

Audited Financial Statements

West Contra Costa Healthcare District

December 31, 2012

West Contra Costa Healthcare District

Audited Financial Statements

December 31, 2012

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# TCA Partners, LLP

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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, 2012 which comprise the balance sheet as of December 31, 2012 and the related statement of operations and changes in net assets, and cash flow for the years then ended, and the related notes to the financial statements. The financial statements of the District as of December 31, 2011, were audited by other auditors whose report dated March 29, 2012, expressed an unqualified opinion on those 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 2012 financial statements referred to above present fairly, in all material respects, the financial position of West Contra Costa Healthcare District at December 31, 2012, 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.

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.

The accompanying financial statements have been prepared assuming the Medical Center will continue as a going concern. As discussed in Note 11 to the financial statements, the Medical Center has incurred recurring losses from operations and has a net deficit of (\$8,048,000) at December 31, 2012. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding these matters are also described in Management's Discussion and Analysis. These financial statements do not include any adjustments that might result from outcome of this uncertainty.

***TCA Partners, LLP***

March 18, 2013

# West Contra Costa Healthcare District

## Management Discussion and Analysis

December 31, 2012

Our discussion and analysis of West Contra Costa County Healthcare District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal years ended December 31, 2012, 2011, and 2010. Please read it in conjunction with the District's financial statements, which begin on page 8.

### **Financial Highlights**

- The District's net assets decreased in 2012 from 2011 by \$17.7 million (183.3%) after a decrease in 2011 from 2010 of \$18.7 million (65.9%) and an increase of \$2.5 million (9.8%) in 2010 from 2009.
- The District reported an operating loss of \$25.0 million in 2012 after operating losses in 2011 of \$31.1 million and \$15.5 million in 2010.
- The District's net non-operating revenues were \$7.2 million in 2012 as compared to \$11.1 million in 2011 and \$18.0 million in 2010.

### **Using This Annual Report**

The District's financial statements consist of three statements – a balance sheet; a statement of revenues, expenses, and changes in net assets; and a statement of cash flow. These financial statements and related notes provide information about the activities of the District, including resources held by the District but restricted for specific purposes by contributors, grantors, or enabling legislation.

### **The Balance Sheet and Statement of Revenues, Expenses, and Changes in Net Assets**

Our analysis of the District's finances begins on page 4. One of the most important questions asked about the finances is, "Is the District as a whole better or worse off as a result of the year's activities?" The balance sheet and the statement of revenues, expenses, and changes in net assets report information about the District's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net assets and changes in them. You can think of the District's net assets – the difference between assets and liabilities – as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the District's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the District. Overall, the District is worse off at December 31, 2012 than it was December 31, 2011.

### **The Statement of Cash Flows**

The final required statement is the statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?" "What was cash used for?" and "What was the change in cash balance during the reporting period?"

# West Contra Costa Healthcare District

## Management Discussion and Analysis

December 31, 2012

### The District's Net Assets

The District's net assets are the difference between its assets and liabilities reported in the balance sheets on page 8. The net assets decreased in 2012 by \$17.7 million over 2011 after a decrease in 2011 by \$18.7 million over 2010 and an increase in 2010 by \$2.5 million over 2009.

**Table 1: Assets, Liabilities, and Net Assets**

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Assets			
Current assets	\$ 51,494,000	\$ 67,264,000	\$ 37,105,000
Capital assets, net	43,030,000	44,782,000	45,407,000
Other noncurrent assets	1,940,000	1,992,000	1,186,000
Total assets	<u>\$ 96,464,000</u>	<u>\$ 114,038,000</u>	<u>\$ 83,698,000</u>
Liabilities			
Current liabilities	40,593,000	35,514,000	32,316,000
Other	63,919,000	68,852,000	22,982,000
Total liabilities	<u>104,512,000</u>	<u>104,366,000</u>	<u>55,298,000</u>
Net assets (deficit)			
Invested in capital assets, net of related debt	20,914,000	21,312,000	21,890,000
Unrestricted	(28,962,000)	(11,640,000)	6,510,000
Total net assets (deficit)	<u>(8,048,000)</u>	<u>9,672,000</u>	<u>28,400,000</u>
Total net assets and liabilities	<u>\$ 96,464,000</u>	<u>\$ 114,038,000</u>	<u>\$ 83,698,000</u>

Total operating revenue increased in 2012 from 2011 by \$7.0 million (5.8%), while operating expenses increased by \$1.7 million (1.1%). The increase in revenue is primarily due to the August 6<sup>th</sup> Chevron fire. The District experienced a three week spike in emergency room visits due to the fire. The net revenue result of this event was a one-time revenue increase for \$4.8 million to the district for caring for the victims of the fire. Other operating revenue for the district was the first installment for implementing an electronic medical record (EHR) system. The District received \$2.4 million as incentive payments in 2012 for this project.

Operating expenses increased in 2012 by 1.7 million or (1.1%). The largest increase in expenses was \$2.4 million in salaries and wages. Most of the Districts employees and medical staff needed to be trained on the new system at a major cost to the district.

The District was able to pass a parcel tax initiative and bond indenture in 2011. Both these changes had an effect on our non-operating revenue. The bond indenture had a full year effect in 2012 of \$3.1 million but the parcel tax initiative produced only a half year effect at \$3.1 million. We had no contributions to the hospital in 2012 which reduced our non-operating income by \$3.8 million.

# West Contra Costa Healthcare District

## Management Discussion and Analysis

December 31, 2012

The District continues to make changes to operations. In 2012 management was able to cut the operating losses by \$6.2 million but fell short of our goals for the year. In October of 2012 management again looked at cost cutting measures to reduce the deficit. The changes made will produce an annualized reduction in the operating losses by another \$12 million. Staff reductions produced a decrease of 22.0 FTE's. The changes included new revenue programs as well as reductions in supply and purchased service costs. The parcel tax initiative will have a full effect in 2013 and reduce the deficit another \$2.0 million. The majority of the changes put into place will only have a nine month effect in 2013 so we will still face a deficit in 2013. There are other ideas and processes in place that could effectively reduce the losses to zero but as of the publication of this report they are not completed.

In 2012 the District used \$18.2 million of the 2011 Bond proceeds to continue operations. The software conversion discussed previously also had an effect on the accounts receivable. The accounts receivable balances increased \$11.8 million with \$4.8 million of it due to the Chevron refinery fire in August.

Net patient service revenue decreased in 2011 from 2010 by \$13.8 million (-10.6%), while operating expenses increased by \$2.0 million (1.3%). The significant change in the financial position of the District was an increase in operating cash due to the issuance of a \$40 million COP bond in December 2011 and a \$10 million borrowing from Contra Costa County. Both the borrowings had the impact of increasing cash and increasing long term debt. The district was also able to lower the other long term debt by making scheduled payments on the bond certificates of participation and pay off the original Contra Coats county tax advance. During 2011, the District was advanced \$17.3 million on the revolving line of credit, backed by accounts receivables of which \$13.0 million was paid back by the end of the year. This loan was necessary as a cash bridge prior to the borrowing of the \$40 million Bond.

In 2011, the District also paid down its long term debt by \$5.6 million, including a final \$1.8 million payment on the District's bankruptcy debt. The balance of the long term debt payments were to Contra Costa County and for the District's bonds. The estimates from third party settlements decreased in 2011. This was the result of a component of the Medicare payment calculation being updated. This caused management to revise Medicare cost report estimates back to 2007 cost reports. This was reflected in the 2011 balances only.

The primary reasons for the increase in operating income in 2012 from 2011 are:

- Decrease in outside donations as discussed above.
- One time event increasing emergency room revenue.
- Increase in funds for meaningful use of an EHR system and the associated costs of implementation.
- New parcel tax revenue.
- Increase in interest expense due to 2011 Bond indenture.
- Decrease in managed care revenue due to a payer mix shift from managed care payer to Medi-Cal and self pay.
- Increase in benefit costs in employee medical insurance plan,

The primary reasons for the decrease in operating income from 2010 to 2011 are:

- Decrease in CMAC funding.
- Decrease in length of stay for payers that reimburse based on days in the hospital.
- Decrease in managed care revenue due to a payer mix shift from managed care payer to Medi-Cal and self pay.
- Increase in benefit costs in employee medical insurance plan.

# West Contra Costa Healthcare District

## Management Discussion and Analysis

December 31, 2012

**Table 2: Operating Results and Changes in Net Assets**

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating revenues			
Net patient service revenue	\$ 120,159,000	\$ 116,419,000	\$ 130,185,000
Other operating revenue	5,374,000	2,510,000	1,130,000
Total operating revenues	<u>125,533,000</u>	<u>118,929,000</u>	<u>131,315,000</u>
Operating expenses			
Salaries and benefits	98,338,000	96,749,000	95,529,000
Supplies	17,459,000	18,777,000	20,928,000
Depreciation and amortization	4,892,000	4,165,000	3,593,000
Other operating expenses	29,806,000	29,056,000	26,721,000
Total operating expenses	<u>150,495,000</u>	<u>148,747,000</u>	<u>146,771,000</u>
Operating loss	(24,962,000)	(29,818,000)	(15,456,000)
Nonoperating revenues (expenses):			
District tax revenue	11,608,000	8,498,000	8,492,000
Investment income	77,000	46,000	92,000
Noncapital grants and contributions /other	186,000	4,099,000	10,813,000
Interest expense	(4,629,000)	(1,553,000)	(1,396,000)
Total net nonoperating revenues	<u>7,242,000</u>	<u>11,090,000</u>	<u>18,001,000</u>
Excess of expenses over revenues	<u>\$ (17,720,000)</u>	<u>\$ (18,728,000)</u>	<u>\$ 2,545,000</u>
Net assets at beginning of the year	\$ 9,672,000	\$ 28,400,000	\$ 25,855,000
Increase (decrease) in net assets	<u>(17,720,000)</u>	<u>(18,728,000)</u>	<u>2,545,000</u>
Net assets (deficit) at the end of the year	<u>\$ (8,048,000)</u>	<u>\$ 9,672,000</u>	<u>\$ 28,400,000</u>

The District sometimes provides care for patients who have little or no health insurance or other means of repayment. This service to the community is consistent with the goals established for the District when it was founded. Because there is no expectation of repayment, charity care is not reported as patient service revenues of the District. The cost of providing care to the uninsured patients was approximately \$7.0 million in 2012 and \$6.9 million in 2011.

### Non-operating Revenues and Expenses

Non-operating revenues consist primarily of property taxes levied by the District, noncapital grants and contributions, interest revenue, and investment earnings. The change in non-operating revenues was discussed above.



# West Contra Costa Healthcare District

## Management Discussion and Analysis

December 31, 2012

### **The District's Cash Flows**

Changes in the District's cash flows are consistent with changes in operating losses and non-operating revenues and expenses, discussed earlier.

### **Capital Assets**

At the end of 2012, the District had \$43.0 million invested in capital assets, net of accumulated depreciation, as detailed in note 6 to the financial statements. In 2012, the District purchased new equipment costing \$3.1 million.

At the end of 2011, the District had \$44.8 million invested in capital assets, net of accumulated depreciation, as detailed in note 6 to the financial statements. In 2011, the District purchased new equipment costing \$3.9 million.

At the end of 2010, the District had \$45.4 million invested in capital assets, net of accumulated depreciation, as detailed in note 6 to the financial statements. In 2010, the District purchased new equipment costing \$4.9 million.

### **Contacting the District's Financial Management**

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Chief Financial Officer's office at Doctors Medical Center, 2000 Vale Road, San Pablo, CA 94806.

# West Contra Costa Healthcare District

## Balance Sheets

	December 31	
	<u>2012</u>	<u>2011</u>
<b>Assets:</b>		
Current assets:		
Cash and cash equivalents	\$ 5,071,000	\$ 13,972,000
Patient accounts receivable, net	31,007,000	19,177,000
Other receivables	464,000	1,160,000
Assets limited as to use	11,600,000	29,847,000
Supplies	1,730,000	2,109,000
Prepaid expenses	1,622,000	999,000
Total current assets	51,494,000	67,264,000
Assets limited as to use, net of current portion	642,000	642,000
Capital assets, net	43,030,000	44,782,000
Other assets	1,298,000	1,350,000
Total assets	\$ 96,464,000	\$ 114,038,000
 <b>Liabilities and net assets:</b>		
Current liabilities:		
Current maturities of debt borrowings	\$ 6,140,000	\$ 4,979,000
Accounts payable and accrued expenses	11,982,000	12,675,000
Accrued payroll and related liabilities	17,512,000	13,640,000
Other current liabilities	3,091,000	2,880,000
Estimated third-party payors settlements	1,868,000	1,340,000
Total current liabilities	40,593,000	35,514,000
Debt borrowings, net of current maturities	61,115,000	62,747,000
Other long-term liabilities	2,804,000	6,105,000
Total liabilities	104,512,000	104,366,000
 Net assets:		
Invested in capital assets, net of related debt	20,914,000	21,312,000
Unrestricted	(28,962,000)	(11,640,000)
Total net assets (deficit)	(8,048,000)	9,672,000
Total liabilities and net assets	\$ 96,464,000	\$ 114,038,000

## West Contra Costa Healthcare District

### Statements of Revenue, Expense and Change in Net Assets

	Year ended December 31,	
	<u>2012</u>	<u>2011</u>
<b>Operating revenues:</b>		
Net patient service revenue	\$ 120,159,000	\$ 116,419,000
Other operating revenue	5,374,000	2,510,000
Total operating revenue	<u>125,533,000</u>	<u>118,929,000</u>
<b>Operating expenses:</b>		
Salaries and wages	64,058,000	61,659,000
Employee benefits	34,280,000	35,090,000
Professional fees	11,813,000	10,907,000
Purchased services	11,090,000	11,193,000
Supplies	17,459,000	18,777,000
Depreciation and amortization	4,892,000	4,165,000
Rents and leases	3,058,000	3,111,000
Other operating expenses	3,845,000	3,845,000
Total operating expenses	<u>150,495,000</u>	<u>148,747,000</u>
Operating loss	<u>(24,962,000)</u>	<u>(31,162,000)</u>
<b>Non-operating revenues (expenses)</b>		
District tax revenue	11,608,000	8,498,000
Investment income	77,000	46,000
Noncapital grants and contributions	-	4,099,000
Interest expense	(4,629,000)	(1,553,000)
Other non-operating revenues, net	186,000	-
Total non-operating revenues	<u>7,242,000</u>	<u>11,090,000</u>
Excess of expenses over revenues	<u>(17,720,000)</u>	<u>(18,728,000)</u>
Net assets at beginning of the year	9,672,000	28,400,000
Net assets at end of the year	<u>\$ (8,048,000)</u>	<u>\$ 9,672,000</u>

## West Contra Costa Healthcare District

### Statements of Cash Flows

	Year ended December 31,	
	<u>2012</u>	<u>2011</u>
<b>Cash flows from operating activities:</b>		
Cash received from patients and third-parties for patients	\$ 108,864,000	\$ 116,023,000
Cash received from operations, other than patient services	5,962,000	4,057,000
Cash payments to suppliers and contractors	(48,100,000)	(48,243,000)
Cash payments to employees and benefits programs	(94,466,000)	(94,465,000)
Net cash used in operating activities	(27,740,000)	(22,628,000)
 <b>Cash flows from noncapital financing activities:</b>		
Noncapital grants and contributions	186,000	5,443,000
Proceeds from county loan	-	10,000,000
Payments on county loan	(3,091,000)	(801,000)
Proceeds from debt borrowings	-	39,833,000
Principal payments on debt borrowings	(824,000)	(799,000)
Interest payments on debt borrowings	(3,856,000)	(1,327,000)
Proceeds from line of credit, net	1,182,000	3,346,000
Cash paid for debt issuance costs	-	(840,000)
Parcel tax revenues levied for debt service	8,516,000	5,618,000
Ad valorem tax revenues to support operations	3,091,000	1,865,000
Net cash provided by noncapital financing activities	\$ 5,204,000	\$ 62,338,000
 <b>Cash flows from capital and related financing activities:</b>		
Purchases of capital assets	(3,085,000)	(1,875,000)
Proceeds from sale of capital assets	-	20,000
Principal payments on debt borrowings	(834,000)	(3,091,000)
Interest payments on debt borrowings	(772,000)	(226,000)
Net cash used in capital and related financing activities	(4,691,000)	(5,172,000)

*See accompanying notes to the financial statements*

## West Contra Costa Healthcare District

### Statements of Cash Flows (continued)

	Year ended December 31,	
	<u>2012</u>	<u>2011</u>
<b>Cash flows from investing activities:</b>		
Net change in assets whose use is limited	18,249,000	(25,841,000)
Interest and dividends received from investments	77,000	46,000
Net cash provided by (used in) investing activities	18,326,000	(25,795,000)
Net increase (decrease) in cash and cash equivalents	(8,901,000)	8,743,000
Cash and cash equivalents, beginning of year	13,972,000	5,229,000
Cash and cash equivalents, end of year	\$ 5,071,000	\$ 13,972,000
<b>Reconciliation of operating loss to net cash provided by operating activities:</b>		
Loss from operations	\$ (24,962,000)	\$ (31,162,000)
Adjustments to reconcile loss from operations to net cash provided by operating activities:		
Depreciation and amortization	4,892,000	4,165,000
Gain on disposal of capital assets	-	(4,000)
Provision for bad debts	-	60,603,000
Changes in operating assets and liabilities:		
Accounts receivable	(11,830,000)	(59,838,000)
Supplies	379,000	143,000
Other accounts receivable	696,000	2,895,000
Prepaid expenses	(623,000)	622,000
Accounts payable	(693,000)	(1,175,000)
Accrued payroll	3,873,000	2,284,000
Due to third-party payors	528,000	(1,161,000)
Net cash used in operating activities	\$ (27,740,000)	\$ (22,628,000)
<b>Non cash disclosures</b>		
Purchase of capital assets with capital lease	\$ -	\$ 1,809,000
Non cash proceeds from sale of capital assets	\$ -	\$ 162,000
Non cash payments on county loan	\$ 1,188,000	\$ 1,015,000

*See accompanying notes to the financial statements*

# West Contra Costa Healthcare District

## Notes to Financial Statements

December 31, 2012

### NOTE 1 - ORGANIZATION AND ACCOUNTING POLICIES

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

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

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

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

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

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

# West Contra Costa Healthcare District

## Notes to Financial Statements

December 31, 2012

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

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

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

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

**Capital assets** - Capital assets consist of property and equipment and are reported on the basis of cost, or in the case of donated items, on the basis of fair market value at the date of donation. Capital purchases over \$5,000 are capitalized. Routine maintenance and repairs are charged to expense as incurred. Expenditures which increase values, change capacities, or extend useful lives are capitalized. Depreciation of property and equipment and amortization of property under capital leases are computed by the straight-line method for both financial reporting and cost reimbursement purposes over the estimated useful lives of the assets, which range from 10 to 30 years for buildings and 3 to 10 years for equipment. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or the estimated useful life of the related assets. The District periodically reviews its capital assets for value impairment. As of December 31, 2012 and 2011, the District has determined that no capital assets are impaired.

**Other assets** - Other assets include debt issuance costs and an investment in a limited liability company. Debt issuance costs incurred in connection with the issuance of tax-exempt bonds have been deferred and are being amortized over the term of the bonds using a straight-line method. The investment represents an operating agreement between the District and other area hospitals for network solutions.

**Costs of borrowing** - Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. None of the District's interest cost was capitalized for the years ended December 31, 2012 and 2011.

# West Contra Costa Healthcare District

## Notes to Financial Statements

December 31, 2012

**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, 2012 and 2011 are \$3,419,000 and \$3,266,000 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 \$10,000,000 per claim, and which is subject to a \$25,000 deductible. Additionally, the District is self-insured for workers' compensation claims, with a self-insured retention of \$350,000 per occurrence, and has excess insurance coverage for the portion of each occurrence in excess of \$350,000. In the case of employee health coverage, the District is self-insured for those claims. Management estimates of uninsured losses for professional liability, workers' compensation and employee health coverage have been accrued as liabilities in the accompanying financial statements.

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

- Net assets 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 assets 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 3.
- Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted expendable net assets.

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



# West Contra Costa Healthcare District

## Notes to Financial Statements

December 31, 2012

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

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

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

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

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

**Subsequent events** - Subsequent events have been evaluated through April 24, 2013, which is the date the financial statements were available to be issued.

**Property taxes** - The authority received approximately 8.6% in 2012 and 6.5% in 2011 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 2011 financial statements have been reclassified to conform to the 2012 presentation.

# West Contra Costa Healthcare District

## Notes to Financial Statements

December 31, 2012

**New accounting pronouncements** -The Governmental Accounting Standards Board ("GASE") issued GASE Statement No. 61, The Financial Reporting Entity: Omnibus (November 2010). GASE 61 clarifies certain aspects of GASE 14, The Financial Reporting Entity, which establishes the criteria governing which of a governmental entity's related parties should be formally incorporated into its financial statements. The adoption of GASE 61 is effective for the District beginning January 1, 2013. The adoption of GASE 61 is not expected to have a material impact on the District's financial statements.

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

As of December 31, 2012 and 2011, 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 \$17,313,000 and \$44,461,000, 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, 2012 and 2011, is set forth in the following table. Investments are stated at fair value.

	<u>2012</u>	<u>2011</u>
<b>Board designated</b>		
Cash deposits	\$ 642,000	\$ 642,000
Certificates of deposit	352,000	352,000
Total board designated	<u>994,000</u>	<u>994,000</u>
<b>Held by trustee</b>		
Money market	11,248,000	29,495,000
Total	<u>\$ 12,242,000</u>	<u>\$ 30,489,000</u>

Interest and dividend income for investments and gains from assets limited as to use is \$77,000, and \$46,000 for the years ended December 31, 2012 and 2011, respectively.

# West Contra Costa Healthcare District

## Notes to Financial Statements

December 31, 2012

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

The District renders services to patients under contractual arrangements with the Medicare and Medi-Cal programs, health maintenance organizations ("HMOs") and preferred provider organizations ("PPOs"). Patient service revenues from Medicare approximate 54% and 50% of the District's gross patient service revenues, whereas patient service revenues from Medi-Cal approximate 20% and 23% of the District's gross patient service revenues for the years ended December 31, 2012 and 2011, respectively.

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

Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system based on clinical, diagnostic, and other factors. Inpatient non-acute services related to Medicare beneficiaries are paid based on a cost-reimbursement methodology through March 31, 2004. Inpatient non-acute services subsequent to April 1, 2004, are paid at prospectively determined rates per discharge. Payments for outpatient services are based on a stipulated amount per diagnosis. The District is reimbursed for cost reimbursable items at a tentative rate, with final settlements determined after submission of annual cost reports by the District and audits thereof by the Medicare fiscal intermediary. The District's cost reports have been audited by the Medicare fiscal intermediary through 2008.

Medicare accounts for approximately 53% and 50% of net patient service revenues whereas Medi-Cal accounts for approximately 20% and 15% of net patient service revenue for the years ended December 31, 2012 and 2011, 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 total supplemental payments of \$1,837,000 in 2012 and \$1,608,000 in 2011 from Medi-Cal as a part of the Program and has recorded this as a part of net patient service revenue in the statement of revenues, expenses, and changes in net assets.

West Contra Costa Healthcare District

Notes to Financial Statements

December 31, 2012

**NOTE 4 - CONCENTRATION OF CREDIT RISK**

The District grants credit without collateral to its patients and third-party payors. Patient accounts receivable from government agencies represent the only concentrated group of credit risk for the District and management does not believe that there are any credit risks associated with these governmental agencies. Contracted and other patient accounts receivable consist of various payors including individuals involved in diverse activities, subject to differing economic conditions and do not represent any concentrated credit risks to the District. The District's policy is to maintain a 100% reserve for all private pay patient accounts receivables outstanding aged over 240 days. Concentration of patient accounts receivable at December 31, 2012 and 2011, were as follows:

	<u>2012</u>	<u>2011</u>
Medicare	31%	44%
Other 3rd Party and Private Payors	41%	46%
Medi-Cal	28%	10%
	<u>100%</u>	<u>100%</u>

**NOTE 5 – OTHER RECEIVABLES**

Other receivables as of December 31, 2012 and 2011 were comprised of the following:

	<u>2012</u>	<u>2011</u>
Advances to physicians, notes and related receivables	\$ 183,000	\$ 632,000
Deposits	193,000	252,000
Refunds and rebates receivable	88,000	137,000
Third-party settlement receivable	-	139,000
Total other receivables	<u>\$ 464,000</u>	<u>\$ 1,160,000</u>

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

West Contra Costa Healthcare District

Notes to Financial Statements

December 31, 2012

**NOTE 6-CAPITAL ASSETS**

	<u>12/31/2011</u>	<u>Additions</u>	<u>Retirements &amp; Adjustments</u>	<u>12/31/2012</u>
Capital assets not being depreciated				
Land and land improvements	\$ 12,120,000	\$ -	\$ -	\$ 12,120,000
Construction-in-progress	4,645,000	3,078,000	(3,418,000)	4,305,000
	<u>16,765,000</u>	<u>3,078,000</u>	<u>(3,418,000)</u>	<u>16,425,000</u>
Capital assets being depreciated				
Buildings and improvements	16,858,000		-	16,858,000
Equipment	30,989,000		3,232,000	34,221,000
	<u>47,847,000</u>	<u>-</u>	<u>3,232,000</u>	<u>51,079,000</u>
Totals at historical cost	64,612,000	3,078,000	(186,000)	67,504,000
Less accumulated depreciation	(19,830,000)	(4,787,000)	143,000	(24,474,000)
Total capital assets, net	<u>\$ 44,782,000</u>	<u>\$ (1,709,000)</u>	<u>\$ (43,000)</u>	<u>\$ 43,030,000</u>

Capital assets as of December 31, 2011, were comprised of the following:

	<u>12/31/2010</u>	<u>Additions</u>	<u>Retirements &amp; Adjustments</u>	<u>12/31/2011</u>
Capital assets not being depreciated				
Land and land improvements	\$ 12,120,000	\$ -	\$ -	\$ 12,120,000
Construction-in-progress	960,000	3,931,000	(246,000)	4,645,000
	<u>13,080,000</u>	<u>3,931,000</u>	<u>(246,000)</u>	<u>16,765,000</u>
Capital assets being depreciated				
Buildings and improvements	16,955,000		(97,000)	16,858,000
Equipment	31,988,000		(999,000)	30,989,000
	<u>48,943,000</u>	<u>-</u>	<u>(1,096,000)</u>	<u>47,847,000</u>
Totals at historical cost	62,023,000	3,931,000	(1,342,000)	64,612,000
Less accumulated depreciation	(16,616,000)	(4,132,000)	918,000	(19,830,000)
Total capital assets, net	<u>\$ 45,407,000</u>	<u>\$ (201,000)</u>	<u>\$ (424,000)</u>	<u>\$ 44,782,000</u>

Future construction commitments of approximately \$32,000 and \$2,099,000 exist for the upgrade of the Paragon system and installation of medical equipment at December 31, 2012 and 2011.

# West Contra Costa Healthcare District

## Notes to Financial Statements

December 31, 2012

### NOTE 7 - DEBT BORROWINGS

A schedule of changes in the District's debt borrowings for the year ended December 31, 2012, is as follows:

	December 31, <u>2011</u>	<u>Additions</u>	<u>Reductions</u>	December 31, <u>2012</u>
Notes Payable:				
American Savings	\$ 25,000	\$ -	\$ (5,000)	\$ 20,000
City of San Pablo	866,000	-	(509,000)	357,000
Bonds Payable:				
Certificates of Participation – Series 2004	21,645,000	-	(800,000)	20,845,000
Certificates of Participation – Series 2011	40,000,000	-	-	40,000,000
Capital leases - equipment	<u>1,589,000</u>	<u>-</u>	<u>(321,000)</u>	<u>1,268,000</u>
	<u>\$ 64,125,000</u>	<u>\$ -</u>	<u>\$ (1,635,000)</u>	<u>\$ 62,490,000</u>

A schedule of changes in the District's debt borrowings, for the year ended December 31, 2011, is as follows:

	December 31, <u>2011</u>	<u>Additions</u>	<u>Reductions</u>	December 31, <u>2012</u>
Notes Payable:				
American Savings	\$ 31,000	\$ -	\$ (6,000)	\$ 25,000
City of San Pablo	1,346,000	-	(480,000)	866,000
Bonds Payable:				
Certificates of Participation – Series 2004	22,420,000	-	(775,000)	21,645,000
Certificates of Participation – Series 2011	-	40,000,000	-	40,000,000
Revenue bonds	1,181,000	-	(1,181,000)	-
Capital leases - equipment	<u>1,205,000</u>	<u>-</u>	<u>(321,000)</u>	<u>1,589,000</u>
	<u>\$ 26,183,000</u>	<u>\$ 40,000,000</u>	<u>\$ (2,058,000)</u>	<u>\$ 64,125,000</u>

# West Contra Costa Healthcare District

## Notes to Financial Statements

December 31, 2012

### NOTE 7 - DEBT BORROWINGS (continued)

The terms and due dates of the District's debt borrowings, including capital lease obligations, at December 31, 2012, are as follows:

- American Savings notes payable dated September 1986, interest at 9.5%, maturing November 2015, principal payable in annual amounts ranging from \$6,000 in 2013 to \$7,000 in 2015, secured by property.
- City of San Pablo notes payable dated August 2010, interest at 6.0%, maturing July 2013, principal payable is \$357,000 in 2013, unsecured.
- Series 2004 Certificates of Participation dated July 2004, plus unamortized bond premium of \$398,000, principal payable in annual installments ranging from \$830,000 in 2013 to \$1,795,000 in 2029, interest at stated coupon rates ranging from 2.0% to 5.5%, payable annually and collateralized by a pledge of the District's parcel tax revenues. Management believes the District is in compliance with the financial covenants and financial reporting requirements as specified in the Indenture Trust Agreement.
- Series 2011 Certificates of Participation dated December 2011, plus unamortized bond discount of \$161,000, principal payable in annual installments ranging from \$70,000 in 2013 to \$4,100,000 in 2042, interest ranging from 3% to 6.25%, payable semiannually and collateralized by a pledge of the District's parcel tax revenues. Management believes the District is in compliance with the financial covenants and financial reporting requirements as specified in the Indenture Trust Agreement.
- Equipment purchased under capital leases dated March 2011, maturing at March 2016, with interest at 9.5%.

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

Year ended December 31,:	<u>Debt Borrowings</u>		<u>Capital Lease Obligations</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 1,263,000	\$ 3,464,000	\$ 349,000	\$ 106,000
2014	942,000	3,422,000	385,000	71,000
2015	977,000	3,386,000	423,000	33,000
2016	1,005,000	3,349,000	111,000	1,000
2017	1,045,000	3,309,000	-	-
Thereafter	<u>55,990,000</u>	<u>52,850,000</u>	<u>-</u>	<u>-</u>
	<u>\$ 61,222,000</u>	<u>\$ 69,780,000</u>	<u>\$ 1,268,000</u>	<u>\$ 211,000</u>

# West Contra Costa Healthcare District

## Notes to Financial Statements

December 31, 2012

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

**Revolving Credit Agreement** - The District executed a credit agreement with Gemino Healthcare Finance, LLC dated November 2011, for a maximum amount of \$8,000,000 million, expiring in November 2014. The agreement is defined as a revolving credit agreement that is collateralized by the District's accounts receivable collections. During the year ended December 31, 2012, net borrowings were \$1,182,000 for an ending outstanding balance of \$4,528,000 on this revolving credit agreement. The revolving credit agreement bears interest on the outstanding principal amount at a rate per annum equal to the LIBOR rate or floor of 2.0% plus 7.95%. The effective interest rate was 9.95% at December 31, 2012.

As part of the Revolving Credit Agreement, the District has agreed to comply with certain covenants. These consist primarily of reporting, insurance coverage, making timely payments, certain financial ratios and results and other administrative requirements. The District violated certain financial covenants under the credit agreement. The lender has not made a claim of default based on the violation of the covenants at December 31, 2012, but the default interest rate provision is now in effect. The District is current on all scheduled payments related to the credit agreement. No adjustments to the financial statements have been made with regard to this situation at December 31, 2012.

### **NOTE 8 - OTHER LONG TERM LIABILITIES**

The District entered into an agreement with the County of Contra Costa (the "County") in April 2011, receiving a cash advance of \$10 million. The County Auditor shall allocate and transfer to the County pursuant to this agreement the entirety of the general ad valorem property tax revenues that otherwise would be collected and allocated to the District commencing July 1, 2011 and continuing from year to year thereafter until a total up to \$11.5 million of transfers are made. The current and long term outstanding advance balance is included in other liabilities in the balance sheet.

### **NOTE 9 - RETIREMENT PLANS**

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



# West Contra Costa Healthcare District

## Notes to Financial Statements

December 31, 2012

### NOTE 9 - RETIREMENT PLANS (continued)

The District also offers two Employer Contributory Tax Deferred Annuity Plans intended to qualify under section 403(b) of the IRC. The plans are designed to provide participants with a means to defer a portion of their compensation for retirement and to provide benefits in the event of death, disability, or financial hardship. The plan covers employees of the District, who meet certain eligibility requirements. Under the plan, the District may make matching contributions up to 5.0% of the participant's annual compensation to the plan. The District contributed \$4,487,000 and \$4,276,000 to the plans in 2012 and 2011, 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 prior to the Tenet purchase. 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 14 current District employees participating in the plan.

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

	2012	2011
Annual required contribution	\$ 524,000	\$ 431,000
Interest on net pension obligation	61,000	61,000
Adjustment to annual required contribution	(101,000)	(86,000)
Annual pension cost	484,000	406,000
Net increase in pension obligation	484,000	406,000
Net pension obligation (prepaid pension asset), beginning of year	1,171,000	764,000
Net increase in pension obligation	484,000	407,000
Actuarial loss	-	-
Net pension obligation, end of year	\$ 1,655,000	\$ 1,171,000

# West Contra Costa Healthcare District

## Notes to Financial Statements

December 31, 2012

### NOTE 9 - RETIREMENT PLANS (continued)

The annual required contribution for the current year was determined as part of the January 1, 2012 and January 1, 2011, actuarial valuations using the entry age actuarial cost method. The actuarial assumptions include (a) 7.5% in 2012 and 2011, of investment rate of return (net of administrative expenses) and (b) post-retirement benefit increases of 2.0% per year. Both assumptions included an inflation component of 2.0%. The actuarial value of assets for both valuations was determined using market value adjusted to recognize market value gains and losses over five years. The unfunded actuarial accrued liability is amortized using the level dollar method on a closed basis. The remaining equivalent single amortization period at December 31, 2012, was 15 years.

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

Fiscal Year Ending December 31	Beginning of Year NPO (a)	Annual Pension Cost (b)	Actual Contributi on c	Increase (Decrease) in NPO (b- c)	NPO (Prepaid Cost) ((a)+(b- c)
2010	\$ 331,000	\$ 433,000	\$ -	\$ 433,000	\$ 764,000
2011	\$ 764,000	\$ 407,000	\$ -	\$ 407,000	\$ 1,171,000
2012	\$ 1,171,000	\$ 484,000	\$ -	\$ 484,000	\$ 1,655,000

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

### NOTE 10 - 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, 2012, will be resolved without material adverse effect on the District's future financial position, results from operations or cash flows.

# West Contra Costa Healthcare District

## Notes to Financial Statements

December 31, 2012

### NOTE 10 - COMMITMENTS AND CONTINGENCIES (continued)

**Lease commitments** - The District is obligated for land and office rentals under the terms of various non-cancelable operating lease agreements. These expire in various years through 2016. The District also entered into various non-cancelable operating sublease agreements for office space. These expire in various years through 2016. Following is a schedule by year of future minimum lease payments and future minimum rental revenues under operating leases as of December 31, 2012:

	Operating lease commitments	Lease income	Net Lease expense
2013	\$ 3,956,000	\$ 598,000	\$ 3,358,000
2014	1,941,000	614,000	1,327,000
2015	1,161,000	631,000	530,000
2016	1,161,000	647,000	514,000
2017	-	665,000	(665,000)
	<u>\$ 8,219,000</u>	<u>\$ 3,155,000</u>	<u>\$ 5,064,000</u>

Total rental expense in 2012 and 2011 for all operating leases was approximately \$3,058,000 and \$3,111,000, respectively. Total rental income in 2012 and 2011 for all operating subleases was approximately \$544,000 and \$588,000, respectively.

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

# West Contra Costa Healthcare District

## Notes to Financial Statements

December 31, 2012

### **NOTE 11 - GOING CONCERN UNCERTAINTY**

The accompanying financial statements have been prepared assuming the District will continue as a going concern, which contemplates realization of assets and satisfaction of liabilities in the normal course of business. The Hospital has experienced recurring cash shortages and has a net deficit of \$(8,048,000). These matters raise substantial doubt about the District's ability to continue as a going concern. The December 31, 2012 financial statements do not include any adjustments that might result from the outcome of this uncertainty.