

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

Sharp HealthCare
Years Ended September 30, 2024 and 2023
With Report of Independent Auditors

Ernst & Young LLP



Sharp HealthCare

Consolidated Financial Statements and Supplementary Information

Years Ended September 30, 2024 and 2023

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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, 2024 and 2023, 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, 2024 and 2023, and the results of its operations, changes in net assets 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 19, 2024

Sharp HealthCare

Consolidated Balance Sheets (In Thousands)

	September 30	
	2024	2023
Assets		
Current assets:		
Cash and cash equivalents	\$ 228,185	\$ 396,197
Short-term investments	26,534	33,839
Accounts receivable, net	921,841	768,693
Inventories	70,307	68,491
Prepaid expenses and other	82,169	78,413
Total current assets	1,329,036	1,345,633
Long-term investments	257,624	242,614
Assets limited as to use:		
Designated for property	3,988,561	3,188,262
Under bond indentures	115,250	–
Other restricted investments	144,798	118,166
Under self-insurance programs	13,470	11,866
Total assets limited as to use	4,262,079	3,318,294
Property and equipment, net	1,986,992	1,863,067
Leased assets – operating	129,146	133,971
Other assets	758,923	534,300
Total assets	\$ 8,723,800	\$ 7,437,879
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 521,609	\$ 467,394
Accrued compensation and benefits	270,777	241,574
Operating lease obligations	18,925	18,352
Short-term debt	573	400
Current portion of long-term debt	17,373	13,145
Estimated settlements payable to government programs, net	1,278	3,658
Accrued interest	6,119	4,122
Total current liabilities	836,654	748,645
Long-term liabilities	190,211	160,391
Reserves for professional and general liabilities	18,693	23,100
Long-term debt	1,200,232	866,526
Operating lease obligations	132,569	137,344
Total liabilities	2,378,359	1,936,006
Net assets:		
Controlling interests	6,215,124	5,385,580
Noncontrolling interests in subsidiaries	7,995	6,476
Without donor restrictions	6,223,119	5,392,056
With donor restrictions	122,322	109,817
Total net assets	6,345,441	5,501,873
Total liabilities and net assets	\$ 8,723,800	\$ 7,437,879

See accompanying notes.

Sharp HealthCare

Consolidated Statements of Operations (In Thousands)

	Year Ended September 30	
	2024	2023
Revenues:		
Patient service	\$ 2,816,174	\$ 2,564,724
Provider tax	348,349	322,577
Net patient service	3,164,523	2,887,301
Premium	1,807,082	1,705,636
Other	176,472	150,160
Total revenues	5,148,077	4,743,097
Expenses:		
Salaries and wages	1,940,045	1,824,512
Employee benefits	442,811	410,258
Medical fees	796,979	738,850
Purchased services	660,170	552,136
Supplies	644,684	586,494
Provider tax	192,456	145,312
Maintenance, utilities, and rentals	167,113	157,682
Depreciation and amortization	142,217	137,500
Business insurance	23,740	19,599
Interest	16,286	15,662
Other	77,470	66,795
Total expenses	5,103,971	4,654,800
Income from operations	44,106	88,297
Other nonoperating (loss) income	(13,468)	30,507
Investment income	747,513	377,080
Excess of revenues over expenses	778,151	495,884
Income from noncontrolling interests	(119)	(184)
Excess of revenues over expenses from controlling interests	778,032	495,700
Net assets released from restrictions used for purchase of property and equipment	14,103	14,140
Pension-related changes other than net periodic pension cost	26,771	8,796
Controlling interest of acquired entities	1,434	-
Other changes in net assets without donor restrictions	9,204	4,763
Increase in net assets without donor restrictions attributable to controlling interests	829,544	523,399
Noncontrolling interest of acquired entities	1,400	4,374
Excess of revenues over expenses attributable to noncontrolling interests	119	184
Increase in noncontrolling interests	1,519	4,558
Increase in net assets without donor restrictions	\$ 831,063	\$ 527,957

See accompanying notes.

Sharp HealthCare

Consolidated Statements of Changes in Net Assets (In Thousands)

	Year Ended September 30	
	2024	2023
Net assets without donor restrictions:		
Excess of revenues over expenses from controlling interests	\$ 778,032	\$ 495,700
Net assets released from restrictions used for purchase of property and equipment	14,103	14,140
Pension-related changes other than net periodic pension cost	26,771	8,796
Controlling interest of acquired entities	1,434	–
Other changes in net assets without donor restrictions	9,204	4,763
Increase in net assets without donor restrictions attributable to controlling interests	829,544	523,399
Noncontrolling interest of acquired entities	1,400	4,374
Excess of revenues over expenses attributable to noncontrolling interests	119	184
Increase in noncontrolling interests	1,519	4,558
Increase in net assets without donor restrictions	831,063	527,957
Net assets with donor restrictions:		
Contributions	31,444	11,431
Investment income	955	412
Change in net unrealized gains on other than trading securities	3,745	1,596
Net assets released from restrictions	(26,159)	(22,974)
Other changes in net assets with donor restrictions	2,520	3,367
Increase (decrease) in net assets with donor restrictions	12,505	(6,168)
Increase in net assets	843,568	521,789
Net assets, beginning of the year	5,501,873	4,980,084
Net assets, end of the year	\$ 6,345,441	\$ 5,501,873

See accompanying notes.

Sharp HealthCare

Consolidated Statements of Cash Flows (In Thousands)

	Year Ended September 30	
	2024	2023
Operating activities		
Increase in net assets	\$ 843,568	\$ 521,789
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Other nonoperating gains, net	(2,137)	(4,563)
Depreciation and amortization of operating and nonoperating facilities	142,217	137,500
Amortization of bond premium and deferred financing costs	(9,774)	(415)
Changes in operating lease right-of-use assets	4,825	8,458
Restricted contributions and investment income, net	(32,399)	(11,843)
Net unrealized (gains) losses on investments and swaps	(604,117)	28,501
Change in noncontrolling interest	(3,093)	(4,318)
Pension and other retirement-related changes other than net periodic pension cost	(26,771)	(8,796)
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable, net	(151,897)	(90,239)
Inventories	(1,639)	1,023
Short-term investments	-	(8,363)
Assets limited to use and long-term investments	-	(219,117)
Prepaid expenses and other	(188,634)	(226,491)
Increase (decrease) in:		
Estimated settlements payable to government programs, net	(2,380)	2,895
Accounts payable and accrued liabilities, long-term liabilities, and other liabilities	110,196	(13,773)
Accrued compensation and benefits	29,092	18,256
Changes in operating lease obligations	(4,202)	(8,157)
Net cash provided by operating activities	102,855	122,347
Investing activities		
Acquisition of property, equipment and other assets, net of retirements	(263,187)	(213,624)
Proceeds from sales of investments and assets limited as to use	467,286	-
Purchases of investments and assets limited as to use	(802,065)	-
Other investing activities	(49,650)	-
Investments in joint ventures and subsidiaries, net of cash acquired	(1,544)	(3,692)
Sale of real property	-	8,580
Net cash used in investing activities	(649,160)	(208,736)

Sharp HealthCare

Consolidated Statements of Cash Flows (continued)

(In Thousands)

	Year Ended September 30	
	2024	2023
Financing activities		
Current maturities and payments on long-term debt	\$ (11,096)	\$ (30,546)
Current payments on financing lease obligations	(1,499)	(1,401)
Extinguishment of debt	(389,129)	–
Proceeds from the issuance of debt, net	743,406	–
Transfers, other changes in long-term debt	2,986	400
Restricted contributions and investment income, net	32,399	11,843
Other financing activities	1,225	–
Net cash provided by (used in) financing activities	378,292	(19,704)
Net decrease in cash and cash equivalents	(168,013)	(106,093)
Cash and cash equivalents and restricted cash, beginning of year ⁽¹⁾	397,151	503,244
Cash and cash equivalents and restricted cash, end of year ⁽¹⁾	\$ 229,138	\$ 397,151
Supplemental disclosures of cash flow information		
Right-of-use assets obtained in exchange for new finance lease liabilities	\$ 1,849	\$ 1,250
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 2,554	\$ 8,010
Right-of-use remeasurement of operating and finance leases, net	\$ 18	\$ (345)
Cash paid for interest, net of capitalized interest	\$ 27,069	\$ 24,880
Accrued obligations for property and equipment	\$ 18,116	\$ 16,629

⁽¹⁾ Cash and cash equivalents and restricted cash includes \$953 and \$954 of restricted cash (included in other restricted investments on the consolidated balance sheets) at September 30, 2024, and 2023, respectively.

See accompanying notes.

Sharp HealthCare

Notes to Consolidated Financial Statements

September 30, 2024

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, Grossmont Surgery Center, and Otay Lakes Surgery Center (Surgery Centers)
- 6719 Medical Tower, LLC and Sharp Real Estate Holdings, LLC (Real Estate JV)
- Sharp HealthCare Foundation (SHF)
- Grossmont Hospital Foundation (GHF)

Collectively, SHC, SMH, SCVMC, and SGH are the Obligated Group under certain bond indentures (see Note 6).

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 maturity at date of purchase 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.

Investments

Cash flows related to securities designated as trading that are acquired with the intent to actively buy and sell in the near term are classified as operating activities. All other investment cash flow activity is classified as investing activities. Beginning in 2024, Sharp determined that it no longer had the intent to actively buy and sell its trading securities in the near term and the cash flow activity is now classified as investing.

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

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 on 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 on the consolidated statements of operations.

Long-Term Investments

Long-term investments, which are included in professionally managed portfolios, are measured at fair value on 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 on 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 on the consolidated balance sheets. Investment income or loss (including unrealized and realized gains and losses) is included on the consolidated statements of operations, unless the income or loss is restricted by donor or law.

Alternative investments represent ownership interests in, but not limited to, venture capital, private equity, innovation funds, direct investments in companies, real estate, and infrastructure related to health care services. The limited partnerships have a general manager with full discretionary authority over investment decisions. The private equity limited partnerships invest 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 2.

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

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 – Investments 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, 2024, and 2023, \$37,176,000 and \$29,787,000, respectively, of such assets are pledged as collateral for notes payable and other liabilities.

Under bond indentures – In accordance with the terms of Sharp's various bond indentures, certain bond proceeds and principal and interest payments have been deposited with a trustee and are limited as to use in accordance with the related indentures.

Other restricted investments – Certain cash and investments are limited as to use for future community benefit and for other purposes.

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

Derivative Instruments

Sharp recognizes all derivatives on its consolidated balance sheets at fair value, with changes in fair value recorded on the consolidated statements of operations (see Note 6).

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 on the consolidated statements of operations.

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

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.

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 which the resource was restricted has been fulfilled, or both.

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

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 2024 or 2023.

Income From Operations

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

Excess of Revenues Over Expenses

The accompanying consolidated statements of operations include excess of revenues over expenses (not-for-profit performance indicator) and other changes in net assets without donor restrictions. Changes in net assets without donor restrictions that are excluded from excess (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.

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

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.

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 \$20,620,000 and a decrease of \$13,786,000 for the years ended September 30, 2024, and 2023, 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, 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.

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Health Care Service Costs

Sharp contracts with certain health care providers for the provision of medical services to eligible members. These services include primary care and specialty physician services, inpatient and outpatient facility services, pharmacy, and other medical services. Providers are paid on capitated, per diem, and structured fee-for-service bases.

Health care service costs (included in medical fees and purchased services on the accompanying consolidated statements of operations) are accrued in the period in which the services are provided to enrollees, based in part on estimates, including estimates of medical services provided but not yet reported to Sharp.

Charity Care

Sharp's policy is to accept all patients regardless of their ability to pay. In assessing a patient's ability to pay, Sharp utilizes financial eligibility requirements or criteria. Sharp provides charity care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Charity care is not reported as revenue because Sharp does not pursue collection of amounts determined to qualify as charity care.

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

The cost of charity care is summarized as follows:

	Year Ended September 30	
	2024	2023
	<i>(In Thousands)</i>	
Charity care, at cost	\$ 25,613	\$ 18,762

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

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 nonoperating revenue.

Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions and included in other nonoperating income on the consolidated statements of operations.

Contributions Received by Related Parties

Sharp recognizes an interest in the net assets of related-party fundraising organizations when Sharp is the sole beneficiary and has the ability to influence or control the financial and operating decisions of such organizations. For the years ended September 30, 2024, and 2023, 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 \$39,590,000 and \$27,868,000 as of September 30, 2024, and 2023, respectively, and is included in other assets on the accompanying consolidated balance sheets. Changes in Sharp's interest in the net assets of CHF are included on the consolidated statements of 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 HealthCare

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

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, 2024, and 2023, no such assets or liabilities were recorded.

Recently Adopted Accounting Standards

In October 2021, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update (ASU) 2021-08, *Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*, 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. Sharp adopted ASU 2021-08 on October 1, 2023, which had no impact on its consolidated financial statements.

Accounting Standards Issued But Not Yet Adopted

In June 2022, the FASB issued ASU 2022-03, *Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions*, 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 on 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.

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

2. Fair Value Measurements

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

- Level 1 – Pricing is based on observable inputs, such as quoted prices for identical assets in active markets. Financial assets in Level 1 include U.S. Treasury securities and listed equities.
- Level 2 – Pricing inputs are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Financial assets and liabilities in this category generally include corporate bonds, U.S. government agency securities, commercial paper, supranational bonds, negotiable certificates of deposit, fixed-income funds, mortgage-backed securities, interest rate swaps, and commingled plan trust funds.
- Level 3 – Pricing inputs are generally unobservable and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require management's judgment or estimation of assumptions that market participants would use in pricing the assets or liabilities. The fair values are therefore determined using factors that involve considerable judgment and interpretations, including, but not limited to, private and public comparables, third-party appraisals, discounted cash flow models, and fund manager estimates. Sharp does not hold any financial assets that would be included in this category.

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

2. Fair Value Measurements (continued)

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

- **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 \$19,777,000 and \$15,275,000 as of September 30, 2024, and 2023, respectively, are accounted for using the equity method of accounting, which is not a fair value measurement, and are included in other assets on the consolidated balance sheets.

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

2. Fair Value Measurements (continued)

The following tables provide the composition of certain investment assets as of September 30, 2024. Only assets and liabilities measured at fair value on a recurring basis are shown in the three-tier fair value hierarchy.

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	NAV Practical Expedient
<i>(In Thousands)</i>				
September 30, 2024				
Short-term investments:				
U.S. treasury obligations	\$ 19,148	\$ 19,148	\$ –	\$ –
Corporate bonds	4,574	–	4,574	–
U.S. government agencies	2,102	–	2,102	–
Asset-backed securities	252	–	252	–
Supranational	260	–	260	–
Interest receivable	198	–	198	–
	\$ 26,534	\$ 19,148	\$ 7,386	\$ –
Long-term investments:				
Equities	\$ 101,056	\$ 101,056	\$ –	\$ –
U.S. treasury obligations	67,892	67,892	–	–
Corporate bonds	60,738	–	60,738	–
U.S. government agencies	8,397	–	8,397	–
Mortgage-backed securities and collateralized mortgage obligations	1,374	–	1,374	–
Asset-backed securities	12,641	–	12,641	–
Supranational	4,397	–	4,397	–
Interest receivable	1,129	–	1,129	–
	\$ 257,624	\$ 168,948	\$ 88,676	\$ –

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

2. Fair Value Measurements (continued)

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	NAV Practical Expedient
<i>(In Thousands)</i>				
September 30, 2024				
Assets limited as to use:				
Designated for property:				
Money market funds	\$ 1,788	\$ 1,788	\$ –	\$ –
Equities	2,509,345	2,509,345	–	–
U.S. treasury obligations	649,217	649,217	–	–
Corporate bonds	542,337	–	542,337	–
U.S. government agencies	53,785	–	53,785	–
Mortgage-backed securities and collateralized mortgage obligations	39,915	–	39,915	–
Asset-backed securities	130,762	–	130,762	–
Supranational	52,139	–	52,139	–
Interest receivable	9,273	–	9,273	–
	\$ 3,988,561	\$ 3,160,350	\$ 828,211	\$ –
Under bond indentures:				
Money market funds	\$ 34,582	\$ 34,582	\$ –	\$ –
U.S. treasury obligations	73,105	73,105	–	–
Corporate bonds	6,971	–	6,971	–
Interest receivable	592	–	592	–
	\$ 115,250	\$ 107,687	\$ 7,563	\$ –

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

2. Fair Value Measurements (continued)

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	NAV Practical Expedient
<i>(In Thousands)</i>				
September 30, 2024				
Other restricted investments:				
Money market funds	\$ 3,261	\$ 3,261	\$ –	\$ –
Equities	79,279	79,279	–	–
U.S. treasury obligations	18,918	18,918	–	–
Fixed-income funds	2,203	–	2,203	–
Corporate bonds	15,511	–	15,511	–
U.S. government agencies	807	–	807	–
Mortgage-backed securities and collateralized mortgage obligations	2,381	–	2,381	–
Asset-backed securities	2,487	–	2,487	–
Supranational	985	–	985	–
Private equity	18,733	–	–	18,733
Interest receivable	233	–	233	–
	\$ 144,798	\$ 101,458	\$ 24,607	\$ 18,733

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

2. Fair Value Measurements (continued)

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	NAV Practical Expedient
<i>(In Thousands)</i>				
September 30, 2024				
Assets limited as to use (continued):				
Under self-insurance programs:				
Money market funds	\$ 18	\$ 18	\$ —	\$ —
Equities	3,249	3,249	—	—
U.S. treasury obligations	4,225	4,225	—	—
Corporate bonds	3,977	—	3,977	—
U.S. government agencies	419	—	419	—
Mortgage-backed securities and collateralized mortgage obligations	325	—	325	—
Asset-backed securities	785	—	785	—
Supranational	406	—	406	—
Interest receivable	66	—	66	—
	\$ 13,470	\$ 7,492	\$ 5,978	\$ —
Net swap receivables ⁽¹⁾	\$ 58,371	\$ —	\$ 58,371	\$ —
	\$ 58,371	\$ —	\$ 58,371	\$ —

¹ Included in other assets on the consolidated balance sheets.

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

2. Fair Value Measurements (continued)

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.

	Total		Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)		NAV Practical Expedient
<i>(In Thousands)</i>							
September 30, 2023							
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)

2. Fair Value Measurements (continued)

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	NAV Practical Expedient
<i>(In Thousands)</i>				
September 30, 2023				
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	—
	\$ 3,188,262	\$ 2,469,962	\$ 718,300	\$ —
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	—
	\$ 118,166	\$ 86,632	\$ 19,295	\$ 12,239

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

2. Fair Value Measurements (continued)

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	NAV Practical Expedient
<i>(In Thousands)</i>				
September 30, 2023				
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	—
	\$ 11,866	\$ 6,670	\$ 5,196	\$ —
Net swap receivables	\$ 74,681	\$ —	\$ 74,681	\$ —
	\$ 74,681	\$ —	\$ 74,681	\$ —

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 six years for Leavitt Equity Partners II, LP and 11 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 \$9,133,000 and \$12,063,000 at September 30, 2024, and 2023, respectively.

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

2. 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 6, to help manage unanticipated liquidity needs. Additionally, Board-designated funds may be utilized, if necessary.

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

	September 30	
	2024	2023
	<i>(In Thousands)</i>	
Cash and cash equivalents	\$ 228,185	\$ 396,197
Short-term investments	26,534	33,839
Accounts receivable, net	921,841	768,693
Total	<u>\$ 1,176,560</u>	<u>\$ 1,198,729</u>

3. 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, 2020. The estimated net settlement payables are \$32,000 and \$1,838,000 at

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

3. Net Patient Service Revenues (continued)

September 30, 2024, and 2023, respectively, and adjustments pertaining to prior year cost reports resulted in additional revenue of \$14,025,000 and \$3,819,000 for the years ended September 30, 2024, and 2023, 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, 2022. The estimated net settlement payables were \$3,644,000 and \$4,085,000 at September 30, 2024, and 2023, respectively. Adjustments pertaining to prior year cost reports resulted in additional revenue of \$8,892,000 and reduction to revenue of \$218,000 for the years ended September 30, 2024, and 2023, 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)

3. Net Patient Service Revenues (continued)

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

	Year Ended September 30	
	2024	2023
	<i>(In Thousands)</i>	
Medicare	\$ 784,721	\$ 676,133
Medi-Cal	554,950	521,712
Commercial	1,461,273	1,350,398
Other	15,230	16,481
Total	\$ 2,816,174	\$ 2,564,724

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

	Year Ended September 30	
	2024	2023
	<i>(In Thousands)</i>	
Hospital	\$ 2,525,116	\$ 2,278,257
Medical Foundation	249,287	239,906
Other	52,619	57,148
Eliminations	(10,848)	(10,587)
Total	\$ 2,816,174	\$ 2,564,724

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 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)

3. 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 the Centers for Medicare and Medicaid Services.

The previous program cycle spans 12 months, covering the period January 1, 2022 to December 31, 2022. The current 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 years ended September 30:

	As of and for the Year Ended September 30	
	2024	2023
	<i>(In Thousands)</i>	
Provider tax revenue	\$ 348,349	\$ 322,577
Provider tax expense	(192,456)	(145,312)
Income from operations from provider tax	155,893	177,265
Accounts receivable, net	239,889	235,722
Other assets	269,391	229,124
Accounts payable and accrued liabilities	109,574	99,282
Long-term liabilities	85,421	74,572

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)

3. Net Patient Service Revenues (continued)

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

	Year Ended September 30	
	2024	2023
	<i>(In Thousands)</i>	
Hospital	\$ 737,972	\$ 696,868
Medical Foundation	536,936	526,048
Insurance	1,021,575	957,556
Eliminations	(489,401)	(474,836)
Total	<u>\$ 1,807,082</u>	<u>\$ 1,705,636</u>

4. Investment Income

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

	Year Ended September 30	
	2024	2023
	<i>(In Thousands)</i>	
Interest income	\$ 120,195	\$ 92,383
Unrealized gains, net	619,773	191,911
Realized gains, net	7,545	92,786
Total investment income	<u>\$ 747,513</u>	<u>\$ 377,080</u>

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

5. Property and Equipment

Property and equipment, net consist of the following:

	September 30	
	2024	2023
	<i>(In Thousands)</i>	
Land and improvements	\$ 138,784	\$ 130,867
Buildings and improvements	2,378,177	2,280,982
Equipment and furniture	754,890	714,779
Software cost	154,273	149,357
Construction-in-progress	514,931	403,070
Subtotal	3,941,055	3,679,055
Less accumulated depreciation and amortization	(1,954,063)	(1,815,988)
Total	\$ 1,986,992	\$ 1,863,067

Depreciation and amortization expense for the years ended September 30, 2024, and 2023 amounted to \$142,217,000 and \$137,500,000, respectively. Included in these amounts is amortization and depreciation for buildings and equipment under financing lease obligations. Sharp had \$14,902,000 and \$13,258,000 of buildings and equipment under finance leases at September 30, 2024, and 2023, respectively, at cost. Accumulated amortization for buildings and equipment under finance leases was \$8,782,000 and \$7,418,000 at September 30, 2024, and 2023, respectively. Sharp recorded amortization of \$1,570,000 and \$1,523,000 for the years ended September 30, 2024, and 2023, respectively, relating to buildings and equipment under finance leases. Sharp has outstanding commitments to complete construction-in-progress and intangible assets totaling \$357,897,000 at September 30, 2024.

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

5. Property and Equipment (continued)

On May 29, 1991, Sharp leased the Grossmont Hospital (the Hospital) existing campus land, buildings, and equipment from the Grossmont Healthcare District (the District). The lease 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.

In fiscal years 2023 and 2024, Sharp implemented Epic, a single-platform electronic health record system. The system is based on a cloud computing arrangement. In accordance with Accounting Standards Codification 350-40, *Intangibles – Goodwill and Other – Internal-Use Software*, the capitalized costs of \$225,552,000 and \$99,567,000 to develop the system are included in other assets on the accompanying consolidated balance sheets as of September 30, 2024, and 2023, respectively. The system was placed in service on March 1, 2024, and the amortization of the capitalized system development costs in the amount of \$8,494,000 is included in purchased services on the accompanying consolidated statements of operations for the fiscal year ended September 30, 2024.

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

6. Debt and Finance Lease Obligations

Long-Term Debt

Long-Term debt consists of the following:

	September 30	
	2024	2023
	<i>(In Thousands)</i>	
Long-term borrowings		
Fixed rate debt – revenue bonds (collateralized by the Obligated Group)		
Series 2014A ¹	\$ –	\$ 140,120
Series 2017A ² ; interest payable semiannually (rates range 3.00% to 5.00%)	141,840	141,840
Series 2020A and Series 2020B ³ ; interest payable semiannually (rates range 1.02% to 2.68%)	326,770	331,200
Series 2024A ⁴ ; interest payable semiannually (rate of 5.00%)	341,125	–
SRS CV NMTC ⁵ ; interest payable quarterly (rate of 1.20%)	39,045	–
Total fixed rate debt	848,780	613,160
Variable rate debt – revenue bonds		
Series 2009A ⁶	–	5,360
Series 2009C and Series 2009D ⁷	–	99,525
Series 2017B and Series 2017C ⁸	–	146,120
Series 2024B and Series 2024C ⁹ ; interest payable monthly (variable rate, 2.10% and 2.90%, respectively, at September 30, 2024)	146,000	–
Series 2024D and Series 2024E ¹⁰ ; interest payable monthly (variable rate, 2.15% and 2.65%, respectively, at September 30, 2024)	146,120	–
Total variable rate debt	292,120	251,005
Other		
Mortgage payable; interest payable monthly (rate of 5.72%) ¹¹	13,940	–
Finance lease obligations; interest payable monthly and quarterly (average of 2.17%)	4,550	3,276
Other; interest payable monthly and annually (rates range 2.70% to 12.55%)	3,024	1,270
Total other debt	21,514	4,546
Total long-term debt	1,162,414	868,711
Less current portion	(17,373)	(13,145)
Unamortized debt issuance costs	(8,531)	(5,831)
Unamortized premiums, net	63,722	16,791
Total debt, net of current portion	\$ 1,200,232	\$ 866,526

¹ Debt paid in full in January 2024.

² Principal due in annual amounts, ranging from \$1,640,000 in 2031 to \$34,030,000 in 2047. The bonds include issuer call features totaling \$141,840,000 in 2028.

³ Principal due in annual amounts, ranging from \$5,060,000 in 2025 to \$300,000,000 in 2050.

⁴ Principal due in an annual amount of \$7,700,000 in 2025 to \$14,125,000 in 2035.

⁵ Principal due in annual amounts, ranging from \$1,110,000 in 2031 to \$485,000 in 2054.

⁶ Debt paid in full in March 2024.

⁷ Debt paid in full in March 2024.

⁸ Debt paid in full in May 2024.

⁹ Principal due in annual amounts, ranging from \$39,885,000 in 2052 to \$53,970,000 in 2054.

¹⁰ Principal due in annual amounts, ranging from \$6,970,000 in 2037 to \$11,675,000 in 2052.

¹¹ Principal due in monthly amounts, ranging from \$19,000 in 2027 to \$12,531,000 in 2032.

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

6. Debt and Finance Lease Obligations (continued)

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

	Long-Term Debt	Finance Lease Obligation
	<i>(In Thousands)</i>	
2025	\$ 15,716	\$ 1,657
2026	13,343	1,226
2027	13,901	1,060
2028	80,499	514
2029	14,051	93
Thereafter	1,020,354	—
Total	\$ 1,157,864	\$ 4,550

Scheduled interest payments Sharp is obligated to make on finance lease obligations referenced in the table noted above total to \$189,000.

A summary of interest cost on borrowed funds follows:

	Year Ended September 30	
	2024	2023
	<i>(In Thousands)</i>	
Interest cost:		
Capitalized	\$ 9,932	\$ 8,618
Charged to operations ¹	16,286	15,662
Total	\$ 26,218	\$ 24,280

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

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

6. 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, 2024, and 2023, \$(16,310,000) of losses and \$28,501,000 of gains, respectively, were recognized in other nonoperating 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 forward-starting floating-to-fixed interest rate swap 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)

6. 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, 2027, of which \$4,915,000 and \$7,484,000 were available at September 30, 2024, and 2023, 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 \$20,085,000 and \$17,516,000 as of September 30, 2024, and 2023, 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, 2024, or 2023.

Sharp has a bank liquidity facility to provide credit enhancement and liquidity support for the \$146,000,000 of Series 2024B and C Bonds. The bank liquidity facility was executed in February 2024 by a bank letter of credit that expires on February 7, 2028. The letters of credit used as collateral totaled \$148,784,000 and \$0 at September 30, 2024, and 2023, respectively.

Sharp has a bank liquidity facility to provide credit enhancement and liquidity support for the \$146,120,000 of Series 2024D and E Bonds. The bank liquidity facility was executed in February 2024 by a bank letter of credit that expires on February 6, 2029. The letters of credit used as collateral totaled \$148,906,000 and \$0 at September 30, 2024, and 2023, respectively.

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

7. Net Assets and Contributions

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

	September 30	
	2024	2023
	<i>(In Thousands)</i>	
Hospital programs	\$ 32,728	\$ 26,513
Purchase of capital assets	19,279	20,178
Hospital department	19,531	17,421
Health education	7,691	7,844
Research	5,148	5,319
Indigent care	818	707
Total	85,195	77,982
Subject to passage of time	26,253	21,110
Subject to donor restrictions in conjunction with Sharp's spending policy:		
Investment in perpetuity – endowment	10,874	10,725
Total	\$ 122,322	\$ 109,817

Net assets with donor restrictions of \$10,874,000 and \$10,725,000 at September 30, 2024, and 2023, 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)

7. Net Assets and Contributions (continued)

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

	September 30	
	2024	2023
	<i>(In Thousands)</i>	
Hospital departments	\$ 2,985	\$ 5,094
Hospital programs	1,863	1,490
Health education	500	493
Indigent care	61	52
Purchase of capital assets	50	93
Research	44	304
Total	\$ 5,503	\$ 7,526

As of September 30, 2024, Sharp's pledges receivable, which are included in accounts receivable, net and other assets, consisted of the following unconditional promises to give:

	Amount
	<i>(In Thousands)</i>
Pledges due in 2025	\$ 5,736
Pledges due in 2026-2029	8,592
Pledges due after 2029	21,868
Less: discount on pledges receivable	(9,943)
Total	\$ 26,253

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

7. 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)

7. 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, 2024, or 2023.

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

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
<i>(In Thousands)</i>			
September 30, 2024			
Board-designated endowment funds	\$ 5,367	\$ 4,132	\$ 9,499
Donor-restricted endowment funds	–	20,504	20,504
Total funds	<u>\$ 5,367</u>	<u>\$ 24,636</u>	<u>\$ 30,003</u>
September 30, 2023			
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>

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

7. Net Assets and Contributions (continued)

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
<i>(In Thousands)</i>			
Endowment net assets, September 30, 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	6,953	21,759	28,712
Investment return:			
Investment income	165	556	721
Net appreciation (realized and unrealized)	1,456	2,627	4,083
Total investment return	1,621	3,183	4,804
Contributions	–	169	169
Appropriation of endowment assets for expenditure	(3,207)	(475)	(3,682)
Endowment net assets, September 30, 2024	\$ 5,367	\$ 24,636	\$ 30,003

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

8. 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, 2024, are as follows:

	Patient Services	General and Administrative	Purchased Services Under Capitated Agreements	Total
<i>(In Thousands)</i>				
Salaries and wages	\$ 1,708,386	\$ 231,659	\$ –	\$ 1,940,045
Employee benefits	385,829	56,982	–	442,811
Medical fees	750,756	877	45,346	796,979
Purchased services	274,811	94,342	291,017	660,170
Supplies	636,575	8,109	–	644,684
Provider tax	192,456	–	–	192,456
Maintenance, utilities, and rentals	142,917	24,196	–	167,113
Depreciation and amortization	126,434	15,783	–	142,217
Business insurance	17,982	5,758	–	23,740
Interest	16,286	–	–	16,286
Other	38,078	39,392	–	77,470
Total	\$ 4,290,510	\$ 477,098	\$ 336,363	\$ 5,103,971

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

8. 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, 2023, are as follows:

	Patient Services	General and Administrative	Purchased Services Under Capitated Agreements	Total
<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
Total	\$ 3,941,553	\$ 436,720	\$ 276,527	\$ 4,654,800

The consolidated financial statements report certain expense categories that are attributable to more than one health care 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 health care services costs not allocated on a units-of-service basis are otherwise allocated based on revenue.

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

9. 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 \$30,000,000 and \$32,000,000 in 2024 and 2023, respectively.

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

	September 30	
	2024	2023
	<i>(In Thousands)</i>	
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 576,892	\$ 573,513
Service cost	20,786	21,863
Interest cost	32,253	29,989
Actuarial loss (gain)	75,376	(25,278)
Plan participant contributions	12,995	12,274
Benefits paid	(39,566)	(35,469)
Benefit obligation at end of year	678,736	576,892
Change in plan assets:		
Fair value of plan assets at beginning of year	576,745	543,258
Actual return on plan assets	133,027	24,682
Plan participant contributions	12,995	12,274
Employer contributions	30,000	32,000
Benefits paid	(39,566)	(35,469)
Fair value of plan assets at end of year	713,201	576,745
Funded status	\$ 34,465	\$ (147)

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

	September 30	
	2024	2023
	<i>(In Thousands)</i>	
Accumulated benefit obligation	\$ 651,693	\$ 548,269
Fair value of plan assets	713,201	576,745

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

9. Pension Plans (continued)

At September 30, 2024, information for pension plans with plan assets in excess of projected benefit obligation. At September 30, 2023, information for pension plans with a projected benefit obligation in excess of plan assets.

	September 30	
	2024	2023
	<i>(In Thousands)</i>	
Projected benefit obligation	\$ 678,736	\$ 576,892
Fair value of plan assets	713,201	576,745

The net assets at September 30, 2024, are included on the consolidated balance sheet in other assets. The net liabilities at September 30, 2023, are included on the consolidated balance sheet in long-term liabilities.

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

	Year Ended September 30	
	2024	2023
	<i>(In Thousands)</i>	
Net actuarial loss	\$ 101,000	\$ 129,083
Total	\$ 101,000	\$ 129,083

Net periodic pension cost includes the following components:

	Year Ended September 30	
	2024	2023
	<i>(In Thousands)</i>	
Employee benefits:		
Service cost	\$ 20,786	\$ 21,863
Other nonoperating gains (losses):		
Interest cost	32,253	29,989
Expected return on plan assets	(35,925)	(32,587)
Recognized net actuarial loss	6,357	9,779
Net periodic pension cost	\$ 23,471	\$ 29,044

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

9. Pension Plans (continued)

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

	September 30	
	2024	2023
Discount rate	5.06%	5.92%
Rate of compensation increase	3.49	3.49

At September 30, 2024, the benefit obligation experienced a net actuarial loss which was primarily attributable to the discount rate decreasing to 5.06%, compared to 5.92% in the prior year. 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.

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

	September 30	
	2024	2023
Discount rate	5.92%	5.50%
Expected return on plan assets, net of expenses	6.15	6.00
Rate of compensation increase	3.49	3.00
Interest crediting rate	6.00	6.00

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

Plan Assets

The Plan's assets are invested in an institutional trust company commingled employee benefit plan trust (Commingled Plan Trust). The Plan's asset allocation utilizes a long-range asset allocation strategy. The target asset allocation gradually shifts as the funded ratio increases from an initial mix of 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)

9. 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>2024</u>	<u>2023</u>
Asset category:		
Equity securities	49%	54%
Fixed income	51	46
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 2. 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, *Fair Value Measurement (Topic B20): 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, 2024, and 2023.

Contributions

Sharp expects to contribute \$30,000,000 to the Plan in 2025.

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

9. 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:

	Amount
	<i>(In Thousands)</i>
2025	\$ 27,205
2026	28,204
2027	31,251
2028	34,362
2029	36,248
2030–2034	223,364

10. Long-Term Liabilities

Long-term liabilities consist of the following:

	September 30	
	2024	2023
	<i>(In Thousands)</i>	
Defined benefit pension plan and other retirement benefit unfunded liability	\$ 23,055	\$ 18,504
Workers' compensation	43,513	43,413
Deferred income	6,780	6,730
Provider tax payable	85,421	74,572
Other	31,442	17,172
Total	\$ 190,211	\$ 160,391

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

11. Commitments and Contingencies

Leases

Sharp enters into operating and finance leases primarily for buildings and equipment and determines whether an arrangement is a lease at inception of the contract. Sharp records the related right-of-use (ROU) asset 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, 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, 2024, and 2023, 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 2024 and 2023 for all operating leases was \$36,270,000 and \$34,728,000, respectively.

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

11. Commitments and Contingencies (continued)

	Year Ended September 30	
	2024	2023
	<i>(In Thousands)</i>	
Finance lease cost:		
Amortization of right-of-use assets	\$ 1,570	\$ 1,523
Interest on lease liabilities	74	97
Operating lease cost	19,970	20,770
Short-term lease cost	8,042	7,660
Variable lease cost	7,333	5,697
Low value lease cost	925	939
Total lease cost	\$ 37,914	\$ 36,686
Weighted average remaining lease term – finance leases (years)	2.93	3.08
Weighted average remaining lease term – operating leases (years)	30.41	29.38
Weighted average discount rate – finance leases	3.1%	2.0%
Weighted average discount rate – operating leases	2.0%	2.0%

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, 2024:

	Operating Leases	Finance Leases
	<i>(In Thousands)</i>	
2025	\$ 21,286	\$ 2,196
2026	21,065	1,996
2027	16,806	1,717
2028	13,279	1,133
2029	11,304	701
Thereafter	122,163	1,619
Total minimum lease payments	205,903	9,362
Less: interest portion of lease payments	(54,409)	(4,812)
Present value of future minimum lease payments	151,494	4,550
Less: current obligations under leases	(18,925)	(1,657)
Long-term lease obligations	\$ 132,569	\$ 2,893

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

11. 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, 2024, the remaining contracted commitments expected to be paid for subsequent fiscal years are as follows:

	<u>Amount</u> <i>(In Thousands)</i>
2025	\$ 47,424
2026	20,532
2027	8,697
2028	8,880
2029	7,332
Thereafter	7,552
Total	<u>\$ 100,417</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)

11. 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, 2024, and 2023, there were no material losses recorded for probable legal liabilities.

Sharp Privacy Case

Several class action lawsuits have been filed against Sharp alleging that Sharp intentionally used the Facebook Meta Pixel on its Sharp.com website scheduling page to collect sensitive health and personal information from patients and share the information with Facebook without the patients' knowledge or consent. Sharp believes the cost of resolving these claims will not have a material effect on its consolidated 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 and the amount of the loss can be reasonably 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, 2024, 52.2% of Sharp employees were represented by unions. Of the unionized employees, 27.7% are represented by the Sharp Professional Nurses Network/United Nurses Association of California (SPNN/UNAC), 23.8% are represented by the Service Employees International Union – United Health Care Workers (SEIU/UHW), and 0.7% are represented by United Nurses Associations of California/Union of Health Care Professionals (UNAC/UHCP). The collective bargaining agreements with SPNN/UNAC and SEIU/UHW expire October 2025 and November 2027, respectively. As of September 30, 2024, the collective bargaining agreement with UNAC/UHCP has not yet been determined.

Sharp HealthCare

Notes to Consolidated Financial Statements (continued)

11. Commitments and Contingencies (continued)

Professional Liability

CQI SPC is a wholly owned captive insurance company that insures a portion of the medical malpractice (professional liability) claims of Sharp HealthCare employees and certain affiliates. Malpractice losses are accrued based on estimates of the ultimate costs for both reported claims and claims incurred but not reported. Sharp's liability is limited to \$3,000,000 per individual claim. As of September 30, 2024, and 2023, Sharp's liability was limited in the aggregate to \$25,000,000. Sharp obtains excess insurance covering claims above these amounts with limits of \$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, 2024, and 2023. The current portion of professional liability costs is included in accounts payable and accrued liabilities on the consolidated balance sheets.

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

	September 30	
	2024	2023
	<i>(In Thousands)</i>	
Reserves for professional and general liabilities	\$ 18,693	\$ 23,100
Accounts payable and accrued liabilities	11,608	10,123
Total	<u>\$ 30,301</u>	<u>\$ 33,223</u>

Claims, including alleged malpractice, have been asserted against Sharp and are currently in various stages of litigation. Additional claims may be asserted against Sharp arising from services provided to patients through September 30, 2024. In management's opinion, however, the estimated liability accrued at September 30, 2024, 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 HealthCare

Notes to Consolidated Financial Statements (continued)

11. Commitments and Contingencies (continued)

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 \$1,000,000 on deposit with various financial institutions. In addition, SHP is required to maintain two times the normal requirement of tangible net equity, as defined in regulations of the DMHC. At September 30, 2024, and 2023, SHP was required to maintain tangible net equity totalling \$23,767,000 and \$23,941,000, respectively. SHP's tangible net equity was \$245,884,000 and \$189,644,000 at September 30, 2024, and 2023, respectively. Management believes it is in compliance with these requirements at September 30, 2024, and 2023.

Unemployment Claims and Workers' Compensation

Sharp has elected to self-insure for unemployment claims through various group plans. Prior to January 1, 1996, Sharp was also self-insured for workers' compensation claims. Since 1996, Sharp has purchased high-deductible insurance policies and has been responsible for workers' compensation claims up to amounts covered by these insurance policies (Sharp was responsible for individual claims up to \$1,000,000 in 2024 and 2023). 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 has been discounted at 3.5% and 4.0% at September 30, 2024, and 2023, respectively. Workers' compensation liabilities of \$59,818,000 and \$60,223,000 at September 30, 2024, and 2023, respectively, are included in accounts payable and accrued liabilities on the consolidated balance sheets.

12. Subsequent Events

In preparing these consolidated financial statements, management has evaluated and disclosed all material subsequent events up to December 19, 2024, 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, 2024

	Sharp HealthCare	Sharp Memorial Hospital	Sharp Chula Vista Medical Center	Sharp Grossmont Hospital	Sharp Coronado Hospital and HealthCare Center	Sharp Health Plan	Surgery Centers	Real Estate JV	Continuous Quality Insurance	Sharp HealthCare Foundation	Grossmont Hospital Foundation	Combined Totals	Combining Eliminations	Totals
Assets														
Current assets:														
Cash and cash equivalents	\$ 58,114	\$ 16	\$ 4	\$ 30,272	\$ 830	\$ 129,062	\$ 2,120	\$ 221	\$ 6,052	\$ 659	\$ 835	\$ 228,185	\$ -	\$ 228,185
Short-term investments	12,421	-	-	9,605	-	4,508	-	-	-	-	-	26,534	-	26,534
Accounts receivable, net	61,189	369,966	160,415	265,777	38,013	35,221	4,082	4	-	5,024	371	940,062	(18,221)	921,841
Intercompany receivables	-	3,508,659	172,534	-	63,238	-	-	40	-	-	202	3,744,673	(3,744,673)	-
Inventories	21,261	21,968	8,665	15,551	2,367	-	495	-	-	-	-	70,307	-	70,307
Prepaid expenses and other	61,131	6,686	3,950	5,745	918	2,564	559	14	8	45	549	82,169	-	82,169
Total current assets	214,116	3,907,295	345,568	326,950	105,366	171,355	7,256	279	6,060	5,728	1,957	5,091,930	(3,762,894)	1,329,036
Long-term investments	87,371	-	-	12,441	-	157,812	-	-	-	-	-	257,624	-	257,624
Assets limited as to use:														
Designated for property	3,323,756	-	-	664,805	-	-	-	-	-	-	-	3,988,561	-	3,988,561
Under bond indentures	25,680	89,570	-	-	-	-	-	-	-	-	-	115,250	-	115,250
Other restricted investments	18,733	-	-	-	-	950	-	-	-	92,367	32,748	144,798	-	144,798
Under self-insurance programs	-	-	-	-	-	-	-	-	13,470	-	-	13,470	-	13,470
Total assets limited as to use	3,368,169	89,570	-	664,805	-	950	-	-	13,470	92,367	32,748	4,262,079	-	4,262,079
Property and equipment, net	604,119	587,890	289,584	415,659	69,414	208	3,483	16,463	-	172	-	1,986,992	-	1,986,992
Leased assets – operating	80,249	3,749	1,624	16,055	15,035	-	12,434	-	-	-	-	129,146	-	129,146
Other assets	401,191	87,322	72,443	128,164	48,423	787	14,000	(47)	44,172	90,649	10,963	898,067	(139,144)	758,923
Beneficial interest in foundations	122,833	-	-	44,653	-	-	-	-	-	-	-	167,486	(167,486)	-
Total assets	\$ 4,878,048	\$ 4,675,826	\$ 709,219	\$ 1,608,727	\$ 238,238	\$ 331,112	\$ 37,173	\$ 16,695	\$ 63,702	\$ 188,916	\$ 45,668	\$ 12,793,324	\$ (4,069,524)	\$ 8,723,800
Liabilities and net assets														
Current liabilities:														
Accounts payable and accrued liabilities	\$ 224,167	\$ 83,787	\$ 39,864	\$ 79,745	\$ 8,070	\$ 79,374	\$ 3,468	\$ 190	\$ 19,284	\$ 716	\$ 142	\$ 538,807	\$ (17,198)	\$ 521,609
Intercompany payable	3,657,070	-	-	79,081	-	5,507	264	-	784	1,967	-	3,744,673	(3,744,673)	-
Accrued compensation and benefits	270,421	-	-	-	-	-	405	-	-	-	-	270,826	(49)	270,777
Operating lease obligations	11,122	1,984	876	2,542	928	-	1,473	-	-	-	-	18,925	-	18,925
Short-term debt	-	-	-	-	-	-	573	-	-	-	-	573	-	573
Current portion of long-term debt	4,676	7,490	921	1,027	91	-	3,168	-	-	-	-	17,373	-	17,373
Payable to government programs, net	-	(2,697)	1,864	2,029	82	-	-	-	-	-	-	1,278	-	1,278
Accrued interest	1,275	3,375	1,096	352	-	-	21	-	-	-	-	6,119	-	6,119
Total current liabilities	4,168,731	93,939	44,621	164,776	9,171	84,881	9,372	190	20,068	2,683	142	4,598,574	(3,761,920)	836,654
Long-term liabilities	115,018	51,440	18,199	34,060	2,178	347	-	-	31,835	63,401	873	317,351	(127,140)	190,211
Reserves for professional and general liabilities (Note 11)	9,300	-	-	-	-	-	-	-	9,393	-	-	18,693	-	18,693
Long-term debt	311,339	560,212	259,894	53,978	85	-	784	13,940	-	-	-	1,200,232	-	1,200,232
Operating lease obligations	88,261	2,456	879	14,508	15,336	-	11,129	-	-	-	-	132,569	-	132,569
Total liabilities	4,692,649	708,047	323,593	267,322	26,770	85,228	21,285	14,130	61,296	66,084	1,015	6,267,419	(3,889,060)	2,378,359
Net assets:														
Controlling Interests	80,605	3,967,779	385,626	1,314,402	206,943	245,884	9,150	1,308	2,406	18,038	17,650	6,249,791	(34,667)	6,215,124
Noncontrolling interests in subsidiaries	-	-	-	-	-	-	6,738	1,257	-	-	-	7,995	-	7,995
Without donor restrictions	80,605	3,967,779	385,626	1,314,402	206,943	245,884	15,888	2,565	2,406	18,038	17,650	6,257,786	(34,667)	6,223,119
With donor restrictions	104,794	-	-	27,003	4,525	-	-	-	-	104,794	27,003	268,119	(145,797)	122,322
Total net assets	185,399	3,967,779	385,626	1,341,405	211,468	245,884	15,888	2,565	2,406	122,832	44,653	6,525,905	(180,464)	6,345,441
Total liabilities and net assets	\$ 4,878,048	\$ 4,675,826	\$ 709,219	\$ 1,608,727	\$ 238,238	\$ 331,112	\$ 37,173	\$ 16,695	\$ 63,702	\$ 188,916	\$ 45,668	\$ 12,793,324	\$ (4,069,524)	\$ 8,723,800

Sharp HealthCare

Consolidating Statement of Operations (In Thousands)

Year Ended September 30, 2024

	Sharp HealthCare	Sharp Memorial Hospital	Sharp Chula Vista Medical Center	Sharp Grossmont Hospital	Sharp Coronado Hospital and HealthCare Center	Sharp Health Plan	Surgery Centers	Real Estate JV	Continuous Quality Insurance	Sharp HealthCare Foundation	Grossmont Hospital Foundation	Combined Totals	Combining Eliminations	Totals
Revenues:														
Patient service revenue	\$ 249,696	\$ 1,410,620	\$ 553,658	\$ 855,431	\$ 156,796	\$ –	\$ 18,505	\$ –	\$ –	\$ –	\$ –	\$ 3,244,706	\$ (428,532)	\$ 2,816,174
Provider tax revenue	–	109,416	76,513	142,372	20,048	–	–	–	–	–	–	348,349	–	348,349
Net patient service	249,696	1,520,036	630,171	997,803	176,844	–	18,505	–	–	–	–	3,593,055	(428,532)	3,164,523
Premium	1,274,907	–	–	–	–	1,021,576	–	–	–	–	–	2,296,483	(489,401)	1,807,082
Other	141,786	22,485	12,050	64,159	5,537	–	1	444	11,615	–	–	258,077	(81,605)	176,472
Total revenues	1,666,389	1,542,521	642,221	1,061,962	182,381	1,021,576	18,506	444	11,615	–	–	6,147,615	(999,538)	5,148,077
Expenses:														
Salaries and wages	544,280	573,003	280,777	430,413	75,207	31,083	5,282	–	–	–	–	1,940,045	–	1,940,045
Employee benefits	138,205	127,103	61,288	93,024	16,384	5,947	860	–	–	–	–	442,811	–	442,811
Medical fees	371,894	24,704	14,166	25,419	3,937	887,156	202	–	–	–	–	1,327,478	(530,499)	796,979
Purchased services	422,950	107,818	48,649	53,826	13,654	35,046	2,251	99	267	–	–	684,560	(24,390)	660,170
Supplies	140,025	226,131	91,718	157,101	23,495	165	6,047	2	–	–	–	644,684	–	644,684
Provider tax	–	79,934	37,560	71,209	3,753	–	–	–	–	–	–	192,456	–	192,456
Maintenance, utilities and rentals	77,641	42,048	16,249	28,028	6,075	1,476	2,718	197	–	–	–	174,432	(7,319)	167,113
Depreciation and amortization	39,105	44,463	23,875	42,906	6,044	486	373	–	7	–	–	157,259	(15,042)	142,217
Business insurance	7,040	7,590	3,058	4,757	769	265	217	–	12,860	–	–	36,560	(12,820)	23,740
Interest	(2,812)	6,877	7,083	(263)	–	19	145	290	1	–	–	11,340	4,946	16,286
Purchased services from affiliate	427,302	191,351	77,780	127,423	22,164	9,837	–	–	163	–	–	856,020	(856,020)	–
Other	21,666	13,491	3,124	13,277	1,558	23,835	449	47	23	–	–	77,470	–	77,470
Total expenses	2,187,296	1,444,513	665,327	1,047,120	173,040	995,315	18,544	639	13,321	–	–	6,545,115	(1,441,144)	5,103,971
Income (loss) from operations	(520,907)	98,008	(23,106)	14,842	9,341	26,261	(38)	(195)	(1,706)	–	–	(397,500)	441,606	44,106
Other nonoperating income (loss)	(25,454)	(1,560)	(1,008)	262	(247)	(47)	(26)	–	–	(3,605)	(2,007)	(33,692)	20,224	(13,468)
Investment income	558,078	314,152	133,791	120,379	33,932	29,844	11	–	1,610	11,507	6,039	1,209,343	(461,830)	747,513
Excess of revenues over expenses	11,717	410,600	109,677	135,483	43,026	56,058	(53)	(195)	(96)	7,902	4,032	778,151	–	778,151
Excess (loss) from noncontrolling interests	–	–	–	–	–	–	(214)	95	–	–	–	(119)	–	(119)
Excess (deficit) of revenue over expense from controlling interests	11,717	410,600	109,677	135,483	43,026	56,058	(267)	(100)	(96)	7,902	4,032	778,032	–	778,032
Net assets released from restrictions used for purchase of property, plant and equipment	4,456	5,963	976	2,453	255	–	–	–	–	–	–	14,103	–	14,103
Pension and other retirement-related changes other than net periodic pension cost	9,585	9,123	3,090	3,969	822	182	–	–	–	–	–	26,771	–	26,771
Controlling interest of acquired entities	(2,721)	–	–	–	–	–	3,904	1,408	–	–	–	2,591	(1,157)	1,434
Other changes in net assets without donor restrictions	7,902	–	–	4,082	9,202	–	2	–	–	–	–	21,188	(11,984)	9,204
Increase (decrease) in net assets without donor restrictions attributable to controlling interests	30,939	425,686	113,743	145,987	53,305	56,240	3,639	1,308	(96)	7,902	4,032	842,685	(13,141)	829,544
Noncontrolling interest of acquired entities	–	–	–	–	–	–	47	1,353	–	–	–	1,400	–	1,400
Excess of revenues over expenses attributable to noncontrolling interests	–	–	–	–	–	–	215	(96)	–	–	–	119	–	119
Increase in noncontrolling interests	–	–	–	–	–	–	262	1,257	–	–	–	1,519	–	1,519
Increase in net assets without donor restrictions	\$ 30,939	\$ 425,686	\$ 113,743	\$ 145,987	\$ 53,305	\$ 56,240	\$ 3,901	\$ 2,565	\$ (96)	\$ 7,902	\$ 4,032	\$ 844,204	\$ (13,141)	\$ 831,063

Sharp HealthCare

Consolidating Statement of Changes in Net Assets (In Thousands)

Year Ended September 30, 2024

	Sharp HealthCare	Sharp Memorial Hospital	Sharp Chula Vista Medical Center	Sharp Grossmont Hospital	Sharp Coronado Hospital and HealthCare Center	Sharp Health Plan	Surgery Centers	Real Estate JV	Continuous Quality Insurance	Sharp HealthCare Foundation	Grossmont Hospital Foundation	Combined Totals	Combining Eliminations	Totals
Net assets without donor restrictions:														
Excess (deficit) of revenue over expense from controlling interests	\$ 11,717	\$ 410,600	\$ 109,677	\$ 135,483	\$ 43,026	\$ 56,058	\$ (267)	\$ (100)	\$ (96)	\$ 7,902	\$ 4,032	\$ 778,032	\$ –	\$ 778,032
Net assets released from restrictions used for purchase of property, plant and equipment	4,456	5,963	976	2,453	255	–	–	–	–	–	–	14,103	–	14,103
Pension and other retirement-related changes other than net periodic pension cost	9,585	9,123	3,090	3,969	822	182	–	–	–	–	–	26,771	–	26,771
Controlling interest of acquired entities	(2,721)	–	–	–	–	–	3,904	1,408	–	–	–	2,591	(1,157)	1,434
Other changes in net assets without donor restrictions	7,902	–	–	4,082	9,202	–	2	–	–	–	–	21,188	(11,984)	9,204
Increase (decrease) in net assets without donor restrictions attributable to controlling interests	30,939	425,686	113,743	145,987	53,305	56,240	3,639	1,308	(96)	7,902	4,032	842,685	(13,141)	829,544
Noncontrolling interest of acquired entities	–	–	–	–	–	–	47	1,353	–	–	–	1,400	–	1,400
Excess of revenues over expenses attributable to noncontrolling interests	–	–	–	–	–	–	215	(96)	–	–	–	119	–	119
Increase in noncontrolling interests	–	–	–	–	–	–	262	1,257	–	–	–	1,519	–	1,519
Increase (decrease) in net assets without donor restrictions	30,939	425,686	113,743	145,987	53,305	56,240	3,901	2,565	(96)	7,902	4,032	844,204	(13,141)	831,063
Net assets with donor restrictions:														
Contributions	–	–	–	–	–	–	–	–	–	23,154	8,290	31,444	–	31,444
Investment income	–	–	–	–	–	–	–	–	–	877	78	955	–	955
Change in net unrealized gains on other than trading securities	–	–	–	–	–	–	–	–	–	3,112	633	3,745	–	3,745
Net assets released from restrictions	–	–	–	–	–	–	–	–	–	(18,776)	(7,383)	(26,159)	–	(26,159)
Other changes in net assets with donor restrictions	8,367	–	–	1,568	2,520	–	–	–	–	–	–	12,455	(9,935)	2,520
Increase in net assets with donor restrictions	8,367	–	–	1,568	2,520	–	–	–	–	8,367	1,618	22,440	(9,935)	12,505
Increase (decrease) in net assets	39,306	425,686	113,743	147,555	55,825	56,240	3,901	2,565	(96)	16,269	5,650	866,644	(23,076)	843,568
Net assets, beginning 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
Net assets, end of the year	\$ 185,399	\$ 3,967,779	\$ 385,626	\$ 1,341,405	\$ 211,468	\$ 245,884	\$ 15,888	\$ 2,565	\$ 2,406	\$ 122,832	\$ 44,653	\$ 6,525,905	\$ (180,464)	\$ 6,345,441

Sharp HealthCare

Consolidating Balance Sheet – Obligated Group (In Thousands)

September 30, 2024

	Sharp HealthCare	Sharp Memorial Hospital	Sharp Chula Vista Medical Center	Sharp Grossmont Hospital	Combined Totals	Combining Eliminations	Totals
Assets							
Current assets:							
Cash and cash equivalents	\$ 58,114	\$ 16	\$ 4	\$ 30,272	\$ 88,406	\$ –	\$ 88,406
Short-term investments	12,421	–	–	9,605	22,026	–	22,026
Accounts receivable, net	61,189	369,966	160,415	265,777	857,347	(4,333)	853,014
Intercompany receivables	–	3,508,659	172,534	–	3,681,193	(3,679,791)	1,402
Inventories	21,261	21,968	8,665	15,551	67,445	–	67,445
Prepaid expenses and other	61,131	6,686	3,950	5,745	77,512	–	77,512
Total current assets	214,116	3,907,295	345,568	326,950	4,793,929	(3,684,124)	1,109,805
Long-term investments	87,371	–	–	12,441	99,812	–	99,812
Assets limited as to use:							
Designated for property	3,323,756	–	–	664,805	3,988,561	–	3,988,561
Under bond indentures	25,680	89,570	–	–	115,250	–	115,250
Other restricted investments	18,733	–	–	–	18,733	–	18,733
Total assets limited as to use	3,368,169	89,570	–	664,805	4,122,544	–	4,122,544
Property and equipment, net	604,119	587,890	289,584	415,659	1,897,252	–	1,897,252
Leased assets – operating	80,249	3,749	1,624	16,055	101,677	–	101,677
Other assets	401,191	87,322	72,443	128,164	689,120	–	689,120
Beneficial interest in foundations	122,833	–	–	44,653	167,486	–	167,486
Total assets	<u>\$ 4,878,048</u>	<u>\$ 4,675,826</u>	<u>\$ 709,219</u>	<u>\$ 1,608,727</u>	<u>\$ 11,871,820</u>	<u>\$ (3,684,124)</u>	<u>\$ 8,187,696</u>
Liabilities and net assets							
Current liabilities:							
Accounts payable and accrued liabilities	\$ 224,167	\$ 83,787	\$ 39,864	\$ 79,745	\$ 427,563	\$ (4,212)	\$ 423,351
Intercompany payable	3,657,070	–	–	79,081	3,736,151	(3,679,912)	56,239
Accrued compensation and benefits	270,421	–	–	–	270,421	–	270,421
Operating lease obligations	11,122	1,984	876	2,542	16,524	–	16,524
Current portion of long-term debt	4,676	7,490	921	1,027	14,114	–	14,114
Payable to government programs, net	–	(2,697)	1,864	2,029	1,196	–	1,196
Accrued interest	1,275	3,375	1,096	352	6,098	–	6,098
Total current liabilities	4,168,731	93,939	44,621	164,776	4,472,067	(3,684,124)	787,943
Long-term liabilities	115,018	51,440	18,199	34,060	218,717	–	218,717
Reserves for professional and general liabilities	9,300	–	–	–	9,300	–	9,300
Long-term debt	311,339	560,212	259,894	53,978	1,185,423	–	1,185,423
Operating lease obligations	88,261	2,456	879	14,508	106,104	–	106,104
Total liabilities	4,692,649	708,047	323,593	267,322	5,991,611	(3,684,124)	2,307,487
Net assets:							
Without donor restrictions	80,605	3,967,779	385,626	1,314,402	5,748,412	–	5,748,412
With donor restrictions	104,794	–	–	27,003	131,797	–	131,797
Total net assets	185,399	3,967,779	385,626	1,341,405	5,880,209	–	5,880,209
Total liabilities and net assets	<u>\$ 4,878,048</u>	<u>\$ 4,675,826</u>	<u>\$ 709,219</u>	<u>\$ 1,608,727</u>	<u>\$ 11,871,820</u>	<u>\$ (3,684,124)</u>	<u>\$ 8,187,696</u>

Sharp HealthCare

Consolidating Statement of Operations – Obligated Group (In Thousands)

Year Ended September 30, 2024

	Sharp HealthCare	Sharp Memorial Hospital	Sharp Chula Vista Medical Center	Sharp Grossmont Hospital	Combined Totals	Combining Eliminations	Totals
Revenues:							
Patient service revenue	\$ 249,696	\$ 1,410,620	\$ 553,658	\$ 855,431	\$ 3,069,405	\$ (403,227)	\$ 2,666,178
Provider tax revenue	–	109,416	76,513	142,372	328,301	–	328,301
Net patient service	249,696	1,520,036	630,171	997,803	3,397,706	(403,227)	2,994,479
Premium	1,274,907	–	–	–	1,274,907	–	1,274,907
Other	141,786	22,485	12,050	64,159	240,480	(32,690)	207,790
Total revenues	1,666,389	1,542,521	642,221	1,061,962	4,913,093	(435,917)	4,477,176
Expenses:							
Salaries and wages	544,280	573,003	280,777	430,413	1,828,473	–	1,828,473
Employee benefits	138,205	127,103	61,288	93,024	419,620	–	419,620
Medical fees	371,894	24,704	14,166	25,419	436,183	(22,554)	413,629
Purchased services	422,950	107,818	48,649	53,826	633,243	(20,756)	612,487
Supplies	140,025	226,131	91,718	157,101	614,975	–	614,975
Provider tax	–	79,934	37,560	71,209	188,703	–	188,703
Maintenance, utilities and rentals	77,641	42,048	16,249	28,028	163,966	(6,171)	157,795
Depreciation and amortization	39,105	44,463	23,875	42,906	150,349	(13,837)	136,512
Business insurance	7,040	7,590	3,058	4,757	22,445	–	22,445
Interest	(2,812)	6,877	7,083	(263)	10,885	5,814	16,699
Purchased services from affiliate	427,302	191,351	77,780	127,423	823,856	(804,924)	18,932
Other	21,666	13,491	3,124	13,277	51,558	–	51,558
Total expenses	2,187,296	1,444,513	665,327	1,047,120	5,344,256	(862,428)	4,481,828
Income (loss) from operations	(520,907)	98,008	(23,106)	14,842	(431,163)	426,511	(4,652)
Other nonoperating income (loss)	(25,454)	(1,560)	(1,008)	262	(27,760)	1,387	(26,373)
Investment income	558,078	314,152	133,791	120,379	1,126,400	(427,898)	698,502
Excess of revenues over expenses	11,717	410,600	109,677	135,483	667,477	–	667,477
Net assets released from restrictions used for purchase of property, plant and equipment							
	4,456	5,963	976	2,453	13,848	–	13,848
Pension and other retirement related changes other than net periodic pension cost							
	9,585	9,123	3,090	3,969	25,767	–	25,767
Controlling interest of acquired entities							
	(2,721)	–	–	–	(2,721)	–	(2,721)
Other changes in net assets without donor restrictions							
	7,902	–	–	4,082	11,984	–	11,984
Increase in net assets without donor restrictions	\$ 30,939	\$ 425,686	\$ 113,743	\$ 145,987	\$ 716,355	\$ –	\$ 716,355

Sharp HealthCare

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

Year Ended September 30, 2024

	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	\$ 11,717	\$ 410,600	\$ 109,677	\$ 135,483	\$ 667,477	\$ –	\$ 667,477
Net assets released from restrictions used for purchase of property, plant and equipment	4,456	5,963	976	2,453	13,848	–	13,848
Pension and other retirement-related changes other than net periodic pension cost	9,585	9,123	3,090	3,969	25,767	–	25,767
Controlling interest of acquired entities	(2,721)	–	–	–	(2,721)	–	(2,721)
Other changes in net assets without donor restrictions	7,902	–	–	4,082	11,984	–	11,984
Increase in net assets without donor restrictions	30,939	425,686	113,743	145,987	716,355	–	716,355
Net assets with donor restrictions:							
Other changes in net assets with donor restrictions	8,367	–	–	1,568	9,935	–	9,935
Increase in net assets with donor restrictions	8,367	–	–	1,568	9,935	–	9,935
Increase in net assets	39,306	425,686	113,743	147,555	726,290	–	726,290
Net assets, beginning of the year	146,093	3,542,093	271,883	1,193,850	5,153,919	–	5,153,919
Net assets, end of the year	<u>\$ 185,399</u>	<u>\$ 3,967,779</u>	<u>\$ 385,626</u>	<u>\$ 1,341,405</u>	<u>\$ 5,880,209</u>	<u>\$ –</u>	<u>\$ 5,880,209</u>

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