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**ESCROW AGREEMENT**

**by and between the**

**WEST CONTRA COSTA HEALTHCARE DISTRICT**

**and**

**U.S. BANK NATIONAL ASSOCIATION, as Escrow Bank**

**Dated April 17, 2018**

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Relating to the current refunding of the  
West Contra Costa Healthcare District  
Certificates of Participation  
(2004 Financing Project)

## ESCROW AGREEMENT

This ESCROW AGREEMENT is dated April 17, 2018, by and between the WEST CONTRA COSTA HEALTHCARE DISTRICT, a local healthcare district organized and existing under the constitution and laws of the State of California (the "District"), and U.S. BANK NATIONAL ASSOCIATION, a national banking association organized and existing under the laws of the United States of America, as escrow agent (the "Escrow Bank");

### WITNESSETH:

WHEREAS, the District has heretofore caused the execution and delivery of certificates of participation evidencing direct, undivided fractional interests of the owners thereof in installment payments to be made pursuant to an installment sale agreement with the WCCHD Financing Corporation (the "Corporation") in the original principal amount of \$26,000,000, of which \$16,370,000 is currently outstanding (the "2004 COPs"), the proceeds of which were used to finance a portion of anticipated working capital expenses and operating losses of the District arising from the District's operation of the District's healthcare facilities (the "2004 Project");

WHEREAS, the 2004 COPs were executed and delivered pursuant to the terms of a trust agreement, dated as of July 1, 2004 (the "2004 Trust Agreement"), by and among the District, the Corporation and U.S. Bank National Association, as trustee (the "2004 Trustee");

WHEREAS, in order to provide for the repayment of the 2004 COPs, the District and the Corporation entered into an installment sale agreement, dated as of July 1, 2004 (the "2004 Agreements"), under which the District agreed to make installment payments to the Corporation (the "2004 Payments") in sufficient amounts each year to pay the full amount of principal and interest with respect to the 2004 COPs;

WHEREAS, the District has determined that, as a result of favorable financial market conditions and for other reasons, it is in the best interests of the District at this time to refinance the District's obligation to make the 2004 Payments and, as a result thereof, to provide for the redemption of all outstanding 2004 COPs on May 4, 2018, at a redemption price equal to 100% of the principal amount thereof plus accrued interest to such date, and to that end, the District proposes to issue its \$\_\_\_\_\_ West Contra Costa Healthcare District (Contra Costa County, California) Refunding Revenue Bonds, Series 2018 (the "2018 Bonds"), pursuant to an indenture of trust, dated as of April 1, 2018 (the "2018 Indenture"), by and between the District and U.S. Bank National Association, as trustee (the "Trustee");

WHEREAS, Article 10 of Chapter 3 of Part 1 of Division 2 of Title 5 (commencing with section 53570) of the California Government Code (the "Refunding Bond Law") authorizes the District to issue refunding bonds for the purpose of refunding obligations of the District;

WHEREAS, the District proposes to appoint the Escrow Bank as its agent for the purpose of providing for the prepayment of the 2004 Payments in accordance with the instructions provided by this Escrow Agreement and of applying said 2004 Payments to the redemption of the 2004 COPs and the Escrow Bank desires to accept said appointment; and

WHEREAS, the Escrow Bank has full powers to perform the duties and obligations to be undertaken pursuant to this Escrow Agreement.

NOW, THEREFORE, in consideration of the above premises and of the mutual promises and covenants herein contained and for other valuable consideration, the parties hereto do hereby agree as follows:

Section 1. Definitions. Capitalized terms used, but not otherwise defined, herein, shall have the meanings ascribed thereto in the 2004 Trust Agreement.

Section 2. Appointment of Escrow Bank. The District hereby appoints the Escrow Bank as escrow agent for all purposes of this Escrow Agreement and in accordance with the terms and provisions of this Escrow Agreement, and the Escrow Bank hereby accepts such appointment.

Section 3. Establishment of Escrow Fund. There is hereby created by the District with, and to be held by, the Escrow Bank, as security for the payment of the principal and interest on and redemption price of the 2004 COPs as hereinafter set forth, an irrevocable escrow to be maintained by the Escrow Bank on behalf of the District and for the benefit of the owners of the 2004 COPs, said escrow to be designated the "Escrow Fund." All moneys deposited in the Escrow Fund shall be held as a special fund to provide for the redemption of the outstanding 2004 COPs on May 4, 2018 (the "Redemption Date"), at the redemption price of 100% of the principal amount thereof, plus accrued interest to such date (the "Redemption Price"), in accordance with the provisions of this Escrow Agreement.

Section 4. Deposit into Escrow Fund; Investment of Amounts.

(a) Concurrently with delivery of the 2018 Bonds, the District shall cause to be transferred to the Escrow Bank for deposit into the Escrow Fund the amount of \$\_\_\_\_\_ in immediately available funds, derived as follows:

(i) \$\_\_\_\_\_ from the proceeds of sale of the 2018 Bonds, and

(ii) \$\_\_\_\_\_ from amounts on deposit in the reserve fund created for the 2004 COPs (the "2004 Reserve Fund").

(b) All amounts deposited in the Escrow Fund shall be held in cash, uninvested, solely for the uses and purposes set forth herein.

(c) The Escrow Bank shall not be liable or responsible for any loss resulting from its full compliance with the provisions of this Escrow Agreement.

(d) Any money left on deposit in the Escrow Fund after payment in full of the 2004 COPs, and the payment of all amounts due to the Escrow Bank hereunder, shall be applied to the payment of debt service on the 2018 Bonds.

(e) If at any time the Escrow Bank shall receive actual knowledge that the moneys in the Escrow Fund will not be sufficient to make any payment required hereof, the Escrow Bank shall notify the District of such fact and the District shall immediately cure such deficiency.

Section 5. Instructions as to Application of Deposit.

(a) The uninvested cash in the Escrow Fund pursuant to Section 4 shall be applied by the Escrow Bank for the sole purposes of redeeming the outstanding 2004 COPs on the Redemption Date at the Redemption Price, all as set forth in Exhibit A attached hereto and by this reference incorporated herein.

(b) The Escrow Bank, in its capacity as 2004 Trustee, has been previously requested, and the Escrow Bank, as 2004 Trustee, previously agreed to give timely notice of the redemption of the 2004COPs on the Redemption Date in accordance with the applicable provisions of the 2004 Trust Agreement.

(c) The Escrow Bank, in its capacity as 2004 Trustee, is hereby requested, and the Escrow Bank, in its capacity as 2004 Trustee, hereby agrees to give notice of the defeasance of the 2004 COPs in the form of defeasance notice attached hereto as Exhibit B.

Section 6. Application of 2004 Funds. On the date of deposit of amounts in the Escrow Fund pursuant to Section 4, the Escrow Bank, as 2004 Trustee, is hereby directed to transfer all amounts on deposit in the 2004 Reserve Fund (\$\_\_\_\_\_) to the Escrow Fund.

Any amounts remaining in any fund or account created with respect to the 2004 COPs, including interest earnings received by the 2004 Trustee, shall, after payment of all fees and expenses of the 2004 Trustee, be paid to the Trustee and shall be applied to the payment of debt service on the 2018 Bonds.

Section 7. Application of Certain Terms of 2004 Trust Agreement. All of the terms of the 2004 Trust Agreement relating to the making of payments of principal and interest with respect to the 2004 COPs are incorporated in this Escrow Agreement as if set forth in full herein. The provisions of the 2004 Trust Agreement relating to the limitations from liability and protections afforded the 2004 Trustee and the resignation and removal of the 2004 Trustee are also incorporated in this Escrow Agreement as if set forth in full herein and shall be the procedure to be followed with respect to any resignation or removal of the Escrow Bank hereunder.

Section 8. Compensation to Escrow Bank. The District shall pay the Escrow Bank full compensation for its duties under this Escrow Agreement, including out-of-pocket costs such as publication costs, prepayment or redemption expenses, legal fees and other costs and expenses relating hereto. Under no circumstances shall amounts deposited in the Escrow Fund be deemed to be available for said purposes.

Section 9. Liabilities and Obligations of Escrow Bank. The Escrow Bank shall have no obligation to make any payment or disbursement of any type or incur any financial liability in the performance of its duties under this Escrow Agreement unless the District shall have deposited sufficient funds with the Escrow Bank. The Escrow Bank may rely and shall be protected in acting upon the written instructions of the District or its agents relating to any matter or action as Escrow Bank under this Escrow Agreement.

The Escrow Bank and its respective successors, assigns, agents and servants shall not be held to any personal liability whatsoever, in tort, contract, or otherwise, in connection with the execution and delivery of this Escrow Agreement, the establishment of the Escrow Fund, the acceptance of the moneys deposited therein, the sufficiency of the uninvested moneys held hereunder to accomplish the purposes set forth in Section 4 hereof, or any payment, transfer or other application of moneys by the Escrow Bank in accordance with the provisions of this Escrow Agreement or by reason of any non-negligent act, non-negligent omission or non-negligent error of the Escrow Bank made in good faith in the conduct of its duties. The recitals of fact contained in the "whereas" clauses herein shall be taken as the statement of the District, and the Escrow Bank assumes no responsibility for the correctness thereof. The Escrow Bank makes no representations as to the sufficiency of the uninvested moneys to accomplish the purposes set forth in Section 4 hereof or to the validity of this Escrow Agreement as to the District and, except as otherwise provided herein, the Escrow Bank shall incur no liability in

respect thereof. The Escrow Bank shall not be liable in connection with the performance of its duties under this Escrow Agreement except for its own negligence, willful misconduct or default, and the duties and obligations of the Escrow Bank shall be determined by the express provisions of this Escrow Agreement. The Escrow Bank may consult with counsel, who may or may not be counsel to the District, and in reliance upon the written opinion of such counsel shall have full and complete authorization and protection in respect of any action taken, suffered or omitted by it in good faith in accordance therewith. Whenever the Escrow Bank shall deem it necessary or desirable that a matter be proved or established prior to taking, suffering, or omitting any action under this Escrow Agreement, such matter (except the matters set forth herein as specifically requiring a certificate of a nationally recognized firm of independent certified public accountants or an opinion of counsel) may be deemed to be conclusively established by a written certification of the District.

Anything in this Escrow Agreement to the contrary notwithstanding, in no event shall the Escrow Bank be liable for special, indirect, punitive or consequential loss or damage of any kind whatsoever (including but not limited to lost profits), even if the Escrow Bank has been advised of the likelihood of such loss or damage and regardless of the form of action.

The District hereby assumes liability for, and hereby agrees (whether or not any of the transactions contemplated hereby are consummated), to the extent permitted by law, to indemnify, protect, save and hold harmless the Escrow Bank and its respective successors, assigns, agents and servants from and against any and all liabilities, obligations, losses, damages, penalties, claims, actions, suits, costs, expenses and disbursements (including legal fees and disbursements) of whatsoever kind and nature which may be imposed on, incurred by, or asserted against, at any time, the Escrow Bank (whether or not also indemnified against by any other person under any other agreement or instrument) and in any way relating to or arising out of the execution and delivery of this Escrow Agreement, the establishment of the Escrow Fund, the retention of the moneys therein and any payment, transfer or other application of moneys by the Escrow Bank in accordance with the provisions of this Escrow Agreement, or as may arise by reason of any act, omission or error of the Escrow Bank made in good faith in the conduct of its duties; provided, however, that the District shall not be required to indemnify the Escrow Bank against its own negligence or misconduct. The indemnities contained in this Section 9 shall survive the termination of this Escrow Agreement or the resignation or removal of the Escrow Bank.

The District acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the District the right to receive brokerage confirmations of security transactions as they occur, the District specifically waives receipt of such confirmations to the extent permitted by law. The Escrow Bank will furnish the District periodic cash transaction statements which include detail for all investment transactions made by the Escrow Bank hereunder.

No provision of this Escrow Agreement shall require the Escrow Bank to expend or risk its own funds or otherwise incur any financial liability in the performance or exercise of any of its duties hereunder, or in the exercise of its rights or powers.

The Escrow Bank may execute any of the powers hereunder or perform any duties hereunder either directly or by or through agents, attorneys, custodians or nominees appointed with due care and shall not be responsible for any willful misconduct or negligence on the part of any agent, attorney, custodian or nominee so appointed.

Section 10. Amendment. This Escrow Agreement may be modified or amended at any time by a supplemental agreement which shall become effective when the written consents of

the owners of one hundred percent (100%) in aggregate principal amount of the 2004 COPs shall have been filed with the Escrow Bank. This Escrow Agreement may be modified or amended at any time by a supplemental agreement, without the consent of any such owners, but only (1) to add to the covenants and agreements of any party, other covenants to be observed, or to surrender any right or power herein or therein reserved to the District, (2) to cure, correct or supplement any ambiguous or defective provision contained herein, (3) in regard to questions arising hereunder or thereunder, as the parties hereto or thereto may deem necessary or desirable and which, in the opinion of counsel, shall not materially adversely affect the interests of the owners of the 2004 COPs or the 2018 Bonds, and that such amendment will not cause interest on the 2004 COPs or the 2018 Bonds to become subject to federal income taxation. In connection with any contemplated amendment or revocation of this Escrow Agreement, written notice thereof and draft copies of the applicable legal documents shall be provided by the District to each rating agency then rating the 2004 COPs.

Section 11. Severability. If any section, paragraph, sentence, clause or provision of this Escrow Agreement shall for any reason be held to be invalid or unenforceable, the invalidity or unenforceability of such section, paragraph, sentence clause or provision shall not affect any of the remaining provisions of this Escrow Agreement. Notice of any such invalidity or unenforceability shall be provided to each rating agency then rating the 2004 COPs.

Section 12. Notice of Escrow Bank and District. Any notice to or demand upon the Escrow Bank may be served and presented, and such demand may be made, at the Principal Corporate Trust Office of the Escrow Bank as specified by the Escrow Bank as 2004 Trustee in accordance with the provisions of the 2004 Trust Agreement. Any notice to or demand upon the District shall be deemed to have been sufficiently given or served for all purposes by being mailed by first class mail, and deposited, postage prepaid, in a post office letter box, addressed to such party as provided in the 2004 Trust Agreement (or such other address as may have been filed in writing by the District with the Escrow Bank).

Section 13. Merger or Consolidation of Escrow Bank. Any company into which the Escrow Bank may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Escrow Bank may sell or transfer all or substantially all of its corporate trust business, provided such company shall be eligible to act as trustee under the 2004 Trust Agreement, shall be the Successor hereunder to the Escrow Bank without the execution or filing of any paper or any further act.

Section 14. Execution in Several Counterparts. This Escrow Agreement may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original; and all such counterparts shall together constitute but one and the same instrument.

Section 15. Business Days. Whenever any act is required by this Escrow Agreement to be done on a specified day or date, and such day or date shall be a day other than a business day for the Escrow Bank, then such act may be done on the next succeeding business day.

Section 16. Governing Law. This Escrow Agreement shall be construed and governed in accordance with the laws of the State of California.

IN WITNESS WHEREOF, WEST CONTRA COSTA HEALTHCARE DISTRICT has caused this Escrow Agreement to be signed in its name by its Chief Executive Officer and U.S. BANK NATIONAL ASSOCIATION, in token of its acceptance of its obligations created under this Escrow Agreement, has caused this Escrow Agreement to be signed in its name by one of its authorized officers, all as of the day and year first above written.

WEST CONTRA COSTA HEALTHCARE  
DISTRICT

By \_\_\_\_\_  
Kathy White  
Chief Executive Officer

U.S. BANK NATIONAL ASSOCIATION, as  
Escrow Bank

By \_\_\_\_\_  
David Jason  
Vice President

EXHIBIT A

REDEMPTION SCHEDULE

Redemption Date	Maturing Principal	Called Principal	Interest	Redemption Premium	Total Payment
5/4/18	—	\$16,370,000		—	

**EXHIBIT B**

**FORM OF DEFEASANCE NOTICE**

**West Contra Costa Healthcare District  
(Contra Costa County, California)  
Certificates of Participation  
(2004 Financing Program)**

<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Defeased</u>	<u>Interest Rate</u>	<u>CUSIP Number</u>
7/27/2004	7/1/2021	\$4,355,000	5.375%	952341 AN5
7/27/2004	7/1/2024	3,920,000	5.375	952341 AP0
7/27/2004	7/1/2029	8,095,000	5.500	952341 AQ8

(1) Accrued interest to be added.

NOTICE IS HEREBY GIVEN, on behalf of the West Contra Costa Healthcare District (the "District") to the owners of the outstanding West Contra Costa Healthcare District (Contra Costa County, California) Certificates of Participation (2004 Financing Program), described above (the "2004 Certificates"), that pursuant to the trust agreement authorizing the execution and delivery of the Certificates (the "Trust Agreement"), the lien of the Trust Agreement with respect to the 2004 Certificates has been discharged through the irrevocable deposit of cash in an escrow fund (the "Escrow Fund"). The Escrow Fund has been established and is being maintained pursuant to that certain Escrow Agreement, dated April 17, 2018, by and between the District and U.S. Bank National Association, as escrow bank. As a result of such deposit, the 2004 Certificates are deemed to have been paid and defeased in accordance with the Trust Agreement. The pledge of the funds provided for under the Trust Agreement and all other obligations of the District to the owners of the defeased 2004 Certificates shall hereafter be limited to the application of moneys in the Escrow Fund for the payment of the redemption price with respect to the 2004 Certificates, as described below.

The moneys deposited in the Escrow Fund are calculated to be sufficient moneys to redeem the outstanding 2004 Certificates in full on May 4, 2018 (the "Redemption Date"), at a redemption price equal to 100% of the principal amount thereof. From and after the Redemption Date, interest with respect to the 2004 Certificates shall cease to accrue and be payable.

Dated: \_\_\_\_\_, 2018

U.S. BANK NATIONAL  
ASSOCIATION, as Trustee

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**UPDATE TO WCCHD AUDITED  
FINANCIAL STATEMENTS FOR  
DECEMBER 31, 2016 AND 2017**

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**AGENDA ITEM 11**

Audited Financial Statements

**WEST CONTRA COSTA  
HEALTHCARE DISTRICT**

December 31, 2016

**JWT & Associates, LLP**  
Advisory Assurance Tax

West Contra Costa Healthcare District

Audited Financial Statements

December 31, 2016

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# **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, 2016 and 2015, which comprise the statement of net position as of December 31, 2016 and 2015, 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, 2016 and 2015, 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 (\$82,151,000) at December 31, 2016. 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  
February 7, 2018

# West Contra Costa Healthcare District

## Management's Discussion and Analysis

December 31, 2016

### 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, 2016, 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, 2016 and 2015. Please read it in conjunction with the District's financial statements.

The District, which was formed in 1948, operated Doctors Medical Center in San Pablo California for over 60 years. Since the mid-1990's, the medical center faced ongoing financial challenges. Ultimately, the District closed Doctors Medical Center in April 2015 due to insufficient funding for the population it serviced and due to its continuing losses. The District continues to function.

After the closure of the hospital in 2015, 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, retrieval and disposal.
- Removed information technology, ensuring that all data was appropriately removed before sale of hardware.
- Shut down unneeded building functions and plant operations.
- Physically secured the hospital building and will continue to maintain security services and basic maintenance on the building until it is sold.

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, but in late 2016, the buyers elected to not proceed with the purchase of the building. The District immediately put the property back on the market and entered into a second agreement to sell the building for \$13 million. This sale is anticipated to close in 2018.

# West Contra Costa Healthcare District

## Management's Discussion and Analysis

December 31, 2016

### **Bankruptcy**

Without the proceeds of the sale of the hospital building, the District did 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 affect a "plan of adjustment." On December 21, 2017, the Bankruptcy court confirmed the Second Amended Plan of Adjustment which provides for the following:

- 2004 and 2011 COP's (Certificates of Participation) shall be paid in full, with interest, under the plan through the ongoing collection of parcel tax revenues. The 2004 COP's will be refinanced as soon as is reasonably possible after the effective date of the plan of adjustment. This is expected to reduce the interest rate on these COP's.
- The District will pay \$218,000 to Contra Costa County in settlement of an unsecured claim against the District. Additionally, The County retains its rights under the Tax Sharing Agreement and all advances made to the District under this agreement will be reimbursed to the County under the terms of the agreement.
- The West Contra Costa Healthcare District Successor Pension Plan will receive \$2 million dollars after the effective date of the plan of adjustment. Additional contributions will be paid to the Successor Pension Plan over the next 10 years and all participants are expected to receive their full benefit.
- The California Nurses Association (CNA) will be paid \$2,500,000 over the course of nine years without interest for an obligation incurred pursuant to the Memorandum of Understanding between the District and CNA dated June 14, 2011.
- General unsecured creditors will be paid \$6 million over three years as a pro rata share of their claim.
- The Employment Development Department claim of \$1.6 million will be paid over a two-year period without penalties and interest.
- Local 39 Pension claim will be paid in full over 10 years in annual installments and the Local 39 health claim will be paid at a 50% discount over 9 years.
- The sale of the hospital building for \$13 million is anticipated to close in early 2018. The plan of adjustment allows for payments of selling costs, plus costs to certain cellular parties in exchange for release of their interest or lien on the hospital building.
- The funds from the sale of the building and ongoing property tax collections will fund the plan of adjustment and the ongoing operations of the District. After the District has satisfied its obligations under the terms of the plan of adjustment, the District intends on resuming providing healthcare services to the residents of the District and County. At this time the nature, timing and cost of such healthcare services has not been determined.

# West Contra Costa Healthcare District

## Management's Discussion and Analysis

December 31, 2016

### **Future of the District**

Contra Costa Local Agency Formation Commission (LAFCO) conducted a study, with the full cooperation of the District, to review the status of the District and to provide options for the future of the district. After consideration of these options, on February 16, 2017, Senator Glazer introduced Senate Bill Number 522 which provides that:

It is the intent of the Legislature in enacting this act to replace the district's elected governing body with a district board appointed by the Board of Supervisors of the County of Contra Costa. This change in governance is intended to reduce administrative costs, increase operational efficiencies, and maximize the use of health care funding through collaboration with the county, which is the only other public agency provider of medical services in the region.

The District is hopeful that this bill will be passed in 2018.

# West Contra Costa Healthcare District

## Statements of Net Position

December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 169,000	\$ 2,054,000
Assets limited as to use	6,687,000	5,470,000
Assets held for sale	13,000,000	14,090,000
Estimated third-party payors settlements	32,000	-
Prepaid expenses	204,000	381,000
Total current assets	20,092,000	21,995,000
Assets limited as to use, net of current portion	-	642,000
Other assets	902,000	946,000
Total assets	20,994,000	23,583,000
Deferred outflows of resources	465,000	175,000
	\$ 21,459,000	\$ 23,758,000
 <b>Liabilities and net position</b>		
Current liabilities		
Current maturities of debt borrowings	\$ 1,045,000	\$ 1,005,000
Accounts payable and accrued expenses	2,053,000	5,627,000
Accrued payroll and related liabilities	2,016,000	10,773,000
Estimated third-party payors settlements	-	277,000
Other liabilities, current portion	2,987,000	3,269,000
Total current liabilities	8,101,000	20,951,000
Debt borrowings, net of current maturities	55,990,000	57,035,000
Net long-term pension liability	10,785,000	8,459,000
Other liabilities, net of current	28,508,000	15,805,000
Total liabilities	103,384,000	102,250,000
Deferred inflows of resources	226,000	340,000
Net position		
Unrestricted	(82,151,000)	(78,832,000)
Total net position	(82,151,000)	(78,832,000)
Total liabilities and net position	\$ 21,459,000	\$ 23,758,000

*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, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>Operating revenues</b>		
Net patient service revenue	\$ -	\$ 15,564,000
Other operating revenue	1,331,000	1,752,000
Total operating revenue	1,331,000	17,316,000
<b>Operating expenses</b>		
Salaries and wages	730,000	8,998,000
Employee benefits	3,537,000	9,321,000
Professional fees	2,236,000	4,506,000
Purchased services	460,000	3,774,000
Supplies	10,000	2,364,000
Depreciation and amortization	63,000	2,239,000
Rents and leases	293,000	1,395,000
Other operating expenses	2,068,000	5,342,000
Total operating expenses	9,397,000	37,939,000
Operating loss	(8,066,000)	(20,623,000)
<b>Nonoperating revenues (expenses)</b>		
District tax revenue	9,234,000	11,421,000
Interest expense	(3,305,000)	(3,424,000)
Other non-operating revenues (expenses), net	1,000	(118,000)
Total nonoperating revenues	5,930,000	7,879,000
Excess of expenses over revenues	(2,136,000)	(12,744,000)
Extraordinary gain (loss) - closure of hospital	(1,183,000)	(5,008,000)
Change in net position	(3,319,000)	(17,752,000)
Net position at beginning of the year	(78,832,000)	(61,080,000)
Net position at end of the year	\$ (82,151,000)	\$ (78,832,000)

*See accompanying notes to the financial statements*

# West Contra Costa Healthcare District

## Statements of Cash Flows

Year Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>Cash flows from operating activities</b>		
Cash received from patients and third-parties for patients	\$ (309,000)	\$ 23,545,000
Cash received from operations, other than patient services	1,331,000	1,913,000
Cash payments to suppliers and contractors	(8,464,000)	(14,660,000)
Cash payments to employees and benefits programs	(10,698,000)	(26,390,000)
Net cash used in operating activities	<u>(18,140,000)</u>	<u>(15,592,000)</u>
<b>Cash flows from noncapital financing activities</b>		
Net change in other liability	12,421,000	(5,813,000)
Net proceeds (payments) on revolving credit agreement	-	(3,249,000)
Interest payments on revolving credit agreement	-	(38,000)
Principal payments on debt borrowings	(75,000)	(80,000)
Interest payments on debt borrowings	(2,356,000)	(2,383,000)
Change in other assets	(14,000)	(24,000)
Other non-operating expense	-	(118,000)
Parcel tax revenues levied for debt service	5,633,000	7,772,000
Ad valorem tax revenues to support operations	3,601,000	3,649,000
Net cash provided by (used in) noncapital financing activities	<u>\$ 19,210,000</u>	<u>\$ (284,000)</u>
<b>Cash flows from capital and related financing activities</b>		
Principal payments on debt borrowings	(930,000)	(1,425,000)
Interest payments on debt borrowings	(949,000)	(1,003,000)
Net cash used in capital and related financing activities	<u>(1,879,000)</u>	<u>(2,428,000)</u>
<b>Cash flows from investing activities</b>		
Extraordinary loss - hospital closure	(1,183,000)	(5,008,000)
Loss on disposal of fixed assets	-	4,624,000
Investment income	1,000	-
Net change in assets whose use is limited	(575,000)	(938,000)
Net change in assets held for sale	1,090,000	(14,090,000)
Net proceeds and reclassification of capital assets	-	29,017,000
Net change in deferred inflows and outflows of resources	(404,000)	(288,000)
Net change in other assets	(5,000)	-
Net cash provided by (used in) investing activities	<u>(1,076,000)</u>	<u>13,317,000</u>
Net decrease in cash and cash equivalents	<u>(1,885,000)</u>	<u>(4,987,000)</u>
Cash and cash equivalents, beginning of year	2,054,000	7,041,000
Cash and cash equivalents, end of year	<u>\$ 169,000</u>	<u>\$ 2,054,000</u>

*See accompanying notes to the financial statements*

West Contra Costa Healthcare District

Statements of Cash Flows (continued)

Year Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>Reconciliation of operating loss to net cash provided by operating activities</b>		
Loss from operations	\$ (8,066,000)	\$ (20,623,000)
Adjustments to reconcile loss from operations to net cash provided by operating activities		
Depreciation and amortization	63,000	2,239,000
Changes in operating assets and liabilities:		
Accounts receivable	-	9,707,000
Other accounts receivable	-	161,000
Supplies	-	1,507,000
Prepaid expenses	177,000	435,000
Accounts payable	(3,574,000)	779,000
Accrued payroll	(8,757,000)	(8,745,000)
Due to third-party payors	(309,000)	(1,726,000)
Pension liability	2,326,000	674,000
Net cash used in operating activities	<u>\$ (18,140,000)</u>	<u>\$ (15,592,000)</u>
<b>Non cash disclosures</b>		
Non cash payments on county loan	<u>\$ 2,674,000</u>	<u>\$ 1,347,000</u>

*See accompanying notes to the financial statements*

# West Contra Costa Healthcare District

## Notes to Financial Statements

December 31, 2016

### 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

December 31, 2016

### NOTE 1 - ORGANIZATION AND ACCOUNTING POLICIES

**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. Plan related income recognized for the years ended December 31, 2016 and 2015 was \$404,000 and \$288,000, respectively.

**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 \$2,000,000 per claim, and which is subject to a \$500 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. All prior workers' compensation claims are being settled as part of the bankruptcy. The District now maintains a workers' compensation insurance policy for the few remaining employees which provides coverage on a claims made basis with a liability limit of \$1,000,000. In the case of employee health coverage, the District was self-insured for those claims. The District no longer offers health insurance coverage to its remaining employees. Management estimates of uninsured losses for prior professional liability, workers' compensation and employee health coverage have been accrued as liabilities in the accompanying financial statements and are being settled as part of the bankruptcy.

**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.

# West Contra Costa Healthcare District

## Notes to Financial Statements

December 31, 2016

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

**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 was the District's principal activity. The District no longer operates a hospital and does not provide any healthcare related services. Operating expenses was all expenses incurred to provide health care services, other than financing costs. The District no longer operates a hospital and now all operating revenue and expenses are related to the ongoing operations of the District which include administrative related, debt service related and other regulatorily required services. Non-operating revenues and expenses were those transactions not considered directly linked to providing health care services in prior years and currently those not associated with ongoing operations.

**Pensions** - For purposes of measuring the net pension 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 86.7% in 2016 and 39.7% in 2015 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 2015 financial statements have been reclassified to conform to the 2016 presentation.

# West Contra Costa Healthcare District

## Notes to Financial Statements

December 31, 2016

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

As of December 31, 2016 and 2015, 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 \$6,856,000 and \$8,166,000, 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, 2016 and 2015, is set forth in the following table. Investments are stated at fair value.

	<u>2016</u>	<u>2015</u>
<b>Board designated</b>		
Cash and cash equivalents	\$ -	\$ 642,000
Certificates of deposit	-	-
Total board designated	<u>-</u>	<u>642,000</u>
<b>Held by trustee</b>		
Money Market	6,687,000	5,470,000
Total	<u>\$ 6,687,000</u>	<u>\$ 6,112,000</u>