Consolidated Financial Statements and Supplementary Information

Sharp HealthCare
Years Ended September 30, 2017 and 2016
With Report of Independent Auditors

Ernst & Young LLP

Building a better working world

Sharp HealthCare

Consolidated Financial Statements
and Supplementary Information

Years Ended September 30, 2017 and 2016

Contents

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Report of Independent Auditors

The Board of Directors
Sharp HealthCare

We have audited the accompanying consolidated financial statements of Sharp HealthCare, which comprise the consolidated balance sheets as of September 30, 2017 and 2016, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sharp HealthCare at September 30, 2017 and 2016, and the consolidated results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Supplementary Information

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

Ernst & Young LLP

December 12, 2017

Sharp HealthCare

Consolidated Balance Sheets

	September 30 2017	2016
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 289,838**	$ 317,280
Short-term investments	**51,153**	44,352
Accounts receivable, net of allowance for doubtful accounts of $64,902,000 and $55,663,000 in 2017 and 2016, respectively	**338,939**	375,226
Estimated settlements receivable from government programs, net	**–**	2,611
Inventories	**48,099**	48,535
Prepaid expenses and other	**91,553**	54,813
Total current assets	**819,582**	842,817
Long-term investments	**245,883**	280,910
Assets limited as to use:		
Designated for property	**2,002,395**	1,731,001
Under bond indentures	**49,770**	50,081
Other restricted investments	**60,451**	54,509
Under self-insurance programs	**10,892**	10,510
Total assets limited as to use	**2,123,508**	1,846,101
Property and equipment, net	**1,328,381**	1,226,291
Other assets	**106,544**	94,041
Total assets	**$ 4,623,898**	$ 4,290,160
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 291,122**	$ 271,067
Accrued compensation and benefits	**147,788**	140,284
Current portion of long-term debt	**18,021**	17,706
Estimated settlements payable to government programs, net	**2,745**	–
Accrued interest	**3,731**	3,775
Total current liabilities	**463,407**	432,832
Long-term liabilities	**104,809**	135,363
Reserves for professional and general liabilities *(Note 12)*	**13,522**	12,426
Long-term debt	**618,335**	669,852
Total liabilities	**1,200,073**	1,250,473
Net assets:		
Unrestricted	**3,362,286**	2,977,874
Temporarily restricted	**54,841**	55,160
Permanently restricted	**6,698**	6,653
Total net assets	**3,423,825**	3,039,687
Total liabilities and net assets	**$ 4,623,898**	$ 4,290,160

See accompanying notes.

Sharp HealthCare

Consolidated Statements of Operations

	Year Ended September 30	
	2017	**2016**
	(In Thousands)	
Revenues:		
Patient service	**$ 1,967,575**	$ 1,969,635
Provider tax	**89,736**	164,201
Provision for doubtful accounts	**(31,241)**	(26,052)
Net patient service	**2,026,070**	2,107,784
Premium	**1,360,121**	1,270,130
Other	**92,274**	89,685
Total revenues	**3,478,465**	3,467,599
Expenses:		
Salaries and wages	**1,286,152**	1,192,907
Employee benefits	**311,387**	301,092
Medical fees	**574,696**	528,220
Purchased services	**356,803**	328,446
Supplies	**412,527**	392,930
Provider tax	**56,336**	103,052
Maintenance, utilities, and rentals	**128,527**	127,982
Depreciation and amortization	**111,926**	108,509
Business insurance	**14,488**	11,153
Interest	**23,998**	25,671
Other	**50,529**	50,861
Total expenses	**3,327,369**	3,170,823
Income from operations	**151,096**	296,776
Other nonoperating loss	**(3,245)**	(5,262)
Investment income	**189,635**	140,072
Excess of revenues over expenses	**337,486**	431,586
Net assets transferred from related party	**12,796**	25,973
Net assets released from restrictions used for purchase of property, plant, and equipment	**6,653**	5,086
Pension-related changes other than net periodic pension cost	**12,849**	(28,989)
Other changes in net assets	**14,628**	2,424
Increase in unrestricted net assets	**$ 384,412**	$ 436,080

See accompanying notes.

Sharp HealthCare

Consolidated Statements of Changes in Net Assets

	Year Ended September 30	
	2017	**2016**
	(In Thousands)	
Unrestricted net assets:		
Excess of revenues over expenses	**$ 337,486**	$ 431,586
Net assets transferred from related party	**12,796**	25,973
Net assets released from restrictions used for purchase of property and equipment	**6,653**	5,086
Pension-related changes other than net periodic pension cost	**12,849**	(28,989)
Other changes in net assets	**14,628**	2,424
Increase in unrestricted net assets	**384,412**	436,080
Temporarily restricted net assets:		
Contributions	**16,075**	11,751
Investment income	**856**	751
Change in net unrealized losses on investments	**803**	754
Net assets released from restrictions	**(12,132)**	(11,057)
Other changes in net assets	**(5,921)**	538
(Decrease) increase in temporarily restricted net assets	**(319)**	2,737
Permanently restricted net assets:		
Contributions	**45**	252
Increase in permanently restricted net assets	**45**	252
Increase in net assets	**384,138**	439,069
Net assets, beginning of year	**3,039,687**	2,600,618
Net assets, end of year	**$ 3,423,825**	$ 3,039,687

See accompanying notes.

Sharp HealthCare

Consolidated Statements of Cash Flows

	Year Ended September 30 2017	2016
	(In Thousands)	
Operating activities		
Increase in net assets	**$ 384,138**	$ 439,069
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Net assets transferred from related party	**(12,796)**	(25,973)
Noncash losses (gains)	**1,196**	(1,581)
Depreciation of operating and nonoperating facilities	**111,926**	108,510
Amortization, including deferred financing costs	**(105)**	(115)
Change in fair value of interest and basis rate swaps	**(6,343)**	3,967
Restricted contributions and investment income, net	**(16,976)**	(12,754)
Pension-related changes other than net periodic pension cost	**(12,849)**	28,989
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	**36,287**	(3,486)
Inventories	**436**	665
Short-term investments	**(6,801)**	9,378
Assets limited to use and long-term investments	**(242,380)**	(302,500)
Prepaid expenses and other	**(38,288)**	6,303
Estimated settlements receivable from government programs, net	**5,356**	(2,322)
Increase (decrease) in:		
Accounts payable and accrued liabilities, long-term liabilities, and other liabilities	**(16,432)**	(56,822)
Accrued compensation and benefits	**7,504**	(20,413)
Net cash provided by operating activities	**193,873**	170,915
Investing activities		
Acquisition of property and equipment, net of retirements	**(177,717)**	(138,882)
Increase in other assets	**(4,613)**	(9,164)
Net cash used in investing activities	**(182,330)**	(148,046)
Financing activities		
Payments on long-term debt	**(51,796)**	(20,275)
Payments under capital lease obligations	**(4,165)**	(3,448)
Restricted contributions and investment income, net	**16,976**	12,754
Net cash used in financing activities	**(38,985)**	(10,969)
Net (decrease) increase in cash and cash equivalents	**(27,442)**	11,900
Cash and cash equivalents, beginning of year	**317,280**	305,380
Cash and cash equivalents, end of year	**$ 289,838**	$ 317,280

Consolidated Statements of Cash Flows (continued)

	Year Ended September 30	
	2017	**2016**
	(In Thousands)	
Supplemental disclosures of cash flow information		
Capital lease obligations for building and equipment	**$ 948**	$ 23,673
Cash paid for interest	**$ 27,509**	$ 28,423
Net assets transferred from related party	**$ 12,796**	$ 25,973

See accompanying notes.

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 that does business as Sharp HealthCare, primarily serving the residents of San Diego County. The consolidated financial statements of Sharp include the accounts of the following:

- 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 (formerly Sharp Vista Pacifica)
- Sharp Chula Vista Medical Center (SCVMC)
- Sharp Grossmont Hospital (SGH)
- Sharp Coronado Hospital and HealthCare Center (SCHHC)
- Sharp Health Plan (SHP)
- Continuous Quality Insurance SPC (CQI SPC)
- Sharp HealthCare Foundation (SHF)
- Grossmont Hospital Foundation (GHF)

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

In 2017, Sharp, in concert with its affiliated medical groups Sharp Community Medical Group (SCMG) and Sharp Rees-Stealy Medical Group (SRSMG), formed Sharp HealthCare ACO-II, a limited liability corporation (Sharp ACO-II). Sharp ACO-II was approved by the Centers for Medicare & Medicaid Services (CMS) to be a Next Generation Accountable Care Organization (Next Gen ACO) and entered into an agreement with CMS to participate in the Next Gen ACO model. Under the Next Gen ACO model, participating health care providers are incented to

1. Summary of Significant Accounting Policies (continued)

coordinate care for patients. This accountable care model improves engagement between patients and their providers and offers a set of "benefit enhancements" designed to more effectively manage certain aspects of patients' care.

Under the terms of the Next Gen ACO agreement (the Agreement), Sharp ACO-II is financially accountable for the cost of care provided to certain Medicare beneficiaries who are assigned to Sharp ACO-II. If Sharp ACO-II is able to reduce the cost of care provided to the assigned Medicare beneficiaries in an annual period covered by the Agreement (and provided Sharp ACO-II also satisfies defined quality and service standards), Sharp ACO-II is eligible to receive 100.0% of that cost savings (Shared Savings Payment). If the cost of care provided to the assigned Medicare beneficiaries in an annual period increases, then Sharp ACO-II is responsible to pay CMS 100.0% of those increased costs (Shared Losses). The Agreement provides Sharp ACO-II with the right to terminate the Agreement at any time, and if termination occurs during the first two months of any annual period, Sharp ACO-II will be neither responsible for Shared Losses nor eligible for a Shared Savings Payment for that annual period. Sharp has a one-third ownership interest in Sharp ACO-II and accounts for its investment in Sharp ACO-II in the accompanying consolidated balance sheet as an equity method investment. Sharp's equity in Sharp ACO-II was $589,000 as of September 30, 2017. Sharp ACO-II is obligated to guarantee its ability to pay CMS 2.0% of its capped baseline expenditures. Sharp ACO-II borrowed $5,570,000 from Sharp to fund the guarantee and a receivable was recorded by Sharp for the corresponding amounts which is included in accounts receivable, net on the balance sheet.

SHC has certain contractual obligations with its affiliates that govern its operations and the use of certain assets. All significant transactions among Sharp's affiliated entities have been eliminated in the accompanying consolidated financial statements.

Use of Estimates

The preparation of Sharp's consolidated financial statements in conformity with accounting principles generally accepted in the United States (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

1. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with original maturities of three months or less. Sharp routinely invests its surplus operating funds in money market mutual funds. These funds generally invest in highly liquid U.S. government and agency obligations.

Inventories

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

Short-Term Investments

Short-term investments are classified as trading and include corporate and government obligation securities, which are included in professionally managed portfolios, and are measured at fair value on the balance sheet. The maturities of these securities do not exceed one year. Investment income or loss (including unrealized and realized gains and losses) is included in the consolidated excess of revenues over expenses.

Long-Term Investments

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

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 balance sheet and are classified as trading. Investment income or loss (including unrealized and realized gains and losses) is included in the consolidated excess of revenues over expenses unless the income or loss is restricted by donor or law.

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

> ***Designated for property*** – Cash resources not required for operations have been designated as funded depreciation to be used for future capital improvements. This designation may be changed and such funds used for other purposes – $26,482,000 and $26,854,000 at September 30, 2017 and 2016, 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 and Hedging Instruments

Sharp recognizes all derivatives on its consolidated balance sheets at fair value. Derivatives that are not effective hedges are adjusted to fair value through the consolidated statements of operations (see Note 6). At September 30, 2017 and 2016, the outstanding hedging instruments were not considered effective hedges.

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 three to 40 years and is computed using the straight-line method. Property and equipment under capital lease obligations are amortized on the straight-line method over the shorter of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the consolidated financial statements. 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.

1. Summary of Significant Accounting Policies (continued)

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.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by Sharp has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by Sharp in perpetuity.

Impairment or Disposal of Long-Lived Assets

Sharp accounts for the impairment or disposal of long-lived assets using a future cash flow model to determine whether assets have been impaired. Sharp regularly reviews long-lived assets for circumstances that could indicate carrying values may not be recoverable. No impairments were recorded in 2017 or 2016.

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.

1. Summary of Significant Accounting Policies (continued)

Excess of Revenues Over Expenses

The accompanying consolidated statements of operations include excess of revenues over expenses (not-for-profit performance indicator) and other changes in unrestricted net assets. Changes in unrestricted net assets that are excluded from excess of revenues over expenses, consistent with industry practice, include permanent transfers of assets to and from affiliates for other than goods and services, long-lived assets acquired using contributions that by donor restriction were to be used for the purposes of acquiring such assets, and pension-related changes other than net periodic pension cost.

Net Patient Service Revenues

Sharp has agreements with third-party payors that provide for payments to Sharp at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, fee schedule, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined. In the opinion of management, adequate provision has been made for such adjustments.

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, Sharp analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, Sharp analyzes contractually due amounts and provides an allowance for doubtful accounts, if necessary. For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and co-payment balances due for which third-party coverage exists for part of the bill), Sharp records a provision for doubtful accounts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

1. Summary of Significant Accounting Policies (continued)

Sharp's allowance for doubtful accounts for self-pay patients was 88% and 87% of self-pay accounts receivable at September 30, 2017 and 2016, respectively. In addition, Sharp's self-pay write-offs decreased to $27,111,000 for fiscal year 2017 from $31,692,000 for fiscal year 2016. The decrease was the result of reduced self-pay volume as patients continue to access health insurance coverage. Sharp has not changed its charity care or uninsured discount policies during fiscal years 2016 or 2017. Sharp does not maintain a material allowance for doubtful accounts from third-party payors, nor did it incur significant credit losses from third-party payors.

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 revenues include unrestricted donations, retail pharmacy gross profits, management services, and joint venture income.

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.

1. Summary of Significant Accounting Policies (continued)

Charity Care

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

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

The cost of charity care is summarized as follows:

	Year Ended September 30	
	2017	**2016**
	(In Thousands)	
Charity care, at cost	**$ 22,185**	$ 19,049

Donor-Restricted Gifts

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 either temporarily or permanently restricted support 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, temporarily restricted net assets are reclassified as unrestricted net assets and reported on the consolidated statements of operations as other operating revenues. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the consolidated financial statements.

1. Summary of Significant Accounting Policies (continued)

Contributions Received by Related Parties

Sharp recognizes an interest in the net assets of related party fundraising organizations when Sharp is the sole beneficiary and has the ability to influence or control the financial and operating decisions of such organizations. For the years ended September 30, 2017 and 2016, 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 $7,345,000 and $4,714,000 as of September 30, 2017 and 2016, respectively, and is included in other assets on the accompanying consolidated balance sheets. Changes in Sharp's interest in the unrestricted net assets of CHF are included on the consolidated statements of operations as a component of the total change in unrestricted net assets separate from excess revenues over expenses, and totaled $8,552,000 and $242,000 for the years ended September 30, 2017 and 2016, respectively. Changes in Sharp's interest in CHF's net assets that are subject to donor restrictions are included on the consolidated statements of changes in net assets as a component of other changes in temporarily or permanently restricted net assets, and totaled $(5,921,000) and $537,000 for the years ended September 30, 2017 and 2016 respectively.

Income Taxes

The principal operations of Sharp are exempt from taxation pursuant to Section 501(c)(3) of the Internal Revenue Code and related California provisions.

Sharp recognizes tax benefits from any uncertain tax positions only if it is more likely than not the tax position will be sustained, based solely on its technical merits, with the taxing authority having full knowledge of all relevant information. Sharp records a liability for unrecognized tax benefits from uncertain tax positions as discrete tax adjustments in the first interim period that the more-likely-than-not threshold is not met. Sharp recognizes deferred tax assets and liabilities for temporary differences between the financial reporting basis and the tax basis of its assets and liabilities along with net operating loss and tax credit carryovers only for tax positions that meet the more-likely-than-not recognition criteria. At September 30, 2017 and 2016, no such assets or liabilities were recorded.

1. Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which deferred the effective date of ASU 2014-09 by one year. As a result, the adoption of ASU 2014-09 is required for Sharp on October 1, 2018. In March 2016, April 2016, and May 2016, the FASB issued ASU 2016-08, ASU 2016-10, and ASU 2016-12, respectively. These amendments to Accounting Standards Codification Topic (ASC) 606 did not change the core principle of the guidance but rather clarified the implementation guidance for certain considerations. Management is currently evaluating the effect of this guidance on Sharp's consolidated financial statements.

In September 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*, which requires an entity's management to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable). Sharp adopted ASU 2014-15 on October 1, 2016, which did not have an impact on its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, which simplifies the presentation of debt issuance costs by requiring that debt issuance costs be presented on the balance sheet as a direct deduction from the carrying amount of debt liability, consistent with debt discounts or premiums. Sharp adopted ASU 2015-03 on October 1, 2016, with full retrospective application, which had the impact of reducing the amount of other assets and long-term debt previously reported on the September 30, 2016, balance sheet by $6,149,000, which represents the carrying value of debt issuance costs as of September 30, 2016. Unamortized debt issuance costs totaled $5,621,000 as of September 30, 2017, and are included as a deduction from the carrying amount of long-term debt on the accompanying September 30, 2017, balance sheet.

1. Summary of Significant Accounting Policies (continued)

In May 2015, the FASB issued ASU 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, which permits a reporting entity, as a practical expedient, to measure the fair value of certain investments using the net asset value of such investments. Sharp adopted ASU 2015-07 on October 1, 2016, which did not have an impact on its consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which provides revised guidance concerning certain matters involving the recognition, measurement, and disclosure of financial assets and financial liabilities. Among other things, ASU 2016-01 requires equity investments, except those accounted for under the equity method of accounting or those that result in consolidation, to be measured at fair value with changes in fair value recognized in net income, simplifies the impairment assessment of equity investments not having readily determinable fair values by requiring a qualitative assessment to identify impairment so that it is similar to the qualitative assessment applied to long-lived assets, goodwill, and indefinite-lived intangibles, and eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for non-public entities. The revised guidance does not alter the basic framework for classifying debt instruments held as financial assets. The adoption of ASU 2016-01 is required for Sharp on October 1, 2018, and management is currently evaluating the effect of this guidance, if any, on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which establishes a new lease accounting model for lessees. Under the new guidance, lessees will be required to recognize so-called right-of-use assets and liabilities for most leases having lease terms of 12 months or more. However, lease expense will be recognized on the income statement in a manner similar to existing requirements. The adoption of ASU 2016-02 is required for Sharp on October 1, 2019, and management is currently evaluating the effect of this guidance, if any, on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* Under the new guidance, the current three classes of net assets (i.e., unrestricted, temporarily restricted, and permanently restricted) have been replaced with two new classes of net assets: net assets with donor restrictions and net assets without donor restrictions. The main provisions of this update are to present on the face of the statement of financial position and on the face of the statement of activities amounts for two classes of net assets at the end of the period, rather than for the currently required three classes, and

1. Summary of Significant Accounting Policies (continued)

continue to present on the face of the statement of cash flows the net amount for operating cash flows using either the direct or indirect method of reporting but no longer require the presentation or disclosure of the indirect method (reconciliation) if using the direct method. This update also requires the enhanced disclosures about self-imposed limits on the use of resources, composition of net assets with donor restrictions, disclosures about liquidity and availability of resources, amounts of expenses by both their natural classification and their functional classification, methods used to allocate costs among program and support functions, and other disclosures to improve the usefulness of information provided to donors, grantors, creditors, and other users of financial statements. The adoption of ASU 2016-14 is required for Sharp on October 1, 2018, and management is currently evaluating the effect of this guidance on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the FASB Emerging Issues Task Force)*. ASU 2016-15, which addresses eight specific classification issues, is intended to reduce diversity in current practice regarding the manner in which certain cash receipts and cash payments are presented and classified on the cash flow statement, as GAAP did not include guidance on the cash flow statement classification of the issues covered prior to the guidance in ASU 2016-15. The adoption of ASU 2016-15 is required for Sharp on October 1, 2018, and management is currently evaluating the effect of this guidance, if any, on its consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*. The amendments in this update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this ASU do not provide a definition of restricted cash or restricted cash equivalents. The adoption of ASU 2016-18 is required for Sharp on October 1, 2018, and management is currently evaluating the effect of this guidance, if any, on its consolidated financial statements.

1. Summary of Significant Accounting Policies (continued)

In December 2016, the FASB issued ASU 2016-19, *Technical Corrections and Improvements*, which amends various subsections of the FASB ASC. While the majority of the amendments to the Codification are minor, FASB ASC 350-40 *Intangibles – Goodwill and other – Internal use software*, was amended to clarify that internal-use software licensed from a third party should be accounted for as the acquisition of an intangible asset and the incurrence of a liability (i.e., to the extent that all or a portion of the software licensing fees are not paid on or before the acquisition date of the license) by the licensee. The adoption of ASU 2016-19 is required for Sharp on October 1, 2017, and management is currently evaluating the effect of this guidance, if any, on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-02 *Not-for-Profit Entities – Consolidation (Subtopic 958-810): Clarifying When a Not-for-Profit Entity That is a General Partner or a Limited Partner Should Consolidate a For-Profit Partnership or Similar Entity*, which provides clarifying guidance on when a not-for-profit general partner should consolidate a for-profit limited partnership. The clarifying guidance maintains current U.S. GAAP under which a general partner is presumed to control a for-profit limited partnership, regardless of the level of ownership interest, unless the presumption of control is overcome. The adoption of ASU 2017-02 is required for Sharp on October 1, 2017, and management is currently evaluating the effect of this guidance, if any, on its consolidated financial statements.

In March 2017, the FASB issued ASU 2017-06, *Plan Accounting – Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962), Health and Welfare Benefit Plans (Topic 965): Employee Benefit Plan Master Trust Reporting (a consensus of the FASB Emerging Issues Task Force)*, which enhances the disclosure and financial statement presentation requirements for an employee benefit plan's interest in a master trust and aligns such requirements across all employee benefit plans. The adoption of ASU 2017-06 is required for Sharp on October 1, 2019, and management is currently evaluating the effect of this guidance, if any, on its consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, which amends the FASB ASC to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost in the financial statements. In particular, ASU 2017-07 requires the service cost component to be included in the same line item as other compensation costs arising from services rendered by relevant employees during the period, with the other

1. Summary of Significant Accounting Policies (continued)

(i.e., non-service cost) components of net benefit cost presented on the income statement separately from the service cost component. The adoption of ASU 2017-07 is required for Sharp on October 1, 2018, and management is currently evaluating the effect of this guidance, if any, on its consolidated financial statements.

In April 2017, the FASB issued ASU 2017-08, *Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities*, which requires that the premium on an individual callable debt security having an explicit, non-contingent call feature that is callable at fixed prices on preset dates be amortized to the earliest call date. After the earliest call date, if the call option is not exercised, then the yield should be reset using the payment terms required by the debt security. The adoption of ASU 2017-08 is required for Sharp on October 1, 2019, and management is currently evaluating the effect of this guidance, if any, on its consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*, which changed both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedging results. The adoption of ASU 2017-12 is required for Sharp on October 1, 2019, and management is currently evaluating the effect of this guidance, if any, on its consolidated financial statements.

2. Fair Value Measurements

FASB ASC 820, *Fair Value Measurement*, clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, FASB ASC 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

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

2. Fair Value Measurements (continued)

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.

Assets and liabilities measured at fair value are based on one or more of three valuation techniques noted in FASB ASC 820 as identified below. The valuation techniques are as follows:

(a) Market approach. Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. This technique was utilized for all Level 1 investments.

(b) Cost approach. Amount that would be required to replace the service capacity of an asset (replacement cost). This technique was utilized for all Level 2 investments except for the interest rate swaps.

(c) Income approach. Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing, and excess earnings model). This technique was utilized for the interest rate swaps.

Sharp's investments in partnerships, limited liability companies, and similarly structured entities amounting to approximately $11,082,000 and $14,685,000 as of September 30, 2017 and 2016, 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.

2. Fair Value Measurements (continued)

The following table provides the composition of certain investment assets as of September 30, 2017. Only assets and liabilities measured at fair value on a recurring basis are shown in the three-tier fair value hierarchy.

	September 30, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In Thousands)			
Short-term investments:				
U.S. Treasury obligations	**$ 7,800**	**$ 7,800**	$ –	**$ –**
Corporate bonds	**30,917**	**–**	**30,917**	**–**
U.S. government agencies	**3,408**	**–**	**3,408**	**–**
Commercial paper	**5,556**	**–**	**5,556**	**–**
Negotiable certificates of deposit	**3,285**	**–**	**3,285**	**–**
Interest receivable	**187**	**–**	**187**	**–**
	$ 51,153	**$ 7,800**	**$ 43,353**	**$ –**

2. Fair Value Measurements (continued)

	September 30, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(In Thousands)		
Long-term investments:				
Equities	$ 29,979	$ 29,979	$ –	$ –
U.S. Treasury obligations	61,689	61,689	–	–
Corporate bonds	78,934	–	78,934	–
U.S. government agencies	37,264	–	37,264	–
Mortgage-backed securities and collateralized mortgage obligations	2,394	–	2,394	–
Asset-backed securities	19,929	–	19,929	–
Supranational	14,750	–	14,750	–
Interest receivable	944	–	944	–
	$ 245,883	$ 91,668	$ 154,215	$ –
Assets limited as to use:				
Designated for property:				
Cash and cash equivalents	$ 11,848	$ 11,848	$ –	$ –
Equities	1,148,275	1,148,275	–	–
U.S. Treasury obligations	302,727	302,727	–	–
Corporate bonds	315,313	–	315,313	–
U.S. government agencies	96,416	–	96,416	–
Mortgage-backed securities and collateralized mortgage obligations	45,554	–	45,554	–
Commercial paper	15,404	–	15,404	–
Asset-backed securities	50,560	–	50,560	–
Supranational	12,700	–	12,700	–
Interest receivable	3,598	–	3,598	–
	$ 2,002,395	$ 1,462,850	$ 539,545	$ –
Under bond indentures:				
Cash and cash equivalents	$ 458	$ 458	$ –	$ –
U.S. Treasury obligations	8,472	8,472	–	–
Corporate bonds	19,697	–	19,697	–
U.S. government agencies	9,806	–	9,806	–
Commercial paper	3,973	–	3,973	–
Asset-backed securities	4,455	–	4,455	–
Supranational	2,746	–	2,746	–
Interest receivable	163	–	163	–
	$ 49,770	$ 8,930	$ 40,840	$ –

2. Fair Value Measurements (continued)

	September 30, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In Thousands)			
Assets limited as to use (continued):				
Other restricted investments:				
Cash and cash equivalents	$ 2,831	$ 2,831	$ –	$ –
Equities	32,807	32,807	–	–
U.S. Treasury obligations	10,066	10,066	–	–
Fixed income funds	1,192	1,096	96	–
Corporate bonds	7,952	–	7,952	–
U.S. government agencies	2,364	–	2,364	–
Mortgage-backed securities and collateralized mortgage obligations	1,310	–	1,310	–
Commercial paper	373	–	373	–
Asset-backed securities	1,179	–	1,179	–
Supranational	285	–	285	–
Interest receivable	92	–	92	–
	$ 60,451	$ 46,800	$ 13,651	$ –
Under self-insurance programs:				
Cash and cash equivalents	$ 470	$ 470	$ –	$ –
Equities	2,251	2,251	–	–
U.S. Treasury obligations	2,753	2,753	–	–
Corporate bonds	3,168	–	3,168	–
U.S. government agencies	1,012	–	1,012	–
Mortgage-backed securities and collateralized mortgage obligations	448	–	448	–
Commercial paper	164	–	164	–
Asset-backed securities	475	–	475	–
Supranational	115	–	115	–
Interest receivable	36	–	36	–
	$ 10,892	$ 5,474	$ 5,418	$ –
Interest rate swap receivables	$ 2,427	$ –	$ 2,427	$ –
	$ 2,427	$ –	$ 2,427	$ –

2. Fair Value Measurements (continued)

The following table provides the composition of certain investment assets as of September 30, 2016. Only assets and liabilities measured at fair value on a recurring basis are shown in the three-tier fair value hierarchy.

	September 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In Thousands)			
Short-term investments:				
U.S. Treasury obligations	$ 12,764	$ 12,764	$ –	$ –
Corporate bonds	10,815	–	10,815	–
U.S. government agencies	7,560	–	7,560	–
Commercial paper	7,970	–	7,970	–
Negotiable certificates of deposit	5,075	–	5,075	–
Asset-backed securities	56	–	56	–
Interest receivable	112	–	112	–
	$ 44,352	$ 12,764	$ 31,588	$ –

2. Fair Value Measurements (continued)

	September 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(In Thousands)		
Long-term investments:				
Equities	$ 21,410	$ 21,410	$ –	$ –
U.S. Treasury obligations	78,505	78,505	–	–
Corporate bonds	94,171	–	94,171	–
U.S. government agencies	52,101	–	52,101	–
Mortgage-backed securities and collateralized mortgage obligations	1,207	–	1,207	–
Asset-backed securities	24,160	–	24,160	–
Supranational	8,347	–	8,347	–
Interest receivable	1,009	–	1,009	–
	$ 280,910	$ 99,915	$ 180,995	$ –
Assets limited as to use:				
Designated for property:				
Cash and cash equivalents	$ 6,456	$ 6,456	$ –	$ –
Equities	884,222	884,222	–	–
U.S. Treasury obligations	287,630	287,630	–	–
Corporate bonds	299,214	–	299,214	–
U.S. government agencies	122,329	–	122,329	–
Mortgage-backed securities and collateralized mortgage obligations	39,068	–	39,068	–
Commercial paper	14,444	–	14,444	–
Negotiable certificates of deposit	10,300	–	10,300	–
Asset-backed securities	51,102	–	51,102	–
Supranational	12,775	–	12,775	–
Interest receivable	3,461	–	3,461	–
	$ 1,731,001	$ 1,178,308	$ 552,693	$ –
Under bond indentures:				
Cash and cash equivalents	$ 799	$ 799	$ –	$ –
U.S. Treasury obligations	8,239	8,239	–	–
Corporate bonds	13,738	–	13,738	–
U.S. government agencies	16,958	–	16,958	–
Commercial paper	2,986	–	2,986	–
Asset-backed securities	4,830	–	4,830	–
Supranational	2,405	–	2,405	–
Interest receivable	126	–	126	–
	$ 50,081	$ 9,038	$ 41,043	$ –

2. Fair Value Measurements (continued)

	September 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(In Thousands)		
Assets limited as to use (continued):				
Other restricted investments:				
Cash and cash equivalents	$ 1,445	$ 1,445	$ –	$ –
Equities	28,081	28,081	–	–
U.S. Treasury obligations	10,333	10,333	–	–
Fixed income funds	1,056	979	77	–
Corporate bonds	7,602	–	7,602	–
U.S. government agencies	3,167	–	3,167	–
Mortgage-backed securities and collateralized mortgage obligations	1,011	–	1,011	–
Commercial paper	349	–	349	–
Asset-backed securities	1,055	–	1,055	–
Supranational	291	–	291	–
Commodities	29	–	29	–
Interest receivable	90	–	90	–
	$ 54,509	$ 40,838	$ 13,671	$ –
Under self-insurance programs:				
Cash and cash equivalents	$ 465	$ 465	$ –	$ –
Equities	2,086	2,086	–	–
U.S. Treasury obligations	2,287	2,287	–	–
Corporate bonds	2,998	–	2,998	–
U.S. government agencies	1,444	–	1,444	–
Mortgage-backed securities and collateralized mortgage obligations	385	–	385	–
Commercial paper	160	–	160	–
Asset-backed securities	532	–	532	–
Supranational	118	–	118	–
Interest receivable	35	–	35	–
	$ 10,510	$ 4,838	$ 5,672	$ –
Interest rate swap liabilities	$ 3,916	$ –	$ 3,916	$ –
	$ 3,916	$ –	$ 3,916	$ –

3. Net Patient Service Revenue

Patient Service Revenues

Sharp has agreements with third-party payors that provide for payments to Sharp at amounts different from its established rates.

The Medicare program reimburses Sharp at prospectively determined rates for the major portion of inpatient and outpatient services rendered to patients, primarily on the basis of Medicare Severity Diagnosis Related Groups and Ambulatory Payment Classification Groups, respectively. Non-acute inpatient services, defined capital costs, and certain outpatient costs are paid based on a cost reimbursement methodology. When paid under cost reimbursement, Sharp is reimbursed at the interim rate with final settlement determined after submission of annual cost reports and audits by the fiscal intermediaries.

The Medi-Cal program reimburses Sharp primarily on the basis of All Patient Refined Diagnosis Related Groups for inpatient services and prospectively determined rates for outpatient services.

Hospital revenue from the Medicare and Medi-Cal programs accounted for approximately 30% and 26% of Sharp's gross patient charges for the years ended September 30, 2017 and 2016, respectively.

Laws and regulations governing the Medicare and Medi-Cal programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Net patient service revenue includes changes in estimate related to the impact of settlements of prior years' reimbursement from Medicare, Medi-Cal, and Medi-Cal HMO programs, which increased revenue by $11,308,000 and $31,620,000 in 2017 and 2016, respectively.

Sharp also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to Sharp under these agreements includes prospectively determined rates per discharge, discounts from established charges, fee schedule, and prospectively determined daily rates.

Patient service revenues are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered.

3. Net Patient Service Revenue (continued)

The mix of net patient service revenues, net of contractual allowances, discounts and provision for doubtful accounts was as follows:

	September 30	
	2017	**2016**
Government	**46%**	46%
Contracted	**53**	53
Self-pay and other	**1**	1

Provider Tax Revenue

California legislation established a program that imposes a Quality Assurance Fee (QA Fee) on certain general acute care hospitals in order to make supplemental and grant payments (Supplemental Payments) to hospitals up to the aggregate upper payment limit for various periods. There have been four such programs (the Programs) since inception in 2009.

The Programs are designed to make supplemental inpatient and outpatient Medi-Cal payments to private hospitals, including additional payments for certain facilities that provide high acuity care, subacute and trauma services to the Medi-Cal population. This hospital QA Fee program provides a mechanism for increasing payments to hospitals that serve Medi-Cal patients, with no impact on the state's general fund. 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 in amounts equal to the Supplemental Payments. 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 Programs. Private hospitals that are profitable under the Programs contribute pledge amounts (Pledge Fee) to CHFT. These funds are used to provide grants to hospitals that may not be profitable under the Programs.

The Programs require approval by CMS in order for them to be enacted. If federal approval is not obtained, provisions in the underlying legislation allow for the QA Fee, previously assessed, and Supplemental Payments, previously received, to be returned and recouped, respectively. As such, revenue and expense recognition is not allowed until CMS approval is obtained.

3. Net Patient Service Revenue (continued)

A program covering the period January 1, 2011 through June 30, 2011 (the 6-Month Program) was signed into law by the Governor of California in April 2011. CMS approved the program in December 2011.

A program covering the period of July 1, 2011 through December 31, 2013 (the 30-Month Program) was signed into law by the Governor of California in September 2011. CMS approved the fee-for-service portion of the 30-Month Program in June 2012 and approved the first 24 months of the managed care portion of the 30-Month Program in June 2013. Approval of the final six months of the managed care portion occurred in November 2014.

A program covering the period of January 1, 2014 through December 31, 2016, (the 36-Month Program) was signed into law by the Governor of California in October 2012. CMS approved the fee-for-service portion of the 36-Month Program in December 2014, the first six months of the non-expansion managed care portion of the 36-Month Program in June 2015, and the first six months of the expansion managed care portion of the 36-Month Program in April 2016. In December 2016, CMS approved the non-expansion managed care portion of the 36-Month Program for the period of July 1, 2014 through June 30, 2015, and the expansion managed care portion of the 36-Month Program for the period of July 1, 2014 through December 31, 2014.

The QA Fee and Pledge Fee are recorded in provider tax expense in the consolidated financial statements. Supplemental Payments are recorded as provider tax revenue in the consolidated financial statements. Included in the consolidated financial statements are the following amounts related to the Programs:

	September 30, 2017			
	QA Fee	**Pledge Fee**	**Total Provider Tax**	**Supplemental Payments**
	(In Thousands)			
36-Month Program Fee-For-Service	**$ (27,631)**	**$ (335)**	**$ (27,966)**	**$ 42,693**
36-Month Program Managed Care	**(27,946)**	**(424)**	**(28,370)**	**47,043**
	$ (55,577)	**$ (759)**	**$ (56,336)**	**$ 89,736**

3. Net Patient Service Revenue (continued)

	September 30, 2016			
	QA Fee	Pledge Fee	Total Provider Tax	Supplemental Payments
	(In Thousands)			
6-Month Program	$ –	$ 191	$ 191	$ –
30-Month Program	–	716	716	–
36-Month Program Fee-For-Service	(102,597)	(1,220)	(103,817)	157,483
36-Month Program Managed Care	–	(142)	(142)	6,718
	$ (102,597)	$ (455)	$ (103,052)	$ 164,201

4. Investment Income

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

	Year Ended September 30	
	2017	**2016**
	(In Thousands)	
Interest income	**$ 50,860**	$ 41,594
Unrealized (losses) gains, net	**(48,110)**	106,943
Realized gains (losses), net	**186,885**	(8,465)
	$ 189,635	$ 140,072

5. Property and Equipment

Property and equipment consist of the following:

	September 30	
	2017	**2016**
	(In Thousands)	
Land and improvements	**$ 98,458**	$ 98,286
Buildings and improvements	**1,595,671**	1,507,955
Equipment and furniture	**447,418**	562,120
Software cost	**138,594**	145,102
Construction-in-progress	**166,610**	107,198
	2,446,751	2,420,661
Less accumulated depreciation and amortization	**(1,118,370)**	(1,194,370)
	$ 1,328,381	$ 1,226,291

Sharp performs periodic inventories of its property and equipment. In 2017, Sharp identified equipment, furniture and software that required disposal or write-off totaling $179,264,000 of cost and $177,822,000 of accumulated depreciation. In 2016, Sharp identified equipment, furniture and software that required disposal or write-off totaling $195,061,000 of cost and $195,061,000 of accumulated depreciation.

Accumulated amortization related to software costs amounted to $130,066,000 and $138,456,000 at September 30, 2017 and 2016, respectively.

	September 30	
	2017	**2016**
	(In Thousands)	
Software cost	**$ 138,594**	$ 145,102
Current year amortization	**6,040**	6,101
Accumulated amortization	**130,066**	138,456

5. Property and Equipment (continued)

Depreciation and amortization expense for the years ended September 30, 2017 and 2016, amounted to approximately $111,926,000 and $108,509,000, respectively. Included in these amounts is amortization for buildings and equipment under capital lease obligations. Sharp has approximately $80,736,000 and $80,587,000 at September 30, 2017 and 2016, respectively, of buildings and equipment under capital lease, at cost. Sharp has outstanding commitments to complete construction-in-progress totaling approximately $193,371,000 at September 30, 2017.

On May 29, 1991, Sharp leased the Grossmont Hospital (the Hospital) existing campus land, buildings, and equipment from the Grossmont Healthcare District (the District). The lease provided for an original 30-year term ending May 29, 2021, at $1 per year. In 2014, the lease was extended for an additional 30-year term ending on May 29, 2051. The buildings, improvements, and equipment acquired by the Hospital since the inception of the lease will revert to the District at the end of the lease term.

The Hospital and the District initiated, in 2006, a project for the construction of three shelled floors in the Emergency and Critical Care Center, central plant upgrades, infrastructure improvements, and facility renovations (the Project). The Project is being funded using the proceeds of general obligation (GO) bonds. In July 2007 and February 2011, $85,500,000 and $136,860,000, respectively, in GO bonds was issued by the District. In May 2015, $24,500,000 in GO bonds was issued by the District, which was the third and final series of GO bonds. Sharp considers the District to be a related party based upon these relationships between Sharp and the District.

The Hospital is not required to make any payments to the District with respect to the contribution to the Project of assets constructed using the GO bond proceeds. Therefore, the GO bonds have not been included in the consolidated financial statements as a liability of Sharp. The portion of the Project funded with the GO bonds is being recognized as a transfer of net assets from the District as the Project is completed. In fiscal 2017 and 2016, the Hospital recorded $12,796,000 and $25,973,000, respectively, of construction-in-progress and a related transfer of net assets for the portion of the Project completed during the year with proceeds of the GO bonds.

6. Long-Term Debt

Long-term debt consists of the following:

	September 30 2017		September 30 2016	
	(In Thousands)			
Series 2014A Revenue Bonds (Series 2014A Bonds) collateralized by revenues of the Obligated Group. Principal due in annual amounts ranging from $1,350,000 in 2018 to $32,300,000 in 2043. Interest payable semiannually at rates ranging from 4.50% to 5.00%. The borrowing amount is net of the unamortized original issue premium of $5,679,000 and unamortized debt issuance costs of $1,557,000 at September 30, 2017. The bonds include issuer call features totaling $140,120,000 in 2023.	**$**	**159,657**	$	161,754
Series 2009B Revenue Bonds (Series 2009B Bonds) collateralized by revenues of the Obligated Group. Principal due in annual amounts ranging from $1,640,000 in 2022 to $24,900,000 in 2039. Interest payable semiannually at rates ranging from 6.00% to 6.25%. The borrowing amount is net of the unamortized original issue discount of $1,721,000 and unamortized debt issuance costs of $1,001,000 at September 30, 2017. The bonds include issuer call features totaling $109,975,000 in 2019.		**107,254**		107,112
Series 2009C and Series D Variable Rate Revenue Bonds (Series 2009C and D Bonds), collateralized by a three-year direct-pay letter of credit reimbursement agreement between the Obligated Group and a bank. Principal is due in annual amounts ranging from $145,000 in 2022 to $11,805,000 in 2035. The letter of credit is renewable in October 2018. Interest is payable monthly at a variable rate (0.91% at September 30, 2017).		**99,880**		99,880

6. Long-Term Debt (continued)

	September 30	
	2017	**2016**
	(In Thousands)	
Series 2011A Revenue Bonds (Series 2011A Bonds) collateralized by revenues of the Obligated Group. Principal due in annual amounts ranging from $5,345,000 in 2018 to $8,180,000 in 2030. Interest payable semiannually at rates ranging from 4.38% to 6.00%. The borrowing amount is net of the unamortized original issue premium of $229,000 and unamortized debt issuance costs of $625,000 at September 30, 2017. The bonds include issuer call features totaling $54,490,000 in 2021.	**$ 59,844**	$ 64,861
Series 2012A Revenue Bonds (Series 2012A Bonds) collateralized by revenues of the Obligated Group. Principal due in annual amounts ranging from $5,080,000 in 2019 to $5,055,000 in 2028. Interest payable semiannually at rates ranging from 4.00% to 5.00%. The borrowing amount is net of the unamortized original issue premium of $2,808,000 and unamortized debt issuance costs of $428,000 at September 30, 2017. The bonds include issuer call features totaling $30,735,000 in 2023.	**45,315**	45,675
Series 2009A Variable Rate Revenue Bonds (Series 2009A Bonds) collateralized by a direct-pay letter of credit reimbursement agreement between the Obligated Group and a bank. Principal due in annual amounts ranging from $3,950,000 in 2018 to $5,360,000 in 2024. The borrowing amount is net of the unamortized debt issuance costs of $288,000 at September 30, 2017. The letter of credit is renewable in 2020. Interest is payable monthly at a variable rate (0.91% at September 30, 2017).	**29,382**	33,143

6. Long-Term Debt (continued)

	September 30 2017	2016
	(In Thousands)	
Series 2010A Variable Rate Revenue Bonds (Series 2010A Bonds) collateralized by revenues of the Obligated Group. Principal due in quarterly amounts ranging from $235,000 to $450,000 through 2035. The borrowing amount is net of the unamortized debt issuance costs of $217,000 at September 30, 2017. Interest payable quarterly at a variable rate (1.35% at September 30, 2017).	**$ 23,898**	$ 24,787
Reverse Repurchase Agreement collateralized by U.S. Treasury securities. Principal due in April 2019. Interest payable quarterly at a variable rate (1.63% at September 30, 2017).	**15,500**	15,500
Series 1988A Insured Hospital Revenue Bonds collateralized by revenues of the Obligated Group. Principal due in an annual amount of $1,900,000 in 2018. The borrowing amount is net of the unamortized debt issuance costs of $4,000 at September 30, 2017. Interest payable every 35 days at a variable rate (1.19% at September 30, 2017).	**1,896**	3,686
Construction loan agreement. Interest ranging from 0.90% to 1.26% payable quarterly. The borrowing amount is net of the unamortized debt issuance costs of $1,483,000 at September 30, 2017. Principal due in quarterly installments beginning in 2018 to final maturity in 2041.	**37,832**	37,722
Capital lease obligations at imputed rates of interest ranging from 2.09% to 7.27%, collateralized by leased building or equipment.	**55,898**	59,589
Other debt	**–**	33,849
Total	**636,356**	687,558
Less current portion	**(18,021)**	(17,706)
	$ 618,335	$ 669,852

6. Long-Term Debt (continued)

On January 1, 2015, Sharp entered into a build-to-suit lease agreement. Under the build-to-suit lease agreement, a three-story medical office building was constructed and Sharp's lease payments were calculated based on 7% of the landlord's total development costs (not to exceed $38,260,000, subject to tenant delays, tenant design changes, and tenant's election to take the tenant improvement allowance). The term of the lease was 240 months and included three options to extend in five-year increments. In this build-to-suit lease transaction, various forms of Sharp's involvement during construction have deemed Sharp, in substance, the accounting owner of the asset during the construction period. As such, during the construction period Sharp recorded all construction-related costs as construction-in-progress and construction payable (long-term debt). Sharp recorded $33,855,000 of construction improvements to construction-in-progress and construction payable as of September 30, 2016. During 2017, Sharp recorded $485,000 of additional construction-related costs. The build-to-suit lease included a lessee purchase option that precluded de-recognition of the construction asset upon completion of the construction period. Construction was completed in February 2017 and was accounted for as a secured financing. Immediately upon completion of the construction period, Sharp exercised its option to purchase the building and extinguished $34,340,000 in long-term debt. Sharp continues to lease the related land from the seller/lessor, pursuant to a separate 60-year ground lease that was not subject to the aforementioned purchase option.

In 2012, SGH entered into a Co-Generation and Energy Equipment Purchase Agreement (Co-Generation Agreement) with the District. Under the Co-Generation Agreement, the District financed an $18,000,000 loan through a separate lease agreement with a bank for the purchase and installation of a co-generation unit and replacement energy equipment at SGH. The loan was repayable in monthly installments of principal and interest over nine years. The interest rate was 2.09% and the monthly installments were $182,977 through August 2016. In September 2016, unused project funds of $3,285,000 were paid by the District as a partial reduction of the $18,000,000 financing, which resulted in a new monthly installment of $123,381.

The Co-Generation Agreement requires SGH to pay the bank directly an amount equal to the principal and interest amount the District is obligated to pay on the loan. Upon payment of all amounts due, the co-generation and energy equipment will be transferred to SGH as part of leasehold improvements pursuant to the May 29, 1991, lease (see Note 5).

6. Long-Term Debt (continued)

As of September 30, 2016, the co-generation project was complete. Prior to completion, all lease payments were recorded as prepaid rent, with the financed portion as notes payable. Upon completion of the project, $7,300,000 of prepaid rent was offset against the notes payable balance and the project was treated as a capital lease, and is included in the balance of long-term debt in the balance sheets as of September 30, 2017 and 2016. As of September 30, 2017, there are $18,000 of unamortized issuance costs related to this project.

Under the terms of the Series 2009B Bonds, Sharp is required to maintain certain deposits with a trustee. Such deposits are included with assets limited as to use. Sharp's loan agreements include, among other things, certain financial covenants, limitations on additional indebtedness, and limitations on sales/leaseback transactions. Sharp was in compliance with such covenants and limitations at September 30, 2017 and 2016.

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

	Long-Term Debt	Capital Lease Obligations
	(In Thousands)	
2018	$ 13,490	$ 4,531
2019	29,717	4,904
2020	14,599	5,230
2021	15,652	5,145
2022	16,654	4,397
Thereafter	488,953	22,694

Scheduled interest payments Sharp is obligated to make on capital lease obligations referenced in the table noted above total approximately $16,043,000 at September 30, 2017.

6. Long-Term Debt (continued)

A summary of interest cost on borrowed funds follows:

	Year Ended September 30	
	2017	**2016**
	(In Thousands)	
Interest cost:		
Capitalized	**$ 2,690**	$ 1,647
Charged to operations	**23,998**	25,671
	$ 26,688	$ 27,318

Interest Rate Swaps

During 2003, Sharp entered into a floating-to-fixed interest rate swap on the Series 2003A and B Bonds that were refunded in 2009. The swap agreement hedges an initial notional amount of $109,650,000 at a fixed payor rate of 3.01% for the entire swap term, which expires on August 1, 2024, and will receive 59% of the one-month London Interbank Offered Rate (LIBOR) plus 0.14% for the remaining term of the swap. Settlements are made weekly. Cash paid on the interest rate swap was $293,000 and $1,452,000 in 2017 and 2016, respectively, which increased Sharp's overall cost of borrowing and was included in interest expense. The change in fair value of the swap increased non-operating income by $5,019,000 and $419,000 in 2017 and 2016, respectively. The fair value of the swap asset/(liability) at September 30, 2017 and 2016, was $0 and $(5,019,000), respectively, and is included in other assets and long-term liabilities, respectively, on the consolidated balance sheets. The 2003 floating-to-fixed interest rate swap was terminated during 2017 and a new floating-to-fixed interest rate swap was entered into during 2017.

During 2006, Sharp entered into a fixed-spread yield curve swap with a bank. The swap arrangement hedges an initial notional amount of $80,000,000 and entails Sharp paying 67% of one-month LIBOR and receiving 67% of ten-year International Swaps and Derivative Association less 0.423%. Under the terms of the agreement, Sharp may terminate the swap at any time. Cash received on the interest rate swap was $347,000 and $451,000 in 2017 and 2016, respectively, which reduced Sharp's overall cost of borrowing and was offset against interest expense. The change in fair value of the swap decreased non-operating income by $489,000 and $1,112,000 in 2017 and 2016, respectively. The fair value of the swap asset at September 30, 2017 and 2016, is $349,000 and $838,000, respectively, and is included in other assets and long-term liabilities in the September 30, 2017 and 2016, consolidated balance sheets, respectively.

6. Long-Term Debt (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 at a fixed payor rate of the Securities Industry and Financial Markets Association Municipal Swap Index for the entire swap term, which expires on February 2, 2034, and will receive 67% of one-month LIBOR plus 0.733%. Settlements are made quarterly. Cash received on the interest rate swap was $447,000 and $659,000 in 2017 and 2016, respectively, which reduced Sharp's overall cost of borrowing and was offset against interest expense. The change in fair value of the swap decreased non-operating income by $1,394,000 in 2017 and increased non-operating income by $1,206,000 in 2016. The fair value of the swap asset at September 30, 2017 and 2016, is $3,351,000 and $4,745,000, respectively, and is included in other assets and long-term liabilities on the September 30, 2017 and 2016, consolidated balance sheets, respectively.

During 2016, Sharp entered into a forward-starting floating-to-fixed interest rate swap to coincide with the planned refunding of the Series 2009B Bonds. The forward swap will replace 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 at a fixed payor rate of 1.51% for the entire swap term, which expires on August 1, 2039, and will receive 67% of one-month LIBOR for the remaining term of the swap. Settlements are to be made monthly, starting in September 2019. The change in fair value of the swap increased non-operating income by $6,252,000 in 2017 and decreased non-operating income by $4,480,000 in 2016. The fair value of the swap asset at September 30, 2017, is $1,772,000, and is included in other assets on the consolidated balance sheet. The fair value of the swap liability at September 30, 2016, is $4,480,000 and is included in long-term liabilities on the consolidated balance sheet.

During 2017, Sharp entered into a floating-to-fixed interest rate swap on the Series 2003A and B Bonds that were refunded in 2009. The swap agreement hedges an initial notional amount of $50,175,000 at a fixed payor rate of 3.01% for the entire swap term, which expires on August 1, 2024, and will receive 59% of the one-month LIBOR plus 0.14%, for the remaining term of the swap. Settlements are made weekly. Cash paid on the interest rate swap was $852,000 in 2017, which increased Sharp's overall cost of borrowing and was included in interest expense. The change in fair value of the swap decreased non-operating income by $3,045,000 in 2017. The fair value of the swap liability at September 30, 2017, was $3,045,000, and is included in other assets on the consolidated balance sheet.

7. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	September 30	
	2017	**2016**
	(In Thousands)	
Purchase of equipment	**$ 18,502**	$ 14,501
Hospital department	**14,225**	17,217
Hospital programs	**12,185**	13,752
Health education	**5,045**	4,871
Research	**4,505**	4,336
Indigent care	**379**	483
Total	**$ 54,841**	$ 55,160

Permanently restricted net assets of $6,698,000 and $6,653,000 at September 30, 2017 and 2016, respectively, represent investments to be held in perpetuity, the income from which is expendable to support health care services.

8. Endowments

Sharp's endowments consist of 54 separate endowment funds included in assets limited as to use established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors of Sharp's affiliated foundations to function as endowments. As required by GAAP, 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 the act, creating a rebuttable presumption of imprudence for spending more than 7% of the value of an endowment fund in one year (based on a three-year rolling average). The Board has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Sharp classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the

8. Endowments (continued)

original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Sharp in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, Sharp considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purposes of Sharp and the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of Sharp, and (7) the investment policies of Sharp.

The endowment net asset composition as of September 30, 2017, by fund type was as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	(In Thousands)			
Board-designated endowment funds	**$ 4,111**	**$ 2,940**	**$ –**	**$ 7,051**
Donor-restricted endowment funds	**–**	**6,026**	**6,698**	**12,724**
Total funds	**$ 4,111**	**$ 8,966**	**$ 6,698**	**$ 19,775**

The endowment net asset composition as of September 30, 2016, by fund type was as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	(In Thousands)			
Board-designated endowment funds	$ 3,710	$ 2,840	$ –	$ 6,550
Donor-restricted endowment funds	–	5,369	6,653	12,022
Total funds	$ 3,710	$ 8,209	$ 6,653	$ 18,572

8. Endowments (continued)

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

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	(In Thousands)			
Endowment net assets, October 1, 2015	$ 2,447	$ 6,951	$ 6,401	$ 15,799
Investment return:				
Investment income	55	390	–	445
Net appreciation (realized and unrealized)	485	802	–	1,287
Total investment return	540	1,192	–	1,732
Contributions	726	123	252	1,101
Appropriation of endowment assets for expenditure	(3)	(57)	–	(60)
Endowment net assets, September 30, 2016	3,710	8,209	6,653	18,572
Investment return:				
Investment income	**670**	**524**	**–**	**1,194**
Net appreciation (realized and unrealized)	**243**	**387**	**–**	**630**
Total investment return	**913**	**911**	**–**	**1,824**
Contributions	**117**	**100**	**45**	**262**
Appropriation of endowment assets for expenditure	**(629)**	**(254)**	**–**	**(883)**
Endowment net assets, September 30, 2017	**$ 4,111**	**$ 8,966**	**$ 6,698**	**$ 19,775**

9. Functional Expenses

Sharp provides general health care services to residents within its geographic locations. Expenses related to providing these services are as follows:

	Year Ended September 30	
	2017	**2016**
	(In Thousands)	
Hospital patient services	**$ 2,274,907**	$ 2,202,026
Clinic patient services	**552,053**	516,841
General and administrative	**310,476**	282,700
Purchased services under capitated agreements	**189,933**	169,256
	$ 3,327,369	$ 3,170,823

10. Pension Plans

Sharp sponsors a voluntary retirement plan (the Plan), which consists of defined benefit cash balance plans and a defined contribution plan. Under the defined benefit cash balance plans, Sharp made contributions of $31,502,000 and $81,564,000 in 2017 and 2016, respectively. Under the defined contribution plan, Sharp made contributions of $21,489,000 and $19,764,000 in 2017 and 2016, respectively.

10. Pension Plans (continued)

The following sets forth the funded status of Sharp's defined benefit pension plans at September 30:

	2017	2016
	(In Thousands)	
Change in benefit obligation:		
Benefit obligation at beginning of year	**$ 461,606**	$ 386,215
Service cost	**22,360**	17,353
Interest cost	**13,172**	12,683
Actuarial loss	**10,291**	54,552
Plan participant contributions	**8,600**	7,917
Benefits paid	**(19,861)**	(17,114)
Benefit obligation at end of year	**496,168**	461,606
Change in plan assets:		
Fair value of plan assets at beginning of year:	**412,021**	302,104
Actual gain on plan assets	**39,556**	37,550
Plan participants' contributions	**8,600**	7,917
Employer contributions	**31,502**	81,564
Benefits paid	**(19,861)**	(17,114)
Fair value of plan assets at end of year	**471,818**	412,021
Funded status	**$ (24,350)**	$ (49,585)

The net liability, recognized on the balance sheets in long-term liabilities, was $24,350,000 and $49,585,000 at September 30, 2017 and 2016, respectively.

Included in unrestricted net assets at September 30 are the following amounts that have not yet been recognized in net periodic pension cost:

	2017	2016
	(In Thousands)	
Net actuarial loss	**$ 133,747**	$ 146,588
	$ 133,747	$ 146,588

10. Pension Plans (continued)

Additional information for the Plan is as follows:

	September 30			
	2017		**2016**	
	(In Thousands)			
Projected benefit obligation	**$**	**496,168**	$	461,606
Accumulated benefit obligation		**470,361**		436,322
Fair value of plan assets		**471,818**		412,021

Net periodic pension cost includes the following components for the years ended September 30:

	2017		**2016**	
	(In Thousands)			
Service cost	**$**	**22,360**	$	17,353
Interest cost		**13,172**		12,683
Expected return on plan assets		**(25,882)**		(18,950)
Recognized net actuarial loss		**9,458**		6,958
Net periodic pension cost	**$**	**19,108**	$	18,044

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

	September 30	
	2017	**2016**
Discount rate	**3.85%**	3.70%
Rate of compensation increase	**3.00**	3.00

10. Pension Plans (continued)

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

	September 30	
	2017	**2016**
Discount rate	**3.70%**	4.34%
Expected return on plan assets, net of expenses	**6.25**	6.25
Rate of compensation increase	**3.00**	3.00

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

The estimated net actuarial loss for the defined benefit pension plans that will be amortized from net assets into net periodic pension cost during the 2018 fiscal year is $7,560,000.

Effective October 1, 2015, management elected to change the methodology for determining the discount rates used in estimating the service and interest cost components of the net periodic benefit cost from its historic practice of using a single weighted average discount rate derived from the yield curve to a spot rate method. Management believes that the spot rates derived from the yield curve used to discount the cash flows are preferable because using this method will result in a more precise calculation of the estimated costs. This change did not have a material impact on the financial statements.

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 65% equity securities and 35% fixed income when the Plan's funded ratio is less than 80%

10. Pension Plans (continued)

to an ultimate target of 40% equity securities and 60% fixed income when the Plan's funded ratio reaches 100%. 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:

	2017	**2016**
Asset category:		
Equity securities	**53%**	50%
Fixed income	**47**	43
Cash	**0**	7
Total	**100%**	100%

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 as of September 30, 2017 and 2016.

Contributions

Sharp expects to contribute $13,008,000 to the Plan in 2018.

10. Pension Plans (continued)

Estimated Future Benefit Payments

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

2018	$	34,631
2019		35,363
2020		35,293
2021		35,614
2022		36,681
2023–2027		189,659

11. Long-Term Liabilities

Long-term liabilities consist of the following:

	September 30			
	2017		**2016**	
	(In Thousands)			
Defined benefit pension plan unfunded liability	**$**	**24,350**	$	49,585
Workers' compensation		**44,517**		45,943
Deferred income		**28,209**		28,868
Other		**7,733**		10,967
	$	**104,809**	$	135,363

12. Commitments and Contingencies

Leases

Sharp leases various equipment and facilities under operating leases expiring at various dates through 2037. Total rental expense in 2017 and 2016 for all operating leases was $32,976,000 and $32,606,000, respectively.

12. Commitments and Contingencies (continued)

The following is a schedule by year of future minimum lease payments (in thousands) under operating leases as of September 30, 2017, that have initial or remaining lease terms in excess of one year:

2018	$ 27,186
2019	24,215
2020	23,011
2021	17,787
2022	16,144
Thereafter	157,130
	$ 265,473

Legal Matters

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations are subject to ongoing government review and interpretations, and include matters such as licensure, accreditation, and reimbursement for patient services. Compliance with these laws and regulations is required for participation in government health care programs. Government activity continues to increase with respect to investigations and allegations concerning possible violations of regulations by health care providers, which could result in the imposition of significant fines and penalties as well as significant repayment of previously billed and collected revenues for patient services. Sharp believes it is in compliance with current laws and regulations.

In the normal course of business, Sharp is involved in legal proceedings. Sharp accrues a 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 litigation loss contingency might include, for example, estimates of potential damages, outside legal fees, interest penalties, and other directly related costs expected to be incurred.

12. Commitments and Contingencies (continued)

Labor Matters

Not-for-profit health care providers and their employees are under the jurisdiction of the National Labor Relations Board. As of September 30, 2017, approximately 27% of Sharp employees are represented by unions. Such unionized employees are represented by the Sharp Professional Nurses Network/United Nurses Association of California. The collective bargaining agreement with the union expires in 2019.

Professional Liability and Stop-Loss Insurance

CQI SPC is a wholly owned captive insurance company that insures a portion of the medical malpractice (professional liability) claims of certain affiliates of Sharp. Malpractice losses are accrued based on estimates of the ultimate costs for both reported claims and claims incurred but not reported. Sharp's liability is limited to $3,000,000 per individual claim. As of September 30, 2017 and 2016, Sharp's liability was limited in the aggregate each year to $16,000,000. Sharp has obtained excess loss insurance covering claims above these amounts up to $40,000,000.

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, 2017 and 2016. 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 at September 30 are the following amounts related to professional and general liability:

	2017	2016
	(In Thousands)	
Reserves for professional and general liabilities	**$ 13,522**	$ 12,426
Accounts payable and accrued liabilities	**9,172**	7,610
	$ 22,694	$ 20,036

12. Commitments and Contingencies (continued)

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, 2017. In management's opinion, however, the estimated liability accrued at September 30, 2017, is adequate to provide for potential losses resulting from pending or threatened litigation. It is management's opinion that the ultimate disposition of such litigation will not have a material adverse effect on the consolidated financial position, results of operations, or cash flows of Sharp.

Sharp Health Plan

SHP is required to meet certain financial responsibility regulations of the California Department of Managed Healthcare (DMHC). Pursuant to these regulations, SHP maintains a reserve totaling $500,000 on deposit with various financial institutions. In addition, SHP is required to maintain two times the normal requirement of tangible net equity, as defined in regulations of the DMHC. At September 30, 2017 and 2016, SHP was required to maintain tangible net equity totaling $20,730,000 and $14,778,000, respectively. SHP's tangible net equity was $82,698,000 and $70,453,000 at September 30, 2017 and 2016, respectively. Management believes it is in compliance with these requirements at September 30, 2017 and 2016.

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 2017 and 2016). 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 losses have been discounted at 1.80% and 1.20% at September 30, 2017 and 2016, respectively. Workers' compensation liabilities of $56,596,000 and $57,828,000 at September 30, 2017 and 2016, respectively, are included in other current liabilities and long-term liabilities on the consolidated balance sheets.

12. Commitments and Contingencies (continued)

Seismic Standards (Unaudited)

All of Sharp's major hospital buildings are in compliance with the earthquake retrofit requirements under a state of California law through 2030. Due to regulatory changes in the definition of buildings over the past year, one small corridor at SMH is now subject to the requirements. The corridor is expected to be completely removed as part of renovations prior to the compliance requirement date.

Credit Facilities

Sharp has a $50,000,000 line of credit with a bank, which expires on September 1, 2019, of which $20,108,000 and $22,242,000 was available at September 30, 2017 and 2016, 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 $29,892,000 and $27,758,000 as of September 30, 2017 and 2016, respectively. These letters of credit are each considered a decrease in the available $50,000,000 line of credit with the bank. There are no amounts outstanding as of September 30, 2017 or 2016.

Sharp has a bank liquidity facility to provide credit enhancement and liquidity support for the $60,000,000 of Series 2009A Bonds. The bank liquidity facility was executed in February 2009 by a bank letter of credit that expires in April 2020. The letter of credit used as collateral totaled $30,011,000 at September 30, 2017.

Sharp has a bank liquidity facility to provide credit enhancement and liquidity support for the $99,880,000 of Series 2009C and D Bonds. The bank liquidity facility was executed in September 2009 by a bank letter of credit that expires in October 2018. The letters of credit used as collateral totaled $101,391,000 at September 30, 2017.

SHP has a bank credit facility that provides for the issuance of up to an aggregate of $2,400,000 at September 30, 2017 and 2016, under letters of credit. Such letters of credit are under irrevocable standby letters of credit. At September 30, 2017 and 2016, none of these letters have been drawn upon.

13. Fair Value of Financial Instruments

The following methods and assumptions were used by Sharp in estimating fair value of its financial instruments:

Cash and cash equivalents: The carrying amount reported on the balance sheet for cash and cash equivalents approximates fair value.

Short-term investments and assets limited as to use: Fair values, which are the amounts reported on the balance sheet, are based on quoted market prices.

Estimated settlements receivable from (payable to) government programs, net: The carrying amount reported on the balance sheet for estimated third-party payor settlements approximates its fair value.

Prepaid expenses and other: The carrying amount reported on the balance sheet for prepaid expenses and other approximates its fair value.

Interest rate swap receivables and liabilities: Fair values are computed using an estimated third-party analysis using an income approach for the individual swaps. The fair value is considered Level 2 in the fair value hierarchy at September 30, 2017 and 2016.

Accounts payable and accrued expenses: The carrying amount reported on the balance sheet for accounts payable and accrued expenses approximates its fair value.

Accrued compensation and benefits: The carrying amount reported on the balance sheet for accrued compensation and benefits approximates its fair value.

Long-term debt: Fair values are computed using an estimated third-party pricing analysis based on the individual bond terms. The fair value is considered Level 2 in the fair value hierarchy at September 30, 2017 and 2016.

13. Fair Value of Financial Instruments (continued)

The carrying amounts and fair values of Sharp's financial instruments are as follows (in thousands):

	September 30, 2017		September 30, 2016	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
Cash and cash equivalents	**$ 289,838**	**$ 289,838**	$ 317,280	$ 317,280
Short-term investments	**51,153**	**51,153**	44,352	44,352
Estimated settlements receivable from government programs, net	**–**	**–**	2,611	2,611
Prepaid expenses and other	**91,553**	**91,553**	54,813	54,813
Long-term investments	**245,883**	**245,883**	280,910	280,910
Assets limited as to use	**2,123,508**	**2,123,508**	1,846,101	1,846,101
Interest rate swap receivables included in other assets	**2,427**	**2,427**	–	–
Accounts payable and accrued liabilities	**291,122**	**291,122**	271,067	271,067
Accrued compensation and benefits	**147,788**	**147,788**	140,284	140,284
Estimated settlements payable to government programs, net	**2,745**	**2,745**	–	–
Interest rate swap liabilities included in long-term liabilities	**–**	**–**	3,916	3,916
Current and long-term debt	**636,356**	**679,035**	687,558	747,983

14. Subsequent Events

On November 28, 2017, Sharp deposited $12,066,000 into an escrow fund designed to defease certain Series 2009B bonds with a combined principal balance of $11,025,000 as of September 30, 2017. The escrow funds have been irrevocably designated for retirement of the Series 2009B bonds on August 1, 2019, which is the earliest date covered by the existing Series 2009B redemption option.

In preparing these consolidated financial statements, management has evaluated and disclosed all material subsequent events up to December 12, 2017, which is the date that the accompanying consolidated financial statements were issued.

Supplementary Information

Sharp HealthCare

Consolidating Balance Sheet

September 30, 2017

	Sharp HealthCare	Sharp Memorial Hospital	Sharp Chula Vista Medical Center	Sharp Grossmont Hospital	Sharp Coronado Hospital and HealthCare Center	Sharp Health Plan	Continuous Quality Insurance	Sharp HealthCare Foundation	Grossmont Hospital Foundation	Totals	Eliminations	Consolidated Totals
						(In Thousands)						
Assets												
Current assets:												
Cash and cash equivalents	$ 188,544	$ 1,546	$ 577	$ 34,509	$ 188	$ 57,615	$ 2,869	$ 655	$ 3,335	$ 289,838	$ –	$ 289,838
Short-term investments	38,319	–	–	10,589	–	2,245	–	–	–	51,153	–	51,153
Accounts receivable, net	36,955	138,897	50,940	87,348	11,887	25,068	–	1,305	180	352,580	(13,641)	338,939
Intercompany receivables	–	2,026,274	102,012	–	29,313	–	–	–	107	2,157,706	(2,157,706)	–
Inventories	7,317	18,153	7,654	12,662	2,313	–	–	–	–	48,099	–	48,099
Prepaid expenses and other	51,955	15,219	8,392	14,252	1,235	889	4	31	5	91,982	(429)	91,553
Total current assets	323,090	2,200,089	169,575	159,360	44,936	85,817	2,873	1,991	3,627	2,991,358	(2,171,776)	819,582
Long-term investments	183,996	–	–	12,522	–	49,365	–	–	–	245,883	–	245,883
Assets limited as to use:												
Designated for property	1,613,055	–	–	389,340	–	–	–	–	–	2,002,395	–	2,002,395
Under bond indentures	152	9,957	11,861	27,800	–	–	–	–	–	49,770	–	49,770
Other restricted investments	–	–	–	–	–	552	–	45,589	14,310	60,451	–	60,451
Under self-insurance programs	–	–	–	–	–	–	10,892	–	–	10,892	–	10,892
Total assets limited as to use	1,613,207	9,957	11,861	417,140	–	552	10,892	45,589	14,310	2,123,508	–	2,123,508
Property and equipment, net	349,241	408,464	150,219	391,728	27,837	711	–	181	–	1,328,381	–	1,328,381
Other assets	60,376	7	3,929	1,670	7,345	174	31,700	61,491	6,984	173,676	(67,132)	106,544
Beneficial interest in foundations	61,829	–	–	24,204	–	–	–	–	–	86,033	(86,033)	–
Total assets	$ 2,591,739	$ 2,618,517	$ 335,584	$ 1,006,624	$ 80,118	$ 136,619	$ 45,465	$ 109,252	$ 24,921	$ 6,948,839	$ (2,324,941)	$ 4,623,898

Sharp HealthCare

Consolidating Balance Sheet (continued)

	Sharp HealthCare	Sharp Memorial Hospital	Sharp Chula Vista Medical Center	Sharp Grossmont Hospital	Sharp Coronado Hospital and HealthCare Center	Sharp Health Plan	Continuous Quality Insurance	Sharp HealthCare Foundation	Grossmont Hospital Foundation	Totals	Eliminations	Consolidated Totals
	(In Thousands)											
Liabilities and net assets												
Current liabilities:												
Accounts payable and accrued liabilities	$ 150,067	$ 38,219	$ 24,130	$ 28,555	$ 3,313	$ 49,714	$ 10,760	$ (15)	$ 1	$ 304,744	$ (13,622)	$ 291,122
Intercompany payable	2,115,183	–	–	11,364	–	1,315	95	29,710	–	2,157,667	(2,157,667)	–
Accrued compensation and benefits	46,565	44,805	18,362	30,493	4,595	2,547	–	405	75	147,847	(59)	147,788
Current portion of long-term debt	3,291	9,154	2,008	3,568	–	–	–	–	–	18,021	–	18,021
Estimated settlements receivable from government programs, net	–	295	1,199	1,022	229	–	–	–	–	2,745	–	2,745
Accrued interest	289	2,384	550	508	–	–	–	–	–	3,731	–	3,731
Total current liabilities	2,315,395	94,857	46,249	75,510	8,137	53,576	10,855	30,100	76	2,634,755	(2,171,348)	463,407
Long-term liabilities	101,363	10,025	3,594	12,279	756	346	23,421	17,323	643	169,750	(64,941)	104,809
Reserves for professional and general liabilities	4,700	–	–	–	–	–	8,822	–	–	13,522	–	13,522
Long-term debt	116,731	348,268	67,968	85,368	–	–	–	–	–	618,335	–	618,335
Total liabilities	2,538,189	453,150	117,811	173,157	8,893	53,922	43,098	47,423	719	3,436,362	(2,236,289)	1,200,073
Net assets:												
Unrestricted	3,500	2,165,367	217,773	815,911	77,291	82,697	2,367	11,779	6,647	3,383,332	(21,046)	3,362,286
Temporarily restricted	44,470	–	–	16,438	(6,066)	–	–	44,470	16,437	115,749	(60,908)	54,841
Permanently restricted	5,580	–	–	1,118	–	–	–	5,580	1,118	13,396	(6,698)	6,698
Total net assets	53,550	2,165,367	217,773	833,467	71,225	82,697	2,367	61,829	24,202	3,512,477	(88,652)	3,423,825
Total liabilities and net assets	$ 2,591,739	$ 2,618,517	$ 335,584	$ 1,006,624	$ 80,118	$ 136,619	$ 45,465	$ 109,252	$ 24,921	$ 6,948,839	$ (2,324,941)	$ 4,623,898

Sharp HealthCare

Consolidating Statement of Operations

Year Ended September 30, 2017

	Sharp HealthCare	Sharp Memorial Hospital	Sharp Chula Vista Medical Center	Sharp Grossmont Hospital	Sharp Coronado Hospital and HealthCare Center	Sharp Health Plan	Continuous Quality Insurance	Sharp HealthCare Foundation	Grossmont Hospital Foundation	Totals	Eliminations	Consolidated Totals
						(In Thousands)						
Revenues:												
Patient service revenue	$ 174,442	$ 1,135,947	$ 345,282	$ 644,542	$ 88,940	$ –	$ –	$ –	$ –	$ 2,389,153	$ (421,578)	$ 1,967,575
Provider tax revenue	–	33,049	21,963	31,352	3,372	–	–	–	–	89,736	–	89,736
Provision for doubtful accounts	(7,210)	(10,075)	(3,964)	(9,088)	(904)	–	–	–	–	(31,241)	–	(31,241)
Net patient service	167,232	1,158,921	363,281	666,806	91,408	–	–	–	–	2,447,648	(421,578)	2,026,070
Premium	1,009,241	–	–	–	–	686,325	–	–	–	1,695,566	(335,445)	1,360,121
Other	236,461	10,607	5,902	10,734	4,447	43	11,694	–	–	279,888	(187,614)	92,274
Total revenues	1,412,934	1,169,528	369,183	677,540	95,855	686,368	11,694	–	–	4,423,102	(944,637)	3,478,465
Expenses:												
Salaries and wages	361,797	417,922	158,699	288,371	42,570	16,793	–	–	–	1,286,152	–	1,286,152
Employee benefits	95,970	99,077	36,883	66,503	9,583	3,371	–	–	–	311,387	–	311,387
Medical fees	303,660	16,404	8,135	13,163	1,389	601,100	–	–	–	943,851	(369,155)	574,696
Purchased services	188,276	62,374	30,979	45,809	9,526	33,779	176	–	–	370,919	(14,116)	356,803
Supplies	63,726	178,625	57,657	97,044	15,187	292	–	–	–	412,531	(4)	412,527
Provider tax	–	20,748	12,577	21,681	1,330	–	–	–	–	56,336	–	56,336
Maintenance, utilities and rentals	74,694	27,167	9,660	18,119	3,555	1,135	–	–	–	134,330	(5,803)	128,527
Depreciation and amortization	36,641	44,409	13,659	30,896	3,452	736	7	–	–	129,800	(17,874)	111,926
Business Insurance	3,068	5,269	1,886	3,597	476	192	10,418	–	–	24,906	(10,418)	14,488
Interest	4,100	15,977	2,021	3,325	1	3	–	–	–	25,427	(1,429)	23,998
Purchased services from affiliate	389,014	117,920	41,595	75,417	10,022	5,474	87	–	–	639,529	(639,529)	–
Other	17,910	8,883	2,361	4,289	1,179	15,892	15	–	–	50,529	–	50,529
Total expenses	1,538,856	1,014,775	376,112	668,214	98,270	678,767	10,703	–	–	4,385,697	(1,058,328)	3,327,369
Income (loss) from operations	(125,922)	154,753	(6,929)	9,326	(2,415)	7,601	991	–	–	37,405	113,691	151,096
Other non-operating income (loss)	1,757	(134)	(184)	(1,378)	(16)	23	–	(1,784)	(1,664)	(3,380)	135	(3,245)
Investment income	140,869	82,497	29,508	35,284	6,513	4,656	380	2,466	1,288	303,461	(113,826)	189,635
Excess of revenues over expenses	16,704	237,116	22,395	43,232	4,082	12,280	1,371	682	(376)	337,486	–	337,486
Net assets transferred from related party	–	–	–	12,796	–	–	–	–	–	12,796	–	12,796
Net assets released from restrictions used for purchase of property, plan, and equipment	342	3,626	2,105	580	–	–	–	–	–	6,653	–	6,653
Pension related changes other than net periodic pension cost	3,521	4,303	1,199	3,526	259	41	–	–	–	12,849	–	12,849
Other changes in net assets	682	–	–	(268)	14,520	–	–	–	–	14,934	(306)	14,628
Increase (decrease) in unrestricted net assets	$ 21,249	$ 245,045	$ 25,699	$ 59,866	$ 18,861	$ 12,321	$ 1,371	$ 682	$ (376)	$ 384,718	$ (306)	$ 384,412

Sharp HealthCare

Consolidating Statement of Changes in Net Assets

Year Ended September 30, 2017

	Sharp HealthCare	Sharp Memorial Hospital	Sharp Chula Vista Medical Center	Sharp Grossmont Hospital	Sharp Coronado Hospital and HealthCare Center	Sharp Health Plan	Continuous Quality Insurance	Sharp HealthCare Foundation	Grossmont Hospital Foundation	Totals	Eliminations	Consolidated Totals
	(In Thousands)											
Unrestricted net assets:												
Excess of revenues over expenses	$ 16,704	$ 237,116	$ 22,395	$ 43,232	$ 4,082	$ 12,280	$ 1,371	$ 682	$ (376)	$ 337,486	$ –	$ 337,486
Net assets transferred from related party	–	–	–	12,796	–	–	–	–	–	12,796	–	12,796
Net assets released from restrictions used for purchase of property, plant, and equipment	342	3,626	2,105	580	–	–	–	–	–	6,653	–	6,653
Pension-related changes other than net periodic pension cost	3,521	4,303	1,199	3,526	259	41	–	–	–	12,849	–	12,849
Other changes in net assets	682	–	–	(268)	14,520	–	–	–	–	14,934	(306)	14,628
Increase (decrease) in unrestricted net assets	21,249	245,045	25,699	59,866	18,861	12,321	1,371	682	(376)	384,718	(306)	384,412
Temporarily restricted net assets:												
Contributions	–	–	–	–	–	–	–	13,552	2,523	16,075	–	16,075
Investment income	–	–	–	–	–	–	–	708	148	856	–	856
Change in net unrealized gains on other-than-trading securities	–	–	–	–	–	–	–	696	107	803	–	803
Net assets released from restrictions	–	–	–	–	–	–	–	(10,179)	(1,953)	(12,132)	–	(12,132)
Other	4,777	–	–	825	(5,921)	–	–	–	–	(319)	(5,602)	(5,921)
Increase (decrease) in temporarily restricted net assets	4,777	–	–	825	(5,921)	–	–	4,777	825	5,283	(5,602)	(319)
Permanently restricted net assets:												
Contributions	–	–	–	–	–	–	–	44	1	45	–	45
Other	44	–	–	1	–	–	–	–	–	45	(45)	–
Increase (decrease) in permanently restricted net assets	44	–	–	1	–	–	–	44	1	90	(45)	45
Increase (decrease) in net assets	26,070	245,045	25,699	60,692	12,940	12,321	1,371	5,503	450	390,091	(5,953)	384,138
Net assets, beginning of year	27,480	1,920,322	192,074	772,775	58,285	70,376	996	56,326	23,752	3,122,386	(82,699)	3,039,687
Net assets, end of year	$ 53,550	$ 2,165,367	$ 217,773	$ 833,467	$ 71,225	$ 82,697	$ 2,367	$ 61,829	$ 24,202	$ 3,512,477	$ (88,652)	$ 3,423,825

Sharp HealthCare

Combining Balance Sheet – Obligated Group

September 30, 2017

	Sharp HealthCare	Sharp Memorial Hospital	Sharp Chula Vista Medical Center	Sharp Grossmont Hospital	Totals	Eliminations	Combining Totals
				(In Thousands)			
Assets							
Current assets:							
Cash and cash equivalents	$ 188,544	$ 1,546	$ 577	$ 34,509	$ 225,176	$ –	$ 225,176
Short-term investments	38,319	–	–	10,589	48,908	–	48,908
Accounts receivable, net	36,955	138,897	50,940	87,348	314,140	(1,733)	312,407
Intercompany receivables	(2,114,418)	2,026,274	102,012	–	13,868	(11,217)	2,651
Inventories	7,317	18,153	7,654	12,662	45,786	–	45,786
Prepaid expenses and other	51,955	15,219	8,392	14,252	89,818	–	89,818
Total current assets	(1,791,328)	2,200,089	169,575	159,360	737,696	(12,950)	724,746
Long-term investments	183,996	–	–	12,522	196,518	–	196,518
Assets limited as to use:							
Designated for property	1,613,055	–	–	389,340	2,002,395	–	2,002,395
Under bond indentures	152	9,957	11,861	27,800	49,770	–	49,770
Total assets limited as to use	1,613,207	9,957	11,861	417,140	2,052,165	–	2,052,165
Property and equipment, net	349,241	408,464	150,219	391,728	1,299,652	–	1,299,652
Other assets	60,376	7	3,929	1,670	65,982	(72)	65,910
Beneficial interest in foundations	61,829	–	–	24,204	86,033	–	86,033
Total assets	$ 477,321	$ 2,618,517	$ 335,584	$ 1,006,624	$ 4,438,046	$ (13,022)	$ 4,425,024

Sharp HealthCare

Combining Balance Sheet – Obligated Group (continued)

September 30, 2017

	Sharp HealthCare	Sharp Memorial Hospital	Sharp Chula Vista Medical Center	Sharp Grossmont Hospital	Totals	Eliminations	Combining Totals
				(In Thousands)			
Liabilities and net assets							
Current liabilities:							
Accounts payable and accrued liabilities	$ 150,832	$ 38,219	$ 24,130	$ 28,555	$ 241,736	$ (1,733)	$ 240,003
Intercompany payable	–	–	–	11,364	11,364	(11,217)	147
Accrued compensation and benefits	46,565	44,805	18,362	30,493	140,225	–	140,225
Current portion of long-term debt	3,291	9,154	2,008	3,568	18,021	–	18,021
Estimated settlements receivable from government programs, net	–	295	1,199	1,022	2,516	–	2,516
Accrued interest	289	2,384	550	508	3,731	–	3,731
Total current liabilities	200,977	94,857	46,249	75,510	417,593	(12,950)	404,643
Long-term liabilities	101,363	10,025	3,594	12,279	127,261	(72)	127,189
Reserves for professional and general liabilities	4,700	–	–	–	4,700	–	4,700
Long-term debt	116,731	348,268	67,968	85,368	618,335	–	618,335
Total liabilities	423,771	453,150	117,811	173,157	1,167,889	(13,022)	1,154,867
Net assets:							
Unrestricted	3,500	2,165,367	217,773	815,911	3,202,551	–	3,202,551
Temporarily restricted	44,470	–	–	16,438	60,908	–	60,908
Permanently restricted	5,580	–	–	1,118	6,698	–	6,698
Total net assets	53,550	2,165,367	217,773	833,467	3,270,157	–	3,270,157
Total liabilities and net assets	$ 477,321	$ 2,618,517	$ 335,584	$ 1,006,624	$ 4,438,046	$ (13,022)	$ 4,425,024

Sharp HealthCare

Combining Statement of Operations – Obligated Group

For the Year Ended September 30, 2017

	Sharp HealthCare	Sharp Memorial Hospital	Sharp Chula Vista Medical Center	Sharp Grossmont Hospital	Totals	Eliminations	Combining Totals
				(In Thousands)			
Revenues:							
Patient service revenue	$ 174,442	$ 1,135,947	$ 345,282	$ 644,542	$ 2,300,213	$ (397,716)	$ 1,902,497
Provider tax revenue	–	33,049	21,963	31,352	86,364	–	86,364
Provision for doubtful accounts	(7,210)	(10,075)	(3,964)	(9,088)	(30,337)	–	(30,337)
Net patient service	167,232	1,158,921	363,281	666,806	2,356,240	(397,716)	1,958,524
Premium	1,009,241	–	–	–	1,009,241	–	1,009,241
Other	236,461	10,607	5,902	10,734	263,704	(163,134)	100,570
Total revenues	1,412,934	1,169,528	369,183	677,540	3,629,185	(560,850)	3,068,335
Expenses:							
Salaries and wages	361,797	417,922	158,699	288,371	1,226,789	–	1,226,789
Employee benefits	95,970	99,077	36,883	66,503	298,433	–	298,433
Medical fees	303,660	16,404	8,135	13,163	341,362	(21,733)	319,629
Purchased services	188,276	62,374	30,979	45,809	327,438	(10,379)	317,059
Supplies	63,726	178,625	57,657	97,044	397,052	(4)	397,048
Provider tax	–	20,748	12,577	21,681	55,006	–	55,006
Maintenance, utilities, and rentals	74,694	27,167	9,660	18,119	129,640	(4,874)	124,766
Depreciation and amortization	36,641	44,409	13,659	30,896	125,605	(16,567)	109,038
Business insurance	3,068	5,269	1,886	3,597	13,820	–	13,820
Interest	4,100	15,977	2,021	3,325	25,423	(1,407)	24,016
Purchased services from affiliate	389,014	117,920	41,595	75,417	623,946	(613,199)	10,747
Other	17,910	8,883	2,361	4,289	33,443	–	33,443
Total expenses	1,538,856	1,014,775	376,112	668,214	3,597,957	(668,163)	2,929,794
(Loss) income from operations	(125,922)	154,753	(6,929)	9,326	31,228	107,313	138,541
Other nonoperating income (loss)	1,757	(134)	(184)	(1,378)	61	–	61
Investment income	140,869	82,497	29,508	35,284	288,158	(107,313)	180,845
Excess of revenues over (under) expenses	16,704	237,116	22,395	43,232	319,447	–	319,447
Net assets transferred from related party	–	–	–	12,796	12,796	–	12,796
Net assets released from restrictions used for purchase of property, plant, and equipment	342	3,626	2,105	580	6,653	–	6,653
Pension-related changes other than net periodic pension cost	3,521	4,303	1,199	3,526	12,549	–	12,549
Other changes in net assets	989	–	–	(268)	721	–	721
Increase in unrestricted net assets	$ 21,556	$ 245,045	$ 25,699	$ 59,866	$ 352,166	$ –	$ 352,166

Sharp HealthCare

Combining Statement of Changes in Net Assets – Obligated Group

For the Year Ended September 30, 2017

	Sharp HealthCare	Sharp Memorial Hospital	Sharp Chula Vista Medical Center	Sharp Grossmont Hospital	Totals	Eliminations	Combining Totals
				(In Thousands)			
Unrestricted net assets:							
Excess of revenues over expenses	$ 16,704	$ 237,116	$ 22,395	$ 43,232	$ 319,447	$ –	$ 319,447
Net assets transferred from related party	–	–	–	12,796	12,796	–	12,796
Net assets released from restrictions used for purchase of property, plant, and equipment	342	3,626	2,105	580	6,653	–	6,653
Pension-related changes other than net periodic pension cost	3,521	4,303	1,199	3,526	12,549	–	12,549
Other changes in net assets	989	–	–	(268)	721	–	721
Increase in unrestricted net assets	21,556	245,045	25,699	59,866	352,166	–	352,166
Temporarily restricted net assets:							
Other changes in net assets	4,777	–	–	825	5,602	–	5,602
Increase in temporarily restricted net assets	4,777	–	–	825	5,602	–	5,602
Permanently restricted net assets:							
Contributions	–	–	–	–	–	–	–
Other changes in net assets	44	–	–	1	45	–	45
Increase in permanently restricted net assets	44	–	–	1	45	–	45
Increase in net assets	26,377	245,045	25,699	60,692	357,813	–	357,813
Net assets beginning of year	27,173	1,920,322	192,074	772,775	2,912,344	–	2,912,344
Net assets end of year	$ 53,550	$ 2,165,367	$ 217,773	$ 833,467	$ 3,270,157	$ –	$ 3,270,157

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