

Audited Financial Statements

WEST CONTRA COSTA  
HEALTHCARE DISTRICT

December 31, 2014

JWT & Associates, LLP  
Advisory Assurance Tax

# West Contra Costa Healthcare District

## Audited Financial Statements

December 31, 2014

Independent Accountants Report .....	1
Management's Discussion and Analysis .....	3
Balance Sheets .....	6
Statements of Revenues, Expenses and Changes in Net Position.....	7
Statements of Cash Flows .....	8
Notes to Financial Statements.....	10

# **JWT & Associates, LLP**

## **Advisory Assurance Tax**

1111 East Herndon, Suite 211, Fresno, California 93720  
Voice: (559) 431-7708 Fax:(559) 431-7685

### *Report of Independent Auditors*

The Board of Directors  
West Contra Costa Healthcare District  
San Pablo, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of West Contra Costa Healthcare District (the District) as of December 31, 2014, which comprise the balance sheet as of December 31, 2014 and the related statements of revenues, expenses and changes in net position, and cash flow for the year 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 the 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

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

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District at December 31, 2014, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

### ***Other Matters***

The accompanying financial statements have been prepared assuming the District will continue as a going concern. As discussed in Note 12 to the financial statements, the District has incurred significant losses from operations and has a net deficit of (\$27,468,000) at December 31, 2014. In May 2014, an additional parcel tax initiative was added to a special election taking place in Contra Costa County. The proposed additional parcel tax was defeated and will not be available to improve the District's financial situation. Without this funding the District ceased operations and closed the hospital in April 2015. The District is now in the process of selling assets, settling liabilities and wrapping up all other administrative issues. Management's plans regarding these matters are also described in Management's Discussion and Analysis. These financial statements do not include any adjustments that might result from outcome of this event.

The financial statements of the District as of December 31, 2013, were audited by TCA Partners, LLP, who merged into JWT & Associates, LLP as of February 1, 2015. TCA Partners, LLP's report dated March 18, 2014, expressed an unmodified opinion on those statements.

### ***Required Supplementary Information***

Management's discussion and analysis is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

***JWT & Associates, LLP***

Fresno, California  
May 15, 2015

# West Contra Costa Healthcare District

## Balance Sheets

December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 7,041,000	\$ 9,623,000
Patient accounts receivable, net	9,707,000	20,457,000
Other receivables	161,000	508,000
Assets limited as to use	4,532,000	4,709,000
Supplies	1,507,000	1,647,000
Prepaid expenses	816,000	1,263,000
Total current assets	23,764,000	38,207,000
Assets limited as to use, net of current portion	642,000	642,000
Capital assets, net	35,817,000	40,058,000
Other assets	985,000	1,023,000
Total assets	\$ 61,208,000	\$ 79,930,000
 <b>Liabilities and net position</b>		
Current liabilities		
Revolving credit agreement	\$ 3,249,000	\$ 4,953,000
Current maturities of debt borrowings	1,393,000	1,320,000
Accounts payable and accrued expenses	8,744,000	9,386,000
Accrued payroll and related liabilities	18,732,000	17,257,000
Estimated third-party payors settlements	2,003,000	2,934,000
Other liabilities, current portion	3,499,000	2,891,000
Total current liabilities	37,620,000	38,741,000
Debt borrowings, net of current maturities	58,152,000	59,545,000
Other liabilities, net of current	17,492,000	9,112,000
Total liabilities	113,264,000	107,398,000
Net position		
Invested in capital assets, net of related debt	16,127,000	19,123,000
Unrestricted	(68,183,000)	(46,591,000)
Total net position	(52,056,000)	(27,468,000)
Total liabilities and net position	\$ 61,208,000	\$ 79,930,000

*See accompanying notes to the financial statements*

## West Contra Costa Healthcare District

### Statements of Revenues, Expenses and Changes in Net Position

Year Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>Operating revenues</b>		
Net patient service revenue	\$ 83,197,000	\$ 109,426,000
Other operating revenue	1,230,000	4,261,000
Total operating revenue	84,427,000	113,687,000
<b>Operating expenses</b>		
Salaries and wages	45,515,000	56,321,000
Employee benefits	30,747,000	34,721,000
Professional fees	9,629,000	11,801,000
Purchased services	10,295,000	11,003,000
Supplies	12,469,000	15,769,000
Depreciation and amortization	4,911,000	4,925,000
Rents and leases	2,881,000	3,140,000
Other operating expenses	3,964,000	4,303,000
Total operating expenses	120,411,000	141,983,000
Operating loss	(35,984,000)	(28,296,000)
<b>Nonoperating revenues (expenses)</b>		
District tax revenue	13,917,000	13,718,000
Investment income	38,000	134,000
Interest expense	(5,579,000)	(5,001,000)
Other non-operating revenues, net	3,020,000	25,000
Total nonoperating revenues	11,396,000	8,876,000
Excess of expenses over revenues	(24,588,000)	(19,420,000)
Net position at beginning of the year	(27,468,000)	(8,048,000)
Net position at end of the year	\$ (52,056,000)	\$ (27,468,000)

*See accompanying notes to the financial statements*

# West Contra Costa Healthcare District

## Statements of Cash Flows

Year Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>Cash flows from operating activities</b>		
Cash received from patients and third-parties for patients	\$ 93,016,000	\$ 121,042,000
Cash received from operations, other than patient services	1,577,000	4,217,000
Cash payments to suppliers and contractors	(39,293,000)	(48,356,000)
Cash payments to employees and benefits programs	(74,787,000)	(91,110,000)
Net cash used in operating activities	(19,487,000)	(14,207,000)
<b>Cash flows from noncapital financing activities</b>		
Noncapital grants and contributions	3,020,000	25,000
Net change in other liability	4,388,000	6,108,000
Net proceeds (payments) on revolving credit agreement	(1,704,000)	425,000
Interest payments on revolving credit agreement	(683,000)	(664,000)
Principal payments on debt borrowings	(75,000)	(447,000)
Interest payments on debt borrowings	(3,789,000)	(3,166,000)
Change in other assets	(24,000)	(24,000)
Parcel tax revenues levied for debt service	10,648,000	10,827,000
Ad valorem tax revenues to support operations	3,269,000	2,891,000
Net cash provided by noncapital financing activities	\$ 15,050,000	\$ 15,975,000
<b>Cash flows from capital and related financing activities</b>		
Principal payments on debt borrowings	(1,245,000)	(1,180,000)
Interest payments on debt borrowings	(1,107,000)	(1,171,000)
Net cash used in capital and related financing activities	(2,352,000)	(2,351,000)
<b>Cash flows from investing activities</b>		
Purchases of capital assets	(608,000)	(1,890,000)
Net change in assets whose use is limited	177,000	6,891,000
Easement fee sale	4,600,000	-
Interest and dividends received from investments	38,000	134,000
Net cash provided by investing activities	4,207,000	5,135,000
Net increase (decrease) in cash and cash equivalents	(2,582,000)	4,552,000
Cash and cash equivalents, beginning of year	9,623,000	5,071,000
Cash and cash equivalents, end of year	\$ 7,041,000	\$ 9,623,000

*See accompanying notes to the financial statements*

# West Contra Costa Healthcare District

## Statements of Cash Flows (continued)

Year Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>Reconciliation of operating loss to net cash provided by operating activities</b>		
Loss from operations	\$ (35,984,000)	\$ (28,296,000)
Adjustments to reconcile loss from operations to net cash provided by operating activities		
Depreciation and amortization	4,911,000	4,925,000
Changes in operating assets and liabilities:		
Accounts receivable	10,750,000	10,550,000
Other accounts receivable	347,000	(44,000)
Supplies	140,000	84,000
Prepaid expenses	447,000	359,000
Accounts payable	(642,000)	(2,783,000)
Accrued payroll	1,475,000	(68,000)
Due to third-party payors	(931,000)	1,066,000
Net cash used in operating activities	<u>\$ (19,487,000)</u>	<u>\$ (14,207,000)</u>
<b>Non cash disclosures</b>		
Non cash payments on county loan	<u>\$ 1,791,000</u>	<u>\$ 993,000</u>

*See accompanying notes to the financial statements*

# West Contra Costa Healthcare District

## Management's Discussion and Analysis

December 31, 2014

### **Introduction**

This discussion and analysis has been prepared by the management of West Contra Costa County Healthcare District (the District or WCCHD) in order to provide an overview of the District's financial and operating performance for the year ended December 31, 2014, in accordance with the Governmental Accounting Standards Board Statement No. 34, *Basic Financials Statements; Management's Discussion and Analysis for State and Local Governments*. Read in conjunction with the District's audited financial statements and accompanied notes to the financial statements. It is intended to help the reader better understand the District's financial performance and position. It should be noted that the audited financial statements prepared by JWT & Associates, LLP, include an unmodified opinion regarding the financial statements.

This discussion and analysis of the District's financial performance provides an overview of the District's financial activities for the years ended December 31, 2014 and 2013. Please read it in conjunction with the District's financial statements.

Normally this section would have a detailed discussion of the changes in the Districts assets and liabilities and the discussion was intended to give the reader a feel for the direction the district was headed and what the future would hold for the organization. The District faced ongoing financial challenges over the years, and recently has closed Doctors medical center, the hospital it operated, due to insufficient funding for the population it served and continuing losses. The District continues to function.

### **CLOSURE ANNOUNCEMENT**

After struggling financially for several years, the WCCHD closed its hospital, Doctors Medical Center, as of April 21, 2015. The decision was made to close the hospital as a result of ongoing financial losses with no ability to narrow the financial gap. While the hospital's operating costs compared favorably to other hospitals in the market, the reimbursements the hospital received were not sufficient to cover its expenses. The lower reimbursements were due to the disproportionate amount of uninsured and underinsured (primarily MediCal and Medicare) patients served at the hospital.

### **OPERATING IMPLICATONS and IMMEDIATE FUTURE**

The hospital's remaining staff is completing the wind down of the non-clinical operations. Key activities include:

- Complete inventory, disposition of contents of hospital building
  - Equipment
  - Other items of value
  - Discarding of remaining unwanted items (trash)

# West Contra Costa Healthcare District

## Management's Discussion and Analysis

December 31, 2014

- Collections of outstanding accounts receivables
- Medical record storage and retention, development of a storage and retrieval process
- Information technology removal
- Plant operations shut down unneeded building functions
- Physically secure building
- Security in place until facility is sold

### FINANCIAL IMPLICATIONS

One of the primary factors the District took into consideration when deciding on how long to continue operations was its ability to honor its obligations. By choosing to close prior to exhausting all of the District's cash, it is expected that sufficient cash will be available to satisfy the immediate cash requirements associated with an orderly closure. Over the next several months (through December 31, 2015), the District anticipates collecting most of its accounts receivable and paying off liabilities associated with an orderly wind down of the hospital (e.g., employees, benefits, physicians, vendors, etc.).

The District anticipates the following outstanding liabilities (unsecured) post closure:

- Unemployment expense
- Medical records retention
- Workers' compensation claims
- Unfunded pension liabilities
- Other costs to wind down operations.

The above expenses will be funded out of the remaining cash on hand, district taxes, various other receivables and the sale of the hospital facility and equipment. The actual value of the property will be determined through the sale process. Likely cash proceeds available from the sale of the hospital facility and equipment are estimated to be between \$13,000,000 and \$15,000,000.

In addition, the District anticipates the following outstanding liabilities (secured) will be satisfied as follows:

- 2004 COPs – will be paid from the proceeds of the 2004 Parcel Tax (Measure D). Proceeds of the 2004 parcel tax revenues not needed to pay debt service on the 2004 COPs and the 2011 COPs (described below) will be used to redeem outstanding 2004 COPs. The District expects to fully retire the 2004 COPs by approximately 2020.
- 2011 COPs – will be paid out from the proceeds of the 2004 Parcel Tax. Following the redemption of the 2004 COPs, proceeds of the 2004 parcel tax revenues not needed to pay debt service on the 2011 COPs will be used to redeem outstanding 2011 COPs beginning on July 1, 2021. The District expects to fully retire the 2011 COPs issue by approximately 2027.

# West Contra Costa Healthcare District

## Management's Discussion and Analysis

December 31, 2014

- Tax Advance Agreement with the County (as amended) - The District entered into a tax advance agreement with Contra Costa County, which allows the County to retain the District's portion of its ad valorem tax revenue in excess of \$1,000,000 annually (approximately \$1,950,000) until 2022. Once satisfied, the ad valorem tax revenue will be available to the District to repay any remaining obligations and/or fulfill its mission to improve the health and welfare of West Contra Costa County residents.
- The 2011 Parcel Tax (Measure J) expires upon closure of the hospital. The actual language from Measure J reads: "In the event of permanent closure of Doctors Medical Center and its emergency room, this parcel tax will expire and the district will thereafter promptly cease imposition and collection of the tax."

### **FUTURE CONSIDERATIONS**

WCCHD plans to remain a functioning entity going forward and over the next several months will need to decide what its role will be in the future. At a minimum, it will continue to service its debt from the parcel tax revenues and make provision for the storage, maintenance and retrieval of medical records and employee related liabilities. The District negotiated an agreement with Contra Costa County for a share of tax revenues (\$1,000,000 per year) to cover the operating costs of the District through the payoff of the County Tax Advance. The District will also continue to consult with its insolvency counsel to consider the efficacy of Chapter 9 Bankruptcy in the event of disagreements with the timing and amount of payments to creditors. Beyond that, to the extent that excess funds are available, the District will determine how to best invest into the health needs of the West Contra Costa County residents.

# West Contra Costa Healthcare District

## Notes to Financial Statements

December 31, 2014

### **NOTE 1 - ORGANIZATION AND ACCOUNTING POLICIES**

**Reporting Entity-** West Contra Costa Healthcare District (the "District") is a public agency organized under Local Hospital District Law as set forth in the Health and Safety Code of the State of California. The District is a political subdivision of the State of California and is not subject to federal or state income taxes. The District was formed in 1948 for the purpose of building and operating a hospital to benefit the residents of West Contra Costa County. The District is governed by a Board of Directors elected from within the Healthcare District to specified terms of office. The District operates a full-service acute care facility and provides services to both inpatients and outpatients. The District provides health care services primarily to individuals who reside in the local geographic area.

**WCCHD Financing Corporation II** - The Corporation is a nonprofit public benefit corporation to provide financial assistance to the District by financing, refinancing, acquiring, constructing, improving, leasing and selling buildings, building improvements, equipment, and any other real or personal property (collectively, the "Facilities"), for the use, benefit and enjoyment of the public served by the District and any other purpose incidental thereto.

**Basis of preparation** - The District is a governmental health care provider and, accordingly, follows governmental accounting standards. The accrual basis of accounting is used in accordance with provisions for proprietary fund types.

Pursuant to Governmental Accounting Standards Board ("GASB") Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, the District's proprietary fund accounting and financial reporting practices are based on all applicable GASB pronouncements as well as codified pronouncements issued on or before November 30, 1989.

The District applies the provisions of GASB 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (Statement 34), as amended by GASB 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and Statement 38, *Certain Financial Statement Note Disclosures*. Statement 34 established financial reporting standards for all state and local governments and related entities. Statement 34 primarily relates to presentation and disclosure requirements. The impact of this change was related to the format of the financial statements; the inclusion of management's discussion and analysis; and the preparation of the statement of cash flows on the direct method.

**Use of estimates** - The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

# West Contra Costa Healthcare District

## Notes to Financial Statements

December 31, 2014

**Cash and cash equivalents** - The District considers cash and cash equivalents to include certain investments in highly liquid debt instruments, when present, with an original maturity of three months or less or subject to withdrawal upon request.

**Patient accounts receivable** - Patient accounts receivable consist of amounts reimbursable by various governmental agencies and insurance companies through the assignment process and private patients. The District manages its receivables by regularly reviewing the accounts, inquiring with respective payors as to collectability and providing for allowances on their accounting records for estimates, contractual adjustments, and uncollectible accounts. Significant concentrations of patient accounts receivable are discussed further in the footnotes.

**Investments in marketable securities** - Investments in marketable securities consist primarily of short-term, interest-bearing certificates of deposit, money market funds, and mutual funds and include assets held by trustees under indenture agreements and designated assets set aside by the Board of Directors for future funding of certain District obligations.

**Supplies** - Supply inventories are stated at cost, which is determined using the first-in, first-out method.

**Capital assets** - Capital assets consist of property and equipment and are reported on the basis of cost, or in the case of donated items, on the basis of fair market value at the date of donation. Capital purchases over \$5,000 are capitalized. Routine maintenance and repairs are charged to expense as incurred. Expenditures which increase values, change capacities, or extend useful lives are capitalized. Depreciation of property and equipment and amortization of property under capital leases are computed by the straight-line method for both financial reporting and cost reimbursement purposes over the estimated useful lives of the assets, which range from 10 to 30 years for buildings and 3 to 10 years for equipment. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or the estimated useful life of the related assets. The District periodically reviews its capital assets for value impairment. As of December 31, 2014 and 2013, the District has determined that no capital assets are impaired.

**Other assets** - Other assets include debt issuance costs and net premium/discounts related to certain debt. Debt issuance costs and net premium/discounts incurred in connection with the issuance of tax-exempt bonds have been deferred and/or recorded and are being amortized over the term of the bonds using a straight-line method.

**Compensated absences** - District employees earn vacation benefits at varying rates depending on years of service. Employees also earn sick leave benefits based on varying rates depending on years of service. Both benefits can accumulate up to specified maximum levels. Employees are not paid for accumulated sick leave benefits if they leave either upon termination or before retirement. However, accumulated vacation benefits are paid to an employee upon either termination or retirement. Accrued vacation and sick leave liabilities as of December 31, 2014 and 2013 are \$1,706,000 and \$2,882,000 respectively.

# West Contra Costa Healthcare District

## Notes to Financial Statements

December 31, 2014

**Risk management** - The District is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and medical malpractice. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

**Risk retention plans** - The District maintains professional liability insurance on a claims-made basis, with liability limits of \$10,000,000 per claim, and which is subject to a \$25,000 deductible. Additionally, the District is self-insured for workers' compensation claims, with a self-insured retention of \$500,000 per occurrence, and has excess insurance coverage for the portion of each occurrence in excess of \$1,000,000. In the case of employee health coverage, the District is self-insured for those claims. Management estimates of uninsured losses for professional liability, workers' compensation and employee health coverage have been accrued as liabilities in the accompanying financial statements.

**Net position** - Net position of the District are classified in three components:

- Net position invested in capital assets, net of related debt consist of capital assets net of accumulated depreciation and reduced by any outstanding borrowings used to finance the purchase or construction of those assets.
- Restricted expendable net position are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the District, including amounts deposited with trustees as required by revenue bond indentures, discussed in Note 7.
- Unrestricted net position are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted expendable net assets.

**Net patient service revenue** - Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered, and adjusted in future periods as final settlements are determined.

# West Contra Costa Healthcare District

## Notes to Financial Statements

December 31, 2014

**Charity care** - The District accepts all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to certain established policies of the District. Essentially, these policies define charity services as those services for which no payment is anticipated. Because the District does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

**Uncollectible accounts** - The District provides care to patients without requiring collateral or other security. Patient charges not covered by a third-party payor are billed directly to the patient if it is determined that the patient has the ability to pay. A provision for uncollectible accounts is recognized based on management's estimate of amounts that ultimately may be uncollectible.

**Grants and contributions** - From time to time, the District receives grants from various governmental agencies and private organizations. The District also receives contributions from related foundation and auxiliary organizations, as well as from individuals and other private organizations. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either operating purposes or capital acquisitions. These amounts, when recognized upon meeting all requirements, are reported as components of the statement of revenues, expenses and changes in net position.

**Operating revenues and expenses** - The District's statements of revenues, expenses and changes in net position distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, which is the District's principal activity. Operating expenses are all expenses incurred to provide health care services, other than financing costs. Non-operating revenues and expenses are those transactions not considered directly linked to providing health care services.

**Income taxes** - The District operates under the purview of the Internal Revenue Code, Section 115, and corresponding California Revenue and Taxation Code provisions. As such, it is not subject to state or federal taxes on income.

**Subsequent events** - Subsequent events have been evaluated through the date the financial statements were available to be issued.

**Property taxes** - The authority received approximately 13.7% in 2014 and 10.8% in 2013 of its financial support from property taxes. Property taxes are levied by the County on the District's behalf on January 1<sup>st</sup> and are intended to finance the District's activities of the same calendar year. Amounts levied are based on assessed property values as of the preceding July 1. Property taxes are considered delinquent on the day following each payment due date. Property taxes are recorded as non-operating revenue by the District when they are earned.

**Reclassifications** - Certain amounts in the 2013 financial statements have been reclassified to conform to the 2014 presentation.

# West Contra Costa Healthcare District

## Notes to Financial Statements

December 31, 2014

**New accounting pronouncements** -The Governmental Accounting Standards Board ("GASB") issued GASB Statement No. 61, The Financial Reporting Entity: Omnibus (November 2010). GASB 61 clarifies certain aspects of GASB 14, The Financial Reporting Entity, which establishes the criteria governing which of a governmental entity's related parties should be formally incorporated into its financial statements. The adoption of GASB 61 is effective for the District beginning January 1, 2014. The adoption of GASB 61 is not expected to have a material impact on the District's financial statements.

### NOTE 2 - CASH AND CASH EQUIVALENTS & ASSETS LIMITED AS TO USE

As of December 31, 2014 and 2013, the District had deposits invested in various financial institutions in the form of cash and cash equivalents including amounts classified as assets limited as to use amounting to \$12,215,000 and \$14,974,000, respectively. These funds were held in deposits, which are collateralized in accordance with the California Government Code ("CGC"), except for \$250,000 per account that is federally insured.

Under the provisions of the CGC, California banks and savings and loan associations are required to secure the District's deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of the District's deposits. California law also allows financial institutes to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the District's total deposits. The pledged securities are held by the pledging financial institution's trust department in the name of the District.

The composition of assets limited as to use at December 31, 2014 and 2013, is set forth in the following table. Investments are stated at fair value.

	<u>2014</u>	<u>2013</u>
<b>Board designated</b>		
Cash and cash equivalents	\$ 642,000	\$ 642,000
Certificates of deposit	175,000	353,000
Total board designated	<u>817,000</u>	<u>995,000</u>
<b>Held by trustee</b>		
Money Market	4,357,000	4,356,000
Total	<u>\$ 5,174,000</u>	<u>\$ 5,351,000</u>

Interest and dividend income for investments and gains from assets limited as to use is \$38,000, and \$134,000 for the years ended December 31, 2014 and 2013, respectively.

# West Contra Costa Healthcare District

## Notes to Financial Statements

December 31, 2014

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

The District renders 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 38% and 53% of the District's gross patient service revenues, whereas patient service revenues from Medi-Cal approximate 47% and 20% of the District's gross patient service revenues for the years ended December 31, 2014 and 2013, respectively.

The District has 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 2011.

Medicare accounts for approximately 56% and 53% of net patient service revenues whereas Medi-Cal accounts for approximately 13% and 20% of net patient service revenue for the years ended December 31, 2014 and 2013, 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 no supplemental payments in 2014 and \$1,371,000 in 2013 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.

# West Contra Costa Healthcare District

## Notes to Financial Statements

December 31, 2014

### NOTE 4 - CONCENTRATION OF CREDIT RISK

The District grants credit without collateral to its patients and third-party payors. Patient accounts receivable from government agencies represent the only concentrated group of credit risk for the District and management does not believe that there are any credit risks associated with these governmental agencies. Contracted and other patient accounts receivable consist 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 is 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, 2014 and 2013, were as follows:

	<u>2014</u>	<u>2013</u>
Medicare	29%	32%
Medi-Cal	37%	32%
Other 3rd Party and Private Payors	34%	36%
	<u>100%</u>	<u>100%</u>

### NOTE 5 – OTHER RECEIVABLES

Other receivables as of December 31, 2014 and 2013 were comprised of the following:

	<u>2014</u>	<u>2013</u>
Advances to physicians, notes and related receivables	\$ -	\$ 95,000
Deposits	131,000	378,000
Rent and other receivables	30,000	35,000
Total other receivables	<u>\$ 161,000</u>	<u>\$ 508,000</u>

Advances to physicians are comprised of physician income guarantees and/or business loans to those physicians requiring assistance to begin a local practice. The District has entered into agreements with certain physicians whereby the District guarantees 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, 2014

### NOTE 6-CAPITAL ASSETS

Capital assets as of December 31, 2014 and 2013 were comprised of the following:

	12/31/2013	Additions	Retirements & Adjustments	12/31/2014
<b>Capital assets not being depreciated</b>				
Land and land improvements	\$ 12,120,000	\$ -	\$ -	\$ 12,120,000
Construction-in-progress	876,000	530,000	(1,210,000)	196,000
	<u>12,996,000</u>	<u>530,000</u>	<u>(1,210,000)</u>	<u>12,316,000</u>
<b>Capital assets being depreciated</b>				
Buildings and improvements	16,955,000	-	299,000	17,254,000
Equipment	36,095,000	78,000	870,000	37,043,000
	<u>53,050,000</u>	<u>78,000</u>	<u>1,169,000</u>	<u>54,297,000</u>
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	<u>\$ 40,058,000</u>	<u>\$ (4,241,000)</u>	<u>\$ -</u>	<u>\$ 35,817,000</u>
	12/31/2012	Additions	Retirements & Adjustments	12/31/2013
<b>Capital assets not being depreciated</b>				
Land and land improvements	\$ 12,120,000	\$ -	\$ -	\$ 12,120,000
Construction-in-progress	32,000	844,000	-	876,000
	<u>12,152,000</u>	<u>844,000</u>	<u>-</u>	<u>12,996,000</u>
<b>Capital assets being depreciated</b>				
Buildings and improvements	16,955,000	-	-	16,955,000
Equipment	35,183,000	1,063,000	(151,000)	36,095,000
	<u>52,138,000</u>	<u>1,063,000</u>	<u>(151,000)</u>	<u>53,050,000</u>
Totals at historical cost	64,290,000	1,907,000	(151,000)	66,046,000
Less accumulated depreciation	(21,260,000)	(4,862,000)	134,000	(25,988,000)
Total capital assets, net	<u>\$ 43,030,000</u>	<u>\$ (2,955,000)</u>	<u>\$ (17,000)</u>	<u>\$ 40,058,000</u>

Future construction commitments of approximately \$125,000 exist for various projects at December 31, 2014.

# West Contra Costa Healthcare District

## Notes to Financial Statements

December 31, 2014

### NOTE 7 - DEBT BORROWINGS

A schedule of changes in the District's debt borrowings for the years ended December 31, 2014 and 2013 is as follows:

	<u>12/31/13</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/14</u>
<b>Bonds payable</b>				
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
<b>Capital leases- equipment</b>	920,000		(385,000)	535,000
	<u>\$ 60,865,000</u>	<u>\$ -</u>	<u>\$ (1,320,000)</u>	<u>\$ 59,545,000</u>
	<u>12/31/12</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/13</u>
<b>Notes payable</b>				
American Savings	\$ 20,000	\$ -	\$ (20,000)	\$ -
City of San Pablo	357,000	-	(357,000)	-
<b>Bonds payable</b>				
Certificates of Participation - Series 2004	20,845,000	-	(830,000)	20,015,000
Certificates of Participation - Series 2011	40,000,000	-	(70,000)	39,930,000
Capital leases- equipment	1,270,000		(350,000)	920,000
	<u>\$ 62,492,000</u>	<u>\$ -</u>	<u>\$ (1,627,000)</u>	<u>\$ 60,865,000</u>

# West Contra Costa Healthcare District

## Notes to Financial Statements

December 31, 2014

### **NOTE 7 - DEBT BORROWINGS (continued)**

The terms and due dates of the District's debt borrowings, including capital lease obligations, at December 31, 2014, are as follows:

- American Savings notes payable dated September 1986, interest at 9.5%, was to mature in November 2015, with principal payable in various annual amounts ranging from \$5,000 to \$7,000, secured by property, and was paid in full in 2013.
- City of San Pablo notes payable dated August 2010, interest at 6.0%, matured July 2014, unsecured, and was paid in full in 2013.
- Series 2004 Certificates of Participation dated July 2004, plus unamortized bond premium of \$374,000, principal payable in annual installments ranging from \$860,000 in 2014 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. Management believes the District is in compliance with the financial covenants and financial reporting requirements as specified in the Indenture Trust Agreement.
- Series 2011 Certificates of Participation dated December 2011, plus unamortized bond discount of \$516,000, principal payable in annual installments ranging from \$75,000 in 2014 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. Management believes the District is in compliance with the financial covenants and financial reporting requirements as specified in the Indenture Trust Agreement.
- Equipment purchased under capital leases dated March 2011, maturing at March 2016, with interest at 9.5%.

# West Contra Costa Healthcare District

## Notes to Financial Statements

December 31, 2014

### NOTE 7 - DEBT BORROWINGS (continued)

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

Year Ending December 31:	Debt Borrowings		Capital Lease Obligations	
	Principal	Interest	Principal	Interest
2015	\$ 970,000	3,386,000	\$ 423,000	\$ 71,000
2016	1,005,000	3,348,000	112,000	33,000
2017	1,045,000	3,309,000	-	2,000
2018	1,090,000	3,266,000	-	-
2018	1,145,000	3,209,000	-	-
Thereafter	53,755,000	46,376,000	-	-
	\$59,010,000	\$62,894,000	\$ 535,000	\$ 106,000

### 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 is defined as a revolving credit agreement that is collateralized by the District's accounts receivable collections. During the year ended December 31, 2014, net payments were \$1,704,000 for an ending outstanding balance of \$3,249,000 on this revolving credit agreement. The revolving credit agreement bears 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% at December 31, 2014.

As part of the Revolving Credit Agreement, the District has agreed to comply with certain covenants. These consist 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. The lender has made a claim of default based on the violation of the covenants at December 31, 2014, and the default interest rate provision is now in effect. The District is current on all scheduled payments related to the credit agreement. No adjustments to the financial statements have been made with regard to this situation at December 31, 2014. The revolving credit agreement was paid in full in January 2015.

# West Contra Costa Healthcare District

## Notes to Financial Statements

December 31, 2014

### **NOTE 9 - OTHER LONG TERM LIABILITIES**

The District entered into an agreement with the County of Contra Costa (the "County") in April 2011, receiving a cash advance of \$10 million. The County Auditor shall allocate and transfer 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 commencing July 1, 2011 and continuing from year to year thereafter until a total up to \$11.5 million of transfers are made. The outstanding balance at December 31, 2014 and 2013 was \$16,525,000 and \$12,003,000, respectively. The current and long term outstanding advance balance is included in other liabilities in the balance sheet.

### **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 offers two Employer Contributory Tax Deferred Plans intended to qualify under section 403(b) and 401(a) of the IRC. The plans are 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 cover employees of the District who meet certain eligibility requirements. Under the plans, the District may make matching contributions up to 5.0% of the participant's annual compensation to the plan. The District contributed \$3,399,000 and \$4,456,000 to the plans in 2014 and 2013, 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 13 current District employees participating in the plan.

# West Contra Costa Healthcare District

## Notes to Financial Statements

December 31, 2014

### NOTE 10- RETIREMENT PLANS (continued)

**Annual pension cost and net pension obligation** - The plan's annual pension cost and net pension obligation for the current and prior year were as follows:

	2014	2013
Annual required contribution	\$ 574,000	\$ 549,000
Interest on net pension obligation	67,000	64,000
Adjustment to annual required contribution	(113,000)	(120,000)
Annual pension cost	528,000	493,000
Net increase in pension obligation	\$ 528,000	\$ 493,000
Net pension obligation (prepaid pension asset), beginning of year	\$ 2,148,000	\$ 1,655,000
Net increase in pension obligation	528,000	493,000
Actuarial loss	-	-
Net pension obligation, end of year	\$ 2,676,000	\$ 2,148,000

The annual required contribution for the current year was determined as part of the January 1, 2014 and January 1, 2013, actuarial valuations using the entry age actuarial cost method. The actuarial assumptions include (a) 4.8% in 2014 and 6.5% in 2013, of investment rate of return (net of administrative expenses) and (b) post-retirement benefit increases of 2.0% per year. Both assumptions included an inflation component of 2.0%. The actuarial value of assets for both valuations was determined using market value adjusted to recognize market value gains and losses over five years. The unfunded actuarial accrued liability is amortized using the level dollar method on a closed basis. The remaining equivalent single amortization period at December 31, 2014, was 15 years.

The following table summarizes the net pension obligation ("NPO") for the District's pension plan:

Fiscal Year		Annual	Actual	Increase	End of Year
Ending	Beginning of	Pension	Contribution	(Decrease)	NPO (Prepaid
December 31	Year NPO (a)	Cost (b)	(c)	In NPO (b-c)	Pension Cost)
					((a)+(b-c))
2012	\$ 1,171,000	\$ 484,000	\$ -	\$ 484,000	\$ 1,655,000
2013	\$ 1,655,000	\$ 493,000	\$ -	\$ 493,000	\$ 2,148,000
2014	\$ 2,148,000	\$ 528,000	\$ -	\$ 528,000	\$ 2,676,000

# West Contra Costa Healthcare District

## Notes to Financial Statements

December 31, 2014

### NOTE 10- RETIREMENT PLANS (continued)

The following table summarizes the funding status of the District's pension plan:

Actuarial Valuation Date December 31	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentatge of Covered Payroll ((b-a)/c)
2012	\$ 5,207,000	\$10,420,000	\$ 5,213,000	50%	N/A	N/A
2013	\$ 5,241,000	\$11,175,000	\$ 5,934,000	47%	N/A	N/A
2014	\$ 4,990,000	\$14,197,000	\$ 9,207,000	35%	N/A	N/A

**Funding policy** - The District is required to contribute the actuarially determined amounts necessary to fund the benefits for its participants. Active plan participants are not required to contribute. The actuarial methods and assumptions used are those adopted by the District.

### 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, 2014, will be resolved without material adverse effect on the District's future financial position, results from operations or cash flows.

**Lease commitments** - The District is obligated for land and office rentals under the terms of various non-cancelable operating lease agreements. These expire in various years through 2016. The District also entered into various non-cancelable operating sublease agreements for office space. These expire in various years through 2016. Following is a schedule by year of future minimum lease payments and future minimum rental revenues under operating leases as of December 31, 2014:

	Operating lease commitments	Lease income	Net Lease expense
2015	\$ 3,417,000	\$ 553,000	\$ 2,864,000
2016	3,205,000	513,000	2,692,000
2017	3,012,000	534,000	2,478,000
2018	3,012,000	665,000	2,347,000
	<u>\$ 12,646,000</u>	<u>\$ 2,265,000</u>	<u>\$ 10,381,000</u>

# West Contra Costa Healthcare District

## Notes to Financial Statements

December 31, 2014

### **NOTE 11 - COMMITMENTS AND CONTINGENCIES (continued)**

Total rental expense in 2014 and 2013 for all operating leases was approximately \$2,881,000 and \$3,140,000, respectively. Total rental income in 2014 and 2013 for all operating subleases was approximately \$581,000 and \$544,000, respectively.

**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 continue as a going concern, which contemplates realization of assets and satisfaction of liabilities in the normal course of business. The District has experienced significant losses and recurring cash shortages and has a net deficit of (\$52,056,000) at December 31, 2014.

In May 2014, an additional parcel tax initiative was added to a special election taking place in Contra Costa County. The proposed additional parcel tax was defeated and was therefore not available to improve the District's financial situation. Without this funding the District decided to cease operations and close the hospital in April 2015. The District is now in the process of selling assets, settling liabilities and wrapping up all other administrative issues. Management's plans regarding these matters are also described in Management's Discussion and Analysis. These financial statements do not include any adjustments that might result from outcome of this event.