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UNITED STATES BANKRUPTCY COURT

NORTHERN DISTRICT OF CALIFORNIA

SANTA ROSA DIVISION

In re: MENDOCINO COAST HEALTH CARE DISTRICT, a political subdivision of the State of California, Debtor.	Case No.: 12-12753 Chapter 9 **DISCLOSURE STATEMENT FOR PLAN OF ADJUSTMENT**

IMPORTANT DATES

- **Date by which Ballots must be received: January 30, 2015**
- **Date by which objections to Confirmation must be filed and served: January 30, 2015**
- **Hearing on Confirmation of the Plan: February 6, 2015, at 10:00 a.m. Pacific Time**

DATED: DECEMBER 15, 2014

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I.

PREFACE

Pursuant to Chapter 9 of title 11 of the United States Code, 11 U.S.C. §§ 901, *et seq.* (the "Bankruptcy Code"), the Mendocino Coast Health Care District (the "Debtor" or the "District"), hereby submits this disclosure statement (the "Disclosure Statement") in support of its *Plan of Adjustment* (the "Plan"). The Plan was filed by the Debtor on October 31, 2014. The definitions contained in the Bankruptcy Code are incorporated herein by this reference. The definitions set forth in Article I of the Plan also apply to any capitalized terms used herein that are not otherwise defined.

II.

OVERVIEW

A. Introduction

On October 17, 2012 (the "Petition Date"), the Debtor commenced this bankruptcy case (the "Chapter 9 Case") by filing a voluntary petition under chapter 9 of the Bankruptcy Code. This Disclosure Statement, submitted in accordance with section 1125 of the Bankruptcy Code, contains information regarding the Plan proposed by the Debtor. A copy of the Plan accompanies this Disclosure Statement. This Disclosure Statement is being distributed to you for the purpose of enabling you to make an informed judgment about the Plan.

The Disclosure Statement describes the Plan and contains information concerning, among other matters: (1) the business background and history of the Debtor; (2) significant events during the Chapter 9 Case; (3) the property available for distribution under the Plan; and (4) a summary of the Plan. The Debtor urges you to review the contents of this Disclosure Statement and the Plan (including the exhibits to each) before making a decision to accept or reject the Plan. Particular attention should be paid to the provisions affecting or impairing your rights as a Creditor.

On December 12, 2014, the Bankruptcy Court approved this Disclosure Statement as containing sufficient information to enable a hypothetical reasonable investor to make an informed judgment about the Plan. Under section 1125 of the Bankruptcy Code, this approval enabled the Debtor to send you this Disclosure Statement and solicit your acceptance of the Plan. The Bankruptcy Court has not considered the Plan itself nor conducted a detailed investigation into the contents of this Disclosure Statement.

Your vote on the Plan is important. The Plan represents the maximum amount that the District can repay Creditors while maintaining vital public services at the Mendocino Coast District Hospital ("Hospital") for the benefit of the community. The Hospital is a critical component of the overall economic health of the community. Confirmation of the Plan will permit the District to continue to provide high quality care to meet the health care needs of District residents. Although the District has made significant improvements to its annual operating budget, it nonetheless lacks sufficient funds to both operate the Hospital at a satisfactory level, complete needed capital projects and other upgrades, and repay Creditors in full.

Absent acceptance of the Plan, there may be protracted delays in payment to Creditors or the possible dismissal of the Chapter 9 Case resulting in the individualized enforcement of remedies by each Creditor. Under state law, however, Creditors may not exercise prejudgment remedies (such as levy and attachment) or compel a sale of District property. Consequently,

these state law remedies may not provide for a distribution to Creditors that is comparable to the distributions contemplated by the Plan. Accordingly, the Debtor urges you to **accept** the Plan by completing and returning the enclosed ballot(s) no later than January 30, 2015.

B. Disclaimers

THIS DISCLOSURE STATEMENT CONTAINS INFORMATION THAT MAY BEAR UPON YOUR DECISION TO ACCEPT OR REJECT THE DEBTOR'S PROPOSED PLAN. PLEASE READ THIS DOCUMENT WITH CARE. THE PURPOSE OF THE DISCLOSURE STATEMENT IS TO PROVIDE "ADEQUATE INFORMATION" OF A KIND, AND IN SUFFICIENT DETAIL, AS FAR AS IS REASONABLY PRACTICABLE IN LIGHT OF THE NATURE AND HISTORY OF THE DEBTOR AND THE CONDITION OF THE DEBTOR'S BOOKS AND RECORDS, THAT WOULD ENABLE A HYPOTHETICAL REASONABLE INVESTOR TYPICAL OF THE HOLDERS OF CLAIMS OF THE RELEVANT CLASS TO MAKE AN INFORMED JUDGMENT CONCERNING THE PLAN. *SEE* 11 U.S.C. § 1125(a).

FOR THE CONVENIENCE OF CREDITORS, THIS DISCLOSURE STATEMENT SUMMARIZES THE TERMS OF THE PLAN BUT THE PLAN ITSELF QUALIFIES ANY SUMMARY. IF ANY INCONSISTENCY EXISTS BETWEEN THE PLAN AND THE DISCLOSURE STATEMENT, THE TERMS OF THE PLAN ARE CONTROLLING.

NO REPRESENTATION CONCERNING THE DEBTOR'S FINANCIAL CONDITION OR ANY ASPECT OF THE PLAN IS AUTHORIZED BY THE DEBTOR OTHER THAN AS SET FORTH IN THIS DISCLOSURE STATEMENT. ANY REPRESENTATIONS OR INDUCEMENTS MADE TO SECURE YOUR ACCEPTANCE OR REJECTION THAT ARE OTHER THAN AS CONTAINED IN OR INCLUDED WITH THIS DISCLOSURE STATEMENT SHOULD NOT BE RELIED UPON BY YOU IN ARRIVING AT YOUR DECISION.

THE FINANCIAL INFORMATION CONTAINED HEREIN, UNLESS OTHERWISE INDICATED, IS UNAUDITED. MOREOVER, BECAUSE OF THE DEBTOR'S FINANCIAL DIFFICULTIES, AS WELL AS THE COMPLEXITY OF THE DEBTOR'S FINANCIAL MATTERS, THE BOOKS AND RECORDS OF THE DEBTOR, UPON WHICH THIS DISCLOSURE STATEMENT IN PART IS BASED, MAY BE INCOMPLETE OR INACCURATE. HOWEVER, REASONABLE EFFORT HAS BEEN MADE TO ENSURE THAT ALL SUCH INFORMATION IS FAIRLY PRESENTED.

PACHULSKI STANG ZIEHL & JONES LLP ("PSZ&J") IS GENERAL INSOLVENCY COUNSEL TO THE DEBTOR. PSZ&J HAS RELIED UPON INFORMATION PROVIDED BY THE DEBTOR IN CONNECTION WITH THE PREPARATION OF THIS DISCLOSURE STATEMENT. ALTHOUGH PSZ&J HAS PERFORMED CERTAIN LIMITED DUE DILIGENCE IN CONNECTION WITH THE PREPARATION OF THIS DISCLOSURE STATEMENT, COUNSEL HAS NOT INDEPENDENTLY VERIFIED ALL OF THE INFORMATION CONTAINED HEREIN.

THE CONTENTS OF THIS DISCLOSURE STATEMENT SHOULD NOT BE CONSTRUED AS LEGAL, BUSINESS OR TAX ADVICE. EACH CREDITOR SHOULD CONSULT HIS OR HER OWN LEGAL COUNSEL AND ACCOUNTANT AS TO LEGAL, TAX AND OTHER MATTERS CONCERNING HIS OR HER CLAIM.

C. The Chapter 9 Process

Chapter 9 of the Bankruptcy Code is a special section of the federal bankruptcy law that is reserved exclusively for municipalities (*e.g.*, political subdivisions or public agencies of the State). Chapter 9 provides a municipality with a "breathing spell" within which to propose a

plan for the adjustment of its debts to third parties. The municipal debtor generally retains the full authority to conduct its business and manage its affairs in the ordinary course on a day-to-day basis without Bankruptcy Court approval. Generally speaking, court approval is only required for certain specific matters such as financing transactions or the assumption or rejection of executory contracts and unexpired leases. Bankruptcy Court approval is also necessary in order to confirm a plan.

The filing of the Chapter 9 bankruptcy petition gives rise to an "automatic stay" which, generally, enjoins creditors from taking any action to collect or recover obligations owed by the municipal debtor prior to the commencement of the Chapter 9 Case. The Bankruptcy Court can grant relief from the automatic stay under certain limited conditions or for cause.

Chapter 9 debtors emerge from bankruptcy by successfully confirming a plan of adjustment. A plan divides Creditors into classes and either leaves the rights of Creditors unaltered (*i.e.*, unimpaired), or changes the rights of Creditors (such as by paying a reduced amount of the claim over a longer period of time). Only Creditors whose rights are changed (*i.e.*, impaired), are entitled to vote to accept or reject the Plan. Upon confirmation, the rights afforded under the plan and the treatment of Claims under the plan will be in complete satisfaction, discharge, and release of all Claims by Creditors against the debtor.

D. Plan Summary

The following is a brief overview of the material provisions of District's Plan and is qualified in its entirety by reference to the full text of the Plan. The Plan is a plan of adjustment and provides for the distribution of a Plan Fund among the Creditors of the Debtor. The Plan further provides for the classification and treatment of Claims against the Debtor. The Plan designates various separate Classes of Claims. These Classes and Plan treatments take into account the differing nature and priority under the Bankruptcy Code of the various Claims. The claim priorities under subsections (a)(1) and (a)(3) through (10) of section 507 of the Bankruptcy Code are not applicable under chapter 9 pursuant to section 901(a) of the Bankruptcy Code.

The Plan provides for the creation of a Plan Fund consisting of the (a) Effective Date Deposit, (b) the GUC Initial Deposit, and (c) the GUC Subsequent Deposits (made on the second and fourth anniversary of the Effective Date). The Plan Fund is expected to contain approximately $1,377,000. The Plan Fund will be used to make Distributions to the holders of Administrative Claims and Allowed Unsecured Claims. Certain other Claims will be satisfied from the Reorganized Debtor's general revenues following the effectiveness of the Plan and the Debtor's emergence from Chapter 9.

Unsecured Claims are divided into small claims under Class 7 of the Plan (*i.e.*, those claims less than or equal to $5,000 or voluntarily reduced to $5,000), and large claims contained in Class 8 (*i.e.*, claims above $5,000). Distributions to the holders of small Claims in Class 7 will be made shortly after the Effective Date of the Plan and Distributions to the holders of large Claims in Class 8 will be made over a period of four years, commencing with an initial distribution following the Effective Date.

The following chart[1] summarizes the treatment of Creditors under the Plan. Certain amounts listed below are **estimated**. Actual Claims and distributions under the Plan will vary depending upon, among other things, the outcome of objections to Claims.

[1] This chart is only a summary of the classification and treatment of Claims under the Plan. Reference should be made to the entire Disclosure Statement and the Plan for a complete description of the classification and treatment of Claims.

CLASS NO.	DESCRIPTION	ESTIMATE OF CLAIM AMOUNTS ULTIMATELY ALLOWABLE	TREATMENT
N/A	Administrative Claims Recovery: 100%	$502,000	Each Administrative Claim shall, unless the holder of such Claim has agreed to different treatment of such Claim, be paid in full in Cash by the Reorganized Debtor.
N/A	PCO Claim Recovery: 100%	Undetermined	The PCO shall file an application for approval of any PCO Claim on or before the Administrative Bar Date. If the Bankruptcy Court grants such an award, or the District and the PCO otherwise agree to the payment of a PCO Claim, the PCO will be paid in full in Cash in such amounts as are approved or agreed as soon thereafter as practicable.
N/A	BNY Claim Recovery: 100%	Undetermined	BNY shall file an application for approval of any BNY Claim on or before the Administrative Bar Date. If the Bankruptcy Court grants such an award, or the District and BNY otherwise agree to the payment of a BNY Claim, BNY will be paid in full in Cash in such amounts as are approved or agreed as soon thereafter as practicable.
1	Revenue Bonds 1996 Recovery: 100%	N/A	**Classification** Class 1 consists of the Revenue Bonds 1996. **Treatment**: Each Claim in Class 1 will be treated as follows: (a) any default, other than a default of a kind specified in section 365(b)(2) of the Bankruptcy Code, shall be cured, and (b) the maturity of the Claim shall be reinstated as the maturity existed before any defaults. **Voting:** Class 1 is not impaired under the Plan and the holders of the Revenue Bonds 1996 are deemed to have accepted the Plan under Section 1126(f) of the Bankruptcy Code and are not entitled to vote on the Plan.
2	Revenue Bonds 2009 Recovery: 100%	N/A	**Classification** Class 2 consists of the Revenue Bonds 2009. **Treatment:** Each Claim in Class 2 will be treated as follows: (a) any default, other than a default of a kind specified in section 365(b)(2) of the Bankruptcy Code, shall be cured, and (b) the maturity of the Claim shall be reinstated as the maturity existed before any defaults. **Voting:** Class 2 is not impaired under the Plan and the holders of the Revenue Bonds 2009 are deemed to have accepted the Plan under Section 1126(f) of the Bankruptcy Code and are not entitled to vote on the Plan.
3	Revenue Bonds 2010 Recovery: 100%	N/A	**Classification** Class 3 consists of the Revenue Bonds 2010. **Treatment:** Each Claim in Class 3 will be treated as follows: (a) any default, other than a default of a kind specified in section 365(b)(2) of the Bankruptcy Code, shall be cured, and (b) the maturity of the Claim shall be reinstated as the

CLASS NO.	DESCRIPTION	ESTIMATE OF CLAIM AMOUNTS ULTIMATELY ALLOWABLE	TREATMENT
			maturity existed before any defaults. **Voting:** Class 3 is not impaired under the Plan and the holders of the Revenue Bonds 2010 are deemed to have accepted the Plan under Section 1126(f) of the Bankruptcy Code and are not entitled to vote on the Plan.
4	General Obligation Bonds Recovery: 100%	N/A	**Classification** Class 4 consists of the General Obligation Bonds. **Treatment:** Each Claim in Class 4 will be treated as follows: (a) any default, other than a default of a kind specified in section 365(b)(2) of the Bankruptcy Code, shall be cured, and (b) the maturity of the Claim shall be reinstated as the maturity existed before any defaults. **Voting:** Class 4 is not impaired under the Plan and the holders of the General Obligation Bonds are deemed to have accepted the Plan under Section 1126(f) of the Bankruptcy Code and are not entitled to vote on the Plan.
5	OSHPD LOC Claim Estimated Recovery: 82%	$1,113,000	**Classification:** Class 5 consists of the OSHPD LOC Claim. **Treatment:** The OSHPD LOC Claim shall be an Allowed Secured Claim in a principal amount equal to the sum of (x) $1,005,805.55, and (y) the OSHPD LOC Interest Accrual ("Allowed OSHPD Claim"). On the 5th Business Day following the OSHPD LOC Claim Repayment Date, or as soon thereafter as practicable, the District will pay OSHPD in Cash the amount of $5,805.55 plus the OSHPD LOC Interest Accrual. The remaining balance of the Allowed OSHPD Claim in the principal amount of $1 million will (a) bear interest commencing on the OSHPD LOC Claim Repayment Date at a rate of five percent (5%) per annum until paid (or pre-paid) in full, and (b) be paid in monthly installments of principal and interest amortized over a term of six (6) years following the OSHPD LOC Claim Repayment Date. **Voting:** Class 5 is impaired under the Plan and the holder of the OSHPD LOC Claim is entitled to vote on the Plan.
6	Miscellaneous Secured Claims Estimated Recovery: 100%	$0	**Classification:** Class 6 consists of all Secured Claims against the Debtor not included in Classes 1 through 5, if any. Each holder of a Secured Claim in Class 6 is considered to be in its own separate subclass within Class 6, and each such subclass is deemed to be a separate Class for purposes of the Plan and is numbered Class 6A, Class 6B, etc. **Treatment:** On or before the date of a distribution to each holder of an Allowed Secured Claim in Class 6, the Debtor shall elect, in its discretion, one

CLASS NO.	DESCRIPTION	ESTIMATE OF CLAIM AMOUNTS ULTIMATELY ALLOWABLE	TREATMENT
			of the alternative treatments described in the Plan. **Voting:** Class 6 is not impaired under the Plan and the holders of Secured Claims in Class 6 are deemed to have accepted the Plan under Section 1126(f) of the Bankruptcy Code and are not entitled to vote on the Plan.
7	Convenience Claims Recovery: 55%	$163,000	**Classification:** Class 7 consists of all Convenience Claim against the Debtor. **Treatment:** Each holder of an Allowed Convenience Claim shall receive, in exchange for in in full satisfaction of such Claim, a Cash payment equal to 55% of the amount of such Claim. **Voting:** Class 7 is impaired under the Plan and all holders of Convenience Claims are entitled to vote on the Plan.
8	Unsecured Claims Estimated Recovery: 45%	$1,310,000	**Classification:** Class 8 consists of all Unsecured Claims against the Debtor. **Treatment:** Each holder of an Allowed Unsecured Claim shall receive, in exchange for and in full and final satisfaction of such Claim, a Pro Rata share of the GUC Distribution. **Voting:** Class 8 is impaired under the Plan and all holders of Unsecured Claims are entitled to vote on the Plan.
9	Liability Claims Recovery: 100%	$42,000	**Classification:** Class 9 consists of all Liability Claims against the Debtor. **Treatment:** Each holder of a Liability Claim shall be paid from the proceeds of any applicable insurance policy issued to or for the benefit of the District. **Voting:** Class 9 is not impaired under the Plan and the holders of Liability Claims are deemed to have accepted the Plan under Section 1126(f) of the Bankruptcy Code and are not entitled to vote on the Plan.

E. Voting on the Plan

1. Who May Vote

The Plan divides Allowed Claims into multiple Classes. As discussed above, under the Bankruptcy Code, only Classes that are "impaired" by the Plan are entitled to vote (unless the Class receives no compensation or payment, in which case the Class is conclusively deemed not to have accepted the Plan). A Class is impaired if the legal, equitable or contractual rights attaching to the Claims of the Class are modified, other than by curing defaults and reinstating maturities.

Under the Plan, Administrative Claims, the PCO Claim and the BNY Claim are unclassified and are not entitled to vote. Classes 1, 2, 3, 4, 6 and 9 are not impaired and are therefore conclusively presumed to have accepted the Plan pursuant to section 1126(f) of the Bankruptcy Code, and the holders of Claims in Classes 1, 2, 3, 4, 6 and 9 are not entitled to vote

under the Plan. Accordingly, only Classes 5, 7 and 8 are impaired and entitled to vote to accept or reject the Plan. Only those votes cast by holders of Allowed Claims shall be counted to determine whether a sufficient number of acceptances have been received to obtain Confirmation of the Plan.

2. How to Vote

All votes to accept or to reject the Plan must be cast by using the appropriate form of Ballot. No votes other than ones using such Ballots will be counted except to the extent ordered otherwise by the Bankruptcy Court. A form of Ballot is being provided to Creditors in Classes 5, 7 and 8 by which Creditors in such Classes may vote their acceptance or rejection of the Plan. The Ballot for voting on the Plan gives holders of Class 5, 7 and 8 Claims one important choice to make with respect to the Plan – whether to vote for or against the Plan.

A Ballot may also be used to exercise the Allowed Convenience Claim option. This option permits the holder of an Unsecured Claim to reduce the aggregate of all its Claims to a **single Convenience Claim** of $5,000 and participate in Class 7 (and thereby receive an immediate 55% distribution instead of the estimated 45% distribution over time under Class 8 of the Plan). Any holder of a Claim that would otherwise have been classified in Class 8 that makes an election on the Ballot to reduce the aggregate of all its Claims to a single Convenience Claim of $5,000 shall be deemed to have irrevocably (i) waived any right to participate in Class 8 as to any and all Claims held by such holder and shall receive no distribution under Class 8, and (ii) released the Debtor and the Reorganized Debtor from any and all liability for any amount in excess of $5,000 or any additional or other Claims.

Any Ballot which is executed by the holder of an Allowed Claim but which does not indicate an acceptance or rejection of the Plan shall be deemed to be an acceptance of the Plan.

To vote on the Plan, after carefully reviewing the Plan and this Disclosure Statement, please complete the Ballot, as indicated thereon, (1) by indicating on the enclosed Ballot that you (a) accept the Plan or (b) reject the Plan, (2) electing the Allowed Convenience Claim option, if applicable, and (3) by signing your name and mailing the Ballot in the envelope provided for this purpose. The Debtor's bankruptcy counsel will act as the balloting agent for the Debtor and will count the Ballots.

IN ORDER TO BE COUNTED, BALLOTS MUST BE COMPLETED, SIGNED AND RECEIVED BY THE DEBTOR'S BANKRUPTCY COUNSEL NO LATER THAN JANUARY 30, 2015, AT THE FOLLOWING ADDRESS:

Pachulski Stang Ziehl & Jones LLP
Attn: MCHCD Ballots
150 California Street, 15th Floor
San Francisco, CA 94111

IF YOUR BALLOT IS NOT PROPERLY COMPLETED, SIGNED AND RECEIVED AS DESCRIBED, IT WILL NOT BE COUNTED. IF YOUR BALLOT IS DAMAGED OR LOST, YOU MAY REQUEST A REPLACEMENT BY MAKING A WRITTEN REQUEST TO THE ADDRESS SHOWN ABOVE, OR BY CALLING 415-263-7000 AND ASKING FOR CLAIRE JANES. FACSIMILE OR ELECTRONICALLY TRANSMITTED BALLOTS WILL NOT BE COUNTED.

F. Confirmation of the Plan

1. Generally

"Confirmation" is the technical term for the Bankruptcy Court's approval of a plan of adjustment. The timing, standards and factors considered by the Bankruptcy Court in deciding whether to confirm a plan are discussed in Article VII below.

2. Objections to Confirmation

Any objections to Confirmation of the Plan must be in writing and must be filed with the Clerk of the Bankruptcy Court and served on counsel for the Debtor on or before the date set forth in the notice of the Confirmation Hearing sent to you with this Disclosure Statement and the Plan. Bankruptcy Rule 3007 governs the form of any such objection.

3. Hearing on Confirmation

The Bankruptcy Court has set February 6, 2015, at 10:00 a.m., prevailing Pacific Time for a hearing (the "Confirmation Hearing") to determine whether the Plan has been accepted by the requisite number of Creditors and whether the other requirements for confirmation of the Plan have been satisfied. The Confirmation Hearing will be held at 99 S. E St., Santa Rosa, CA 95404, before the Honorable Alan Jaroslovsky, United States Bankruptcy Judge. The Confirmation Hearing may be continued from time to time and day to day without further notice. If the court confirms the Plan, it will enter the Confirmation Order.

III.

HISTORY AND ACTIVITIES OF THE DEBTOR

A. Overview of the Debtor

1. Health Care District

The Debtor is a local public entity formed in 1967 under the Local Health Care District Law of the State of California (referred to as the "District Law" under the Plan) for the purpose of constructing a public hospital to serve the people of Mendocino County. The Debtor filed its voluntary petition under Chapter 9 of the United States Bankruptcy Code on October 17, 2012. The Debtor operates the Mendocino Coast District Hospital located at 700 River Drive in Fort Bragg, California. The Hospital includes and operates (a) the North Coast Family Health Center, a rural health care clinic, and (b) the Mendocino Coast Home Health agency.

The Hospital is a 25-bed acute-care facility completed in 1971. It is licensed by the California Department of Health Services and accredited by the Joint Commission on Accreditation of Healthcare Organizations. In 2006, as a result of its remote location and the needs of the relatively isolated community that it serves, the Hospital was designated a Critical Access Hospital by the federal government, a designation that entitles it to certain Medicare benefits and exemptions. The District provides essential emergency and medical services to a community where a large proportion of the residents are uninsured, under-insured or Medi-Cal recipients.

The District encompasses approximately 680 square miles and extends approximately 70 miles south from the Humboldt/Mendocino County line. The Hospital serves an estimated population of 25,000. The closest alternative facility is in Willits, California, a drive of thirty-seven miles that takes about fifty minutes over a rural road which, at times, is impassable.

The District averages approximately 790 emergency department visits per month. In the most recent fiscal year ended on June 30, 2014, the District had 3,247 acute care patient days (an average of 8.9 acute care patients per day), and 1,247 swing bed patient days (an average of 3.4 swing bed patients per day).

2. The Debtor's Governance

The District is governed by a five-member Board of Directors comprised of persons elected by registered voters of the District in accordance with the Local Health Care District Law under Sections 32000 *et seq*. of the California Health and Safety Code. The next regular election to fill three forthcoming vacancies on the Debtor's board is scheduled for November 4, 2014. The District's day to day operations are conducted by its professional staff, including physicians and licensed health care professionals. The District employs approximately 285 full-time and part-time employees. Many of the District's employees are represented by the United Food and Commercial Workers, Local 8.

3. Financing and Significant Indebtedness

The District has issued three series of health facility revenue bonds: (1) the $4,030,000 Mendocino Coast Health Care District Insured Health Facility Refunding Revenue Bonds, Series 1996, dated August 1, 1996, (2) the $5,000,000 Mendocino Coast Health Care District Insured Health Facility Revenue Bonds, Series 2009, dated October 14, 2009, and (3) the $2,875,000 Mendocino Coast Health Care District Insured Health Facility Revenue Bonds, Series 2010, dated July 8, 2010 (collectively, the "Revenue Bonds"). The Bank of New York Mellon Trust Company, N.A. ("BNY") is the indenture trustee under indentures of trust for the benefit of the owners of the Revenue Bonds. The Office of Statewide Health Planning and Development of the State of California ("OSHPD"), has insured the repayment by the District of the principal and interest due under the Revenue Bonds. OSHPD holds a security interest and mortgage in certain proposal and real property of the Debtor to secure its right of reimbursement if and to the extent it makes any insurance payment in connection with the Revenue Bonds. Under the Plan, the Revenue Bonds are not impaired.

The District has also issued the $5,500,000 Mendocino Coast Health Care District Election of 2000 General Obligation Bonds, dated May 1, 2001 (the "GO Bonds"). The GO Bonds are secured by a pledge of those ad valorem property taxes levied by the County of Mendocino to which the District is entitled. In addition, the repayment by the District of the principal and interest due under the GO Bonds is insured under a *Municipal Bond New Issue Insurance Policy* dated May 9, 2001, issued by the Financial Guaranty Insurance Company. Under the Plan the GO Bonds are not impaired.

The District was also a party to a $1,000,000 promissory note and revolving line of credit made available to the Debtor pursuant to the terms and conditions of a *Business Loan Agreement* dated as of March 1, 2010, between the Debtor and NCB Capital Impact ("NCB"). Like the Revenue Bonds, the Debtor's obligations to NCB were also insured by OSHPD. On or about December 14, 2012, as a consequence of the default triggered by the commencement of the Debtor's Chapter 9 case, OSHPD satisfied the Debtor's obligations to NCB in the amount of $1,005,805.55. The claim of OSHPD arising upon the repayment of NCB is impaired by the Plan and is treated in Class 5 of the Plan.

The Debtor was also a party to that certain *Note Purchase Agreement* dated as of December 8, 2011, under which UHC of California agreed to purchase certain *2011 HIT/EHR Taxable Promissory Notes* payable to UHC with maturity dates of December 1, 2014, 2015 and 2016, and bearing interest at an annual rate of 3.75%. ("UHC Old Notes"). As of the Petition Date, the aggregate principal amount outstanding under the UHC Old Notes was $2,500,000.

The claim of UHC on account of the UHC Old Notes was settled in connection with the compromise of an adversary proceeding among the Debtor, UHC and OSHPD.

As discussed in greater detail below, the settlement with UHC provides for the exchange of the UHC Old Notes into a new, single note with a maturity of 10 years following the April 2014 closing date of the settlement. The new note will have a reduced principal amount of $2,100,000 and will bear interest at a reduced annual rate of 3.25%. The new note will be secured and will be payable in equal, annual installments of principal and interest over 10 years. Under the Plan, the Debtor's obligations under the new note and the related settlement documents will remain in full force and effect and be binding upon the Reorganized Debtor according to their respective terms.

Last, as of the Petition Date, the Debtor had outstanding general unsecured obligations to its employees, vendors, other trade creditors and the counter-parties to various agreements in the aggregate amount of approximately $2.5 million (not including potential obligations arising under the District's Medicare and Medi-Cal provider agreements). Certain of these obligations may qualify as administrative expense claims (such as claims for goods received by the Debtor within 20 days prior to the Petition Date under Section 503(b)(9) of the Bankruptcy Code) payable pursuant to Article II of the Plan. Other unsecured claims are treated either as Convenience Claims under Class 7 of the Plan or as Unsecured Claims under Class 8 of the Plan. Unlike Chapter 11 of the Bankruptcy Code, there are no other types of "priority" claims set forth in Section 507 of the Bankruptcy Code (except for administrative expenses under Section 503(b) of the Bankruptcy Code) that are recognized in cases under Chapter 9 of the Bankruptcy Code.

B. Circumstances Leading to the Commencement of the Chapter 9 Case

In early 2012, the District's financial projections indicated a worsening financial condition. The District recognized that it needed to adjust the compensation of all employees in order to stabilize its operations. In February 2012, the District implemented a 5% reduction in management compensation. The District also began negotiations with the labor union that represents the majority of its staff, United Food and Commercial Workers, Local 8 ("UFCW").

Although negotiations between the District and UFCW continued, and the District provided comprehensive financial information in order to enable the UFCW to evaluate the extent of its operating difficulties, the parties could not effect changes in compensation that were sufficient to address those problems. As a result, on April 13, 2012, the Board of Directors of the District adopted Resolution No. 2012-3 acknowledging the District's financial crisis and electing to engage in the process of mediation required by the State of California as a prerequisite to filing a petition for relief under Chapter 9 of the Bankruptcy Code.

In accordance with the April resolution, and section 53760.3 of the California Government Code, on or about April 26, 2012, the District sent a notice to the holders of its six most significant obligations requesting their participation in the mandatory mediation. OSHPD, UFCW, UHC of California, BNY, and Diversified Investment Advisors, each agreed to participate in the mediation.

VALIC Group Support elected not to participate. The five mediation participants ultimately agreed to the selection of George H. Kalikman, a partner at the law firm of Schnader Harrison Segal & Lewis LLP in San Francisco, as a mediator. These creditors also decided that only OSHPD and the UFCW would need to attend the mediation sessions.

The District, OSHPD and the UFCW completed the initial 60-day mediation required by the Government Code and agreed to one 30-day extension, also in accordance with the Government Code. Each of the mediation sessions was held in San Francisco.

On September 5, 2012, the parties concluded the mediation process having been unable to reach an agreement that would adequately address the District's financial problems.

The District's financial projections did not improve between the initiation of the mediation process and a scheduled September 27, 2012, meeting of the Board of Directors. At that time, the District was projected to run out of cash around the middle of November 2012 and would, subsequently, be unable to meet its operating expenses as they became due. As a result, at the September 27 meeting, the District's Board of Directors adopted Resolution No. 2012-10 authorizing the District to commence a case under Chapter 9 of the Bankruptcy Code.

C. The Filing of the Chapter 9 Case

The Debtor filed its petition under Chapter 9 on October 17, 2012. On October 31, 2012, the Bankruptcy Court entered its order [Docket No. 18] establishing a deadline of November 26, 2012, for any party in interest to object, pursuant to Section 921(c) of the Bankruptcy Code, to the eligibility of the District to be a debtor under Chapter 9. On November 27, 2012, the Bankruptcy Court approved a stipulation between the Debtor and the California Public Employees' Retirement System (CalPERS) extending the time for CalPERS to object to the petition until December 11, 2012, which deadline was further extended until December 13, 2012. CalPERS did timely object to the Debtor's petition on December 13, 2012, and a hearing was scheduled for February 1, 2013, to consider the District's eligibility.

On January 25, 2013, the Debtor and CalPERS entered into a *Stipulation Regarding Debtor's Motion for Order Authorizing Assumption of Executory Contracts, et seq.* [Docket No. 61] ("CalPERS Stipulation"), pursuant to which CalPERS agreed to withdraw its objection to the Debtor's eligibility and the District agreed to allow an administrative expense in the amount of $213,547.31 payable to CalPERS under a plan of adjustment. The Bankruptcy Court approved the CalPERS Stipulation pursuant to its order entered on January 28, 2013 [Docket No. 62].

Following the withdrawal of the only objection (filed by CalPERS) to the Debtor's eligibility to be a Debtor under Chapter 9, the Bankruptcy Court entered its *Order for Relief and Setting Deadline for Filing Proofs of Claim* on February 13, 2013 [Docket No. 69] ("Order for Relief"). Pursuant to the Order for Relief, the Court ordered relief for the District under Chapter 9 effective as of the original petition date of October 17, 2012.

D. Debtor's Insolvency Counsel

The Debtor initially retained Friedman & Springwater LLP as its general insolvency counsel. Effective April 26, 2013, the Debtor substituted the firm Pachulski Stang Ziehl & Jones LLP to represent the Debtor in the Chapter 9 Case.

E. No Creditors' Committee

Although the Bankruptcy Code authorizes the creation of an official committee of unsecured creditors to protect the collective interests of creditors in Chapter 9 cases, no official committee has been appointed in this Chapter 9 Case.

F. Patient Care Ombudsman

The Hospital constitutes a "health care business" under applicable provisions of the Bankruptcy Code. On October 24, 2012, the Bankruptcy Court entered its *Order for Appointment of Health Care Ombudsman* providing for the appointment of a patient care ombudsman (PCO) for the Debtor pursuant to Section 333 of the Bankruptcy Code. Consequently, on November 20, 2012, the Office of the U.S. Trustee appointed Jerry Seelig as the PCO in the Chapter 9 Case. Under the Bankruptcy Code, the PCO is responsible for

monitoring the quality of patient care provided by the Debtor and for representing the interests of Hospital patients. The PCO must regularly report to the Bankruptcy Court regarding the quality of patient care provided to patients of the Debtor.

Although the PCO may interview patients and physicians in the course of his monitoring duties, he is obligated to maintain any information that relates to patients as confidential information. On April 2, 2013, the PCO and the Debtor entered into a *Stipulation re Patient Care Ombudsman's Authority to Review Confidential Patient Records Pursuant to 11 U.S.C. § 333(c)*. The stipulation was approved by an order of the Bankruptcy Court entered on April 23, 2013. Pursuant to the stipulation, the PCO was granted limited access to patient records subject to certain restrictions and safeguards to maintain the secrecy and confidentiality of the records.

The PCO has filed five reports describing his monitoring activities at the Hospital since his appointment. The most recent report of the PCO, filed on March 25, 2014, covered the period from August 20, 2013, through March 25, 2014. None of the reports filed by the PCO has made any finding or determination that the quality or availability of patient care provided to patients of the Debtor is declining significantly or is otherwise being materially compromised.

The Debtor has, from time to time, made payments to the PCO as compensation for his services rendered and reimbursement for his expenses incurred in the Chapter 9 Case (disclosed below in Section V(G)). Accordingly, any additional amounts that may be asserted by the PCO as part of the PCO Claim (discussed below in Section V(D)) would be in addition to amounts previously paid by the Debtor. The Debtor reserves all rights regarding the allowance or payment of any PCO Claim.

G. Use of Cash Collateral

As discussed above, OSHPD provided certain credit support (in the form of contracts of insurance) in connection with the Debtor's issuance of the Revenue Bonds (described above), as well as the NCB loan (also described above). Pursuant to the *Amended and Restated Regulatory Agreement* dated as of July 1, 2010, between the Debtor and OSHPD, the Debtor granted a lien and security interest to OSHPD in substantially all of its real and personal property assets to secure its contingent obligations to OSHPD in the event OSHPD was required to meet its obligations under its credit support commitments. OSHPD's security interest includes the Debtor's accounts, income and other revenues that constitute cash collateral ("Cash Collateral") under the Bankruptcy Code.

Following the commencement of the Chapter 9 Case, the Debtor had an immediate and critical need to continue to use the Cash Collateral to operate the Hospital and avoid irreparable harm to the community. Consequently, on November 28, 2012, the Debtor and OSHPD entered into that certain *Stipulation Authorizing District to (1) Continue to Use Cash Collateral and (2) Grant Adequate Protection and Replacement Liens* ("OSHPD Stipulation). The OSHPD Stipulation was approved by order of the Bankruptcy Court entered on February 4, 2013. Pursuant to the OSHPD Stipulation, OSHPD consented to the Debtor's continued use of the Cash Collateral for all ordinary and necessary expenditures. As adequate protection to OSHPD if and to the extent the Debtor's use of Cash Collateral resulted in any diminution of OSHPD's interest in such property as of the Petition Date, the Debtor granted OSHPD a replacement lien in post-petition accounts, income and other revenue as well as an administrative expense claim.

H. Bar Date for Filing Proofs of Claim

On October 31, 2012, the Debtor filed its *List of Claims* with the Bankruptcy Court, which set forth, *inter alia*, the creditors holding prepetition claims against the Debtor based on its books and records. Many of the claims listed in the *List of Claims* were identified by the Debtor as contingent or unliquidated. Pursuant to the Order for Relief (discussed above), the Court

established March 29, 2013 (the "Bar Date"), as the deadline for filing Proofs of Claim with the Court for any claims against the Debtor arising prior to the Petition Date that were either (i) omitted from or incorrectly specified in the *List of Claims*, or (ii) identified in the *List of Claims* as contingent, unliquidated or disputed. Although the Bankruptcy Court fixed March 29, 2013, as the deadline to file proofs of claims, pursuant to Section 502(b)(9) of the Bankruptcy Code, a governmental unit has until 180 days after the date of the order for relief in the case (*i.e.*, April 15, 2013), to timely file a proof of claim. The District gave notice of the Order for Relief and of the Bar Date on February 14, 2013. As of September 30, 2014, approximately 113 Creditors had filed Proofs of Claim with the Bankruptcy Court.

I. Other Postpetition Matters

Subsequent to the Petition Date, the Debtor directed substantially all of its efforts towards streamlining operations, reducing costs, re-negotiating contracts and leases and resolving certain litigation disputes. Some of these activities are described in greater detail below.

1. Stipulation with CalPERS

As described above, the Debtor and CalPERS entered into the CalPERS Stipulation on January 25, 2013, to resolve the objection by CalPERS to the Chapter 9 petition filed by the District. Further, as noted above, under the stipulation the Debtor also agreed to the allowance of an administrative expense held by CalPERS in the amount of $213,547.31. That amount was based on certain outstanding pre-petition health insurance premiums and administrative fees due by the District to CalPERS on account of its participation in the Public Employees' Medical and Hospital Care Act ("PEMHCA") established under California law. The Debtor had commenced its participation in PEMHCA on July 1, 2001. Under PEMHCA, CalPERS administered health care benefits to the Debtor's employees and retirees in return for monthly premiums paid by the District. The Debtor ceased its participation in PEMHCA effective as of December 31, 2012. The administrative expense claim payable under the CalPERS Stipulation will be paid in full upon the effectiveness of the Plan.

CalPERS asserts that, in addition to its administrative claim for $213,547.31, it is entitled to an administrative claim for statutory interest on that amount from December 31, 2012, until the claim has been paid in full. The Debtor disputes any claim by CalPERS in excess of $213,547.31.

2. Stipulation with BETA Risk Management Authority

Pursuant to the *Order Authorizing Assumption of Executory Contract (BETA Risk Management Authority)*, entered on February 4, 2013 [Docket No. 67], the District was authorized to assume certain casualty and liability insurance arrangements (collectively, the "BETA Agreements"), among the Debtor and BETA Risk Management Authority and its affiliated entities ("BETA"). The District was authorized to pay the prepetition unpaid amounts owed under the general and professional liability coverage contract in the amount of $35,737 in two installments payable upon entry of the order and May 31, 2013. The District was also authorized to pay the prepetition unpaid amounts owed under the casualty insurance coverage contract in the amount of $7,698. There are no further Assumption Obligations due from the District under the BETA Agreements.

3. Stipulation with Alpha Fund

During the calendar year 2012, ALPHA Fund provided coverage for the Debtor's workers' compensation liabilities. This coverage was provided pursuant to the ALPHA Fund Joint Powers Agreement (the "ALPHA Agreement") between the District and the other signatories to the ALPHA Agreement, as it was amended on May 9, 2011.

The Debtor, as an employer in the State of California, has a legal obligation to procure insurance for workers' compensation obligations or obtain a certificate of consent to self-insure, either individually or as a participant in a joint powers agreement, from the Department of Industrial Relations (DIR). The Debtor obtained a certificate of consent to self-insure from the DIR by its participation under the ALPHA Agreement. Under the agreement, the District agreed to pay a deposit of $845,412 in twelve equal monthly installments of $70,451. As a result of its bankruptcy filing, the District did not make its October 2012 installment.

The Debtor desired to maintain the benefits of coverage, and to meet the legal obligation to secure payment of liabilities under the workers' compensation laws, by maintaining its participation under the ALPHA Agreement as a member in good standing. On May 6, 2013, the Court entered the *Order Approving Stipulation with ALPHA Fund Regarding Debtor's Assumption of Executory Contract* [Docket No. 128] which provided for the assumption of the ALPHA Agreement and a cure payment in the amount of $70,451. There are no further Assumption Obligations due from the District under the ALPHA Agreement.

4. Stipulation with UFCW Local 8

On July 1, 2011, the Debtor and United Food and Commercial Workers 8 Golden State ("UFCW") entered into that certain *Memorandum of Understanding* ("MOU") covering the period from July 1, 2011, through June 30, 2014, regarding the wages, benefits and work rules of represented UFCW members (including, but not limited, to nurses, paramedics, technicians, bookkeepers, and housekeeping staff). On March 18, 2013, the UFCW filed a proof of claim in the Chapter 9 Case for contingent amounts potentially due under the MOU to represented employees of the Debtor ("UFCW Claim").

On March 7, 2013, the Debtor filed its *Motion for Order Authorizing Rejection of Executory Contract (United Food and Commercial Workers Local 8)* [Docket. No. 81] ("Motion"). Pursuant to the Motion, the Debtor sought to reject the MOU on the grounds that its terms and conditions were burdensome.

On April 9, 2013, UFCW filed its *Opposition to Motion for Order Authorizing Rejection of Executory Contract (United Food and Commercial Workers Local 8)* [Docket No. 109]. On May 16, 2013, the Court entered its *Stipulated Scheduling Order Between the Debtor and UFCW Regarding the Debtor's Motion for Order Authorizing Rejection of Executory Contract* [Docket No. 135]. Under this order, a hearing to consider the Motion was calendared for July 9, 2013, at 1:30 p.m.

On May 9, 2013, the Debtor provided UFCW a proposal for modifications to the MOU necessary to permit the reorganization of the Debtor. On May 22, 2013, the Debtor provided UFCW with financial and other relevant information necessary to evaluate the proposal. Subsequently, on May 30, 2013, the Debtor met with authorized representatives of UFCW to confer in good faith to reach mutually satisfactory modifications to the MOU. At the May 30 meeting, the parties reached an agreement in principle for the assumption by the Debtor of the MOU subject to certain amendments.

On or about June 19, 2013, the Parties entered into that certain *Addendum to July 1, 2011-June 30, 2014 Memorandum of Understanding Between UFCW 8-Golden State and Mendocino Coast District Hospital* ("Addendum"). The Addendum set forth certain consensual modifications to the MOU that were subsequently duly approved by the Debtor and ratified by the membership of the UFCW. The Addendum provided for, among other terms and conditions: (a) the elimination, effective as of May 9, 2013, of the bi-annual options to cash out accrued but unused paid time off, (b) the cancellation, effective as of July 1, 2013, of annual bonuses and step increases, (c) the cancellation, effective as of July 1, 2013, of 3% across-the-board wage

increases, and (d) a 5% across-the-board wage reduction, effective July 1, 2013. All other terms and conditions of the MOU remained in full force and effect.

The Debtor determined, in the exercise of its reasonable judgment, that assumption of the MOU, as amended by the Addendum, was in the best interests of the District, its employees and its creditors. Accordingly, pursuant to the *Stipulation Between Mendocino Coast Health Care District and United Food and Commercial Workers 8 Golden State for Assumption of Memorandum of Understanding, as Amended, and Order Thereon*, entered on June 21, 2013 [Docket No. 140], the MOU, as amended by the Addendum, was deemed assumed by the Debtor, pursuant to Section 365(a) of the Bankruptcy Code, effective as of the date of the order. The parties acknowledged that the MOU, as amended by the Addendum, would be in full force and effect and enforceable according to its terms and conditions

There are no further Assumption Obligations due from the District under the MOU. Upon entry of the order, (a) the Motion was deemed withdrawn, and (b) the UFCW Claim was deemed withdrawn with prejudice, each without necessity of any further filings or approval of the Court.

The District and the UFCW have since reached a new collective bargaining agreement for the period from July 1, 2014, through June 30, 2015, that was approved by the District's Board of Directors and subsequently and ratified by the membership of the UFCW on September 2, 2014.

5. Stipulation with De Lage Landen

The Debtor and De Lage Landen Financial Services, Inc. ("DLL"), as the assignee of Toshiba America Medical Systems, Inc. ("Toshiba") were parties to a *Master Lease Agreement* dated as of July 26, 2010 ("Master Lease"), for the lease by the Debtor of certain diagnostic imaging medical equipment manufactured by Toshiba, including MRI, CT scan and radiography systems and software ("Equipment"). The Equipment was described in four schedules to the Master Lease. The base term for each Lease under the Master Lease was for 60 months following the commencement date of the Lease.

On October 31, 2012, the Debtor filed its *List of Claims* which listed a secured claim held by Toshiba in the amount of $100,935.67 ("DLL Listed Claim"). On March 14, 2013, DLL filed its proof of claim [Claim No. 40] in the Chapter 9 Case in the amount of $48,829.97 due under the Master Lease (the "DLL Filed Claim"). The DLL Listed Claim and the DLL Filed claim are referred to collectively as the "DLL Claim."

On April 17, 2013, DLL filed its *Notice of Motion and Motion for Order Fixing Time for Assumption or Rejection of Executory Contract and for Performance of All Obligations Required Under the Lease or Rejection of Lease* [Docket No. 113], and the declaration of Cheryl Glick in support thereof ("DLL Motion"). On May 10, 2013, the Debtor filed its *Opposition to Motion for Order Fixing Time for Assumption or Rejection of Executory Contract and for Performance of All Obligations Required Under the Lease or Rejection of Lease* [Docket No. 130], and the declaration of Wayne Allen in support thereof. On May 16, 2013, DLL filed its *Reply of De Lage Landen to Opposition of Debtor to Motion for Order Fixing Time for Assumption or Rejection of Executory Contract* [Docket No. 132]. A hearing to consider the DLL Motion was originally scheduled for May 24, 2013, but was continued by stipulation of the parties to June 21, 2013, and by agreement was later taken off calendar.

On or about July 22, 2013, the Parties entered into that certain *Financing Addendum to Master Lease Agreement and Schedules* ("Addendum"). The Addendum provided for, among other terms and conditions: (a) the modification of the Master Lease to a 36-month capital lease effective as May 1, 2013, (b) a reduction of the aggregate acquisition cost to the Debtor of the

Equipment, (c) the cancellation of the Fiscal Funding Addendum under the Master Lease, and (d) the transfer by DLL of title to the Equipment to the Debtor and the filing of UCC-3 termination statements to the DLL Financing Statements at the expiration of the amended lease term, provided no event of default under the amended lease shall have occurred and remain uncured. Except as amended, all other terms and conditions of the Master Lease remained in full force and effect. The Debtor also agreed to cure all arrearages under the Master Lease (at the rental rate in effect prior to the effectiveness of the Addendum) as of April 30, 2013.

Pursuant to the *Stipulation Between Mendocino Coast Health Care District and De Lage Landen Financial Services, Inc., for Assumption of Master Lease Agreement, as Amended, and Order Thereon*, entered on July 24, 2013 [Docket No. 142], the Master Lease, as amended by the Addendum, was deemed assumed by the Debtor, pursuant to Section 365(a) of the Bankruptcy Code, effective as of May 1, 2013. Upon assumption by the Debtor, the Debtor and DLL acknowledged that the Master Lease, as amended by the Addendum, would be in full force and effect and enforceable according to its terms and conditions.

The Debtor agreed to pay to DLL the amount of $118,622.26, which included sales tax, in full and final cure of, and compensation for loss resulting from, all defaults under the Master Lease as of April 30, 2013. There are no further Assumption Obligations due from the District under the Master Lease. Upon entry of the order, (a) the DLL Motion was deemed withdrawn, and (b) the DLL Claim was deemed withdrawn with prejudice, each without necessity of any further filings or approval of the Court.

6. Stipulation with Johnson & Johnson

Johnson & Johnson Health Care Systems Inc. ("J&J") is a vendor to the Debtor of medical and pharmaceutical supplies. On October 25, 2012, J&J made a demand on the Debtor for the reclamation of certain goods received by the Debtor from J&J within 45 days before the commencement of the Chapter 9 Case in the amount of $126,539.79 ("Reclamation Demand"). The Debtor disputed the ability of J&J to reclaim the goods identified in the Reclamation Demand. On March 26, 2013, J&J filed its proof of claim in the Chapter 9 Case in the aggregate amount of $126,539.79 [Claim No. 81] ("J&J Claim"), $34,612.88 of which claim was asserted as an administrative expense pursuant to Section 503(b)(9) ("Administrative Claim").

The Debtor subsequently paid the Administrative Claim portion of the J&J Claim and the parties agreed that the balance of the J&J Claim should be allowed. Accordingly, pursuant to the *Stipulation Between Mendocino Coast Health Care District and Johnson & Johnson Health Care Systems Inc. for Allowance of General Unsecured Claim and Order Thereon*, entered on September 4, 2013 [Docket No. 146], the J&J Claim was allowed under Section 502(a) of the Bankruptcy Code in the amended and reduced amount of $91,926.91 and the Reclamation Demand was deemed withdrawn.

7. Stipulation with Cardinal Health

Cardinal Health 200, LLC ("CH 200"), and Cardinal Health 411, Inc. ("CH 411" and, collectively with CH 200, "Cardinal Health") are vendors to the Debtor of certain medical and pharmaceutical supplies. On February 12, 2013, CH 411 filed its proof of claim in the Chapter 9 Case in the aggregate amount of $294,933.73 [Claim No. 16], part of which claim was asserted as secured and part of which claim was asserted as an administrative expense ("CH 411 Claim"). On February 12, 2013, CH 200 filed its proof of claim in the Chapter 9 Case in the aggregate amount of $68,507.00 [Claim No. 18] (subsequently reduced to $67,969.19, following the application of certain payments made by the Debtor), part of which claim was asserted as secured and part of which claim was asserted as an administrative expense ("CH 200 Claim").

On March 27,2013, Cardinal Health filed its *Verified Motion of Cardinal Health 200, LLC and Cardinal Health 411, Inc. for the Entry of an Order Granting Relief From the Automatic Stay, for Cause, to Setoff Mutual Pre-Petition Obligations* [Docket No. 96] ("Stay Relief Motion"). By the Stay Relief Motion, Cardinal Health sought to offset certain credits owed to the Debtor against the claims asserted by Cardinal Health. A hearing was held on the Stay Relief Motion on April 25, 2013.

On March 27, 2013, Cardinal Health also filed its *Verified Motion of Cardinal Health 200, LLC and Cardinal Health 411, Inc. for the Entry of an Order Allowing and Directing Payment of Administrative Expense Claims* [Docket No. 101] ("Administrative Expense Motion"). By the Administrative Expense Motion, Cardinal Health sought the allowance of a portion of its claims pursuant to Section 503(b)(9) of the Bankruptcy Code. A hearing was held on the Administrative Expense Motion on April 26, 2013.

At the hearings, the Debtor and Cardinal Health agreed to the relief requested in the Stay Relief Motion and the Administrative Expense Motion subject to the terms and conditions of a stipulation between the parties. Pursuant to the *Stipulation Among Mendocino Coast Health Care District, Cardinal Health 200, LLC, and Cardinal Health 411, Inc., For Relief from the Automatic Stay and Allowance of Administrative Expense Claims, and Order Thereon*, entered on October 28, 2013 [Docket No. 148], the automatic stay under Section 362(a)(7) of the Bankruptcy Code was modified for the purpose of permitting Cardinal Health to exercise certain offsets.

In addition, following such setoff, CH 200 was granted an allowed administrative expense claim in the Chapter 9 Case, pursuant to Section 503(b)(9) of the Bankruptcy Code, in the amount of $8,931.09. The balance of the CH 200 Claim was deemed reduced to assert a general unsecured claim in the amount of $54,488.26. CH 411 was granted an allowed administrative expense claim in the amount of $126,260.46. The balance of the CH 411 Claim was deemed reduced to assert a general unsecured claim in the amount of $158,147.66. The administrative expense claims payable under the Cardinal Health stipulation will be paid in full upon the effectiveness of the Plan.

8. Compromise with UHC of California

In December 2011, the Debtor and UHC of California ("UHC") executed that certain *Note Purchase Agreement* ("Purchase Agreement") under which UHC acquired certain *2011 HIT/EHR Taxable Promissory Notes* issued by the Debtor in the aggregate principal amount of $2,500,000 ("Old Notes"). The Old Notes had maturities of December 1, 2014, 2015 and 2016, and they each accrued interest at an annual rate of 3.75%. The Bank of New York Mellon Trust Company, N.A. ("Trustee"), is the indenture trustee for the Old Notes under that certain *Indenture of Trust* dated as of December 1, 2011 ("Indenture").

On February 19, 2013, the Debtor filed a *Complaint to Determine Validity and Extent of Liens* against UHC and OSHPD, commencing adversary proceeding number 13-01026 (the "Adversary Proceeding"). In the Adversary Proceeding, the Debtor asserted that the Old Notes and related agreements did not grant a lien or security interest in favor of UHC, nor did such notes pledge an interest in any "special revenues" of the Debtor.[2] UHC and OSHPD each filed answers in the Adversary Proceeding. The Adversary Proceeding was initially calendared for trial on November 20, 2013. Pursuant to the *Stipulation and Order to Take Trial Off Calendar and Continue Related Pretrial Deadlines*, entered on September 4, 2013, that trial date was taken

[2] "Special revenues" refers to certain taxes, revenues or receipts defined under Section 902(2) of the Bankruptcy Code, but does not include general property, sales or income taxes levied to finance the general purposes of the Debtor.

off calendar and all related pre-trial dates were continued indefinitely, pending approval and final documentation of a settlement between the Debtor, UHC and OSHPD.

In August 2013, the Debtor, UHC and OSHPD reached a settlement of the disputes reflected in the Adversary Proceeding ("Settlement"). Under the Settlement, the Old Notes were restructured into a new, single note ("Restructured Note") with a maturity of 10 years following the date of its execution by the Debtor ("Closing Date"). The Restructured Note has a reduced principal amount of $2,100,000 and will bear interest at a reduced annual rate of 3.25%. As a settlement of certain issues raised in the Adversary Proceeding, the Restructured Note will be secured by a junior lien on certain assets of the Debtor that are currently pledged to secure certain obligations to OSHPD pursuant to the *Amended and Restated Regulatory Agreement* dated as of July 1, 2010, between the Debtor and OSHPD ("Regulatory Agreement").

The Restructured Note will be payable in equal, annual installments of principal and interest over 10 years following the Closing Date of the Settlement. OSHPD has agreed to the Debtor's issuance of the Restructured Note and to the grant of a junior security interest to secure repayment of the Restructured Note. In order to specify the respective rights of UHC and OSHPD to the collateral that will secure the Restructured Note, UHC and OSHPD also entered into an Intercreditor Agreement. Last, the Settlement provides that the Parties will exchange mutual, general releases.

The effectiveness of the Settlement was subject to the approval of the Bankruptcy Court, the consent of OSHPD to the Restructured Note under the applicable provisions of the Regulatory Agreement, and the execution of definitive documents in form and substance acceptable to the Debtor and UHC.

On January 17, 2014, the Bankruptcy Court entered its *Order Approving Compromise with UHC of California Pursuant to Bankruptcy Rule 9019(a).* The Closing Date of the Settlement occurred on April 25, 2014, when the Debtor executed and delivered the Restructured Note to UHC. The parties dismissed the Adversary Proceeding pursuant to a stipulation entered on June 4, 2014, and the Bankruptcy Court closed the Adversary Proceeding on August 11, 2014.

The Settlement further contemplated that the Trustee would remit to the District certain funds held by the Trustee under the Indenture less the amount of $15,133.22 as full and final payment of the reasonable charges and expenses due to the Trustee under the Indenture. Accordingly, on June 30, 2014, the Trustee refunded the amount of $99,918.18 to the District and delivered the cancelled Old Notes. Pursuant to the Settlement, the Trustee was discharged from any further obligations under the Indenture.[3]

9. Certain Other Settlements

In May 2013, the Debtor and Euro Style Management, Inc. ("ESM"), reached a settlement of certain disputes relating to a pharmacy construction project at the District. As part of a mutual waiver and release of claims, on May 3, 2013, ESM withdrew its proof of claim against the Debtor in the amount of $168,625.50 filed on January 25, 2013. No further payments were due or owing to or from either party related to the pharmacy project.

In October 2013, the Debtor and R-E Corporation reached a settlement related to that certain *Contract for Renovation/Construction of the Mendocino Coast District Hospital's Central Plant* dated June 25, 2010, for the renovation and construction of certain facilities at the Hospital. Each of the parties had asserted claims for alleged costs and/or liquidated damages

[3] Accordingly, any additional amounts that may be due to BNY as part of the BNY Claim (discussed below in Section V(E)) would be payable solely pursuant to the terms of the indentures for the Revenue Bonds.

associated with delayed construction of the central plant project. Under the settlement, the Debtor agreed to pay R-E Corporation $131,969, constituting the retention amount under the construction contract, in full and final satisfaction of all amounts due under the contract. In addition, R-E Corporation agreed to withdraw any pending claim(s) against the Debtor asserted in the Chapter 9 Case, whether or not filed, including the alleged delay claims.

10. Leases and Contracts

The Plan provides for the assumption by the Debtor of its provider agreements with Medicare and Med-Cal, as well as its unexpired lease of certain medical office space with Mendocino Coast Medical Plaza, LLC. Unless otherwise listed for rejection in Exhibit A to the Plan, all other executory contracts and unexpired leases are assumed by the Debtor under the Plan.

During the ordinary course of the Chapter 9 Case, certain leases of personal property and other equipment lapsed according to their respective terms, including leases with Creekridge Capital LLC and Well Fargo Equipment Finance, Inc. The Debtor handled the disposition of the rented equipment according to the applicable terms of the leases.

IV.

PLAN OVERVIEW

A DISCUSSION OF THE PRINCIPAL PROVISIONS OF THE PLAN AS THEY RELATE TO THE TREATMENT OF CLASSES OF ALLOWED CLAIMS IS SET FORTH IN ARTICLES V AND VI BELOW. THE DISCUSSION OF THE PLAN THAT FOLLOWS CONSTITUTES A SUMMARY ONLY AND SHOULD NOT BE RELIED UPON FOR VOTING PURPOSES. YOU ARE URGED TO READ THE DEBTOR'S PROPOSED PLAN IN FULL IN EVALUATING WHETHER TO ACCEPT OR REJECT THE PLAN. IF ANY INCONSISTENCY EXISTS BETWEEN THIS SUMMARY AND THE PLAN, THE TERMS OF THE PLAN CONTROL. ALL CAPITALIZED TERMS NOT OTHERWISE DEFINED HAVE THE MEANINGS ASCRIBED TO THEM IN THE PLAN.

V.

ADMINISTRATIVE CLAIMS

A. General Treatment

Administrative Claims are not placed into voting Classes; instead they are unclassified. They are not considered impaired and they do not vote on the Plan because they are automatically entitled to the specific treatment provided for them in the Bankruptcy Code.

Each Administrative Claim shall, unless the holder of such Claim shall have agreed to different treatment of such Claim, be paid in full in Cash on the latest of: (a) the 5th Business Day following the Effective Date, or as soon thereafter as practicable; (b) such date as may be fixed by the Bankruptcy Court, or as soon thereafter as practicable; (c) the 10th Business Day after such Claim is Allowed, or as soon thereafter as practicable; and (d) such date as the holder of such Claim and the Reorganized Debtor may agree.

The Disbursing Agent shall make Distributions to the holders of Administrative Claims, any PCO Claim and any BNY Claim from the Effective Date Deposit made by the Reorganized Debtor to the Plan Fund and, if necessary, from the general revenues of the Reorganized Debtor.

B. Administrative Claim Bar Date

All requests for allowance and payment of administrative expenses of the Chapter 9 Case must be filed by the Administrative Claim Bar Date. The Administrative Claim Bar Date **does** apply to any Claim (or portion of a Claim) that has previously been filed (in a proof of claim) or listed (in the List of Creditors), to the extent the Creditor asserting such Claim seeks priority for such claim (or portion thereof) based on the value of goods received by the Debtor within 20 days before the Petition Date pursuant to Section 503(b)(9) of the Bankruptcy Code. In other words, to the extent any Creditor asserts that any portion of its Claim (whether filed or listed) is entitled to priority under Section 503(b)(9) of the Bankruptcy Code, that Creditor must file a separate request for payment of such priority portion by the Administrative Claim Bar Date (unless such amount has been previously Allowed by order of the Bankruptcy Court).

In addition, the Administrative Claim Bar Date applies to any application for approval of any PCO Claim or BNY Claim.

The Administrative Claim Bar Date does **not** apply to (a) Administrative Claims previously Allowed by order of the Bankruptcy Court, or (b) administrative expenses that have previously been paid by the Debtor, in whole or in part, in the ordinary course of the Debtor's business. In addition, holders of administrative expenses based on liabilities or obligations incurred in the ordinary course of the Debtor's business following the Petition Date shall not be required to comply with the Administrative Claim Bar Date, provided that, (i) such holders have otherwise submitted an invoice, billing statement or other evidence of indebtedness to the Debtor in the ordinary course of business, and (ii) such claims are not past due according to their terms.

Among the Administrative Claims that have been previously Allowed by order of the Bankruptcy Court is the claim of CalPERS in the amount of $213,547.31 (described above), and the claims of Cardinal Health in the amounts of $126,260.46 and $8,931.09 (also described above).

Any Administrative Claim that must be filed by the Administrative Claim Bar Date and is not timely filed shall be forever barred from asserting a Claim against the Debtor or the Reorganized Debtor or its property, voting on the Plan, and sharing in any distribution under the Plan.

C. Assumption Obligations

The Plan provides the Debtor will assume all executory contracts and unexpired leases of the Debtor except for those contracts and leases that (i) are identified for rejection on **Exhibit A** to the Plan, if any, (ii) have otherwise been rejected by a prior order of the Bankruptcy Court, or (iii) are the subject of a pending motion to reject as of the Confirmation Date. The Debtor estimates that the outstanding amount of the Assumption Obligations (not otherwise previously paid by the Debtor or approved by the Bankruptcy Court) due under the executory contracts or unexpired leases assumed by the Debtor under Article IV of the Plan is approximately $72,000.

D. PCO Claim

As noted, the PCO must file an application for approval of any PCO Claim on or before the Administrative Bar Date. If the Bankruptcy Court grants such an award, or the District and the PCO otherwise agree to the payment of a PCO Claim, the PCO will be paid in full in Cash in such amounts as are agreed or approved by the Bankruptcy Court as soon thereafter as practicable. The Debtor reserves the right to dispute the award of a PCO Claim on the grounds, among others, that such Claim does not constitute an expense of administration in the Chapter 9 Case but is an Unsecured Claim.

E. BNY Claim

In addition, BNY must also file an application for approval of any BNY Claim arising under the Revenue Bonds on or before the Administrative Bar Date (as discussed above, following the payment by the Debtor to BNY of the amount of $15,133.22 in June 2014, there are no further claims under the Indenture for the Old Notes issued to UHC). If the Bankruptcy Court grants such an award, or the District and BNY otherwise agree to the payment of a BNY Claim, BNY will be paid in full in Cash in such amounts as are agreed or approved by the Bankruptcy Court as soon thereafter as practicable. The Debtor reserves the right to dispute the award of a PCO Claim on the grounds, among others, that such Claim does not constitute an expense of administration in the Chapter 9 Case but is an Unsecured Claim.

F. UHC New Note

On the Effective Date, the UHC Claim will be deemed withdrawn without necessity of any further notice or filings or approval of the Bankruptcy Court. The UHC New Note shall be treated in accordance with the terms and conditions of the UHC Settlement Documents and the legal, equitable or contractual rights to which UHC is entitled under such documents shall not be altered. On and after the Effective Date, the UHC New Note and the UHC Settlement Documents shall remain in full force and effect and be binding upon the Reorganized Debtor according to their respective terms.

G. Payments for Services or Expenses in the Chapter 9 Case

In order to confirm the Plan, all amounts to be paid by the Debtor for services and expenses in the Chapter 9 Case or incident to this Plan must be fully disclosed and reasonable pursuant to Section 943(b)(3) of the Bankruptcy Court.

As of November 30, 2014, the total amount of fees for services rendered and costs incurred by Pachulski Stang Ziehl and Jones LLP, as general insolvency counsel for the Debtor, was approximately $562,000. The total amount of fees for services rendered and costs incurred by the Debtor's prior counsel, Friedman & Springwater LLP, was $290,397.88. These amounts have been fully disclosed to the Debtor and the Debtor believes they are reasonable. The Debtor also received services related to the Chapter 9 Case from the offices of John J. Ruprecht (as administrative and local government counsel for the Debtor). As of September 30, 2014, the amount incurred in the Chapter 9 Case by Mr. Ruprecht was $49,312.50.

The Debtor has also used attorneys at Hanson Bridgett LLP and Ober | Kaler Health Law Group (as health care counsel), and at Arnold & Porter LLP (as labor counsel). These firms have been paid by the Debtor in the ordinary course.

As of March 25, 2014, the total amount paid for services rendered and costs incurred by the PCO in the Chapter 9 Case, was $79,825.76. This amount has been reviewed by the Debtor and the Debtor believes it is reasonable, although it reserves the right to review these prior payments in combination with any PCO Claim that may be submitted.

The Debtor is not currently aware of the existence of any additional Plan Payments that are not otherwise subject to disclosure and approval by the Bankruptcy Court or were otherwise approved by order of the Bankruptcy Court.

VI.

OTHER CLAIMS

A. Summary

In accordance with Section 1123(a)(1) of the Bankruptcy Code, all Claims of Creditors (except those Claims receiving the treatment set forth in Article II of the Plan) are placed in the Classes described below for all purposes, including voting on, confirmation of, and distribution under, the Plan:

B. Classification of Claims Against the Debtor

The classification of Claims against the Debtor pursuant to the Plan is as follows:

Class	Status	Voting Rights
Class 1 – Revenue Bonds 1996	Unimpaired	Not Entitled to Vote
Class 2 – Revenue Bonds 2009	Unimpaired	Not Entitled to Vote
Class 3 – Revenue Bonds 2010	Unimpaired	Not Entitled to Vote
Class 4 – General Obligation Bonds	Unimpaired	Not Entitled to Vote
Class 5 – OSHPD LOC Claim	Impaired	Entitled to Vote
Class 6 – Miscellaneous Secured Claims	Unimpaired	Not Entitled to Vote
Class 7 – Convenience Claims	Impaired	Entitled to Vote
Class 8 – Unsecured Claims	Impaired	Entitled to Vote
Class 9 – Liability Claims	Unimpaired	Deemed to Accept

C. Treatment of Claims Against the Debtor

1. Bonds.

The Plan provides that the Revenue Bonds and the GO Bonds will remain unimpaired and that the legal, equitable, or contractual rights to which the holders of such bonds are entitled shall not otherwise be altered. The indentures and the insurance applicable to each of the Revenue Bonds will, similarly, remain in full force and effect following the effectiveness of the Plan. The insurance applicable to the GO Bonds will also remain in full force and effect following the effectiveness of the Plan.

2. OSHPD.

The OSHPD LOC Claim shall be an Allowed Secured Claim in a principal amount equal to the sum of (x) $1,005,805.55, and (y) the OSHPD LOC Interest Accrual ("Allowed OSHPD Claim"). On the 5th Business Day following the OSHPD LOC Claim Repayment Date, or as soon thereafter as practicable, the District will pay OSHPD in Cash the amount of $5,805.55 plus the OSHPD LOC Interest Accrual.[4] The remaining balance of the Allowed OSHPD Claim in the principal amount of $1 million will (a) bear interest commencing on the OSHPD LOC Claim Repayment Date at a rate of five percent (5%) per annum until paid (or pre-paid) in full, and (b) be paid in monthly installments of principal and interest amortized over a term of six (6) years following the OSHPD LOC Claim Repayment Date as follows: (i) $100,000 in principal payments in each of the first and second year following the OSHPD LOC Claim Repayment

[4] Assuming an Effective Date for the Plan of February 15, 2015, the Debtor estimates that the amount of this OSHPD Initial Payment will be approximately $113,000.

Date, and (ii) $200,000 in principal payments in each of the third, fourth, fifth and sixth year following the OSHPD LOC Claim Repayment Date.

Moreover, the Allowed OSHPD Claim will remain secured pursuant to the terms of the OSHPD Regulatory Agreement and the lien and security interest granted by the Debtor thereunder. A default by the Reorganized Debtor in the timely payment of the Allowed OSHPD Claim pursuant to the Plan will entitle OSHPD to exercise its rights and remedies under the terms of the OSHPD Regulatory Agreement. The Reorganized Debtor shall have the right from time to time following the Effective Date to prepay without penalty the then outstanding amount of the Allowed OSHPD Claim.

The treatment afforded the OSHPD LOC Claim under the Plan represents the sole distribution to OSHPD by the Debtor. With that exception, OSHPD has no other or additional Claims against the Debtor, including under the NCB Assignment Agreement or the OSHPD Stipulation.

3. Miscellaneous Secured Claims.

The Debtor is not currently aware of the existence of any miscellaneous Class 6 Secured Claims. To the extent any such claims are asserted and Allowed then, on or before the Effective Date of the Plan, the Debtor will select one of the following alternative treatments for each holder of an Allowed Secured Claim: (1) the Debtor will leave unaltered the legal, equitable, and contractual rights constituting such Claim, including, without limitation, any Liens related thereto and, on the Effective Date, the Claim shall be reinstated and cured, (2) the Debtor will abandon or surrender to the holder of such Claim the property securing the Claim, in full satisfaction and release of such Claim, or (3) the Debtor will make a Cash payment equal to the amount of such Claim, or such lesser amount to which the holder of the Claim and the Debtor shall agree, in full satisfaction and release of the Claim.

4. Unsecured Claims.

Unsecured Claims are divided into two Classes – Class 7 includes those claims equal to or less than $5,000 and Class 8 includes those claims above this threshold. However, any holder of a Claim that would otherwise have been classified in Class 8 may elect, on the Ballot, to reduce the aggregate of all its Claims to a single Convenience Claim of $5,000 and participate in Class 7. If so, such holder shall be deemed to have waived any right to participate in Class 8 as to any and all Claims held by such holder and shall receive no distribution under Class 8.

Each holder of an Allowed Convenience Claim shall receive, in exchange for and in full and final satisfaction of such Claim, a Cash payment equal to 55% of the amount of such Claim. The Debtor estimates that the aggregate amount of Convenience Claims (without taking into account the possible election by Creditors to reduce their claims), is approximately $112,000 held by approximately 140 Creditors.[5] The maximum payment that will be made to the holder of an Allowed Convenience Claim is $2,750.

Each holder of an Allowed Unsecured Claim shall receive, in exchange for and in full and final satisfaction of such Claim, a Pro Rata share of the GUC Distribution. The Debtor estimates that the aggregate amount of Unsecured Claims (after taking into account the possible election by certain Creditors to reduce their claims to Convenience Claims), is approximately $1.31 million held by approximately 80 Creditors. The Debtor further estimates that the aggregate percentage distribution to the holder of an Allowed Unsecured Claim is 45%.

[5] The Debtor has reserved an additional amount in the Effective Date Deposit for the possible Convenience Claim election by additional Creditors in Class 8 and has estimated, for purposes of this Disclosure Statement, that the total Class 7 Claims may be approximately $163,000.

5. Liability Claims

Each holder of a Liability Claim shall be paid from the proceeds of any applicable insurance policy issued to or for the benefit of the District. The Debtor estimates that the aggregate amount reserved on account of potential Liability Claims (subject to all applicable rights and defenses) is approximately $42,000. These amounts, to the extent determined to constitute a liability of the Debtor, would be payable under applicable insurance.

VII.

ACCEPTANCE OR REJECTION OF THE PLAN

A. Voting Classes

Each holder of an Allowed Claim in Classes 5, 7 and 8 is entitled to vote either to accept or to reject the Plan. Only those votes cast by holders of Allowed Claims shall be counted in determining whether acceptances have been received sufficient in number and amount to obtain Confirmation.

B. Acceptance by Impaired Classes

An impaired Class of Claims shall have accepted the Plan if (a) the holders (other than any holder designated under section 1126(e) of the Bankruptcy Code) of at least two-thirds in amount of the Allowed Claims actually voting in such Class have voted to accept the Plan and (b) the holders (other than any holder designated under section 1126(e) of the Bankruptcy Code) of more than one-half in number of the Allowed Claims actually voting in such Class have voted to accept the Plan.

C. Presumed Acceptance/Rejection of Plan

Classes 1, 2, 3, 4, 6 and 9 are unimpaired and the holders of Claims in such Class are therefore deemed to accept the Plan and are not entitled to vote.

D. Nonconsensual Confirmation

In the event that any impaired Class of Claims does not accept the Plan in accordance with Sections 1126 and 1129(a)(8) of the Bankruptcy Code, the Debtor hereby reserves the right to (i) request that the Bankruptcy Court confirm the Plan in accordance with Section 1129(b) of the Bankruptcy Code on the basis that the Plan is fair and equitable as to the holders of Claims in any such Class, or (ii) amend or modify the Plan in accordance with its terms or as otherwise permitted.

E. How to Vote

A form of Ballot is being provided to Creditors in Classes 5, 7 and 8 pursuant to which Creditors in such Classes may vote their acceptance or rejection of the Plan and make the Convenience Claim election, if applicable. In order to vote on the Plan, a Creditor should complete the Ballot, as indicated thereon, (1) by indicating on the enclosed ballot that (a) it accepts the Plan or (b) rejects the Plan and (2) by signing its name and mailing the ballot in the envelope provided for this purpose. The Debtor's bankruptcy counsel will count the Ballots.

IN ORDER TO BE COUNTED, BALLOTS MUST BE COMPLETED, SIGNED AND RECEIVED NO LATER THAN JANUARY 30, 2015, AT THE FOLLOWING ADDRESS:

Pachulski Stang Ziehl & Jones LLP
Attn: MCHCD Ballots
150 California Street, 15th Floor
San Francisco, CA 94111

CREDITORS SHOULD NOT SEND BALLOTS VIA FACSIMILE OR E-MAIL. IF A BALLOT IS NOT PROPERLY COMPLETED, SIGNED AND RECEIVED AS DESCRIBED, IT WILL NOT BE COUNTED. IF A BALLOT IS DAMAGED OR LOST, A CREDITOR MAY REQUEST A REPLACEMENT BALLOT BY ADDRESSING A WRITTEN REQUEST TO THE ADDRESS SHOWN ABOVE OR CALLING 415-263-7000 AND ASKING FOR CLAIRE JANES. FACSIMILE OR ELECTRONICALLY SUBMITTED BALLOTS WILL NOT BE COUNTED.

VIII.

IMPLEMENTATION OF THE PLAN

The Plan shall be implemented on the Effective Date. In addition to the provisions set forth elsewhere in this Plan regarding means of execution, the following shall constitute the principal means for the implementation of the Plan.

A. Retention of Property.

Upon the Effective Date, the Reorganized Debtor shall be vested with all right, title and interest in all of the assets of the Debtor for the purposes set forth in this Plan.

B. Postconfirmation Operations.

1. Continued Business.

On and after the Effective Date, the Reorganized Debtor shall continue to operate pursuant to the District Law and other applicable law. The Reorganized Debtor will continue to operate the District Hospital and may use, acquire and dispose of its assets without supervision by the Bankruptcy Court and free of any restrictions under the Bankruptcy Code or the Bankruptcy Rules.

2. Payment of Reorganized Debtor Expenses.

The expenses incurred by the Reorganized Debtor or the Disbursing Agent related to the Plan on and after the Effective Date (including the fees and costs of their attorneys and other professionals), may be paid by the Reorganized Debtor in the ordinary course of its affairs without further notice to Creditors or approval of the Bankruptcy Court.

3. PCO.

On the Effective Date, the PCO shall be released and discharged from any further rights and duties in connection with the Chapter 9 Case, except with respect to any disputes over the amount, allowance or payment of any PCO Claim.

4. Governance.

On and after the Effective Date, the management, control and operation of the Reorganized Debtor shall continue to be the general responsibility of the District Governing Body in office as of the Effective Date. Each of the members of the District Governing Body shall serve in accordance with applicable nonbankruptcy law.

5. Plan Fund.

On the Effective Date, the Reorganized Debtor shall establish the Plan Fund for purposes of making Distributions under the Plan and shall make the Effective Date Deposit to the Plan Fund. The Plan Fund shall secure the payment of the obligations of the Reorganized Debtor to Creditors as provided in the Plan. Unless otherwise provided, the Confirmation Order shall appoint the Reorganized Debtor as the Disbursing Agent under the Plan for the purposes set forth in Section 944(b)(2) of the Bankruptcy Code. The Debtor estimates that it will make an Effective Date Deposit in the amount of $777,000.

C. Retained Claims and Defenses.

1. Retention.

None of the Retained Claims or Defenses shall be precluded, barred or subject to estoppel or laches because the Plan or the accompanying Disclosure Statement does not specifically identify a Retained Claim or Defense or the entity against whom a Retained Claim or Defense may be asserted. **Parties in interest, including Creditors, may not rely on the absence of a reference in the Disclosure Statement or the Plan as any indication that the Debtor will not pursue any available Retained Claims and Defenses against such parties**. The Bankruptcy Court shall retain jurisdiction to determine any Retained Claims or Defenses. Following the Effective Date, the Reorganized Debtor may compromise or dispose of the Retained Claims and Defenses without further notice to Creditors or authorization of the Bankruptcy Court.

2. Investigation and Enforcement.

Pursuant to Section 1123(b)(3) of the Bankruptcy Code, the Reorganized Debtor shall have and may enforce all powers and authority of a trustee under the Bankruptcy Code to the extent of and consistent with its authority under the Plan. The Reorganized Debtor may investigate Retained Claims and Defenses and may assert, settle, adjust or enforce any such claims or defenses.

3. Preference Actions Deemed Waived.

The statute of limitation for the Debtor to commence actions to recover preferential transfers under Section 547 of the Bankruptcy Code expired on October 17, 2014 (two years following the Petition Date). The Debtor reviewed potential Preference Actions under section 547 of the Bankruptcy Code against Creditors that received payments within the 90 days preceding the Petition Date and determined that the pursuit of such actions would not be cost effective given the amount and timing of estimated Distributions to Creditors and the likelihood that Creditors might assert an "ordinary course of business" defense to any avoidance claims. Moreover, the Debtor further determined that there were no material transfers made during the 90-day period prior to the Petition Date. Accordingly, all Preference Actions of the Debtor are waived and released under the Plan. Nevertheless, such waiver applies solely to the extent that such actions seek an affirmative recovery from a Creditor and not to the extent such actions are raised as a defense to or offset against the allowance of a Claim asserted by a Creditor.

D. Distributions.

1. Reserves for Disputed Claims.

On the Effective Date, and from time to time thereafter, the Reorganized Debtor will establish adequate and prudent reserves in an amount that is sufficient to make the payments required under the Plan to the holders of Disputed Claims against the Debtor, as and when such claims may be Allowed, amended, settled or withdrawn. The funds reserved on account of

Disputed Claims will not be distributed but will be retained by the Disbursing Agent in accordance with this Plan pending resolution of such Disputed Claims. No holder of a Disputed Claim shall have any Claim against the Plan Fund with respect to such Claim until such Disputed Claim shall become an Allowed Claim.

2. Full and Final Satisfaction.

Upon the Effective Date, the Disbursing Agent shall be authorized and directed to distribute the amounts required under the Plan to the holders of Administrative Claims and Allowed Claims according to the provisions of the Plan. Upon the Effective Date, all Debts of the Debtor shall be deemed fixed and adjusted pursuant to this Plan and the Debtor shall have no further liability on account of any Claims except as set forth in this Plan. All Distributions made by the Disbursing Agent under the GUC Initial Deposit and the GUC Subsequent Deposits into the Plan Fund be in full and final satisfaction, settlement and release of all Claims.

3. Source of Funds for Distributions.

The Effective Date Deposit into the Plan Fund (and, if necessary, the general revenues of the Reorganized Debtor) shall be used to make Distributions, according to the provisions of the Plan, to the holders of (i) Administrative Claims, (ii) Allowed Secured Claims, and (iii) Allowed Convenience Claims. Only the GUC Initial Deposit and the GUC Subsequent Deposits into the Plan Fund will be used to make Distributions to the holders of Allowed Unsecured Claims.

4. No Post-Petition Accrual.

For purposes of computing distributions under the Plan, no Allowed Claim or Administrative Claim shall include any interest, penalty, premium or late charge accruing on such claim from and after the Petition Date, other than as permitted pursuant to Section 506(b) of the Bankruptcy Code or by a Final Order of the Bankruptcy Court.

5. Distribution Procedures.

Except as otherwise agreed by the holder of a particular Claim, or as provided in this Plan, all amounts to be paid by the Disbursing Agent under the Plan shall be distributed in such amounts and at such times as is reasonably prudent. The Reorganized Debtor shall file all objections to Disputed Claims on or before the first anniversary of the Effective Date, unless the Bankruptcy Court, for cause shown, extends such deadline.

6. Disbursing Agent.

The Disbursing Agent may employ or contract with other persons or entities to perform the payment, tax withholding and remittance obligations created under the Plan. The Disbursing Agent may delegate any of its rights and responsibilities under the Plan to other persons or entities as necessary or appropriate to carry out speedy and inexpensive Distributions to Creditors under the Plan. Such persons or entities may receive reasonable compensation for services rendered and reimbursement for expenses incurred in connection with this Plan or any functions or responsibilities adopted under the Plan.

7. Disputed Claims.

The Reorganized Debtor shall be authorized to settle, or withdraw any objections to, any Disputed Claims following the Confirmation Date without further notice to Creditors or authorization of the Bankruptcy Court, in which event such Claim shall be deemed to be an Allowed Claim in the amount compromised for purposes of this Plan. No Distributions shall be

made by the Disbursing Agent on account of Disputed Claims unless and to the extent such Claims become Allowed Claims.

8. Unclaimed Distributions.

Any entity which fails to claim any Cash within ninety (90) days from the date upon which a Distribution is first made to such entity shall forfeit all rights to any Distribution under the Plan and the Disbursing Agent shall be authorized to cancel any Distribution that is not timely claimed. Pursuant to Section 347(b) of the Bankruptcy Code, upon forfeiture, such Cash (including interest thereon, if any) shall revert to the Reorganized Debtor free of any restrictions under the Plan, the Bankruptcy Code or the Bankruptcy Rules. Upon forfeiture, the claim of any Creditor with respect to such funds shall be discharged and forever barred notwithstanding any federal or state escheat laws to the contrary, and such Creditors shall have no claim whatsoever against the Reorganized Debtor or any holder of an Allowed Claim to whom distributions are made by the Disbursing Agent.

9. Setoff.

Nothing contained in this Plan shall constitute a waiver or release by the Debtor of any right of setoff or recoupment the Debtor may have against any Creditor. The Reorganized Debtor may, but is not required to, set off or recoup against any Claim and the payments or other distributions to be made under the Plan in respect of such Claim, claims of any nature whatsoever that arose before the Petition Date that the Debtor may have against the holder of such Claim.

10. Taxes.

The Disbursing Agent shall be entitled to deduct any federal, state or local withholding taxes from any Cash payments made with respect to Allowed Claims, as appropriate. The Disbursing Agent shall be authorized to take all actions necessary to comply with applicable withholding and recording requirements. Notwithstanding any other provision of this Plan, each holder of an Allowed Claim that has received a Distribution shall have sole and exclusive responsibility for the satisfaction or payment of any tax obligation imposed by any governmental unit, including income, withholding and other tax obligation on account of such distribution.

11. De Minimis Distributions.

If any interim distribution under the Plan to the holder of an Allowed Claim would be less than $10.00, the Disbursing Agent may withhold such distribution until a final distribution is made to such holder. If any final distribution under the Plan to the holder of an Allowed Claim would be less than $5.00, the Disbursing Agent may cancel such distribution. Any unclaimed distributions shall be treated as unclaimed property under Section 5.5.7 of the Plan.

E. <u>Power and Authority of the Disbursing Agent</u>

The Disbursing Agent may employ or contract with other entities to perform the obligations created under the Plan. Any third party Disbursing Agent shall receive reasonable compensation for services rendered and reimbursement for expenses incurred in connection with the Plan or any functions or responsibilities adopted under the Plan which amounts may be paid by the Reorganized Debtor without further notice to Creditors as approval of the Bankruptcy Court. The Disbursing Agent shall be empowered to (i) effect all actions and execute all agreements, instruments, and other documents necessary to perform its duties under the Plan, (ii) make all distributions contemplated hereby, (iii) employ professionals to represent it with respect to its responsibilities, and (iv) exercise such other powers as may be vested in the Disbursing Agent by order of the Bankruptcy Court, pursuant to the Plan, or as deemed by the Disbursing

Agent to be necessary and proper to implement the provisions hereof. To the extent that the Reorganized Debtor acts as the Disbursing Agent, the Reorganized Debtor shall not receive a fee for such services, although the Reorganized Debtor may employ and pay persons or entities salaries, wages or ordinary compensation for services performed.

IX.

EXECUTORY CONTRACTS AND UNEXPIRED LEASES

A. Assumption.

On the Effective Date, pursuant to Section 1123(b)(2) of the Bankruptcy Code, the Debtor will assume all executory contracts and unexpired leases of the Debtor *except* for those contracts and leases that (i) have been expressly identified for rejection on **Exhibit A** to this Plan (together with any additions, deletions, modifications or other revisions to such Exhibit as may be made by the Debtor prior to the Confirmation Date), (ii) have otherwise been rejected by order of the Bankruptcy Court, or (iii) are the subject of a pending motion to reject as of the Confirmation Date.

B. Assumption of Certain Contracts and Leases.

On the Effective Date, pursuant to Section 1123(b)(2) of the Bankruptcy Code, the Debtor will assume (i) the *Health Care Information System Software Agreement* dated February 13, 2004, and the *Health Care Information System Software Agreement* dated June 30, 2004, between the Debtor and Medical Information Technology, Inc. ("Meditech"), and (ii) the *Software License and Services Agreement* dated December 28, 2011, between the Debtor and NextGen Healthcare Information Systems, LLC ("NextGen"). The Assumption Obligation due under the Meditech contracts is $12,805 and the Assumption Obligation due under the NextGen contract is $38,417.49.

On the Effective Date, pursuant to Section 1123(b)(2) of the Bankruptcy Code, the Debtor will assume (i) that certain *Lease* dated May 8, 2003, between Mendocino Coast Medical Plaza, LLC ("MCMP"), and Mendocino Medical Associates, P.C. ("MMA"), as amended, and the *Assignment and Assumption of Lease and Consent of Lessor* dated May 3, 2007, among MCMP, MMA and the Debtor, and (ii) that certain *Ground Lease* dated June 1, 2004, between MCMP and the Debtor. There are no Assumption Obligations due under any of the foregoing unexpired leases.

C. Assumption of District Provider Agreements.

1. Medicare Provider Agreement.

On June 13, 2014, the District made a voluntary submission to the Centers for Medicare and Medicaid Services (CMS), relating to inadvertent non-compliance with certain technical requirements of the federal physician self-referral statute (42 U.S.C.§ 1395nn) and the corresponding regulations (42 CFR §411.351, *et seq*.), commonly known as the "Stark law." The regulations for providing services to Medicare beneficiaries are very complex and any deviation from the regulations, including inadvertent omissions, may result in billing compliance issues with the Medicare program. The District made this disclosure using the Self-Referral Disclosure Protocol (SRDP) promulgated by CMS in September 2010.

The Stark law prohibits a physician from referring Medicare patients for certain services (called designated health services) to entities with which the physician (or an immediate family member) has a financial relationship, unless a statutory exception applies. As required by the SRDP, the District informed CMS that the estimated value of the physician referrals potentially

affected by the matters identified in the June 2014 submission was in the approximate amount of $11.55 million. This recent submission followed a prior submission to CMS that the Hospital made on June 29, 2012. The prior submission also related to potential violations under the Stark law and was in the approximate amount of $344,169. CMS has filed a proof of claim in the Chapter 9 case on November 8, 2013, on account of the amounts voluntarily disclosed by the District in its June 2012 submission.

The issues disclosed by the District included missing or delayed signatures on agreements, continued performance under physician agreements after their stated expiration, and other technical issues. The District has since corrected the issues identified in its disclosures. The District's internal investigation, moreover, revealed no benefit to physicians and no inappropriate costs to any governmental entity as a result of the self-disclosed technical violations. The District is in the process of continuing to gather information related to the prior out of compliance status and is actively negotiating with CMS to settle the potential claims for refunds and penalties. The District seeks to settle any such liability on the basis that the technical and inadvertent nature of the potential violations, the absence of any benefit to the physicians involved in the potential violations, the absence of any damage to any governmental health program, and the voluntary nature of the disclosure are significant mitigating factors that justify a waiver of the potential exposure.

The Plan, thus, provides for the District's assumption of its Medicare provider agreement with the payment of a reduced cure amount of $20,000, payable over four years, in full and final satisfaction of any claims under the agreement, including the Stark law violations disclosed pursuant to the SRDPs. Specifically, on the Effective Date, pursuant to Section 1123(b)(2) of the Bankruptcy Code, the Debtor will assume the Medicare Provider Agreement. All Claims of CMS will be deemed Allowed as an Assumption Obligation in the reduced amount of $20,000 ("CMS Assumption Obligation"). The Reorganized Debtor will pay the CMS Assumption Obligation, in full and final satisfaction and settlement of any Claims for the cure of any defaults or compensation for any actual pecuniary loss arising under the Medicare Provider Agreement prior to the Effective Date, in three equal installments of $5,000 payable, without interest, on each of the Effective Date and the first, second and third anniversary of the Effective Date. With the exception of the CMS Assumption Obligation, no further or additional amounts will be due or payable from the Debtor to CMS on account of any transaction, occurrence, act or omission arising prior to the Effective Date under the Medicare Provider Agreement.

The Plan also provides that CMS will continue to remit any underpayments to the Debtor in the ordinary course. Specifically, following the Effective Date, CMS shall continue to remit any outstanding reimbursements due from CMS to the District for any cost reporting periods prior to the Effective Date without offset or recoupment against the CMS Assumption Obligation or otherwise.

2. Medi-Cal Provider Agreement.

On the Effective Date, pursuant to Section 1123(b)(2) of the Bankruptcy Code, the Debtor will assume the Medi-Cal Provider Agreement. There are no Assumption Obligations due under the Medi-Cal Provider Agreement.

Upon and following the Effective Date, no further or additional amounts are or shall become due or payable by the Debtor or the Reorganized Debtor to Medi-Cal on account of any transaction, occurrence, act or omission arising prior to the Effective Date under (a) the Medi-Cal Provider Agreement, or (b) the Medi-Cal plan or any other Medicaid health care program as defined under the Social Security Act.

The Plan also provides that Medi-Cal will continue to remit any underpayments to the Debtor in the ordinary course. Specifically, following the Effective Date, Medi-Cal shall

continue to remit any outstanding reimbursements due from Medi-Cal to the District for any cost reporting periods prior to the Effective Date without offset or recoupment.

D. Rejection.

On the Effective Date, pursuant to Section 1123(b)(2) of the Bankruptcy Code, the Debtor will reject the executory contracts and unexpired leases of the Debtor that have been expressly identified for rejection on **Exhibit A** to this Plan (together with any additions, deletions, modifications or other revisions to such Exhibit as may be made by the Proponents prior to the Confirmation Date). Each executory contract and unexpired lease listed in **Exhibit A** shall include any modifications, amendments and supplements to such agreement, whether or not listed in **Exhibit A**. Any Person asserting any Claim for damages arising from the rejection of an executory contract or unexpired lease of the Debtor under this Plan shall file such Claim on or before the Rejection Claim Bar Date, or be forever barred from (i) asserting such Claim against the Debtor, the Reorganized Debtor or any property of the Debtor, and (ii) sharing in any distribution under the Plan.

E. Assumption Obligations.

Any Person that fails to object to the assumption by the Debtor of an executory contract or unexpired lease on or prior to the deadline set by the Bankruptcy Court for filing objections to Confirmation of the Plan shall be forever barred from (i) asserting any other, additional, or different amount on account of such obligations against the Debtor or the Reorganized Debtor, and (ii) sharing in any other, additional or different distribution under the Plan on account of such obligations. If and to the extent any Assumption Obligation is determined and allowed by the Bankruptcy Court, the Debtor shall satisfy such Assumption Obligation by making a Cash payment in the manner provided for Administrative Claims under Article II of the Plan.

F. Effect of Confirmation Order.

The Confirmation Order shall constitute an order of the Bankruptcy Court approving, as of the Effective Date, the assumption or rejection by the Debtor pursuant to Sections 365(a) and 1123(b)(2) of the Bankruptcy Code of all executory contracts and unexpired leases identified under Article VI of the Plan. The contracts and leases identified in the Plan will be assumed or rejected, respectively, only to the extent that such contracts or leases constitute pre-petition executory contracts or unexpired leases of the Debtor, and the identification of such agreements under the Plan does not constitute an admission with respect to the characterization of such agreements or the existence of any unperformed obligations, defaults, or damages thereunder. The Plan does not affect any executory contracts or unexpired leases that (a) have been previously assumed, rejected or terminated prior to the Confirmation Date, (b) are the subject of a pending motion to assume, reject or terminate as of the Confirmation Date, or (c) are not identified for assumption or rejection in the Plan.

G. Post-Petition Agreements.

All contracts, leases and other agreements entered into by the Debtor on or after the Petition Date, which have not expired or been terminated in accordance with their terms, shall be performed by the Reorganized Debtor in the ordinary course of business and shall survive and remain in full force and effect following the Effective Date.

H. Insurance.

Any insurance policy issued to or for the benefit of the Debtor (or any member of the District Governing Body or other Agent of the Debtor) before or after the Petition Date shall remain in full force and effect after the Effective Date according to its terms.

I. Indentures.

The Revenue Bond Indentures shall remain in full force and effect after the Effective Date according to their respective terms. The General Obligation Bonds Insurance shall remain in full force and effect after the Effective Date according to its terms.

X.

CONDITIONS PRECEDENT

A. Conditions to Confirmation.

The following are conditions to the confirmation of the Plan: (1) the Bankruptcy Court shall have entered an order approving a Disclosure Statement with respect to the Plan in form and substance satisfactory to the Debtor; and (2) the Confirmation Order shall have been entered and shall be in a form and substance reasonably acceptable to the Debtor.

B. Conditions to Effectiveness.

The following are conditions to the occurrence of the Effective Date: (1) the Confirmation Date shall have occurred; and (2) the Confirmation Order shall be a Final Order, except that the Debtor reserves the right, in its sole discretion, to cause the Effective Date to occur notwithstanding the pendency of an appeal of the Confirmation Order.

C. Waiver of Conditions.

Conditions to Confirmation and the Effective Date may be waived in whole or in part by the Debtor at any time without notice, an order of the Bankruptcy Court, or any further action other than proceeding to Confirmation and consummation of the Plan.

XI.

EFFECTS OF CONFIRMATION

A. Binding Effect.

The rights afforded under the Plan and the treatment of Claims under the Plan shall be the sole and exclusive remedy on account of such Claims against the Debtor and the Reorganized Debtor, including any interest accrued on such Claims from and after the Petition Date or interest which would have accrued but for the commencement of the Chapter 9 Case. Confirmation of the Plan shall bind and govern the acts of the Reorganized Debtor and any Creditor of the Debtor, whether or not: (i) a proof of Claim is filed or deemed filed pursuant to Section 501 of the Bankruptcy Code; (ii) a Claim is allowed pursuant to Section 502 of the Bankruptcy Code, or (iii) the holder of a Claim has accepted the Plan.

B. Vesting.

Upon the Effective Date, all property of the Debtor shall vest in the Reorganized Debtor for the purposes contemplated under the Plan. Following the Effective Date, the Reorganized Debtor may use, transfer and dispose of any such property free of any restrictions imposed by the Bankruptcy Code or the Bankruptcy Rules and without further approval of the Bankruptcy Court or notice to Creditors, except as may otherwise be required under the Plan or the Confirmation Order.

C. Discharge.

The rights afforded under the Plan and the treatment of Claims under the Plan are in exchange for and in complete satisfaction, discharge, and release of all Claims by Creditors against the Debtor. Confirmation of the Plan shall discharge the Debtor from all Claims or other debts that arose at any time before the Effective Date whether or not: (i) a proof of claim based on such debt is filed or deemed filed pursuant to Section 501 of the Bankruptcy Code; (ii) a Claim based on such debt is Allowed pursuant to Section 502 of the Bankruptcy Code; or (iii) the holder of a Claim has accepted the Plan. As of the Effective Date, all Creditors that have held, currently hold or may hold a Claim or other debt or liability that is discharged or any other right that is terminated under the Bankruptcy Code or the Plan are permanently enjoined from commencing or continuing any action, the employment of process, or other act, to collect, recover or offset any such Claim as a personal liability of the Debtor or the Reorganized Debtor to the full extent permitted by Sections 524(a)(1) and (2) of the Bankruptcy Code.

D. No Exceptions Under Plan.

There are no debts of the Debtor that are excepted by the Plan from the discharge afforded the Debtor under Section 944 of the Bankruptcy Code.

E. Limitation of Liability.

The Debtor, the Reorganized Debtor and their respective Agents shall have all of the benefits and protections afforded under Section 1125(e) of the Bankruptcy Code and applicable law.

F. Exoneration.

The Debtor, the Reorganized Debtor, and their respective Agents shall not be liable, other than for gross negligence or willful misconduct, to any holder of a Claim or any other entity with respect to any action, omission, forbearance from action, decision, or exercise of discretion taken at any time after the Petition Date and prior to the Effective Date in connection with: (a) the management or operation of the Debtor or the discharge of its duties under the Bankruptcy Code, (b) the implementation of any of the transactions provided for, or contemplated in, the Plan, (c) any action or inaction taken in connection with either the enforcement of the Debtor's rights against any entities or the defense of Claims asserted against the Debtor with regard to the Chapter 9 Case, (d) any action taken in the negotiation, formulation, development, proposal, disclosure, Confirmation or implementation of the Plan, or (e) the administration of the Plan or the assets and property to be distributed pursuant to the Plan. The Debtor, the Reorganized Debtor, and their respective Agents may reasonably rely upon the opinions of their respective counsel, accountants, and other experts and professionals and such reliance, if reasonable, shall conclusively establish good faith and the absence of gross negligence or willful misconduct; provided however, that a determination that such reliance is unreasonable shall not, by itself, constitute a determination or finding of bad faith, gross negligence or willful misconduct. Any action, suit or proceeding by any holder of a Claim or any other entity contesting any action, omission, forbearance from action, decision or exercise of discretion in connection with the matters in subsections *(a)* through *(e)* above, by the Debtor, the Reorganized Debtor and their respective Agents, or any of them, whether commenced before or after the Effective Date, shall be commenced only in the Bankruptcy Court.

G. Retention of Jurisdiction.

Notwithstanding the entry of the Confirmation Order and the occurrence of the Effective Date, the Bankruptcy Court will retain jurisdiction over the Chapter 9 Case after the Effective

Date to the extent legally permissible pursuant to Section 945(a) of the Bankruptcy Code, including, without limitation, jurisdiction to determine the matters identified in Article IX of the Plan.

XII.

FEASIBILITY AND BEST INTERESTS

Confirmation of the Plan requires, among other things, that (a) each impaired Class accepts the Plan, and (b) the Plan is in the best interests of creditors and is feasible. The Bankruptcy Court must also find that the Plan meets several requirements that are generally applicable to reorganizations under Chapter 11 of the Bankruptcy Code as well as certain requirements that are particular to municipal debtors under Chapter 9. For example, the court must determine that the Debtor has obtained any regulatory or electoral approval necessary to carry out the Plan. In this case, the Debtor believes that the Plan complies with all applicable regulatory requirements and that no voter approval is needed in order to implements the Plan.

A. Feasibility

The Debtor believes that the Plan is feasible in accordance with section 943(b)(7) of the Bankruptcy Code. The Debtor's most recent financial statements for its Fiscal Year 2013-14 (ending June 30, 2014), is attached hereto as **Exhibit A**. The Debtor's projected operating budget for its following Fiscal Year 2014-15 (ending June 30, 2015), is attached hereto as **Exhibit B**. The Debtor believes that these financial reports reflect its ability to both meet its ongoing obligations under the Plan and maintain its public services at an adequate level.

The Debtor estimates that, as of a projected Effective Date of February 15, 2015, the Debtor will establish a Plan Fund (once all deposits have been completed) of approximately $1.377 million. From this amount, the Debtor may have to pay approximately $574,000 in potential estimated Administrative Claims (this amount includes only the first installment of the CMS Assumption Obligation). In addition, the Debtor estimates that the amount of Allowed Convenience Claims outstanding as of the Effective Date will be approximately $163,000 (this amount may vary based on the Creditors that elect to reduce their Claims to a single Convenience Claim of $5,000), requiring a payment of approximately $90,000. Last, the Debtor estimates that the amount of the OSHPD Initial Payment will be approximately $113,000.

After the payment of the foregoing amounts, which are payable upon the effectiveness of the Plan or as soon as practicable thereafter, the remaining amount of Plan Fund would be comprised of the GUC Distribution in the amount of $600,000. Because of the potential variance in Allowed Claims in this Chapter 9 Case, it is difficult to project any likely range of recoveries for Class 8 Claims, although the Debtor estimates that the holders of Allowed Class 8 Claims may receive a recovery of approximately 45%.

B. Best Interests of Creditors

In order to confirm a plan under chapter 11 of the Bankruptcy Code, unless there is unanimous acceptance of a plan by an impaired class, the debtor must demonstrate that each holder of a claim in such class will receive property of a value, as of the effective date of the plan, that is not less than the amount such holder would receive if the debtor were liquidated under chapter 7 of the Bankruptcy Code on such date. This requirement is generally referred to as the "best interests of creditors" test.

Although a debtor in a chapter 9 case must also satisfy this test, the debtor is **not** required to demonstrate that the distributions under the plan are superior to the amount that would be

generated from the liquidation of the debtor in a chapter 7 liquidation case. A municipal debtor cannot be involuntarily liquidated. Instead, under chapter 9, the debtor must show that confirmation of the plan is preferable to other reasonable alternatives to the plan.

Under chapter 9, creditors cannot propose their own plan nor can the case be converted to a case under chapter 7 of the Bankruptcy Code. Hence, the most likely alternative to the confirmation of the Plan is that the Debtor will be granted a reasonable opportunity to formulate and confirm an amended Plan. If, however, an amended plan is not confirmed then the most likely outcome is the dismissal of the Chapter 9 Case. In that event, creditors must individually resort to state law remedies to pursue and enforce a judgment against the District on account of their respective debts.

Generally speaking, the enforcement of a judgment against a public entity is not subject to the usual remedies afforded to private parties (such as writs of execution, levy and garnishment). California's *Enforcement of Judgments Law* ("EJL") set forth in the Code of Civil Procedure (Cal. Civ. Proc. Code §§ 680.010, et seq.), is **not** applicable to any "final judgment for the payment of money rendered against a local public entity." The District qualifies as a local public entity made the EJL. *See* Cal. Civ. Proc. Code § 695.050, Cal. Gov't Code §§ 970.1(b). Instead of the EJL, a more narrow set of enforcement options is specified in the Government Code.

There are three options for satisfying judgments under the Government Code: (a) payment in the fiscal year the judgment becomes final "to the extent funds are available" in that year, or (b) payment in the following fiscal year "immediately upon the obtaining of sufficient funds for that purpose," or (c) payment in 10 equal annual installments, with interest, upon a finding of "unreasonable hardship" by both the governing body of the public entity and the court that entered the judgment.

The exclusive means to compel compliance with the requirements for satisfaction of a judgment is a request for a writ of mandate against the public entity "to perform any act required by this article." Cal Gov't Code § 970.2. A writ of mandate will typically provide that the entity must (i) immediately take steps to obtain funds to satisfy the judgment, (ii) appropriate such funds in its current and future budgets, or (iii) apply for permission to pay the amounts owed in 10 equal installments under the "unreasonable hardship" exemption. State law is unclear about the consequences of failing to abide by a writ of mandate.

All of these factors lead to the conclusion that recoveries under the Plan would be at least as much, and possibly greater and sooner, than the individual remedies available to Creditors under state law following a dismissal of the Chapter 9 Case.

XIII.

CERTAIN TAX CONSEQUENCES OF THE PLAN

The following discussion is a summary of certain material U.S. federal income tax consequences of the implementation of the Plan to the Debtor and to certain holders of Claims. This discussion does *not* address the federal income tax consequences of the Plan to the holders of unclassified Claims under Article II of the Plan (*i.e.*, Administrative Claims), or the holders of Secured Claims. This discussion is based on the Internal Revenue Code, Treasury Regulations promulgated and proposed thereunder, judicial decisions and published administrative rules and pronouncements of the IRS in effect on the date of the Plan.

Due to the complexity of certain aspects of the Plan, the lack of applicable legal precedent, the possibility of changes in the law, the differences in the nature of the Claims (including Claims within the same Class), the holder's status and method of accounting

(including holders within the same Class) and the potential for disputes as to legal and factual matters with the IRS, the tax consequences described herein are subject to significant uncertainties. No legal opinions have been requested from counsel with respect to any of the tax aspects of the Plan and no rulings have been or will be requested from the IRS with respect to any of the issues discussed below. Furthermore, legislative, judicial or administrative changes may occur, perhaps with retroactive effect, which could affect the accuracy of the statements and conclusions set forth below as well as the tax consequences to the Debtor and the holders of Claims.

This discussion does not purport to address all aspects of U.S. federal income taxation that may be relevant to the Debtor or certain holders of Claims in light of their personal circumstances, nor does the discussion deal with tax issues with respect to taxpayers subject to special treatment under the U.S. federal income tax laws (including, for example, banks, governmental authorities or agencies, pass-through entities, brokers and dealers in securities, insurance companies, financial institutions, tax-exempt organizations, small business investment companies, regulated investment companies and foreign taxpayers). This discussion does not address the tax consequences to certain holders of Claims who did not acquire such Claims at the issue price on original issue. No aspect of foreign, state, local or estate and gift taxation is addressed.

THE FOLLOWING SUMMARY IS FOR INFORMATIONAL PURPOSES ONLY AND IS NOT A SUBSTITUTE FOR CAREFUL TAX PLANNING AND ADVICE BASED UPON THE PERSONAL CIRCUMSTANCES OF EACH HOLDER OF A CLAIM. EACH HOLDER OF A CLAIM IS URGED TO CONSULT WITH SUCH HOLDER'S TAX ADVISORS CONCERNING THE FEDERAL, STATE, LOCAL, FOREIGN AND OTHER TAX CONSEQUENCES APPLICABLE UNDER THE PLAN.

A. Consequences to Holders of Claims

The federal income tax consequences of the Plan to a holder of a Claim will depend upon several factors, including but not limited to: (i) the origin of the holder's Claim, (ii) whether the holder is a resident of the United States for tax purposes, (iii) whether the holder reports income on the accrual or cash basis method, (iv) whether the holder has taken a bad debt deduction or worthless security deduction with respect to this Claim and (v) whether the holder receives distributions under the Plan in more than one taxable year. HOLDERS ARE STRONGLY ADVISED TO CONSULT THEIR TAX ADVISORS WITH RESPECT TO THE TAX TREATMENT UNDER THE PLAN OF THEIR PARTICULAR CLAIMS.

Generally, a holder of an Allowed Claim will recognize gain or loss equal to the difference between the "amount realized" by such holder and such holder's adjusted tax basis in the Allowed Claim. The "amount realized" is equal to the sum of the Cash and the fair market value of any other consideration received under the Plan in respect of a holder's Claim. HOLDERS SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE RECOGNITION OF GAIN OR LOSS, FOR FEDERAL INCOME TAX PURPOSES, UPON THE SATISFACTION OF THEIR ALLOWED CLAIMS.

Pursuant to the Plan, distributions received in respect of Allowed Claims will be allocated first to the principal amount of such Allowed Claims, with any excess allocated to accrued but unpaid interest. However, there is no assurance that the IRS will respect such allocation for federal income tax purposes. Holders of Allowed Claims not previously required to include in their taxable income any accrued but unpaid interest on an Allowed Claim may be treated as receiving taxable interest, to the extent any consideration they receive under the Plan is allocable to such accrued but unpaid interest. Holders previously required to include in their taxable income any accrued but unpaid interest on an Allowed Claim may be entitled to recognize a deductible loss, to the extent that such accrued but unpaid interest is not satisfied under the Plan.

HOLDERS SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE ALLOCATION OF CONSIDERATION RECEIVED IN SATISFACTION OF THEIR ALLOWED CLAIMS AND THE FEDERAL INCOME TAX TREATMENT OF ACCRUED BUT UNPAID INTEREST.

B. Withholding

All distributions to holders of Allowed Claims under the Plan are subject to any applicable withholding, including employment tax withholding. The Reorganized Debtor will withhold appropriate employment taxes with respect to payments made to a holder of an Allowed Claim that constitutes a payment for compensation. Payers of interest, dividends, and certain other reportable payments are generally required to withhold thirty percent (30%) of such payments if the payee fails to furnish such payee's correct taxpayer identification number (social security number or employer identification number), to the payer. The Reorganized Debtor may be required to withhold a portion of any payments made to a holder of an Allowed Claim if the holder (a) fails to furnish the correct social security number or other taxpayer identification number ("TIN") of such holder, (b) furnishes an incorrect TIN, (c) has failed properly to report interest or dividends to the IRS in the past, or (d) under certain circumstances, fails to provide a certified statement signed under penalty of perjury, that the TIN provided is the correct number and that such holder is not subject to backup withholding. Backup withholding is not an additional tax but merely an advance payment, which may be refunded to the extent it results in an overpayment of tax. Certain persons are exempt from backup withholding, including, in certain circumstances, corporations and financial institutions.

AS INDICATED ABOVE, THE FOREGOING IS INTENDED TO BE A SUMMARY ONLY FOR INFORMATIONAL PURPOSES AND NOT A SUBSTITUTE FOR CAREFUL TAX PLANNING WITH A TAX PROFESSIONAL. THE FEDERAL, STATE, LOCAL AND OTHER TAX CONSEQUENCES OF THE PLAN ARE COMPLEX AND, IN SOME CASES, UNCERTAIN. ACCORDINGLY, EACH HOLDER OF A CLAIM IS URGED TO CONSULT SUCH HOLDER'S TAX ADVISORS CONCERNING THE FEDERAL, STATE, LOCAL, AND OTHER TAX CONSEQUENCES APPLICABLE UNDER THE PLAN.

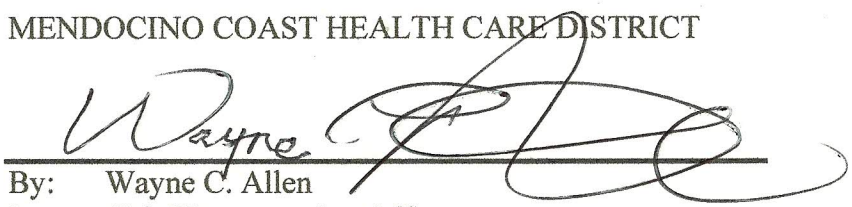
XIV.

CONCLUSION

The Debtor believes that the Plan is in the best interest of Creditors and urges Creditors to vote to **accept** the Plan.

Dated: December 15, 2014

MENDOCINO COAST HEALTH CARE DISTRICT



By: Wayne C. Allen
Its: Chief Restructuring Officer

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EXHIBIT A

MENDOCINO COAST HEALTHCARE DISTRICT
CONSOLIDATED INCOME STATEMENT
For the Period of JUN 2014

CURRENT PERIOD ACTUAL JUN 2014	CURRENT PERIOD FIXED BUDGET JUN 2014	CURRENT PERIOD VARIANCE DOLLARS	CURRENT PERIOD VARIANCE	CURRENT PERIOD PRIOR YEAR ACTUAL		YEAR-TO-DATE YTD ACTUAL JUN 2014	YEAR-TO-DATE YTD BUDGET JUN 2014	YEAR-TO-DATE VARIANCE DOLLARS	YEAR-TO-DATE VARIANCE	YEAR-TO-DATE PRIOR YTD ACTUAL
					OPERATING REVENUES					
2,239,664	2,202,578	37,086	1.7%	1,798,374	INPATIENT	26,352,692	29,013,570	(2,660,878)	(9.2)%	29,002,261
231,095	228,972	2,123	0.9%	217,842	SWING BED	2,535,529	3,016,229	(480,700)	(15.9)%	3,017,268
5,146,606	4,542,461	604,145	13.3%	4,651,410	OUTPATIENT	59,691,799	59,835,989	(144,190)	(0.2)%	59,732,598
353,108	294,103	59,005	20.1%	264,803	NORTH COAST FAMILY HEALTH CTR	4,142,024	3,529,237	612,787	17.4%	3,540,653
107,043	96,419	10,624	11.0%	96,418	HOME HEALTH	1,280,005	1,337,577	(57,572)	(4.3)%	1,337,562
8,077,515	7,364,533	712,982	9.7%	7,028,847	TOTAL PATIENT SERVICE REVENUES	94,002,049	96,732,602	(2,730,553)	(2.8)%	96,630,342
					REVENUE DEDUCTIONS					
3,653,855	3,483,299	(170,556)	(4.9)%	2,686,994	CURRENT YEAR CONTRACTUALS	41,287,221	45,945,433	4,658,212	10.1%	44,444,106
692,180	527,283	(164,897)	(31.3)%	716,506	POLICY DISCOUNTS	7,005,255	6,945,659	(59,596)	(0.9)%	7,820,598
36,719	110,170	73,451	66.7%	(4,636)	BAD DEBT	1,074,631	1,451,236	376,605	26.0%	1,309,515
22,554	9,548	(13,006)	(136.2)%	5,825	CHARITY	83,249	125,774	42,525	33.8%	118,472
4,405,308	4,130,300	(275,008)	(6.7)%	3,404,688	TOTAL DEDUCTIONS	49,450,356	54,468,102	5,017,746	9.2%	53,692,690
3,672,208	3,234,233	437,975	13.5%	3,624,159	NET PATIENT SERVICE REVENUE	44,551,693	42,264,500	2,287,193	5.4%	42,937,651
84,896	57,337	27,559	48.1%	62,721	TAX REVENUES	724,359	697,596	26,763	3.8%	702,184
36,041	65,772	(29,731)	(45.2)%	51,888	OTHER OPERATING REVENUES	515,344	858,161	(342,817)	(39.9)%	961,139
3,793,145	3,357,342	435,803	13.0%	3,738,768	TOTAL OPERATING REVENUES	45,791,397	43,820,257	1,971,140	4.5%	44,600,975
					OPERATING EXPENSES					
1,204,429	1,203,672	(757)	(0.1)%	1,228,694	SALARIES & WAGES - STAFF	14,346,253	15,231,612	885,359	5.8%	15,886,563
457,296	739,443	282,147	38.2%	739,240	EMPLOYEE BENEFITS	8,833,023	9,579,282	746,259	7.8%	9,628,788
481,598	425,125	(56,473)	(13.3)%	443,497	PROFESSIONAL FEES -PHYSICIAN	5,395,826	5,226,623	(169,203)	(3.2)%	5,033,435
143,302	66,003	(77,299)	(117.1)%	147,221	OTHER PROFESSIONAL FEES - REGISTRY	1,593,059	874,867	(718,192)	(82.1)%	949,116
83,224	34,368	(48,856)	(142.2)%	141,498	OTHER PROFESSIONAL FEES - OTHER	754,201	421,445	(332,756)	(79.0)%	1,077,744
269,593	277,378	7,786	2.8%	265,617	SUPPLIES-DRUGS	3,022,783	3,379,403	356,620	10.6%	3,302,460
175,099	207,629	32,530	15.7%	149,407	SUPPLIES-MEDICAL	2,662,142	2,731,036	68,894	2.5%	2,603,383
93,328	71,195	(22,133)	(31.1)%	56,003	SUPPLIES-OTHER	767,753	900,275	132,522	14.7%	865,901
155,310	124,264	(31,046)	(25.0)%	142,973	PURCHASED SERVICES	1,423,605	1,556,806	133,201	8.6%	1,545,234
78,575	69,595	(8,980)	(12.9)%	79,408	REPAIRS & MAINTENANCE	883,220	889,620	6,401	0.7%	878,891
74,550	54,873	(19,677)	(35.9)%	55,272	UTILITIES	758,496	662,544	(95,952)	(14.5)%	650,950
52,674	54,641	1,967	3.6%	58,714	INSURANCE	682,568	664,104	(18,464)	(2.8)%	705,463
7,532	71,010	63,478	89.4%	52,842	INTEREST	946,882	863,963	(82,919)	(9.6)%	844,742
199,067	199,147	80	0.0%	268,556	DEPRECIATION AND AMORTIZATION	2,454,077	2,422,964	(31,113)	(1.3)%	1,836,350
62,845	39,683	(23,162)	(58.4)%	(19,941)	RENTAL/LEASE	490,845	488,534	(2,311)	(0.5)%	977,799
217,979	81,622	(136,357)	(167.1)%	274,782	OTHER EXPENSE	1,060,582	1,003,194	(57,388)	(5.7)%	1,177,468
3,756,400	3,719,648	(36,752)	(1.0)%	4,083,783	TOTAL OPERATING EXPENSES	46,075,316	46,896,272	820,956	1.8%	47,964,284
36,745	(362,306)	399,051	(110.1)%	(345,015)	NET REVENUE (LOSS) FROM OPERATIONS	(283,919)	(3,076,015)	2,792,096	(90.8)%	(3,363,309)

MENDOCINO COAST HEALTHCARE DISTRICT
CONSOLIDATED INCOME STATEMENT
For the Period of JUN 2014

CURRENT PERIOD ACTUAL JUN 2014	CURRENT PERIOD FIXED BUDGET JUN 2014	CURRENT PERIOD VARIANCE DOLLARS	CURRENT PERIOD VARIANCE	CURRENT PERIOD PRIOR YEAR ACTUAL		YEAR-TO-DATE YTD ACTUAL JUN 2014	YEAR-TO-DATE YTD BUDGET JUN 2014	YEAR-TO-DATE VARIANCE DOLLARS	YEAR-TO-DATE VARIANCE	YEAR-TO-DATE PRIOR YTD ACTUAL
					NON-OPERATING REVENUES (EXPENSES)					
1,906	1,177	729	62.0%	2,235	FUNDED DEPRECIATION INCOME	11,111	14,321	(3,210)	(22.4)%	15,830
50,838	24,657	26,181	106.2%	2,073	CONTRIBUTIONS	613,015	300,000	313,015	104.3%	398,913
0	0	0	0.0%	3,000	GAINS (LOSSES) ON SALE OF ASSETS	16,730	0	16,730		7,051
476,804	18,285	458,519	2,507.6%	0	EXTRAORINDARY GAINS (LOSSES)	476,804	222,466	254,338	114.3%	2,044,828
529,547	44,119	485,428	1,100.3%	7,308	TOTAL NON-OPERATING REVENUE(EXPENSE)	1,117,659	536,787	580,872	108.2%	2,466,622
566,293	(318,187)	884,480	(278.0)%	(337,707)	NET INCOME (LOSS) BEFORE TAX REVENUE	833,740	(2,539,228)	3,372,968	(132.8)%	(896,687)
75,740	27,336	48,404	177.1%	129,218	TAX REVENUE FOR DEBT SERVICE	380,616	332,592	48,024	14.4%	434,094
642,033	(290,851)	932,884	(320.7)%	(208,490)	NET INCOME (LOSS)	1,214,356	(2,206,636)	3,420,992	(155.0)%	(462,593)

MENDOCINO COAST HEALTHCARE DISTRICT
CONSOLIDATED BALANCE SHEET
JUN 2014

	JUN 2014	MAY 2014	PRIOR YEAR JUN 2013	CHANGE THIS MONTH	CHANGE THIS YEAR	% MONTH	% YEAR END
ASSETS							
CURRENT ASSETS							
CASH	1,346,212	971,621	857,203	374,591	489,009	39%	57%
NET PATIENT RECEIVABLES	3,757,703	3,767,181	3,354,965	(9,479)	402,738	0%	12%
EST THIRD-PARTY PAYOR SETTLEMT	90,565	150,245	149,559	(59,680)	(58,994)	(40)%	(39)%
PLEDGES AND OTHER RECEIVABLES	518,856	854,225	834,949	(335,368)	(316,092)	(39)%	(38)%
INVENTORY	651,983	679,347	672,969	(27,363)	(20,986)	(4)%	(3)%
PREPAID EXPENSES	992,287	684,166	1,284,530	308,120	(292,244)	45%	(23)%
TOTAL CURRENT ASSETS	7,357,605	7,106,784	7,154,174	250,821	203,432	4%	3%
LONG TERM ASSETS							
BOARD DESIGNATED	37,946	40,174	40,099	(2,228)	(2,153)	(6)%	(5)%
FUNDED DEPRECIATION	5,230,627	5,228,742	4,519,612	1,886	711,015	0%	16%
SPECIFIC PURPOSE FUND	71,437	99,993	69,454	(28,555)	1,983	(29)%	3%
BONDS	1,536,527	1,980,979	1,998,671	(444,453)	(462,144)	(22)%	(23)%
INVESTMENTS IN OTHER ASSETS	0	0	0	0	0	0%	0%
BOND COSTS	849,801	895,807	908,247	(46,006)	(58,447)	(5)%	(6)%
TOTAL LONG TERM ASSETS	7,726,338	8,245,694	7,536,083	(519,356)	190,255	(6)%	3%
PROPERTY PLANT AND EQUIPMENT							
LAND	117,490	117,490	117,490	0	0	0%	0%
LAND IMPROVEMENTS	805,398	805,398	805,398	0	0	0%	0%
BUILDINGS AND IMPROVEMENTS	22,820,866	22,820,866	22,523,474	0	297,392	0%	1%
LEASEHOLD IMPROVEMENTS	546,439	546,439	546,439	0	0	0%	0%
EQUIPMENT	20,931,758	20,882,675	18,755,436	49,083	2,176,322	0%	12%
CONSTRUCTION-IN-PROGRESS	1,439,241	1,400,799	2,806,939	38,442	(1,367,699)	3%	(49)%
TOTAL PROPERTY, PLANT & EQUIPMENT	46,661,191	46,573,666	45,555,176	87,525	1,106,016	0%	2%
LESS ACCUMULATED DEPRECIATION	(27,853,439)	(27,656,073)	(25,716,887)	(197,366)	(2,136,551)	1%	8%
NET PROPERTY, PLANT & EQUIPMENT	18,807,753	18,917,593	19,838,288	(109,840)	(1,030,536)	(1)%	(5)%
TOTAL ASSETS	33,891,696	34,270,071	34,528,544	(378,375)	(636,849)	(1)%	(2)%

MENDOCINO COAST HEALTHCARE DISTRICT
CONSOLIDATED BALANCE SHEET
JUN 2014

	JUN 2014	MAY 2014	PRIOR YEAR JUN 2013	CHANGE THIS MONTH	CHANGE THIS YEAR	% MONTH	% YEAR END
LIABILITIES AND NET ASSETS							
CURRENT LIABILITIES							
ACCOUNTS PAYABLE	3,560,924	3,379,585	3,712,283	(181,339)	151,359	5%	(4)%
ACCRUED PAYROLL	406,117	346,572	373,713	(59,545)	(32,404)	17%	9%
ACCRUED VAC,HOL,SICK PAY	1,339,370	1,313,488	1,368,474	(25,883)	29,104	2%	(2)%
PAYROLL TAXES	51,156	64,305	24,879	13,149	(26,277)	(20)%	106%
OTHER CURRENT LIABILITIES	819,349	801,915	781,748	(17,433)	(37,601)	2%	5%
INTEREST PAYABLE	1,441,723	1,796,841	1,395,233	355,118	(46,490)	(20)%	3%
PENSION PAYABLE	682,691	866,782	1,011,695	184,090	329,004	(21)%	(33)%
NOTES & LOANS PAYABLE-BANKS	1,005,806	1,005,806	1,005,806	0	0	0%	0%
NOTES & LOANS PYBL-CUR PRT LTD	0	42,839	524,463	42,839	524,463	(100)%	(100)%
TOTAL CURRENT LIABILITIES	9,307,135	9,618,130	10,198,293	310,995	891,158	(3)%	(9)%
LONG TERM LIABILITIES							
CAPITALIZED LEASE OBLIGATIONS	1,033,464	1,001,984	1,001,984	(31,480)	(31,480)	3%	3%
BOND PAYABLE	12,965,029	13,277,267	13,558,440	312,239	593,411	(2)%	(4)%
OTHER NON-CURRENT LIABLILITIES	2,100,000	2,500,000	2,500,000	400,000	400,000	(16)%	(16)%
TOTAL LONG TERM LIABILITIES	16,098,493	16,779,251	17,060,424	680,758	961,931	(4)%	(6)%
TOTAL LIABILITIES	25,405,628	26,397,381	27,258,717	991,753	1,853,088	(4)%	(7)%
FUND BALANCE	8,399,495	7,757,462	7,185,139	(642,033)	(1,214,356)	8%	17%
PROFIT & (LOSS)	1,214,356	572,323	(462,613)	(642,033)	(1,676,969)	112%	(363)%
SPECIFIC PURPOSE BALANCE	86,572	115,227	84,689	28,655	(1,883)	(25)%	2%
TOTAL NET ASSETS	8,486,067	7,872,690	7,269,828	(613,378)	(1,216,240)	8%	17%
TOTAL LIABILITIES & NET ASSETS	33,891,696	34,270,071	34,528,544	378,375	636,849	(1)%	(2)%

EXHIBIT B

Mendocino Coast Healthcare District
Annual Operating Budget FYE 06-30-2015

OPERATING REVENUES	
INPATIENT	$25,455,160
SWING BED	$2,582,669
OUTPATIENT	$60,917,311
NORTH COAST FAMILY HEALTH CENTER	$5,915,310
HOME HEALTH	$1,321,350
TOTAL PATIENT SERVICE REVENUES	$96,191,800
REVENUE DEDUCTIONS	
CURRENT YEAR CONTRACTUALS	$41,186,230
POLICY DISCOUNTS	6,938,501
BAD DEBT	1,098,688
CHARITY	71,900
TOTAL DEDUCTIONS	$49,295,320
NET PATIENT SERVICE REVENUE	$46,896,480
OTHER OPERATING REVENUES	
TAX REVENUES	$711,392
OTHER OPERATING REVENUES	$773,282
TOTAL OTHER OPERATING REVENUES	$1,484,674
TOTAL OPERATING REVENUES	$48,381,154
OPERATING EXPENSES	
SALARIES & WAGES - STAFF	$14,693,556
EMPLOYEE BENEFITS	9,651,139
PROFESSIONAL FEES -PHYSICIAN	6,115,238
OTHER PROFESSIONAL FEES - REGISTRY	1,564,868
OTHER PROFESSIONAL FEES - OTHER	711,655
SUPPLIES- DRUGS	3,029,431
SUPPLIES-MEDICAL	3,068,428
SUPPLIES- OTHER	704,430
PURCHASED SERVICES	1,408,523
REPAIRS & MAINTENANCE	891,044
UTILITIES	764,127
INSURANCE	718,989
INTEREST	903,153
DEPRECIATION AND AMORTIZATION	2,679,356
RENTAL/LEASE	571,038
OTHER EXPENSE	1,038,686
TOTAL OPERATING EXPENSES	$48,513,661
NET REVENUE (LOSS) FROM OPERATIONS	($132,507)
NON-OPERATING REVENUES (EXPENSES)	
FUNDED DEPRECIATION INCOME	10,000
CONTRIBUTIONS	500,000
GAINS (LOSS) ON SALE OF ASSETS	0
EXTRAORDINARY GAINS (LOSSES)	0
TOTAL NON-OPERATING REVENUE(EXPENSES)	$510,000
NET INCOME (LOSS) BEFORE TAX REVENUE	$377,493
TAX REVENUE FOR DEBT SERVICE	$332,592
NET INCOME (LOSS)	$710,085