



LEADING **TOGETHER**

SHARP COMMUNITY

MEDICAL GROUP

2022 ANNUAL

REPORT

TABLE OF CONTENTS

Board of Directors | 1

Conversation with Dr. Sergio Flores and Paul Durr | 2

Physician Growth & Development | 4

Top Performers - Quality | 6

Top Performers - Patient Experience | 7

Awards & Recognition | 10

2022 Financials | 11

BOARD OF DIRECTORS



FRONT ROW, LEFT TO RIGHT: **Kevin Considine, D.O. - Vice President, Louis Maletz, M.D. - ex-officio, Arch, Larry Chiang, M.D., Akber Safi, M.D., Bernard Michlin, M.D., Kenneth Roth, M.D. - Past President, Craig Saffer, M.D.**

BACK ROW, LEFT TO RIGHT: **Joy Emmanuel-Cochrane, D.O. - SharpCare, Gayle Howard, M.D. - Vice President, Alejandro Paz, M.D. - ex-officio, Graybill, Patricia Kettlehake, M.D., Victor Seikaly, M.D., Charles Athill, M.D., Sergio Flores, M.D. - President, Christopher Pallia, M.D., Ada Marin, M.D., Efrain Valladolid, M.D., Mark Huang, M.D., David Bodkin, M.D. - Secretary and Treasurer, Ashish Wadhwa, M.D.**

NOT PICTURED: **Sharna Shachar, M.D., Leticia Polanco, M.D., Mona Mofid, M.D.**

A NEW ERA OF PHYSICIAN

A CONVERSATION WITH **DR. SERGIO FLORES**, PRESIDENT,



Sergio Flores, MD,
President

DURR: Dr. Flores, this is our first annual report dialogue together, so let me start out by congratulating you on your new appointment as President.

FLORES: Thank you Paul. As you know, I have a long history with SCMG, so I'm ready and eager to serve the organization in this new role.

DURR: For those who may not know much about you, can you give a brief summary of your history with SCMG?

FLORES: Certainly Paul. I joined SCMG 26 years ago in 1997. I took on my first leadership role representing the Chula Vista region on the Chula Vista Regional Advisory Council. In 1998, I was elected to serve on the Board of Directors, and a few years later, was elected to the Executive Committee in 2002. I've served as Secretary, Treasurer, Vice President and now President. Through my involvement in SCMG, I was able to join the Board of the San Diego County Medical Society where I served on the Executive Committee, eventually serving as President in 2021. I am also on the Executive Committee of the California Medical Association, currently serving as the Vice-Chair of the Board.



Paul Durr,
Chief Executive
Officer

DURR: It has been wonderful to see you grow as a leader during your 26 years with SCMG and be a role model for other physicians. We often talk about the fact that SCMG is physician-owned and led. Something I'm particularly proud of is the way SCMG offers so many opportunities for physicians to take on leadership roles within the organization. **The Board of Directors** and **Regional Advisory Councils** have offered longstanding opportunities for physician members to have a voice in decision-making and actively participate in the process of communicating information about the strategic direction of the organization to their regions and fellow physicians. In 2022, we added additional opportunities for physician leadership. Would you like to talk about those teams?

FLORES: Yes Paul, in the last year we formed three new strategic physician Task Forces. These Task Forces are work groups comprised of regional physician leadership and content experts, brought together to

LEADERSHIP

AND PAUL DURR, CHIEF EXECUTIVE OFFICER

execute on the medical group's strategic objectives in certain areas of interest. The three new Task Forces are:

- **Growth/ Recruitment Task Force**

Develop and implement a physician recruitment strategy to improve access and grow/ retain membership.

- **Performance Task Force**

Advance the performance of the medical group to become a 5-star organization. This task force will continue our commitment to the Vision 2020 journey of improving overall quality and patient experience.

- **Physician Happiness Task Force**

Improve provider well-being and sense of groupness to enhance provider communication and rapport.

DURR: To support the Growth/ Recruitment Task Force's efforts, Eric Braun, SCMG's VP of Physician Strategy and Development, led the development of a new Sharp Community Jobvite page. Jobvite is a talent acquisition suite that provides a streamlined hiring process that's scalable to the organization's needs. The service will also be available to our affiliated physicians' practices to post their current job openings, allowing them to reach a broader pool of candidates. This is just one more way that SCMG is growing to meet the medical group's evolving needs.

FLORES: Throughout the years with SCMG, I've continued to be impressed with the creative strategies and initiatives SCMG has undertaken to help the organization continue to grow and evolve, and to help preserve the independent practice of medicine. I have no doubt that we will see more innovation from SCMG as competition intensifies with new consumer offerings like the subscription models offered by groups such as Forward and One Medical.

DURR: I couldn't agree more Sergio. In the rapidly evolving health care landscape we face today, there's no time to rest on our laurels. It will require us constantly striving to evolve in order to grow and remain relevant.

FLORES: SCMG is an organization that was formed by physicians, for physicians. With health plans and Government payors, and consumers battling to contain costs by lower reimbursements, our collective strength is far greater as a whole. Come what may, we are in this together, we are always **Better Together**, and as physician owners, we are **Leading Together!**

Sharp Community Medical Group physicians partner outside of the clinical setting to provide expertise, leadership and guidance for our organization's initiatives. By collaborating with each other, the goal is to achieve positive changes to the clinical environment that benefit both physicians and patients.

- **EXECUTIVE COMMITTEE**
- **FINANCE COMMITTEE**
- **QUALITY OF CARE COMMITTEE**
- **UTILIZATION MANAGEMENT COMMITTEE**
- **REGIONAL ADVISORY COUNCILS**
 - Chula Vista Regional Advisory Council
 - Coronado Regional Advisory Council
 - Grossmont Regional Advisory Council
 - Inland North Regional Advisory Council
 - Metro Regional Advisory Council
- **PROFESSIONAL ADVISORY COUNCILS**
 - Community CONNECT Advisory Committee
 - Continuing Medical Education Committee
 - Professional Guidance Committee

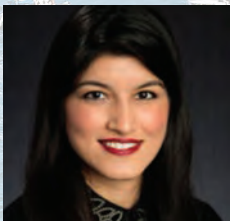
PHYSICIAN GROWTH AND

- **SPECIALTY ADVISORY COUNCILS**
 - Allergy Advisory Council
 - Dermatology Advisory Council
 - Ear, Nose and Throat (ENT) Advisory Council
 - Neurology Advisory Council
 - Orthopedic Advisory Council
 - Podiatry Advisory Council
 - Primary Care Advisory Council
 - Radiology Advisory Council
- **STRATEGIC TASK FORCES**
 - Growth/Recruitment Task Force
 - Performance Task Force
 - Physician Happiness Task Force



I chose a small independent practice over large group employment because I wanted to have control over the way I provided personalized medical care to the South Bay Community. Sharp Community Medical Group supported the start of my career with a small private practice affiliated with SCMG, which has greatly helped me to build my practice and thrive. SCMG continues to offer plenty of support to improve the medical care offered by my practice and opportunity to grow professionally. Joining SCMG has also given me the opportunity for terrific work/life balance. With greater flexibility and control over my schedule, I am able to spend the quality family time that I desire and really be involved in my childrens' lives.

Joseph Novencido, D.O. Family Medicine



After graduating from residency, I joined an independent practice to maximize continuity of care and have opportunities to build more personable relationships with my patients. I also appreciate the flexibility of tailoring my schedule to allow for more work/life balance. Through the opportunities SCMG has given me, I enjoy the best of both worlds: a small, personable practice feel with connections to a large network of support services from SCMG and the larger Sharp community.

Jusleen Ahluwalia, M.D. Dermatology

DEVELOPMENT



I chose SCMG after being in a large group practice to allow me to practice the way I have always envisioned a physician should practice. A personal approach that is unique to me and from the heart and which also allows me the flexibility to balance my life and control how my medical practice is run.

Kevin Considine, D.O. Family Medicine



I chose an independent practice because it allows me to control my brand and to maintain the high quality of care that I bring to my patients. Sharp Community Medical Group has been so very supportive of my practice model, which focuses on providing empathetic and patient-centered cutting-edge surgical care, by creating a place for like-minded physicians who truly care about patient care to succeed in practice.

Mark Schultzel, M.D. Orthopedic Surgery

TOP PERFORMERS *IN QUALITY*

Primary Care Physicians who achieved or exceeded the 75th percentile in the quality domain for 2021



BRYAN ABRAMOWITZ, M.D.



MUHAMMAD AZAM, M.D.



ANDREW BROWN, M.D.



NOLI CAVA, M.D.



LYNNE CHAMPAGNE, M.D.



LARRY CHIANG, M.D.



GREGORY CZER, M.D.



JEANNETTE DEL VALLE, M.D.



ROLF EHLERS, M.D.



BRIAN FIRST, M.D.



BRYAN FOX, M.D.



MAHSHID HAMIDI, M.D.



DENISE HONER, M.D.



NOAH JOHNSON, M.D.



PATRICIA KETTLEHAKE, M.D.



TUNG LAI, M.D.



ELLYN LEVINE, M.D.



MICHELLE LISKE, M.D.



JAMES MALINAK, M.D.



KEVIN MALONE, M.D.



KARIM MANSOUR, M.D.



ADA MARIN, M.D.



GARY MCFEETERS, M.D.



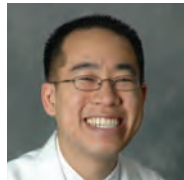
KEVIN MERKES, M.D.



GRANT MEYER, M.D.



TROY NIGUIDULA, M.D.



ROGER OEN, M.D.



WILLIAM PADILLA, M.D.



LETICIA POLANCO, M.D.



KENNETH ROTH, M.D.



AKBER SAFI, M.D.



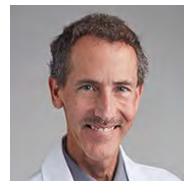
ELIZABETH SALADA, M.D.



MAJID SHAHBAZ, M.D.



SHARNA SHACHAR, M.D.



ROBIN SPIERING, M.D.



SALVATORE TARANTINO, M.D.



NICOLE TREMAIN, M.D.



EFRAIN VALLADOLID, M.D.



HALYNA WEST, M.D.



LAURA WILLIAMS WAYNE, M.D.



TERRY WINEGAR, M.D.



JENNY WONG, M.D.

For the Quality metric, the dates of service used for the measurement were January 1, 2021 through December 31, 2021

TOP PERFORMERS *IN PATIENT EXPERIENCE*

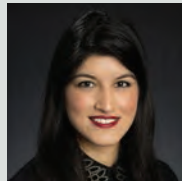
Physicians who achieved or exceeded the 90th percentile in the Patient Experience domain for 2022 received special recognition



BRYAN ABRAMOWITZ, M.D.
INTERNAL MEDICINE



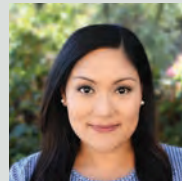
JOHN ADDERSON, M.D.
FAMILY MEDICINE



JUSLEEN AHLUWALIA, M.D.
DERMATOLOGY



ALI BANAIE, M.D.
GASTROENTEROLOGY



MADALASA BISTA, M.D.
FAMILY MEDICINE



GENEVIEVE BLOOM, M.D.
INTERNAL MEDICINE



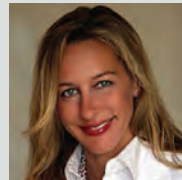
DAVID BODKIN, M.D.
ONCOLOGY



GARY BOONE, M.D.
FAMILY MEDICINE



IRA BRAVERMAN, M.D.
INTERNAL MEDICINE



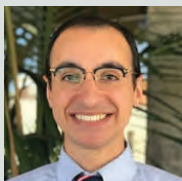
DIANA BREISTER-GHOSH, M.D.
PLASTIC SURGERY



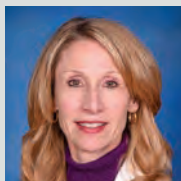
KIMBERLY BYERS-LUND, D.O.
FAMILY MEDICINE



JUAN CALDERON MOLINA, M.D.
NEPHROLOGY



NICHOLAS CANELO, M.D.
FAMILY MEDICINE



LYNNE CHAMPAGNE, M.D.
INTERNAL MEDICINE



EDMOND CHAN, M.D.
GENERAL SURGERY



ALEXANDER CHANG M.D.
VASCULAR SURGERY



HARITHA CHELIMILLA, M.D.
GASTROENTEROLOGY



ANDREW CHEN, M.D.
CARDIOLOGY



BRYAN CHEN, M.D.
DERMATOLOGY



DAMON COBB, D.O.
OB/GYN



JOSHUA COHEN, M.D.
GYNECOLOGY



KEVIN CONSIDINE, D.O.
FAMILY MEDICINE



LISA MARIE CONSIDINE, D.O.
FAMILY MEDICINE



ADAM DAO, M.D.
OPHTHALMOLOGY



KELLY DEWITT, M.D.
RADIATION ONCOLOGY



THOMAS DIGGS, M.D.
CARDIOLOGY



JEFFREY DYSART, M.D.
FAMILY MEDICINE



ROLF EHLERS, M.D.
INTERNAL MEDICINE



STEVEN EISENBERG, D.O.
ONCOLOGY



GEORGE FADDA, M.D.
NEPHROLOGY



ARMAN FARAVARDEH, M.D.
NEPHROLOGY



NAVEEN GARA, M.D.
GASTROENTEROLOGY



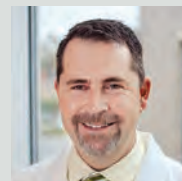
JEFFREY GORWIT, M.D.
CARDIOLOGY



JOSHUA GREENSTEIN, M.D.
NEPHROLOGY



ALEXANDER GREINER, M.D.
ALLERGY



JAY GROVE, M.D.
GENERAL SURGERY

Press Ganey surveys received from January 1, 2022 through December 31, 2022.
Physicians must have had 30 surveys or more to be included.



VINCENT GUZZETTA, M.D.
VASCULAR SURGERY



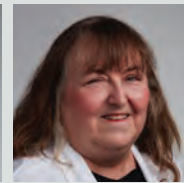
JOHN HAMMES, M.D.
NEPHROLOGY



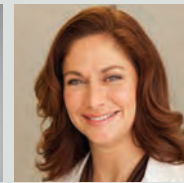
DAVID HANSEN, M.D.
INTERNAL MEDICINE



PETER HOAGLAND, M.D.
CARDIOLOGY



DENISE HONER, M.D.
INTERNAL MEDICINE



GAYLE HOWARD, M.D.
OPHTHALMOLOGY



STEPHANIE IEM, D.O.
FAMILY MEDICINE



MARK JACOBSON, M.D.
ORTHOPEDIC SURGERY



MONEER JAIBAJI, M.D.
PLASTIC SURGERY



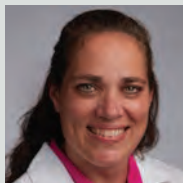
RINA JAIN, M.D.
ORTHOPEDIC SURGERY



KENNETH JOHNSON, M.D.
ONCOLOGY



NOAH JOHNSON, M.D.
FAMILY MEDICINE



PATRICIA KETTLEHAKE, M.D.
INTERNAL MEDICINE/
PEDIATRICS



POORNIMA KHANNA, M.D.
INTERNAL MEDICINE



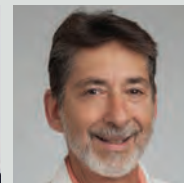
ALEXANDRA KHARAZI, M.D.
CARDIOTHORACIC SURGERY



REZA KHOSHINI, M.D.
GASTROENTEROLOGY



BRENDAN KIDDER, M.D.
FAMILY MEDICINE



S. DOUGLAS KLEIN, M.D.
INTERNAL MEDICINE



STEVEN KOSSMAN, M.D.
ONCOLOGY



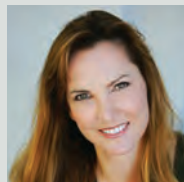
HOE LE, M.D.
FAMILY MEDICINE



KARL LIMMER, M.D.
CARDIOTHORACIC SURGERY



JOSE LIRA, M.D.
PULMONARY DISEASE



MICHELLE LISKE, M.D.
INTERNAL MEDICINE



**ELIZABETH LOZADA-
PASTORIO, M.D.**
NEPHROLOGY



GUY LUND, M.D.
NEPHROLOGY



JENNIFER MACEWAN, M.D.
ENT/OTOLARYNGOLOGY



MIKHAIL MALEK, M.D.
CARDIOLOGY



SUDHIR MALIK, M.D.
NEUROLOGY



JAMES MALINAK, M.D.
INTERNAL MEDICINE



GARY MCFEETERS, M.D.
FAMILY MEDICINE



IGOR MEDIC, M.D.
ONCOLOGY



KEVIN MERKES, M.D.
INTERNAL MEDICINE



JILL MEYER, M.D.
NEPHROLOGY



MONA MOFID, M.D.
DERMATOLOGY



BARZAN MOHEDIN, M.D.
INTERNAL MEDICINE



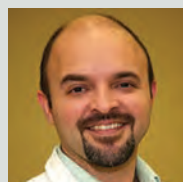
GEORGE MUELLER, M.D.
GENERAL SURGERY



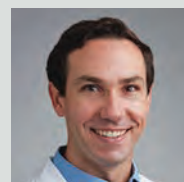
**ROMMEL NAVARRETE,
M.D.**
INTERNAL MEDICINE



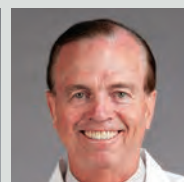
IRENE OH, M.D.
NEUROLOGY



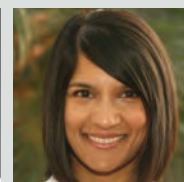
RASHID PABAND, M.D.
INTERNAL MEDICINE



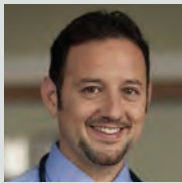
JUSTIN PARIZO, M.D.
CARDIOLOGY



JOHN PEDROTTY, M.D.
FAMILY MEDICINE



SUNANDA PEJAVAR, M.D.
RADIATION ONCOLOGY



TRACY POLANCO, M.D.
FAMILY MEDICINE



DOUGLAS POLITOSKE, M.D.
GASTROENTEROLOGY



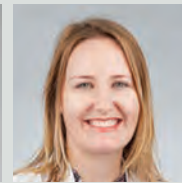
RICHARD PUTNAM, M.D.
FAMILY MEDICINE



MICHELE QUAN, M.D.
PULMONARY DISEASE



CHARLES REDFERN, M.D.
ONCOLOGY



KRISTEN RICE, M.D.
ONCOLOGY



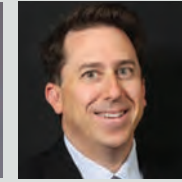
TANIA RIVERA, M.D.
RHEUMATOLOGY



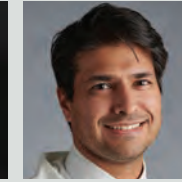
MARIANNE ROCHESTER, M.D.
UROLOGY



AKBER SAFI, M.D.
INTERNAL MEDICINE



GREGORY SAHAGIAN, M.D.
NEUROLOGY



ARVIND SAINI, M.D.
OPHTHALMOLOGY



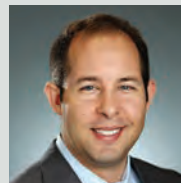
BOBAK SALAMI, M.D.
CARDIOLOGY



ALFRED SALEH, M.D.
ONCOLOGY



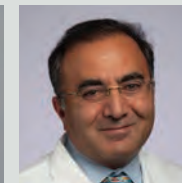
JACK SCHIM, M.D.
NEUROLOGY



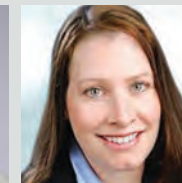
MARK SCHULTZEL, M.D.
ORTHOPEDIC SURGERY



ROD SERRY, M.D.
CARDIOLOGY



MAJID SHAHBAZ, M.D.
INTERNAL MEDICINE



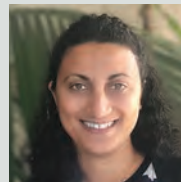
LORRA SHARP, M.D.
ORTHOPEDIC SURGERY



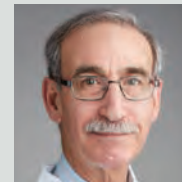
CASIE SHENO, M.D.
ONCOLOGY



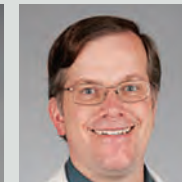
MARIE SHIEH, M.D.
ONCOLOGY



YOUSTINA SOLIMAN, M.D.
FAMILY MEDICINE



SALVATORE TARANTINO, M.D.
INTERNAL MEDICINE



JEFFREY TOMAN, M.D.
GENERAL SURGERY



KARO TOROSIAN, D.O.
NEPHROLOGY



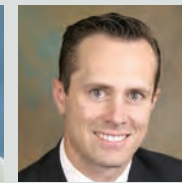
TAM TRAN, M.D.
FAMILY MEDICINE



NICOLE TREMAIN, M.D.
INTERNAL MEDICINE



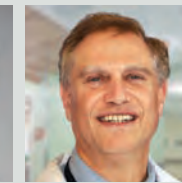
KENNETH TRESTMAN, M.D.
PULMONARY DISEASE



PAUL VOLPP, M.D.
RADIATION ONCOLOGY



ASHISH WADHWA, M.D.
ENT/OTOLARYNGOLOGY



KENNETH WARM, M.D.
FAMILY MEDICINE



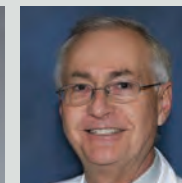
TERRY WINEGAR, M.D.
FAMILY MEDICINE



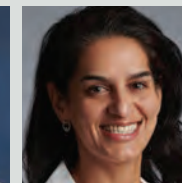
KIN WONG, M.D.
FAMILY MEDICINE



VING YAM, D.O.
FAMILY MEDICINE



KAMEN ZAKOV, M.D.
INTERNAL MEDICINE



MARYAM ZAREI, M.D.
ALLERGY

NOT PICTURED: ANTOINE AIZARANI-HALLAK, M.D., PLASTIC SURGERY, RASHAD ANSARI, M.D., RHEUMATOLOGY, JOSEPH CHAMMAS, M.D., CARDIOVASCULAR/THORACIC, DERYA COSKUN, M.D., NEUROLOGY, JUSTIN COX, M.D., CARDIOLOGY, AMANDA DAPPEN, M.D., FAMILY MEDICINE, DAVID DAUGHERTY, M.D., ORTHOPEDIC SURGERY, JOHN DEGRAFT-JOHNSON, M.D., CARDIOVASCULAR/THORACIC, KRISTINA DELA ROSA, M.D., DERMATOLOGY, ROLF DRINHAUS, M.D., ORTHOPEDIC SURGERY, THOMAS ECK, M.D., OPTHALMOLOGY, LEAH FARINAS, M.D., GENERAL SURGERY, NADINE GRAVEN, M.D., OB/GYN, BORIS KHAMISHON, M.D., NEUROLOGY, BRUCE KIMURA, M.D., CARDIOLOGY, EVELYN MENDOZA, M.D., ONCOLOGY, JOAN MEYER, D.P.M., PODIATRY, STEFAN MOLDOVAN, M.D., VASCULAR SURGERY, KESHAV NAYAK, M.D., INTERVENTIONAL CARDIOLOGY, CARIE NGUYEN, M.D., FAMILY MEDICINE, MARY PALOMINO, M.D., FAMILY MEDICINE, IVAN ROSADO, M.D., FAMILY MEDICINE, ALI SALAMI, M.D., CARDIOLOGY, STANLEY SCHINKE, M.D., ONCOLOGY, CAROLYN SELMER, D.O., OB/GYN, SEAN SKELTON, D.O., ENT/OTOLARYNGOLOGY, CHRISTOPHER SNYDER, D.O., FAMILY MEDICINE, KRISTEN WALTERS, M.D., ALLERGY

AWARDS AND RECOGNITION

THE MODEL OF CHOICE FOR PATIENTS TO RECEIVE CARE
AND PHYSICIANS TO PRACTICE MEDICINE



Excellence in Healthcare Award

Sharp Community Medical Group was recognized by the Integrated Healthcare Association (IHA) with the 2022 Excellence in Healthcare Award.

The Excellence in Healthcare Award is the most prestigious of the IHA awards, recognizing provider organizations for delivering high-value care. Excellence in Healthcare award winners perform in the top 50% in all Align. Measure. Perform. (AMP) measurement areas: quality, patient experience, and cost.

In addition to the 2022 award, Sharp Community Medical Group also received this recognition in 2015, 2016, 2019, 2020 and 2021.



Standards of Excellence Award

Sharp Community Medical Group achieved "Elite" status – the highest level of recognition – and was acknowledged with the 2022 Standards of Excellence Award™ at the America's Physician Groups (APG) Annual Healthcare Conference for the 13th consecutive year.

Members are surveyed regarding Population Health Management, Health Information Technology, Accountability and Transparency, Patient-Centered Care, Advanced Primary Care, and Administrative and Financial Capability.

Sharp Community Medical Group has received this recognition from 2009-2022.

SHARP COMMUNITY MEDICAL GROUP INCORPORATED

Consolidated Financial Statements And Independent Auditor's Report

DECEMBER 31, 2022 AND 2021

INDEPENDENT AUDITOR'S REPORT	12
CONSOLIDATED FINANCIAL STATEMENTS	
CONSOLIDATED BALANCE SHEETS	14
CONSOLIDATED STATEMENTS OF INCOME	15
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME	16
CONSOLIDATED STATEMENTS OF EQUITY	16
CONSOLIDATED STATEMENTS OF CASH FLOWS	17
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	18

Independent Auditor's Report

To the Board of Directors
Sharp Community Medical Group Incorporated

Opinion

We have audited the consolidated financial statements of Sharp Community Medical Group Incorporated (a California corporation), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of income, comprehensive income, equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Sharp Community Medical Group Incorporated as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery,

intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Sharp Community Medical Group Incorporated's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Sharp Community Medical Group Incorporated's ability to continue as a going concern for a reasonable period of time.

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

CohnReznick LLP

Los Angeles, California
April 5, 2023

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2022 AND 2021

ASSETS	2022	2021
Current assets		
Cash and cash equivalents	\$ 71,333,404	\$ 67,248,473
Marketable securities	51,622,918	52,743,246
Accounts receivable	1,007,005	876,447
Accrued interest receivable	227,096	208,917
Prepaid expenses	420,859	367,754
Current portion of notes receivable	1,671,638	169,287
Total current assets	126,282,920	121,614,124
Long-term assets		
Long-term portion of notes receivable	1,662,350	313,326
Equipment, leasehold improvements and software, net	4,317	8,437
Deferred tax assets	1,894,320	-
Total long-term assets	3,560,987	321,763
Total assets	\$ 129,843,907	\$ 121,935,887
LIABILITIES AND EQUITY		
Current liabilities		
Physician fees payable	\$ 18,751,136	\$ 14,701,664
Incurred but unreported claims	13,154,513	14,260,157
Professional fees payable	1,656,815	2,053,945
Deferred revenue	1,176,555	1,376,586
Physician quality incentive payable	35,216,307	32,200,511
Income taxes payable	711,737	287,328
Other current liabilities	8,827,909	7,722,275
Total current liabilities	79,494,972	72,602,466
Deferred tax liabilities	-	15,542
Total liabilities	79,494,972	72,618,008
Equity		
Common stock	176,900	189,933
Retained earnings	52,482,997	48,332,233
Accumulated other comprehensive income (loss)	(2,310,962)	795,713
Total equity	50,348,935	49,317,879
Total liabilities and equity	\$ 129,843,907	\$ 121,935,887

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
Revenue		
Capitated fees	\$ 352,797,284	\$ 331,956,718
Incentive	15,333,756	22,548,202
Practice management	1,895,674	1,502,933
Total	370,026,714	356,007,853
Operating expenses		
Capped fees		
Primary care physicians	82,108,799	84,418,844
Specialty physicians	38,588,044	37,839,335
Fees for services - primary and specialty care physicians and ancillary providers	139,545,394	130,516,159
Physician quality incentive	45,202,533	37,433,731
Practice management operating expense	2,755,613	1,862,334
Total	308,200,383	292,070,403
Income from operations before general and administrative fees	61,826,331	63,937,450
General and administrative fees		
Management fees	45,189,530	46,184,745
Professional and legal fees	11,256,890	12,686,579
Depreciation	4,120	4,375
Other	1,301,602	1,071,268
Total	57,752,142	59,946,967
Income from operations	4,074,189	3,990,483
Other income (expense)		
Investment and interest income	1,364,645	2,083,580
Interest expense	(27,419)	(24,074)
Income before income taxes	5,411,415	6,049,989
Provision for income taxes	1,260,651	1,819,643
Net income	\$ 4,150,764	\$ 4,230,346

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
Net income	\$ 4,150,764	\$ 4,230,346
Other comprehensive income		
Unrealized loss on marketable securities, net of deferred tax benefit of \$1,071,071 and \$191,829, respectively	(3,106,675)	(445,954)
Total comprehensive income	\$ 1,044,089	\$ 3,784,392

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF EQUITY

YEARS ENDED DECEMBER 31, 2022 AND 2021

	Common Stock		Retained Earnings	Accumulated Other Comprehensive Income (loss)	Total
	Shares	Amount			
Balance, January 1, 2021	556	\$ 197,933	\$ 44,101,887	\$ 1,241,667	\$ 45,541,487
Net income	-	-	4,230,346	-	4,230,346
Unrealized gain on marketable securities, net of deferred taxes of \$191,829	-	-	-	(445,954)	(445,954)
Issuance of common stock	40	4,000	-	-	4,000
Shares repurchased and cancelled	(39)	(12,000)	-	-	(12,000)
Balance, December 31, 2021	557	189,933	48,332,233	795,713	49,317,879
Net income	-	-	4,150,764	-	4,150,764
Unrealized loss on marketable securities, net of deferred taxes of \$1,071,071	-	-	-	(3,106,675)	(3,106,675)
Issuance of common stock	8	800	-	-	800
Shares repurchased and cancelled	(54)	(13,833)	-	-	(13,833)
Balance, December 31, 2022	511	\$ 176,900	\$ 52,482,997	\$ (2,310,962)	\$ 50,348,935

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
Cash flows from operating activities		
Net income	\$ 4,150,764	\$ 4,230,346
Adjustments to reconcile net income to net cash provided by operating activities		
Amortization of premium or discount	119,255	66,030
Realized and unrealized (gain) loss on marketable securities	902,992	(973,726)
Deferred income taxes	(838,791)	(278,042)
Depreciation and amortization	4,120	4,359
Changes in operating assets and liabilities		
Accounts receivable	(130,558)	229,562
Income taxes receivable	-	304,168
Accrued interest receivable	(18,179)	42,941
Prepaid expenses	(53,105)	(137,821)
Physician fees payable	4,049,472	2,184,573
Incurred but unreported claims	(1,105,644)	(331,074)
Professional fees payable	(397,130)	(389,833)
Deferred revenue	(200,031)	175,545
Physician quality incentive payable	3,015,796	1,398,302
Income taxes payable	424,409	287,328
Other liabilities	1,105,634	(2,237,687)
Net cash provided by operating activities	11,029,004	4,574,971
Cash flows from investing activities		
Purchases of marketable securities	(24,087,386)	(22,987,318)
Proceeds from sales of marketable securities	20,007,721	22,679,094
Notes receivable collected	195,937	322,993
Notes receivable issued	(3,047,312)	(237,500)
Net cash used in investing activities	(6,931,040)	(222,731)
Cash flows from financing activities		
Issuance of common stock	800	4,000
Repurchase and cancellation of common stock	(13,833)	(12,000)
Net cash used in financing activities	(13,033)	(8,000)
Net increase in cash and cash equivalents	4,084,931	4,344,240
Cash and cash equivalents, beginning	67,248,473	62,904,233
Cash and cash equivalents, end	\$ 71,333,404	\$ 67,248,473
Supplementary disclosure of cash flow data		
Interest paid	\$ 27,419	\$ 24,074
Income taxes paid	\$ 2,759,000	\$ 1,185,902

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Organization and business

Sharp Community Medical Group Incorporated (the "Company") is a California professional corporation of physicians, organized in 1989 and licensed to practice medicine in the State of California. The Company is an association of independent primary and specialty care physicians who practice in their local offices throughout San Diego County and southern Riverside County. The Company contracts with Health Maintenance Organizations ("HMOs") to provide physician and related health care services for the HMO enrollees.

Sharp HealthCare provides management advisory, consulting and administrative services to the Company. The Company entered into a purchase services agreement with Sharp HealthCare which was effective in 2006.

SmartCareMD Practice Management, LLC

In May 2011, the Company established a subsidiary, SmartCareMD Practice Management, LLC ("SmartCareMD"), to manage physician offices thereby sustaining the Company's current model of private practice. The Company owns 100% of SmartCareMD.

Graybill Medical Group

In November 2000, the Company entered into a professional services agreement with Graybill Medical Group ("Graybill"), a professional medical corporation, which employs primary care and certain specialty care physicians. The agreement allows Graybill to access the Company's contracts with HMOs and provides access to the Company's Accountable Care Organization ("ACO") agreements. Graybill assumes the risk for all specialty care and covered services for enrollees selecting a Graybill primary care physician.

Arch Health Partners

In October 2013, the Company entered into a professional services agreement with Arch Health Partners ("Arch"), a medical foundation, which employs primary care and certain specialty care physicians. The agreement allows Arch to access the Company's contracts with HMOs and provides access to the Company's ACO agreements. Arch assumes the risk for all specialty care and covered services for enrollees selecting an Arch primary care physician.

Note 2 - Summary of significant accounting policies

Use of estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Principles of consolidation

The accompanying financial statements are consolidated and include the accounts of the Company and its SmartCareMD subsidiary as described above. All intercompany balances and transactions have been eliminated in consolidation.

SmartCareMD had assets totaling approximately \$779,000 and \$1,609,000, liabilities of \$1,282,000 and \$1,074,000, contributed capital of \$2,500 and \$2,500, and net income (loss) of (\$1,037,000) and \$2,232,000 as of and for the years ended December 31, 2022 and 2021, respectively.

Cash and cash equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The fair value of the cash and cash equivalents approximates their carrying values because of the short maturity of the investments.

Concentrations of credit risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, investments and accounts receivable from HMOs. The Company maintains cash in certain money market investment accounts that are not covered by the Federal Deposit Insurance Corporation. The money market funds and investments consist of high-quality debt securities including U.S. Government obligations; certificates of deposit, time deposits and other obligations issued by domestic banks; commercial paper and corporate bonds. The Company has experienced insignificant losses in such accounts and does not believe it is exposed to any significant credit risk.

Note 2 - Summary of significant accounting policies (continued)

With respect to the accounts receivable from HMOs, credit risk is mitigated by the HMOs' concurrent payment of the contracted amount for services provided and government regulations (primarily covered by the State of California Knox-Keene Act) which require the HMOs to maintain adequate financial reserves for payment of medical services (see Note 10).

Accounting for the impairment of long-lived assets

The Company assesses potential impairments to its long-lived assets when there is evidence that events or changes in circumstances indicate that the carrying amount of an asset may not be recovered. An impairment loss is recognized when the undiscounted cash flows expected to be generated by an asset (or group of assets) is less than its carrying amount. Any required impairment loss is measured as the amount by which the asset's carrying value exceeds its fair value, and is recorded as a reduction in the carrying value of the related asset and a charge to operations. The Company has determined that there have been no such impairment losses as of December 31, 2022 and 2021.

Marketable securities

The Company classifies its debt securities as available-for-sale and are recorded at fair value. All equity securities held by the Company have readily determinable fair values and are reported at fair value. Unrealized holding gains and losses, net of tax, related to debt securities are reported as a component of accumulated other comprehensive income until realized. Unrealized holding gains and losses related to equity securities are reported in the consolidated statements of income. The fair value of the Company's securities is based on quoted market prices or quoted prices for similar assets. Realized gains and losses are determined on the specific identification method. It is the intent of the Company not to hold securities until maturity but instead to follow its investment policy regarding maturity guidelines, investment ratings, and investment concentrations.

Equipment, leasehold improvements, and software

Equipment and software are stated at cost and depreciated and amortized using the straight-line method over the estimated useful lives of the assets. Useful lives used range from five to seven years. The majority of the equipment and software are related to the implementation of the electronic health record system and practice management project. Leasehold improvements are depreciated over the shorter of the remaining lease term or their estimated useful economic life.

Revenue recognition

The Company's contracts with various HMOs provide for a prepaid, monthly, fixed capitation payment on a per-member basis by the HMOs to the Company. Capitation payments from HMOs are recognized as revenue during the period in which enrollees are entitled to receive services.

Under capitation contracts, the Company is financially responsible to provide the enrollee with necessary covered primary and specialty physician care. The Company is a party to shared risk (incentive) arrangements which generally reward the Company for the efficient utilization of certain inpatient and outpatient services. Under the shared risk arrangements, the Company shares any surplus above amounts pre-established by the HMO. As the amounts received as a surplus from the HMOs cannot reasonably be estimated, the Company recognized these amounts as revenue when received.

The Company also earns practice management revenue which consists of payments from healthcare providers for support and billing services provided on their behalf. The Company recognizes revenue when the service is provided.

Incurred but unreported claims

Incurred but unreported claims are estimated based on historical data of actual claims approved for a given date of service. These estimates may vary from actual results and the differences may be significant.

Income taxes

The Company accounts for income taxes pursuant to the asset and liability method which requires deferred income tax assets and liabilities to be computed annually for temporary differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted laws and rates applicable to the periods in which the temporary differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized. The income tax provision or credit is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

Note 2 - Summary of significant accounting policies (concluded)

There was no accrued interest or penalties associated with uncertain tax positions at December 31, 2022 and 2021.

The Company files income tax returns in the Federal and California jurisdictions. Federal and California tax returns prior to fiscal years 2019 and 2018, respectively, are closed. The Company's tax returns are not currently under examination.

The Company recognizes interest and penalties associated with tax matters as part of operating expenses that includes accrued interest and penalties with the related tax liability in the consolidated balance sheets.

New accounting pronouncements

In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2016-02, Leases ("Topic 842"), which establishes the principles to report transparent and economically neutral information about the assets and liabilities that arise from leases. This guidance results in a more faithful representation of the rights and obligations arising from operating and capital leases in the statement of financial position and to disclose qualitative and quantitative information about lease transactions, such as information about variable lease payments and options to renew and terminate leases. The Company has elected to apply the deferrals provided by ASU 2020-05, and therefore adopted Topic 842 for fiscal years beginning after December 15, 2021 on a modified retrospective basis. The Company evaluated the potential impact of adoption, and due to the Company not having significant operating leases, at December 31, 2022 and 2021, there was no impact on the financial statements.

Note 3 - Investments in marketable securities and fair value measurement

GAAP provides a framework for measuring fair value, expands disclosures about fair value measurements and establishes a fair value hierarchy which prioritizes the inputs used in measuring fair value, summarized as follows:

- Level 1: Fair value determined based on quoted prices in active markets for identical assets.
- Level 2: Fair value determined using quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar instruments in markets that are not active and model-derived valuations in which all significant inputs are observable in active markets.
- Level 3: Fair value determined using significant unobservable inputs.

Following are the major categories of assets measured at fair value on a recurring basis as of December 31, 2022:

	Level 1	Level 2	Level 3	Total
U.S. Government agency securities	\$ 5,915,063	\$ -	\$ -	\$ 5,915,063
Corporate bonds				
AAA	-	4,192,502	-	4,192,502
AA+	-	239,493	-	239,493
AA	-	824,445	-	824,445
AA-	-	1,547,702	-	1,547,702
A+	-	1,978,103	-	1,978,103
A	-	5,201,159	-	5,201,159
A-	-	7,460,983	-	7,460,983
BBB+	-	4,594,204	-	4,594,204
BBB	-	1,875,944	-	1,875,944
BBB-	-	481,353	-	481,353
Total corporate bonds	-	28,395,888	-	28,395,888
Equity funds	5,942,265	-	-	5,942,265
Bond funds	2,797,758	-	-	2,797,758
Real estate funds	1,435,340	-	-	1,435,340
Collateralized Mortgage Obligation (CMO)	-	907,265	-	907,265
U.S. Treasury securities	6,229,339	-	-	6,229,339
Total	\$ 22,319,765	\$ 29,303,153	\$ -	\$ 51,622,918

Note 3 - Investments in marketable securities and fair value measurement (continued)

Following are the major categories of assets measured at fair value on a recurring basis as of December 31, 2021:

	Level 1	Level 2	Level 3	Total
U.S. Government agency securities	\$ 7,933,972	\$ -	\$ -	\$ 7,933,972
Corporate bonds				
AAA	-	3,933,896	-	3,933,896
AA+	-	561,733	-	561,733
AA	-	1,358,221	-	1,358,221
AA-	-	1,903,206	-	1,903,206
A+	-	1,994,727	-	1,994,727
A	-	4,475,274	-	4,475,274
A-	-	6,683,560	-	6,683,560
BBB+	-	4,831,701	-	4,831,701
BBB	-	1,565,360	-	1,565,360
BBB-	-	513,902	-	513,902
Total corporate bonds	-	27,821,580	-	27,821,580
Equity funds	5,377,328	-	-	5,377,328
Bond funds	2,569,602	-	-	2,569,602
Real estate funds	1,297,806	-	-	1,297,806
Collateralized Mortgage Obligation (CMO)	-	1,540,660	-	1,540,660
U.S. Treasury securities	6,202,298	-	-	6,202,298
Total	\$ 23,381,006	\$ 29,362,240	\$ -	\$ 52,743,246

The Company's investments in marketable securities are valued based on the market approach valuation technique and are exposed to price fluctuations. The fair value measurements for the Company's Level 1 investment securities are valued based upon the quoted price in active markets multiplied by the number of securities owned, exclusive of any transaction costs and without any adjustments to reflect discounts that may be applied to selling a large block of securities at one time.

The Company's Level 2 investment securities are valued based on standard inputs listed in approximate order of priority for use when available that include benchmark yields, reported tables, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, reference data including market research publications, and vendor traded platform data. The Company does not believe changes in the fair value of these assets will materially differ from the amount that could be realized upon settlement or that the changes in fair value will have a material effect on the Company's results of operations or financial position. However, the ultimate amount that could be realized upon sale or settlement is dependent on several factors including external market conditions, the terms and conditions of a sale agreement, the counterparty to a sale agreement, the investment's liquidity in capital markets and the length of time to liquidate an equity investment.

Note 3 - Investments in marketable securities and fair value measurement

Marketable securities at December 31, 2022 consist of the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government agency securities	\$ 6,376,881	\$ -	\$ (461,818)	\$ 5,915,063
Corporate bonds				
AAA	4,413,697	807	(222,002)	4,192,502
AA+	239,682	-	(189)	239,493
AA	909,996	-	(85,551)	824,445
AA-	1,626,093	-	(78,391)	1,547,702
A+	2,111,240	4,968	(138,105)	1,978,103
A	5,460,387	7,051	(266,279)	5,201,159
A-	7,882,703	-	(421,720)	7,460,983
BBB+	4,947,884	-	(353,680)	4,594,204
BBB	2,033,545	-	(157,601)	1,875,944
BBB-	517,592	-	(36,239)	481,353
Total corporate bonds	30,142,819	12,826	(1,759,757)	28,395,888
Equity funds	5,016,104	958,158	(31,997)	5,942,265
Bond funds	3,272,411	-	(474,653)	2,797,758
Real estate funds	1,461,683	17,212	(43,555)	1,435,340
Collateralized Mortgage Obligation (CMO)	936,756	-	(29,491)	907,265
U.S. Treasury securities	6,680,268	-	(450,929)	6,229,339
Total	\$ 53,886,922	\$ 988,196	\$(3,252,200)	\$ 51,622,918

Note 3 - Investments in marketable securities and fair value measurement (concluded)

Marketable securities at December 31, 2021 consist of the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government agency securities	\$ 7,896,171	\$ 109,585	\$ (71,784)	\$ 7,933,972
Corporate bonds				
AAA	3,963,496	3,029	(32,629)	3,933,896
AA+	546,089	15,644	-	561,733
AA	1,338,386	23,212	(3,377)	1,358,221
AA-	1,855,571	47,635	-	1,903,206
A+	1,999,412	10,968	(15,653)	1,994,727
A	4,368,966	117,048	(10,740)	4,475,274
A-	6,586,170	131,416	(34,026)	6,683,560
BBB+	4,802,501	69,288	(40,088)	4,831,701
BBB	1,563,509	14,525	(12,674)	1,565,360
BBB-	522,864	-	(8,962)	513,902
Total corporate bonds	27,546,964	432,765	(158,149)	27,821,580
Equity funds	3,510,619	1,866,709	-	5,377,328
Bond funds	2,606,603	-	(37,001)	2,569,602
Real estate funds	942,139	355,667	-	1,297,806
Collateralized Mortgage Obligation (CMO)	1,508,263	32,399	(2)	1,540,660
U.S. Treasury securities	6,227,955	35,365	(61,022)	6,202,298
Total	\$ 50,238,714	\$ 2,832,490	\$(327,958)	\$ 52,743,246

Note 3 - Investments in marketable securities and fair value measurement

The amortized cost and estimated fair value of investments at December 31, 2022 and 2021, by contractual maturity, were as follows:

	2022		2021	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Within one year	\$ 629,130	\$ 617,430	\$ 1,310,964	\$ 1,319,767
One to five years	43,671,471	40,830,125	41,802,696	42,178,743
Equity Funds	5,016,104	5,942,265	3,510,619	5,377,328
Bond Funds	3,272,411	2,797,758	2,606,603	2,569,602
Real Estate Funds	1,297,806	1,435,340	1,007,832	1,297,806
Total	\$ 53,886,922	\$ 51,622,918	\$ 50,238,714	\$ 52,743,246

Actual maturities may differ from contractual maturities because some issuers have the right to call or prepay obligations with or without call or prepayment penalties.

For the year ended December 31, 2022, the Company recorded unrealized losses on debt securities of \$3,106,675, net of deferred tax benefit of \$1,071,071 in other comprehensive income. For the year ended December 31, 2022, the Company recorded net realized and unrealized losses of \$902,992 and interest income of \$2,267,637 in the statement of income.

For the year ended December 31, 2021, the Company recorded unrealized losses on debt securities of \$445,954, net of deferred tax benefits of \$191,829 in other comprehensive income. For the year ended December 31, 2021, the Company recorded net realized and unrealized gains of \$973,726 and interest income of \$1,109,854 in the statement of income.

Note 4 - Equipment, leasehold improvements, and software

Equipment and software consist of the following at December 31:

	2022	2021
Equipment and computer hardware	\$ 28,539	\$ 28,539
Less accumulated depreciation	24,222	20,102
Total	\$ 4,317	\$ 8,437

Depreciation and amortization expense totaled \$4,120 and \$4,359 for the years ended December 31, 2022 and 2021, respectively.

Note 5 - Notes receivable

The Company entered into a Center Development Agreement on June 15, 2010 for the development of four Partners Urgent Care centers in San Diego County. Under this agreement, four partnerships were formed to develop and operate the centers. The Company provided the entire \$4,000,000 originally agreed upon for financing that was to be repaid over a period of eight years, accruing interest at 2% above the prime rate. Additionally, the Company financed the \$170,000 loan to the Company's partner as required through a capital contribution requirement of the partnerships that was to be repaid over a period of five years, accruing interest at 2% above the prime rate.

The Partners Urgent Care centers defaulted on the loans by failing to make payments of principal and interest, and the Company foreclosed on the loans in February 2018. The Company sold the assets of the Partners Urgent Care centers to Marque Medical in February 2018 for \$1,497,059 in cash at closing, a loan carry-back of \$900,000 to be paid to the Company over five years with 5.0% interest, and a share in collections of 1.25% through December 31, 2022. At December 31, 2022 and 2021, there was \$50,531 and \$246,466, respectively, outstanding on the note receivable from Marque Medical.

The Company entered into a Capitation Advance Agreement on December 23, 2022. The agreement is set in place to secure specialty care practice in an area of San Diego County. The advance of \$3,000,000 will be paid back over a period of two years through capitation payments. There is no interest charged on the advance.

From time to time the Company will make short-term advances to physician members. Advances to physicians totaled \$283,457 and \$236,147 as of December 31, 2022 and 2021, respectively.

Note 6 - Related party transactions and balances

A substantial portion of the medical services provided on behalf of the Company is rendered by physicians who are also stockholders of the Company. During the years ended December 31, 2022 and 2021, approximately \$138,435,000 and \$128,541,000, respectively, of primary and specialty care physicians' fees, board fees, and committee fees related to physicians who were also stockholders. At December 31, 2022 and 2021, approximately \$8,000,000 and \$9,421,000, respectively, of such fees were included in physician fees payable and incurred but unreported claims.

Note 7 - Major payors

For the years ended December 31, 2022 and 2021, capitation revenue from three HMOs individually comprised greater than 10% of the Company's capitation revenue. In 2022, three HMOs comprised 10%, 26% and 41% for a total of 77% of capitation revenue. In 2021, three HMOs comprised 12%, 27% and 40% for a total of 79% of capitation revenue.

Note 8 - Income taxes

Income tax expense (benefit) is comprised of the following:

	2022	2021
Current		
Federal	\$ 1,413,444	\$ 1,510,333
State	685,998	587,352
Total	2,099,442	2,097,685
Deferred		
Federal	(636,467)	(200,190)
State	(202,324)	(77,852)
Total	(838,791)	(278,042)
Net provision for income taxes	\$ 1,260,651	\$ 1,819,643

For the years ended December 31, 2022 and 2021, the Company's effective tax rate differs from the federal statutory rate due to the existence of state income taxes, a true-up of prior year taxes, and nondeductible expenses of approximately \$91,000 and \$11,000, respectively.

The components of deferred tax assets and liabilities are as follows at December 31:

	2022	2021
Deferred tax assets (liabilities)		
State taxes	\$ 202,565	\$ 105,452
Physician guaranteed payment reserve	448,786	449,010
Accrued liabilities	78,228	115,244
Unrealized (gain) loss on marketable securities	1,164,741	(696,824)
Other	-	13,937
Depreciation	-	(2,361)
Deferred tax assets (liabilities)	\$ 1,894,320	\$ (15,542)

Note 9 - Capital structure

Pursuant to the amended Articles of Incorporation, the Company is authorized to issue one class of shares of common stock. The capital structure is as follows:

December 31, 2022	Shares Authorized	Shares Outstanding	Amount
Common Stock	12,000	511	\$ 176,900

December 31, 2021	Shares Authorized	Shares Outstanding	Amount
Common Stock	12,000	557	\$ 189,933

Shares of common stock are owned by licensed primary care physicians and specialty care physicians who have entered into a provider services agreement with the Company. Prior to the amendment of the Articles of Incorporation in 2007, the shares were issued at \$100 and \$1,000, depending on the contribution at the time their provider services agreement was executed. Following the amendment, a single class of shares is issued at \$100. All shares bought back by the Company are at the original share value.

Note 10 - State of California solvency standards

The California Department of Managed Health Care ("DMHC") promulgated regulations that establish certain financial and reporting requirements to which risk-bearing organizations, such as the Company, must adhere. These regulations require quarterly reporting to the DMHC of a financial survey report as well as statements to verify positive tangible net equity and positive working capital are maintained by the Company. The regulations also include compliance of claim payment timeliness and meeting a cash-to-claims ratio requirement. Currently, the Company believes that it meets all of the requirements of this regulation.


Note 11 - Contingencies

Litigation

The Company is a defendant in actions arising in the ordinary course of business. In the opinion of management, such litigation will not have a material effect on the Company's financial condition, results of operations or cash flows.

Note 12 - Subsequent events

The Company has evaluated subsequent events through April 5, 2023, which is the date the consolidated financial statements were available to be issued and did not identify any events for disclosure.



I have no doubt that we will see more innovation from SCMG as competition intensifies with new consumer offerings like the subscription models offered by groups such as Forward and One Medical.

Sergio Flores, MD, President



