



Report of Independent Auditors
and Financial Statements

Marin Healthcare District

June 30, 2015 and 2014

MOSS-ADAMS_{LLP}

Certified Public Accountants | Business Consultants

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Marin Healthcare District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Years Ended June 30, 2015, 2014, and 2013

This section of Marin Healthcare District's (the District) financial statements presents management's discussion and analysis of the financial activities of the District for the fiscal years ended June 30, 2015, 2014, and 2013. We encourage the reader to consider the information presented here in conjunction with the financial statements as a whole.

Introduction to the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's audited financial statements. This annual report is prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

The required financial statements include the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. The Notes to Financial Statements, and this summary, provide support to these statements. All information must be considered together to obtain a complete understanding of the financial picture of the District.

Statement of Net Position

This statement includes all assets and liabilities using the accrual basis of accounting as of the statement date. The difference between the two classifications is represented as "Net Position;" this section of the statement identifies major categories of restrictions on these assets and reflects the overall financial position of the District as a whole.

Statement of Revenues, Expenses, and Changes in Net Position

This statement presents the revenues earned and the expenses incurred during the year using the accrual basis of accounting. Under the accrual basis, all increases or decreases in net position are reported as soon as the underlying event occurs, regardless of the timing of the cash flow. Consequently revenues and/or expenditures reported during this fiscal year may result in changes to cash flows in a future period.

Statement of Cash Flow

This statement reflects inflows and outflows of cash, summarized by operating, capital, financing, and investing activities. The direct method was used to prepare this information, which means gross rather than net amounts were presented for the year's activities.

Notes to Financial Statements

This additional information is essential to a full understanding of the data reported in the financial statements.

The District is a political sub-division of the state of California. It is the sole member of Marin General Hospital (MGH) and is governed by a publicly-elected Board of Directors.

Marin Healthcare District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Years Ended June 30, 2015, 2014, and 2013

Analytical Overview

The Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position present a summary of the District's activities.

Table 1
Condensed Statements of Net Position

	JUNE 30,		
	2015	2014	2013
Current and other assets	\$ 7,135,518	\$ 6,684,483	\$ 6,252,248
Capital assets, net of accumulated depreciation	6,000,622	6,609,601	7,188,373
Total assets	13,136,140	13,294,084	13,440,621
Current liabilities	3,088,858	3,639,317	3,388,099
Long-term debt and other long-term liabilities	883,333	1,626,055	3,067,649
Total liabilities	3,972,191	5,265,372	6,455,748
Net position			
Net investment in capital assets, net of related debt	5,050,622	5,342,934	5,682,147
Unrestricted net position	4,113,327	2,685,778	1,302,726
Total net position	9,163,949	8,028,712	6,984,873
Total liabilities and net position	\$ 13,136,140	\$ 13,294,084	\$ 13,440,621

Summary

Total assets decreased by 1% or \$157,944 at 6/30/2015 compared to 6/30/2014, primarily related to the reduction in capital assets. Total assets decreased by 1% or \$146,537 at 6/30/2014 compared to 6/30/2013, primarily related to the reduction in capital assets.

Liabilities decreased by 25% or \$1,293,181 at 6/30/2015 compared to 6/30/2014, as a result of the reduction of notes and loans payable and deferred lease revenue. Liabilities decreased by 18% or \$1,190,376 at 6/30/2014 compared to 6/30/2013, as a result of the reduction of notes and loans payable and deferred lease revenue.

The overall change to net assets is an increase of \$1,135,237, resulting in a June 30, 2015 balance of \$9,163,949.

Marin Healthcare District
MANAGEMENT'S DISCUSSION AND ANALYSIS
 For the Years Ended June 30, 2015, 2014, and 2013

Condensed Statements of Revenue, Expenses, and Changes in Net Position

	YEARS ENDED JUNE 30,		
	2015	2014	2013
Operating revenues	\$ 16,925,135	\$ 15,892,950	\$ 14,081,476
Operating expenses	21,109,662	19,851,075	16,943,723
Operating loss	\$ (4,184,527)	\$ (3,958,125)	\$ (2,862,247)
Non-operating revenues	\$ 5,319,764	\$ 5,001,964	\$ 3,614,790
Change in net position	\$ 1,135,237	\$ 1,043,839	\$ 752,543

The increases in operating losses are primarily due to the losses incurred from the expansion of the 1206(b) Clinics. The operating deficits are funded by MGH, which accounts for the increase in Non-Operating Revenues.

Economic Outlook and Major Initiatives

The Hospital Facilities Seismic Upgrade Act (SB 1953)

The District has assumed responsibility for compliance with the Hospital Facilities Seismic Upgrade Act (SB 1953) classification SPC2 and through Hazus 2010. The District has received an extension to 2030.

Payments from Federal and State Health Care Programs

Entities doing business with governmental payors, including Medicare and Medi-Cal, are subject to risks unique to the government-contracting environment that are difficult to anticipate and quantify. Revenues are subject to adjustment as a result of examination by government agencies as well as auditors, contractors, and intermediaries retained by the federal, state, or local governments. Resolution of such audits or reviews often extends (and in some cases does not even commence until) several years beyond the year in which services were rendered and/or fees received.

Measure F

On November 5, 2013, the voters of the District passed Measure F which authorized the District to issue \$394,000,000 in bonds to improve Marin General Hospital facility and related facilities with new construction, acquisitions, and renovations.

Contacting the District's Financial Management

This financial report is intended to provide citizens, taxpayers, and creditors with a general overview of the District's finances. Questions about this report should be directed to Marin Healthcare District to the attention of the Chief Financial Officer or the Chair of the Finance and Audit Committee at 415-464-2090.

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
Marin Healthcare District

Report on Financial Statements

We have audited the accompanying financial statements of Marin Healthcare District (the District), which comprise the statements of net position as of June 30, 2015 and 2014, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the California Code of Regulations, Title 2, Section 1131.2, State Controller's *Minimum Audit Requirements* for California Special Districts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Marin Healthcare District as of June 30, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 1 through 3 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Moss Adams LLP

Stockton, California

October 13, 2015

FINANCIAL STATEMENTS

**MARIN HEALTHCARE DISTRICT
STATEMENTS OF NET POSITION**

	JUNE 30,	
	2015	2014
ASSETS		
Current assets		
Cash and cash equivalents	\$ 3,205,998	\$ 3,078,927
Patient accounts receivable, net of allowance for doubtful accounts of \$25,494 and \$22,690 in 2015 and 2014, respectively	2,019,832	1,759,172
Other receivables	649,003	530,059
Prepaid expenses	13,920	13,920
Inventory	15,692	14,092
Total current assets	5,904,445	5,396,170
Deposits	572,906	572,906
Capital assets, net of accumulated depreciation	6,000,622	6,609,601
Intangible assets, net of accumulated amortization	658,167	715,407
Total assets	<u>\$ 13,136,140</u>	<u>\$ 13,294,084</u>
LIABILITIES		
Current liabilities		
Accounts payable	\$ 1,602,542	\$ 1,352,884
Accrued expenses	527,994	464,454
Accrued election expense	65,600	102,600
Current portion of note payable	566,667	466,667
Current portion of deferred lease revenue	326,055	1,252,712
Total current liabilities	3,088,858	3,639,317
Note payable, net of current portion	883,333	1,300,000
Deferred lease revenue, net of current portion	-	326,055
Total liabilities	<u>3,972,191</u>	<u>5,265,372</u>
NET POSITION		
Net investment in capital assets, net of related debt	5,050,622	5,342,934
Unrestricted	4,113,327	2,685,778
Total net position	<u>9,163,949</u>	<u>8,028,712</u>
Total liabilities and net position	<u>\$ 13,136,140</u>	<u>\$ 13,294,084</u>

MARIN HEALTHCARE DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	YEARS ENDED JUNE 30,	
	2015	2014
OPERATING REVENUE		
Net patient service revenue	\$ 15,326,119	\$ 14,315,716
Lease income	1,599,016	1,577,234
Total operating revenues	16,925,135	15,892,950
OPERATING EXPENSES		
Salaries and benefits	13,959,423	12,882,357
Rent	1,383,661	1,240,624
Purchased services	3,030,132	3,019,735
Depreciation and amortization	666,219	666,873
Supplies	868,063	642,520
Community communication and education	50,325	88,289
Insurance	90,245	89,030
Charitable contributions	145,000	-
Other	916,594	1,221,647
Total operating expenses	21,109,662	19,851,075
OPERATING LOSS	(4,184,527)	(3,958,125)
NON-OPERATING REVENUES (EXPENSES)		
Support from Marin General Hospital (MGH)	5,341,168	5,030,855
Interest expense	(26,250)	(36,750)
Other revenue	4,846	7,859
Total non-operating revenues	5,319,764	5,001,964
INCREASE IN NET POSITION	1,135,237	1,043,839
NET POSITION, beginning of year	8,028,712	6,984,873
NET POSITION, end of year	\$ 9,163,949	\$ 8,028,712

**MARIN HEALTHCARE DISTRICT
STATEMENTS OF CASH FLOWS**

	YEARS ENDED JUNE 30,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from tenants	\$ 346,304	\$ 546,754
Receipts from patients	15,065,459	14,216,209
Payments to employees and physicians	(13,786,763)	(12,709,771)
Payments to suppliers and others	(6,376,832)	(6,355,773)
Net cash from operating activities	<u>(4,751,832)</u>	<u>(4,302,581)</u>
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from MGH for operations	<u>4,862,408</u>	<u>4,902,833</u>
Net cash from non-capital and related financing activities	4,862,408	4,902,833
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital asset purchases	-	(30,861)
Principal payments for Cardiovascular Associates of Marin and San Francisco Medical Group, Inc. (CAMSF)-related note payable	(200,000)	(200,000)
Proceeds from loan for CAMSF asset acquisition	200,000	200,000
Principal payments for MMG-related note payable	-	(14,538)
Interest payments on notes payable	(31,500)	(68,250)
Net cash from capital and related financing activities	<u>(31,500)</u>	<u>(113,649)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest earned	4,846	7,859
Proceeds from notes receivable	43,149	44,449
Net cash from investing activities	<u>47,995</u>	<u>52,308</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	127,071	538,911
CASH AND CASH EQUIVALENTS, beginning of year	<u>3,078,927</u>	<u>2,540,016</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 3,205,998</u>	<u>\$ 3,078,927</u>

**MARIN HEALTHCARE DISTRICT
STATEMENTS OF CASH FLOWS**

	YEARS ENDED JUNE 30,	
	2015	2014
RECONCILIATION OF OPERATING LOSS TO NET CASH FROM OPERATING ACTIVITIES		
Operating loss	\$ (4,184,527)	\$ (3,958,125)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation and amortization	666,219	666,873
Provision for bad debts	132,430	246,410
Changes in certain assets and liabilities:		
Patient accounts receivable	(393,090)	(345,917)
Inventory	(1,600)	(817)
Accounts payable	249,658	(196,781)
Other long-term liabilities	(1,252,712)	(1,030,480)
Accrued expenses	31,790	316,256
Net cash from operating activities	\$ (4,751,832)	\$ (4,302,581)
SUPPLEMENTAL NON-CASH ACTIVITIES INFORMATION		
Loan forgiveness from MGH	\$ (316,667)	\$ (233,333)

MARIN HEALTHCARE DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – BASIS OF PRESENTATION AND ACCOUNTING POLICIES

Reporting entity – Marin Healthcare District (the District) is a political subdivision of the state of California. District directors are elected officials whose sole mission is to promote the health and welfare of the residents of the communities served by the District. The District operated the Marin General Hospital facility (the Hospital Facility) until 1985, when it reorganized in compliance with local hospital district law of the state of California.

The District's principal asset is hospital property, plant, and equipment. The Hospital Facility is a general acute-care facility located in Marin County, California, and provides inpatient and outpatient healthcare services. Inpatient facilities consist of medical-surgical, pediatrics, maternity, nursery, intensive care, coronary, psychology, radiology, and laboratory services. The Hospital Facility is leased to MGH. The financial information of MGH is not included in these financial statements.

Effective June 30, 2010, the District became the sole member of MGH and appointed its initial Board of Directors. The MGH Board is responsible for oversight of the operations of MGH and the District has certain ongoing reserve powers and governance oversight responsibilities.

The District is also a forum for discussion of local healthcare issues, promotes healthcare services within the community, and acts on behalf of the public as an advocate of high quality, reasonably priced healthcare services.

The financial statements of the District include the accounts of the District and healthcare clinics (the Clinics). The District formed the Clinics, pursuant to California Health and Safety Code Section 1206(b). The Clinics contract with physicians to provide health care services within the District's geographic boundaries.

During the fiscal year, 2014, the District acquired three new medical groups: Tamalpais Internal Medicine (TIM), Marin Endocrine Center (MEC), and Marin Urology Center. No consideration was paid and no liabilities assumed with the addition of both TIM and the Marin Urology Center. Minimal consideration was paid and no liabilities were assumed by the District for MEC. As minimal or no consideration was paid, these acquisitions were not accounted for as business combinations. It is in the District's nature to continue to expand its clinic network to contract with physicians and provide healthcare services within the District's geographic boundaries. Marin Medical Practice Concepts (MMPC), a management company, provides billing and collection services for the 1206(b) clinics of the District. The District is in a management services agreement where MMPC provides the District with management and administrative services for the clinics. There were no new clinics added in fiscal year 2015. As of June 30, 2015 and 2014, there were nine clinics operating.

Proprietary fund accounting – The activities of the District are accounted for as an Enterprise Fund. Enterprise Funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under the method, revenues are recorded when earned and expenses are recorded at the time obligations are incurred.

NOTE 1 – BASIS OF PRESENTATION AND ACCOUNTING POLICIES (CONTINUED)

Accounting standards – Pursuant to Government Accounting Standard Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) Pronouncements*, the District's proprietary fund accounting and financial reporting practices are based on all applicable GASB pronouncements as well as codified pronouncements issued on or before November 30, 1989 and the California Code of Regulations, Title 2, Section 1131.2, State Controller's *Minimum Audit Requirements* for California Special Districts and the State Controller's Office prescribed reporting guidelines.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

The District may fund programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net positions may be available to finance program expenditures. The District's policy is to first apply restricted grant resources to such programs, followed by general revenues, if necessary.

Reclassifications – Certain amounts reported in the 2014 financial statements have been reclassified to conform to the 2015 presentation. These reclassifications were required for the comparability to the current year's financial statements and must be considered when comparing the financial statements of this report with those of prior reports.

Use of estimates – The financial statements have been prepared in conformity with U.S. generally accepted accounting principles, and as such, include amounts based on informed estimates and judgments of management with consideration given to materiality. Actual results could differ from those estimates.

Net position – Net position is the excess of all the District's assets over all its liabilities, regardless of fund. Net position is divided into three components. These captions apply only to net position, which is determined only at the government-wide level, and are described below:

Net investment in capital assets: The portion of the net position that is represented by the current net book value of the District's capital assets, less the outstanding balance of any debt issued to finance these assets.

Restricted: The portion of net position that is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the District cannot unilaterally alter. The District has no restricted net positions.

Unrestricted: The portion of net position that is not restricted to use.

Cash and cash equivalents – Cash and cash equivalents include cash in bank checking, money market funds, and investments in highly liquid debt instruments with a maturity of three months or less when purchased.

MARIN HEALTHCARE DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – BASIS OF PRESENTATION AND ACCOUNTING POLICIES (CONTINUED)

Capital assets – Capital assets are recorded at cost. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets. The capitalization threshold is \$5,000.

Capital assets are considered impaired when their service utility declines significantly and unexpectedly. An impairment loss is recognized for the difference between the carrying value of the asset and its fair value or adjusted depreciated value, depending on the nature of the impairment. No impairment was recorded for the years ended June 30, 2015 and 2014.

Asset impairment – The District also evaluates the carrying value of its long-lived assets other than capital assets for potential impairment. The evaluations address the estimated recoverability of the assets' carrying value. When events or changes in circumstances indicate that the carrying value may not be recoverable, the excess of the carrying value over the fair value is recorded as impairment. No impairment was recorded for the years ended June 30, 2015 and 2014.

Note receivable – The District entered into a note receivable with a professional medical corporation for advances up to \$94,000 in December 2012. The total balance of the note was paid off as of June 30, 2015. As of June 30, 2014 the total balance was \$43,169. The note has an interest rate of 6% and is unsecured. The District is to receive monthly payments of principal and interest of \$4,041 until maturity in 2015. The current portion of the note receivable is included in other receivables in the statement of net position at June 30, 2014.

Risk management – The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance.

The Clinics, while operated by the District, are insured under MGH's insurance policy. MGH is insured for professional and general liability. The professional and general liability coverage is for a claims-made policy, which limits coverage to claims that are reported to the insurance company during the policy year.

Deferred revenue - lease – Deferred revenue represents capital expenditures by MGH in excess of the current commitment, which will be recognized as rental revenue in future years (see Note 5).

Lease income – The District recognizes lease income and reimbursement of operating expenses when earned. The District derives substantially all of its lease income from MGH. The annual rent pursuant to the 30-year lease agreement with MGH, as amended by the Transfer Agreements, is \$1,500,000, most of which MGH has prepaid in the form of capital expenditures on the Hospital Facility, and MGH also reimburses the District for administrative expenses through quarterly cash payments, which are increased annually by 5% (see Note 5).

**MARIN HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – BASIS OF PRESENTATION AND ACCOUNTING POLICIES (CONTINUED)

Net patient service revenue and credit concentrations – The District’s patient service revenues are recognized when health care services are provided to patients at the Clinics. Net patient service revenue is reported at the estimated net realizable amount from patients, governmental programs, health maintenance, and preferred provider organizations and insurance contracts under applicable laws, regulations, and program instructions. Net realizable amounts are generally less than the District’s established rates.

The District provides estimated losses on patient accounts receivable based on prior bad debt experience. No interest is charged on past due balances. Past due status is based on the date of services provided. Recoveries from previously charged-off accounts are recorded when received. Amounts written off to bad debt expense included in net patient service revenue totaled approximately \$132,000 and \$246,000 for 2015 and 2014, respectively.

The mix of gross receivables from patients and third-party payors is as follows:

	JUNE 30,	
	2015	2014
Medicare	45%	42%
Medi-Cal	13%	11%
Commercial	26%	30%
Self-pay	13%	14%
Other	3%	3%
	100%	100%

Charity care – The District provides medically necessary care to all patients regardless of the patient’s ability to pay. Certain patients may meet eligibility criteria under its charity care policy, and no payment is collected from those patients. During years ended June 30, 2015 and 2014, the District provided approximately \$3,000 and \$9,000 in free services for the poor and underserved. This includes services provided to persons who cannot afford healthcare because of inadequate resources and/or are uninsured or underinsured. Costs are computed based on a relationship of costs to charges similar to a Medicare cost to charge ratio.

Operating revenues and expenses – The District’s statement of revenues, expenses, and changes in net position distinguishes between operating and non-operating revenues and expenses. Operating revenues result from leasing the Hospital Facility to MGH and providing health care services to patients at the Clinics. Non-exchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as non-operating revenues. Operating expenses are all expenses incurred in order to lease the Hospital Facility and to provide health care services, other than financing costs.

MARIN HEALTHCARE DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – BASIS OF PRESENTATION AND ACCOUNTING POLICIES (CONTINUED)

Grants and contributions – The District may periodically receive grants and contributions from other governmental entities, individuals, or private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

NOTE 2 – CASH AND INVESTMENTS

Cash balances from all funds are combined and invested to the extent possible pursuant to the District Board approved Investment Policy and Guidelines and Statement Government Code. The District's investments are carried at fair value.

Authorized investments – In accordance with Section 53601 of the California Government Code, the District may invest in the following types of investments:

- Securities of the U.S. government, or its agencies
- Negotiable certificates of deposits
- Local Agency Investment Fund (State Pool) deposits

Custodial credit risk – Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for deposits and investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

California law requires banks and savings and loan associations to pledge government securities with a market value of 110% of the District's cash on deposit or first trust deed mortgage notes with a value of 150% of the deposit as collateral for these deposits. Under California law, this collateral is held in the District's name and places the District ahead of general creditors of the institution.

The District places certain funds with the state of California's Local Agency Investment Fund (LAIF). The District is a voluntary participant in LAIF, which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the state of California and the Pooled Money Investment Board. The state Treasurer's office pools these funds with those of other governmental agencies in the state and invests the cash. The fair value of the District's investment in this pool is reported in the accompanying financial statements based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The monies held in the pooled investment funds are not subject to categorization by risk category. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on the amortized cost basis. Funds are accessible and transferable to the master account with 24 hours' notice. Financial statements for LAIF can be obtained from the California State Treasurer's Office, 915 Capitol Mall, Suite 110, Sacramento, California, 95814.

**MARIN HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

The management of the state of California Pooled Money Investment Account has indicated to the District that as of June 30, 2015 and 2014 the estimated market value of the pool (including accrued interest) was \$27,325,365 and \$27,259,018, respectively. The District's proportionate share of that value is \$300,521 and \$299,741 as of June 30, 2015 and 2014, respectively.

NOTE 3 – CAPITAL ASSETS

The following is a summary of changes in capital assets during the years ended June 30:

	Life (Years)	Balance, June 30, 2014	Additions	Deletions	Balance, June 30, 2015
Equipment	3 – 20	\$ 18,784,416	\$ -	\$ -	\$ 18,784,416
Hospital buildings	40	24,974,084	-	-	24,974,084
Parking structure	40	2,324	-	-	2,324
Phase 1 building	40	102,625	-	-	102,625
Land (not depreciated)	N/A	865,701	-	-	865,701
Other improvements	40	851,182	-	-	851,182
Parking improvements	40	781,404	-	-	781,404
Moveable equipment	3 – 20	1,980,727	-	-	1,980,727
Total capital assets		48,342,463	-	-	48,342,463
Less accumulated depreciation		(41,732,862)	(608,979)	-	(42,341,841)
Capital assets, net of accumulated depreciation		\$ 6,609,601	\$ (608,979)	\$ -	\$ 6,000,622

	Life (Years)	Balance, June 30, 2013	Additions	Deletions	Balance, June 30, 2014
Equipment	3 – 20	\$ 18,784,416	\$ -	\$ -	\$ 18,784,416
Hospital buildings	40	24,974,084	-	-	24,974,084
Parking structure	40	2,324	-	-	2,324
Phase 1 building	40	102,625	-	-	102,625
Land (not depreciated)	N/A	865,701	-	-	865,701
Other improvements	40	851,182	-	-	851,182
Parking improvements	40	781,404	-	-	781,404
Moveable equipment	3 – 20	1,949,866	30,861	-	1,980,727
Total capital assets		48,311,602	30,861	-	48,342,463
Less accumulated depreciation		(41,123,229)	(609,633)	-	(41,732,862)
Capital assets, net of accumulated depreciation		\$ 7,188,373	\$ (578,772)	\$ -	\$ 6,609,601

MARIN HEALTHCARE DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 4 – INTANGIBLE ASSETS

The District acquired intangible assets as part of the acquisition of assets from CAMSF (see Note 6).

The following is a summary of changes in intangible assets during the year ended June 30:

	Life (Years)	Balance, June 30, 2014	Additions	Deletions	Balance, June 30, 2015
Intangible assets:					
Other intangible assets	15	\$ 675,660	\$ -	\$ -	\$ 675,660
Medical records – CAM	15	182,844	-	-	182,844
Total intangible assets		858,504	-	-	858,504
Less accumulated amortization		(143,097)	(57,240)	-	(200,337)
Intangibles, net of accumulated amortization		\$ 715,407	\$ (57,240)	\$ -	\$ 658,167

NOTE 5 – LEASE OF MARIN HEALTHCARE DISTRICT FACILITY

Annual rental payments – Effective December 1, 1985, the District leased the Marin General Hospital facility to MGH for a term of 30 years pursuant to Section 32126 of the Local Hospital District Law. Per the amended lease agreement dated August 25, 1987, as further amended by the subsequent agreements, the annual rent payments comprise capital expenditures made by MGH and quarterly payments of approximately \$114,000 and \$109,000 for the years ended June 30, 2015 and 2014, respectively. The minimum cash payment, which is payable in quarterly installments, increases annually by 5% throughout the lease term.

Due to the significant capital investment required for the hospital modernization program completed in June 1989, MGH's rental payment commitment for capital expenditures due under the entire lease has been satisfied. The advanced capital commitment (including the excess capital commitment) has been recorded as deferred revenue. The total deferred lease revenue was \$326,055 and \$1,578,767 as of June 30, 2015 and 2014, respectively.

In August 2014, a new lease was executed, effective December 2, 2015. The District leased the Marin General Hospital facility to MGH for a term of 30 years. The base rent is \$500,000 annually, plus an annual CPI increase. Additional rent is conditional on MGH achieving certain financial benchmarks.

**MARIN HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 – LEASE OF MARIN HEALTHCARE DISTRICT FACILITY (CONTINUED)

Annual rental payments (continued) – The deferred lease revenue will be amortized over the remaining term of the lease, which ends on December 1, 2015. The following table summarizes future amortization of deferred lease revenue through December 1, 2015 and future cash rent revenue for both the old and new lease for five future years:

<u>Fiscal Year End</u>	<u>Amortization</u>	<u>Cash Payment</u>	<u>Total</u>
2016	\$ 326,055	\$ 486,117	\$ 812,172
2017	-	500,000	500,000
2018	-	500,000	500,000
2019	-	500,000	500,000
2020	-	500,000	500,000
	<u>\$ 326,055</u>	<u>\$ 2,486,117</u>	<u>\$ 2,812,172</u>

NOTE 6 – DEBT AND ACQUISITION

The following table summarizes the District’s debt transactions for the year ended June 30:

	<u>Balance, June 30, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance, June 30, 2015</u>	<u>Due Within One Year</u>
Note payable to CAMSF	\$ 600,000	\$ -	\$ (200,000)	\$ 400,000	\$ 200,000
Note payable to MGH	1,166,667	200,000	(316,667)	1,050,000	366,667
	<u>\$ 1,766,667</u>	<u>\$ 200,000</u>	<u>\$ (516,667)</u>	<u>\$ 1,450,000</u>	<u>\$ 566,667</u>

In January 2012, the District and MGH entered into an affiliation and co-management arrangement (CMMA) with CAMSF. The District has thereupon established 1206(b) Clinics for cardiology and vascular surgery services, in conjunction with MGH, by entering into professional services agreements (PSA) with CAMSF and Laura K. Pak, M.D., Inc. for physician services to Clinic patients. As a part of that transaction, the District acquired an outpatient diagnostic services business from CAMSF on terms described in an Asset Purchase Agreement dated January 1, 2012. The Asset Purchase Agreement provided for the District to purchase most of CAMSF practice assets (with the exception of accounts receivable) in the amount of \$1,750,000. This has been implemented in the form of an initial payment of \$750,000 on closing and \$200,000 per year for each of five subsequent years with interest at the prime rate of interest plus 2% per year on the unpaid principal balance.

In accordance with an agreement between the District and MGH, MGH loaned \$750,000 to cover the District’s payment to CAMSF as described above. As part of the acquisition of CAMSF, MGH agreed to fund the District’s financial obligations to CAMSF. A portion of the loan will be forgiven each month over the five-year term of the contract with CAMSF.

**MARIN HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 – DEBT AND ACQUISITION (CONTINUED)

In April 2012, MGH loaned the District \$500,000 as an advance to fund the monthly outside billing and management services company service fee. The vendor pays the administrative overhead of the Clinics and then bills the District for reimbursement. The advance is meant to ensure that the vendor has adequate cash on hand to meet its obligations. The outstanding balance of \$500,000 is payable to MGH at the termination of the agreement for outside billing and management services and has been classified as long-term at June 30, 2015.

Debt service requirements for long-term debt are as follows:

<u>Years ending June 30.</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 566,667	\$ 15,750
2017	383,333	5,250
2018	<u>500,000</u>	<u>-</u>
	<u>\$ 1,450,000</u>	<u>\$ 21,000</u>

NOTE 7 – COMMITMENTS AND CONTINGENCIES

Compliance with the Hospital Facilities Seismic Upgrade Act – The District has assumed responsibility for compliance with the Hospital Facilities Seismic Upgrade Act (SB 1953) classification SPC2 and through Hazus 2010. The District has received an extension to 2030.

Regulatory environment – The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations is subject to periodic government review, interpretation, and audits, as well as regulatory actions unknown and unasserted at this time.

Litigation – The District is party to various claims and legal actions in the normal course of business. In the opinion of management, the District has substantial meritorious defenses to pending or threatened litigation and, based upon current facts and circumstances, the resolution of these matters is not expected to have a material adverse effect on the District’s financial statements.

Professional and clinic management services agreements – MHD has entered into various Professional and Clinic Management Services Agreements with the 1206(b) Clinics. In general, the agreements provide for compensation and benefits allowance for the physicians as well as a compensation level guaranty for new physicians. The agreements also include a cap on total payments the physicians can receive for services.

**MARIN HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 – RELATED PARTY TRANSACTIONS

The following transactions are conducted with affiliated entities:

Effective June 30, 2010, the lease agreement between the District and MGH was amended. The amended lease agreement requires that MGH provide financial support to the District relating to the operation of the Clinics through December 1, 2015. MGH provided \$5,139,806 and \$4,577,895 to the District for the operation of the Clinics in 2015 and 2014, respectively. Additionally, the lease agreement also requires MGH to reimburse a portion of the District’s administrative, rent, and non-clinic expenses. The new 30 year lease agreement between the District and MGH, effective as of December 2, 2015, includes similar provisions.

The District has a receivable of \$605,915 and \$434,311 due from MGH, as of June 30, 2015 and 2014, respectively, included in the statements of net position.

NOTE 9 – OPERATING LEASES

The District leases office facilities under a non-cancelable operating lease. The total cost for the leases were \$1,292,881 for the year ended June 30, 2015. The future minimum lease payments were as follows:

<u>Years ending June 30,</u>	<u>Amount</u>
2016	\$ 912,656
2017	439,322
2018	327,020
2019	123,721
2020	<u>112,020</u>
	<u>\$ 1,914,739</u>