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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

PLAN OF ADJUSTMENT

DATED: OCTOBER 31, 2014

The Mendocino Coast Health Care District, a Chapter 9 debtor, proposes the following plan of adjustment under Section 941 of the Bankruptcy Code for the resolution of its debts. All Creditors and other parties-in-interest should refer to the Disclosure Statement for a discussion of the Debtor's financial condition, developments during the Chapter 9 Case and for a summary and analysis of the Plan and certain related matters. ***All holders of Claims against the Debtor are encouraged to read the Plan, the Disclosure Statement and the related solicitation materials in their entirety before voting to accept or reject the Plan.***

Subject to the restrictions on modifications set forth in Section 942 of the Bankruptcy Code and Bankruptcy Rule 3019, and those restrictions on modifications set forth in Section 10.1 of this Plan, the Debtor expressly reserves the right to alter, amend or modify the Plan one or more times before its effectiveness.

ARTICLE I

DEFINITIONS AND RULES OF INTERPRETATION

For purposes of this Plan, except as expressly provided or unless the context otherwise requires, all capitalized terms not otherwise defined herein have the meanings ascribed to them in Article I of the Plan. Any term used in the Plan that is not defined herein but is defined in the Bankruptcy Code or the Bankruptcy Rules retains the meaning specified for such term in the Bankruptcy Code or the Bankruptcy Rules, as applicable. Whenever the context requires, such terms include the plural as well as the singular, the masculine gender includes the feminine gender, and the feminine gender includes the masculine gender.

As used in this Plan, the following terms have the meanings specified below:

1.1 Administrative Claim. A Claim for an administrative expense of the Chapter 9 Case that is Allowed under Section 503(b) of the Bankruptcy Code and entitled to priority under Section 507(a)(2) of the Bankruptcy Code, including the actual and necessary costs and expenses of preserving the property of the Debtor. For purposes of this Plan, administrative expenses shall also include (i) Plan Payments, if any, and (ii) Assumption Obligations, if any.

1.2 Administrative Claim Bar Date. The last date established under the Disclosure Statement Order by which (a) certain entities asserting a Claim for an administrative expense of the Chapter 9 Case must have filed a request for payment with the Bankruptcy Court under Section 503(a) of the Bankruptcy Code (including any requests for priority for 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, whether or not a Claim for such amount has previously been filed in a proof of claim or listed in the List of Creditors), and (b) any application for approval of any PCO Claim or BNY Claim must be filed with the Bankruptcy Court, or (in either case under subsections (a) or (b)) 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.

1.3 Agent. Any shareholder, director, officer, employee, partner, member, agent, attorney, accountant, advisor or other representative of any person or entity (solely in their respective capacities as such, and not in any other capacity).

1.4 Allowed. Any Claim that is: (a) (i) timely filed on or before the Bar Date, Administrative Claim Bar Date or Rejection Claim Bar Date, as applicable, or (ii) deemed filed on the List of Creditors, and (b) (i) not Disputed, or (ii) allowed, but only to the extent allowed, by the Plan, by any agreement or stipulation between the Debtor and the holder of such Claim, or by a Final Order. The term “Allowed,” when used to modify a reference in the Plan to any Claim or Class of Claims means a Claim (or any Claim in any such Class) that is so allowed.

1.5 Assumption Obligations. Any undisputed monetary amounts payable to the non-debtor party to any executory contract or unexpired lease, pursuant to Section 365(b)(1) of the Bankruptcy Code, as a condition to the assumption of such contract or lease.

1.6 Ballot. The form for (i) acceptance or rejection of the Plan distributed to those Creditors entitled to vote on the Plan, and (ii) the election of the Allowed Convenience Claim option. 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.

1.7 Bankruptcy Code. Title 11 of the United States Code, 11 U.S.C. §§ 101-1532, as amended from time to time and as applicable to the Chapter 9 Case.

1.8 Bankruptcy Court. The United States Bankruptcy Court for the Northern District of California having jurisdiction over the Chapter 9 Case and, to the extent of any reference under 28 U.S.C. § 157, the unit of such District Court under 28 U.S.C. § 151.

1.9 Bankruptcy Rules. Collectively, the Federal Rules of Bankruptcy Procedure as promulgated under 28 U.S.C. § 2075 and any Local Rules of the Bankruptcy Court, as applicable to the Chapter 9 Case.

1.10 Bar Date(s). March 29, 2013, which is the date fixed by the Bankruptcy Court by which all Persons (except governmental units or holders of Claims that appear in the List of Creditors and are **not** scheduled as disputed, contingent or unliquidated) asserting a Claim against the Debtor (except Administrative Claims) must file a proof of claim or, unless otherwise Allowed, 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.

1.11 BNY. The Bank of New York Mellon Trust Company, N.A.

1.12 BNY Claim. Any Claim by BNY, not otherwise paid by the Debtor during the Chapter 9 Case, for compensation for services rendered and reimbursement for expenses incurred prior to the Effective Date that is submitted for payment pursuant to any of the Revenue Bond Indentures.

1.13 Business Day. Any day other than a Saturday, Sunday, or legal holiday, as defined in Bankruptcy Rule 9006(a).

1.14 Cash. Cash and cash equivalents including checks drawn on a bank insured by the Federal Deposit Insurance Corporation, certified checks, money orders, negotiable instruments, and wire transfers of immediately available funds.

1.15 Chapter 9 Case. The case under Chapter 9 of the Bankruptcy Code in which the District is a debtor pending before the Bankruptcy Court.

1.16 Claim. A claim against the Debtor within the meaning of Section 101(5) of the Bankruptcy Code.

1.17 Class. A category of holders of Claims which are substantially similar in nature to the Claims of other holders placed in such category, as designated in Article III of this Plan.

1.18 CMS. The Centers for Medicare and Medicaid Services of the United States Department of Health and Human Services.

1.19 CMS Claim. Collectively, (a) claim number 112 filed on November 8, 2013, by CMS in the amount of \$344,169 on account of certain alleged overpayments by CMS to the District under or related to the Medicare Provider Agreement, as it may be amended from time to time, (b) the voluntary self-disclosure made on June 13, 2014, by the District to CMS pursuant to the physician self-referral law (*i.e.*, Stark law), and (c) any other lump sum adjustments or overpayments computed by or on behalf of CMS under the Medicare Provider Agreement.

1.20 Confirmation. Entry of the Confirmation Order.

1.21 Confirmation Date. The date on which the Bankruptcy Court enters the Confirmation Order.

1.22 Confirmation Hearing. The hearing or hearings held by the Bankruptcy Court to consider confirmation of the Plan under Section 943 of the Bankruptcy Code, as such hearing may be adjourned from time to time.

1.23 Confirmation Order. The order of the Bankruptcy Court (a) confirming the Plan in accordance with the Bankruptcy Code, (b) appointing the Disbursing Agent, and (c) determining that the deposit by the Reorganized Debtor of the Effective Date Deposit into the Plan Fund following the Effective Date shall, pursuant to Section 944(b)(3) of the Bankruptcy Code, secure the payment of the obligations of the Reorganized Debtor to Creditors as provided in the Plan.

1.24 Convenience Claim. All Unsecured Claims held by a single Creditor that are either (i) less than or equal to \$5,000 in the aggregate, or (ii) greater than \$5,000 in the aggregate but as to which the holder thereof has voluntarily and timely elected in writing to reduce to a single Unsecured Claim of \$5,000 in the manner set forth on the Ballot.

1.25 Creditor. An entity within the meaning of Section 101(10) of the Bankruptcy Code.

1.26 Debtor. The District.

1.27 Disbursing Agent. The Person(s) designated to act as the disbursing agent under the Plan pursuant to Section 944(b) of the Bankruptcy Code for the purpose of making the Distributions required under the Plan. The Reorganized Debtor may act as the Disbursing Agent under the Plan.

1.28 Disclosure Statement. The disclosure statement relating to the Plan including, without limitation, all exhibits and schedules to such disclosure statement, in the form approved by the Bankruptcy Court pursuant to Section 1125 of the Bankruptcy Code and Bankruptcy Rule 3017.

1.29 Disclosure Statement Order. The Order (1) *Approving Disclosure Statement*, and (2) *Establishing Confirmation Procedures and Administrative Claim Bar Date*, entered by the Bankruptcy Court.

1.30 Disputed. Any Claim that is: (a) identified in the List of Creditors as unliquidated, disputed, or contingent and for which no proof of Claim has been filed by the Creditor; or (b) as to which the Debtor or any other proper party-in-interest has interposed a timely objection or request for estimation, or has sought to equitably subordinate or otherwise limit recovery in accordance with the Bankruptcy Code and the Bankruptcy Rules, or which is otherwise disputed by the Debtor in accordance with applicable law, and such objection, request for estimation, action to subordinate or limit recovery or other dispute has not been withdrawn or determined by a Final Order. The term “Disputed,” when used to modify a reference in the Plan to any Claim or Class of Claims, means a Claim (or any Claim in any such Class) that is so disputed.

1.31 Distribution. A payment of Cash to the holder of an Allowed Claim pursuant to the Plan.

1.32 District. The Mendocino Coast Health Care District, a political subdivision of the State of California.

1.33 District Governing Body. The elected directors and appointed officers of the District.

1.34 District Hospital. The Mendocino Coast District Hospital located at 700 River Drive in Fort Bragg, California, and authorized to be operated by the District under the District Operating License. The District Hospital includes and operates (a) the North Coast Family Health Center, a rural health care clinic, and (b) the Mendocino Coast Home Health agency.

1.35 District Law. The Local Health Care District Law under Sections 32000 *et seq.* of the California Health and Safety Code.

1.36 District Operating License. The acute care hospital operating license and any other certifications and approvals held by the District under applicable health care statutes, rules and regulations.

1.37 Effective Date. The later of: (a) the first Business Day that is at least eleven days after the Confirmation Date and on which no stay of the Confirmation Order is in effect; and (b)

the Business Day on which all of the conditions set forth in Section 7.2 of the Plan have been satisfied or waived.

1.38 Effective Date Deposit. The amount of \$777,000 to be deposited by the Reorganized Debtor in the Plan Fund on the Effective Date.

1.39 Effective Date Balance. The remaining amount of the Effective Date Deposit, if any, after the payment in full of all Administrative Claims, Allowed Convenience Claims, the OSHPD Initial Payment, any BNY Claim and any PCO Claim.

1.40 FGIC. Financial Guaranty Insurance Company.

1.41 Final Order. An order or judgment of the Bankruptcy Court: (a) as to which the time to appeal, petition for certiorari, or move for reargument or rehearing has expired; or (b) as to which no appeal, petition for certiorari, or other proceedings for reargument or rehearing is pending; or (c) as to which any right to appeal, petition for certiorari, reargue, or rehear has been waived in writing in form and substance satisfactory to the Debtor or the Reorganized Debtor; or (d) if an appeal, writ of certiorari, or reargument or rehearing has been sought, as to which the highest court to which such order was appealed, or certiorari, reargument or rehearing has determined such appeal, writ of certiorari, reargument, or rehearing, or has denied such appeal, writ of certiorari, reargument, or rehearing, and the time to take any further appeal, petition for certiorari, or move for reargument or rehearing has expired; provided, however, that the possibility that a motion under Rule 59 or Rule 60 of the Federal Rules of Civil Procedure, or any analogous rule under the Bankruptcy Rules, may be filed with respect to such order does not prevent such order from being a Final Order.

1.42 General Obligation Bonds. The \$5,500,000 Mendocino Coast Health Care District Election of 2000 General Obligation Bonds, dated May 1, 2001.

1.43 General Obligation Bonds Insurance. The *Municipal Bond New Issue Insurance Policy* dated May 9, 2001, as amended, under which FGIC insured the Debtor's obligations under the General Obligation Bonds.

1.44 Government Claims Law. The Tort Claims Act under Sections 810 *et seq.* of the California Government Code.

1.45 GUC Deposit Date. The 90th day following the Effective Date.

1.46 GUC Distribution. The aggregate amount of \$600,000, comprised of the GUC Initial Deposit and the GUC Subsequent Deposits.

1.47 GUC Initial Deposit. The amount of \$200,000 to be deposited by the Reorganized Debtor in the Plan Fund on the GUC Deposit Date.

1.48 GUC Subsequent Deposits. The amount of \$200,000 to be deposited by the Reorganized District in the Plan Fund on (or before, at the discretion of the Reorganized Debtor) each of the 2nd and 4th anniversary of the GUC Deposit Date.

1.49 Liability Claim. A Claim against the Debtor pursuant to (a) the Government Claims Law, or (b) the Workers' Compensation Law.

1.50 Lien. A lien as defined in Section 101(37) of the Bankruptcy Code, but not including a lien that has been avoided in accordance with Sections 544, 545, 546, 547, 548, 553, or 549 of the Bankruptcy Code.

1.51 List of Creditors. The *List of Claims* filed by the Debtor on October 31, 2012, pursuant to Section 924 of the Bankruptcy Code and Bankruptcy Rule 1007, as such list may have been or may be supplemented or amended from time to time.

1.52 Medi-Cal. The Department of Health Care Services of the Health and Human Services Agency of the State of California.

1.53 Medi-Cal Claim. Any Claims by Medi-Cal on account of any alleged overpayments by Medi-Cal to the District under or related to the Medi-Cal Provider Agreement, including Medi-Cal Outpatient Supplemental Payments received under the AB 915 program.

1.54 Medi-Cal Provider Agreement. Collectively, the health insurance benefit agreements (under provider numbers 1538113725, 1124220249 and 1710932157) for the participation of the District Hospital in the Medicaid plan administered by Medi-Cal.

1.55 Medicare Provider Agreement. Collectively, the health insurance benefit agreements (under provider numbers 05-1325, ZZZ96931Z, 05-Z325, 05-8629 and 05-7746) for the participation of the District Hospital in the Medicare program established pursuant to the Social Security Act.

1.56 NCB Assignment Agreement. The *Assignment Agreement* dated December 14, 2012, under which NCB Capital Impact assigned its rights, remedies and interests under the NCB Line of Credit to OSHPD.

1.57 NCB Line of Credit. The \$1,000,000 promissory note and revolving line of credit made available to the Debtor pursuant to the terms and conditions of that certain *Business Loan Agreement* dated as of March 1, 2010, as amended on April 1, 2011, between the Debtor and NCB Capital Impact.

1.58 Notice Procedures. Those procedures governing notice of certain post-Confirmation matters set forth in Section 11.7.2 of the Plan.

1.59 OSHPD. The Office of Statewide Health Planning and Development of the State of California.

1.60 OSHPD Initial Payment. The amount of \$5,805.55 plus the OSHPD LOC Interest Accrual.

1.61 OSHPD Line of Credit Repayment Date. December 14, 2012.

1.62 OSHPD LOC Claim. The Claim of OSHPD arising under the OSHPD LOC Insurance following the repayment by OSHPD of the NCB Line of Credit.

1.63 OSHPD LOC Claim Repayment Date. The first day of the first calendar month following the Effective Date.

1.64 OSHPD LOC Insurance. The *Contract of Insurance* dated as of March 1, 2010, as amended, under which OSHPD insured the Debtor's obligations under the NCB Line of Credit.

1.65 OSHPD LOC Interest Accrual. The amount of interest accrued on the amount of \$1,005,805.55 at a rate of five percent (5%) per annum commencing on the OSHPD Line of Credit Repayment Date through and including the day immediately prior to the OSHPD LOC Claim Repayment Date.

1.66 OSHPD Proof of Claim. Claim number 19 filed on February 21, 2013, by OSHPD in the amount of \$9,710,805.00 under the OSHPD Regulatory Agreement.

1.67 OSHPD Regulatory Agreement. The *Amended and Restated Regulatory Agreement* dated as of July 1, 2010, between the Debtor and OSHPD.

1.68 OSHPD Stipulation. The *Stipulation Authorizing District to (1) Continue to Use Cash Collateral and (2) Grant Adequate Protection and Replacement Liens* between the Debtor and OSHPD dated November 28, 2012, that was approved by order of the Bankruptcy Court entered on February 4, 2013.

1.69 Person. Any individual, corporation, partnership or other "person" as defined in Section 101(41) of the Bankruptcy Code, as well as any governmental agency, governmental unit or associated political subdivision.

1.70 Petition Date. October 17, 2012.

1.71 Plan. This Chapter 9 plan of adjustment, either in its present form or as it may be amended, supplemented or modified from time to time, including all of its annexed exhibits and schedules.

1.72 Plan Fund. The segregated account established by the Reorganized Debtor on the Effective Date for the purpose of holding the aggregate amount of the (a) Effective Date Deposit, (b) the GUC Initial Deposit, and (c) the GUC Subsequent Deposits.

1.73 Plan Payments. All amounts to be paid by the Debtor or by any Person for services or expenses in or in connection with the Chapter 9 Case or the Plan pursuant to Section 943(b) of the Bankruptcy Code.

1.74 Preference Actions. Avoidance actions under Sections 547 and 550 of the Bankruptcy Code.

1.75 PCO. Jerry Seelig, in his capacity as the patient care ombudsman appointed on November 20, 2012, by the United States trustee pursuant to Section 333(a)(2) of the Bankruptcy Code.

1.76 PCO Claim. Any Claim by the PCO, not otherwise paid by the Debtor during the Chapter 9 Case, for compensation for services rendered and reimbursement for expenses incurred prior to the Effective Date that is submitted for payment under Section 333 of the Bankruptcy Code.

1.77 Pro Rata. Proportionately, so that, with respect to a Claim, the ratio of (a) (i) the amount of property distributed on account of a particular Claim to (ii) the Allowed Amount of the Claim, is the same as the ratio of (b) (i) the amount of property distributed on account of all Allowed Claims of the Class entitled to share in the applicable distribution to (ii) the amount of all Allowed Claims in the Class entitled to share in the applicable distribution.

1.78 Rejection Claim Bar Date. The date fixed under the Confirmation Order, approximately thirty (30) days following the Effective Date, by which any Person asserting a Claim for damages arising from the rejection of an executory contract or unexpired lease under this Plan must have filed a proof of Claim with the Bankruptcy Court under Section 502(g) of the Bankruptcy Code, or 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.

1.79 Reorganized Debtor. The District on and after the Effective Date.

1.80 Retained Claims and Defenses. All claims, rights, interests, causes of action, defenses, counterclaims, cross-claims, third-party claims, or rights of offset, recoupment, subrogation or subordination held by the Debtor (including rights to or claims under any insurance policy issued to or for the benefit of the Debtor), whether or not pending on the Effective Date, not otherwise released or settled pursuant to a Final Order entered before the Effective Date, provided that, Retained Claims and Defenses shall not include Avoidance Actions.

1.81 Revenue Bond Indentures. The Revenue Bonds 1996 Indenture, the Revenue Bonds 2009 Indenture and the Revenue Bonds 2010 Indenture

1.82 Revenue Bonds 1996. The \$4,030,000 Mendocino Coast Health Care District Insured Health Facility Refunding Revenue Bonds, Series 1996, dated August 1, 1996.

1.83 Revenue Bonds 1996 Indenture. The *Indenture* dated as of August 1, 1996, as amended, between the Debtor and BNY, as successor trustee, relating to the Revenue Bonds 1996.

1.84 Revenue Bonds 1996 Insurance. The *Contract of Insurance* dated as of August 1, 1996, as amended, under which OSHPD insured the Debtor's obligations under the Revenue Bonds 1996.

1.85 Revenue Bonds 2009. The \$5,000,000 Mendocino Coast Health Care District Insured Health Facility Revenue Bonds, Series 2009, dated October 14, 2009.

1.86 Revenue Bonds 2009 Indenture. The *Indenture* dated as of October 1, 2009, as amended, between the Debtor and BNY, as trustee, relating to the Revenue Bonds 2009.

1.87 Revenue Bonds 2009 Insurance. The *Contract of Insurance* dated as of October 1, 2009, as amended, under which OSHPD insured the Debtor's obligations under the Revenue Bonds 2009.

1.88 Revenue Bonds 2010. The \$2,875,000 Mendocino Coast Health Care District Insured Health Facility Revenue Bonds, Series 2010, dated July 8, 2010.

1.89 Revenue Bonds 2010 Indenture. The *First Supplemental Indenture of Trust* dated as of July 1, 2010, as amended, between the Debtor and BNY, as trustee, relating to the Revenue Bonds 2010.

1.90 Revenue Bonds 2010 Insurance. The *Contract of Insurance* dated as of July 1, 2010, as amended, under which OSHPD insured the Debtor's obligations under the Revenue Bonds 2010.

1.91 Secured Claim. Any Claim secured by a valid, perfected and enforceable Lien that is not subject to avoidance under bankruptcy or non-bankruptcy law, equal to the value, as determined by the Bankruptcy Court pursuant to Sections 506(a) and 1129(b) of the Bankruptcy Code and Bankruptcy Rule 3012, of (i) the interest of the holder of such Claim in the property of the Debtor securing such Claim, or (ii) the amount subject to setoff under Section 553 of the Bankruptcy Code.

1.92 Social Security Act. The Social Security Act under Chapter 7 of Title 42 of the United States Code.

1.93 Unsecured Claim. Any Claim that is not (i) an Administrative Claim, (ii) a Secured Claim, or (iii) a Liability Claim.

1.94 Unsecured Deficiency Claim. Any Claim by a Person holding a Secured Claim to the extent the value of such Creditor's collateral, as determined in accordance with Section 506(a) of the Bankruptcy Code, is less than the Allowed amount of such Creditor's Secured Claim as of the Petition Date, after taking into account any election made pursuant to Section 1111(b) of the Bankruptcy Code.

1.95 UHC. UHC of California.

1.96 UHC Claim. Claim number 74 filed on March 28, 2013, by UHC on account of the UHC Old Notes.

1.97 UHC Indenture. The *Indenture* dated as of December 1, 2011, as amended, between the Debtor and BNY, as trustee, relating to the UHC Old Notes.

1.98 UHC Old Notes. The *2011 HIT/EHR Taxable Promissory Notes* issued by the District to UHC in the aggregate principal amount of \$2,500,000.

1.99 UHC New Note. The *Note* as defined in the UHC Settlement Documents.

1.100 UHC Settlement Documents. The *Settlement Agreement* dated April 25, 2014, by and among the Debtor, UHC and OSHPD (including the exhibits to such agreement), approved by order of the Bankruptcy Court entered on January 17, 2014.

1.101 Workers' Compensation Law. The Workers' Compensation Act under Sections 3200 *et seq.* of the California Labor Code.

ARTICLE II

TREATMENT OF UNCLASSIFIED CLAIMS

2.1 Unclassified Claims. As provided in Section 1123(a)(1) of the Bankruptcy Code, Administrative Claims against the Debtor are not classified for purposes of voting on, or receiving distributions under, the Plan. Holders of such Claims are not entitled to vote on the Plan. All such Claims are instead treated separately in accordance with this Article II and in accordance with the requirements set forth in Section 1129(a)(9)(A) of the Bankruptcy Code.

2.2 Administrative Claims.

2.2.1 Generally. 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.

2.2.2 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 shall 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.

2.2.3 Section 503(b)(9) Claims. The Administrative Claim Bar Date applies 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. 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).

2.2.4 Plan Payments. The Debtor is not currently aware of the existence of any outstanding 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.

2.2.5 Assumption Obligations. The Debtor will satisfy 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 from the Effective Date Deposit.

2.3 PCO Claim. 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 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 administrative expense in the Chapter 9 Case but is an Unsecured Claim.

2.4 BNY Claim. 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 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 administrative expense in the Chapter 9 Case but is an Unsecured Claim.

2.5 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.

2.6 Source of Payment. 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.

ARTICLE III

CLASSIFICATION OF CLAIMS

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

Class 1	Revenue Bonds 1996	Unimpaired, deemed to accept.
Class 2	Revenue Bonds 2009	Unimpaired, deemed to accept.
Class 3	Revenue Bonds 2010	Unimpaired, deemed to accept.
Class 4	General Obligation Bonds	Unimpaired, deemed to accept.
Class 5	OSHPD LOC Claim	Impaired, entitled to vote.
Class 6	Miscellaneous Secured Claims	Unimpaired, deemed to accept.
Class 7	Convenience Claims	Impaired, entitled to vote.
Class 8	Unsecured Claims	Impaired, entitled to vote.
Class 9	Liability Claims	Unimpaired, deemed to accept

3.2 Specific Classification.

3.2.1 Class 1 – Revenue Bonds 1996. Class 1 consists of the Revenue Bonds 1996.

3.2.2 Class 2 – Revenue Bonds 2009. Class 2 consists of the Revenue Bonds 2009.

3.2.3 Class 3 – Revenue Bonds 2010. Class 3 consists of the Revenue Bonds 2010.

3.2.4 Class 4 – General Obligation Bonds. Class 4 consists of the General Obligation Bonds.

3.2.5 Class 5 – OSHPD LOC Claim. Class 5 consists of the OSHPD LOC Claim.

3.2.6 Class 6 – Miscellaneous Secured Claims. 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.

3.2.7 Class 7 – Convenience Claims. Class 7 consists of all Convenience Claims against the Debtor.

3.2.8 Class 8 – Unsecured Claims. Class 8 consists of all Unsecured Claims against the Debtor.

3.2.9 Class 9 – Liability Claims. Class 9 consists of all Liability Claims against the Debtor.

ARTICLE IV

TREATMENT OF CLAIMS

4.1 Class 1 – Revenue Bonds 1996.

4.1.1 Impairment and Voting. Class 1 is not impaired under the Plan and the holders of 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. Class 1 does not include any BNY Claim.

4.1.2 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; (b) the maturity of the Claim shall be reinstated as the maturity existed before any defaults; (c) the holder of the Claim shall be compensated for any damages incurred as the result of any reasonable reliance by the holder of such Claim on any provision or applicable law that entitled the holder to accelerate maturity of the Claim; and (d) the other legal, equitable, or contractual rights to which the Claim entitles the holder shall not otherwise be altered. There are no uncured defaults (other than defaults of the kind specified in section 365(b)(2) of the Bankruptcy Code), or damages under the documentation evidencing Class 1 Claims; accordingly, the Debtor shall not be required to make any payments or other distributions pursuant to clauses (a) or (c) of the preceding sentence.

4.1.3 Other Amounts. Any payment for services or expenses in the case or incident to this Plan due to the holder of a Claim in Class 1 pursuant to any applicable contractual or statutory provision shall not be paid unless, and only to the extent that, the holder discloses such amounts in any BNY Claim and the Bankruptcy Court determines that such amounts are reasonable within the meaning of section 943(b)(3) of the Bankruptcy Code.

4.1.4 Insurance. The Revenue Bonds 1996 Insurance is unaffected by the Plan and shall remain in full force and effect after the Effective Date according to its terms.

4.2 Class 2 – Revenue Bonds 2009.

4.2.1 Impairment and Voting. Class 2 is not impaired under the Plan and the holders of 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. Class 2 does not include any BNY Claim.

4.2.2 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; (b) the maturity of the Claim shall be reinstated as the maturity existed before any defaults; (c) the holder of the Claim shall be compensated for any damages incurred as the result of any reasonable reliance by the holder of such Claim on any provision or applicable law that entitled the holder to accelerate maturity of the Claim; and (d) the other legal, equitable, or contractual rights to which the Claim entitles the holder shall not otherwise be altered. There are no uncured defaults (other than defaults of the kind specified in section 365(b)(2) of the Bankruptcy Code), or damages under the documentation evidencing Class 2 Claims; accordingly, the Debtor shall not be required to make any payments or other distributions pursuant to clauses (a) or (c) of the preceding sentence.

4.2.3 Other Amounts. Any payment for services or expenses in the case or incident to this Plan due to the holder of a Claim in Class 2 pursuant to any applicable contractual or statutory provision shall not be paid unless, and only to the extent that, the holder discloses such amounts in any BNY Claim and the Bankruptcy Court determines that such amounts are reasonable within the meaning of section 943(b)(3) of the Bankruptcy Code.

4.2.4 Insurance. The Revenue Bonds 2009 Insurance is unaffected by the Plan and shall remain in full force and effect after the Effective Date according to its terms.

4.3 Class 3 – Revenue Bonds 2010.

4.3.1 Impairment and Voting. Class 3 is not impaired under the Plan and the holders of 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. Class 3 does not include any BNY Claim.

4.3.2 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; (b) the maturity of the Claim shall be reinstated as the maturity existed before any defaults; (c) the holder of the Claim shall be compensated for any damages incurred as the result of any reasonable reliance by the holder of such Claim on any provision or applicable law that entitled the holder to accelerate maturity of the Claim; and (d) the other legal, equitable, or contractual rights to which the Claim entitles the holder shall not otherwise be altered. There are no uncured defaults (other than defaults of the kind specified in section 365(b)(2) of the Bankruptcy Code), or damages under the documentation evidencing Class 3 Claims; accordingly, the Debtor shall not be required to make any payments or other distributions pursuant to clauses (a) or (c) of the preceding sentence.

4.3.3 Other Amounts. Any payment for services or expenses in the case or incident to this Plan due to the holder of a Claim in Class 3 pursuant to any applicable contractual or statutory provision shall not be paid unless, and only to the extent that, the holder discloses such amounts in any BNY Claim and the Bankruptcy Court determines that such amounts are reasonable within the meaning of section 943(b)(3) of the Bankruptcy Code.

4.3.4 Insurance. The Revenue Bonds 2010 Insurance is unaffected by the Plan and shall remain in full force and effect after the Effective Date according to its terms.

4.4 Class 4 – General Obligation Bonds.

4.4.1 Impairment and Voting. Class 4 is not impaired under the Plan and the holders of 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.

4.4.2 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; (b) the maturity of the Claim shall be reinstated as the maturity existed before any defaults; (c) the holder of the Claim shall be compensated for any damages incurred as the result of any reasonable reliance by the holder of such Claim on any provision or applicable law that entitled the holder to accelerate maturity of the Claim; and (d) the other legal, equitable, or contractual rights to which the Claim entitles the holder shall not otherwise be altered. There are no uncured defaults (other than defaults of the kind specified in section 365(b)(2) of the Bankruptcy Code), or damages under the documentation evidencing Class 4 Claims; accordingly, the Debtor shall not be required to make any payments or other distributions pursuant to clauses (a) or (c) of the preceding sentence.

4.4.3 Other Amounts. Any payment for services or expenses in the case or incident to this Plan due to the holder of a Claim in Class 4 pursuant to any applicable contractual or statutory provision shall not be paid unless, and only to the extent that, the holder files an application disclosing such amounts on or prior to the deadline set by the Bankruptcy Court for filing objections to Confirmation of the Plan and the Bankruptcy Court determines that such amounts are reasonable within the meaning of section 943(b)(3) of the Bankruptcy Code.

4.4.4 Insurance. The General Obligation Bonds Insurance is unaffected by the Plan and shall remain in full force and effect after the Effective Date according to its terms.

4.5 Class 5 – OSHPD LOC Claim.

4.5.1 Impairment and Voting. Class 5 is impaired under the Plan and the holder of the OSHPD LOC Claim is entitled to vote on the Plan.

4.5.2 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 OSHPD Initial Payment. 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 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.

4.5.1 Other Terms. 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.

4.5.1 No Other OSHPD Claims. With the exception of the OSHPD LOC Claim, OSHPD shall have no other or additional Claims against the Debtor under the NCB Assignment Agreement, the OSHPD Proof of Claim, the OSHPD Stipulation or otherwise.

4.5.1 OSHPD Agreement. The OSHPD Regulatory Agreement is unaffected by the Plan and shall remain in full force and effect after the Effective Date according to its terms.

4.6 Class 6 – Miscellaneous Secured Claims.

4.6.1 Impairment and 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.

4.6.2 Alternative Treatment. On or before the Effective Date, the Debtor shall elect, in its discretion, one of the following alternative treatments for each holder of an Allowed Secured Claim in each subclass of Class 6:

(a) **Reinstatement.** 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, such Claim shall be reinstated and cured.

(b) **Abandonment or Surrender.** The Debtor will abandon or surrender to the holder of such Claim the property securing such Allowed Secured Claim, in full satisfaction and release of such Claim.

(c) **Cash Payment.** The Debtor will pay to the holder of such Claim Cash equal to the amount of such Claim, or such lesser amount to which the holder of such Claim and the Debtor shall agree, in full satisfaction and release of such Claim. The Disbursing Agent shall make a cash payment to the holder of an Allowed Secured 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

4.6.3 Unsecured Deficiency Claim. Any Unsecured Deficiency Claim asserted by a holder of an Allowed Secured Claim in Class 6 shall be filed with the Bankruptcy Court within thirty (30) days following the date of the surrender or abandonment of such Creditor's property or the Distribution to such Creditor. Any such Allowed Unsecured Deficiency Claim shall be treated in accordance with Section 4.8 of the Plan.

4.6.1 No Present Awareness. The Debtor is not currently aware of the existence of any Class 6 Secured Claims.

4.7 Class 7 – Convenience Claims.

4.7.1 Impairment and Voting. Class 7 is impaired under the Plan and the holders of Convenience Claims are entitled to vote on the Plan.

4.7.2 Treatment. 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.

4.7.3 Effect of Election. Any holder of an Claim that would otherwise have been classified in Class 8, but for the timely election on the Ballot by such holder to reduce the aggregate of all its Claims to a single Convenience Claim of \$5,000 and participate in Class 7, 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.

4.7.4 Source of Payment. The Disbursing Agent shall make Distributions to the holders of Allowed Convenience Claims 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.

4.7.5 Time of Payment. The Disbursing Agent shall make Distributions to the holders of Allowed Convenience Claims on the later of: (a) the 30th Business Day following the Effective Date, or as soon thereafter as practicable, and (b) the 30th Business Day after such Claim is Allowed, or as soon thereafter as practicable.

4.8 Class 8 – Unsecured Claims.

4.8.1 Impairment and Voting. Class 8 is impaired under the Plan and the holders of Unsecured Claims are entitled to vote on the Plan.

4.8.2 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.

4.8.3 Time of Payment. The Disbursing Agent shall make Distributions to the holders of Allowed Unsecured Claims in three installments (a) as soon as practicable following the GUC Deposit Date, and (b) as soon as practicable following each of the 2nd and 4th anniversary of the GUC Deposit Date. The Reorganized Debtor shall have the option, in its sole discretion, to make the GUC Subsequent Deposits at any time sooner than the 2nd and 4th anniversary of the GUC Deposit Date. If so, the Disbursing Agent shall have the option, in its sole discretion, to make Distributions to the holders of Allowed Unsecured Claims in fewer than three installments.

4.9 Class 9 – Liability Claims.

4.9.1 Impairment and 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.

4.9.2 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.

4.10 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.

ARTICLE V

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.

5.1 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.

5.2 Postconfirmation Operations.

5.2.1 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, or further approval of, the Bankruptcy Court and free of any restrictions under the Bankruptcy Code or the Bankruptcy Rules.

5.2.2 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.

5.2.3 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.

5.2.4 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. Each of the members of the District Governing Body shall serve in accordance with applicable nonbankruptcy law.

5.3 Plan Fund. On the Effective Date, the Reorganized Debtor shall establish the Plan Fund for purpose 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. Any Effective Date Balance shall be transferred from the Plan Fund to the Reorganized Debtor and may be used by the Reorganized Debtor without further approval of the Bankruptcy Court.

5.4 Retained Claims and Defenses.

5.4.1 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.

5.4.2 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 debtor in possession or 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.

5.4.3 Preference Actions Deemed Waived. Upon the Effective Date, all Preference Actions of the Debtor shall be deemed waived and released, provided that, such waiver and release shall apply only 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 other offset, recoupment or reduction against, the allowance of a Claim asserted by a Creditor.

5.5 Distributions.

5.5.1 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.

5.5.2 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 Plan shall be in full and final satisfaction, settlement and release of all Claims.

5.5.3 No Post-Petition Interest 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.

5.5.4 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.

5.5.5 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.

5.5.6 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.

5.5.7 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.

5.5.8 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.

5.5.9 Taxes. The Disbursing Agent shall be entitled to deduct any applicable federal, state or local withholding taxes, or other amounts required to be collected, 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.

5.5.10 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 pursuant to this Section 5.5.10 shall be treated as unclaimed property under Section 5.5.7 of the Plan.

ARTICLE VI

EXECUTORY CONTRACTS AND UNEXPIRED LEASES

6.1 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.

6.2 Assumption of Medical Office Leases. 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 (collectively, the “Medical Office Leases”). There are no Assumption Obligations due under any of the foregoing leases.

6.3 Assumption of Software Licenses. 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.

6.4 Assumption of District Provider Agreements.

6.4.1 Medicare Provider Agreement. On the Effective Date, pursuant to Section 1123(b)(2) of the Bankruptcy Code, the Debtor will assume the Medicare Provider Agreement. The CMS Claim 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 four equal installments of \$5,000 payable, without interest, on each of the Effective Date (from the Plan Fund) and the first, second and third anniversary of the Effective Date (from the general revenues of the Reorganized Debtor).

(a) **No Further Offsets.** With the exception of the CMS Assumption Obligation, upon and following the Effective Date, no further or additional amounts are or shall become due or payable, whether by recoupment, offset, reimbursement or otherwise, by the Debtor or the Reorganized Debtor to CMS on account of any transaction, occurrence, act or omission arising prior to the Effective Date under the Medicare Provider Agreement. Following the Effective Date, CMS shall continue to remit any underpayments or other 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.

6.4.2 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, whether by recoupment, offset, reimbursement or otherwise, 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.

(a) **No Further Offsets.** Upon and following the Effective Date, no further or additional amounts are or shall become due or payable, whether by recoupment, offset, reimbursement or otherwise, 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. Following the Effective Date, Medi-Cal shall continue to remit any underpayments or other outstanding reimbursements due from Medi-Cal to the District for any cost reporting periods prior to the Effective Date without offset or recoupment.

6.5 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 Debtor 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.

6.6 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.

6.7 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 this Article VI of the Plan. The contracts and leases identified in this 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 this 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. This 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 this Plan.

6.8 Post-Petition Agreements. All contracts, leases and other agreements entered into or restated 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.

6.9 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.

6.10 Indentures. The Revenue Bond Indentures shall remain in full force and effect after the Effective Date according to their respective terms.

ARTICLE VII

CONDITIONS PRECEDENT

7.1 Conditions to Confirmation. The following are conditions precedent to confirmation of this Plan:

(a) The Bankruptcy Court shall have entered an order approving a Disclosure Statement with respect to this Plan in form and substance satisfactory to the Debtor; and

(b) The Confirmation Order shall have been entered and shall be in a form and substance reasonably acceptable to the Debtor.

7.2 Conditions to Effectiveness. The following are conditions precedent to the occurrence of the Effective Date:

(a) The Confirmation Date shall have occurred; and

(b) 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.

7.3 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.

ARTICLE VIII

EFFECTS OF CONFIRMATION

8.1 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.

8.2 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.

8.3 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.

8.4 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.

8.5 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.

8.6 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, this 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 this Plan or the assets and property to be distributed pursuant to this 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.

ARTICLE IX

RETENTION OF JURISDICTION

Notwithstanding the entry of the Confirmation Order and the occurrence of the Effective Date, the Bankruptcy Court shall retain jurisdiction over the Chapter 9 Case after the Effective Date pursuant to Section 945(a) of the Bankruptcy Code, including, without limitation, jurisdiction to:

- (a) Allow, disallow, determine, liquidate, classify, estimate, or establish the priority or secured or unsecured status of any Claim, including the resolution of any request for payment of any Administrative Claim and the resolution of any objections to the allowance or priority of Claims;
- (b) Resolve any matters related to the assumption, assumption and assignment, or rejection of any executory contract or unexpired lease to which the Debtor is a party and to hear, determine and, if necessary, liquidate, any Claims arising from, or Assumption Obligations related to, such assumption or rejection;
- (c) Ensure that Distributions to holders of Allowed Claims are accomplished in accordance with the Plan;
- (d) Decide or resolve any motions, adversary proceedings, contested or litigated matters, and any other matters and grant or deny any applications or motions involving the Debtor that may be pending on the Effective Date;
- (e) Enter such orders as may be necessary or appropriate to implement or consummate the provisions of the Plan and all contracts, instruments, releases, and other agreements or documents created in connection with the Plan or the Disclosure Statement;
- (f) Resolve any cases, controversies, suits or disputes that may arise in connection with the consummation, interpretation or enforcement of the Plan or any Person's obligations incurred in connection with the Plan;
- (g) Modify the Plan before or after the Effective Date under Section 942 of the Bankruptcy Code or modify the Disclosure Statement or any contract, instrument, release, or other agreement or document created in connection with the Plan or the Disclosure Statement; or remedy any defect or omission or reconcile any inconsistency in any Bankruptcy Court order, the Plan, the Disclosure Statement, or any contract, instrument, release, or other agreement or document created in connection with the Plan and the Disclosure Statement, in such manner as may be necessary or appropriate to consummate the Plan, to the extent authorized by the Bankruptcy Code;
- (h) Issue injunctions, enter and implement other orders, or take such other actions as may be necessary or appropriate to restrain interference by any entity with consummation or enforcement of the Plan, except as otherwise provided in the Plan;

- (i) Enter and implement such orders as are necessary or appropriate if the Confirmation Order is for any reason modified, stayed, reversed, revoked, or vacated;
- (j) Determine any other matters that may arise in connection with or related to the Plan, the Disclosure Statement, the Confirmation Order or any contract, instrument, release, or other agreement or document created in connection with the Plan, the Disclosure Statement or the Confirmation Order, except as otherwise provided in the Plan;
- (k) Hear and determine Retained Claims and Defenses commenced by the Debtor or the Reorganized Debtor; and
- (l) Enter a final decree closing the Chapter 9 Case pursuant to Section 945(b) of the Bankruptcy Code which provides for the retention of jurisdiction by the Bankruptcy Court for purposes of this Article IX.

ARTICLE X

AMENDMENT AND WITHDRAWAL OF PLAN

10.1 Amendment of the Plan. At any time before the Confirmation Date, the Debtor may alter, amend, or modify the Plan under Section 942 of the Bankruptcy Code, provided that, such alteration, amendment, or modification does not materially and adversely affect the treatment and rights of the holders of Claims under this Plan. After the Confirmation Date and before the effectiveness of the Plan, the Debtor may, under Section 942 of the Bankruptcy Code, institute proceedings in the Bankruptcy Court to remedy any defect or omission or reconcile any inconsistencies in the Plan, the Disclosure Statement, or the Confirmation Order, or as otherwise may be necessary to carry out the purposes and effects of the Plan so long as such proceedings do not materially and adversely affect the treatment of holders of Claims under the Plan; provided, however, that prior notice of such proceedings shall be served in accordance with the Bankruptcy Rules or applicable order of the Bankruptcy Court.

10.2 Revocation or Withdrawal of the Plan. The Debtor reserves the right to revoke or withdraw this Plan at any time in its sole discretion. If the Plan is withdrawn or revoked, then the Plan shall be deemed null and void, and nothing contained in the Plan shall be deemed a waiver of any Claims by or against the Debtor or any other Person in any further proceedings involving the Debtor or an admission of any sort, and this Plan and any transaction contemplated by this Plan shall not be admitted into evidence in any proceeding.

ARTICLE XI

MISCELLANEOUS

11.1 Effectuating Documents; Further Transactions; Timing. The Debtor shall be authorized and directed to execute, deliver, file, or record such contracts, instruments, releases, and other agreements or documents, and to take such actions as may be necessary or appropriate to effectuate and further evidence the terms and conditions of the Plan. All transactions required to occur on the Effective Date under the terms of the Plan shall be deemed to have occurred simultaneously.

11.2 Governing Law. Except to the extent that the Bankruptcy Code or other federal law is applicable, the rights, duties and obligations of the Debtor, the Reorganized Debtor and any other Person arising under the Plan shall be governed by, and construed and enforced in accordance with, the internal laws of the State of California, without giving effect to California's choice of law provisions.

11.3 Modification of Treatment. The Reorganized Debtor may modify the treatment or payment terms of any Allowed Claim in any manner adverse only to the holder of such Claim at any time after the Effective Date upon the prior written consent of the holder whose Allowed Claim treatment is being adversely affected.

11.4 Method of Payment. The Disbursing Agent shall make Cash payments: (X) in U.S. dollars by check, draft or warrant, drawn on a domestic bank selected by the Disbursing Agent in its sole discretion, or by wire transfer from a domestic bank, at the Disbursing Agent's option, and (Y) by first-class mail (or by other equivalent or superior means as determined by the Disbursing Agent). Whenever any deposit, payment or distribution to be made under the Plan is due on a day other than a Business Day, such deposit, payment or distribution may instead be made, without interest, on the immediately following Business Day.

11.5 Notice of Confirmation. As soon as practicable following the Effective Date of the Plan, the Reorganized Debtor shall file and serve notice of the entry of the Confirmation Order in the manner required under Bankruptcy Rule 2002(f). The notice shall further identify the Effective Date and shall set forth the Administrative Claim Bar Date, the Rejection Claim Bar Date and any other deadlines that may be established under the Plan or the Confirmation Order.

11.6 Severability of Plan Provisions. If, prior to the Confirmation Date, any provision of the Plan is judicially determined to be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions of the Plan shall not in any way be affected or impaired thereby and the Court will have the power to alter and interpret such term or provision to make it valid or enforceable to the maximum extent practicable and consistent with the original purpose of the term or provision held to be invalid. The Confirmation Order shall constitute a judicial determination and shall provide that each term and provision of this Plan, as it may have been altered or interpreted in accordance with the foregoing, is valid and enforceable in accordance with its terms

11.7 Notices. Except as otherwise provided in the Plan, any notice or other communication required or permitted under the Plan will be in writing and deemed to have been validly served, given, delivered, and received upon the earlier of: (x) the first business day after transmission by facsimile or hand delivery or deposit with an overnight express service or overnight mail delivery service; or (y) the third calendar day after deposit in the United States mail, with proper first class postage prepaid. If such notice is made to the Reorganized Debtor, it shall be addressed as follows:

Mendocino Coast Health Care District
Mendocino Coast District Hospital
700 River Drive
Fort Bragg, CA 95437
Telephone: (707) 961-4611
Facsimile: (707) 961-4794
wallen@mcdh.net
Attn: Wayne Allen, Interim CEO and CFO

with copies to:

Pachulski Stang Ziehl & Jones LLP
150 California Street, 15th Floor
San Francisco, CA 94111
Telephone: (415) 263-7000
Facsimile: (415) 263-7010
hkevane@pszjlaw.com
Attn: Henry C. Kevane, Esq.

11.7.1 Notice to Creditors. Notices to Creditors will be sent to the address set forth in its proof of Claim or, if none was filed, to the address set forth in the List of Creditors.

11.7.2 Post Confirmation Notices. Following the Effective Date, notices will only be served on the Reorganized Debtor and those Creditors who file with the Court and serve upon the Reorganized Debtor a request, which includes such Creditor's name, contact person, address, telephone number and facsimile number, that such Creditor receive notice of any post-Confirmation matters. Creditors who had previously filed with the Court requests for special notice of the proceedings and other filings in the Chapter 9 Case will not receive notice of post-Confirmation matters unless such Creditors file a new request in accordance with this Section 11.7.2.

11.8 Incorporation by Reference. All exhibits, schedules and supplements to the Plan are incorporated and are made a part of the Plan as if set forth in full in the Plan.

11.9 Computation of Time. In computing any period of time prescribed or allowed by the Plan, the provisions of Bankruptcy Rule 9006(a) shall apply. Any reference to "day" or "days" shall mean calendar days, unless otherwise specified herein.

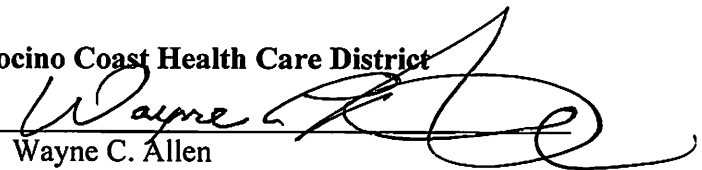
11.10 Conflict of Terms. In the event of a conflict between the terms of this Plan and the Disclosure Statement, the terms of this Plan will control.

Dated: Fort Bragg, California
October 31, 2014

Respectfully submitted,

Mendocino Coast Health Care District

By:


Wayne C. Allen

Interim Chief Executive Officer and Chief
Financial Officer

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EXHIBIT A

EXECUTORY CONTRACTS AND UNEXPIRED LEASES TO BE REJECTED

None (as of 10/31/14)