

Audited Financial Statements

WEST CONTRA COSTA
HEALTHCARE DISTRICT

December 31, 2015

JWT & Associates, LLP
Advisory Assurance Tax

West Contra Costa Healthcare District

Audited Financial Statements

December 31, 2015

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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, 2015 and 2014, which comprise the statement of net position as of December 31, 2015 and 2014, and the related statements of revenues, expenses and changes in net position, and cash flow 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 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, 2015 and 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 District ceased operations during the year ended December 31, 2015 and filed bankruptcy in October 2016. The District had incurred significant losses from operations and has a net deficit of (\$82,091,000) at December 31, 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. The financial statements include adjustments that resulted from the closure of the hospital, liquidation of capital and other assets and other transactions or situations that impacted the valuation of assets and liabilities.

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
December 20, 2016

West Contra Costa Healthcare District

Management's Discussion and Analysis

December 31, 2015

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, 2015, 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, 2015 and 2014. 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 for several years, and 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.

Subsequent to the closure of the hospital, the remaining staff conducted the following key activities to wind down the non-clinical operations of the District:

- Conducted a complete inventory of the contents of the hospital.
- Obtained bids for equipment and sold equipment to the highest bidder.
- Discarded any unwanted items (trash) that were of little to no value.
- Shredded any unnecessary documents.
- Assigned remaining accounts receivable to an outside vendor for continued collection efforts on patient accounts.
- Arranged for medical records, storage, retention and retrieval.
- Removed information technology, ensuring that all data was appropriately removed before sale of hardware.
- Plant operations shut down unneeded building functions.
- Physically secured the hospital building and continues to maintain security services on the building until it is sold.

West Contra Costa Healthcare District

Management's Discussion and Analysis

December 31, 2015

The District actively sought a buyer for the hospital building, which is the only remaining asset of the District. It entered into an agreement to sell the building in early 2016 and anticipated that the funds received from the sale of the building would be sufficient to continue to maintain the ongoing costs of the District and to pay the following post closure outstanding, unsecured liabilities:

- Unemployment expense
- Medical records retention
- Workers' compensation claims
- Unfunded pension liabilities

In late 2016, the buyers elected to not proceed with the sale of the building and the District put the property back on the market.

Bankruptcy

Without the proceeds of the sale, the District does not have sufficient cash or other assets to support the ongoing operations of the District or to pay the post closure liabilities. On October 20, 2016, the District filed Chapter 9 bankruptcy. The purpose of the bankruptcy is to obtain relief from creditor collection actions and allow the District time and access to the funds necessary to effect a "plan of adjustment." The bankruptcy court will determine the timing and disposition of assets and liabilities.

In November 2016 the District entered into a second agreement to sell the hospital building for \$13 million dollars. The District anticipates that this sale will close within the next several months. These proceeds will be included in the "plan of adjustment."

Future Considerations

Contra Costa Local Agency Formation Commission (LAFCO) has conducted a study, with the full cooperation of the District, to review the current status of the District and to provide options for the future of the district. Options presented in the study are:

- Maintain the status quo
- Consolidate with a like district
- Reorganize as a subsidiary district to the City of Richmond
- Consolidation with an existing County Service Area
- Reorganization with creation of a new County Service Area
- Dissolution with appointment of successor to wind-up affairs

The Contra Costa County Board of Supervisors, at their meeting on November 15, 2016, requested that LAFCO defer any decision to dissolve/reorganize the District pending the bankruptcy proceedings.

West Contra Costa Healthcare District

Statements of Net Position

December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 2,054,000	\$ 7,041,000
Patient accounts receivable, net	-	9,707,000
Other receivables	-	161,000
Assets limited as to use	5,470,000	4,532,000
Assets held for sale	14,090,000	-
Supplies	-	1,507,000
Prepaid expenses	381,000	816,000
Total current assets	21,995,000	23,764,000
Assets limited as to use, net of current portion	642,000	642,000
Capital assets, net	-	35,817,000
Other assets	946,000	985,000
Total assets	23,583,000	61,208,000
Deferred outflows of resources	175,000	-
	\$ 23,758,000	\$ 61,208,000
Liabilities and net position		
Current liabilities		
Revolving credit agreement	\$ -	\$ 3,249,000
Current maturities of debt borrowings	1,005,000	1,393,000
Accounts payable and accrued expenses	9,523,000	8,744,000
Accrued payroll and related liabilities	10,773,000	19,518,000
Estimated third-party payors settlements	277,000	2,003,000
Other liabilities, current portion	3,269,000	3,499,000
Total current liabilities	24,847,000	38,406,000
Debt borrowings, net of current maturities	57,035,000	58,152,000
Net long-term pension liability	8,459,000	7,785,000
Other liabilities, net of current	11,909,000	17,492,000
Total liabilities	102,250,000	121,835,000
Deferred inflows of resources	340,000	453,000
Net position		
Invested in capital assets, net of related debt	(18,451,000)	16,127,000
Unrestricted	(60,381,000)	(77,207,000)
Total net position	(78,832,000)	(61,080,000)
Total liabilities and net position	\$ 23,758,000	\$ 61,208,000

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, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating revenues		
Net patient service revenue	\$ 15,564,000	\$ 83,197,000
Other operating revenue	1,752,000	1,230,000
Total operating revenue	17,316,000	84,427,000
Operating expenses		
Salaries and wages	8,998,000	45,515,000
Employee benefits	9,321,000	31,533,000
Professional fees	4,506,000	9,629,000
Purchased services	3,774,000	10,295,000
Supplies	2,364,000	12,469,000
Depreciation and amortization	2,239,000	4,911,000
Rents and leases	1,395,000	2,881,000
Other operating expenses	5,342,000	3,964,000
Total operating expenses	37,939,000	121,197,000
Operating loss	(20,623,000)	(36,770,000)
Nonoperating revenues (expenses)		
District tax revenue	11,421,000	13,917,000
Investment income	-	38,000
Interest expense	(3,424,000)	(5,579,000)
Other non-operating revenues (expenses), net	(118,000)	3,020,000
Total nonoperating revenues	7,879,000	11,396,000
Excess of expenses over revenues	(12,744,000)	(25,374,000)
Extraordinary loss - closure of hospital	(5,008,000)	-
Change in net position	(17,752,000)	(25,374,000)
Net position at beginning of the year	(61,080,000)	(35,706,000)
Net position at end of the year	\$ (78,832,000)	\$ (61,080,000)

See accompanying notes to the financial statements

West Contra Costa Healthcare District

Statements of Cash Flows

Year Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities		
Cash received from patients and third-parties for patients	\$ 23,545,000	\$ 93,016,000
Cash received from operations, other than patient services	1,913,000	1,577,000
Cash payments to suppliers and contractors	(14,660,000)	(39,293,000)
Cash payments to employees and benefits programs	(26,390,000)	(75,240,000)
Net cash used in operating activities	<u>(15,592,000)</u>	<u>(19,940,000)</u>
Cash flows from noncapital financing activities		
Noncapital grants and contributions	-	3,020,000
Net change in other liability	(5,813,000)	4,388,000
Net proceeds (payments) on revolving credit agreement	(3,249,000)	(1,704,000)
Interest payments on revolving credit agreement	(38,000)	(683,000)
Principal payments on debt borrowings	(80,000)	(75,000)
Interest payments on debt borrowings	(2,383,000)	(3,789,000)
Change in other assets	(24,000)	(24,000)
Other non-operating expense	(118,000)	-
Parcel tax revenues levied for debt service	7,772,000	10,648,000
Ad valorem tax revenues to support operations	3,649,000	3,269,000
Net cash provided by noncapital financing activities	<u>\$ (284,000)</u>	<u>\$ 15,050,000</u>
Cash flows from capital and related financing activities		
Principal payments on debt borrowings	(1,425,000)	(1,245,000)
Interest payments on debt borrowings	(1,003,000)	(1,107,000)
Net cash used in capital and related financing activities	<u>(2,428,000)</u>	<u>(2,352,000)</u>
Cash flows from investing activities		
Purchases of capital assets	-	(608,000)
Extraordinary loss - hospital closure	(5,008,000)	-
Loss on disposal of fixed assets	4,624,000	-
Net change in assets whose use is limited	(938,000)	177,000
Net change in assets held for sale	(14,090,000)	-
Net proceeds and reclassification of capital assets	29,017,000	-
Net change in deferred inflows and outflows of resources	(288,000)	453,000
Easement fee sale	-	4,600,000
Interest and dividends received from investments	-	38,000
Net cash provided by investing activities	<u>13,317,000</u>	<u>4,660,000</u>
Net increase (decrease) in cash and cash equivalents	<u>(4,987,000)</u>	<u>(2,582,000)</u>
Cash and cash equivalents, beginning of year	<u>7,041,000</u>	<u>9,623,000</u>
Cash and cash equivalents, end of year	<u><u>\$ 2,054,000</u></u>	<u><u>\$ 7,041,000</u></u>

See accompanying notes to the financial statements

West Contra Costa Healthcare District

Statements of Cash Flows (continued)

Year Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Reconciliation of operating loss to net cash provided by operating activities		
Loss from operations	\$ (20,623,000)	\$ (36,770,000)
Adjustments to reconcile loss from operations to net cash provided by operating activities		
Depreciation and amortization	2,239,000	4,911,000
Changes in operating assets and liabilities:		
Accounts receivable	9,707,000	10,750,000
Other accounts receivable	161,000	347,000
Supplies	1,507,000	140,000
Prepaid expenses	435,000	447,000
Accounts payable	779,000	(642,000)
Accrued payroll	(8,745,000)	(2,186,000)
Due to third-party payors	(1,726,000)	(931,000)
Pension liability	674,000	3,994,000
Net cash used in operating activities	\$ (15,592,000)	\$ (19,940,000)
Non cash disclosures		
Non cash payments on county loan	\$ 1,347,000	\$ 1,791,000

See accompanying notes to the financial statements

West Contra Costa Healthcare District

Notes to Financial Statements

December 31, 2015

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 operated a full-service acute care facility and provided services to both inpatients and outpatients, who primarily resided in the local geographic area. The District ceased all operations of the hospital in April 2015 and subsequently filed bankruptcy in October 2016.

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.

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.

West Contra Costa Healthcare District

Notes to Financial Statements

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Patient accounts receivable - Patient accounts receivable consisted of amounts reimbursable by various governmental agencies and insurance companies through the assignment process and private patients. The District managed 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.

Supplies - Supply inventories were stated at cost, which was determined using the first-in, first-out method.

Capital assets - Capital assets consisted of property and equipment and were 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 were capitalized. Routine maintenance and repairs were charged to expense as incurred. Expenditures which increased values, changed capacities, or extended the useful life were capitalized. Depreciation of property and equipment and amortization of property under capital leases were computed by the straight-line method for both financial reporting and cost reimbursement purposes over the estimated useful lives of the assets, which ranged from 10 to 30 years for buildings and 3 to 10 years for equipment. Leasehold improvements were 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 reviewed its capital assets for value impairment. As of December 31, 2015 the District has no capital assets. With the closure of the hospital and the subsequent liquidation of assets, any remaining assets at December 31, 2015 were classified as assets held for sale and valued at current estimated market value.

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.

Deferred Outflows and Inflows of Resources - Deferred outflows and inflows of resources are comprised of deferred valuation activities related to the District's Successor Retirement Plan (the Plan). Amortization of these amounts follow direction by GASB and as determined by the Plan's actuaries. Amortization expense recognized was \$69,000 and \$113,000 for the years ended December 31, 2015 and 2014, respectively.

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, 2015 and 2014 are \$0 and \$1,706,000 respectively.

West Contra Costa Healthcare District

Notes to Financial Statements

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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 was self-insured for workers' compensation claims, with a self-insured retention of \$500,000 per occurrence, and had excess insurance coverage for the portion of each occurrence in excess of \$1,000,000. The District now maintains a workers' compensation insurance policy which provides coverage on a claims made basis for the few remaining employees. 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.

Charity care - The District accepted 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.

West Contra Costa Healthcare District

Notes to Financial Statements

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Uncollectible accounts - The District provided 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 received grants from various governmental agencies and private organizations. The District also received contributions from related foundation and auxiliary organizations, as well as from individuals and other private organizations. Revenues from grants and contributions were recognized when all eligibility requirements, including time requirements were met. Grants and contributions may be restricted for either operating purposes or capital acquisitions. These amounts, when recognized upon meeting all requirements, were 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.

Pensions - For purposes of measuring the net position liability and pension expense, information about the fiduciary net position and additions to and deductions from fiduciary net position are determined on the same basis as reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due as payable in accordance with benefit terms. Plan investments are reported at fair value.

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 2015 and 10.8% in 2014 of its financial support from property taxes. Property taxes are levied by the County on the District's behalf on January 1st 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 2014 financial statements have been reclassified to conform to the 2015 presentation.

West Contra Costa Healthcare District

Notes to Financial Statements

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New accounting pronouncements - The GASB issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* ("GASB No. 65"), which was effective for financial statements for periods beginning after December 15, 2012. GASB No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. It also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. The adoption of this pronouncement did not materially affect the District's financial statements.

GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions- an amendment of GASB Statement No. 27* ("GASB No. 68"), which was effective for financial statements for periods beginning after June 15, 2014. GASB No. 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. It establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about pensions also are addressed. The District has evaluated the impact of the adoption of GASB No. 68 for the years ending December 31, 2015 and 2014 and the effect to the District's financial statements resulted in a prior period adjustment in the amount of \$9,024,000 to pension liability and beginning net position. See also Note 10.

GASB also issued GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* ("GASB No. 69"), which was effective for financial statements for periods beginning after December 15, 2014.-GASB No. 69 requires the use of carrying values to measure the assets and liabilities in a government merger. Conversely, government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. This Statement requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. It also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. It defines the term operations for purposes of determining the applicability of this Statement and requires the use of carrying values to measure the assets and liabilities in a transfer of operations, and provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold. The District has evaluated the impact of the adoption of GASB No. 69 for the years ending December 31, 2015 and 2014, and there is no effect to the District's financial statements.

West Contra Costa Healthcare District

Notes to Financial Statements

December 31, 2015

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

As of December 31, 2015 and 2014, 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 \$8,166,000 and \$12,215,000, 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, 2015 and 2014, is set forth in the following table. Investments are stated at fair value.

	<u>2015</u>	<u>2014</u>
Board designated		
Cash and cash equivalents	\$ 642,000	\$ 642,000
Certificates of deposit	-	175,000
Total board designated	<u>642,000</u>	<u>817,000</u>
Held by trustee		
Money Market	5,470,000	4,357,000
Total	<u>\$ 6,112,000</u>	<u>\$ 5,174,000</u>

Interest and dividend income for investments and gains from assets limited as to use is \$0 and \$38,000, for the years ended December 31, 2015 and 2014, respectively.

West Contra Costa Healthcare District

Notes to Financial Statements

December 31, 2015

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.

West Contra Costa Healthcare District

Notes to Financial Statements

December 31, 2015

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)	-
	<u>12,316,000</u>	<u>-</u>	<u>(12,316,000)</u>	<u>-</u>
Capital assets being depreciated				
Buildings and improvements	17,254,000	-	(17,254,000)	-
Equipment	37,043,000	-	(37,043,000)	-
	<u>54,297,000</u>	<u>-</u>	<u>(54,297,000)</u>	<u>-</u>
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	<u>\$ 35,817,000</u>	<u>\$ (2,176,000)</u>	<u>\$ (33,641,000)</u>	<u>\$ -</u>

	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
	<u>12,996,000</u>	<u>530,000</u>	<u>(1,210,000)</u>	<u>12,316,000</u>
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
	<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>

West Contra Costa Healthcare District

Notes to Financial Statements

December 31, 2015

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:

	<u>12/31/14</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/15</u>
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	<u>535,000</u>		<u>(535,000)</u>	<u>-</u>
	<u>\$ 59,545,000</u>	<u>\$ -</u>	<u>\$ (1,505,000)</u>	<u>\$ 58,040,000</u>
	<u>12/31/13</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/14</u>
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	<u>920,000</u>		<u>(385,000)</u>	<u>535,000</u>
	<u>\$ 60,865,000</u>	<u>\$ -</u>	<u>\$ (1,320,000)</u>	<u>\$ 59,545,000</u>

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.

West Contra Costa Healthcare District

Notes to Financial Statements

December 31, 2015

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	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
	<u>\$58,040,000</u>	<u>\$59,508,000</u>

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.

West Contra Costa Healthcare District

Notes to Financial Statements

December 31, 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.

West Contra Costa Healthcare District

Notes to Financial Statements

December 31, 2015

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:

	<u>2015</u>
Deferred outflows of resources	
Investment gains and losses	\$ 175,000
	<u>175,000</u>
Deferred inflows of resources	
Investment gains and losses	\$ (340,000)
	<u>(340,000)</u>
Net deferred outflows and inflows of resources	<u><u>\$ (165,000)</u></u>

West Contra Costa Healthcare District

Notes to Financial Statements

December 31, 2015

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:

	<u>2015</u>	<u>2014</u>
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

	<u>2015</u>	<u>2014</u>
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

West Contra Costa Healthcare District

Notes to Financial Statements

December 31, 2015

NOTE 10- RETIREMENT PLANS (continued)

Fiduciary net position

	<u>2015</u>	<u>2014</u>
Investment income	\$ 76,000	\$ 865,000
Benefits paid	(846,000)	(897,000)
Administrative expenses	(46,000)	(52,000)
Net change in total pension liability	<u>(816,000)</u>	<u>(84,000)</u>
Total fiduciary net position at beginning of the year	<u>4,990,000</u>	<u>5,074,000</u>
Total fiduciary net position at the end of the year	<u>\$ 4,174,000</u>	<u>\$ 4,990,000</u>
District's net pension liability (total liability less net position)	<u>\$ 10,475,000</u>	<u>\$ 9,207,000</u>
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	<u>\$ 2,016,000</u>	<u>\$ 1,422,000</u>

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

West Contra Costa Healthcare District

Notes to Financial Statements

December 31, 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.

West Contra Costa Healthcare District

Notes to Financial Statements

December 31, 2015

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.