	16,885	16,885
Total funds	<u>\$ 6,000</u>	<u>\$ 21,019</u>	<u>\$ 27,019</u>

Sharp has adopted investment and spending policies for endowment assets that attempt to provide a stream of funding to programs supported by its endowment, while balancing the risk of investment loss with long-term preservation of purchasing power. Endowment assets include those assets of donor-restricted funds that Sharp must hold in perpetuity or for a donor-specified period, as well as Board-designated funds.

## Sharp HealthCare

### Notes to Consolidated Financial Statements (continued)

#### 8. Net Assets and Contributions (continued)

	<b>Net Assets Without Donor Restrictions</b>	<b>Net Assets With Donor Restrictions</b>	<b>Total</b>
	<i>(In Thousands)</i>		
Endowment net assets, September 30, 2021	\$ 8,057	\$ 23,291	\$ 31,348
Investment return:			
Investment income	220	351	571
Net depreciation (realized and unrealized)	(2,090)	(3,494)	(5,584)
Total investment return	(1,870)	(3,143)	(5,013)
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
Investment return:			
Investment income	256	622	878
Net appreciation (realized and unrealized)	930	1,050	1,980
Total investment return	1,186	1,672	2,858
Contributions	–	22	22
Appropriation of endowment assets for expenditure	(233)	(954)	(1,187)
Endowment net assets, September 30, 2023	<b>\$ 6,953</b>	<b>\$ 21,759</b>	<b>\$ 28,712</b>

## 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, 2023 are as follows:

	<b>Patient Services</b>	<b>General and Administrative</b>	<b>Purchased Services Under Capitated Agreements</b>	<b>Total</b>
	<i>(In Thousands)</i>			
Salaries and wages	\$ 1,601,047	\$ 223,465	\$ –	\$ 1,824,512
Employee benefits	355,315	54,943	–	410,258
Medical fees	686,613	800	51,437	738,850
Purchased services	240,902	86,144	225,090	552,136
Supplies	576,744	9,750	–	586,494
Provider tax	145,312	–	–	145,312
Maintenance, utilities, and rentals	135,083	22,599	–	157,682
Depreciation and amortization	125,377	12,123	–	137,500
Business insurance	13,920	5,679	–	19,599
Interest	14,770	892	–	15,662
Other	46,470	20,325	–	66,795
<b>Total</b>	<b>\$ 3,941,553</b>	<b>\$ 436,720</b>	<b>\$ 276,527</b>	<b>\$ 4,654,800</b>

## 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, 2022 are as follows:

	<b>Patient Services</b>	<b>General and Administrative</b>	<b>Purchased Services Under Capitated Agreements</b>	<b>Total</b>
	<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
<b>Total</b>	<b>\$ 3,727,255</b>	<b>\$ 428,579</b>	<b>\$ 248,186</b>	<b>\$ 4,404,020</b>

The consolidated 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 function 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 \$32,000,000 and \$29,200,000 in 2023 and 2022, respectively.

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

	<b>September 30</b>	
	<b>2023</b>	<b>2022</b>
	<i>(In Thousands)</i>	
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 573,513	\$ 802,854
Service cost	21,863	39,399
Interest cost	29,989	18,899
Actuarial gain	(25,278)	(265,207)
Plan participant contributions	12,274	11,424
Benefits paid	(35,469)	(33,856)
Benefit obligation at end of year	<b>576,892</b>	<b>573,513</b>
Change in plan assets:		
Fair value of plan assets at beginning of year	543,258	727,775
Actual return on plan assets	24,682	(191,285)
Plan participant contributions	12,274	11,424
Employer contributions	32,000	29,200
Benefits paid	(35,469)	(33,856)
Fair value of plan assets at end of year	<b>576,745</b>	<b>543,258</b>
Funded status	<b>\$ (147)</b>	<b>\$ (30,255)</b>

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

	<b>September 30</b>	
	<b>2023</b>	<b>2022</b>
	<i>(In Thousands)</i>	
Accumulated benefit obligation	\$ 548,269	\$ 551,384
Fair value of plan assets	<b>576,745</b>	<b>543,258</b>

## 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 is as follows:

	<b>September 30</b>	
	<b>2023</b>	<b>2022</b>
	<i>(In Thousands)</i>	
Projected benefit obligation	<b>\$ 576,892</b>	\$ 573,513
Fair value of plan assets	<b>576,745</b>	543,258

The net liabilities at September 30, 2023 and 2022 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:

	<b>Year Ended September 30</b>	
	<b>2023</b>	<b>2022</b>
	<i>(In Thousands)</i>	
Net actuarial loss	<b>\$ 129,083</b>	\$ 156,235
Total	<b>\$ 129,083</b>	<u>156,235</u>

Net periodic pension cost includes the following components:

	<b>Year Ended September 30</b>	
	<b>2023</b>	<b>2022</b>
	<i>(In Thousands)</i>	
Employee benefits:		
Service cost	<b>\$ 21,863</b>	\$ 39,399
Other non-operating gains (losses):		
Interest cost	<b>29,989</b>	18,899
Expected return on plan assets	<b>(32,587)</b>	(41,481)
Recognized net actuarial loss	<b>9,779</b>	11,325
Net periodic pension cost	<b>\$ 29,044</b>	<u>28,142</u>

## Sharp HealthCare

### Notes to Consolidated Financial Statements (continued)

#### 10. Pension Plans (continued)

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

	<b>September 30</b>	
	<b>2023</b>	<b>2022</b>
Discount rate	<b>5.92%</b>	5.50%
Rate of compensation increase	<b>3.49</b>	3.00

At September 30, 2023, the benefit obligation experienced a net actuarial gain which was primarily attributable to the discount rate increasing to 5.92%, compared to 5.50% in the prior year. 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.

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

	<b>September 30</b>	
	<b>2023</b>	<b>2022</b>
Discount rate	<b>5.50%</b>	3.05%
Expected return on plan assets, net of expenses	<b>6.00</b>	5.75
Rate of compensation increase	<b>3.00</b>	3.00
Interest crediting rate	<b>6.00</b>	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 51.5% equity securities and 48.5% 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>2023</u>	<u>2022</u>
Asset category:		
Equity securities	54%	51%
Fixed income	46	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, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent): a Consensus of the FASB Emerging Issues Task Force*, as of September 30, 2023 and 2022.

#### Contributions

Sharp expects to contribute \$30,000,000 to the Plan in 2024.

## 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 in subsequent fiscal years:

	<b>Amount</b>
	<i>(In Thousands)</i>
2024	\$ 25,207
2025	24,104
2026	28,452
2027	31,374
2028	34,810
2029–2033	215,876

#### 11. Long-Term Liabilities

Long-term liabilities consist of the following:

	<b>September 30</b>	
	<b>2023</b>	<b>2022</b>
	<i>(In Thousands)</i>	
Defined benefit pension plan and other retirement benefit unfunded liability	\$ <b>18,504</b>	\$ 30,255
Workers' compensation	<b>43,413</b>	45,972
Deferred income	<b>6,730</b>	6,535
Provider tax payable	<b>74,572</b>	42,757
Other	<b>17,172</b>	11,321
Total	<b>\$ 160,391</b>	\$ 136,840

# 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, 2023 and 2022, 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 2023 and 2022 for all operating leases was \$34,728,000 and \$35,768,000, respectively.

## Sharp HealthCare

### Notes to Consolidated Financial Statements (continued)

#### 12. Commitments and Contingencies (continued)

	<b>Year Ended September 30</b>	
	<b>2023</b>	<b>2022</b>
	<i>(In Thousands)</i>	
Finance lease cost:		
Amortization of right-of-use assets	\$ 1,523	\$ 1,362
Interest on lease liabilities	97	159
Operating lease cost	20,770	21,182
Short-term lease cost	7,660	8,830
Variable lease cost	5,697	4,945
Low value lease cost	939	1,070
Total lease cost	\$ 36,686	\$ 37,548
Weighted-average remaining lease term-finance leases (years)	3.08	4.78
Weighted-average remaining lease term-operating leases (years)	29.38	29.37
Weighted-average discount rate-finance leases	2.0%	2.9%
Weighted-average discount rate-operating leases	2.0%	1.9%

The following table reconciles the undiscounted cash flows for subsequent fiscal years to the finance lease liabilities and operating lease liabilities recorded on the consolidated balance sheet at September 30, 2023:

	<b>Operating Leases</b>	<b>Finance Leases</b>
	<i>(In Thousands)</i>	
2024	\$ 19,375	\$ 1,585
2025	18,150	1,262
2026	17,940	791
2027	14,829	599
2028	11,535	465
Thereafter	121,180	-
Total minimum lease payments	203,009	4,702
Less: interest portion of lease payments	(47,313)	(1,426)
Present value of future minimum lease payments	155,696	3,276
Less: current obligations under leases	(18,352)	(1,348)
Long-term lease obligations	\$ 137,344	\$ 1,928

# 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 2029 and Sharp has committed to making payments over the terms of these agreements. As of September 30, 2023, the remaining contracted commitments expected to be paid for subsequent fiscal years are as follows:

	<u>Amount</u> <i>(In Thousands)</i>
2024	\$ 82,373
2025	53,352
2026	41,431
2027	13,807
2028	14,264
Thereafter	12,878
Total	<u>\$ 218,105</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, anti-trust, 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, 2023 and 2022, there were no material losses recorded for probable legal liabilities.

#### **Sharp Grossmont Hospital Privacy Claims**

On January 12, 2017, a class action complaint, entitled *Jones v. Sharp HealthCare and Sharp Grossmont Hospital* (Jones Action), 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. 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.

Following the Court's denial of class certification in the Jones Action in March 2018, fourteen individual lawsuits on behalf of approximately 485 women were filed with the Court against Sharp and Sharp Grossmont Hospital that generally mirrored the allegations in the original class action complaint in the Jones Action. Substantially all of the individual cases were related and consolidated along with the Jones Action for judicial management and administration under the direction of a single judge (the Lincoln Consolidated Actions).

On or about March 30, 2023, the parties to the Jones Action entered into a Stipulation and Agreement to Settle Class Action (Stipulation), which settled, compromised and resolved all disputed claims on a class-wide basis. The Stipulation provides for a \$10,000,000 maximum common fund settlement payment that covers all settlement costs and expenses, as well as distributions to the participating class members. The class includes all persons who underwent medical procedures in the operating rooms at the Women's Center of Sharp Grossmont Hospital from July 13, 2012 through June 30, 2013, which represents 1,427 class members. The class excludes the approximately 450 remaining plaintiffs in the individual actions, including those in

## Sharp HealthCare

### Notes to Consolidated Financial Statements (continued)

#### **12. Commitments and Contingencies (continued)**

the Lincoln Consolidated Actions. Expenses to be paid from the settlement fund under the Stipulation include class attorneys' fees of up to \$3,800,000, legal costs up to \$150,000, a class representative award of \$100,000, and class notice and claims administration costs of \$150,000. The net settlement fund of approximately \$5,900,000 was available to be distributed to the class members. Class members may "opt out" of the settlement, but if 2% or more of the class members elect to opt out, Sharp either may withdraw from the settlement or negotiate a lower common fund settlement payment. The Stipulation includes a release on behalf of the named plaintiff and other class members from all claims against Sharp and Sharp Grossmont Hospital. Further, with very limited exceptions, the video recordings of the class members' procedures in the Women's Center will be destroyed by Sharp and Sharp Grossmont Hospital within 60 days after the effective date of the settlement. The Stipulation was preliminarily approved by the Court on April 21, 2023. Notices of the Proposed Settlement were sent to class members and posted online as of May 5, 2023, and the claim submission deadline was September 2, 2023. The hearing on the Final Approval of the Stipulation was held on September 29, 2023, when the Court approved the Stipulation and a final attorneys' fee award of \$3,300,000. The entire common fund settlement payment will be covered by Sharp's cyber and other insurance in effect at the commencement of the Jones Action in 2017.

Prior to September 30, 2023, approximately 35 plaintiffs included in the Lincoln Consolidated Actions settled and dismissed their claims against Sharp and Sharp Grossmont Hospital with prejudice. The parties also engaged in ongoing settlement discussions in the Lincoln Consolidated Actions covering the approximately 450 remaining plaintiffs. Effective on or about November 9, 2023, Sharp, Sharp Grossmont Hospital and all remaining plaintiffs entered into a Confidential Master Settlement Agreement that settled and resolved all claims in the Lincoln Consolidated Actions. The terms and conditions of the Confidential Master Settlement Agreement are strictly confidential. However, as a condition of the settlement, all remaining plaintiffs have dismissed their individual actions against Sharp and Sharp Grossmont Hospital with prejudice. Further, any settlement payment that may be made pursuant to the terms of the Confidential Master Settlement Agreement will be covered by Sharp's cyber and other insurance. The settlement is not expected to have a material impact to the financial statements.

#### **Labor Matters**

Sharp and its consolidated affiliates are subject to various laws and regulations, and, in the normal course of business, are named as parties in a number of wage and hours claims and lawsuits. A provision for loss contingency is recorded when it is both probable that a loss has been incurred

## Sharp HealthCare

### Notes to Consolidated Financial Statements (continued)

#### **12. Commitments and Contingencies (continued)**

and the amount of the loss can be reasonable estimated. Sharp and its consolidated affiliates believe that their wage and hour and other related human resources policies and practices comply with applicable California law and continue to vigorously defend outstanding 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.

Not-for-profit health care providers and their employees are under the jurisdiction of the National Labor Relations Board. As of September 30, 2023, 27.2% 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. There was no aggregate limit as of September 30, 2022. As of September 30, 2023, Sharp's liability was limited in the aggregate to \$25,000,000. Sharp has obtained excess loss insurance covering claims above these amounts up to \$40,000,000. CQI SPC also provides professional and general liability insurance to the physicians employed by Sharp Rees-Stealy Medical Group and SharpCare Medical Group with per claim coverage of \$1,000,000 and a \$3,000,000 annual aggregate.

Professional and general liability costs have been accrued based upon an actuarial determination. Accrued malpractice losses have been discounted at 3.0% at September 30, 2023 and 2022. The current portion of professional liability costs is included in accounts payable and accrued liabilities on the consolidated balance sheets.

## Sharp HealthCare

### Notes to Consolidated Financial Statements (continued)

#### 12. Commitments and Contingencies (continued)

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

	<b>September 30</b>	
	<b>2023</b>	<b>2022</b>
	<i>(In Thousands)</i>	
Reserves for professional and general liabilities	\$ 23,100	\$ 20,389
Accounts payable and accrued liabilities	<b>10,123</b>	10,568
Total	<b>\$ 33,223</b>	<b>\$ 30,957</b>

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, 2023. In management's opinion, however, the estimated liability accrued at September 30, 2023 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 totalling \$500,000 on deposit with various financial institutions. In addition, SHP is required to maintain two times the normal requirement of tangible net equity, as defined in regulations of the DMHC. At September 30, 2023 and 2022, SHP was required to maintain tangible net equity totalling \$23,941,000 and \$28,223,000, respectively. SHP's tangible net equity was \$189,644,000 and \$162,451,000 at September 30, 2023 and 2022, respectively. Management believes it is in compliance with these requirements at September 30, 2023 and 2022.

#### 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'

# Sharp HealthCare

## Notes to Consolidated Financial Statements (continued)

### **12. Commitments and Contingencies (continued)**

compensation claims up to amounts covered by these insurance policies (Sharp was responsible for individual claims up to \$1,000,000 in 2023 and 2022). 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 4% and 2.5% at September 30, 2023 and 2022, respectively. Workers' compensation liabilities of \$60,223,000 and \$60,839,000 at September 30, 2023 and 2022, respectively, are included in accounts payable and accrued liabilities on the consolidated balance sheets.

### **13. Subsequent Events**

On December 13, 2023 Sharp issued a Preliminary Official Statement in connection with the planned sale and delivery of \$343,210,000 aggregate principal amount of California Public Finance Authority Revenue Bonds (Sharp HealthCare), Series 2024A. Sharp expects to use the proceeds of the Series 2024A Bonds, together with other available funds, to finance the capital improvements included in the campus master plan for SMH, redeem, defease, or otherwise discharge all of the Series 2009C and 2009D, Series 2014A, and Series 2017B and 2017C bonds, outstanding in the aggregate principal amounts disclosed in Note 7. Debt and Finance Lease Obligations, Long-Term Debt.

In preparing these consolidated financial statements, management has evaluated and disclosed all material subsequent events up to December 22, 2023, which is the date that the accompanying consolidated financial statements were available to be issued.

# Supplementary Information

# Sharp HealthCare

## Consolidating Balance Sheet (In Thousands)

September 30, 2023

	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	Consolidated Totals	Consolidating Eliminations	Totals
<b>Assets</b>													
<b>Current assets:</b>													
Cash and cash equivalents	\$ 186,971	\$ 1,608	\$ 719	\$ 46,499	\$ 300	\$ 151,751	\$ 1,314	\$ 5,031	\$ 465	\$ 1,539	\$ 396,197	\$ -	\$ 396,197
Short-term investments	18,868	-	-	14,036	-	935	-	-	-	-	33,839	-	33,839
Accounts receivable, net	60,494	298,948	130,964	221,663	31,656	30,689	1,788	-	8,154	333	784,689	(15,996)	768,693
Intercompany receivables	-	3,037,772	86,847	-	28,143	-	-	-	-	124	3,152,886	(3,152,886)	-
Inventories	20,131	19,976	10,212	15,051	2,802	-	319	-	-	-	68,491	-	68,491
Prepaid expenses and other	53,921	8,087	4,787	7,176	867	2,589	386	8	42	550	78,413	-	78,413
<b>Total current assets</b>	<b>340,385</b>	<b>3,366,391</b>	<b>233,529</b>	<b>304,425</b>	<b>63,768</b>	<b>185,964</b>	<b>3,807</b>	<b>5,039</b>	<b>8,661</b>	<b>2,546</b>	<b>4,514,515</b>	<b>(3,168,882)</b>	<b>1,345,633</b>
Long-term investments	134,059	-	-	11,466	-	97,089	-	-	-	-	242,614	-	242,614
<b>Assets limited as to use:</b>													
Designated for property	2,641,553	-	-	546,709	-	-	-	-	-	-	3,188,262	-	3,188,262
Other restricted investments	12,239	-	-	-	-	950	-	-	77,061	27,916	118,166	-	118,166
Under self-insurance programs	-	-	-	-	-	-	-	11,866	-	-	11,866	-	11,866
<b>Total assets limited as to use</b>	<b>2,653,792</b>	<b>-</b>	<b>-</b>	<b>546,709</b>	<b>-</b>	<b>950</b>	<b>-</b>	<b>11,866</b>	<b>77,061</b>	<b>27,916</b>	<b>3,318,294</b>	<b>-</b>	<b>3,318,294</b>
Property and equipment, net	558,002	519,504	300,210	420,838	63,621	176	541	-	175	-	1,863,067	-	1,863,067
Leased assets-operating	91,098	4,936	2,477	16,574	16,195	773	2,691	-	-	-	134,744	(773)	133,971
Other assets	256,125	66,193	53,474	103,395	38,789	312	11,395	42,582	53,177	9,438	634,880	(100,580)	534,300
Beneficial interest in foundations	106,563	-	-	39,003	-	-	-	-	-	-	145,566	(145,566)	-
<b>Total assets</b>	<b>\$ 4,140,024</b>	<b>\$ 3,957,024</b>	<b>\$ 589,690</b>	<b>\$ 1,442,410</b>	<b>\$ 182,373</b>	<b>\$ 285,264</b>	<b>\$ 18,434</b>	<b>\$ 59,487</b>	<b>\$ 139,074</b>	<b>\$ 39,900</b>	<b>\$ 10,853,680</b>	<b>\$ (3,415,801)</b>	<b>\$ 7,437,879</b>
<b>Liabilities and net assets</b>													
<b>Current liabilities:</b>													
Accounts payable and accrued liabilities	\$ 196,742	\$ 77,663	\$ 37,415	\$ 59,482	\$ 7,333	\$ 89,410	\$ 1,530	\$ 12,551	\$ 460	\$ 113	\$ 482,699	\$ (15,305)	\$ 467,394
Intercompany payable	3,062,103	-	-	83,461	-	5,161	120	636	1,405	-	3,152,886	(3,152,886)	-
Accrued compensation and benefits	241,322	-	-	-	-	-	301	-	-	-	241,623	(49)	241,574
Operating lease obligations	11,325	2,271	1,042	2,520	912	784	282	-	-	-	19,136	(784)	18,352
Short-term debt	-	-	-	-	-	-	400	-	-	-	400	-	400
Current portion of long-term debt	3,712	4,034	2,402	2,634	92	-	271	-	-	-	13,145	-	13,145
Payable to government programs, net	-	174	1,355	1,998	131	-	-	-	-	-	3,658	-	3,658
Accrued interest	1,141	1,570	1,007	399	-	-	5	-	-	-	4,122	-	4,122
<b>Total current liabilities</b>	<b>3,516,345</b>	<b>85,712</b>	<b>43,221</b>	<b>150,494</b>	<b>8,468</b>	<b>95,355</b>	<b>2,909</b>	<b>13,187</b>	<b>1,865</b>	<b>113</b>	<b>3,917,669</b>	<b>(3,169,024)</b>	<b>748,645</b>
Long-term liabilities	96,851	40,722	16,093	33,748	1,884	265	-	28,798	30,646	784	249,791	(89,400)	160,391
Reserves for professional and general liabilities	8,100	-	-	-	-	-	-	15,000	-	-	23,100	-	23,100
Long-term debt	273,709	285,332	256,913	49,368	141	-	1,063	-	-	-	866,526	-	866,526
Operating lease obligations	98,926	3,165	1,580	14,950	16,237	-	2,475	-	-	-	137,333	11	137,344
<b>Total liabilities</b>	<b>3,993,931</b>	<b>414,931</b>	<b>317,807</b>	<b>248,560</b>	<b>26,730</b>	<b>95,620</b>	<b>6,447</b>	<b>56,985</b>	<b>32,511</b>	<b>897</b>	<b>5,194,419</b>	<b>(3,258,413)</b>	<b>1,936,006</b>
<b>Net assets:</b>													
Controlling interests	49,666	3,542,093	271,883	1,168,415	153,638	189,644	5,512	2,502	10,136	13,618	5,407,107	(21,526)	5,385,581
Non-controlling interests in subsidiaries	-	-	-	-	-	-	6,475	-	-	-	6,475	-	6,475
Without donor restrictions	49,666	3,542,093	271,883	1,168,415	153,638	189,644	11,987	2,502	10,136	13,618	5,413,582	(21,526)	5,392,056
With donor restrictions	96,427	-	-	25,435	2,005	-	-	-	96,427	25,385	245,679	(135,862)	109,817
<b>Total net assets</b>	<b>146,093</b>	<b>3,542,093</b>	<b>271,883</b>	<b>1,193,850</b>	<b>155,643</b>	<b>189,644</b>	<b>11,987</b>	<b>2,502</b>	<b>106,563</b>	<b>39,003</b>	<b>5,659,261</b>	<b>(157,388)</b>	<b>5,501,873</b>
<b>Total liabilities and net assets</b>	<b>\$ 4,140,024</b>	<b>\$ 3,957,024</b>	<b>\$ 589,690</b>	<b>\$ 1,442,410</b>	<b>\$ 182,373</b>	<b>\$ 285,264</b>	<b>\$ 18,434</b>	<b>\$ 59,487</b>	<b>\$ 139,074</b>	<b>\$ 39,900</b>	<b>\$ 10,853,680</b>	<b>\$ (3,415,801)</b>	<b>\$ 7,437,879</b>

# Sharp HealthCare

## Consolidating Statement of Operations (In Thousands)

Year Ended September 30, 2023

	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	Consolidated Totals	Consolidating Eliminations	Totals
<b>Revenues:</b>													
Patient service revenue	\$ 240,196	\$ 1,341,197	\$ 495,353	\$ 775,918	\$ 138,500	\$ –	\$ 12,123	\$ –	\$ –	\$ –	\$ 3,003,287	\$ (438,563)	\$ 2,564,724
Provider tax revenue	–	103,528	67,655	132,966	18,428	–	–	–	–	–	322,577	–	322,577
Net patient service	240,196	1,444,725	563,008	908,884	156,928	–	12,123	–	–	–	3,325,864	(438,563)	2,887,301
Premium	1,231,053	–	–	–	–	957,556	–	–	–	–	2,188,609	(482,973)	1,705,636
Other	289,126	15,234	10,881	62,113	4,175	–	1	12,743	–	–	394,273	(244,113)	150,160
<b>Total revenues</b>	<b>1,760,375</b>	<b>1,459,959</b>	<b>573,889</b>	<b>970,997</b>	<b>161,103</b>	<b>957,556</b>	<b>12,124</b>	<b>12,743</b>	<b>–</b>	<b>–</b>	<b>5,908,746</b>	<b>(1,165,649)</b>	<b>4,743,097</b>
<b>Expenses:</b>													
Salaries and wages	497,264	548,989	260,601	416,148	68,897	29,331	3,282	–	–	–	1,824,512	–	1,824,512
Employee benefits	125,417	120,451	55,647	87,761	14,681	5,652	649	–	–	–	410,258	–	410,258
Medical fees	382,227	20,980	13,180	20,406	3,156	837,337	152	–	–	–	1,277,438	(538,588)	738,850
Purchased services	337,337	92,288	47,909	51,506	12,696	33,552	1,496	233	–	–	577,017	(24,881)	552,136
Supplies	125,864	208,325	84,797	143,059	19,990	214	4,245	–	–	–	586,494	–	586,494
Provider tax	–	60,739	28,419	53,208	2,946	–	–	–	–	–	145,312	–	145,312
Maintenance, utilities and rentals	71,474	41,220	15,768	27,178	5,938	1,438	1,555	–	–	–	164,571	(6,889)	157,682
Depreciation and amortization	37,143	42,948	23,090	41,831	6,313	512	178	7	–	–	152,022	(14,522)	137,500
Business Insurance	7,439	5,364	2,210	3,521	587	350	114	13,022	–	–	32,607	(13,008)	19,599
Interest	1,955	4,376	7,005	317	–	28	63	2	–	–	13,746	1,916	15,662
Purchased services from affiliate	424,667	160,158	64,660	106,135	17,724	7,405	–	183	–	–	780,932	(780,932)	–
Other	20,959	9,707	2,842	5,436	1,473	30,127	232	19	–	–	70,795	(4,000)	66,795
<b>Total expenses</b>	<b>2,031,746</b>	<b>1,315,545</b>	<b>606,128</b>	<b>956,506</b>	<b>154,401</b>	<b>945,946</b>	<b>11,966</b>	<b>13,466</b>	<b>–</b>	<b>–</b>	<b>6,035,704</b>	<b>(1,380,904)</b>	<b>4,654,800</b>
(Loss) income from operations	(271,371)	144,414	(32,239)	14,491	6,702	11,610	158	(723)	–	–	(126,958)	215,255	88,297
Other non-operating income (loss)	25,406	(2,437)	(815)	(3,887)	(174)	(47)	4	–	(1,093)	(1,072)	15,885	14,622	30,507
Investment income	284,924	149,766	66,155	60,546	16,669	15,652	21	725	5,644	2,855	602,957	(225,877)	377,080
Excess of revenues over expenses	38,959	291,743	33,101	71,150	23,197	27,215	183	2	4,551	1,783	491,884	4,000	495,884
Excess (deficit) of revenues over expenses from non-controlling interests	–	–	–	–	–	–	(184)	–	–	–	(184)	–	(184)
Excess (deficit) of revenues over expenses from controlling interests	38,959	291,743	33,101	71,150	23,197	27,215	(1)	2	4,551	1,783	491,700	4,000	495,700
<b>Net assets released from restrictions used for purchase of property, plant and equipment</b>													
	2,394	4,893	1,150	3,857	1,846	–	–	–	–	–	14,140	–	14,140
<b>Pension and retirement benefit related changes other than net periodic pension cost</b>													
	2,444	3,566	1,130	1,438	243	(25)	–	–	–	–	8,796	–	8,796
<b>Controlling interest of acquired entities</b>													
	3,664	–	–	–	–	–	3,889	–	–	–	7,553	(7,553)	–
<b>Other changes in net assets without donor restrictions</b>													
	4,549	–	–	1,731	4,763	–	–	–	–	–	11,043	(6,280)	4,763
<b>Increase in net assets without donor restrictions attributable to controlling interests</b>													
	52,010	300,202	35,381	78,176	30,049	27,190	3,888	2	4,551	1,783	533,232	(9,833)	523,399
<b>Non-controlling interest of acquired entities</b>													
	–	–	–	–	–	–	4,374	–	–	–	4,374	–	4,374
<b>Excess of revenues over expenses attributable to non-controlling interests</b>													
	–	–	–	–	–	–	184	–	–	–	184	–	184
<b>Increase in non-controlling interests</b>													
	–	–	–	–	–	–	4,558	–	–	–	4,558	–	4,558
<b>Increase in net assets without donor restrictions</b>													
	\$ 52,010	\$ 300,202	\$ 35,381	\$ 78,176	\$ 30,049	\$ 27,190	\$ 8,446	\$ 2	\$ 4,551	\$ 1,783	\$ 537,790	\$ (9,833)	\$ 527,957

# Sharp HealthCare

## Consolidating Statement of Changes in Net Assets (In Thousands)

Year Ended September 30, 2023

	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	Consolidated Totals	Consolidating Eliminations	Totals
Net assets without donor restrictions:													
Excess (deficit) of revenue over expenses from controlling interests	\$ 38,959	\$ 291,743	\$ 33,101	\$ 71,150	\$ 23,197	\$ 27,215	\$ (1)	\$ 2	\$ 4,551	\$ 1,783	\$ 491,700	\$ 4,000	\$ 495,700
Net assets released from restrictions used for purchase of property, plant and equipment	2,394	4,893	1,150	3,857	1,846	-	-	-	-	-	14,140	-	14,140
Pension and retirement benefit related changes other than net periodic pension cost	2,444	3,566	1,130	1,438	243	(25)	-	-	-	-	8,796	-	8,796
Controlling interest of acquired entities	3,664	-	-	-	-	-	3,889	-	-	-	7,553	(7,553)	-
Other changes in net assets without donor restrictions	4,549	-	-	1,731	4,763	-	-	-	-	-	11,043	(6,280)	4,763
Increase in net assets without donor restrictions attributable to controlling interests	52,010	300,202	35,381	78,176	30,049	27,190	3,888	2	4,551	1,783	533,232	(9,833)	523,399
Non-controlling interest of acquired entities	-	-	-	-	-	-	4,374	-	-	-	4,374	-	4,374
Excess of revenues over expenses attributable to non-controlling interests	-	-	-	-	-	-	184	-	-	-	184	-	184
Increase in non-controlling interests	-	-	-	-	-	-	4,558	-	-	-	4,558	-	4,558
Increase in net assets without donor restrictions	52,010	300,202	35,381	78,176	30,049	27,190	8,446	2	4,551	1,783	537,790	(9,833)	527,957
Net assets with donor restrictions:													
Contributions	-	-	-	-	-	-	-	-	10,516	4,915	15,431	(4,000)	11,431
Investment income	-	-	-	-	-	-	-	-	352	60	412	-	412
Change in net unrealized gains on other than trading securities	-	-	-	-	-	-	-	-	1,294	302	1,596	-	1,596
Net assets released from restrictions	-	-	-	-	-	-	-	-	(15,882)	(7,092)	(22,974)	-	(22,974)
Other changes in net assets with donor restrictions	(3,719)	-	-	(1,767)	3,367	-	-	-	-	-	(2,119)	5,486	3,367
(Decrease) increase in net assets with donor restrictions	(3,719)	-	-	(1,767)	3,367	-	-	-	(3,720)	(1,815)	(7,654)	1,486	(6,168)
Increase (decrease) in net assets	48,291	300,202	35,381	76,409	33,416	27,190	8,446	2	831	(32)	530,136	(8,347)	521,789
Net assets, beginning 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
Net assets, end of the year	\$ 146,093	\$ 3,542,093	\$ 271,883	\$ 1,193,850	\$ 155,643	\$ 189,644	\$ 11,987	\$ 2,502	\$ 106,563	\$ 39,003	\$ 5,659,261	\$ (157,388)	\$ 5,501,873

# Sharp HealthCare

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

September 30, 2023

	Sharp HealthCare	Sharp Memorial Hospital	Sharp Chula Vista Medical Center	Sharp Grossmont Hospital	Consolidated Totals	Consolidating Eliminations	Totals
<b>Assets</b>							
Current assets:							
Cash and cash equivalents	\$ 186,971	\$ 1,608	\$ 719	\$ 46,499	\$ 235,797	\$ –	\$ 235,797
Short-term investments	18,868	–	–	14,036	32,904	–	32,904
Accounts receivable, net	60,494	298,948	130,964	221,663	712,069	(2,107)	709,962
Intercompany receivables	–	3,037,772	86,847	–	3,124,619	(3,123,566)	1,053
Inventories	20,131	19,976	10,212	15,051	65,370	–	65,370
Prepaid expenses and other	53,922	8,087	4,787	7,176	73,972	–	73,972
Total current assets	340,386	3,366,391	233,529	304,425	4,244,731	(3,125,673)	1,119,058
Long-term investments	134,059	–	–	11,466	145,525	–	145,525
Assets limited as to use:							
Designated for property	2,641,553	–	–	546,709	3,188,262	–	3,188,262
Other restricted investments	12,239	–	–	–	12,239	–	12,239
Total assets limited as to use	2,653,792	–	–	546,709	3,200,501	–	3,200,501
Property and equipment, net	558,002	519,504	300,210	420,838	1,798,554	–	1,798,554
Leased assets-operating	91,098	4,936	2,477	16,574	115,085	–	115,085
Other assets	256,124	66,193	53,474	103,395	479,186	–	479,186
Beneficial interest in foundations	106,563	–	–	39,003	145,566	–	145,566
Total assets	\$ 4,140,024	\$ 3,957,024	\$ 589,690	\$ 1,442,410	\$ 10,129,148	\$ (3,125,673)	\$ 7,003,475
<b>Liabilities and net assets</b>							
Current liabilities:							
Accounts payable and accrued liabilities	\$ 196,742	\$ 77,663	\$ 37,415	\$ 59,482	\$ 371,302	\$ (1,900)	\$ 369,402
Intercompany payable	3,062,102	–	–	83,461	3,145,563	(3,123,773)	21,790
Accrued compensation and benefits	241,324	–	–	–	241,324	–	241,324
Operating lease obligations	11,325	2,271	1,042	2,520	17,158	–	17,158
Current portion of long-term debt	3,711	4,034	2,402	2,634	12,781	–	12,781
Payable to government programs, net	–	174	1,355	1,999	3,528	–	3,528
Accrued interest	1,141	1,570	1,007	398	4,116	–	4,116
Total current liabilities	3,516,345	85,712	43,221	150,494	3,795,772	(3,125,673)	670,099
Long-term liabilities	96,851	40,722	16,093	33,747	187,413	–	187,413
Reserves for professional and general liabilities	8,100	–	–	–	8,100	–	8,100
Long-term debt	273,709	285,332	256,913	49,369	865,323	–	865,323
Operating lease obligations	98,926	3,165	1,580	14,950	118,621	–	118,621
Total liabilities	3,993,931	414,931	317,807	248,560	4,975,229	(3,125,673)	1,849,556
Net assets:							
Without donor restrictions	49,666	3,542,093	271,883	1,168,415	5,032,057	–	5,032,057
With donor restrictions	96,427	–	–	25,435	121,862	–	121,862
Total net assets	146,093	3,542,093	271,883	1,193,850	5,153,919	–	5,153,919
Total liabilities and net assets	\$ 4,140,024	\$ 3,957,024	\$ 589,690	\$ 1,442,410	\$ 10,129,148	\$ (3,125,673)	\$ 7,003,475

# Sharp HealthCare

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

Year Ended September 30, 2023

	Sharp HealthCare	Sharp Memorial Hospital	Sharp Chula Vista Medical Center	Sharp Grossmont Hospital	Consolidated Totals	Consolidating Eliminations	Totals
<b>Revenues:</b>							
Patient service revenue	\$ 240,196	\$ 1,341,197	\$ 495,353	\$ 775,918	\$ 2,852,664	\$ (406,498)	\$ 2,446,166
Provider tax revenue	–	103,528	67,655	132,966	304,149	–	304,149
Net patient service	240,196	1,444,725	563,008	908,884	3,156,813	(406,498)	2,750,315
Premium	1,231,054	–	–	–	1,231,054	–	1,231,054
Other	289,126	15,234	10,881	62,113	377,354	(204,127)	173,227
<b>Total revenues</b>	<b>1,760,376</b>	<b>1,459,959</b>	<b>573,889</b>	<b>970,997</b>	<b>4,765,221</b>	<b>(610,625)</b>	<b>4,154,596</b>
<b>Expenses:</b>							
Salaries and wages	497,263	548,989	260,601	416,148	1,723,001	–	1,723,001
Employee benefits	125,417	120,451	55,647	87,761	389,276	–	389,276
Medical fees	382,228	20,980	13,180	20,406	436,794	(41,843)	394,951
Purchased services	337,337	92,288	47,909	51,506	529,040	(21,297)	507,743
Supplies	125,864	208,325	84,797	143,059	562,045	–	562,045
Provider tax	–	60,739	28,419	53,209	142,367	–	142,367
Maintenance, utilities and rentals	71,474	41,220	15,768	27,178	155,640	(5,856)	149,784
Depreciation and amortization	37,143	42,948	23,090	41,830	145,011	(13,331)	131,680
Business insurance	7,439	5,364	2,210	3,521	18,534	–	18,534
Interest	1,954	4,376	7,005	317	13,652	2,077	15,729
Purchased services from affiliate	424,669	160,158	64,660	106,135	755,622	(738,751)	16,871
Other	20,960	9,707	2,842	5,436	38,945	–	38,945
<b>Total expenses</b>	<b>2,031,748</b>	<b>1,315,545</b>	<b>606,128</b>	<b>956,506</b>	<b>4,909,927</b>	<b>(819,001)</b>	<b>4,090,926</b>
(Loss) income from operations	(271,372)	144,414	(32,239)	14,491	(144,706)	208,376	63,670
Other non-operating income (loss)	25,406	(2,437)	(815)	(3,887)	18,267	832	19,099
Investment income	284,924	149,766	66,155	60,546	561,391	(209,208)	352,183
Excess of revenues over expenses	38,958	291,743	33,101	71,150	434,952	–	434,952
Net assets released from restrictions used for purchase of property, plant and equipment	2,396	4,893	1,150	3,857	12,296	–	12,296
Pension and other retirement related changes other than net periodic pension cost	2,443	3,566	1,130	1,438	8,577	–	8,577
Controlling interest of acquired entities	3,664	–	–	–	3,664	–	3,664
Other changes in net assets without donor restrictions	4,549	–	–	1,731	6,280	–	6,280
Increase in net assets without donor restrictions	\$ 52,010	\$ 300,202	\$ 35,381	\$ 78,176	\$ 465,769	\$ –	\$ 465,769

# Sharp HealthCare

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

Year Ended September 30, 2023

	Sharp HealthCare	Sharp Memorial Hospital	Sharp Chula Vista Medical Center	Sharp Grossmont Hospital	Combined Totals	Combining Eliminations	Totals
Net assets without donor restrictions:							
Excess of revenues over expenses	\$ 38,958	\$ 291,743	\$ 33,101	\$ 71,150	\$ 434,952	\$ –	\$ 434,952
Net assets released from restrictions used for purchase of property, plant and equipment	2,396	4,893	1,150	3,857	12,296	–	12,296
Pension and other retirement related changes other than net periodic pension cost	2,443	3,566	1,130	1,438	8,577	–	8,577
Controlling interest of acquired entities	3,664	–	–	–	3,664	–	3,664
Other changes in net assets without donor restrictions	4,549	–	–	1,731	6,280	–	6,280
Increase in net assets without donor restrictions	52,010	300,202	35,381	78,176	465,769	–	465,769
Net assets with donor restrictions:							
Other changes in net assets with donor restrictions	(3,719)	–	–	(1,767)	(5,486)	–	(5,486)
Increase in net assets with donor restrictions	(3,719)	–	–	(1,767)	(5,486)	–	(5,486)
Decrease in net assets	48,291	300,202	35,381	76,409	460,283	–	460,283
Net assets, beginning of the year	97,802	3,241,891	236,502	1,117,441	4,693,636	–	4,693,636
Net assets, end of the year	\$ 146,093	\$ 3,542,093	\$ 271,883	\$ 1,193,850	\$ 5,153,919	\$ –	\$ 5,153,919

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