## NOTE 3 - NET PATIENT SERVICE REVENUE AND REIMBURSEMENT PROGRAMS

The District rendered services to patients under contractual arrangements with the Medicare and Medi-Cal programs, health maintenance organizations ("HMOs") and preferred provider organizations ("PPOs"). Patient service revenues from Medicare approximate 37% and 38% of the District's gross patient service revenues, whereas patient service revenues from Medi-Cal approximate 49% and 47% of the District's gross patient service revenues for the years ended December 31, 2015 and 2014, respectively.

The District had agreements with third-party payors that provide for payments to the District at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, fee schedules, prepaid payments per member, and per diem payments or a combination of these methods. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated settlements under reimbursement agreements with third-party payors.

Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system based on clinical, diagnostic, and other factors. Inpatient non-acute services related to Medicare beneficiaries are paid based on a cost-reimbursement methodology through March 31, 2004. Inpatient non-acute services subsequent to April 1, 2004, are paid at prospectively determined rates per discharge. Payments for outpatient services are based on a stipulated amount per diagnosis. The District is reimbursed for cost reimbursable items at a tentative rate, with final settlements determined after submission of annual cost reports by the District and audits thereof by the Medicare fiscal intermediary. The District's cost reports have been audited by the Medicare fiscal intermediary through 2012.

Medicare accounts for approximately 54% and 56% of net patient service revenues whereas Medi-Cal accounts for approximately 15% and 13% of net patient service revenue for the years ended December 31, 2015 and 2014, respectively. Laws and regulations governing the Medicare and Medi-Cal programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change in the near term.

In November 2009, the California Hospital Fee Program (the "Program") was signed into California state law and became effective for 2010 after approval from the Centers for Medicare and Medicaid Services ("CMS"). The Program is funded by a quality assurance fee (the "Fee") paid by participating hospitals and by matching federal funds. Hospitals receive supplemental payments from either the California Department of Health Care Services ("DHCS"), managed care plans or a combination of both. The District recognized net supplemental payments in the amount of $2,088,000 in 2015 and none in 2014, from Medi-Cal as a part of the Program and has recorded this as a part of net patient service revenue in the statements of revenues, expenses and changes in net assets.

## NOTE 4 - CONCENTRATION OF CREDIT RISK

The District granted credit without collateral to its patients and third-party payors. Patient accounts receivable from government agencies represented the only concentrated group of credit risk for the District and management did not believe that there were any credit risks associated with these governmental agencies. Contracted and other patient accounts receivable consisted of various payors including individuals involved in diverse activities, subject to differing economic conditions and do not represent any concentrated credit risks to the District. The District's policy was to maintain a 100% reserve for all private pay patient accounts receivables outstanding aged over 240 days. Concentration of patient accounts receivable at December 31, 2015 and 2014, were as follows:

| | 2015 | 2014 |
|---|---|---|
| Medicare | 0% | 29% |
| Medi-Cal | 0% | 37% |
| Other 3rd Party and Private Payors | 0% | 34% |
| | 0% | 100% |

## NOTE 5 – OTHER RECEIVABLES

Other receivables as of December 31, 2015 and 2014 were comprised of the following:

| | 2015 | 2014 |
|---|---|---|
| Deposits | $ - | $ 131,000 |
| Rent and other receivables | - | 30,000 |
| Total other receivables | $ - | $ 161,000 |

Advances to physicians were comprised of physician income guarantees and/or business loans to those physicians requiring assistance to begin a local practice. The District had entered into agreements with certain physicians whereby the District guaranteed their income for a specified period of time. These agreements are structured so that if a physician maintains a practice in the area for a specified period of time, the income guarantee advances are forgiven.

West Contra Costa Healthcare District

Notes to Financial Statements

December 31, 2015

## NOTE 6 - CAPITAL ASSETS

Capital assets as of December 31, 2015 and 2014 were comprised of the following:

| | 12/31/2014 | Additions | Retirements & Adjustments | 12/31/2015 |
|---|---|---|---|---|
| **Capital assets not being depreciated** | | | | |
| Land and land improvements | $ 12,120,000 | $ - | $ (12,120,000) | $ - |
| Construction-in-progress | 196,000 | - | (196,000) | - |
| | 12,316,000 | - | (12,316,000) | - |
| **Capital assets being depreciated** | | | | |
| Buildings and improvements | 17,254,000 | - | (17,254,000) | - |
| Equipment | 37,043,000 | - | (37,043,000) | - |
| | 54,297,000 | - | (54,297,000) | - |
| Totals at historical cost | 66,613,000 | - | (66,613,000) | - |
| Less accumulated depreciation | (30,796,000) | (2,176,000) | 32,972,000 | - |
| Total capital assets, net | $ 35,817,000 | $ (2,176,000) | $ (33,641,000) | $ - |

| | 12/31/2013 | Additions | Retirements & Adjustments | 12/31/2014 |
|---|---|---|---|---|
| **Capital assets not being depreciated** | | | | |
| Land and land improvements | $ 12,120,000 | $ - | $ - | $ 12,120,000 |
| Construction-in-progress | 876,000 | 530,000 | (1,210,000) | 196,000 |
| | 12,996,000 | 530,000 | (1,210,000) | 12,316,000 |
| **Capital assets being depreciated** | | | | |
| Buildings and improvements | 16,955,000 | - | 299,000 | 17,254,000 |
| Equipment | 36,095,000 | 78,000 | 870,000 | 37,043,000 |
| | 53,050,000 | 78,000 | 1,169,000 | 54,297,000 |
| Totals at historical cost | 66,046,000 | 608,000 | (41,000) | 66,613,000 |
| Less accumulated depreciation | (25,988,000) | (4,849,000) | 41,000 | (30,796,000) |
| Total capital assets, net | $ 40,058,000 | $ (4,241,000) | $ - | $ 35,817,000 |

## NOTE 7 - DEBT BORROWINGS

A schedule of changes in the District's debt borrowings for the years ended December 31, 2015 and 2014 is as follows:

| | 12/31/14 | Additions | Reductions | 12/31/15 |
|---|---|---|---|---|
| **Bonds payable** | | | | |
| Certificates of Participation - Series 2004 | $ 19,155,000 | $ - | $ (890,000) | $ 18,265,000 |
| Certificates of Participation - Series 2011 | 39,855,000 | - | (80,000) | 39,775,000 |
| **Capital leases - equipment** | 535,000 | | (535,000) | - |
| | $ 59,545,000 | $ - | $ (1,505,000) | $ 58,040,000 |

| | 12/31/13 | Additions | Reductions | 12/31/14 |
|---|---|---|---|---|
| **Bonds payable** | | | | |
| Certificates of Participation - Series 2004 | $ 20,015,000 | $ - | $ (860,000) | $ 19,155,000 |
| Certificates of Participation - Series 2011 | 39,930,000 | - | (75,000) | 39,855,000 |
| **Capital leases - equipment** | 920,000 | | (385,000) | 535,000 |
| | $ 60,865,000 | $ - | $ (1,320,000) | $ 59,545,000 |

The terms and due dates of the District's debt borrowings, including capital lease obligations, at December 31, 2015, are as follows:

- Series 2004 Certificates of Participation dated July 2004, plus unamortized bond premium of $326,000, principal payable in annual installments ranging from $930,000 in 2016 to $1,795,000 in 2029, interest at stated coupon rates ranging from 2.0% to 5.5%, payable annually and collateralized by a pledge of the District's parcel tax revenues. With the closure of the hospital, liquidation of capital and other assets and significant losses experienced by the District, they are not in compliance with the financial covenants and financial reporting requirements as specified in the Indenture Trust Agreement. The District is in negotiations with bond trustees and the bankruptcy court to address the non-compliance issues.

- Series 2011 Certificates of Participation dated December 2011, plus unamortized bond discount of $728,000, principal payable in annual installments ranging from $75,000 in 2016 to $4,100,000 in 2042, interest ranging from 3% to 6.25%, payable semiannually and collateralized by a pledge of the District's parcel tax revenues. With the closure of the hospital, liquidation of capital and other assets and significant losses experienced by the District, they are not in compliance with the financial covenants and financial reporting requirements as specified in the Indenture Trust Agreement. The District is in negotiations with bond trustees and the bankruptcy court to address the non-compliance issues.

## NOTE 7 - DEBT BORROWINGS (continued)

Aggregate principal maturities on debt borrowings, based on scheduled maturities are as follows:

| Year Ending December 31, | Debt Borrowings Principal | Debt Borrowings Interest |
|---|---|---|
| 2016 | 1,005,000 | 3,348,000 |
| 2017 | 1,045,000 | 3,309,000 |
| 2018 | 1,090,000 | 3,266,000 |
| 2019 | 1,145,000 | 3,209,000 |
| 2020 | 1,205,000 | 3,149,000 |
| Thereafter | 52,550,000 | 43,227,000 |
| | $58,040,000 | $59,508,000 |

## NOTE 8 – REVOLVING CREDIT AGREEMENT

The District executed a credit agreement with Gemino Healthcare Finance, LLC dated November 2011, for a maximum amount of $8,000,000 million, expiring in November 2014. The agreement was defined as a revolving credit agreement that was collateralized by the District's accounts receivable collections. During the year ended December 31, 2015, net payments were $3,249,000 for an ending outstanding balance of $0 on this revolving credit agreement. The revolving credit agreement included interest on the outstanding principal amount at a rate per annum equal to the LIBOR rate or floor of 2.0% plus 7.95%. The effective interest rate was 9.95% in January 2015 at the time the revolving credit agreement was paid off.

As part of the Revolving Credit Agreement, the District had agreed to comply with certain covenants. These consisted primarily of reporting, insurance coverage, making timely payments, certain financial ratios and results and other administrative requirements. The District violated certain financial covenants under the credit agreement in prior years and during the current year until the revolving credit agreement was paid off. The lender had made claims of default based on the violation of the covenants. The revolving credit agreement was paid in full in January 2015.

## NOTE 9 - OTHER LONG TERM LIABILITIES

The District entered into an agreement with the County of Contra Costa (the "County") in April 2011, receiving an initial cash advance of $10 million and subsequent additional advances for a total maximum outstanding balance of $16, 525,000, which was reached during the year ended December 31, 2014. The County Auditor allocates and transfers to the County, pursuant to this agreement, the entirety of the general ad valorem property tax revenues that otherwise would be collected and allocated to the District. This agreement commenced in July 1, 2011 and continued from year to year thereafter with allocations and transfers being made pursuant to the agreement. The outstanding balance at December 31, 2015 and 2014 was $15,178,000 and $16,525,000, respectively. The current and long term outstanding advance balance is included in other liabilities in the statement of net position.

## NOTE 10 - RETIREMENT PLANS

The District offers a defined contribution savings plan intended to qualify under section 457(b) of the Internal Revenue Code ("IRC"). The plan is designed to provide participants with a means to defer a portion of their compensation for retirement and to provide benefits in the event of death, disability, or financial hardship. The plan covers both former and current employees of the District who meet certain eligibility requirements. The District is the administrator of the plan and has delegated certain responsibilities for the operation and administration of the plan to an outside third-party trustee. Under the plan, employer contributions are discretionary. The District has not contributed to the plan since 2007.

The District also offered two Employer Contributory Tax Deferred Plans intended to qualify under section 403(b) and 401(a) of the IRC. The plans were designed to provide participants with a means to defer a portion of their compensation for retirement and to provide benefits in the event of death, disability, or financial hardship. The plans covered employees of the District who met certain eligibility requirements. Under the plans, the District had the ability to make discretionary matching contributions of up to 5.0% of the participant's annual compensation to the plan. The District contributed $2,026,000 and $3,399,000 to the plans in 2015 and 2014, respectively.

The District also provides a non-contributory single employer defined benefit pension plan. The plan covers all eligible employees of the previous Brookside Hospital. Brookside Hospital was the previous name of Doctors Medical Center. The plan provides retirement and death benefits to plan members and beneficiaries based on each employee's years of service and annual compensation. No new employees have been enrolled in the plan since 1996. There are 234 ex-District employees participating in the plan.

## NOTE 10- RETIREMENT PLANS (continued)

The Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, became effective for fiscal years beginning after December 15, 2014. The statement established accounting and financial reporting standards for the recognition and disclosure requirements for employers with a liability to a defined benefit pension plan, as in the case of the District's Successor retirement Plan (the Plan). GASB 68 requires that the District's liability to the Plan be measured as the portion of the present value of projected benefit payments to be provided through the Plan to current active and inactive employees that is attributed to the employee's past periods of service, less the amount of the Plan's net position. The statement also requires employers to present information about the changes in the net pension liability and the related ratios, including the Plan's net position as a percentage of total pension liability, and the net pension liability as a percentage of covered-employee payroll. Under GASB 68, the District is required to recognize a liability of the net position of the Plan, and to recognize pension expense and report deferred outflows and inflows, when present. The District is also required to present a 10-year schedule containing the net pension liability and certain related ratios, and information about statutorily or contractually required contributions and related ratios. However, until a full 10-year trend is compiled, the District will present information for only those years for which information is available.

The net effect in implementing GASB 68 for the District was the recognition of additional pension expense for the year ended December 31, 2015, in the amount of $980,000 and a prior period adjustment in the amount of $9,024,000 to pension liability and beginning net position.

For the years ended December 31, 2015 and 2014, the District recognized pension expense under the Plan of $980,000 and $302,000, respectively. At December 31, 2015, the District reported deferred outflows and inflows of resources related to the Plan from the following sources:

| | 2015 |
|---|---|
| Deferred outflows of resources | |
| Investment gains and losses | $ 175,000 |
| | 175,000 |
| Deferred inflows of resources | |
| Investment gains and losses | $ (340,000) |
| | (340,000) |
| Net deferred outflows and inflows of resources | $ (165,000) |

## NOTE 10- RETIREMENT PLANS (continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources to pensions (net) will be recognized in pension expense as follows:

| Year ended December 30, | |
|---|---|
| 2016 | $ (69,000) |
| 2017 | (69,000) |
| 2018 | (69,000) |
| 2019 | 42,000 |
| | $ (165,000) |

The following is the aggregate pension expense for the years ended December 31, 2015 and 2014:

| | 2015 | 2014 |
|---|---|---|
| Interest cost | $ 654,000 | $ 664,000 |
| Expected return on assets | (295,000) | (301,000) |
| Amortization of liability gains and losses | 911,000 | - |
| Amortization of assumption changes | (267,000) | - |
| Amortization of investment gains and losses | (69,000) | (113,000) |
| Administrative expenses | 46,000 | 52,000 |
| | $ 980,000 | $ 302,000 |

The net pension liability at December 31, 2015 and 2014 is as follows:

**Total pension liability**

| | 2015 | 2014 |
|---|---|---|
| Interest on total pension liability | $ 654,000 | $ 664,000 |
| Liability (gain) loss | 911,000 | - |
| Assumption change | (267,000) | - |
| Benefits paid | (846,000) | (870,000) |
| Net change in total pension liability | 452,000 | (206,000) |
| Total pension liability at beginning of the year | 14,197,000 | 14,403,000 |
| Total pension liability at the end of the year | $ 14,649,000 | $ 14,197,000 |

## NOTE 10- RETIREMENT PLANS (continued)

### Fiduciary net position

| | 2015 | 2014 |
|---|---|---|
| Investment income | $ 76,000 | $ 865,000 |
| Benefits paid | (846,000) | (897,000) |
| Administrative expenses | (46,000) | (52,000) |
| Net change in total pension liability | (816,000) | (84,000) |
| | | |
| Total fiduciary net position at beginning of the year | 4,990,000 | 5,074,000 |
| Total fiduciary net position at the end of the year | $ 4,174,000 | $ 4,990,000 |
| | | |
| District's net pension liability (total liability less net position) | $ 10,475,000 | $ 9,207,000 |
| | | |
| Plan fiduciary net position as a % of the total liability | 28% | 35% |
| | | |
| Actuarially determined contributions | $ 2,016,000 | $ 1,422,000 |
| Actual contributions | - | - |
| Contribution (excess) deficiency | $ 2,016,000 | $ 1,422,000 |

The following table summarizes the actuarial assumptions used to determine net pension liability and plan fiduciary net position as of December 31, 2015:

| | |
|---|---|
| Actuarial valuation date | June 30, 2015 |
| **Methods and assumptions** | |
| Actuarial cost method | Unit credit (all benefits are fully accrued) |
| Amortization method | Straight line |
| Asset valuation | Market value of assets |
| Investment rate of return | 6.50% |
| Inflation rate | 2.00% |
| Projected salary increases | N/A |
| Mortality table | RP-2014 adjusted backward to 2006 with MP-2014 and projected forward to the measurement year using MP-2015 |

## NOTE 10- RETIREMENT PLANS (continued)

Other disclosures about Plan II are as follows:

***Description of the Plan***: Effective March 2, 2000, the District began a single-employer defined benefit plan. This plan became effective on that date with a plan year end of June 30. This plan guarantees participants with a specific lifetime benefit funded 100% by the District.

***Benefits provided***: Benefitted full and part-time employees were eligible per plan specifications. The retirement formula is based on a percentage of the employee's compensation in each calendar year. Credit for past service is given to benefitted full and part-time employees up through 2000, at the same retirement formula of the employee's compensation in each consecutive calendar year in which the employee completed 1,000 hours of service.

***Employees covered by benefit terms***: As of December 31, 2015, there are 234 active participants in the plan, 112 deferred vested participants and 122 retired participants. There are no participating employees.

***Contributions***: The recommended contribution for the 2016 plan year is $2,016,000 (assuming contributions will be deposited throughout the plan year).

***Discount rate***: The discount rate used to measure the total pension liability was 6.50%. In the previous valuation, the discount rate used to measure the total pension liability was also 4.75%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on these assumptions, the pension plan's net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term expected rate of return was determined net of pension plan investment expense but without reduction for pension plan administrative expense.

***Sensitivity of the net pension liability to changes in the discount rate***: It is estimated that a 1% increase in the discount rate from 6.50% would decrease the net pension liability by approximately $1.36 million dollars and a 1% decrease in the discount rate from 6.50% would increase the net pension liability by approximately $1.64 million dollars.

## NOTE 11 - COMMITMENTS AND CONTINGENCIES

**Litigation** - The District may from time-to-time be involved in litigation and regulatory investigations, which arise in the normal course of doing business. After consultation with legal counsel, management estimates that matters existing as of December 31, 2015, will be resolved without material adverse effect on the District's future financial position, results from operations or cash flows.

**Regulatory environment** - The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medi-Cal fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. The District is subject to routine surveys and reviews by federal, state and local regulatory authorities. The District has also received inquiries from health care regulatory authorities regarding its compliance with laws and regulations. Although the District management is not aware of any violations of laws and regulations, it has received corrective action requests as a result of completed and ongoing surveys from applicable regulatory authorities. Management continually works in a timely manner to implement operational changes and procedures to address all corrective action requests from regulatory authorities. Breaches of these laws and regulations and non-compliance with survey corrective action requests could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

## NOTE 12 - GOING CONCERN UNCERTAINTY AND SUBSEQUENT EVENT

The accompanying financial statements have been prepared assuming the District will not continue as a going concern, which contemplates liquidation of assets and settlement of liabilities. The hospital operations have been terminated in April 2015 and subsequent to year end the District filed bankruptcy. The District had experienced significant losses and recurring cash shortages and has a net deficit of ($82,091,000) at December 31, 2015.

# 2016 AUDITED PENSION PLAN FINANCIAL STATEMENTS

Agenda Item 11

Audited Financial Statements
and Supplemental Information

# West Contra Costa Healthcare District Successor Retirement Plan

## June 30, 2016 and 2015

JWT & Associates, LLP
Advisory Assurance Tax

# West Contra Costa Healthcare District
# Successor Retirement Plan

## Audited Financial Statements

June 30, 2016 and 2015


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# JWT & Associates, LLP

Advisory Assurance Tax

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Voice: (559) 431-7708 Fax: (559) 431-7685

Report of Independent Auditors

To the Pension Plan Committee and
Board of Directors of
West Contra Costa Healthcare District
San Pablo, California

***Report on the Financial Statements***

We were engaged to audit the accompanying financial statements of the West Contra Costa Healthcare District Successor Retirement Plan (the Plan), which comprise the net assets available for benefits as of June 30, 2016 and 2015, the related statement of changes in net assets available for benefits for the years then ended, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

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

***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with generally accepted auditing standards in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform audits of the Plan's internal controls over financial reporting. Our audits included consideration of internal controls over financial reporting as a basis of designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal controls over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for plan benefits of the Plan as of June 30, 2016 and 2015, and the changes in net assets available for plan benefits for the year then ended, in conformity with generally accepted accounting principles.

***Other Matters***

The accompanying financial statements have been prepared assuming the Plan will continue as a going concern. As discussed in Notes 1, 3 and 6 to the financial statements, the Plan's funded status has declined to 19.5% of the actuarial present value of future benefits at June 30, 2016, no contributions to the Plan have been made by the Plan's sponsor during the past nine years and there are no current plans by the Plan sponsor to make contributions in the foreseeable future. These conditions raise substantial doubt about the Plan's ability to continue as a going concern. The Plan's sponsor has ceased operations in April 2016 and has filed for bankruptcy protection in December 2016. The sponsor's plans regarding these matters are also described in Note 6. These financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The required supplemental information as of or for the years ended June 30, 2016 and 2015, are presented for purposes of complying with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 and are not a required part of the basic financial statements. This required supplemental information has been subjected to the auditing procedures applied in our audit of the June 30, 2016 and 2015 financial statements and, in our opinion, is fairly stated in all material respects in relation to the June 30, 2016 and 2015 financial statements taken as a whole.

January 6, 2017

# West Contra Costa Healthcare District
# Successor Retirement Plan

## Statements of Net Assets Available for Plan Benefits

June 30, 2016 and 2015

| | 2016 | 2015 |
|---|---|---|
| **Assets** | | |
| Investments at fair value | $ 3,172,839 | $ 4,248,802 |
| Total assets | 3,172,839 | 4,248,802 |
| **Liabilities** | | |
| Other liabilities | 74,765 | 74,469 |
| Total liabilities | 74,765 | 74,469 |
| Net assets available for plan benefits | $ 3,098,074 | $ 4,174,333 |

*See accompanying notes to the financial statements*

# West Contra Costa Healthcare District
# Successor Retirement Plan

## Statements of Changes in Net Assets Available for Plan Benefits

Year ended June 30, 2016 and 2015

| | 2016 | 2015 |
|---|---|---|
| **Additions** | | |
| Net realized and unrealized gains on investments | $ -0- | $ 129,078 |
| Interest, dividend and other income from investments | 88 | 17 |
| Employer contributions | -0- | -0- |
| Total additions | 88 | 129,095 |
| **Deductions** | | |
| Net realized and unrealized loss on investments | 122,117 | -0- |
| Benefits distributed to participants | 917,836 | 898,878 |
| Administrative and investment expenses | 36,394 | 46,196 |
| Total deductions | 1,076,347 | 945,074 |
| Decrease in net assets available for plan benefits | (1,076,259) | (815,979) |
| Net assets, beginning of year | 4,174,333 | 4,990,312 |
| Net assets, end of year | $ 3,098,074 | $ 4,174,333 |

*See accompanying notes to the financial statements*

## NOTE 1 - DESCRIPTION OF THE PLAN

The following brief description of the West Contra Costa Healthcare District Successor Retirement Plan (the Plan) is provided for general information only. Participants should refer to the Plan agreement for more complete information.

### General

The Plan is a governmental plan as defined in section 414(d) of the Internal Revenue Code (IRC). The Plan was established on March 9, 2000 by the Plan Sponsor, West Contra Costa Healthcare District (the District), as a successor plan to the West Contra Costa Healthcare District Employees' Retirement Plan, which was terminated on that date. The Plan is intended to qualify as a defined benefit plan under section 401(a) of the IRC and is to be interpreted in a manner consistent with those requirements. The participants of the predecessor plan were given the option to receive immediate lump sum distributions of the present value of their benefits, to roll the benefits into an Individual Retirement Plan (IRA) or other plan, or to participate in a successor plan. During the year ended June 30, 2001, when the requested distributions were completed by the predecessor plan, the successor trust, which holds the assets of the successor plan, was funded. Periodic payments for that year were made by the predecessor plan. The amount of the funding was approximately 110% of the present value of the predecessor plan's liabilities. As of July 1, 2001, the successor plan assumed the predecessor plan's liabilities for the pension benefits of those participants who chose to take part in the successor plan and who made periodic payments.

### Pension Benefits and Vesting

The Plan is to provide benefits on the same terms and in the same amounts as the predecessor plan.

The predecessor plan was frozen effective January 1, 1994. No participants accrued benefits on or after that date and each participant's benefit became fully vested and non-forfeitable on that date.

Employees with 5 or more years of service, or any employees of Brookside Hospital as of January 1, 1994, are entitled to annual pension benefits beginning at normal retirement, age 65, or as early as age 60, with full pension benefit. Plan members are entitled to a reduced benefit, if elected, at any time after age 50. Benefits are based on years of credited service and average earnings in the last three years of employment through the date that the predecessor plan was frozen and are offset by a portion of the vested employee's social security benefit.

Effective April l, 1998, upon attaining his or her normal retirement date (age 65); whether or not he or she actually retires on that date, a participant shall be entitled to receive a monthly Single-Life Annuity.

NOTE 1 - DESCRIPTION OF THE PLAN (continued)

**Contributions**

The predecessor plan was frozen effective January 1, 1994 and, therefore, there would be no future employer contributions to the Plan, unless required to fund benefits that have already been accrued. The amount of employer contributions would be determined based on actuarial valuations and recommendations as to the amounts required to fund benefits. During the years ended June 30, 2016 and 2015, the plan sponsor made no contributions to the plan.

In the actuarial report dated May 10, 2001, it was recommended by the actuarial consultants that if, as of any future valuation date, Plan assets drop below the then actuarial present value of future benefits, that such difference be funded, with assumed interest, in level additional contributions to the Plan by the District over a period not longer than five years, depending in part on the Plan's projected liquidity needs. It was also recommended that actuarial valuations be performed approximately every twelve months.

As of the valuation dates of June 30, 2016 and 2015, Plan assets are less than the actuarial present value of future benefits by the amount of $12,801,138 and $10,475,163, respectively. This amount is amortized over five years using the 2016 assumptions. Based upon this method, the actuarial consultants recommend that a contribution of at least $2,560,228 be made to the Plan for the 2016 plan year. No actual contributions were made for the prior plan year under this policy.

The funded status of the plan declined during the plan year ended June 30, 2016 from 28.5% funded to 19.5% funded and during the plan year ended June 30, 2015 from 35.2% funded to 28.5% funded. The long-term stability of the plan remains in question without future cash contributions. Annual benefit payments are projected to continue to exceed annual expected investment returns. This will continue to put pressure on the viability of the plan to close the underfunding purely through investments.

**Death Benefits**

The Plan provides a death benefit to all participants. For participants who are fully vested and married at the time of death, their spouse will receive an annuity of 50% of the benefit the participant had accrued through the date of death, commencing when the participant would have reached age 50. If a participant is not married or does not have five years of vesting credit, the participant's named beneficiary shall receive a lump-sum death benefit of $500 plus one month's salary for each year of service up to six months.

**Description of Vesting**

Effective January 1, 1994, the Plan was frozen and forfeitures were applied to reduce employer contributions up to that date. Each participant's benefit became fully vested and non-forfeitable upon the plan freeze.

## NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

**Basis of Accounting**

The accompanying financial statements have been prepared on the accrual basis of accounting.

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires the Plan Administrator to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

**Investment Valuation and Income Recognition**

The Plan's investments are stated at fair value. All of the Portfolio Investments of the Collective Investment Trust are valued based on quoted market prices on the last business day of the Plan year. Net appreciation or depreciation in fair value of investments includes net unrealized and realized appreciation or depreciation for the year.

Security transactions are accounted for on the trade date, and the dividend income is recorded on the ex-dividend date. Interest income is recorded on an accrual basis. Costs used in determining gains (losses) on investment transactions are on the average cost basis.

**Actuarial Present Value of Accumulated Plan Benefits**

Accumulated plan benefits are those future periodic payments which are attributable under the Plan's provisions to the service employees have rendered. Accumulated plan benefits include benefits expected to be paid to (a) retired or terminated employees or their beneficiaries, (b) beneficiaries of employees who have died, and (c) present employees or their beneficiaries. Benefits under the Plan are based on employees' highest annual compensation during the employees last three years of credited service. Benefits payable under all circumstances are included, to the extent they are deemed attributable to employee service rendered, through the valuation date. The actuarial valuations are done using the beginning-of-the-year method. There have been no significant changes in the Plan’s provisions or coverage between January 1, 2016 and June 30, 2016, as described in Note 3. In the event of the termination of the Plan, the benefit obligation would be revalued as of the date of the termination and under different assumptions than those used to determine the actuarial present value of accumulated Plan benefits.

## NOTE 3 – ACCUMULATED PLAN BENEFITS

The actuarial present value of accumulated plan benefits is determined by the Plan's consulting actuary, Towers Watson. This amount results from applying actuarial assumptions to adjust the accumulated plan benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawal, or retirement) between the valuation date and the expected date of payment. For the periods ended June 30, 2016 and 2015, the actuarial methods and assumptions used were consistent with the prior year.

The more significant assumptions underlying the actuarial computations for the Plan year are as follows:

- Rate of investment return - 3.00
- Retirement Age - Normal retirement is age 65, full pension benefits are available at age 60, early retirement is available at reduced benefits (ages 50 to 59)
- Life expectancy of participants - The RP-2015 with generational projection using Scale MP-2016 from the 2015 IRS table

These actuarial assumptions are based on the presumption that the Plan will continue. If the Plan terminates, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated plan benefits. The assumptions used consider the effect of the Plan's frozen status (as discussed in Note 1).

The actuarial present value of accumulated plan benefits as of June 30, 2016 and 2015, is as follows:

| | 2016 | 2015 |
|---|---|---|
| Vested benefits: | | |
| Participants currently receiving payments | $ 4,928,756 | $ 4,532,035 |
| Other participants | 10,970,456 | 10,117,461 |
| Total vested benefits | 15,899,212 | 14,649,496 |
| Non-vested benefits | -0- | -0- |
| Total actuarial present value of accumulated plan benefits | $ 15,899,212 | $ 14,649,496 |

## NOTE 3 – ACCUMULATED PLAN BENEFITS (continued)

Changes in the actuarial present value of accumulated plan benefits for the years ended June 30, 2016 and 2015 were as follows:

| | 2016 | 2015 |
|---|---|---|
| Actuarial present value of accumulated plan benefits at beginning of plan year | $ 14,649,496 | $ 14,197,339 |
| Changes during the year attributable to: | | |
| Benefits accumulated and actuarial experience during the year | -0- | 910,954 |
| Decrease in discount period | 568,699 | 654,280 |
| Benefits paid | (864,050) | (846,033) |
| Change in assumptions | 1,545,067 | (267,044) |
| Net increase (decrease) | 1,249,716 | 452,157 |
| Actuarial present value of accumulated plan benefits at end of plan year | $ 15,899,212 | $ 14,649,496 |

## NOTE 4 - INVESTMENTS

Matrix Trust Company (Matrix), corporate trustee of the Plan, holds the Plan's assets and executes transactions therein. Security transactions are made by the investment manager based on parameters established by the pension subcommittee of the Board of Directors of the District.

The Plan assets are invested in products sold by Matrix. Net realized and unrealized gain (loss) on investment value for the years ended June 30, 2016 and 2015 was ($122,117) and $129,078, respectively. Investments at Matrix consist of the following at June 30, 2016 and 2015, stated at fair value:

| | 2016 | 2015 |
|---|---|---|
| Common Collective Trusts | $ 3,172,839 | $ 4,248,802 |

## NOTE 4 – INVESTMENTS (continued)

Individual investments that represent 5 percent or more of the Plan's net assets at June 30, 2016 and 2015 are as follows:

| | | 2016 | | 2015 |
|---|---|---|---|---|
| Intermediate Fixed Income Portfolio | $ | 799,405 | $ | 1,053,948 |
| International Value Portfolio | $ | 558,621 | $ | 778,110 |
| Large Co Domestic Growth Portfolio | $ | 533,693 | $ | 711,604 |
| Large Co Value Portfolio | $ | 683,669 | $ | 898,359 |
| Mid-Cap Fundamental Value Portfolio | $ | 155,308 | $ | 210,033 |

Due to the nature of the investment management services provided by Matrix, they qualify as a party-in-interest of the Plan. Fees paid by the Plan to Matrix for such services for the years ended June 30, 2016 and 2015 amounted to $36,394 and $46,196, respectively.

## NOTE 5 – TAX STATUS

The predecessor plan obtained its latest determination letter on February 24, 2000, in which the Internal Revenue Service stated that the Plan, as then designed, was in compliance with the applicable requirements of the Internal Revenue Code (IRC). Since the Successor Plan has replaced the predecessor plan, a new determination letter has not been obtained. However, since the plans are identical, the Plan's pension committee understands that the Plan, as currently designed and operated, is in compliance with the applicable requirements of the IRC. Therefore, no provision for income taxes has been included in the Plan's financial statements. The Plan Administrator believes it is no longer subject to income tax examinations for years prior to 2013.

## NOTE 6 – RISKS AND UNCERTANTIES

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the statement of net assets available for benefits.

In August 2016, an actuarial valuation was prepared for the purpose of determining contributions for the plan year beginning July 1, 2016. As of that date, plan assets are less than the actuarial present value of future benefits in the amount of $12,801,138. In accordance with the Plan sponsor's policy the total unfunded liability would be amortized over the next five years. The actuarial recommendation was for the sponsor to contribute $2,560,228 during the plan year ended June 30, 2016. The Plan sponsor currently has no plans to make the required contribution.

## NOTE 6 – RISKS AND UNCERTANTIES (continued)

The funded status of the plan declined during the plan year ended June 30, 2016 from 28.5% funded to 19.5% funded and during the plan year ended June 30, 2015 from 35.2% funded to 28.5% funded. The long-term stability of the plan remains in question without future cash contributions. Annual benefit payments are projected to continue to exceed annual expected investment returns. This will continue to put pressure on the viability of the plan to close the underfunding purely through investments.

The District, the Plan's sponsor, has liabilities that exceed assets by approximately $81,926,000 at December 31, 2015 (unaudited), reported a net loss of approximately $21,011,000 for the year ended December 31, 2015 (unaudited), and experienced severe cash flow shortages. Based on recent financial analysis by the District's management, they anticipated significant difficulties in continuing to meet on-going financial obligations related to their hospital operations and in April 2015 closed the hospital and ceased operations. The District also filed for bankruptcy in December 2016. The District is now in the process of selling assets, settling liabilities and wrapping up all other administrative issues. In addition, the District has not funded the actuarial determined required minimum contribution of $2,560,228 for the Plan year ended June 30, 2016. The accompanying financial statements do not give effect to possible adjustments as a result of the District's ability to continue as a going concern.

Whether all participants receive their benefits will depend on the sufficiency, at the time, of the Plan's net assets to provide those benefits, the priority of those benefits to be paid, and the level and type of benefits guaranteed by the California Public Employment Retirement System (PERS) at that time. Some benefits may be fully or partially provided for by the then-existing assets and the PERS guaranty, while other benefits may not be provided at all.

## NOTE 7 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued.

## NOTE 8 - FAIR VALUE MEASUREMENTS

FASB ASC Topic 820, *Fair Value Measurements and Disclosures* (ASC 820) provides a framework for measuring fair value under U.S. generally accepted accounting principles. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The following provides a general description of the three levels of inputs that may be used to measure fair value under ASC 820:

> Level 1 - Inputs to the valuation methodology are based on quoted prices available in active markets for identical assets or liabilities on the reporting date.
>
> Level 2 - Inputs to the valuation methodology are other than quoted market prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value can be determined through the use of models or other valuation methodologies. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.
>
> Level 3 - Inputs to the valuation methodology include significant inputs that are generally unobservable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value including assumptions regarding risk. Level 3 instruments include those that may be more structured or otherwise tailored to the Plan's needs.

As required by ASC 820, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The Plan's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

Following is a description of the valuation methodologies used for assets measured at fair value.

> Common Collective Trusts are valued at the market value of shares held by the Plan at year-end.

## NOTE 8 - FAIR VALUE MEASUREMENTS (continued)

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes its valuation method are appropriate and consistent with other market participants, the use of different methodologies for assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Assets measured at fair value as of June 30, 2016:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Common Collective Trusts | | | | |
| Large-cap stock | $ 1,217,362 | $ -0- | $ -0- | $ 1,217,362 |
| Small, mid-cap stock | 235,101 | -0- | -0- | 235,101 |
| International stock | 636,059 | -0- | -0- | 636,059 |
| Multi asset, other | 126,085 | -0- | -0- | 126,085 |
| Short-term, stable, money market | 958,232 | -0- | -0- | 958,232 |
| Total assets at fair value | $ 3,172,839 | $ -0- | $ -0- | $ 3,172,839 |

Assets measured at fair value as of June 30, 2015:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Common Collective Trusts | | | | |
| Large-cap stock | $ 1,609,963 | $ -0- | $ -0- | $ 1,609,963 |
| Small, mid-cap stock | 317,561 | -0- | -0- | 317,561 |
| International stock | 886,801 | -0- | -0- | 886,801 |
| Multi asset, other | 169,530 | -0- | -0- | 169,530 |
| Short-term, stable, money market | 1,264,947 | -0- | -0- | 1,264,947 |
| Total assets at fair value | $ 4,248,802 | $ -0- | $ -0- | $ 4,248,802 |

Required Supplemental Information

West Contra Costa Healthcare District
Successor Retirement Plan

Required Supplemental Information

June 30, 2016 and 2015

Schedule of Funding Progress

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Underfunded (Overfunded) AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll [(b-a)/c] |
|---|---|---|---|---|---|---|
| June 30, 2016 | $ 3,098,074 | $ 15,899,212 | $ 12,801,138 | 19% | N/A | N/A |
| June 30, 2015 | $ 4,174,333 | $ 14,649,496 | $ 10,475,163 | 28% | N/A | N/A |
| June 30, 2014 | $ 4,990,312 | $ 14,197,339 | $ 9,207,027 | 35% | N/A | N/A |
| June 30, 2013 | $ 5,073,430 | $ 11,261,212 | $ 6,187,782 | 45% | N/A | N/A |
| June 30, 2012 | $ 5,288,289 | $ 10,474,752 | $ 5,186,463 | 50% | N/A | N/A |

Schedule of Contributions to Plan

| Year ended | Annual Required Contribution (ARC) | Percentage of ARC Contributed |
|---|---|---|
| December 31, 2016 | $ 2,262,505 | 0% |
| December 31, 2015 | $ 2,016,149 | 0% |
| December 31, 2014 | $ 1,422,125 | 0% |
| December 31, 2013 | $ 1,235,577 | 0% |
| December 31, 2012 | $ 998,739 | 0% |

Effective January 1, 1994, the Plan was frozen. Forfeitures were applied to reduce employer contributions up to January 1, 1994 when each participant's benefit became fully vested and non-forfeitable upon the plan freeze.

# West Contra Costa Healthcare District
# Successor Retirement Plan

## Required Supplemental Information

### June 30, 2016 and 2015

The information presented in the required supplemental schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows:

| | | |
|---|---|---|
| Valuation date | June 30, 2016 | June 30, 2015 |
| Actuarial cost method | Projected Unit Credit | Projected Unit Credit |
| Asset valuation method | Market value of assets | Market value of assets |
| Actuarial assumptions: | | |
| Investment rate of return | 3.00% | 4.00% |
| Compensation increase rate | N/A | N/A |
| Inflation adjustment | 2.00% | 2.00% |